FISCAL YEAR 2014

ANALYTICAL PERSPECTIVES

BUDGET OF THE U.S. GOVERNMENT

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THE BUDGET DOCUMENTS

Budget of the United States Government, Fiscal Year 2014 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 2014 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 2014 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 2014 or 2018.

To the extent feasible, the data have been adjusted to provide consistency with the 2014 *Budget* and to provide comparability over time.

Appendix, Budget of the United States Government, Fiscal Year 2014 contains detailed information on the various appropriations and funds that constitute the budget and is designed primarily for the use of the Appropriations Committees. The *Appendix* contains more detailed financial information on individual programs and appropriation accounts than any of the other budget documents. It includes for each agency: the proposed text of appropriations language; budget schedules for each account; legislative proposals; explanations of the work to be performed and the funds needed; and proposed general provisions applicable to the appropriations of entire agencies or group of agencies. Information is also provided on certain activities whose transactions are not part of the budget totals.

AUTOMATED SOURCES OF BUDGET INFORMATION

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

Internet. All budget documents, including documents that are released at a future date, spreadsheets of many of the budget tables, and a public use budget database are available for downloading in several formats from the Internet at *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. At the time the President's 2014 Budget request was developed, none of the full-year appropriations bills for 2013 was enacted; therefore, the programs and activities normally provided for in the full-year appropriations bills were operating under a continuing resolution (Public Law 112–175). For those programs and activities, full-year appropriations data included in the current year column (2013) in the budget *Appendix*, and in tables that show details on discretionary spending amounts in the *Analytical Perspectives* volume, reflect the annualized level provided by the continuing resolution. In the main *Budget* volume and the *Historical Tables* volume, current year totals by agency and for the total Government will match the President's 2013 Budget request.

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INTRODUCTION

1. INTRODUCTION

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, the media, and researchers in better understanding the budget's effects on the Nation. This volume complements the main Budget volume, which presents the President's budget policies and priorities by agency, and the Budget Appendix volume, which provides appropriations language, schedules for budget expenditure accounts, and schedules for selected receipt accounts.

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 available at *http://www.budget.gov/budget/Analytical_Perspectives* and on the Budget CD-ROM. A list of these items is in the Table of Contents.

OVERVIEW OF THE CHAPTERS

Economic and Budget Analyses

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

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

Social Indicators. This chapter presents a selection of statistics that offer a numerical picture of the United States. Included are economic, demographic, socioeconomic and health statistics. There are also indicators of safety and security, and environment and energy.

Delivering a High-Performance Government. This chapter describes this Administration's approach to performance management—the Federal Government's use of performance goals, measurement, regular data-driven reviews, and information dissemination to improve outcomes that matter to the American people and deliver returns on the taxpayer's investment. It explains why this approach was chosen, progress made, and future plans. It also discusses implementation of the GPRA Modernization Act.

Program Evaluation and Data Analytics. This chapter underscores this Administration's commitment to using taxpayer dollars effectively and efficiently. It highlights the role of performance measurement and program evaluation, discusses several of the Administration's efforts to use evidence and evaluation in decision-making and program design, and highlights the Administration's commitment to use more and better empirical evidence.

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.

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; presents opportunities for 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 those activities that are included in budget receipts and outlays (and are therefore classified as "budgetary"), as distinguished from those activities that are not included in the budget (and are therefore classified as "non-budgetary"). The chapter also defines the terms "on-budget" and "off-budget."

Budget Process. This chapter discusses proposals to improve budgeting and fiscal sustainability within individual programs as well as across Government, describes the system of scoring mandatory and revenue legislation for purposes of the Statutory Pay-As-You-Go Act of 2010, and presents proposals to revise the budget baseline and improve budget presentation.

Federal Receipts

Governmental Receipts. This chapter presents information on estimates of governmental receipts, which consist of taxes and other compulsory collections. It includes detailed descriptions of tax legislation enacted in the last year 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 information on 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 2014 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 four years while continuing to provide strong information security and protection of privacy.

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. This year, the chapter includes discussion of issues relating to "fair value" cost estimates for Federal credit programs. Two detailed tables, "Table 22–11, Direct Loan Transactions of the Federal Government" and "Table 22–12, Guaranteed Loan Transactions of the Federal Government," are available at the Internet address cited above and on the Budget CD-ROM.

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 and on the Budget CD-ROM.

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

California Bay-Delta Federal Budget Crosscut. This chapter presents information on Federal funding for the environmental restoration of California's Bay-Delta, one of the Administration's priority ecosystems. Additional detailed tables on Bay-Delta funding and project descriptions are available at the Internet address cited above and on the Budget CD-ROM.

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 Balanced Budget Emergency Deficit Control Act (BBEDCA), as amended by the Budget Control Act of 2011. A detailed table, "Table

26–13, Current Services Budget Authority and Outlays by Function, Category, and Program" is available at the Internet address cited above and on the Budget CD-ROM.

Trust Funds and Federal Funds. This chapter provides summary information about the two fund groups in the budget—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 transactions 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 2012 with the estimates for that year published in the 2012 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.

The following materials are available at the Internet address cited above and on the Budget CD-ROM:

Detailed Functional Table

Detailed Functional Table. Table 31–1, "Budget Authority and Outlays by Function, Category, and Program," displays budget authority and outlays for major Federal program categories, organized by budget function (such as health care, transportation, or national defense), category, and program.

Federal Programs by Agency and Account

Federal Programs by Agency and Account. Table 32–1, "Federal Programs by Agency and Account," displays budget authority and outlays for each account, organized by agency, bureau, fund type, and account.

ECONOMIC AND BUDGET ANALYSES

2. ECONOMIC ASSUMPTIONS AND INTERACTIONS WITH THE BUDGET

This chapter presents the economic forecast on which the 2014 Budget projections are based.[1] 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 the 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. The economy bottomed out in June 2009 and gradually started to recover in late 2009.[2] Further measures to aid the recovery were taken in December 2010, such as cutting payroll taxes and extending unemployment insurance. Over the past 14 quarters, through the fourth quarter of 2012, real Gross Domestic Product (GDP) has grown at an average annual rate of 2.1 percent, and since February 2010, 6.4 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 7.7 percent (as of February 2013).

At the start of this year, the American Taxpayer Relief Act of 2012 (ATRA) prevented income tax increases on the vast majority of taxpayers in 2013 and provided greater certainty for the years ahead. With this legislation, the recovery is projected to gain momentum in 2013 and to strengthen further in 2014. However, even with healthy economic growth, unemployment is expected to be higher than is consistent with full employment for several more years. The Administration is projecting unemployment to continue to decline over the next five years, stabilizing at 5.4 percent by 2018.

This chapter contains several sections:

- The first section of this chapter reviews recent economic performance.
- The second section discusses the Administration's economic projections.
- The third section compares the Administration's to other forecasts and to the Administration's projection in last year's Budget.
- The fourth section describes how changes in economic variables result in changes in receipts, outlays, and the deficit.
- The fifth 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 sixth section presents alternatives to the current Administration forecast—based on both more optimistic and less optimistic assumptions with respect to real economic growth and unemployment—and describes the resulting effects on the deficit.
- The seventh 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.

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 Begin to Show Strength.—The housing market has shown clear signs of recovery, after its collapse in 2007 and 2008 which was a major cause of the financial crisis and recession. In 2006-2007, housing prices peaked, and from 2007 through 2008, housing prices fell sharply according to all available measures.[3]

[1] In the Budget, economic performance is discussed in terms of calendar years. Budget figures are discussed in terms of fiscal years.

[2] 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.

[3] 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.

During the downturn, as house prices fell, investment in housing plummeted, reducing the annualized rate of real GDP growth by an average of 1 percentage point per quarter. Housing prices started to rise again in 2012, with a modest gain of 4 percent over the year. Residential investment began to increase steadily in the second quarter of 2011, and rose by more than 14 percent during 2012.

In April 2009, 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 rose modestly over the next two years, but increased 37 percent to over 950,000 units over the 12 months through December 2012. Typically, at least 1.5 million starts a year are needed to accommodate the needs of an expanding population and to replace older units, indicating potential for a substantial housing rebound. Although a large overhang of vacant homes must be reduced before a robust housing recovery can become firmly established, there are indications that this is gradually happening with reduced vacancies and fewer foreclosures. The Administration forecast assumes a continued recovery in housing activity that adds moderately to real GDP growth over the forecast horizon.

The Risk of an International Slowdown.—While the U.S. economy has returned to moderate growth, worldwide recovery is uneven. 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 on sovereign debt of 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 some countries' long-run solvency at risk.

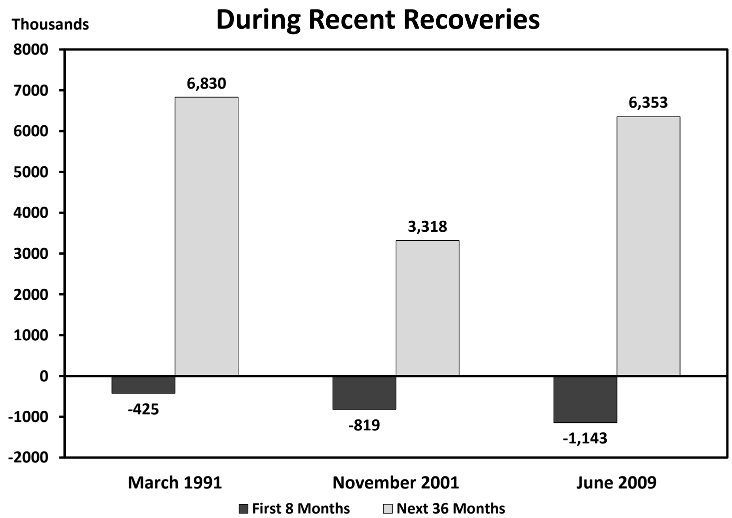
At the beginning of 2012, many private forecasters were expecting the recovery to accelerate over the course of the year. Instead, 2012 saw subpar growth due to unexpected headwinds. A persistent source of sluggishness has been the sovereign debt crisis in Europe, which has curbed global equity markets and will likely continue to weigh on confidence and the global recovery going forward. The European Union and European Central Bank have acted to confront these issues, and the affected governments have attempted to cut their budget deficits. Despite these actions, however, the European recovery remains at risk because of on-going structural adjustments and because the necessary austerity measures taken to address the fiscal crisis have in some cases limited demand and wages, resulting in social unrest. Several European countries have had slowing or negative growth in recent quarters, and there also has been a slowdown in growth in many emerging market economies.

Deleveraging has Slowed Consumption Growth.— Between the third quarter of 2007 and the first quarter of 2009, the real net worth of American households declined by $16 trillion (24 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 household wealth, including financial assets, has risen substantially to near its previous peak, although total net worth remains below the prior peak level because housing prices have only recently started to recover.[4]

Americans 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 to an average of 4.4 percent over the past three years. A sudden

[4] Real wealth is computed by deflating household net worth from the Flow-of-Funds Accounts by the Chained Price Index for Personal Consumption Expenditures. Data are available through 2012:Q3.

Chart 2-1. Private Job Gains and Losses During Recent Recoveries



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 previous peak level, although it has increased only 1.9 percent over the past four quarters. Continued growth in consumption is essential to a healthy recovery, and, as income also grows, increased consumption is compatible with a higher but stable saving rate.

Rebound in Business Investment.—Business fixed investment fell sharply during the 2008-2009 contraction. It rose rapidly in 2010 through 2012, 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. The cost of capital is low and American corporations at the end of 2012 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

Table 2–1. ECONOMIC ASSUMPTIONS[1]

(Calendar years; dollar amounts in billions)

	Actual	Projections											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gross Domestic Product (GDP):													
Levels, dollar amounts in billions:													
Current dollars	15,076	15,705	16,384	17,235	18,181	19,192	20,247	21,275	22,247	23,219	24,216	25,253	26,331
Real, chained (2005) dollars	13,299	13,600	13,907	14,358	14,864	15,399	15,943	16,441	16,873	17,283	17,692	18,104	18,526
Chained price index (2005 = 100), annual average	113.4	115.5	117.8	120.1	122.4	124.7	127.0	129.4	131.9	134.4	136.9	139.5	142.2
Percent change, fourth quarter over fourth quarter:													
Current dollars	4.0	4.1	4.5	5.4	5.6	5.6	5.5	4.9	4.4	4.4	4.3	4.3	4.3
Real, chained (2005) dollars	2.0	2.0	2.6	3.4	3.6	3.6	3.5	2.9	2.4	2.4	2.3	2.3	2.3
Chained price index (2005 = 100)	2.0	2.1	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Percent change, year over year:													
Current dollars	4.0	4.2	4.3	5.2	5.5	5.6	5.5	5.1	4.6	4.4	4.3	4.3	4.3
Real, chained (2005) dollars	1.8	2.3	2.3	3.2	3.5	3.6	3.5	3.1	2.6	2.4	2.4	2.3	2.3
Chained price index (2005 = 100)	2.1	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Incomes, billions of current dollars:													
Domestic Corporate Profits	1,388	1,511	1,566	1,743	1,833	1,939	1,950	1,855	1,742	1,658	1,504	1,422	1,328
Employee Compensation	8,295	8,591	8,903	9,353	9,891	10,460	11,070	11,671	12,253	12,841	13,456	14,065	14,708
Wages and salaries	6,661	6,902	7,182	7,549	7,970	8,438	8,945	9,435	9,911	10,387	10,879	11,364	11,885
Other taxable income[2]	3,252	3,387	3,519	3,643	3,828	4,032	4,300	4,585	4,832	5,054	5,257	5,455	5,666
Consumer Price Index (all urban):[3]													
Level (1982–84 = 100), annual average	224.9	229.6	234.5	239.7	244.9	250.3	255.8	261.5	267.2	273.1	279.1	285.2	291.5
Percent change, fourth quarter over fourth quarter	3.3	1.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Percent change, year over year	3.1	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Unemployment rate, civilian, percent:													
Fourth quarter level	8.7	7.9	7.5	7.0	6.5	6.0	5.6	5.4	5.4	5.4	5.4	5.4	5.4
Annual average	8.9	8.1	7.7	7.2	6.7	6.2	5.7	5.5	5.4	5.4	5.4	5.4	5.4
Federal pay raises, January, percent:													
Military[4]	1.4	1.6	1.7	1.0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Civilian[5]	0.0	0.0	0.5	1.0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Interest rates, percent:													
91-day Treasury bills[6]	0.1	0.1	0.1	0.2	0.4	1.3	2.3	3.2	3.6	3.7	3.7	3.7	3.7
10-year Treasury notes	2.8	1.8	2.0	2.6	3.1	3.7	4.1	4.4	4.6	4.8	5.0	5.0	5.0

N/A = Not Available

[1] Based on information available as of mid-November 2012.

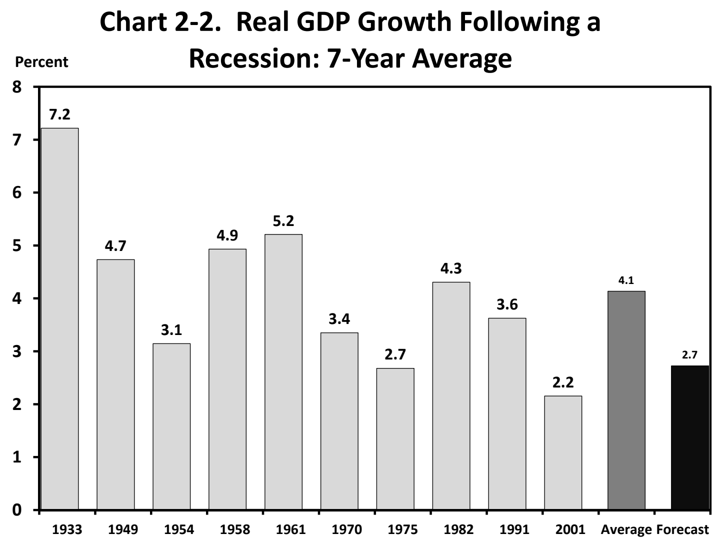
[2] Rent, interest, dividend, and proprietors' income components of personal income.

[3] Seasonally adjusted CPI for all urban consumers.

[4] Percentages apply to basic pay only; percentages to be proposed for years after 2014 have not yet been determined.

[5] Overall average increase, including locality pay adjustments. Percentages to be proposed for years after 2014 have not yet been determined.

[6] Average rate, secondary market (bank discount basis).



is poor sales expectations, which have been dampened by the slow pace of recovery. However, if consumption picks up, businesses are in a good position to expand investment. Nevertheless, the pace of future growth could prove to be uneven, as investment tends to be volatile.

Steady Progress in 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) remains high. 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 strengthens further. 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 36 straight months, although at a relatively modest rate. The positive job growth has far exceeded the job gains in the recovery following the 2001 recession, and is only slightly less than equivalent in comparison to the 1990s expansion (see Chart 2-1).

Economic Projections

The economic projections underlying the 2014 Budget estimates are summarized in Table 2–1. The assumptions are based on information available as of mid-November 2012. 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 CBO, and the Blue Chip Consensus of private forecasters.

Real GDP.—The Administration projects the economic recovery that began in mid-2009 will continue with real GDP growing at an average annual rate of 2.9 percent over the next 10 years. At the beginning of 2013, the enactment of the American Taxpayer Relief Act removed much of the uncertainty about tax changes that existed when the Administration finalized its economic assumptions in November. However, the projected growth rate in November was based on policy assumptions that were similar to ATRA in regard to tax extensions. The middle class tax cuts were made permanent, tax rates on regular income were raised for the wealthiest taxpayers; and rates were also raised on dividends and capital gains (relative to 2012 tax law). The temporary two percentage point payroll tax cut of 2011-12 expired. The effective increase in the payroll tax rate is expected to produce some fiscal drag during 2013, and as a result the Administration projects 2.6 percent GDP growth over the four quarters of the year, accelerating to 3.4 percent growth in 2014 when increased private demand is expected to play a larger role in supporting continued recovery. This economic forecast, as always, is based on the assumption that the Administration's budget proposals are enacted in full, including a proposal for infrastructure spending to boost the economy and lay a foundation for long-term growth, and that the sequester that took effect on March 1st of this year is avoided and the harmful, across-the-board cuts are reversed. The economy is expected to continue to grow at a pace of about 3.5 percent over the following three years. Real GDP growth is projected to return to its "potential" growth rate of 2.4 percent by 2019, and to grow at a steady 2.3 percent rate for the remaining four years of the forecast. The slight drop off in the last few years is due to demographic factors that lower the labor force participation rate as the baby boom generation retires.

As shown in Chart 2-2, 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.

BOX 2–1. SUPPLY-SIDE ANALYSIS OF LONG-TERM GROWTH

The growth rate of the economy over the long run is determined by the growth of its supply-side components, demographics, and technological change. The growth rate that characterizes the long-run trend in real U.S. GDP—or potential GDP—plays an important role in guiding the Administration's long-run forecast. Through 2020, potential real GDP is projected to grow at a 2.4 percent annual rate, before slowing to 2.3 percent during the three years 2021–23, reflecting the increasing size of the retiring baby-boom cohorts.

Table 2-2 shows the Administration's forecast for the contribution of each supply-side factor to the growth in potential real GDP: the working-age population, the rate of labor force participation, the employed share of the labor force, the ratio of non-farm business employment to household employment, the length of the workweek, labor productivity, and the ratio of real GDP to nonfarm output. Each column in Table 2-2 shows the average annual growth rate for each factor over a specific period of time. The first column shows the long-run average growth rates between the business-cycle peak of 1953 and the business-cycle peak of 2007, with business-cycle peaks chosen as end points to remove the substantial fluctuations within cycles so as to reveal long-run trends. The second column shows average growth rates between the fourth quarter of 2007 and the third quarter of 2012, a period that includes the 2007–09 recession and the recovery so far. The third column shows the Administration's projection for the entire 11-year forecast period, from the third quarter of 2012 to the fourth quarter of 2023. And the fourth column shows average projected growth rates between the fourth quarter of 2020 and the fourth quarter of 2023, that is, the last three years of the forecast interval when the economy is assumed to settle into steady-state growth.

Summing the growth rates of these components, real GDP is projected to rise at an average 2.8 percent a year over the projection period (line 8, column 3), somewhat faster than the 2.4 percent annual growth rate for potential real GDP (line 9, column 3). Actual GDP can and is expected to grow faster than potential GDP primarily because of the projected rise in the employment rate (line 3, column 3) as millions of currently unemployed workers find jobs. Real potential GDP (line 9, columns 3 and 4) is projected to grow more slowly than the long-term historical growth rate of 3.2 percent a year (line 9, column 1). The projected slowdown in real potential GDP growth primarily reflects the lower projected growth rate of the working-age population and the retirement of the baby-boom cohort.

Table 2–2. COMPONENTS OF ACTUAL AND POTENTIAL REAL GDP GROWTH, 1952–2023

	Component	Average Annual Growth rate [a]			
		History, peak-to-peak	Recent history, since peak	Forecast	Out-year forecast
		1953:Q2 to 2007:Q4 [b]	2007:Q4 to 2012:Q3	2012:Q3 to 2023:Q4	2020:Q4 to 2023:Q4
1	Civilian noninstitutional population aged 16+	1.4	1.2	1.0	1.0
2	Labor force participation rate	0.2	–0.8	–0.1	–0.4
3	Employed share of the labor force	–0.0	–0.7	0.3	0.0
4	Ratio of nonfarm business employment to household employment	0.0	–0.7	–0.0	0.0
5	Average weekly hours (nonfarm business)	–0.3	–0.0	–0.1	–0.1
6	Output per hour (productivity, nonfarm business)	2.1	1.6	2.2	2.2
7	Ratio of real GDP to nonfarm business output	–0.2	0.0	–0.3	–0.4
8	Sum: Actual real GDP	3.2	0.5	2.8	2.3
9	Memo: Potential real GDP	3.2	2.0	2.4	2.3

[a] All contributions are in percentage points at an annual rate, forecast finalized in mid-November 2012.
[b] 1953:Q2 and 2007:Q4 are business-cycle peaks.
Note: Population, labor force, and household employment have been adjusted for discontinuities in the population series. Nonfarm business employment, workweek, and productivity come from the Labor Productivity and Costs database maintained by the Bureau of Labor Statistics.
Source: Bureau of Labor Statistics, Current Population Survey, Labor Productivity and Costs; Bureau of Economic Analysis, National Income and Product Accounts; Department of the Treasury; Office of Management and Budget; CEA calculations.

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 has fallen since the recession trough and further progress is expected in 2013-14, particularly if the President's Budget proposals are adopted. The Federal Reserve's recent directive states that a "highly accommodative stance of monetary policy will remain appropriate for a considerable time." However, financial markets here and in Europe have been troubled by 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.

Long-Term Growth.—The Administration's 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. Real GDP, reflecting the slower growth in productivity outside the nonfarm business sector, grows at a rate of 2.3 percent in the final years of the projection. That is markedly slower than the average growth rate of real GDP since 1947 of 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 due to a decline in the growth of the working-age population.

Box 2-1 describes the components of long-term growth rates and how they relate to the Administration's forecast in more detail.

Unemployment.—In February 2013, the overall unemployment rate was 7.7 percent. In line with the increased growth in the economy projected after 2013, the unemployment rate is expected to ease to 5.4 percent by 2018 and to remain at that level during the period of trend growth during the last few years of the forecast.

Inflation.—The Consumer Price Index for all urban consumers (CPI-U) rose by 1.7 percent for the 12 months ending in December 2012. Over the previous 12 months it had risen by 3.0 percent. The decrease in inflation in 2012 was due almost entirely to sharp movements in food and energy prices. The "core" CPI, excluding both food and energy, was up 1.9 percent through the 12 months ending in December, little changed from the 2.2 percent during 2011.

Weak demand continues to hold down prices for many goods and services, and continued high unemployment is expected to result in 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 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 2.2 percent and that the GDP price index will increase at a 1.9 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 the levels before the financial crisis, and at the end of 2012 long-term rates were especially low. In the first week of January, 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 2015 consistent with the Federal Reserve's announced intentions, and then to rise to 3.7 percent by 2017. The 10-year rate begins to rise in 2013 and reaches 5.0 percent by 2021. 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 2012. It is expected to remain low for the next few years falling to a low point of 54.3 percent of GDP in 2013-2014. As the economy grows faster in the middle years of the forecast period, and as employment increases as a result, compensation is projected to rise, reaching 55.9 percent of GDP in 2023. 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 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 43.8 percent of GDP in 2013 to 45.1 percent in 2023. The share of domestic corporate profits is expected to decline from 12.4 percent of GDP in 2012 to 8.2 percent in 2023, which is close to its historical average.

Comparison with Other Forecasts

Table 2–3 compares the economic assumptions for the 2014 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 returns to a normal level of unemployment. The forecasts also agree that inflation will be low while outright deflation is avoided, and that interest rates will eventually rise to more normal levels.

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, and passage of those proposals will boost growth. The 50 or so private forecasters in the Blue Chip Consensus make differing policy assumptions, and some may not assume that the sequester will be successfully replaced with balanced deficit reduction or that the Congress will enact other polices the Administration has proposed to boost growth. CBO is required to assume that current law will continue in making its projections. As a result, their February projections assumed that the sequester would take place, as well as other fiscal tightening actions that would lower growth in 2013. Specifically, CBO stated that its 1.4 percent projection for real GDP growth this year could be as much

Table 2–3. COMPARISON OF ECONOMIC ASSUMPTIONS
(Calendar years)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Nominal GDP:												
2014 Budget	15,705	16,384	17,235	18,181	19,192	20,247	21,275	22,247	23,219	24,216	25,253	26,331
CBO	15,692	16,149	16,863	17,913	19,087	20,224	21,178	22,129	23,099	24,093	25,117	26,180
Blue Chip	15,682	16,239	16,993	17,888	18,793	19,725	20,684	21,667	22,676	23,730	24,835	26,002
Real GDP (year-over-year):												
2014 Budget	2.3	2.3	3.2	3.5	3.6	3.5	3.1	2.6	2.4	2.4	2.3	2.3
CBO	2.3	1.4	2.6	4.1	4.4	3.8	2.6	2.4	2.3	2.2	2.2	2.2
Blue Chip	2.2	1.8	2.7	3.1	2.9	2.8	2.7	2.6	2.5	2.5	2.5	2.5
Real GDP (fourth-quarter-over-fourth-quarter):												
2014 Budget	2.0	2.6	3.4	3.6	3.6	3.5	2.9	2.4	2.4	2.3	2.3	2.3
CBO	1.9	1.4	3.4	4.4	4.3	3.2	2.5	2.4	2.2	2.2	2.2	2.2
Blue Chip	1.6	2.3	2.8	3.2	2.8	2.8	2.6	2.6	2.5	2.5	2.5	2.5
Federal Reserve Central Tendency		2.3 - 2.8	2.9 - 3.4	2.9 - 3.7								
GDP Price Index:[1]												
2014 Budget	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
CBO	1.8	1.5	1.8	2.0	2.1	2.1	2.1	2.0	2.1	2.0	2.0	2.0
Blue Chip	1.8	1.7	1.9	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Consumer Price Index (CPI-U):[1]												
2014 Budget	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
CBO	2.1	1.6	1.9	2.1	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Blue Chip	2.1	1.8	2.1	2.3	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3
Unemployment Rate:[2]												
2014 Budget	8.1	7.7	7.2	6.7	6.2	5.7	5.5	5.4	5.4	5.4	5.4	5.4
CBO	8.1	7.9	7.8	7.1	6.3	5.6	5.5	5.5	5.4	5.4	5.3	5.3
Blue Chip	8.1	7.7	7.3	6.7	6.3	6.0	5.7	5.6	5.6	5.6	5.6	5.6
Federal Reserve Central Tendency[3]		7.3 - 7.5	6.7 - 7.0	6.0 - 6.5								
Interest Rates:[2]												
91-Day Treasury Bills (discount basis):												
2014 Budget	0.1	0.1	0.2	0.4	1.3	2.3	3.2	3.6	3.7	3.7	3.7	3.7
CBO	0.1	0.1	0.2	0.2	1.5	3.4	4.0	4.0	4.0	4.0	4.0	4.0
Blue Chip	0.1	0.1	0.2	0.9	2.1	3.0	3.3	3.5	3.6	3.6	3.6	3.6
10-Year Treasury Notes:												
2014 Budget	1.8	2.0	2.6	3.1	3.7	4.1	4.4	4.6	4.8	5.0	5.0	5.0
CBO	1.8	2.1	2.7	3.5	4.3	5.0	5.2	5.2	5.2	5.2	5.2	5.2
Blue Chip	1.8	2.1	2.7	3.4	4.1	4.5	4.7	4.7	4.7	4.7	4.7	4.7

N/A = Not Available

Sources:Administration;CBO, The Budget and Economic Outlook: Fiscal Years 2013 to 2023; March 2013 Blue Chip Economic Indicators, Aspen Publishers, Inc.; Federal Reserve Open Market Committee, March 20, 2013.

[1] Year-over-year percent change.

[2] Annual averages, percent.

[3] Average of 4th quarter values.

as 1-1/2 percentage points higher if the sequester, payroll tax increase, and other actions were not taken.

The Administration projections were completed in mid-November. The five-month lag between that date and the Budget release is due in part because the budget process requires lead time to complete the estimates for agency programs that are incorporated in the Budget. Forecasts made at different dates will differ if economic news between the two dates alters the economic outlook. The Blue Chip Consensus for 2013-2023 in this table was the latest available, from early March. The FOMC members' central tendency of their forecasts are from March 2013. The CBO forecast is from its February 2013 report.

Real GDP Growth.— In 2013, 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 2014, the Administration expects growth to increase, while most other forecasters also look for an increase but to a lesser degree.

The Administration projects that real GDP will eventually recover much 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 in the 11-year forecast period, and much of the loss of real GDP experienced during the recession is permanent. CBO anticipates a stronger recovery than Blue Chip that would return real GDP to nearly the same level as in the Administration forecast. In the long run, the real growth rates projected by the forecasters are similar, ranging between 2.3 and 2.5 percent.

All economic forecasts are subject to error, and looking back the forecast errors are usually much larger than the forecast differences discussed above. As discussed in a section later in this chapter, past forecast errors among the Administration, CBO, and the Blue Chip have been roughly similar.

Unemployment, Inflation, and Interest Rates.—The Administration forecasts unemployment falling steadily over the next few years to a level of 5.4 percent. The Blue Chip and CBO also show a decline in unemployment, but at a slower rate. By the end of the forecast, CBO and the Administration have about the same level of unemployment, while the Blue Chip has it declining to only 6.0 percent. The Administration's unemployment projection is within the range of the Federal Reserve forecast. Nevertheless, the CBO projection of unemployment is 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 two percent per year, which is consistent with the Federal Reserve's long-run policy goal for inflation. All forecasts all have interest rates increasing substantially in the long run to similar levels. However, the path of interest rate adjustment differs substantially, with the Blue Chip showing a rise in rates that begins before the other forecasters.

Changes in Economic Assumptions.—The 2014 Budget forecast reflects economic developments over the past year, but some of the forecast values are similar to those of the 2013 Budget, especially in the long run (see Table 2–4). The previous Budget anticipated more rapid growth in 2013-2017 than the current Budget, and assumed a slightly higher rate of potential GDP growth in the long run. The projection for the long-term unemployment rate has remained unchanged, but the forecast starts from a lower level, reflecting the sharper-than-expected decline in 2012. Projected interest rates are lower in the medium term, reflecting the additional actions by the Federal Reserve to keep rates low for an extended

Table 2–4. COMPARISON OF ECONOMIC ASSUMPTIONS IN THE 2013 AND 2014 BUDGETS

(Calendar years; dollar amounts in billions)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Nominal GDP:											
2013 Budget Assumptions[1]	15,779	16,522	17,397	18,448	19,533	20,651	21,689	22,666	23,659	24,688	25,760
2014 Budget Assumptions	15,705	16,384	17,235	18,181	19,192	20,247	21,275	22,247	23,219	24,216	25,253
Real GDP (2005 dollars):											
2013 Budget Assumptions[1]	13,687	14,097	14,606	15,211	15,821	16,431	16,952	17,403	17,844	18,290	18,748
2014 Budget Assumptions	13,600	13,907	14,358	14,864	15,399	15,943	16,441	16,873	17,283	17,692	18,104
Real GDP (percent change):[2]											
2013 Budget Assumptions	2.7	3.0	3.6	4.1	4.0	3.9	3.2	2.7	2.5	2.5	2.5
2014 Budget Assumptions	2.3	2.3	3.2	3.5	3.6	3.5	3.1	2.6	2.4	2.4	2.3
GDP Price Index (percent change):[2]											
2013 Budget Assumptions	1.7	1.7	1.6	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
2014 Budget Assumptions	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Consumer Price Index (all-urban; percent change):[2]											
2013 Budget Assumptions	2.2	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
2014 Budget Assumptions	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Civilian Unemployment Rate (percent):[3]											
2013 Budget Assumptions	8.9	8.6	8.1	7.3	6.5	5.8	5.5	5.4	5.4	5.4	5.4
2014 Budget Assumptions	8.1	7.7	7.2	6.7	6.2	5.7	5.5	5.4	5.4	5.4	5.4
91-day Treasury bill rate (percent):[3]											
2013 Budget Assumptions	0.1	0.2	1.4	2.7	3.9	4.1	4.1	4.1	4.1	4.1	4.1
2014 Budget Assumptions	0.1	0.1	0.2	0.4	1.3	2.3	3.2	3.6	3.7	3.7	3.7
10-year Treasury note rate (percent):[3]											
2013 Budget Assumptions	2.8	3.5	3.9	4.4	4.7	5.0	5.1	5.1	5.1	5.3	5.3
2014 Budget Assumptions	1.8	2.0	2.6	3.1	3.7	4.1	4.4	4.6	4.8	5.0	5.0

[1] Adjusted for July 2012 NIPA revisions.

[2] Calendar year over calendar year.

[3] Calendar year average.

period, and they are slightly lower in the long term as well. As in last year's projections, inflation is also projected to return to its long-run average consistent with Federal Reserve policy, now estimated at 0.1 percentage point higher than last year at 2.2 percent for the CPI-U and 1.9 percent for the GDP price index.

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 to both 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 consumer price 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

Table 2–5. SENSITIVITY OF THE BUDGET TO ECONOMIC ASSUMPTIONS

(Fiscal years; in billions of dollars)

Budget effect	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total of Effects, 2013–2023
Real Growth and Employment												
Budgetary effects of 1 percent lower real GDP growth:												
(1) For calendar year 2013 only, with real GDP recovery in 2014–15:												
Receipts	–16.2	–24.5	–11.2	–1.1	0.4	0.4	0.4	0.4	0.3	0.4	0.3	–50.5
Outlays	4.0	9.4	4.7	0.8	1.2	2.0	2.4	2.6	2.7	2.8	2.9	35.6
Increase in deficit (+)	20.2	33.9	15.9	1.9	0.8	1.6	2.0	2.3	2.4	2.5	2.6	86.1
(2) For calendar year 2013 only, with no subsequent recovery:												
Receipts	–16.2	–32.9	–37.8	–40.4	–43.4	–46.2	–49.1	–51.9	–55.0	–58.0	–61.3	–492.3
Outlays	4.0	11.4	13.0	15.3	19.3	24.5	29.5	33.7	37.8	42.1	46.6	277.2
Increase in deficit (+)	20.2	44.3	50.8	55.7	62.7	70.7	78.6	85.7	92.8	100.1	107.9	769.5
(3) Sustained during 2013 - 2023, with no change in unemployment:												
Receipts	–16.4	–50.6	–93.9	–143.4	–200.4	–262.1	–330.1	–402.1	–480.2	–564.0	–654.4	–3,197.6
Outlays	–0.3	–0.7	–0.9	0.1	4.9	14.8	28.0	41.7	57.1	75.6	97.0	317.2
Increase in deficit (+)	16.1	49.9	93.0	143.6	205.2	276.9	358.2	443.8	537.3	639.6	751.4	3,514.9
Inflation and Interest Rates												
Budgetary effects of 1 percentage point higher rate of:												
(4) Inflation and interest rates during calendar year 2013 only:												
Receipts	21.3	41.5	41.6	41.1	44.5	47.8	50.9	53.9	57.1	60.3	63.4	523.4
Outlays	22.1	39.5	32.0	32.7	32.0	31.9	30.5	30.4	29.0	29.8	29.5	339.4
Decrease in deficit (–)	0.8	–2.0	–9.7	–8.4	–12.5	–15.9	–20.5	–23.4	–28.0	–30.5	–33.9	–184.0
(5) Inflation and interest rates, sustained during 2013 - 2023:												
Receipts	21.3	63.7	111.0	165.2	229.6	296.7	369.2	448.3	540.3	638.6	741.0	3,624.8
Outlays	19.8	68.0	111.8	155.3	196.2	236.2	278.4	321.4	363.8	411.8	454.4	2,617.1
Decrease in deficit (–)	–1.5	4.3	0.8	–9.9	–33.4	–60.5	–90.8	–126.8	–176.5	–226.8	–286.6	–1,007.6
(6) Interest rates only, sustained during 2013 - 2023:												
Receipts	5.0	13.8	19.2	24.9	32.5	36.6	39.3	42.7	50.1	57.2	60.6	381.8
Outlays	11.0	41.5	64.5	83.3	101.3	119.1	135.2	151.0	164.0	177.3	188.9	1,237.2
Increase in deficit (+)	5.9	27.7	45.3	58.5	68.8	82.6	95.9	108.3	114.0	120.2	128.3	855.4
(7) Inflation only, sustained during 2013 - 2023:												
Receipts	16.2	49.7	91.3	139.7	196.2	259.0	328.5	403.8	488.0	578.8	677.4	3,228.5
Outlays	8.8	26.8	48.0	73.3	97.2	120.9	149.0	178.8	211.2	249.7	285.3	1,449.0
Decrease in deficit (–)	–7.4	–22.9	–43.4	–66.4	–99.0	–138.1	–179.5	–224.9	–276.9	–329.1	–392.0	–1,779.5
Interest Cost of Higher Federal Borrowing												
(8) Outlay effect of $100 billion increase in borrowing in 2013	0.1	0.2	0.3	0.9	2.0	3.2	4.0	4.4	4.6	4.8	5.0	29.5

[1] The unemployment rate is assumed to be 0.5 percentage point higher per 1.0 percent shortfall in the level of real GDP.

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 them.

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 lasting 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. Highlights of the budgetary effects of these rules of thumb are shown in Table 2-5.

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 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 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 out-

Table 2–6. FORECAST ERRORS, JANUARY 1982–PRESENT

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

lay 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 2-5, 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 2-6 shows errors in short- and long-term projections in past Administration forecasts, and compares these errors to those of CBO and the Blue Chip Consensus of private forecasts for real GDP, inflation and short-term interest rates.[5]

[5] 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 2010 (2011 Budget), so that the last year included in the projections is 2011. The six-year forecasts are constructed similarly, but the last forecast used is from February 2006 (2007 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.

Table 2–7. BUDGET EFFECTS OF ALTERNATIVE SCENARIOS
(Fiscal years; in billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Alternative Budget Deficit Projections:											
Administration Economic Assumptions	973	744	576	528	487	475	498	503	501	519	439
Percent of GDP	6.0%	4.4%	3.2%	2.8%	2.4%	2.3%	2.3%	2.2%	2.1%	2.1%	1.7%
Alternative Scenario 1	992	787	640	624	633	663	711	732	742	768	696
Percent of GDP	6.2%	4.7%	3.6%	3.4%	3.3%	3.3%	3.3%	3.3%	3.2%	3.2%	2.8%
Alternative Scenario 2	978	744	567	523	504	501	506	481	443	424	304
Percent of GDP	6.1%	4.4%	3.2%	2.8%	2.5%	2.4%	2.3%	2.1%	1.8%	1.7%	1.1%

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 percentage point 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 growth 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 (with Blue Chip having the largest errors) 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 six-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.

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 shown in Chart 2-3.

The first alternative scenario assumes that real GDP growth and unemployment beginning in 2012:Q4 follow the projections in the March 2013 Blue Chip forecast through the end of 2023, which includes their semi-annual long-run extension of the Blue Chip forecast. In this

Chart 2-3. Real GDP: Alternative Projections

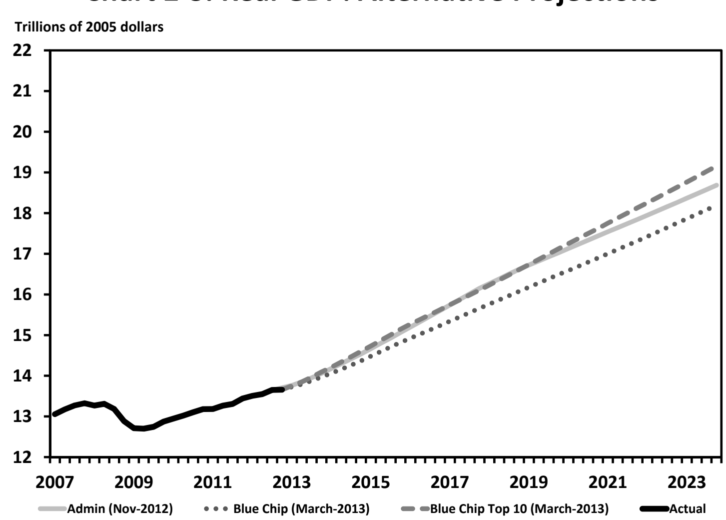
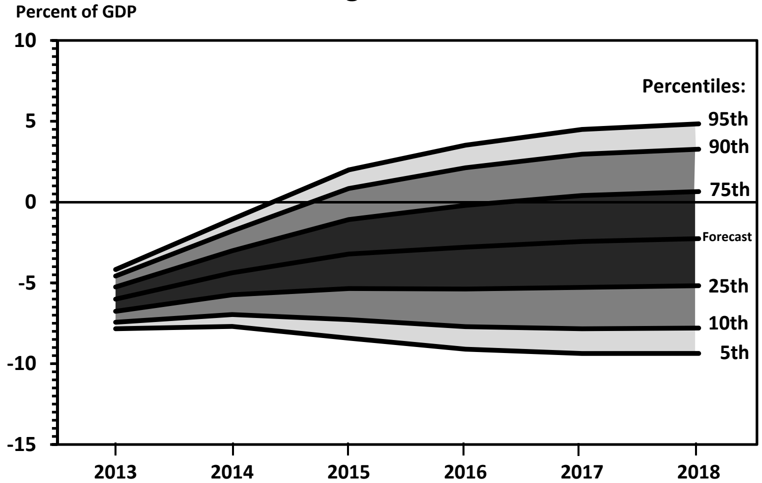


Chart 2-4. Range of Uncertainty for the Budget Deficit



case, after 2012, the level of GDP remains lower than the Administration's forecast throughout the projection period. This alternative includes a smaller real recovery from the loss of output during the 2008-2009 recession. Growth returns to normal, but without a substantial catch-up to make up for previous output losses.

The second alternative is the average of the highest 10 real GDP projections of the Blue Chip forecasters, also based on the March forecasts. This forecast is close to the Administration's forecast through 2017 with the high-10 Blue Chip growth exceeding the Administration's in the out years.

Table 2-7 shows the budget effects of these alternative scenarios compared with the Administration's economic forecast. Under the first alternative, budget deficits are significantly higher in each year compared to the Administration's forecast. In the second alternative, the deficit is close to the Administration's projection in the near term, but results in a lower deficit in the long run and cumulatively over 10 years.

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 GDP and employment recover from the recession.

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 29 provides detailed information on these factors for the budget year projections (Table 29-6), and also shows how the deficit projections compared to actual outcomes, on average, over a five-year window using historical data from 1982 to 2012 (Table 29-7). 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 2-4 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 2.3 percent of GDP in 2018, but has a 90 percent chance of being within a range of a surplus of 4.8 percent of GDP and a deficit of 9.4 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 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 2-8, 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

Table 2–8. 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	2023
Unadjusted surplus (–) or deficit	161	459	1,413	1,293	1,300	1,087	973	744	576	528	487	475	498	503	501	519	439
Cyclical component	–107	–41	311	437	451	454	522	482	404	291	169	64	10	–3	2	–1	0
Structural surplus (–) or deficit	268	499	1,102	857	849	633	450	262	172	237	318	411	488	506	499	520	439
(Fiscal years; percent of Gross Domestic Product)																	
Unadjusted surplus (–) or deficit	1.2%	3.2%	10.1%	9.0%	8.7%	7.0%	6.0%	4.4%	3.2%	2.8%	2.4%	2.3%	2.3%	2.2%	2.1%	2.1%	1.7%
Cyclical component	–0.8%	–0.3%	2.2%	3.0%	3.0%	2.9%	3.2%	2.8%	2.3%	1.5%	0.8%	0.3%	0.0%	–0.0%	0.0%	–0.0%	0.0%
Structural surplus (–) or deficit	1.9%	3.5%	7.9%	6.0%	5.7%	4.1%	2.8%	1.5%	1.0%	1.3%	1.6%	2.0%	2.2%	2.2%	2.1%	2.1%	1.7%

NOTE: The NAIRU is assumed to be 5.4%.

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 identified 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 understated. As the economy recovers, the cyclical deficit is projected to decline. 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. Between 2014 and 2018, the cyclical component of the deficit is projected to decline sharply as the economy recovers at an above-trend rate of GDP growth. The structural deficit shrinks during 2012–2014, reflecting the measures of fiscal constraint that have been enacted combined with the Administration's policy proposals.

3. 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 Office of the Comptroller of the Currency, the Securities and Exchange Commission, and the Commodity Futures Trading Commission worked cooperatively with 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 2012, the Administration continued its work to operationalize these Wall Street reforms.

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 December 31, 2012, and expected transactions as reflected in the Budget. The TARP costs discussed in the report and included in the Budget are the estimated net 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 (P.L. 111–203) reduced total TARP purchase authority to $475 billion.

The Administration's current estimate of TARP's deficit cost for $457.8 billion in cumulative obligations is $47.5 billion (see Tables 3–1 and 3–7). This estimated direct impact of TARP on the deficit has been reduced by $294 billion from the highest cost estimate, published in the Mid-Session Review of the 2010 Budget (2010 MSR), due to realized returns on TARP investments that exceeded expectations, 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, 2012, Treasury had recovered more than $268 billion from these institutions through repayments, dividends, interest, and other income. 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 as the market risk premiums are returned, but the total cost will not be fully known until all TARP investments have been extinguished. (See Table 3–9 for an estimate of TARP subsidy costs stripped of the market-risk adjustment.) Additionally, Treasury has benefited from $17.5 billion in non-TARP AIG receipts.

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[1] (the "Wall Street Reform Act" or the "Act"). The Act embodies the Administration's critical objectives for achieving a more stable financial system, which include: helping prevent future financial crises in part by filling gaps in the U.S. regulatory regime; better protecting consumers of financial products and services; preventing unnecessary and harmful risk-taking that threatens the economy; and providing 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 company will be considered "too big to fail" in the future, and that taxpayers will not be on the hook for the costs of those that do fail. Instead, the Federal Deposit Insurance Corporation (FDIC) now may 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 non-depository financial companies whose failure and resolution under otherwise applicable law is determined to pose a significant systemic risk to U.S. financial stability. After issuing a joint final rule in 2011 to implement resolution plan requirements or "living wills" for certain nonbank financial companies and bank holding companies, in July of 2012 the Federal Reserve and the FDIC received the first such plans from covered institutions. On June 12, 2012, the FDIC also approved a revised notice of proposed rulemaking (NPR) that outlines standards for determining if a company is predominantly engaged in financial activities and, thus, resolvable under

[1] P.L. 111-203.

OLA. Additionally, on June 22, 2012, the Treasury and the FDIC, in consultation with the Financial Stability Oversight Council (FSOC), published a joint final rule governing the calculation of the Maximum Obligation Limitation, which limits the aggregate amount of outstanding obligations that the FDIC may issue or incur in connection with the orderly liquidation of a non-depository financial company. The Act requires that all net costs of liquidation be recovered by assessing fees after the fact on large financial companies and certain non-bank financial companies so that taxpayers bear no losses from the exercise of OLA. According to Title II of the Act, certain FDIC implementation expenses associated with administering OLA are treated as expenses of 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 new 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 $20 billion over the budget window is due to the fact that cost recovery occurs only over a period of years after liquidation expenses are incurred.

Monitoring Systemic Risk: The Act established the Financial Stability Oversight Council (FSOC) to identify, monitor, and respond to emerging threats to U.S. financial stability. The FSOC is also charged with facilitating information sharing and coordination among Federal and state agencies regarding domestic financial services policy development and identifying gaps in the U.S. regulatory regime that could pose risks to U.S. financial stability. The FSOC is 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 more than 25 meetings, with the initial focus on fulfilling statutory requirements established by the Wall Street Reform Act. The FSOC has moved quickly to identify key issues and firms posing risks to systemic stability, while emphasizing the importance of transparency and stakeholder collaboration throughout the process. As part of its macro-prudential mandate, the FSOC published a final rule and guidance in April 2012 describing how nonbank financial companies will be evaluated for designation for Federal Reserve supervision and enhanced prudential standards. In addition, on July 18, 2012, the FSOC designated eight systemically important financial market utilities that will be subject to enhanced risk management standards. On November 19, 2012, the FSOC published proposed recommendations for the SEC to implement structural reforms of money market mutual funds. The FSOC has also conducted studies and made recommendations on a number of topics, notably on the effective implementation of the Volcker Rule under the Wall Street Reform Act. The Volcker Rule was created 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 emerging threats to financial stability and monitor risks in the financial system including risks related to 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, the Office of Financial Research (OFR), and certain OLA implementation expenses of the FDIC. The OFR, housed within the Treasury Department, was 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 development of a global Legal Entity Identifier (LEI) for entities engaged in financial transactions. As specified in the Act, for the first two years after the date of the enactment, funding for the FRF was provided through transfers from the Federal Reserve; in 2014 and thereafter, the FRF will be fee-funded through assessments on bank holding companies with total consolidated assets of $50 million or greater and nonbank financial companies supervised by the Federal Reserve.

Enhanced Consumer Financial 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 is an independent bureau in the Federal Reserve System responsible for 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, as designated by the Treasury Department, the authorities of seven regulatory agencies were transferred 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 CFPB. The CFPB is authorized to supervise and enforce existing consumer financial protection regulations affecting a bank and its affiliates if the bank has assets of $10 billion or more. Notable existing regulations include those issued under the Fair Credit Reporting Act, Truth in Lending Act, and the Real Estate Settlement Procedures Act. The CFPB is also authorized to issue new rules; enforce prohibitions against unfair, deceptive, or abusive practices; and improve disclosures about the features of consumer financial products and services. In 2012, the CFPB, working with other Federal banking regulators, acted under this authority in bringing four enforcement actions that benefited 5.75 million harmed individuals and resulted in approximately $536 million in consumer refunds and penalties.

In addition, the CFPB is charged with supervising nonbank financial firms in specific markets regardless of size, such as mortgage lenders and servicers, consumer reporting agencies, debt collectors, private education lenders, and payday lenders. In 2012, the rules implementing many of these authorities were finalized. In July, the CFPB adopted a rule to begin supervising larger consumer credit reporting agencies; in October, the CFPB adopted another rule allowing the agency to supervise large consumer debt collectors. This is the first time either of these types of businesses will be supervised at the Federal level. In addition, the CFPB proposed rules that will help consumers better understand mortgage costs and compare home loans. In 2012, the CFPB also released reports on student loans, credit scores, and reverse mortgages. In addition to handling consumer complaints about mortgages and credit cards, in 2012 the Bureau began accepting and responding to consumer complaints about credit reporting, private student loans, bank accounts and services, and consumer loans. The CFPB is funded through transfers from the Federal Reserve and, and until the end of FY 2014, it has authority, in the event of a funding shortfall, to request that Congress appropriate additional discretionary funds. 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 $497 million in 2014.

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 assets less tangible equity instead of domestic insured deposits. To strengthen the insurance fund's resources, the Act requires the reserve ratio of the Deposit Insurance Fund (DIF) to reach at least 1.35 percent of total insured deposits by September 30, 2020. 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 trading practices that increase economic volatility and undermine market stability. Both agencies continue to work tirelessly to address many of the root causes of the crisis, to adapt their organizations to more effectively monitor ever-changing regulated industries and activities, and to implement enforcement strategies designed to both punish violators and deter wrongdoing. In 2012, 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.

In 2012, the SEC's Enforcement Division filed 734 enforcement actions—the second highest number ever in a single year. The agency also continued to hold accountable those whose actions contributed to the financial crisis, and has now charged 154 entities and individuals, including 65 CEOs, CFOs, and senior corporate officers, and obtained nearly $2.7 billion in monetary relief. The enforcement program also ferreted out insider trading, filing cases against financial professionals, hedge fund managers, and corporate insiders, many with direct ties to some of the nation's largest companies, and worked to ensure the integrity of our financial markets. The SEC's strong performance is due in large part to the Enforcement Division's strategic reforms – including an expansion of in-house expertise, flatter management structure, streamlined processes, increased use of information technology, and enhanced market intelligence capabilities – that are now bearing fruit. As a result, the SEC stands ready to address increasingly sophisticated misconduct in the rapidly growing and complex financial markets.

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. As of February 2013, the SEC had proposed or adopted more than 80 percent of the rules required by the Act. For example, the SEC has proposed or adopted substantially all the rules needed to create a new regulatory system to bring greater efficiency and transparency to the derivatives market. Additionally, the SEC announced that more than 1,400 new advisers to major hedge funds and other private funds had registered with the agency and begun reporting information that the SEC will share with the Financial Stability Oversight Commission.

The Commission also began work on the rulemaking required under the Jumpstart Our Business Startups Act (JOBS Act), including proposing rules to eliminate the prohibition against general solicitation and general advertising in certain securities offerings, and provided related guidance on submitting draft registration statements to companies. The agency also approved rules submitted by the Financial Industry Regulatory Authority (FINRA) and U.S. exchanges that will limit investors' exposure to unusual volatility in individual securities and the broader U.S. stock market. One initiative prevents trades in individual exchange-listed stocks from occurring outside of a specified price band, while another updates the circuit breakers that, when triggered, halt trading in all exchange-listed securities throughout the U.S. markets. In addition, the agency took important steps to upgrade its institutional capabilities for regulating today's electronic marketplace by adopting rules that expand available information about the most active traders in the market and will enhance the ability of the agency to surveil the markets and enforce trading rules. The agency also implemented a new system, MIDAS, to collect and analyze market data offered by the exchanges to their customers.

In addition to its longstanding responsibility to ensure fair, open, and efficient future markets, the Wall Street Reform Act authorized the CFTC to regulate the swaps marketplace through oversight of swap dealers and open trading and clearing of standardized derivatives on regulated platforms. Despite its constrained funding due to congressional appropriations that in recent years have been significantly below the Administration's request, the CFTC has adapted its mission to include these new responsibilities, the CFTC has drafted numerous rules required to implement the Act. Through September 30, 2012, CFTC issued 64 proposed rules and finalized 40 final rules and orders, including most of the foundational requirements for substantive swap market reform. Registration of data repositories, swap execution facilities, swap dealers and other swap intermediaries began in 2012 and is expected to be essentially complete in 2013. Central clearing for swaps is underway and real-time reporting of swaps trade data will commence imminently. The CFTC has actively consulted with other Federal financial regulators, as well as international counterparts, to ensure harmonization of new 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 many Commission reviews of proposed and final rules in open forums.

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 in the historically-regulated futures and options markets. The Commission continued to increase the annual number of enforcement actions, filing 102 cases in 2012 and opening 350 new investigations. In addition, the Commission obtained orders imposing more than $931 million in sanctions, including more than $475 million in civil monetary penalties and over $456 million in restitution and disgorgement.

In a landmark case in June 2012, the Commission filed charges against Barclays PLC and two affiliates for attempted manipulation and false reporting concerning global benchmark interest rates. The charges were simultaneously settled pursuant to an Order requiring Barclays to pay $200 million, then the largest fine ever imposed by the CFTC, and requiring Barclays to implement a number of measures to ensure the integrity of the bank's benchmark submissions.

The Commission filed numerous charges related to protection of customer funds 2012. In response to these actions, and other high-profile cases, the Commission has published a rule, and held a public meeting to receive input on, enhancing protection of customers and customer funds held by futures commission merchants and Derivatives Clearing Organizations (DCOs). The Commission is also seeking resources in order to conduct periodic reviews of these entities to ensure compliance with Commission regulations related to segregation and protection of customer funds.

The CFTC conducts systematic examinations of Designated Contract Markets (DCOs), and Designated Self-Regulatory Organizations (and soon, swap data repositories and swap execution facilities) to provide assurance to the public and other regulators of the market participants' ongoing compliance with the core principles of the Commodities Exchange Act. Resource constraints have severely limited the Commission's ability to conduct annual examinations of even the most significant entities, compromising the Commission's effectiveness in protecting the public interest. Designation by the FSOC of two DCOs as systemically important mandates that the Commission perform annual examinations of these entities, an activity that the Commission cannot adequately perform given current staffing levels.

The next two years will be critical for the SEC and the CFTC as the agencies continue to identify and pursue wrongdoing in the markets 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 2013 and 2014: 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 its 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 confidence 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 $1,674 million in new resources in 2014. 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.

In 2014, CFTC will have fully integrated the swaps market into its span of responsibilities, including market, trade practice, financial and risk surveillance; routine examinations of significant entities and "for cause" examinations as needed on an expanded population of entities; and both punitive and deterrence-based enforcement actions. The President's Budget provides significant increases for the CFTC in 2014 in support of base regulatory work as well as Wall Street Reform Act implementation. For CFTC, $315 million is provided, an increase of $7 million over the 2013 President's Budget ($109 million or 50 percent over 2012 levels). Additionally, the Administration supports legislation authorizing the CFTC to collect user fees to fund its activities. Such legislation would bring the

CFTC into line with other Federal financial regulators, which are funded in whole or in part through user fees.

Streamlined Insurance Sector Regulation: The Federal Insurance Office (FIO), housed within the Treasury Department, 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 assist the Secretary in administering Treasury's Terrorism Risk Insurance Program. In November 2011, Treasury launched a fifteen-member Federal Advisory Committee on Insurance to offer recommendations to the FIO on issues related to the FIO's responsibilities. The Advisory Committee demonstrated its responsiveness in November 2012, holding a public meeting soon after Hurricane Sandy struck the East Coast of the U.S. to discuss the future of flood insurance. On June 27, 2012, the FIO published a notice requesting views from interested parties on the office's mandated report on the global reinsurance market. 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), and Los Cabos (June 2012), the Administration and G-20 leaders have committed to an ambitious agenda for financial regulatory reform. 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. In June 2012, the Federal banking regulators invited comment on three joint proposed rules that would revise and replace the agencies' current capital rules. The proposals would implement certain aspects of Basel II and Basel III capital reforms. 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. To facilitate bilateral discussions and cooperation, the FDIC is negotiating memoranda of understanding with certain foreign counterparts that will provide a basis for international information sharing and cooperation relating to cross-border resolution planning and implementation. The Treasury Department, working together with other agencies, has 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 comparatively 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. Borrowers have continued to repay their loans early at a rapid pace, in part because interest rates on TALF loans were designed to be higher than market rates in more-normal conditions. In June 2012, Treasury, in consultation with the Federal Reserve, further reduced its loss-coverage to $1.4 billion. Finally, Treasury and the Federal Reserve announced in January 2013 that Treasury's commitment of TARP funds to provide credit protection was no longer necessary due to the fact that the accumulated fees collected through TALF exceeded the total principal amount of outstanding TALF loans. As of January 15, 2013, Treasury had recognized a gain of $424 million on TALF, with additional gains expected in the future.

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 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 two" program. The purchases were extended over an eight-month period and, ultimately, the program concluded in June 2011. Starting in September 2011, the Federal Open Market Committee (FOMC) announced "operation twist" which planned to extend the average maturity of the Fed's portfolio by replacing $400 billion in short-term bonds with longer-term bonds, thereby keeping long-term interest rates low with less chance of increasing inflation. In a June 2012 FOMC meeting, the program was extended though the end of calendar year 2012. In a significant shift away from the Federal Reserve's time-limited approach to monetary policy, on December 12, 2012, the FOMC announced that the Federal Reserve would continuing to purchase MBS and longer-term Treasury securities every month to keep interest rates low until specified thresholds are met. The FOMC indicated that this extraordinary support would continue until either unemployment drops below 6.5 percent, or inflation exceeds 2.5 percent.

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, over the last several years increased the surplus the Federal Reserve deposits in the Treasury, reducing the budget deficit, though various factors in 2012 led to a slight decline in year-over-year deposits. In 2012, Treasury received $82 billion from the Federal Reserve, which represents a less than 1 percent decrease below 2011 deposits. The Budget projects Treasury will receive $82.9 billion and $92.0 billion from the Federal Reserve in 2013 and 2014, 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 were two components to the TLGP: the Debt Guarantee Program and the Transaction Account Guarantee Program (TAG). 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 holders of senior unsecured debt. 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 23, 2009, the FDIC adopted a final rule reaffirming that the FDIC would 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 December 31, 2012, there was no 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 helped to facilitate economic recovery by, among other things, promoting business confidence in the banks that held their payroll deposits. The original Transaction Account Guarantee expired on December 31, 2010.

The Wall Street Reform Act provided two additional years of unlimited insurance for non-interest bearing transaction accounts—starting on December 31, 2010, and ending on December 31, 2012. 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 to NOW accounts. The coverage extended through the Act was provided to all insured institutions and there were no separate fees associated with this coverage.

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, as well as implement new policies, 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.

As of December 31, 2012, Treasury has provided $187.5 billion to Fannie Mae and Freddie Mac under the PSPAs. The PSPAs also require that the GSEs pay quarterly dividends to Treasury. Prior to calendar year 2013, the quarterly dividend amount was based on an annual rate of 10 percent of the redemption value of Treasury’s senior preferred stock. Amendments to the PSPAs effected on August 17th, 2012, replace the 10 percent dividend with an amount equivalent to the GSE’s positive net worth above a capital reserve amount. The capital reserve amount for each company is initially set at $3.0 billion for calendar year 2013, and declines by $600 million at the beginning of each calendar year thereafter until it reaches zero. GSEs have paid $55.2 billion in dividends as of December 31, 2012. The Budget estimates additional net dividend receipts of $183.3 billion from January 1, 2013 through 2023. The cumulative budgetary impact of the PSPA agreements from the first PSPA purchase through 2023 is estimated to be savings of $51 billion. The Temporary Payroll Tax Cut Continuation Act of 2011 signed into law on December 23, 2011, required that the GSEs increase their fees by an average of at least 0.10 percentage points above the average guarantee fee imposed in 2011. Revenues generated by this fee increase are remitted directly to the Treasury for deficit reduction and are not included in the PSPA amounts. The Budget estimates resulting deficit reductions from this fee of $21 billion from 2012 through 2023.In addition, significant assistance has been provided to the mortgage market through the Federal Housing Administration, 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. Through 2012, SSBCI approved funding for 47 States, the District of Columbia, five U.S. territories and four municipalities. SSBCI estimates that approximately $1.46 billion will be disbursed by the end of September 2014, with $1.1 billion disbursed by the end of September 2013. (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 54 Participating States, territories, and municipalities reporting using SSBCI funds to support loans and investments. SSBCI receives quarterly reports from Participating States showing the gross amount of funds used and more detailed annual reports on a transaction level basis. Annual reports for the period ending December 31, 2012, are due March 31, 2013 and will represent the first full year of activity for most Participating States. SSBCI uses the reports to assess performance and provide tailored technical assistance, including assessment and communication across states of "best practices" to maximize the effectiveness of funding. In 2013 and 2014 Treasury will provide more intensive technical assistance.

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 is designed to increase their loans to small businesses. 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 over $4.0 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) participants with more than one missed CPP dividend payment. As of September 30, 2012, SBLF participants had increased their small business lending by $7.4 billion over the baseline with 78 percent of SBLF participants increasing small business lending by 10 percent or more. 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). The 2008 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 report the estimated cost of TARP assets purchased and guarantees issued pursuant to EESA. The most recent report was issued August 31, 2012.[2] Consistent with the requirement to analyze transactions occurring no less than thirty days before publication, the 2014 Budget data presented in this report reflect revised subsidy costs for the TARP programs using actual performance and updated market information through December 31, 2012. For information on subsequent TARP program developments, please consult the Treasury Department's Troubled Asset Relief Program Monthly 105(a) Reports.

[2] See *"OMB Report under the Economic Stabilization Act, Section 202,"* August 31, 2012. *http://www.whitehouse.gov/sites/default/files/omb/reports/tarp_report_august_2012.pdf*

TARP 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) helped stabilize the financial system and strengthen the financial position of the Nation's banking institutions. Net income of insured financial institutions for the quarter ending September 30, 2012, was $37.6 billion, which marked the highest quarterly net income reported by the industry since the third quarter (calendar year) of 2006.[3] This growth in earnings is attributable to financial institutions reducing the loan loss provisions on their balance sheets based on improved forecasts of their asset quality and higher revenues in the form of non-interest income and gains on asset sales. As of September 30, 2012, total provisions for loan losses for all insured depository institutions declined year over year for a 12th consecutive quarter, falling to $14.8 billion from $18.6 billion in the prior year. This continued reduction in loan loss reserves points to improving credit and market conditions.

The on-going 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 160 basis points over Treasuries as of December 31, 2012.[4] However, additional progress is needed to increase small businesses' access to credit, and enable 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 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 eleven consecutive quarters of operating profit and has announced more than $8.9 billion in investments in plants and technology since emerging from bankruptcy in 2009.[5] The story has

[3] Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, September 2012. *http://www2.fdic.gov/qbp/2012sep/qbp.pdf*

[4] 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.

[5] Chrysler, *Third Quarter 2012 Financial Results Webcast*, October, 30, 2012 *http://www.chryslergroupllc.com/Investor/presentations/QAWebcasts/ChryslerDocuments/Q3_2012_Presentation.pdf*

been similar for New GM—and the industry as a whole. In January 2012, GM announced that it had regained its spot as the world's largest global seller of automobiles and as of November 2012, auto sales are the highest they have been in more than four years. The auto industry is leading a resurgence in American manufacturing that translates to the creation of more American jobs, with nearly 250,000 jobs created in the American auto industry over the past three years.

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, 2012, more than 1.1 million borrowers have received permanent modifications through the Home Affordable Modification Program (HAMP), which amounts to an estimated $17.3 billion in realized monthly mortgage payment savings for these homeowners. In addition to helping these borrowers, the Administration's TARP housing programs have been a catalyst to private sector mortgage modifications. Since April 2009, HAMP, FHA, and the private sector HOPE Now alliance have initiated more than 6.2 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

Over four 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, 2012, total repayments and income on TARP investments were approximately $387 billion, which is 93 percent of the $418 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 December 31, 2012, is now estimated at $47.5 billion (see Table 3–1).[6]

Compared to the 2013 MSR estimate of $68 billion, the estimated deficit impact of TARP decreased by $20.5 billion. This decrease was largely attributable to the higher valuation of the AIG and GM common stock sold via public offering or held by Treasury as well as lower expected costs associated with TARP's support of the FHA Refinance Program. In 2012, Treasury sold its remaining AIG common stock holdings via 5 public offerings at prices ranging from $29.00 to $32.50, representing a weighted average share price increase of $2.36 from the May 31st valuation. Additionally, GM's share price increased by $6.63 (or 30 percent), relative to the share prices used to formulate the May 31st valuation.[7]

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 $47.5 billion, a $294 billion reduction from the 2010 MSR and a $309 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 2013 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, 2012, Treasury had received approximately $194 billion in principal repayments (i.e., redemptions of common and preferred stock, CDCI conversions, and refinances to SBLF) and $26.5 billion in revenues from dividends, interest, warrants, gains/other interest and fees. Total redemptions and income now exceed Treasury's initial investment by $15.5 billion. As of December 31, 2012, $7.4 billion remained outstanding under the program.

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. As of December 31, 2012, approximately $530 million remained outstanding under the program.

Capital Assistance Program and Other Programs (CAP). In 2009, Treasury worked with federal banking regulators to develop a comprehensive "stress test" known as the Supervisory Capital Assessment Program (SCAP) to assess the health of the nation's 19 largest bank holding companies. In conjunction with SCAP, Treasury

[6] Note, including proceeds from Treasury's non-TARP holdings in AIG, the total deficit impact is estimated at $30 billion.

[7] The 2014 Budget valuation used the December 31, 2012 share price of $28.83 for Treasury's GM common stock.

announced that it would provide capital under TARP through the Capital Assistance Program (CAP) to institutions that participated in the stress tests as well as others. Only one TARP institution (Ally Financial) required additional funds under the stress tests, but received them through the Automotive Industry Financing Program, not CAP. CAP closed on November 9, 2009, without making any investments and did not incur any losses to taxpayers. Following the release of the stress test results, banks were able to raise hundreds of billions of dollars in private capital.

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 were subsequently converted into common stock. In April 2009, Treasury also extended a $29.8 billion line of credit, of which AIG drew down $27.8 billion, 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 allowed for the acceleration of the Government's exit from AIG. Following the restructuring and AIG's ensuing public offering in May of 2011, the Treasury had a 77 percent ownership (or 1.45 billion shares) stake in AIG, which represented a 15 percentage point reduction from Treasury's 92 percent ownership stake in January 2011. Throughout 2012, Treasury completed public offerings to further reduce its AIG ownership stake. In December 2012, Treasury sold its remaining balance of AIG common in a public offering that reduced Treasury's AIG common stock position to zero. With this final sale, the Treasury and the FRBNY have fully recovered all funds committed to stabilize AIG during the financial crisis and realized an additional $22.7 billion positive return.[8] In March 2013, Treasury sold its remaining 2.7 million warrants for $25.2 million and has fully exited its investment in AIG. A summary of the deal terms and recent transactions is provided below:

- On March 7, 2012, Treasury announced an agreement with AIG that provided for the repayment of the government's remaining $8.5 billion preferred equity investment in the AIG-owned entity AIA Aurora LLC (AIA SPV) from the following sources: (1) $5.6 billion in proceeds from AIG's sale of ordinary shares of AIA (2) $1.6 billion in proceeds from the FRBNY's final disposition of Maiden Lane II LLC securities announced on February 28, 2012 and (3) $1.6 billion in escrowed cash proceeds resulting from AIG's sale of its American Life Insurance Co. (ALICO) subsidiary to MetLife, Inc.
- On March 8, 2012, Treasury sold approximately 207 million shares of AIG common stock through a public offering at $29.00 per share, netting $6.0 billion in proceeds for taxpayers. As part of the offering, AIG agreed to purchase approximately 103.5 million shares at $29.00 per share, representing $3.0 billion of Treasury's expected proceeds from the sale. Approximately two-thirds of the proceeds are attributable to shares received as a result of the TARP assistance to AIG, while the remaining one-third is attributable to the shares transferred to the Treasury from the FRBNY.
- On March 22, 2012, AIG made the final $1.5 billion payment to Treasury to retire Treasury's preferred interest in the AIG-owned entity AIA Aurora LLC (AIA SPV) — a special purpose vehicle that holds ordinary shares in AIA Group Limited (AIA), more than one year ahead of schedule. With this payment, Treasury's preferred equity investment related to AIG has been repaid in full.
- On May 10, 2012 Treasury sold approximately 188.5 million shares of AIG common stock through a public offering at $30.50 per share, netting $5.75 billion in proceeds for taxpayers.
- On August 8, 2012 Treasury sold approximately 188.5 million shares of AIG common stock through a public offering at $30.50 per share, for an additional $5.75 billion in proceeds.
- On September 14, 2012 Treasury sold approximately 636.9 million shares of AIG common stock through a public offering at $32.50 per share, netting $20.7 billion in proceeds for taxpayers.
- On December 14, 2012 Treasury sold its entire remaining position of approximately 234 million shares of AIG common stock through a public offering at $32.50 per share, netting $7.6 billion in proceeds for taxpayers.

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

[8] Treasury's investment in AIG common shares consisted of shares acquired in exchange for preferred stock purchased with TARP funds (TARP shares) and shares received from the trust created by the FRBNY for the benefit of Treasury as a result of its loan to AIG (non-TARP shares).

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.

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 arrangement 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.[9] 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. On December 28, 2012, Treasury received $800 million in additional Citigroup trust preferred securities from the FDIC as contemplated by the agreements entered into by Treasury and the FDIC. The AGP program 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, 2012, Treasury had recouped nearly 58 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. In December 2012, GM purchased 200 million shares of GM common stock from Treasury at $27.50 per share (a 10 percent premium) for proceeds of $5.5 billion and Treasury also announced its intent to fully exit its investment in GM within the next 12-15 months. As of December 31, 2012, TARP had recouped $29.5 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

[9] 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.

billion[10] of the $12.4 billion in aid provide by the U.S. Government, which far exceeded expectations when the program was first unveiled in December 2008.

- 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 billion in 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. In May 2012, Ally Financial began exploring strategic alternatives for its international businesses in a manner that Ally believes will maximize value for its shareholders and Residential Capital, its mortgage subsidiary, filed for Chapter 11 bankruptcy. As of December 31, 2012, Treasury had recouped $5.8 billion of its $16.3 billion in Ally-related investments, including $3.1 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.

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 was 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 provided 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. Treasury's total TALF purchases were designed to be dependent on actual TALF loan defaults, and to date none has occured. In July 2010, Treasury, in consultation with the Federal Reserve, reduced the maximum amount of assets Treasury would acquire 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. In June 2012, Treasury, in consultation with the Federal Reserve, further reduced its loss-coverage to $1.4 billion. Finally, Treasury and the Federal Reserve announced in January 2013 that Treasury's commitment of TARP funds to provide credit protection was no longer necessary due to the fact that the accumulated fees collected through TALF exceeded the total principal amount of TALF loans outstanding. As of January 15, 2013, Treasury had recognized a cash gain of $424 million on TALF, with additional gains expected in the future.

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. In January 2012, Treasury completed the final disposition of its SBA 7(a) securities portfolio. The SBA 7(a) program received total proceeds of $376 million, representing a gain of approximately $8 million to taxpayers.

Public Private Investment Program (PPIP). The Treasury announced the Legacy Securities Public -Private Investment Partnership (PPIP) on March 23, 2009 to help restart the market for legacy mortgage-backed securities, thereby helping financial institutions begin to remove these assets from their balance sheets and allowing for a general increase in credit availability to consumers and small businesses. Under the program, Public-Private Investment Funds (PPIFs) are established by private sector fund managers for the purchase of eligible legacy securities from banks, insurance companies, mutual funds, pension funds, and other eligible sellers as defined under EESA. PPIP closed for new funding on June 30, 2010 and the PPIFs can no longer deploy capital and make new investments as of December 2012 although they may continue to manage these investments for up to five additional years following the termination of their investment period. As of December 31, 2012, $18.6 billion of the $21.9 billion in funds originally committed to PPIP had been disbursed and $15.0 billion had been repaid. Additionally, five of the nine PPIFs had completely wound down, returning their funds to Treasury and their private investors at a profit.

TARP Housing Programs. To mitigate foreclosures and preserve homeownership, in February 2009 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.[11] These housing programs are focused on creating sustainably affordable mortgages

[10] 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.

[11] For additional information on MHA programs, visit: *http://www.makinghomeaffordable.gov/*.

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.[12]

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.[13] 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, 2012, 78 non-GSE mortgage servicers had signed up to participate in the HAMP. Over 1.5 million MHA homeowner assistance actions, including over 1.1 million HAMP permanent modifications, were initiated as of the end of December 2012. Through HAMP, homeowners have saved approximately $17.3 billion in reduced mortgage payments. Program implementation has continually improved since its inception in February 2009. As of December 2012, 87 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, made significant progress in offering consumer protections for homeowners and standardizing the mortgage modification process across the servicing industry, which has contributed to over 6 million Government and private sector modifications and loss mitigation actions occurring since April 2009. In January 2012, the Administration extended the deadline to apply for MHA programs until December 31, 2013. Additionally, in June 2012, the Administration expanded MHA eligibility to include (1) homeowners who are applying for a modification on a home that is not their primary residence, but the property is currently rented or the homeowner intends to rent it, (2) homeowners who previously did not qualify for HAMP because their mortgage debt-to-income ratio was 31.0 percent or lower, and (3) homeowners who previously received a HAMP permanent modification, but defaulted on their payments, therefore losing good standing.

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 101,000 HAFA transactions have been completed.

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. In February 2012, Treasury issued guidance that tripled the amount of financial incentives under PRA for investors who agree to reduce principal for eligible underwater homeowners. There have been nearly 114,000 PRA trial modifications initiated as

[12] 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 $1 billion to cover a share of any losses on FHA Refinance loans.

[13] For additional information on MHA programs, visit: *http://www.makinghomeaffordable.gov/*.

of December 31, 2012, with the median principal amount reduced for active permanent modifications of $72,900.

HFA Hardest-Hit Fund (HHF): The $7.6 billion HHF provides the eligible entities of Housing Finance Agencies 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, Nevada recently implemented a principal reduction program that leverages refinances under the Home Affordable Refinance Program (HARP) while California recently implemented a program that uses principal reduction in conjunction with a modification or recast.

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 into an FHA-insured mortgage, and an additional $8.1 billion was originally 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. In 2013, Treasury's commitment to cover a share of any losses under the FHA Refinance Program was reduced from $8.1 billion to $1.0 billion.

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 program, involve financial instruments without any provision for future returns, and are recorded on a cash basis.[14]

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 about 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

[14] 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 3–1. CHANGE IN PROGRAMMATIC COSTS OF TROUBLED ASSET RELIEF ACTIONS (EXCLUDING DEBT SERVICE)
(In billions of dollars)

TARP Actions	2013 MSR		2014 Budget		Change from 2013 MSR to 2014 Budget	
	TARP Obligations [1]	Estimated Cost (+) / Savings (–)	TARP Obligations [1]	Estimated Cost (+) / Savings (–)	TARP Obligations [1]	Estimated Cost (+) / Savings (–)
Equity Purchases	337.1	17.5	336.8	10.2	–0.3	–7.3
Structured & direct loans and asset-backed security purchases	82.4	19.1	77.5	17.4	–5.0	–1.6
Guarantees of troubled asset purchases [2]	5.0	–3.6	5.0	–3.8	....	–0.2
TARP Housing Programs [3]	45.6	45.6	38.5	37.6	–7.1	–8.0
Total programmatic costs [4]	**470.1**	**78.6**	**457.8**	**61.5**	**–12.3**	**–17.1**
Memorandum:						
Deficit impact before administrative costs and interest effects		68.0		[5] 47.5		–20.5

[1] TARP obligations are net of cancellations.
[2] The total assets supported by the Asset Guarantee Program were $301 billion.
[3] TARP obligations under the FHA Refinance Letter of Credit provide first loss coverage of eligible FHA insured mortgages.
[4] Total programmatic costs of the TARP exclude interest on reestimates.
[5] The total deficit impact of TARP includes $18.1 billion in subsidy cost for TARP investments in AIG. Including proceeds from Treasury's non-TARP holdings in AIG, the net cost to the Government of AIG is $0.5 billion.

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 committed to purchase subordinated debt issued by the SPV to finance asset purchases; no further purchases by Treasury were made. 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 December 31, 2012, for the 2014 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 signed a LOC with Citigroup, originally committing $8.1 billion of TARP funds to cover a portion of default claims of FHA Refinance mortgages, plus administrative expenses. Following changes to the FHA program fee structure anticipated to start in 2013, the LOC is planned to be reduced from a $8.1 billion commitment to a $1.0 billion commitment. Through the LOC agreement, Treasury is committed to make claim payments to private lenders to cover a portion of 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 projects TARP claim payments based on projected FHA Refinance volumes and net claim rates. The full 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

Table 3–2. TROUBLED ASSET RELIEF PROGRAM CURRENT VALUE [1]

(In billions of dollars)

	Actual				Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Financing Account Balances:															
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	76.9	74.9	13.6	10.3	5.0	1.0	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.4
Troubled Asset Relief Program Direct Loan Financing Account	23.9	42.7	28.5	17.9	7.8	1.6	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.4	0.8	0.8	....	....	....	....	....	....	....	....	....	....	....
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account	....	....	–*	–*	–0.1	–0.1	–0.1	–0.1	–0.1	–*	–*	–*	–*	–*	–*
Total Financing Account Balances	**129.9**	**122.0**	**104.1**	**32.2**	**18.0**	**6.5**	**1.7**	**1.5**	**1.5**	**1.4**	**1.3**	**1.3**	**1.3**	**1.3**	**1.3**

* $50 million or less.

[1] Current value as reflected in the 2014 Budget. Amounts exclude HAMP activities that are reflected on a cash basis.

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.[15] 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 3–1, above, summarizes the current and anticipated activity under TARP, and the estimated lifetime budgetary cost reflected in the Budget, compared to estimates from the 2013 MSR. The direct impact of TARP on the deficit, including interest on reestimates, and the risk-adjustment to the discount rate required under EESA, is projected to be $47.5 billion, down $20.5 billion from $68 billion as projected in the 2013 MSR. The subsidy cost represents the lifetime net present value cost of TARP obligations from the date of disbursement. The subsidy cost for TARP excluding interest on reestimates is now estimated to be $61.5 billion.[16] The final subsidy cost of TARP is likely to be lower than the current estimate, because projected cashflows are discounted using a risk adjustment to the discount rate as required by EESA. This requirement adds a premium to current estimates of TARP costs on top of market and other risks already reflected in cash flows with the public. Over time, the risk premium added to TARP costs is essentially returned to the General Fund via downward subsidy reestimates. TARP's overall cost to taxpayers 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 cash-flows to and from the public.[17] 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

[15] The analysis does not assume the effects on net TARP costs of a recoupment proposal authorized under Section 134 of EESA.

[16] 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 and the EESA.

[17] For example, to finance a loan disbursement to a borrower, a direct loan financing account receives the subsidy cost from the program account, and borrows the difference between the face value of the loan and the subsidy cost from the Treasury. As loan and interest payments from the public are received, the value is realized and these amounts are used to repay the financing account's debt to Treasury.

Table 3–3. TROUBLED ASSET RELIEF PROGRAM FACE VALUE OF TARP OUTSTANDING [1]
(In billions of dollars)

	Actual				Estimate	
	2009	2010	2011	2012	2013	2014
Troubled Asset Relief Program Equity Purchases	229.6	119.0	88.2	33.8	18.4	9.3
Troubled Asset Relief Program Direct Loans	60.5	15.7	11.5	6.6	1.1	0.9
Troubled Assets Insurance Financing Fund Guaranteed Assets	251.4	....	....	....	....	....
FHA Refinance Letter of Credit	....	....	0.1	0.3	5.5	5.5
Total Face Value of TARP Outstanding	**541.5**	**134.7**	**99.8**	**40.7**	**25.1**	**15.7**

[1] 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 Hardest Hit Fund are reflected in the budget on a cash basis, and are not included here.

value of the cash flows from the public and asset value to the Government.[18]

Table 3–2 shows the actual balances of TARP financing accounts as of the end of 2012, and projected balances for each subsequent year through 2023.[19] Based on actual net balances in financing accounts at the end of 2009, the value of TARP assets totaled $129.9 billion. By the end of 2012, total TARP net asset value decreased to $32.2 billion, reflecting the realization of the value of TARP assets as repayments, primarily from large banks, exceeded amounts TARP paid for financial assets. Estimates in 2013 and beyond reflect estimated TARP net asset values over time as of December 31, 2012, and all other anticipated transactions. The overall balance of the financing accounts is estimated to continue to fall significantly over the next few years, as TARP investments wind down, from $18 billion at the end of 2013, to $6.5 billion in 2014, and $1.7 billion in 2015 as the assets and loans acquired under the TARP program wind down.

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 TARP direct loans is expected to decrease to $7.8 billion in 2013, gradually declining to $0.9 billion by 2015 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 the expected receipt of trust preferred shares from the FDIC following termination of the guarantee on Citigroup assets which was subsequently sold in February 2013 for $894 million[20]. 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 as the TARP coverage expires.

Where Table 3–2 displays the estimated value of TARP investments, guarantees, and loss share agreements over time, Table 3–3 shows the estimated face value of outstanding TARP investments at the end of each year through 2013. For equity investments, the par value of Treasury's remaining investment is reflected. The outstanding amount of equity investments and direct loans decreased in 2012, as Treasury continued to wind down its equity investments and receive repayments on outstanding loans.. 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 3–6), and was extinguished 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 $1.0 billion (including $100 million set aside for administrative fees). The TARP coverage ratio or share of default losses was 15.17 percent in 2012 and is estimated to be 9.82 percent in 2013 for covered FHA Short Refinancing loans. The overall outstanding face value of mortgages supported by the FHA Refinance Letter of Credit is projected to reach $5.5 billion in 2013. Currently it is not anticipated that additional guarantees will require TARP loss coverage after 2013, though a reserve is maintained to support the program through December 31, 2014.[21] The face value of TARP FHA Refinance Letter of Credit instruments in table 3–3 does not include new FHA Refinancing guarantees expected to be provided after 2013 that do not need TARP loss coverage.

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

[18] 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.

[19] Reestimates for TARP are calculated using actual data through September 30, 2012, and updated projections of future activity. Thus, the full impacts of TARP reestimates are reflected in the 2013 financing account balances.

[20] Transactions that occurred after December 31, 2012 are described for narrative continuity, but are not included in the reestimate of TARP program costs contained in the 2014 Budget.

[21] Changes to the FHA program fee structure anticipated to start in 2013 are sufficient to cover anticipated losses. As a result, TARP first-loss coverage is not anticipated on FHA Short Refi loans after the revised fee structure is implemented.

Table 3–4. TROUBLED ASSET RELIEF PROGRAM EFFECTS ON THE DEFICIT AND DEBT [1]

(Dollars in billions)

	Actual				Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Deficit Effect:															
Programmatic and administrative expenses:															
Programmatic expenses:															
Equity purchases	115.3	8.4	19.1	1.0	*	....	....	....	....	....	....	....	....	....	....
Direct loans and purchases of asset-backed securities	36.9	–0.9	–0.3	–0.1	*	....	....	....	....	....	....	....	....	....	....
Guarantees of troubled asset purchases	–1.0	–1.4	....	....	....	....	....	....	....	....	....	....	....	....	....
TARP housing programs	*	0.5	1.9	3.1	13.1	7.8	6.2	3.1	1.6	0.3	*	*	....	....	....
Reestimates of credit subsidy costs	....	–116.5	–58.5	20.3	–12.5	....	....	....	....	....	....	....	....	....	....
Subtotal, programmatic expenses	151.2	–109.9	–37.7	24.3	0.6	7.8	6.2	3.1	1.6	0.3	*	*	....	....	....
Administrative expenses	0.1	0.2	0.4	0.3	0.4	0.2	0.2	0.2	0.1	0.1	0.1	*	*	*	*
Special Inspector General for TARP	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Subtotal, programmatic & administrative expenses	151.3	–109.6	–37.3	24.6	1.1	8.0	6.5	3.3	1.7	0.4	0.1	0.1	0.1	0.1	0.1
Interest effects:															
Interest transactions with credit financing accounts [2]	–2.8	–4.7	–3.0	–1.6	–3.8	–1.7	–0.1	–0.1	–0.1	–0.1	–0.1	–*	–*	–*	–*
Debt service [3]	2.8	4.7	3.0	1.9	1.1	0.4	0.1	0.5	1.1	1.7	2.0	2.2	2.3	2.4	2.5
Subtotal, interest effects	*	*	*	0.2	–2.8	–1.3	*	0.5	1.0	1.6	2.0	2.1	2.3	2.4	2.5
Total deficit impact	**151.3**	**–109.6**	**–37.3**	**24.9**	**–1.7**	**6.7**	**6.5**	**3.7**	**2.8**	**2.0**	**2.1**	**2.2**	**2.4**	**2.5**	**2.6**
Other TARP transactions affecting borrowing from the public — net disbursements of credit financing accounts:															
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	–28.5	–2.0	–61.3	–3.2	–5.4	–4.0	–0.2	–0.1	–0.1	–0.1	–*	–*	–*	–*
Troubled Asset Relief Program Direct Loan Financing Account	23.9	18.8	–14.2	–10.6	–10.1	–6.2	–0.8	....	....	....	....	....	....	....	....
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	1.8	–1.6	–*	–0.8	....	....	....	....	....	....	....	....	....	....
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account	....	....	–*	–*	–0.1	*	*	*	*	*	*	*	....	....	....
Total, other transactions affecting borrowing from the public	129.9	–7.9	–17.8	–71.9	–14.2	–11.5	–4.8	–0.2	–*	–*	–0.1	–*	–*	–*	–*
Change in debt held by the public	**281.2**	**–117.5**	**–55.1**	**–47.0**	**–15.9**	**–4.8**	**1.8**	**3.6**	**2.7**	**2.0**	**2.0**	**2.2**	**2.3**	**2.4**	**2.5**
Debt held by the public	**281.2**	**163.6**	**108.5**	**61.5**	**45.6**	**40.8**	**42.6**	**46.1**	**48.8**	**50.8**	**52.8**	**55.0**	**57.3**	**59.7**	**62.3**
As a percent of GDP	2.0%	1.1%	0.7%	0.4%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Debt held by the public net of financial assets:															
Debt held by the public	281.2	163.6	108.5	61.5	45.6	40.8	42.6	46.1	48.8	50.8	52.8	55.0	57.3	59.7	62.3
Less financial assets net of liabilities — credit financing account balances:															
Troubled Assets Relief Program Equity Purchase Financing Account	105.4	76.9	74.9	13.6	10.3	5.0	1.0	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.4
Troubled Asset Relief Program Direct Loan Financing Account	23.9	42.7	28.5	17.9	7.8	1.6	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.4	0.8	0.8	....	....	....	....	....	....	....	....	....	....	....
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account	....	....	–*	–*	–0.1	–0.1	–0.1	–0.1	–0.1	–*	–*	–*	–*	–*	–*
Total, financial assets net of liabilities	129.9	122.0	104.1	32.2	18.0	6.5	1.7	1.5	1.5	1.4	1.3	1.3	1.3	1.3	1.3
Debt held by the public net of financial assets	**151.3**	**41.6**	**4.4**	**29.3**	**27.6**	**34.3**	**40.9**	**44.6**	**47.3**	**49.4**	**51.4**	**53.7**	**56.0**	**58.5**	**61.0**
As a percent of GDP	1.1%	0.3%	0.0%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%

* $50 million or less.

[1] Table reflects the deficit effects of the TARP program, including administrative costs and interest effects.

[2] 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.

[3] Includes estimated debt service effects of all TARP transactions that affect borrowing from the public.

Table 3–5. TROUBLED ASSET RELIEF PROGRAM EFFECTS ON THE DEFICIT AND DEBT CALCULATED ON A CASH BASIS [1]

(Dollars in billions)

	Actual				Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Deficit Effect:															
Programmatic and administrative expenses:															
Programmatic expenses:															
Equity purchases	217.6	–121.9	–36.8	–47.2	–14.1	–6.5	–4.4	–0.3	–0.1	–0.1	–0.2	–0.1	–0.1	–*	–*
Direct loans and purchases of asset-backed securities	61.1	–1.0	–21.3	–5.0	–15.4	–6.8	–0.5	....	....	....	....	....	....	....	....
Guarantees of troubled asset purchases	–0.5	–0.3	–2.3	–*	–1.0	....	....	....	....	....	....	....	....	....	....
TARP housing programs	*	0.5	1.9	3.1	13.0	7.8	6.3	3.1	1.6	0.3	*	*	....	....	....
Subtotal, programmatic expenses	278.3	–122.6	–58.6	–49.2	–17.4	–5.5	1.4	2.8	1.5	0.2	–0.2	–0.1	–0.1	–*	–*
Administrative expenses	0.1	0.2	0.4	0.3	0.4	0.2	0.2	0.2	0.1	0.1	0.1	*	*	*	*
Special Inspector General for TARP	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Subtotal, programmatic & administrative expenses	278.4	–122.3	–58.1	–48.9	–17.0	–5.2	1.6	3.0	1.6	0.3	–0.1	*	*	*	0.1
Debt service [2]	2.8	4.7	3.0	1.9	1.1	0.4	0.1	0.5	1.1	1.7	2.0	2.2	2.3	2.4	2.5
Total deficit impact	**281.2**	**–117.5**	**–55.1**	**–47.0**	**–15.9**	**–4.8**	**1.8**	**3.6**	**2.7**	**2.0**	**2.0**	**2.2**	**2.3**	**2.4**	**2.5**
Change in debt held by the public	**281.2**	**–117.5**	**–55.1**	**–47.0**	**–15.9**	**–4.8**	**1.8**	**3.6**	**2.7**	**2.0**	**2.0**	**2.2**	**2.3**	**2.4**	**2.5**
Debt held by the public	**281.2**	**163.6**	**108.5**	**61.5**	**45.6**	**40.8**	**42.6**	**46.1**	**48.8**	**50.8**	**52.8**	**55.0**	**57.3**	**59.7**	**62.3**
As a percent of GDP	2.0%	1.1%	0.7%	0.4%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Debt Held by the Public Net of Financial Assets:															
Debt held by the public	281.2	163.6	108.5	61.5	45.6	40.8	42.6	46.1	48.8	50.8	52.8	55.0	57.3	59.7	62.3
Less financial assets net of liabilities — credit financing account balances:															
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	76.9	74.9	13.6	10.3	5.0	1.0	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.4
Troubled Asset Relief Program Direct Loan Financing Account	23.9	42.7	28.5	17.9	7.8	1.6	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.4	0.8	0.8	....		....	....	....	....	....	....	....	....	....
FHA Refinance Letter of Credit Financing Account	....	....	–*	–*	–0.1	–0.1	–0.1	–0.1	–0.1	–*	–*	–*	–*	–*	–*
Total, financial assets net of liabilities	129.9	122.0	104.1	32.2	18.0	6.5	1.7	1.5	1.5	1.4	1.3	1.3	1.3	1.3	1.3
Debt held by the public net of financial assets	**151.3**	**41.6**	**4.4**	**29.3**	**27.6**	**34.3**	**40.9**	**44.6**	**47.3**	**49.4**	**51.4**	**53.7**	**56.0**	**58.5**	**61.0**
As a percent of GDP	1.1%	0.3%	0.0%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%

* $50 million or less.

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

[2] Includes estimated debt service effects of all TARP transactions affecting borrowing from the public.

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 2013 deficit by $1.1 billion. This reflects estimated TARP housing outlays of $13.1 billion, offset by $12.5 billion in downward reestimates of subsidy costs, including interest on reestimates. 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 2013 is $45.6 billion. Even as the TARP program is winding down, the debt due to TARP increases annually starting in 2015, with additional borrowing to finance TARP housing programs and debt service on 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 $27.6 billion as of the end of 2013. This is $12 billion lower than the projected 2013 debt held net of financial assets reflected in the 2013 MSR. However, debt net of financial assets is anticipated to increase annually starting in 2014, due to the realization of the value of TARP assets, as investments continue to wind down and debt is incurred to finance TARP housing costs and debt service.

In 2013, Table 3–4 shows total TARP activity including interest effects reducing the deficit by $1.7 billion. However, the $3.8 billion in interest transactions with financing accounts is primarily due to the risk-adjustment to the discount rate required under EESA. Actual financing account interest transactions are estimated to be roughly $1.9 billion, which suggests an overall deficit effect of TARP in 2013 of $0.2 billion. 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, 2012, 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.[22] Future cash flows reflect a risk adjusted discount rate and the corresponding financing account interest 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.[23] If these purchases 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 3–5, for comparison to those estimates in Table 3–4 reported above in which TARP transactions are calculated consistent 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 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 decrease the deficit in 2013 by an estimated $15.9 billion, so the 2013 deficit would be $14.2 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 3–4 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, 2012, and December 31, 2012. The specific effects are as follows:

- TARP reestimates and interest on reestimates will decrease the deficit by $12.5 billion in 2013, including $9.1 billion in decreased subsidy costs for TARP programs, and $3.4 billion in interest on reestimates.
- Outlays for the TARP Housing Programs are estimated at $13.1 billion in 2013, 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 peak in 2013, and then decline gradually through 2020.
- Administrative outlays for TARP are estimated at $0.4 billion in 2013, and expected to decrease annually thereafter as TARP winds down through 2023. Costs for the Special Inspector General for TARP are estimated at $48 million in 2014, and are expected to remain relatively stable through 2023.
- Interest transactions with credit financing accounts include interest paid to Treasury on borrowing by the financing accounts, offset by interest paid by

[22] 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.

[23] 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.

Table 3–6. 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 12/31/2012 [1]
Equity Programs:					
Automotive Industry Financing Program (Equity)					
2009	54.52%	40.14%	–0.4	–3.2	12.5
2010	30.25%	3.99%	–0.1	–0.8	3.8
Capital Purchase Program					
2009	26.99%	–6.35%	–1.8	–65.0	204.6
2010	5.77%	11.90%	–*	*	0.3
AIG Investments					
2009	82.78%	22.89%	–7.1	–37.8	67.8
Legacy Securities Public-Private Investment Program					
2009	34.62%	–20.41%	*	–0.3	0.7
2010	22.97%	–42.16%	0.4	–3.2	5.5
Targeted Investment Program					
2009	48.85%	–8.47%	*	–23.2	40.0
Community Development Capital Initiative					
2010	48.06%	25.09%	–*	–0.1	0.6
Subtotal equity program reestimates			**–9.0**	**–133.7**	**335.8**
Structured and Direct Loan Programs:					
Automotive Industry Financing Program (AIFP)					
2009	58.75%	23.97%	–3.0	–19.3	63.4
Legacy Securities Public Private Investment Program					
2009	–2.52%	–0.29%	–*	*	1.4
2010	–10.85%	2.63%	–0.1	1.4	11.0
Small Business Lending Initiative 7(a) purchases					
2010	0.48%	–1.35%	–*	–*	0.4
Term-Asset Backed Securities Loan Facility [2]					
2009	–104.23%	–501.79%	–0.1	–0.4	0.1
Subtotal direct loan program reestimates			**–3.3**	**–18.2**	**76.2**
Guarantee Programs:					
Asset Guarantee Program [3]					
2009	–0.25%	–1.16%	–0.2	–1.3	301.0
FHA Refinance Letter of Credit					
2011	1.26%	0.96%	–*	–*	0.1
2012	4.00%	3.95%	–*	–*	0.2
Subtotal guarantee program reestimates			–0.2	–1.3	301.3
Total TARP Reestimates			**–12.5**	**–153.3**	**713.4**

* $50 million or less.
[1] Disbursements do not reflect cancelled or closed out facilities.
[2] The Term-Asset Backed Securities Loan Facility 2009 subsidy rate reflects the anticipated collections for Treasury's $20 billion commitment, as a percent of estimated lifetime disbursements of roughly $0.3 billion.
[3] Disbursement amount reflects the face value of guarantees 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.

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 $3.8 billion in 2013 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 $1.1 billion for 2013 (as shown in Table

Table 3–7. DETAILED TARP PROGRAM LEVELS AND COSTS
(In billions of dollars)

Program	May 31st Valuation		2014 Budget	
	TARP Obligations	Subsidy Costs	TARP Obligations	Subsidy Costs
Equity Purchases				
Capital Purchase Program	204.9	–7.4	204.9	–7.7
AIG Investments	67.8	21.9	67.8	18.1
Targeted Investment Program	40.0	–3.6	40.0	–3.6
Automotive Industry Financing Program (AIFP)	16.3	5.8	16.3	5.3
Public-Private Investment Program - Equity	7.5	–2.3	7.2	–2.0
Community Development Capital Initiative	0.6	0.1	0.6	0.2
Subtotal equity purchases	337.1	14.6	336.8	10.2
Direct Loan Programs				
Automotive Industry Financing Program (AIFP)	63.4	19.6	63.4	17.7
Term Asset-Backed Securities Loan Facility (TALF)	4.3	–0.4	0.1	–0.5
Public-Private Investment Program - Debt	14.4	–0.3	13.6	0.2
Small Business 7(a) Program	0.4	*	0.4	*
Subtotal direct loan programs	82.4	18.9	77.5	17.4
Guarantee Programs under Section 102				
Asset Guarantee Program [1]	5.0	–3.7	5.0	–3.8
Subtotal asset guarantees	5.0	–3.7	5.0	–3.8
TARP Housing Programs				
Making Home Affordable (MHA) Programs	29.9	29.9	29.9	29.9
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 [2]	8.1	8.1	1.0	0.1
Subtotal TARP housing programs	45.6	45.6	38.5	37.6
Totals	**470.1**	**75.4**	**457.8**	**61.5**
Memorandum:				
Interest on reestimates [3]		–11.9		–13.9
Deficit impact before administrative costs and interest effects		63.5		47.5

* $50 million or less

[1] The total assets supported by the Asset Guarantee Program were $301 billion.

[2] TARP obligations under the FHA Refinance Letter of Credit provide first loss coverage of eligible FHA insured mortgages.

[3] Total programmatic costs of the TARP exclude interest on reestimates of $11.9 billion in "May 31st Valuation" and $13.9 billion in "2014 Budget." Interest on reestimates is an adjustment that accounts for the time between the original subsidy costs and current estimates; such adjustments impact the deficit but are not direct programmatic costs.

3–4), and then expected to increase to $2.5 billion by 2023, largely due to outlays for TARP housing programs. 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 2013 reflect TARP disbursements through December 31, 2012, while reestimated subsidy rates reflect the full lifetime costs, including anticipated future disbursements. As noted above, the total decrease in the deficit attributable to TARP reestimates in 2013 is $12.5 billion, reflecting a $9.1 billion net downward reestimate of the subsidy cost and $3.4 billion in net downward interest on the reestimates. Detailed information on upward and downward reestimates to program costs are reflected in Table 3–6.

The current reestimate reflects a significant decrease in estimated TARP costs from the 2013 Budget. This decrease was due in large part improved market conditions and significant progress winding down TARP investments over the past year, most notably the higher valuations of AIG common stock and realized sale proceeds, and higher valuation of GM common stock.

Differences Between Current and Previous OMB Estimates

As shown in Table 3–7, the Budget reflects a total TARP deficit impact of $47.5 billion before administra-

Table 3–8. COMPARISON OF OMB AND CBO TARP COSTS
(In billions of dollars)

Program	Estimates of Deficit Impact	
	CBO Cost Estimate [1]	OMB Cost Estimate
Capital Purchase Program	–18	–15
Targeted Investment Program	–8	–4
AIG Assistance	14	15
Automotive Industry Financing Program	20	20
Term Asset-Backed Securities Loan Facility	*	–1
Other Programs [2]	–1	–6
TARP Housing Programs	16	38
Total	**24**	**47**

* Amounts round to less than $1 billion.
[1] CBO estimates from October 2012, available online at http://www.cbo.gov/sites/default/files/cbofiles/attachments/TARP10–2012_0.pdf
[2] "Other Programs" reflects an aggregate cost for PPIP (debt and equity purchases), CDCI, AGP, and small business programs.

tive costs and interest effects. This is a decrease of $20.5 billion from the 2013 MSR projection of $68.0 billion and $16.0 billion from the May 31st valuation of $63.5 billion. The estimates included in MSR do not include updates to estimated subsidy rates or market valuations, such as for common stock held by Treasury. While the May 31st valuation is not reflected in the deficit, it is more comparable to budget estimates because it includes adjustments to reflect recent market performance, and is presented in Table 3–7 as for comparison to 2014 Budget estimates.

The estimated TARP deficit impact reflected in 3–7 differs from the subsidy cost of $61.5 billion in the Budget because the deficit impact reflects a $13.9 billion cumulative downward adjustment for interest on reestimates. These adjustments account for the time between when the subsidy cost was originally estimated and the time when the reestimate is booked.

Differences Between OMB and CBO Estimates

Table 3–8 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 – October 2012." [24]

CBO estimates the total cost of TARP at $24 billion, based on estimated lifetime TARP obligations of $431 billion. The Budget reflects current estimates of roughly $457.8 billion in program obligations, and $61.5 billion in programmatic costs, excluding interest on reestimates. 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 $16 billion in total TARP Housing expenditures, while the Budget reflects a $37.6 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 $3 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 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.[25]

Table 3–9 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 2014 Budget estimated cashflows with the public. Now that the bulk of TARP financial assets have wound down, removing the market risk adjustment from the discount rate for TARP direct, guaranteed, and equity programs (excluding housing programs) decreases subsidy costs by only 1.6 percent ($0.4 billion). Programs that have fully wound down reflect no difference between the EESA and FCRA estimates, as there are no future cashflows which would be discounted using a risk-adjusted rate under EESA. Treasury holdings within the AIFP program include a significant amount of common stock, the value of which is based on the closing December 31, 2012, share price. The share price of common stock is inherently adjusted

[24] United States. Congressional Budget Office. Report on the Troubled Asset Relief Program – October 2012. Washington: CBO, 2012. *http://www.cbo.gov/sites/default/files/cbofiles/attachments/TARP10-2012_0.pdf*

[25] 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.

Table 3–9. COMPARISON OF EESA AND FCRA TARP SUBSIDY COSTS
(In billions of dollars)

Program	TARP Obligations	Subsidy Cost	
		ESSA	FCRA
Capital Purchase Program	204.9	–7.7	–7.9
Targeted Investment Program	40.0	–3.6	–3.6
Asset Guarantee Program [1]	5.0	–3.8	–3.8
Community Development Capital Initiative	0.6	0.2	0.2
Term Asset-Backed Securities Loan Facility	0.1	–0.5	–0.5
Small Business 7(a) Program	0.4	–*	–*
Public Private Investment Program [2]	20.8	–1.8	–1.9
AIG Investments	67.8	18.1	18.1
Automotive Industry Financing Program [2]	79.7	23.0	23.0
Subtotal TARP equity and direct loans	424.5	23.8	23.4
TARP Housing Programs			
Making Home Affordable Programs [3]	29.9	29.9	29.9
Hardest Hit Fund [3]	7.6	7.6	7.6
Subtotal Non-Credit Programs	37.5	37.5	37.5
FHA Refinance Letter of Credit [4]	1.0	0.1	0.1
Subtotal TARP Housing	38.5	37.6	37.6
Total [5]	**457.8**	**61.5**	**61.0**

* $50 million or less

[1] The total assets supported by the Asset Guarantee Program were $301 billion.

[2] Rates for PPIP and AIFP reflect weighted average subsidy costs across various instruments.

[3] TARP Making Home Affordable Programs and 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.

[4] TARP obligations under the FHA Refinance Letter of Credit provide first loss coverage of eligible FHA insured mortgages.

[5] Total subsidy costs do not include interest effects or administrative costs. Costs at EESA and FCRA discount rates are the same for common stock programs and for programs that are closed or awaiting a closing reestimate.

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 AIFP between values calculated using the Treasury and risk adjusted rate. 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 December 31, 2012, valuations, TARP investments discounted at a risk adjusted rate will cost an estimated $61.5 billion, which suggests a net subsidy rate of 13.4 percent. TARP investments discounted under FCRA are estimated to have a lifetime cost of $61 billion, or a net subsidy rate of 13.3 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 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, 2011, and 2012 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 compensation 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 25, 2012, it has issued 19 reports and led over 150 investigations since its inception.

4. LONG TERM BUDGET OUTLOOK

The horizon for the detailed estimates of receipts and outlays in the President's Budget is 10 years. This 10-year horizon balances consideration of the future impacts 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 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 2014 Budget for 75 years through 2088. Because of the uncertainties involved in making long-run projections, results are presented for a base case and for several alternative scenarios.

Recent legislation has led to significant improvements in the Nation's long-term fiscal health. First, the passage of the Affordable Care Act (ACA) in 2010 enacted cost-reduction mechanisms in the health sector that will reduce deficits by more than $1 trillion over the first two decades, according to the Congressional Budget Office (CBO), and have the potential to significantly reduce the trajectory of health spending, and future budget deficits, over the long run. Second, the Budget Control Act of 2011 (BCA) reduced the long-term path of discretionary spending by placing such spending under tight limits through 2021. Most recently, enactment of the American Taxpayer Relief Act of 2012 this past January increased income tax rates on the highest-income taxpayers, increasing tax receipts above prior projections.

The 2014 Budget includes further initiatives that would help control future deficits. The projections in this chapter include several methodological changes that highlight the fact that simply extending current laws and the Budget's policies puts the country on a course to balance the budget, with the publicly held debt falling relative to the economy even sooner. While additional reforms may be required to ensure that programs like Medicare Part A and Social Security, which are financed from dedicated revenue sources, remain self-sustaining, overall budgetary resources would be sufficient to support future spending over the long term if Budget policies and assumptions are carried forward. Nonetheless, there is considerable uncertainty in the Administration's long-term projections, and future challenges will require policy responses that have yet to be formulated.

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 countercyclical programs like unemployment insurance had also risen sharply. The measures taken by the Administration to revive economic growth are helping to increase revenues, and the tax increases on high-income taxpayers will boost revenues further. Meanwhile, as noted above, 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 10-year period, the primary budget—receipts and non-interest spending—is estimated to be in surplus with the debt-to-GDP ratio declining. 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 for an additional 15 years before the easing of baby boom retirements, continued control in Government discretionary spending and health costs, and gradually rising revenues due to growing household income turn the country on a course toward reducing the debt-to-GDP ratio and balancing the budget in 2055.

The key to long-range fiscal sustainability is balancing the Government's commitments for major health and retirement programs—Medicare, Medicaid and Social Security—with sufficient tax receipts along with control in discretionary and non-entitlement spending, while allowing for additional entitlement reforms as appropriate.

- Medicare's growth has generally exceeded that of other Federal spending for decades, tracking the rapid growth in overall health care costs. The ACA is curtailing this cost growth, but Medicare spending is still projected to reach higher levels relative to the economy and the rest of the budget than those that prevail today, due both to rising health costs and the aging population.
- Medicaid's growth has, like Medicare, generally tracked the growth in overall health costs, and therefore historically exceeded that of other Federal spending. Medicaid assistance will expand further beginning in 2014 because of broadened coverage provided by the ACA. However, the ACA's reforms are also expected to reduce Medicaid per beneficiary spending growth in the long-run projections, as Medicare cost containment spills over into the rest of the health sector.
- Outlays for Social Security benefits will rise as a share of the economy as the population ages, putting pressure on the long-term budget.
- Discretionary spending for both defense and nondefense programs will continue to shrink relative to

the economy as discretionary spending limits hold this form of spending to growth rates lower than inflation. It is unlikely that the growth in discretionary spending will continuously remain lower than inflation over the very long term, so after the end of the 10-year budget window, the projections allow for growth with inflation and population growth to effectively hold discretionary spending constant on a real per capita basis.

- Without any further changes in tax law, revenues will gradually rise as a share of the economy over the 75-year horizon, as individuals' real incomes rise into higher tax brackets (which are indexed for inflation). Without future legislative action to cut taxes, revenues will continue to gradually rise as a share of the economy.

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 reasons that the budget outcomes could change for reasons other than the inevitability of future legislated changes. These uncertainties make even short-run budget forecasting quite difficult, and the uncertainties increase the further into the future projections are extended. 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 Budget Projections

The 2014 Budget includes nearly $1.8 trillion in net deficit reduction over the next 10 years. Combined with the more than $2.5 trillion in savings from the discretionary spending limits enacted in the BCA and the revenue increases enacted in ATRA, this would generate more than $4.3 trillion in deficit reduction over the next decade. These savings would bring the Nation to the point where current non-interest expenditures are no longer adding to debt and where debt is decreasing as a share of the economy—a key metric of fiscal sustainability. The base case long-run projections begin with the 10-year estimates of revenues and outlays under 2014 Budget policies, which result in a primary surplus of 1.2 percent of GDP and an overall deficit of 1.7 percent of GDP in 2023. In the decade and a half beyond 2023, the fiscal position gradually deteriorates mainly because of the aging of the population and the high continuing cost of health care driving up outlays for Social Security, Medicare, and Medicaid as a share of GDP. Revenues also increase as a share of GDP, but more gradually, due to economic growth. By 2033, the deficit is projected to peak at 2.8 percent of GDP, but thereafter rising revenues and controlled spending along with stabilized entitlement growth cause the deficit to begin to fall rapidly—falling below 2 percent of GDP in 2045, and below 1 percent of GDP in 2051. The Budget reaches balance in 2055, when revenues and outlays are 21.5 percent of GDP, slightly higher than their levels during the budget surpluses of 1998-2001. The Federal Government is then projected to run surpluses over the remainder of the projection window, with publicly-held debt falling rapidly until it reaches zero in 2074 (see Chart 4–1). The 75-year fiscal gap disappears in the base case, becoming a fiscal surplus of 1.6 percent of GDP.

These projections are not intended to be a prediction of future legislative action, nor are they intended to reflect explicit policy proposals for the years beyond 2023; rather, they are a mechanical extrapolation of the Budget policies. Relative to last year's projections, the base case projections make two methodological changes, both of which are intended to provide a baseline forecast under the assumption that there are no future legislative changes in policy.

First, the projections allow revenues to rise as a share of GDP, as will occur automatically under current law as real household incomes grow. Allowing revenues to rise

Chart 4-1. Publicly Held Debt Under 2014 Budget Policy Extended

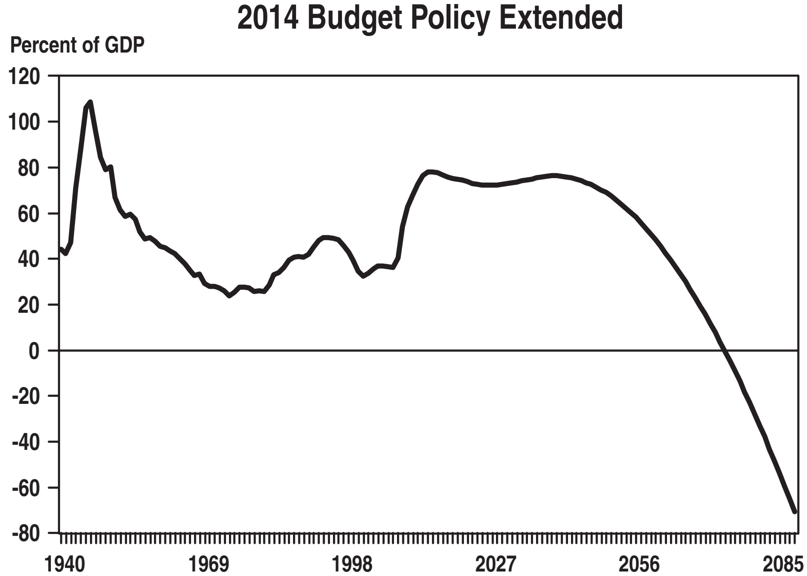


Table 4–1. LONG-RUN BUDGET PROJECTIONS
(Receipts, Outlays, Surplus or Deficit, and Debt as Percent of GDP)

	1980	1990	2000	2010	2020	2030	2040	2050	2060	2070	2080	2085
Receipts	19.0	18.0	20.6	15.1	19.4	20.1	20.5	21.2	21.9	22.7	23.4	23.8
Outlays:												
Discretionary	10.1	8.7	6.3	9.1	5.5	4.5	4.1	3.5	3.1	2.7	2.4	2.3
Mandatory:												
Social Security	4.3	4.3	4.1	4.9	5.3	6.2	6.4	6.2	6.2	6.1	6.2	6.3
Medicare	1.1	1.7	2.0	3.1	3.1	3.8	4.1	4.2	4.3	4.4	4.5	4.5
Medicaid	0.5	0.7	1.2	1.9	1.9	2.2	2.6	2.8	2.8	2.9	2.9	2.9
Other	3.7	3.2	2.4	3.7	3.2	3.0	2.7	2.6	2.4	2.3	2.1	2.1
Subtotal, mandatory	9.6	9.9	9.7	13.6	13.5	15.2	15.8	15.8	15.6	15.7	15.7	15.7
Net interest	1.9	3.2	2.3	1.4	2.7	2.9	3.1	2.8	2.0	0.6	–1.1	–2.2
Total outlays	21.7	21.9	18.2	24.1	21.6	22.7	22.9	22.1	20.7	19.1	17.0	15.8
Surplus (+) or deficit (–)	–2.7	–3.9	2.4	–9.0	–2.2	–2.6	–2.5	–0.9	1.2	3.6	6.4	8.0
Primary Surplus (+) or deficit (–)	–0.8	–0.6	4.7	–7.6	0.5	0.4	0.6	1.9	3.2	4.2	5.3	5.8
Federal debt (+) or asset (–) held by the public, end of period	26.1	42.1	34.7	62.9	74.9	72.9	76.1	68.5	47.3	13.9	–30.6	–57.1

Note: The figures shown in this table beyond 2020 are the product of a long-range forecasting model maintained by OMB. 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.

is methodologically consistent with the approach for the projections of Social Security, Medicare, and other mandatory spending programs in that it projects the levels of revenues that would result under extrapolation of the Budget policies. Under that approach, revenues would rise as a share of GDP because household income is projected to rise in real terms. Real income growth will push households into higher tax brackets (which are indexed to inflation), resulting in taxes that gradually rise as a share of the economy.

Second, after 2023, the new projections increase discretionary spending to keep pace with inflation and population growth, rather than GDP growth. Growing these programs at the rate of inflation plus population growth reflects the growth rate that would be needed to maintain current services per capita. This growth rate is higher than the growth rate for these programs in the baselines assumed by the Office of Management and Budget (OMB) and the CBO in the absence of discretionary spending limits.

As shown in Table 4–2, other assumptions lead to substantially different projections. Under a scenario that instead assumes that future policymakers enact additional tax cuts and spending increases such that income tax revenues remain roughly flat as a share of the economy and discretionary spending grows with GDP, deficits and debt rise quickly throughout the 2020s and 2030s before the pace of increase slows around 2040. Deficits ultimately reach 5.6 percent of GDP and debt continues to rise gradually throughout the projection horizon. Under this alternative scenario, there is an overall fiscal gap of 0.7 percent of GDP over the 75-year projection horizon (see Chart 4–2 and Table 4–2). Importantly, however, this alternative scenario effectively assumes that Congress passes substantial new tax cuts in future years. Equivalently, it assumes that households with a given level of income – adjusted for inflation – would pay significantly lower taxes in the future than they do today. Likewise, that scenario allows for significant increases in discretionary spending beyond what would be needed to support current services in per capita terms. In effect, the additional deficits forecast under this scenario are entirely a reflection of projected future Congressional action to reduce taxes and increase discretionary spending, rather than the result of continuation of current policies.

As noted, the base case is neither a prediction nor a recommendation but is instead a mechanical extrapolation. In particular, it would be unrealistic and undesirable for revenues to continue to increase and discretionary spending to continue to fall as a share of GDP over the long run even as the Federal Government ran large surpluses, paid off its entire debt, and began accumulating assets, as shown in Table 4–1. The purpose of the long-run forecast shown here is simply to provide an extension of budget policies against which to evaluate the nation's fiscal condition and potential changes in policy. That base forecast shows that under 2014 Budget policies, in the long run the budget does not run deficits or increase the debt. On the other hand, in an alternative scenario, holding down revenue growth and allowing discretionary spending to keep pace with GDP growth, there is a modest long-run fiscal gap, as shown in Table 4–2.

Key Drivers of Program Growth: Health Costs and Demographic Changes

Health Costs.—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 insur-

Table 4–2. 75-YEAR FISCAL GAP (–)/SURPLUS (+) UNDER ALTERNATIVE BUDGET SCENARIOS
(Percent of GDP)

2014 Base Case	1.6
2014 Budget policies plus assumed future tax cuts and spending increases	–0.7
Health:	
Excess cost growth averages 0%	2.9
Excess cost growth averages 1%	0.8
Discretionary Outlays:	
Grow with inflation	2.0
Grow with GDP	0.5
Revenues:	
Income tax brackets are regularly increased	0.4
Productivity:	
Productivity grows by 0.25 percent per year faster than the base case	3.5
Productivity grows by 0.25 percent per year slower than the base case	–0.4
Population:	
Fertility:	
2.3 births per woman	2.4
1.7 births per woman	0.7
Immigration:	
1.3 million immigrants per year	2.2
0.8 million immigrants per year	1.0
Mortality:	
Female life expectancy 83.8; male life expectancy 80.1	2.0
Female life expectancy 89.8; male life expectancy 87.3	1.5

ance 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 will rise at rates substantially below those at which spending has grown for four decades. Even with these changes, however, overall health care costs are likely to continue to rise faster than inflation as the population ages.

The base case projections assume 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 (April 2012), except in cases where those projections exceed the target growth rate of 0.5 percentage points above growth in GDP per capita set by the Budget's proposal to strengthen the Independent Payment Advisory Board (IPAB).[1] Generally, this constraint helps to control excess cost growth in the two decades after the budget window, before excess cost growth dips below the proposed threshold. The Trustees' projections imply that average long-range annual growth in Medicare spending per enrollee is 0.4 percentage points per year faster than the projected growth rate in GDP per capita, but the growth rate is less than 0.3 percentage points with the IPAB constraint imposed 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—but is higher than the projections in the 2013 Budget due to increased cost rates recommended by the Medicare Technical Review Panel and included in the 2012 Trustees' report.

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.[2] 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.[3]

Elderly Population.—An aging population 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 2.8 currently to a level of 2.0 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 due to increased longevity of retirees. 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 2033, after which time the Trustees project annual resources will be sufficient to pay about 75 percent of scheduled benefits.

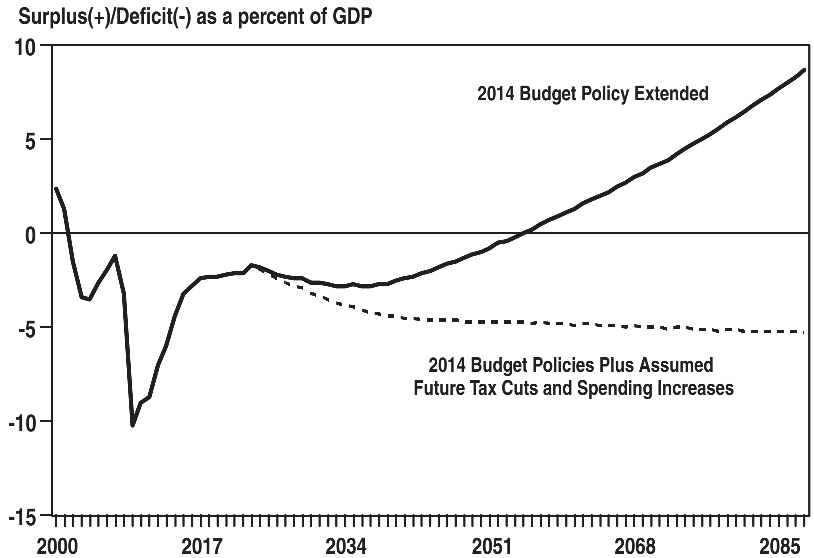
Other Programs.—Though smaller in size and facing fewer long-run fiscal challenges, smaller mandatory programs are also included in the projections and contribute to the long-run fiscal picture. Other mandatory programs generally decline relative to the size of the economy. These include Federal pension benefits for Government workers. The shift in the 1980s from the traditional Federal pension benefit of the Civil Service Retirement System (CSRS) to the much smaller defined benefit pension plan of 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. As a result, spending for Federal retirement is expected to permanently shrink

[1] The ACA established an Independent Payment Advisory Board (IPAB) that is required to propose changes in Medicare should Medicare costs exceed target growth rates specified in law; such IPAB-proposed changes would take effect automatically, unless overridden by the Congress. The Budget includes a proposal that would strengthen IPAB by lowering the target growth rate applicable for 2020 onward from GDP + 1.0 percentage points to GDP + 0.5 percentage points.

[2] 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.

[3] The projections assume that growth in Medicaid spending per enrollee and private health spending per capita exceeds growth in GDP per capita by 0.7 percentage points.

Chart 4-2. Alternative Base Assumptions



relative to the size of the economy over the next 75 years. Most other entitlement programs are also expected to grow more slowly than GDP due mainly to falling poverty and population growth rates over the very long run.

The Fiscal Gap

The present value fiscal gap is one measure of the size of the adjustment needed to preserve fiscal sustainability in the long run.[4] It is defined as the present value increase in taxes or reduction in non-interest expenditures over a finite time period required to keep the long-run ratio of Government debt-to-GDP at its current level if implemented immediately. The gap can be measured in present value dollars or as a percentage of GDP. Since the fiscal gap is calculated over a finite time period, it may understate the adjustment needed to achieve permanent sustainability. If future publicly-held debt is projected to be lower than current debt, than there is a fiscal surplus rather than a fiscal gap. Table 4–2 shows present value fiscal gap or surplus calculations calculated over a 75-year horizon for the base case as well those under different assumptions. This value can be interpreted as the average level of deficit change needed each year from 2014 to 2088 to maintain the current level of debt held by the public as a percentage of GDP. Since the base case reaches balance, it has a fiscal surplus of 1.6 percent of GDP, which means that deficit reduction is not needed to maintain the current level of debt over 75 years.

[4] 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.

Chart 4-3. Alternative Health Care Costs

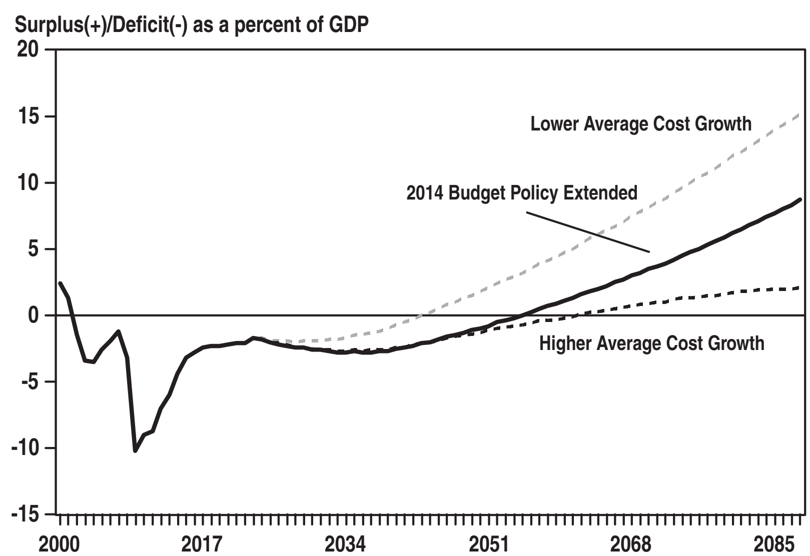
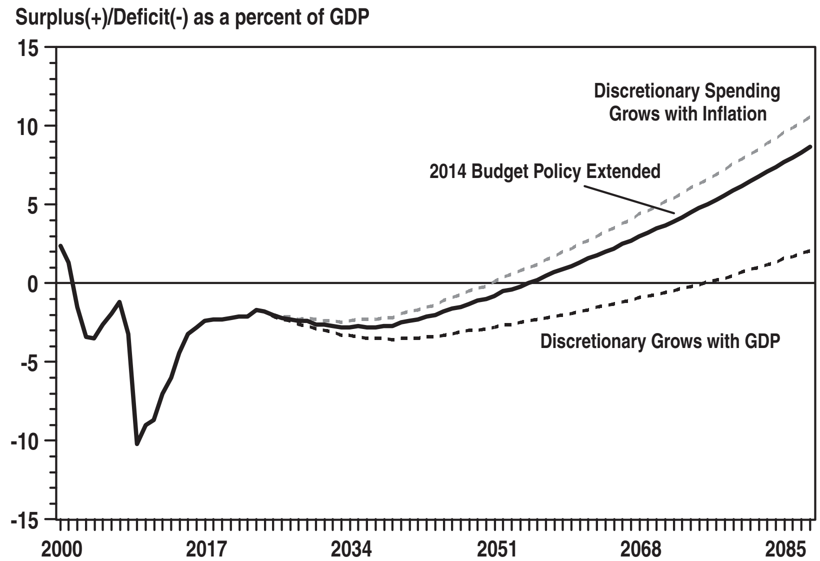


Chart 4-4. Alternative Discretionary Projections



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. It is important to note that these paths are merely illustrative; they are not intended to represent the policy preferences of this Administration or the predicted actions of future Administrations and Congresses.

Health Spending.—The base projections for Medicare and Medicaid over the next 75 years assume an extension of current law and the policies in the 2014 Budget. The health cost alternatives illustrated in Chart 4–3 assume that medical costs rise more rapidly or more slowly than in the base case. The first alternative assumes that costs per beneficiary rise at one percentage points per year above GDP per capita in the entire health sector, while the second alternative assumes zero growth above GDP per capita in the health sector. Table 4–2 shows the effect of these alternatives on the 75-year present value fiscal surplus, which falls from 1.6 percent of 75-year present value GDP in the base case to 0.8 percent of GDP in the high health cost growth scenario and rises to 2.9 percent of GDP in the low health cost growth scenario.

Discretionary Spending.— The current base projection for discretionary spending assumes that after 2023, discretionary spending grows with inflation and population (see Chart 4–4). An alternative assumption would be to allow discretionary spending to keep pace with the economy and grow with GDP. Yet another possible assumption is to only allow discretionary spending to grow with inflation. As shown in Table 4–2, the 75-year fis-

Chart 4-5. Alternative Revenue Projections

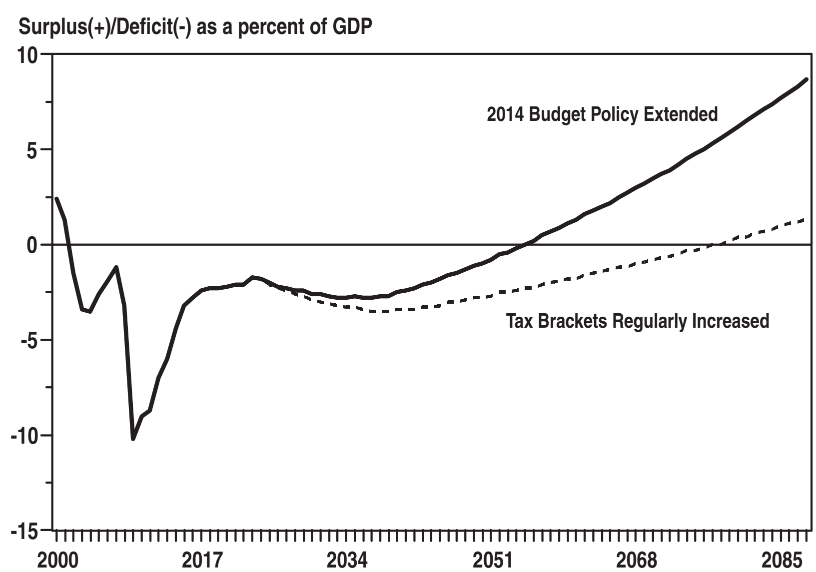
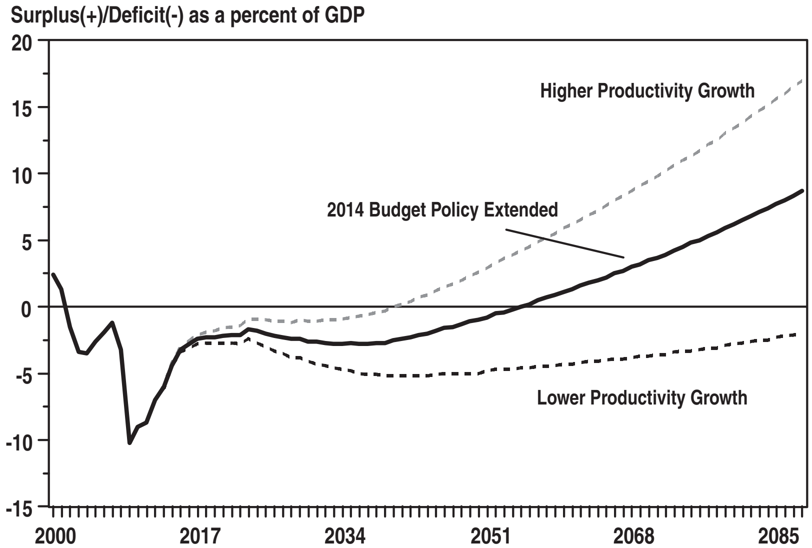


Chart 4-6. Alternative Productivity Assumptions



cal surplus falls from 1.6 percent of 75-year present value GDP in the base case to 0.5 percent of GDP in the growth with GDP scenario, and rises to 2.0 percent of GDP in the growth with inflation scenario.

Alternative Revenue Projections.—In the base projection, tax receipts rise gradually relative to GDP as real incomes rise. Chart 4–5 shows alternative receipts assumptions. Assuming that Congress will act to cut taxes to avoid the revenue increases associated with rising incomes would bring about higher deficits and publicly-held debt throughout the 75-year horizon. The 75-year fiscal surplus falls from 1.6 percent of 75-year present value GDP in the base case to 0.4 percent of GDP in the alternative scenario.

Productivity.—The rate of future productivity growth has a major effect on the long-run budget outlook (see Chart 4–6). 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. For much of the last century, output per hour in nonfarm business grew at an average rate of around 2.2 percent per year, despite long periods of sustained output growth at notably higher and lower rates than the long term average.

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 of 2.5 percent. Overall, real GDP per hour worked will grow at an average annual rate of 1.7 percent per year. The difference is reconciled by the tendency of the sectors of the economy that are counted in GDP outside of

Chart 4-7. Alternative Fertility Assumptions

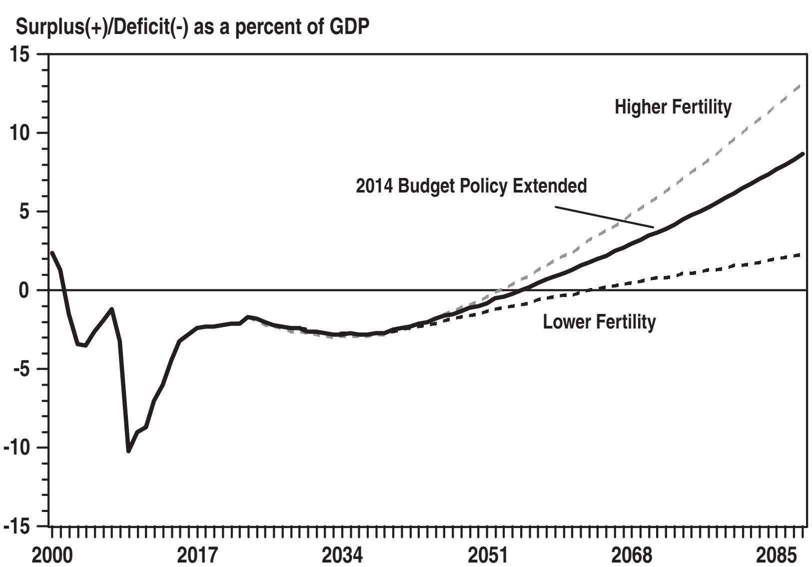
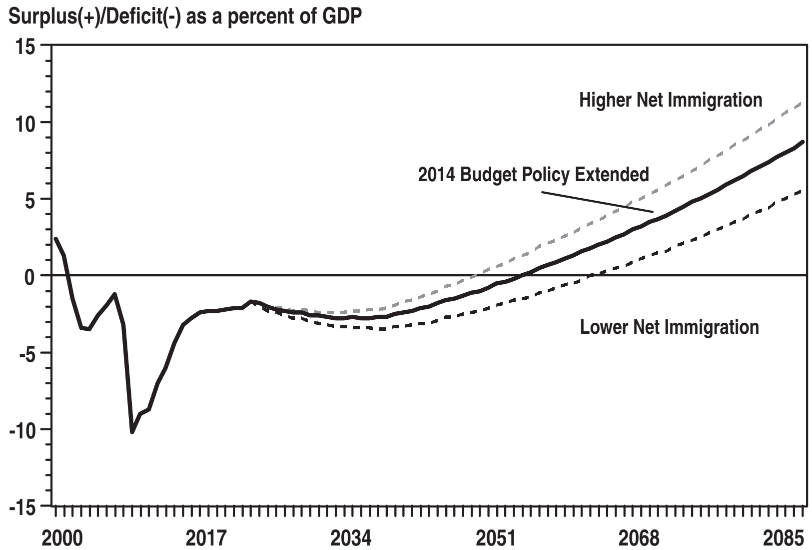


Chart 4-8. Alternative Immigration Assumptions



the nonfarm business sector to have lower productivity growth than those counted in the nonfarm business sector. The alternative scenarios highlight the effect of raising and lowering the projected productivity growth rate by 1/4 percentage point. The 75-year fiscal surplus rises from 1.6 percent of 75-year present value GDP in the base case to 3.5 percent of GDP in the faster productivity scenario, but falls to a fiscal gap of -0.4 percent of GDP in the slower productivity scenario.

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

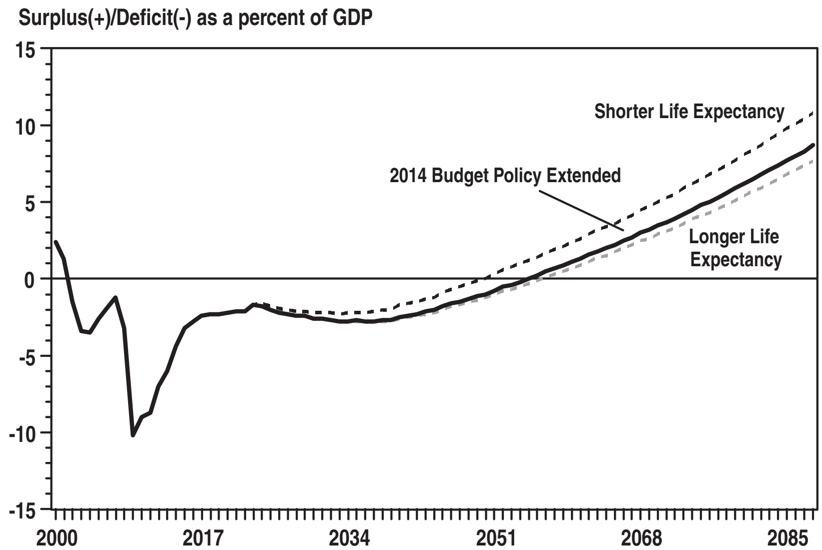
- The demographic projections assume that fertility will average about 2.0 total lifetime births per woman in the future, just slightly below the replacement rate needed to maintain a constant population in the absence of immigration (see Chart 4–7). The alternatives are those in the latest Social Security trustees' report (1.7 and 2.3 births per woman). The 75-year fiscal surplus rises from 1.6 percent of 75-year present value GDP in the base case to 2.4 percent of GDP in the high fertility scenario, but falls to 0.7 percent of GDP in the low fertility scenario.
- The rate of net immigration is assumed to average around 1 million immigrants per year in the long run (see Chart 4–8). Higher net immigration relieves some of the downward pressure on population growth from low fertility and allows total population to expand throughout the projection period, although at a much slower rate than has prevailed historically. 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). The 75-year fiscal surplus rises from 1.6 percent of 75-year present value GDP in the base case to 2.2 percent of GDP in the faster net immigration scenario, but falls to 1.0 percent of GDP in the slower net immigration scenario.
- Mortality is projected to decline as people live longer in the future (see Chart 4–9). These assumptions parallel those in the latest Social Security Trustees' Report. The average life expectancy at birth for women is projected to rise from 80.6 years in 2012 to 86.7 years in 2088, and the average for men is expected to increase from 76.1 years in 2012 to 83.6 years in 2088. The variations show the high and low alternatives from the latest Trustees' report, with average female and male life expectancy reaching 83.8 and 80.1 in the shorter life expectancy alternative and 89.8 and 87.3 in the longer life expectancy alternative. The 75-year fiscal surplus rises from 1.6 percent of 75-year present value GDP in the base case to 2.0 percent of GDP in the shorter life expectancy scenario, but falls to 1.5 percent of GDP in the longer life expectancy scenario.

The long-run budget outlook is highly uncertain. With pessimistic assumptions, the fiscal picture can quickly deteriorate back into deficits and rising debt. More optimistic assumptions imply an even earlier return to surpluses and declining debt. These projections highlight the need for policy awareness and potential action to address the main drivers of future budgetary costs.

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

Chart 4-9. Alternative Mortality Assumptions



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.

Table 4–3 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 2010 and the 2011 reports are shown along with the latest data from the 2012 reports. Even following the passage of the ACA in 2010, there is a continued imbalance in the long-run projections of the HI program due to demographic trends and continued high per-person costs. Additionally, following two years of significant ACA-related improvement, the 2012 Trustees' Report reflects an increase in the long-run deficit compared to 2011 due to the implementation of recommendations of the Medicare Technical Review Panel on long-term health care cost growth rates. While these projections still assume full implementation of the cost reductions under current law over the entire long-run projection period, the entire long-run cost growth calculation has been modified following the Panel's findings. In the 2011 Trustees' report, which was largely unchanged from 2010, Medicare HI trust fund costs as a percentage of Medicare covered payroll were projected to rise from 3.8 percent to 5.0 percent between 2010 and 2080 and the HI trust fund imbalance was projected to be -0.7 percent in 2080. In the 2012 report, costs rise from 3.7 percent of Medicare taxable payroll in 2010 to 6.3 percent in 2080 and the imbalance in the HI trust fund in 2080 is -2.0 percent.

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 2012 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 2012 Social Security trustees report projects that the trust fund will not return to cash surplus without further reforms. Even so, the program will continue to experience an overall 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 13.8 percent of Social

Table 4–3. INTERMEDIATE ACTUARIAL PROJECTIONS FOR OASDI AND HI

	2012	2020	2030	2050	2080
	Percent of Payroll				
Medicare Hospital Insurance (HI)					
Income Rate					
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
2012 Trustees' Report	3.2	3.5	3.7	3.9	4.3
Cost Rate					
2010 Trustees' Report	3.6	3.5	4.3	5.0	4.9
2011 Trustees' Report	3.8	3.6	4.4	5.1	5.0
2012 Trustees' Report	3.7	3.6	4.7	5.8	6.3
Annual Balance					
2010 Trustees' Report	-0.4	-0.0	-0.7	-1.1	-0.7
2011 Trustees' Report	-0.6	-0.2	-0.8	-1.2	-0.7
2012 Trustees' Report	-0.5	-0.2	-1.0	-1.9	-2.0
Projection Interval:			25 years	50 years	75 years
Actuarial Balance: 2010 Trustees' Report			-0.3	-0.6	-0.7
Actuarial Balance: 2011 Trustees' Report			-0.5	-0.8	-0.8
Actuarial Balance: 2012 Trustees' Report			-0.7	-1.2	-1.4
	Percent of Payroll				
Old Age Survivors and Disability Insurance (OASDI)					
Income Rate					
2010 Trustees' Report	12.9	13.1	13.2	13.2	13.3
2011 Trustees' Report	12.9	13.1	13.2	13.2	13.3
2012 Trustees' Report	12.9	13.1	13.3	13.3	13.3
Cost Rate					
2010 Trustees' Report	12.8	14.2	16.4	16.3	17.3
2011 Trustees' Report	13.2	14.2	16.7	16.7	17.4
2012 Trustees' Report	13.8	14.4	17.0	17.1	17.6
Annual Balance					
2010 Trustees' Report	0.0	-1.1	-3.2	-3.1	-4.0
2011 Trustees' Report	-0.4	-1.1	-3.5	-3.4	-4.1
2012 Trustees' Report	-0.9	-1.3	-3.8	-3.8	-4.3
Projection Interval:			25 years	50 years	75 years
Actuarial Balance: 2010 Trustees' Report			-0.3	-1.5	-1.9
Actuarial Balance: 2011 Trustees' Report			-0.6	-1.8	-2.2
Actuarial Balance: 2012 Trustees' Report			-1.2	-2.3	-2.7

Security covered payroll in 2012 to 14.4 percent of payroll in 2020, 17.0 percent of payroll in 2030 and 17.6 percent of payroll in 2080. Revenues excluding interest are projected to rise only slightly from 12.9 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 2012 to -1.3 percent of payroll in 2020, -3.8 percent of payroll in 2030, and -4.3 percent of payroll in 2080. On a 75-year basis, the actuarial deficit is projected to be -2.7 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 2033. 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. However, benefits could still be partially funded from current revenues. The 2012 Trustees' report presents projections on this point. Beginning in 2033, 75 percent of projected Social Security scheduled benefits would be funded. This percentage would eventually decline to 73 percent by 2086.

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 2013-2023, the assumptions are drawn from the Administration's economic projections used for the 2014 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 2012 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—1.7 percent per year.

CPI inflation holds stable at 2.2 percent per year, the unemployment rate is constant at 5.4 percent, the yield on 10-year Treasury notes is steady at 5.0 percent, and the 91-day Treasury bill rate is 3.7 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 nearly 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 2023.

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 2023, receipts follow the 2014 Budget's policy projections. After 2023, total tax receipts rise gradually relative to GDP as real incomes also rise. Discretionary spending follows the path in the Budget over the next 10 years and grows at the rate of growth in inflation plus population 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 2012 Medicare Trustees' report, as adjusted to account for the Budget's IPAB proposal, 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.

5. FEDERAL BORROWING AND DEBT

Debt is the largest legally and contractually binding obligation of the Federal Government. At the end of 2012, the Government owed $11,281 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 $232 billion of interest on this debt. At the same time, the Government also held financial assets, net of other liabilities, of $999 billion. Therefore, debt net of financial assets was $10,282 billion.

The $11,281 billion debt held by the public at the end of 2012 represents an increase of $1,153 billion over the level at the end of 2011. In 2012, the $1,087 billion deficit and other financing transactions totaling $66 billion caused the Government to increase its borrowing from the public by $1,153 billion. Debt held by the public increased from 67.8 percent of Gross Domestic Product (GDP) at the end of 2011 to 72.6 percent of GDP at the end of 2012. Meanwhile, financial assets net of liabilities grew by $41 billion in 2012. Debt held by the public net of financial assets increased from 61.4 percent of GDP at the end of 2011 to 66.1 percent of GDP at the end of 2012. The deficit is estimated to fall to $973 billion in 2013, and then continue to decrease as a percent of GDP in subsequent years. Declining deficits and continued GDP growth are estimated to significantly reduce growth in debt as a percentage of GDP; debt held by the public is projected to reach 76.6 percent of GDP at the end of 2013 and 78.2 percent at the end of 2014 and 2015 and then to begin to decline gradually after 2015. Debt net of financial assets is expected to follow a similar path, increasing to 70.5 percent of GDP at the end of 2014 and then decreasing in each of the following years.

Trends in Debt Since World War II

Table 5–1 depicts trends in Federal debt held by the public from World War II to the present and estimates from the present through 2018. (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 26.4 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 Nation's economy and financial markets. The deficit fell somewhat in 2010, increased only slightly in 2011, and fell in 2012. With the proposals in the Budget, the deficit is projected to fall in 2013, both in nominal terms and as a share of

Table 5–1. TRENDS IN FEDERAL DEBT HELD BY THE PUBLIC
(Dollar amounts in billions)

Fiscal Year	Debt held by the public:		Debt held by the public as a percent of:		Interest on the debt held by the public as a percent of:[3]	
	Current dollars	FY 2012 dollars [1]	GDP	Credit market debt[2]	Total outlays	GDP
1946	241.9	2,368.9	108.7	N/A	7.4	1.8
1950	219.0	1,745.4	80.2	53.3	11.4	1.8
1955	226.6	1,586.9	57.2	43.2	7.6	1.3
1960	236.8	1,472.4	45.6	33.7	8.5	1.5
1965	260.8	1,516.0	37.9	26.9	8.1	1.4
1970	283.2	1,368.9	28.0	20.8	7.9	1.5
1975	394.7	1,404.0	25.3	18.4	7.5	1.6
1980	711.9	1,751.3	26.1	18.6	10.6	2.3
1985	1,507.3	2,826.5	36.4	22.3	16.2	3.7
1990	2,411.6	3,873.0	42.1	22.6	16.2	3.5
1995	3,604.4	5,099.7	49.1	26.4	15.8	3.3
2000	3,409.8	4,441.4	34.7	19.0	13.0	2.4
2001	3,319.6	4,224.3	32.5	17.5	11.6	2.1
2002	3,540.4	4,432.1	33.6	17.4	8.9	1.7
2003	3,913.4	4,801.0	35.6	17.8	7.5	1.5
2004	4,295.5	5,139.5	36.8	17.4	7.3	1.4
2005	4,592.2	5,321.5	36.9	17.0	7.7	1.5
2006	4,829.0	5,412.0	36.6	16.4	8.9	1.8
2007	5,035.1	5,480.9	36.3	15.8	9.2	1.8
2008	5,803.1	6,173.6	40.5	17.1	8.7	1.8
2009	7,544.7	7,924.1	54.0	21.4	5.7	1.4
2010	9,018.9	9,377.3	62.9	24.8	6.6	1.6
2011	10,128.2	10,314.0	67.8	26.9	7.4	1.8
2012	11,281.1	11,281.1	72.6	28.7	6.6	1.5
2013 estimate	12,403.5	12,149.9	76.6	N/A	7.2	1.6
2014 estimate	13,295.9	12,781.7	78.2	N/A	7.1	1.6
2015 estimate	14,032.2	13,238.7	78.2	N/A	7.4	1.6
2016 estimate	14,714.1	13,624.0	77.7	N/A	8.3	1.8
2017 estimate	15,343.5	13,942.5	76.8	N/A	9.8	2.1
2018 estimate	15,954.1	14,227.7	75.9	N/A	11.5	2.4

N/A = Not available.

[1] Debt in current dollars deflated by the GDP chain-type price index with fiscal year 2012 equal to 100.

[2] Total credit market debt owed by domestic nonfinancial sectors, modified in some years to be consistent with budget concepts for the measurement of Federal debt. Financial sectors are omitted to avoid double counting, since financial intermediaries borrow in the credit market primarily in order to finance lending in the credit market. Source: Federal Reserve Board flow of funds accounts. Projections are not available.

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

the economy, and continue to fall as a percentage of GDP throughout the 10-year budget window before ending at 1.7 percent in 2023. Debt held by the public as a percent of GDP is estimated to grow to 76.6 percent at the end of 2013 and 78.2 percent at the end of 2014 and 2015 and then to begin to decline slowly after 2015, reaching 73.0 percent of GDP in 2023. Debt net of financial assets as a percent of GDP is estimated to grow to 69.5 percent at the end of 2013 and 70.5 percent at the end of 2014 and then to decline thereafter.

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.[1] 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."[2]

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.[3] 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, under its direct loan programs, the Government uses borrowed funds to acquire financial assets that might otherwise require 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.[4]

This Budget uses a variety of information sources to analyze the condition of Social Security and Medicare, the Government's two largest social insurance programs. Table 4-1 in Chapter 4, "Long-Term Budget Outlook," projects Social Security and Medicare outlays to the year 2085 relative to GDP. The excess of future Social Security and Medicare benefits relative to their dedicated income is

[1] 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.

[2] The term "agency debt" is defined more narrowly in the budget than customarily in the securities market, where it includes not only the debt of the Federal agencies listed in Table 5–4, but also the debt of the Government-Sponsored Enterprises listed in Table 22–9 at the end of Chapter 22, "Credit and Insurance," and certain Government-guaranteed securities.

[3] The Federal subsector of the national income and product accounts provides a measure of "net government saving" (based on current expenditures and current receipts) that can be used to analyze the effect of Federal fiscal policy on national saving within the framework of an integrated set of measures of aggregate U.S. economic activity. The Federal subsector and its differences from the budget are discussed in Chapter 28, "National Income and Product Accounts."

[4] Extensive actuarial analyses of the Social Security and Medicare programs are published in the annual reports of the boards of trustees of these funds. 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 Department of the Treasury in coordination with the Office of Management and Budget.

Table 5–2. FEDERAL GOVERNMENT FINANCING AND DEBT

(In billions of dollars)

	Actual 2012	Estimate										
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Financing:												
Unified budget deficit	1,087.0	972.9	744.2	576.5	528.4	486.9	475.3	498.1	503.1	500.8	518.7	439.1
Other transactions affecting borrowing from the public:												
Changes in financial assets and liabilities: [1]												
Change in Treasury operating cash balance	27.4	–5.4	....	....	....	....	....	....	....	....	....	....
Net disbursements of credit financing accounts:												
Direct loan accounts	85.7	144.2	138.2	153.3	143.5	132.8	124.0	119.0	118.2	119.6	119.1	120.0
Guaranteed loan accounts	12.3	15.1	16.7	12.0	12.0	11.0	12.7	13.3	9.1	4.8	0.4	–1.8
Troubled Asset Relief Program equity purchase accounts	–61.3	–3.2	–5.4	–4.0	–0.2	–0.1	–0.1	–0.1	–*	–*	–*	–*
Subtotal, net disbursements	36.7	156.1	149.6	161.2	155.3	143.7	136.6	132.1	127.3	124.4	119.5	118.2
Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust	1.4	–1.1	–1.3	–1.3	–1.7	–1.1	–1.2	–1.2	–1.1	–1.4	–1.0	–0.3
Net change in other financial assets and liabilities [2]	0.5	....	....	....	....	....	....	....	....	....	....	....
Subtotal, changes in financial assets and liabilities	66.0	149.6	148.3	160.0	153.7	142.6	135.4	130.9	126.2	123.1	118.4	117.9
Seigniorage on coins	....	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.2	–0.2	–0.2	–0.2
Total, other transactions affecting borrowing from the public	66.0	149.5	148.1	159.9	153.5	142.5	135.3	130.8	126.0	122.9	118.2	117.7
Total, requirement to borrow from the public (equals change in debt held by the public)	1,152.9	1,122.4	892.3	736.3	681.9	629.4	610.5	628.9	629.1	623.7	636.9	556.9
Changes in Debt Subject to Statutory Limitation:												
Change in debt held by the public	1,152.9	1,122.4	892.3	736.3	681.9	629.4	610.5	628.9	629.1	623.7	636.9	556.9
Change in debt held by Government accounts	133.8	75.9	105.3	164.6	196.9	220.5	209.1	139.6	129.8	124.4	93.6	94.1
Less: change in debt not subject to limit and other adjustments	–6.2	1.3	0.4	*	0.6	0.3	–*	–0.5	–1.4	–0.9	–0.8	0.1
Total, change in debt subject to statutory limitation	1,280.5	1,199.6	998.0	901.0	879.4	850.2	819.6	768.0	757.5	747.2	729.8	651.1
Debt Subject to Statutory Limitation, End of Year:												
Debt issued by Treasury	16,023.7	17,221.5	18,218.1	19,118.1	19,996.2	20,845.7	21,664.7	22,432.1	23,189.5	23,936.7	24,666.5	25,317.7
Less: Treasury debt not subject to limitation (–) [3]	–8.1	–6.2	–4.8	–3.8	–2.5	–1.8	–1.2	–0.5	–0.5	–0.5	–0.5	–0.5
Agency debt subject to limitation	*	*	*	*	*	*	*	*	*	*	*	*
Adjustment for discount and premium [4]	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4
Total, debt subject to statutory limitation [5]	16,027.0	17,226.7	18,224.7	19,125.7	20,005.1	20,855.3	21,674.9	22,442.9	23,200.4	23,947.6	24,677.4	25,328.5
Debt Outstanding, End of Year:												
Gross Federal debt: [6]												
Debt issued by Treasury	16,023.7	17,221.5	18,218.1	19,118.1	19,996.2	20,845.7	21,664.7	22,432.1	23,189.5	23,936.7	24,666.5	25,317.7
Debt issued by other agencies	27.2	27.7	28.7	29.7	30.4	30.8	31.4	32.5	34.0	34.8	35.6	35.5
Total, gross Federal debt	16,050.9	17,249.2	18,246.8	19,147.8	20,026.6	20,876.5	21,696.1	22,464.6	23,223.5	23,971.6	24,702.1	25,353.1
Held by:												
Debt held by Government accounts	4,769.8	4,845.7	4,951.0	5,115.6	5,312.5	5,533.0	5,742.1	5,881.6	6,011.5	6,135.9	6,229.5	6,323.6
Debt held by the public [7]	11,281.1	12,403.5	13,295.9	14,032.2	14,714.1	15,343.5	15,954.1	16,583.0	17,212.1	17,835.7	18,472.7	19,029.5

*$50 million or less.

[1] A decrease in the Treasury operating cash balance (which is an asset) is a means of financing a deficit and therefore has a 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.

[2] 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.

[3] Consists primarily of debt issued by or held by the Federal Financing Bank.

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

[5] Legislation enacted February 4, 2013, (P.L. 113-3) temporarily suspended the debt limit through May 18, 2013.

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

[7] At the end of 2012, the Federal Reserve Banks held $1,645.3 billion of Federal securities and the rest of the public held $9,635.8 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

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 5–2 summarizes Federal borrowing and debt from 2012 through 2023.[5] In 2012 the Government borrowed $1,153 billion, increasing the debt held by the public from $10,128 billion at the end of 2011 to $11,281 billion at the end of 2012. The debt held by Government accounts increased $134 billion, and gross Federal debt increased by $1,287 billion to $16,051 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.[6] Table 5–2 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 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 2, "Economic Assumptions and Interaction with 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.[7] 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. The other transactions affecting borrowing from the public are presented in Table 5–2 (an increase in the need to borrow is represented by a positive sign, like the deficit).

In 2012 the deficit was $1,087 billion while these other factors—primarily the change in the Treasury operating cash balance and the net activity of credit financing accounts—increased the need to borrow by $66 billion. As a result, the Government borrowed $1,153 billion from the public. The other factors are estimated to increase borrowing by $150 billion in 2013 and $148 billion in 2014. In 2015–2023, these other factors are expected to increase borrowing by annual amounts ranging from $118 billion to $160 billion.

As a result of the Government's extraordinary efforts to stabilize the Nation's credit markets that began in 2008, the other factors have had significantly increased effects on borrowing from the public in recent years. 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 17 percent. In 2012, with the financial stabilization activities largely winding down, the impacts of the other factors returned to historical levels, accounting for 6 percent of the increase in borrowing.

Three specific factors presented in Table 5–2 are especially important.

Change in Treasury operating cash balance.—In 2012, the cash balance increased by $27 billion, to $85 billion. In the preceding three years, 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 reducing the SFP balance from $200 billion to zero as the Federal Government neared the debt ceiling. 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 fall by $5 billion, to $80 billion at the end of 2013. 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.

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[5] For projections of the debt beyond 2023, see Chapter 4, "Long-Term Budget Outlook."

[6] 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.

[7] For further explanation of the off-budget Federal entities, see Chapter 12, "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), the budgetary program account for each credit program records the estimated subsidy costs–the present value of estimated net losses–at the time when the direct or guaranteed loans are disbursed. The individual cash flows to and from the public associated with the loans or guarantees, such as the disbursement and repayment of loans, the default payments on loan guarantees, the collection of interest and fees, and so forth, are recorded in the credit program's non-budgetary financing account. Although the non-budgetary financing account's cash flows to and from the public are not included in the deficit (except for their impact on subsidy costs), they affect Treasury's net borrowing requirements.[8]

In addition to the transactions with the public, the financing accounts include several types of intragovernmental transactions. In particular, they receive payment from the credit program accounts for the subsidy costs of new direct loans and loan guarantees and for any upward reestimate of the costs of outstanding direct and guaranteed loans. The financing accounts also pay any downward reestimate of costs to budgetary receipt accounts. The total net collections and gross disbursements 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 credit program, financing, and downward reestimate receipt accounts do not affect Federal borrowing from the public. Although the deficit changes because of the budgetary account'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, receipts from the public collected by the financing account 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 budgetary receipts.

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 the Troubled Asset Relief Program (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. With the wind-down of the financial stabilization activities, borrowing due to financing accounts has decreased significantly, falling to $153 billion in 2010, $58 billion in 2011, and $37 billion in 2012. In 2013 credit financing accounts are projected to increase borrowing by $156 billion. After 2013, the credit financing accounts are expected to increase borrowing by amounts ranging from $118 billion to $161 billion over the next 10 years.

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 2012, there was a net upward reestimate of $12 billion, due largely to upward reestimates in the TARP, Federal Direct Student Loan, and Federal Housing Administration (FHA) Mutual Mortgage Insurance programs, partly offset by downward reestimates for guaranteed student loans. In 2013, there is a net upward reestimate of $1 billion. Large upward reestimates in the FHA housing programs are mostly offset by large downward reestimates in the TARP and direct student loan programs.

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 2012, net increases, including purchases and gains, were $1 billion. Net redemptions of roughly $1 billion annually are projected for 2013 and subsequent years.[9]

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 2012. In 2012, the total trust fund surplus was $90 billion, and trust funds invested $121 billion in Federal securities. Investment may differ somewhat from the surplus due to changes in the amount of cash assets not currently invested. The remainder of debt issued to Government accounts is owned by a number of special funds and revolv-

[8] The FCRA (sec. 505(b)) requires that the financing accounts be non-budgetary. As explained in Chapter 12, "Coverage of the Budget," they are non-budgetary in concept because they do not measure cost. For additional discussion of credit programs, see Chapter 22, "Credit and Insurance," and Chapter 11, "Budget Concepts."

[9] The budget treatment of this fund is further discussed in Chapter 11, "Budget Concepts."

Table 5–3. DEBT HELD BY THE PUBLIC NET OF FINANCIAL ASSETS AND LIABILITIES
(Dollar amounts in billions)

	Actual 2012	Estimate 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Debt Held by the Public:												
Debt held by the public	11,281.1	12,403.5	13,295.9	14,032.2	14,714.1	15,343.5	15,954.1	16,583.0	17,212.1	17,835.7	18,472.7	19,029.5
As a percent of GDP	72.6%	76.6%	78.2%	78.2%	77.7%	76.8%	75.9%	75.3%	74.9%	74.4%	73.9%	73.0%
Financial Assets Net of Liabilities:												
Treasury operating cash balance	85.4	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
Credit financing account balances:												
Direct loan accounts	803.2	947.5	1,085.7	1,239.0	1,382.6	1,515.3	1,639.3	1,758.3	1,876.5	1,996.1	2,115.2	2,235.2
Guaranteed loan accounts	–9.8	5.3	22.0	34.0	46.0	57.0	69.7	83.0	92.1	96.9	97.3	95.5
TARP equity purchase accounts	13.6	10.3	5.0	1.0	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.4
Subtotal, credit financing account balances	807.0	963.1	1,112.7	1,273.9	1,429.3	1,573.0	1,709.6	1,841.8	1,969.1	2,093.5	2,212.9	2,331.2
Government-sponsored enterprise preferred stock	109.2	109.2	109.2	109.2	109.2	109.2	109.2	109.2	109.2	109.2	109.2	109.2
Non-Federal securities held by NRRIT	22.9	21.8	20.4	19.2	17.5	16.4	15.2	14.0	12.9	11.5	10.5	10.1
Other assets net of liabilities	–25.3	–25.3	–25.3	–25.3	–25.3	–25.3	–25.3	–25.3	–25.3	–25.3	–25.3	–25.3
Total, financial assets net of liabilities	999.1	1,148.8	1,297.0	1,457.0	1,610.7	1,753.3	1,888.7	2,019.6	2,145.8	2,268.9	2,387.3	2,505.2
Debt Held by the Public Net of Financial Assets and Liabilities:												
Debt held by the public net of financial assets	10,282.0	11,254.8	11,998.9	12,575.2	13,103.4	13,590.2	14,065.3	14,563.3	15,066.3	15,566.9	16,085.4	16,524.3
As a percent of GDP	66.1%	69.5%	70.5%	70.1%	69.2%	68.0%	66.9%	66.2%	65.6%	65.0%	64.4%	63.4%

ing funds. The debt held in major accounts and the annual investments are shown in Table 5–5.

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.[10] 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. In 2012, net financial assets increased by $41 billion, to $999 billion.

Table 5–3 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 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

[10] For more information on these activities, see Chapter 3, "Financial Stabilization Efforts and Their Budgetary Effects."

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 and other collections, such as program fees. 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 2012, debt held by the public was $11,281 billion, or 72.6 percent of GDP. The Government held $999 billion in net financial assets, including a cash balance of $85 billion, net credit financing account balances of $807 billion,[11] and other assets and liabilities that aggregated to a net asset of $107 billion. Therefore, debt net of financial assets was $10,282 billion, or 66.1 percent of GDP. As shown in Table 5–3, the value of the Government's net financial assets is projected to increase to $1,149 billion in 2013, due to increases in the net balances of credit financing accounts. While debt held by the public is expected to increase from 72.6 percent to 76.6 percent of GDP during 2013, net debt is expected to increase from 66.1 percent to 69.5 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. 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). The relationship of assets, liabilities, and other measures in the financial statements to budget measures is analyzed in Chapter 30, "Budget and Financial Reporting," in this volume.

Treasury Debt

Nearly all Federal debt is issued by the Department of the Treasury. Treasury meets most of the Federal 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).[12] 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 daily to reflect inflation as measured by changes in the Consumer Price Index (CPI-U-NSA, with a two-month lag). Although the principal value may be adjusted downward if inflation is negative, at maturity, the securities will be redeemed at the greater of their inflation-adjusted principal or par amount at original issue.

Historically, the average maturity of outstanding debt issued by Treasury has been about five years. The average maturity of outstanding debt was 65 months at the end of 2012.

Traditionally, Treasury has issued securities with a fixed interest rate. In 2012, Treasury began to develop a floating rate securities program to complement its existing suite of securities and to support Treasury's broader debt management objectives. Floating rate securities have a fixed par value but bear interest rates that fluctuate based on movements in a specified benchmark market interest rate. The initial offerings of floating rate securities are expected to have a maturity of two years. In February 2013, Treasury estimated that the first floating rate securities auction was about a year away.

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

[11] Consistent with the presentation in the *Monthly Treasury Statement of Receipts and Outlays of the United States Government (Monthly Treasury Statement)*, Table 5-3 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 30, "Budget and Financial Reporting," which reflect all loans made or guaranteed by the Federal Government, including loans originated prior to implementation of the FCRA.

[12] 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.

Table 5–4. AGENCY DEBT
(In millions of dollars)

	2012 Actual		2013 Estimate		2014 Estimate	
	Borrowing/ Repayment(–)	Debt, End-of-Year	Borrowing/ Repayment(–)	Debt, End-of-Year	Borrowing/ Repayment(–)	Debt, End-of-Year
Borrowing from the public:						
Housing and Urban Development:						
Federal Housing Administration	–10	19	*	19	....	19
Architect of the Capitol	–6	128	–7	121	–7	114
National Archives	–15	151	–17	134	–18	116
Tennessee Valley Authority:						
Bonds and notes	–556	24,098	1,116	25,214	420	25,634
Lease/leaseback obligations	916	2,198	–456	1,742	668	2,409
Prepayment obligations	–105	611	–101	510	–101	410
Total, borrowing from the public	223	27,204	536	27,740	962	28,703
Borrowing from other funds:						
Tennessee Valley Authority [1]	–1	5	....	5	....	5
Total, borrowing from other funds	–1	5	....	5	....	5
Total, agency borrowing	222	27,209	536	27,745	962	28,707
Memorandum:						
Tennessee Valley Authority bonds and notes, total	–557	24,103	1,116	25,219	420	25,639

* $500,000 or less.

[1] Represents open market purchases by the National Railroad Retirement Investment Trust.

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.[13] 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 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 2012, there was net disinvestment in nonmarketables, necessitating additional marketable borrowing to finance the redemption of nonmarketable debt.[14]

Agency Debt

A few Federal agencies, shown in Table 5–4, 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; the remaining agencies are repaying existing borrowing. Agency debt increased from $27.0 billion at the end of 2011 to $27.2 billion at the end of 2012, due to increases in debt issued by TVA, slightly offset by decreases in debt issued by other agencies. Agency debt is less than one-quarter 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 $0.5 billion in 2013 and by $1.0 billion in 2014.

The predominant agency borrower is TVA, which had borrowed $26.9 billion from the public as of the end of 2012, or 99 percent of the total debt of all agencies. TVA sells debt primarily to finance capital expenditures.

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.[15]

[13] Noncompetitive bids cannot exceed $5 million.

[14] 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 the Treasury.

[15] 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.

Under the prepayment obligations method, TVA's power distributors may prepay a portion of the price of the power they plan to purchase in the future. In return, they obtain a discount on a specific quantity of the future power they buy from TVA. The quantity varies, depending on TVA's estimated cost of borrowing.

The Office of Management and Budget determined that each of these alternative financing methods is a means of financing the acquisition of assets owned and used by the Government, or of refinancing debt previously incurred to finance such assets. They are equivalent in concept to other forms of borrowing from the public, although under different terms and conditions. The budget therefore records the upfront cash proceeds from these methods as borrowing from the public, not offsetting collections.[16] The budget presentation is consistent with the reporting of these obligations as liabilities on TVA's balance sheet under generally accepted accounting principles. Table 5–4 presents these alternative financing methods separately from TVA bonds and notes to distinguish between the types of borrowing. Obligations for lease/leasebacks were $2.2 billion at the end of 2012 and are estimated to fall to $1.7 billion at the end of 2013 and then increase to $2.4 billion at the end of 2014. Obligations for prepayments were $0.6 billion at the end of 2012 and are estimated to be $0.5 billion at the end of 2013 and $0.4 billion at the end of 2014.

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 $134 billion in 2012. Investment by Government accounts is estimated to be $76 billion in 2013 and $105 billion in 2014, as shown in Table 5–5. The holdings of Federal securities by Government accounts are estimated to increase to $4,951 billion by the end of 2014, or 27 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 Fund and the Civil Service Retirement and Disability Fund (CSRDF), which are trust funds, and the uniformed services Medicare-Eligible Retiree Health Care Fund (MERHCF) and Postal Service Retiree Health Benefits Fund (PSRHBF), which are special funds. At the end of 2014, these Social Security, Medicare, and Federal employee retirement funds are estimated to own 93 percent of the total debt held by Government accounts. During 2012–2014, the Social Security OASI fund has a large surplus and is estimated to invest a total of $212 billion, 67 percent of total net investment by Government accounts. Over this period, the Military Retirement Fund is projected to invest $146 billion, 46 percent of the total. Some Government accounts reduce their investments in Federal securities during 2012–2014. During these years, the Social Security DI fund disinvests $96 billion, or 30 percent of the total net investment and the Medicare Hospital Insurance trust fund disinvests $61 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 5–5 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 $21.6 billion at the end of 2012.

[16] 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 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.

Table 5–5. DEBT HELD BY GOVERNMENT ACCOUNTS[1]

(In millions of dollars)

Description	Investment or Disinvestment (–)			Holdings, End of 2014 Estimate
	2012 Actual	2013 Estimate	2014 Estimate	
Investment in Treasury debt:				
Defense: Host nation support fund for relocation	–24	195	–152	859
Energy:				
Nuclear waste disposal fund[1]	2,051	2,650	2,650	33,520
Uranium enrichment decontamination fund	–351	–116	–116	3,790
Health and Human Services:				
Federal hospital insurance trust fund	–17,647	–28,369	–14,884	185,039
Federal supplementary medical insurance trust fund	–1,122	–1,448	–1,216	66,660
Vaccine injury compensation fund	86	93	146	3,433
Child enrollment contingency fund	2	–100	–97	1,899
Homeland Security:				
Aquatic resources trust fund	60	–197	–95	1,650
Oil spill liability trust fund	329	867	540	3,960
Housing and Urban Development:				
Federal Housing Administration mutual mortgage fund	–1,383	–2,774	13,166	13,166
Guarantees of mortgage-backed securities	–16	5,642	19	7,778
Interior:				
Abandoned mine reclamation fund	44	19	–69	2,702
Environmental improvement and restoration fund	40	17	1	1,288
Justice: Assets forfeiture fund	1,689	–2,462	659	2,290
Labor:				
Unemployment trust fund	4,642	4,327	2,000	27,000
Pension Benefit Guaranty Corporation[1]	365	1,207	1,580	18,643
State: Foreign service retirement and disability trust fund	496	516	522	17,931
Transportation:				
Airport and airway trust fund	1,784	–26	277	10,676
Transportation trust fund	–6,332	–2,870	–300	6,800
Aviation insurance revolving fund	188	–34	109	1,893
Treasury:				
Exchange stabilization fund	–41	70	250	23,000
Treasury forfeiture fund	46	185	144	1,960
Comptroller of the Currency assessment fund	188	–59	....	1,300
Veterans Affairs:				
National service life insurance trust fund	–629	–697	–706	5,509
Veterans special life insurance fund	–28	–55	–67	1,831
Corps of Engineers: Harbor maintenance trust fund	684	433	250	7,569
Other Defense-Civil:				
Military retirement trust fund	50,399	47,369	48,603	472,411
Medicare-eligible retiree health care fund	14,372	9,175	5,684	190,972
Education benefits fund	–117	22	–132	1,781
Environmental Protection Agency:				
Leaking underground storage tank trust fund	–2,191	76	80	1,415
Hazardous substance trust fund	–259	539	–294	3,495
International Assistance Programs: Overseas Private Investment Corporation	131	77	34	5,353
Office of Personnel Management:				
Civil service retirement and disability trust fund	22,742	15,721	11,513	853,789
Postal Service retiree health benefits fund	1,640	7,323	7,228	59,898
Employees life insurance fund	1,572	272	1,321	42,843
Employees health benefits fund	2,067	302	265	21,828
Social Security Administration:				
Federal old-age and survivors insurance trust fund[2]	94,166	65,317	52,493	2,704,507
Federal disability insurance trust fund[2]	–29,621	–32,902	–33,421	66,022

Table 5–5. DEBT HELD BY GOVERNMENT ACCOUNTS[1]—Continued
(In millions of dollars)

Description	Investment or Disinvestment (–)			Holdings, End of 2014 Estimate
	2012 Actual	2013 Estimate	2014 Estimate	
District of Columbia: Federal pension fund	–15	18	20	3,681
Farm Credit System Insurance Corporation:				
Farm Credit System Insurance fund	–117	246	199	3,540
Federal Communications Commission:				
Universal service fund	726	178	–289	6,430
Federal Deposit Insurance Corporation:				
Deposit insurance fund	1,573	–12,976	6,638	30,160
Senior unsecured debt guarantee fund	–6,198	–1,104	....	....
FSLIC resolution fund	50	43	4	3,471
National Credit Union Administration:				
Share insurance fund	–435	302	219	10,818
Central liquidity facility	–155	–1,750	9	201
Postal Service funds[2]	776	–*	....	2,590
Railroad Retirement Board trust funds	193	–8	–189	2,138
Securities Investor Protection Corporation[3]	176	227	102	1,936
United States Enrichment Corporation fund	5	10	10	1,618
Other Federal funds	–1,717	–25	245	6,178
Other trust funds	–88	429	334	3,789
Unrealized discount[1]	–1,031	....	....	–2,038
Total, investment in Treasury debt[1]	**133,763**	**75,891**	**105,287**	**4,950,971**
Investment in agency debt:				
Railroad Retirement Board:				
National Railroad Retirement Investment Trust	–1	....	....	5
Total, investment in agency debt[1]	**–1**	**.........**	**.........**	**5**
Total, investment in Federal debt[1]	**133,762**	**75,891**	**105,287**	**4,950,976**
Memorandum:				
Investment by Federal funds (on-budget)	12,668	6,048	38,399	436,184
Investment by Federal funds (off-budget)	776	–*	....	2,590
Investment by trust funds (on-budget)	56,804	37,429	47,816	1,743,711
Investment by trust funds (off-budget)	64,545	32,415	19,072	2,770,529
Unrealized discount[1]	–1,031	....	....	–2,038

* $500 thousand or less.

[1] Debt held by Government accounts is measured at face value except for the Treasury zero-coupon bonds held by the Nuclear waste disposal fund and the Pension Benefit Guaranty Corporation (PBGC), which are recorded at market or redemption price; and the unrealized discount on Government account series, which is not distributed by account. Changes are not estimated in the unrealized discount. If recorded at face value, at the end of 2012 the debt figures would be $21.3 billion higher for the Nuclear waste disposal fund and $0.2 billion higher for PBGC than recorded in this table.

[2] Off-budget Federal entity.

[3] Amounts on calendar-year basis.

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 5–5 it is shown as a separate item at the end of the table and not distributed by account. The amount was $2.0 billion at the end of 2012.

Debt Held by the Federal Reserve

The Federal Reserve acquires marketable Treasury securities as part of its exercise of monetary policy. For purposes of the Budget and reporting by the Department of the Treasury, the transactions of the Federal Reserve are considered to be non-budgetary, and accordingly the Federal Reserve's holdings of Treasury securities are included as part of debt held by the public.[17] The Federal Reserve's holdings of Treasury securities have fluctuated

[17] For further detail on the monetary policy activities of the Federal Reserve and the treatment of the Federal Reserve in the Budget, see Chapter 12, "Coverage of the Budget."

significantly in recent years, due largely to the Federal Reserve's financial stabilization activities.[18] Federal Reserve holdings fell from $780 billion (15 percent of debt held by the public) at the end of 2007 to $491 billion (8 percent of debt held by the public) at the end of 2008, and then increased to $1,665 billion (16 percent of debt held by the public) at the end of 2011. Federal Reserve holdings declined slightly to $1,645 billion (15 percent of debt held by the public) at the end of 2012. The historical holdings of the Federal Reserve are presented in Table 7.1 in the *Historical Tables* volume of the Budget. The Budget does not project Federal Reserve holdings for future years.

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 U.S. Government.

The third part of Table 5–2 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 CSRDF 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 2012, $7 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," has been issued by Treasury to the FFB for the HOPE for Homeowners program. The outstanding balance of Hope Bonds was $493 million at the end of 2012 and is projected to fall to $45 million at the end of 2013 and then to increase by very small amounts annually in subsequent years.

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 $486 million at the end of 2012 and is projected to gradually decline over time.

The sole agency debt currently subject to the general limit, $209,000 at the end of 2012, is certain debentures issued by the Federal Housing Administration.[19]

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 $11.4 billion at the end of 2012 compared with the total unamortized discount (less premium) of $42.5 billion on all Treasury securities.

Changes in the debt limit.—The statutory debt limit has been changed many times. Since 1960, Congress has passed 80 separate acts to raise the limit, revise the definition, extend the duration of a temporary increase, or temporarily suspend the limit.[20]

The Budget Control Act of 2011 created a framework for increasing the debt limit under the terms of that act. The act allowed for a total increase in the debt limit of $2.1 trillion, which came in three tranches 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 in August 2011. Consequently, the debt limit was first increased by $400 billion, from $14,294 billion to $14,694 billion, effective 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, 2011. The Act also provided for a third increase of $1,200 billion, to $16,394 billion, 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).[21] The certification for the third increase was submitted on January 12, 2012, and the increase took effect after the close of business on January 27.

The $16,394 billion ceiling was reached on December 31, 2012. The No Budget, No Pay Act of 2013 temporarily suspends the debt limit from February 4, 2013, through May 18, 2013. On May 19, 2013, the debt limit will be

[18] For more information on the financial stabilization activities of the Federal Reserve, see Chapter 3, "Financial Stabilization Efforts and Their Budgetary Effects."

[19] At the end of 2012, there were also $18 million of FHA debentures not subject to limit.

[20] The Acts and the statutory limits since 1940 are listed in *Historical Tables, Budget of the United States Government, Fiscal Year 2014*, Table 7.3.

[21] 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. If legislation from the Joint Select Committee on Deficit Reduction had been enacted pursuant to Title IV of the Act, which 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.

raised by an amount equivalent to the debt that was issued during that period in order to fund commitments requiring payment before May 19.

At many times in the past several decades, including 2013, the Government has reached the statutory debt limit before an increase has been enacted. When this has occurred, it has been necessary for the Department of the Treasury 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 Treasury 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 2012, the TSP G-Fund had an outstanding balance of $154 billion. The Secretary is also authorized to suspend investments in the CSRDF and to declare a debt issuance suspension period, which allows him or her to redeem a limited amount of securities held by the CSRDF. The Postal Accountability and Enhancement Act of 2006 provides that investments in the Postal Service Retiree Health Benefits Fund shall be made in the same manner as investments in the CSRDF.[22] Therefore, Treasury is able to take similar administrative actions with the PSRHBF. The law requires that when any such actions are taken with the G-Fund, the CSRDF, or the PSRHBF, the Secretary is required to make the fund whole after the debt limit has been raised by restoring the forgone interest and investing the fund fully. Another measure for staying below the debt limit is disinvestment of the Exchange Stabilization Fund. The outstanding balance in the Exchange Stabilization Fund was $23 billion at the end of 2012.

As the debt nears the limit, including in 2013, Treasury has also suspended acceptance of subscriptions to State and Local Government Series securities to reduce unanticipated fluctuations in the level of the debt.

In addition to these steps, Treasury has previously exchanged 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.

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

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 value 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 $17,227 billion by the end of 2013 and to $18,225 billion by the end of 2014.

Federal funds financing and the change in debt subject to limit.—The change in debt held by the public, as shown in Table 5–2, 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 5–2. The change in debt held by Government accounts results in 17 percent of the estimated total increase in debt subject to limit from 2013 through 2023.

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.[23]

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

[22] Both the CSRDF and the PSRHBF are administered by the Office of Personnel Management.

[23] For further discussion of the trust funds and Federal funds groups, see Chapter 27, "Trust Funds and Federal Funds."

Table 5–6. FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO STATUTORY LIMIT
(In billions of dollars)

Description	Actual 2012	Estimate 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Change in Gross Federal Debt:												
Federal funds deficit (+)	1,176.8	1,040.6	821.2	694.6	679.3	663.5	642.7	591.0	581.8	585.0	567.5	487.3
Other transactions affecting borrowing from the public—Federal funds [1]	64.5	150.6	149.5	161.1	155.2	143.6	136.5	132.0	127.1	124.3	119.3	118.1
Increase (+) or decrease (–) in Federal debt held by Federal funds	13.4	6.0	38.4	46.5	46.0	43.9	41.6	46.7	51.1	40.2	44.8	45.9
Adjustments for trust fund surplus/deficit not invested/disinvested in Federal securities [2]	32.9	1.1	–11.5	–1.3	–1.7	–1.1	–1.2	–1.2	–1.1	–1.4	–1.0	–0.3
Change in unrealized discount on Federal debt held by Government accounts	–1.0	....	....	....	....	....	....	....	....	....	....	....
Total financing requirements	1,286.7	1,198.3	997.6	901.0	878.8	849.9	819.6	768.5	758.9	748.1	730.5	651.0
Change in Debt Subject to Limit:												
Change in gross Federal debt	1,286.7	1,198.3	997.6	901.0	878.8	849.9	819.6	768.5	758.9	748.1	730.5	651.0
Less: increase (+) or decrease (–) in Federal debt not subject to limit	–1.1	–1.3	–0.4	–*	–0.6	–0.3	*	0.5	1.4	0.9	0.8	–0.1
Less: change in adjustment for discount and premium [3]	7.3	....	....	....	....	....	....	....	....	....	....	....
Total, change in debt subject to limit	1,280.5	1,199.6	998.0	901.0	879.4	850.2	819.6	768.0	757.5	747.2	729.8	651.1
Memorandum:												
Debt subject to statutory limit [4]	16,027.0	17,226.7	18,224.7	19,125.7	20,005.1	20,855.3	21,674.9	22,442.9	23,200.4	23,947.6	24,677.4	25,328.5

* $50 million or less.
[1] Includes Federal fund transactions that correspond to those presented in Table 5-2, but that are for Federal funds alone with respect to the public and trust funds.
[2] Includes trust fund holdings in other cash assets and changes in the investments of the National Railroad Retirement Investment Trust in non-Federal securities.
[3] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds).
[4] Legislation enacted February 4, 2013, (P.L. 113-3) temporarily suspended the debt limit through May 18, 2013.

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 5–6 derives the change in debt subject to limit. In 2012 the Federal funds deficit was $1,177 billion, and other factors increased financing requirements by $65 billion. The change in the Treasury operating cash balance increased financing requirements by $27 billion, the net financing disbursements of credit financing accounts increased financing requirements by $37 billion, and other factors increased financing requirements by $1 billion. In addition, special funds and revolving funds, which are part of the Federal funds group, invested a net of $13 billion in Treasury securities. A $33 billion 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, $1,287 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 $7 billion, the debt subject to limit increased by $1,280 billion, while debt held by the public increased by $1,153 billion.

Debt subject to limit is estimated to increase by $1,200 billion in 2013 and by $998 billion in 2014. 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 5–6. While debt held by the public increases by $4,673 billion from the end of 2012 through 2018, debt subject to limit increases by $5,648 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 5–7. At the end of 2012, foreign holdings of Treasury debt were $5,475 billion, which was 49 percent of the total debt held by the public.[24] Foreign central banks and foreign official institutions owned 72 percent of the foreign holdings

[24] 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.

Table 5–7. 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 [1]	Percentage foreign	Total [2]	Foreign [1]
1965	260.8	12.3	4.7	3.9	0.3
1970	283.2	14.0	5.0	5.1	3.8
1975	394.7	66.0	16.7	51.0	9.2
1980	711.9	121.7	17.1	71.6	1.4
1985	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	4,912.2	48.5	1,109.3	588.0
2012	11,281.1	5,475.4	48.5	1,152.9	563.2

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

[2] Change in debt held by the public is defined as equal to the change in debt held by the public from the beginning of the year to the end of the year.

of Federal debt; private investors owned nearly all the rest. At the end of 2012, the nations holding the largest shares of U.S. Federal debt were China and Japan, which each held 21 percent of all foreign holdings. 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 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. Since 2008, foreign holdings have remained relatively stable as a percentage of Federal debt. Foreign holdings were 49 percent at the end of 2012. The increase in foreign holdings was about 49 percent of total Federal borrowing from the public in 2012 and 52 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 direct 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 22, "Credit and Insurance," in this volume. Detailed data are presented in tables at the end of that chapter.

PERFORMANCE AND MANAGEMENT

6. SOCIAL INDICATORS

The social indicators presented in this chapter illustrate in broad terms how the Nation is faring in selected areas in which the Federal Government has significant responsibilities. Indicators are drawn from six selected domains: economic, demographic and civic, socioeconomic, health, security and safety, and environment and energy. The indicators shown in the tables in this chapter were chosen in consultation with statistical and data experts from across the Federal Government. These indicators are only a subset of the vast array of available data on conditions in the United States. In choosing indicators for these tables, priority was given to measures that are broadly relevant to Americans and consistently available over an extended period. Such indicators provide a current snapshot while also making it easier to draw comparisons and establish trends.

The 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. However, they do provide a quantitative picture of the progress (or lack of progress) toward some of the ultimate ends that Government policy is intended to promote, and the baseline on which future policies are set. Subsequent chapters in the Performance and Management section of this volume discuss approaches toward assessing the impacts of Government programs and improving the quality of Government.

The President has made it clear that policy decisions should be based upon evidence—evidence that identifies the Nation's greatest needs and challenges and evidence about which strategies are working to overcome those challenges. 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: The 2008-2009 economic downturn produced the worst labor market in more than a generation. The employment-population ratio dropped sharply from its pre-recession level, and real GDP per person also declined. The economy is steadily recovering, with the unemployment rate declining to 7.9 percent in January 2012 from a high of 10 percent in October 2009, and real GDP per person roughly regaining its level prior to the recession. However, the employment-population ratio remains low by historical standards, while the continuing effects of the recession are reflected in high rates of marginally attached and underemployed workers.

Over the entire period from 1960 to 2012, the primary pattern has been one of economic growth and rising living standards. Real GDP per person has approximately tripled as technological progress and the accumulation of human and physical capital have increased the Nation's productive capacity. The stock of physical capital including consumer durable goods like cars and appliances amounted to $51 trillion in 2011, more than four times the size of the capital stock in 1960, after accounting for inflation.

But national saving, a key determinant of future prosperity because it supports capital accumulation, fell from 6.1 percent in 2000 to 2.9 percent in 2005 as Federal budget surpluses turned to deficits, and fell even further in the recession that followed, turning negative in 2010. Meanwhile, the labor force participation rate, also critical for growth, has declined for more than a decade, reflecting the beginning of a trend in which the baby boomer generation retires.

The United States continues to be a leader in innovation. Patents by U.S. inventors have increased three-fold since 1960. National Research and Development (R&D) spending has hovered between 2.3 percent and 2.8 percent of GDP for the past 50 years.

Demographic and Civic: The U.S. population has steadily increased from 1970, where it numbered 204 million, to 314 million in 2012. The foreign born population has increased rapidly since 1970, quadrupling from about 10 million in 1970 to over 40 million in 2011. The U.S. population is getting older, due in part to the aging of the baby boomers and to improvements in medical technology. From 1970 to 2011, the percent of the population over age 65 increased from 9.8 to 13.3, and the percent over age 85 more than doubled.

The composition of American households and families has evolved considerably over time. The percent of Americans who have ever married continued to decline as it has over the last five decades. Average family sizes have also fallen over this period, a pattern that is typical among developed countries. After increasing for over three decades, births to unmarried women age 15-17 and the fraction of single parent households reached a turning point in 1995. From 1995 to 2010, the number of births per 1,000 unmarried women age 15-17 fell from 30.1 to 16.8, a level below that of 1970. Meanwhile, the fraction of single parent households stopped increasing in 1995, stabilizing at a little over 9 percent.

Charitable giving among Americans, measured by the average charitable contribution per itemized tax return, has generally increased over the past 50 years.[1] However, the effects of the 2008-2009 recession are evident in the sharp drop in charitable giving from 2005 to 2010. More Americans are volunteering. In 1990, 20 percent of Americans volunteered at least once; in 2011, 27 percent volunteered. The political participation of Americans, measured by the voting rate in Presidential elections, declined from about 63 percent in 1964 to 57 percent in 1972. It fell further in the 1996 and 2000 elections, reaching a low of only 50 percent in 1996. However, the Presidential voting rate rebounded in the 2004 and 2008 elections, averaging almost 58 percent.

Socioeconomic:

Education is a critical component of the Nation's economic growth and competitiveness, while also benefiting society in areas such as health, crime, and civic engagement. Between 1960 and 1980, the percentage of 25-34 year olds who have graduated from high school increased from 58 percent to 84 percent, a gain of 13 percentage points per decade. Progress has slowed since then with only a four percentage point gain over the past 30 years. But the percentage of 25-34 year olds who have graduated from college continues to rise, from only 11 percent in 1960 to over 31 percent in 2011. Measures of math and reading achievement show little if any improvement in mathematics and reading for American 17-year olds over the period from 1970 to 2010. The percentage of graduate degrees in science and engineering fell by half in the period between 1960 to 1980, from 22 percent to 11 percent, and was only 12 percent in 2011.

While national prosperity has grown considerably over the past 50 years, these gains have not been shared equally. Real disposable income per capita roughly tripled since 1960, and more than doubled since 1970. But real income for the median household increased only 22 percent from 1970 to 2000, and has declined by 9 percent since 2000. The income share of the top 1 percent of taxpayers, approximately 9 percent in 1980, rose to 21 percent in 2005 before dipping slightly in 2010. In contrast, the income share of the bottom 50 percent of taxpayers declined from 18 percent in 1980 to 12 percent in 2010. The poverty rate, after falling rapidly in the 1960s due to a strong economy and large expansions in Social Security, has since remained relatively steady despite the advances in real disposable income per capita. From 2005 to 2011, the poverty rate, the percentage of food-insecure households, and the percentage of Americans receiving benefits from the Supplemental Nutrition Assistance Program (formerly known as the Food Stamp Program), increased as Americans struggled with the economic downturn.

After slowly increasing from 1960 to 2005, homeownership rates dropped somewhat following the 2008 housing crisis, but remain close to the historical average. The share of families with children and severe housing cost burdens, however, more than doubled from 8 percent in 1980 to 18 percent in 2011.

Health:

America has by far the most expensive health care system in the world, yet much higher rates of uninsured than other countries with comparable wealth. National health expenditures as a share of GDP have increased from about 5 percent in 1960 to almost 18 percent in 2011. This increase in health care spending has corresponded with improvements in medical technology that have improved health, but the rate of spending increase in the United States is far greater than that in other Organization for Economic Cooperation and Development (OECD) countries which have experienced comparable health improvements. Despite high health care costs, over 21 percent of adults and 9 percent of children were without health insurance in 2011. In 2010 the President signed the Affordable Care Act into law. The Affordable Care Act is expected to reduce the number of uninsured by about 27 million by 2022.[2]

Some key indicators of national health have improved since 1960. Life expectancy at birth increased by nine years over the last five decades, from 69.7 in 1960 to 78.7 in 2011. Infant mortality fell from 26 to approximately 6 per 1,000 live births, with a precipitous decline occurring in the 1970s.

Improvement in health behaviors among Americans has been mixed. While the percent of adults who smoke cigarettes in 2011 was less than half of that in 1970, rates of obesity have soared. In 1980, 15 percent of adults and 6 percent of children were obese; in 2010, 35 percent of adults and 17 percent of children were obese. Adult obesity continued to rise even as the share of adults engaging in regular physical activity increased from 15 percent in 2000 to 21 percent in 2011.

Security and Safety:

The last three decades have witnessed a remarkable decline in crime. From 1980 to 2011, the property crime rate dropped by 72 percent while the murder rate was cut by over half. Road transportation has also become safer. Safety belt use increased by 15 percentage points from 2000 to 2012, and the annual number of highway fatalities fell by 38 percent from 1970 to 2011 despite the increase in the population.

Environment and Energy:

The Nation's future well-being and prosperity depend on stewardship of our natural resources, the environment, and on our ability to bring about a clean energy economy. Substantial progress has been made on air quality in the United States, with the concentration of particulate matter falling 28 percent from 2000 to 2010. Moving forward, the greatest environmental challenge is reducing

[1] This measure includes charitable giving only among those who claim itemized deductions. It is therefore influenced by changes in tax laws and in the characteristics of those who itemize.

[2] Congressional Budget Office. 2013. "The Budget and Economic Outlook: Fiscal Years 2013 to 2023." Washington, DC: Congressional Budget Office.

greenhouse gas emissions. 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. From 2005 to 2010, gross greenhouse gas emissions fell by 5.3 percent. Gross greenhouse gas emissions per capita and per unit of GDP have fallen by 9.5 and 8.6 percent, respectively. However, annual mean CO_2 concentration, a global measure of climate change, has increased roughly between three- and five-fold since 1960.

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 over the last 40 years. The percent of U.S. electricity production that is from renewable sources has grown since 2005, but remains only 12.7 percent.

Table 6–1. SOCIAL INDICATORS

	Calendar Years	1960	1970	1980	1990	1995	2000	2005	2010	2011	2012
	Economic										
	General Economic Conditions										
1	Real GDP per person (2005 dollars)[1]	15,648	20,802	25,618	32,085	34,082	39,718	42,646	42,169	42,620	43,352
2	Real GDP per person change, 5-year annual average	0.7	2.3	2.6	2.3	1.2	3.1	1.4	–0.2	–0.3	N/A
3	Consumer Price Index[2]	15.1	19.3	38.5	59.9	68.2	76.6	86.8	96.9	100.0	N/A
4	Private goods producing (%)	N/A	N/A	N/A	39.7	37.2	33.7	32.1	29.5	30.8	N/A
5	Private services producing (%)	N/A	N/A	N/A	60.3	62.8	66.3	67.9	70.5	69.2	N/A
	Jobs and Unemployment										
6	Labor force participation rate (%)	59.4	60.4	63.8	66.5	66.6	67.1	66.0	64.7	64.1	63.7
7	Employment (millions)	65.8	78.7	99.3	118.8	124.9	136.9	141.7	139.1	139.9	142.5
8	Employment-population ratio (%)	56.1	57.4	59.2	62.8	62.9	64.4	62.7	58.5	58.4	58.6
9	Payroll employment change - December to December (millions)	–0.4	–0.5	0.3	0.3	2.2	2.0	2.5	1.0	1.8	1.8
10	Payroll employment change - 5-year annual average (millions)	0.7	2.0	2.7	2.4	1.6	2.9	0.4	–0.8	–0.9	–0.9
11	Civilian unemployment rate (%)	5.5	4.9	7.1	5.6	5.6	4.0	5.1	9.6	8.9	8.1
12	Unemployment plus marginally attached and underemployed (%)	N/A	N/A	N/A	N/A	10.1	7.0	8.9	16.7	15.9	14.7
13	Receiving Social Security disabled-worker benefits (% of population)[3]	0.9	2.0	2.8	2.5	3.3	3.7	4.5	5.5	5.7	5.8
	Infrastructure, Innovation, and Capital Investment										
14	Nonfarm output per hour (average 5 year % change)	1.8	2.1	1.1	1.5	1.5	2.8	3.1	1.8	1.8	N/A
15	Corn for grain production (billion bushels)	3,907	4,152	6,639	7,934	7,400	9,915	11,112	12,447	12,358	10,725
16	Real net stock of fixed assets and consumer durable goods (billions of 2010$)[4]	11,564	16,879	23,258	30,765	34,227	40,281	46,389	50,673	51,117	N/A
17	Population served by secondary wastewater treatment or better (%)[5]	N/A	41.6	56.4	63.7	61.1	71.4	74.3	72.0	N/A	N/A
18	Electricity net generation (kWh per capita)	4,202	7,486	10,076	12,170	12,594	13,475	13,723	13,335	13,177	N/A
19	Patents issued to U.S. residents (per 1,000 population)	42.3	50.6	41.7	56.1	68.2	103.6	88.5	132.5	131.9	N/A
20	Net national saving rate (% of GDP)	10.3	8.1	7.2	3.9	4.7	6.1	2.9	–0.7	–0.6	N/A
21	R&D spending (% of GDP)	2.6	2.5	2.3	2.6	2.5	2.7	2.6	2.8	2.7	N/A
	Demographic and Civic										
	Population										
22	Total population (millions)	N/A	204.0	227.2	249.6	266.3	282.2	295.5	309.3	311.6	313.9
23	Foreign born population (millions)[6]	9.7	9.6	14.1	19.8	N/A	31.1	37.5	40.0	40.4	N/A
24	17 years and younger (%)	N/A	N/A	28.0	25.7	26.1	25.7	24.9	24.0	23.7	23.5
25	65 years and older (%)	N/A	9.8	11.3	12.5	12.7	12.4	12.4	13.1	13.3	N/A
26	85 years and older (%)	N/A	0.7	1.0	1.2	1.4	1.5	1.6	1.8	1.8	N/A
	Household Composition										
27	Ever married (% of age 15 and older)[7]	78.0	75.1	74.1	73.8	72.9	71.9	70.9	69.3	69.2	68.8
28	Average family size[8]	3.7	3.6	3.3	3.2	3.2	3.2	3.1	3.2	3.1	3.1
29	Births to unmarried women age 15–17 (per 1,000)	N/A	17.1	20.6	29.6	30.1	23.9	19.4	16.8	N/A	N/A
30	Single parent households (%)	4.4	5.2	7.5	8.3	9.1	8.9	8.9	9.1	9.1	9.3
	Civic Engagement										
31	Average charitable contribution per itemized tax return (2010 dollars)[9]	2,063	2,046	2,361	2,968	3,155	4,188	4,287	3,650	N/A	N/A
32	Voting for President (% of voting age population)[10]	63.4	57.0	55.1	56.4	49.8	52.1	56.7	58.3	N/A	N/A
33	Persons volunteering (% age 16 and older)[11]	N/A	N/A	N/A	20.4	N/A	N/A	28.8	26.3	26.8	N/A

TABLE 6–1. SOCIAL INDICATORS—Continued

	Calendar Years	1960	1970	1980	1990	1995	2000	2005	2010	2011	2012
	Socioeconomic										
	Education										
34	High school graduates (% of age 25–34)[12]	58.1	71.5	84.2	84.1	N/A	83.9	86.4	87.2	87.9	N/A
35	College graduates (% of age 25–34)[13]	11.0	15.5	23.3	22.7	N/A	27.5	29.9	31.1	31.5	N/A
36	Reading achievement score (age 17)[14]	N/A	285	285	290	288	288	283	286	N/A	N/A
37	Math achievement score (age 17)[15]	N/A	304	298	305	306	308	305	306	N/A	N/A
38	Science and engineering graduate degrees (% of total graduate degrees)	22.0	17.2	11.2	14.7	14.2	12.6	12.7	12.1	12.4	N/A
39	Receiving special education services (% of age 3–21 public school students)	N/A	N/A	10.1	11.4	12.4	13.3	13.7	13.0	N/A	N/A
	Income, Savings, and Inequality										
40	Real median income: all households (2011 dollars)	N/A	45,146	46,024	49,950	49,935	54,841	53,371	50,831	50,054	N/A
41	Real disposable income per capita average (2011 dollars)[1, 4]	12,457	17,450	21,716	27,132	28,724	33,272	36,100	37,242	37,463	37,646
42	Adjusted gross income share of top 1% of all taxpayers	N/A	N/A	8.5	14.0	14.6	20.8	21.2	18.9	N/A	N/A
43	Adjusted gross income share of lower 50% of all taxpayers	N/A	N/A	17.7	15.0	14.5	13.0	12.9	11.7	N/A	N/A
44	Personal saving rate (% of disposable personal income)[1]	7.2	9.4	9.8	6.5	5.2	2.9	1.5	5.1	4.2	3.6
45	Poverty rate (%)[16]	22.2	12.6	13.0	13.5	13.8	11.3	12.6	15.1	15.0	N/A
46	Food-insecure households (% of all households)[17]	N/A	N/A	N/A	N/A	11.9	10.5	11.0	14.5	14.9	N/A
47	Supplemental Nutrition Assistance Program (formerly Food Stamps)[18]	N/A	3.3	9.5	8.2	9.9	6.1	8.9	13.5	14.6	14.9
48	Median wealth of households, age 55–64 (in thousands of 2011 dollars)[19,4]	75	N/A	148	170	169	234	299	185	N/A	N/A
	Housing										
49	Homeownership among families with children (%)	61.9	62.9	64.4	64.2	65.0	66.2	66.9	65.1	64.6	N/A
50	Families with children and severe housing cost burden (%)[20]	N/A	N/A	8.0	10.0	12.0	11.0	14.5	17.9	18.3	N/A
51	Families with children and inadequate housing (%)[21]	N/A	N/A	9.0	9.0	7.0	7.0	5.4	5.3	5.5	N/A
	Health										
	Health Status										
52	Life expectancy at birth[22]	69.7	70.8	73.7	75.4	75.8	76.8	77.6	78.7	78.7	N/A
53	Infant mortality (per 1,000 live births)[22]	26.0	20.0	12.6	9.2	7.6	6.9	6.9	6.1	6.1	N/A
54	Low birthweight [<2,500 gms] (% of babies)[22]	7.7	7.9	6.8	7.0	7.3	7.6	8.2	8.1	8.1	N/A
55	Activity limitation (% of age 5–17)[23]	N/A	N/A	N/A	N/A	N/A	7.0	8.0	9.2	9.3	N/A
56	Activity limitation (% of aged 18 and over)[24]	N/A	N/A	N/A	N/A	N/A	27.9	29.1	29.9	29.8	N/A
57	Difficulties with activities of daily living (% of age 65 and over)[25]	N/A	N/A	N/A	N/A	N/A	6.3	6.2	6.8	7.3	N/A
	Health Behavior										
58	Engaged in regular physical activity (% of age 18 and older)[26]	N/A	N/A	N/A	N/A	N/A	15.0	16.6	20.7	21.0	N/A
59	Obesity (% of age 20–74 with BMI 30 or greater)[27]	13.3	14.6	15.1	23.3	N/A	31.1	34.1	35.3	N/A	N/A
60	Obesity (% of age 2–19)[28]	N/A	5.1	5.5	10.0	N/A	13.9	15.4	16.9	N/A	N/A
61	Cigarette smokers (% of age 18 and older)	N/A	39.2	32.7	25.3	24.6	23.1	20.8	19.3	19.0	N/A
62	Excessive alcohol use (% of age 18 and older)[29]	N/A	N/A	N/A	N/A	N/A	8.7	8.9	10.1	9.4	N/A
	Access to Health Care										
63	Total national health expenditures (% of GDP)[30]	5.2	7.2	9.2	12.5	13.9	13.8	16.1	17.9	17.9	17.9
64	Persons without health insurance (% of age 18–64)	N/A	N/A	N/A	N/A	N/A	16.4	19.0	21.8	21.2	N/A
65	Persons without health insurance (% of age 17 and younger)	N/A	N/A	N/A	N/A	N/A	10.7	10.3	9.8	9.4	N/A
66	Children age 19–35 months with recommended vaccinations (%)[31]	N/A	N/A	N/A	N/A	55.1	72.8	76.1	72.7	73.6	N/A
	Security and Safety										
	Crime										
67	Property crimes (per 100,000 households)[32]	N/A	N/A	49,610	34,890	31,547	19,043	15,947	12,542	13,871	N/A
68	Violent crime victimizations (per 100,000 population age 12 or older)[33]	N/A	N/A	4,940	4,410	7,068	3,749	2,842	1,928	2,254	N/A
69	Murder rate (per 100,000 persons)	5.1	7.9	10.2	9.4	8.2	5.5	5.6	4.8	4.7	N/A
	Transportation Safety										
70	Safety belt use (%)	N/A	N/A	N/A	N/A	N/A	71	82	85	84	86
71	Highway fatalities	36,399	52,627	51,091	44,599	41,817	41,945	43,510	32,999	32,367	N/A
	Environment and Energy										
	Air Quality and Greenhouse Gases										
72	Ground level ozone (ppm) based on 247 monitoring sites	N/A	N/A	0.101	0.089	0.090	0.082	0.080	0.073	N/A	N/A
73	Particulate matter 2.5 (ug/m3) based on 646 monitoring sites	N/A	N/A	N/A	N/A	N/A	13.6	13.0	10.0	N/A	N/A

TABLE 6–1. SOCIAL INDICATORS—Continued

	Calendar Years	1960	1970	1980	1990	1995	2000	2005	2010	2011	2012
74	Annual mean atmospheric CO_2 concentration (Mauna Lao, Hawaii; ppm/yr)	0.5	1.1	1.7	1.2	2.0	1.6	2.5	2.4	1.8	N/A
75	Gross greenhouse gas emissions (teragrams CO_2 equivalent)[34]	N/A	N/A	N/A	6,175	N/A	N/A	7,204	6,822	N/A	N/A
76	Net greenhouse gas emissions, including sinks (teragrams CO_2 equivalent)	N/A	N/A	N/A	5,293	N/A	N/A	6,118	5,747	N/A	N/A
77	Gross greenhouse gas emissions per capita (metric tons CO_2 equivalent)	N/A	N/A	N/A	24.7	N/A	N/A	24.3	22.0	N/A	N/A
78	Gross greenhouse gas emissions per 2005$ of GDP (kilograms CO_2 equivalent)	N/A	N/A	N/A	0.769	N/A	N/A	0.570	0.521	N/A	N/A
	Energy										
79	Energy consumption per capita (million Btu)	250	331	344	338	342	350	339	316	312	N/A
80	Energy consumption per 2005$ GDP (thousand Btu per 2005$)	15.9	15.9	13.4	10.5	10.0	8.8	7.9	7.5	7.3	N/A
81	Electricity net generation from renewable sources, all sectors (% of total)	19.7	16.4	12.4	11.8	11.5	9.4	8.8	10.4	12.7	N/A

N/A=Number is not available.

[1] Data for 2012 reflect 2012 Q3.

[2] Adjusted CPI-U. 2011=100.

[3] Gross prevalence rate for persons receiving Social Security disabled-worker benefits among the estimated population insured in the event of disability at end of year. Gross rates do not account for changes in the age and gender composition of the insured population over time.

[4] Data adjusted by OMB to real 2010 dollars for indicator 16, and to 2011 dollars for indicators 41 and 48.

[5] Data correspond to years 1962, 1972, 1982, 1992, 1996, 2000, 2004, 2008.

[6] Data source for 1960 to 2000 is the decennial census; data source for 2006, 2010, and 2011 is the American Community Survey.

[7] For 1960, age 14 and older.

[8] Average size of family households. Family households are those in which there is someone present who is related to the householder by birth, marriage, or adoption.

[9] Charitable giving reported as itemized deductions on Schedule A.

[10] Data correspond to years 1964, 1972, 1980, 1992, 1996, 2000, 2004, 2008.

[11] Refers to those who volunteered at least once during a one-year period, from September of the previous year to September of the year specified. For 1990, refers to 1989 estimate from the CPS Supplement on volunteers.

[12] For 1960, includes those who have completed 4 years of high school or beyond. For 1970 and 1980, includes those who have completed 12 years of school or beyond. For 1990 onward, includes those who have completed a high school diploma or the equivalent.

[13] For 1960 to 1980, includes those who have completed 4 or more years of college. From 1990 onward, includes those who have a bachelor's degree or higher.

[14] Data correspond to years 1971, 1980, 1990, 1994, 1999, 2004, and 2008.

[15] Data correspond to years 1973, 1982, 1990, 1994, 1999, 2004, and 2008.

[16] The poverty rate does not reflect noncash government transfers.

[17] Food-insecure classification is based on reports of three or more conditions that characterize households when they are having difficulty obtaining adequate food, out of a total of 10 such conditions.

[18] 2012 reflects average monthly participation from January through September 2012.

[19] Data values shown are 1962, 1983, 1989, 1995, 2001, 2004, and 2010. For 1962, the data source is the SFCC; for subsequent years, the data source is the SCF.

[20] Expenditures for housing and utilities exceed 50 percent of reported income. Some data interpolated.

[21] Inadequate housing has moderate to severe physical problems, usually poor plumbing or heating or upkeep problems. Some data interpolated.

[22] Data for 2011 are preliminary.

[23] Total activity limitation includes special education and other limitations, including limitations in children's ability to walk, care for themselves, or perform other activities.

[24] Activity limitation among adults aged 18 and over is defined as having a basic action difficulty in one or more of the following: movement, emotional, sensory (seeing or hearing), or cognitive.

[25] Activities of daily living include include bathing or showering, dressing, getting in or out of bed or a chair, using the toilet, and eating.

[26] Participation in leisure-time aerobic and muscle-strengthening activities that meet 2008 Federal physical activity guidelines.

[27] BMI refers to body mass index.

[28] Percentage at or above the sex-and age-specific 95th percentile BMI cutoff points from the 2000 CDC growth charts.

[29] Percent of age 18 and over who had five or more drinks in a day on at least 12 days in the past year.

[30] 2012 values are projected.

[31] Recommended vaccine series changed over time. 1995 and 2000 data correspond with the 4:3:1:3:3 recommended series; 2005 data correspond with the 4:3:1:3:3:1 series; 2010 and 2011 data correspond with the 4:3:1:-:3:1:4 series.

[32] Property crimes, including burglary, motor vehicle theft, and property theft, reported by a sample of households. Includes property crimes both reported and not reported to law enforcement.

[33] Violent crimes include rape, robbery, aggravated assault, and simple assault. Includes crimes both reported and not reported to law enforcement. Due to methodological changes in the enumeration method for NCVS estimates from 1993 to present, use caution when comparing 1980 and 1990 criminal victimization estimates to future years. Estimates from 1995 and beyond include a small number of victimizations, referred to as series victimizations, using a new counting strategy. High-frequency repeat victimizations, or series victimizations, are six or more similar but separate victimizations that occur with such frequency that the victim is unable to recall each individual event or describe each event in detail. Including series victimizations in national estimates can substantially increase the number and rate of violent victimization; however, trends in violence are generally similar regardless of whether series victimizations are included. See Methods for Counting High-Frequency Repeat Victimizations in the National Crime Victimization Survey for further discussion of the new counting strategy and supporting research.

[34] The gross emissions indicator does not include sinks, which are processes (typically naturally occurring) that remove greenhouse gases from the atmosphere. Gross emissions are therefore more indicative of trends in energy consumption and efficiency than are net emissions.

Table 6–2. SOURCES FOR SOCIAL INDICATORS

	Indicator	Source
	Economic	
	General Economic Conditions	
1	Real GDP per person (2005 dollars)	Bureau of Economic Analysis, National Economic Accounts Data. *http://www.bea.gov/national/*
2	Real GDP per person change, 5-year annual average	Bureau of Economic Analysis, National Economic Accounts Data. *http://www.bea.gov/national/*
3	Consumer Price Index	Bureau of Labor Statistics, BLS Consumer Price Index Program. *http://www.bls.gov/cpi/*
4	Private goods producing (%)	Bureau of Economic Analysis, National Economic Accounts Data. *http://www.bea.gov/national/*
5	Private services producing (%)	Bureau of Economic Analysis, National Economic Accounts Data. *http://www.bea.gov/national/*
	Jobs and Unemployment	
6	Labor force participation rate (%)	Bureau of Labor Statistics, Current Population Survey. *http://www.bls.gov/cps*
7	Employment (millions)	Bureau of Labor Statistics, Current Population Survey. *http://www.bls.gov/cps*
8	Employment-population ratio (%)	Bureau of Labor Statistics, Current Population Survey. *http://www.bls.gov/cps*
9	Payroll employment change - December to December (millions)	Bureau of Labor Statistics, Current Employment Statistics program. *http://www.bls.gov/ces/*
10	Payroll employment change - 5-year annual average (millions)	Bureau of Labor Statistics, Current Population Survey. *http://www.bls.gov/cps*
11	Civilian unemployment rate (%)	Bureau of Labor Statistics, Current Population Survey. *http://www.bls.gov/cps*
12	Unemployment plus marginally attached and underemployed (%)	Bureau of Labor Statistics, Current Population Survey. *http://www.bls.gov/cps*
13	Receiving Social Security disabled-worker benefits (% of population)	Social Security Administration, Office of Research, Evaluation, and Statistics, Annual Statistical Supplement to the Social Security Bulletin, tables 4.C1 5.A4. *http://www.ssa.gov/policy/docs/statcomps/supplement/*
	Infrastructure, Innovation, and Capital Investment	
14	Nonfarm output per hour (average 5 year % change)	Bureau of Labor Statistics, Major Sector Productivity Program. *http://www.bls.gov/lpc/*
15	Corn for grain production (billion bushels)	National Agricultural Statistics Service, Agricultural Estimates Program. *http://www.nass.usda.gov/*
16	Real net stock of fixed assets and consumer durable goods (billions of 2010$)	Bureau of Economic Analysis, National Economic Accounts Data. *http://www.bea.gov/national/*
17	Population served by secondary wastewater treatment or better (%)	U.S. Environmental Protection Agency, Clean Watersheds Needs Survey. *http://water.epa.gov/scitech/datait/databases/cwns/index.cfm*
18	Electricity net generation (kWh per capita)	U.S. Energy Information Administration, Annual Energy Review Table 8.2a (Col. 16) divided by Table D1 (Col. 1). *http://www.eia.gov/totalenergy/data/annual/index.cfm*
19	Patents issued to U.S. residents (per 1,000 population)	U.S. Patent and Trademark Office, Electronic Information Products Division, Patent Technology Monitoring Team. *http://www.uspto.gov/products/catalog/ptmd/patent_statistics.jsp*
20	Net national saving rate (% of GDP)	Bureau of Economic Analysis, National Economic Accounts Data. *http://www.bea.gov/national/*
21	R&D spending (% of GDP)	National Science Foundation, National Patterns of R&D Resources. *http://www.nsf.gov/statistics/natlpatterns/*
	Demographic and Civic	
	Population	
22	Total population (millions)	U.S. Census Bureau, Population Division, Vintage 2012 Population Estimates (2012), Vintage 2011 Population Estimates (2010-2011), 2000-2010 Intercensal Estimates (2000-2005), 1990-1999 Intercensal Estimates (1990-1995), 1980-1990 Intercensal Estimates (1980), 1970-1980 Intercensal Estimates (1970).
23	Foreign born population (millions) xx/	U.S. Census Bureau, Population Division, Decennial Census and American Community Survey. *http://www.census.gov/prod/www/abs/decennial/* and *http://www.census.gov/acs*
24	17 years and younger (%)	U.S. Census Bureau, Population Division, Vintage 2012 Population Estimates (2012), Vintage 2011 Population Estimates (2010-2011), 2000-2010 Intercensal Estimates (2000-2005), 1990-1999 Intercensal Estimates (1990-1995), 1980-1990 Intercensal Estimates (1980), 1970-1980 Intercensal Estimates (1970)
25	65 years and older (%)	U.S. Census Bureau, Population Division, Vintage 2012 Population Estimates (2012), Vintage 2011 Population Estimates (2010-2011), 2000-2010 Intercensal Estimates (2000-2005), 1990-1999 Intercensal Estimates (1990-1995), 1980-1990 Intercensal Estimates (1980), 1970-1980 Intercensal Estimates (1970)
26	85 years and older (%)	U.S. Census Bureau, Population Division, Vintage 2012 Population Estimates (2012), Vintage 2011 Population Estimates (2010-2011), 2000-2010 Intercensal Estimates (2000-2005), 1990-1999 Intercensal Estimates (1990-1995), 1980-1990 Intercensal Estimates (1980), 1970-1980 Intercensal Estimates (1970)
	Household Composition	
27	Ever married (% of age 15 and older)	U.S. Census Bureau, Current Population Survey. *http://www.census.gov/hhes/families/*
28	Average family size	U.S. Census Bureau, Current Population Survey. *http://www.census.gov/hhes/families/*
29	Births to unmarried women age 15-17 (per 1,000)	Centers for Disease Control and Prevention, National Vital Statistics Report. *http://www.cdc.gov/nchs/nvss.htm*
30	Single parent households (%)	U.S. Census Bureau, Current Population Survey. *http://www.census.gov/hhes/families/*
	Civic Engagement	
31	Average charitable contribution per itemized tax return (2010 dollars)	U.S. Internal Revenue Service, Statistics of Income - Individual Income Tax Returns (IRS Publication 1304). *http://www.irs.gov/uac/SOI*-Tax-Stats-Individual-Income-Tax-Returns-Publication-1304-(Complete-Report)

TABLE 6–2. SOURCES FOR SOCIAL INDICATORS—Continued

	Indicator	Source
32	Voting for President (% of voting age population)	The Office of the Clerk of the U.S. House of Representatives and the U.S. Census Bureau, Current Population Survey. *http://www.census.gov/cps/*
33	Persons volunteering (% age 16 and older)	U.S. Census Bureau, Current Population Survey. *http://www.census.gov/cps/*
	Socioeconomic	
	Education	
34	High school graduates (% of age 25-34)	U.S. Census Bureau, Decennial Census and American Community Survey. *http://www.census.gov/prod/www/abs/decennial/* and *http://www.census.gov/acs*
35	College graduates (% of age 25-34)	U.S. Census Bureau, American Community Survey. *http://www.census.gov/acs*
36	Reading achievement score (age 17)	National Center for Education Statistics, National Assessment of Educational Progress. *http://nces.ed.gov/nationsreportcard/*
37	Math achievement score (age 17)	National Center for Education Statistics, National Assessment of Educational Progress. *http://nces.ed.gov/nationsreportcard/*
38	Science and engineering graduate degrees (% of total graduate degrees)	National Center for Education Statistics, Integrated Postsecondary Education Data System. *http://nces.ed.gov/ipeds/*
39	Receiving special education services (% of age 3-21 public school students)	National Center for Education Statistics, Digest of Education Statistics, 2012. *http://nces.ed.gov/programs/digest/d12/tables/dt12_046.asp*
	Income, Savings, and Inequality	
40	Real median income: all households (2011 dollars)	U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements. *http://www.census.gov/hhes/www/income/data/historical/household/*
41	Real disposable income per capita average (2005 dollars)	Bureau of Economic Analysis, National Economic Accounts Data. *http://www.bea.gov/national/*
42	Adjusted gross income share of top 1% of all taxpayers	U.S. Internal Revenue Service, Statistics of Income. *http://www.irs.gov/uac/SOI*-Tax-Stats-Individual-Statistical-Tables-by-Tax-Rate-and-Income-Percentile
43	Adjusted gross income share of lower 50% of all taxpayers	U.S. Internal Revenue Service, Statistics of Income. *http://www.irs.gov/uac/SOI*-Tax-Stats-Individual-Statistical-Tables-by-Tax-Rate-and-Income-Percentile
44	Personal saving rate (% of disposable personal income)	Bureau of Economic Analysis, National Economic Accounts Data. *http://www.bea.gov/national/*
45	Poverty rate (%)	U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements. *http://www.census.gov/hhes/www/poverty/publications/pubs-cps.html*
46	Food-insecure households (% of all households)	Economic Research Service, Household Food Security in the United States report series. *http://www.ers.usda.gov/topics/food-nutrition-assistance/food-security-in-the-us/readings.aspx*
47	Supplemental Nutrition Assistance Program (formerly Food Stamps)	Food and Nutrition Service, USDA
48	Median wealth of households, age 55-64 (in thousands of 2010 dollars)	Board of Governors of the Federal Reserve System, Survey of Consumer Finances Chartbook. *http://www.federalreserve.gov/econresdata/scf/scfindex.htm*
	Housing	
49	Homeownership among families with children (%)	U.S. Census Bureau, American Housing Survey. *http://www.census.gov/housing/ahs*
50	Families with children and severe housing cost burden (%)	U.S. Census Bureau, American Housing Survey as tabulated by the Housing and Urban Development's Office of Policy Development and Resesarch. *http://www.census.gov/housing/ahs*
51	Families with children and inadequate housing (%)	U.S. Census Bureau, American Housing Survey as tabulated by the Housing and Urban Development's Office of Policy Development and Resesarch. *http://www.census.gov/housing/ahs*
	Health	
	Health Status	
52	Life expectancy at birth	Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System (mortality), Health, United States, 2012 forthcoming, Table 18. *http://www.cdc.gov/nchs/nvss.htm*
53	Infant mortality (per 1,000 live births)	Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System (natality), Health, United States, 2012 forthcoming, Table 13. *http://www.cdc.gov/nchs/nvss.htm*
54	Low birthweight [<2,500 gms] (% of babies)	Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System (natality), Health, United States, 2012 forthcoming, Table 6. *http://www.cdc.gov/nchs/nvss.htm*
55	Activity limitation (% of age 5-17)	Office of Special Education and Rehabilitative Services. *http://www2.ed.gov/about/offices/list/osers/osep/index.html*
56	Activity limitation (% of age 18 and over)	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey. *http://www.cdc.gov/nchs/nhis.htm*
57	Difficulties with activities of daily living (% of age 65 and over)	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey (for 2000 and 2005), Health, United States, 2008, Table 58, age-adjusted. *http://www.cdc.gov/nchs/nhis.htm*
	Health Behavior	
58	Engaged in regular physical activity (% of age 18 and older)	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey, Health, United States, 2012 forthcoming, Table 67, age adjusted. *http://www.cdc.gov/nchs/nhis.htm*

TABLE 6–2. SOURCES FOR SOCIAL INDICATORS—Continued

	Indicator	Source
59	Obesity (% of age 20-74 with BMI 30 or greater)	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health and Nutrition Examination Survey, Health, United States, 2012 forthcoming, Table 68, age adjusted. *http://www.cdc.gov/nchs/nhis.htm*
60	Obesity (% of age 2-19)	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health and Nutrition Examination Survey. *http://www.cdc.gov/nchs/nhis.htm*
61	Cigarette smokers (% of age 18 and older)	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey, Health, United States, 2012 forthcoming, Table 54, age adjusted. *http://www.cdc.gov/nchs/nhis.htm*
62	Excessive alcohol use (% of age 18 and older)	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey, Health, United States, 2012 forthcoming, Table 62, age adjusted. *http://www.cdc.gov/nchs/nhis.htm*
	Access to Health Care	
63	Total national health expenditures (% of GDP)	Centers for Medicare and Medicaid Services, National Health Expenditures Data. *http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index.html*
64	Persons without health insurance (% of age 18-64)	U.S. Census Bureau, Current Population Survey Annual Social and Economic Supplement. *http://www.census.gov/hhes/www/poverty/publications/pubs-cps.html*
65	Persons without health insurance (% of age 17 and younger)	U.S. Census Bureau, Current Population Survey Annual Social and Economic Supplement. *http://www.census.gov/hhes/www/poverty/publications/pubs-cps.html*
66	Children age 19-35 months with recommended vaccinations (%)	Centers for Disease Control and Prevention, National Immunization Survey. *http://www.cdc.gov/nchs/nis.htm*
	Security and Safety	
	Crime	
67	Property crimes (per 100,000 households)	Bureau of Justice Statistics, National Crime Victimization Survey. *http://bjs.ojp.usdoj.gov/index.cfm?ty=tp&tid=32*
68	Violent crime victimizations (per 100,000 population age 12 or older)	National Crime Victimization Survey. *http://bjs.ojp.usdoj.gov/index.cfm?ty=tp&tid=32*
69	Murder rate (per 100,000 persons)	Federal Bureau of Investigation, Uniform Crime Reports, Crime in the United States. *http://www.fbi.gov/about-us/cjis/ucr/ucr*
	Transportation Safety	
70	Safety belt use (%)	Bureau of Transportation Statistics, National Transportation Statistics (as compiled from Safety Belt and Helmet Use in 2002 and Traffic Safety Facts). *http://www.rita.dot.gov/bts/sites/rita.dot.gov.bts/files/publications/national_transportation_statistics/index.html*
71	Highway fatalities	Bureau of Transportation Statistics, National Transportation Statistics. *http://www.rita.dot.gov/bts/sites/rita.dot.gov.bts/files/publications/national_transportation_statistics/index.html*
	Environment and Energy	
	Air Quality and Greenhouse Gases	
72	Ground level ozone (ppm) based on 247 monitoring sites	U.S. Environmental Protection Agency, Latest Findings on National Air Quality. *http://www.epa.gov/airtrends/reports.html*
73	Particulate matter 2.5 (ug/m3) based on 646 monitoring sites	U.S. Environmental Protection Agency, Latest Findings on National Air Quality. *http://www.epa.gov/airtrends/reports.html*
74	Annual mean atmospheric CO2 concentration (Mauna Lao, Hawaii; ppm/yr)	National Oceanic and Atmospheric Administration. *http://www.esrl.noaa.gov/gmd/ccgg/trends/*#mlo_data
75	Gross greenhouse gas emissions (teragrams CO2 equivalent)	U.S. Environmental Protection Agency, 2010 Inventory of Greenhouse Gases. *http://www.epa.gov/climatechange/ghgemissions/usinventoryreport.html*
76	Net greenhouse gas emissions, including sinks (teragrams CO2 equivalent)	U.S. Environmental Protection Agency, 2010 Inventory of Greenhouse Gases. *http://www.epa.gov/climatechange/ghgemissions/usinventoryreport.html*
77	Gross greenhouse gas emissions per capita (metric tons CO2 equivalent)	U.S. Environmental Protection Agency, 2010 Inventory of Greenhouse Gases. *http://www.epa.gov/climatechange/ghgemissions/usinventoryreport.html*
78	Gross greenhouse gas emissions per 2005$ of GDP (kilograms CO2 equivalent)	U.S. Environmental Protection Agency, 2011 Inventory of Greenhouse Gases. *http://www.epa.gov/climatechange/ghgemissions/usinventoryreport.html*
	Energy	
79	Energy consumption per capita (million BTU)	U.S. Energy Information Administration, Annual Energy Review, Table 1.5, Col. 2. *http://www.eia.gov/totalenergy/data/annual/index.cfm*
80	Energy consumption per 2005$ GDP (thousand BTU per 2005$)	U.S. Energy Information Administration, Annual Energy Review, Table 1.5, Col. 10. *http://www.eia.gov/totalenergy/data/annual/index.cfm*
81	Electricity net generation from renewable sources, all sectors (% of total)	U.S. Energy Information Administration, Annual Energy Review, Table 8.2a. *http://www.eia.gov/totalenergy/data/annual/index.cfm*

7. DELIVERING A HIGH-PERFORMANCE GOVERNMENT

The Federal government has a positive impact on the quality of American lives. It influences the safety of the communities in which we live, the roads on which we drive, and the airplanes in which we fly. It enables those harmed by natural disasters to recover faster and increases access to capital for entrepreneurs and small business owners. The Federal government enables more young people to go to college and get jobs, and more seniors to maintain their quality of life. The men and women of the armed forces defend our nation and the Federal government, in turn, attends to the needs of military families and the veterans who so ably served. The responsibilities of agencies are vast, varied, and significant. The Department of the Interior, for example, is the largest supplier and manager of water in 17 states, delivers irrigation to 31 million people and one out of every five western farmers, and manages lands that produce over 30 percent of the nation's energy.

The Federal government has the ability and responsibility to improve the quality of the lives of the American people, the safety of our communities, and the strength of our economy.

A Culture of Performance Improvement

Because government can have such a positive impact on the quality of people's lives, good management of programs is essential. The challenge agencies face is using their tools of program delivery, such as grants, contracts, regulation, information collection, and information dissemination, in ways that yield the highest return on taxpayer dollars. The Obama Administration expects agencies to use evidence to set priorities and find increasingly effective and cost-effective practices. It expects them to test new practices to identify those that successfully solve problems, advance opportunities, and boost productivity. It expects agency leaders to adjust and re-allocate resources or change practices as new evidence is obtained, and to constantly ask if lower cost options are available to accomplish the same or higher levels of performance. Finally, it expects agencies to share information with the public to enhance accountability and facilitate understanding of the services the government provides.

To fulfill these expectations, the Obama Administration has emphasized six practices:

1. goal-setting;
2. frequent measurement of performance and other indicators;
3. ongoing analysis;
4. use of evidence in decision-making;
5. data-driven reviews; and
6. information dissemination that is timely, accessible, and user-friendly.

These six practices are essential for finding what works and what needs fixing. They support agency efforts to achieve better outcomes for each dollar spent. These six practices help clarify what agencies are trying to accomplish, why they are focused on those goals, how they plan to accomplish those goals, and how well they achieve them. Effective communication about our performance goals, progress, and results strengthens democratic decision-making and builds a culture of continuous improvement in government.

To emphasize and enhance these performance practices across the Federal government, in 2009 the Obama Administration directed agency leaders to set high-priority performance goals (Priority Goals). The Priority Goals represent a small number of specific, ambitious, outcome-focused goals selected by agency leaders. They are near-term implementation priorities each agency is working to accomplish within two years, without new legislation or funding.

Agencies set new Priority Goals every two years. The current set was established for FY 2012-2013. The Deputy Secretary (or Chief Operating Officer) of each agency is responsible for running quarterly progress reviews and designating a senior official responsible for driving progress on each Priority Goal. Goal Leaders are expected to select strategies using appropriately rigorous evidence, set milestones, and assess progress at least once a quarter. Every quarter, major agencies report progress on their Priority Goals on Performance.gov.

Complementing Agency Priority Goals, the Administration has also selected 14 Federal Cross-Agency Priority (CAP) Goals to deliver on the President's commitment. CAP Goals have been set for: exports; entrepreneurship and small businesses; energy efficiency; broadband; science, technology, engineering, math education; job training; and transitioning returning veterans to civilian jobs. CAP Goals have also been set to improve sustainability, cybersecurity, and other aspects of Federal government operations.

Doing What Works; Fixing What Doesn't

The following examples illustrate how adoption of these six practices is translating to tangible improvements in the lives of the American people. These examples represent a small subset of the vast contributions Federal agencies make to people, communities, and the economy.

Strengthening the Economy with Faster Patent Processing.

Timely, high-quality processing of patent applications cultivates and protects innovation and boosts economic prosperity. The backlog of patent applications has been reduced to the lowest level in years despite increases in filings last year and this year. From its peak, of approximately 764,000 in January 2009, the patent backlog has been reduced to approximately 595,078 in February 2013. *http://goals.performance.gov/goal_detail/DOC/338*

Broader Broadband Coverage.

Access to broadband capabilities is growing at a rapid rate, providing a strong foundation for economic growth, job creation, and global competitiveness. As of June 2012, 81% of Americans have access to advanced wireless broadband and the ability to enjoy minimum download speeds of at least 6 megabits per second, up from 36% in mid-2010. When wired connections are included, availability jumps to almost 96%. *http://goals.performance.gov/node/38578*

Energy Efficiency.

Energy efficiency is one of the least expensive, most cost-effective ways to enhance the nation's energy security, save money for American households, reduce dependence on oil, and ensure a clean environment. The Federal government is pursuing strategic opportunities to boost energy efficiency in four areas: buildings, industry, transportation, and federal operations. Energy productivity improved by more than 6 percent from the fourth quarter of calendar year 2010 through the fourth quarter of 2012: the total quarterly average energy consumption held steady at 24.55 quadrillion British Thermal Units (BTUs), while the quarterly average GDP increased from $13,181 billion ($2005) to $13,506. As one example of federally supported actions in the buildings sector, over 1.2 million homes of American families have been retrofitted since 2009, with annual per household energy savings from each retrofit between $250 to $450 dollars. As a result of this effort, more than 30 trillion BTUs of energy per year have been saved, and approximately 3 million metric tons of greenhouse gases (carbon dioxide equivalent) have been reduced annually. *http://goals.performance.gov/node/38504*

Renewable Energy.

The Federal government continues to support increased renewable energy production capacity on Federal lands. Since the U.S. Department of the Interior first set a goal in FY 2010 to develop all appropriate sources of renewable and conventional energy on U.S. public lands and waters, the department has authorized over 10,900 megawatts of solar, wind, and geothermal energy projects on or crossing Interior lands. This approved capacity, if fully developed, could generate enough energy to power millions of homes. In contrast, for thirty years prior to setting this goal, between 1978 and 2009, Interior approved only a small number of wind and geothermal renewable energy projects, estimated to provide for development of about 1,500 megawatts of renewable energy. *http://goals.performance.gov/goal_detail/DOI/379*

Reducing Water Shortages and Costs.

The Nation faces an increasing set of water resource challenges: aging infrastructure, rapid population growth, depletion of groundwater resources, and climate variability and change. Water issues and challenges are increasing in the West, even in "normal" years, due in part to prolonged drought and shifting population patterns. Traditional water management approaches no longer meet today's need. The Department of the Interior's Bureau of Reclamation is working closely with other governments, private entities, and individuals to identify practices that will increase water conservation capacity in western states. Since FY 2010, the Bureau has funded projects that have increased conservation capability by over 600,000 acre-feet and will continue this important work in FY 2014. *http://goals.performance.gov/goal_detail/DOI/382*

Safer, Lower-Cost Health Care.

Hospital-acquired infections (HAIs) are a significant cause of morbidity and mortality in the United States,

A Case Study: The National Highway Transportation and Safety Administration (NHTSA) has long taken a goal-focused, data-driven, evidence-based approach to reduce traffic fatalities. It integrates performance measurements, retrospective evaluations, and experiments into its operations.

Since its inception, NHTSA has worked with states to code every fatal accident in the country, noting characteristics of the operator, equipment, environmental situation (e.g., traffic light), and jurisdiction. It complements this performance information with information about accident costs, enabling the agency and its delivery partners to detect performance variations and target actions to situations likely to be the most costly and risky.

NHTSA supports ongoing performance measurement with occasional studies and experiments. For example, it analyzes how changes in state law, such as allowing police to stop and check drivers for seat belt use, correlate with changes in traffic fatalities. Currently, it is running an experiment to see if lessons learned from its highly successful enforcement-and-marketing campaign to increase seat belt use, "Click-It-or-Ticket," can be used to reduce distracted driving in a different campaign, "Cell Phone in One Hand, Ticket in the Other." NHTSA initially tested its distracted driving campaign in two municipalities. Distracted driving dropped by a third in one (Syracuse) and over 50% in the other (Hartford). NHTSA is now testing if the results can be replicated in larger areas, an eight-county region of California and the state of Delaware. *http://www.distraction.gov/content/dot-action/enforcement.html* accounting for an estimated 1.7 million infections in hospital patients, 99,000 associated deaths in 2002, and approximately $28 to $33 billion dollars in excess healthcare expenditures. Two of the most serious, common, and preventable infections are central line-associated bloodstream infections (CLABSI) and catheter-associated urinary tract infections. The Department of Health and Human Services is working hard with the private sector, other levels of government, and medical professionals to cut the number of infections. In October 2012, as part of a 4-year nationwide initiative, over 1,000 hospital intensive care units achieved a 41 percent reduction in the CLABSI rates. This equates to more than 2,000 CLABSIs prevented, more than 500 lives saved, and over $34 million in excess costs avoided. The Budget includes an increase of $12 million within the Centers for Disease Control and Prevention (CDC) to expand reporting of HAIs through CDC's National Healthcare Safety Network to more than 1,800 additional healthcare sites. *http://goals.performance.gov/goal_detail/HHS/375*

Fewer Homeless Veterans.

The Departments of Veterans Affairs and the Housing and Urban Development have been working together to eliminate veterans' homelessness by 2015. The Annual Homeless Assessment Report to Congress estimates the number of sheltered and unsheltered homeless persons on a single night in January. In 2012, the annual homeless count estimated 62,619 homeless veterans, down 7.2 percent from 2011 and 18 percent from 2010. *http://goals.performance.gov/goal_detail/VA/331*

Violent Crime Reduction in Tribal Communities.

The Bureau of Indian Affairs in the Department of the Interior is working with tribal communities to reduce violent crime. At the end of FY 2011, violent crime had declined an average of 35 percent across four high-crime reservations in just two years. One year later, violent crime is down across all four tribal communities – an average 55% reduction in violent crime incidents relative to the 2009 baseline. Interior will continue its community policing programs, maintaining efforts at the four reservations and focusing on an additional two communities. To promote adoption of these promising practices by all tribal communities, the bureau has prepared a "Crime-Reduction Best Practices Handbook." *http://www.bia.gov/cs/groups/xojs/documents/text/idc-018678.pdf.*

Saving Taxpayer Dollars with Paperless Treasury Transactions.

Treasury has cut the number of paper claims it handles from a high of 195.5 million in 2007 to 41 million in 2012, saving the Federal government an average of $100 million annually. *http://goals.performance.gov/goal_detail/TREAS/335*

Faster Social Security Disability Hearing Decisions.

The Social Security Administration has reduced the average processing time for a hearing before an Administrative Law Judge from an all-time high of 532 days in August 2008 to 362 days as of September 2012. *http://goals.performance.gov/goal_detail/SSA/357*

In addition, the Administration is building on previous efforts to eliminate waste, reduce duplication, and save costs. Agencies are making noteworthy progress addressing fragmentation in areas as diverse as exports and veterans' homelessness. For example, in February 2012, the President issued a memorandum directing the Export Promotion Cabinet to work across agencies to identify overlap and duplication and to maximize the combined effectiveness of their programs and initiatives in support of the Administration's strategic trade and investment priorities.

Looking Forward

Experience over the last four years reinforced prior evidence about the benefits of the six management practices. It is also refining our understanding of smarter ways to apply these practices:

Goal Ownership Improves Results.

Goals and measures are merely words unless someone assumes responsibility for managing their progress. The designation of goal leaders for each Priority Goal, and quarterly reviews run by Chief Operating Officers, assure high-level attention to Priority Goal execution. Many goal leaders, in turn, are clarifying who needs to do what by when to achieve a national goal. In forthcoming strategic plans, agencies will expand on this best practice of assigning clear goal ownership by identifying the lead office responsible for each strategic objective.

Improvement is the Objective, not Target Attainment.

Ambitious goals energize people and encourage creativity, innovation, and cross-organization collaboration that can lead to better outcomes and higher productivity. By definition, ambitious goals are hard to meet. Therefore, when progress on a goal is less than expected, agencies are accountable for understanding why and having a cogent evidence-based strategy to improve. Also, agencies that meet all of their ambitious targets will be asked to set more ambitious targets in the future.

Diagnostic Analyses, Experiments, and Other Studies Make Measurement Actionable.

Analysis turns performance measurement into actionable information. While it is good to know if a national trend is moving in the right direction, that knowledge alone does not suggest a next step. Finding variations in trends or outliers can lead to the discovery of better practices. The Department of Housing and Urban Development has taken this approach in its efforts to reduce veterans' homelessness. (See http://goals.performance.gov/delivering-better-results-using-frequent-data-driven-reviews.)

Agencies are applying a variety of data diagnostics to prepare for quarterly Priority Goal performance reviews, strategy selection, and other data-driven discussions. They are increasingly complementing analyses of their performance and operational data with other studies, replication demonstrations, and experiments to find increasingly effective and cost-effective approaches, discussed in greater detail in the next chapter.

Transparency Motivates, Educates, and Facilitates Cooperation.

Transparency strengthens accountability to the public, and can also lead to improved outcomes, greater productivity, and better decision-making. Performance.gov makes it easier for the public to see how, why, and what the Federal Government is trying to accomplish. The site also supports collaboration on shared goals and facilitates learning across and beyond agencies, including soliciting feedback from the public. In the future, efforts will be undertaken to test use of the website to facilitate coordination among goal allies, enlist ideas and assistance to accelerate progress on goals, and enhance public understanding of the work of the Federal government.

Attention to Audience Enables Delivery Partners and Others To Make Better Choices.

Federal agencies depend on a wide variety of partners to improve public outcomes. Therefore, agencies must consider how performance information can best be provided to support their needs. In education, for example, key audiences for performance information include state education departments, local school superintendents, school principals, teachers, parents, non-profit organizations, and for-profit companies. All need performance information but need it delivered, displayed, and analyzed in different ways, often for different purposes. Agencies are being asked to think strategically about their delivery partners' information needs and to return data to data suppliers with value added through analyses in order to achieve better results.

Leveraging Networks Boosts Returns.

Formal and informal networks, both within and outside government, are invaluable resources for leveraging the impact of government action. The Administration has been building and strengthening networks, such as the Partnership for Patients, to facilitate sharing of actionable data and speed adoption of evidence-based practices. Formal networks within government, such as the Performance Improvement Council (PIC) and the Chief Human Capital Officers' Council (CHCOC), function as valuable learning networks to identify and exchange information about best practices. Smaller working groups, such as the PIC working group on quarterly data-driven progress reviews, tackle shared challenges. The PIC and CHCOC are working together to use Employee Viewpoint Survey data to improve employee engagement and organizational performance. Several evidence-building learning networks have also been created and are discussed in the next chapter.

Emphasizing Outcomes Improves Results.

Alignment to outcome-focused goals helps ensure organizations focus on what matters most to the public. Maintaining a line of sight toward those outcomes supports an agency's ability to identify better practices, rather than assuming its current approach is best. Goals focused on areas such as reducing hospital-acquired infections or boosting energy efficiency also enlist expertise, ideas, and assistance from external allies. Building on the success of Priority Goals, in the coming year, agencies will identify outcome-focused strategic objectives in their strategic plans and begin to use them as a mechanism for improving results across their agency. Each year, agencies will review progress on the strategic objectives, and, using the evidence, identify opportunities for improvement.

Conclusion

Smarter Federal performance management practices are translating to better value for the American people. At the same time, the Federal government is doing business smarter, improving quality while cutting costs. By adopting proven management practices, such as ambitious goals set by leaders combined with frequent data-driven reviews, Federal agencies are continually improving their ability to serve the American people.

8. PROGRAM EVALUATION AND DATA ANALYSIS

The Administration is committed to using taxpayer dollars effectively and efficiently. Central to that commitment is a culture where agencies constantly (1) ask and answer questions that help them find, implement, spread, and sustain effective programs and practices, (2) identify and fix or eliminate ineffective programs and practices, (3) test promising programs and practices to see if they are effective and can be replicated, and (4) find lower cost ways to achieve positive impacts. The Federal fiscal situation necessitates improvements in efficiency and at times 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. More fundamentally, government programs are typically designed to address particular policy challenges. Without measurement and testing, those challenges are more likely to persist and opportunities to try other approaches are squandered.

OMB's *May 2012 "Use of Evidence and Evaluation in the 2014 Budget" memo* encouraged a broad-based set of activities to better integrate evidence and rigorous evaluation in budget, management, and policy decisions, such as adopting more evidence-based structures for grant programs, building evaluation capacity, making better use of data within government agencies, and developing tools to better communicate what works. The memo stated that: "Where evidence is strong, we should act on it. Where evidence is suggestive, we should consider it. Where evidence is weak, we should build the knowledge to support better decisions in the future."

The best government programs use a broad range of analytical and management tools, i.e. an "evidence infrastructure," to learn what works (and what doesn't) and improve results. In doing so, they create a culture of continuous feedback and improvement.

- It is a culture that keeps asking, "How can we do things better?" and approaches public policy and management challenges with humility about what we know or don't know about what works.
- It is a culture that values rapid, operationally-focused experiments that can quickly boost program efficiency, effectiveness and customer service, while at the same time equally valuing longer-term evaluation focused on more fundamental questions about program strategy.
- It is a culture that sees program evaluation and performance measurement as valuable, complementary tools, since each has different strengths.
- It is a culture that believes in using data to drive decision-making and is not satisfied with anecdotal evidence, since intuition about what works is often wrong.
- It is a culture where people are open to changing their minds and practices based upon evidence.
- It is a culture that is committed to publically disseminating results from evaluations in an open and transparent manner, never suppressing evidence because it is politically inconvenient.
- It is a culture that sees improved program performance not as a destination that can be reached with the right tool or strategy, but as a process of ongoing program refinement, since new challenges will always arise and new knowledge and innovations can always bring better outcomes and efficiencies.

Among the most important analytical tools is program evaluation, which can produce rigorous evidence about program effectiveness. For example, evaluations using experimental or quasi-experimental methods can identify the effects of programs in situations where doing so is difficult using other tools. Qualitative evidence can complement this work by providing insight into how programs and practices can be implemented successfully. And less rigorous tools can shed light on important issues. For example, descriptive regression analyses of administrative data can reveal important patterns that inform decisions, such as how to better match recipients with appropriate services. Agencies also often use statistical time series data, such as those presented in Chapter 6, "Social Indicators," of this volume, to take a broad look at societal and economic trends over time. They also use this information to prioritize among policy interests and budgetary resources, to inform the design of policies, and to provide the benchmarks that are used to assess the effects of policy changes.

Role of Performance Measurement

Performance measurement is another critical analytical and management tool. By tracking inputs, outputs, outcomes and measures of efficiency, programs can generate data that managers can then use to improve program performance. Simply collecting performance data, after all, is unlikely to change anything in itself. Performance data are useful when the data is high quality and actively used to ask and answer questions about what's being achieved, identify the most pressing program challenges, set goals, monitor results, and celebrate progress. This is the process of moving from performance measurement to performance management.

Too often, though, performance measurement and program evaluation are seen as completely separate tools, with agency experts housed in separate units that work independently of each other. Bridging that divide will be important in order to take advantage of the synergy between the two approaches. For example, evaluation's main strength lies in its ability to generate rigorous insights about program effectiveness, so that programs can be adapted and improved. But evaluation, especially when focused on longer-term outcomes, by definition takes time to produce insights. Performance measurement, on the other hand, harnesses readily available program data and uses it to set goals, track performance and improve results.

Role of Program Evaluation

Performance measures are an essential resource for agencies to understand ongoing, real-time program performance so they can use that information to build a culture of continuous improvement, but they often do not tell us a lot about some key questions. Program evaluations (of all types) and other data analytics provide context for the performance measures and help us better understand what can be learned from them. In addition, rigorous impact evaluations, in particular those with random assignment to program and control groups, can provide better evidence of whether a program works and whether an alternative practice might work better. For example, if a job training program has a high job placement rate, is it because it is effective or because it attracts those easiest to place in jobs? An evaluation could compare the employment of participants 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 approach to turning around low-performing schools 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.

This Administration is strongly encouraging appropriately rigorous evaluations to determine the impact of programs and practices on outcomes. 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. Historically, evaluations have generally not been built into program designs. And once a program is up and running, building a constituency for evaluation is hard. As a result, the active use of evidence and evaluation to manage and improve programs is too rare. The Administration is committed to addressing these challenges, but will need help from Congress and other stakeholders.

Operationalizing an Evidence Infrastructure

Developing and supporting the use of evidence 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 leaders at different levels of an agency—e.g., policy officials, program and performance managers, strategic planning and budget staff, evaluators, and statistical staff—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 an agency leadership team to oversee these efforts and to build and sustain a culture of learning. It also takes a team of "implementers" at the program level to encourage the use of evidence and data so that it reaches 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 and package it 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 progress in basing Federal decision-making on data and evidence, but more progress is needed. Chapter 7, "Delivering 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.

Tiered-Evidence Grant Programs and Innovation Funds

Because many Federal dollars flow to States, localities, and other entities through competitive and formula grants, grant reforms are an important component of strengthening the use of evidence in government. The goals include encouraging a greater share of grant funding to be spent on approaches with strong evidence of effectiveness and building more evaluation into grant-making so that we keep learning more about what works.

Among the most exciting advancements in this area are so-called "tiered-evidence" or "innovation fund" grant designs. The Administration has adopted multi-tiered grant programs in the areas of education interventions, teenage pregnancy prevention, social innovations, voluntary home visitations for parents, workforce interventions, international assistance efforts, and science, technology, engineering, and mathematics programs. These initiatives are designed to focus money on practices with strong evidence but still allow for new innovation. For example, in a three-tiered grant model, grantees that use practices with strong evidence qualify for the top, "scale up" tier and receive the most funding. Grantees that use approaches with more limited evidence qualify for the middle, "validation" tier. They can receive more limited funding along with support for evaluation. And grantees using innovative but untested approaches may qualify for the third tier, "proof of concept" and receive the least funding, but also support for evaluation.

A good example of this approach is the Department of Education's Investing in Innovation Fund (i3). The i3 fund invests in high-impact, potentially transformative education interventions, ranging from new ideas with significant potential to those with strong evidence of effectiveness that are ready to be scaled up. Applicants to i3 are eligible for funding to develop, validate, or scale up their program. In fact, the Department recently issued proposed regulations that would allow its other competitive grant programs to adopt this three-tiered model.

With a multi-tiered grant structure, organizations understand that in order to be considered for funding they must provide credible evaluation results that show promise and/or be ready to subject their models to analysis. The goal is that, over time, more programs move up tiers as evidence for new innovations becomes stronger.

Pay for Success

The Administration is also investing in Pay for Success. In the Pay for Success model, philanthropic and other private investors provide up-front funding for preventive services and the government does not pay unless and until there are results. 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, over the past year, the Department of Justice launched Pay for Success projects in which more effective prisoner re-entry interventions can reduce not just recidivism, but also the cost of the interventions, and a portion of those savings can be used to pay back the investors. In addition, the Department of Labor has launched an effort to target effective workforce systems that lead to improvements in a range of employment and educational outcomes, like job placement and job retention, paying out only after outcomes are achieved. The Administration is promoting the Pay for Success model in several other Federal programs, including housing, energy, and education, and is proposing a new $300 million fund in the Treasury to create incentives for States, localities and not-for-profits to invest in programs that will produce Federal savings.

Examples of Evaluations and Innovative Pilots

The Administration supports evaluations with rigorous research designs that address questions critical to program design, and supports strengthened agency capacity to support such evaluations, especially in tight budget times. The Budget supports new evaluations across the Federal Government to analyze program impacts, including how to structure student aid in order to increase college access for low-income students; how to strengthen the impact of Federal technical assistance to small businesses; and how to use increased local flexibility in housing assistance to increase employment and self-sufficiency.

The Departments of Labor and Education are supporting 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 have launched a joint initiative, PROMISE, 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.

In addition, OMB's Partnership Fund for Program Integrity Innovation has tested 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. For example, a pilot administered by the Centers for Medicare & Medicaid Services is testing how shared services solutions can reduce administrative costs and potentially fraud to States and the Federal Government by enabling multiple States to reuse the same standards and systems for activities such as enrolling providers. 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.

Rigorous evaluation will be a central component of the Administration's Performance Partnership pilots, which will enable leading edge States and localities to demonstrate better ways to use resources, by giving them flexibility to pool discretionary funds across multiple Federal programs serving similar populations and communities in exchange for greater accountability for results. For example, the 2014 Budget would authorize up to 13 State or local performance partnership pilots to improve outcomes for disconnected youth. Pilot projects would support innovative, efficient, outcome-focused strategies using blended funding from separate youth-serving programs in the Departments of Education, Labor, Health and Human Services, Housing and Urban Development, Justice, and other agencies. Evaluations would help us learn whether these strategies yield better outcomes and would inform future program reforms.

Evaluation Capacity, Learning Networks, and Administrative Data

Research and evaluation are part of any comprehensive effort to use data and evidence to serve the American people in more cost-effective ways. Funding for research and evaluation should not be viewed as a luxury but rather as an essential element of running effective government programs. However, 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 pulling up its sleeves and working to better utilize existing research and evaluation resources. It is building agency capacity for a robust evaluation and data analytics infrastructure by supporting agencies in standing up central evaluation offices, empowering existing evaluation offices, institutionalizing policies that lead to strong evaluations, and hiring evaluation and data analytics experts into key administrative positions.

In addition, an inter-agency working group of evaluators across the Federal Government is sharing best practices, such as helping spread effective procurement practices, developing common evidence standards, and better integrating evaluation and performance measurement efforts. Other cross-agency groups are forming learning networks around related program areas that will share relevant research about what works and develop tools and evaluation strategies that can benefit multiple agencies. During development of the President's 2014 Budget, multi-agency learning networks involving both program and evaluation experts have formed around enforcement programs, economic development activities, and financial literacy. Each of these groups proposes to invest modest amounts to create a coordinated, efficient strategy to improve related evaluation activities across agencies. For example, the Department of Transportation plans to lead an interagency effort to determine how enforcement funding provided to States best drives positive safety outcomes.

Another part of the evaluation and data analytics infrastructure is helping agencies make better use of "administrative data," i.e., data collected for the administration of a program. Administrative data, especially when linked across programs or to survey data and with strong privacy protections, can sometimes make both performance measurement and rigorous program evaluations much more informative and much less costly. For example, 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 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. The Departments of Health and Human Services and Housing and Urban Development, for instance, are sharing data to analyze how housing interventions, including efforts to reduce homelessness, affect the health care use and costs of residents. Also, the Departments of Veterans Affairs and Housing and Urban Development are streamlining reporting by homelessness programs to create a more comprehensive picture of homelessness trends and interventions.

Data linkage can be a powerful tool for improving agency management—looking at available information to find patterns, relationships, anomalies, and other features to inform priority-setting, program design, and hypothesis formulation. Administrative data also can be used in conducting low-cost rigorous evaluations, for example, as discussed in the Coalition for Evidence-Based Policy's 2012 brief, "*Rigorous Program Evaluations on a Budget: How Low-Cost Randomized Controlled Trials Are Possible in Many Areas of Social Policy.*" A number of States and localities, such as those participating in the *Actionable Intelligence for Social Policy Initiative* are creating capacity to link data across multiple systems so that researchers and government decision-makers can work together to analyze problems. Their pioneering work, which provides strong safeguards to protect privacy, can help other States, localities, and Federal agencies harness data for learning and better decision-making.

Rapid Experimentation

This culture of integrating data and evidence into decision-making is growing not only in the Federal Government, but also among private sector firms, foundations, and other levels of government. Innovative firms in the private sector, including a few industry leaders, have adopted a culture of learning where each year they run hundreds of rapid, low-cost experiments designed to improve their operations and get better results using data from their extensive administrative data systems. One of the lessons of their work is that improving on the status quo is difficult and that most experiments that test improvements fail, so it is critical to run many tests to learn what works. There is perhaps great 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 and research method experts, increased attention to the multiple legal and policy contexts that make data access a continued challenge, infrastructure investments that support this sort of analysis by more people across the organization, and continued emphasis on defining and collecting useful outcome data.

Common Evidence Standards and "What Works" Repositories

To ensure that policymakers, program managers, and practitioners have reliable information about what works that is informed by rigorous research, OMB and Federal agencies are working together to develop common standards for research and evaluation and for using results from different types of high quality studies to identify effective programs, improve programs, and encourage innovation in the development of new approaches. For example, the Department of Education and National Science Foundation have developed a set of standards that clarifies how different types of studies contribute to the evidence base, including basic research and impact evaluations, and sets expectations for the evidence that different types studies should seek to generate. Other agencies such as the Department of Labor and components of the Department of Health and Human Services are having discussions about augmenting these standards and creating a common framework for judging evidence on the effectiveness of programs and practices. Common research standards and evidence frameworks across agencies can facilitate evaluation contracting, information collection clearance, and the strengthening or creation of research clearinghouses and repositories about "what works." "What works" repositories synthesize evaluation findings in ways that make research useful to decision-makers, researchers, and practitioners in the field. Furthermore, as Federal innovation funds and other programs provide financial incentives for using evidence, these repositories will continue to evolve and provide useful tools for understanding what interventions are ready for replication, expansion, and greater investment. Information in the repositories also indicates the implementation contexts of programs and strategies evaluated, and areas where more innovation or more evaluation is needed.

Increasing the Use of Evidence

The Administration is committed to producing more and better empirical evidence. There is, however, perhaps an even greater need to increase demand for data and evidence in Federal decision-making processes. One piece of this is the process of setting high-priority goals and measuring progress towards meeting them, as described in Chapter 7, "Delivering High-Performance Government," in this volume. This goal-setting and performance measurement 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 efficient practices to speed progress toward the goals they have set. But more can be done.

Often the focus is on producing better evidence, but not on making that evidence useful for busy, non-technical decision-makers. Some policy areas lack rich evidence, but in areas with rich evidence decision-makers are not able to sort through the myriad of evaluation reports and analyses, especially when they point in different directions. There is a tremendous need for careful, systematic, and credible analyses of which interventions have a high return and which ones do not. At the Federal level, work described above on common evidence standards and improving "what works" repositories, such as the Department of Education's *What Works Clearinghouse*, the Department of Justice's *CrimeSolutions.gov*, Substance Abuse and Mental Health Services Administration's *National Registry of Evidenced-based Programs and Practices* (NREPP), and the Department of Labor's new Clearinghouse of Labor Evaluation and Research (CLEAR) are helpful steps towards making evidence more useful for decision-makers.

State, local, and tribal governments face a similar need to prioritize programs that achieve the best results. One particularly interesting model (that has played a role in shaping state legislative decisions) is the Washington State Institute for Public Policy. The Institute provides a good example of how a centralized evaluation and research entity can conduct systematic 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 policy analysts and economists, specialists from universities, and consultants with whom it engages to conduct policy analysis. It conducts a systematic review of evidence and has a methodology for comparing the relative return-on-investment of alternative interventions. The Institute presents the results of its analysis in a straightforward, user-friendly manner that is accessible to politicians, policy-makers, and the public. The Institute provides a potential model for Federal, State, local, and tribal government, as well as for not-for-profit and for-profit organizations and is currently being adapted to 13 other States. 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*.

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 opportunities to solve great 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 assessment of benefits and costs of a government policy is 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. While quantification and monetization of benefits and costs produce significant analytic challenges, serious efforts have been made to meet those challenges. Those efforts are continuing. 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." Importantly, there is a close relationship between open government and benefit-cost analysis. Because analysis is often improved by public comments, public participation 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.

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 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 benefits and costs 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.

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. OMB Circular A–4 directs agencies to specify the goal of a regulatory intervention, to consider a range of regulatory approaches for achieving that goal and to estimate the benefits and costs of each alternative considered. To the extent feasible, agencies are required 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.

For example, consider a regulation that sets a standard to reduce air pollution emissions. The agency should attempt to quantify both the benefits and costs of reduced air pollution emissions. It should consider a range of emission reductions to determine the optimal one that maximizes net benefits. 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.

Quantification and monetization of the relevant variables can present serious analytic challenges. OIRA and other federal agencies have developed a range of strategies for meeting those challenges; many of them are sketched in OMB Circular A–4. Efforts continue to be made to improve current analyses and to disclose and test their underlying assumptions. In some cases, identification of benefits and costs will leave significant uncertainties. But much of the time, an understanding of benefits and costs 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.

The Benefits and Costs of Federal Regulation in FY 2011

Each year, OMB reports to Congress agencies' estimates of the benefits and costs of major regulations. Table 9–1 presents the benefit and cost estimates for the 234 major non-budgetary rules reviewed by OMB in FY 2011.[1] Of those, agencies monetized both the benefits and costs for 12.

[1] FY 2011 is the most recent period for which such a summary is available. These estimates were reported in OMB, 2012 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.

Table 9–1. ESTIMATES OF THE TOTAL ANNUAL BENEFITS AND COSTS OF MAJOR RULES REVIEWED BY OMB IN 2011
(In billions of 2001 dollars)

Rule	Agency	Benefits	Costs
Institutional Eligibility under the Higher Education Act of 1965; Student Assistance General Provisions	ED	Not Estimated	0.1
Program Integrity: Gainful Employment Measures	ED	Not Estimated	0.1
Energy Efficiency Standards for Clothes Dryers and Room Air Conditioners	DOE	0.2–0.3	0.1–0.2
Energy Efficiency Standards for Residential Furnaces, Central air conditioners and Heat Pumps	DOE	0.7–1.8	0.5–0.7
Energy Efficiency Standards for Residential Refrigerators, Refrigerator-Freezers, and Freezers	DOE	1.7–3.0	0.8–1.3
Regulations to Implement the Equal Employment Provisions of the Americans with Disabilities Act Amendments Act	EEOC	Not Estimated	0.1–0.2
Administrative Simplification: Adoption of Authoring Organizations for Operating Rules and Adoption of Operating Rules for Eligibility and Claims Status (CMS–0032-IFC)	HHS	0.9–1.1	0.3–0.6
Medical Loss Ratios	HHS	Not Estimated	0.1
SAFE Mortgage Licensing Act: Minimum Licensing Standards and Oversight Responsibilities (FR–5271-F–03)	HUD	Not Estimated	0.1–0.6
Increased Safety Measures for Oil and Gas Operations on the Outer Continental Shelf (OCS)	DOI	Not Estimated	0.1
Migratory Bird Hunting; 2011–12 Migratory Game Bird Hunting Regulations: Early Season	DOI	0.2–0.3	Not Estimated
Migratory Bird Hunting; 2011–12 Migratory Game Bird Hunting Regulations: Late Season	DOI	0.2–0.3	Not Estimated
Improved Fee Disclosure for Pension Plan Participants	DOL	0.8–3.3	0.2–0.4
Statutory Exemption for Provision of Investment Advice	DOL	5.8–15.1	1.6–4.2
Wage Methodology for the Temporary Non-Agricultural Employment H–2B Program	DOL	Not Estimated	Not Estimated
Ejection Mitigation	DOT	1.5–2.4	0.4–1.4
Real-Time System management Information Program	DOT	0.2	0.1
Commercial Medium- and Heavy-Duty On-Highway Vehicles and Work Truck Fuel Effiency Standards	DOT and EPA	2.2–2.6	0.3–0.5
Management of Federal Agency Disbursements	TREAS	0.1	Not Estimated
Regulations Governing Practice Before the Internal Revenue Service	TREAS	Not Estimated	Not Estimated
Cross State Air Pollution Rule (CAIR Replacement Rule)	EPA	20.5–59.7	0.7
Oil Pollution Prevention: Spill Prevention, Control, and Countermeasure Rule Requirements - Amendments for Milk Containers	EPA	0	–0.1
Water Quality Standards (Numeric Nutrient Criteria) for Florida's Lakes and Flowing Waters	EPA	<0.1	0.1–0.2

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. 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. 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.

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 cost-effectiveness analysis is. 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 presents the net cost per life saved for 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.

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 aesthetic 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.

Table 9–2. ESTIMATES OF THE NET COSTS PER LIFE SAVED OF SELECTED HEALTH AND SAFETY RULES REVIEWED BY OMB IN FISCAL YEARS 2010-2011

(In millions of 2001 dollars)

Rule	Agency	Net Cost per Life Saved	Notes
Cranes and Derricks in Construction	DOL/OSHA	$4.9	The agency estimates that the rule will prevent 22 fatalities and 175 nonfatal injuries annually. Total costs associated with the rule are $150 million annually (using 3% discount rate). The monetized value of the injuries prevented is $11 million and the property damage prevented is valued at $7 million.
Ejection Mitigation	DOT/NHTSA	$0.2	The agency estimates that the rule will prevent 374 equivalent lives (using 3% discount rate).
Pipeline Safety: Distribution Integrity Management	DOT/PHMSA	Negative	Benefits from reduced injuries, reduced property damages, and reduced lost gas exceeds costs.
Positive Train Control	DOT/FRA	$235.1	The agency estimates the present value of fatality reduction benefits is $267 million over 20 years using a VSL of $6 million. The agency also estimates the total non-fatality related benefits over 20 years of $407 million. The total costs associated with the rule are $880 million annually.
Cross State Air Pollution Rule (CAIR Replacement)	EPA/AR	Negative	Morbidity and visibility benefits exceed costs.
Lead; Amendments to the Opt-out and Recordkeeping Provisions in the Renovation, Repair, and Painting Program	EPA/OPPTS	Negative	Morbidity benefits exceed costs.
National Emission Standards for Hazardous Air Pollutants from the Portland Cement Manufacturing Industry and Standards of Performance for Portland Cement Plants	EPA/AR	Negative	Morbidity benefits exceed costs.
National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines (Diesel)	EPA/AR	$0.9 - $2.2	The agency estimates that the rule will prevent 110 to 270 fatalities annually. Total costs associated with the rule are $355 million annually at 3% discount rate. The monetized value of the morbidity benefits is $66 million.
National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines (Existing Stationary Spark Ignition Gas Fired)	EPA/AR	$1.2 - $3.1	The agency estimates that the rule will prevent 56 to 140 fatalities in 2013. Total costs associated with the rule are $244 million annually at 3% discount rate. The monetized value of the morbidity benefits is $36 million.
Review of the National Ambient Air Quality Standards for Sulfur Dioxide	EPA/AR	Negative	Morbidity benefits exceed costs.

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 and Data Analytics", 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 number of programs. For example, longitudinal studies have shown that each dollar spent on quality pre-school programs serving disadvantaged children yields substantially more than a dollar (in present value) in higher wages, reduced crime, and reduced use of public services. These findings motivated an expansion of funding for high-quality pre-school programs. Evidence has also 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.

The Regulatory Right-to-Know Act requires OMB to report the social costs and benefits of the budget rules. These rules implement Federal budgetary programs as required or authorized by Congress. Budgetary programs primarily cause income transfers, usually from taxpayers to program beneficiaries. In FY 2011, OMB reviewed 30 budgetary rules. Of these, the Department of Health and Human Services promulgated 15 rules, and the Department of Agriculture seven rules.[2] We recognize that markets embed distortions and that the transfers are not lump-sum, thereby creating social benefits or costs by altering prices.

[2] The estimates of budgetary effects were reported in OMB, 2012 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.

IV. IMPROVING BENEFIT-COST ANALYSIS

A Culture of Retrospective Review

Prospective analysis of benefits and costs is an indispensable means of obtaining an understanding of the likely consequences of regulation. But that analysis, even if done carefully and subject to public scrutiny, will rest on assumptions that may change over time. Regulations should be reviewed retrospectively to ensure that they are achieving their intended goals and are not producing excessive costs or unintended adverse effects. Executive Order 13563 expressly recognizes this by requiring agencies to undertake "retrospective analysis" of existing significant rules.

Building on Executive Order 13563, Executive Order 13610, "Identifying and Reducing Regulatory Burdens", issued in May 12, 2012, institutionalizes the regulatory lookback and requires agencies to prioritize lookback "initiatives that will produce significant quantifiable monetary savings or significant quantifiable reductions in paperwork burdens."[3] The Executive Order calls on agencies to "give special consideration to initiatives that would reduce unjustified regulatory burdens or simplify or harmonize regulatory requirements imposed on small businesses." Additionally, agencies are required to focus on "cumulative burdens" and to "give priority to reforms that would make significant progress in reducing those burdens."

Retrospective review is most naturally understood as a way of assessing rules that have been in operation and on the books for a sufficient period to allow careful study. A retrospective analysis can show that a rule that was well-designed at the inception is now excessive, redundant, or producing unintended harm, perhaps as a result of changed circumstances, such as new technologies or new regulations. Retrospective review can also be critical in evaluating the validity of assumptions or methods used in prospective analysis.

[3] See Executive Order 13610, May 10, 2012, available at <*http://www.whitehouse.gov/the-press-office/2012/05/10/executive*-order-identifying-and-reducing-regulatory-burdens>

For example, the EPA has eliminated the obligation for many states to require air pollution vapor recovery systems at local gas stations because duplicative vapor recovery system have been built into modern vehicles. The anticipated annual savings are about $87 million.

Retrospective analysis has long been recommended by those interested in empirical assessment of regulations, including Michael Greenstone, former chief economist at the Council of Economic Advisers: "The single greatest problem with the current system is that most regulations are subject to a cost-benefit analysis only in advance of their implementation. This is the point when the least is known and any analysis must rest on many unverifiable and potentially controversial assumptions."[4] To address this problem, retrospective analysis can help show what works and what does not, and in the process can promote the streamlining or elimination of less effective rules as well as the strengthening or expansion of those rules that are more effective.

Clear Summaries and Tables with Key Information

In order to improve analysis of the potential effects of regulations, and simultaneously to improve accountability, OMB has called for a clear, salient, publicly accessible executive summary of both benefits and costs. The summary should be 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 in qualitative terms.

[4] Greenstone, Michael. "Toward a Culture of Persistent Regulatory Experimentation and Evaluation." In New Perspectives on Regulation, David Moss and John Cisternino (Eds.). Cambridge, MA: The Tobin Project, Inc., 2009. P. 113.

Public 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 improve the analysis, thereby refining our understanding of the anticipated effects of regulation.

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 and to take all necessary steps to make relevant material available to the public for comment.[5]

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.

[5] Available at: *http://www.whitehouse.gov/omb/assets/inforeg/edocket_final_5–28–2010.pdf*

10. 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 Armed Forces. 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. Today's Federal public servants come from all walks of life and from every corner of America to carry forward that proud American tradition. Eighty-five percent of Federal employees live and work outside of the Washington, D.C. metropolitan area. Many Federal employees have made remarkable contributions to our society; notably, more than 50 current or former federal employees have received Nobel Prizes. Whether defending our homeland, restoring confidence in our financial system and supporting a historic economic recovery effort, providing health care to our veterans, conducting diplomacy abroad, providing relief to Hurricane Sandy victims, 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.

Today's Federal workforce confronts tight fiscal resources, rapidly changing problems, and new technologies. 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 Workforce Size

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 administration of the Census. In overall terms, today's workforce remains the size it was under President Reagan.

Since the 1950s and 1960s, the U.S. population increased by 77 percent, the private sector workforce increased 137 percent, while the size of the Federal workforce rose just 10 percent, with 92 residents for every Federal worker. Since the 1980s, both the population and private sector workforce has increased 25 percent, but the Federal workforce has not grown at all, and in the 1980s and 1990s there were 119 residents for every Federal worker. 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 and to serve our veterans.

Between 2001 and 2010, security agency employment grew, while non-security employment declined. For example, civilians working for the Department of Defense grew by more than 92,000; the Department of Veterans Affairs (VA) grew by 78,000 with much of that increase attributable to medical care to provide for our returning service members; Customs and Border Protection also grew more than 30,000 to keep our citizens safe at home.

By 2012, the ratio of residents to Federal workers had increased to 148. Relative to the private sector, the Federal workforce is less than half the size it was back in the 1950s and 1960s. Table 10-2 shows actual Federal civilian full-time equivalent (FTE) levels in the Executive Branch by agency for 2011 and 2012, with estimates for 2013 and 2014. Estimated employment levels for 2014 result in an estimated 0.3 percent increase compared to prior year estimates. Most of the growth is in VA to continue strengthening medical care for returning service members. Additional increases are expected at the Department of Justice for enhancements in cybersecurity and increased background checks for firearm purchases, and at the Department of Homeland Security to support the strengthening of border protection and to support immigration reform.

Other increases are narrowly focused and frequently supported by congressionally authorized fees, not tax payer dollars. Increased fee receipts support timely commercialization of innovative technologies through faster and higher-quality patent reviews at the Patent and Trade Office of the Department of Commerce, stronger food safety measures at the Food and Drug Administration of the Department of Health and Human Services, and enhancements to create stronger, more stable financial markets consistent with the Wall Street Reform Act. 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 2013 and 2014. 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.

In contrast, the workforce decreased in agencies such as the U.S. Department of Agriculture (USDA), US Environmental Protection Agency (EPA) and the National Aeronautics and Space Administration (NASA), to correspond with decreases in funding. The Forest Service and the Natural Resources Conservation Service at the USDA are finding workforce efficiencies to meet budget reductions; decreases at the EPA reflect strong efforts in workforce restructuring to better manage and reduce personnel costs; and NASA will reduce its workforce in response to budget reductions from changes in human space flight missions, including the retirement of the Space Shuttle.

Beneath many of the agency totals are programs that pursue aggressive actions to reduce and reallocate staff from lower to higher priority programs. Some agencies have imposed hiring freezes, and many are offering early retirement and separation incentives. For example, the General Services Administration offered more than 2,400 employee buyouts and early retirement packages in order to contain costs and provide the opportunity to better match employee skills with job requirements.

Chart 10-1 shows Federal civilian employment (excluding the U.S. Postal Service) as a share of the U.S. resident population from 1958 to 2012. The chart shows overall declines in both security and non-security agencies.

In recent years, the Executive Branch has had great success hiring veterans. In November 2009, President Obama signed Executive Order 13518, establishing the Veterans Employment Initiative. Through this initiative and the strategies used by the Council on Veterans Employment, the Executive Branch continues to benefit from retaining the dedication, leadership, and skills veterans have honed in the fast-paced, dynamic environments of the Army, Marines, Navy, Air Force, and Coast Guard.

In FY 2009, veterans made up 24 percent of the total new hires in the Federal Government. By the end of FY 2012, veterans made up 29 percent of new hires. The total number of veterans employed by the Government also increased. In FY 2009, there were 512,240 veterans in the Federal Government – 26 percent of our workforce. By the end of FY 2012, the number of veterans had grown to 611,784, or 30 percent of the Federal workforce.

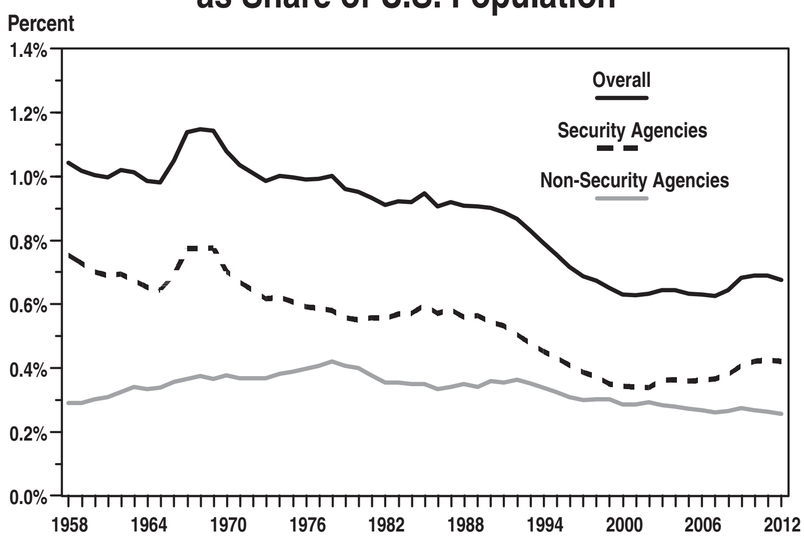
Federal Pay Trends

After more than a decade when the percentage increases 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 Employment Cost Index (ECI). The law gives the President the authority to propose alternative pay adjustments for both base and locality pay. Presidents have regularly supported alternative pay plans.

Chart 10-2 shows how the Federal pay scale has compared to the ECI since 1976. Prior to FEPCA the Federal pay scale fell sharply relative to the ECI. The Federal pay scale rose relative to the ECI in the early 1990s, but fell relative to ECI during most of the middle and late 1990s. The Federal pay scale rose quite a bit relative to ECI in the 2000s, but has fallen sharply relative to ECI in the last few years.

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, saving $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. Additionally, on his first day in office, the President froze salaries for all senior political appointees at the White House, and in 2010, the President eliminated bonuses for all political appointees across the Administration. The Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) directed agencies to limit individual performance awards for almost all employees starting in fiscal years 2011 and 2012.

Chart 10-1. 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. Non-Security agencies include the remainder of the Executive Branch.

For 2014, the President proposes a one percent pay increase for General Schedule employees, which is below the private sector Employment Cost Index increase of 1.8%. This increase reflects the tight budget constraints we now face while also recognizing the critical role these employees play in our everyday lives. In comparison to the baseline, the 1.0% pay increase saves approximately $18 billion over 10 years and $1 billion in FY 2014 within the BCA caps, which can then be reallocated to programs and services the American people depend on.

The 2014 budget also continues last year's proposal to dedicate an additional 1.2 percent of employees' pay (phased-in at 0.4 percent over three years) toward their pensions. This proposal would require existing employees, or those rehired with five or more years of creditable service, to contribute 1.2 percentage points more to their pensions. During 2012, the Middle Class Tax Relief and Job Creation Act increased employee contributions to Federal defined benefit retirement plans, including the Federal Employees' Retirement System, by 2.3 percentage points, effective for individuals joining the Federal work force after December 31, 2012 who have less than five years of creditable civilian service. Neither this proposal nor the 2012 Act would change the amount of each employee's benefit. This proposal would result in $20 billion in mandatory savings over 10 years.

Composition of the Federal Workforce and Factors Affecting Pay

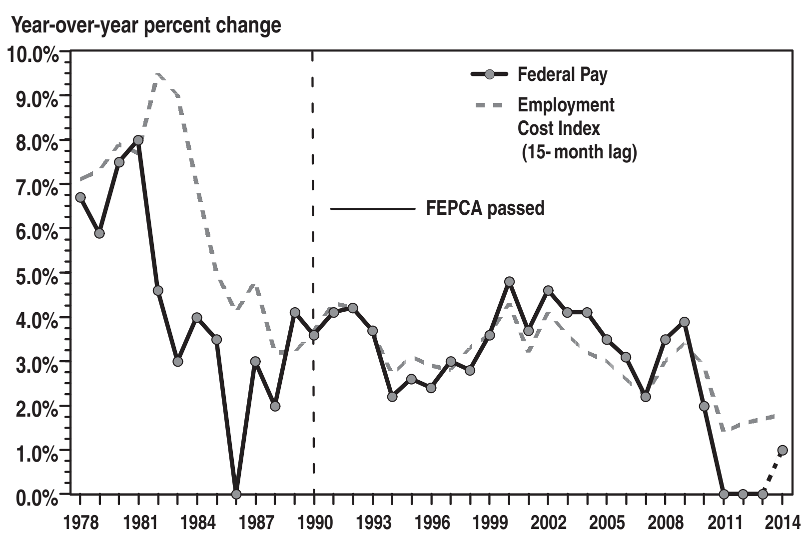
Federal worker compensation receives a great deal of attention, in particular, in how it compares to that of private sector workers. Comparisons of the pay and benefits of Federal employees and private sector employees, for example, should account for factors affecting pay, such as differences in skill levels, complexity of work, scope of responsibility, size of the organization, location, experience level, and exposure to personal danger.

A series of reports done in January 2012 by the Congressional Budget Office (CBO) accounted for some, but not all, of the factors described above. CBO found that Federal pay, on average, was slightly higher (2.0 percent) than comparable private sector pay. However, this study was done before Federal employees began a pay freeze. Overall public sector compensation was, on average, substantially higher, but CBO noted that its findings about comparative compensation relied on far more assumptions and were less definitive than its pay findings. The reports also emphasized that focusing on averages is misleading, because the public/private differentials varies dramatically by education and complexity of job. Compensation for higher educated Federal workers (or those in more complex jobs) is lower than for comparable workers in the private sector, which were not the CBO findings for less educated workers.

Some of the factors affecting compensation are:

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. 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

Chart 10-2. 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 10–1. OCCUPATIONS OF FEDERAL AND PRIVATE SECTOR WORKFORCES
(Grouped by Average Private Sector Salary)

Occupational Groups	Percent	
	Federal Workers	Private Sector Workers
Highest Paid Occupations Ranked by Private Sector Salary		
Lawyers and judges	1.8%	0.6%
Engineers	3.9%	1.9%
Scientists and social scientists	4.8%	0.7%
Managers	11.3%	13.3%
Doctors, nurses, psychologists, etc.	7.5%	5.4%
Miscellaneous professionals	15.5%	8.2%
Administrators, accountants, HR personnel	7.0%	2.6%
Inspectors	1.4%	0.3%
Pilots, conductors, and related mechanics	2.0%	0.8%
Total Percentage	**55.0%**	**33.8%**
Medium Paid Occupations Ranked by Private Sector Salary		
Sales including real estate, insurance agents	1.2%	6.4%
Other miscellaneous occupations	3.5%	4.5%
Automobile and other mechanics	1.7%	2.9%
Law enforcement and related occupations	8.9%	0.8%
Office workers	2.3%	6.3%
Social workers	1.4%	0.5%
Total Percentage	**18.9%**	**21.4%**
Lowest Paid Occupations Ranked by Private Sector Salary		
Drivers of trucks and taxis	0.7%	3.3%
Laborers and construction workers	4.3%	9.9%
Clerks	13.7%	11.3%
Manufacturing	2.5%	7.7%
Other miscellaneous service workers	2.6%	6.1%
Janitors and housekeepers	1.5%	2.4%
Cooks, bartenders, bakers, and wait staff	0.9%	4.1%
Total Percentage	**26.1%**	**44.9%**

Source: 2008-2012 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.

to about a third (33 percent) of private sector workers in those same nine highest paying occupation groups. In contrast, 45 percent of private sector workers work in the seven lowest-paying occupation groups as cooks, janitors, service workers, clerks, laborers, manufacturing workers, etc. About 26 percent of Federal workers work in those seven lowest-paying occupation groups. 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, Federal employees must manage highly sensitive tasks that require great skill, experience, and judgment. They need sophisticated management and negotiation skills to effect 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 2008-2012 of full-time, full-year workers, Table 10-1 breaks all Federal and private sector jobs into 22 occupation groups and shows that the composition of the Federal and private workforce are very different.

Education level. The size and complexity of much Federal work – 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 further economic growth – necessitates a highly educated workforce. Chart 10-3 presents the comparative differences in the education level of the Federal civilian and private sector workforce. About 22 percent of Federal workers have a master's degree, professional degree, or doctorate versus only 10 percent in the private sector. Only 19 percent of Federal employees have not attended college, compared to 40 percent of workers in the private sector.

Size of organization and responsibilities. Another important difference between Federal workers and private sector workers is the average size of the organization 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 13 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. It is reasonable to assume that the size of these organizations and the larger salaries associated with their size is also associated with greater complexity of their work.

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, 21 percent of Federal workers are 55 or older – up from 17 percent 10 years ago and significantly more than the 16 percent in the private sector. Chart 10-4 shows the difference in age distribution between Federal and private sector workers.

Challenges

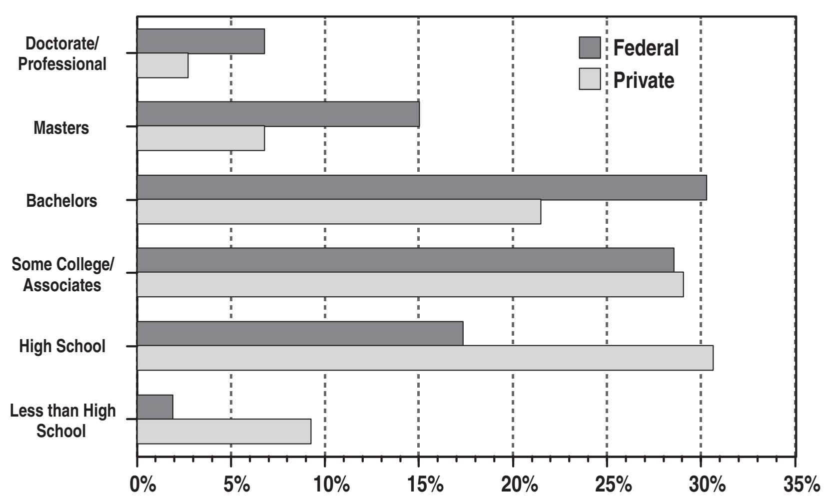
The Federal Government faces specific human capital challenges, including a personnel system that requires further modernization, an aging and retiring workforce, and the need to continuously engage and develop personnel to maximize performance. If the Government loses top talent, experience, and institutional memory through retirements, but cannot recruit, retain, and train highly qualified workers, Government performance suffers. The age distribution and potential for a large number of retiring workers poses a challenge, but 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 and equipped with strong technology skills, problem-solving ability, and fresh perspectives to tackle problems that Government must address.

Outdated Personnel System

In the past sixty years, the private sector has innovated towards more flexible personnel management systems, but the Federal personnel system has not kept up and remains inflexible and outdated. While recent hiring reform efforts are showing significant progress in simplifying hiring, additional reforms are needed to update the pay, classification, and benefits systems. The General Schedule (GS) pay system has been in effect since 1949. Enacted in 1951, aspects of the current benefit and leave laws are out of date and do not always provide adequate flexibility for the increasing responsibilities of family caregivers in our workforce. An alternative, cost-effective system needs to be developed that will allow the Government to compete for and reward top talent, while rewarding performance and encouraging adequate flexibility to caregivers.

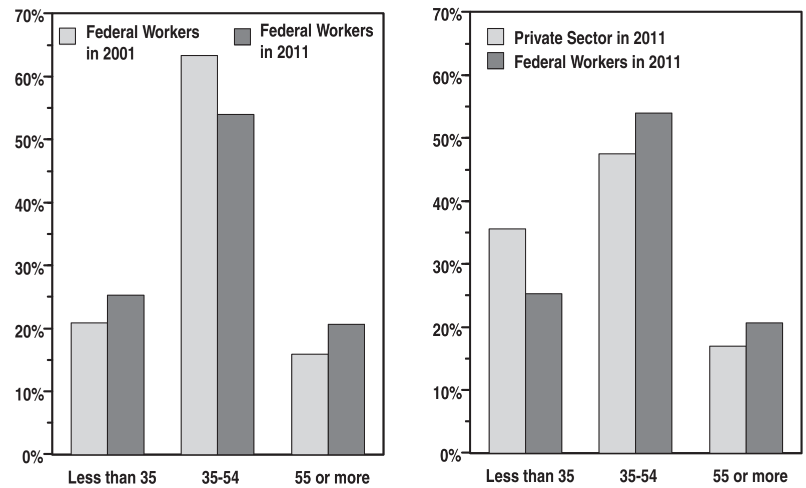
To address issues in the long-term, Federal managers and employees need a modernized personnel system. To that end, the Administration proposed to the Joint Select Committee on Deficit Reduction that the Congress establish a Commission on Federal Public Service Reform

Chart 10-3. Education Level Distribution in Federal vs. Private Workforce



Source: 2008-2012 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.

Chart 10-4. Federal Age Distribution in 2001 and 2011 and Federal vs. Private Age Distribution in 2011



Source: 2002 and 2012 Current Population Survey (covering calendar years 2001 and 2011).
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.

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 purpose of a Congressionally chartered Commission would be to 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.

Aging Workforce

The Federal workforce of 2012 is older than Federal workforces of past decades and older than the private sector workforce. The number of Federal retirements is on a steady increase, rising from 95,425 in 2009 to 96,133 in 2010 to 98,731 in 2011 and 112,817 in 2012. Increases in retirement are expected to continue. Nearly twenty-two percent of the over 687,000 respondents to the 2012 Federal Employee Viewpoint Survey (EVS) expressed an intent to retire during the next five years. Given these demographics, the Federal Government faces a few immediate challenges: preparing for retirements to maximize knowledge transfer from one generation to the next, succession planning to assure needed leadership and hiring and developing the next generation 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 or are ill suited to their current positions. 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 2012 Federal Employee Viewpoint Survey (EVS) indicate that nearly 97 percent of respondents answer positively to the statement "When needed I am willing to put in the extra effort to get the 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 2012, only 30 percent of employees who participated 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 39 percent agreed that "creativity and innovation are rewarded".

Addressing the Challenges

The Administration has made considerable progress improving employee performance and human capital management. Multiple efforts are underway, including: building a workforce with the skills necessary to meet agency missions, developing and using personnel analytics to drive decision making, new programs to infuse talent into agencies, heightened attention to a diverse and inclusive workforce, continued focus on the Senior Executive Service (SES) performance appraisal system, and strengthened labor-management partnerships.

Mission Focused and Data Driven Personnel Management

The Administration is committed to strengthening Federal agencies' capacity to analyze human resources data to address workplace problems, improve productivity, and cut costs. OPM, in conjunction with OMB, is implementing several key initiatives that will lead to better evaluation and management of Federal employees. These efforts include recasting the EVS as a diagnostic tool to improve an organization rather than a snapshot that simply describes it, more agencies conducting data-driven HRStat review sessions, greater alignment between human capital and mission performance, and quarterly updates of key HR performance indicators on Performance.gov.

OPM administers the Government-wide EVS to gather employee perceptions about whether, and to what extent, conditions characterizing successful organizations are present in their agencies. The survey is a valuable management tool that helps agencies identify areas of strength and weakness and informs the implementation of targeted action plans to help improve employee engagement and agency performance. In 2012, for the first time, OPM administered the survey to nearly all civilian Federal employees and received responses from over 687,000 Federal employees. This is the largest number of participants since the survey was first administered in 2002, more than double the number of respondents from any previous EVS survey, making this the most inclusive survey to date. Even more importantly, agencies now have greater ability to drill down to understand employee viewpoints in smaller organizational units; nearly five times the number of office-level components within agencies received office-specific results in 2012 compared to the 1,687 components that received results in 2011. The increased response and reporting granularity enables agencies to identify areas of strength, offering possible models for others, and areas of weakness needing attention. Agencies across Government are using EVS data to develop and implement targeted, mission-driven action plans to address identified challenges.

One area in which the EVS has given us new insight is the impact of telework. The 2012 EVS indicates that teleworkers (82 percent) are more likely than non-teleworkers (79 percent) to know what is expected of them on the job, more likely to feel empowered (52 percent versus 45 percent), and more likely (75 percent compared to 68 percent of non-teleworkers) to be satisfied with their jobs. Finally, employees who telework are more likely to want to stay with their agencies (72 percent compared to 68 percent of non-teleworkers) and to recommend their agencies to others (74 percent compared to 66 percent of non-teleworkers). As documented by OPM's 2012 report on the status of telework, the percentage of eligible Federal employees who participated in routine telework grew to 21 percent as of September 2011, compared to 10 percent during calendar year 2009. However, there is still more work to be done in breaking down barriers to the effective use of telework.

Agencies have also begun testing HRStat (Human Resources Statistics) reviews. HRStat reviews are data driven and focus on agency specific human capital performance; key human resources management metrics that drive agency performance and align with mission accomplishment. Agencies have incorporated a range of management metrics into their HR Stat review, including performance management, succession planning, and strategic workforce planning. The HRStat review is intended to enable quick course correction, if needed, to help ensure progress is being made on key human resources issues.

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, and hiring rates from diverse candidate pools.

Closing Critical Skills Gaps

The demands of the workplace necessitate new and agile skill sets in the Federal workforce. OPM's mission is to ensure that the Federal Government recruits, retains, and honors the talent agencies require to serve the American people. In 2011, OPM partnered with the Chief Human Capital Officers (CHCO) Council to take on the challenge of closing skills gaps across the Government. This initiative responds to the President's Cross-Agency Priority Goal to close skills gaps, as well as GAO's designation of human capital as a Government-wide high risk. The Department of Defense joined OPM in chairing an inter-agency workgroup that designed a sustainable strategic workforce planning method to identify and close skills gaps in mission-critical occupations. Based on rigorous data analysis, the workgroup identified the following mission-critical occupations for gap closure: IT-Cybersecurity Specialists, Acquisition Specialists, Economists, Human Resources Specialists, and Auditors. In addition, the workgroup identified STEM (science, technology, engineering, and mathematics) as a sixth functional area covering multiple occupations, which requires sustained strategic attention across Government.

To close skills gaps in these areas, OPM designated sub-goal leaders from agencies whose missions critically depend on these occupations. Together with these sub-goal leaders, OPM is developing and executing strategies to close skills gaps in these occupations. The sub-goal leaders meet quarterly with the OPM Director to apprise him of their progress, including by providing updated metrics that will be reported on *www.performance.gov*.

One of the ways OPM is addressing skills gaps among human resources professionals is through HR University. Developed in 2011 by the CHCO Council, HR University provides an excellent foundation for human resources professionals to receive training to help them become more effective. HR University is a source of centralized training that takes courses and resources Federal agencies have already developed and provides a platform for cross-agency sharing.

HR University uses an HR Professional Framework, which helps HR professionals identify where they are in relation to the roles outlined in the framework. It also helps them think about their desired career path and provides a mechanism for determining how they need to develop to achieve their goals. This mechanism leads to an Individual Development Plan (IDP) designed specifically for the HR professional to create more targeted development plans. HR University also offers a Managers' Corner to help supervisors and managers with their human resources management responsibilities. Finally, HR University is working to obtain accreditation as a full-service university.

HR University has more than 19,000 registered users who have completed more than 12,000 online training courses, with a cost savings of over $41.4 million, realized through the sharing of resources and economies of scale. In addition, HR University ensures that courses meet OPM's high standards by vetting each course through a very rigorous quality review.

In partnership with the CHCO Council, OPM will continue to expand HR University's offerings. This effort may include more partnerships with colleges and universities, development of HR certifications, accreditation of courses, greater use of social media, website enhancements, and more courses on key topics that will close identified skill and competency gaps in the human resources field.

Individual agencies are also identifying and targeting critical skills gaps as a priority. The State Department and US Agency for International Development (USAID) identified overseas vacancies as an agency Priority Goal to help achieve operations and consular efficiency and effectiveness, transparency and accountability; and secure US presence internationally. This initiative aims to modernize and strengthen State/USAID so that they can meet the most pressing development challenges with a high-quality workforce to move towards the larger goals of these organizations.

Recruiting and Developing an Agile Workforce

To maximize effectiveness and potential, the Federal Government must continue to prepare its talent for challenges on the horizon. New cost-effective programs are being implemented to develop current employees, foster collaboration with innovators from the private sector, promote career pathways into Federal service, and enhance institutional knowledge transfer through a phased retirement program. These efforts are essential for developing a nimble, efficient 21st Century workforce that can help ensure agencies achieve their important missions under a tightening fiscal climate.

Leadership Development. In 2011, the President's Management Council (PMC) and the Chief Human Capital Officers (CHCO) Council launched the PMC Interagency Rotation Program to bolster cross-agency exposure for high-potential GS 13-15s. Through 6-month developmental assignments, this program enables emerging Federal leaders to expand their management skills, broaden their organizational experience, and foster networks they can leverage in the future. Now preparing for its fourth cohort, the program has grown from 10 agencies and 28 participants to 15 agencies, 4 interagency councils, and 45 participants, with likely expansion in the upcoming cycle.

Innovation Fellows. The Presidential Innovation Fellows program pairs top innovators from the private sector, non-profits, and academia with top innovators in government to collaborate on solutions to high-impact challenges and deliver significant results in six months. The results of these projects are intended to save taxpayer money, fuel job growth, save lives, and provide tangible benefit to the American people. Each team of innovators is tasked with working on a specific high-impact issue using a focused but agile approach. This unique initiative focuses on tapping into the ingenuity, know-how, and patriotism of Americans from every sectors of our society.

Pathways Programs. Under the Administration's leadership, the Government has taken steps to help students and recent graduates join the Federal service. As part of the Administration's hiring reform efforts, the President issued Executive Order 13566, which created the Pathways programs to create clear paths to Federal service for students and recent graduates. OPM issued final regulations implementing Pathways last year and has been working closely with agencies to help them transition to the new programs. Pathways consists of three streamlined developmental programs: the Internship Program for students; the Recent Graduates Program for people who graduated within the preceding 2 years; and the Presidential Management Fellows (PMF) Program for people who obtained a graduate or professional degree within the preceding two years. Internship and career opportunities for students and recent graduates provide meaningful training and career development opportunities, promote employment opportunities for a new generation of public servants, and help agencies address recruiting challenges and infuse new skills into the Federal workforce.

Provide phased retirement to eligible Federal employees. The Administration proposed and Congress passed a phased retirement law to help facilitate the transfer of valuable knowledge between retiring and non-retiring employees. The phased retirement program will make it easier for the most experienced employees to enter into part-time retirement arrangements, providing expertise while mentoring other employees.

A Diverse and Inclusive Workforce

The American people are best served by a Federal workforce that reflects our rich diversity and encourages collaboration, fairness, and innovation. Under the President's Executive Order 13583, of 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. Since the issuance of the Executive Order, the percentage of people with disabilities who are Federal employees has increased to 11.86 percent, an all-time government high. The percentage of Hispanic (8.2 percent) and Asian American/Pacific Islander (6.1 percent) employees is steadily increasing with all other groups remaining at the same levels, and the diversity of the SES has improved. Moreover, the FY 2012 EVS reflected that 65 percent of Federal employees answered positively when asked if their supervisor or team leader is committed to a workforce that represents all segments of society.

In addition to supporting a diverse and inclusive workforce, the Federal Government has also made progress towards pay equality. Pay differentials by gender, after accounting for education and occupation, tend to be about half as small in the Federal sector as in the private sector. Differentials by race are also smaller in the Federal sector than in the private sector.

Government-wide SES Appraisal Model

Drawing from leading practices in Federal agencies and the private sector, representatives from 29 organizations developed a Government-wide Senior Executive Service (SES) performance appraisal model in 2011. Under this system, agencies can rely upon a more consistent and uniform framework to communicate expectations and evaluate the performance of SES members.

Anchored to a set of clearly-defined competencies (OPM's Executive Core Qualifications) and balancing achievement of results with demonstration of leadership behaviors, this approach enhances clarity, transferability, and equity in performance standards development, feedback delivery, and ratings derivation. Since the introduction of the new SES appraisal model in January 2012, OPM approved implementation in 38 agencies (51% of all SES appraisal systems Government-wide). By FY14, it is anticipated to be 96%.

Strengthening Labor-Management Relations

The Administration continues to fulfill the robust vision laid out in Executive Order 13522, Creating Labor-Management Forums to Improve Delivery of Government Services. This Executive Order created a national Council, which meets regularly to coordinate Government-wide efforts, and nearly 1000 forums around government where agency management and union representatives work collaboratively to improve service delivery to the public.

In recent Council meetings representatives from both management and labor have presented on their successful efforts to improve productivity at naval shipyards, in VA appeals, and in Securities Exchange Commission (SEC) enforcement activities. For example, at the Nuclear Regulatory Commission (NRC), they are moving approximately 1400 workers and managers to a new building management involved workers and their unions in the design process. Important points for employees were included in the designs right from the start such as – access to natural light, noise levels, and workstation layouts. These are factors that deeply affect both productivity and morale. By engaging early, the NRC could approach business decisions with a problem-solving attitude.

In another case, there was enormous productivity increases at the Naval Sea Systems Command, NAVSEA. These are the employees who build, buy and maintain the Navy's ships and submarines and their combat systems. NAVSEA leadership asked their unions and workers, through their labor-management forum, to put forward ideas to save an hour of time out of each workday. Workers identified the most wasteful part of their day: waiting in line to get the tools and parts they needed for their projects. Management and labor devised with a solution – a kit, prepared in advance and handed to you on arrival. In the kit, workers receive the tools needed and the exact number of nuts, bolts, and parts for any project that day. With this and other changes, NAVSEA projects to save one hour per day for about 8,000 mechanics and engineers across four shipyards – which translates into enormous savings. It has also helped reduce overtime hours, further increasing cost savings. A next challenge in the labor management partnership is to spread these successes to other agencies and locations around government.

Goals-Engagement-Accountability-Results (GEAR)

Over the years, there have been numerous attempts to reform and improve employee performance management in the Federal sector, with the ultimate goal of improving the performance of the organizations in which the employees work. Drawing from practices in the Federal sector and private sector, representatives from various Federal agencies, labor unions, and management organizations from the National Council on Federal Labor-Management Relations and the CHCO Council developed recommendations to strengthen the existing system of employee performance management. These recommendations are known as the GEAR framework. They are based on the idea that successful organizations must have clear, aligned goals, engaged employees and supervisors, and accountability for every employee at every level.

Five agencies are currently implementing the GEAR framework: OPM, the Department of Energy, the Department of Housing and Urban Development, and components of the Department of Veterans Affairs and the U.S. Coast Guard. The CHCO Council is currently reviewing the progress of GEAR and lessons learned in these agencies and identifying other leading practices across the Federal sector and private sector with the goal of broader application of the GEAR framework across the Federal Government. The ultimate goal is to ensure that Federal employees are engaged and enabled to deliver and improve Government services.

Table 10–2. FEDERAL CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH

(Civilian employment as measured by full-time equivalents (FTE) in thousands, excluding the Postal Service)

Agency	Actual		Estimate		Change: 2013 to 2014	
	2011	2012	2013 CR	2014	FTE	Percent
Cabinet agencies:						
Agriculture	95.9	91.7	92.4	90.7	-1.7	-1.8%
Commerce	41.3	39.9	42.6	43.0	0.4	0.9%
Defense	771.3	765.2	777.2	765.0	-12.2	-1.6%
Education	4.4	4.3	4.2	4.3	0.1	2.4%
Energy	16.1	15.7	15.7	15.9	0.2	1.3%
Health and Human Services	68.8	69.3	71.3	72.6	1.3	1.8%
Homeland Security	179.5	184.0	190.1	191.0	0.9	0.5%
Housing and Urban Development	9.5	9.3	9.3	9.2	-0.1	-1.1%
Interior	70.5	70.0	69.7	69.8	0.1	0.1%
Justice	116.3	115.1	115.7	117.7	2.0	1.7%
Labor	16.9	17.2	17.4	17.5	0.1	0.6%
State	32.4	33.0	33.1	33.2	0.1	0.3%
Transportation	57.4	56.9	57.3	57.6	0.3	0.5%
Treasury	110.7	106.3	107.1	112.7	5.6	5.2%
Veterans Affairs	295.7	301.4	311.1	319.3	8.2	2.6%
Other agencies—excluding Postal Service:						
Broadcasting Board of Governors	1.9	1.9	1.9	2.0	0.1	5.3%
Corps of Engineers—Civil Works	23.7	23.1	22.7	22.7	0.0	0.0%
Environmental Protection Agency	17.3	17.0	17.0	16.9	-0.1	-0.6%
Equal Employment Opportunity Comm	2.5	2.3	2.2	2.3	0.1	4.5%
Federal Deposit Insurance Corporation	8.3	8.1	8.0	7.6	-0.4	-5.0%
General Services Administration	12.7	12.5	12.8	12.5	-0.3	-2.3%
International Assistance Programs	5.2	5.6	5.6	5.8	0.2	3.6%
National Aeronautics and Space Admin	18.6	18.1	18.2	17.9	-0.3	-1.6%
National Archives and Records Administration	3.3	3.2	3.2	3.2	0.0	0.0%
National Labor Relations Board	1.7	1.6	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	3.8	4.0	3.9	-0.1	-2.5%
Office of Personnel Management	5.4	5.3	5.5	5.7	0.2	3.6%
Railroad Retirement Board	1.0	0.9	0.9	0.9	0.0	0.0%
Securities and Exchange Commission	3.8	3.8	4.2	4.8	0.6	14.3%
Small Business Administration	3.4	3.4	3.4	3.5	0.1	2.9%
Smithsonian Institution	5.2	5.0	5.2	5.3	0.1	1.9%
Social Security Administration	67.6	64.7	65.1	65.3	0.2	0.3%
Tennessee Valley Authority	12.4	12.8	13.6	13.3	-0.3	-2.2%
All other small agencies	16.3	16.9	18.0	18.6	0.6	3.3%
Total, Executive Branch civilian employment *	**2,102.4**	**2,090.7**	**2,128.8**	**2,134.9**	**6.1**	**0.3%**

* Totals may not add due to rounding.

Table 10–3. TOTAL FEDERAL EMPLOYMENT
(As measured by Full-Time Equivalents)

Description	2012 Actual	2013 CR	2014 Request	Change: 2013 to 2014 FTE	Change: 2013 to 2014 Percent
Executive Branch Civilian:					
All Agencies, Except Postal Service	2,090,679	2,128,768	2,134,948	6,180	0.3%
Postal Service [1]	587,310	569,782	546,203	–23,579	–4.1%
Subtotal, Executive Branch Civilian	2,677,989	2,698,550	2,681,151	–17,399	–0.6%
Executive Branch Uniformed Military:					
Department of Defense [2]	1,501,807	[3] 1,466,664	[4] 1,330,944	–135,720	–9.3%
Department of Homeland Security (USCG)	43,027	43,017	42,029	–988	–2.3%
Commissioned Corps (DOC, EPA, HHS)	6,935	7,065	7,062	–3	–0.0%
Subtotal, Uniformed Military	1,551,769	1,516,746	1,380,035	–136,711	–9.0%
Subtotal, Executive Branch	4,229,758	4,215,296	4,061,186	–154,110	–3.7%
Legislative Branch [5]	30,634	34,260	34,402	142	0.4%
Judicial Branch	34,523	34,313	34,502	189	0.6%
Grand total	**4,294,915**	**4,283,869**	**4,130,090**	**–153,779**	**–3.6%**

[1] Includes Postal Rate Commission.
[2] Includes activated Guard and Reserve members on active duty. Does not include Full-Time Support (Active Guard & Reserve (AGRs)) paid from Reserve Component Appropriations.
[3] FY 2013 reflects the FY 2013 President's Budget request.
[4] FY 2014 excludes Overseas Contingency Operations (OCO) funded activated Guard and Reserve members on active duty and OCO funded non-enduring strength of 33,885 for Army and 9,787 for the Marine Corps.
[5] FTE data not available for the Senate (positions filled were used).

Table 10–4. PERSONNEL COMPENSATION AND BENEFITS
(In millions of dollars)

Description	2012 Actual	2013 CR	2014 Request	Change: 2013 to 2014	
				Dollars	Percent
Civilian Personnel Costs:					
Executive Branch (excluding Postal Service):					
Direct compensation	176,133	178,980	185,562	6,582	3.7%
Personnel Benefits	68,117	68,723	71,842	3,119	4.5%
Subtotal	244,250	247,703	257,404	9,701	3.9%
Postal Service:					
Direct compensation	36,398	35,059	34,141	–918	–2.6%
Personnel benefits	15,128	16,007	8,502	–7,505	–46.9%
Subtotal	51,526	51,066	42,643	–8,423	–16.5%
Legislative Branch: [1]					
Direct compensation	2,053	2,098	2,153	55	2.6%
Personnel benefits	670	654	667	13	2.0%
Subtotal	2,723	2,752	2,820	68	2.5%
Judicial Branch:					
Direct compensation	3,140	3,180	3,244	64	2.0%
Personnel benefits	1,071	1,147	1,169	22	1.9%
Subtotal	4,211	4,327	4,413	86	2.0%
Total, Civilian Personnel Costs	302,710	305,848	307,280	1,432	0.5%
Military personnel costs:					
Department of Defense					
Direct compensation	100,189	101,196	93,393	–7,803	–7.7%
Personnel benefits	51,505	52,113	45,350	–6,763	–13.0%
Subtotal	151,694	153,309	138,743	–14,566	–9.5%
All other executive branch, uniformed personnel:					
Direct compensation	3,234	3,235	3,181	–54	–1.7%
Personnel benefits	809	739	706	–33	–4.5%
Subtotal	4,043	3,974	3,887	–87	–2.2%
Total, Military Personnel Costs [2]	155,737	157,283	142,630	–14,653	–9.3%
Grand total, personnel costs	**458,447**	**463,131**	**449,910**	**–13,221**	**–2.9%**
ADDENDUM					
Former Civilian Personnel:					
Retired pay for former personnel	76,196	82,087	87,534	5,447	6.6%
Government payment for Annuitants:					
Employee health benefits	10,683	10,698	11,163	465	4.3%
Employee life insurance	47	46	45	–1	–2.2%
Former Military personnel:					
Retired pay for former personnel	52,495	53,851	55,572	1,721	3.2%
Military annuitants health benefits	8,736	9,283	9,499	216	2.3%

[1] Excludes members and officers of the Senate.
[2] Amounts in this table for military compensation reflect direct pay and benefits for all service members, including active duty, guard, and reserve members.

BUDGET CONCEPTS AND BUDGET PROCESS

11. 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 2014. (Fiscal year 2014 will begin on October 1, 2013, and end on September 30, 2014.) 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 2013, 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 2012, 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 and Interactions with the Budget," provides more information on this subject.)

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

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

Congressional Action[1]

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

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

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

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

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

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

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

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. Nongermane 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" below 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, as amended, 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.

Discretionary cap enforcement. The BBEDCA, as amended, specifies spending limits ("caps") on discretionary budget authority for 2012 through 2021. The caps were divided between security and nonsecurity categories for 2012 and 2013, with a single cap for all discretionary spending established for 2014 through 2021. 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 2013 through 2021, the failure of the Joint Select Committee on Deficit Reduction to propose, and Congress to enact, a bill that reduced the deficit by at least $1.2 trillion resulted in revised security and nonsecurity categories. The "revised security category" (or defense category) includes discretionary budget authority in the defense budget function 050, which primarily consists of the Department of Defense. The "revised nonsecurity category" (or non-defense category) includes all discretionary budget authority not included in the defense budget function 050. Passage of ATRA in January of 2013 restored the caps for fiscal year 2013 to the security and nonsecurity split, and reduced the levels previously provided in law by $4 billion in 2013 (split equally between the security and nonsecurity categories) and $8 billion in 2014 (split equally between the revised security and nonsecurity, or defense and nondefense categories).

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, 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, as amended, requires OMB to provide cost estimates of each appropriations act in a report to Congress 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. 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 sequestration report for a given fiscal year indicates that the amount of discretionary budget authority provided in appropriations acts for that 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.

Direct spending enforcement. 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.

Within 14 business days after a congressional session ends, OMB issues an annual PAYGO report and determines whether a violation of the PAYGO requirement has occurred. If either scorecard shows net costs in the budget year column, 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 appeared 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 passed, current law provides for any further extensions to be subject to the PAYGO rules.

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

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

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

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

The House, in contrast, imposes points of order on legislation increasing mandatory spending in net, whether or not those costs are offset by revenue increases, but the House rule does not constrain the size of tax cuts or require them to be offset. On January 3, 2013, 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.

Joint Committee reductions. The failure of the Joint Select Committee on Deficit Reduction to propose, and the Congress to enact, legislation to reduce the deficit by at least $1.2 trillion triggered automatic reductions to budgetary resources in fiscal years 2013 through 2021. In fiscal year 2013, these reductions were first scheduled to occur on January 2, 2013. The American Taxpayer Relief Act of 2012 postponed the date on which the reductions must be ordered until March 1, 2013. On that date, the President was required by law to issue the order to reduce budgetary resources for fiscal year 2013 as specified in the BBEDCA.[2]

The 2014 Budget includes balanced and responsible deficit reduction proposals that, in total, exceed the $1.2 trillion deficit reduction target. The President will work with the Congress to enact deficit reduction sufficient to replace and repeal the Joint Committee reductions required by the BCA in fiscal years 2013 through 2021.

OMB is required to calculate the amount of the deficit reduction required for each of fiscal years 2013 through 2021. 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, as outlined in the discretionary cap enforcement section above.[3]
- 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. Then, for fiscal year 2013, that amount was reduced by $24 billion.
- The total amount of spending reductions 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. The sequestration order for fiscal year 2013 was released on March 1, 2013, as described above. The sequestration order for each of the fiscal years 2014 through 2021 is required to be issued with the release of the President's Budget. The reductions required for 2014 are discussed in the OMB Sequestration Preview Report for FY 2014, which is available on the OMB website. The sequestration of budgetary resources goes into effect on the first day (October 1) of those fiscal years.

The reduction for discretionary programs for 2013, achieved by a sequestration of non-exempt discretionary spending, became effective March 1, 2013, as described above. For fiscal years 2014 through 2021, the reduction

[2] OMB's calculations of the percentage and dollar amount of the required reduction for each non-exempt budget account and an explanation of the calculations can be found in the OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013.

[3] Although the 2013 caps reflect the original security and nonsecurity categories for discretionary enforcement, the 2013 sequestration was calculated using, and applied to, the defense and non-defense categories pursuant to the American Taxpayer Relief Act.

of discretionary spending is to be taken by reducing the discretionary cap year by year. This reduction will be included as an adjustment to the discretionary spending limits in the sequestration preview report for fiscal year 2014 and subsequent years.

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. 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 Affordable Housing Program funds, 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 Federal Financial Institutions Examination Council, Electric Reliability Organizations (EROs) established pursuant to the Energy Policy Act of 2005, and the Corporation for Travel Promotion.

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 in-

Table 11–1. TOTALS FOR THE BUDGET AND THE FEDERAL GOVERNMENT

(In billions of dollars)

	2012 Actual	Estimate	
		2013	2014
Budget authority			
Unified	3,576	3,767	3,796
On-budget	3,065	3,122	3,072
Off-budget	512	645	724
Receipts:			
Unified	2,450	2,712	3,034
On-budget	1,881	2,039	2,294
Off-budget	570	673	739
Outlays:			
Unified	3,537	3,685	3,778
On-budget	3,030	3,045	3,063
Off-budget	508	640	715
Surplus / Deficit (–):			
Unified	–1,087	–973	–744
On-budget	–1,149	–1,006	–768
Off-budget	62	33	24

cluded 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 12 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—are also further divided into subfunctions but these functions are included to 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 450 for Community and Regional Development, 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 online at *www.whitehouse.gov/omb/budget/Analytical_Perspectives* and on the Budget CD-ROM.
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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 online at *www.whitehouse.gov/omb/budget/Analytical_Perspectives* and on the Budget CD-ROM. 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 27 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 20 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 11–1, "Totals for the Budget and the Federal Government," which appears earlier in this chapter.) Chapter 14 of this volume, "Governmental Receipts," provides more information on governmental 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. These amounts 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.
- ***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.
- ***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 and should conceptually be treated like Federal revenues and compared in total to outlays (e.g., tax receipts, regulatory fees, compulsory user charges, custom duties, license fees) but required by law or longstanding practice 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." 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 15, "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 is also 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 2013 appropriations act extends the availability of unobligated budget authority that expired at the end of 2012, new budget authority would be recorded for 2013. This scorekeeping is used because a reappropriation has exactly the same effect as allowing the earlier appropriation to expire at the end of 2012 and enacting a new appropriation for 2013.

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).

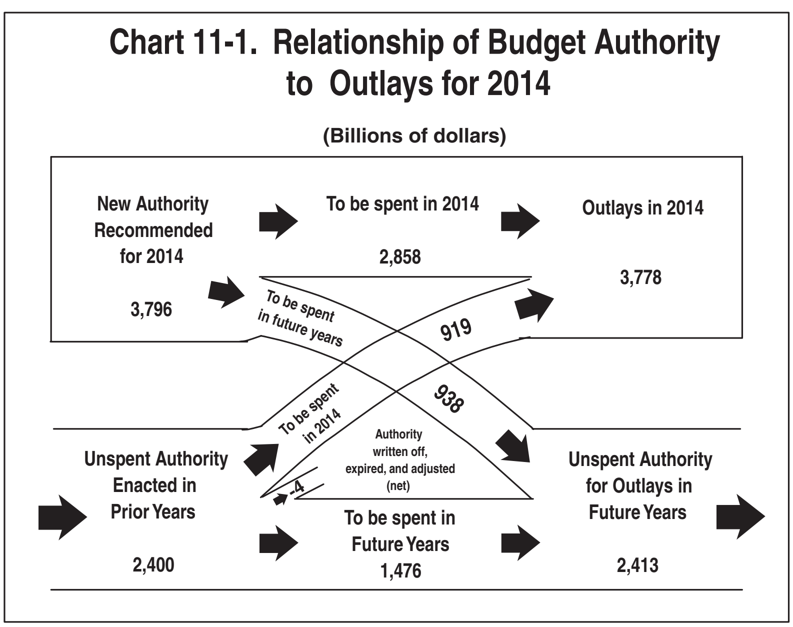
The budget records refunds of receipts that result from overpayments by the public (such as income taxes withheld in excess of tax liabilities) as reductions of receipts, rather than as outlays. However, the budget records payments to taxpayers for refundable tax credits (such as earned income tax credits) 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 2014 will be obligated or spent in 2014. 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, $2,858 billion of outlays in 2014 (76 percent of the outlay total) will be made from that year's $3,796 billion total of proposed new budget authority (a first-year spendout rate of 75 percent). Thus, the remaining $919 billion of outlays in 2014 (24 percent of the outlay total) will be made from budget authority enacted in previous years. At the same time, $938 billion of the new budget authority proposed for 2014 (25 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 2012 ($1,285 billion) are discretionary and the remaining 64 percent ($2,252 billion in 2012) are mandatory spending and net interest. Such a large portion of total spending is mandatory because authorizing rather than appropriations legislation determines net interest ($220 billion in 2012) and the spending for a few programs with large amounts of spending each year, such as Social Security ($768 billion in 2012) and Medicare ($466 billion in 2012).

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 provide assistance through 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 and includes economically equivalent transactions, such as the sale of Federal assets on credit terms. 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. FCRA treatment allows the comparison of direct loans and loan guarantees to each other, and to other methods of delivering assistance, 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 and from the public over the term of the loan, discounted using appropriate Treasury interest rates.[4] (Some advocate for fair value treatment of loans and guarantees, which would discount cash flows using market rates. See Chapter 22 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 subsidy 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 negative subsidy 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 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 guar-

[4] 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.

antees 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 under FCRA treatment for direct loan obligations and loan guarantee commitments made in 1992 or later.

Under the authority provided in various acts, certain activities that do not meet the definition in FCRA of a direct loan or loan guarantee 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 FCRA discount rate for market risks. 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. In addition, the 2009 increases to the International Monetary Fund (IMF) quota and New Arrangements to Borrow enacted in the Supplemental Appropriations Act of 2009 are treated on a FCRA basis, with a risk adjustment to the discount rate, as directed in that Act. However, the Administration proposes to restate these IMF increases on a consistent basis with other IMF activity. For more information, see the discussion on United States Subscriptions to the IMF in the next section.

BUDGET DEFICIT OR SURPLUS AND MEANS OF FINANCING

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

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

Borrowing and Debt Repayment

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

In 2012, the Government borrowed $1,153 billion from the public, bringing debt held by the public to $11,281 billion. This borrowing financed the $1,087 billion deficit in that year as well as the net cash requirements 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 5 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 receipts, it does not involve a transfer of financial assets from the public. Instead, it arises from the exercise of the Government's power to create money and the public's desire to hold financial assets in the form of coins. Therefore, the budget excludes seigniorage from receipts and treats it as a means of financing other than borrowing from the public. The budget also treats 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 amounts held in 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 2014 Budget baseline reflects obligations and outlays for the quota and NAB increases 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. Under the Administration proposal to implement IMF reforms agreed to by the G-20 in 2010, increases to the quota and the NAB provided in the 2009 Supplemental Appropriations Act would be restated to reflect the pre-2009 agreement with Congress on budgetary treatment, and consolidated into existing quota and NAB accounts. The Budget assumes enactment of this proposal in 2013.

Investments of the National Railroad Retirement Investment Trust

Under longstanding rules, the budget has generally treated investments in non-Federal equities and debt securities as a purchase of an asset, recording an obligation and an outlay in an amount equal to the purchase price in the year of the purchase. Since investments in non-Federal 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 (NRRIT) to be treated as a means of financing in the budget, rather than as an outlay.

Earnings on investments by the 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 10 of this volume, "Improving the Federal Workforce," provides employment levels measured in full-time equivalents (FTE). Agency FTEs are the measure of total hours worked by an agency's Federal employees divided by the total number of one person's compensable work hours in a fiscal year.

BASIS FOR BUDGET FIGURES

Data for the Past Year

The past year column (2012) 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 29 of this volume, "Comparison of Actual to Estimated Totals," for a summary of these differences).

Data for the Current Year

The current year column (2013) includes estimates of transactions and balances based on the amounts of budgetary resources that were available when the budget was prepared. 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 (2014) 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 (2015 through 2023) 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 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 consistent with 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.

A number of significant changes in policies are embedded in the baseline rules specified in the BBEDCA, as amended. For example, certain provisions relating to the child tax credit, earned income tax credit, and American opportunity tax credit that were originally enacted in the American Recovery and Reinvestment Act (ARRA) of 2009 and recently extended for five years are scheduled under current law to expire at the end of 2017. As another example, the BBEDCA baseline rules for discretionary programs would inflate discretionary spending for future years above the statutory caps that limit such spending. Because the expiration of the ARRA tax credit provisions and the inflation of discretionary spending above the statutory 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 26 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. The Statutory Pay-As-You-Go Act of 2010, which is a standalone piece of legislation that did not directly amend the BBEDCA, reinstated a statutory pay-as-you-go rule for revenues and mandatory spending legislation, and the Budget Control Act of 2011, which did amend BBEDCA, reinstated discretionary caps on budget authority.

Budget Control Act of 2011 refers to legislation that, among other things, amended BBEDCA to reinstate discretionary spending limits on budget authority through 2021 and restored the process for enforcing those spending limits. The legislation also increased the statutory debt ceiling; 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. It also provided a process to implement alternative spending reductions in the event that legislation achieving at least $1.2 trillion of deficit reduction was not enacted.

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, a designation of the increase or decrease by the Congress, (and in some circumstances, 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 consultation with the Congressional Appropriations and Budget Committees.

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

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

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

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

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

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

Current services estimate—see Baseline.

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

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

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

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

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

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

Direct spending—see mandatory spending.

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

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

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

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

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

Financing account means a non-budgetary account (an account whose transactions are excluded from the budget totals) that records all of the cash flows resulting from post-1991 direct loan obligations or loan guarantee commitments. At least one financing account is associated with each credit program account. For programs that make both direct loans and loan guarantees, there are separate financing accounts for the direct loans and the loan guarantees. (Cf. liquidating account.)

Fiscal year means the Government's accounting period. It begins on October 1st and ends on September 30th, and is designated by the calendar year in which it ends.

Forward funding means appropriations of budget authority that are made for obligation starting in the last quarter of the fiscal year for the financing of ongoing grant programs during the next fiscal year.

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

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

Intragovernmental fund —see Revolving fund.

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

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

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

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

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

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

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

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

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

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

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

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

Overseas Contingency Operations/Global War on Terrorism (OCO/GWOT) means an appropriation for a discretionary account that is enacted that the Congress and, subsequently, the President have so designated on an account by account basis. Such a discretionary appropriation that is designated as OCO/GWOT results in a cap adjustment to the limits on discretionary spending under the BBEDCA, as amended. Funding for these purposes has 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 cancellations if discretionary appropriations exceed the statutory limits on discretionary spending.

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

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

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

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

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

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

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

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

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

Unobligated balance means the cumulative amount of budget authority within a budget account that is not obligated and that remains available for obligation under law.

User charges are charges assessed for the provision of Government services and for the sale or use of Government goods or resources. The payers of the user charge must be limited in the authorizing legislation to those receiving special benefits from, or subject to regulation by, the program or activity beyond the benefits received by the general public or broad segments of the public (such as those who pay income taxes or custom duties).

12. 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 and measurable 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 and measurable allocation of resources, or are a means of financing activities whose costs are already reflected in the budget, are characterized as "non-budgetary" and classified outside of the budget. For example, the budget does not include the transactions of 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, the budget does not include the cash flows that are a means of financing Federal credit programs because the cost of credit programs is already reflected in the subsidy cost, which captures the present value of these cash flows.[1] 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" is sometimes used colloquially to mean non-budgetary. However, as used in the Budget documents the term has a meaning distinct from non-budgetary and, as discussed below, refers to Federal Government activities that are budgetary but are required by law to be excluded from the budget totals.

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 ("1967 Commission"). The 1967 Commission called for the budget to include the financial transactions of all of the Federal Government's programs and agencies. For this reason, the budget includes the financial transactions of all 15 Executive departments, all independent agencies (from all three branches of Government), and all Government corporations.[2] Government corporations are distinct from Government-Sponsored Enterprises (GSEs), which, as discussed below, are private entities and classified as non-budgetary.

All accounts in Table 33-1, "Federal Programs by Agency and Account," in the supplemental materials to this volume are budgetary.[3] The vast majority of budgetary accounts are associated with the departments or other entities that are clearly Federal agencies. Some budgetary accounts reflect Government payments to entities that were created by the Government as private or non-Federal entities and some of these entities receive all or a majority of their funding from the Government. These include the Corporation for Public Broadcasting, Gallaudet University, Howard University, the Legal Services Corporation, the National Railroad Passenger Corporation (Amtrak), the Smithsonian Institution, the State Justice Institute, and the United States Institute of 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 1967 Commission 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 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.

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

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

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

Table 12–1. COMPARISON OF TOTAL, ON-BUDGET, AND OFF-BUDGET TRANSACTIONS [1]
(In billions of dollars)

Fiscal Year	Receipts			Outlays			Surplus or deficit (–)		
	Total	On-budget	Off-budget	Total	On-budget	Off-budget	Total	On-budget	Off-budget
1975	279.1	216.6	62.5	332.3	270.8	61.6	–53.2	–54.1	0.9
1980	517.1	403.9	113.2	590.9	477.0	113.9	–73.8	–73.1	–0.7
1985	734.0	547.9	186.2	946.3	769.4	176.9	–212.3	–221.5	9.2
1990	1,032.0	750.3	281.7	1,253.0	1,027.9	225.1	–221.0	–277.6	56.6
1995	1,351.8	1,000.7	351.1	1,515.7	1,227.1	288.7	–164.0	–226.4	62.4
2000	2,025.2	1,544.6	480.6	1,789.0	1,458.2	330.8	236.2	86.4	149.8
2005	2,153.6	1,576.1	577.5	2,472.0	2,069.7	402.2	–318.3	–493.6	175.3
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	–2,450.2	–1,880.7	–569.5	3,537.1	3,029.5	507.6	–1,087.0	–1,148.9	61.9
2013 estimate	–2,712.0	–2,038.6	–673.5	3,684.9	3,044.9	640.0	–972.9	–1,006.4	33.5
2014 estimate	–3,033.6	–2,294.5	–739.1	3,777.8	3,062.7	715.1	–744.2	–768.2	24.0
2015 estimate	–3,331.7	–2,553.4	–778.3	3,908.2	3,137.0	771.1	–576.5	–583.6	7.1
2016 estimate	–3,561.5	–2,735.9	–825.6	4,089.8	3,260.4	829.4	–528.4	–524.5	–3.9
2017 estimate	–3,760.5	–2,891.8	–868.7	4,247.4	3,370.2	877.3	–486.9	–478.3	–8.6
2018 estimate	–3,974.0	–3,056.5	–917.5	4,449.2	3,516.2	933.1	–475.3	–459.6	–15.6
2019 estimate	–4,225.9	–3,260.8	–965.0	4,724.0	3,734.9	989.1	–498.1	–474.0	–24.1
2020 estimate	–4,463.8	–3,456.3	–1,007.5	4,966.9	3,915.1	1,051.8	–503.1	–458.8	–44.3
2021 estimate.	–4,708.6	–3,645.4	–1,063.2	5,209.4	4,096.4	1,113.0	–500.8	–451.0	–49.8
2022 estimate	–4,951.2	–3,837.2	–1,113.9	5,469.9	4,286.9	1,183.0	–518.7	–449.7	–69.0
2023 estimate	–5,220.4	–4,059.3	–1,161.0	5,659.5	4,404.2	1,255.3	–439.1	–344.8	–94.3

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

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 according to Federal legal requirements, but their costs are excluded, by law, from the rest of the budget totals, which are also known as the "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.[4] 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 12–1 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 2014, off-budget receipts are an estimated 24.4 percent of total receipts and off-budget outlays are a smaller, but still significant, percentage of total outlays at 18.9 percent. The estimated unified budget deficit in 2014 is $744.2 billion—a $768.2 billion on-budget deficit partly offset by a $24.0 billion off-budget surplus. The off-budget surplus for 2013, 2014, and 2015 consists almost entirely of the Social Security

[4] 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.

surplus.[5] 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. Over the long term, without further legislative action, the trust funds will be depleted in 2033, according to the 2012 Social Security trustees' report.

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.[6] 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), as amended by the Balanced Budget Act of 1997, 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 lifetime cost to the Government of a loan or a loan guarantee on a net present value basis, excluding the Government's administrative costs. Credit program cash flows to and from the public other than administrative costs are recorded in non-budgetary financing accounts.[7]

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 some Government losses. If the payments of principal and interest on the portfolio 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). Under FCRA, the subsidy cost is the difference in present value between the amount disbursed by the Government and the estimated value of the payments 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 budgetary cost to the Government.

Since FCRA took effect in 1992, the budget outlays for credit programs have reflected only the subsidy costs to Government of providing credit assistance, and are reflected up front when the credit assistance was or is expected to be provided. This allows the budget to reflect more accurately the cost of credit assistance[8] and enables the budget to fulfill its purpose of serving as a financial plan for allocating resources by allowing comparisons of the expected cost of credit programs with the cost of other spending programs, and allowing comparisons of the cost of one type of credit assistance with other types.[9] Credit programs are discussed in more detail in Chapter 22 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

[5] The 2013 off-budget surplus reflects a $33.1 billion surplus for Social Security and a $0.4 billion surplus for the Postal Service. The estimated 2014 off-budget surplus reflects a $19.2 billion surplus for Social Security and a $4.8 billion surplus for the Postal Service, and the projected 2015 off-budget surplus reflects a $7.4 billion surplus for Social Security and a $0.3 billion deficit for the Postal Service.

[6] Tax expenditures, which are discussed in Chapter 16 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.

[7] Under FCRA, there are additional intragovernmental transfers between budgetary accounts and non-budgetary financing accounts where one side of the transaction is treated as budgetary. These include "reestimates," annual updates of the subsidy cost of outstanding direct and guaranteed loans, as well as intragovernmental interest transactions with Treasury.

[8] Both FCRA 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. FCRA 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. Some have proposed amending credit reform to reflect the "fair value" estimate of cost. For more on this, please see Chapter 22 of this volume, "Credit and Insurance."

[9] For more explanation of the budget concepts for direct loans and loan guarantees, see the sections on Federal credit and credit financing accounts in Chapter 11 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 FCRA 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.

Investment Board, as an agent, for Federal employees who participate in the Government's defined contribution retirement plan, the Thrift Savings Plan (which is similar to private-sector 401(k) plans). Because the G-Fund assets, which are held by the Department of the Treasury, are the property of Federal employees and are held by the Government only in a fiduciary capacity, the transactions of the Fund are not resource allocations by the Government and are therefore non-budgetary.[10] For similar reasons, the budget excludes funds that are owned by Native American Indians but held and managed by the Government in a fiduciary capacity.

Government-Sponsored Enterprises (GSEs).—The Federal Government has chartered 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 22 of this volume, "Credit and Insurance."

In September 2008, in response to the financial market crisis, the director of the Federal Housing Finance Agency (FHFA)[11] placed Fannie Mae and Freddie Mac into conservatorship for the purpose of preserving the assets and restoring the solvency of these two GSEs. As conservator, FHFA has broad authority to direct the operations of these GSEs. However, these GSEs remain private companies with Boards of Directors and management responsible for their day-to-day operations. This Budget continues to treat these two GSEs as non-budgetary private entities in conservatorship rather than as Government agencies. By contrast, 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 Treasury to the GSEs are recorded as budgetary outlays and dividends received by the Treasury are recorded as budgetary receipts. 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 approaches, however, reflect the losses as budgetary costs at different times.

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

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

Non-appropriated fund instrumentalities (NAFIs) are entities that support an agency's personnel (current and retired). Virtually all NAFIs are associated with

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

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

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

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

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 are financed by the proceeds from the sale of goods or services and do not receive direct appropriations. As a result, they have been characterized as non-budgetary and any agency payments to the NAFIs are recorded as budget outlays.

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

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 workplace 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.[15]

The estimated costs and benefits of Federal regulation have been published annually by OMB since 1997. In this report, OMB indicates that the estimated annual benefits of Federal regulations it reviewed from October 1, 2001, to September 30, 2011, range from $141 billion to $692 billion, while the estimated annual costs range from $42 to $66 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."[16] 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.[17]

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 Commission, 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 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 Treasury any excess income. This income, which is classified in the budget as a governmental receipt, was equal to $82.0 billion in 2012. 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 Treasury. In addition to remitting excess income to 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 (CFPB), an independent bureau of the Federal Reserve, which was created by the Act.[18]

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

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

[15] 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 on December 21, 2012. Both the Regulatory Plan and Unified Agenda are available on-line at *www.reginfo.gov* and at *www.gpoaccess.gov*.

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

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

[18] See section 1011 of Public Law 111-203, enacted on July 21, 2010. The CFPB is an executive agency, led by a director appointed by the President and reliant on Federal funding, that serves the governmental function of regulating Federal consumer financial laws. Accordingly, it is included in the Budget.

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 and Interactions with the Budget."

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[19] 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 2014 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 Treasury to the GSEs, are included in the 2014 Budget.

Executive Branch activities in support of financial market stabilization include actions taken by Treasury, the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the FHFA. Treasury activities included 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 7(a) Securities Purchase Program. In addition, Treasury activities include three housing programs—the Making Home Affordable Program, the Hardest Hit Fund, and the FHA Short-Refinance Program. Treasury activities also include the Capital Purchase Program, 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.[20] Actions by the FDIC include the Temporary Liquidity Guarantee Program and actions by the NCUA include the Temporary Corporate Credit Union Liquidity Guarantee Program. Actions by the FHFA include the placement of the GSEs into conservatorship in 2008 and the subsequent and ongoing management of the GSEs. Chapter 3 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 Treasury, the FDIC, and the NCUA are budgetary. The total budget impact of all of the credit market stabilization efforts undertaken by 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 2014 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 2014 Budget.

[19] 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 Treasury.

[20] 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.

13. BUDGET PROCESS

Since taking office, the Administration has sought 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 the 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 description of three broad categories of budget reform. First, the chapter discusses proposals to improve budgeting and fiscal sustainability with respect to individual programs as well as across Government. These proposals include: legislation that provides for more than $1.2 trillion in savings (the target for the Joint Select Committee on Deficit Reduction), repeals the Joint Committee reductions, and restores amounts that were reduced by the 2013 order; various initiatives to reduce improper payments; funding requested for disaster relief; reforms to reduce the Federal Government's real property inventory; limits on advance appropriations; structural reforms for surface transportation programs; maximum Pell Grant award funding; Postal Service reforms; changes to the budgetary treatment of the International Monetary Fund quota; and fast-track procedures for the Congress to consider certain rescission requests. Second, the chapter describes the system 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, 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.[1]

[1] This chapter typically contains a report which fulfills the requirement under section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended, for OMB to issue a sequestration preview report for each fiscal year. The OMB Sequestration Preview Report for FY 2014 will be made available on the OMB website.

I. BUDGET REFORM PROPOSALS

Joint Committee Enforcement

In August 2011, as part of the Budget Control Act (BCA), bipartisan majorities in both the House and Senate voted for automatic reductions as a mechanism to compel the Congress to enact legislation to reduce the Federal deficit by at least $1.2 trillion over the period of fiscal years 2012 through 2021. On multiple occasions, the President has presented comprehensive plans to cut the deficit through a mix of spending cuts and revenue proposals. However, despite repeated urging by the President to enact balanced deficit reduction legislation to achieve the full savings and cancel sequestration, during the ensuing year and a half the Congress has enacted just $24 billion of savings toward this goal. The Congress's failure to achieve the full savings resulted in a sequestration of $85 billion for fiscal year 2013 beginning on March 1, 2013. Damaging annual reductions of $109 billion will be required for each of fiscal years 2014 through 2021, unless the Congress enacts balanced deficit reduction legislation that replaces and repeals the Joint Committee reductions. As required by the BCA, the reductions for each year, beginning in fiscal year 2014, are triggered by the transmittal of the President's Budget. The reductions to discretionary spending for fiscal years 2014 through 2021 are to be implemented by reducing the discretionary caps established in the BCA, while the reductions to mandatory programs are to be implemented by a sequestration of non-exempt mandatory budgetary resources. The reductions required for 2014 are discussed in the OMB Sequestration Preview Report for FY 2014, which will be made available on the OMB website.

The President has warned repeatedly that these reductions will be harmful to national security, domestic investments, and core Government functions. He has been clear that he is willing to make tough choices to reach an agreement on further deficit reduction. The 2014 Budget includes balanced and responsible deficit reduction proposals that, in total, exceed the $1.2 trillion deficit reduction target. The President will work with the Congress to enact deficit reduction sufficient to replace and repeal the Joint Committee reductions required by the BCA in fiscal years 2013 through 2021.

Program Integrity Funding

Critical programs such as Social Security, Medicare, and Medicaid, should be run efficiently and effectively. Still, the Government made an estimated $108 billion in improper payments last year. 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. Therefore, the Administration, 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 order to reduce improper payments and improve 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.

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 the Congress to further improve agency efforts.

Administrative Funding for Program Integrity.—There is compelling 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 on Health Care Fraud and Abuse Control (HCFAC) program integrity efforts, CMS actuaries conservatively estimate approximately $1.50 is saved or averted, and the Internal Revenue Service (IRS) enforcement activities recoup roughly $4 for every $1 spent.

Enacted Adjustments Pursuant to BBEDCA Converted to Mandatory Funding.—BBEDCA, as amended, recognized that a multi-year strategy of agencies focusing attention and resources on reducing the rate 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, BBEDCA, as amended, provided 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 in the Medicare and Medicaid programs. These adjustments are increases in the discretionary caps on budget authority through 2021 and are made only if appropriations bills increase funding for the specified program integrity purposes above specified base levels. This budget mechanism was intended to ensure that the additional funding did not supplant other Federal spending on these activities and that such spending was not diverted to other purposes.

Despite enactment of these multi-year discretionary cap adjustments, annual appropriations bills have not provided the full amount of program integrity funding authorized in BBEDCA, as amended. Tens of billions of dollars in deficit savings over the next ten years from curtailing improper payments will not be realized if the administrative expenses for program integrity envisioned by BBEDCA, as amended, are not provided in each year. To ensure these important program integrity investments are made, the Budget is proposing to repeal the discretionary cap adjustments beginning in 2014 for SSA and 2013 for HCFAC and instead provide a dedicated, dependable source of mandatory funding that will ensure SSA, the Department of Health and Human Services (HHS) and the Department of Justice (DOJ) have the resources that they need to conduct necessary program integrity activities and make certain that the right people receive the right payment for the right reason at the right time. Providing mandatory funding to SSA and HCFAC will also avoid delays in annual appropriations that make it difficult for the agencies to execute their budget plans and achieve targeted results in each year.

For 2014, the Budget proposes to continue to provide the base funding ($273 million for SSA and $311 million for HHS, and DOJ, respectively) through discretionary appropriations. After 2014, no discretionary funding is being proposed for this purpose. In addition, the Budget proposes an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA, as amended, beginning in 2015 to offset the cost of shifting the base funding from discretionary to mandatory. The more stable mandatory program integrity funding will produce new net deficit savings of almost $40.1 billion over 11 years.

Social Security Administration Continuing Disability Reviews and Redeterminations of Eligibility.—For the Social Security Administration, the Budget's proposed $1,227 million in mandatory funding and $273 million in discretionary base funding 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. CDRs determine whether an individual continues to qualify for Disability Insurance (DI) or SSI. The mandatory funding provided for the SSA will enable the agency to work down a backlog of CDRs. As a result of increased mandatory funding in 2013 through 2023, SSA would recoup more than $51.4 billion in gross savings in the DI and SSI programs, with additional savings after the 11-year period, according to estimates of SSA's Office of the Actuary. Taking into account the $13.7 billion cost of the increased mandatory funding, this would produce new net deficit savings of $37.7 billion. These costs and savings are reflected in Table 13-1. The cost of shifting the current SSA base funding of $273 million from discretionary to mandatory in 2015 through 2023 is not reflected in the new net deficit savings because, as noted above, it is being offset with an annual reduction to the discretionary

Table 13–1. PROPOSAL TO SHIFT TO MANDATORY FUNDING FOR ENACTED CAP ADJUSTMENTS, INCLUDING MANDATORY SAVINGS
(Outlays in millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2013–2023 Total
SSA Program Integrity												
Mandatory Costs[1]	266	1,227	1,477	1,527	1,437	1,352	1,270	1,270	1,270	1,270	1,347	13,713
Mandatory Savings[2]	–76	–559	–2,437	–3,809	–4,417	–4,824	–5,760	–6,466	–7,040	–7,890	–8,124	–51,402
Net Savings	190	668	–960	–2,282	–2,980	–3,472	–4,490	–5,196	–5,770	–6,620	–6,777	–37,689
Health Care Fraud and Abuse Control Program												
Mandatory Costs[1]	303	329	361	395	414	434	454	475	496	518	541	4,720
Mandatory Savings[3]	–450	–496	–546	–599	–628	–659	–690	–722	–755	–789	–824	–7,158
Net Savings.	–147	–167	–185	–204	–214	–225	–236	–247	–259	–271	–283	–2,438

[1] The cost of shifting the current SSA and HCFAC base funding ($273 million and $311 million, respectively) from discretionary to mandatory is not reflected above in 2015 through 2023 because it is being offset with an annual reduction to the discretionary spending limits in section 251(c) of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended.For 2013, for both SSA and HCFAC, the base amounts were enacted in the annual appropriations bill and, for SSA, an additional $485 million was provided as a discretionary cap adjustment pursuant to section 251(b)(2)(B) of BBEDCA, as amended.For 2014, the Budget continues to request the SSA and HCFAC base funding through discretionary appropriations. The mandatory savings from the base funding in every year and any enacted discretionary cap adjustment funding continues to be included in the BBEDCA baseline.

[2] This is based on SSA's Office of the Actuary estimates of savings. In the first two years, there is no net savings.This is due to the fact that redeterminations of eligibility can uncover underpayment errors as well as overpayment errors and corrections for underpayments are realized more quickly than corrections for overpayments.

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

spending limits in section 251(c) of BBEDCA, as amended if the mandatory funding proposal is enacted.

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. For 2013, the base amounts, as well as an additional $485 million discretionary cap adjustment pursuant to section 251(b)(2)(B) of BBEDCA, as amended, were enacted in the annual appropriations bill. The mandatory savings from the base funding in every year and any enacted discretionary cap adjustment funding in 2013 are included in the BBEDCA baseline because the baseline assumes the likely frequency of program integrity activities, given the current likely funding levels. The Budget shows the savings that would result from the increase in CDRs and redeterminations made possible by the increased mandatory funding. Although final appropriations action was not yet complete at the time the Budget went to print, the 2013 appropriations bill had not fully funded the cap adjustment for 2013 for CDRs and redeterminations; therefore, the Administration is proposing to increase mandatory funding for this purpose by $266 million in 2013. This funding will realize net savings of $1,941 million, included in the new net deficit savings above, when compared to the current enacted amount for 2013.

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 5 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 increased mandatory funding. 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 last year due to an interaction with a provision in the Affordable Care Act (ACA) that allows States to expand 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.

Health Care Fraud and Abuse Program.—The proposed additional mandatory funding of $329 million (in addition to the discretionary base funding of $311 million) for HCFAC activities in 2014 is designed to reduce the Medicare improper payment rate, support the Health Care Fraud Prevention & Enforcement Action Team (HEAT) initiative, and to reduce Medicaid improper payment rates. The increased mandatory funding will also allow the Centers for Medicare & 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, and DOJ. Over 2013 through 2023, as reflected in Table 13-1, this $4,720 million increase in net HCFAC

Table 13–2. PROPROSALS FOR DISCRETIONARY PROGRAM INTEGRITY BASE FUNDING AND CAP ADJUSTMENTS, INCLUDING MANDATORY AND RECEIPTS SAVINGS

(Budget authority in millions of dollars)

	2014 Proposed	2015 Proposed	2016 Proposed	2017 Proposed	2018 Proposed	2019 Proposed	2020 Proposed	2021 Proposed	2022 Proposed	2023 Proposed	2014-2023 Total
IRS TAX ENFORCEMENT											
Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:											
Enforcement Base.	9,832	10,179	10,592	11,052	11,526	11,995	12,459	12,926	13,384	13,859	
Cap Adjustments:											
BA	412	738	1,030	1,341	1,662	1,639	1,650	1,712	1,773	1,836	13,793
Outlays	387	718	1,012	1,322	1,643	1,640	1,649	1,708	1,769	1,832	13,683
Receipt Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:[1]											
Enforcement Base[2]	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-550,000
Cap Adjustment[3]	-458	-1,252	-2,503	-3,766	-5,052	-5,955	-6,525	-6,816	-7,017	-7,158	-46,502
UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS											
Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:											
Enforcement Base	60	60	60	60	60	60	60	60	60	60	
Cap Adjustments:											
BA	20	25	30	35	36	37	38	39	40	41	341
Outlays	20	25	30	35	36	37	38	39	40	41	341
Mandatory Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:[4]											
Enforcement Base	-125	-250	-252	-256	-258	-262	-266	-268	-271	-271	-2,479
Cap Adjustment.	-33	-77	-100	-123	-137	-143	-148	-154	-161	-164	-1,240

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

[2] No official estimate for 2014 enforcement revenue has been produced, so this figure is an approximation and included only for illustrative purposes.

[3] 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 $46.5 billion in savings over ten years. Aside from direct enforcement revenue, the deterrence impact of these activities suggests the potential for even greater savings.

[4] 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, many States will be able to reduce their unemployment taxes. The estimated revenue loss from the enforcement base is $604 million, net of the income tax offset. The estimated revenue increase from the cap adjustment is $570 million, net of the offset.

mandatory funding will generate approximately $7,158 million in savings to Medicare and Medicaid, for new net deficit reduction of $2,438 million over the 11-year period, reflecting prevention and recoupment of improper payments made to providers, as well as recoveries related to civil and criminal penalties. The cost of shifting the current HCFAC base funding of $311 million from discretionary to mandatory in 2015 through 2023 is not reflected in the new net deficit savings because, as noted above, it is being offset with an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA, as amended. As with CDRs and redeterminations, the base amounts for 2013 were enacted in the annual appropriations bill. The mandatory savings from that base funding and the base funding in every year are included in the BBEDCA baseline. Also, since the 2013 appropriations bill did not fully fund the base or the cap adjustment for 2013 for HCFAC, the Administration is proposing to increase mandatory funding for this purpose by $303 million in 2013. This will save an additional $450 million, included in the new net deficit savings above, when compared to the current enacted amount for 2013.

Proposed Adjustments to BBEDCA Discretionary Spending Limits.—The Administration also proposes to amend BBEDCA to enact adjustments to the discretionary spending limits at the IRS and Treasury's Tax and Trade Bureau (TTB) for tax code enforcement and the Department of Labor (DOL) to reduce improper payments

Table 13–3. MANDATORY AND RECEIPT SAVINGS FROM OTHER PROGRAM INTEGRITY INITIATIVES
(Receipts and outlays in millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10-year total
Department of Health and Human Services:											
Cut Waste, Fraud, and Abuse in Medicare and Medicaid[1]	–156	–272	–358	–388	–424	–444	–470	–501	–526	–552	–4,091
Department of Labor:											
Implement Unemployment Insurance Integrity	–10	–40	–43	–44	–40	–37	–35	–33	–33	–31	–346
Implement Unemployment Insurance Integrity (non-PAYGO receipt effect)	....	....	1	4	9	12	447	34	–28	22	501
Disclose Prisoner Data for Improper Payments	–5	–10	–10	–10	–10	–10	–10	–11	–11	–12	–99
Department of the Treasury:											
Increase levy authority for payments to Medicare providers with delinquent tax debt (receipt effect)	–46	–67	–70	–71	–72	–74	–76	–76	–77	–78	–707
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	–2.5	–2.5	–2.5	–2.5	–2.5	–2.5	–2.5	–2.5	–2.5	–2.5	–25
Disclose Prisoner Data for Improper Payments (includes receipt effect)	–24	–35	–36	–37	–38	–39	–40	–41	–42	–43	–375
Prevent Improper Use of the Death Master File (includes receipt effect)	–65	–131	–132	–135	–138	–137	–137	–140	–143	–145	–1,303
Social Security Administration:											
Windfall Elimination Provision/Government Pension Offset Enforcement Provision (non-PAYGO)	18	28	24	–232	–500	–650	–685	–619	–577	–524	–3,717
Disclose Prisoner Data for Improper Payments (non-PAYGO)	15	....	....	....	....	....	....	....	....	....	15
Total, Mandatory and Receipt Savings	**–288**	**–542**	**–639**	**–928**	**–1,228**	**–1,394**	**–1,021**	**–1,402**	**–1,452**	**–1,378**	**–10,267**
PAYGO Savings	–321	–570	–664	–700	–737	–756	–783	–817	–847	–876	–7,066
Non-PAYGO Savings	33	28	25	–228	–491	–638	–238	–585	–605	–502	–3,201

[1] Savings estimates may not include all interactions.

in the Unemployment Insurance (UI) program. As shown in Table 13-2, the proposed adjustments are estimated to result in more than $48.3 billion in lower spending and 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 also listed in Table 13-2.

Internal Revenue Service and Treasury's Tax and Trade Bureau.—For the IRS and TTB, the base funds current tax administration activities, including all tax enforcement and compliance program activities, in the Enforcement and Operations Support accounts at IRS and the Salaries and Expenses account at TTB. The additional $412 million cap adjustment funds new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS's and TTB's overall tax enforcement program. As a result of base tax enforcement and compliance activities, the Government will collect roughly $55 billion in 2014 in direct enforcement revenue. The IRS estimates that the proposed new 2014 enforcement initiatives will yield an additional $458 million in revenue from the work done in 2014. Further, once the new staff are trained and become fully operational in 2016, the extra revenue brought in by the work done in each year will rise to nearly $1.7 billion, or roughly $4 in additional revenue for every $1 in IRS expenses. New investments are also proposed beyond 2014, with cap adjustments in fiscal years 2015 through 2018 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 2023 will generate more than $46 billion in additional revenue over 10 years and will cost $13.8 billion for an estimated net savings of $32.7 billion. 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.

Unemployment Insurance.—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 American Job Centers (also known as "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 2023, would result in a savings in UI benefit payments of an estimated $2,479 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 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 $20 million in 2014 and total $341 million through 2023, providing total gross outlay savings estimated at $1.240 billion. These outlay savings from the cap adjustments would result in some States increasing their UI taxes, which would result in an estimated revenue increase of $570 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 increase, totals $1,469 million.

Partnership Fund for Program Integrity Innovation.—Funded from fiscal year 2010 through 2013, the Partnership Fund has invested over $29 million in eleven 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. As evaluations are completed and results finalized, OMB will work with Federal agencies, States and local governments, and other stakeholders to disseminate lessons learned and apply the tools and methods tested more broadly across programs and levels of government.

Pilots that are now evaluating results include:

- 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 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; and
- The Centers for Medicare & Medicaid Services 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 13-3 lays out the mandatory and receipt savings from other program integrity initiatives that are included in the 2014 Budget, beyond the expansion in resources resulting from the increases in administrative funding discussed above. These savings total almost $10.3 billion over ten years. Almost 69 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.

Cut Waste, Fraud, and Abuse in Medicare and Medicaid.—The Budget includes a robust package of 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 integrity authority would save approximately $4.1 billion over 10 years.

Unemployment Insurance Integrity.—The Budget includes two proposals that would implement improved integrity in the Unemployment Insurance program and would result in PAYGO savings of $346 million over ten years:

- ***Collection of Past-Due, Legally Enforceable State Unemployment Compensation Debts.—*** The Budget proposes to require States to use the Treasury Offset Program (TOP) to recover certain Unemployment Insurance (UI) debts (stemming from overpayments due to fraud or failure to report earnings). A number of States already use TOP, and they have found it an effective debt recovery tool when other attempts to collect legally enforceable UI debts have failed. However, many States have not yet used this tool. A barrier that some States face is that their entire UI information technology system is administered through contractors, and they are unable to participate in TOP if those contractors would be needed to carry it out. Therefore, this proposal also amends the Internal Revenue Code to allow State contractors to receive the needed information solely for the purposes of carrying out TOP. States are required to provide due process opportunities for individuals to challenge the validity of the debt, before seeking to recover the funds through TOP. This proposal will help to ensure that all States will participate in TOP and recover UI debts.

- ***Electronic Transmission of Unemployment Compensation Information.***—The Budget proposes to require all State agencies to use a system designated by the Secretary of Labor to obtain information from employers relating to UI claims, which could be the existing State Information Data Exchange System (SIDES) or else a successor system. The Department of Labor's SIDES system is designed to help employers more quickly provide to States the information necessary to determine a claimant's eligibility by providing a secure electronic data exchange between States and employers or their third party administrators. SIDES is currently used by about 35 States. The improvements in speed and accuracy resulting from use of such a system will help avoid overpayments or underpayments, and provide for more efficient and effective administration of the UI program.

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 $707 million over ten years.
- ***Provide authority to contact delinquent debtors via their cell phones.***—The Budget proposes to clarify that the use of automatic dialing systems and prerecorded voice messages is allowed when contacting wireless phones in the collection of debt owed to or granted by the United States. In this time of fiscal constraint, the Administration believes that the Federal Government should ensure that all debt owed to the United States is collected as quickly and efficiently as possible and this provision could result in millions of defaulted debt being collected. While protections against abuse and harassment are appropriate, changing technology should not absolve these citizens from paying back the debt they owe their fellow citizens. The proposal would also allow the Federal Communications Commission to implement rules to protect consumers from being harassed and contacted unreasonably. This proposal would result in PAYGO savings of $120 million over 10 years.
- ***Authorize Treasury to locate and recover assets of the United States and to retain a portion of amounts collected to pay for the cost of recovery.***—States and other entities hold assets in the name of the United States or in the name of departments, agencies and other subdivisions of the Federal Government. Many agencies are not recovering these assets due to lack of expertise and funding. Under current authority, Treasury collects delinquent debts owed to the United States and retains a portion of collections, which is the sole source of funding for its debt collection operations. While unclaimed Federal assets are generally not considered to be delinquent debts, Treasury's debt collection operations personnel have the skills and training to recover these assets. The Budget proposes to authorize Treasury to use its resources to recover assets of the United States. This proposal would result in PAYGO savings of $25 million over 10 years.

Reduction of Identity Theft by Reforming the Death Master File.—The Budget proposes to amend the Social Security Act to limit access to the "Death Master File" to prevent this information from being used to file fraudulent claims for benefits or tax refunds. This proposal provides that the Commissioner of Social Security may use, or provide for the use of, records of deceased individuals, subject to such safeguards as the Commissioner determines are necessary or appropriate to protect the information from unauthorized use or disclosure, for the purpose of public health or safety, law enforcement, tax administration, health oversight, debt collection, payment certification, disbursement of payments, and for the prevention, identification or recoupment of improper payments. This proposal would result in PAYGO savings of $1.3 billion over ten 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 $70 million for administrative expenses, $50 million of which would be available to the States, 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 noncovered 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 $3.7 billion over 10 years, which would be scored as non-PAYGO savings because the program is off-budget.

Disclose Prisoner Data for Improper Payments.— The Budget proposes to increase Federal and State access to information contained in the Social Security Administration's (SSA's) Prisoner Update Processing System (PUPS), which contains Federal, State, and local prisoner data. The proposal also expands the information the prisons are required to report to SSA to include release dates, making the system more valuable to users. The PUPS data will help prevent prisoners from illegally receiving payments, such as unemployment compensation in the Department of Labor and certain Railroad Retirement benefits, and identify individuals who are filing fraudulent tax returns. SSA will transfer PUPS data to the Department of the Treasury, Bureau of Fiscal Service on a regular basis, where it will be maintained for use by other Federal agencies. This proposal would result in $459 million in net savings over ten years across all of the affected agencies.

Other Program Integrity Initiatives.— Executive Order 13520 on Reducing Improper Payments and Eliminating Waste in Federal Programs intensifies agency efforts to eliminate improper payments (including waste, fraud, and abuse) in the "high-error" 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/.

In addition, enactment of the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) were both important milestones in the Government's effort to reduce improper payments. These statutes provide agencies with new tools to identify and address improper payments and reinforce Administration efforts underway, including EO 13520 and the Administration's Do Not Pay Initiative.

Leveraging Technology to Reduce Improper Payments.—Under this Administration, the Federal Government has focused on utilizing technology to address improper payments. Specifically, when the President 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 31 percent (or $34 billion) of all payment errors in 2012 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 2012 Budget requested, 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.

When the President signed into law the enacted Improper Payments and Elimination and Recovery Improvement Act of 2012 (IPERIA), Public Law 112-248, he reinforced the Administration's "Do Not Pay Initiative" already underway. Spearheaded by the Department of the Treasury, Do Not Pay now emphasizes Treasury's online portal that enables Federal Government officials to access information from multiple data sources through a central portal. In addition, the Do Not Pay initiative includes other central portals, such as the Integrated Acquisition Environment System for Award Management maintained by the General Services Administration, that allow agencies to check award and payment information against multiple data sources at once. Do Not Pay will also incorporate other agency initiatives and activities that best promote program integrity based on program authorities, needs, and benefits to the taxpayer. By June 1, 2013, agencies will be checking all payments and awards through a Do Not Pay working system as appropriate.

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. In particular, the Budget proposes to give the "Do Not Pay" portal (DNP) access to the National Directory of New Hires (NDNH) database, which contains information on newly hired employees. The proposal gives DNP NDNH database access to perform an eligibility check only for those agencies that already have NDNH matching authority (IRS, SSA, and HUD, among others). DNP access to the database will help to increase the effectiveness of the portal and further reduce Government-wide improper payments. In addition, OMB intends to issue guidance related to IPERIA implementation in July 2013, as required by the Act.

Social Security Workers' Compensation Enforcement Provision.—The Budget reproposes a proposal from the 2012 and 2013 Budgets 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 changes 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 Special 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 appropriations bills are scored with the discretionary costs but are not credited with the savings in mandatory spending. 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 the 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.

Disaster Relief Funding

Section 251(b)(2)(D) of BBEDCA, as amended, includes a provision to adjust the discretionary caps for appropriations that the 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. The request amends BBEDCA to extend the discretionary cap for disaster funding through 2023.

As required by law, OMB included in its Sequestration Update Report for FY 2013 a preview estimate of the 2013 adjustment for disaster relief. The ceiling for the disaster relief adjustment in 2013 was calculated to be $11,779 million. The Congress has already enacted appropriations in 2013 designated for disaster relief up to that ceiling in the Federal Emergency Management Agency's (FEMA's) Disaster Relief Fund (DRF). Exactly $6,400 million was included for the DRF in the regular appropriations bill for 2013 and $5,379 million was included for the DRF in the FY 2013 Disaster Assistance Supplemental (P.L. 113-2) for Hurricane Sandy response and recovery. Additional supplemental funding for disaster assistance for Hurricane Sandy was designated as an emergency requirement pursuant to section 251(b)(2)(A).

OMB must include in its Sequestration Update Report for FY 2014 a preview estimate of the ceiling on the adjustment for disaster relief funding for fiscal year 2014. This estimate will contain an average funding calculation that incorporates eight years (2004 through 2011) using the definition of disaster relief from OMB's September 1, 2011 report and two years using the funding the Congress designated in 2012 and 2013 for disaster relief pursuant to BBEDCA, as amended, excluding the highest and lowest years.

At this time, the Administration is requesting $5,785 million in funding in two accounts to be designated for disaster relief by the Congress: more than $5.6 billion in FEMA's DRF 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 2014, and almost $159 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. For the DRF, the request does not include additional funding for Hurricane Sandy, because the funding tail could not yet be determined at the time of allocation. If necessary, additional funding will be requested in the 2015 Budget. Also consistent with past practice, the 2014 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 2013 supplemental appropriations (designated as emergency funding pursuant to BBEDCA, as amended) or budget amendments to the Budget, may be transmitted.

Under the principles outlined above, since the Administration does not have the 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 III (Improved Definition of Baseline) under the heading titled "Adjustments for Emergency and Disaster Costs".

Civilian Property Realignment

The Federal Government owns and leases over 1.1 million individual properties. Within this large inventory are significant opportunities to be more efficient, reduce holdings, and save money. There are hundreds of underperforming properties that could be consolidated or sold, thereby eliminating ongoing Federal maintenance costs and reducing substantial energy consumption. However, progress is often blocked for different reasons: the variety of stakeholders; the numerous government processes that extend the timeline for disposing a property; and the financial disincentives for agencies to dispose of property, where they have no ability to recoup the significant up-front cost of preparing properties for sale.

This proposal would create an independent Civilian Property Realignment Board of private and public sector leaders to overcome the obstacles to reducing the Federal real estate inventory through sales and consolidations. The Board would forward to the Congress bundled recommendations of properties or actions to better align the Federal Government's real property inventory with our core missions and programs. The Board would have to submit bundled recommendations to the Congress to sell unneeded high-value assets and consolidate other assets in the real estate inventory. Unless the Congress disapproves the package as a whole, the Board's recommendations would become effective.

Under the proposal, agencies would use streamlined authorities to dispose of property. The Board would utilize a revolving fund, supported by a portion of real estate sales, to assist agencies in implementing further consolidations and sales to further reduce operating costs. In creating its recommendations, the Board would have to balance a variety of factors, including economic development opportunities, community interests, and homelessness assistance, to direct properties toward their highest and best use. The Board's actions would result in reduced operating costs and at least $2 billion in net proceeds directed to the Treasury General Fund for deficit reduction.

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.

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 BBEDCA, as amended. 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 BBEDCA, as amended, 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 Budget includes $28,840 million in advance appropriations for 2015 and freezes them at this level in subsequent years. (One exception is the elimination of 2016 through 2023 advances for the Department of Labor’s dislocated worker program, because the Budget proposes a new Universal Displaced Worker 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 2014, 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 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.

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 85 percent of the total medical care funding requirement. The remaining funding requirement is estimated based on other models and assumptions for services such as readjustment counseling and initiatives. 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 2015 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 construction of Virginia class submarines in the Shipbuilding and Conversion, Navy account at the Department of Defense (DOD). The use of advance appropriations will allow the Navy to procure a tenth submarine as part of the FY 2014 Block IV multiyear procurement contract, thereby maintaining the health of the industrial base. Moreover, advance appropriations will help ensure transparency of costs and full funding. A regular appropriation is requested for the Virginia class submarines in 2014 and an advance appropriation is requested for 2015.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2012 or for which the Budget requests advance appropriations for 2015 and beyond, please refer to the Advance Appropriations chapter 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 Administration’s 2012 and 2013 Budgets included structural reforms to surface transportation programs that mirror the recommendation of the Fiscal Commission. These reforms were put in place to help ensure that the President and the Congress would work together to ensure the next surface transportation authorization did not increase the deficit.

On July 6, 2012 the President signed the Moving Ahead for Progress in the 21st Century (MAP-21), the first multiyear reauthorization since the expiration of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) in 2009. MAP-21 authorizes highway, highway safety, and transit programs through fiscal year 2014, at baseline funding levels. While MAP-21 included a number of programmatic reforms sought by the Administration, the Act did not alter the current hybrid budgetary treatment. However, MAP-21 did offset the $18.8 billion in transfers from the General Fund to the Highway Trust Fund with various revenue provisions. This was the first time that transfers to the Highway Trust Fund were offset, which the Administration believes is a step in the right direction for fiscal discipline.

The Administration continues to believe that implementing structural reforms to the budgetary treatment of surface transportation programs is the right policy, and will continue to promote such changes as the Congress begins developing the next authorization bill. However, MAP-21 did not include such reforms, and as the surface transportation reauthorization covers fiscal year 2014, the Appendix does not include the previously proposed formal reclassification of the spending for MAP-21 programs for the budget year.

While the Administration believes MAP-21 provided needed certainty for grantees and made important programmatic reforms, the act did not provide necessary additional investments to ensure the Nation's infrastructure is in a state of good repair. The Administration continues to champion additional spending above current service levels, and, the Budget includes a reauthorization reserve of $88 billion over six years (2015-2020) to provide for these critical investments. Consistent with previous reclassification proposals, these funds are shown as mandatory budget authority and mandatory outlays, consistent with the previous reclassification proposals.

Additionally, MAP-21 did not include a rail title, and the current rail authorization (the Passenger Rail Investment and Improvement Act of 2008) expires at the conclusion of 2013. Therefore, the Budget includes a five-year, $40 billion rail authorization. Similar to the last two budgets, this proposal is being requested under the Trust Fund umbrella: the HTF is renamed the Transportation Trust Fund (TTF), and a new rail account is created. Under this proposal, intercity passenger (including Amtrak) and freight rail activities would be financed with mandatory contract authority and associated mandatory outlays. This is consistent with the reclassification for traditional HTF programs that the Administration has sought for the past two years.

This unified scoring framework for the rail proposal does not radically alter traditional roles and jurisdictional relationships as they are conceived of under current law and scorekeeping practice for traditional HTF programs. 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.

The Budget uses savings from ramping down overseas military operations to offset both the cost of the rail bill and the out-year reauthorization reserve beyond what the current funding mechanism can cover. Beyond the next reauthorization windows for both proposals, the Budget assumes that spending returns to baseline levels generated based on what was estimated in 2013. This reflects the assumption that while the Administration has identified a "pay for" that will support the next 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. 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. Rather, under the Administration's proposal, savings from ramping down overseas military operations would offset General Fund transfers to eliminate the projected shortfall in the Highway and Mass Transit accounts under baseline and cover the proposed spending out of the new rail account. Finally, the overseas military operations savings would cover the full ten-year cost of the out-year reauthorization reserve that begins in 2015.

Account-by-Account Budgetary Treatment.—For those trust fund accounts authorized under MAP-21, the Budget reflects the current hybrid budgetary framework of mandatory contract authority and discretionary outlays, derived from annual obligation limitations.

Beginning in 2015, the Budget includes a surface transportation reauthorization reserve totaling $88 billion in mandatory resources. This funding represents the additional investments the Administration supports above baseline for highway, highway safety, and transit programs, and which the Administration plans to work with the Congress to secure during the next reauthorization.

For intercity passenger and freight rail activities, the Budget proposes $40 billion over five years, financed with contract authority. Consistent with previous Administration proposals, outlays flowing from that contract authority—which is already mandatory—will be treated as mandatory. 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 the rail 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 the Congress to review 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 the two Federal Railroad Administration accounts that are presently classified as generating discretionary budget authority and outlays, but that the Administration proposes to incorporate into the TTF (Operating Subsidy Grants to the National Railroad Passenger Corporation and the Capital and Debt Service Grants to the National Railroad Passenger Corporation), 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 2012 and 2013, 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 proposed new Federal Railroad Administration accounts supported by the TTF (Rail Service Improvement Program, Current Passenger Rail Service, and Railroad Research, Development, and Technology), the Budget includes a schedule that includes new mandatory contract authority and outlays requested to support those programs.

Amounts in these accounts total $1.4 billion in discretionary budget authority for 2013. The baseline levels for these amounts are what constitute the discretionary cap adjustment as noted in the OMB Sequestration Preview Report for FY 2014 available on the OMB website. Note that activities under the two existing Amtrak accounts are requested as part of the new accounts of the Rail Account of the TTF. Therefore, 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 reserve windows for these proposals, the Budget assumes that contract authority will return to baseline levels. While the Administration has identified savings to offset the presently-pending reauthorization proposals, policy-makers will need to develop alternative fiscally responsible solutions beyond the periods of the reauthorization proposals.

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 continues to finance the highway and highway safety activities currently in the Highway Trust Fund.
- The Mass Transit Account continues to finance the transit activities currently in the Highway Trust Fund.
- The Rail 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.

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 the Congress on a bipartisan basis to ensure that funding increases for surface transportation do not increase the deficit. The 2014 Budget fully pays for the rail proposal and the reauthorization of MAP-21 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 rail proposal and out-year reauthorization reserve, 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, under which PAYGO costs must be offset with corresponding PAYGO savings.

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 reserve period (through 2020) and to cover outlays generated from funding increases 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 reauthorization of MAP-21 (through 2020) 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 2013 and spending again exceeds 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, though demand has slowed since 2010. 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.

Table 13–4. EFFECT OF STUDENT AID PROPOSALS ON DISCRETIONARY PELL FUNDING NEEDS
(Dollars in Billions)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
Full Funding, Discretionary Pell			20.4	29.2	29.4	29.6	29.9	30.4	30.7	31.1	31.4	31.7	
Mandatory Funding Previously Provided			(0.6)	....	....	(1.6)	(1.4)	(1.4)	(1.4)	(1.1)	(1.1)	(1.1)	
Discretionary Need	22.8	22.8	19.8	29.2	29.4	28.0	28.5	28.9	29.2	29.9	30.2	30.6	
Fund Pell at 2014 Full Funding Estimate	22.8	22.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	
Discretionary Funding Gap			....	(9.4)	(9.6)	(8.2)	(8.7)	(9.1)	(9.4)	(10.1)	(10.4)	(10.8)	(85.8)
Fund Pell at 2012 Enacted Level			3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	
Remaining Funding Gap			3.0	(6.4)	(6.6)	(5.2)	(5.6)	(6.1)	(6.4)	(7.1)	(7.4)	(7.8)	(55.5)
Carry Forward 2014 BA Request to Help Fund 2014			(3.0)	3.0	....	....	....	....	....	....	....	....	
Remaining Funding Gap			....	(3.3)	(6.6)	(5.2)	(5.6)	(6.1)	(6.4)	(7.1)	(7.4)	(7.8)	(55.5)
Proposed Mandatory Funding in the Budget				3.3	4.5	2.9	3.1	0.9	0.8	1.1	1.1	1.1	
Remaining Funding Gap			....	....	(2.1)	(2.3)	(2.6)	(5.3)	(5.6)	(6.0)	(6.3)	(6.6)	(36.8)

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 2013-2014 is $5,645, of which $4,860 will be established in the annual appropriations act and the remaining $785 is provided automatically by the College Cost Reduction and Access Act (CCRAA), as amended.
- The cost of each Pell Grant is funded by discretionary budget authority provided in annual appropriations acts, along with mandatory budget authority provided not only by the CCRAA, as amended, and the BCA, but also by amendments to the Higher Education Act of 1965 contained 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 Grant 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.[2]
- 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 Grant program for the budget year, plus or minus any cumulative shortfalls or surpluses from prior years. This scorekeeping rule was adopted by the 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. The 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 BBEDCA, as amended, and appropriations allocations established annually under §302 of the Congressional Budget Act. 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

[2] 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 2014 appropriation, for instance, will support the 2014-2015 academic year beginning in July 2014 but will become available in October 2013 and can therefore help cover any shortages that may arise in funding for the 2013-2014 academic year.

to fund the program well above the level that could have been provided by the regular discretionary appropriation. In 2015, those extra mandatory funds in large part run out, and the program faces a significant funding gap (see Table 13-4).

Administration policy is to fully fund the maximum award. The Budget provides sufficient resources to fully fund the 2014-2015 and 2015-2016 award years. The Budget provides $22.8 billion in discretionary budget authority in 2014, the same level of discretionary budget authority provided in 2012. Level-funding Pell in 2014 provides $3.0 billion more than is needed to fully fund the program in the 2014-15 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 2015. Cutting the budget authority in Pell to only the level needed to fund the program in 2014 would have a doubly detrimental impact on the 2015 cliff; it would reduce the budget authority carried forward from 2014, 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 two reforms in the student loan programs, discussed in the Appendix: expanding and reforming the Perkins loan program and reducing excessive payments to guaranty agencies that rehabilitate student loans. The total mandatory budget authority and outlay savings from these reforms in the student loan programs amount to a $17.9 billion, 10-year reduction. This savings allows $18.8 billion in budget authority to be appropriated as part of proposed authorizing legislation, with outlays of $17.9 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 in 2011 and 2012.

These important student aid reforms will provide full funding of Pell through the 2015-2016 award year. The Administration continues to believe that, in order to avoid the risk of deep and unnecessary cuts in the Pell Grant program in future years, the Congress should act sooner rather than later to address the Pell funding gap (currently estimated at $3.3 billion in 2015 if Pell is funded in 2013 and 2014 at the same level of discretionary budget authority provided in 2012). While recent reductions in program costs have allowed mandatory budget authority provided in prior years to stretch further than expected, that extra budget authority will run out, and the program will face a permanent, structural shortfall in the near future. If the Congress does not act in fiscal year 2014 and instead waits until fiscal year 2015 to confront a 2015-2016 Pell Grant funding gap, and if the 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 may be required in 2015. These reductions will be much more severe than the reductions needed if the Congress tackles the 2015-2016 problem in fiscal year 2014, using savings from multiple years. In addition, if the 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 the Congress to achieve two goals: first, enacting in fiscal year 2014 the changes needed to fully fund Pell through the 2015-2016 award year; and second, in 2014 or 2015, taking further steps 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. Statutory requirements on Postal Service expenses and restrictions that impede the Postal Service's ability to adapt to 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 PAYGO scoring of Postal legislation 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.

Budgetary Treatment of IMF Quota

The United States participates in the International Monetary Fund (IMF) through a quota subscription, denominated in Special Drawing Rights (SDRs). Quotas are the main metric used by the Fund to assign voting shares, and to determine countries' contributions to the IMF's general resources and access to IMF financing. The United States also participates in the New Arrangements to Borrow (NAB), which is a standing arrangement among certain IMF members to supplement IMF resources to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of the system.

Beginning with the establishment of the IMF through 1980, IMF quota increases were treated as an exchange of monetary assets, similar to purchases of gold and to U.S. deposits in commercial bank accounts. When the United States transfers dollars or other reserve assets to the IMF under the U.S. quota subscription, the United States receives an equal, offsetting, and interest-bearing claim on the IMF, which is reflected as an increase in U.S. international monetary reserves. As a result of a compromise reached in 1980 between the Administration and the Appropriations Committees, appropriations for IMF increases were recorded as budget authority, reflecting the appropriations language, but no outlays were recorded, reflecting the principle that these transactions are monetary exchanges.[3] The same scoring was applied to the NAB when it was established in 1998.

This agreement remained in place through 2009, when the President's Budget proposed to return to the pre-1980 practice of recording IMF quota increases solely as a means of financing. The Congress did not accept the proposed scoring change. Instead, reflecting a negotiated agreement between the Administration and the Congress, the Supplemental Appropriations Act of 2009 (Public Law 111-32) directed that the 2009 appropriation to increase the U.S. quota in the IMF be scored on a credit reform basis, per the Federal Credit Reform Act of 1990, as amended (FCRA), with an additional adjustment to the discount rate for market risk.

The application of FCRA by operation of law to the 2009 quota appropriation was a significant change in the budgetary treatment of the U.S. quota to the IMF, and is not a useful method for measuring cost for both conceptual and technical reasons. In particular, the use of the U.S. quota by the IMF constitutes an exchange of monetary assets and does not result in the net budget outlays, while FCRA is intended for debt obligations. For example, the U.S. reserve position in the IMF holds U.S. international monetary reserves that are readily available to meet a U.S. balance-of-payments financing need. However under FCRA, these funds are treated as a loan. Further discussion is included in the Appendix under the heading "International Monetary Programs" in the Department of State and Other International Programs chapter.

Even having gone through the worst financial crisis since the Great Depression, since its inception nearly seventy years ago, the IMF has never defaulted on any U.S. reserve claims on the IMF. The IMF is also recognized by its entire membership as the preferred creditor, with the unique ability to set conditions to assure repayment. U.S. reserve claims on the IMF are backed by the IMF's sound financial management and a balance sheet with reserves of $15 billion and 90 million ounces of gold worth more than $140 billion at current market prices.

[3] However, the budget records actual remunerations from the IMF and changes in the exchange rate of the dollar relative to Special Drawing Rights (in which the U.S. quota is denominated) as receipts or outlays.

To implement the terms of a 2010 agreement reached by the G-20 leaders and the IMF membership, the Budget proposes an increase to the U.S. quota and an equivalent rollback in U.S. participation in the NAB, with no net change in overall U.S. financial participation in the IMF. Under the Administration's proposal, the increases to the quota and NAB provided in the 2009 Supplemental Appropriations Act would be restated to reflect the pre-2009 agreement on budgetary treatment for the IMF, and the proposed revisions to the quota and NAB would be scored on that basis. For the reasons discussed above, the pre-2009 scoring is a better representation of the budgetary impact of these transactions.

Expedited Rescission

In order to make it easier to eliminate unnecessary spending, the Administration requests that the 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 the 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 new discretionary and non-entitlement mandatory spending.[4] The President is limited to proposing changes that reduce funding levels and cannot use this authority to propose other changes in law, including new transfer authority, supplemental funding, or changes in authorizing legislation. The fast-track process is thus limited only to simple funding reductions, for which a straight up-or-down vote is desirable.

- ***Proposing a rescission package.—***After enactment of funding, the President has 45 days during which the Congress is in session (excluding weekends and national holidays) to decide whether to submit a rescission package using this expedited procedure. The President is also limited to a single package of rescissions per bill under this procedure, and the requested rescissions must be limited to provisions in that bill.[5]

- ***Congressional procedure.—***A rescission package submitted under this authority receives fast-track consideration in the Congress. Debate is limited in both houses and the package is guaranteed an up-

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

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

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 the Congress cannot amend the package, the proposal enables the Congress to omit from the bill any proposed rescission that it believes goes beyond the scope allowed.

- ***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 if the Congress has not approved the request. This ensures that agencies do not obligate funds before the 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 the 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 the Congress. In 1996, the 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, the 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 the 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 the 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 the 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.

II. 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 the 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.[6]

PAYGO established 5- and 10-year scorecards to record the budgetary effects of legislation; these scorecards are maintained by OMB and are published on the OMB web site (*http://www.whitehouse.gov/omb/paygo_default*). PAYGO also established special scorekeeping rules that affect whether all estimated budgetary effects of PAYGO bills are entered on the scorecards. Off-budget programs and provisions designated by the Congress in law as emergencies are not included. In addition, legislation affecting mandatory revenues or receipts has been enacted with provisions that directed that laws be held off of the PAYGO scorecard. In the most recent Congressional session, for example, three significant pieces of legislation were enacted with such provisions.

Also, if an act uses timing shifts to move costs outside of the 10-year PAYGO scorecard window or to shift revenues into the 10-year window, those timing shifts are ignored.

The requirement of budget neutrality is enforced by an accompanying requirement of automatic across-the-board cuts in selected mandatory programs if enacted legislation taken as a whole does not meet that standard. If the 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 prepare, 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 PAYGO sequestration order generally 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

[6] 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.

Security Income (SSI).[7] The major remaining mandatory programs, which are subject to sequestration, include most Medicare payments (limited to a 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, as amended, and the exemptions and special rules generally apply to the following sequestrations: the sequestration pursuant to the PAYGO Act, the sequestration to eliminate excess spending above discretionary caps specified in section 251 of BBEDCA, as amended, and the sequestration currently required by the BCA as a result of the failure of the Joint Committee process.

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

[7] 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.

As was the case during 1990s PAYGO, sequestration has not been required during the three Congressional sessions since the PAYGO Act reinstated the statutory PAYGO requirement. In each of those sessions, OMB's end-of-session PAYGO reports showed net savings in the budget year column of both the 5- and 10-year scorecards. The reports for the two most recent Congressional sessions note that four laws with significant effects on mandatory revenues or receipts were enacted with provisions that directed that the laws be held off of the PAYGO scorecard.[8]

Administrative PAYGO

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

[8] For more information, see OMB's annual PAYGO reports, available at *www.whitehouse.gov/omb/reports_default*.

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

III. 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, using a more meaningful method for reflecting future disaster costs, and reflecting the cost of fully funding the Pell Grant program. In addition, as explained above, the proposal to provide mandatory funding for a rail authorization proposal involves adjusting presentations, including baselines, so that corresponding funding and spending levels will be displayed on a comparable basis. The Administration also makes modifications to the baseline to reflect the discretionary caps on budget authority enacted in BBEDCA, as amended, including the cap adjustments permitted by the Act for Overseas Contingency Operations (OCO) inflated at the inflation rates in the baseline, and to reflect the Joint Committee enforcement procedures.

For years, the baseline used by the Congress has followed the definition contained in section 257 of BBEDCA, as amended. However, the BBEDCA baseline does not accurately reflect a continuation of current policy. In each of its Budgets, this Administration has built its budget proposals starting from a baseline that adjusts the BBEDCA baseline to better represent the thrust of current policy in certain major cases, and recommends that the 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 26, "Current Services Estimates," in this volume.

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

Adjustments to Reflect Certain Expiring Provisions Affecting Middle Class Tax Credits.—In recent years, the 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 the provision for a limited number of years. The Administration's adjusted baseline assumes permanent extension of the following tax credits provided to in-

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

dividuals and families under the American Recovery and Reinvestment Act of 2009 (ARRA), which were extended through 2017 by the American Taxpayer Relief Act of 2012 (ATRA): increased refundability of the child tax credit, expansions in the earned income tax credit (EITC) for larger families and married taxpayers filing a joint return, and the American opportunity tax credit (AOTC).

Adjustments to Reflect Medicare Physician Payment Relief.—As with the tax provisions noted in the previous paragraph, in recent years, the 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 current Medicare physician payment rates, as opposed to the large reductions in physician payment rates that would take place under current law. This adjustment is similar, although not identical, to a current policy adjustment previously provided under the PAYGO Act for SGR relief through 2014.

Adjustments for Emergency and 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 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 the extension of enacted appropriations that were designated by the Congress in 2013 as either an emergency requirement or as disaster relief funding for Hurricane Sandy and other disasters.

In addition, the Administration's adjusted baseline 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 $11.8 billion in the BBEDCA-designated disasters in 2013, the Budget is specifically requesting almost $5.8 billion in 2014 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 I (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. This adjustment does not produce a net increase in the amount of discretionary budget authority in the baseline, because total discretionary budget authority remains limited by the BBEDCA caps.

Adjustment to Reflect the Anticipated Postal Service Default on 2013 Retiree Health Benefit Prefunding.—Under the Postal Accountability and

Enhancement Act of 2006 (P.L. 109-435), the United States Postal Service (USPS) is required to make specified annual payments through 2016 to the Postal Service Retiree Health Benefits (RHB) Fund in the Office of Personnel Management. These payments are designed to prefund unfunded liabilities for health costs for future Postal retirees. Starting in 2017, the USPS's remaining unfunded liability is amortized over a 40-year period. Because of its current financial challenges, the USPS defaulted on two statutory RHB payments due in 2012, totaling $11.1 billion. In its notification letter to the White House and the Congress, the USPS also indicated that, absent changes to its financial forecast (largely dependent on legislative action), it would likely default on its $5.6 billion payment due September 30, 2013. While the BBEDCA baseline shows USPS making this $5.6 billion payment in 2013 as required, the adjusted baseline does not reflect the payment being made, given the likelihood of additional default. While defaulted payments remain as outstanding statutory liabilities, any default is factored into the 40-year amortization schedule mentioned above.

Nuclear Waste Fund Settlements and the Judgment Fund Baseline

The Nuclear Waste Policy Act of 1982 (NWPA) established a broad policy framework for the permanent disposal of used nuclear fuel and high-level radioactive waste derived from nuclear power generation. The NWPA authorized the Government to enter into contracts with reactor operators – the generators and current owners of used nuclear fuel – providing that, in exchange for the payment of fees, the Government would assume responsibility for permanent disposal. The fees were to ensure that the reactor owners and power generators pay the full cost of the disposal of their used nuclear fuel and high-level radioactive waste.

The Federal Government did not meet its contractual obligation to begin accepting used nuclear fuel by 1998. As a result of litigation by contract holders, the Government was found in partial breach of contract, and is now liable for damages to some utilities to cover the costs of on-site, at-reactor storage.

The cost of the Government's growing liability for partial breach of contracts with nuclear utilities is paid from the Judgment Fund of the U.S. Government. While payments are extensively reviewed by Department of Energy, and must be authorized by the Attorney General prior to disbursement by the Department of the Treasury, as mandatory spending they are not subject to Office of Management and Budget or Congressional approval. Past payments are included in full in the Budget, but until now the Budget has included only a partial estimate of the potential future cost of continued insufficient action. To improve budget projections, the baseline for the Judgment Fund in this Budget reflects a more complete estimate of potential future cost of these liabilities. By reflecting a more complete estimate of the liability payments in the baseline, costs over the life of the nuclear waste management and disposal program would eventually be offset by reductions in liabilities as the Government begins to pick up sufficient waste from commercial sites.

National Flood Insurance Fund

In the Budget, the Administration's baseline for the National Flood Insurance Fund is revised to reflect long-term expected losses, including from catastrophic flood events, and to include the timely payment of all claims on policies in force throughout the 10-year budget window. The purpose of the flood insurance program is to identify those areas within communities with the most risk of flooding, to reduce the impact of flooding through a combination of mitigation and floodplain management, and to help property owners protect themselves by making flood insurance available.

The revision in the baseline to reflect long-term expected losses reflects the fact that, although the flood insurance program runs a surplus in most years, this surplus is outweighed by the periodic deficits that the fund runs in years with catastrophic flood events. When the flood insurance program was created in 1968, some categories of buildings were provided subsidized rates in order to encourage participation in the new program. Because premium collections have been insufficient, claims from major events like Hurricanes Katrina, Rita, and Wilma in 2005 and, more recently, Superstorm Sandy in 2012 have exceeded available funds and the program has borrowed from Treasury in order to pay claims. Public Law 113-1, enacted in January 2013, increased the borrowing authority for the National Flood Insurance Program to $30,425 million in order for the program to pay claims resulting from Superstorm Sandy.

The revision in the baseline to reflect full payment of claims in force is derived from the recognition that the Federal Government has a contractual obligation to all policy holders and can be held liable whether or not the fund has the balances to pay full claims. The revised baseline presentation shows all expected claims payments in each year of the budget window, including the amounts that can be paid from estimated collections, amounts that could be paid from borrowing, and remaining amounts that could not be paid from these sources. The baseline also reflects the effects of the Biggert-Waters Flood Insurance Reform Act of 2012, enacted in July 2012 as Title II of Public Law 112-141. This act phases out most premium subsidies and reforms the premium rate structure so that in the long term, the program's collections should cover expected losses, including those from catastrophic events such as Superstorm Sandy.

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 guarantee 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 the Congress to reform the larger housing finance system. The Budget continues the Administration's commitment to reduce the size of the GSEs' investment portfolios by at least 15 percent a year. The GSEs are discussed in more detail in Chapter 22, "Credit and Insurance".

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 credit programs were reflected in the budget on a cash basis, which was a poor measure of cost for these programs. The costs of direct loans were overstated, as the budget reflected outlays for the initial cash disbursement to make the loan, but did not properly account for the expected future income from the borrowers in the form of repayments, interest, and fees, net of losses. For loan guarantees, costs were understated because outlays were only recorded when the Government disbursed cash to make good on the guarantees-- generally years after the borrower receives the loan, which is long after the Government incurs the cost. FCRA significantly improved the budget measure of cost for Federal credit programs by recording the estimated lifetime cost up front, on a present value basis, taking into account all of the cash flows associated with the credit instrument, and the Government's cost of financing these cashflows (by using the Treasury rate to do the discounting).

In recent years, the Congressional Budget Office (CBO) and others have argued that credit programs impose costs on taxpayers that are not reflected under FCRA, such as the risk that assets may perform worse than expected, and would propose to amend FCRA to require that the budget use fair value estimates to capture these costs. Under fair value, comparable market rates would be used to discount expected cash flows, instead of Treasury rates. While fair value may offer some useful insights and inform decision-making in some cases, using fair value for budgetary cost estimates of credit programs raise serious conceptual and implementation issues that would exceed the potential benefits from such estimates. Chapter 22, "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-13 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 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.

FEDERAL RECEIPTS

14. GOVERNMENTAL RECEIPTS

During his first term in office, President Obama signed several major tax bills designed to jumpstart the economy and provide tax relief. These bills started with the American Recovery and Reinvestment Act of 2009 (ARRA), which was signed by the President during his first month in office, and culminated with the American Taxpayer Relief Act of 2012 (ATRA), which passed with bipartisan support on January 1, 2013. ATRA protects 98 percent of Americans and 97 percent of small business owners from a middle class tax hike, and grows the economy and shrinks our deficits in a balanced way by investing in our middle class and by asking the wealthy to pay a little more.

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.

As a first step toward balanced deficit reduction and tax reform, the President proposes that Congress immediately enact two measures that would raise $580 billion in receipts by broadening the tax base and reducing tax benefits for those who need them the least: a limitation on the value of tax deductions and preferences for the highest-income families and compliance with the Buffett rule so that the wealthiest American families pay no less than 30 percent of their income in taxes. The President is also offering a detailed set of specific tax loophole closers and measures to broaden the tax base, as well as expanded 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.

Beyond these measures, the President is committed to working with Congress and 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 14–1. RECEIPTS BY SOURCE - SUMMARY
(In billions of dollars)

	2012 Actual	Estimate										
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Individual income taxes	1,132.2	1,234.0	1,383.2	1,551.8	1,700.0	1,843.6	1,977.1	2,104.5	2,240.7	2,379.7	2,517.4	2,683.9
Corporation income taxes	242.3	287.7	332.8	376.1	401.3	430.1	450.4	469.9	481.0	494.0	511.5	530.5
Social insurance and retirement receipts	845.3	951.1	1,030.7	1,084.6	1,160.3	1,218.3	1,280.1	1,340.9	1,397.6	1,473.1	1,542.7	1,606.3
(On-budget)	(275.8)	(277.6)	(291.5)	(306.3)	(334.7)	(349.6)	(362.6)	(375.9)	(390.0)	(409.9)	(428.8)	(445.3)
(Off-budget)	(569.5)	(673.5)	(739.1)	(778.3)	(825.6)	(868.7)	(917.5)	(965.0)	(1,007.5)	(1,063.2)	(1,113.9)	(1,161.0)
Excise taxes	79.1	85.3	104.9	113.9	114.8	118.2	125.1	137.7	142.0	148.8	156.1	165.6
Estate and gift taxes	14.0	12.9	13.0	14.0	15.5	16.9	18.4	31.0	33.4	36.0	38.3	40.8
Customs duties	30.3	33.6	38.8	41.9	46.0	49.3	52.5	55.3	58.4	61.4	64.7	68.3
Miscellaneous receipts	107.0	107.3	130.3	149.4	123.6	84.1	70.3	86.5	110.9	115.6	120.4	124.9
Total, receipts	**2,450.2**	**2,712.0**	**3,033.6**	**3,331.7**	**3,561.5**	**3,760.5**	**3,974.0**	**4,225.9**	**4,463.8**	**4,708.6**	**4,951.2**	**5,220.4**
(On-budget)	(1,880.7)	(2,038.6)	(2,294.5)	(2,553.4)	(2,735.9)	(2,891.8)	(3,056.5)	(3,260.8)	(3,456.3)	(3,645.4)	(3,837.2)	(4,059.3)
(Off-budget)	(569.5)	(673.5)	(739.1)	(778.3)	(825.6)	(868.7)	(917.5)	(965.0)	(1,007.5)	(1,063.2)	(1,113.9)	(1,161.0)
Total receipts as a percentage of GDP	15.8	16.7	17.8	18.6	18.8	18.8	18.9	19.2	19.4	19.6	19.8	20.0

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 $2,712.0 billion in 2013, an increase of $261.9 billion or 10.7 percent from 2012. The estimated increase in 2013 is partly attributable to the growth in personal income and corporate profits as the economy continues to recover from the recession. These sources of income affect payroll taxes and individual and corporation income taxes, the three largest sources of receipts. The expiration of the temporary reduction in the Social Security payroll tax rate for employees and self-employed individuals, and the increases in taxes on higher-income individuals that became effective January 1, 2013, also contribute to the growth in 2013 receipts. Receipts in 2013 are estimated to be 16.7 percent of Gross Domestic Product (GDP), which is higher than in 2012, when receipts were 15.8 percent of GDP.

Receipts are estimated to rise to $3,033.6 billion in 2014, an increase of $321.6 billion or 11.9 percent relative to 2013. Receipts are projected to grow at an average annual rate of 7.0 percent between 2014 and 2018, rising to $3,974.0 billion. Receipts are projected to rise to $5,220.4 billion in 2023, growing at an average annual rate of 5.6 percent between 2018 and 2023. This growth is largely due to assumed increases in incomes resulting from both real economic growth and inflation.

As a share of GDP, receipts are projected to increase from 16.7 percent in 2013 to 17.8 percent in 2014, and to rise to 20.0 percent in 2023. 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 2012 AND 2013 THAT AFFECTS GOVERNMENTAL RECEIPTS

Legislation enacted during the past year kept taxes low for middle-income taxpayers, reduced the deficit by increasing taxes on the highest-income taxpayers and the wealthiest estates, extended the temporary reduction in the Social Security payroll tax rate for employees and self-employed individuals through December 31, 2012, repealed special rules modifying the timing of estimated tax payments by large corporations, modified the interest rate used for purposes of determining required contributions by employers to defined benefit pension plans, and temporarily extended the authority to collect taxes that fund the Airport and Airway Trust Fund and the Highway Trust Fund.

The major provisions of legislation enacted in 2012 and early 2013 that affect receipts are described below.[1]

AIRPORT AND AIRWAY EXTENSION ACT OF 2012 (Public Law 112-91)

This Act, which was signed into law by President Obama on January 31, 2012, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through February 17, 2012. These taxes had been scheduled to expire after January 31, 2012, under prior law.

FAA MODERNIZATION AND REFORM ACT OF 2012 (Public Law 112-95)

This Act, which was signed into law by President Obama on February 14, 2012, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through September 30, 2015. These taxes had been scheduled to expire after February 17, 2012, under prior law. Several other provisions of this Act affect receipts and are described below.

Levy a surtax on fuel used in fractional aircraft (planes with multiple owners).—Fractional ownership aircraft flights were treated as commercial aviation under prior law and were subject to the excise taxes levied on commercial aviation (an ad valorem tax equal to 7.5 percent of the amount paid for the transportation of a person plus $3.80 per domestic flight segment, a 4.4-cents-per-gallon tax on fuel, an ad valorem tax equal to 6.25 percent of the amount paid for the domestic transportation of air cargo, and a $16.70 international travel facilities tax). This Act exempted certain fractional aircraft flights from commercial aviation taxes, effective for transportation provided after March 31, 2012, and before October 1, 2015, and instead treated these flights as noncommercial aviation, subject to the tax on fuel used in noncommercial aviation (19.4 cents per gallon for aviation fuel and 21.9 cents per gallon for jet fuel) and a fuel surtax of 14.1 cents per gallon. The surtax, which sunsets September 30, 2021, applies to fuel used in a fractional program aircraft for the transportation of a qualified fractional owner with respect to the fractional aircraft program of which such aircraft is a part, and with respect to the use of such aircraft on the account of such a qualified owner, including the positioning of flights (flights in deadhead service).

Terminate the exemption from air transportation excise taxes for small jet aircraft operated on nonestablished lines or for the sole purpose of sightseeing.—Under prior law, transportation of persons or cargo by aircraft with a certified maximum takeoff weight of 6,000 pounds or less on a nonestablished line (including a flight the sole purpose of which was sightseeing) was exempt from commercial aviation excise taxes. This Act repealed this exemption, effective for transportation provided after March 31, 2012.

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. This Act amended the definition of "control" for purposes of section 249, effective for repurchases after February 14,

[1] In the discussions of enacted legislation, years referred to are calendar years, unless otherwise noted.

2012, by referencing the definition of a controlled group in section 1563(a)(1), which includes indirect control relationships.

Allow tax-exempt financing for fixed-wing emergency medical aircraft.—Under this Act, the proceeds from tax-exempt private activity bonds issued after February 14, 2012, may be used to finance the purchase of fixed-wing emergency medical aircraft equipped for, and exclusively dedicated to, providing acute care emergency medical services.

Expand choices for the rollover of amounts received in airline carrier bankruptcy.—Under prior law, an employee or former employee who was a participant in a qualified defined benefit pension plan terminated by a commercial airline carrier generally was allowed to contribute any portion of a payment received from the carrier under the approval of an order of a Federal bankruptcy court in a case filed after September 11, 2001, and before January 1, 2007, to a Roth Individual Retirement Account (IRA) within 180 days of receipt of such amount. Such a contribution was treated as a qualified rollover contribution to the Roth IRA and was includible in gross income to the extent that such payment would be includible were it not part of the rollover contribution. This Act expanded the choices for recipients of such airline payments by allowing the rollover of amounts received to a traditional IRA. All or part of such airline payments rolled over to a Roth IRA under prior law may be recharacterized as a rollover contribution to a traditional IRA within 180 days of February 14, 2012. All or part of such payments not rolled over into a Roth IRA under prior law (including earnings) may be rolled over to a traditional IRA within 180 days of the receipt of the payment or, if later, within 180 days of February 14, 2012. An individual making a rollover contribution of an airline payment to a traditional IRA (including any amount recharacterized as a rollover contribution to a traditional IRA) may exclude the amount contributed from gross income in the taxable year in which the airline payment was made to the employee.

MIDDLE CLASS TAX RELIEF AND JOB CREATION ACT OF 2012 (Public Law 112-96)

This Act, which was signed into law by President Obama on February 22, 2012, affected receipts by extending the temporary two-percentage point reduction in the employee Social Security payroll tax rate, repealing certain shifts in the timing of estimated tax payments by corporations, increasing the contributions of new employees to Federal defined benefit retirement plans, expanding the Short-Time Compensation (STC) unemployment insurance program, and extending and modifying the Emergency Unemployment Compensation (EUC) program These provisions are described in greater detail below.

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.

This Act extended 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 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 $110,100 of net taxable self-employment income received in taxable years beginning in 2012. The Social Security Trust Fund was held harmless and received transfers from the General Fund of the Treasury equal to any reduction in payroll taxes attributable to these reductions in payroll tax rates.

Repeal special rules modifying the amount of estimated tax payments by corporations with assets of at least $1 billion.—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 modified the standard rules with regard to the amount due by corporations with assets of at least $1 billion, increasing the amount due in July, August, or September to: 100.5 percent of the amount otherwise due in 2012, 174.25 percent of the amount otherwise due in 2014, 163.75 percent of the amount otherwise due in 2015, 103.5 percent of the amount otherwise due in 2016, and 106.5 percent of the amount otherwise due in 2019. This Act repealed these legislative changes, reducing the amount due by these corporations to 100 percent of the amount that would have been due prior to enactment of these changes.

Increase the contributions of new employees to Federal defined benefit retirement plans.—This Act increased employee contributions to Federal defined benefit retirement plans, including the Federal Employee Retirement System (FERS), by 2.3 percentage points, effective for individuals joining the Federal work force after December 31, 2012 (other than such individuals with five or more years of creditable civilian service as of December 31, 2012). The effect of the increase was to reduce the employing-agency contributions by an equal amount. Pension benefits for such employees were unchanged.

Expand STC unemployment program.—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. This Act established a new definition of STC. States with existing STC programs were given up to two years and six months to conform to the new definition. States that adopt an STC program that conforms with Federal law are eligible for 100 percent Federal financing of STC benefits for a maximum of 156 weeks. States without an existing STC program may provide STC benefits through a temporary Federal STC program and are eligible to receive 50 percent Federal financing of the cost of STC benefits for up to two years. If they adopt a conforming STC program, they are eligible to receive full Federal financing of benefits for an additional year for a maximum of 156 weeks of Federal financing.

Extend and modify the EUC program.—This Act reauthorized the EUC program, extending the final date for entering a Federal-State agreement under the program through January 2, 2013. Under prior law, the EUC program would have expired on March 6, 2012. Under the EUC program, this Act provided 34 to 53 weeks of benefits through May 2012, depending on the State; 20 to 53 weeks of benefits through August 2012; and 14 to 47 weeks of benefits through December 2012.

SURFACE TRANSPORTATION EXTENSION ACT OF 2012 (Public Law 112-102)

This Act, which was signed into law by President Obama on March 30, 2012, extended the authority to collect taxes that fund the Highway Trust Fund, the Leaking Underground Storage Tank (LUST) Trust Fund, and the Sport Fish Restoration and Boating Trust Fund through June 30, 2012. These taxes had been scheduled to expire after March 31, 2012, under prior law.

TEMPORARY SURFACE TRANSPORTATION EXTENSION ACT OF 2012 (Public Law 112-140)

This Act, which was signed into law by President Obama on June 29, 2012, extended the authority to collect taxes that fund the Highway Trust Fund, the LUST Trust Fund, and the Sport Fish Restoration and Boating Trust Fund through July 6, 2012. These taxes had been scheduled to expire after June 30, 2012, under prior law.

MOVING AHEAD FOR PROGRESS IN THE 21st CENTURY ACT (MAP-21) (Public Law 112-141)

This Act, which was signed into law by President Obama on July 6, 2012, extended the authority to collect taxes that fund the Highway Trust Fund, the LUST Trust Fund, and the Sport Fish Restoration and Boating Trust Fund through September 30, 2016. These taxes had been scheduled to expire after July 6, 2012, under prior law. Several other provisions of this Act affect receipts and are described below.

Modify the interest rate used for purposes of determining required contributions by employers to defined benefit pension plans.—Pension plan sponsors are required to fully fund the pension liabilities of their defined benefit pension plans under the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code. A specified interest rate, based on a corporate bond yield curve, must be used to calculate the present value of pension liabilities for the purpose of determining the required contributions. Under this Act, the interest rates used for this purpose are adjusted so that they fall within a specified corridor around the 25-year average of the applicable rates. For plan years beginning in 2012, the corridor is 90 to 110 percent of the 25-year average and the corridor gradually widens until it is 70 to 130 percent for plan years beginning after 2015. Because the 25-year average as of the end of 2011 is significantly higher than current interest rates, the adjusted interest rates are also higher. This results in a lower calculation of plan liabilities, thereby reducing required contributions. The provision is effective with respect to plan years beginning after December 31, 2011; however, a plan sponsor can elect to defer application of the new interest rates for certain purposes until the plan year beginning in 2013.

Expand the definition of manufacturer of tobacco products for tobacco excise tax purposes.—Manufacturers of certain tobacco products are liable for Federal excise taxes imposed on those products. Under prior law, the term "manufacturer of tobacco products" included any entity that manufactures cigars, cigarettes, smokeless tobacco, pipe tobacco, or roll-your-own tobacco. This Act amended the definition of manufacturer of tobacco products to make clear that it includes any entity that, for commercial purposes only, makes available for consumer use a machine capable of making cigarettes, cigars, or other tobacco products.

Provide phased retirement to certain retirement-eligible Federal employees.—Under prior law, Federal agencies were permitted to offer part-time employment to retirement-eligible employees, but those who participated in pension plans could not begin collecting pension benefits until they retired. In some circumstances, this policy provided an economic disincentive for employees to engage in part-time work necessary to facilitate the efficient transfer of knowledge. Under this Act, and upon the Office of Personnel Management's issuance of governing regulations, Federal agencies would be permitted to allow certain retirement-eligible Federal employees to continue to work part-time while receiving prorated salary and annuity payments. Such employees (except for Postal Service employees) would be required to spend at least 20 percent of their time mentoring less experienced employees. Retirement-eligible employees participating in this phased retirement program under 59 1/2 years of age are exempt from the 10-percent tax on early distributions from a qualified retirement plan that would otherwise apply.

Extend the ability of employers to transfer excess pension assets to retiree health accounts.—Under prior law, employers were allowed to transfer excess assets of a defined benefit plan covered by ERISA to a retiree medical account within the plan in order to fund retiree health benefits. Such transferred assets were not includable in the gross income of the employer and were not subject to the excise tax on reversions. This Act extended the ability to transfer excess pension assets to a retiree medical account for eight years, to apply to such transfers made after December 31, 2013, and before January 1, 2022.

Allow employers to transfer excess pension assets to retiree group term life insurance accounts.—This Act expanded the ability of employers to transfer excess assets of a defined benefit plan covered by ERISA to apply to the transfer of such assets to a retiree life insurance account within the plan in order to fund group-term life insurance for retirees. Transferred assets are not includable in the gross income of the employer and are not subject to the excise tax on reversions. This provision applies to excess pension assets transferred after July 6, 2012, and before January 1, 2022.

TO AMEND THE AFRICAN GROWTH AND OPPORTUNITY ACT TO EXTEND THE THIRD-COUNTRY FABRIC PROGRAM AND TO ADD SOUTH SUDAN TO THE LIST OF COUNTRIES ELIGIBLE FOR DESIGNATION UNDER THAT ACT, TO MAKE TECHNICAL CORRECTIONS TO THE HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES RELATING TO THE TEXTILE AND APPAREL RULES OF ORIGIN FOR THE DOMINICAN REPUBLIC-CENTRAL AMERICA-UNITED STATES FREE TRADE AGREEMENT, TO APPROVE THE RENEWAL OF IMPORT RESTRICTIONS CONTAINED IN THE BURMESE FREEDOM AND DEMOCRACY ACT OF 2003, AND FOR OTHER PURPOSES (Public Law 112-163)

This Act, which was signed into law by President Obama on August 10, 2012, extended for three years, through September 30, 2015, the preferential tariff treatment accorded to certain textile products from lesser-developed sub-Saharan African countries in the African Growth Opportunity Act program; expanded the list of eligible sub-Saharan African countries to include the Republic of South Sudan; and modified the rules of origin for products imported from countries who are members of the Dominican Republic and Central America Free Trade Agreement. This Act also extended 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 26, 2012, and through July 28, 2013.

In addition, this Act 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 2017. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

THE AMERICAN TAXPAYER RELIEF ACT OF 2012 (Public Law 112-240)

This Act, which was signed into law by President Obama on January 2, 2013, ensured that individual income taxes did not rise for 98 percent of Americans and 97 percent of small business owners as scheduled under prior law. In addition to permanently extending the 2001 and 2003 tax cuts for most Americans, this Act temporarily extended key tax relief provided to middle-income taxpayers in ARRA, and extended a number of other provisions that had expired or were scheduled to expire. The major provisions of this Act that affect receipts are described below.

Tax Relief for Individuals

Permanently extend 2001 individual income tax relief for middle-income taxpayers.—Most of the individual income tax reductions enacted in 2001 were scheduled to expire on December 31, 2012. This tax relief included reductions in marginal individual income tax rates; repeal of the limitations on itemized deductions and personal exemptions; special provisions for married couples; and expansions in the child tax credit, the earned income tax credit (EITC), the dependent care credit, and the adoption credit. This Act permanently extended these provisions, with the following modifications: (1) for single taxpayers with taxable income above $400,000, for estates and trusts with income above $11,950, and for married taxpayers filing a joint return with taxable income above $450,000, the 35-percent tax rate bracket enacted in 2001 was increased to 39.6 percent, effective for taxable years beginning after December 31, 2012; and (2) for single taxpayers with adjusted gross income (AGI) above $250,000 and for married taxpayers filing a joint return with AGI above $300,000, the limitations on itemized deductions and personal exemptions that were in effect prior to 2001 were reinstated, effective for taxable years beginning after December 31, 2012.

Permanently extend 2003 tax cuts on capital gains and dividends for middle-income taxpayers.—This Act permanently extended the maximum tax rates of

15 percent and zero percent on net capital gains and dividends realized after December 31, 2012, for single taxpayers with taxable income below $400,000 and for married taxpayers filing a joint return with taxable income below $450,000. The maximum tax rate on net capital gains and dividends was increased to 20 percent for all other taxpayers, effective for net capital gains and dividends realized after December 31, 2012.

Permanently extend and index for inflation the parameters of the Alternative Minimum Tax (AMT).—This Act permanently extended or increased the following AMT parameters, which, under the Act, will be annually indexed for inflation beginning in taxable year 2013: (1) AMT exemption amounts of $50,600 for single taxpayers, $78,750 for married taxpayers filing a joint return and surviving spouses, $39,375 for married taxpayers filing a separate return, and $22,500 for estates and trusts; (2) income thresholds for the 28-percent AMT rate of $87,500 for married taxpayers filing a separate return and $175,000 for all other taxpayers; and (3) income thresholds for the phaseout of the exemption amounts of $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 and for estates and trusts. This Act also permanently extended AMT relief for nonrefundable personal tax credits, effective for taxable years beginning after December 31, 2011.

Permanently extend and modify the estate, gift, and generation-skipping transfer (GST) tax parameters in effect in 2012.—Under prior law, the estates of decedents dying in 2012, as well as gifts and GSTs made in 2012, were taxed at a maximum tax rate of 35 percent and were provided a lifetime exclusion of $5 million, indexed for inflation. Unused exclusion amounts were portable between spouses for estate and gift tax purposes. This Act permanently extended the $5 million exclusion amount applicable to estates, gifts, and GSTs (indexed for inflation), but increased the maximum tax rate to 40 percent, effective for the estates of decedents dying after December 31, 2012, and for gifts and GSTs made after that date. The portability of unused estate and gift tax exclusion amounts between spouses also was made permanent and applies to decedents dying after December 31, 2010.

Extend American opportunity tax credit (AOTC).— 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 AGI between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return). The credit is partially (40 percent) refundable. This Act extended the credit for five years, effective for taxable years beginning after December 31, 2012, and before January 1, 2018.

Extend increased refundability of the child tax credit.—Prior to enactment of ARRA, if the child tax credit exceeded the taxpayer's individual income tax liability, the taxpayer was eligible for a refundable credit (the additional child credit) equal to the lesser of: (1) 15 percent of earned income in excess of a threshold dollar amount ($12,550 for 2009), indexed annually for inflation; or (2) any child credit unclaimed due to insufficient tax liability. ARRA increased the refundability of the child tax credit by reducing the threshold dollar amount to $3,000. This Act extended the $3,000 threshold dollar amount for five years, effective for taxable years beginning after December 31, 2012, and before January 1, 2018.

Extend the EITC for larger families.—The EITC generally equals a specified percentage of earned income, up to a maximum dollar amount, which 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. Under ARRA a fourth credit schedule was added for families with three or more qualifying children. This Act extended the fourth credit schedule for five years, effective for taxable years beginning after December 31, 2012, and before January 1, 2018.

Extend EITC marriage penalty relief.—ARRA provided marriage penalty relief to married couples filing a joint return (regardless of the number of qualifying children) by increasing the income thresholds for the phaseout of the EITC to $5,000 above the income thresholds for the phaseout for other taxpayers; the $5,000 amount was indexed for inflation after 2009. This Act extended the $5,000 increase in the thresholds for the phaseout of the EITC for five years, to apply to taxable years beginning after December 31, 2012, and before January 1, 2018. For taxable years beginning after December 31, 2017, the phaseout for married filers will begin at $3,000 above the income thresholds for other taxpayers, indexed for inflation after 2008.

Extend the above-the-line deduction for qualified out-of-pocket classroom expenses.—Certain teachers and other elementary and secondary school professionals are permitted to deduct up to $250 in annual qualified out-of-pocket classroom expenses. This Act extended this above-the-line deduction for two years, effective for such expenses incurred after December 31, 2011, and before January 1, 2014.

Extend the ability to exclude discharges of indebtedness on principal residences from gross income.— Discharged indebtedness on a principal residence may be excluded from gross income. The debt whose discharge can be excluded may be up to $2 million (or up to $1 million per spouse for married taxpayers filing separate returns), but non-excludable amounts are treated as being excluded before excludable amounts. This Act extended the exclusion for one year, to apply to indebtedness discharged after December 31, 2012, and before January 1, 2014.

Extend parity for exclusion from income for employer-provided mass transit and parking benefits.—Qualified transportation fringe benefits provided by an employer through transit passes and vanpooling can be excluded from an employee's income up to a statutory maximum of $100 per month in combined transit pass and vanpool benefits and $175 per month in qualified parking benefits (both amounts are adjusted annually for inflation after 1998). Prior law temporarily provided parity in these benefits by increasing the monthly exclusion for combined employer-provided transit pass and vanpool benefits to the same level as the exclusion for employer-provided parking benefits. This Act extended parity for two years, effective for benefits provided after December 31, 2011, and before January 1, 2014. Under this provision the monthly limit on the exclusion for combined transit pass and vanpool benefits increases to $240 in 2012 and to $245 in 2013.

Extend deduction for mortgage insurance premiums.—Certain premiums paid or accrued for qualified mortgage insurance by a taxpayer in connection with acquisition indebtedness on a qualified residence are deductible for income tax purposes. This Act extended the deduction for two years, to apply to amounts paid or accrued in 2012 and 2013 that are not properly allocable to any period after December 31, 2013.

Extend optional deduction for State and local general sales taxes.—A taxpayer is allowed to elect to take an itemized deduction for State and local general sales taxes in lieu of the itemized deduction for State and local income taxes. This Act extended this deduction for two years, effective for taxable years beginning after December 31, 2011, and before January 1, 2014.

Extend increased limits on contributions of partial interest in real property for conservation purposes.—Special rules for the deductibility of qualified conservation contributions were temporarily enhanced, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2005, and before January 1, 2012. These enhancements: (1) increased the cap on deductions for qualified conservation contributions from 30 percent to 50 percent of the excess of the donor's contribution base over the amount of all other allowable charitable contributions; (2) increased the cap on deductions for qualified conservation contributions applicable to qualified ranchers and farmers to 100 percent of the excess of the donor's contribution base over the amount of all other allowable charitable contributions in the case of individuals and to 100 percent of the excess of taxable income over the amount of all other allowable charitable contributions in the case of corporations; and (3) increased the number of years qualified conservation contributions in excess of the 50- and 100-percent caps may be carried forward from five to 15 years. This Act extended these enhanced special rules for two years, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2011, and before January 1, 2014.

Extend deduction for qualified tuition and related expenses.—An above-the-line deduction of up to $4,000 is provided for qualified higher education expenses paid by a qualified taxpayer during the taxable year. For a given taxable year, the deduction may not be claimed: (1) if an education tax credit is claimed for the same student, (2) for amounts taken into account in determining the amount excludable from income due to a distribution from a Coverdell education savings account or the amount of interest excludable from income with respect to education savings bonds, and (3) for the amount of a distribution from a qualified tuition plan that is excludable from income, except that the deduction may be claimed for the amount not attributable to earnings. This Act extended the deduction for two years, to apply to expenses incurred in taxable years beginning after December 31, 2011, and before January 1, 2014.

Extend tax-free distributions from IRAs for charitable contributions.—An exclusion from gross income is provided for otherwise taxable distributions from a traditional or a Roth IRA made directly to a qualified charitable organization. The exclusion for these qualified charitable distributions may not exceed $100,000 per taxpayer per taxable year and is applicable only to distributions made on or after the date the IRA owner attains age 70 1/2. This Act extended the exclusion for two years, to apply to distributions made in taxable years beginning after December 31, 2011, and before January 1, 2014. This Act also included special transition rules that enable taxpayers to have amounts distributed after November 30, 2012, and donated by January 31, 2013, treated as qualified charitable distributions for 2012.

Permanently extend and modify authority of the Internal Revenue Service (IRS) to disclose certain tax returns and return information to certain prison officials.—Tax returns and tax return information generally are confidential and may not be disclosed by the IRS, other Federal employees, State employees, and certain others having access to the information except as provided in the Internal Revenue Code. Under prior law, the Secretary of the Treasury was allowed to disclose the return information of prisoners who may have filed or facilitated the filing of false or fraudulent tax returns to officers and employees of the Federal Bureau of Prisons and State prisons. This Act modified and permanently extended this authority, which had expired on December 31, 2011.

Tax Relief for Businesses

Extend and modify 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. This Act extended these tax credits for two years, to apply to expenditures incurred in taxable years beginning after December 31, 2011, and before January 1, 2014. This Act also modified the special rules provided under prior law concerning: (1) the computation of the credit when a major portion of a trade or business changes hands, and (2) the amount of credit allowable to each member of a controlled group of corporations or each member of a group of businesses under common control.

Extend 50-percent first-year depreciation deduction for certain property.—This Act extended the additional first-year depreciation deduction equal to 50 percent of the adjusted basis of the property for one year, to apply to qualifying property acquired and placed in service in calendar year 2013. The placed-in-service deadline was extended through 2014 for certain longer-lived and transportation property. Corporations otherwise eligible for additional first-year depreciation are allowed to claim additional AMT credits in lieu of claiming the additional depreciation.

Extend increased expensing for small business.—Business taxpayers are allowed to expense up to $500,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2010 and 2011. The maximum amount that can be expensed is reduced by the amount by which the taxpayer's cost of qualifying property exceeds $2,000,000. In addition, for taxable years beginning in 2010 and 2011, the definition of qualifying property is expanded to include certain real property, such as qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property; however, the maximum amount of such real property that can be expensed is $250,000. This Act extended for two years, effective for qualifying property placed in service in taxable years beginning in 2012 and 2013 (including off-the-shelf computer software and certain real property), the annual expensing and investment limits that were in effect in 2010 and 2011.

Extend temporary minimum Low-Income Housing tax credit (LIHTC) rate for non-Federally subsidized new buildings.—The LIHTC is provided to owners of qualified low-income rental units. The credit may be claimed over a ten-year period for a portion of the cost of rental housing occupied by tenants having incomes below specified levels. Under the Housing and Economic Recovery Act of 2008, a temporary minimum credit percentage of nine percent was provided for newly constructed non-Federally subsidized buildings placed in service before December 31, 2013. This Act extended the nine percent rate to apply to projects that have received an allocation before January 1, 2014.

Extend treatment of basic housing allowances for the purpose of LIHTC income eligibility rules.—In order to be eligible for the LIHTC or to be financed with exempt facility bonds, a qualified low-income building must be part of a qualified low-income housing project. In general, a qualified low-income housing project is defined as a project that satisfies one of two tests at the election of the taxpayer. The first test is met if 20 percent or more of the residential units in the project are both rent-restricted, and occupied by individuals whose income is 50 percent or less of area median gross income. The second test is met if 40 percent or more of the residential units in the project are both rent-restricted, and occupied by individuals whose income is 60 percent or less of area median gross income. These income requirements are adjusted for family size. Effective for income determinations made after July 30, 2008, and before January 1, 2012, the basic housing allowance (payments provided under section 403 of title 37, United State Code) provided to military personnel was not included in income for the purpose of LIHTC income eligibility rules. This Act extended the disregard of basic housing allowances for purposes of LIHTC income eligibility rules for two years, effective for income determinations made before January 1, 2014.

Extend tax incentives for employment and investment on Indian reservations.—This Act extended for two years, through December 31, 2013, the employment tax credit for qualified workers employed on an Indian reservation and the accelerated depreciation rules for qualified property used in the active conduct of a trade or business within an Indian reservation. The employment tax credit is not available for employees involved in certain gaming activities or who work in a building that houses certain gaming activities. Similarly, property used to conduct or house certain gaming activities is not eligible for the accelerated depreciation rules.

Extend 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. This Act extended the NMTC, which expired at the end of 2011, for two years, to apply to 2012 and 2013. Up to $3.5 billion in qualifying investment is allowed in each year.

Extend railroad track maintenance credit.—A 50-percent business tax credit is provided for qualified railroad track maintenance expenditures paid by an eligible taxpayer. The credit is limited to the product of $3,500 times the number of miles of railroad track owned or leased by an eligible taxpayer as of the close of the taxable year. This Act extended the credit for two years, to apply to qualified expenses incurred in taxable years beginning after December 31, 2011, and before January 1, 2014.

Extend credit for mine rescue training.—An eligible taxpayer may claim a general business tax credit with respect to each qualified mine rescue team employee equal to the lesser of: (1) 20 percent of the amount paid or incurred by the taxpayer during the taxable year with respect to the training program costs of the qualified mine rescue team employee; or (2) $10,000. This Act extended the credit for two years, to apply to costs incurred in taxable years beginning after December 31, 2011, and before January 1, 2014.

Extend expensing of advanced mine safety equipment.—Taxpayers are allowed to immediately expense 50 percent of the cost of underground mine safety equipment that is above and beyond existing safety equipment requirements. This Act extended this provision for two years, to apply to property placed in service after December 31, 2011, and before January 1, 2014.

Extend expensing for certain qualified film and television production.—Taxpayers are allowed to elect to deduct up to $15 million ($20 million for productions in certain areas) of the aggregate costs of any qualifying film and television production in the year in which the expenses are incurred, in lieu of capitalizing the cost and recovering it through depreciation allowances. This Act extended this provision for two years, to apply to qualified film and television productions commencing after December 31, 2011, and before January 1, 2014.

Extend the domestic production activities deduction for activities in Puerto Rico.—A deduction is provided for a portion of a taxpayer's qualified production activities income. Qualified production activities income generally is equal to domestic production gross receipts reduced by the sum of the costs of goods sold and other expenses, losses, or deductions that are properly allocable to those receipts. Domestic production gross receipts generally only include receipts from activities performed within the United States, and do not include receipts from activities performed in Puerto Rico. For taxable years beginning after May 17, 2006, the amount of the deduction for a taxable year is limited to 50 percent of the wages paid by the taxpayer and properly allocable to domestic production gross receipts during the calendar year that ends in such taxable year. Wages paid to bona fide residents of Puerto Rico generally are not included in the wage limitation amounts. However, effective for the first six taxable years of a taxpayer beginning after December 31, 2005, and before January 1, 2012, a taxpayer with gross receipts from sources within the Commonwealth of Puerto Rico can treat production activities performed in Puerto Rico as performed in the United States for purposes of determining qualified production activities income, and can take into account wages paid to bona fide residents of Puerto Rico for services performed in Puerto Rico in computing the 50-percent wage limitation, provided all of the taxpayer's gross receipts are subject to the Federal income tax. This Act extended this provision for two years, to apply to the first eight taxable years of a taxpayer beginning after December 31, 2005, and before January 1, 2014.

Extend employer wage credit for employees who are active duty members of the uniformed services.—Some employers voluntarily pay their employees who are called to active duty in the armed forces of the United States the difference between the compensation that they would have paid the employee during the period of military service and the amount of pay received by the employee from the military. This payment by the employer is often referred to as "differential pay." Eligible small business employers are provided a tax credit equal to 20 percent of up to $20,000 in annual eligible differential wage payments made to each qualified employee. This Act extended the credit for two years, making it available for eligible differential wage payments made to a qualified employee after December 31, 2011, and before January 1, 2014.

Extend the work opportunity tax credit (WOTC).— The WOTC provides incentives to employers for hiring individuals from one or more of nine targeted groups. This Act extended the credit for two years (one year with respect to qualified veterans), to apply to wages paid to qualified individuals who begin work for the employer after December 31, 2011 (after December 31, 2012 for qualified veterans), and before January 1, 2014.

Extend the issuance of qualified zone academy bonds.—This Act extended the qualified zone academy bond program for two years, authorizing the issuance of $400 million in such bonds in each calendar year, 2012 and 2013.

Extend modified recovery period for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property.—This Act extended the 15-year recovery period for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property for two years, effective for such property placed in service after December 31, 2011, and before January 1, 2014.

Extend seven-year recovery period for motorsports entertainment complexes.—Under this Act, the seven-year recovery period applicable to motorsports entertainment complexes placed in service before January 1, 2012, was extended for two years, to apply to such facilities placed in service before January 1, 2014.

Extend the enhanced charitable deduction for contributions of food inventory.—A taxpayer's deduction for charitable contributions of inventory generally is limited to the taxpayer's basis (typically cost) in the inventory or, if less, the fair market value of the inventory. For certain contributions of inventory, C corporations may claim an enhanced deduction equal to the lesser of: (1) basis plus one-half of the item's appreciation, or (2) two times basis. However, any taxpayer (not just a C corporation) engaged in a trade or business is eligible to claim the enhanced deduction for donations of food inventory. To qualify for the enhanced deduction, the donated food inventory must meet certain quality and labeling standards and cannot exceed 10 percent of the taxpayer's net income from the related trade or business. This Act extended the enhanced charitable deduction for contributions of food inventory for two years, to apply to contributions made after December 31, 2011, and before January 1, 2014.

Extend New York Liberty Zone tax-exempt bond financing.—This Act extended for two years, through December 31, 2013, the time for issuing New York Liberty Zone bonds for the financing of certain nonresidential real property, residential rental property and public utility property.

Extend Subpart F "active financing" and "look-through" exceptions.—Under Subpart F, U.S. shareholders of a controlled foreign corporation (CFC) are subject to U.S. tax currently on certain income earned by the CFC, whether or not such income is distributed. Exceptions from Subpart F are provided for: (1) certain income derived in the active conduct of a banking, financing, insurance, or similar business (active financing exception), and (2) dividends, interest, rents, and royalties received by one CFC from a related CFC to the extent attributable or properly allocable to income of the related CFC that is neither Subpart F income nor income treated as effectively connected with the conduct of a trade or business in the United States (look-through exception). This Act extended both the Subpart F active financing and look-through exceptions to apply to taxable years beginning after December 31, 2011, and before January 1, 2014.

Extend special tax rules applicable to regulated investment companies (RICs).—This Act extended for two years, through December 31, 2013, the following special tax rules applicable to RICs: (1) the exemption from U.S. withholding tax for certain interest-related dividends and short-term capital gain dividends paid by a RIC to a foreign shareholder; and (2) the treatment of RICs as "qualified investment entities."

Extend special rule regarding tax treatment of certain payments to controlling exempt organizations.—Interest, rents, royalties, and annuities generally are excluded from the tax on unrelated business income of tax-exempt organizations, unless such income is received from a taxable or tax-exempt subsidiary that is 50-percent controlled by the parent tax-exempt organization. However, such income received by a tax-exempt parent organization from a controlled subsidiary before January 1, 2012, is taxable only to the extent that it exceeds amounts that would have been received if such payments had been determined under the arm's length principles of section 482 of the Internal Revenue Code. This Act extended this provision for two years, to apply to such income received before January 1, 2014.

Extend tax incentives for empowerment zones.—This Act extended the tax incentives provided to businesses located in the 40 federally-designated empowerment zones (30 in urban areas and 10 in rural areas) for two years, through December 31, 2013.

Extend exclusion of 100 percent of gain on certain small business stock.—Capital gains realized on the sale of certain small business stock held by an individual for more than five years are excluded from tax, effective for stock issued after September 27, 2010, and before January 1, 2012. This Act extended the 100 percent exclusion for two years, to apply to qualified small business stock issued after December 31, 2011, and before January 1, 2014.

Extend reduction in recognition period for S-corporation built-in gains tax.—A "small business corporation" may elect to be treated as an S corporation. Unlike C corporations, S corporations generally pay no corporate-level tax; instead, items of income and loss of an S corporation pass through to its shareholders. A corporate level tax, at the highest marginal tax rate applicable to corporations (currently 35 percent), is imposed on the net recognized built-in gain of an S corporation that arose prior to the conversion of a C corporation to the S corporation and that is recognized by the S corporation during the "recognition period." The "recognition period" is the 10-year period beginning with the first day of the first taxable year for which the election to be treated as an S corporation is in effect; however, the "recognition period" was reduced to five years for dispositions of property in taxable years beginning in 2011. This Act extended the five-year recognition period for two years, to apply to dispositions of property in taxable years beginning in 2012 and 2013.

Extend basis adjustment to stock of S corporations contributing appreciated property.—Each shareholder of an S corporation must take into account his or her pro rata share of a charitable contribution by the S corporation in determining his or her income tax liability. For donations of property, this generally is the pro rata share of the property's fair market value; the shareholder's basis in the stock of the company is reduced by the amount of the charitable contribution that flows through to the shareholder. However, effective for charitable contributions made by an S corporation in taxable years beginning after December 31, 2005, and before January 1, 2012, shareholders are allowed to adjust their basis in the stock of the company by their pro rata share of the adjusted basis of the contributed property instead of by their pro rata share of the market value of the contributed property. This Act extended this provision for two years, to apply to charitable contributions made by an S corporation in taxable years beginning before January 1, 2014.

Extend and modify the economic development credit for American Samoa.—Under prior law, a domestic corporation that was an existing possessions tax credit claimant with respect to American Samoa and elected the application of the tax credit for its last taxable year beginning before January 1, 2006, was allowed to claim a possession tax credit based on the economic activity-based limitation rules for the first six taxable years beginning after December 31, 2005, and before January 1, 2012. This Act extended the ability of such domestic corporations to claim a possession tax credit based on the economic activity-based limitation rules for two years, to apply to the first eight taxable years beginning after December 31, 2005, and before January 1, 2014. This Act also allowed domestic corporations that did not elect the application of the tax credit for their last taxable year beginning before January 1, 2006, but who were existing credit claimants, to claim a possession tax credit based on the economic activity-based limitation rules for the first two taxable years beginning after December 31, 2011, and before January 1, 2014.

Energy Tax Relief

Extend credit for the construction of energy-efficient new homes.—An eligible contractor is provided a tax credit for each qualified new energy-efficient home that is constructed and acquired from the contractor by a person for use as a residence. This Act extended the credit for two years, to apply to homes purchased after December 31, 2011, and before January 1, 2014.

Extend credit for energy-efficient appliances.—A credit is provided for the production of certain energy-efficient dishwashers, clothes washers, and refrigerators. This Act extended the credit for two years, to apply to such appliances produced after December 31, 2011, and before January 1, 2014.

Extend credit for nonbusiness energy property.—A tax credit is provided for the purchase of qualified energy efficient improvements to existing homes located in the United States and owned and used by the taxpayer as the taxpayer's principal residence. This Act extended the credit for two years, to apply to property purchased and placed in service after December 31, 2011, and before January 1, 2014.

Extend credit for alternative fuel vehicle refueling property.—A tax credit is provided for the cost of qualified clean-fuel vehicle refueling property to be used in a trade or business of the taxpayer or installed at the principal residence of the taxpayer. Under prior law, the credit is available for hydrogen refueling property placed in service before January 1, 2015, and for non-hydrogen refueling property placed in service before December 31, 2011. This Act extended the credit for non-hydrogen refueling property for two years, to apply to property placed in service after December 31, 2011, and before January 1, 2014.

Extend credit for qualified plug-in electric drive motor vehicles with low-speed or two or three wheels.—This Act extended for two years the credit for new qualified plug-in electric drive motor vehicles with low speed, or two or three wheels (having a battery capacity of at least 2.5 kilowatt-hours), to apply to vehicles acquired by the taxpayer after December 31, 2011, and before January 1, 2014. The credit is 10 percent of the cost of the qualified vehicle or $2,500, whichever is less.

Extend and modify cellulosic biofuel producer credit.—An income tax credit (generally equal to $1.01 per gallon) is provided to producers of cellulosic biofuel. This Act extended the credit for one year, to apply to fuel produced after December 31, 2012, and before January 1, 2014. This Act also: (1) clarified that the credit may only be carried forward three years after the credit is terminated; and (2) expanded qualified cellulosic biofuel production to include algae-based fuel.

Extend and modify special allowance for cellulosic biofuel plant property.—This Act extended the additional first-year depreciation deduction, equal to 50 percent of the adjusted basis of qualified cellulosic biofuel plant property, for one year, to apply to such property placed in service before January 1, 2014. This Act also expanded the definition of qualified cellulosic biofuel plant property to include property used in the United States solely to produce algae-based fuel.

Extend credits for renewable diesel and biodiesel fuels.—An excise tax credit (or a payment) of $1.00 is provided for each gallon of biodiesel and agri-biodiesel used by a taxpayer in producing a biodiesel mixture for sale or use in a trade or business. An income tax credit for biodiesel fuels (the biodiesel fuels credit) is also provided. The biodiesel fuels income tax credit is the sum of three credits: (1) the biodiesel mixture credit, which is $1.00 for each gallon of biodiesel and agri-diesel used by the taxpayer in the production of a qualified biodiesel mixture; (2) the biodiesel credit, which is $1.00 for each gallon of biodiesel and agri-diesel that is not in a mixture with diesel when used as a fuel or sold at retail; and (3) the small agri-biodiesel producer credit, which is a 10-cents-per-gallon credit for up to 15 million gallons of agri-biodiesel produced by small producers. Renewable diesel is eligible for the excise tax credit (or payment) and the income tax credit provided to biodiesel fuels at a rate of $1.00 per gallon. This Act extended for two years, through December 31, 2013, these credits and payments for biodiesel and renewable diesel fuels.

Extend credit for the production of Indian coal.—This Act extended for one year, through December 31, 2013, the credit for the production of coal from reserves owned by Indian tribes at facilities placed in service before January 1, 2009.

Extend and modify the tax credit for energy produced from certain renewable sources.—Taxpayers are allowed a tax credit for electricity produced from wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower, and marine and hydrokinetic renewable energy at qualified facilities (the renewable electricity production credit). The credit rate is 1.5 cents per kilowatt hour for electricity produced from wind, closed-loop biomass, geothermal, and solar power, and 0.75 cents per kilowatt hour for electricity produced from open-loop biomass, small irrigation power, municipal solid waste, qualified hydropower, and marine and hydrokinetic renewable energy (both rates are adjusted for inflation sine 1992). To qualify for the credit, electricity generally must be sold by the taxpayer to an unrelated person and must be produced at qualified facilities placed in service before January 1, 2014 (January 1, 2013, for wind facilities; October 3, 2008, for small irrigation power facilities; and January 1, 2006 for solar energy facilities). This Act: (1) excluded paper that is commonly recycled from the definition of municipal solid waste; (2) modified the definition of qualified facility to apply to facilities on which construction begins before January 1, 2014, for facilities that produce electricity from wind, closed-loop biomass, open-loop biomass, geothermal energy, municipal solid waste, qualified hydropower, geothermal energy, and marine and hydrokinetic renewable energy; and (3) extended for one year, through December 31, 2013, the election to treat qualified facilities as energy property eligible for the 30-percent energy production credit, in lieu of the renewable electricity production credit.

Extend special rules for sales or dispositions to implement Federal Energy Regulatory Commission (FERC) or State electric restructuring rules for qualified electric utilities.—Under a special provision of prior law, taxpayers were allowed to elect to recognize gain from the sale or disposition of qualifying electric transmission property ratably over an eight-year period beginning in the year of sale if the amount realized from such sale was used to purchase exempt utility property (reinvestment property) within the applicable period. Any gain realized in excess of the amount used to purchase the reinvestment property was recognized as income in the year of the qualifying electric transmission transaction. This Act extended this special rule for two years, to apply to the sale or disposition of qualifying electric transmission property after December 31, 2011, and before January 1, 2014.

Extend alternative fuels excise tax credits.—Two per-gallon excise tax credits are available for the production of alternative fuel: the alternative fuel credit and the alternative fuel mixture credit. Alternative fuel means liquefied petroleum gas, P Series fuels, compressed or liquefied natural gas, liquefied hydrogen, liquid fuel derived from coal through the Fischer-Tropsch process, compressed or liquefied gas derived from biomass, or liquefied fuel derived from biomass. The alternative fuel credit is 50 cents per gallon of alternative fuel or gasoline gallon equivalents of nonliquid alternative fuel sold by the taxpayer for use as a motor fuel in a motor vehicle or motorboat, sold for use in aviation or so used by the taxpayer. The alternative fuel mixture credit is 50 cents per gallon of alternative fuel used in producing an alternative fuel mixture for sale or use in a trade or business of the taxpayer. A taxpayer is also allowed to file a claim for payment equal to the amount of the alternative fuel credit or the alternative fuel mixture credit. Under prior law, the credits and payments for non-hydrogen fuels expired with respect to fuel used or sold after December 31, 2011; the credits and payments with respect to liquefied hydrogen expired with respect to fuel used or sold after September 30, 2014. This Act extended the alternative fuel credit, the alternative fuel mixture credit, and related payments for non-hydrogen fuels for two years, to apply to fuel sold or used before January 1, 2014.

Other Tax Provisions

Provide special rule for certain transfers to designated Roth IRAs.—Under this Act, an applicable retirement plan that includes a qualified Roth contribution program may allow individuals to elect to transfer amounts not otherwise distributable under the plan to the plan's designated Roth account maintained for the benefit of the individual. Such an amount transferred after December 31, 2012, is treated as a distribution that was contributed in a qualified rollover contribution so that the amount transferred is included in income but not subject to an additional tax that generally applies to early distributions.

PROPOSALS

ADJUSTMENTS TO THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT (BBEDCA) BASELINE

The BBEDCA baseline, which is commonly used in budgeting and is defined in the 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 the BBEDCA baseline from serving as a realistic benchmark for judging the effect of new legislation. For example, ATRA permanently extended most of the 2001/2003 tax cuts (as amended by subsequent legislation), but extended some tax relief provided to individuals and families under ARRA only through taxable year 2017. This tax relief includes increased refundability of the child tax credit, expansions in the EITC for larger families and married taxpayers filing a joint return, and increased assistance for qualified tuition and related expenses provided by the AOTC.

This Budget uses an adjusted baseline that is intended to be more realistic. This adjusted baseline does not reflect the totality of 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 tax relief provided to individuals and families under ARRA that was extended only through taxable year 2017 under ATRA.[2]

Permanently extend increased refundability of the child tax credit.—ARRA increased the refundability of the child tax credit by reducing the earnings threshold for refundability to $3,000 (unindexed) from $10,000 (indexed after 2001). The adjusted baseline permanently extends the $3,000 earnings threshold, effective for taxable years beginning after December 31, 2017.

Permanently extend EITC marriage penalty relief.—ARRA provided marriage penalty relief to married couples filing a joint return (regardless of the number of qualifying children) by increasing the amount by which the income thresholds for the phaseout of the EITC exceed the thresholds for other taxpayers from $3,000 (indexed for inflation after 2008) to $5,000 (indexed for inflation after 2009). The adjusted baseline permanently extends the $5,000 increase in the thresholds for the phaseout of the EITC, effective for taxable years beginning after December 31, 2017.

Permanently extend EITC for larger families.—Under ARRA, a fourth credit schedule was added providing a larger credit for families with three or more qualifying children. This fourth schedule is permanently extended under the adjusted baseline, effective for taxable years beginning after December 31, 2017.

Permanently extend AOTC.—The AOTC, which was created under ARRA, provides taxpayers a credit of up to $2,500 per eligible student per year for qualified tuition and related expenses 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, which is partially refundable and phased out above specified income thresholds. The adjusted baseline extends the credit permanently, effective for taxable years beginning after December 31, 2017.

[2] A more general explanation of the adjusted baseline concept is provided in Chapter 26 of this volume, "Current Services Estimates."

Table 14–2. ADJUSTMENTS TO THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT (BBEDCA) BASELINE ESTIMATES OF GOVERNMENTAL RECEIPTS

(In billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
BBEDCA baseline receipts	**2,712.2**	**3,000.3**	**3,276.8**	**3,476.0**	**3,660.2**	**3,866.4**	**4,107.5**	**4,335.8**	**4,570.3**	**4,797.5**	**5,057.6**	**17,279.6**	**40,148.2**
Adjustments to BBEDCA baseline:													
Extend increased refundability of the child tax credit [1]	....	....	....	....	....	....	....	....	....	....	....	....	....
Extend EITC marriage penalty relief [1]	....	....	....	....	....	–0.1	–1.5	–1.5	–1.5	–1.6	–1.6	–0.1	–7.8
Extend EITC for larger families [1]	....	....	....	....	....	–*	–*	–*	–*	–*	–*	–*	–*
Extend AOTC [1]	....	....	....	....	....	–0.9	–9.3	–9.7	–10.1	–10.7	–11.0	–0.9	–51.7
Total, adjustments to BBEDCA baseline	**.........**	**.........**	**.........**	**.........**	**.........**	**–1.0**	**–10.8**	**–11.2**	**–11.7**	**–12.2**	**–12.6**	**–1.0**	**–59.6**
Adjusted baseline receipts	**2,712.2**	**3,000.3**	**3,276.8**	**3,476.0**	**3,660.2**	**3,865.3**	**4,096.7**	**4,324.6**	**4,558.6**	**4,785.2**	**5,045.0**	**17,278.6**	**40,088.7**

* $50 million or less.

[1] This provision affects both receipts and outlays. Only the receipt effect is shown here. The outlay effects are listed below:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Extend increased refundability of the child tax credit	....	....	....	....	....	0.5	10.1	10.2	10.2	10.2	10.3	0.5	51.5
Extend EITC marriage penalty relief	....	....	....	....	....	*	0.1	0.1	0.1	0.1	0.1	*	0.4
Extend EITC for larger families	....	....	....	....	....	0.1	1.6	1.7	1.7	1.7	1.8	0.1	8.6
Extend AOTC	....	....	....	....	....	....	7.3	8.1	8.3	8.5	8.7	....	40.8
Total, outlay effects of adjustments to BBEDCA baseline	....	....	....	....	....	0.6	19.0	20.0	20.2	20.5	20.8	0.6	101.2

RESERVE FOR REVENUE-NEUTRAL BUSINESS TAX REFORM

The number of special deductions, credits, and other tax preferences provided to businesses in the Internal Revenue Code has expanded significantly since the last comprehensive tax reform effort nearly three decades ago. Such tax preferences help well-connected special interests, but do little for economic growth. To be successful in an increasingly competitive global economy, the Nation cannot afford a tax code burdened with such special interest tax breaks; instead, the tax code needs to ensure that the United States is the most attractive place for entrepreneurship and business growth. The President is therefore calling on the Congress to immediately begin work on business tax reform and has laid out a framework that contains the following five elements: (1) Eliminate loopholes and subsides, broaden the base and cut the corporate tax rate; (2) Strengthen American manufacturing and innovation; (3) Strengthen the international tax system; (4) Simplify and cut taxes for small businesses; and (5) Restore fiscal responsibility and not add a dime to the deficit. Consistent with this framework, the Administration is offering a detailed set of business proposals that close loopholes and provide incentives for growth in a fiscally responsible manner. The Administration proposes that these proposals be enacted as part of revenue-neutral business tax reform. As a result, the net savings from these proposals, which are described below, are not reflected in the budget estimates of receipts and are not counted toward meeting the Administration's deficit reduction goals.

Incentives for Manufacturing, Research, Clean Energy, and Insourcing and Creating Jobs

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, severance pay, or other assistance to displaced workers.

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, 2014 through 2016.

Enhance and make permanent the 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 will expire with respect to expenditures paid or incurred after December 31, 2013. The Administration proposes to permanently extend these tax credits and to raise the rate of the alternative simplified credit to 17 percent.

Extend certain employment tax credits, including incentives for hiring veterans.—The WOTC provides incentives to employers for hiring individuals from one or more of nine targeted groups and the Indian employment tax credit provides incentives to employers for hiring individuals who are members of an Indian tribe. The Indian employment tax credit applies to increases in qualified wages and health insurance costs over qualified wages and health insurance costs incurred in calendar year 1993 (the base year). The Administration proposes to permanently extend both credits, which include the Returning Heroes and Wounded Warrior credits enacted in 2011. In addition, the Administration proposes to modify the Indian employment tax credit by changing the base year wages and health insurance costs to the average of those costs in the two years prior to the year for which the credit is being claimed.

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, 2013, 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). 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 December 31, 2013, and before January 1, 2021. The credit would be limited to 75 percent of the otherwise allowable amount for vehicles placed in service in 2018, to 50 percent of such amount for vehicles placed in service in 2019, and to 25 percent of such amount for vehicles placed in service in 2020. 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 alternative-fuel 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, 2013, and before January 1, 2020. 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.

Modify and permanently extend renewable electricity production tax credit.—Current law provides production tax credits for renewable energy facilities the construction of which begins before the end of 2013. 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 permanently extend the production tax credit for renewable energy property and to make it refundable. The refundable credit would be allowed with respect to property the construction of which begins in 2014 or thereafter for property that is part of a facility otherwise eligible for the renewable electricity production tax credit and for solar property.

Modify and permanently extend the deduction for energy-efficient commercial building property.—The Administration proposes to increase both the maximum deduction and the partial deduction available for the installation of energy-efficient commercial building property. In addition, the proposal would enable existing buildings to qualify for a deduction, by reference to measured and verified energy savings over the baseline for that structure's energy performance prior to the retrofit project. The new deductions would be permanent and would be available for property placed in service after calendar year 2013.

Tax Relief for Small Business

Extend increased expensing for small business.— Business taxpayers are allowed to expense up to $500,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2010 through 2013. The maximum amount that can be expensed is reduced by the amount by which the taxpayer's cost of qualifying property exceeds $2,000,000. The Administration proposes to permanently extend these expensing and investment limits, effective for qualifying property placed in service in taxable years beginning after December 31, 2013. These limits would be indexed for inflation in taxable years beginning after 2013. Qualifying property would permanently include off-the-shelf computer software, but would not include certain real property.

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, 2014, 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 roll over 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. 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, 2013.

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 have fewer than 25 full-time equivalent employees during the taxable year with annual full-time equivalent employee wages that average less than $50,000 and 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. The maximum credit, which is a specified percentage of premiums the employer pays during the taxable year, is reduced on a sliding scale between 10 and 25 full-time equivalent employees as well as between average annual wages of $25,000 and $50,000. Because the reductions are additive, an employer with fewer than 25 full-time equivalent employees paying average wages of less than $50,000 might not be eligible for any tax credit. For taxable years beginning in 2010 through 2013, the qualified amount of the employer contribution is reduced if the premium for the coverage purchased exceeds the State average premium. For taxable years beginning after 2013, the qualified amount of the employer contribution is reduced if the premium for the coverage purchased exceeds the average premium for the small group market in the rating areas in which the employee enrolls for coverage.

The Administration proposes to expand the credit to employers with up to 50 (rather than 25) full-time equivalent employees and to begin the phaseout of the maximum credit at 20 full-time equivalent employees (the credit would be reduced on a sliding scale between 20 and 50, rather than between 10 and 25, 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 average premium in the State or rating area. The proposal would be effective for taxable years beginning after December 31, 2012.

Incentives to Promote Regional Growth

Extend and modify the 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 expire at the end of 2013. The Administration proposes to permanently extend the NMTC. Up to $5 billion in qualifying investment would be allowed in each year beginning in 2014. The proposal would also permit the NMTC to permanently offset AMT liability.

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 2014 to 2023, 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 2023. 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 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.

Reform and expand the LIHTC.—The Administration proposes several changes to the rules governing LIHTCs. First, States would be empowered to convert some private-activity-bond volume cap into authority to allocate additional LIHTCs. This proposal would give each State more flexibility to address its highest affordable housing priorities.

Second, to serve households in greater need and to provide incentives for creating mixed-income housing, the Administration proposes to allow projects to comply with an income-averaging 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. 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 the current income limit for the building and if, when the tenant’s income is measured for purposes of LIHTC qualification, the income is greater than the current income limit for the building 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.

Third, the Administration proposes to change the formulas that produce the rates for the 70-percent-present-value credits and for those 30-percent-present-value credits that are subject to the LIHTC allocation cap. In lieu of the nine-percent floor that is scheduled to sunset for allocations made after 2013, the revised formulas would produce annual allocated-credit rates that are somewhat higher than the rates that today's present-value formulas produce and would result in a more consistent benefit over the interest rate spectrum than under current law. The proposal would apply to allocations made after December 31, 2013.

Fourth, the Administration proposes to add preservation of federally assisted affordable housing to the selection criteria for LIHTC allocation. This factor would join the ten criteria that State housing agencies must include in the qualified allocation plans that they follow in deciding which applicants receive LIHTCs. The proposal would apply to allocations made in calendar years beginning after the date of enactment.

Finally, to increase the demand for LIHTCs, the Administration proposes to make them beneficial to real estate investment trusts (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 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.

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 current law, a taxpayer may choose to claim a credit against its U.S. income tax liability for income, war profits, and excess profits taxes paid or accrued during the taxable year to any foreign country or any possession of the United States, subject to certain limitations. The reduction to two foreign tax credit limitation categories, for passive category income and general category income under the American Jobs Creation Act of 2004, enhanced U.S. taxpayers' ability to reduce the residual U.S. tax on foreign-source income through "cross-crediting." 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 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 foreign affiliates.—Under the Administration's proposal, a U.S. insurance company would be denied a deduction for certain non-taxed reinsurance premiums paid to foreign affiliates, offset by an exclusion for return premiums, ceding commissions, reinsurance recovered, or other amounts received from such 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 for U.S. tax purposes 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

Require that derivative contracts be marked to market with resulting gain or loss treated as ordinary.—Under current law, derivative contracts are subject to various rules on timing and character. The Administration's proposal would require that gain or loss from a derivative contract be reported on an annual basis as if the contract were sold for its fair market value no later than the last business day of the taxpayer's taxable year. Gain or loss resulting from the contract would be treated as ordinary and as attributable to a trade or business of the taxpayer. A derivative contract would be broadly defined to include (1) any contract the value of which is determined, directly or indirectly, in whole or in part, by actively traded property; and (2) any contract with respect to a contract described in (1). A derivative contract that is embedded in another financial instrument or contract is subject to mark to market if the derivative by itself would be marked. In addition, a financial instrument (e.g., stock) that is not otherwise marked to market that is part of (or becomes part of) a straddle transaction with a derivative contract would be marked to market, with preexisting gain recognized at that time and loss recognized when the financial instrument is otherwise disposed of. An exception from mark-to-market treatment would be provided for business hedging transactions. The proposal would apply to contracts entered into after December 31, 2013.

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, 2013.

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, 2013.

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, 2013, 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 2014: (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; (7) the ability to claim the domestic production manufacturing deduction against income derived from the production of oil and gas; and (8) 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 2014: (1) expensing of exploration and development costs; (2) percentage depletion for hard mineral fossil fuels; (3) capital gains treatment for royalties; and (4) the ability to claim the domestic manufacturing deduction against income derived from the production of coal and other hard mineral fossil fuels.

Other Revenue Changes and Loophole Closers

Repeal the excise tax credit for distilled spirits with flavor and wine additives.—Distilled spirits are taxed at a rate of $13.50 per proof-gallon. Some distilled spirits are flavored with wine or other additives. Current law allows a credit against the $13.50 per proof gallon excise tax on distilled spirits for flavor and wine additives. As a result of the credit, flavorings of up to 2.5 percent of the distilled spirit mixture are tax exempt, and wine in a distilled spirits mixture is taxed at the lower rate on wine. Thus, the credit reduces the effective excise tax rate paid on distilled spirits with such content. The proposal would repeal this credit effective for all spirits produced in or imported into the United States after December 31, 2013.

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 change their method of accounting for inventory and report their beginning-of-year inventory at its first-in, first-out (FIFO) value in the year of change. Taxpayers would recognize any resulting income 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.

Modify 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, 2013.

Repeal gain limitation for dividends received in reorganization exchanges.—If, as part of a corporate reorganization, a taxpayer receives both stock and other property that cannot be received without the recognition of gain (often referred to as "boot"), the exchanging shareholder recognizes gain but it is limited to the lesser of the gain realized or the amount of boot received. This limit 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. The proposal would be effective for taxable years beginning after December 31, 2013.

Table 14–3. RESERVE FOR REVENUE-NEUTRAL BUSINESS TAX REFORM

(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Incentives for manufacturing, research, clean energy, and insourcing and creating jobs:													
Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas	....	–5	–10	–10	–10	–12	–12	–12	–13	–14	–14	–47	–112
Provide new Manufacturing Communities tax credit	....	–19	–103	–240	–392	–516	–618	–701	–729	–641	–452	–1,270	–4,411
Enhance and make permanent the R&E tax credit	....	–3,893	–7,282	–8,121	–8,975	–9,832	–10,669	–11,439	–12,225	–13,052	–13,890	–38,103	–99,378
Extend certain employment tax credits, including incentives for hiring veterans	....	–359	–817	–1,006	–1,060	–1,049	–1,009	–968	–943	–936	–939	–4,291	–9,086
Provide a tax credit for the production of advanced technology vehicles	....	–50	–283	–461	–784	–1,079	–1,175	–933	–144	352	345	–2,657	–4,212
Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles	....	–71	–362	–411	–488	–471	–247	–217	108	66	37	–1,803	–2,056
Modify and permanently extend renewable electricity production tax credit [1]	....	–43	–177	–664	–1,160	–1,543	–1,915	–2,320	–2,778	–3,192	–3,651	–3,587	–17,443
Modify and permanently extend the deduction for energy-efficient commercial building property	....	–83	–217	–350	–489	–575	–624	–701	–736	–729	–718	–1,714	–5,222
Total, incentives for manufacturing, research, clean energy, and insourcing and creating jobs	....	–4,523	–9,251	–11,263	–13,358	–15,077	–16,269	–17,291	–17,460	–18,146	–19,282	–53,472	–141,920
Tax relief for small business:													
Extend increased expensing for small business	....	–6,839	–9,626	–7,732	–6,974	–6,543	–6,344	–6,182	–6,064	–6,130	–6,227	–37,714	–68,661
Eliminate capital gains taxation on investments in small business stock	....	....	....	....	....	....	–262	–730	–1,163	–1,615	–2,040	....	–5,810
Double the amount of expensed start-up expenditures	–223	–251	–311	–310	–308	–304	–300	–297	–296	–294	–292	–1,484	–2,963
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance [1]	....	–720	–1,386	–1,453	–1,299	–1,167	–1,044	–972	–857	–796	–802	–6,025	–10,496
Total, tax relief for small business	–223	–7,810	–11,323	–9,495	–8,581	–8,014	–7,950	–8,181	–8,380	–8,835	–9,361	–45,223	–87,930
Incentives to promote regional growth:													
Extend and modify the NMTC	–20	–47	–109	–231	–393	–588	–809	–1,023	–1,240	–1,416	–1,507	–1,368	–7,363
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	–4	–12	–12	–12	–12	–12	–12	–12	–12	–12	–12	–60	–120
Reform and expand the LIHTC	....	–12	–38	–67	–96	–127	–157	–188	–208	–238	–256	–340	–1,387
Total, incentives to promote regional growth	–24	–271	–359	–510	–701	–927	–1,178	–1,423	–1,660	–1,866	–1,975	–2,768	–10,870
Reform U.S. international tax system:													
Defer deduction of interest expense related to deferred income of foreign subsidiaries	....	2,612	4,466	4,653	4,840	5,025	5,196	5,361	2,662	836	869	21,596	36,520
Determine the foreign tax credit on a pooling basis	....	3,478	5,948	6,197	6,447	6,693	6,920	7,140	7,373	7,630	7,926	28,763	65,752
Tax currently excess returns associated with transfers of intangibles offshore	....	1,552	2,612	2,659	2,667	2,605	2,512	2,433	2,358	2,315	2,292	12,095	24,005
Limit shifting of income through intangible property transfers	....	47	96	126	157	189	222	257	295	336	383	615	2,108
Disallow the deduction for non-taxed reinsurance premiums paid to foreign affiliates	....	312	532	556	591	630	650	681	717	752	788	2,621	6,209
Limit earnings stripping by expatriated entities	....	234	401	421	442	464	488	512	538	565	593	1,962	4,658
Modify tax rules for dual capacity taxpayers	....	552	946	998	1,054	1,109	1,162	1,214	1,268	1,302	1,359	4,659	10,964

Table 14–3. RESERVE FOR REVENUE-NEUTRAL BUSINESS TAX REFORM—Continued
(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Tax gain from the sale of a partnership interest on look-through basis	....	133	229	240	252	265	278	292	307	322	338	1,119	2,656
Prevent use of leveraged distributions from related foreign corporations to avoid dividend treatment	....	172	293	306	318	330	341	352	364	376	391	1,419	3,243
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	....	9,162	15,643	16,283	16,904	17,456	17,919	18,392	16,032	14,584	15,089	75,448	157,464
Reform treatment of financial and insurance industry institutions and products:													
Require that derivative contracts be marked to market with resulting gain or loss treated as ordinary	....	2,419	4,576	4,148	2,614	1,682	1,148	705	510	532	555	15,439	18,889
Modify rules that apply to sales of life insurance contracts	....	17	54	58	62	66	70	73	77	80	84	257	641
Modify proration rules for life insurance company general and separate accounts	....	294	515	532	552	566	549	526	500	465	602	2,459	5,101
Extend pro rata interest expense disallowance for corporate-owned life insurance	....	26	60	131	278	478	651	817	986	1,158	1,334	973	5,919
Total, reform treatment of financial and insurance industy institutions and products	....	2,756	5,205	4,869	3,506	2,792	2,418	2,121	2,073	2,235	2,575	19,128	30,550
Eliminate fossil fuel preferences:													
Eliminate oil and gas preferences:													
Repeal enhanced oil recovery credit [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal credit for oil and gas produced from marginal wells [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal expensing of intangible drilling costs	....	1,663	2,460	2,125	1,639	1,099	748	514	366	289	90	8,986	10,993
Repeal deduction for tertiary injectants	....	8	12	12	11	11	11	11	11	10	10	54	107
Repeal exception to passive loss limitations for working interests in oil and natural gas properties	....	7	10	9	8	8	7	7	6	6	6	42	74
Repeal percentage depletion for oil and natural gas wells	....	1,039	1,044	1,042	1,041	1,045	1,052	1,067	1,091	1,121	1,181	5,211	10,723
Repeal domestic manufacturing deduction for oil and natural gas production	....	1,119	1,926	1,951	1,944	1,884	1,783	1,717	1,703	1,705	1,715	8,824	17,447
Increase geological and geophysical amortization period for independent producers to seven years	....	60	220	333	304	221	141	64	11	2	7	1,138	1,363
Subtotal, eliminate oil and gas preferences	....	3,896	5,672	5,472	4,947	4,268	3,742	3,380	3,188	3,133	3,009	24,255	40,707
Eliminate coal preferences:													
Repeal expensing of exploration and development costs	....	25	43	45	47	49	48	47	44	44	40	209	432
Repeal percentage depletion for hard mineral fossil fuels	....	113	193	196	198	201	206	209	216	222	228	901	1,982
Repeal capital gains treatment for royalties	....	14	31	37	42	45	48	50	53	55	57	169	432
Repeal domestic manufacturing deduction for the production of coal and other hard mineral fossil fuels	....	33	34	36	39	40	41	44	45	48	49	182	409
Subtotal, eliminate coal preferences	....	185	301	314	326	335	343	350	358	369	374	1,461	3,255
Total, eliminate fossil fuel tax preferences	....	4,081	5,973	5,786	5,273	4,603	4,085	3,730	3,546	3,502	3,383	25,716	43,962

Table 14–3. RESERVE FOR REVENUE-NEUTRAL BUSINESS TAX REFORM—Continued

(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Other revenue changes and loophole closers:													
Repeal the excise tax credit for distilled spirits with flavor and wine additives [2]	....	85	112	112	112	112	112	112	112	112	112	533	1,093
Repeal LIFO method of accounting for inventories	....	3,493	7,595	8,538	8,287	8,290	8,732	8,739	8,402	9,045	9,701	36,203	80,822
Repeal lower-of-cost-or-market inventory accounting method	....	617	1,344	1,460	1,470	864	259	270	283	296	309	5,755	7,172
Modify depreciation rules for purchases of general aviation passenger aircraft	....	65	201	299	334	404	437	341	231	197	193	1,303	2,702
Repeal gain limitation for dividends received in reorganization exchanges	....	146	252	259	267	275	283	292	300	309	319	1,199	2,702
Expand the definition of built-in loss for purposes of partnership loss transfers	....	5	6	7	7	7	7	8	8	8	10	32	73
Extend partnership basis limitation rules to nondeductible expenditures	....	56	77	85	91	95	98	102	107	114	123	404	948
Limit the importation of losses under related party loss limitation rules	....	53	71	79	84	88	92	95	99	105	113	375	879
Deny deduction for punitive damages	....	25	35	36	36	38	39	39	41	41	42	170	372
Eliminate section 404(k) ESOP dividend deduction for large C corporations	....	407	614	665	674	682	691	699	707	716	722	3,042	6,577
Total, other revenue changes and loophole closers	....	4,952	10,307	11,540	11,362	10,855	10,750	10,697	10,290	10,943	11,644	49,016	103,340
Total, reserve for revenue-neutral business tax reform	**–247**	**8,347**	**16,195**	**17,210**	**14,405**	**11,688**	**9,775**	**8,045**	**4,441**	**2,417**	**2,073**	**67,845**	**94,596**

[1] This proposal affects both receipts and outlays. Both effects are shown here. The outlay effects included in these estimates are listed below:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Modify and permanently extend renewable electricity production tax credit	....	21	88	332	580	771	957	1,159	1,388	1,595	1,825	1,792	8,716
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance	....	92	177	186	166	149	134	124	109	102	103	770	1,342
Total, outlay effects of reserve for revenue-neutral business tax reform	....	113	265	518	746	920	1,091	1,283	1,497	1,697	1,928	2,562	10,058

[2] Net of income offsets.

[3] This provision is estimated to have zero receipt effect under the Adminstration's current economic projections.

Expand the definition of built-in loss for purposes of partnership loss transfers.—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. A substantial built-in loss is defined by reference to the partnership's adjusted basis – that is, there is a substantial built-in loss if the partnership's adjusted basis 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 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 nondeductible expenditures.—A partner's distributive share of loss is allowed as a deduction 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. This basis limitation 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 the basis limitation 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 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 related party loss limitation rules.—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, then 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 limit application of the gain reduction rule 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, 2014.

Eliminate section 404(k) employee stock ownership plan (ESOP) dividend deduction for large C corporations.—Generally, corporations do not receive a corporate income tax deduction for dividends paid to their shareholders. However, a deduction for dividends paid on employer securities is allowed under a special rule for ESOPs, including, for example, on employer stock held in an "ESOP account" that is one of the investment options available to employees under a typical 401(k) plan. Dividends on stock of corporations other than the employer that are held in retirement plans are not deductible by the paying corporation. This difference in treatment creates an artificial preference for investment in employer stock that is at best difficult to justify. The Administration's proposal would repeal the special 404(k) dividend deduction for employer stock held in an ESOP that is sponsored by a C corporation with annual receipts of more than $5 million. This proposal would be effective with respect to dividends paid after the date of enactment.

BUDGET PROPOSALS

The Administration's proposals, which begin the process of reducing the deficit and reforming the Internal Revenue Code, will strengthen the economy and provide support to middle-income families. These proposals provide support for job creation and incentives for investment in infrastructure, and help families save for retirement and pay for college and child care. They also reduce the deficit and make the tax system fairer by eliminating a number of tax loopholes and reducing tax benefits for higher-income taxpayers. The Administration's proposals that affect receipts are described below.

Tax Relief to Create Jobs and Jumpstart Growth

Provide small businesses 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 a temporary income tax credit for small 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 eligible wages paid over the eligible wages paid in the comparable period. Eligible wages are the employer's Old Age, Survivors, and Disability Insurance (OASDI) wages paid in the relevant period. 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 the comparable period, eligible wages would be deemed to be 80 percent of their OASDI wages. The credit also would be available to tax exempt organizations and public institutions of higher education. This credit will be available to small employers with eligible wages in 2012 of less than $20 million.

Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project.—ARRA 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 deposits, 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 $2.5 billion in credits, thereby increasing the amount of credits certified by the Department of the Treasury to $4.8 billion.

Designate Promise Zones.—The Administration proposes to designate 20 Promise Zones (14 in urban areas and 6 in rural areas). The zones would be designated in four rounds of five zones each, which would become effective at the beginning of 2015, 2016, 2017, and 2018. Zone designations would last for 10 years. 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 incentives would be applicable to promise zones designated after the incentives' enactment. 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.

Incentives for Investment in Infrastructure

Provide America Fast Forward 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 create a new permanent America Fast Forward Bond program, which would be an optional alternative to traditional tax-exempt bonds. Like Build America Bonds, America Fast Forward Bonds would be conventional taxable bonds issued by State and local governments in which the Federal government makes direct payments to State and local governmental issuers (refundable tax credits). The subsidy rate would be 28 percent, which is approximately revenue neutral in comparison to the Federal tax losses from traditional tax-exempt bonds. The proposal would be effective for bonds issued beginning in 2014.

Allow eligible uses of America Fast Forward Bonds to include financing all qualified private activity bond categories.— The Administration proposes to include as an eligible use for America Fast Forward Bonds, financing for governmental capital projects, current refundings of prior public capital project financings, short-term governmental working capital financings for governmental operating expenses subject to a 13-month maturity limitation, and financing for the types of projects and programs that can be financed with qualified private activity bonds (including financing for section 501(c)(3) nonprofit entities), subject to applicable State bond volume caps for the qualified private activity bond category. The subsidy rate would be set at 28 percent, which is approximately revenue neutral in comparison to the Federal tax losses from traditional tax-exempt bonds. The proposed program would be effective for bonds issued beginning in 2014.

Increase the Federal subsidy rate for America Fast Forward Bonds for school construction.— The Administration proposes to provide a 50 percent Federal subsidy rate for America Fast Forward Bonds issued for original financings of governmental capital projects for public schools and State universities and new money financings for Section 501(c)(3) nonprofit educational entities, such as nonprofit schools and universities that could be financed with qualified 501(c)(3) bonds. The 50 percent Federal subsidy rate would not apply to current refundings of prior public capital projects for public schools and

State universities or current refundings of prior financings of section 501(c)(3) educational entities. The proposal would be effective for bonds issued in 2014 and 2015.

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 losses due to 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 and 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.

Repeal the $150 million nonhospital bond limitation on all qualified 501(c)(3) bonds.—The Tax Reform Act of 1986 established a $150 million limit on the volume of outstanding nonhospital, tax-exempt bonds used for the benefit of a section 501(c)(3) organization. The provision was repealed in 1997 with respect to bonds issued after August 5, 1997, at least 95 percent of the net proceeds of which are used to finance capital expenditures incurred after that date. The limitation continues to apply to bonds more than five percent of the net proceeds of which finance or refinance (1) working capital expenditures or (2) capital expenditures incurred on or before August 5, 1997. The Administration proposes to repeal in its entirety the $150 million limit on the volume of outstanding, nonhospital, tax-exempt bonds for the benefit of a section 501(c)(3) organization, effective for bonds issued after the date of enactment.

Increase national limitation amount for qualified highway or surface freight transfer facility bonds.— Tax-exempt private activity bonds may be used to finance qualified highway or surface freight transfer facilities. A qualified highway or surface freight transfer facility is any surface transportation, international bridge, or tunnel project that receives Federal assistance under title 23 of the United States Code or any facility for the transfer of freight from truck or rail to truck which receives Federal assistance under title 23 or title 49 of the United States Code. Tax-exempt bonds issued to finance qualified highway or surface freight transfer facilities are not subject to State volume cap limitations. Instead, the Secretary of Transportation is authorized to allocate a total of $15 billion of issuance authority to qualified highway or surface freight transfer facilities in such manner as the Secretary determines appropriate. The Administration proposes to increase the $15 billion aggregate amount permitted to be allocated by the Secretary of Transportation to $19 billion.

Eliminate the volume cap for private activity bonds for water infrastructure.—Under current law, private activity bonds may be issued on a tax-exempt basis only if they meet the general requirements for governmental bonds and the additional requirements for qualified private activity bonds. Most qualified private activity bonds are subject to an annual unified State volume cap. The Administration proposes to provide an exception to the annual unified State volume cap on tax-exempt qualified private activity bonds for exempt water or sewage facilities. The proposal would be effective for bonds issued after the date of enactment.

Increase the 25-percent limit on land acquisition restriction on private activity bonds.— Under current law, for qualified private activity bonds, only an amount equal to less than 25 percent of the net proceeds may be used for the acquisition of land or an interest in land (other than certain exceptions such as the exception for first-time farmers). The Administration proposes to increase the 25-percent land acquisition restriction to 35 percent. The proposal would be effective for bonds issued after the date of enactment.

Allow more flexible research arrangements for purposes of private business use limits.—Under current law, the IRS provides safe harbors that allow certain research arrangements with private businesses at tax-exempt bond financed research facilities. The existing safe harbors generally impose constraints on these research arrangements. The Administration proposes to remove certain of these constraints to provide additional flexibility for these research arrangements relating to basic research entered into after the date of enactment.

Repeal the government ownership requirement for certain types of exempt facility bonds.—Current law permits tax-exempt financing with respect to certain categories of exempt facilities, including airports, docks and wharves, and mass commuting facilities. Airports, docks and wharves, and mass commuting facilities are treated as exempt facilities only if all of the property to be financed with the net proceeds of the issue is to be owned by a governmental unit. Existing rules provide a safe harbor for ownership by a governmental unit where such facilities are leased or subject to management contracts with nongovernmental units. The Administration proposes to repeal the requirement under the tax-exempt bond rules that airports, docks and wharves, and mass commuting facilities must be owned by a governmental unit. The proposal would be effective for bonds issued after the date of enactment.

Exempt certain foreign pension funds from the application of the Foreign Investment in Real Property Tax Act (FIRPTA).—Under current law, gains of foreign investors from the disposition of U.S. real property interests are generally subject to U.S. tax under FIRPTA. Gains of U.S. pension funds from the disposition of U.S. real property interests are generally exempt from U.S. tax. The Administration proposes to exempt from U.S. tax under FIRPTA certain gains of foreign pension funds from the disposition of U.S. real property interests. The proposal would be effective for dispositions of U.S. real property interests occurring on or after the date of enactment.

Tax Cuts for Families and Individuals

Provide for automatic enrollment in IRAs, including a small employer tax credit, and double 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 their employees to provide automatic enrollment in an IRA, effective after December 31, 2014. 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 SEP 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 SEP 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, 2014) and to extend it to four years (rather than three) for any small employer that adopts a new qualified retirement SEP or SIMPLE plan during the three years beginning when it first offers or first is required to offer an automatic IRA arrangement.

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. 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). The income phasedown 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, 2013.

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 be extended for two years, to apply to amounts that are discharged after December 31, 2013, and before January 1, 2016, or that are discharged pursuant to an agreement entered into before that date.

Provide exclusion from income for student loan forgiveness for students in certain income-based or income-contingent repayment programs who have completed payment obligations.—The Federal Family Education Loan and Federal Direct Loan programs provide borrowers with various options for making payments that are related to their income and student loan debt levels after college. Under 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 terms of their plan. For those who reach this 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 these 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 certain borrowers using these methods of repayment. The provision would be effective for discharges of loans after December 31, 2013.

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 after December 31, 2013, and for qualifying scholarship amounts received after December 31, 2013.

Upper-Income Tax Provisions

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 reduce the value of the specified exclusions and deductions that would otherwise reduce taxable income in the top three individual income tax rate brackets of 33, 35, and 39.6 percent to 28 percent. The limit would apply to all itemized deductions, interest on tax-exempt bonds, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above-the-line deductions. If a deduction or exclusion for contributions to retirement plans or individual retirement arrangements is limited by this proposal, the taxpayer's basis would be adjusted to reflect the additional tax paid. The limit would be effective for taxable years beginning after December 31, 2013.

Implement the Buffett Rule by imposing a new "Fair Share Tax".— The Administration proposes a new minimum tax, called the Fair Share Tax (FST), for high-income taxpayers. The tentative FST equals 30 percent of AGI less a charitable credit. The charitable credit equals 28 percent of itemized charitable contributions allowed after the overall limitation on itemized deductions (Pease). The final FST is the excess, if any, of the tentative FST over regular income tax (after certain credits, including the AMT and the 3.8 percent surtax on investment income) and the employee portion of payroll taxes. The set of certain credits subtracted from regular income tax excludes the foreign tax credit, the credit for tax withheld on wages, and the credit for certain uses of gasoline and special fuels. The tax is phased in linearly starting at $1 million of AGI ($500,000 in the case of a married individual filing a separate return). The tax is fully phased in at $2 million of AGI ($1 million in the case of a married individual filing a separate return). The threshold is indexed for inflation beginning after 2014. The proposal would be effective for taxable years beginning after December 31, 2013.

Modify Estate and Gift Tax Provisions

Restore the estate, gift, and GST tax parameters in effect in 2009.— Under current law, estates, gifts, and GSTs are taxed at a maximum tax rate of 40 percent with a lifetime exclusion of $5 million, indexed for inflation after 2011. The Administration proposes to restore and permanently extend estate, gift, and GST tax parameters as they applied for calendar year 2009. Under those parameters, estates and GSTs would be taxed at a maximum tax rate of 45 percent with a life-time exclusion of $3.5 million. Gifts would be taxed at a maximum tax rate of 45 percent with a lifetime exclusion of $1 million. These parameters would be effective for the estates of decedents dying and transfers made after December 31, 2017, and would not be indexed for inflation.

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.

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 ($5,250,000 in 2013) 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 $5,250,000 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. If a person who is a deemed owner of all or a portion of a trust engages in a transaction with that trust that constitutes a sale, exchange, or comparable transaction that is disregarded for income tax purposes by reason of the person's treatment as a deemed owner of the trust under the grantor trust rules, then the portion of the trust attributable to the property received by the trust in that transaction, net of the consideration received by the person in the transaction, will be (1) subject to estate tax as part of the deemed owner's gross estate, (2) subject to gift tax at any time during the deemed owner's life when his or her treatment as a deemed owner of the trust is terminated, and (3) treated as a gift by the deemed owner to the extent any distribution is made to another (except in discharge of the deemed owner's obligation to the distributee) during the deemed owner's life. 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 most cases in a manner that is economical and efficient for both taxpayers and the Federal government.

Clarify GST tax treatment of Health and Education Exclusion Trusts (HEETs).—Payments made by a donor directly to the provider of medical care for another or directly to a school for another's tuition are exempt from gift tax. These direct transfers also are exempt from the GST tax. However, payments made to a trust, to be expended by the trust for the same purposes, are not exempt from the gift tax. Some contributors to HEETs interpret the GST tax exclusion to apply also to distributions made from the HEET in payment of medical expenses or tuition, and claim that those distributions are exempt from the GST tax. The Administration proposes to clarify that the GST tax exclusion for transfers exempt from the gift tax is limited to outright transfers by the donor to the provider of the medical care or education and does not apply to distributions for those same purposes from a trust. The proposal would apply to trusts created after the introduction of the bill enacting this change and to transfers after that date made to pre-existing trusts.

Reform Treatment of Financial 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, and 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 and would be effective on January 1, 2015.

Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt.—Much as original issue discount (OID) is part of the yield of a debt instrument purchased at original issuance, market discount generally enhances the yield to a purchaser of debt in the secondary market. Unlike OID, however, market discount is deferred until a debt instrument matures or is otherwise sold or transferred. The Administration's proposal would require taxpayers to accrue market discount into income currently, in the same manner as original issue discount. To prevent over-accrual of market discount on distressed debt, the accrual would be limited to the greater of (1) an amount equal to the bond's yield to maturity at issuance plus five percentage points, or (2) an amount equal to the Applicable Federal Rate plus 10 percentage points. The proposal would apply to debt securities acquired after December 31, 2013.

Require that the cost basis of stock that is a covered security must be determined using an average cost basis method.—Current regulations permit taxpayers to use "specific identification" when they sell or otherwise dispose of stock. Specific identification allows taxpayers who hold identical shares of stock that have different tax basis to select the amount of gain or loss to recognize on the disposition. The Administration's proposal would require the use of average cost basis for all identical securities held by a taxpayer that have a long-term holding period. The proposal would apply to covered securities acquired after December 31, 2013.

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 December 31, 2014, and the receipts would be distributed through a set allocation between Federal and non-Federal lands. Funds would be used to restore the most hazardous hardrock AML sites, on both public and private lands. The receipts allocated to restoration of non-Federal lands would be distributed to States and Tribes based on need, with each State and Tribe selecting its own priority projects within certain national criteria.

Return fees on the production of coal to pre-2006 levels to restore abandoned mines.—Since October 1, 1977, the Department of the Interior has collected fees on every ton of coal produced in the United States to finance the reclamation of abandoned coal mines. The fees levied on mine operators were originally $0.35 per ton for surfaced mined coal and $0.15 per ton for underground mined coal. The 2006 amendments to the Surface Mining Control and Reclamation Act instituted a phased reduction in these fees beginning in 2006. However, nearly $4 billion worth of abandoned coal mine hazards remain today. The Administration proposes to restore the fees to their original level, effective for coal mined after September 30, 2013, to provide additional resources to continue addressing the legacy of abandoned coal mines.

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 petroleum 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 for periods after December 31, 2013, and to 10 cents per barrel for periods 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, 2013.

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 2013, with expiration for periods and tax years after 2023. 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 specified hazardous chemicals at rates that vary from 22 cents to $4.87 per ton; (3) an excise tax on imported substances that use the specified 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.

Increase tobacco taxes and index for inflation.— Under current law, cigarettes are taxed at a rate of $50.33 per 1,000 cigarettes. This is equivalent to just under $1.01 per pack, or approximately $22.88 per pound of tobacco. Taxes on other tobacco products range from $0.5033 per pound for chewing tobacco to $24.78 per pound of roll-your-own tobacco. The Administration proposes to increase the tax on cigarettes to $97.65 per 1,000 cigarettes, or about $1.95 per pack, increase all other tobacco taxes by about the same proportion, and index the taxes for inflation after 2014. The Administration also proposes to clarify that roll-your-own tobacco includes any processed tobacco that is removed for delivery to anyone other than a manufacturer of tobacco products or exporter. The rate increases would be effective for articles held for sale or removed after December 31, 2013.

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, 2014.

Provide short-term tax relief to employers and expand Federal Unemployment Tax Act (FUTA) base.—The economic downturn continues to severely test the adequacy of States' UI systems, forcing many States to borrow from the Federal Unemployment Account within the Unemployment Insurance Trust Fund 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 2013 and 2014 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 2016, 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.

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 20-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, 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 Administration proposes to amend the charitable contribution deduction provision to prohibit a deduction for any contribution of a partial interest in property that is, or is intended to be, used as a golf course. The proposal would apply to contributions made after the date of enactment.

Restrict deductions and harmonize the rules for contributions of conservation easements for historic preservation.—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 historic preservation easement donated to a qualified charitable organization exclusively for conservation purposes, provided that the value of the deduction is reduced for any return benefit to the donor. Concerns have been raised that the deduction amounts claimed for such easements are excessive and may not appropriately take into account existing limitations on the property.

The Administration proposes to disallow a deduction for any value associated with forgone upward development above an historic building. The Administration also proposes to require contributions of conservation easements on all historic buildings, including those listed in the National Register of Historic Places, to comply with a 2006 amendment that requires contributions of historic preservation easements on buildings in registered historic districts to comply with special rules relating to the preservation of the entire exterior of the building and the documentation of the easement contribution. These changes would apply to contributions made after the date of enactment.

Require non-spouse beneficiaries of IRA owners and retirement plan participants to take inherited distributions over no more than five years.—Under current law, owners of IRAs and employees with tax-favored retirement plans generally must take distributions from those retirement accounts beginning at age 70-1/2. The minimum amount required to be distributed is based on the life expectancy of the owner or plan participant, calculated at the end of each year. Minimum distribution rules also apply to balances remaining after a participant or IRA owner has died. Heirs who are designated as beneficiaries under IRAs and qualified retirement plans may receive distributions over their lifetimes, no matter what the age difference between the deceased IRA owner or plan participant and the beneficiary. The Administration proposes to require non-spouse beneficiaries of IRA owners and retirement plan participants to take inherited distributions over no more than five years. Exceptions would be provided for disabled beneficiaries and beneficiaries within 10 years of age of the deceased IRA owner or plan participant. Minor children would be allowed to receive payments up to five years after they attain the age of majority. This proposal would be effective for distributions with respect to participants or IRA owners who die after December 31, 2013.

Limit the total accrual of tax-favored retirement benefits.—The Administration proposes to limit the deduction or exclusion for contributions to defined contribution plans, defined benefit plans, or IRAs for an individual who has total balances or accrued benefits under those plans that are sufficient to provide an annuity equal to the maximum allowable defined benefit plan benefit. This maximum, currently an annual benefit of $205,000 payable in the form of a joint and survivor benefit commencing at age 62, is indexed for inflation, and the maximum accumulation that would apply for an individual at age 62 is approximately $3.4 million. The proposal would be effective for taxable years beginning after December 31, 2013.

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, 2013.

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, 2013.

Modify reporting of tuition expenses and scholarships on Form 1098-T.—Under current law, institutions of higher education file Form 1098-T to report tuition expenses to students and to the IRS. The educational institution has the choice of filling out Box 1 (payments received for qualified tuition and related expenses) or Box 2 (amounts billed for qualified tuition and related expenses). Box 2 reporting makes Form 1098-T less useful for the student and for the IRS in determining what expenses the student has already paid, and thus the amount of education tax credit that may be claimed for the current tax year. Institutions of higher education are also required to report scholarships and grants (Box 5) that they administer or distribute (for instance, Pell grants). Only expenses paid net of scholarships qualifies for education tax benefits. In addition, scholarships that are not used to pay for eligible education expenses are taxable. Entities other than institutions of higher learning that provide scholarships and grants are not required to file Form 1098-T to report these amounts to students or to the IRS. The Administration proposes to improve Form 1098-T reporting to make the information more useful to students and to the IRS. The proposal would require institutions of higher learning to report amounts paid and not amounts billed on Form 1098-T. It would also require any entity issuing a scholarship or grant in excess of $500 that is not processed or administered by an institution of higher learning to report the scholarship or grant on Form 1098-T. The threshold amount is indexed for inflation after 2014. The proposal would be effective for tax years beginning after December 31, 2013.

Provide for reciprocal reporting of information in connection with the implementation of the Foreign Account Tax Compliance Act (FATCA).—In many cases, foreign law would prevent foreign financial institutions from complying with the FATCA provisions of the Hiring Incentives to Restore Employment Act of 2010 by reporting to the IRS information about U.S. accounts. Such legal impediments can be addressed through intergovernmental agreements under which the foreign government agrees to provide the information required by FATCA to the IRS. Requiring U.S. financial institutions to report similar information to the IRS with respect to nonresident accounts would facilitate such intergovernmental cooperation by enabling the IRS to reciprocate in appropriate circumstances by exchanging similar information with cooperative foreign governments to support their efforts to address tax evasion by their residents. The proposal would provide the Secretary of the Treasury with authority to prescribe regulations that would require reporting of information with respect to nonresident alien individuals, entities that are not U.S. persons, and certain U.S. entities held in substantial part by non-U.S. owners, including information regarding account balances and payments made with respect to accounts held by such persons and entities.

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, but that have assets of $10 million or more, 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, 2013.

Make e-filing mandatory for exempt organizations.—The Administration proposes to require that all Form 990 series tax and information returns be filed electronically. The proposal would also require the IRS to make the electronically filed Form 990 series returns publicly available in a machine readable format in a timely manner. The proposal would generally be effective for taxable years beginning after the date of enactment.

Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports and electronic filing of certain other employee benefit plan 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 Pension Benefit Guaranty Corporation.) 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. Additionally, the IRS would be allowed to require electronic filing of a separate form that reports information to IRS and the Social Security Administration concerning plan participants who terminate employment with a right to future benefits under the plan. The proposal would be effective for plan years beginning after December 31, 2013.

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 under which leasing companies would be 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, 2013.

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, 2013.

Strengthen Tax Administration

Impose liability on shareholders participating in "Intermediary Transaction Tax Shelters" to collect unpaid corporate income taxes.— Certain shareholders, corporate officers and directors, and their advisors have engaged in "Intermediary Transaction Tax Shelters." These transactions are structured so that when the corporation's assets are sold, the corporation is ultimately left with insufficient assets from which to pay the tax owed from the asset sale. In a typical case, an intermediary entity purportedly purchases the shareholders' stock, either after or shortly before the corporation sells its assets. The corporate cash from the asset sale effectively finances the purchase of the shareholders' stock and no assets are left to pay the corporate tax liability. Existing law does not adequately protect the Federal government's interest in collecting the amounts due as a result of these transactions. The Administration therefore proposes to add a new section to the Internal Revenue Code that would identify the elements of "Intermediary Transaction Tax Shelters" (to be further defined in regulations) and impose liability on the selling shareholders for the unpaid corporate taxes to the extent they received proceeds, directly or indirectly, for their shares. This proposal would be effective upon enactment.

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 tax administration.—The Administration proposes an adjustment to the discretionary spending limits, as established in the BBEDCA, and amended by the Budget Control Act of 2011, for IRS tax enforcement, compliance, and related activities, including tax administration activities at the Alcohol and Tobacco Tax and Trade Bureau (TTB). In general, such cap adjustments help protect increases above a base level for activities that generate benefits that exceed programmatic costs. The proposed 2014 cap adjustment for the IRS and TTB will fund over $400 million in new revenue-producing initiatives above current levels of enforcement and compliance activity. Beyond 2014, the Administration proposes further increases in additional new tax enforcement initiatives each year from 2015 through 2018 and to sustain all of the new initiatives plus inflationary costs through 2023. The total cost of starting and sustaining the new initiatives above current levels of enforcement and compliance activity would be roughly $13.8 billion over the budget window, and is estimated to generate an additional $46.5 billion in revenue over that same period for a net savings of over $32.7 billion. These resources will help the IRS and TTB continue to work on closing the tax gap, defined as the difference between taxes owed and those paid on time and estimated at $450 billion in 2006. Enforcement funds provided through the 2014 cap adjustment will continue to target international tax compliance, identify and prevent refund fraud, and restore previously reduced enforcement levels.

Enhance UI program integrity.—The Administration proposes to make investments in UI program integrity by increasing funding for Reemployment and Eligibility

Assessments (REAs), which are conducted 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, which 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. In addition, legislation will be proposed to expand State use of the Treasury Offset Program (TOP) and the Separation Information Data Exchange System (SIDES), which already improve program integrity. TOP allows States to recover UI overpayments from claimants' tax refunds when the claimant is at fault. SIDES allows States and employers to exchange information on reasons for a claimant's separation from employment, which helps States determine UI eligibility; separation issues are the second largest cause of UI improper payments.

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). 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 with a taxpayer to settle any civil or criminal case arising under the Internal Revenue Code 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 period of five consecutive years, 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, 2013.

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, 2013.

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, 2013.

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.

Provide the Secretary of the Treasury authority to access and disclose prisoner data to prevent and identify improper payments.—The Administration proposes to provide the Secretary of the Treasury access to information contained in the Social Security Administration's (SSA's) Prisoner Update Processing System (PUPS) for tax administration purposes and for identifying, preventing, and recovering improper payments. The PUPS database contains local prison data and is more complete than the information that the Department of the Treasury currently receives under section 6116 of the Internal Revenue Code for tax administration purposes. The proposal also expands the information the prisons are required to report to SSA to include release dates and prison assigned inmate numbers, which are disclosed pursuant to section 6116 but are not currently part of the PUPS database. This data will allow the Department of the Treasury to compare prisoner information with data about persons requesting or receiving Federal payments and to identify individuals who are ineligible to receive payments or who are receiving erroneous or fraudulent payments and/or filing fraudulent tax returns. SSA will transfer PUPS data to the Department of the Treasury Fiscal Service on a regular basis, where it will be maintained for use by other Federal agencies.

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, 2013.

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 penalty 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, 2013.

Restrict access to the Death Master File (DMF).—The DMF, which is publicly available and updated weekly by the Social Security Administration (SSA), contains the full name, Social Security number (SSN), date of birth, date of death, and the county, state, and zip code of the last address on record for decedents. Although some DMF users need immediate access to the DMF for fraud prevention purposes, others are using the DMF for illegitimate purposes, including identity thieves who use the DMF to steal the names and SSNs of recent decedents, which information identity thieves then use to file fraudulent tax returns. The Administration is proposing to restrict immediate access to the DMF to those users who legitimately need the information for fraud prevention purposes and to delay the release of the DMF to all other users. This proposal would reduce opportunities for identity theft and restrict information sources used to file fraudulent tax returns. The proposal would be effective upon enactment.

Provide whistleblowers with protection from retaliation.—Under current law, the Internal Revenue Code does not protect whistleblowers from retaliatory actions; therefore, potential whistleblowers may be discouraged from filing claims with the IRS. The Administration proposes to amend the Internal Revenue Code to protect whistleblowers from retaliation, which should incentivize potential whistleblowers to file claims and increase the tax administration benefit of the whistleblower program.

Provide stronger protection from improper disclosure of taxpayer information in whistleblower actions.—The Whistleblower Office may disclose tax return information, which is generally confidential, to whistleblowers and their legal representatives as part of a whistleblower administrative proceeding. Although whistleblowers and their legal representatives must sign a confidentiality agreement before tax return information is shared, the statutory prohibitions on redisclosure of tax return information and safeguarding requirements do not apply. The Administration proposes to amend the taxpayer information protections to extend the safeguarding requirements and prohibition on redisclosure of tax return information to whistleblowers and their legal representatives. In addition, the Administration proposes to extend penalties for unauthorized redisclosure of tax return information to whistleblowers and their legal representatives. This proposal will improve the efficiency of the whistleblower award determination proceedings, while increasing the protection available to taxpayers.

Index all penalties to inflation.—Currently, the amount of tax penalties that are a set dollar amount are established when the penalty is added to the Internal Revenue Code and are only increased by amendments to the Internal Revenue Code. As a result, under current practices, the amount of the penalty is often not increased until significant time has passed and the penalty amount is too low to continue serving as an effective deterrent. The Administration proposes to index all penalties for inflation and round the indexed amount to the next hundred dollars. This proposal would increase the penalty regime's effectiveness in deterring negative behavior and would increase efficiency by eliminating the need to enact increases to individual penalties. This proposal would be effective upon enactment.

Extend paid preparer EITC due diligence requirements to the child tax credit.—Under current law, paid tax return preparers completing a tax return with a claim for the EITC must complete a checklist of the EITC eligibility criteria and exercise due diligence in preparing the EITC claim. Preparers who fail to exercise due diligence are subject to a $500 fine for each failure. The due diligence requirement educates preparers and improves EITC compliance. The eligibility criteria for the child tax credit and in particular, the definition of a qualifying child, are nearly identical for purposes of the EITC and child tax credit. The Administration proposes to extend the due diligence requirement to claims of the child tax credit, including the additional child tax credit.

Extend IRS authority to require truncated SSNs on Form W-2.—Employers are required to file Form W-2 with the IRS, indicating the SSN, wages paid, taxes withheld and other information for each employee. Employers must also provide a copy of Form W-2 to each employee. If a copy of Form W-2 is lost or misdirected, the SSN may be used to steal the worker's identity. The proposal would allow IRS to require employers to show only the last four digits of the SSN on the employees' copies of Form W-2 to prevent identity theft.

Add tax crimes to the Aggravated Identity Theft Statute.—Tax refund-related identity theft has expanded exponentially in recent years. The Aggravated Identity Theft Statute contains a list of felony violations that constitute predicate offenses for aggravated identity theft but the list does not currently include any tax offenses. The Administration proposes to add tax-related offenses to the list of predicate offenses contained in the Aggravated Identity Theft Statute. This proposal would be effective upon enactment.

Impose a civil penalty on tax identity theft crimes.—The Administration proposes to impose a $5,000 civil penalty in tax identity theft cases. The penalty would be effective upon enactment.

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, 2013.

Modify adoption credit to allow tribal determination of special needs.—Current law allows a more generous credit for the adoption of children with special needs. To claim this credit, a State must have made a determination that the child has special needs. Like States, many Indian Tribal Governments facilitate adoptions involving special needs children; however, currently, a tribe is not permitted to make the determination of special needs. The Administration proposes to allow Indian Tribal Governments to make this determination, effective for tax years beginning after December 31, 2013

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 and taxpayers who die before age 70-1/2 on or after December 31, 2013.

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, 2014.

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, 2013.

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 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 disqualification 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.

Exclude self-constructed assets of small taxpayers from the uniform capitalization (UNICAP) rules.—Under the UNICAP rules, taxpayers that produce property or acquire property for resale are required to capitalize direct and indirect costs to the property produced or acquired. Compliance with this requirement is significantly burdensome for taxpayers that are not otherwise subject to the rules as producers or resellers of inventory (i.e., for self-constructed assets). The Administration proposes an exclusion for these small business taxpayers, which would relieve both taxpayers and tax administrators from spending resources on compliance for this group of taxpayers. This proposal would be effective for expenses incurred for self-constructed property by eligible taxpayers after the date of enactment.

Repeal technical terminations of partnerships.—A partnership will terminate when 50 percent or more of the total interest in partnership capital and profits is sold or exchanged within a 12-month period. This is referred to as a "technical termination." This provision serves little purpose and is a trap for the unwary taxpayer. The Administration proposes eliminating technical terminations effective for transfers after December 31, 2013.

Repeal anti-churning rules of section 197 of the Internal Revenue Code.—Section 197 was enacted in 1993 to allow amortization of certain intangibles (such as goodwill and going concern value) that had not been amortizable under prior law. Anti-churning rules were enacted at that time to prevent taxpayers from engaging in transactions with related parties soon after the enactment of section 197 solely to generate amortizable basis. Because it has been 19 years since the enactment of section 197, the anti-churning rules are no longer necessary, and the complexity of the provision outweighs the potential application. The Administration proposes eliminating the anti-churning rules effective for acquisitions after December 31, 2013.

User Fees

Reform inland waterways funding.—The Administration has proposed legislation to reform the laws governing the Inland Waterways Trust Fund, including establishing an annual per vessel fee to increase the amount paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this 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, 98 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 2014.

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, 2013. Assuming the enactment of the fee, total charges collected from aviation users would finance roughly three-fourths of airport investments and air traffic control system costs. To ensure appropriate input from stakeholders on the design of the fee, the proposal would also establish an expert Commission that could recommend to the President a replacement charge, or charges, that would raise no less in revenue than the enacted fee.

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

Extend Generalized System of Preferences (GSP).—This program provides preferential, duty-free entry to the United States for nearly 5,000 products from 127 designated beneficiary countries and territories. Many GSP imports are used as inputs by U.S. companies to manufacture goods in the United States. The Administration proposes to extend GSP, which expires on July 31, 2013.

Other Initiatives

Increase employee contributions to Federal defined benefit retirement plans .—The Middle Class Tax Relief and Job Creation Act of 2012 increased employee contributions to Federal defined benefit retirement plans, including FERS, by 2.3 percentage points, effective for individuals joining the Federal work force after December

31, 2012, who have less than five years of creditable civilian service as of December 31, 2012. Benefits for these employees were not changed. The Administration proposes to increase contributions to Federal defined benefit plans, including the Civil Service Retirement System (CSRS) and FERS, for existing employees hired before January 1, 2013, and those joining the Federal work force after December 31, 2012, with five or more years of creditable service. The proposal would increase contributions for these employees by 0.4 percent of pay per year over three years, beginning in 2014, for a total increase of 1.2 percent. Employee benefits would not change.

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, employment, and average hourly earnings. The availability of accurate economic statistics is crucial to policy makers. Current law authorizes IRS disclosure of certain Federal tax information (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 information 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 to a biennial reporting requirement. The proposal would be effective after December 31, 2013.

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 (CPI). 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.

Replace the CPI with the chained CPI for purposes of indexing tax provisions for inflation.—Under current law, a number of parameters of the Internal Revenue Code are indexed for inflation to protect taxpayers from the effects of rising prices. Such parameters include the dollar value of the personal exemption and the standard deduction, the income thresholds for the individual income tax rate brackets, and the income thresholds and phaseout ranges for a number of tax credits. These parameters are currently indexed to the CPI, which overstates increases in the cost of living because it does not fully account for the fact that consumers generally adjust their spending patterns as some prices change relative to other prices. The Administration proposes to index tax provisions to the chained CPI, which more accurately reflects how consumers react to changes in relative prices, effective for tax years beginning after December 31, 2014.

Table 14–4. EFFECT OF BUDGET PROPOSALS
(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Tax relief to create jobs and jumpstart growth:													
Provide small businesses a temporary 10-percent tax credit for new jobs and wage increases [1]	....	–10,356	–9,446	–2,752	–1,648	–932	–444	–179	–40	....	....	–25,134	–25,797
Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project	....	–85	–390	–640	–614	–261	6	64	54	29	10	–1,990	–1,827
Designate Promise Zones [1]	....	....	–107	–316	–522	–697	–769	–757	–744	–734	–730	–1,642	–5,376
Total, tax relief to create jobs and jumpstart growth	....	–10,441	–9,943	–3,708	–2,784	–1,890	–1,207	–872	–730	–705	–720	–28,766	–33,000
Incentives for investment in infrastructure:													
Provide America Fast Forward Bonds [1]	....	1	1	....	–1	....	....	....	....	....	....	1	1
Allow eligible uses of America Fast Forward Bonds to include financing all qualified private activity bond categories [1]	....	–2	–4	–8	–15	–20	–25	–30	–37	–44	–49	–49	–234
Increase the Federal subsidy rate for America Fast Forward Bonds for school construction [1]	....	–251	–794	–1,117	–1,147	–1,147	–1,147	–1,147	–1,147	–1,147	–1,147	–4,456	–10,191
Allow current refundings of State and local governmental bonds [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal the $150 million nonhospital bond limitation on all qualified 501(c)(3) bonds	....	–1	–3	–5	–7	–9	–11	–13	–16	–17	–18	–25	–100
Increase national limitation amount for qualified highway or surface freight transfer facility bonds	....	....	....	–3	–16	–34	–52	–72	–92	–113	–133	–53	–515
Eliminate the volume cap for private activity bonds for water infrastructure	....	–3	–5	–9	–14	–20	–27	–33	–41	–49	–57	–51	–258
Increase the 25-percent limit on land acquisition restriction on private activity bonds	....	–2	–4	–8	–11	–15	–19	–23	–27	–32	–35	–40	–176
Allow more flexible research arrangements for purposes of private business use limits	....	....	....	–1	–1	–1	–1	–3	–3	–3	–3	–3	–16
Repeal the government ownership requirement for certain types of exempt facility bonds	–16	–71	–152	–238	–330	–410	–459	–488	–518	–549	–549	–1,201	–3,764
Exempt certain foreign pension funds from the application of FIRPTA	....	–109	–187	–196	–206	–216	–227	–238	–250	–263	–276	–914	–2,168
Total, incentives for investment in infrastructure	–16	–438	–1,148	–1,585	–1,748	–1,872	–1,968	–2,047	–2,131	–2,217	–2,267	–6,791	–17,421
Tax cuts for families and individuals:													
Provide for automatic enrollment in IRAs, including a small employer tax credit, and double the tax credit for small employer plan start-up costs [1]	....	....	–1,086	–1,303	–1,434	–1,584	–1,809	–2,098	–2,383	–2,734	–3,195	–5,407	–17,626
Expand child and dependent care tax credit [1]	....	–251	–953	–954	–946	–957	–955	–949	–947	–937	–926	–4,061	–8,775
Extend exclusion from income for cancellation of certain home mortgage debt	....	–1,058	–1,252	–300	....	....	....	....	....	....	....	–2,610	–2,610
Provide exclusion from income for student loan forgiveness for students in certain income-based or income-contingent repayment programs who have completed payment obligations	....	....	....	....	....	....	....	....	....	....	–2	....	–2
Provide exclusion from income for student loan forgiveness and for certain scholarship amounts for participants in the IHS Health Professions Programs	....	–5	–13	–14	–14	–15	–16	–18	–19	–20	–21	–61	–155
Total, tax cuts for families and individuals	....	–1,314	–3,304	–2,571	–2,394	–2,556	–2,780	–3,065	–3,349	–3,691	–4,144	–12,139	–29,168

Table 14–4. EFFECT OF BUDGET PROPOSALS—Continued

(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Upper-income tax provisions:													
Reduce the value of certain tax expenditures	....	24,568	39,800	43,014	46,800	51,100	55,639	60,271	64,995	69,214	73,860	205,282	529,261
Implement the Buffett Rule by imposing a new "Fair Share Tax"	....	5,327	1,726	3,486	5,542	6,177	5,967	5,968	6,146	6,393	6,655	22,258	53,387
Total, upper-income tax provisions	....	29,895	41,526	46,500	52,342	57,277	61,606	66,239	71,141	75,607	80,515	227,540	582,648
Modify estate and gift tax provisions:													
Restore the estate, gift and GST tax parameters in effect in 2009	....	....	....	....	....	....	12,235	13,284	14,343	15,356	16,475	....	71,693
Require consistency in value for transfer and income tax purposes	....	....	158	171	183	197	210	223	237	251	266	709	1,896
Require a minimum term for GRATs	....	....	131	194	261	335	412	494	581	683	803	921	3,894
Limit duration of GST tax exemption	....	....	....	....	....	....	....	....	....	....	....	....	....
Coordinate certain income and transfer tax rules applicable to grantor trusts	....	....	36	47	62	79	102	129	164	207	261	224	1,087
Extend the lien on estate tax deferrals provided under section 6166	....	....	12	15	16	17	18	19	20	21	22	60	160
Clarify GST tax treatment of HEETs	....	47	–30	–29	–27	–26	–24	–23	–21	–20	–18	–65	–171
Total, modify estate and gift tax provisions	....	47	307	398	495	602	12,953	14,126	15,324	16,498	17,809	1,849	78,559
Reform treatment of financial industry institutions and products:													
Impose a financial crisis responsibility fee	....	....	2,991	6,066	6,321	6,581	6,839	7,159	7,470	7,794	8,128	21,959	59,349
Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt	....	6	21	42	67	95	126	160	197	236	276	231	1,226
Require that the cost basis of stock that is a covered security must be determined using an average cost basis method	–91	–75	61	126	200	248	266	284	301	319	339	560	2,069
Total, reform treatment of financial industry institutions and products	–91	–69	3,073	6,234	6,588	6,924	7,231	7,603	7,968	8,349	8,743	22,750	62,644
Other revenue changes and loophole closers:													
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
Return fees on the production of coal to pre–2006 levels to restore abandoned mines	....	53	52	53	53	53	53	55	55	....	....	264	427
Increase Oil Spill Liability Trust Fund financing rate by one cent and update the law to include other sources of crudes [2]	....	64	88	92	102	106	109	116	121	127	133	452	1,058
Reinstate Superfund taxes [2]	....	1,369	1,818	1,899	1,970	2,053	2,123	2,152	2,206	2,257	2,358	9,109	20,205
Increase tobacco taxes and index for inflation [2]	....	7,725	9,844	9,264	8,718	8,205	7,723	7,268	6,842	6,440	6,062	43,756	78,091
Make UI surtax permanent [2]	....	1,044	1,459	1,489	1,520	1,551	1,576	1,597	1,618	1,641	1,660	7,063	15,155
Provide short-term tax relief to employers and expand FUTA base [2]	....	–2,467	–2,746	6,910	9,324	7,227	6,848	5,495	4,925	8,036	7,929	18,248	51,481
Tax carried (profits) interests as ordinary income	....	3,407	3,096	2,389	1,718	1,247	1,105	1,065	864	612	406	11,857	15,909
Eliminate the deduction for contributions of conservation easements on golf courses	....	37	53	55	59	61	64	68	71	74	77	265	619
Restrict deductions and harmonize the rules for contributions of conservation easements for historic preservation	....	8	11	16	22	26	27	28	31	32	33	83	234
Require non-spouse beneficiaries of IRA owners and retirement plan participants to take inherited distributions over no more than five years	....	86	224	369	517	668	699	660	612	563	513	1,864	4,911
Limit the total accrual of tax-favored retirement benefits	....	802	831	839	876	964	1,010	1,054	923	1,082	961	4,312	9,342
Total, other revenue changes and loophole closers	....	12,128	14,930	23,575	25,079	22,361	21,537	19,758	18,468	21,064	20,332	98,073	199,232

Table 14–4. EFFECT OF BUDGET PROPOSALS—Continued

(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Reduce the tax gap and make reforms:													
Expand information reporting:													
Require information reporting for private separate accounts of life insurance companies	....	....	....	....	1	1	1	1	1	1	1	2	7
Require a certified TIN from contractors and allow certain withholding	....	25	58	99	135	141	147	154	161	168	176	458	1,264
Modify reporting of tuition expenses and scholarships on Form 1098-T [1]	....	8	105	111	114	117	120	124	128	132	136	455	1,095
Provide for reciprocal reporting of information in connection with the implementation of FATCA	....	....	....	....	....	....	....	....	....	....	....	....	....
Subtotal, expand information reporting	....	33	163	210	250	259	268	279	290	301	313	915	2,366
Improve compliance by businesses:													
Require greater electronic filing of returns	....	....	....	....	....	....	....	....	....	....	....	....	....
Make e-filing mandatory for exempt organizations	....	....	....	....	....	....	....	....	....	....	....	....	....
Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports and electronic filing of certain other employee benefit plan reports	....	....	....	....	....	....	....	....	....	....	....	....	....
Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes	....	5	6	6	6	7	7	8	8	8	8	30	69
Increase certainty with respect to worker classification	4	73	361	706	857	945	1,035	1,129	1,226	1,328	1,437	2,942	9,097
Repeal special estimated tax payment provision for certain insurance companies	....	....	....	....	....	....	....	....	....	....	....	....	....
Subtotal, improve compliance by businesses	4	78	367	712	863	952	1,042	1,137	1,234	1,336	1,445	2,972	9,166
Strengthen tax administration:													
Impose liability on shareholders participating in "Intermediary Transaction Tax Shelters" to collect unpaid corporate income taxes	....	304	421	444	469	493	517	540	562	586	611	2,131	4,947
Increase levy authority for payments to Medicare providers with delinquent tax debt	....	46	67	70	71	72	74	76	76	77	78	326	707
Implement a program integrity statutory cap adjustment for tax administration	....	458	1,252	2,503	3,766	5,052	5,955	6,525	6,816	7,017	7,158	13,031	46,502
Enhance UI program integrity [2]	....	....	....	–5	–14	–30	–737	–571	–49	1,361	111	–49	66
Streamline audit and adjustment procedures for large partnerships	....	78	114	138	174	208	227	232	233	234	235	712	1,873
Revise offer-in-compromise application rules	....	1	1	1	1	1	1	1	1	1	1	5	10
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	2	2	2	2	2	5	15
Extend statute of limitations where State adjustment affects Federal tax liability	....	....	....	1	4	4	4	4	4	4	4	9	29
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	....	....	....	....	....	....	....	....	....	....	....	....	....

Table 14–4. EFFECT OF BUDGET PROPOSALS—Continued

(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
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
Provide the Secretary of the Treasury authority to access and disclose prisoner data to prevent and identify improper payments	....	24	35	36	37	38	39	40	41	42	43	170	375
Extend IRS math error authority in certain circumstances [1]	....	16	17	16	17	18	19	19	21	21	21	84	185
Impose a penalty on failure to comply with electronic filing requirements	....	....	....	....	1	1	1	1	2	2	2	2	10
Restrict access to the DMF [1]	....	65	131	132	135	138	137	137	140	143	145	601	1,303
Provide whistleblowers with protection from retaliation	....	....	....	....	....	....	....	....	....	....	....	....	....
Provide stronger protection from improper disclosure of taxpayer information in whistleblower actions	....	....	....	....	....	....	....	....	....	....	....	....	....
Index all penalties to inflation	....	349	544	699	844	995	1,147	1,303	1,462	1,625	1,791	3,431	10,759
Extend paid preparer EITC due diligence requirements to the child tax credit	....	....	....	....	....	....	....	....	....	....	....	....	....
Extend IRS authority to require truncated SSNs on Form W–2	....	....	....	....	....	....	....	....	....	....	....	....	....
Add tax crimes to the Aggravated Identity Theft Statute	....	....	....	....	....	....	....	....	....	....	....	....	....
Impose a civil penalty on tax identity theft crimes	....	....	....	....	....	....	....	....	....	....	....	....	....
Subtotal, strengthen tax administration	....	1,343	2,585	4,038	5,510	6,995	7,390	8,313	9,317	11,121	10,208	20,471	66,820
Total, reduce the tax gap and make reforms	4	1,454	3,115	4,960	6,623	8,206	8,700	9,729	10,841	12,758	11,966	24,358	78,352
Simplify the tax system:													
Simplify the rules for claiming the EITC for workers without qualifying children [1]	....	–42	–562	–576	–589	–599	–578	–590	–604	–617	–632	–2,368	–5,389
Modify adoption credit to allow tribal determination of special needs	....	....	....	....	....	....	–1	–1	–1	–1	–1	....	–5
Eliminate MRD requirements for IRA/plan balances of $75,000 or less	....	–4	–7	–9	–14	–17	–23	–29	–35	–39	–45	–51	–222
Allow all inherited plan and IRA accounts to be rolled over within 60 days	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal non-qualified preferred stock designation	....	29	49	48	45	42	37	33	29	26	23	213	361
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	–9	–18	–26	–37	–46	–57	–66	–76	–86	–97	–136	–518
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	–3	–5	–7	–9	–11	–13	–15	–17	–19	–20	–35	–119
Exclude self-constructed assets of small taxpayers from the UNICAP rules	....	–46	–48	–51	–69	–80	–92	–97	–101	–105	–110	–294	–799
Repeal technical terminations of partnerships	....	7	14	17	18	19	20	21	22	22	23	75	183
Repeal anti-churning rules of section 197	....	–23	–95	–187	–250	–281	–295	–298	–298	–298	–298	–836	–2,323
Total, simplify the tax system	–3	–95	–676	–796	–911	–979	–1,008	–1,051	–1,090	–1,127	–1,167	–3,457	–8,900
User fees:													
Reform inland waterways funding [2]	....	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 [2]	....	605	632	660	690	719	745	766	790	812	836	3,306	7,255

Table 14–4. EFFECT OF BUDGET PROPOSALS—Continued

(In millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Reauthorize special assessment on domestic nuclear utilities	....	200	204	209	213	218	223	228	233	238	243	1,044	2,209
Total, user fees	....	901	963	996	1,030	1,064	1,095	1,121	1,150	1,177	1,207	4,954	10,704
Trade initiative:													
Extend GSP [2]	....	–394	–613	....	....	....	....	....	....	....	....	–1,007	–1,007
Other initiatives:													
Increase employee contributions to Federal defined benefit retirement plans	....	800	1,569	2,325	2,300	2,273	2,237	2,197	2,153	2,104	2,050	9,267	20,008
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	....	....	....	....	....	....	....	....	....	....	....	....	....
Replace the CPI with the chained CPI for purposes of indexing tax provisions for inflation	....	....	1,000	3,000	6,000	8,000	10,000	13,000	16,000	20,000	23,000	18,000	100,000
Total, other initiatives	....	800	2,569	5,325	8,300	10,273	12,237	15,197	18,153	22,104	25,050	27,267	120,008
Total, effect of proposals	**–106**	**32,474**	**50,799**	**79,328**	**92,620**	**99,410**	**118,396**	**126,738**	**135,745**	**149,817**	**157,324**	**354,631**	**1,042,651**

[1] This proposal affects both receipts and outlays. Both effects are shown here. The outlay effects included in these estimates are listed below:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–18	2014–23
Provide small businesses a temporary 10-percent tax credit for new jobs and wage increases	....	133	417	....	....	....	....	....	....	....	....	550	550
Designate Promise Zones	....	....	13	28	30	30	33	35	37	40	41	101	287
Provide America Fast Forward Bonds	....	230	1,022	2,117	3,202	4,372	5,656	7,029	8,476	9,977	11,511	10,943	53,592
Allow eligible uses of America Fast Forward Bonds to include financing all qualified private activity bond categories	....	47	213	460	723	999	1,288	1,589	1,902	2,224	2,552	2,442	11,997
Increase the Federal subsidy rate for America Fast Forward Bonds for school construction	....	409	1,522	2,512	2,799	2,799	2,799	2,799	2,799	2,799	2,799	10,041	24,036
Provide for automatic enrollment in IRAs, including a small employer tax credit, and double the tax credit for small employer plan start-up costs	....	....	203	209	212	216	222	228	231	234	239	840	1,994
Expand child and dependent care tax credit	....	....	331	344	357	371	383	393	407	415	421	1,403	3,422
Modify reporting of tuition expenses and scholarships on Form 1098-T	....	....	–29	–33	–34	–35	–36	–37	–38	–39	–40	–131	–321
Extend IRS math error authority in certain circumstances	....	–7	–7	–7	–7	–8	–8	–8	–9	–9	–9	–36	–79
Restrict access to the DMF	....	....	–44	–43	–44	–45	–46	–45	–46	–47	–48	–176	–408
Simplify the rules for claiming the EITC for workers without qualifying children	....	25	494	506	518	528	510	521	533	544	558	2,071	4,737
Total, outlay effects of receipt proposals	....	837	4,135	6,093	7,756	9,227	10,801	12,504	14,292	16,138	18,024	28,048	99,807

[2] Net of income offsets.

[3] This provision is estimated to have zero receipt effect under the Adminstration's current economic projections.

Table 14–5. RECEIPTS BY SOURCE

(In millions of dollars)

Source	2012 Actual	Estimate										
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Individual income taxes:												
Federal funds	1,132,206	1,234,103	1,358,165	1,511,773	1,644,560	1,776,010	1,899,786	2,017,467	2,143,957	2,273,830	2,402,072	2,559,458
Legislative proposal, not subject to PAYGO	....	....	458	1,252	2,503	3,767	5,054	5,999	6,558	6,819	6,937	7,151
Legislative proposal, subject to PAYGO	....	–91	24,549	38,749	52,959	63,792	72,302	81,047	90,148	99,071	108,421	117,252
Total, Individual income taxes	**1,132,206**	**1,234,012**	**1,383,172**	**1,551,774**	**1,700,022**	**1,843,569**	**1,977,142**	**2,104,513**	**2,240,663**	**2,379,720**	**2,517,430**	**2,683,861**
Corporation income taxes:												
Federal funds:												
Federal funds	242,289	287,740	335,119	376,448	398,702	427,006	446,224	464,821	475,139	487,410	504,269	522,612
Legislative proposal, subject to PAYGO	....	–24	–3,066	–1,373	1,532	1,985	2,916	3,783	4,528	5,190	5,813	6,427
Total, Federal funds	242,289	287,716	332,053	375,075	400,234	428,991	449,140	468,604	479,667	492,600	510,082	529,039
Trust funds:												
Legislative proposal, subject to PAYGO	....	....	766	1,016	1,090	1,157	1,237	1,300	1,322	1,373	1,416	1,496
Total, Corporation income taxes	**242,289**	**287,716**	**332,819**	**376,091**	**401,324**	**430,148**	**450,377**	**469,904**	**480,989**	**493,973**	**511,498**	**530,535**
Social insurance and retirement receipts (trust funds):												
Employment and general retirement:												
Old-age survivors insurance (off-budget)	486,783	575,726	632,294	665,824	707,384	744,512	785,847	826,298	862,430	910,024	953,912	993,955
Legislative proposal, not subject to PAYGO	....	....	....	....	....	2	3	97	75	6	–180	–15
Legislative proposal, subject to PAYGO	....	2	–445	–540	–1,664	–1,904	–1,572	–1,468	–1,241	–1,128	–1,486	–1,439
Disability insurance (off-budget)	82,718	97,759	107,367	113,064	120,122	126,427	133,446	140,315	146,450	154,533	161,985	168,785
Legislative proposal, not subject to PAYGO	....	....	....	....	....	....	1	17	13	1	–30	–3
Legislative proposal, subject to PAYGO	....	....	–76	–92	–282	–322	–267	–250	–211	–191	–252	–243
Hospital Insurance	201,143	208,412	223,574	237,084	253,099	267,316	282,804	297,567	310,916	328,591	344,959	360,232
Legislative proposal, not subject to PAYGO	....	....	....	....	....	....	1	26	20	2	–49	–4
Legislative proposal, subject to PAYGO	....	7	224	694	952	1,097	1,295	1,425	1,586	1,667	1,707	1,772
Railroad retirement:												
Social security equivalent account	1,764	2,135	2,186	2,262	2,327	2,399	2,463	2,527	2,595	2,665	2,728	2,795
Rail pension & supplemental annuity	2,519	2,751	2,794	3,002	3,124	3,220	3,309	3,395	3,637	3,773	4,024	4,659
Total, Employment and general retirement	774,927	886,792	967,918	1,021,298	1,085,062	1,142,747	1,207,330	1,269,949	1,326,270	1,399,943	1,467,318	1,530,494
On-budget	(205,426)	(213,305)	(228,778)	(243,042)	(259,502)	(274,032)	(289,872)	(304,940)	(318,754)	(336,698)	(353,369)	(369,454)
Off-budget	(569,501)	(673,487)	(739,140)	(778,256)	(825,560)	(868,715)	(917,458)	(965,009)	(1,007,516)	(1,063,245)	(1,113,949)	(1,161,040)
Unemployment insurance:												
Deposits by States [1]	59,378	52,586	51,494	50,396	49,125	47,435	46,529	45,639	46,245	47,380	47,676	49,477
Legislative proposal, not subject to PAYGO	....	....	....	....	–5	–17	–37	–921	–712	–61	1,700	140
Legislative proposal, subject to PAYGO	....	....	7	206	9,842	10,758	9,509	11,373	10,264	9,705	9,143	8,670
Federal unemployment receipts [1]	7,059	7,862	8,442	9,076	9,256	7,909	8,441	8,738	9,684	10,207	6,160	6,242
Legislative proposal, subject to PAYGO	....	....	–1,778	–1,783	717	2,866	1,536	–767	–1,317	–1,443	3,038	3,405
Railroad unemployment receipts [1]	210	107	39	89	155	158	115	88	110	148	152	125
Total, Unemployment insurance	66,647	60,555	58,204	57,984	69,090	69,109	66,093	64,150	64,274	65,936	67,869	68,059
Other retirement:												
Federal employees retirement- employee share	3,712	3,727	3,716	3,698	3,792	4,148	4,341	4,558	4,806	5,086	5,393	5,724
Legislative proposal, subject to PAYGO	....	....	800	1,569	2,325	2,300	2,273	2,237	2,197	2,153	2,104	2,050

Table 14–5. RECEIPTS BY SOURCE—Continued

(In millions of dollars)

Source	2012 Actual	Estimate 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Non-Federal employees retirement [2]	28	19	17	17	17	17	17	17	17	17	17	17
Total, Other retirement	3,740	3,746	4,533	5,284	6,134	6,465	6,631	6,812	7,020	7,256	7,514	7,791
Total, Social insurance and retirement receipts (trust funds)	**845,314**	**951,093**	**1,030,655**	**1,084,566**	**1,160,286**	**1,218,321**	**1,280,054**	**1,340,911**	**1,397,564**	**1,473,135**	**1,542,701**	**1,606,344**
On-budget	(275,813)	(277,606)	(291,515)	(306,310)	(334,726)	(349,606)	(362,596)	(375,902)	(390,048)	(409,890)	(428,752)	(445,304)
Off-budget	(569,501)	(673,487)	(739,140)	(778,256)	(825,560)	(868,715)	(917,458)	(965,009)	(1,007,516)	(1,063,245)	(1,113,949)	(1,161,040)
Excise taxes:												
Federal funds:												
Alcohol	9,765	9,713	9,920	9,963	9,991	10,163	10,388	10,624	10,866	11,116	11,371	11,607
Tobacco	16,351	15,928	15,525	15,209	15,000	14,867	14,796	14,700	14,542	14,361	14,190	14,096
Legislative proposal, subject to PAYGO	....	....	10,299	13,125	12,352	11,624	10,940	10,297	9,691	9,122	8,587	8,082
Transportation fuels	–5,751	–3,044	–1,810	–971	–937	–910	–890	–880	–868	–859	–842	–821
Telephone and teletype services	757	645	547	462	389	326	273	227	188	155	127	103
High-cost health insurance coverage	....	....	....	....	....	....	5,099	17,747	21,019	26,113	31,498	39,179
Health insurance providers	....	....	6,400	10,640	11,300	13,380	14,220	14,954	15,857	16,804	17,813	18,880
Indoor tanning services	102	111	121	133	145	158	154	177	195	208	221	225
Medical devices	....	2,124	2,955	3,129	3,273	3,449	3,658	3,892	4,147	4,412	4,690	4,987
Other Federal fund excise taxes	–865	1,792	1,631	1,634	1,640	1,688	1,748	1,818	1,886	1,959	2,036	2,119
Legislative proposal, subject to PAYGO	....	....	–3	–3	–3	–3	–2	–1	–2	–1	–2	–1
Total, Federal funds	20,359	27,269	45,585	53,321	53,150	54,742	60,384	73,555	77,521	83,390	89,689	98,456
Trust funds:												
Transportation	40,169	38,652	39,009	39,406	39,775	40,049	40,290	40,468	40,582	40,965	41,349	41,445
Airport and airway	12,532	11,921	12,199	12,648	13,209	13,804	14,363	14,742	15,184	15,645	16,089	16,590
Legislative proposal, subject to PAYGO	....	....	807	842	881	921	959	992	1,022	1,053	1,083	1,114
Sport fish restoration and boating safety	614	545	561	581	604	634	663	694	725	754	785	817
Tobacco assessments	939	960	960	960	960	960	960	960	960	960	960	960
Black lung disability insurance	629	580	566	545	547	551	559	351	263	272	284	290
Inland waterway	90	87	90	93	96	99	102	104	107	109	112	115
Legislative proposal, subject to PAYGO	....	....	2	2	2	2	2	2	2	2	2	2
Hazardous substance superfund (Legislative proposal subject to PAYGO)	....	....	803	1,070	1,077	1,084	1,089	1,098	1,105	1,111	1,121	1,149
Oil spill liability	497	504	506	501	495	532	539	533	529	523	521	536
Legislative proposal, subject to PAYGO	....	....	85	118	123	135	141	147	154	161	169	178
Vaccine injury compensation	254	262	271	280	287	295	303	311	318	327	337	346
Leaking underground storage tank	170	181	180	181	182	182	182	180	179	178	178	176
Supplementary medical insurance	2,808	4,207	2,960	3,000	3,000	3,800	4,080	3,060	2,800	2,800	2,800	2,800
Patient-centered outcomes research	....	178	365	391	418	447	476	506	538	572	608	648
Total, Trust funds	58,702	58,077	59,364	60,618	61,656	63,495	64,708	64,148	64,468	65,432	66,398	67,166
Total, Excise taxes	**79,061**	**85,346**	**104,949**	**113,939**	**114,806**	**118,237**	**125,092**	**137,703**	**141,989**	**148,822**	**156,087**	**165,622**
Estate and gift taxes:												
Federal funds	13,973	12,932	12,967	13,645	15,097	16,416	17,807	18,953	20,055	21,239	22,277	23,329
Legislative proposal, subject to PAYGO	....	....	47	307	400	497	605	12,095	13,352	14,720	16,045	17,479
Total, Estate and gift taxes	**13,973**	**12,932**	**13,014**	**13,952**	**15,497**	**16,913**	**18,412**	**31,048**	**33,407**	**35,959**	**38,322**	**40,808**
Customs duties and fees:												
Federal funds:												
Federal funds	28,696	31,890	37,440	40,827	43,975	47,197	50,355	52,989	55,966	58,913	62,129	65,736
Legislative proposal, subject to PAYGO	....	....	–526	–817	....	....	....	....	....	....	....	....

Table 14–5. RECEIPTS BY SOURCE—Continued
(In millions of dollars)

Source	2012 Actual	Estimate										
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total, Federal funds	28,696	31,890	36,914	40,010	43,975	47,197	50,355	52,989	55,966	58,913	62,129	65,736
Trust funds:												
Trust funds	1,611	1,739	1,841	1,932	1,990	2,078	2,193	2,301	2,405	2,507	2,591	2,591
Total, Customs duties and fees	**30,307**	**33,629**	**38,755**	**41,942**	**45,965**	**49,275**	**52,548**	**55,290**	**58,371**	**61,420**	**64,720**	**68,327**
Miscellaneous receipts:												
Federal funds:												
Miscellaneous taxes	512	508	504	506	506	507	508	509	510	512	513	513
Deposit of earnings, Federal Reserve System	81,957	82,853	92,037	79,006	50,838	11,624	....	10,415	29,769	33,432	36,510	39,239
Transfers from the Federal Reserve	374	522	497	560	571	583	594	606	618	631	643	656
Fees for permits and regulatory and judicial services	13,789	13,897	13,911	36,607	36,578	33,149	28,926	32,685	35,633	34,555	34,259	33,937
Legislative proposal, subject to PAYGO	....	....	267	470	476	480	485	490	497	502	452	457
Fines, penalties, and forfeitures	9,468	7,427	21,328	30,759	33,226	36,338	38,581	40,506	42,508	44,610	46,767	48,774
Legislative proposal, subject to PAYGO	....	....	11	11	33	44	56	68	80	92	105	117
Refunds and recoveries	–47	–51	–33	–32	–32	–32	–32	–32	–32	–32	–32	–32
Total, Federal funds	106,053	105,156	128,522	147,887	122,196	82,693	69,118	85,247	109,583	114,302	119,217	123,661
Trust funds:												
United Mine Workers of America, combined benefit fund	35	32	29	27	24	22	21	15	14	13	12	11
Defense cooperation	100	296	133	211	213	215	217	219	221	223	119	121
Inland waterways (Legislative proposal, subject to PAYGO)	....	....	80	111	111	111	111	111	111	111	111	112
Fines, penalties, and forfeitures	826	1,833	1,490	1,185	1,007	1,038	882	892	922	943	965	976
Total, Trust funds	961	2,161	1,732	1,534	1,355	1,386	1,231	1,237	1,268	1,290	1,207	1,220
Total, Miscellaneous receipts	**107,014**	**107,317**	**130,254**	**149,421**	**123,551**	**84,079**	**70,349**	**86,484**	**110,851**	**115,592**	**120,424**	**124,881**
Total, budget receipts	**2,450,164**	**2,712,045**	**3,033,618**	**3,331,685**	**3,561,451**	**3,760,542**	**3,973,974**	**4,225,853**	**4,463,834**	**4,708,621**	**4,951,182**	**5,220,378**
On-budget	(1,880,663)	(2,038,558)	(2,294,478)	(2,553,429)	(2,735,891)	(2,891,827)	(3,056,516)	(3,260,844)	(3,456,318)	(3,645,376)	(3,837,233)	(4,059,338)
Off-budget	(569,501)	(673,487)	(739,140)	(778,256)	(825,560)	(868,715)	(917,458)	(965,009)	(1,007,516)	(1,063,245)	(1,113,949)	(1,161,040)

[1] Deposits by States cover the benefit part of the program. Federal unemployment receipts cover administrative costs at both the Federal and State levels. Railroad unemployment receipts cover both the benefits and administrative costs of the program for the railroads.

[2] Represents employer and employee contributions to the civil service retirement and disability fund for covered employees of Government-sponsored, privately owned enterprises and the District of Columbia municipal government.

15. 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. 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. The spending associated with these activities is included in total or "gross outlays." For 2012, gross outlays to the public were $4,027 billion,[1] or 25.9 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 2012, net outlays were $3,537 billion or 22.8 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 deficit or surplus. For 2012, governmental receipts were $2,450 billion or 15.8 percent of GDP and the deficit was $1,087 billion, or 7.0 percent of GDP.

There are two sources of offsetting receipts and offsetting collections: from the public and from other budget accounts. In 2012, offsetting receipts and offsetting collections from the public were $490 billion, while intragovernmental offsetting receipts and offsetting collections were $1,090 billion. Regardless of how it is recorded (as governmental receipts, offsetting receipts, or offsetting collections), money collected from the public reduces the deficit or increases the surplus. In contrast, intragovernmental collections from other budget accounts exactly offset the payments, with no net impact on the deficit or surplus (see Table 15-1).

When measured by the magnitude of the dollars collected, most offsetting collections and offsetting receipts from the public arise from business-like transactions with the public. Unlike governmental receipts, which are derived from the Government's exercise of its sovereign power, these offsetting collections and offsetting receipts arise primarily from voluntary payments from the public for goods or services provided by the Government. They are classified as offsets to outlays for the cost of producing the goods or services for sale, rather than as governmental receipts on the receipts side of the budget. Treating 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.[2] These activities include the sale of postage stamps, land, timber, and electricity, and services provided to the public (e.g., admission to national parks); and premiums for health care benefits (e.g., Medicare Parts B and D).

A relatively small portion ($8.6 billion in 2012) of offsetting collections and offsetting receipts from the public is derived from the Government's exercise of its sovereign power. From a conceptual standpoint, these should be classified as governmental receipts. However, they 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.[3] 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.

A third source of offsetting collections and offsetting receipts is intragovernmental transfers. 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

[1] Gross outlays to the public are derived by subtracting intragovernmental outlays from gross outlays. For 2012, gross outlays were $5,117 billion. Intragovernmental outlays are payments from one Government account to another Government account. For 2012, intragovernmental outlays totaled $1,090 billion.

[2] 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 11 of this volume, "Budget Concepts."

[3] Offsetting governmental receipts, which are a subset of offsetting receipts and were $8.6 billion in 2012, 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. Some argue that regulatory or licensing fees should be viewed as payments for a particular service or for the right to engage in a particular type of business. However, these fees are conceptually much more similar to taxes because they are compulsory, and they fund activities that are intended to provide broadly dispersed benefits, such as protecting the health of the public. Reclassifying these fees as governmental receipts could require a change in law, and because of traditional conventions for scoring appropriations bills, would make it impossible for fees that are controlled through annual appropriations acts to be scored as offsets to discretionary spending.

Table 15–1. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC
(In billions of dollars)

	Actual 2012	Estimate 2013	Estimate 2014
Offsetting collections (credited to expenditure accounts):			
User charges:			
Postal Service stamps and other USPS fees (off-budget)	65.4	63.6	64.0
Defense Commissary Agency	6.1	6.1	6.2
Employee contributions for employees and retired employees health benefits funds	13.1	13.4	14.2
Sale of energy:			
Tennessee Valley Authority	44.0	42.2	41.2
Bonneville Power Administration	3.3	4.1	4.2
All other user charges	53.7	63.5	85.0
Subtotal, user charges	185.5	192.9	214.8
Other collections credited to expenditure accounts:			
Commodity Credit Corporation fund	4.9	6.8	6.8
Supplemental Security Income (collections from the States)	3.3	3.3	3.4
Other collections	13.5	10.7	8.8
Subtotal, other collections	21.8	20.9	19.1
Subtotal, offsetting collections	207.3	213.8	233.9
Offsetting receipts (deposited in receipt accounts):			
User charges:			
Medicare premiums	64.7	69.6	72.5
Outer Continental Shelf rents, bonuses, and royalties	6.6	6.8	7.0
All other user charges	26.4	25.6	27.4
Subtotal, user charges deposited in receipt accounts	97.7	102.1	106.9
Other collections deposited in receipt accounts:			
Military assistance program sales	26.3	31.4	33.0
Interest received from credit financing accounts	58.6	64.5	83.5
All other collections deposited in receipt accounts	100.0	93.6	56.5
Subtotal, other collections deposited in receipt accounts	184.9	189.6	173.1
Subtotal, offsetting receipts	282.6	291.7	280.0
Total, offsetting collections and offsetting receipts from the public	**489.9**	**505.5**	**513.9**
Total, offsetting collections and offsetting receipts excluding off-budget	424.3	441.7	449.7
ADDENDUM:			
User charges that are offsetting collections and offsetting receipts [1]	283.2	295.0	321.7
Other offsetting collections and offsetting receipts from the public	206.6	210.4	192.2

[1] Excludes user charges that are classified on the receipts side of the budget. For total user charges, see Table 15–3.

and military retirement pension and health benefits funds, and agency payments to funds for employee health insurance and retirement benefits. Although these intragovernmental collections exactly offset the payments so there is no net effect on the deficit or surplus, it is important to record these transactions in the budget to show how much the Government is allocating to fund various programs. For example, in the case of civilian retirement pensions, Government agencies make accrual payments to the Civil Service Retirement and Disability Fund on behalf of current employees to fund their future retirement benefits; the receipt of these payments to the Fund is shown in a single receipt account. Recording the receipt of these payments is important because it demonstrates the total cost to the Government of providing this future benefit.

The final source of offsetting collections and offsetting receipts is gifts. Gifts are voluntary contributions to the Government to support particular purposes or reduce the amount of Government debt held by the public.

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 usually authorized to be spent for the purposes of an expenditure account and are generally available for use when collected, without further action by the Congress. Therefore, offsetting collections are recorded as offsets to spending within expenditure accounts, so that the account total highlights the net flow of funds.

Like governmental receipts, offsetting receipts are credited to receipt accounts, and any spending of the receipts is recorded in separate expenditure accounts. As a result, the budget separately displays the flow of funds into and out of the Government. Offsetting receipts may or may not be designated for a specific purpose, depending

Table 15–2. OFFSETTING RECEIPTS BY TYPE SUMMARY
(In millions of dollars)

Receipt Type	2012 Actual	Estimate					
		2013	2014	2015	2016	2017	2018
Intragovernmental	731,557	716,079	694,589	749,626	804,961	833,715	851,499
Receipts from Non-Federal Sources:							
Proprietary	273,940	282,658	269,830	263,335	269,359	269,802	275,631
Offsetting Governmental	8,620	8,996	10,127	16,143	21,279	20,988	14,998
Total, receipts from non-Federal sources	282,560	291,654	279,957	279,478	290,638	290,790	290,629
Total Offsetting Receipts	1,014,117	1,007,733	974,546	1,029,104	1,095,599	1,124,505	1,142,128

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. In some cases where the receipts are designated for a particular purpose, 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.

Table 15–1 summarizes offsetting collections and offsetting receipts from the public. Note that this table does not include intragovernmental transactions. The amounts shown in the table are not evident in the commonly cited budget measure of (net) outlays. For 2014, the table shows that total offsetting collections and offsetting receipts from the public are estimated to be $513.9 billion or 3.0 percent of GDP. Of these, an estimated $233.9 billion are offsetting collections and an estimated $280.0 billion are offsetting receipts. Table 15–1 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 15–2 and 15-5 provide further detail about offsetting receipts, including both offsetting receipts from the public (as summarized in Table 15–1) and intragovernmental transactions. In total, offsetting receipts are estimated to be $974.5 billion in 2014; $694.6 billion are from intragovernmental transactions and $280.0 billion are from the public. The offsetting receipts from the public consist of proprietary receipts ($269.8 billion) and those classified as offsetting receipts by law or long-standing practice ($10.1 billion) (shown as offsetting governmental receipts in the table). Proprietary receipts from the public result from business-like transactions 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 that, absent a specification in law or a long-standing practice, would be classified on the receipts side of the budget.

II. USER CHARGES

User charges or user fees[4] refer generally to those monies that the Government receives from the public for market-oriented activities and regulatory activities. In combination with budget concepts, laws that authorize user charges 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; for 2014, only an estimated 1.5 percent of user charges are classified as governmental receipts. As summarized in Table 15-3, total user charges for 2014 are estimated to be $326.5 billion with $321.7 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 in Table 15-1 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, inter-

[4] 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 11 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.

est and dividends, and also exclude payments from one part of the Federal Government to another. In addition, 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.[5]

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 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, the benefits from national defense accrue to the public in general, and according to this principle should be (and are) financed by taxes. In contrast, the benefits of electricity sold by the Tennessee Valley Authority accrue primarily 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 to which a fee can be easily administered must be con-

[5] 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.

Table 15–3. GROSS OUTLAYS TO THE PUBLIC, USER CHARGES AND OTHER OFFSETS FROM THE PUBLIC, AND NET OUTLAYS TO THE PUBLIC

(In billions of dollars)

	Actual 2012	Estimate	
		2013	2014
Gross outlays to the public	4,027.0	4,190.4	4,291.7
Offsetting collections and offsetting receipts from the public:			
User charges [1]	283.2	295.0	321.7
Other	206.6	210.4	192.2
Subtotal, offsetting collections and offsetting receipts from the public	489.9	505.5	513.9
Net outlays to the public	3,537.1	3,684.9	3,777.8

[1] $4.1 billion of the total user charges for 2012 were classified as governmental receipts, and the remainder were classified as offsetting collections and offsetting receipts. $4.3 billion and $4.8 billion of the total user charges for 2013 and 2014 are classified as governmental receipts, respectively.

sidered. 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, such as for some regulatory activities, 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.[6] 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.

[6] Policies for setting user charges are promulgated in OMB Circular No. A–25: "User Charges" (July 8, 1993).

Classification of user charges in the budget. As shown in the note to Table 15-3, most user charges are classified as offsets to outlays on the spending side of the budget, but a few are classified on the receipts side of the budget. An estimated $4.8 billion in 2014 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. Examples include filing fees in the United States courts and agricultural quarantine inspection fees.

The remaining user charges, an estimated $321.7 billion in 2014, 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.

III. USER CHARGE PROPOSALS

As shown in Table 15–1, an estimated $214.8 billion of user charges for 2014 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 $106.9 billion of user charges for 2014 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 15-4, the Administration is proposing new or increased user charges that would, in the aggregate, increase collections by an estimated $3.2 billion in 2014 and an average of $16.9 billion per year from 2015–23. These estimates reflect only the amounts to be collected; they do not include related spending. Each proposal is classified as either discretionary or mandatory, as those terms are defined in the Balanced Budget and Emergency Deficit Control Act of 1985 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 11, "Budget Concepts."

A. Discretionary User Charge Proposals

1. Offsetting collections

Department of Agriculture

Forest Service: Grazing administrative processing fee. The Budget proposes, beginning on March 1, 2014, and in each subsequent year through February 28, 2018, to recover some of the costs of issuing grazing permits and leases on Forest Service lands. The Forest Service would charge a fee of $1 per head month for cattle and its equivalent for other livestock, which would be collected along with current grazing fees. The fee would allow the Forest Service to more expeditiously address pending applications for grazing permit renewals and perform other necessary grazing activities.

Department of Defense (DoD)

TRICARE pharmacy benefit co-payments increase. The Budget includes a proposal that would repeal sections 712 and 716 of the National Defense Authorization Act (NDAA) 2013 and provide alternative pharmacy fees. To encourage the use of less expensive mail order pharmacies and military treatment facility pharmacies, the Budget includes a proposal to increase the 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 retirees under age 65 and their families would yield discretionary savings in the Defense Health Program of $127 million in 2014 and $4.1 billion over the 10-year budget horizon. The increased fees from the retirees under age 65 and their families would reduce accrual costs by $528 million in 2014 and $10.2 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 retirees and their families would yield $4.6 billion in mandatory savings in the MERHCF over the 10-year budget horizon and $0.1 billion in mandatory savings for Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.

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 $170 million in 2014 and $9.4 billion over the 10-year budget horizon. The catastrophic cap adjustments include indexing the cap and excluding all enrollment fees from the cap. In addition, the increased fees would yield $0.3 billion in mandatory savings over the 10-year budget horizon for Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.

Department of Health and Human Services

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 reinspections that are required when violations are found during initial inspections.

FDA: Food facilities registration, inspection, and import fees. The Budget includes a proposed fee to finance 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 notification 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 to perform special data analysis and material publication services will allow SAMHSA to provide these services for entities that are not current grantees.

Office of the National Coordinator for Health Information Technology Standards and Certification Fee. This new fee will support ONC's administration of its certification program for health information technology (health IT), including costs related to health information technology standards, testing and certification, and improving the efficiency of certification programs. In order to qualify for the Medicare and Medicaid and Electronic Health Record (EHR) Incentive Programs, health care providers must use certified EHR technology. An efficient, but rigorous, certification process ensures that health IT will be certified in a timely manner and gives providers assurance that certified health IT has met certification criteria and associated standards.

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 30 percent of TSA's aviation security costs, including overhead and the Federal Air Marshal Service, 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 2014, with annual incremental increases of 50 cents from 2015 to 2019, resulting in a fee of $7.50 in 2019 and thereafter. The proposed fee would increase collections by an estimated $25.9 billion over 10 years. Of this amount, $7.9 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): Reimbursements under public-private partnership MOUs at Ports of Entry. 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 Land Management (BLM): Public lands oil and gas lease inspection fees. The Budget proposes new inspection fees for 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 2014, 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 2014, 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 2014, thereby requiring energy developers on Federal lands to fund the majority of compliance costs incurred by BLM.

BLM: Grazing administrative processing fee. The Budget proposes a three-year pilot project to allow BLM to recover some of the costs of issuing grazing permits and 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 more expeditiously. BLM would promulgate regulations for the continuation of the grazing administrative fee as a cost recovery fee after the pilot expires.

Department of Justice

Antitrust Division: Increase Hart-Scott-Rodino fees. The Federal Trade Commission and the Department of Justice Antitrust Division are responsible for reviewing corporate mergers to ensure they do not promote anticompetitive practices. Revenue collected from pre-merger filing fees, known as Hart-Scott-Rodino (HSR) fees, are split evenly between the two agencies. The Budget proposes to increase the HSR fees and index them to the annual change in the gross national product. The fee proposal would also create a new merger fee category for mergers valued at over $1 billion. Under the proposal, the fee increase would take effect in 2015, and it is estimated that annual HSR fees would total $300.9 million ($150.4 million for each of Federal Trade Commission and DOJ Antitrust Division), an increase of $96 million per year ($48 million for each of Federal Trade Commission and DOJ Antitrust Division).

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, 2014. 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) beginning in 2014 as a result of this change.

Commodity Futures Trading Commission (CFTC)

CFTC fee: The Budget proposes an amendment to the Commodity Exchange Act, effective in 2015, 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 other Federal financial regulators.

Federal Trade Commission

Increase Hart-Scott-Rodino fees. See description under Department of Justice.

2. Offsetting receipts

Department of Homeland Security

Customs and Border Protection (CBP): Immigration inspection user fee increase. The Budget includes a proposal to increase the Immigration Inspection User Fee (IUF) by $2. The current fees are $7 for air and commercial vessel passengers and $3 for partially-exempted commercial vessel passengers. IUF is paid by air and sea passengers and is used to recover some of the costs relating to determining admissibility for passengers entering the U.S. Specifically, the fees collected support immigration inspections, personnel, the maintenance and updating of systems to track criminal and illegal aliens in areas with high apprehensions, asylum hearings, and the repair and maintenance of equipment. The additional revenue collected from this increase would fund 974 new CBP officers which will reduce waiting times at air and sea ports of entry. Future budget requests will include an annual increase to these fees to adjust them for inflation.

Customs and Border Protection (CBP): COBRA and Express Consignment Courier Facilities Fees. The Budget includes a proposal to increase COBRA fees (statutorily set under the Consolidated Omnibus Budget Reconciliation Act of 1985) and the Express Consignment Courier Facilities (ECCF) fee created under the Trade Act of 2002. COBRA created a series of user fees for air and sea passengers, commercial trucks, railroad cars, private aircraft and vessels, commercial vessels, dutiable mail packages, broker permits, barges and bulk carriers from Canada and Mexico, cruise vessel passengers, and ferry vessel passengers. This proposal would increase the customs inspection fee by $2 and increase other COBRA fees by a proportional amount. The ECCF fee was created to reimburse CBP for inspection costs related to express consignment and the proposal would increase the fee by $0.36. The additional revenue raised from these fee increases will allow CBP to recover more costs associated with customs related inspections, and reduce waiting times by supporting the hiring of 903 new CBP officers. Future budget requests will include an annual increase to these fees to adjust them for inflation.

Department of Transportation

Pipeline and Hazardous Materials Safety Administration (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. Biobased products are industrial products (other than food or feed) that are composed, in whole or in part, of biological products, including renewable domestic agricultural materials and forestry materials or an intermediate ingredient or feedstock. In 2011, USDA released a final rule implementing 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, was broadly supported 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 that repeals sections 712 and 716 of the NDAA 2013 and encourages the use of less expensive mail order pharmacies and military treatment facility pharmacies by increasing the prescription drug co-payments for active duty families and all retirees regardless of the age of the beneficiary. These fees would yield $4.6 billion in savings in the MERHCF over the 10-year budget horizon and $0.1 billion in mandatory savings for Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.

TRICARE-For-Life (TFL) annual enrollment fee. The Budget includes a proposal to charge military retirees age 65 and older and their families a modest annual premium, based on annual retirement pay, for TFL coverage. All current military retirees age 65 and older and their families would be grandfathered from the TFL fees. These annual fees would be phased in over four years and then indexed, and would yield $1.0 billion in mandatory savings in the MERHCF over the 10-year budget horizon. In addition, the proposal would reduce accrual costs by $1.1 billion over 10 years; these costs are classified as discretionary and result in reduced contributions to the MERHCF.

TRICARE Prime enrollment fee increase, Standard/Extra annual enrollment fee and deductible/catastrophic cap adjustments. As discussed above in the section on discretionary user charge proposals, these increased fees would yield $0.3 billion in mandatory savings over the 10-year budget horizon for the Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.

Department of Homeland Security

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 2015. The fee would be $7.50 per one-way trip beginning in 2019 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 $34 billion gap between PBGC's liabilities and assets. The Administration proposes to give the 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 2015.

Department of Transportation

Federal Aviation Administration: Aviation war-risk insurance. The authority of the Department of Transportation (DOT) to provide aviation war risk insurance expires on December 31, 2013. With the goal of building private capacity to manage aviation war risk, the Administration proposes to transform the program into a co-insurance arrangement in which DOT and a private insurer would jointly underwrite a common policy. In the case of a claim, DOT would pay an established fraction of the losses, and the private partner would pay the remainder. The Federal share would be slightly reduced each year as private capacity expands. The proposal would extend the existing program through 2014, during which time DOT would propose changes to its underlying statutory authority and work with the private insurance industry to develop co-insurance policies. The Budget proposes that a co-insurance arrangement would begin to reduce the government's share of any losses, starting in 2015. The proposal would result in collection of an estimated $772 million in insurance premiums through 2018.

2. Offsetting receipts

Department of Agriculture

Food Safety and Inspection Service (FSIS): Performance and other charges. This fee would be charged to those meat processing plants that have sample failures that result in retesting, have recalls, or are linked to an outbreak. This arrangement will offset the Federal Government's costs for resampling and retesting, while encouraging better food safety practice for processing plants. This fee is expected to generate $4 million in 2014.

Grain Inspection, Packers, and Stockyards Administration (GIPSA): Standardization and Licensing Activities. These fees would recover the full cost for the development, review, and maintenance of official U.S. grain standards and also for licensing fees to livestock market agencies, dealers, stockyards, packers, and swine contractors. The fees are expected to generate $27 million in 2014.

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. Beginning in 2017, this proposal would restructure income-related premiums by increasing the lowest income-related premium 5 percentage points and also increasing other income brackets until the highest tier is capped at 90 percent. The proposal also maintains 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.

CMS: Survey and certification revisit fee. The Budget proposes a fee for revisits of health care facilities in the Survey and Certification program to build greater accountability by creating an incentive for facilities to correct deficiencies and ensure quality of care.

Department of the Interior

Federal oil and gas management reforms. The Budget includes a package of legislative reforms to bolster and backstop administrative actions being taken to reform the management of DOI's onshore and offshore oil and gas programs, with a key focus on improving the return to taxpayers from the sale of these Federal resources. Proposed statutory and administrative changes fall into three general categories: (1) advancing royalty reforms, (2) encouraging diligent development of oil and gas leases, and (3) improving revenue collection processes. Royalty reforms include: establishing minimum royalty rates for oil, gas, and similar products; increasing the standard onshore oil and gas royalty rate; piloting a price-based sliding scale royalty rate; and repealing legislatively-mandated royalty relief for "deep gas" wells. Diligent development requirements include shorter primary lease terms, stricter enforcement of lease terms, and monetary incentives to move leases into production (e.g., a new statutory per-acre fee on nonproducing leases). Revenue collection improvements include simplification of the royalty valuation process, elimination of interest accruals on company overpayments of royalties, and permanent repeal of DOI's authority to accept in-kind royalty payments. Collectively, these reforms will generate roughly \$2.5 billion in net revenue to the Treasury over 10 years, of which about \$1.7 billion would result from statutory changes. Many States will also benefit from higher Federal revenue sharing payments.

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.

BLM: Reauthorize and restructure helium sales program. The Budget includes a legislative proposal to reauthorize BLM's Federal helium program in order to facilitate a gradual exit from the helium market, while ensuring the short-term availability of sufficient helium supplies to meet Government and industry demand. Under current law, once the helium program debt is retired, the authority to collect revenues from the sale of helium and to place them in the helium production fund terminates. The Secretary will be making the final repayment on the helium debt at the beginning of 2014.

BLM: Reauthorize the Federal Land Transaction Facilitation Act (FLTFA). The Budget proposes to reauthorize the FLTFA, which expired in July 2011, and allow lands identified as suitable for disposal in recent land use plans to be sold using the FLTFA authority. The FLTFA sales revenues would continue to be used to fund the acquisition of environmentally sensitive lands and to cover BLM's administrative costs associated with conducting sales.

DOI: Implement U.S.-Mexico Agreement on Transboundary Hydrocarbon Reservoirs. The Budget proposes to authorize the United States to undertake activities to implement the Agreement between the United States of America and the United Mexican States Concerning Transboundary Hydrocarbon Reservoirs in the Gulf of Mexico (Agreement), signed by representatives of the United States and Mexico on February 20, 2012. Implementing the Agreement would establish a framework for the cooperative exploration and development of hydrocarbon resources that cross the United States-Mexico maritime boundary in the Gulf of Mexico. The proposal would also end the moratorium on development along the boundary in the Western Gap. It would make an area along the U.S.-Mexico boundary in the Gulf of Mexico that is roughly the size of Delaware more accessible for oil and gas exploration and production activities. That area is estimated to contain up to 172 million barrels of oil and 304 billion cubic feet of natural gas. Making these resources accessible is expected to increase receipts from upcoming lease sales in 2014.

Federal Communications Commission (FCC)

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.

Auction domestic satellite service spectrum licenses. The FCC would be allowed to assign licenses for certain satellite services that are predominantly domestic through competitive bidding, as had been done before a 2005 court decision called the practice into question on technical grounds. The proposal is expected to raise \$50 million from 2013-2023.

Auction or assign via fee 1675-1680 megahertz: The Budget would direct that the Federal Communications Commission either auction or use fee authority to assign spectrum frequencies between 1675-1680 megahertz for wireless broadband use by 2017, subject to sharing arrangements with Federal weather satellites. Currently, the spectrum is being used for radiosondes (weather balloons) and is slated for use by a new weather satellite that is scheduled for launch in 2015. Before 2015, the National Oceanic and Atmospheric Administration (NOAA) plans to alter the radiosondes operations to not interfere with weather satellite transmissions. If this proposal is enacted, NOAA would move the radiosondes to another frequency, allowing the spectrum to be repurposed for commercial use with limited protection zones for the remaining weather satellite downlinks. Without this proposal, these frequencies are unlikely to be auctioned and repurposed to commercial use. The proposal is expected to raise $300 million in receipts and incur $70 million in relocation costs, leaving net savings of $230 million over 10 years.

C. User Charge Proposals that are Governmental Receipts

Department of Energy

Reauthorize special assessment on domestic nuclear facilities. The Administration proposes 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.[7] 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 2014.

[7] By law, duck stamp proceeds are available for use without further action by Congress, and, in this way, are similar to offsetting collections.

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 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 exempt. The surcharge would be effective for flights beginning after September 30, 2013. Assuming the enactment of the fee, total charges collected from aviation users would finance roughly three-fourths of airport investments and air traffic control system costs. To ensure appropriate input from stakeholders on the design of the fee, the proposal would also establish an expert Commission that could recommend to the President a replacement charge, or charges, that would raise no less in revenue than the enacted fee.

Corps of Engineers—Civil Works

Reform inland waterways funding. The Administration proposes legislation to reform the laws governing the Inland Waterways Trust Fund, including an annual per vessel fee to increase the amount paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this 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.

Table 15–4. USER CHARGE PROPOSALS IN THE FY 2014 BUDGET [1]
(Estimated collections in millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–2018	2014–2023
OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS													
DISCRETIONARY:													
1. Offsetting collections													
Department of Agriculture													
Forest Service Grazing Fee	....	5	5	5	5	5	....	....	....	....	....	25	25
Department of Defense													
TRICARE pharmacy benefit co-payments increase	....	127	260	292	327	402	453	498	542	579	624	1,408	4,104
TRICARE Prime enrollment fee increase, Standard/Extra annual enrollment fee, and deductible/catastrophic cap adjustments	....	170	440	641	848	994	1,079	1,163	1,253	1,351	1,458	3,093	9,396
Department of Justice													
Antitrust Division, Increase Hart-Scott-Rodino Fees	....	....	48	49	51	51	52	54	54	56	57	199	472
Department of Health and Human Services													
Food and Drug Administration (FDA): Reinspection fee for medical products	....	15	15	15	15	15	15	15	15	15	15	75	150
FDA: Food facilities Registration, Inspection, and Import fees	....	225	231	235	240	245	250	255	260	267	274	1,176	2,482
FDA: International courier fees	....	6	6	6	6	6	6	6	6	6	6	30	60
FDA: Cosmetic facility registration fees	....	19	20	20	20	20	20	20	20	20	21	99	200
FDA: Food Contact Substances Notification Fee	....	5	5	5	5	5	5	5	5	5	5	25	50
Health Resources and Services Adminisration: 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
ONC Standards and Certification User Fee	....	1	15	15	4	1	1	1	1	1	1	36	41
Department of Homeland Security													
Transportation Security Administration (TSA): Aviation passenger security fee increase	....	122	507	606	726	850	979	999	1,020	1,040	1,061	2,811	7,910
Customs and Border Protection (CBP): Inspection services fee	....	25	25	26	26	27	27	27	28	29	29	129	269
Department of the Interior													
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
Department of Labor													
Mine Safety and Health Administration: Rock dust analysis fee	....	....	2	2	2	2	2	2	2	2	2	8	18
Employment and Training Administration (ETA): National Agricultural Workers Survey fee	....	1	1	1	1	1	1	1	1	1	1	5	10
Department of State													
Western Hemisphere Travel Initiative surcharge extension	....	186	....	....	....	....	....	....	....	....	....	186	186
Border Crossing Card fee increase	....	17	17	17	17	17	17	17	17	17	17	85	170
Federal Trade Commission													
Increase Hart-Scott-Rodino Fees	....	....	48	49	51	51	52	54	54	56	57	199	472
Commodity Futures Trading Commission													
Commodity Futures Trading Commission (CFTC)	....	....	323	329	336	343	351	359	367	376	385	1,331	3,169
2. Offsetting receipts													
Department of Department of Homeland Security													
CBP: COBRA Fee and Express Consignment Courier Facilities Fee Increase	....	194	201	208	215	222	229	236	244	18	....	1,041	1,768
CBP: Immigration Inspection User Fee increase	....	166	183	190	196	203	211	218	226	234	243	938	2,070
Department of Transportation													
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	....	1,359	2,429	2,788	3,159	3,529	3,819	3,999	4,185	4,143	4,325	13,265	33,736

Table 15–4. USER CHARGE PROPOSALS IN THE FY 2014 BUDGET [1]—Continued

(Estimated collections in millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–2018	2014–2023
MANDATORY:													
Offsetting collections													
Department of Agriculture													
Biobased labeling fee	....	1	1	1	1	1	1	1	1	1	1	5	10
Department of Defense													
TRICARE pharmacy benefit co-payment increase [2]	....	4	81	141	220	405	525	637	781	917	1,051	851	4,762
TRICARE-For-Life enrollment fee	....	....	4	21	53	80	109	138	169	201	234	158	1,009
TRICARE Prime enrollment fee increase, Standard/Extra annual enrollment fee, and deductible/catastrophic cap adjustments	....	5	13	19	25	30	32	35	37	40	43	92	279
Department of Homeland Security													
TSA: Aviation passenger security fee increase	....	200	1,139	1,410	1,675	1,950	2,235	2,279	2,324	2,370	2,418	6,374	18,000
Department of Labor													
Pension Benefit Guaranty Corporation: Premium increases	....	....	2,778	2,778	2,778	2,778	2,778	2,778	2,778	2,778	2,778	11,112	25,002
Department of Transportation													
Federal Aviation Administration: Aviation war-risk insurance	....	128	172	173	175	124	....	....	....	....	....	772	772
Offsetting receipts													
Department of Agriculture													
Food Safety and Inspection Service: User charges	....	4	4	4	5	5	5	5	5	5	5	22	47
Grain, Inspection, Packers, and Stockyards Administration: User charges	....	27	27	28	28	28	29	29	29	30	30	138	285
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
Department of Health and Human Services													
Centers for Medicare and Medicaid Services (CMS): Income-related premium increase under Medicare Parts B and D	....	....	....	....	3,000	3,000	4,000	7,000	9,000	11,000	13,000	6,000	50,000
CMS: Medicare Part B premium surcharge	....	....	....	....	70	180	290	410	540	670	750	250	2,910
CMS: Survey and certification revisit fee	....	....	1	5	10	10	15	20	25	25	25	26	136
Department of the Interior													
Federal oil and gas management reforms	....	50	120	125	150	170	185	200	215	225	240	615	1,680
BLM: Reform of hardrock mineral production on Federal lands	....	....	2	4	5	5	6	6	11	17	24	16	80
BLM: Reauthorize and restructure helium sales program	....	152	110	94	64	33	21	6	....	....	....	453	480
BLM: Reauthorize the Federal Land Transaction Facilitation Act (FLTFA) program	....	3	5	8	9	3	....	....	....	....	....	28	28
Implement U.S.-Mexico Agreement on Transboundary Hydrocarbon Reservoirs	....	50	....	....	....	....	....	....	....	....	....	50	50
Federal Communications Commission													
Spectrum license fee authority	50	200	300	425	550	550	550	550	550	550	550	2,025	4,775
Auction domestic satellite service spectrum licenses	....	25	25	....	....	....	....	....	....	....	....	50	50
Auction or assign via fee 1675 –1680 megahertz	....	....	....	....	80	150	....	....	....	....	....	230	230
Subtotal, mandatory user charge proposals	50	891	4,831	5,285	8,948	9,553	10,833	14,147	16,519	18,884	21,205	29,508	111,096
Subtotal, user charge proposals that are offsetting collections and offsetting receipts	50	2,250	7,260	8,073	12,107	13,082	14,652	18,146	20,704	23,027	25,530	42,773	144,832
GOVERNMENTAL RECEIPTS													
Department of Energy													
Reauthorize special assessment on domestic nuclear facilities	....	200	204	209	213	218	223	228	233	238	243	1,044	2,209
Department of the Interior													
Migratory bird hunting and conservation stamp fees	....	14	14	14	14	14	14	14	14	14	14	70	140
Department of Transportation:													
Federal Aviation Administration: Mandatory surcharge for air traffic services	....	605	632	660	690	719	745	766	790	812	836	3,306	7,255

Table 15–4. USER CHARGE PROPOSALS IN THE FY 2014 BUDGET [1]—Continued

(Estimated collections in millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–2018	2014–2023
Corps of Engineers - Civil Works													
Reform inland waterways funding	....	82	113	113	113	113	113	113	113	113	114	534	1,100
Subtotal, governmental receipts user charge proposals	....	901	963	996	1,030	1,064	1,095	1,121	1,150	1,177	1,207	4,954	10,704
Total, user charge proposals	**50**	**3,151**	**8,223**	**9,069**	**13,137**	**14,146**	**15,747**	**19,267**	**21,854**	**24,204**	**26,737**	**47,727**	**155,536**

[1] A positive sign indicates an increase in collections.

[2] Budgetary effects of the fee increase are displayed, which include savings to the Department of Defense due to changes in behavioral assumptions.

Table 15–5 OFFSETTING RECEIPTS BY TYPE
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Intragovernmental Receipts												
On Budget												
Interfund Receipts												
Federal Fund Payments to Trust Funds												
Distributed by Agency												
Contributions to retirement and insurance programs												
Military retirement fund	64,751	67,733	70,272	72,906	75,640	78,478	81,421	84,474	87,641	90,928	94,338	97,876
Supplementary medical insurance [1]	210,509	232,979	255,542	277,527	299,524	313,297	329,220	360,930	392,285	424,706	468,729	496,606
Hospital insurance [1]	19,432	15,627	20,667	23,159	25,793	28,425	31,235	34,224	37,331	40,474	43,737	47,275
Proposed Legislation (Non-PAYGO)	....	127	136	149	163	171	179	187	196	205	214	223
Railroad social security equivalent benefit fund	291	222	210	232	252	278	304	333	363	393	424	456
Civilian supplementary retirement contributions	33,434	32,810	33,610	34,422	35,434	36,246	37,160	37,876	38,492	39,214	39,633	39,334
Proposed Legislation (Non-PAYGO)	....	....	–34	–104	–209	–320	–434	–554	–678	–807	–941	–1,079
Unemployment insurance	42,117	31,929	8,239	985	931	896	873	882	906	934	963	991
Other contributions	627	601	457	437	425	418	410	408	404	400	398	398
Rail industry pension fund	480	425	339	349	359	369	376	382	387	392	395	398
Subtotal, Contributions to retirement and insurance programs	371,641	382,453	389,438	410,062	438,312	458,258	480,744	519,142	557,327	596,839	647,890	682,478
Other miscellaneous transactions												
Miscellaneous payments	3,274	9,040	15,198	2,576	2,614	2,658	2,703	2,749	2,796	2,842	2,896	2,948
Proposed Legislation (PAYGO)	....	....	2,552	37,156	58,464	65,508	50,769	....	....	....	....	....
Other	152	151	151	151	151	150	150	151	1	1	1	1
Subtotal, Other miscellaneous transactions	3,426	9,191	17,901	39,883	61,229	68,316	53,622	2,900	2,797	2,843	2,897	2,949
Subtotal, Distributed by Agency	375,067	391,644	407,339	449,945	499,541	526,574	534,366	522,042	560,124	599,682	650,787	685,427
Undistributed by Agency												
Employer share, employee retirement (on-budget)												
Civil service retirement and disability insurance	21,484	21,824	22,190	22,650	23,332	24,075	24,813	25,544	26,275	27,003	27,728	28,453
Proposed Legislation (Non-PAYGO)	....	....	–17	–31	–46	–61	–78	–96	–114	–133	–153	–174
Hospital insurance (contribution as employer)	3,510	3,586	3,690	3,844	4,035	4,178	4,325	4,540	4,733	4,934	5,181	5,378
Military retirement fund	27,426	27,667	27,733	27,134	27,248	27,429	27,831	28,607	29,408	30,232	31,078	31,948
Other federal employees retirements	320	326	339	345	355	365	376	387	399	411	423	435
Postal Service contributions to FHI	583	595	623	649	675	703	732	762	794	826	860	898
CSRDI from Postal Service	3,879	3,600	3,524	3,489	3,467	4,163	4,287	4,358	4,433	4,529	4,640	4,755
Subtotal, Employer share, employee retirement (on-budget)	57,202	57,598	58,082	58,080	59,066	60,852	62,286	64,102	65,928	67,802	69,757	71,693
Other miscellaneous transactions												
Interest received by on-budget trust funds	14,753	50,985	50,135	54,179	55,719	54,363	55,761	60,685	64,454	70,853	75,147	76,692
Proposed Legislation (Non-PAYGO)	....	....	....	21	61	135	243	371	511	655	795	938

Table 15–5 OFFSETTING RECEIPTS BY TYPE—Continued
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Subtotal, Other miscellaneous transactions	14,753	50,985	50,135	54,200	55,780	54,498	56,004	61,056	64,965	71,508	75,942	77,630
Subtotal, Undistributed by Agency	71,955	108,583	108,217	112,280	114,846	115,350	118,290	125,158	130,893	139,310	145,699	149,323
Subtotal, Federal Fund Payments to Trust Funds	447,022	500,227	515,556	562,225	614,387	641,924	652,656	647,200	691,017	738,992	796,486	834,750
Trust fund Payments to Federal Funds												
Distributed by Agency												
Other miscellaneous transactions												
Other	2,284	1,902	1,788	1,677	1,585	1,589	1,620	1,506	1,482	1,466	1,520	1,561
Proposed Legislation (PAYGO)	....	....	3	3	3	3	3	3	3	3	3	3
Subtotal, Other miscellaneous transactions	2,284	1,902	1,791	1,680	1,588	1,592	1,623	1,509	1,485	1,469	1,523	1,564
Subtotal, Distributed by Agency	2,284	1,902	1,791	1,680	1,588	1,592	1,623	1,509	1,485	1,469	1,523	1,564
Subtotal, Trust fund Payments to Federal Funds	**2,284**	**1,902**	**1,791**	**1,680**	**1,588**	**1,592**	**1,623**	**1,509**	**1,485**	**1,469**	**1,523**	**1,564**
Subtotal, Interfund Receipts	449,306	502,129	517,347	563,905	615,975	643,516	654,279	648,709	692,502	740,461	798,009	836,314
Federal Intrafund Receipts												
Distributed by Agency												
General fund payments to retirement and health benefits funds												
DOD retiree health care fund	–12,720	10,298	9,589	9,994	10,556	11,257	13,250	14,070	14,784	15,486	16,207	16,495
Proposed Legislation (Non-PAYGO)	....	....	–1,858	–1,983	–2,128	–2,293	–2,744	–2,935	–3,095	–3,260	–3,418	–3,520
Employees health benefits fund	....	....	5,700	5,700	5,800	2,346	2,346	2,346	2,346	2,346	2,346	2,346
Proposed Legislation (PAYGO)	....	....	–5,700	....	....	349	349	349	349	349	349	349
Miscellaneous Federal retirement funds	482	502	501	508	493	474	484	509	528	555	515	516
Subtotal, General fund payments to retirement and health benefits funds	–12,238	10,800	8,232	14,219	14,721	12,133	13,685	14,339	14,912	15,476	15,999	16,186
Interest												
Interest on Government capital in enterprises	494	416	554	920	1,050	1,170	2,026	2,098	2,151	2,325	2,338	2,377
Interest from the Federal Financing Bank	1,671	1,244	1,817	2,237	2,740	2,851	3,393	3,864	4,074	4,180	4,259	4,237
Interest received by retirement and health benefits funds	52	74	83	93	104	115	124	133	141	152	162	169
Subtotal, Interest	2,217	1,734	2,454	3,250	3,894	4,136	5,543	6,095	6,366	6,657	6,759	6,783
Other miscellaneous transactions												
Other	3,710	5,656	4,334	4,631	5,043	5,596	6,375	7,099	7,717	8,367	9,000	9,254
Proposed Legislation (PAYGO)	....	....	120	240	360	900	240	120	120	120	120	120
Subtotal, Other miscellaneous transactions	3,710	5,656	4,454	4,871	5,403	6,496	6,615	7,219	7,837	8,487	9,120	9,374
Subtotal, Distributed by Agency	–6,311	18,190	15,140	22,340	24,018	22,765	25,843	27,653	29,115	30,620	31,878	32,343
Undistributed by Agency												
Employing agency contributions												
DOD retiree health care fund	11,145	8,529	7,472	7,878	8,328	8,809	9,317	9,855	10,422	11,020	11,653	12,323

Table 15–5 OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Proposed Legislation (Non-PAYGO)	....	....	–594	–943	–998	–1,055	–1,115	–1,179	–1,248	–1,319	–1,394	–1,474
Employees health benefits	....	....	....	....	....	2,909	3,038	3,165	3,321	3,516	3,724	3,944
Proposed Legislation (PAYGO)	....	3,339	3,521	3,737	3,965	....	....	....	....	....	....	....
Subtotal, Employing agency contributions	11,145	11,868	10,399	10,672	11,295	10,663	11,240	11,841	12,495	13,217	13,983	14,793
Subtotal, Undistributed by Agency	11,145	11,868	10,399	10,672	11,295	10,663	11,240	11,841	12,495	13,217	13,983	14,793
Subtotal, Federal Intrafund Receipts	**4,834**	**30,058**	**25,539**	**33,012**	**35,313**	**33,428**	**37,083**	**39,494**	**41,610**	**43,837**	**45,861**	**47,136**
Trust Intrafund Receipts												
Distributed by Agency												
Personnel benefits												
Payment to railroad retirement (from off-budget)	6,677	6,010	6,364	6,792	6,889	6,873	7,106	7,229	7,203	7,139	7,226	6,507
Subtotal, Personnel benefits	6,677	6,010	6,364	6,792	6,889	6,873	7,106	7,229	7,203	7,139	7,226	6,507
Other miscellaneous transactions												
Other	2,401	53	108	117	126	137	148	160	1	1	1	1
Subtotal, Other miscellaneous transactions	2,401	53	108	117	126	137	148	160	1	1	1	1
Subtotal, Distributed by Agency	9,078	6,063	6,472	6,909	7,015	7,010	7,254	7,389	7,204	7,140	7,227	6,508
Subtotal, Trust Intrafund Receipts	**9,078**	**6,063**	**6,472**	**6,909**	**7,015**	**7,010**	**7,254**	**7,389**	**7,204**	**7,140**	**7,227**	**6,508**
Subtotal, On Budget	**463,218**	**538,250**	**549,358**	**603,826**	**658,303**	**683,954**	**698,616**	**695,592**	**741,316**	**791,438**	**851,097**	**889,958**
Off Budget												
Interfund Receipts												
Federal Fund Payments to Trust Funds												
Distributed by Agency												
Personnel benefits												
Old-age, survivors and disablitity, insurance	140,354	56,073	28,387	32,499	36,007	39,611	43,278	47,265	51,338	55,448	59,785	64,483
Subtotal, Personnel benefits	140,354	56,073	28,387	32,499	36,007	39,611	43,278	47,265	51,338	55,448	59,785	64,483
Subtotal, Distributed by Agency	140,354	56,073	28,387	32,499	36,007	39,611	43,278	47,265	51,338	55,448	59,785	64,483
Undistributed by Agency												
Personnel benefits												
Employer share, employee retirement (off-budget)	15,592	16,178	16,804	17,656	18,637	19,425	20,251	21,336	22,325	23,347	24,544	25,537
Subtotal, Personnel benefits	15,592	16,178	16,804	17,656	18,637	19,425	20,251	21,336	22,325	23,347	24,544	25,537
Other miscellaneous transactions												
Interest received by off-budget trust funds	112,393	105,578	100,040	95,645	92,014	90,725	89,354	90,631	89,131	89,939	86,844	85,493
Subtotal, Other miscellaneous transactions	112,393	105,578	100,040	95,645	92,014	90,725	89,354	90,631	89,131	89,939	86,844	85,493
Subtotal, Undistributed by Agency	127,985	121,756	116,844	113,301	110,651	110,150	109,605	111,967	111,456	113,286	111,388	111,030
Subtotal, Federal Fund Payments to Trust Funds	**268,339**	**177,829**	**145,231**	**145,800**	**146,658**	**149,761**	**152,883**	**159,232**	**162,794**	**168,734**	**171,173**	**175,513**
Subtotal, Interfund Receipts	**268,339**	**177,829**	**145,231**	**145,800**	**146,658**	**149,761**	**152,883**	**159,232**	**162,794**	**168,734**	**171,173**	**175,513**
Subtotal, Off Budget	**268,339**	**177,829**	**145,231**	**145,800**	**146,658**	**149,761**	**152,883**	**159,232**	**162,794**	**168,734**	**171,173**	**175,513**
Subtotal, Intragovernmental Receipts	**731,557**	**716,079**	**694,589**	**749,626**	**804,961**	**833,715**	**851,499**	**854,824**	**904,110**	**960,172**	**1,022,270**	**1,065,471**

Table 15–5 OFFSETTING RECEIPTS BY TYPE—Continued
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Receipts from Non-Federal Sources												
On Budget												
Proprietary Receipts												
Federal Fund Receipts												
Distributed by Agency												
Fees and other charges for services and special benefits												
Nuclear waste disposal revenues ..	753	755	775	782	783	785	790	795	795	798	804	804
Proposed Legislation (PAYGO) ...	....	....	....	....	....	....	....	....	....	....	2,194	350
Other	4,386	4,433	4,661	4,927	5,255	5,471	5,565	5,655	5,764	5,854	5,978	6,023
Proposed Legislation (Non-PAYGO)	....	....	129	168	172	186	192	197	204	210	212	222
Proposed Legislation (PAYGO) ...	....	....	51	58	59	61	62	64	65	66	68	69
Subtotal, Fees and other charges for services and special benefits	5,139	5,188	5,616	5,935	6,269	6,503	6,609	6,711	6,828	6,928	9,256	7,468
Interest												
Interest on foreign loans and deferred foreign collections	48	48	48	48	48	48	48	48	48	48	48	48
Interest on deposits and loan accounts	....	....	....	....	187	587	881	1,052	1,088	1,085	1,082	1,082
Other interest	35,491	48,458	53,256	43,936	45,581	48,552	51,572	54,537	57,527	60,592	63,576	66,550
Dividends and other earnings	18,379	15,419	29,662	25,414	23,483	15,332	12,802	12,099	12,592	13,026	13,661	14,504
Subtotal, Interest	53,918	63,925	82,966	69,398	69,299	64,519	65,303	67,736	71,255	74,751	78,367	82,184
Realization upon loans and investments												
Negative subsidies and downward reestimates	64,889	76,663	40,321	36,750	31,066	25,280	20,158	16,691	14,386	12,486	9,860	9,367
Proposed Legislation (Non-PAYGO)	....	–25	....	....	....	....	....	....	....	....	....	....
Proposed Legislation (PAYGO) ...	....	–8,952	–8,213	–7,160	–3,204	–33	2,577	5,332	7,859	9,769	10,944	11,848
Other	58	63	65	66	66	67	66	66	66	66	66	66
Subtotal, Realization upon loans and investments	64,947	67,749	32,173	29,656	27,928	25,314	22,801	22,089	22,311	22,321	20,870	21,281
Sale of Government property												
Sale of land and other real property	162	274	237	231	231	224	229	235	246	250	255	260
Proposed Legislation (PAYGO) ...	....	....	5	10	19	29	29	29	29	29	29	29
Other sales of government property	77	49	21	21	21	21	21	21	21	21	21	21
Subtotal, Sale of Government property	239	323	263	262	271	274	279	285	296	300	305	310
Sale of products												
Sale of timber and other natural land products	218	163	197	196	197	198	199	199	198	198	198	198
Proposed Legislation (PAYGO) ...	....	....	8	8	8	8	8	10	10	10	10	11
Sale of minerals and mineral products	65	55	69	69	72	74	75	77	76	79	83	84
Proposed Legislation (PAYGO) ...	....	....	145	113	98	67	37	29	13	11	17	24
Sale of power and other utilities	674	774	726	753	739	713	678	703	667	650	694	647
Other	157	137	150	154	139	154	158	142	158	162	145	162
Subtotal, Sale of products	1,114	1,129	1,295	1,293	1,253	1,214	1,155	1,160	1,122	1,110	1,147	1,126
Other miscellaneous transactions												
Royalties and rents	4,484	4,542	4,618	4,693	4,681	4,552	4,690	4,844	5,017	5,269	5,570	5,692
Proposed Legislation (PAYGO) ...	....	....	–49	1	1	1	1	1	1	1	1	1

Table 15–5 OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Recoveries and refunds	4,516	4,826	4,999	5,187	5,297	5,418	5,539	5,622	5,752	5,884	5,976	6,118
Proposed Legislation (PAYGO)	....	....	4	7	–23	–23	–44	–61	–77	–75	–72	–69
Gifts and contributions	12	13	13	12	12	12	12	12	12	12	12	12
Miscellaneous receipt accounts	2,317	3,330	3,703	4,075	4,379	4,659	4,917	5,152	5,296	5,388	5,160	4,812
Proposed Legislation (PAYGO)	....	....	22	22	22	22	22	22	22	22	22	22
Subtotal, Other miscellaneous transactions	11,329	12,711	13,310	13,997	14,369	14,641	15,137	15,592	16,023	16,501	16,669	16,588
Subtotal, Distributed by Agency	136,686	151,025	135,623	120,541	119,389	112,465	111,284	113,573	117,835	121,911	126,614	128,957
Undistributed by Agency												
Outer Continental Shelf												
Outer Continental Shelf rents and bonuses	681	1,107	1,201	1,012	1,009	941	889	884	899	924	934	933
Proposed Legislation (PAYGO)	....	....	100	104	123	150	170	185	200	215	225	240
Outer Continental Shelf royalties	5,924	5,736	5,833	6,145	6,404	6,337	6,165	6,744	7,301	7,522	7,710	7,390
Proposed Legislation (PAYGO)	....	....	–150	–200	–200	–200	–200	–200	–200	–200	–200	–200
Subtotal, Outer Continental Shelf	6,605	6,843	6,984	7,061	7,336	7,228	7,024	7,613	8,200	8,461	8,669	8,363
Other miscellaneous transactions												
Sale of major assets	....	1	....	....	....	....	....	....	....	....	....	....
Other undistributed offsetting receipts	12,992	2,588	....	....	....	350	350	4,400	4,400	....	....	....
Proposed Legislation (PAYGO)	....	....	....	....	....	150	150	....	....	....	....	....
Subtotal, Other miscellaneous transactions	12,992	2,589	....	....	....	500	500	4,400	4,400	....	....	....
Subtotal, Undistributed by Agency	19,597	9,432	6,984	7,061	7,336	7,728	7,524	12,013	12,600	8,461	8,669	8,363
Subtotal, Federal Fund Receipts	**156,283**	**160,457**	**142,607**	**127,602**	**126,725**	**120,193**	**118,808**	**125,586**	**130,435**	**130,372**	**135,283**	**137,320**
Trust Fund Receipts												
Distributed by Agency												
Fees and other charges for services and special benefits												
Medicare premiums and other charges [1]	64,686	69,640	72,538	78,300	84,606	91,444	99,567	108,410	116,126	125,370	135,905	147,162
Veterans life insurance (trust funds)	71	65	55	47	39	32	27	23	18	14	11	8
Other	9,060	9,411	9,689	9,966	10,501	11,198	11,968	12,800	13,814	14,987	16,305	17,713
Subtotal, Fees and other charges for services and special benefits	73,817	79,116	82,282	88,313	95,146	102,674	111,562	121,233	129,958	140,371	152,221	164,883
Interest												
Other interest	1,538	701	587	487	382	344	314	274	219	171	162	245
Proposed Legislation (PAYGO)	....	–606	–455	....	....	....	....	....	....	....	....	....
Dividends and other earnings	3,139	520	400	460	498	518	521	505	482	453	412	385
Subtotal, Interest	4,677	615	532	947	880	862	835	779	701	624	574	630
Realization upon loans and investments												
Negative subsidies and downward reestimates	71	....	....	....	....	....	....	....	....	....	....	....
Other	1	1	1	1	1	1	1	1	1	1	1	1
Subtotal, Realization upon loans and investments	72	1	1	1	1	1	1	1	1	1	1	1
Sale of Government property												
Military assistance program sales (trust funds)	26,310	31,399	33,035	34,998	35,030	34,388	32,698	30,095	28,781	28,404	27,826	27,985
Subtotal, Sale of Government property	26,310	31,399	33,035	34,998	35,030	34,388	32,698	30,095	28,781	28,404	27,826	27,985

Table 15–5 OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Other miscellaneous transactions												
Royalties and rents	....	....	....	....	....	....	....	....	....	....	....	....
Proposed Legislation (PAYGO)	....	....	200	200	200	200	200	200	200	200	200	200
Recoveries and refunds	12,184	10,545	10,666	10,766	10,866	10,966	11,006	11,106	11,206	11,306	11,306	11,406
Gifts and contributions	397	339	318	315	315	315	314	313	313	313	313	313
Miscellaneous receipt accounts	95	96	99	102	105	111	115	120	126	132	138	146
Subtotal, Other miscellaneous transactions	12,676	10,980	11,283	11,383	11,486	11,592	11,635	11,739	11,845	11,951	11,957	12,065
Subtotal, Distributed by Agency	117,552	122,111	127,133	135,642	142,543	149,517	156,731	163,847	171,286	181,351	192,579	205,564
Subtotal, Trust Fund Receipts	**117,552**	**122,111**	**127,133**	**135,642**	**142,543**	**149,517**	**156,731**	**163,847**	**171,286**	**181,351**	**192,579**	**205,564**
Subtotal, Proprietary Receipts	**273,835**	**282,568**	**269,740**	**263,244**	**269,268**	**269,710**	**275,539**	**289,433**	**301,721**	**311,723**	**327,862**	**342,884**
Offsetting Governmental Receipts												
Federal Fund Receipts												
Distributed by Agency												
Other miscellaneous transactions												
Defense Cooperation	....	....	....	....	....	1	1	1	1	1	1	1
Regulatory Fees	8,366	8,675	9,427	9,640	9,748	9,880	10,013	10,131	10,272	10,409	7,442	7,335
Other	251	268	268	271	273	275	276	277	278	280	169	160
Proposed Legislation (PAYGO)	....	....	200	1,139	1,410	1,675	1,950	2,235	2,279	2,324	2,370	2,418
Subtotal, Other miscellaneous transactions	8,617	8,943	9,895	11,050	11,431	11,831	12,240	12,644	12,830	13,014	9,982	9,914
Subtotal, Distributed by Agency	8,617	8,943	9,895	11,050	11,431	11,831	12,240	12,644	12,830	13,014	9,982	9,914
Undistributed by Agency												
Other miscellaneous transactions												
Spectrum auction proceeds	....	....	....	1,750	....	....	....	....	....	....	....	....
Proposed Legislation (PAYGO)	....	50	225	325	425	550	550	550	550	550	550	550
Subtotal, Other miscellaneous transactions	....	50	225	2,075	425	550	550	550	550	550	550	550
Subtotal, Undistributed by Agency	....	50	225	2,075	425	550	550	550	550	550	550	550
Subtotal, Federal Fund Receipts	**8,617**	**8,993**	**10,120**	**13,125**	**11,856**	**12,381**	**12,790**	**13,194**	**13,380**	**13,564**	**10,532**	**10,464**
Trust Fund Receipts												
Distributed by Agency												
Other miscellaneous transactions												
Regulatory Fees	3	3	7	7	7	1,257	8	8	8	8	8	9
Subtotal, Other miscellaneous transactions	3	3	7	7	7	1,257	8	8	8	8	8	9
Subtotal, Distributed by Agency	3	3	7	7	7	1,257	8	8	8	8	8	9
Undistributed by Agency												
Other miscellaneous transactions												
Spectrum auction proceeds	....	....	....	3,011	9,416	7,350	2,200	....	....	....	....	....
Subtotal, Other miscellaneous transactions	....	....	....	3,011	9,416	7,350	2,200	....	....	....	....	....
Subtotal, Undistributed by Agency	....	....	....	3,011	9,416	7,350	2,200	....	....	....	....	....
Subtotal, Trust Fund Receipts	**3**	**3**	**7**	**3,018**	**9,423**	**8,607**	**2,208**	**8**	**8**	**8**	**8**	**9**
Subtotal, Offsetting Governmental Receipts	**8,620**	**8,996**	**10,127**	**16,143**	**21,279**	**20,988**	**14,998**	**13,202**	**13,388**	**13,572**	**10,540**	**10,473**
Subtotal, On Budget	**282,455**	**291,564**	**279,867**	**279,387**	**290,547**	**290,698**	**290,537**	**302,635**	**315,109**	**325,295**	**338,402**	**353,357**

Table 15–5 OFFSETTING RECEIPTS BY TYPE—Continued
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Off Budget												
Proprietary Receipts												
Trust Fund Receipts												
Distributed by Agency												
Fees and other charges for services and special benefits												
Other	31	30	30	31	31	32	32	33	34	35	36	37
Subtotal, Fees and other charges for services and special benefits	31	30	30	31	31	32	32	33	34	35	36	37
Other miscellaneous transactions												
Recoveries and refunds	74	60	60	60	60	60	60	60	60	60	60	60
Subtotal, Other miscellaneous transactions	74	60	60	60	60	60	60	60	60	60	60	60
Subtotal, Distributed by Agency	105	90	90	91	91	92	92	93	94	95	96	97
Subtotal, Trust Fund Receipts	105	90	90	91	91	92	92	93	94	95	96	97
Subtotal, Proprietary Receipts	**105**	**90**	**90**	**91**	**91**	**92**	**92**	**93**	**94**	**95**	**96**	**97**
Subtotal, Off Budget	**105**	**90**	**90**	**91**	**91**	**92**	**92**	**93**	**94**	**95**	**96**	**97**
Subtotal, Receipts from Non-Federal Sources	**282,560**	**291,654**	**279,957**	**279,478**	**290,638**	**290,790**	**290,629**	**302,728**	**315,203**	**325,390**	**338,498**	**353,454**
Grand Total Offsetting Receipts	**1,014,117**	**1,007,733**	**974,546**	**1,029,104**	**1,095,599**	**1,124,505**	**1,142,128**	**1,157,552**	**1,219,313**	**1,285,562**	**1,360,768**	**1,418,925**

[1] Excludes the effects of 2014 Budget Medicare savings proposals.

16. 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 crucially 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 2012–2018 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, 2012. Thus, the estimates assume that the Bush era tax cuts expire as scheduled under the Tax Relief, Unemployment, Insurance Reauthorization, and Job Creation Act of 2010. In most cases, expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity occurring before fiscal year 2012. The estimates are based on the economic assumptions from the Mid-Session Review of the 2013 Budget. The estimates do not reflect the "American Taxpayer Relief Act of 2012" (ATRA), enacted into law on January 2, 2013, which extended many tax expenditures, changed income tax rates, and provided Alternative Minimum Tax relief. Given the late passage of the legislation, revised estimates will be included in the tax expenditure tables for the 2015 Budget. The tax-related provisions of ATRA are summarized in chapter 14 of this volume, "Governmental Receipts." In contrast to the general rule which drops expired provisions, and for the sake of continuity, the tables below show provisions that expired at the end of 2011 but were extended by ATRA.

The total revenue effects for tax expenditures for fiscal years 2012–2018 are displayed according to the Budget's functional categories in Table 16–1. Descriptions of the specific tax expenditure provisions follow the tables of estimates and the discussion of general features of the tax expenditure concept.

Two baseline concepts—the normal tax baseline and the reference tax law baseline—are used to identify and estimate tax expenditures.[1] For the most part, the two concepts coincide. However, items treated as tax expenditures under the normal tax baseline, but not the reference tax law baseline, are indicated by the designation "normal tax method" in the tables. The revenue effects for these items are zero using the reference tax rules. The alternative baseline concepts are discussed in detail following the tables.

Table 16–2 reports separately the respective portions of the total revenue effects that arise under the individual and corporate income taxes separately. The location of the estimates under the individual and corporate headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these breakdowns show the form of tax liability that the various provisions affect. The ultimate beneficiaries of corporate tax expenditures could be shareholders, employees, customers, or other providers of capital, depending on economic forces.

Table 16–3 ranks the major tax expenditures by the size of their 2014–2018 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 16–1 through 16–3, as well as to the descriptions below.

[1] These baseline concepts are thoroughly discussed in Special Analysis G of the 1985 Budget, where the former is referred to as the pre-1983 method and the latter the post-1982 method.

Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 16–1, 16–2, and 16–3 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 16–1 are the totals of individual and corporate income tax revenue effects reported in Table 16–2 and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 16–1 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 16–4. 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 16–4 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 2012 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2012 would cause a deferral of tax payments on wages in 2012 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2012 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.

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2012–2018

(In millions of dollars)

		Total from corporations and individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18
National Defense									
1	Exclusion of benefits and allowances to armed forces personnel	14,140	14,640	15,150	14,170	14,350	14,840	15,430	73,940
International affairs:									
2	Exclusion of income earned abroad by U.S. citizens	5,400	5,800	6,140	6,430	6,730	7,050	7,380	33,730
3	Exclusion of certain allowances for Federal employees abroad	1,070	1,120	1,180	1,240	1,300	1,370	1,430	6,520
4	Inventory property sales source rules exception	3,310	3,610	3,940	4,300	4,690	5,120	5,590	23,640
5	Deferral of income from controlled foreign corporations (normal tax method)	42,000	41,810	41,770	43,020	44,240	45,180	46,160	220,370
6	Deferred taxes for financial firms on certain income earned overseas	2,510	0	0	0	0	0	0	0
General science, space, and technology:									
7	Expensing of research and experimentation expenditures (normal tax method)	3,740	4,810	5,040	5,530	6,560	7,610	8,470	33,210
8	Credit for increasing research activities	4,390	2,320	2,130	1,970	1,820	1,680	1,530	9,130
Energy:									
9	Expensing of exploration and development costs, fuels	470	790	880	630	390	260	180	2,340
10	Excess of percentage over cost depletion, fuels	890	900	940	940	950	950	950	4,730
11	Alternative fuel production credit	20	10	0	0	0	0	0	0
12	Exception from passive loss limitation for working interests in oil and gas properties	10	10	10	10	10	10	10	50
13	Capital gains treatment of royalties on coal	90	80	60	80	90	100	110	440
14	Exclusion of interest on energy facility bonds	20	30	30	30	30	40	40	170
15	Energy production credit [1]	1,500	1,730	1,770	1,730	1,640	1,440	1,100	7,680
16	Energy investment credit [1]	1,040	1,270	1,360	1,670	1,880	1,110	240	6,260
17	Alcohol fuel credits [2]	140	110	50	30	10	10	0	100
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	10	0	0	0	0	0	0	0
19	Tax credit and deduction for clean-fuel burning vehicles	100	180	260	400	610	670	500	2,440
20	Exclusion of utility conservation subsidies	270	250	250	250	250	250	240	1,240
21	Credit for holding clean renewable energy bonds [4]	70	70	70	70	70	70	70	350
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–70	–180	–190	–180	–150	–120	–80	–720
23	Credit for investment in clean coal facilities	380	400	420	500	320	170	170	1,580
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	680	610	–90	–700	–830	–880	–800	–3,300
25	Natural gas distribution pipelines treated as 15-year property	110	100	100	100	110	120	120	550
26	Amortize all geological and geophysical expenditures over 2 years	90	110	110	90	80	70	70	420
27	Allowance of deduction for certain energy efficient commercial building property	70	70	40	20	0	0	–20	40
28	Credit for construction of new energy efficient homes	70	40	20	0	0	0	0	20
29	Credit for energy efficiency improvements to existing homes	780	0	0	0	0	0	0	0
30	Credit for energy efficient appliances	210	300	130	120	100	0	0	350
31	Credit for residential energy efficient property	910	1,010	1,140	1,270	1,420	600	0	4,430
32	Qualified energy conservation bonds [5]	20	30	30	30	30	30	30	150
33	Advanced energy property credit	580	460	110	0	–30	–50	–50	–20
34	Advanced nuclear power production credit	0	0	0	0	0	165	440	605
Natural resources and environment:									
35	Expensing of exploration and development costs, nonfuel minerals	50	60	60	80	80	80	90	390
36	Excess of percentage over cost depletion, nonfuel minerals	560	580	600	600	610	620	630	3,060
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	420	470	550	600	650	680	730	3,210
38	Capital gains treatment of certain timber income	90	80	60	80	90	100	110	440
39	Expensing of multiperiod timber growing costs	270	280	300	310	320	330	350	1,610
40	Tax incentives for preservation of historic structures	540	550	570	580	590	600	610	2,950
41	Exclusion of gain or loss on sale or exchange of certain brownfield sites	40	30	10	0	0	0	0	10
42	Industrial CO2 capture and sequestration tax credit	60	60	70	80	110	210	160	630
43	Deduction for endangered species recovery expenditures	20	20	20	20	30	30	30	130
Agriculture:									
44	Expensing of certain capital outlays	70	100	110	120	130	130	130	620
45	Expensing of certain multiperiod production costs	130	160	160	160	160	170	160	810

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18
46	Treatment of loans forgiven for solvent farmers	40	40	40	40	40	40	40	200
47	Capital gains treatment of certain income	880	830	630	760	910	1,030	1,110	4,440
48	Income averaging for farmers	130	130	130	130	140	140	140	680
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	80	90	100	430
Commerce and housing:									
	Financial institutions and insurance:								
51	Exemption of credit union income	1,440	1,560	1,660	1,750	1,940	1,890	2,220	9,460
52	Exclusion of interest on life insurance savings	17,580	18,350	21,010	23,130	24,670	24,870	26,190	119,870
53	Special alternative tax on small property and casualty insurance companies	10	10	10	10	10	10	10	50
54	Tax exemption of certain insurance companies owned by tax-exempt organizations	800	830	830	830	850	850	850	4,210
55	Small life insurance company deduction	20	20	20	20	20	20	20	100
56	Exclusion of interest spread of financial institutions	150	1,400	2,330	2,660	2,910	3,170	3,400	14,470
	Housing:								
57	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,040	1,170	1,370	1,520	1,630	1,740	1,850	8,110
58	Exclusion of interest on rental housing bonds	880	990	1,170	1,290	1,370	1,470	1,570	6,870
59	Deductibility of mortgage interest on owner-occupied homes	81,890	93,090	101,470	112,730	126,950	142,040	156,990	640,180
60	Deductibility of State and local property tax on owner-occupied homes	15,460	20,310	25,160	26,110	27,330	28,690	29,740	137,030
61	Deferral of income from installment sales	900	1,080	1,160	1,350	1,560	1,730	1,850	7,650
62	Capital gains exclusion on home sales	30,900	38,130	45,870	48,790	52,310	56,070	60,160	263,200
63	Exclusion of net imputed rental income	68,230	74,080	75,520	80,880	88,260	93,330	98,690	436,680
64	Exception from passive loss rules for $25,000 of rental loss	10,200	12,250	14,420	16,070	16,950	17,730	18,510	83,680
65	Credit for low-income housing investments [6]	7,670	7,410	8,310	8,280	8,330	8,730	9,080	42,730
66	Accelerated depreciation on rental housing (normal tax method)	1,220	1,680	2,130	2,570	3,060	3,570	4,130	15,460
67	Discharge of mortgage indebtedness	1,930	650	0	0	0	0	0	0
	Commerce:								
68	Cancellation of indebtedness	150	110	90	70	50	–10	–70	130
69	Exceptions from imputed interest rules	50	50	50	50	50	50	50	250
70	Treatment of qualified dividends	29,750	20,240	0	0	0	0	0	0
71	Capital gains (except agriculture, timber, iron ore, and coal)	65,360	61,840	46,690	56,700	68,130	76,860	82,640	331,020
72	Capital gains exclusion of small corporation stock	50	130	370	720	750	500	410	2,750
73	Step-up basis of capital gains at death	15,490	21,170	27,100	28,460	29,870	31,370	32,970	149,770
74	Carryover basis of capital gains on gifts	2,830	3,550	3,540	4,230	4,980	5,620	6,100	24,470
75	Ordinary income treatment of loss from small business corporation stock sale	60	60	60	60	60	60	60	300
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	–7,120	–7,540	–7,570	–7,370	–7,210	–7,130	–7,100	–36,380
77	Accelerated depreciation of machinery and equipment (normal tax method)	69,500	14,750	17,850	40,260	57,660	72,300	85,660	273,730
78	Expensing of certain small investments (normal tax method)	1,270	–530	–610	530	1,120	1,510	1,800	4,350
79	Graduated corporation income tax rate (normal tax method)	4,270	4,300	4,210	4,180	4,170	4,240	4,250	21,050
80	Exclusion of interest on small issue bonds	240	270	320	350	370	400	420	1,860
81	Deduction for US production activities	11,570	12,860	13,630	14,370	14,790	15,510	16,620	74,920
82	Special rules for certain film and TV production	130	80	50	20	10	0	0	80
Transportation:									
83	Tonnage tax election for certain international shipping income [7]	60	60	70	70	70	80	80	370
84	Exclusion of reimbursed employee parking expenses	2,640	2,880	3,010	3,140	3,290	3,450	3,610	16,500
85	Exclusion for employer-provided transit passes	590	660	700	760	820	870	930	4,080
86	Tax credit for certain expenditures for maintaining railroad tracks	130	80	50	20	10	0	0	80
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	240	230	220	210	200	190	170	990
Community and regional development:									
88	Investment credit for rehabilitation of structures (other than historic)	30	30	30	30	30	30	30	150
89	Exclusion of interest for airport, dock, and similar bonds	690	780	920	1,010	1,090	1,160	1,230	5,410
90	Exemption of certain mutuals' and cooperatives' income	130	130	140	140	140	150	150	720
91	Empowerment zones, the DC enterprise zone, and renewal communities	620	420	470	460	420	360	310	2,020

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2012–2018—Continued
(In millions of dollars)

		Total from corporations and individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18
92	New markets tax credit	930	930	910	880	840	710	460	3,800
93	Expensing of environmental remediation costs	–20	–180	–180	–170	–160	–160	–160	–830
94	Credit to holders of Gulf Tax Credit Bonds.	90	100	120	130	140	150	160	700
95	Recovery Zone Bonds [8]	10	10	20	30	30	30	30	140
96	Tribal Economic Development Bonds	0	30	50	50	50	50	60	260
Education, training, employment, and social services:									
	Education:								
97	Exclusion of scholarship and fellowship income (normal tax method)	2,760	3,020	3,470	3,600	3,740	3,890	4,040	18,740
98	HOPE tax credit	0	430	4,310	4,270	4,150	4,180	4,030	20,940
99	Lifetime Learning tax credit	2,000	2,290	4,450	4,420	4,340	4,260	4,160	21,630
100	American Opportunity Tax Credit [9]	15,580	14,400	0	0	0	0	0	0
101	Education Individual Retirement Accounts	60	80	90	100	110	120	130	550
102	Deductibility of student-loan interest	1,450	1,460	880	880	910	940	910	4,520
103	Deduction for higher education expenses	720	0	0	0	0	0	0	0
104	Qualified tuition programs	1,980	2,020	2,270	2,520	2,690	2,870	3,060	13,410
105	Exclusion of interest on student-loan bonds	470	530	620	680	730	770	830	3,630
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,150	2,440	2,870	3,160	3,400	3,610	3,870	16,910
107	Credit for holders of zone academy bonds [10]	200	200	180	160	130	120	110	700
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	10	10	10	10	20	20	20	80
109	Parental personal exemption for students age 19 or over	2,800	2,700	2,810	2,550	2,300	2,080	1,870	11,610
110	Deductibility of charitable contributions (education)	3,960	4,590	5,080	5,450	5,920	6,430	6,940	29,820
111	Exclusion of employer-provided educational assistance	670	240	0	0	0	0	0	0
112	Special deduction for teacher expenses	170	0	0	0	0	0	0	0
113	Discharge of student loan indebtedness	20	20	20	20	20	20	20	100
114	Qualified school construction bonds [11]	400	580	650	650	650	650	650	3,250
	Training, employment, and social services:								
115	Work opportunity tax credit	1,130	970	660	370	160	80	30	1,300
116	Employer provided child care exclusion	1,360	1,570	1,620	1,720	1,840	1,980	2,120	9,280
117	Employer-provided child care credit	10	10	0	0	0	0	0	0
118	Assistance for adopted foster children	530	530	560	590	630	670	710	3,160
119	Adoption credit and exclusion [12]	62	330	110	80	80	80	80	430
120	Exclusion of employee meals and lodging (other than military)	5,591	6,109	6,592	6,903	7,113	7,336	7,750	35,694
121	Child credit [13]	24,790	18,430	8,650	8,380	8,020	7,670	7,240	39,960
122	Credit for child and dependent care expenses	3,410	1,550	1,290	1,250	1,200	1,150	1,090	5,980
123	Credit for disabled access expenditures	20	20	20	20	20	20	20	100
124	Deductibility of charitable contributions, other than education and health	33,770	39,610	44,060	47,330	51,550	56,130	60,840	259,910
125	Exclusion of certain foster care payments	420	420	420	430	430	420	420	2,120
126	Exclusion of parsonage allowances	700	760	820	890	960	1,040	1,120	4,830
127	Employee retention credit for employers in certain federal disaster areas	10	0	0	0	0	0	0	0
Health:									
128	Exclusion of employer contributions for medical insurance premiums and medical care [14]	184,320	202,530	212,820	224,610	239,620	256,850	272,360	1,206,260
129	Self-employed medical insurance premiums	5,210	6,140	6,740	7,160	7,650	8,240	8,860	38,650
130	Medical Savings Accounts / Health Savings Accounts	1,520	1,600	1,680	1,760	1,880	2,000	2,130	9,450
131	Deductibility of medical expenses	7,230	8,990	10,270	10,820	11,180	11,360	12,370	56,000
132	Exclusion of interest on hospital construction bonds	3,040	3,430	4,040	4,440	4,760	5,070	5,430	23,740
133	Refundable Premium Assistance Tax Credit [15]	0	0	0	–2,660	–3,810	–4,670	–4,930	–16,070
134	Credit for employee health insurance expenses of small business [16]	190	250	950	1,660	1,690	1,480	1,310	7,090
135	Deductibility of charitable contributions (health)	3,820	4,470	4,980	5,350	5,820	6,340	6,880	29,370
136	Tax credit for orphan drug research	840	1,000	1,190	1,410	1,680	2,010	2,390	8,680
137	Special Blue Cross/Blue Shield deduction	420	500	500	510	490	510	510	2,520
138	Tax credit for health insurance purchased by certain displaced and retired individuals [17]	10	10	0	0	0	0	0	0
139	Distributions from retirement plans for premiums for health and long-term care insurance	330	360	400	440	490	510	530	2,370

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18
	Income security:								
140	Exclusion of railroad retirement system benefits	350	430	510	510	510	500	490	2,520
141	Exclusion of workers' compensation benefits	10,080	9,120	11,440	11,570	11,680	11,800	11,950	58,440
142	Exclusion of public assistance benefits (normal tax method)	720	750	780	810	840	870	910	4,210
143	Exclusion of special benefits for disabled coal miners	40	40	40	40	40	40	40	200
144	Exclusion of military disability pensions	110	150	160	160	160	160	160	800
	Net exclusion of pension contributions and earnings:								
145	Defined benefit employer plans	38,740	47,410	53,060	57,400	61,810	66,150	69,970	308,390
146	Defined contribution employer plans	51,830	68,820	79,720	90,870	98,650	103,140	105,490	477,870
147	Individual Retirement Accounts	16,180	21,240	19,260	19,370	20,620	21,970	23,360	104,580
148	Low and moderate income savers credit	1,110	1,180	1,220	1,243	1,250	1,270	1,270	6,253
149	Self-Employed plans	15,930	19,380	23,260	25,490	28,030	30,800	33,760	141,340
	Exclusion of other employee benefits:								
150	Premiums on group term life insurance	1,870	1,910	1,940	1,970	2,030	2,080	2,140	10,160
151	Premiums on accident and disability insurance	340	350	360	360	370	370	380	1,840
152	Income of trusts to finance supplementary unemployment benefits	20	20	30	40	50	60	70	250
153	Special ESOP rules	810	1,190	1,260	1,330	1,410	1,500	1,580	7,080
154	Additional deduction for the blind	30	40	40	50	50	50	50	240
155	Additional deduction for the elderly	2,080	2,870	3,260	3,330	3,400	3,490	3,540	17,020
156	Tax credit for the elderly and disabled	10	10	10	10	10	0	0	30
157	Deductibility of casualty losses	300	350	370	390	410	430	450	2,050
158	Earned income tax credit [18]	1,610	4,040	5,640	5,920	6,060	6,310	6,520	30,450
	Social Security:								
	Exclusion of social security benefits:								
159	Social Security benefits for retired workers	22,170	27,920	32,910	34,330	35,550	36,830	38,340	177,960
160	Social Security benefits for disabled workers	7,510	8,960	9,970	10,280	10,560	10,810	11,060	52,680
161	Social Security benefits for spouses, dependents and survivors	3,740	3,970	4,130	4,230	4,370	4,490	4,550	21,770
	Veterans benefits and services:								
162	Exclusion of veterans death benefits and disability compensation	4,240	5,210	6,880	7,480	8,140	8,860	9,640	41,000
163	Exclusion of veterans pensions	360	430	550	570	580	600	620	2,920
164	Exclusion of GI bill benefits	940	1,200	1,610	1,720	1,830	1,950	2,080	9,190
165	Exclusion of interest on veterans housing bonds	10	10	10	20	20	30	30	110
	General purpose fiscal assistance:								
166	Exclusion of interest on public purpose State and local bonds	25,950	29,270	34,420	37,920	40,680	43,330	46,340	202,690
167	Build America Bonds [19]	0	0	0	0	0	0	0	0
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	29,480	43,940	51,560	54,520	58,200	62,200	65,660	292,140
	Interest:								
169	Deferral of interest on U.S. savings bonds	980	1,020	1,080	1,090	1,100	1,120	1,130	5,520
	Addendum: Aid to State and local governments:								
	Deductibility of:								
	Property taxes on owner-occupied homes	15,460	20,310	25,160	26,110	27,330	28,690	29,740	137,030
	Nonbusiness State and local taxes other than on owner-occupied homes	29,480	43,940	51,560	54,520	58,200	62,200	65,660	292,140
	Exclusion of interest on State and local bonds for:								
	Public purposes	25,950	29,270	34,420	37,920	40,680	43,330	46,340	202,690
	Energy facilities	20	30	30	30	30	40	40	170
	Water, sewage, and hazardous waste disposal facilities	420	470	550	600	650	680	730	3,210
	Small-issues	240	270	320	350	370	400	420	1,860
	Owner-occupied mortgage subsidies	1,040	1,170	1,370	1,520	1,630	1,740	1,850	8,110
	Rental housing	880	990	1,170	1,290	1,370	1,470	1,570	6,870
	Airports, docks, and similar facilities	690	780	920	1,010	1,090	1,160	1,230	5,410

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

	Total from corporations and individuals							
	2012	2013	2014	2015	2016	2017	2018	2014–18
Student loans	470	530	620	680	730	770	830	3,630
Private nonprofit educational facilities	2,150	2,440	2,870	3,160	3,400	3,610	3,870	16,910
Hospital construction	3,040	3,430	4,040	4,440	4,760	5,070	5,430	23,740
Veterans' housing	10	10	10	20	20	30	30	110
GO Zone and GO Zone mortgage	90	100	120	130	140	150	160	700
Credit for holders of zone academy bonds	200	200	180	160	130	120	110	700

[1] 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: 2012 $5,080; 2013 $8,080; 2014 $4,710; 2015 $2,520; 2016 $1,580; 2017 $330; 2018 $0.

[2] In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2012 $3,540; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017 $0; 2018 $0.

The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2012 $310; 2013 $10; 2014 $10; 2015 $0; 2016 $0; 2017 $0; 2018 $0.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2012 $800; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017: $0; 2018 $0.

[4] In addition, the provision has outlay effects of (in millions of dollars): 2012 $40; 2013 $50; 2014 $50; 2015 $50; 2016 $50; 2017 $50; 2018 $50.

[5] In addition, the provision has outlay effects of (in millions of dollars): 2012 $50; 2013 $60; 2014 $60; 2015 $60; 2016 $60; 2017 $60; 2018 $60.

[6] In addition, the credit for low-income housing investments has outlay effects (in millions of dollars) as follows: 2012 $180.

[7] 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.

[8] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2012 $160, 2013 $160, 2014 $160, 2015 $160, 2016 $160; and 2017 $160; 2018 $160.

[9] 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: 2012 $5,850; 2013 $6,450; 2014 $970

[10] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2012 $20; 2013 $30; 2014 $30; 2015 $30; 2016 $30; 2017 $30; and 2018 $30.

[11] In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2012 $780; 2013 $940; 2014 $940; 2015 $940; 2016 $940; 2017 $940, and 2018 $940.

[12] 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: 2012 $700; and 2013 $50.

[13] 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: 2012 $22,620; 2013 $22,510; 2014 $1,750; 2015 $1,720; 2016 $1,720; 2017 $1,690; and 2018 1,660.

[14] 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: 2012 $107,760; 2013 $111,120; 2014 $112,620; 2015 $116,500; 2016 $122,730; 2017 $130,170; 2018 $135,170.

[15] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 $32,270; 2015 $58,130; 2016 $71,470; 2017 $78,130; 2018 $82,150.

[16] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2012 $70; 2013 $60; 2014 $140; 2015 $240; 2016 $250; 2017 $220; 2018 $190.

[17] 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: 2012 $130; 2013 $120; 2014 $30.

[18] 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: 2012 $54,840; 2013 $54,360; 2014 $47,700; 2015 $49,000; 2016 $49,870; 2017 $50,740; and 2018 $51,510.

[19] In addition, Build America Bonds have outlay effects of (in millions of dollars): 2012 $3,190; 2013 $3,190; 2014 $3,190; 2015 $3,190; 2016 $3,190; 2017 $3,190; and 2018 $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 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2012–2018

(In millions of dollars)

	Corporations								Individuals							
	2012	2013	2014	2015	2016	2017	2018	2014–18	2012	2013	2014	2015	2016	2017	2018	2014–18
National Defense																
1 Exclusion of benefits and allowances to armed forces personnel									14,140	14,640	15,150	14,170	14,350	14,840	15,430	73,940
International affairs:																
2 Exclusion of income earned abroad by U.S. citizens									5400	5800	6140	6430	6730	7050	7380	33,730
3 Exclusion of certain allowances for Federal employees abroad									1070	1120	1180	1240	1300	1370	1430	6,520
4 Inventory property sales source rules exception	3,310	3,610	3,940	4,300	4,690	5,120	5,590	23,640								
5 Deferral of income from controlled foreign corporations (normal tax method)	42,000	41,810	41,770	43,020	44,240	45,180	46,160	220,370								
6 Deferred taxes for financial firms on certain income earned overseas	2,510	0	0	0	0	0	0	0								
General science, space, and technology:																
7 Expensing of research and experimentation expenditures (normal tax method)	3,600	4,610	4,820	5,300	6,280	7,290	8,100	31,790	140	200	220	230	280	320	370	1,420
8 Credit for increasing research activities	4220	2320	2130	1970	1820	1680	1530	9,130	170							0
Energy:																
9 Expensing of exploration and development costs, fuels	410	690	770	550	340	230	160	2,050	60	100	110	80	50	30	20	290
10 Excess of percentage over cost depletion, fuels	750	750	770	770	780	780	780	3,880	140	150	170	170	170	170	170	850
11 Alternative fuel production credit	20	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Exception from passive loss limitation for working interests in oil and gas properties									10	10	10	10	10	10	10	50
13 Capital gains treatment of royalties on coal									90	80	60	80	90	100	110	440
14 Exclusion of interest on energy facility bonds	10	10	10	10	10	10	10	50	10	20	20	20	20	30	30	120
15 Energy production credit [1]	1,480	1,710	1,750	1,710	1,620	1,420	1,080	7,580	20	20	20	20	20	20	20	100
16 Energy investment credit [1]	920	1150	1240	1550	1750	1030	210	5,780	120	120	120	120	130	80	30	480
17 Alcohol fuel credits [2]	110	80	40	20	10	10	0	80	30	30	10	10	0	0	0	20
18 Bio-Diesel and small agri-biodiesel producer tax credits [3]	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	20	30	60	90	110	110	70	440	80	150	200	310	500	560	430	2,000
20 Exclusion of utility conservation subsidies	20	10	10	10	10	10	10	50	250	240	240	240	240	240	230	1,190
21 Credit for holding clean renewable energy bonds [4]	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	–70	–180	–190	–180	–150	–120	–80	–720								
23 Credit for investment in clean coal facilities	360	380	400	480	310	160	160	1,510	20	20	20	20	10	10	10	70
24 Temporary 50% expensing for equipment used in the refining of liquid fuels	680	610	–90	–700	–830	–880	–800	–3,300	0	0	0	0	0	0	0	0
25 Natural gas distribution pipelines treated as 15-year property	110	100	100	100	110	120	120	550	0	0	0	0	0	0	0	0
26 Amortize all geological and geophysical expenditures over 2 years	70	80	80	70	60	50	50	310	20	30	30	20	20	20	20	110
27 Allowance of deduction for certain energy efficient commercial building property	30	30	20	10	0	0	–10	20	40	40	20	10	0	0	–10	20
28 Credit for construction of new energy efficient homes	30	20	10	0	0	0	0	10	40	20	10	0	0	0	0	10
29 Credit for energy efficiency improvements to existing homes	0	0	0	0	0	0	0	0	780	0	0	0	0	0	0	0
30 Credit for energy efficient appliances	210	150	130	120	100	0	0	350	0	150	0	0	0	0	0	0
31 Credit for residential energy efficient property	0	0	0	0	0	0	0	0	910	1,010	1,140	1,270	1,420	600	0	4,430
32 Qualified energy conservation bonds [5]	10	10	10	10	10	10	10	50	10	20	20	20	20	20	20	100

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

		Corporations								Individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18	2012	2013	2014	2015	2016	2017	2018	2014–18
33	Advanced Energy Property Credit	500	390	80	0	–20	–40	–40	–20	80	70	30	0	–10	–10	–10	0
34	Advanced nuclear power production credit	0	0	0	0	0	165	440	605	0	0	0	0	0	0	0	0
Natural resources and environment:																	
35	Expensing of exploration and development costs, nonfuel minerals	50	60	60	70	70	70	80	350	0	0	0	10	10	10	10	40
36	Excess of percentage over cost depletion, nonfuel minerals	530	540	550	550	560	570	580	2,810	30	40	50	50	50	50	50	250
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	110	110	120	140	150	150	160	720	310	360	430	460	500	530	570	2,490
38	Capital gains treatment of certain timber income									90	80	60	80	90	100	110	440
39	Expensing of multiperiod timber growing costs	170	170	180	180	190	200	210	960	100	110	120	130	130	130	140	650
40	Tax incentives for preservation of historic structures	490	500	510	520	530	540	550	2,650	50	50	60	60	60	60	60	300
41	Exclusion of gain or loss on sale or exchange of certain brownfield sites	30	20	10	0	0	0	0	10	10	10	0	0	0	0	0	0
42	Industrial CO2 capture and sequestration tax credit	60	60	70	80	110	210	160	630	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	20	20	20	80
Agriculture:																	
44	Expensing of certain capital outlays	0	10	10	10	10	10	0	40	70	90	100	110	120	120	130	580
45	Expensing of certain multiperiod production costs	10	10	10	10	10	10	0	40	120	150	150	150	150	160	160	770
46	Treatment of loans forgiven for solvent farmers									40	40	40	40	40	40	40	200
47	Capital gains treatment of certain income									880	830	630	760	910	1,030	1,110	4,440
48	Income averaging for farmers									130	130	130	130	140	140	140	680
49	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100								
50	Expensing of reforestation expenditures	20	20	20	20	20	20	30	110	40	50	60	60	60	70	70	320
Commerce and housing:																	
	Financial institutions and insurance:																
51	Exemption of credit union income	1,440	1,560	1,660	1,750	1,940	1,890	2,220	9,460								
52	Exclusion of interest on life insurance savings	2500	3310	3710	4000	4270	4680	4970	21,630	15080	15040	17300	19130	20400	20190	21220	98,240
53	Special alternative tax on small property and casualty insurance companies	10	10	10	10	10	10	10	50								
54	Tax exemption of certain insurance companies owned by tax-exempt organizations	800	830	830	830	850	850	850	4,210								
55	Small life insurance company deduction	20	20	20	20	20	20	20	100								
56	Exclusion of interest spread of financial institutions									150	1,400	2,330	2,660	2,910	3,170	3,400	14,470
	Housing:																
57	Exclusion of interest on owner-occupied mortgage subsidy bonds	270	270	300	350	370	390	410	1,820	770	900	1,070	1,170	1,260	1,350	1,440	6,290
58	Exclusion of interest on rental housing bonds	230	230	260	300	310	330	350	1,550	650	760	910	990	1,060	1,140	1,220	5,320
59	Deductibility of mortgage interest on owner-occupied homes									81,890	93,090	101,470	112,730	126,950	142,040	156,990	640,180
60	Deductibility of State and local property tax on owner-occupied homes									15,460	20,310	25,160	26,110	27,330	28,690	29,740	137,030
61	Deferral of income from installment sales									900	1,080	1,160	1,350	1,560	1,730	1,850	7,650
62	Capital gains exclusion on home sales									30,900	38,130	45,870	48,790	52,310	56,070	60,160	263,200
63	Exclusion of net imputed rental income									68,230	74,080	75,520	80,880	88,260	93,330	98,690	436,680
64	Exception from passive loss rules for $25,000 of rental loss									10,200	12,250	14,420	16,070	16,950	17,730	18510	83,680

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

	Corporations								Individuals							
	2012	2013	2014	2015	2016	2017	2018	2014–18	2012	2013	2014	2015	2016	2017	2018	2014–18
65 Credit for low-income housing investments [6]	7,290	7,040	7,890	7,870	7,910	8,290	8,630	40,590	380	370	420	410	420	440	450	2,140
66 Accelerated depreciation on rental housing (normal tax method)	210	260	320	390	470	560	660	2,400	1,010	1,420	1,810	2,180	2,590	3,010	3,470	13,060
67 Discharge of mortgage indebtedness									1,930	650	0	0	0	0	0	0
Commerce:																
68 Cancellation of indebtedness									150	110	90	70	50	–10	–70	130
69 Exceptions from imputed interest rules									50	50	50	50	50	50	50	250
70 Treatment of qualified dividends									29,750	20,240	0	0	0	0	0	0
71 Capital gains (except agriculture, timber, iron ore, and coal)									65,360	61,840	46,690	56,700	68,130	76,860	82,640	331,020
72 Capital gains exclusion of small corporation stock									50	130	370	720	750	500	410	2,750
73 Step-up basis of capital gains at death									15,490	21,170	27,100	28,460	29,870	31,370	32,970	149,770
74 Carryover basis of capital gains on gifts									2,830	3,550	3,540	4,230	4,980	5,620	6,100	24,470
75 Ordinary income treatment of loss from small business corporation stock sale									60	60	60	60	60	60	60	300
76 Accelerated depreciation of buildings other than rental housing (normal tax method)	–3,380	–3,310	–3,250	–3,200	–3,160	–3,150	–3,200	–15,960	–3,740	–4,230	–4,320	–4,170	–4,050	–3,980	–3,900	–20,420
77 Accelerated depreciation of machinery and equipment (normal tax method)	45,950	7,940	9,330	24,160	35,810	45,840	55,410	170,550	23,550	6,810	8,520	16,100	21,850	26,460	30,250	103,180
78 Expensing of certain small investments (normal tax method)	60	–160	–160	10	100	160	210	320	1,210	–370	–450	520	1,020	1,350	1,590	4,030
79 Graduated corporation income tax rate (normal tax method)	4,270	4,300	4,210	4,180	4,170	4,240	4,250	21,050								
80 Exclusion of interest on small issue bonds	60	60	70	80	80	90	90	410	180	210	250	270	290	310	330	1,450
81 Deduction for US production activities	8750	9730	10310	10870	11190	11730	12570	56,670	2,820	3,130	3,320	3,500	3,600	3,780	4050	18,250
82 Special rules for certain film and TV production	100	60	40	20	10	0	0	70	30	20	10	0	0	0	0	10
Transportation:																
83 Tonnage tax election for certain international shipping income [7]	60	60	70	70	70	80	80	370								
84 Exclusion of reimbursed employee parking expenses									2,640	2,880	3,010	3,140	3,290	3,450	3,610	16,500
85 Exclusion for employer-provided transit passes									590	660	700	760	820	870	930	4,080
86 Tax credit for certain expenditures for maintaining railroad tracks	100	60	40	20	10	0	0	70	30	20	10	0	0	0	0	10
87 Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	60	60	50	50	50	50	40	240	180	170	170	160	150	140	130	750
Community and regional development:																
88 Investment credit for rehabilitation of structures (other than historic)	10	10	10	10	10	10	10	50	20	20	20	20	20	20	20	100
89 Exclusion of interest for airport, dock, and similar bonds	180	180	200	230	250	260	270	1,210	510	600	720	780	840	900	960	4,200
90 Exemption of certain mutuals' and cooperatives' income	130	130	140	140	140	150	150	720								
91 Empowerment zones, the DC enterprise zone, and renewal communities	230	140	150	140	120	100	80	590	390	280	320	320	300	260	230	1,430
92 New markets tax credit	910	910	890	860	820	690	450	3,710	20	20	20	20	20	20	10	90
93 Expensing of environmental remediation costs	–20	–150	–150	–140	–130	–130	–130	–680	0	–30	–30	–30	–30	–30	–30	–150
94 Credit to holders of Gulf Tax Credit Bonds.	20	20	30	30	30	30	40	160	70	80	90	100	110	120	120	540
95 Recovery Zone Bonds [8]	0	0	0	10	10	10	10	40	10	10	20	20	20	20	20	100
96 Tribal Economic Development Bonds	0	10	10	10	10	10	10	50	0	20	40	40	40	40	50	210

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

	Corporations								Individuals							
	2012	2013	2014	2015	2016	2017	2018	2014–18	2012	2013	2014	2015	2016	2017	2018	2014–18
Education, training, employment, and social services:																
Education:																
97 Exclusion of scholarship and fellowship income (normal tax method)									2,760	3,020	3,470	3,600	3,740	3,890	4,040	18,740
98 HOPE tax credit									0	430	4,310	4,270	4,150	4,180	4,030	20,940
99 Lifetime Learning tax credit									2,000	2,290	4,450	4,420	4,340	4,260	4,160	21,630
100 American Opportunity Tax Credit [9]									15,580	14,400	0	0	0	0	0	0
101 Education Individual Retirement Accounts									60	80	90	100	110	120	130	550
102 Deductibility of student-loan interest									1,450	1,460	880	880	910	940	910	4,520
103 Deduction for higher education expenses									720	0	0	0	0	0	0	0
104 Qualified tuition programs									1,980	2,020	2,270	2,520	2,690	2,870	3,060	13,410
105 Exclusion of interest on student-loan bonds	120	120	140	160	170	170	180	820	350	410	480	520	560	600	650	2,810
106 Exclusion of interest on bonds for private nonprofit educational facilities	560	560	630	720	770	800	850	3,770	1,590	1,880	2,240	2,440	2,630	2,810	3,020	13,140
107 Credit for holders of zone academy bonds [10]	200	200	180	160	130	120	110	700								
108 Exclusion of interest on savings bonds redeemed to finance educational expenses									10	10	10	10	20	20	20	80
109 Parental personal exemption for students age 19 or over									2,800	2,700	2,810	2,550	2,300	2,080	1,870	11,610
110 Deductibility of charitable contributions (education)	690	740	790	840	890	940	980	4,440	3,270	3,850	4,290	4,610	5,030	5,490	5,960	25,380
111 Exclusion of employer-provided educational assistance									670	240	0	0	0	0	0	0
112 Special deduction for teacher expenses									170	0	0	0	0	0	0	0
113 Discharge of student loan indebtedness									20	20	20	20	20	20	20	100
114 Qualified school construction bonds [11]	110	150	160	160	160	160	160	800	290	430	490	490	490	490	490	2,450
Training, employment, and social services:																
115 Work opportunity tax credit	870	820	600	330	150	70	30	1,180	260	150	60	40	10	10	0	120
116 Employer provided child care exclusion									1360	1570	1620	1720	1840	1980	2120	9,280
117 Employer-provided child care credit	10	10	0	0	0	0	0	0								0
118 Assistance for adopted foster children									530	530	560	590	630	670	710	3,160
119 Adoption credit and exclusion [12]									62	330	110	80	80	80	80	430
120 Exclusion of employee meals and lodging (other than military)	0	0	0	0	0	0	0	0	5,591	6,109	6,592	6,903	7,113	7,336	7,750	35,694
121 Child credit [13]									24,790	18,430	8,650	8,380	8,020	7,670	7,240	39,960
122 Credit for child and dependent care expenses									3,410	1,550	1,290	1,250	1,200	1,150	1,090	5,980
123 Credit for disabled access expenditures	10	10	10	10	10	10	10	50	10	10	10	10	10	10	10	50
124 Deductibility of charitable contributions, other than education and health	1,510	1,600	1,690	1,770	1,860	1,940	2020	9,280	32,260	38,010	42,370	45,560	49,690	54,190	58,820	250,630
125 Exclusion of certain foster care payments									420	420	420	430	430	420	420	2,120
126 Exclusion of parsonage allowances									700	760	820	890	960	1,040	1,120	4,830
127 Employee retention credit for employers in certain federal disaster areas	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Health:																
128 Exclusion of employer contributions for medical insurance premiums and medical care [14]									184,320	202,530	212,820	224,610	239,620	256,850	272,360	1,206,260
129 Self-employed medical insurance premiums									5,210	6,140	6,740	7,160	7,650	8,240	8,860	38,650
130 Medical Savings Accounts / Health Savings Accounts									1,520	1,600	1,680	1,760	1,880	2,000	2,130	9,450
131 Deductibility of medical expenses									7,230	8,990	10,270	10,820	11,180	11,360	12,370	56,000

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

		Corporations								Individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18	2012	2013	2014	2015	2016	2017	2018	2014–18
132	Exclusion of interest on hospital construction bonds	790	790	890	1,020	1,080	1,130	1,200	5,320	2,250	2,640	3,150	3,420	3,680	3,940	4,230	18,420
133	Refundable Premium Assistance Tax Credit [15]									0	0	0	–2,660	–3,810	–4,670	–4,930	–16,070
134	Credit for employee health insurance expenses of small business [16]	70	90	330	580	590	520	460	2,480	120	160	620	1,080	1,100	960	850	4,610
135	Deductibility of charitable contributions (health)	200	210	230	240	250	260	280	1,260	3,620	4,260	4,750	5,110	5,570	6,080	6,600	28,110
136	Tax credit for orphan drug research	840	1,000	1,190	1,410	1,680	2,010	2,390	8,680								
137	Special Blue Cross/Blue Shield deduction	420	500	500	510	490	510	510	2,520								
138	Tax credit for health insurance purchased by certain displaced and retired individuals [17]									10	10	0	0	0	0	0	0
139	Distributions from retirement plans for premiums for health and long-term care insurance									330	360	400	440	490	510	530	2,370
Income security:																	
140	Exclusion of railroad retirement system benefits									350	430	510	510	510	500	490	2,520
141	Exclusion of workers' compensation benefits									10,080	9,120	11,440	11,570	11,680	11,800	11,950	58,440
142	Exclusion of public assistance benefits (normal tax method)									720	750	780	810	840	870	910	4,210
143	Exclusion of special benefits for disabled coal miners									40	40	40	40	40	40	40	200
144	Exclusion of military disability pensions									110	150	160	160	160	160	160	800
	Net exclusion of pension contributions and earnings:																
145	Defined benefit employer plans									38,740	47,410	53,060	57,400	61,810	66,150	69,970	308,390
146	Defined contribution employer plans									51,830	68,820	79,720	90,870	98,650	103,140	105,490	477,870
147	Individual Retirement Accounts									16,180	21,240	19,260	19,370	20,620	21,970	23,360	104,580
148	Low and moderate income savers credit									1,110	1,180	1,220	1,243	1,250	1,270	1,270	6,253
149	Self-Employed plans									15930	19380	23260	25490	28030	30800	33760	141,340
	Exclusion of other employee benefits:																
150	Premiums on group term life insurance									1,870	1,910	1,940	1,970	2,030	2,080	2,140	10,160
151	Premiums on accident and disability insurance									340	350	360	360	370	370	380	1,840
152	Income of trusts to finance supplementary unemployment benefits									20	20	30	40	50	60	70	250
153	Special ESOP rules	740	1,090	1,160	1,230	1,310	1,390	1,470	6,560	70	100	100	100	100	110	110	520
154	Additional deduction for the blind									30	40	40	50	50	50	50	240
155	Additional deduction for the elderly									2,080	2,870	3,260	3,330	3,400	3,490	3,540	17,020
156	Tax credit for the elderly and disabled									10	10	10	10	10	0	0	30
157	Deductibility of casualty losses									300	350	370	390	410	430	450	2,050
158	Earned income tax credit [18]									1,610	4,040	5,640	5,920	6,060	6,310	6,520	30,450
Social Security:																	
	Exclusion of social security benefits:																
159	Social Security benefits for retired workers									22,170	27,920	32,910	34,330	35,550	36,830	38,340	177,960
160	Social Security benefits for disabled workers									7,510	8,960	9,970	10,280	10,560	10,810	11,060	52,680
161	Social Security benefits for spouses, dependents and survivors									3,740	3,970	4,130	4,230	4,370	4,490	4,550	21,770
Veterans benefits and services:																	
162	Exclusion of veterans death benefits and disability compensation									4,240	5,210	6,880	7,480	8,140	8,860	9,640	41,000
163	Exclusion of veterans pensions									360	430	550	570	580	600	620	2,920
164	Exclusion of GI bill benefits									940	1,200	1,610	1,720	1,830	1,950	2,080	9,190
165	Exclusion of interest on veterans housing bonds	0	0	0	0	0	10	10	20	10	10	10	20	20	20	20	90

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

	Corporations								Individuals							
	2012	2013	2014	2015	2016	2017	2018	2014–18	2012	2013	2014	2015	2016	2017	2018	2014–18
General purpose fiscal assistance:																
166 Exclusion of interest on public purpose State and local bonds	6,750	6,720	7,570	8,720	9,240	9,670	10,240	45,440	19,200	22,550	26,850	29,200	31,440	33,660	36,100	157,250
167 Build America Bonds [19]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
168 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes									29,480	43,940	51,560	54,520	58,200	62,200	65,660	292,140
Interest:																
169 Deferral of interest on U.S. savings bonds									980	1,020	1,080	1,090	1,100	1,120	1,130	5,520
Addendum: Aid to State and local governments:																
Deductibility of:																
Property taxes on owner-occupied homes									15,460	20,310	25,160	26,110	27,330	28,690	29,740	137,030
Nonbusiness State and local taxes other than on owner-occupied homes									29,480	43,940	51,560	54,520	58,200	62,200	65,660	292,140
Exclusion of interest on State and local bonds for:																
Public purposes	6,750	6,720	7,570	8,720	9,240	9,670	10,240	45,440	19,200	22,550	26,850	29,200	31,440	33,660	36,100	157,250
Energy facilities	10	10	10	10	10	10	10	50	10	20	20	20	20	30	30	120
Water, sewage, and hazardous waste disposal facilities	110	110	120	140	150	150	160	720	310	360	430	460	500	530	570	2,490
Small-issues	60	60	70	80	80	90	90	410	180	210	250	270	290	310	330	1,450
Owner-occupied mortgage subsidies	270	270	300	350	370	390	410	1,820	770	900	1,070	1,170	1,260	1,350	1,440	6,290
Rental housing	230	230	260	300	310	330	350	1,550	650	760	910	990	1,060	1,140	1,220	5,320
Airports, docks, and similar facilities	180	180	200	230	250	260	270	1,210	510	600	720	780	840	900	960	4,200
Student loans	120	120	140	160	170	170	180	820	350	410	480	520	560	600	650	2,810
Private nonprofit educational facilities	560	560	630	720	770	800	850	3,770	1,590	1,880	2,240	2,440	2,630	2,810	3,020	13,140
Hospital construction	790	790	890	1,020	1,080	1,130	1,200	5,320	2,250	2,640	3,150	3,420	3,680	3,940	4,230	18,420
Veterans' housing	0	0	0	0	0	10	10	20	10	10	10	20	20	20	20	90
GO Zone and GO Zone mortgage	20	20	30	30	30	30	40	160	70	80	90	100	110	120	120	540
Credit for holders of zone academy bonds	200	200	180	160	130	120	110	700								

[1] 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: 2012 $5,080; 2013 $8,080; 2014 $4,710; 2015 $2,520; 2016 $1,580; 2017 $330; 2018 $0.

[2] In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2012 $3,540; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017 $0; 2018 $0. The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2012 $310; 2013 $10; 2014 $10; 2015 $0; 2016 $0; 2017 $0; 2018 $0.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2012 $800; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017: $0; 2018 $0.

[4] In addition, the provision has outlay effects of (in millions of dollars): 2012 $40; 2013 $50; 2014 $50; 2015 $50; 2016 $50; 2017 $50; 2018 $50.

[5] In addition, the provision has outlay effects of (in millions of dollars): 2012 $50; 2013 $60; 2014 $60; 2015 $60; 2016 $60; 2017 $60; 2018 $60.

[6] In addition, the credit for low-income housing investments has outlay effects (in millions of dollars) as follows: 2012 $180.

[7] 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.

[8] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2012 $160, 2013 $160, 2014 $160, 2015 $160, 2016 $160; and 2017 $160; 2018 $160.

[9] 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: 2012 $5,850; 2013 $6,450; 2014 $970

[10] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2012 $20; 2013 $30; 2014 $30; 2015 $30; 2016 $30; 2017 $30; and 2018 $30.

[11] In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2012 $780; 2013 $940; 2014 $940; 2015 $940; 2016 $940; 2017 $940, and 2018 $940.

[12] 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: 2012 $700; and 2013 $50.

[13] 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: 2012 $22,620; 2013 $22,510; 2014 $1,750; 2015 $1,720; 2016 $1,720; 2017 $1,690; and 2018 1,660.

[14] 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: 2012 $107,760; 2013 $111,120; 2014 $112,620; 2015 $116,500; 2016 $122,730; 2017 $130,170; 2018 $135,170.

[15] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 $32,270; 2015 $58,130; 2016 $71,470; 2017 $78,130; 2018 $82,150.

[16] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2012 $70; 2013 $60; 2014 $140; 2015 $240; 2016 $250; 2017 $220; 2018 $190.

[17] 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: 2012 $130; 2013 $120; 2014 $30.

[18] 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: 2012 $54,840; 2013 $54,360; 2014 $47,700; 2015 $49,000; 2016 $49,870; 2017 $50,740; and 2018 $51,510.

[19] In addition, Build America Bonds have outlay effects of (in millions of dollars): 2012 $3,190; 2013 $3,190; 2014 $3,190; 2015 $3,190; 2016 $3,190; 2017 $3,190; and 2018 $3,190.

Table 16–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2014-2018 PROJECTED REVENUE EFFECT
(In millions of dollars)

	Provision	2014	2014-18
128	Exclusion of employer contributions for medical insurance premiums and medical care	212,820	1,206,260
59	Deductibility of mortgage interest on owner-occupied homes	101,470	640,180
146	Defined contribution employer plans	79,720	477,870
63	Exclusion of net imputed rental income	75,520	436,680
71	Capital gains (except agriculture, timber, iron ore, and coal)	46,690	331,020
145	Defined benefit employer plans	53,060	308,390
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	51,560	292,140
77	Accelerated depreciation of machinery and equipment (normal tax method)	17,850	273,730
62	Capital gains exclusion on home sales	45,870	263,200
124	Deductibility of charitable contributions, other than education and health	44,060	259,910
5	Deferral of income from controlled foreign corporations (normal tax method)	41,770	220,370
166	Exclusion of interest on public purpose State and local bonds	34,420	202,690
159	Social Security benefits for retired workers	32,910	177,960
73	Step-up basis of capital gains at death	27,100	149,770
149	Self-Employed plans	23,260	141,340
60	Deductibility of State and local property tax on owner-occupied homes	25,160	137,030
52	Exclusion of interest on life insurance savings	21,010	119,870
147	Individual Retirement Accounts	19,260	104,580
64	Exception from passive loss rules for $25,000 of rental loss	14,420	83,680
81	Deduction for US production activities	13,630	74,920
1	Exclusion of benefits and allowances to armed forces personnel	15,150	73,940
141	Exclusion of workers' compensation benefits	11,440	58,440
131	Deductibility of medical expenses	10,270	56,000
160	Social Security benefits for disabled workers	9,970	52,680
65	Credit for low-income housing investments	8,310	42,730
162	Exclusion of veterans death benefits and disability compensation	6,880	41,000
121	Child credit	8,650	39,960
129	Self-employed medical insurance premiums	6,740	38,650
120	Exclusion of employee meals and lodging (other than military)	6,592	35,694
2	Exclusion of income earned abroad by U.S. citizens	6,140	33,730
7	Expensing of research and experimentation expenditures (normal tax method)	5,040	33,210
158	Earned income tax credit	5,640	30,450
110	Deductibility of charitable contributions (education)	5,080	29,820
135	Deductibility of charitable contributions (health)	4,980	29,370
74	Carryover basis of capital gains on gifts	3,540	24,470
132	Exclusion of interest on hospital construction bonds	4,040	23,740
4	Inventory property sales source rules exception	3,940	23,640
161	Social Security benefits for spouses, dependents and survivors	4,130	21,770
99	Lifetime Learning tax credit	4,450	21,630
79	Graduated corporation income tax rate (normal tax method)	4,210	21,050
98	HOPE tax credit	4,310	20,940
97	Exclusion of scholarship and fellowship income (normal tax method)	3,470	18,740
155	Additional deduction for the elderly	3,260	17,020
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,870	16,910
84	Exclusion of reimbursed employee parking expenses	3,010	16,500
66	Accelerated depreciation on rental housing (normal tax method)	2,130	15,460
56	Exclusion of interest spread of financial institutions	2,330	14,470
104	Qualified Tuition Programs	2,270	13,410
109	Parental personal exemption for students age 19 or over	2,810	11,610
150	Premiums on group term life insurance	1,940	10,160
51	Exemption of credit union income	1,660	9,460
130	Medical Savings Accounts / Health Savings Accounts	1,680	9,450
116	Employer provided child care exclusion	1,620	9,280
164	Exclusion of GI bill benefits	1,610	9,190
8	Credit for increasing research activities	2,130	9,130
136	Tax credit for orphan drug research	1,190	8,680

Table 16–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2014-2018 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2014	2014-18
57	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,370	8,110
15	New technology credit	1,770	7,680
61	Deferral of income from installment sales	1,160	7,650
134	Credit for employee health insurance expenses of small business.	950	7,090
153	Special ESOP rules	1,260	7,080
58	Exclusion of interest on rental housing bonds	1,170	6,870
3	Exclusion of certain allowances for Federal employees abroad	1,180	6,520
16	Energy investment credit	1,360	6,260
148	Low and moderate income savers credit	1,220	6,253
122	Credit for child and dependent care expenses	1,290	5,980
169	Deferral of interest on U.S. savings bonds	1,080	5,520
89	Exclusion of interest for airport, dock, and similar bonds	920	5,410
126	Exclusion of parsonage allowances	820	4,830
10	Excess of percentage over cost depletion, fuels	940	4,730
102	Deductibility of student-loan interest	880	4,520
47	Capital gains treatment of certain income	630	4,440
31	30% credit for residential purchases/installations of solar and fuel cells	1,140	4,430
78	Expensing of certain small investments (normal tax method)	-610	4,350
54	Tax exemption of certain insurance companies owned by tax-exempt organizations	830	4,210
142	Exclusion of public assistance benefits (normal tax method)	780	4,210
85	Exclusion for employer-provided transit passes	700	4,080
92	New markets tax credit	910	3,800
105	Exclusion of interest on student-loan bonds	620	3,630
114	Qualified school construction bonds	650	3,250
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	550	3,210
118	Assistance for adopted foster children	560	3,160
36	Excess of percentage over cost depletion, nonfuel minerals	600	3,060
40	Tax incentives for preservation of historic structures	570	2,950
163	Exclusion of veterans pensions	550	2,920
72	Capital gains exclusion of small corporation stock	370	2,750
137	Special Blue Cross/Blue Shield deduction	500	2,520
140	Exclusion of railroad retirement system benefits	510	2,520
19	Tax credit and deduction for clean-fuel burning vehicles	260	2,440
139	Distributions from retirement plans for premiums for health and long-term care insurance	400	2,370
9	Expensing of exploration and development costs, fuels	880	2,340
125	Exclusion of certain foster care payments	420	2,120
157	Deductibility of casualty losses	370	2,050
91	Empowerment zones, Enterprise communities, and Renewal communities	470	2,020
80	Exclusion of interest on small issue bonds	320	1,860
151	Premiums on accident and disability insurance	360	1,840
39	Expensing of multiperiod timber growing costs	300	1,610
23	Credit for investment in clean coal facilities	420	1,580
115	Work opportunity tax credit	660	1,300
20	Exclusion of utility conservation subsidies	250	1,240
87	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	220	990
45	Expensing of certain multiperiod production costs	160	810
144	Exclusion of military disability pensions	160	800
90	Exemption of certain mutuals' and cooperatives' income	140	720
94	Credit to holders of Gulf Tax Credit Bonds.	120	700
107	Credit for holders of zone academy bonds	180	700
48	Income averaging for farmers	130	680
42	Industrial CO_2 capture and sequestration tax credit	70	630
44	Expensing of certain capital outlays	110	620
34	Advanced nuclear power production credit	0	605
25	Natural gas distribution pipelines treated as 15-year property	100	550
101	Education Individual Retirement Accounts	90	550

Table 16–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2014-2018 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2014	2014-18
13	Capital gains treatment of royalties on coal	60	440
38	Capital gains treatment of certain timber income	60	440
50	Expensing of reforestation expenditures	80	430
119	Adoption credit and exclusion	110	430
26	Amortize all geological and geophysical expenditures over 2 years	110	420
35	Expensing of exploration and development costs, nonfuel minerals	60	390
83	Deferral of tax on shipping companies	70	370
21	Credit for holding clean renewable energy bonds	70	350
30	Credit for energy efficient appliances	130	350
75	Ordinary income treatment of loss from small business corporation stock sale	60	300
96	Tribal Economic Development Bonds	50	260
69	Exceptions from imputed interest rules	50	250
152	Income of trusts to finance supplementary unemployment benefits	30	250
154	Additional deduction for the blind	40	240
46	Treatment of loans forgiven for solvent farmers	40	200
143	Exclusion of special benefits for disabled coal miners	40	200
14	Exclusion of interest on energy facility bonds	30	170
32	Qualified energy conservation bonds	30	150
88	Investment credit for rehabilitation of structures (other than historic)	30	150
95	Recovery Zone Bonds	20	140
43	Deduction for endangered species recovery expenditures	20	130
68	Cancellation of indebtedness	90	130
165	Exclusion of interest on veterans housing bonds	10	110
17	Alcohol fuel credits	50	100
49	Deferral of gain on sale of farm refiners	20	100
55	Small life insurance company deduction	20	100
113	Discharge of student loan indebtedness	20	100
123	Credit for disabled access expenditures	20	100
82	Special rules for certain film and TV production	50	80
86	Tax credit for certain expenditures for maintaining railroad tracks	50	80
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	10	80
12	Exception from passive loss limitation for working interests in oil and gas properties	10	50
53	Special alternative tax on small property and casualty insurance companies	10	50
27	Allowance of deduction for certain energy efficient commercial building property	40	40
156	Tax credit for the elderly and disabled	10	30
28	Credit for construction of new energy efficient homes	20	20
41	Exclusion of gain or loss on sale or exchange of certain brownfield sites	10	10
6	Deferred taxes for financial firms on certain income earned overseas	0	0
11	Alternative fuel production credit	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
67	Discharge of mortgage indebtedness	0	0
70	Treatment of qualified dividends	0	0
100	Lifetime Learning tax credit	0	0
103	Deduction for higher education expenses	0	0
111	Exclusion of employer-provided educational assistance	0	0
112	Special deduction for teacher expenses	0	0
117	Employer-provided child care credit	0	0
127	Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma	0	0
138	Tax credit for health insurance purchased by certain displaced and retired individuals	0	0
167	Build America Bonds	0	0
33	Advanced Energy Property Credit	110	-20
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	-190	-720
93	Expensing of environmental remediation costs	-180	-830
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	-90	-3,300
133	Refundable Premium Assistance Tax Credit	0	-16,070
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	-7,570	-36,380

- 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 income. 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.[2] 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.[3]

[2] Gross income does, however, include transfer payments associated with past employment, such as Social Security benefits.

[3] 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.

Table 16–4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2012

(In millions of dollars)

	Provision	2012 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method)	21,000
7	Expensing of research and experimentation expenditures (normal tax method)	2380
21	Credit for holding clean renewable energy bonds	310
9	Expensing of exploration and development costs - fuels	220
35	Expensing of exploration and development costs - nonfuels	60
39	Expensing of multiperiod timber growing costs	130
45	Expensing of certain multiperiod production costs - agriculture	-140
44	Expensing of certain capital outlays - agriculture	-100
50	Expensing of reforestation expenditures	30
52	Deferral of income on life insurance and annuity contracts	16,530
66	Accelerated depreciation on rental housing	7,270
76	Accelerated depreciation of buildings other than rental housing	-17,740
77	Accelerated depreciation of machinery and equipment	4,750
78	Expensing of certain small investments (normal tax method)	-220
107	Credit for holders of zone academy bonds	160
65	Credit for low-income housing investments	6,630
104	Deferral for state prepaid tuition plans	3,510
145	Defined benefit employer plans	92,570
146	Defined contribution employer plans	64,170
147	Exclusion of IRA contributions and earnings	1,030
147	Exclusion of Roth earnings and distributions	3,160
147	Exclusion of non-deductible IRA earnings	100
149	Exclusion of contributions and earnings for Self-Employed plans	2,540
166	Exclusion of interest on public-purpose bonds	15,170
	Exclusion of interest on non-public purpose bonds	5,460
169	Deferral of interest on U.S. savings bonds	223

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, 2012.

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 and business entities. Under the baseline tax system, taxpayers receive a credit for foreign taxes paid which is limited to the pre-credit U.S. tax on the foreign source income. In contrast, the sales source rules for inventory property under current law 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.***—Under the baseline tax system, 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. The baseline tax system 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. This provision expired at the end of 2011, but ATRA extended it through December 31, 2013 (extension not shown in the tables).

General Science, Space, and Technology

7. ***Expensing R&E expenditures.***—The baseline tax system allows a deduction for the cost of producing income. It requires taxpayers to capitalize the costs associated with investments over time to better match the streams of income and associated costs, 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 of the credit 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. Under current law as of December 31, the research credit expired on December 31, 2011. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables.)

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. Qualifying facilities producing coke and coke gas must be placed in service by December 31, 2009.

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.***— 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. For individuals in 2012, 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 realized by individuals

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 statutory 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. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

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 biodiesel 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. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

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 hydrogen alternative fuel vehicle refueling property, fuel cell vehicles and plug-in electric-drive motor vehicles. The credits for non-hydrogen alternative fuel vehicle refueling property, plug-in conversions, and low-speed, motorcycle, and three-wheeled plug-in electric vehicles expire on December 31, 2011. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

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 of property when realized. It would not allow an exception for particular activities or individuals. 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. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

23. ***Credit for investment in clean coal facilities.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particu-

lar 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 its economic life. 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 its economic life. 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. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

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. However, ATRA extended the provision through December 31, 2013 (extension not shown in tables.)

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. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

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 2012, 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 statutory 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*2 *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 2012, 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 as of December 31, 2012 allowed capital gains to be taxed at a

preferentially low rate that was 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. Under ATRA, beginning in 2013, the top statutory preferential tax rate on capital gains will be 20 percent. However, the tables do not show the changes under ATRA.

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 tax-exempt to the extent that investment in the contract is overstated (because premiums paid for the cost of life insurance protection are credited to investment in the contract), while the remaining distributed amounts are tax-deferred because income is not taxed on a current basis, but is recognized only when distributed from the contract. 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 consist 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 nonprofit 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 filing 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. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables.)

68. ***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.

69. ***Imputed interest rules.***—Under the baseline tax system, 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. But under current law, and 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.

70. ***Treatment of qualified dividends.***— 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. For individuals in 2012, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. In contrast, qualified dividends were taxed at a preferentially low rate that is no higher than 15 percent. Beginning in 2013, dividends would have been once again taxed as ordinary income. However, ATRA set a permanent statutory maximum tax rate of 20 percent (change not shown in the tables.)

71. ***Capital gains (other than agriculture, timber, and coal).***— 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. For individuals in 2012, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. In contrast, 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 statutory preferential tax rate on capital gains will be 20 percent.

72. ***Capital gains exclusion for small business stock.***—The baseline tax system would not allow deductions and exemptions, or provide preferential treatment of certain sources of income or types of activities. 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. ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

73. ***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. It would not allow for exempting gains upon transfer of the underlying assets to the heirs. 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 which becomes the basis for the heirs.

74. ***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.

75. ***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.

76. ***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.

77. ***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.

78. ***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.

79. ***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.

80. ***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.

81. ***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.

82. ***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 deductions and exemptions or 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

83. ***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 repayment 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.

84. ***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 is $240 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities.

85. ***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. Under current law as of December 31, 2012, the maximum amount of the transit exclusion was $125 per month. However, ATRA extended parity of employer-provided parking and transit benefits through 2013 (retroactive through 2012), meaning that the maximum amount of transit exclusion is $240 per month in 2012 and 2013 (extension not shown in tables.)

86. ***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.

87. ***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 author-

ity to finance qualified highway or surface freight transfer facilities. The authority to issue these bonds expires on December 31, 2015.

Community and Regional Development

88. ***Rehabilitation of structures.***—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 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.

89. ***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.

90. ***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.

91. ***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. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

92. ***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. However, ATRA extended the provision for two more years (extension not shown in tables.)

93. ***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.

94. ***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.

95. ***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.

96. ***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

97. ***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).

98. ***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. The credit only covers tuition and fees paid during the first two years of a student's post-secondary education. In 2012, the credit is phased out ratably for taxpayers with modified AGI between $104,000 and $124,000 if married filing jointly ($52,000 and $62,000 for other taxpayers), indexed.

99. ***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 2012, the credit is phased out ratably for taxpayers with modified AGI between $104,000 and $124,000 if married filing jointly ($52,000 and $62,000 for other taxpayers), indexed. The credit applies to both undergraduate and graduate students.

100. ***American Opportunity Tax Credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law in 2012, 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 expired at the end of 2012, but was extended for five years under ATRA (extension not shown in tables.)

101. ***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. While contributions to an education IRA are not tax-deductible under current law, 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 2012 is $2,000 per beneficiary. In 2012, 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).

102. ***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 2012, the maximum deduction is phased down ratably for taxpayers with modified AGI between $125,000 and $155,000 if married filing jointly ($60,000 and $75,000 for other taxpayers).

103. ***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. However, ATRA extended the provision through December 2013 (extension not shown in the tables.)

104. ***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.

105. ***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.

106. ***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.

107. ***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. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

108. ***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 $109,250 and $139,250 if married filing jointly ($72,850 and $87,850 for other taxpayers) in 2012.

109. ***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.

110. ***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.

111. ***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.

112. ***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. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables.)

113. ***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.

114. ***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 volume 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.

115. ***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. ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

116. ***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.

117. ***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.

118. ***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 varied needs and a reimbursement of up to $2,000 for nonrecurring 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.

119. ***Adoption credit and exclusion.***—The baseline tax system would not allow credits for particular activities. Instead, taxpayers can receive a tax credit for qualified adoption expenses under current law. The maximum credit is $12,650 per child for 2012, and is phased-out ratably for taxpayers with modified AGI between $189,710 and $229,710. 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.

120. ***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.

121. ***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 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). The maximum credit had been scheduled to decline to $500 in 2013 under current law as of December 31 2012, but ATRA made the $1,000 maximum credit permanent. However, the tables do not show the changes under ATRA.

122. ***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 2012, 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.

123. ***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.

124. ***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.

125. ***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.

126. ***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.

127. ***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.

Health

128. ***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.

129. ***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.

130. ***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 2012, $3100 for taxpayers with individual coverage and $6,250 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

131. ***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 either 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.

132. ***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.

133. ***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.

134. ***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.

135. ***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.

136. ***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.

137. ***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.

138. ***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.

139. ***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

140. ***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.

141. ***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 is not subject to the income tax under current law.

142. ***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 a tax expenditure.

143. ***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.

144. ***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.

145. ***Defined benefit employer plans.***—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.

146. ***Defined contribution employer 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 employer-provided 401(k) and similar plans (e.g. 403(b) plans and the Federal Government's Thrift Savings Plan). In 2012, an employee could exclude up to $17,000 (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 $22,500 in contributions (indexed). The defined contribution plan limit, including both employee and employer contributions, is $50,000 in 2012 (indexed). The tax on contributions made by both employees and employers and the investment income earned by these plans is deferred until withdrawn.

147. ***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 2012 (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. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation. Income limits also apply to Roth IRA contributions.

148. ***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 $57,500 for joint filers, $43,125 for head of household filers, and $28,750 for other filers in 2012.

149. ***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 $50,000 in 2012. 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.

150. ***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.

151. ***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, and under current law, 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.

152. ***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.

153. ***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.

154. ***Additional deduction for the blind.***—Under the baseline tax system, the standard deduction is allowed. An 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 2012.

155. ***Additional deduction for the elderly.***—Under the baseline tax system, the standard deduction is allowed. An 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 2012.

156. ***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.

157. ***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.

158. ***Earned income tax credit (EITC).***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. 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 $9,320 of earned income in 2012. The credit is 40 percent of the first $13,090 of income for a family with two qualifying children, and it is 45 percent of the first $13,090 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 $6,210 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. After 2012, the additional benefit for families with three or more children was to be eliminated. However, ATRA permanently extended this provision (extension not shown in the tables).

Social Security

159. ***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.

160. ***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 161, Social Security benefits for retired workers.)

161. ***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

162. ***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.

163. ***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.

164. ***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.

165. ***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

166. ***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.

167. ***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 through 2010 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.

168. ***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. ATRA extended the provision through December 31, 2013 (extension not shown in the tables.)

Interest

169. ***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.[4] 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 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.

[4] 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.

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 expenditures 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 2014 levels) and single taxpayers with income over $200,000 (at 2014 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, 2013. 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 permanent the American Opportunity Tax Credit (AOTC), the expansion of the EITC for larger families, EITC marriage penalty relief, and the refundability of the child tax credit. These provisions were extended through 2017 in ATRA and the Budget assumes in its baseline that these provisions would be permanently extended. Although permanent extension would increase the cost of these tax expenditures, it 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, the Job Creation Act of 2010, and ATRA, have extended many provisions of the tax code, including many provisions identified as tax expenditures in this chapter. However, a number of provisions identified as tax expenditures have been allowed to expire. 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 to not itemize, and the exemption from taxes for the first $2,400 of unemployment benefits were allowed to expire.

SPECIAL TOPICS

17. 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 in the FY 2014 Budget and provides information on historical grant spending. Information on Federal credit programs may be found in Chapter 22, "Credit and Insurance," in this volume. Chapter 16, "Tax Expenditures," in this volume, includes a display of tax expenditures that particularly aid State and local governments at the end of Tables 16-1 and 16-2.

Federal grants-in-aid are assistance provided to State and local governments, U.S. territories, and American Indian Tribal governments to support government operations or provision of services to the public. Most often grants are awarded as direct cash assistance, but 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—categorical grants or block grants—depending on the requirements of the grant program. In addition, grants may be characterized by how the funding is awarded such as by formula, by project, or by matching State and local funds.

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 defined categorical, residential, income, and nutrition risk eligibility requirements.

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 broad discretion to determine eligibility requirements for TANF benefits. In addition, TANF has a matching requirement known as "maintenance of effort" which specifies a minimum amount that States must spend to assist low-income families in order to receive the full Federal grant.

Project grants can be 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. The Government Accountability Office describes categorical and project grants as striking "a different balance between the interests of the [F]ederal grant-making agency that funds be used efficiently and effectively to meet [N]ational objectives, and the interests of the recipient to use the funds to meet local priorities and to minimize the administrative burdens associated with accepting the grant."[1]

As recipients of Federal grant funding, State and local governments may provide services directly to beneficiaries or States may act as a pass-through, disbursing grant funding to localities using a formula or a competitive process. This pass-through structure allows States to set priorities and determine the allocation methodology within the rules of the Federal grant guidance.[2]

[1] United States Government Accountability Office. "Grants to State and Local Governments, An Overview of Federal Funding Levels and Selected Challenges." September 2012.

[2] Keegan, Natalie. "Federal Grants-in-Aid Administration: A Primer." Congressional Research Service. October 3, 2012.

STATE AND LOCAL FISCAL OUTLOOK

States experienced the effects of the deep recession in 2008 and 2009 to varying degrees, but all States had to cope with a sharp drop in revenues and a higher demand for services. The Federal Government used the existing grants structure to provide swift fiscal relief to States during the 2008 and 2009 recession when States faced severe and unforeseen economic conditions. It primarily 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 income security, education, transportation, energy, and water, and for Medicaid and other programs. In addition, for many programs, the Recovery Act required increased oversight and reporting for recipients and grant-making agencies. Most of the temporary provisions in the Recovery Act expired in 2010, but some Recovery Act programs were extended in subsequent legislation because economic growth remained slow.

The impact of and recovery from the recession has been uneven across States; broadly speaking, economic conditions at the State level, as evidenced by State fiscal year 2013[3], show signs of improvement over 2012. According

[3] According to the Fall 2012 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" (page vi).

to the Fall 2012 Fiscal Survey of States (FSS), published by the National Governors Association and the National Association of State Budget Officers, for the first time since the recession general fund revenues are expected to be higher than in 2008 and State general fund[4] spending overall is expected to be 2.2 percent higher than in 2012. In addition, more than half of States increased spending for K-12 education and Medicaid in State fiscal year 2013 budgets. However, the FSS also reports that 24 States enacted a 2013 budget with general fund spending still lower than 2008. By State fiscal year 2013, general fund revenues, which are comprised primarily of sales, personal income, and corporate income taxes, are expected to be $12.5 billion greater than in 2008. The FSS survey found that States are also beginning to build up reserves or rainy day funds, which is another sign of financial health. In State fiscal year 2013, reserves are expected to be a combined $61.3 billion or 9 percent of general fund expenditures, although almost half of this will be held by two States: Texas and Alaska. High unemployment has also put a strain on States' budgets. The National unemployment rate peaked at the end of 2009 and remained high throughout 2010 but it has since been declining. As of January 2013, individual States had unemployment rates ranging from 9.8 percent in both California and Rhode Island to 3.3 percent in North Dakota. Over the past 12 months, the unemployment rate fell in 40 States and the District of Columbia, remained unchanged in three States, and rose in seven States.

Fiscal conditions at the city level are not as encouraging. According to the National League of Cities, general fund revenues are projected to decline again in city fiscal year 2012 for the sixth straight year and general fund expenditures are expected to grow only slightly.[5] Variability in tax revenue collections is seen among cities because of differences in local tax structures and reliance. However, the vast majority of cities rely heavily on revenue from property tax collections and have been greatly affected by the steep decline in housing prices.[6] Property tax revenues in 2011 dropped by 3.9 percent compared to 2010 and are projected to decline another 2.1 percent in 2012.[7] Local governments also rely on grants from States to fund services. According to the Bureau of Economic Analysis, grants by States to local governments increased from between 3.1 percent to 6.3 percent in each year between 2003 and 2008. However, in 2009, grants from States essentially remained flat and in 2010 decreased by 0.6 percent. In 2011, grants from States increased by 1.6 percent.[8] The Fiscal Survey of FSS found more States included increases in funding to local governments in their 2013 budgets than in the past several years.[9]

Federal grant spending increased greatly in 2009 and 2010 in response to the recession, as mentioned above, then decreased from those levels in 2011 and 2012 as the bulk of funds from the Recovery Act and its extensions were spent out. Outlays from Federal grants-in-aid increased by $76.7 billion in 2009 to total $538.0 billion, and increased by another $70.4 billion in 2010 to total $608.4 billion. In 2011, outlays from Federal grants-in-aid decreased by $1.6 billion and decreased again in 2012 to $544.6 billion.[10] As a percentage of total Federal outlays, aid to State and local governments was 15.5 percent in 2008, 17.6 percent in 2010, and 15.7 percent in 2012. However, a better measure of the size of these expenditures may be as a percentage of GDP. In 2008, Federal grants to State and local governments were equivalent to 3.2 percent of GDP, compared to 4.2 percent in 2010, and 3.5 in 2012.[11]

[4] "General fund spending represents the primary component of discretionary expenditures of revenue derived from general sources which have not been earmarked for specific items." "Fiscal Survey of States." The National Governors Association and the National Association of State Budget Officers. Fall 2012. p. 1.

[5] Hoene, Christopher W., McFarland, Christina, and Pagano, Michael. "City Fiscal Conditions in 2012." National League of Cities. September 2012.

[6] Ibid. p. 3.

[7] Ibid.

[8] U.S. Department of Commerce, Bureau of Economic Analysis (BEA), National Income and Product Accounts, Table 3.20, State Government Current Receipts and Expenditures. BEA reports annual data on a calendar year basis. Calendar year 2011 is the most recent year for which annual data are available.

[9] "The Fiscal Survey of States." The National Governors Association and the National Association of State Budget Officers. Fall 2012. p. 59.

[10] See Table 12.2 in the *Historical Tables* volume of the *Budget*.

[11] See Table 12.1 in the *Historical Tables* volume of the *Budget*

HIGHLIGHTS OF FEDERAL AID TO STATES AND LOCALITIES

The Budget provides $643.3 billion in outlays for aid to State and local governments in 2014, an increase of $98.7 billion from 2012. The distribution of grant spending in 2014 among functions remains similar to 2012. As shown in Table 17-1, 50.3 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, 16.8 percent of Federal aid will go to income security programs; 15.0 percent to education, training, and social services; 11.1 percent to transportation; 3.3 percent to community and regional development; and 1.0 percent each to justice and to natural resources and environment.

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 17-1, 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 17-2, 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 2014.

The Budget strengthens resource management on non-Federal lands by incorporating better data on grantee accomplishments and natural resource outcomes to help guide future Federal investment in State forestry grants. This approach by the U.S. Forest Service advances the recent shift toward cross-program and competitive-based grant allocations already underway by institutionalizing better data collection and rewarding innovative projects that increase natural resource outcomes, including benefits to water quality from improved forest stewardship and innovative uses of urban forestry in emerging green infrastructure approaches.

The Budget proposes $383 million, a $119 million increase above the 2012 enacted level, for competitive research grants made through the Agriculture and Food Research Initiative (AFRI). AFRI grants address key problems of National, regional, and multi-State importance in sustaining all components of agriculture, including farm efficiency and profitability, ranching, renewable energy, forestry (both urban and agroforestry), aquaculture, rural communities and entrepreneurship, human nutrition, food safety, biotechnology, and conventional breeding.

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. For the first time ever, the Budget proposes mandatory funding for Land and Water Conservation Fund (LWCF) programs in the Departments of the Interior and Agriculture, including $200 million in mandatory funds out of $600 million overall for LWCF programs in 2014. This mandatory funding will provide the stability needed for agencies and States to make strategic, long-term investments to preserve natural and cultural resources, bolster outdoor recreation opportunities, and protect wildlife. Starting in 2015, the Budget proposes $900 million annually in mandatory funding equal to the amount of oil and gas receipts deposited in the LWCF each year. In 2014, $351 million is proposed to conserve lands within national parks, refuges, and forests, including $169 million in collaborative funds for Interior and the U.S. Forest Service to jointly and strategically conserve the most critical landscapes. The Budget also proposes $15 million in LWCF funding to revive the Urban Park Recreation and Recovery Program, which can help revitalize urban parks and increase access to trails, green space, and other recreational areas in the most underserved urban communities. Other AGO programs include operating national parks, refuges, and public lands, which are critical for conserving natural and cultural resources; protecting wildlife; and drawing recreational tourists from across the country 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 our cultural and natural legacy.

The Administration proposes $1.1 billion for grants within the Environmental Protection Agency (EPA) to support State and tribal implementation of delegated environmental programs. The support includes $257 million in State grant funding for air programs, an increase of $22 million to assist States in addressing additional responsibilities associated with greenhouse gas reduction efforts, and $259 million in State water pollution control grants, a $25 million increase, including $15 million to improve nutrient management. The Administration also proposes to increase funding for the Tribal General Assistance Program (Tribal GAP) by $5 million. 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.

The Budget includes a combined $1.9 billion for federal capitalization of the State Revolving Funds (SRFs), representing a reduction of $472 million from the 2012 enacted level. The Budget proposes a gradual reduction to focus on communities in most need of assistance, but will still allow the SRFs to finance approximately $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 approximately $19.8 billion since 2009. Since their inception, the SRFs have been provided over $52.6 billion. Going forward, EPA will work to target SRF assistance to small and underserved communities with limited ability to repay loans. The Administration strongly supports efforts to expand the use of green infrastructure to meet Clean Water Act goals. To further these efforts, the Budget will better target the funding intended for green infrastructure practices, which will help communities improve water quality while creating green space, mitigating flooding, and enhancing air quality.

The Budget also leverages funding from across the Federal government as well as State, local, and private investment in order to promote job creation and economic growth in communities with Brownfields sites through initiatives such as the Partnership for Sustainable Communities and Strong Cities, Strong Communities with the EPA. Brownfields are lightly contaminated sites, many in economically hard-hit areas, where the presence or potential presence of contamination may keep these sites from being used productively. In order to support initiatives to rehabilitate these sites and communities around the country while recognizing fiscal constraints, the Budget increases funding for technical assistance but slightly reduces the competitive grant funds.

Transportation

Grant outlays in support of transportation programs are estimated to be $71.1 billion in 2014.

The Moving Ahead for Progress in the 21st Century Act, enacted in July 2012, reauthorized the Federal Aid Highways grants, Transit Formula Grants, and highway safety grants. The Budget provides $50.1 billion in obligation limitations for those programs, equal to the contract authority levels authorized in the act.

To spur job growth and allow States to initiate sound multi-year investments, the Budget provides an additional $50.0 billion for transportation investments in 2014 with a “fix-it-first” policy focus. Although infrastructure projects take time to get underway, these investments would create hundreds of thousands of jobs in the first few years—and in industries suffering from protracted unemployment. This includes $40.0 billion in “fix-it-first” investments to improve existing infrastructure assets most in need of repair and $10.0 billion to help spur States and local innovation in infrastructure development and leveraging leverage State, local, tribal and private funds. Not only will making these investments now put workers back on the job and support local transportation programs in the near-term, but the return on investment for Federal taxpayers will benefit from historically low interest rates and construction costs. To help these funds flow into communities without delay, key Federal agencies have been directed to find ways to expedite permitting and approvals for infrastructure projects.

The Budget provides $40.0 billion over five years to fund the development of high-speed rail and other passenger rail programs as part of an integrated national transportation 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 also benefits freight rail and significantly restructures Federal support for Amtrak, to increase transparency, accountability, and performance.

In order to ensure the highest safety standards for the U.S. pipeline system, the Budget proposes a Pipeline Safety Reform (PSR) initiative to both enhance and revamp the Department of Transportation’s Pipeline Safety program. The Budget maintains the size of the State Pipeline Safety Grant program and institutes several reforms to the Federal program. It funds the second phase of a three-year effort to more than double the number of Federal pipeline safety inspectors. There are currently only 135 inspectors responsible, in collaboration with State partners, for annually inspecting 2.6 million miles of pipeline and ensuring incident investigations following explosions occur promptly. In addition, the Budget modernizes pipeline data collection and analysis, improves Federal investigation of pipeline accidents of all sizes, and expands the public education and outreach program.

In support of the President’s call for spending restraint, the Budget lowers funding for the airport grants program to $2.4 billion 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 revenue or other outside 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.

Community and Regional Development

Grant outlays for community and regional development programs are estimated to be $21.0 billion in 2014.

The Budget provides $3.0 billion for the Community Development Block Grant (CDBG) program and neighborhood stabilization activities within the Department of Housing and Urban Development (HUD), and proposes reforms to better target CDBG investments to address local community development goals. This funding level includes $200 million in new competitive funds to continue mitigating the impacts of the foreclosure crisis. The funding will provide essential new resources to help communities hardest hit by the foreclosure crisis while creating jobs through rehabilitating, repurposing, and demolishing vacant and blighted properties. The Budget also continues to support the $15.0 billion Project Rebuild program, which will leverage private capital to bring the benefits of neighborhood stabilization to national scale.

The Budget provides $950 million for the HOME Investment Partnerships Program, five percent below the 2012 enacted level. At this funding level, HOME will provide grants to State and local governments to supply almost 40,000 additional units of affordable housing for low-income families. This funding reduction is mitigated by the investment of $1 billion in mandatory funding for the Housing Trust Fund to finance the development, rehabilitation, and preservation of affordable housing for extremely-low income families.

As part of the Administration's multiagency partnership between HUD, the Department of Transportation, and the Environmental Protection Agency, the Budget provides $75 million in Integrated Planning and Investment Grants to create incentives for communities to develop and implement comprehensive housing and transportation plans, such as updates to building codes, land use and zoning ordinances, that result in more resilient economic development, reduce energy consumption and greenhouse gas emissions, and increase affordable housing near public transit. This funding would support about 30 additional regional and neighborhood planning and implementation grants to enable communities to align public and private investments in housing, transportation, and infrastructure. These efforts also align with a broader Administration commitment to help communities improve their resilience to extreme weather and other climate change impacts through direct technical assistance, data and tools on projected impacts, and other support.

The Budget requests $55 million for a new economic development grant program administered by the Department of Agriculture designed to target small and emerging private businesses and cooperatives in rural areas. Relying on evidence about what works to create jobs and growth, this new program will award funding to grantees that agree to be tracked against performance targets. The new program will also improve upon the agency's current grant allocation and evaluation process.

The Budget provides $2.4 billion for State and local grant programs within the Department of Homeland Security to hire, equip, and train first responders. To better target these funds, the Budget proposes eliminating duplicative, stand-alone grant programs, consolidating them into the National Preparedness Grant Program. This initiative is designed to build, sustain, and leverage core capabilities as established in the National Preparedness Goal. Using a competitive risk-based model, the National Preparedness Grant Program will apply a comprehensive process that identifies and prioritizes deployable capabilities; puts funding to work more quickly; and requires grantees to regularly report progress in the acquisition and development of these capabilities.

Education, Training, Employment, and Social Services

Grant outlays for education, training, employment, and social service programs are estimated to be $96.5 billion in 2014.

The Administration believes that all children should have access to a high-quality preschool education. A child's early years are the most critical for building the foundation needed for success in life. Research has conclusively shown that supporting children at this stage leads to significant benefits in school and beyond. This is particularly true for low-income children, who often start kindergarten academically behind their peers by many months. Providing high-quality early childhood education to all children will enable them to start school ready to learn and realize their full potential. The Budget outlines a proposal to ensure that four-year-olds across the country have access to high-quality preschool programs, which would be financed through mandatory resources fully paid for elsewhere in the Budget. This proposal consists of a Federal-State partnership to provide all low- and moderate-income four-year-old children with high-quality preschool, while also providing States with incentives to expand these programs to reach additional children from middle class families and to put in place full-day kindergarten policies. To support this effort, the Budget also proposes a $750 million discretionary investment in Preschool Development Grants in 2014. These grants will ensure that States willing to commit to expanding preschool access are able to make the critical investments necessary to serve their four-year-old children in high-quality programs. The preschool initiative is coupled with a companion investment in voluntary home visiting and high-quality care for infants and toddlers within the Department of Health and Human Services (HHS).

The Budget provides $659 million for School Turnaround Grants within the Department of Education to support the Administration's commitment to help turn around America's persistently lowest-performing schools. This includes $125 million for a new competitive grant program to expand the capacity of districts to implement effective and sustainable school reform.

One of the Department of Education's trademark grant programs, Investing in Innovation (i3), uses an evidence-based approach to test new ideas, validate what works, and scale up the most effective approaches. The Budget builds on the success of i3 by providing $215 million, an increase of $66 million above the 2012 enacted level, to support growing the evidence base in high-need areas, including identifying and supporting effective teachers and leaders, improving low-performing schools, and encouraging parent engagement.

Teachers and principals have enormous impacts on students' learning. The Budget continues significant investment to ensure that there is an effective teacher in every classroom through programs such as the Teacher and Leader Innovation Fund and the Effective Teachers and Leaders State Formula Grant Program and its 25 percent set-aside for competitive grants. The Administration also recognizes the need to equip school leaders to implement Elementary and Secondary Education Act (ESEA) reforms by providing nearly $100 million for a competition to develop high-quality, large-scale professional development for current school leaders. The Budget also invests $12.5 billion in mandatory funds to help school districts prevent additional teacher layoffs and hire teachers as the economy continues to recover. In addition, the Budget proposes a $5 billion one-time mandatory investment in the Recognizing Educational Success, Professional Excellence, and Collaborative Teaching (RESPECT) Project, to support States and districts that commit to bold, comprehensive reforms to transform every stage of the teaching profession.

The Budget provides $1.3 billion for 21st Century Community Learning Centers to States and other entities for projects that provide students, particularly those in high-need schools, the additional time, support, and enrichment activities that can improve their achievement. The Budget places a particular focus on programs that support high-quality expanded learning models, which add time to the school day or school year to improve student outcomes.

The Budget sustains the Department of Education's commitment to supporting education for disadvantaged students and students with disabilities, providing $14.5 billion for ESEA Title I Grants and $11.6 billion for Individuals with Disabilities Education Act (IDEA) Grants to States. These investments provide the resources needed by districts to pay teacher salaries and fund other educational interventions for these groups.

Building on the success of Race to the Top (RTT) program in both early education and K-12 education, the Department of Education will shift the focus of RTT in 2014 to promoting comprehensive reforms in postsecondary education. The Budget provides $1 billion to support competitive grants to States that commit to driving comprehensive change in their higher education policies and practices, while doing more to contain their tuition and make it easier for students to afford a college education. This change establishes RTT as a fund that promotes system-wide reform and can shift its focus each year to support the most promising and comprehensive solutions to strengthen public education and improve outcomes from preschool through college.

A large share of the nation's vocational training is delivered at community colleges. The Budget funds an $8 billion Community College to Career Fund jointly administered by the Departments of Labor and Education to support State and community college partnerships with businesses to build the skills of American workers. The Fund will build on the Trade Adjustment Assistance Community College and Career Training Grants, for which 2014 is the final year of funding.

The Administration is committed to doing everything we can to make it easier for people who need help to find a job or build their skills for a better one, and for employers who need to find well-qualified workers. The Administration is exploring opportunities to revisit how the Federal government funds job training and employment services, including the possibility of reorganizing some of the existing training programs that serve overlapping populations. For example, the Budget proposes a universal displaced worker program that will reach up to a million workers a year with a set of core services, combining the best elements of two more narrowly-targeted programs. Any reform must ensure that the needs of particularly vulnerable job-seekers and workers continue to be met and ensure greater accountability and transparency about the performance of federally-supported job training providers and programs.

The Budget also provides $80 million to increase the set-aside for governors in the Workforce Investment Act formula grants from 5 percent to 7.5 percent in order to boost States' capacity to engage in program improvements and reform.

Health

Grant outlays for health related programs are estimated to be $323.6 billion in 2014.

The Budget expands access to HIV/AIDS prevention and treatment activities and supports the goals of the National HIV/AIDS Strategy to reduce HIV incidence; increase access to care and optimizing health outcomes for people living with HIV; and reduce HIV-related health disparities. By providing resources for Affordable Care Act implementation, the Budget will support increased health care coverage for thousands of people living with HIV/AIDS. The Budget increases funding for the Ryan White HIV/AIDS program by $20 million, including an additional $10 million for the AIDS Drug Assistance Program (ADAP) to ensure that individuals living with HIV can access their medications and an additional $10 million for HIV medical clinics to expand access to care and improve systems for connecting individuals to care and retaining them in care over time. The Budget includes an increase of $10 million for CDC HIV/ AIDS prevention activities to expand surveillance activities and improve timeliness of data. The Budget redirects $40 million from less effective activities to support a new $40 million initiative to improve systems that link persons recently diagnosed with HIV to care. The Budget also invests $10 million in building the infrastructure and capacity that State public health departments and community based organizations will need to bill private insurers for infectious disease testing.

The Budget maintains the Community Mental Health Services Block Grant and increases the Substance Abuse Prevention and Treatment Block Grant to support States in an effective transition in the first year of the Affordable Care Act, which will include expanded coverage for mental health and substance abuse treatment services. The Budget also proposes funding within the Block Grants to encourage States to build provider capacity to bill public and private insurance and to promote the adoption of evidence-based programs.

Medicaid is critically important to providing health care coverage to the neediest Americans, and the Administration strongly supports State efforts to expand Medicaid with the increased Federal funding provided in the Affordable Care Act. The Budget seeks to preserve the existing partnership between States and the Federal government while making Medicaid more efficient and sustainable through sensible, targeted, Medicaid reforms. For example, the Budget helps States and the Federal government leverage more efficient reimbursement rates for durable medical equipment based on Medicare rates. The Budget also better aligns Medicaid Disproportionate Share Hospital (DSH) payments with expected levels of uncompensated care by beginning the scheduled reductions in 2015 and basing future State DSH allotments on States' actual DSH allotments as reduced by the ACA. Finally, the Budget would improve rebate and payment policies for Medicaid prescription drugs.

Finally, the Budget invests $15 billion over the next 10 years to extend and expand evidence-based, voluntary home visiting. These investments will be paired with a new initiative in the Department of Education to expand preschool to all low- and moderate-income four year olds.

Income Security

Grant outlays for income security programs are estimated to be $107.9 billion in 2014.

The Budget proposes a $4 billion Reemployment NOW program, which incorporates a number of reforms to help UI claimants and other long-term unemployed individuals get back to work more quickly. The Budget also includes a $12.5 billion Pathways Back to Work Fund to make it easier for workers to remain connected to the workforce and gain new skills for long-term employment. This initiative will support summer- and year-round jobs for low-income youth, subsidized employment opportunities for unemployed and low-income adults, and other promising strategies designed to lead to employment.

The Budget provides $400 million for Choice Neighborhoods to continue to transform neighborhoods of concentrated poverty into opportunity-rich, mixed-income neighborhoods. The Budget will reach 10 to 13 neighborhoods with implementation grants that fund the revitalization of HUD-assisted housing and also engage local governments, nonprofits, and for-profit developers in partnerships to improve economic conditions in surrounding communities. These funds will be targeted to designated Promise Zones—high-poverty communities where the Federal government will work with local leadership to invest and engage more intensely to create jobs, leverage private investment, increase economic activity, and expand educational opportunities.

The Budget requests $20 billion for the Housing Choice Voucher program to help more than 2.2 million low-income families afford decent housing in neighborhoods of their choice. This funding level supports all existing vouchers and provides 10,000 new vouchers targeted to homeless veterans. The Budget also includes $10.3 billion for the Project-Based Rental Assistance program to maintain affordable rental housing for 1.2 million families, and provides $6.6 billion in operating and capital subsidies to preserve affordable public housing for an additional 1.1 million families. A portion of this funding will support implementation of the Rental Assistance Demonstration, which will upgrade over 150,000 public housing and other HUD-assisted units by converting them to long-term Section 8 contracts that can leverage private financing for capital repairs.

The Budget provides $2.4 billion for Homeless Assistance Grants, $480 million above the 2012 enacted level. This funding maintains the approximately 325,000 HUD-funded beds that assist the homeless nationwide and expands rapid re-housing and permanent supportive housing. Backed with new data and emerging best practices across the country, this evidence-based investment will make further progress towards the goals laid out in the Federal Strategic Plan to Prevent and End Homelessness.

The Budget proposes to update the Housing Opportunities for Persons with AIDS (HOPWA) program to better reflect the current case concentration and understanding of HIV/AIDS and ensure that funds are directed in a more equitable and effective manner. 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. 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 connected to treatment, and therefore improving health outcomes for this vulnerable population.

At a time of continued need, the Administration strongly supports the Supplemental Nutrition Assistance Program (SNAP) and the Child Nutrition Programs, which help families improve their nutrition and reduce hunger. SNAP is the cornerstone of our Nation's nutrition assistance safety net, touching the lives of more than 47 million people. The Budget provides $7.6 billion for discretionary nutrition programs, including $7.1 billion to support the 8.9 million individuals expected to participate in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), which is critical to the health of pregnant women, new mothers, infants, and young children. The Budget also provides resources for program integrity and again proposes to continue certain temporary SNAP benefits.

The Budget supports the implementation of the Healthy, Hunger-Free Kids Act of 2010 with $35 million in school equipment grants to aid in the provision of healthy meals and continued support for other school-based resources through the Department of Agriculture.

The Budget provides $3 billion for the Low Income Home Energy Assistance Program (LIHEAP) to help struggling families with residential heating and cooling expenses. The Budget targets funds to States with vulnerable households facing high home heating costs. The Budget also provides $50 million for competitive grants to help reduce energy burdens for LIHEAP households that rely on persistently high-cost systems.

Research has shown that effective early childhood programs help children succeed in school and beyond. Increasing Federal investments in high-quality early education is a key part of a broader education agenda that will strengthen the Nation's competiveness and help every child reach his or her potential. The Budget invests $1.4 billion in new Early Head Start-Child Care Partnerships to support States and communities in expanding the availability of high-quality learning opportunities for our youngest children. The Budget also provides an additional $200 million for States to support high-quality child care in 2014 and $7 billion over the next 10 years to maintain the availability of child care subsidies.

The Budget proposes policy changes to modernize the Child Support Enforcement Program, which touches the lives of one-quarter of the Nation's children. These policy changes will encourage non-custodial parents to take greater responsibility for their children while maintaining rigorous enforcement efforts. The Budget supports States in providing access and visitation services that can improve a non-custodial parent's relationship with his or her family and increases support for States that pass child support payments through to families rather than retaining them. The program will continue to evaluate the effectiveness of providing employment services aimed at increasing child support payments from noncustodial parents. In addition, the Budget provides $35 million for States to test strategies to overcome financial deterrents to marriage.

Administration of Justice

Grant outlays for justice programs are estimated to be $6.6 billion in 2014.

The Budget provides $413 million to reinforce efforts to combat and respond to violent crimes against women. These grants play a critical role in helping to create a coordinated community response to this problem. As a result of prior investments in this area, civil and criminal justice systems are more responsive to victims. Crimes of violence committed against women have declined in recent years. Yet, reducing such violence and meeting the needs of the almost 1.3 million women victimized by rape and sexual assault annually, and the nearly seven million victims of intimate partner violence each year, remains a critical priority.

The Budget provides $440 million to support evidence-based community policing in the Nation's local law enforcement agencies. While a portion of this funding will support the Comprehensive School Safety Program and be used to hire school resource officers and mental health professionals and make other investments in school safety, $257 million is provided for the hiring and retention of police officers and sheriffs' deputies across the country, and includes a preference for the hiring of post-9/11 military veterans and school resource officers. Of the total, $35 million is set aside for Tribal Law Enforcement to help ensure the safety and security of tribal residents. The Budget also includes $4 billion in immediate assistance for the retention, rehiring, and hiring of police officers, as requested by the President in the American Jobs Act.

The Budget provides $332 million for the Department's Juvenile Justice Programs and includes evidence-based investments to prevent youth violence, including $25 million to fund the Community-Based Violence Prevention Initiative, which would provide grants to replicate successful community-based interventions to control shootings and other serious gang violence, and $4 million for the National Forum on Youth Violence Prevention, which provides assistance for selected communities across the country to develop and implement youth violence strategies. The Budget also includes $20 million for the Juvenile Justice Realignment Incentive Grants, which, in tandem with the $30 million reserved for Juvenile Accountability Block Grants, will assist States that are pursuing evidence-based, juvenile justice system alignment to foster better outcomes for young people, less costly use of incarceration, and increased public safety. Further, the Budget makes available $23 million for research and pilot projects focused on developing appropriate responses to youth exposed to violence.

The Budget includes $222 million to help State and local governments continue implementing the Administration's proposals for increasing firearms safety and supporting programs that help keep communities safe from mass casualty violence. Included in these initiatives are $150 million for the Comprehensive School Safety Program, $55 million in grants to improve the submission of state criminal and mental health records to the National Instant Criminal Background Check System, $15 million to improve police officer safety, and $2 million to develop better gun safety mechanisms to prevent the use of firearms by unauthorized users.

The Budget provides $119 million for the Second Chance Act Grant programs to reduce re-offending and help ex-offenders return to productive lives, $19 million for Residential Substance Abuse Training in the Nation's prisons and jails to help break the cycle of drug offending, and $10 million to expand Hawaii's HOPE Probation project with "swift and certain" sanctions to other sites.

The Budget also invests in several programs to promote better public safety and help reduce State and local corrections system costs. For example, the Budget invests $44 million in Problem-Solving Grants, which support drug courts, mentally ill offender assistance, and other problem-solving approaches to work with special needs offenders while minimizing costly incarceration. The Justice Reinvestment Initiative, funded at $85 million, works with States to reduce unnecessary incarceration and reinvest the savings in efforts that promote public safety. In coordination with the Department of Education's School Climate Transformation Grants, the Budget also requests $20 million for a Juvenile Justice and Education Collaboration Assistance program to help reduce juvenile arrests (and the "school-to-prison pipeline") while improving school safety. With 2.3 million individuals in U.S. prisons, 1 in 32 American adults under correctional supervision, and 71,000 juveniles held in juvenile facilities, these programs aim to achieve improved public safety using evidence-based strategies and data-driven approaches.

The Budget bolsters the Administration's efforts to ensure that more Federal grant funding flows to evidence-based activities and helps to advance knowledge of what works in State and local criminal justice. To accomplish this objective, the Budget increases set-asides for research, evaluation, and statistics; couples the formula Byrne Justice Assistance Grant and Juvenile Accountability Block Grant programs with competitive incentive grants that provide "bonus" funds to States and localities for better, evidence-based use of formula funds; expands the Pay for Success initiative; adopts a more evidence-based, data-driven use of competitive grant funds; and invests in the expansion of CrimeSolutions.gov, a "what works" clearinghouse for best practices in criminal justice, juvenile justice, and crime victim services.

Table 17–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2012 Actual	2013 CR	2014 Estimate	2012 Actual	2013 CR	2014 Estimate
Energy						
Discretionary:						
Department of Energy:						
Energy Programs:						
Race to the Top for Energy Efficiency and Grid Modernization	....	....	200	....	....	20
Energy Efficiency and Renewable Energy	128	129	248	3,605	779	246
Total, discretionary	**128**	**129**	**448**	**3,605**	**779**	**266**
Mandatory:						
Tennessee Valley Authority:						
Tennessee Valley Authority Fund	618	550	536	618	550	536
Total, Energy	**746**	**679**	**984**	**4,223**	**1,329**	**802**
Natural Resources and Environment						
Discretionary:						
Department of Agriculture:						
Farm Service Agency:						
Grassroots Source Water Protection Program	4	4	....	4	4	....
Natural Resources Conservation Service:						
Watershed Rehabilitation Program	7	7	....	5	3	....
Watershed and Flood Prevention Operations	116	96	....	23	39	14
Forest Service:						
State and Private Forestry	239	248	172	240	240	217
Management of National Forest Lands for Subsistence Uses	3	3	....	2	3	1
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Operations, Research, and Facilities	159	163	159	96	98	96
Pacific Coastal Salmon Recovery	65	65	50	79	79	86
Department of the Interior:						
Office of Surface Mining Reclamation and Enforcement:						
Regulation and Technology	67	68	57	48	49	41
Abandoned Mine Reclamation Fund	....	....	....	18	27	27
United States Geological Survey:						
Surveys, Investigations, and Research	7	6	1	7	6	1
United States Fish and Wildlife Service:						
Cooperative Endangered Species Conservation Fund	48	48	56	50	88	82
State Wildlife Grants	61	62	61	65	75	78
Landowner Incentive Program	....	....	....	9	12	5
National Park Service:						
Urban Park and Recreation Fund	....	....	10	....	....	1
National Recreation and Preservation	60	60	52	64	59	58
Land Acquisition and State Assistance	45	45	40	38	36	48
Historic Preservation Fund	56	106	59	89	68	85
Environmental Protection Agency:						
State and Tribal Assistance Grants	3,568	4,190	3,154	5,223	4,489	3,893
Hazardous Substance Superfund	19	19	18	220	198	189
Leaking Underground Storage Tank Trust Fund	91	96	87	129	95	90
Total, discretionary	**4,615**	**5,286**	**3,976**	**6,409**	**5,668**	**5,012**
Mandatory:						
Department of the Interior:						
Bureau of Land Management:						
Miscellaneous Permanent Payment Accounts	44	46	5	47	40	14

Table 17–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2012 Actual	2013 CR	2014 Estimate	2012 Actual	2013 CR	2014 Estimate
United States Fish and Wildlife Service:						
Coastal Impact Assistance	....	....	....	8	....	....
Office of Surface Mining Reclamation and Enforcement:						
Payments to States in Lieu of Coal Fee Receipts	85	85	85	156	82	99
Abandoned Mine Reclamation Fund	220	210	188	172	118	178
United States Fish and Wildlife Service:						
Federal Aid in Wildlife Restoration	398	571	611	377	467	544
Cooperative Endangered Species Conservation Fund	53	63	90	53	63	65
Coastal Impact Assistance	....	....	....	85	122	130
Sport Fish Restoration	434	462	421	427	460	427
National Park Service:						
Urban Park and Recreation Fund	....	....	5	....	....	....
Land Acquisition and State Assistance	....	....	20	1	4	4
Departmental Offices:						
National Forests Fund, Payment to States	10	8	8	10	8	8
Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes	24	26	27	24	26	27
States Share from Certain Gulf of Mexico Leases	....	....	3	....	....	3
Corps of Engineers--Civil Works:						
South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund	3	4	4	8	7	5
Total, mandatory	**1,271**	**1,475**	**1,467**	**1,368**	**1,397**	**1,504**
Total, Natural Resources and Environment	**5,886**	**6,761**	**5,443**	**7,777**	**7,065**	**6,516**
Agriculture						
Discretionary:						
Department of Agriculture:						
Departmental Management:						
Departmental Administration	20	....	....	20	....	....
National Institute of Food and Agriculture:						
Extension Activities	405	407	405	427	410	589
Research and Education Activities	324	327	320	132	407	488
Agricultural Marketing Service:						
Payments to States and Possessions	1	1	1	1	1	1
Farm Service Agency:						
State Mediation Grants	4	4	4	4	4	4
Total, discretionary	**754**	**739**	**730**	**584**	**822**	**1,082**
Mandatory:						
Department of Agriculture:						
Agricultural Marketing Service:						
Payments to States and Possessions	55	55	....	47	54	55
Farm Service Agency:						
Commodity Credit Corporation Fund	4	....	....	4	....	....
Total, mandatory	**59**	**55**	**........**	**51**	**54**	**55**
Total, Agriculture	**813**	**794**	**730**	**635**	**876**	**1,137**
Commerce and Housing Credit						
Mandatory:						
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Promote and Develop Fishery Products and Research Pertaining to American Fisheries	1	132	132	6	–25	–3
National Telecommunications and Information Administration:						
State and Local Implementation Fund	....	125	10	....	13	78

Table 17–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2012 Actual	2013 CR	2014 Estimate	2012 Actual	2013 CR	2014 Estimate
Department of the Treasury:						
Departmental Offices:						
State Small Business Credit Initiative	....	....	....	172	551	380
Financial Research Fund	168	....	....	42	....	....
Federal Communications Commission:						
Universal Service Fund	1,843	1,996	2,077	1,843	1,996	2,077
Total, mandatory	**2,012**	**2,253**	**2,219**	**2,063**	**2,535**	**2,532**
Total, Commerce and Housing Credit	**2,012**	**2,253**	**2,219**	**2,063**	**2,535**	**2,532**
Transportation						
Discretionary:						
Department of Transportation:						
Office of the Secretary:						
National Infrastructure Investments	480	483	480	207	319	406
Federal Aviation Administration:						
Grants-in-aid for Airports (Airport and Airway Trust Fund)	....	....	....	3,012	3,810	3,525
Grants-in-aid for Airports (Airport and Airway Trust Fund) (non-add obligation limitations) [1]	3,350	3,371	2,900	....	....	....
Federal Highway Administration:						
Emergency Relief Program	1,662	2,022	....	1,026	874	1,048
Highway Infrastructure Investment, Recovery Act	....	....	....	3,028	1,285	277
Highway Infrastructure Programs	....	....	....	186	135	80
Appalachian Development Highway System	....	....	....	16	27	30
Federal-aid Highways	....	....	....	39,032	39,657	40,065
Federal-aid Highways (non-add obligation limitations) [1]	39,144	37,844	38,956	....	....	....
Miscellaneous Appropriations	....	....	....	87	84	69
Miscellaneous Transportation Trust Funds	....	....	....	11	35	36
Federal Motor Carrier Safety Administration:						
Motor Carrier Safety Grants	....	....	....	274	283	311
Motor Carrier Safety Grants (non-add obligation limitations) [1]	307	309	313	....	....	....
National Highway Traffic Safety Administration:						
Highway Traffic Safety Grants	....	....	....	490	402	434
Highway Traffic Safety Grants (non-add obligation limitations) [1]	550	554	562	....	....	....
Federal Railroad Administration:						
Emergency Railroad Rehabilitation and Repair	....	....	....	4	5	....
Intercity Passenger Rail Grant Program	....	....	....	8	13	20
Rail Line Relocation and Improvement Program	....	....	....	12	20	20
Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail Service	....	....	....	508	1,089	2,246
Federal Transit Administration:						
Transit Capital Assistance, Recovery Act	....	....	....	1,039	658	334
Fixed Guideway Infrastructure Investment, Recovery Act	....	....	....	128	90	3
Job Access and Reverse Commute Grants	....	....	....	5	7	7
Washington Metropolitan Area Transit Authority	150	151	150	91	188	232
Formula Grants	....	....	....	171	224	143
Grants for Energy Efficiency and Greenhouse Gas Reductions	....	....	....	11	25	25
Capital Investment Grants	1,886	1,923	1,981	2,443	2,452	2,569
Public Transportation Emergency Relief Program	....	10,894	25	....	1,089	2,731
Discretionary Grants (Transportation Trust Fund, Mass Transit Account)	....	....	....	13	9	9
Transit Formula Grants	....	....	....	8,197	9,252	9,886
Transit Formula Grants (non-add obligation limitations) [1]	9,904	9,712	9,895	....	....	....
Pipeline and Hazardous Materials Safety Administration:						
Pipeline Safety	34	37	56	25	42	47
Trust Fund Share of Pipeline Safety	5	5	5	5	5	5

Table 17–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2012 Actual	2013 CR	2014 Estimate	2012 Actual	2013 CR	2014 Estimate
Total, discretionary	**4,217**	**15,515**	**2,697**	**60,029**	**62,079**	**64,558**
Total, obligation limitations (non-add) [1]	53,255	51,790	52,626	....	....	....
Mandatory:						
Department of Homeland Security:						
United States Coast Guard:						
Boat Safety	108	116	104	113	141	118
Department of Transportation:						
Immediate Transportation Investments	....	....	50,000	....	....	5,600
Federal Aviation Administration:						
Grants-in-aid for Airports (Airport and Airway Trust Fund) [1]	3,205	3,203	2,748	....	....	....
Federal Highway Administration:						
Federal-aid Highways [1]	38,199	38,695	39,251	602	596	616
Miscellaneous Appropriations	5	63	....	5	63	....
Federal Motor Carrier Safety Administration:						
Motor Carrier Safety Grants [1]	306	310	313	....	....	....
National Highway Traffic Safety Administration:						
Highway Traffic Safety Grants [1]	525	528	536	....	....	....
Federal Railroad Administration:						
Rail Service Improvement Program	....	....	3,660	....	....	225
Federal Transit Administration:						
Transit Formula Grants [1]	9,889	9,778	9,895	....	....	....
Total, mandatory	**52,237**	**52,693**	**106,507**	**720**	**800**	**6,559**
Total, Transportation	**56,454**	**68,208**	**109,204**	**60,749**	**62,879**	**71,117**
Community and Regional Development						
Discretionary:						
Department of Agriculture:						
Rural Utilities Service:						
Distance Learning, Telemedicine, and Broadband Program	37	85	39	587	739	647
Rural Water and Waste Disposal Program Account	456	436	304	836	1,000	782
Rural Housing Service:						
Rural Community Facilities Program Account	43	29	17	84	72	49
Rural Business Cooperative Service:						
Rural Business and Cooperative Grants	....	....	18	....	....	....
Rural Business Program Account	253	75	....	210	206	39
Department of Commerce:						
Economic Development Administration:						
Economic Development Assistance Programs	417	221	282	393	446	360
Department of Homeland Security:						
Federal Emergency Management Agency:						
State and Local Programs	2,282	2,301	2,123	3,857	3,360	3,150
United States Fire Administration and Training	3	3	1	3	3	3
Disaster Relief Fund	7,076	7,080	1,204	6,346	3,132	4,818
National Flood Insurance Fund	....	10	10	....	10	10
Department of Housing and Urban Development:						
Community Planning and Development:						
Community Development Fund	3,408	19,308	3,128	6,794	6,402	10,066
Community Development Loan Guarantees Program Account	6	6	....	4	8	8
Brownfields Redevelopment	....	....	....	16	12	12
Office of Lead Hazard Control and Healthy Homes:						
Lead Hazard Reduction	120	121	119	148	130	130

Table 17–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2012 Actual	2013 CR	2014 Estimate	2012 Actual	2013 CR	2014 Estimate
Department of the Interior:						
Bureau of Indian Affairs and Bureau of Indian Education:						
Operation of Indian Programs	159	159	159	159	157	164
Indian Guaranteed Loan Program Account	10	7	5	10	7	7
Appalachian Regional Commission	60	62	57	76	73	75
Delta Regional Authority	11	12	11	14	30	15
Denali Commission	16	11	7	37	59	2
Total, discretionary	**14,357**	**29,926**	**7,484**	**19,574**	**15,846**	**20,337**
Mandatory:						
Department of Homeland Security:						
Federal Emergency Management Agency:						
First Responder Stabilization Fund	....	1,000	....	....	....	50
National Flood Insurance Fund	....	173	106	....	173	108
Department of Housing and Urban Development:						
Community Planning and Development:						
Community Development Loan Guarantees Program Account	7	8	....	7	8	....
Neighborhood Stabilization Program	....	15,000	....	677	1,030	379
Department of the Treasury:						
Fiscal Service:						
Gulf Coast Restoration Trust Fund	....	120	120	....	60	180
Total, mandatory	**7**	**16,301**	**226**	**684**	**1,271**	**717**
Total, Community and Regional Development	**14,364**	**46,227**	**7,710**	**20,258**	**17,117**	**21,054**
Education, Training, Employment, and Social Services						
Discretionary:						
Department of Commerce:						
National Telecommunications and Information Administration:						
Public Telecommunications Facilities, Planning and Construction	....	....	....	10	6	....
Information Infrastructure Grants	–2	–1	....	....	....	....
Department of Education:						
Office of Elementary and Secondary Education:						
School Readiness	....	....	750	....	....	38
Indian Student Education	125	126	125	120	112	125
Impact Aid	1,286	1,292	1,219	1,302	1,420	1,299
Supporting Student Success	196	198	1,532	329	358	257
Accelerating Achievement and Ensuring Equity	15,677	15,728	14,839	17,047	17,375	16,518
Education Improvement Programs	4,416	4,436	2,632	4,823	4,543	4,394
State Fiscal Stabilization Fund, Recovery Act	....	....	....	1,583	1,865	1,000
Office of Innovation and Improvement:						
Innovation and Instructional Teams	1,233	1,240	4,977	748	1,380	2,152
Office of English Language Acquisition:						
English Learner Education	689	692	685	684	713	735
Office of Special Education and Rehabilitative Services:						
Special Education	11,730	12,456	11,617	13,335	12,864	12,995
Rehabilitation Services and Disability Research	147	150	118	145	168	132
American Printing House for the Blind	25	25	25	25	30	26
Office of Vocational and Adult Education:						
Career, Technical and Adult Education	1,719	1,720	1,717	1,846	1,747	1,457
Office of Postsecondary Education:						
Higher Education	301	453	451	396	309	386
Office of Federal Student Aid:						
Student Financial Assistance	....	....	....	6	6	....
Institute of Education Sciences	38	53	53	101	44	46

Table 17–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2012 Actual	2013 CR	2014 Estimate	2012 Actual	2013 CR	2014 Estimate
Hurricane Education Recovery	....	....	....	15	8	....
Department of Health and Human Services:						
Administration for Children and Families:						
Supporting Healthy Families and Adolescent Development	61	62	62	55	63	63
Children and Families Services Programs	9,550	9,698	10,712	9,492	9,437	10,056
Administration for Community Living:						
Aging and Disability Services Programs	1,470	1,480	2,043	1,484	1,474	1,830
Department of the Interior:						
Bureau of Indian Affairs and Bureau of Indian Education:						
Operation of Indian Programs	111	111	111	106	103	106
Department of Labor:						
Employment and Training Administration:						
Training and Employment Services	2,824	2,831	2,924	3,040	2,939	2,662
Community Service Employment for Older Americans	....	....	....	299	11	....
State Unemployment Insurance and Employment Service Operations	87	87	113	64	44	125
States Paid Leave Fund	....	....	5	....	....	....
Unemployment Trust Fund	955	995	995	951	925	953
Corporation for National and Community Service:						
Operating Expenses	496	496	496	363	266	270
Corporation for Public Broadcasting	444	445	445	444	445	445
District of Columbia:						
District of Columbia General and Special Payments:						
Federal Payment for Resident Tuition Support	30	30	35	30	30	35
Federal Payment for School Improvement	60	60	52	60	60	52
Institute of Museum and Library Services:						
Office of Museum and Library Services: Grants and Administration	217	217	210	235	261	258
National Endowment for the Arts:						
National Endowment for the Arts: Grants and Administration	45	46	50	50	46	48
Total, discretionary	**53,930**	**55,126**	**58,993**	**59,188**	**59,052**	**58,463**
Mandatory:						
Department of Education:						
Office of Elementary and Secondary Education:						
Education Jobs Fund	....	....	....	3,484	229	....
School Readiness	....	....	1,300	....	....	130
American Jobs Act	....	12,500	....	....	625	11,875
Office of Innovation and Improvement:						
Innovation and Instructional Teams	....	5,000	....	....	100	2,650
Office of Special Education and Rehabilitative Services:						
Rehabilitation Services and Disability Research	3,121	3,231	3,302	2,917	3,350	3,778
Department of Health and Human Services:						
Administration for Children and Families:						
Supporting Healthy Families and Adolescent Development	476	478	463	413	439	451
Social Services Block Grant	1,785	2,285	1,785	1,715	1,964	2,062
Department of Labor:						
Employment and Training Administration:						
American Jobs Act and Community College to Career Fund	....	16,500	....	....	825	13,750
TAA Community College and Career Training Grant Fund	500	500	500	40	219	832
Universal Displaced Workers Program	....	....	2,202	....	....	2,202
Federal Unemployment Benefits and Allowances	575	575	196	369	335	300
Total, mandatory	**6,457**	**41,069**	**9,748**	**8,938**	**8,086**	**38,030**
Total, Education, Training, Employment, and Social Services	**60,387**	**96,195**	**68,741**	**68,126**	**67,138**	**96,493**

Table 17–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2012 Actual	2013 CR	2014 Estimate	2012 Actual	2013 CR	2014 Estimate
Health						
Discretionary:						
Department of Agriculture:						
Food Safety and Inspection Service:						
Salaries and Expenses	50	51	52	47	50	52
Department of Health and Human Services:						
Health Resources and Services Administration:						
Health Resources and Services	2,847	2,923	2,871	2,648	2,487	2,503
Centers for Disease Control and Prevention:						
CDC-Wide Activities and Program Support	1,471	2,195	2,271	1,895	746	810
Substance Abuse and Mental Health Services Administration:						
Susbstance Abuse and Mental Health Services Administration	2,823	2,615	2,663	2,741	3,233	3,068
Departmental Management:						
Public Health and Social Services Emergency Fund	380	382	255	395	443	128
Prevention and Wellness Fund, Recovery Act	....	....	....	14	....	....
Department of Labor:						
Occupational Safety and Health Administration:						
Salaries and Expenses	115	116	116	115	116	116
Mine Safety and Health Administration:						
Salaries and Expenses	9	9	1	9	9	1
Total, discretionary	**7,695**	**8,291**	**8,229**	**7,864**	**7,084**	**6,678**
Mandatory:						
Department of Health and Human Services:						
Health Resources and Services Administration:						
Maternal, Infant, and Early Childhood Home Visiting Programs	350	400	400	122	401	318
Centers for Medicare and Medicaid Services:						
Rate Review Grants	....	....	....	22	100	80
Affordable Insurance Exchange Grants	1,655	2,751	1,343	167	1,457	2,061
Grants to States for Medicaid	270,724	269,384	284,052	250,534	266,565	303,634
Children's Health Insurance Fund	8,659	11,083	15,368	9,065	9,897	9,992
State Grants and Demonstrations	528	530	532	477	788	749
Child Enrollment Contingency Fund	....	3	4	....	125	100
Departmental Management:						
Pregnancy Assistance Fund	25	25	25	26	27	21
Total, mandatory	**281,941**	**284,176**	**301,724**	**260,413**	**279,360**	**316,955**
Total, Health	**289,636**	**292,467**	**309,953**	**268,277**	**286,444**	**323,633**
Income Security						
Discretionary:						
Department of Agriculture:						
Agricultural Marketing Service:						
Funds for Strengthening Markets, Income, and Supply (section 32)	....	–300	–166	....	–300	–166
Food and Nutrition Service:						
Commodity Assistance Program	244	260	272	238	259	271
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	7,018	6,659	7,142	6,837	6,670	7,007
Department of Health and Human Services:						
Administration for Children and Families:						
Low Income Home Energy Assistance	3,472	3,493	3,020	3,817	3,704	2,936
Refugee and Entrant Assistance	504	625	635	633	722	716
Payments to States for the Child Care and Development Block Grant	2,269	2,283	2,469	2,191	2,277	2,433

Table 17–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2012 Actual	2013 CR	2014 Estimate	2012 Actual	2013 CR	2014 Estimate
Department of Homeland Security:						
Federal Emergency Management Agency:						
Emergency Food and Shelter	120	121	100	90	226	106
Department of Housing and Urban Development:						
Public and Indian Housing Programs:						
Public Housing Operating Fund	3,962	3,986	4,560	4,220	3,923	4,399
Revitalization of Severely Distressed Public Housing (HOPE VI)	....	....	....	129	130	130
Native Hawaiian Housing Block Grant	13	13	13	3	13	16
Tenant Based Rental Assistance	18,264	19,006	19,996	17,952	18,919	19,956
Project-based Rental Assistance	289	260	265	167	260	265
Public Housing Capital Fund	1,875	1,886	1,979	2,631	2,500	2,388
Native American Housing Block Grant	650	654	647	751	650	673
Choice Neighborhoods	120	121	398	....	8	36
Family Self-Sufficiency	....	....	75	....	....	....
Rental Assistance Demonstration	....	....	10	....	....	....
Community Planning and Development:						
Homeless Assistance Grants	703	902	1,123	1,171	810	779
Home Investment Partnership Program	1,000	1,006	945	1,781	1,624	1,392
Housing Opportunities for Persons with AIDS	332	334	332	334	325	316
Rural Housing and Economic Development	....	....	....	11	20	7
Permanent Supportive Housing	....	....	....	10	12	7
Department of Labor:						
Employment and Training Administration:						
Unemployment Trust Fund	3,421	3,421	3,446	2,128	1,591	1,623
Total, discretionary	**44,256**	**44,730**	**47,261**	**45,094**	**44,343**	**45,290**
Mandatory:						
Department of Agriculture:						
Agricultural Marketing Service:						
Funds for Strengthening Markets, Income, and Supply (section 32)	795	1,043	1,052	791	1,071	1,052
Food and Nutrition Service:						
Supplemental Nutrition Assistance Program	6,888	6,956	7,238	6,832	6,949	7,123
Commodity Assistance Program	21	21	21	21	21	21
Child Nutrition Programs	18,284	19,696	20,526	18,287	20,844	20,557
Department of Health and Human Services:						
Administration for Children and Families:						
Payments to States for Child Support Enforcement and Family Support Programs	3,836	4,004	4,075	3,957	3,994	4,045
Contingency Fund	612	612	293	678	876	487
Payments for Foster Care and Permanency	7,006	6,920	7,011	6,846	6,744	6,901
Child Care Entitlement to States	2,917	2,917	3,417	2,828	2,908	3,322
Temporary Assistance for Needy Families	16,739	16,739	17,058	16,136	16,848	17,271
Department of Housing and Urban Development:						
Public and Indian Housing Programs:						
Public Housing Capital Fund	....	....	....	88	....	....
Community Planning and Development:						
Housing Trust Fund	....	....	1,000	....	....	10
Department of Labor:						
Employment and Training Administration:						
Universal Displaced Workers Program	....	....	1,843	....	....	1,843
Unemployment Trust Fund	389	....	....	389	....	....
Department of the Treasury:						
Departmental Offices:						
Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credit Allocations	....	....	....	627	....	....

Table 17–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2012 Actual	2013 CR	2014 Estimate	2012 Actual	2013 CR	2014 Estimate
Total, mandatory	**57,487**	**58,908**	**63,534**	**57,480**	**60,255**	**62,632**
Total, Income Security	**101,743**	**103,638**	**110,795**	**102,574**	**104,598**	**107,922**
Social Security						
Mandatory:						
Social Security Administration:						
Federal Disability Insurance Trust Fund	15	19	18	29	19	18
Veterans Benefits and Services						
Discretionary:						
Department of Veterans Affairs:						
Veterans Health Administration:						
Medical Services	852	975	1,066	852	975	1,066
Departmental Administration:						
Grants for Construction of State Extended Care Facilities	85	86	83	201	105	93
Grants for Construction of Veterans Cemeteries	46	46	45	28	33	32
Total, discretionary	**983**	**1,107**	**1,194**	**1,081**	**1,113**	**1,191**
Total, Veterans Benefits and Services	**983**	**1,107**	**1,194**	**1,081**	**1,113**	**1,191**
Administration of Justice						
Discretionary:						
Department of Housing and Urban Development:						
Fair Housing and Equal Opportunity:						
Fair Housing Activities	71	71	71	70	72	79
Department of Justice:						
Legal Activities and U.S. Marshals:						
Assets Forfeiture Fund	21	21	21	18	20	–1
Office of Justice Programs:						
Research, Evaluation, and Statistics	83	42	73	124	158	101
State and Local Law Enforcement Assistance	1,014	1,038	884	1,560	1,575	1,170
Juvenile Justice Programs	211	208	280	335	342	328
Community Oriented Policing Services	162	163	426	611	655	367
Violence against Women Prevention and Prosecution Programs	388	382	392	396	478	523
Equal Employment Opportunity Commission:						
Salaries and Expenses	30	30	30	30	30	30
Federal Drug Control Programs:						
High-intensity Drug Trafficking Areas Program	219	240	193	217	304	192
State Justice Institute:						
State Justice Institute: Salaries and Expenses	5	5	5	4	7	6
Total, discretionary	2,204	2,200	2,375	3,365	3,641	2,795
Mandatory:						
Department of Justice:						
Legal Activities and U.S. Marshals:						
Assets Forfeiture Fund	839	589	573	524	560	197
Office of Justice Programs:						
Community Oriented Policing Stabilization Fund	....	3,992	....	....	....	2,392
Crime Victims Fund	655	649	750	648	712	920
Department of the Treasury:						
Departmental Offices:						
Treasury Forfeiture Fund	139	961	305	153	464	271
Total, mandatory	**1,633**	**6,191**	**1,628**	**1,325**	**1,736**	**3,780**
Total, Administration of Justice	**3,837**	**8,391**	**4,003**	**4,690**	**5,377**	**6,575**

Table 17–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2012 Actual	2013 CR	2014 Estimate	2012 Actual	2013 CR	2014 Estimate
General Government						
Discretionary:						
Department of the Interior:						
United States Fish and Wildlife Service:						
National Wildlife Refuge Fund	14	14	....	14	14	....
Insular Affairs:						
Assistance to Territories	60	61	61	54	42	72
Trust Territory of the Pacific Islands	....	....	....	1	....	....
District of Columbia:						
District of Columbia Courts:						
Federal Payment to the District of Columbia Courts	243	234	223	260	211	229
Defender Services in District of Columbia Courts	45	55	50	51	62	59
District of Columbia General and Special Payments:						
Federal Support for Economic Development and Management Reforms in the District	23	23	33	23	23	33
Election Assistance Commission:						
Election Reform Programs	....	....	....	6	5	5
Total, discretionary	**385**	**387**	**367**	**409**	**357**	**398**
Mandatory:						
Department of Agriculture:						
Forest Service:						
Forest Service Permanent Appropriations	365	300	347	383	255	340
Department of Energy:						
Energy Programs:						
Payments to States under Federal Power Act	3	3	3	5	3	3
Department of Homeland Security:						
Customs and Border Protection:						
Refunds, Transfers, and Expenses of Operation, Puerto Rico	107	103	99	121	127	99
Department of the Interior:						
Office of Surface Mining Reclamation and Enforcement:						
Payments to States in Lieu of Coal Fee Receipts	180	44	....	....	339	137
United States Fish and Wildlife Service:						
National Wildlife Refuge Fund	8	8	8	7	6	8
Departmental Offices:						
Mineral Leasing and Associated Payments	2,050	2,017	2,100	2,050	2,017	2,100
National Petroleum Reserve, Alaska	5	3	....	5	3	....
Geothermal Lease Revenues, Payment to Counties	4	4	....	4	4	....
Insular Affairs:						
Assistance to Territories	28	28	28	21	29	36
Payments to the United States Territories, Fiscal Assistance	313	340	315	313	340	315
Department-Wide Programs:						
Payments in Lieu of Taxes	393	401	410	393	401	410
Department of the Treasury:						
Alcohol and Tobacco Tax and Trade Bureau:						
Internal Revenue Collections for Puerto Rico	376	616	433	376	616	433
Total, mandatory	**3,832**	**3,867**	**3,743**	**3,678**	**4,140**	**3,881**
Total, General Government	**4,217**	**4,254**	**4,110**	**4,087**	**4,497**	**4,279**
Total, Grants	**541,093**	**630,993**	**625,104**	**544,569**	**560,987**	**643,269**
Discretionary	**133,524**	**163,436**	**133,754**	**207,202**	**200,784**	**206,070**
Transportation obligation limitations (non-add) [1]	53,255	51,790	52,626	....	....	....
Mandatory	**407,569**	**467,557**	**491,350**	**337,367**	**360,203**	**437,199**

[1] Mandatory contract authority provides budget authority for these programs, but program levels are set by discretionary obligation limitations in appropriations bills and outlays are recorded as discretionary. This table shows the obligation limitations as non-additive items to avoid double counting.

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 transcontinental 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.[12] 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.[13] 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 17-2,[14] 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 11 percent of total grant outlays in 2012.

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 2012, education, training, employment, and social services constituted 12 percent of total grant outlays. Also, in the early and mid-1970s, major new grants were created for community and regional development (e.g. community development block grants), natural resources and environment (e.g. construction of sewage treatment plants), and general government (e.g. general revenue sharing). In 2012, outlays for community and regional development grants were 3.7 percent of total grant spending. Outlays for natural resources and environment grants were 1.4 percent in the same year, and outlays for grants in the general government category made up less than one percent of total grant outlays.

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 composed 17 percent of total grant spending. This amount grew to 32 percent in 1990 and 48 percent in 2010. In 2012, expenditures for health grants were $268.3 billion and 49 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 $102.6 billion and 19 percent of Federal grant spending in 2012.

Section B of Table 17-2 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.[15] Outlays for mandatory grant programs were $337.4 billion in 2012. As shown in Table 17-1, the three largest mandatory grant programs in 2012 were Medicaid, with outlays of $250.5 billion; Temporary Assistance for Needy Families, $16.1 billion; and Child Nutrition Programs, which include the School Breakfast Program, the National School Lunch Program and others, $18.3 billion. In 2014 grants-in-aid with mandatory funding are estimated to have outlays of $437.2 billion, an increase of $99.8 billion from 2012.

Funding levels for discretionary grant programs are determined annually through appropriations acts. Outlays for discretionary grant programs were $207.2 billion in 2012. As shown in Table 17-1, the three largest discretionary programs in 2012 were Federal-aid Highways, $39.0 billion; Tenant Based Rental Assistance, $18.0 billion; and Accelerating Achievement and Ensuring Equity (Education for the Disadvantaged), $17.0 billion. In 2014, grants-in-aid with discretionary funding are estimated to

[12] Canada, Ben. February 19, 2003. *Federal Grants to State and Local Governments: A Brief History*. Congressional Re-search Service, The Library of Congress.

[13] Ibid.

[14] Table 17–2 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.

[15] For more information on these categories, see Chapter 12, "Budget Concepts," in this volume.

have outlays of $206.1 billion, a decrease of $1.1 billion from 2012.

Section C of Table 17–2 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 2012 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 2012, grants for physical capital were $85.2 billion, 16 percent of total grants.

All other grants are captured in the "other" category. These grants were 18 percent of total grants in 2012 and totaled $99.3 billion.

Section D of Table 17-2 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 15 percent in 2012. Grants as a percent of domestic programs were 16 percent in 2012. Federal grants have increased as a percent of total State and local expenditures since 1990 when they were 19 percent. In 2010, spending for grants was 28 percent of total State and local expenditures and in 2012 it was 24 percent.

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 27 percent of State and local gross investment in 2012.

Table 17–2. TRENDS IN FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS

(Outlays in billions of dollars)

	Actual									Estimate	
	1960	1970	1980	1990	2000	2005	2010	2011	2012	2013 CR	2014
A. Distribution of grants by function:											
Natural resources and environment	0.1	0.4	5.4	3.7	4.6	5.9	9.1	8.3	7.8	7.1	6.5
Agriculture	0.2	0.6	0.6	1.3	0.7	0.9	0.8	0.9	0.6	0.9	1.1
Transportation	3.0	4.6	13.0	19.2	32.2	43.4	61.0	61.0	60.7	62.9	71.1
Community and regional development	0.1	1.8	6.5	5.0	8.7	20.2	18.8	19.9	20.3	17.1	21.1
Education, training, employment, and social services	0.5	6.4	21.9	21.8	36.7	57.2	97.6	89.1	68.1	67.1	96.5
Health	0.2	3.8	15.8	43.9	124.8	197.8	290.2	292.8	268.3	286.4	323.6
Income security	2.6	5.8	18.5	36.8	68.7	90.9	115.2	113.6	102.6	104.6	107.9
Administration of justice	....	0.0	0.5	0.6	5.3	4.8	5.1	4.9	4.7	5.4	6.6
General government	0.2	0.5	8.6	2.3	2.1	4.4	5.2	7.6	4.1	4.5	4.3
Other	0.0	0.1	0.7	0.8	2.1	2.6	5.4	8.5	7.4	5.0	4.5
Total	**7.0**	**24.1**	**91.4**	**135.3**	**285.9**	**428.0**	**608.4**	**606.8**	**544.6**	**561.0**	**643.3**
B. Distribution of grants by BEA category:											
Discretionary	N/A	10.2	53.3	63.3	116.7	181.7	207.7	189.8	207.2	200.8	206.1
Mandatory	N/A	13.9	38.1	72.0	169.2	246.3	400.7	416.9	337.4	360.2	437.2
Total	**7.0**	**24.1**	**91.4**	**135.3**	**285.9**	**428.0**	**608.4**	**606.8**	**544.6**	**561.0**	**643.3**
C. Composition:											
Current dollars:											
Payments for individuals [1]	2.5	8.7	32.6	77.3	182.6	273.9	384.5	387.8	360.1	382.2	421.3
Physical capital [1]	3.3	7.1	22.6	27.2	48.7	60.8	93.3	96.5	85.2	83.1	92.7
Other grants	1.2	8.3	36.2	30.9	54.6	93.3	130.6	122.4	99.3	95.7	129.3
Total	**7.0**	**24.1**	**91.4**	**135.3**	**285.9**	**428.0**	**608.4**	**606.8**	**544.6**	**561.0**	**643.3**
Percentage of total grants:											
Payments for individuals [1]	35.3%	36.2%	35.7%	57.1%	63.9%	64.0%	63.2%	63.9%	66.1%	68.1%	65.5%
Physical capital [1]	47.3%	29.3%	24.7%	20.1%	17.0%	14.2%	15.3%	15.9%	15.6%	14.8%	14.4%
Other grants	17.4%	34.5%	39.6%	22.8%	19.1%	21.8%	21.5%	20.2%	18.2%	17.1%	20.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Constant (FY 2005) dollars:											
Payments for individuals [1]	13.3	37.3	71.1	107.6	203.2	273.9	344.0	339.6	307.6	320.1	345.3
Physical capital [1]	19.6	31.4	44.9	37.6	56.5	60.8	76.0	76.9	66.4	63.0	68.1
Other grants	12.3	55.0	111.1	53.0	67.0	93.3	112.5	103.2	81.7	76.7	100.3
Total	**45.3**	**123.7**	**227.1**	**198.1**	**326.8**	**428.0**	**532.5**	**519.7**	**455.7**	**459.9**	**513.7**
D. Total grants as a percent of:											
Federal outlays:											
Total	7.6%	12.3%	15.5%	10.8%	16.0%	17.3%	17.6%	16.8%	15.4%	15.2%	17.0%
Domestic programs [2]	18.0%	23.2%	22.2%	17.1%	22.0%	23.5%	23.3%	22.4%	16.2%	16.1%	18.0%
State and local expenditures	14.8%	20.1%	27.4%	18.9%	22.2%	24.5%	28.4%	27.5%	24.5%	N/A	N/A
Gross domestic product	1.4%	2.4%	3.4%	2.4%	2.9%	3.4%	4.2%	4.1%	3.5%	3.5%	3.8%
E. As a share of total State and local gross investments:											
Federal capital grants	24.6%	25.4%	35.4%	21.9%	22.0%	22.0%	27.5%	29.7%	26.8%	25.5%	27.2%
State and local own-source financing	75.4%	74.6%	64.6%	78.1%	78.0%	78.0%	72.5%	70.3%	73.2%	74.5%	72.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

N/A: Not available at publishing.

[1] Grants that are both payments for individuals and capital investment are shown under capital investment.

[2] Excludes national defense, international affairs, net interest, and undistributed offsetting receipts.

OTHER INFORMATION ON FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

Over the past two years, the Administration has worked with stakeholders to better direct financial assistance to achieve outcomes by reforming administrative procedures to reduce the risk of waste, fraud, and abuse, and lessen the administrative burdens. In February 2013, OMB published a proposal to this effect that would streamline eight previously overlapping sets of guidance into one. The proposal is available for public comment until June 2, 2013 on *regulations.gov* under docket OMB-2013-0001.

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 20, "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 spending data, information on how to apply for Federal aid, or display information about audits but use a slightly difference concept of grants.

The website *Grants.gov* is a primary source of information for communities wishing to apply for grants and other domestic assistance. *Grants.gov* hosts all open notices of opportunities to apply for Federal grants. The *Catalog of Federal Domestic Assistance* hosted by the General Services Administration contains detailed listings 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*.

Current and updated grant receipt information by State and local governments and other non-Federal entities can be found on *USAspending.gov*. This public website also contains contract and loan information and is updated twice per month. Additionally, information about grants provided specifically by the Recovery Act can be found on *Recovery.gov*.

Prior to the creation of *USAspending.gov*, the Bureau of the Census in the Department of Commerce provided data on public finances and has published data on Federal aid to State and local governments in the *Consolidated Federal Funds Report* and the *Federal Aid to States* report. However, the Federal Financial Statistics program was terminated so there are no new reports after 2010.

The Federal Audit Clearinghouse maintains an on-line database *(harvester.census.gov/sac)* that provides access to summary information about audits conducted under OMB Circular A–133, "Audits to States, Local Governments, and Non-Profit Organizations." Information is available for each audited entity, including the amount of Federal money expended by program and whether there were audit findings.

The Bureau of Economic Analysis, also in the Department of Commerce, publishes the monthly *Survey of Current Business*, which provides data on the national income and product accounts (NIPA), a broad statistical concept encompassing the entire economy. These accounts include data on Federal grants to State and local governments. Data using the NIPA concepts appear in this volume in Chapter 28, "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 84 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 Treasury budget account number from which the program is funded.
- Actual 2012 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.
- Obligations in 2013 from previous budgeted authority distributed by State. For discretionary programs, obligations by State in 2013 are determined by calculating the full year rate under the continuing resolution enacted in P.L. 112-175.
- Estimates of 2014 obligations by State, which are based on the 2014 Budget request, unless otherwise noted.
- The percentage share of 2014 estimated program funds distributed to each State.

Table 17–3. SUMMARY OF PROGRAMS BY AGENCY, BUREAU, AND PROGRAM
(Obligations in millions of dollars)

Agency, Bureau, and Program	FY 2012 (actual)	Estimated FY 2013 obligations from: Previous authority	2013 CR or New authority	Total	FY 2014 (estimated)
Department of Agriculture, Food and Nutrition Service:					
School Breakfast Program (10.553)	3,351	....	3,605	3,605	3,843
National School Lunch Program (10.555)	10,427	618	10,846	11,463	11,718
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557)	7,074	364	6,660	7,024	7,128
Child and Adult Care Food Program (10.558)	2,846	....	2,937	2,937	3,052
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Food Stamps) (10.561)	3,958	10	4,561	4,571	4,839
Department of Education, Office of Elementary and Secondary Education:					
Title I College-And-Career-Ready Students (Formerly Title I Grants to Local Educational Agencies) (84.010)	14,516	....	14,539	14,539	14,516
Improving Teacher Quality State Grants (84.367)	2,467	....	2,471	2,471	....
Effective Teachers and Leaders State Grants	....	....	....	....	2,467
Department of Education, Office of Special Education and Rehabilitative Services:					
Vocational Rehabilitation Grants (84.126)	3,122	....	3,231	3,231	3,302
Special Education-Grants to States (84.027)	11,578	....	11,649	11,649	11,578
Department of Health and Human Services, Centers for Medicare and Medicaid Services:					
Children's Health Insurance Program (93.767)	14,982	....	17,406	17,406	19,147
Grants to States for Medicaid (93.778)	270,914	....	269,169	269,169	306,708
Affordable Insurance Exchange Grants (93.525)	1,625	....	2,698	2,698	1,292
Department of Health and Human Services, Administration for Children and Families:					
Temporary Assitance for Needy Families (TANF)-Family Assistance Grants (93.558)	16,721	....	16,739	16,739	17,058
Child Support Enforcement-Federal Share of State and Local Administrative Costs and Incentives (93.563)	4,134	....	4,268	4,268	4,339
Low Income Home Energy Assistance Program (93.568)	3,472	....	3,493	3,493	3,020
Child Care and Development Block Grant (93.575)	2,278	....	2,292	2,292	2,478
Child Care and Development Fund-Mandatory (93.596A)	1,239	....	1,239	1,239	1,253
Child Care and Development Fund-Matching (93.596B)	1,678	....	1,678	1,678	2,164
Head Start (93.600)	7,968	....	8,017	8,017	9,616
Foster Care-Title IV-E (93.658)	4,180	....	4,286	4,286	4,281
Adoption Assistance (93.659)	2,296	....	2,369	2,369	2,463
Social Services Block Grant (93.667)	1,700	....	1,700	1,700	1,700
Department of Health and Human Services, HIV/AIDS Bureau:					
Ryan White HIV/AIDS Treatment Modernization Act-Part B HIV Care Grants (93.917)	1,306	....	1,329	1,329	1,371
Department of Housing and Urban Development, Public and Indian Housing Programs:					
Public Housing Operating Fund (14.850)	3,957	4	3,986	3,990	4,560
Section 8 Housing Choice Vouchers (14.871)	18,316	154	19,006	19,159	19,996
Public Housing Capital Fund (14.872)	1,880	76	1,866	1,942	1,999
Department of Housing and Urban Development, Community Planning and Development:					
Community Development Block Grant (14.218; 14.225; 14.228; 14.862)	3,715	617	9,578	10,195	12,971
Department of Labor, Employment and Training Administration:					
Unemployment Insurance (17.225)	3,159	....	3,165	3,165	3,845
Pathways Back to Work	....	....	10,500	10,500	....
Department of Transportation, Federal Aviation Administration:					
Airport Improvement Program (20.106)	3,304	....	3,184	3,184	2,725
Department of Transportation, Federal Highway Administration:					
Highway Planning and Construction (20.205)	37,633	....	41,287	41,287	41,895
Department of Transportation, Federal Transit Administration:					
Transit Formula Grants Programs (20.507)	9,604	5,470	4,086	9,556	10,125
Environmental Protection Agency, Office of Water:					
Capitalization Grants for Clean Water State Revolving Fund (66.458)	1,682	91	1,366	1,456	1,095
Capitalization Grants for Drinking Water State Revolving Fund (66.468)	1,199	75	843	918	817
Federal Communications Commission:					
Universal Service Fund E-Rate	1,831	1,383	437	1,820	1,882
Total	**480,110**	**8,861**	**496,484**	**505,346**	**541,244**

Table 17–4. SUMMARY OF PROGRAMS BY STATE
(Obligations in millions of dollars)

State or Territory	All programs FY 2012 (actual)	Programs distributed in all years				FY 2014 Percentage of distributed total
		Estimated FY 2013 obligations from:			FY 2014 (estimated)	
		Previous authority	2013 CR or New authority	Total		
Alabama	7,428	111	6,884	6,995	6,917	1.44
Alaska	2,118	37	2,069	2,106	2,074	0.43
Arizona	9,023	162	9,296	9,458	9,264	1.93
Arkansas	5,554	31	5,130	5,161	5,253	1.09
California	55,210	1,077	61,383	62,461	56,895	11.85
Colorado	5,044	56	5,200	5,256	5,020	1.05
Connecticut	5,864	345	5,795	6,140	6,504	1.35
Delaware	1,501	37	1,471	1,508	1,506	0.31
District of Columbia	2,680	219	2,542	2,761	2,852	0.59
Florida	19,949	460	21,201	21,661	21,758	4.53
Georgia	11,990	321	11,921	12,242	11,898	2.48
Hawaii	1,845	34	1,761	1,795	1,779	0.37
Idaho	2,063	28	2,186	2,214	2,208	0.46
Illinois	15,391	296	15,666	15,962	15,272	3.18
Indiana	8,782	96	8,758	8,855	9,258	1.93
Iowa	4,031	41	4,062	4,103	4,081	0.85
Kansas	3,179	45	3,162	3,207	3,144	0.66
Kentucky	7,166	74	7,425	7,499	7,387	1.54
Louisiana	8,599	166	7,902	8,069	7,938	1.65
Maine	2,497	21	2,428	2,450	2,445	0.51
Maryland	7,389	243	7,543	7,785	7,743	1.61
Massachusetts	12,063	267	12,076	12,343	12,072	2.51
Michigan	14,884	204	15,284	15,488	15,141	3.15
Minnesota	7,634	107	7,831	7,938	8,095	1.69
Mississippi	6,091	51	6,036	6,087	5,634	1.17
Missouri	9,354	85	9,302	9,387	9,347	1.95
Montana	1,589	15	1,632	1,647	1,606	0.33
Nebraska	2,195	41	2,171	2,212	2,232	0.47
Nevada	2,467	49	2,546	2,596	2,517	0.52
New Hampshire	1,332	19	1,359	1,378	1,370	0.29
New Jersey	11,700	247	14,022	14,269	13,229	2.76
New Mexico	4,352	56	4,192	4,248	4,464	0.93
New York	45,415	1,443	53,678	55,121	51,765	10.78
North Carolina	13,720	176	14,094	14,270	14,245	2.97
North Dakota	1,432	16	1,081	1,097	1,321	0.28
Ohio	17,860	172	18,998	19,171	19,617	4.09
Oklahoma	5,519	65	5,655	5,720	5,759	1.20
Oregon	5,391	69	6,117	6,186	6,528	1.36
Pennsylvania	19,766	368	19,664	20,032	19,885	4.14
Rhode Island	2,076	50	2,008	2,058	2,034	0.42
South Carolina	5,809	73	6,060	6,134	5,965	1.24
South Dakota	1,204	13	1,138	1,151	1,143	0.24
Tennessee	9,944	100	10,471	10,571	10,960	2.28
Texas	31,843	513	35,629	36,143	35,426	7.38
Utah	2,922	33	2,784	2,817	2,826	0.59
Vermont	1,713	20	1,530	1,550	1,531	0.32
Virginia	7,530	154	7,944	8,099	8,079	1.68
Washington	8,643	128	8,250	8,378	8,632	1.80
West Virginia	3,605	37	3,672	3,709	3,629	0.76
Wisconsin	7,888	93	7,911	8,004	7,652	1.59
Wyoming	711	10	831	840	802	0.17
American Samoa	66	3	81	83	67	0.01
Guam	173	6	195	201	180	0.04
Northern Mariana Islands	69	4	78	82	74	0.02
Puerto Rico	2,959	142	3,793	3,935	3,722	0.78
Freely Associated States	7	....	7	7	7	*
Virgin Islands	171	10	190	200	187	0.04
Indian Tribes	983	7	1,167	1,174	1,045	0.22
Total, programs distributed by State in all years	**458,381**	**8,749**	**483,263**	**492,011**	**479,981**	**100.00**
MEMORANDUM:						
Not distributed by State in all years [1]	21,730	115	13,222	13,337	61,269	N/A
Total, including undistributed	480,110	8,864	496,484	505,348	541,249	N/A

* $500 or less or 0.005 percent or less.
[1] The sum of programs not distributed by State in all years.

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Table 17–5. SCHOOL BREAKFAST PROGRAM (10.553)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	57,618	....	63,372	63,372	67,549	1.76
Alaska	8,249	....	9,073	9,073	9,671	0.25
Arizona	71,763	....	78,929	78,929	84,131	2.19
Arkansas	41,340	....	45,468	45,468	48,465	1.26
California	385,737	....	424,256	424,256	452,219	11.77
Colorado	34,753	....	38,223	38,223	40,743	1.06
Connecticut	23,354	....	25,686	25,686	27,379	0.71
Delaware	9,105	....	10,014	10,014	10,674	0.28
District of Columbia	8,452	....	9,296	9,296	9,909	0.26
Florida	184,870	....	203,331	203,331	216,733	5.64
Georgia	155,917	....	171,486	171,486	182,789	4.76
Hawaii	10,992	....	12,090	12,090	12,886	0.34
Idaho	16,971	....	18,666	18,666	19,896	0.52
Illinois	110,475	....	121,507	121,507	129,515	3.37
Indiana	64,639	....	71,094	71,094	75,780	1.97
Iowa	20,788	....	22,864	22,864	24,371	0.63
Kansas	25,043	....	27,544	27,544	29,359	0.76
Kentucky	64,683	....	71,142	71,142	75,831	1.97
Louisiana	65,720	....	72,283	72,283	77,047	2.00
Maine	10,459	....	11,503	11,503	12,262	0.32
Maryland	45,475	....	50,016	50,016	53,313	1.39
Massachusetts	39,881	....	43,863	43,863	46,755	1.22
Michigan	94,357	....	103,779	103,779	110,620	2.88
Minnesota	38,541	....	42,390	42,390	45,184	1.18
Mississippi	56,654	....	62,311	62,311	66,418	1.73
Missouri	62,231	....	68,445	68,445	72,957	1.90
Montana	6,709	....	7,379	7,379	7,865	0.20
Nebraska	13,987	....	15,384	15,384	16,398	0.43
Nevada	23,985	....	26,380	26,380	28,119	0.73
New Hampshire	4,755	....	5,230	5,230	5,575	0.15
New Jersey	57,625	....	63,379	63,379	67,557	1.76
New Mexico	37,085	....	40,788	40,788	43,477	1.13
New York	169,785	....	186,739	186,739	199,048	5.18
North Carolina	108,275	....	119,087	119,087	126,936	3.30
North Dakota	4,381	....	4,818	4,818	5,136	0.13
Ohio	100,787	....	110,851	110,851	118,158	3.07
Oklahoma	52,876	....	58,156	58,156	61,989	1.61
Oregon	33,238	....	36,557	36,557	38,967	1.01
Pennsylvania	82,177	....	90,383	90,383	96,340	2.51
Rhode Island	8,701	....	9,570	9,570	10,201	0.27
South Carolina	67,844	....	74,619	74,619	79,537	2.07
South Dakota	6,532	....	7,184	7,184	7,658	0.20
Tennessee	83,546	....	91,889	91,889	97,945	2.55
Texas	468,286	....	515,048	515,048	548,996	14.29
Utah	17,603	....	19,361	19,361	20,637	0.54
Vermont	5,032	....	5,534	5,534	5,899	0.15
Virginia	63,516	....	69,859	69,859	74,463	1.94
Washington	48,455	....	53,294	53,294	56,806	1.48
West Virginia	24,612	....	27,070	27,070	28,854	0.75
Wisconsin	40,702	....	44,766	44,766	47,717	1.24
Wyoming	3,329	....	3,661	3,661	3,903	0.10
American Samoa	....	....	....	....	....	....
Guam	2,338	....	2,571	2,571	2,741	0.07
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	32,367	....	35,599	35,599	37,945	0.99
Freely Associated States	....	....	....	....	....	....
Virgin Islands	1,341	....	1,475	1,475	1,572	0.04
Indian Tribes	....	....	....	....	....	....
Undistributed	72,647	....	....	....	....	....
Total	**3,350,583**	....	**3,605,262**	**3,605,262**	**3,842,895**	[1] **100.00**

[1] Excludes undistributed obligations.

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Table 17–6. NATIONAL SCHOOL LUNCH PROGRAM (10.555)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	183,351	10,864	190,742	201,606	206,077	1.76
Alaska	30,183	1,788	31,400	33,188	33,924	0.29
Arizona	239,953	14,217	249,625	263,842	269,695	2.30
Arkansas	120,251	7,125	125,098	132,223	135,156	1.15
California	1,357,783	80,449	1,412,515	1,492,964	1,526,080	13.02
Colorado	121,566	7,203	126,466	133,669	136,634	1.17
Connecticut	82,493	4,888	85,818	90,706	92,718	0.79
Delaware	28,301	1,677	29,442	31,119	31,809	0.27
District of Columbia	19,608	1,162	20,398	21,560	22,038	0.19
Florida	630,089	37,333	655,488	692,821	708,189	6.04
Georgia	435,189	25,785	452,731	478,516	489,131	4.17
Hawaii	41,327	2,449	42,993	45,442	46,449	0.40
Idaho	49,653	2,942	51,655	54,597	55,808	0.48
Illinois	390,969	23,165	406,729	429,894	439,430	3.75
Indiana	226,654	13,429	235,790	249,219	254,748	2.17
Iowa	90,108	5,339	93,740	99,079	101,277	0.86
Kansas	93,903	5,564	97,688	103,252	105,542	0.90
Kentucky	168,123	9,961	174,900	184,861	188,962	1.61
Louisiana	191,580	11,351	199,303	210,654	215,326	1.84
Maine	31,552	1,869	32,824	34,693	35,463	0.30
Maryland	138,262	8,192	143,835	152,027	155,400	1.33
Massachusetts	146,793	8,698	152,710	161,408	164,988	1.41
Michigan	282,313	16,727	293,693	310,420	317,306	2.71
Minnesota	138,576	8,211	144,162	152,373	155,753	1.33
Mississippi	151,112	8,953	157,203	166,156	169,842	1.45
Missouri	186,373	11,043	193,886	204,929	209,474	1.79
Montana	24,123	1,429	25,095	26,524	27,113	0.23
Nebraska	60,688	3,596	63,134	66,730	68,210	0.58
Nevada	81,692	4,840	84,985	89,825	91,818	0.78
New Hampshire	21,995	1,303	22,882	24,185	24,721	0.21
New Jersey	217,342	12,878	226,103	238,981	244,282	2.08
New Mexico	85,807	5,084	89,266	94,350	96,443	0.82
New York	600,836	35,600	625,056	660,656	675,310	5.76
North Carolina	333,739	19,774	347,192	366,966	375,106	3.20
North Dakota	16,846	998	17,525	18,523	18,934	0.16
Ohio	325,715	19,299	338,845	358,144	366,087	3.12
Oklahoma	142,228	8,427	147,961	156,388	159,857	1.36
Oregon	99,426	5,891	103,434	109,325	111,750	0.95
Pennsylvania	302,360	17,915	314,548	332,463	339,838	2.90
Rhode Island	27,119	1,607	28,212	29,819	30,480	0.26
South Carolina	171,178	10,142	178,078	188,220	192,396	1.64
South Dakota	25,453	1,508	26,479	27,987	28,608	0.24
Tennessee	227,131	13,458	236,287	249,745	255,284	2.18
Texas	1,241,109	73,536	1,291,138	1,364,674	1,394,945	11.90
Utah	87,531	5,186	91,059	96,245	98,380	0.84
Vermont	13,638	808	14,188	14,996	15,328	0.13
Virginia	204,526	12,118	212,770	224,888	229,877	1.96
Washington	175,315	10,388	182,382	192,770	197,045	1.68
West Virginia	58,896	3,490	61,270	64,760	66,196	0.56
Wisconsin	154,345	9,145	160,567	169,712	173,476	1.48
Wyoming	13,198	782	13,730	14,512	14,834	0.13
American Samoa	....	....	....	....	....	....
Guam	6,844	406	7,120	7,526	7,692	0.07
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	124,364	7,369	129,377	136,746	139,779	1.19
Freely Associated States	....	....	....	....	....	....
Virgin Islands	5,851	347	6,087	6,434	6,576	0.06
Indian Tribes	....	....	....	....	....	....
Undistributed	1,471	....	....	....	....	....
Total	**10,426,831**	**617,708**	**10,845,604**	**11,463,312**	**11,717,584**	[1] **100.00**

[1] Excludes undistributed obligations.

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Table 17–7. SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC) (10.557)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	119,898	6,165	112,883	119,048	120,811	1.69
Alaska	23,328	1,200	21,963	23,163	23,506	0.33
Arizona	129,787	6,674	122,193	128,867	130,775	1.83
Arkansas	72,623	3,734	68,374	72,108	73,176	1.03
California	1,261,722	64,879	1,187,896	1,252,775	1,271,328	17.84
Colorado	78,986	4,062	74,364	78,426	79,587	1.12
Connecticut	48,026	2,470	45,216	47,686	48,392	0.68
Delaware	16,537	850	15,569	16,419	16,663	0.23
District of Columbia	14,919	767	14,046	14,813	15,033	0.21
Florida	376,083	19,338	354,078	373,416	378,946	5.32
Georgia	297,011	15,272	279,632	294,904	299,272	4.20
Hawaii	36,220	1,862	34,101	35,963	36,496	0.51
Idaho	30,480	1,567	28,697	30,264	30,712	0.43
Illinois	231,311	11,894	217,777	229,671	233,072	3.27
Indiana	113,887	5,856	107,223	113,079	114,754	1.61
Iowa	49,354	2,538	46,466	49,004	49,730	0.70
Kansas	52,694	2,710	49,611	52,321	53,095	0.74
Kentucky	106,755	5,489	100,509	105,998	107,568	1.51
Louisiana	126,363	6,498	118,969	125,467	127,325	1.79
Maine	19,116	983	17,997	18,980	19,262	0.27
Maryland	112,025	5,760	105,470	111,230	112,878	1.58
Massachusetts	89,440	4,599	84,207	88,806	90,121	1.26
Michigan	198,697	10,217	187,071	197,288	200,210	2.81
Minnesota	103,325	5,313	97,279	102,592	104,112	1.46
Mississippi	88,193	4,535	83,033	87,568	88,864	1.25
Missouri	104,594	5,378	98,474	103,852	105,390	1.48
Montana	16,714	859	15,736	16,595	16,841	0.24
Nebraska	33,306	1,713	31,357	33,070	33,560	0.47
Nevada	52,374	2,693	49,309	52,002	52,773	0.74
New Hampshire	11,362	584	10,697	11,281	11,449	0.16
New Jersey	150,002	7,713	141,225	148,938	151,144	2.12
New Mexico	44,325	2,279	41,731	44,010	44,662	0.63
New York	466,238	23,974	438,958	462,932	469,788	6.59
North Carolina	205,028	10,543	193,031	203,574	206,589	2.90
North Dakota	11,293	581	10,632	11,213	11,379	0.16
Ohio	189,028	9,720	177,968	187,688	190,467	2.67
Oklahoma	70,301	3,615	66,188	69,803	70,836	0.99
Oregon	81,227	4,177	76,474	80,651	81,845	1.15
Pennsylvania	217,724	11,196	204,985	216,181	219,382	3.08
Rhode Island	20,253	1,041	19,068	20,109	20,407	0.29
South Carolina	101,387	5,213	95,455	100,668	102,159	1.43
South Dakota	18,054	928	16,998	17,926	18,191	0.26
Tennessee	128,405	6,603	120,892	127,495	129,383	1.82
Texas	561,225	28,859	528,387	557,246	565,498	7.93
Utah	47,923	2,464	45,119	47,583	48,288	0.68
Vermont	13,622	700	12,825	13,525	13,726	0.19
Virginia	102,411	5,266	96,419	101,685	103,191	1.45
Washington	154,380	7,938	145,347	153,285	155,555	2.18
West Virginia	38,541	1,982	36,286	38,268	38,834	0.54
Wisconsin	93,033	4,784	87,589	92,373	93,741	1.32
Wyoming	8,773	451	8,260	8,711	8,840	0.12
American Samoa	7,626	392	7,180	7,572	7,684	0.11
Guam	8,864	456	8,345	8,801	8,931	0.13
Northern Mariana Islands	5,658	291	5,327	5,618	5,701	0.08
Puerto Rico	246,978	12,700	232,527	245,227	248,858	3.49
Freely Associated States	....	....	....	....	....	....
Virgin Islands	7,855	404	7,395	7,799	7,915	0.11
Indian Tribes	58,626	3,015	55,196	58,211	59,072	0.83
Undistributed	512	....	....	....	....	....
Total	**7,074,422**	**363,744**	**6,660,004**	**7,023,748**	**7,127,767**	**[1] 100.00**

[1] Excludes undistributed obligations.

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Table 17–8. CHILD AND ADULT CARE FOOD PROGRAM (10.558)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	37,816	....	40,539	40,539	42,123	1.38
Alaska	8,439	....	9,047	9,047	9,400	0.31
Arizona	43,146	....	46,253	46,253	48,061	1.57
Arkansas	47,209	....	50,609	50,609	52,586	1.72
California	280,517	....	300,719	300,719	312,469	10.24
Colorado	22,954	....	24,607	24,607	25,569	0.84
Connecticut	14,972	....	16,050	16,050	16,677	0.55
Delaware	14,581	....	15,631	15,631	16,242	0.53
District of Columbia	7,889	....	8,457	8,457	8,788	0.29
Florida	173,839	....	186,358	186,358	193,640	6.34
Georgia	101,264	....	108,557	108,557	112,798	3.70
Hawaii	6,325	....	6,780	6,780	7,045	0.23
Idaho	6,300	....	6,754	6,754	7,018	0.23
Illinois	128,026	....	137,246	137,246	142,609	4.67
Indiana	46,829	....	50,201	50,201	52,163	1.71
Iowa	28,006	....	30,023	30,023	31,196	1.02
Kansas	33,354	....	35,756	35,756	37,153	1.22
Kentucky	32,875	....	35,243	35,243	36,620	1.20
Louisiana	71,991	....	77,175	77,175	80,191	2.63
Maine	9,813	....	10,520	10,520	10,931	0.36
Maryland	45,856	....	49,158	49,158	51,079	1.67
Massachusetts	57,319	....	61,447	61,447	63,848	2.09
Michigan	61,993	....	66,457	66,457	69,054	2.26
Minnesota	64,236	....	68,862	68,862	71,553	2.34
Mississippi	37,281	....	39,966	39,966	41,527	1.36
Missouri	48,909	....	52,431	52,431	54,480	1.78
Montana	10,397	....	11,146	11,146	11,581	0.38
Nebraska	31,921	....	34,220	34,220	35,557	1.16
Nevada	6,701	....	7,184	7,184	7,464	0.24
New Hampshire	4,170	....	4,470	4,470	4,645	0.15
New Jersey	64,407	....	69,045	69,045	71,743	2.35
New Mexico	32,886	....	35,254	35,254	36,632	1.20
New York	208,117	....	223,105	223,105	231,823	7.60
North Carolina	82,424	....	88,360	88,360	91,812	3.01
North Dakota	10,596	....	11,359	11,359	11,803	0.39
Ohio	88,894	....	95,296	95,296	99,019	3.24
Oklahoma	55,005	....	58,966	58,966	61,270	2.01
Oregon	31,162	....	33,406	33,406	34,712	1.14
Pennsylvania	92,879	....	99,568	99,568	103,458	3.39
Rhode Island	7,590	....	8,137	8,137	8,455	0.28
South Carolina	27,613	....	29,602	29,602	30,758	1.01
South Dakota	9,014	....	9,663	9,663	10,041	0.33
Tennessee	57,169	....	61,286	61,286	63,681	2.09
Texas	280,487	....	300,686	300,686	312,436	10.24
Utah	26,029	....	27,903	27,903	28,994	0.95
Vermont	4,959	....	5,316	5,316	5,524	0.18
Virginia	44,647	....	47,862	47,862	49,733	1.63
Washington	41,716	....	44,720	44,720	46,468	1.52
West Virginia	15,390	....	16,498	16,498	17,143	0.56
Wisconsin	40,276	....	43,177	43,177	44,864	1.47
Wyoming	5,455	....	5,848	5,848	6,076	0.20
American Samoa	....	....	....	....	....	....
Guam	366	....	392	392	408	0.01
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	27,083	....	29,033	29,033	30,168	0.99
Freely Associated States	....	....	....	....	....	....
Virgin Islands	977	....	1,047	1,047	1,088	0.04
Indian Tribes	....	....	....	....	....	....
Undistributed	106,335	....	....	....	....	....
Total	**2,846,404**	....	**2,937,395**	**2,937,395**	**3,052,176**	[1] **100.00**

[1] Excludes undistributed obligations.

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Table 17–9. STATE ADMINISTRATIVE MATCHING GRANTS FOR THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (FOOD STAMPS) (10.561)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	41,390	120	52,596	52,716	55,808	1.15
Alaska	12,999	38	16,518	16,556	17,527	0.36
Arizona	56,933	164	72,347	72,511	76,765	1.59
Arkansas	30,177	87	38,347	38,434	40,689	0.84
California	771,730	2,229	980,667	982,896	1,040,560	21.50
Colorado	45,405	131	57,698	57,829	61,222	1.27
Connecticut	34,288	99	43,571	43,670	46,232	0.96
Delaware	12,654	37	16,080	16,117	17,062	0.35
District of Columbia	12,513	36	15,901	15,937	16,872	0.35
Florida	90,696	262	115,251	115,513	122,290	2.53
Georgia	80,134	231	101,829	102,060	108,048	2.23
Hawaii	13,839	40	17,586	17,626	18,660	0.39
Idaho	9,966	29	12,664	12,693	13,438	0.28
Illinois	109,653	317	139,340	139,657	147,850	3.06
Indiana	44,738	129	56,850	56,979	60,322	1.25
Iowa	23,801	69	30,245	30,314	32,092	0.66
Kansas	23,000	66	29,227	29,293	31,012	0.64
Kentucky	46,494	134	59,082	59,216	62,690	1.30
Louisiana	64,896	187	82,466	82,653	87,502	1.81
Maine	12,962	37	16,471	16,508	17,477	0.36
Maryland	52,017	150	66,100	66,250	70,137	1.45
Massachusetts	51,375	148	65,284	65,432	69,271	1.43
Michigan	152,213	440	193,423	193,863	205,236	4.24
Minnesota	57,022	165	72,460	72,625	76,885	1.59
Mississippi	25,937	75	32,959	33,034	34,972	0.72
Missouri	48,075	139	61,091	61,230	64,822	1.34
Montana	10,380	30	13,190	13,220	13,996	0.29
Nebraska	14,584	42	18,532	18,574	19,664	0.41
Nevada	18,584	54	23,615	23,669	25,058	0.52
New Hampshire	8,140	24	10,344	10,368	10,976	0.23
New Jersey	128,909	372	163,810	164,182	173,814	3.59
New Mexico	33,219	96	42,213	42,309	44,791	0.93
New York	376,324	1,087	478,209	479,296	507,415	10.49
North Carolina	83,174	240	105,692	105,932	112,147	2.32
North Dakota	8,180	24	10,395	10,419	11,029	0.23
Ohio	92,681	268	117,773	118,041	124,966	2.58
Oklahoma	47,635	138	60,532	60,670	64,228	1.33
Oregon	75,480	218	95,915	96,133	101,773	2.10
Pennsylvania	175,283	506	222,739	223,245	236,342	4.88
Rhode Island	9,428	27	11,981	12,008	12,712	0.26
South Carolina	20,527	59	26,084	26,143	27,678	0.57
South Dakota	5,970	17	7,586	7,603	8,050	0.17
Tennessee	53,006	153	67,357	67,510	71,470	1.48
Texas	224,281	648	285,002	285,650	302,409	6.25
Utah	24,015	69	30,517	30,586	32,381	0.67
Vermont	9,908	29	12,590	12,619	13,359	0.28
Virginia	93,540	270	118,865	119,135	126,124	2.61
Washington	74,440	215	94,594	94,809	100,371	2.07
West Virginia	16,711	48	21,235	21,283	22,532	0.47
Wisconsin	48,117	139	61,144	61,283	64,878	1.34
Wyoming	5,212	15	6,623	6,638	7,028	0.15
American Samoa	....	....	....	....	....	....
Guam	1,295	4	1,646	1,650	1,746	0.04
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	5,131	15	6,520	6,535	6,918	0.14
Indian Tribes	....	....	....	....	....	....
Undistributed	368,749	....	....	....	....	....
Total	**3,957,810**	**10,366**	**4,560,756**	**4,571,122**	**4,839,296**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Education, Office of Elementary and Secondary Education **91–0900–0–1–501**

Table 17–10. 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 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	231,031	....	227,279	227,279	227,372	1.57
Alaska	37,233	....	39,278	39,278	39,161	0.27
Arizona	316,464	....	327,396	327,396	328,354	2.26
Arkansas	155,888	....	153,156	153,156	151,747	1.05
California	1,653,832	....	1,640,259	1,640,259	1,651,856	11.38
Colorado	147,719	....	147,958	147,958	147,359	1.02
Connecticut	105,099	....	116,392	116,392	117,644	0.81
Delaware	43,432	....	43,995	43,995	43,925	0.30
District of Columbia	46,618	....	44,614	44,614	43,422	0.30
Florida	735,661	....	755,820	755,820	767,010	5.28
Georgia	504,100	....	519,276	519,276	519,982	3.58
Hawaii	45,748	....	53,547	53,547	54,522	0.38
Idaho	55,351	....	57,651	57,651	58,117	0.40
Illinois	649,219	....	662,757	662,757	669,492	4.61
Indiana	264,026	....	264,759	264,759	264,838	1.82
Iowa	84,247	....	89,710	89,710	90,415	0.62
Kansas	106,197	....	103,395	103,395	103,106	0.71
Kentucky	221,012	....	221,854	221,854	221,692	1.53
Louisiana	288,746	....	294,931	294,931	294,750	2.03
Maine	51,753	....	51,498	51,498	51,286	0.35
Maryland	189,937	....	196,409	196,409	199,587	1.37
Massachusetts	210,778	....	218,130	218,130	219,449	1.51
Michigan	538,112	....	534,774	534,774	529,391	3.65
Minnesota	157,517	....	152,208	152,208	150,938	1.04
Mississippi	188,747	....	182,322	182,322	179,278	1.23
Missouri	233,377	....	237,617	237,617	236,646	1.63
Montana	45,166	....	44,558	44,558	44,317	0.31
Nebraska	70,015	....	67,453	67,453	67,926	0.47
Nevada	106,495	....	110,784	110,784	112,809	0.78
New Hampshire	39,232	....	40,987	40,987	40,987	0.28
New Jersey	302,806	....	290,470	290,470	290,416	2.00
New Mexico	119,524	....	119,679	119,679	119,371	0.82
New York	1,132,022	....	1,122,226	1,122,226	1,105,596	7.62
North Carolina	399,659	....	404,282	404,282	407,996	2.81
North Dakota	35,556	....	33,600	33,600	33,559	0.23
Ohio	588,309	....	577,626	577,626	575,566	3.96
Oklahoma	161,487	....	152,222	152,222	150,106	1.03
Oregon	146,694	....	155,302	155,302	156,098	1.08
Pennsylvania	574,504	....	558,289	558,289	557,944	3.84
Rhode Island	49,141	....	49,681	49,681	49,475	0.34
South Carolina	214,969	....	220,043	220,043	222,138	1.53
South Dakota	43,595	....	42,677	42,677	42,676	0.29
Tennessee	280,706	....	278,582	278,582	279,577	1.93
Texas	1,386,573	....	1,380,824	1,380,824	1,386,784	9.55
Utah	93,205	....	91,670	91,670	92,648	0.64
Vermont	34,501	....	33,112	33,112	33,112	0.23
Virginia	230,018	....	237,638	237,638	238,362	1.64
Washington	213,060	....	213,541	213,541	213,855	1.47
West Virginia	94,601	....	95,099	95,099	95,216	0.66
Wisconsin	228,653	....	217,905	217,905	215,417	1.48
Wyoming	33,628	....	33,636	33,636	33,636	0.23
American Samoa	11,140	....	10,668	10,668	10,782	0.07
Guam	11,759	....	13,683	13,683	13,829	0.10
Northern Mariana Islands	4,047	....	6,448	6,448	6,517	0.04
Puerto Rico	481,385	....	458,479	458,479	440,406	3.03
Freely Associated States	....	....	....	....	....	....
Virgin Islands	14,970	....	13,473	13,473	12,125	0.08
Indian Tribes	98,209	....	95,852	95,852	96,872	0.67
Undistributed	....	....	[1] 22,493	22,493	....	....
Other Non-State Allocations	8,984	....	8,984	8,984	9,000	0.06
Total	**14,516,457**	**........**	**14,538,951**	**14,538,951**	**14,516,457**	**[2] 100.00**

[1] 2013 includes an undistributed 0.612 percent across-the-board increase provided by P.L. 112–175.

[2] Excludes undistributed obligations.

Department of Education, Office of Elementary and Secondary Education **91-1000-0-1-501**

Table 17–11. IMPROVING TEACHER QUALITY STATE GRANTS (84.367)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	38,660	....	38,556	38,556	....	....
Alaska	11,494	....	11,451	11,451	....	....
Arizona	38,321	....	38,661	38,661	....	....
Arkansas	23,383	....	23,360	23,360	....	....
California	270,254	....	270,091	270,091	....	....
Colorado	27,122	....	27,137	27,137	....	....
Connecticut	22,557	....	22,681	22,681	....	....
Delaware	11,494	....	11,451	11,451	....	....
District of Columbia	11,494	....	11,451	11,451	....	....
Florida	109,848	....	110,125	110,125	....	....
Georgia	64,203	....	64,484	64,484	....	....
Hawaii	11,494	....	11,451	11,451	....	....
Idaho	11,494	....	11,520	11,520	....	....
Illinois	98,761	....	99,039	99,039	....	....
Indiana	41,589	....	41,583	41,583	....	....
Iowa	18,836	....	18,880	18,880	....	....
Kansas	19,285	....	19,243	19,243	....	....
Kentucky	37,817	....	37,849	37,849	....	....
Louisiana	54,187	....	54,336	54,336	....	....
Maine	11,494	....	11,451	11,451	....	....
Maryland	34,863	....	34,900	34,900	....	....
Massachusetts	43,678	....	43,772	43,772	....	....
Michigan	95,607	....	95,584	95,584	....	....
Minnesota	33,022	....	32,908	32,908	....	....
Mississippi	35,697	....	35,610	35,610	....	....
Missouri	41,652	....	41,759	41,759	....	....
Montana	11,494	....	11,451	11,451	....	....
Nebraska	11,771	....	11,728	11,728	....	....
Nevada	12,431	....	12,481	12,481	....	....
New Hampshire	11,494	....	11,451	11,451	....	....
New Jersey	54,956	....	54,788	54,788	....	....
New Mexico	19,147	....	19,127	19,127	....	....
New York	195,518	....	195,690	195,690	....	....
North Carolina	53,878	....	53,874	53,874	....	....
North Dakota	11,494	....	11,451	11,451	....	....
Ohio	90,809	....	90,684	90,684	....	....
Oklahoma	27,960	....	27,777	27,777	....	....
Oregon	23,566	....	23,673	23,673	....	....
Pennsylvania	98,149	....	97,884	97,884	....	....
Rhode Island	11,494	....	11,451	11,451	....	....
South Carolina	30,488	....	30,603	30,603	....	....
South Dakota	11,494	....	11,451	11,451	....	....
Tennessee	41,694	....	41,641	41,641	....	....
Texas	200,180	....	200,215	200,215	....	....
Utah	16,138	....	16,089	16,089	....	....
Vermont	11,494	....	11,451	11,451	....	....
Virginia	43,067	....	43,196	43,196	....	....
Washington	39,718	....	39,695	39,695	....	....
West Virginia	20,418	....	20,404	20,404	....	....
Wisconsin	39,886	....	39,663	39,663	....	....
Wyoming	11,494	....	11,451	11,451	....	....
American Samoa	2,845	....	2,830	2,830	....	....
Guam	4,374	....	4,713	4,713	....	....
Northern Mariana Islands	1,360	....	1,744	1,744	....	....
Puerto Rico	74,162	....	73,993	73,993	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	3,692	....	2,985	2,985	....	....
Indian Tribes	12,271	....	12,271	12,271	....	....
Undistributed	....	....	[1] 4,805	4,805	....	....
Other Non-State Allocations	49,331	....	49,331	49,331	....	....
Total	**2,466,573**	....	**2,471,374**	**2,471,374**	....	....

[1] 2013 includes an undistributed 0.612 percent across-the-board increase provided by P.L. 112-175.

Department of Education, Office of Elementary and Secondary Education **91-0204-0-1-501**

Table 17–12. EFFECTIVE TEACHERS AND LEADERS STATE GRANTS

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from:			FY 2014 (estimated)	FY 2014 Percentage of distributed total
		Previous authority	2013 CR or New Authority	Total		
Alabama	....	....	....	....	28,817	1.17
Alaska	....	....	....	....	8,558	0.35
Arizona	....	....	....	....	28,894	1.17
Arkansas	....	....	....	....	17,459	0.71
California	....	....	....	....	201,862	8.18
Colorado	....	....	....	....	20,282	0.82
Connecticut	....	....	....	....	16,952	0.69
Delaware	....	....	....	....	8,558	0.35
District of Columbia	....	....	....	....	8,558	0.35
Florida	....	....	....	....	82,305	3.34
Georgia	....	....	....	....	48,194	1.95
Hawaii	....	....	....	....	8,558	0.35
Idaho	....	....	....	....	8,610	0.35
Illinois	....	....	....	....	74,020	3.00
Indiana	....	....	....	....	31,078	1.26
Iowa	....	....	....	....	14,111	0.57
Kansas	....	....	....	....	14,382	0.58
Kentucky	....	....	....	....	28,288	1.15
Louisiana	....	....	....	....	40,610	1.65
Maine	....	....	....	....	8,558	0.35
Maryland	....	....	....	....	26,084	1.06
Massachusetts	....	....	....	....	32,714	1.33
Michigan	....	....	....	....	71,438	2.90
Minnesota	....	....	....	....	24,595	1.00
Mississippi	....	....	....	....	26,614	1.08
Missouri	....	....	....	....	31,210	1.27
Montana	....	....	....	....	8,558	0.35
Nebraska	....	....	....	....	8,765	0.36
Nevada	....	....	....	....	9,328	0.38
New Hampshire	....	....	....	....	8,558	0.35
New Jersey	....	....	....	....	40,948	1.66
New Mexico	....	....	....	....	14,295	0.58
New York	....	....	....	....	146,256	5.93
North Carolina	....	....	....	....	40,265	1.63
North Dakota	....	....	....	....	8,558	0.35
Ohio	....	....	....	....	67,775	2.75
Oklahoma	....	....	....	....	20,760	0.84
Oregon	....	....	....	....	17,693	0.72
Pennsylvania	....	....	....	....	73,157	2.97
Rhode Island	....	....	....	....	8,558	0.35
South Carolina	....	....	....	....	22,872	0.93
South Dakota	....	....	....	....	8,558	0.35
Tennessee	....	....	....	....	31,122	1.26
Texas	....	....	....	....	149,638	6.07
Utah	....	....	....	....	12,024	0.49
Vermont	....	....	....	....	8,558	0.35
Virginia	....	....	....	....	32,284	1.31
Washington	....	....	....	....	29,667	1.20
West Virginia	....	....	....	....	15,250	0.62
Wisconsin	....	....	....	....	29,644	1.20
Wyoming	....	....	....	....	8,558	0.35
American Samoa	....	....	....	....	3,336	0.14
Guam	....	....	....	....	4,599	0.19
Northern Mariana Islands	....	....	....	....	2,123	0.09
Puerto Rico	....	....	....	....	55,301	2.24
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	2,274	0.09
Indian Tribes	....	....	....	....	12,333	0.50
Undistributed	....	....	....	....	....	....
Other Non-State Allocations	....	....	....	....	653,640	26.50
Total	**.........**	**.........**	**.........**	**.........**	**2,466,564**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Education, Office of Special Education and Rehabilitative Services **91-0301-0-1-506**

Table 17–13. VOCATIONAL REHABILITATION GRANTS (84.126)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from:			FY 2014 (estimated)	FY 2014 Percentage of distributed total
		Previous authority	2013 CR or New Authority	Total		
Alabama	54,912	....	63,443	63,443	63,821	1.93
Alaska	11,479	....	10,639	10,639	10,939	0.33
Arizona	62,823	....	65,635	65,635	69,628	2.11
Arkansas	44,874	....	39,130	39,130	39,431	1.19
California	294,858	....	306,588	306,588	322,105	9.75
Colorado	40,548	....	42,329	42,329	44,087	1.34
Connecticut	32,287	....	21,884	21,884	22,184	0.67
Delaware	10,779	....	10,639	10,639	10,939	0.33
District of Columbia	12,859	....	14,028	14,028	14,345	0.43
Florida	139,415	....	176,230	176,230	185,087	5.61
Georgia	98,771	....	107,691	107,691	111,485	3.38
Hawaii	12,885	....	12,210	12,210	12,510	0.38
Idaho	16,264	....	18,721	18,721	19,412	0.59
Illinois	111,622	....	115,009	115,009	117,074	3.55
Indiana	62,188	....	78,768	78,768	79,573	2.41
Iowa	25,630	....	34,229	34,229	34,530	1.05
Kansas	28,478	....	29,409	29,409	29,746	0.90
Kentucky	46,150	....	58,766	58,766	59,111	1.79
Louisiana	35,543	....	56,281	56,281	56,641	1.72
Maine	16,608	....	16,387	16,387	16,687	0.51
Maryland	47,259	....	42,700	42,700	43,160	1.31
Massachusetts	62,794	....	49,082	49,082	49,601	1.50
Michigan	104,509	....	116,045	116,045	117,432	3.56
Minnesota	48,252	....	49,723	49,723	50,144	1.52
Mississippi	44,516	....	44,233	44,233	44,533	1.35
Missouri	65,513	....	68,665	68,665	69,447	2.10
Montana	13,478	....	11,953	11,953	12,253	0.37
Nebraska	19,872	....	19,183	19,183	19,483	0.59
Nevada	12,437	....	23,133	23,133	25,979	0.79
New Hampshire	11,880	....	11,878	11,878	12,178	0.37
New Jersey	57,356	....	59,688	59,688	60,995	1.85
New Mexico	23,957	....	25,658	25,658	25,959	0.79
New York	147,634	....	151,137	151,137	152,671	4.62
North Carolina	106,173	....	110,284	110,284	113,008	3.42
North Dakota	12,127	....	10,639	10,639	10,939	0.33
Ohio	96,890	....	136,727	136,727	137,637	4.17
Oklahoma	44,257	....	44,675	44,675	45,111	1.37
Oregon	39,356	....	40,861	40,861	41,967	1.27
Pennsylvania	121,561	....	135,269	135,269	136,273	4.13
Rhode Island	13,019	....	10,754	10,754	11,054	0.33
South Carolina	56,012	....	59,347	59,347	60,523	1.83
South Dakota	10,592	....	10,639	10,639	10,939	0.33
Tennessee	65,913	....	77,102	77,102	77,607	2.35
Texas	238,193	....	253,092	253,092	256,711	7.77
Utah	36,873	....	32,320	32,320	33,655	1.02
Vermont	16,079	....	10,639	10,639	10,939	0.33
Virginia	71,532	....	69,234	69,234	69,872	2.12
Washington	54,274	....	56,581	56,581	58,606	1.77
West Virginia	43,245	....	27,469	27,469	27,770	0.84
Wisconsin	55,648	....	63,397	63,397	63,848	1.93
Wyoming	9,255	....	10,639	10,639	10,939	0.33
American Samoa	959	....	987	987	1,018	0.03
Guam	2,900	....	2,980	2,980	3,020	0.09
Northern Mariana Islands	752	....	888	888	901	0.03
Puerto Rico	72,425	....	74,019	74,019	74,319	2.25
Freely Associated States	....	....	....	....	....	....
Virgin Islands	1,979	....	2,112	2,112	2,140	0.06

Department of Education, Office of Special Education and Rehabilitative Services **91-0301-0-1-506**

Table 17–13. VOCATIONAL REHABILITATION GRANTS (84.126)—Continued

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	Estimated FY 2013 obligations from: 2013 CR or New Authority	Estimated FY 2013 obligations from: Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Indian Tribes	37,898	....	39,224	39,224	40,087	1.21
Undistributed	[1] 95,370	....	....	....	....	....
Total	**3,121,712**	**.........**	**3,230,972**	**3,230,972**	**3,302,053**	**[2] 100.00**

NOTE: In the FY 2014 request, the Administration is proposing to eliminate separate funding authorities for the smaller vocational rehabilitation related programs under the Rehabilitation Act. To lessen the potential impact of the Administration's proposal on States, the request includes language that would ensure that no State's fiscal year 2014 allocation under the Vocational Rehabilitation State Grants program would be less than the total amount allocated to a State under the distribution formulas for the VR State grants program and the Supported Employment State Grants program for fiscal year 2013.

[1] The fiscal year 2012 appropriations bill included language that allows the Secretary to use amounts that remain available subsequent to the reallotment of funds to States under the VR State Grants program pursuant to section 110(b) of the Rehabilitation Act for improving the education and employment outcomes of children receiving SSI and their families. In fiscal year 2013, these funds, which remain available for Federal obligation until September 30, 2013, will be used to support State model demonstration projects under the Promoting Readiness of Minors in Social Security Income (PROMISE) pilot program.

[2] Excludes undistributed obligations.

Department of Education, Office of Special Education and Rehabilitative Services **91-0300**

Table 17–14. SPECIAL EDUCATION-GRANTS TO STATES (84.027)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from:			FY 2014 (estimated)	FY 2014 Percentage of distributed total
		Previous authority	2013 CR or New Authority	Total		
Alabama	181,562	....	181,562	181,562	181,562	1.57
Alaska	36,472	....	36,472	36,472	36,472	0.32
Arizona	188,006	....	188,006	188,006	188,006	1.62
Arkansas	111,980	....	111,980	111,980	111,980	0.97
California	1,224,662	....	1,224,662	1,224,662	1,224,662	10.58
Colorado	154,234	....	154,234	154,234	154,234	1.33
Connecticut	132,768	....	132,768	132,768	132,768	1.15
Delaware	34,446	....	34,446	34,446	34,446	0.30
District of Columbia	17,320	....	17,320	17,320	17,320	0.15
Florida	631,152	....	631,152	631,152	631,152	5.45
Georgia	328,078	....	328,078	328,078	328,078	2.83
Hawaii	39,852	....	39,852	39,852	39,852	0.34
Idaho	55,222	....	55,222	55,222	55,222	0.48
Illinois	505,652	....	505,652	505,652	505,652	4.37
Indiana	257,576	....	257,576	257,576	257,576	2.22
Iowa	121,910	....	121,910	121,910	121,910	1.05
Kansas	104,506	....	106,692	106,692	106,692	0.92
Kentucky	157,888	....	157,888	157,888	157,888	1.36
Louisiana	188,962	....	188,962	188,962	188,962	1.63
Maine	54,642	....	54,642	54,642	54,642	0.47
Maryland	199,916	....	199,916	199,916	199,916	1.73
Massachusetts	283,466	....	283,466	283,466	283,466	2.45
Michigan	399,884	....	399,884	399,884	399,884	3.45
Minnesota	189,532	....	189,532	189,532	189,532	1.64
Mississippi	119,980	....	119,980	119,980	119,980	1.04
Missouri	226,830	....	226,830	226,830	226,830	1.96
Montana	37,222	....	37,222	37,222	37,222	0.32
Nebraska	74,564	....	74,564	74,564	74,564	0.64
Nevada	70,702	....	70,702	70,702	70,702	0.61
New Hampshire	47,390	....	47,390	47,390	47,390	0.41
New Jersey	360,946	....	360,946	360,946	360,946	3.12
New Mexico	91,006	....	91,006	91,006	91,006	0.79
New York	758,002	....	758,002	758,002	758,002	6.55
North Carolina	326,078	....	326,078	326,078	326,078	2.82
North Dakota	27,970	....	27,970	27,970	27,970	0.24
Ohio	436,958	....	436,958	436,958	436,958	3.77
Oklahoma	147,674	....	147,674	147,674	147,674	1.28
Oregon	128,760	....	128,760	128,760	128,760	1.11
Pennsylvania	426,428	....	426,428	426,428	426,428	3.68
Rhode Island	43,668	....	43,668	43,668	43,668	0.38
South Carolina	140,626	....	176,828	176,828	176,828	1.53
South Dakota	33,320	....	33,320	33,320	33,320	0.29
Tennessee	236,470	....	236,470	236,470	236,470	2.04
Texas	980,678	....	980,678	980,678	980,678	8.47
Utah	109,454	....	109,454	109,454	109,454	0.95
Vermont	26,968	....	26,968	26,968	26,968	0.23
Virginia	281,476	....	281,476	281,476	281,476	2.43
Washington	220,954	....	220,954	220,954	220,954	1.91
West Virginia	75,838	....	75,838	75,838	75,838	0.66
Wisconsin	207,862	....	207,862	207,862	207,862	1.80
Wyoming	28,292	....	28,292	28,292	28,292	0.24
American Samoa	6,358	....	6,358	6,358	6,358	0.05
Guam	14,098	....	14,098	14,098	14,098	0.12
Northern Mariana Islands	4,832	....	4,832	4,832	4,832	0.04
Puerto Rico	114,924	....	114,924	114,924	114,924	0.99
Freely Associated States	6,580	....	6,580	6,580	6,580	0.06

Department of Education, Office of Special Education and Rehabilitative Services **91-0300**

Table 17–14. SPECIAL EDUCATION-GRANTS TO STATES (84.027)—Continued

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Virgin Islands	8,960	....	8,960	8,960	8,960	0.08
Indian Tribes	92,910	....	92,910	92,910	92,910	0.80
Undistributed	38,390	....	[2] 70,856	70,856	....	....
Technical Assistance Set Aside	25,000	....	25,000	25,000	25,000	0.22
Total	**[1] 11,577,856**	**.........**	**11,648,710**	**11,648,710**	**11,577,854**	**[3] 100.00**

* $500 or less or 0.005 percent or less.

NOTE: Assumes that the amount by which a State's allocation under section 611(d) of the IDEA was reduced under section 612(a)(18)(B) in fiscal year 2012 will not be considered in calculating the awards under section 611(d) for fiscal years 2013 and 2014.

NOTE: Totals do not reflect reductions in awards made pursuant to 20 U.S.C. 1412(a)(18)(B) for fiscal years 2013 and 2014.

[1] Reflects reductions to South Carolina and Kansas under section 612(a)(18)(B).

[2] Fiscal year 2013 includes an undistributed 0.612 percent across-the-board increase provided by P.L. 112-175.

[3] Excludes undistributed obligations.

Department of Health and Human Services, Centers for Medicare and Medicaid Services **75-0515-0-1-551**

Table 17–15. CHILDREN'S HEALTH INSURANCE PROGRAM (93.767)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	168,108	....	162,846	162,846	169,269	1.82
Alaska	21,005	....	20,558	20,558	21,369	0.23
Arizona	64,635	....	25,392	25,392	26,393	0.28
Arkansas	95,364	....	103,118	103,118	107,185	1.15
California	1,314,260	....	1,296,015	1,296,015	1,347,135	14.48
Colorado	130,420	....	131,841	131,841	137,666	1.48
Connecticut	32,686	....	41,328	41,328	42,959	0.46
Delaware	14,162	....	15,738	15,738	16,359	0.18
District of Columbia	12,611	....	14,867	14,867	15,920	0.17
Florida	339,812	....	359,047	359,047	373,209	4.01
Georgia	250,874	....	282,709	282,709	294,317	3.16
Hawaii	34,803	....	25,809	25,809	26,872	0.29
Idaho	37,945	....	35,957	35,957	37,376	0.40
Illinois	285,132	....	275,566	275,566	286,435	3.08
Indiana	98,664	....	144,858	144,858	150,572	1.62
Iowa	115,252	....	92,496	92,496	96,144	1.03
Kansas	58,771	....	55,399	55,399	57,584	0.62
Kentucky	135,474	....	147,886	147,886	153,719	1.65
Louisiana	195,190	....	171,875	171,875	178,906	1.92
Maine	37,038	....	31,479	31,479	32,720	0.35
Maryland	176,289	....	160,475	160,475	166,804	1.79
Massachusetts	330,784	....	330,876	330,876	343,927	3.70
Michigan	126,248	....	54,797	54,797	56,958	0.61
Minnesota	21,392	....	32,082	32,082	33,347	0.36
Mississippi	167,658	....	176,877	176,877	183,854	1.98
Missouri	117,629	....	122,948	122,948	127,797	1.37
Montana	40,144	....	59,390	59,390	61,733	0.66
Nebraska	50,106	....	42,464	42,464	44,248	0.48
Nevada	25,129	....	31,454	31,454	32,695	0.35
New Hampshire	13,380	....	18,195	18,195	18,913	0.20
New Jersey	618,026	....	640,184	640,184	665,436	7.15
New Mexico	258,655	....	124,226	124,226	129,553	1.39
New York	556,754	....	579,751	579,751	602,619	6.48
North Carolina	401,229	....	304,201	304,201	316,911	3.41
North Dakota	16,064	....	17,311	17,311	18,151	0.20
Ohio	290,093	....	336,051	336,051	349,306	3.75
Oklahoma	126,870	....	114,193	114,193	119,403	1.28
Oregon	95,355	....	143,895	143,895	149,571	1.61
Pennsylvania	335,890	....	305,718	305,718	317,776	3.41
Rhode Island	31,669	....	39,507	39,507	41,065	0.44
South Carolina	102,467	....	98,283	98,283	102,340	1.10
South Dakota	21,119	....	19,438	19,438	20,259	0.22
Tennessee	145,620	....	200,235	200,235	208,133	2.24
Texas	882,578	....	891,518	891,518	936,060	10.06
Utah	67,820	....	62,494	62,494	65,511	0.70
Vermont	6,934	....	13,037	13,037	13,551	0.15
Virginia	184,004	....	186,576	186,576	194,039	2.08
Washington	47,620	....	96,942	96,942	101,067	1.09
West Virginia	43,069	....	48,276	48,276	50,180	0.54
Wisconsin	107,215	....	103,003	103,003	107,066	1.15
Wyoming	10,443	....	10,764	10,764	11,188	0.12
American Samoa	1,253	....	1,302	1,302	1,353	0.01
Guam	4,360	....	4,532	4,532	4,711	0.05
Northern Mariana Islands	899	....	934	934	971	0.01
Puerto Rico	103,911	....	132,659	132,659	137,892	1.48
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	6,011,118	....	8,466,628	8,466,628	9,840,503	....
Total	**14,982,000**	**........**	**17,406,000**	**17,406,000**	**19,147,000**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Centers for Medicare and Medicaid Services **75-0512-0-1-551**

Table 17–16. GRANTS TO STATES FOR MEDICAID (93.778)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from:			FY 2014 (estimated)	FY 2014 Percentage of distributed total
		Previous authority	2013 CR or New Authority	Total		
Alabama	4,449,073	....	3,868,295	3,868,295	3,948,547	1.36
Alaska	923,647	....	903,464	903,464	960,342	0.33
Arizona	5,791,413	....	6,012,030	6,012,030	6,061,532	2.09
Arkansas	3,558,608	....	3,228,304	3,228,304	3,393,627	1.17
California	28,047,760	....	33,038,381	33,038,381	30,050,657	10.38
Colorado	2,521,861	....	2,688,130	2,688,130	2,639,248	0.91
Connecticut	3,359,024	....	3,305,323	3,305,323	3,901,442	1.35
Delaware	874,890	....	867,722	867,722	895,073	0.31
District of Columbia	1,559,468	....	1,650,505	1,650,505	1,773,318	0.61
Florida	10,834,635	....	11,726,955	11,726,955	12,553,752	4.34
Georgia	6,153,684	....	5,903,411	5,903,411	5,885,947	2.03
Hawaii	834,588	....	841,897	841,897	881,108	0.30
Idaho	1,177,221	....	1,313,436	1,313,436	1,357,615	0.47
Illinois	7,111,553	....	7,342,706	7,342,706	7,329,626	2.53
Indiana	5,205,355	....	5,046,072	5,046,072	5,607,615	1.94
Iowa	2,156,259	....	2,305,914	2,305,914	2,349,613	0.81
Kansas	1,649,795	....	1,643,190	1,643,190	1,662,046	0.57
Kentucky	4,334,765	....	4,330,106	4,330,106	4,587,818	1.59
Louisiana	5,246,734	....	4,600,044	4,600,044	4,588,703	1.59
Maine	1,618,018	....	1,543,487	1,543,487	1,533,151	0.53
Maryland	3,968,555	....	4,257,845	4,257,845	4,369,226	1.51
Massachusetts	7,041,214	....	7,195,771	7,195,771	7,316,268	2.53
Michigan	8,889,577	....	9,109,191	9,109,191	9,310,739	3.22
Minnesota	4,679,605	....	4,815,169	4,815,169	5,237,487	1.81
Mississippi	3,799,483	....	3,819,220	3,819,220	3,466,530	1.20
Missouri	5,827,091	....	5,815,956	5,815,956	6,008,470	2.08
Montana	687,618	....	719,753	719,753	748,641	0.26
Nebraska	1,085,993	....	1,083,170	1,083,170	1,104,948	0.38
Nevada	1,071,192	....	1,133,066	1,133,066	1,213,247	0.42
New Hampshire	666,780	....	687,387	687,387	716,723	0.25
New Jersey	5,736,239	....	5,956,958	5,956,958	7,395,361	2.55
New Mexico	2,675,871	....	2,700,195	2,700,195	2,909,675	1.01
New York	28,391,280	....	32,993,896	32,993,896	34,495,561	11.92
North Carolina	8,576,362	....	8,714,029	8,714,029	9,244,891	3.19
North Dakota	462,176	....	460,383	460,383	458,357	0.16
Ohio	10,734,663	....	11,630,374	11,630,374	12,474,987	4.31
Oklahoma	3,127,782	....	3,304,601	3,304,601	3,438,048	1.19
Oregon	3,080,954	....	3,410,220	3,410,220	4,175,639	1.44
Pennsylvania	11,918,827	....	11,800,286	11,800,286	12,163,757	4.20
Rhode Island	1,133,514	....	1,103,400	1,103,400	1,167,380	0.40
South Carolina	3,422,344	....	3,514,267	3,514,267	3,521,016	1.22
South Dakota	505,288	....	502,410	502,410	513,761	0.18
Tennessee	6,387,082	....	6,779,258	6,779,258	7,385,036	2.55
Texas	17,541,559	....	20,831,020	20,831,020	20,872,459	7.21
Utah	1,507,169	....	1,410,720	1,410,720	1,491,614	0.52
Vermont	828,055	....	934,525	934,525	920,321	0.32
Virginia	3,745,735	....	4,054,732	4,054,732	4,266,901	1.47
Washington	4,723,818	....	4,372,927	4,372,927	4,922,824	1.70
West Virginia	2,194,989	....	2,308,223	2,308,223	2,260,244	0.78
Wisconsin	4,636,985	....	4,705,262	4,705,262	4,620,878	1.60
Wyoming	148,215	....	313,461	313,461	308,134	0.11
American Samoa	9,901	....	12,224	12,224	12,224	*
Guam	14,640	....	24,994	24,994	24,749	0.01
Northern Mariana Islands	5,047	....	17,118	17,118	17,118	0.01
Puerto Rico	333,505	....	1,025,547	1,025,547	1,058,182	0.37
Freely Associated States	....	....	....	....	....	....
Virgin Islands	16,312	....	42,677	42,677	42,677	0.01
Indian Tribes	....	....	....	....	....	....
Undistributed	7,812,117	....	(11,214,582)	(11,214,582)	17,259,595	....
Survey and Certification	207,628	....	230,280	230,280	240,600	0.08
Vaccines For Children	4,000,453	....	3,607,256	3,607,256	4,293,383	1.48
Fraud Control Units	215,973	....	222,201	222,201	226,067	0.08
Medicare Part B premiums	602,303	....	645,000	645,000	705,000	0.24
Incurred But Not Reported	1,091,446	....	1,959,000	1,959,000	2,369,000	0.82
Total	**270,913,691**	**........**	**269,168,762**	**269,168,762**	**306,708,498**	**[1] 100.00**

* $500 or less or 0.005 percent or less.

[1] Excludes undistributed obligations.

Department of Health and Human Services, Centers for Medicare and Medicaid Services **75-0115-0-1-551**

Table 17–17. AFFORDABLE INSURANCE EXCHANGE GRANTS (93.525)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	8,772	....	....	....	....	....
Alaska	....	....	....	....	....	....
Arizona	29,877	....	....	....	....	....
Arkansas	26,461	....	....	....	....	....
California	196,480	....	673,705	673,705	....	....
Colorado	61,438	....	....	....	....	....
Connecticut	108,900	....	2,141	2,141	....	....
Delaware	3,400	....	8,537	8,537	....	....
District of Columbia	72,985	....	....	....	....	....
Florida	....	....	....	....	....	....
Georgia	....	....	....	....	....	....
Hawaii	76,256	....	....	....	....	....
Idaho	20,377	....	....	....	....	....
Illinois	32,861	....	....	....	....	....
Indiana	....	....	....	....	....	....
Iowa	34,377	....	6,845	6,845	....	....
Kansas	....	....	....	....	....	....
Kentucky	62,320	....	182,708	182,708	....	....
Louisiana	....	....	....	....	....	....
Maine	5,878	....	....	....	....	....
Maryland	123,049	....	....	....	....	....
Massachusetts	62,219	....	80,226	80,226	....	....
Michigan	9,849	....	30,668	30,668	....	....
Minnesota	68,675	....	39,326	39,326	....	....
Mississippi	....	....	....	....	....	....
Missouri	....	....	....	....	....	....
Montana	....	....	....	....	....	....
Nebraska	5,482	....	....	....	....	....
Nevada	69,709	....	....	....	....	....
New Hampshire	....	....	894	894	....	....
New Jersey	7,897	....	....	....	....	....
New Mexico	34,279	....	....	....	....	....
New York	143,971	....	185,822	185,822	....	....
North Carolina	....	....	73,961	73,961	....	....
North Dakota	....	....	....	....	....	....
Ohio	....	....	....	....	....	....
Oklahoma	....	....	....	....	....	....
Oregon	8,878	....	238,263	238,263	....	....
Pennsylvania	33,832	....	....	....	....	....
Rhode Island	58,516	....	9,251	9,251	....	....
South Carolina	....	....	....	....	....	....
South Dakota	5,880	....	....	....	....	....
Tennessee	8,110	....	....	....	....	....
Texas	....	....	....	....	....	....
Utah	....	....	1,000	1,000	....	....
Vermont	126,786	....	2,168	2,168	....	....
Virginia	....	....	4,320	4,320	....	....
Washington	127,852	....	....	....	....	....
West Virginia	....	....	....	....	....	....
Wisconsin	....	....	....	....	....	....
Wyoming	....	....	....	....	....	....
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	[1] 1,160,165	1,160,165	[2] 1,292,000	....
Total	**1,635,366**	....	**2,700,000**	**2,700,000**	**1,292,000**	**[3] 100.00**

[1] Exchange Grants are distributed based on state grant applications and reflect individual states needs for establishing Exchanges. Current totals show grants awarded through February 2013.

[2] Funding awards are based on applications, so the award amount per State cannot be predicted.

[3] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families 75-1552-0-1-609

Table 17–18. TEMPORARY ASSITANCE FOR NEEDY FAMILIES (TANF)-FAMILY ASSISTANCE GRANTS (93.558)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	93,315	....	93,315	93,315	93,315	0.55
Alaska	45,260	....	46,733	46,733	46,733	0.27
Arizona	217,660	....	201,384	201,384	201,384	1.18
Arkansas	61,699	....	56,733	56,733	56,733	0.33
California	3,659,390	....	3,663,130	3,663,130	3,663,130	21.47
Colorado	147,966	....	136,057	136,057	136,057	0.80
Connecticut	266,788	....	266,788	266,788	266,788	1.56
Delaware	32,291	....	32,291	32,291	32,291	0.19
District of Columbia	100,716	....	92,610	92,610	92,610	0.54
Florida	562,340	....	562,340	562,340	562,340	3.30
Georgia	330,742	....	330,742	330,742	330,742	1.94
Hawaii	107,562	....	98,905	98,905	98,905	0.58
Idaho	30,413	....	30,413	30,413	30,413	0.18
Illinois	585,057	....	585,057	585,057	585,057	3.43
Indiana	206,799	....	206,799	206,799	206,799	1.21
Iowa	131,030	....	130,994	130,994	130,994	0.77
Kansas	101,931	....	101,931	101,931	101,931	0.60
Kentucky	181,288	....	181,288	181,288	181,288	1.06
Louisiana	163,972	....	163,972	163,972	163,972	0.96
Maine	78,121	....	78,121	78,121	78,121	0.46
Maryland	249,151	....	229,098	229,098	229,098	1.34
Massachusetts	499,580	....	459,371	459,371	459,371	2.69
Michigan	843,220	....	775,353	775,353	775,353	4.55
Minnesota	263,434	....	263,434	263,434	263,434	1.54
Mississippi	86,768	....	86,768	86,768	86,768	0.51
Missouri	236,050	....	217,052	217,052	217,052	1.27
Montana	38,039	....	38,039	38,039	38,039	0.22
Nebraska	57,105	....	57,514	57,514	57,514	0.34
Nevada	43,908	....	43,908	43,908	43,908	0.26
New Hampshire	38,521	....	38,521	38,521	38,521	0.23
New Jersey	417,164	....	404,035	404,035	404,035	2.37
New Mexico	120,291	....	110,578	110,578	110,578	0.65
New York	2,656,762	....	2,442,931	2,442,931	2,442,931	14.32
North Carolina	328,695	....	302,240	302,240	302,240	1.77
North Dakota	26,400	....	26,400	26,400	26,400	0.15
Ohio	727,968	....	727,968	727,968	727,968	4.27
Oklahoma	145,281	....	145,860	145,860	145,860	0.86
Oregon	181,427	....	166,799	166,799	166,799	0.98
Pennsylvania	719,499	....	719,499	719,499	719,499	4.22
Rhode Island	95,022	....	95,022	95,022	95,022	0.56
South Carolina	108,718	....	99,968	99,968	99,968	0.59
South Dakota	21,280	....	21,280	21,280	21,280	0.12
Tennessee	208,288	....	191,524	191,524	191,524	1.12
Texas	528,819	....	486,257	486,257	486,257	2.85
Utah	82,228	....	75,609	75,609	75,609	0.44
Vermont	47,353	....	47,353	47,353	47,353	0.28
Virginia	158,285	....	158,285	158,285	158,285	0.93
Washington	414,278	....	380,954	380,954	380,954	2.23
West Virginia	110,176	....	110,176	110,176	110,176	0.65
Wisconsin	342,029	....	314,499	314,499	314,499	1.84
Wyoming	18,501	....	18,501	18,501	18,501	0.11
American Samoa	....	....	....	....	....	....
Guam	3,327	....	3,465	3,465	3,465	0.02
Northern Mariana Islands	....	....	....	....	....	..
Puerto Rico	68,937	....	71,563	71,563	71,563	0.42
Freely Associated States	....	....	....	....	....	....
Virgin Islands	2,847	....	2,847	2,847	2,847	0.02
Indian Tribes	181,679	....	174,273	174,273	174,273	1.02
Undistributed	....	....	....	....	....	....
Discretionary Funds	149,907	....	150,000	150,000	150,000	0.88
Other	7,535	....	22,633	22,633	342,083	2.01
Total	**17,332,812**	**........**	**16,739,180**	**16,739,180**	**17,058,630**	**[1] 100.00**

[1] Excludes undistributed obligations.

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Table 17–19. CHILD SUPPORT ENFORCEMENT-FEDERAL SHARE OF STATE AND LOCAL ADMINISTRATIVE COSTS AND INCENTIVES (93.563)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	46,957	....	48,491	48,491	49,299	1.14
Alaska	19,014	....	19,635	19,635	19,962	0.46
Arizona	47,360	....	48,907	48,907	49,721	1.15
Arkansas	35,318	....	36,472	36,472	37,079	0.85
California	583,157	....	602,210	602,210	612,236	14.11
Colorado	53,522	....	55,271	55,271	56,191	1.29
Connecticut	45,079	....	46,552	46,552	47,327	1.09
Delaware	32,361	....	33,419	33,419	33,975	0.78
District of Columbia	18,417	....	19,018	19,018	19,335	0.45
Florida	205,024	....	211,722	211,722	215,247	4.96
Georgia	74,812	....	77,256	77,256	78,542	1.81
Hawaii	13,577	....	14,020	14,020	14,254	0.33
Idaho	16,149	....	16,677	16,677	16,955	0.39
Illinois	135,566	....	139,995	139,995	142,326	3.28
Indiana	83,803	....	86,541	86,541	87,982	2.03
Iowa	40,749	....	42,080	42,080	42,780	0.99
Kansas	39,427	....	40,715	40,715	41,393	0.95
Kentucky	50,795	....	52,455	52,455	53,328	1.23
Louisiana	54,442	....	56,220	56,220	57,156	1.32
Maine	19,709	....	20,353	20,353	20,692	0.48
Maryland	94,185	....	97,262	97,262	98,881	2.28
Massachusetts	83,239	....	85,959	85,959	87,390	2.01
Michigan	161,533	....	166,811	166,811	169,588	3.91
Minnesota	123,769	....	127,812	127,812	129,940	2.99
Mississippi	24,747	....	25,555	25,555	25,981	0.60
Missouri	58,033	....	59,929	59,929	60,927	1.40
Montana	11,235	....	11,602	11,602	11,795	0.27
Nebraska	22,216	....	22,942	22,942	23,324	0.54
Nevada	36,892	....	38,097	38,097	38,732	0.89
New Hampshire	14,139	....	14,601	14,601	14,844	0.34
New Jersey	199,137	....	205,643	205,643	209,067	4.82
New Mexico	33,200	....	34,285	34,285	34,856	0.80
New York	293,239	....	302,820	302,820	307,862	7.09
North Carolina	98,314	....	101,526	101,526	103,216	2.38
North Dakota	9,782	....	10,102	10,102	10,270	0.24
Ohio	204,336	....	211,012	211,012	214,525	4.94
Oklahoma	55,399	....	57,209	57,209	58,161	1.34
Oregon	47,605	....	49,160	49,160	49,979	1.15
Pennsylvania	183,637	....	189,636	189,636	192,794	4.44
Rhode Island	10,770	....	11,122	11,122	11,307	0.26
South Carolina	52,992	....	54,723	54,723	55,634	1.28
South Dakota	6,951	....	7,178	7,178	7,297	0.17
Tennessee	62,256	....	64,290	64,290	65,360	1.51
Texas	235,762	....	243,465	243,465	247,518	5.70
Utah	28,412	....	29,340	29,340	29,828	0.69
Vermont	9,760	....	10,079	10,079	10,247	0.24
Virginia	69,525	....	71,797	71,797	72,992	1.68
Washington	90,171	....	93,117	93,117	94,667	2.18
West Virginia	31,148	....	32,165	32,165	32,701	0.75
Wisconsin	74,443	....	76,876	76,876	78,156	1.80
Wyoming	10,622	....	10,969	10,969	11,151	0.26
American Samoa	....	....	....	....	....	....
Guam	3,666	....	3,786	3,786	3,849	0.09
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	33,449	....	34,542	34,542	35,117	0.81
Freely Associated States	....	....	....	....	....	....
Virgin Islands	4,106	....	4,240	4,240	4,310	0.10
Indian Tribes	40,121	....	40,522	40,522	41,151	0.95
Undistributed	....	....	....	....	....	....
Total	**4,134,029**	**........**	**4,268,183**	**4,268,183**	**4,339,197**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1502-0-1-609**

Table 17–20. LOW INCOME HOME ENERGY ASSISTANCE PROGRAM (93.568)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	47,081	....	49,438	49,438	39,155	1.30
Alaska	10,641	....	10,831	10,831	8,666	0.29
Arizona	21,904	....	22,109	22,109	17,510	0.58
Arkansas	28,538	....	28,124	28,124	23,508	0.78
California	153,261	....	153,775	153,775	123,207	4.08
Colorado	47,309	....	47,647	47,647	38,348	1.27
Connecticut	79,533	....	80,419	80,419	66,020	2.19
Delaware	11,957	....	13,158	13,158	11,152	0.37
District of Columbia	10,687	....	10,756	10,756	8,586	0.28
Florida	78,020	....	78,748	78,748	62,369	2.07
Georgia	61,703	....	62,279	62,279	49,325	1.63
Hawaii	6,107	....	5,644	5,644	4,844	0.16
Idaho	19,578	....	19,705	19,705	15,728	0.52
Illinois	185,686	....	172,384	172,384	138,465	4.58
Indiana	80,000	....	77,888	77,888	62,686	2.08
Iowa	54,813	....	55,205	55,205	44,431	1.47
Kansas	32,119	....	33,122	33,122	27,275	0.90
Kentucky	46,424	....	46,356	46,356	37,197	1.23
Louisiana	43,422	....	42,709	42,709	36,334	1.20
Maine	38,521	....	38,796	38,796	31,225	1.03
Maryland	69,791	....	73,763	73,763	62,275	2.06
Massachusetts	132,680	....	140,955	140,955	112,928	3.74
Michigan	172,431	....	176,126	176,126	139,698	4.63
Minnesota	116,840	....	117,675	117,675	94,710	3.14
Mississippi	31,531	....	30,802	30,802	25,654	0.85
Missouri	68,232	....	71,423	71,423	56,169	1.86
Montana	19,916	....	20,045	20,045	16,000	0.53
Nebraska	30,208	....	30,403	30,403	24,264	0.80
Nevada	11,203	....	11,307	11,307	8,955	0.30
New Hampshire	26,055	....	26,224	26,224	20,932	0.69
New Jersey	136,747	....	132,661	132,661	106,556	3.53
New Mexico	15,715	....	15,817	15,817	12,625	0.42
New York	375,514	....	376,679	376,679	303,168	10.04
North Carolina	81,535	....	90,052	90,052	76,562	2.54
North Dakota	20,555	....	20,479	20,479	16,346	0.54
Ohio	165,465	....	155,581	155,581	122,493	4.06
Oklahoma	32,788	....	34,159	34,159	28,976	0.96
Oregon	36,013	....	36,273	36,273	29,116	0.96
Pennsylvania	209,551	....	205,158	205,158	162,933	5.40
Rhode Island	23,176	....	25,355	25,355	20,667	0.68
South Carolina	36,270	....	39,536	39,536	31,313	1.04
South Dakota	17,508	....	18,019	18,019	14,383	0.48
Tennessee	55,406	....	59,766	59,766	50,001	1.66
Texas	129,833	....	131,044	131,044	103,787	3.44
Utah	24,101	....	24,257	24,257	19,350	0.64
Vermont	19,529	....	19,656	19,656	15,689	0.52
Virginia	80,437	....	83,080	83,080	69,343	2.30
Washington	57,968	....	58,552	58,552	47,123	1.56
West Virginia	29,700	....	29,892	29,892	23,860	0.79
Wisconsin	105,173	....	105,924	105,924	85,252	2.82
Wyoming	9,502	....	9,559	9,559	7,631	0.25
American Samoa	77	....	78	78	63	*
Guam	169	....	170	170	137	*
Northern Mariana Islands	59	....	59	59	48	*
Puerto Rico	4,196	....	4,222	4,222	3,402	0.11
Freely Associated States	....	....	....	....	....	....

Department of Health and Human Services, Administration for Children and Families **75-1502-0-1-609**

Table 17–20. LOW INCOME HOME ENERGY ASSISTANCE PROGRAM (93.568)—Continued

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	Estimated FY 2013 obligations from: 2013 CR or New Authority	Estimated FY 2013 obligations from: Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Virgin Islands	160	....	161	161	130	*
Indian Tribes	38,429	....	38,791	38,791	31,430	1.04
Undistributed	....	....	....	....	....	....
Training and Technical Assistance	2,994	....	3,013	3,013	3,000	0.10
[2] Discretionary Funds	26,949	....	27,114	27,114	77,000	2.55
[3] Other	....	....	....	....	150,000	4.97
Total	**[1] 3,471,710**	**.........**	**3,492,923**	**3,492,923**	**3,020,000**	**[4] 100.00**

* $500 or less or 0.005 percent or less.

[1] The FY 2012 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 FY 2012 appropriated funding, this column also includes $35,933 allocated to States from prior year block grant appropriations.

[2] In 2014, discretionary funds consist of $23,985,000 for the Leveraging Incentive (Leveraging) program, $3,015,000 for the Residential Energy Assistance Challenge (REACH) program, and $50,000,000 for Energy Burden Reduction activities.

[3] In 2014, other consists of $150,000,000 available to release to states in FY 2014 for LIHEAP Contingency Fund for unanticipated home-energy related emergencies, such as extreme weather related events and high fuel prices.

[4] Excludes undistributed obligations.

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Table 17–21. CHILD CARE AND DEVELOPMENT BLOCK GRANT (93.575)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from:			FY 2014 (estimated)	FY 2014 Percentage of distributed total
		Previous authority	2013 CR or New Authority	Total		
Alabama	42,842	....	43,104	43,104	42,731	1.72
Alaska	4,533	....	4,561	4,561	4,521	0.18
Arizona	56,867	....	57,215	57,215	56,720	2.29
Arkansas	28,143	....	28,316	28,316	28,071	1.13
California	244,005	....	245,498	245,498	243,374	9.82
Colorado	28,442	....	28,617	28,617	28,369	1.14
Connecticut	14,940	....	15,032	15,032	14,902	0.60
Delaware	5,530	....	5,564	5,564	5,515	0.22
District of Columbia	2,962	....	2,980	2,980	2,955	0.12
Florida	121,010	....	121,750	121,750	120,697	4.87
Georgia	92,991	....	93,561	93,561	92,751	3.74
Hawaii	7,683	....	7,730	7,730	7,663	0.31
Idaho	14,245	....	14,332	14,332	14,208	0.57
Illinois	80,079	....	80,569	80,569	79,872	3.22
Indiana	52,761	....	53,084	53,084	52,625	2.12
Iowa	21,098	....	21,227	21,227	21,043	0.85
Kansas	21,640	....	21,772	21,772	21,584	0.87
Kentucky	39,581	....	39,823	39,823	39,478	1.59
Louisiana	42,491	....	42,751	42,751	42,381	1.71
Maine	7,791	....	7,839	7,839	7,771	0.31
Maryland	27,564	....	27,733	27,733	27,493	1.11
Massachusetts	27,066	....	27,232	27,232	26,996	1.09
Michigan	70,025	....	70,454	70,454	69,844	2.82
Minnesota	30,691	....	30,879	30,879	30,612	1.24
Mississippi	33,335	....	33,539	33,539	33,249	1.34
Missouri	44,385	....	44,656	44,656	44,270	1.79
Montana	6,771	....	6,813	6,813	6,754	0.27
Nebraska	13,439	....	13,521	13,521	13,404	0.54
Nevada	16,530	....	16,632	16,632	16,488	0.67
New Hampshire	5,353	....	5,386	5,386	5,339	0.22
New Jersey	40,080	....	40,326	40,326	39,977	1.61
New Mexico	20,077	....	20,200	20,200	20,025	0.81
New York	101,521	....	102,143	102,143	101,259	4.09
North Carolina	76,128	....	76,594	76,594	75,931	3.06
North Dakota	4,156	....	4,182	4,182	4,146	0.17
Ohio	80,389	....	80,881	80,881	80,181	3.24
Oklahoma	33,887	....	34,094	34,094	33,799	1.36
Oregon	26,225	....	26,386	26,386	26,158	1.06
Pennsylvania	69,645	....	70,072	70,072	69,465	2.80
Rhode Island	5,622	....	5,656	5,656	5,607	0.23
South Carolina	41,233	....	41,485	41,485	41,126	1.66
South Dakota	6,221	....	6,259	6,259	6,205	0.25
Tennessee	52,890	....	53,214	53,214	52,753	2.13
Texas	242,999	....	244,486	244,486	242,371	9.78
Utah	27,266	....	27,433	27,433	27,196	1.10
Vermont	3,204	....	3,223	3,223	3,195	0.13
Virginia	43,445	....	43,711	43,711	43,333	1.75
Washington	39,115	....	39,354	39,354	39,014	1.57
West Virginia	14,362	....	14,450	14,450	14,325	0.58
Wisconsin	36,035	....	36,256	36,256	35,942	1.45
Wyoming	2,982	....	3,000	3,000	2,974	0.12
American Samoa	3,002	....	3,020	3,020	3,002	0.12
Guam	4,296	....	4,322	4,322	4,296	0.17
Northern Mariana Islands	1,905	....	1,917	1,917	1,905	0.08
Puerto Rico	32,513	....	32,712	32,712	32,429	1.31
Freely Associated States	....	....	....	....	....	....
Virgin Islands	2,189	....	2,202	2,202	2,189	0.09
Indian Tribes	45,566	....	45,845	45,845	45,566	1.84
Undistributed	....	....	....	....	....	....
Training andTechnical Assistance	5,459	....	5,731	5,731	11,392	0.46
Discretionary Funds	996	....	1,004	1,004	1,000	0.04
Other	9,864	....	9,932	9,932	209,871	8.47
Total	**2,278,065**	....	**2,292,260**	**2,292,260**	**2,478,312**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1550-0-1-609**

Table 17–22. CHILD CARE AND DEVELOPMENT FUND-MANDATORY (93.596A)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from:			FY 2014 (estimated)	FY 2014 Percentage of distributed total
		Previous authority	2013 CR or 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	6.83
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	3.43
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	1.86
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	2.10
New Mexico	8,308	....	8,308	8,308	8,308	0.66
New York	101,984	....	101,984	101,984	101,984	8.14
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	1.00
Vermont	3,945	....	3,945	3,945	3,945	0.31
Virginia	21,329	....	21,329	21,329	21,329	1.70
Washington	41,883	....	41,883	41,883	41,883	3.34
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	5.45
Undistributed	....	....	....	....	....	....
Training and Technical Assistance	3,093	....	3,097	3,097	7,256	0.58
Total	**1,238,961**	....	**1,238,965**	**1,238,965**	**1,253,124**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1550-0-1-609**

Table 17–23. CHILD CARE AND DEVELOPMENT FUND-MATCHING (93.596B)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from:			FY 2014 (estimated)	FY 2014 Percentage of distributed total
		Previous authority	2013 CR or New Authority	Total		
Alabama	25,484	....	25,484	25,484	32,796	1.52
Alaska	4,281	....	4,281	4,281	5,509	0.25
Arizona	37,308	....	37,308	37,308	48,011	2.22
Arkansas	16,247	....	16,247	16,247	20,908	0.97
California	207,709	....	207,709	207,709	267,299	12.35
Colorado	28,270	....	28,270	28,270	36,381	1.68
Connecticut	17,932	....	17,932	17,932	23,077	1.07
Delaware	4,637	....	4,637	4,637	5,967	0.28
District of Columbia	2,327	....	2,327	2,327	2,995	0.14
Florida	89,449	....	89,449	89,449	115,111	5.32
Georgia	56,911	....	56,911	56,911	73,239	3.38
Hawaii	6,940	....	6,940	6,940	8,931	0.41
Idaho	9,919	....	9,919	9,919	12,764	0.59
Illinois	70,175	....	70,175	70,175	90,307	4.17
Indiana	36,396	....	36,396	36,396	46,837	2.16
Iowa	16,557	....	16,557	16,557	21,307	0.98
Kansas	16,707	....	16,707	16,707	21,500	0.99
Kentucky	23,304	....	23,304	23,304	29,990	1.39
Louisiana	25,502	....	25,502	25,502	32,818	1.52
Maine	6,026	....	6,026	6,026	7,755	0.36
Maryland	30,267	....	30,267	30,267	38,950	1.80
Massachusetts	31,410	....	31,410	31,410	40,421	1.87
Michigan	51,730	....	51,730	51,730	66,571	3.08
Minnesota	29,154	....	29,154	29,154	37,517	1.73
Mississippi	17,152	....	17,152	17,152	22,073	1.02
Missouri	32,231	....	32,231	32,231	41,478	1.92
Montana	5,046	....	5,046	5,046	6,493	0.30
Nebraska	10,586	....	10,586	10,586	13,623	0.63
Nevada	15,187	....	15,187	15,187	19,544	0.90
New Hampshire	6,242	....	6,242	6,242	8,033	0.37
New Jersey	46,025	....	46,025	46,025	59,229	2.74
New Mexico	11,827	....	11,827	11,827	15,220	0.70
New York	96,030	....	96,030	96,030	123,580	5.71
North Carolina	52,213	....	52,213	52,213	67,192	3.11
North Dakota	3,425	....	3,425	3,425	4,408	0.20
Ohio	61,124	....	61,124	61,124	78,659	3.64
Oklahoma	21,443	....	21,443	21,443	27,595	1.28
Oregon	19,605	....	19,605	19,605	25,230	1.17
Pennsylvania	61,743	....	61,743	61,743	79,456	3.67
Rhode Island	4,921	....	4,921	4,921	6,332	0.29
South Carolina	24,611	....	24,611	24,611	31,671	1.46
South Dakota	4,664	....	4,664	4,664	6,002	0.28
Tennessee	33,931	....	33,931	33,931	43,665	2.02
Texas	157,929	....	157,930	157,930	203,238	9.39
Utah	20,665	....	20,665	20,665	26,593	1.23
Vermont	2,815	....	2,815	2,815	3,622	0.17
Virginia	42,013	....	42,013	42,013	54,067	2.50
Washington	35,814	....	35,814	35,814	46,089	2.13
West Virginia	8,705	....	8,705	8,705	11,202	0.52
Wisconsin	30,116	....	30,116	30,116	38,756	1.79
Wyoming	3,137	....	3,137	3,137	4,037	0.19
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Training and Technical Assistance	4,190	....	4,195	4,195	9,829	0.45
Total	**1,678,032**	....	**1,678,038**	**1,678,038**	**2,163,877**	[1] **100.00**

[1] Excludes undistributed obligations.

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Table 17–24. HEAD START (93.600)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	125,718	....	126,487	126,487	128,890	1.34
Alaska	14,374	....	14,462	14,462	14,736	0.15
Arizona	121,747	....	122,492	122,492	124,819	1.30
Arkansas	75,176	....	75,637	75,637	77,074	0.80
California	957,972	....	963,813	963,813	982,126	10.21
Colorado	80,799	....	81,293	81,293	82,838	0.86
Connecticut	58,756	....	59,115	59,115	60,238	0.63
Delaware	15,342	....	15,436	15,436	15,729	0.16
District of Columbia	27,867	....	28,038	28,038	28,570	0.30
Florida	313,311	....	315,228	315,228	321,218	3.34
Georgia	198,596	....	199,812	199,812	203,608	2.12
Hawaii	25,594	....	25,751	25,751	26,240	0.27
Idaho	27,253	....	27,419	27,419	27,940	0.29
Illinois	314,325	....	316,249	316,249	322,258	3.35
Indiana	115,223	....	115,928	115,928	118,131	1.23
Iowa	59,268	....	59,631	59,631	60,764	0.63
Kansas	59,801	....	60,167	60,167	61,310	0.64
Kentucky	125,506	....	126,274	126,274	128,673	1.34
Louisiana	167,981	....	169,009	169,009	172,220	1.79
Maine	31,534	....	31,727	31,727	32,330	0.34
Maryland	89,394	....	89,941	89,941	91,650	0.95
Massachusetts	122,725	....	123,476	123,476	125,822	1.31
Michigan	267,669	....	269,307	269,307	274,424	2.85
Minnesota	83,787	....	84,300	84,300	85,902	0.89
Mississippi	180,316	....	181,419	181,419	184,866	1.92
Missouri	138,965	....	139,816	139,816	142,472	1.48
Montana	23,986	....	24,132	24,132	24,591	0.26
Nebraska	42,188	....	42,446	42,446	43,253	0.45
Nevada	29,960	....	30,144	30,144	30,716	0.32
New Hampshire	15,541	....	15,636	15,636	15,933	0.17
New Jersey	149,580	....	150,496	150,496	153,355	1.59
New Mexico	62,551	....	62,933	62,933	64,129	0.67
New York	493,984	....	497,007	497,007	506,450	5.27
North Carolina	171,736	....	172,787	172,787	176,070	1.83
North Dakota	20,060	....	20,183	20,183	20,566	0.21
Ohio	286,669	....	288,423	288,423	293,903	3.06
Oklahoma	97,667	....	98,264	98,264	100,131	1.04
Oregon	70,305	....	70,735	70,735	72,079	0.75
Pennsylvania	261,802	....	263,404	263,404	268,409	2.79
Rhode Island	25,044	....	25,197	25,197	25,676	0.27
South Carolina	99,208	....	99,815	99,815	101,712	1.06
South Dakota	21,605	....	21,738	21,738	22,151	0.23
Tennessee	137,123	....	137,962	137,962	140,584	1.46
Texas	559,621	....	563,046	563,046	573,744	5.97
Utah	45,113	....	45,389	45,389	46,252	0.48
Vermont	15,143	....	15,236	15,236	15,526	0.16
Virginia	115,287	....	115,992	115,992	118,196	1.23
Washington	117,459	....	118,178	118,178	120,423	1.25
West Virginia	58,201	....	58,557	58,557	59,670	0.62
Wisconsin	105,184	....	105,828	105,828	107,839	1.12
Wyoming	13,438	....	13,521	13,521	13,777	0.14
American Samoa	2,265	....	2,279	2,279	2,323	0.02
Guam	2,480	....	2,495	2,495	2,543	0.03
Northern Mariana Islands	1,753	....	1,764	1,764	1,798	0.02
Puerto Rico	278,051	....	279,753	279,753	285,068	2.96
Freely Associated States	....	....	....	....	....	....
Virgin Islands	9,424	....	9,482	9,482	9,662	0.10
Indian Tribes	223,891	....	225,261	225,261	229,541	2.39
Undistributed	....	....	....	....	....	....
Palau	1,405	....	1,413	1,413	1,440	0.01
Training and Technical Assistance	198,126	....	200,433	200,433	204,853	2.13
[1] Discretionary Funds	....	....	....	....	1,446,620	15.04
[2] Other	86,505	....	86,781	86,781	87,252	0.91

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Table 17–24. HEAD START (93.600)—Continued

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	Estimated FY 2013 obligations from: 2013 CR or New Authority	Estimated FY 2013 obligations from: Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Migrant Program	326,375	....	328,373	328,373	334,612	3.48
Total	**7,967,729**	**.........**	**8,017,310**	**8,017,310**	**9,615,695**	**[3] 100.00**

[1] In 2014, discretionary funds include 1) $25 million requested in FY 2014 to minimize disruptions in Head Start services to children and families during the implementation of the Designation Renewal System. Funds will be awarded to grantees on an as-needed basis during the transition period, and 2) $1.4 billion for the Early Head Start-Child Care Partnership program to expand the availability of high quality comprehensive services for infants and toddlers.

[2] Totals for “other” include funding for Research/Evaluation, Monitoring Support and Program Support.

[3] Excludes undistributed obligations.

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Table 17–25. FOSTER CARE-TITLE IV-E (93.658)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	32,230	....	32,937	32,937	32,639	0.76
Alaska	15,227	....	15,562	15,562	15,421	0.36
Arizona	86,780	....	88,686	88,686	87,882	2.05
Arkansas	37,484	....	38,308	38,308	37,960	0.89
California	1,170,068	....	1,186,168	1,186,168	1,175,421	27.46
Colorado	56,264	....	57,500	57,500	56,979	1.33
Connecticut	41,263	....	42,169	42,169	41,787	0.98
Delaware	4,205	....	4,298	4,298	4,259	0.10
District of Columbia	37,807	....	38,637	38,637	38,287	0.89
Florida	177,283	....	181,176	181,176	179,535	4.19
Georgia	69,353	....	70,876	70,876	70,234	1.64
Hawaii	17,634	....	18,021	18,021	17,858	0.42
Idaho	9,324	....	9,529	9,529	9,442	0.22
Illinois	197,116	....	201,444	201,444	199,619	4.66
Indiana	115,448	....	117,984	117,984	116,915	2.73
Iowa	21,071	....	21,533	21,533	21,338	0.50
Kansas	24,180	....	24,711	24,711	24,487	0.57
Kentucky	39,316	....	40,180	40,180	39,816	0.93
Louisiana	38,584	....	39,431	39,431	39,074	0.91
Maine	15,150	....	15,483	15,483	15,342	0.36
Maryland	49,336	....	50,419	50,419	49,962	1.17
Massachusetts	48,351	....	49,413	49,413	48,965	1.14
Michigan	117,220	....	119,795	119,795	118,709	2.77
Minnesota	37,589	....	38,414	38,414	38,066	0.89
Mississippi	15,307	....	15,644	15,644	15,502	0.36
Missouri	48,360	....	49,422	49,422	48,974	1.14
Montana	9,625	....	9,836	9,836	9,747	0.23
Nebraska	16,053	....	16,406	16,406	16,257	0.38
Nevada	34,807	....	35,571	35,571	35,249	0.82
New Hampshire	15,172	....	15,505	15,505	15,365	0.36
New Jersey	88,032	....	89,965	89,965	89,150	2.08
New Mexico	20,288	....	20,733	20,733	20,545	0.48
New York	382,520	....	390,920	390,920	387,378	9.05
North Carolina	77,411	....	79,111	79,111	78,394	1.83
North Dakota	10,591	....	10,823	10,823	10,725	0.25
Ohio	187,113	....	191,222	191,222	189,490	4.43
Oklahoma	32,326	....	33,036	33,036	32,737	0.76
Oregon	77,077	....	78,770	78,770	78,056	1.82
Pennsylvania	166,418	....	170,072	170,072	168,531	3.94
Rhode Island	11,999	....	12,262	12,262	12,151	0.28
South Carolina	24,856	....	25,402	25,402	25,172	0.59
South Dakota	4,787	....	4,892	4,892	4,848	0.11
Tennessee	34,852	....	35,618	35,618	35,295	0.82
Texas	222,156	....	227,035	227,035	224,978	5.26
Utah	21,151	....	21,615	21,615	21,419	0.50
Vermont	8,075	....	8,252	8,252	8,177	0.19
Virginia	51,483	....	52,613	52,613	52,137	1.22
Washington	78,361	....	85,071	85,071	84,300	1.97
West Virginia	13,291	....	13,583	13,583	13,460	0.31
Wisconsin	49,600	....	55,296	55,296	54,795	1.28
Wyoming	2,142	....	2,189	2,189	2,170	0.05
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	3,080	....	19,000	19,000	38,000	0.89
Undistributed	....	....	....	....	....	....
Training andTechincal Assistance	13,069	....	13,000	13,000	26,000	0.61
Other	1,630	....	....	....	2,000	0.05
Total	**4,179,915**	....	**4,285,538**	**4,285,538**	**4,280,999**	[1] **100.00**

[1] Excludes undistributed obligations.

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Table 17–26. ADOPTION ASSISTANCE (93.659)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	9,725	....	10,041	10,041	10,441	0.42
Alaska	10,446	....	10,786	10,786	11,216	0.46
Arizona	89,822	....	92,744	92,744	96,437	3.92
Arkansas	15,788	....	16,302	16,302	16,951	0.69
California	430,063	....	444,050	444,050	461,732	18.75
Colorado	20,324	....	20,985	20,985	21,821	0.89
Connecticut	35,169	....	36,313	36,313	37,759	1.53
Delaware	1,220	....	1,260	1,260	1,310	0.05
District of Columbia	12,041	....	12,432	12,432	12,927	0.52
Florida	95,725	....	98,838	98,838	102,774	4.17
Georgia	37,995	....	39,231	39,231	40,793	1.66
Hawaii	13,104	....	13,530	13,530	14,069	0.57
Idaho	6,185	....	6,386	6,386	6,640	0.27
Illinois	80,493	....	83,111	83,111	86,420	3.51
Indiana	58,625	....	60,532	60,532	62,942	2.56
Iowa	35,291	....	36,439	36,439	37,890	1.54
Kansas	15,008	....	15,496	15,496	16,113	0.65
Kentucky	43,961	....	45,391	45,391	47,198	1.92
Louisiana	19,821	....	20,465	20,465	21,280	0.86
Maine	14,880	....	15,364	15,364	15,975	0.65
Maryland	26,148	....	26,998	26,998	28,073	1.14
Massachusetts	29,416	....	30,373	30,373	31,582	1.28
Michigan	113,800	....	117,501	117,501	122,180	4.96
Minnesota	23,636	....	24,405	24,405	25,377	1.03
Mississippi	8,343	....	8,614	8,614	8,957	0.36
Missouri	38,817	....	40,079	40,079	41,675	1.69
Montana	6,682	....	6,899	6,899	7,174	0.29
Nebraska	10,462	....	10,802	10,802	11,232	0.46
Nevada	17,752	....	18,330	18,330	19,060	0.77
New Hampshire	4,322	....	4,463	4,463	4,641	0.19
New Jersey	59,929	....	61,878	61,878	64,342	2.61
New Mexico	17,167	....	17,726	17,726	18,431	0.75
New York	179,868	....	185,718	185,718	193,113	7.84
North Carolina	49,075	....	50,671	50,671	52,688	2.14
North Dakota	5,041	....	5,205	5,205	5,412	0.22
Ohio	167,879	....	173,339	173,339	180,241	7.32
Oklahoma	29,409	....	30,366	30,366	31,575	1.28
Oregon	47,859	....	49,416	49,416	51,383	2.09
Pennsylvania	95,221	....	98,318	98,318	102,233	4.15
Rhode Island	7,589	....	7,836	7,836	8,148	0.33
South Carolina	13,016	....	13,440	13,440	13,975	0.57
South Dakota	3,667	....	3,787	3,787	3,937	0.16
Tennessee	40,023	....	41,325	41,325	42,970	1.74
Texas	98,369	....	101,569	101,569	105,613	4.29
Utah	6,901	....	7,125	7,125	7,409	0.30
Vermont	8,010	....	8,271	8,271	8,600	0.35
Virginia	32,831	....	33,898	33,898	35,248	1.43
Washington	50,753	....	52,403	52,403	54,490	2.21
West Virginia	19,135	....	19,758	19,758	20,544	0.83
Wisconsin	36,424	....	37,609	37,609	39,107	1.59
Wyoming	837	....	864	864	899	0.04
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Other	2,027	....	....	....	....	....
Total	**2,296,094**	....	**2,368,682**	**2,368,682**	**2,462,997**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75.1534-0-1-506**

Table 17–27. SOCIAL SERVICES BLOCK GRANT (93.667)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	26,171	....	26,057	26,057	26,057	1.53
Alaska	3,889	....	3,921	3,921	3,921	0.23
Arizona	34,999	....	35,170	35,170	35,170	2.07
Arkansas	15,966	....	15,940	15,940	15,940	0.94
California	203,980	....	204,493	204,493	204,493	12.03
Colorado	27,537	....	27,760	27,760	27,760	1.63
Connecticut	19,570	....	19,427	19,427	19,427	1.14
Delaware	4,917	....	4,922	4,922	4,922	0.29
District of Columbia	3,295	....	3,353	3,353	3,353	0.20
Florida	102,944	....	103,394	103,394	103,394	6.08
Georgia	53,044	....	53,251	53,251	53,251	3.13
Hawaii	7,448	....	7,458	7,458	7,458	0.44
Idaho	8,583	....	8,599	8,599	8,599	0.51
Illinois	70,253	....	69,820	69,820	69,820	4.11
Indiana	35,501	....	35,357	35,357	35,357	2.08
Iowa	16,679	....	16,614	16,614	16,614	0.98
Kansas	15,622	....	15,578	15,578	15,578	0.92
Kentucky	23,760	....	23,705	23,705	23,705	1.39
Louisiana	24,822	....	24,820	24,820	24,820	1.46
Maine	7,273	....	7,206	7,206	7,206	0.42
Maryland	31,612	....	31,621	31,621	31,621	1.86
Massachusetts	35,851	....	35,740	35,740	35,740	2.10
Michigan	54,117	....	53,582	53,582	53,582	3.15
Minnesota	29,041	....	28,998	28,998	28,998	1.71
Mississippi	16,247	....	16,160	16,160	16,160	0.95
Missouri	32,792	....	32,610	32,610	32,610	1.92
Montana	5,417	....	5,416	5,416	5,416	0.32
Nebraska	10,000	....	9,997	9,997	9,997	0.59
Nevada	14,787	....	14,775	14,775	14,775	0.87
New Hampshire	7,208	....	7,152	7,152	7,152	0.42
New Jersey	48,139	....	47,858	47,858	47,858	2.82
New Mexico	11,275	....	11,297	11,297	11,297	0.66
New York	106,103	....	105,606	105,606	105,606	6.21
North Carolina	52,210	....	52,390	52,390	52,390	3.08
North Dakota	3,683	....	3,711	3,711	3,711	0.22
Ohio	63,167	....	62,636	62,636	62,636	3.68
Oklahoma	20,540	....	20,570	20,570	20,570	1.21
Oregon	20,977	....	21,006	21,006	21,006	1.24
Pennsylvania	69,550	....	69,135	69,135	69,135	4.07
Rhode Island	5,763	....	5,704	5,704	5,704	0.34
South Carolina	25,326	....	25,386	25,386	25,386	1.49
South Dakota	4,458	....	4,471	4,471	4,471	0.26
Tennessee	34,747	....	34,740	34,740	34,740	2.04
Texas	137,682	....	139,295	139,295	139,295	8.19
Utah	15,133	....	15,284	15,284	15,284	0.90
Vermont	3,426	....	3,399	3,399	3,399	0.20
Virginia	43,809	....	43,927	43,927	43,927	2.58
Washington	36,819	....	37,055	37,055	37,055	2.18
West Virginia	10,146	....	10,066	10,066	10,066	0.59
Wisconsin	31,138	....	30,988	30,988	30,988	1.82
Wyoming	3,086	....	3,082	3,082	3,082	0.18
American Samoa	60	....	60	60	60	*
Guam	293	....	293	293	293	0.02
Northern Mariana Islands	59	....	59	59	59	*
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	....	....	....	....	....	....
Total	**1,700,000**	**.........**	**1,700,000**	**1,700,000**	**1,700,000**	**[1] 100.00**

* $500 or less or 0.005 percent or less.

[1] Excludes undistributed obligations.

Department of Health and Human Services, HIV/AIDS Bureau **75-0350-0-1-550**

Table 17–28. RYAN WHITE HIV/AIDS TREATMENT MODERNIZATION ACT-PART B HIV CARE GRANTS (93.917)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	22,944	....	....	....	....	....
Alaska	1,320	....	....	....	....	....
Arizona	16,322	....	....	....	....	....
Arkansas	8,488	....	....	....	....	....
California	163,449	....	....	....	....	....
Colorado	15,445	....	....	....	....	....
Connecticut	14,789	....	....	....	....	....
Delaware	5,791	....	....	....	....	....
District of Columbia	20,025	....	....	....	....	....
Florida	142,770	....	....	....	....	....
Georgia	56,650	....	....	....	....	....
Hawaii	3,661	....	....	....	....	....
Idaho	1,926	....	....	....	....	....
Illinois	50,281	....	....	....	....	....
Indiana	12,067	....	....	....	....	....
Iowa	3,733	....	....	....	....	....
Kansas	3,609	....	....	....	....	....
Kentucky	11,862	....	....	....	....	....
Louisiana	27,643	....	....	....	....	....
Maine	1,829	....	....	....	....	....
Maryland	39,512	....	....	....	....	....
Massachusetts	20,485	....	....	....	....	....
Michigan	18,499	....	....	....	....	....
Minnesota	8,121	....	....	....	....	....
Mississippi	14,133	....	....	....	....	....
Missouri	14,055	....	....	....	....	....
Montana	1,307	....	....	....	....	....
Nebraska	3,792	....	....	....	....	....
Nevada	8,437	....	....	....	....	....
New Hampshire	1,515	....	....	....	....	....
New Jersey	52,562	....	....	....	....	....
New Mexico	4,077	....	....	....	....	....
New York	164,499	....	....	....	....	....
North Carolina	39,319	....	....	....	....	....
North Dakota	755	....	....	....	....	....
Ohio	25,380	....	....	....	....	....
Oklahoma	8,537	....	....	....	....	....
Oregon	6,811	....	....	....	....	....
Pennsylvania	43,143	....	....	....	....	....
Rhode Island	4,177	....	....	....	....	....
South Carolina	26,000	....	....	....	....	....
South Dakota	1,231	....	....	....	....	....
Tennessee	23,573	....	....	....	....	....
Texas	88,187	....	....	....	....	....
Utah	4,957	....	....	....	....	....
Vermont	892	....	....	....	....	....
Virginia	31,509	....	....	....	....	....
Washington	15,556	....	....	....	....	....
West Virginia	2,551	....	....	....	....	....
Wisconsin	9,493	....	....	....	....	....
Wyoming	727	....	....	....	....	....
American Samoa	40	....	....	....	....	....
Guam	287	....	....	....	....	....
Northern Mariana Islands	57	....	....	....	....	....
Puerto Rico	34,287	....	....	....	....	....
Freely Associated States	58	....	....	....	....	....
Virgin Islands	2,361	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	[1] 1,328,722	1,328,722	[2] 1,370,827	....
Marshall Islands	17	....	....	....	....	....
Republic of Palau	53	....	....	....	....	....
Total	**1,305,556**	....	**1,328,722**	**1,328,722**	**1,370,827**	[3] **100.00**

[1] FY 2013 data for each State and territory is not available.
[2] FY 2014 data for each State and territory is not available.
[3] Excludes undistributed obligations.

Department of Housing and Urban Development, Public and Indian Housing Programs **86-0163-0-1-604**

Table 17–29. PUBLIC HOUSING OPERATING FUND (14.850)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from:			FY 2014 (estimated)	FY 2014 Percentage of distributed total
		Previous authority	2013 CR or New Authority	Total		
Alabama	114,876	124	115,714	115,838	132,374	2.90
Alaska	8,949	10	9,014	9,024	10,312	0.23
Arizona	18,814	20	18,951	18,971	21,680	0.48
Arkansas	21,821	23	21,980	22,003	25,145	0.55
California	124,861	134	125,771	125,905	143,880	3.16
Colorado	26,736	29	26,931	26,960	30,809	0.68
Connecticut	61,362	66	61,809	61,875	70,709	1.55
Delaware	11,703	13	11,788	11,801	13,486	0.30
District of Columbia	45,317	49	45,647	45,696	52,219	1.15
Florida	113,178	122	114,003	114,125	130,417	2.86
Georgia	102,931	111	103,681	103,792	118,609	2.60
Hawaii	25,253	27	25,437	25,464	29,100	0.64
Idaho	969	1	976	977	1,116	0.02
Illinois	228,085	245	229,748	229,993	262,827	5.76
Indiana	40,681	44	40,977	41,021	46,877	1.03
Iowa	3,425	4	3,450	3,454	3,946	0.09
Kansas	16,675	18	16,796	16,814	19,214	0.42
Kentucky	47,647	51	47,994	48,045	54,904	1.20
Louisiana	55,314	60	55,718	55,778	63,740	1.40
Maine	12,073	13	12,161	12,174	13,912	0.31
Maryland	104,465	112	105,227	105,339	120,377	2.64
Massachusetts	140,850	152	141,877	142,029	162,303	3.56
Michigan	58,335	63	58,760	58,823	67,220	1.47
Minnesota	44,863	48	45,190	45,238	51,697	1.13
Mississippi	22,114	24	22,275	22,299	25,482	0.56
Missouri	27,659	30	27,860	27,890	31,871	0.70
Montana	3,572	4	3,598	3,602	4,117	0.09
Nebraska	10,740	12	10,818	10,830	12,375	0.27
Nevada	14,132	15	14,235	14,250	16,285	0.36
New Hampshire	8,389	9	8,450	8,459	9,666	0.21
New Jersey	156,560	168	157,701	157,869	180,406	3.96
New Mexico	8,002	9	8,060	8,069	9,220	0.20
New York	987,734	1,063	994,935	995,998	1,138,182	24.96
North Carolina	112,848	121	113,671	113,792	130,036	2.85
North Dakota	2,085	2	2,100	2,102	2,403	0.05
Ohio	194,113	209	195,528	195,737	223,680	4.91
Oklahoma	25,743	28	25,931	25,959	29,665	0.65
Oregon	14,460	16	14,566	14,582	16,663	0.37
Pennsylvania	262,963	283	264,880	265,163	303,017	6.65
Rhode Island	27,695	30	27,897	27,927	31,913	0.70
South Carolina	37,742	41	38,018	38,059	43,491	0.95
South Dakota	1,302	1	1,311	1,312	1,500	0.03
Tennessee	88,520	95	89,166	89,261	102,003	2.24
Texas	137,224	148	138,224	138,372	158,125	3.47
Utah	3,613	4	3,639	3,643	4,163	0.09
Vermont	4,039	4	4,068	4,072	4,654	0.10
Virginia	69,097	74	69,600	69,674	79,622	1.75
Washington	35,953	39	36,215	36,254	41,429	0.91
West Virginia	10,695	12	10,772	10,784	12,324	0.27
Wisconsin	17,162	18	17,287	17,305	19,776	0.43
Wyoming	1,046	1	1,053	1,054	1,205	0.03
American Samoa	....	....	....	....	....	....
Guam	829	1	835	836	956	0.02
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	221,425	238	223,039	223,277	255,152	5.60
Freely Associated States	....	....	....	....	....	....
Virgin Islands	20,609	22	20,759	20,781	23,748	0.52
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Total	**3,957,248**	**4,260**	**3,986,091**	**3,990,351**	**4,560,002**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Housing and Urban Development, Public and Indian Housing Programs **86-0302-0-1-604**

Table 17–30. SECTION 8 HOUSING CHOICE VOUCHERS (14.871)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from:			FY 2014 (estimated)	FY 2014 Percentage of distributed total
		Previous authority	2013 CR or New Authority	Total		
Alabama	185,490	1,557	192,474	194,031	202,283	1.01
Alaska	36,377	305	37,747	38,052	39,670	0.20
Arizona	169,064	1,419	175,429	176,848	184,370	0.92
Arkansas	91,521	768	94,967	95,735	99,806	0.50
California	3,343,024	28,055	3,468,887	3,496,942	3,645,669	18.25
Colorado	230,287	1,933	238,957	240,890	251,134	1.26
Connecticut	371,754	3,120	385,750	388,870	405,409	2.03
Delaware	38,996	327	40,464	40,791	42,526	0.21
District of Columbia	184,168	1,546	191,101	192,647	200,840	1.01
Florida	851,786	7,148	883,856	891,004	928,898	4.65
Georgia	481,807	4,043	499,947	503,990	525,425	2.63
Hawaii	107,050	898	111,080	111,978	116,741	0.58
Idaho	37,380	314	38,787	39,101	40,764	0.20
Illinois	890,679	7,475	924,213	931,688	971,313	4.86
Indiana	197,130	1,654	204,552	206,206	214,977	1.08
Iowa	93,379	784	96,894	97,678	101,833	0.51
Kansas	63,159	530	65,537	66,067	68,877	0.34
Kentucky	190,193	1,596	197,353	198,949	207,411	1.04
Louisiana	315,615	2,649	327,498	330,147	344,188	1.72
Maine	86,379	725	89,632	90,357	94,199	0.47
Maryland	488,947	4,103	507,356	511,459	533,212	2.67
Massachusetts	845,838	7,098	877,684	884,782	922,412	4.62
Michigan	347,416	2,916	360,496	363,412	378,867	1.90
Minnesota	224,017	1,880	232,451	234,331	244,298	1.22
Mississippi	125,046	1,049	129,754	130,803	136,367	0.68
Missouri	239,697	2,012	248,721	250,733	261,397	1.31
Montana	30,185	253	31,322	31,575	32,918	0.16
Nebraska	67,295	565	69,828	70,393	73,387	0.37
Nevada	136,467	1,145	141,605	142,750	148,822	0.75
New Hampshire	83,629	702	86,778	87,480	91,201	0.46
New Jersey	665,167	5,582	690,211	695,793	725,385	3.63
New Mexico	65,583	550	68,052	68,602	71,520	0.36
New York	2,299,097	19,294	2,385,657	2,404,951	2,507,236	12.55
North Carolina	346,840	2,911	359,898	362,809	378,239	1.89
North Dakota	31,645	266	32,836	33,102	34,509	0.17
Ohio	552,456	4,636	573,256	577,892	602,471	3.02
Oklahoma	126,234	1,059	130,987	132,046	137,663	0.69
Oregon	214,832	1,803	222,921	224,724	234,281	1.17
Pennsylvania	585,889	4,917	607,948	612,865	638,930	3.20
Rhode Island	81,634	685	84,708	85,393	89,024	0.45
South Carolina	144,639	1,214	150,084	151,298	157,733	0.79
South Dakota	27,842	234	28,890	29,124	30,362	0.15
Tennessee	220,038	1,847	228,322	230,169	239,958	1.20
Texas	991,187	8,318	1,028,504	1,036,822	1,080,919	5.41
Utah	70,292	590	72,939	73,529	76,655	0.38
Vermont	49,172	413	51,023	51,436	53,624	0.27
Virginia	378,593	3,177	392,847	396,024	412,867	2.07
Washington	437,922	3,675	454,409	458,084	477,567	2.39
West Virginia	65,320	548	67,779	68,327	71,233	0.36
Wisconsin	156,879	1,317	162,786	164,103	171,082	0.86
Wyoming	13,803	116	14,323	14,439	15,053	0.08
American Samoa	....	....	....	....	....	....
Guam	35,259	296	36,587	36,883	38,451	0.19
Northern Mariana Islands	3,919	33	4,067	4,100	4,274	0.02
Puerto Rico	187,169	1,571	194,216	195,787	204,114	1.02
Freely Associated States	....	....	....	....	....	....
Virgin Islands	10,868	91	11,277	11,368	11,852	0.06
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	22,000	....
Total	**18,316,054**	**153,712**	**19,005,647**	**19,159,359**	**19,996,216**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Housing and Urban Development, Public and Indian Housing Programs **86-0304-0-1-604**

Table 17–31. PUBLIC HOUSING CAPITAL FUND (14.872)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	57,961	1,478	55,887	57,365	60,259	3.07
Alaska	2,301	58	2,219	2,277	2,392	0.12
Arizona	7,745	197	7,468	7,665	8,052	0.41
Arkansas	21,719	554	20,941	21,495	22,581	1.15
California	74,710	1,905	72,036	73,941	77,672	3.95
Colorado	10,474	267	10,099	10,366	10,889	0.55
Connecticut	21,963	560	21,176	21,736	22,833	1.16
Delaware	4,140	106	3,992	4,098	4,305	0.22
District of Columbia	14,662	374	14,138	14,512	15,244	0.78
Florida	52,990	1,352	51,093	52,445	55,091	2.81
Georgia	66,264	1,690	63,892	65,582	68,892	3.51
Hawaii	9,819	250	9,468	9,718	10,209	0.52
Idaho	922	24	889	913	959	0.05
Illinois	132,856	3,388	128,101	131,489	138,124	7.03
Indiana	22,402	571	21,601	22,172	23,290	1.19
Iowa	5,095	130	4,912	5,042	5,297	0.27
Kansas	10,236	261	9,869	10,130	10,641	0.54
Kentucky	33,067	843	31,884	32,727	34,379	1.75
Louisiana	43,781	1,116	42,214	43,330	45,515	2.32
Maine	5,248	134	5,061	5,195	5,457	0.28
Maryland	27,798	709	26,803	27,512	28,901	1.47
Massachusetts	53,466	1,363	51,553	52,916	55,586	2.83
Michigan	32,288	823	31,133	31,956	33,568	1.71
Minnesota	29,250	746	28,203	28,949	30,411	1.55
Mississippi	21,069	537	20,316	20,853	21,905	1.12
Missouri	28,530	728	27,508	28,236	29,661	1.51
Montana	2,674	68	2,578	2,646	2,780	0.14
Nebraska	8,333	213	8,035	8,248	8,664	0.44
Nevada	5,457	139	5,261	5,400	5,673	0.29
New Hampshire	4,753	121	4,583	4,704	4,941	0.25
New Jersey	64,253	1,638	61,954	63,592	66,801	3.40
New Mexico	5,709	145	5,504	5,649	5,935	0.30
New York	330,956	8,439	319,111	327,550	344,079	17.52
North Carolina	49,997	1,275	48,208	49,483	51,980	2.65
North Dakota	2,153	55	2,076	2,131	2,239	0.11
Ohio	80,830	2,061	77,937	79,998	84,034	4.28
Oklahoma	15,007	382	14,470	14,852	15,602	0.79
Oregon	8,824	225	8,508	8,733	9,174	0.47
Pennsylvania	124,199	3,167	119,755	122,922	129,124	6.57
Rhode Island	12,549	320	12,099	12,419	13,046	0.66
South Carolina	21,079	538	20,325	20,863	21,916	1.12
South Dakota	1,666	42	1,607	1,649	1,732	0.09
Tennessee	54,973	1,402	53,006	54,408	57,153	2.91
Texas	75,406	1,923	72,707	74,630	78,395	3.99
Utah	2,459	63	2,371	2,434	2,556	0.13
Vermont	2,004	51	1,932	1,983	2,083	0.11
Virginia	29,618	755	28,558	29,313	30,792	1.57
Washington	27,600	704	26,612	27,316	28,694	1.46
West Virginia	8,287	211	7,990	8,201	8,615	0.44
Wisconsin	15,668	399	15,107	15,506	16,290	0.83
Wyoming	854	22	823	845	888	0.05
American Samoa	....	....	....	....	....	....
Guam	1,220	31	1,176	1,207	1,268	0.06
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	109,284	2,786	105,373	108,159	113,617	5.78
Freely Associated States	....	....	....	....	....	....
Virgin Islands	5,597	143	5,397	5,540	5,819	0.30
Indian Tribes	....	....	....	....	....	....
[1] Undistributed	....	....	70,000	70,000	35,000	....
[2] Other Program Activities	18,000	29,000	....	29,000	28,000	1.43
Total	**1,880,165**	**76,482**	**1,865,519**	**1,942,001**	**1,999,003**	[3] **100.00**

[1] Includes obligations for the Emergency/Disaster Reserve, Resident Opportunities and Self-Sufficiency, and/or Jobs-Plus.
[2] Includes obligations for Technical Assistance, Administrative Receiverships, and Real Estate Assessment Center.
[3] Excludes undistributed obligations.

Department of Housing and Urban Development, Community Planning and Development **86-0162-0-1-451**

Table 17–32. COMMUNITY DEVELOPMENT BLOCK GRANT (14.218; 14.225; 14.228; 14.862)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from:			FY 2014 (estimated)	FY 2014 Percentage of distributed total
		Previous authority	2013 CR or New Authority	Total		
Alabama	94,656	2,867	44,005	46,872	37,475	1.26
Alaska	3,843	....	4,473	4,473	3,810	0.13
Arizona	55,467	....	50,748	50,748	21,896	0.74
Arkansas	23,434	....	25,711	25,711	43,218	1.46
California	425,397	32,813	390,018	422,831	332,143	11.20
Colorado	39,508	2,878	36,777	39,655	31,320	1.06
Connecticut	24,710	14,905	110,678	125,583	33,092	1.12
Delaware	6,234	....	7,050	7,050	12,971	0.44
District of Columbia	16,329	13,905	15,231	29,136	6,004	0.20
Florida	133,790	83,998	138,135	222,133	117,637	3.97
Georgia	73,414	2,089	80,747	82,836	68,765	2.32
Hawaii	12,204	....	13,558	13,558	11,546	0.39
Idaho	10,473	2,328	11,934	14,262	30,693	1.03
Illinois	151,273	22,518	161,325	183,843	10,163	0.34
Indiana	54,823	6,889	65,815	72,704	137,385	4.63
Iowa	31,350	1,507	36,041	37,548	56,049	1.89
Kansas	23,628	2,028	25,844	27,872	22,009	0.74
Kentucky	38,295	....	42,545	42,545	36,232	1.22
Louisiana	100,917	80,817	49,214	130,031	153,912	5.19
Maine	15,640	1,994	18,118	20,112	84,933	2.86
Maryland	54,086	1,390	56,175	57,565	40,482	1.36
Massachusetts	77,785	17,261	99,732	116,993	15,430	0.52
Michigan	120,148	39,413	122,239	161,652	104,099	3.51
Minnesota	46,695	860	52,571	53,431	44,770	1.51
Mississippi	28,042	2,157	29,790	31,947	53,158	1.79
Missouri	110,631	212	62,421	62,633	25,370	0.86
Montana	7,348	....	8,346	8,346	7,108	0.24
Nebraska	14,544	1,854	17,983	19,837	63,328	2.13
Nevada	31,444	....	20,109	20,109	4,632	0.16
New Hampshire	9,605	1,822	12,169	13,991	15,314	0.52
New Jersey	85,473	32,219	1,916,253	1,948,472	10,364	0.35
New Mexico	14,165	....	15,894	15,894	73,862	2.49
New York	344,772	57,687	3,799,531	3,857,218	13,536	0.46
North Carolina	65,386	....	74,363	74,363	17,125	0.58
North Dakota	84,284	....	5,439	5,439	266,342	8.98
Ohio	157,314	4,546	149,612	154,158	127,411	4.30
Oklahoma	24,592	4,770	27,510	32,280	23,428	0.79
Oregon	30,259	....	33,685	33,685	28,687	0.97
Pennsylvania	214,334	55,033	185,713	240,746	158,155	5.33
Rhode Island	12,975	2,905	20,018	22,923	14,288	0.48
South Carolina	33,027	....	37,315	37,315	31,777	1.07
South Dakota	6,553	....	7,117	7,117	6,061	0.20
Tennessee	44,564	....	49,704	49,704	42,329	1.43
Texas	278,901	89,629	236,685	326,314	201,563	6.80
Utah	16,694	2,122	20,480	22,602	17,441	0.59
Vermont	28,497	....	7,711	7,711	46,279	1.56
Virginia	46,224	15,578	54,343	69,921	6,567	0.22
Washington	49,107	901	54,833	55,734	46,696	1.57
West Virginia	17,546	1,697	20,734	22,431	52,191	1.76
Wisconsin	79,680	2,882	61,283	64,165	17,859	0.60
Wyoming	3,196	....	3,605	3,605	3,071	0.10
American Samoa	1,159	....	1,036	1,036	1,035	0.03
Guam	3,086	3,158	3,014	6,172	3,013	0.10
Northern Mariana Islands	824	793	969	1,762	968	0.03
Puerto Rico	66,984	....	69,664	69,664	59,326	2.00
Freely Associated States	....	....	....	....	....	....
Virgin Islands	1,873	1,890	1,984	3,874	1,983	0.07
Indian Tribes	56,402	938	60,000	60,938	70,000	2.36
Undistributed	110,954	3,882	850,000	853,882	10,005,000	....
Total	**3,714,538**	**617,135**	**9,577,997**	**10,195,132**	**12,971,301**	[1] **100.00**

NOTE: 2013 obligations include $5.4 billion of announced funding from P.L. 113-2 and an estimated $850 million of funding expected to be obligated that has not yet been announced. The remainder of the disaster funds provided by P.L. 113-2 are expected to be obligated in 2014.

[1] Excludes undistributed obligations.

Department of Labor, Employment and Training Administration **16-0179-0-1-603**

Table 17–33. UNEMPLOYMENT INSURANCE (17.225)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	37,038	....	38,030	76,060	....	....
Alaska	24,207	....	28,256	56,512	....	....
Arizona	41,057	....	42,165	84,330	....	....
Arkansas	24,903	....	26,189	52,378	....	....
California	439,524	....	468,307	936,614	....	....
Colorado	45,633	....	45,605	91,210	....	....
Connecticut	61,690	....	60,542	121,084	....	....
Delaware	11,279	....	12,010	24,020	....	....
District of Columbia	13,996	....	12,205	24,410	....	....
Florida	95,151	....	99,393	198,786	....	....
Georgia	72,584	....	80,087	160,174	....	....
Hawaii	16,956	....	17,188	34,376	....	....
Idaho	21,733	....	20,878	41,756	....	....
Illinois	171,890	....	178,271	356,542	....	....
Indiana	45,199	....	50,381	100,762	....	....
Iowa	28,845	....	30,106	60,212	....	....
Kansas	21,229	....	23,161	46,322	....	....
Kentucky	35,174	....	33,054	66,108	....	....
Louisiana	36,215	....	35,732	71,464	....	....
Maine	27,450	....	17,591	35,182	....	....
Maryland	63,193	....	68,014	136,028	....	....
Massachusetts	69,836	....	72,697	145,394	....	....
Michigan	128,886	....	142,654	285,308	....	....
Minnesota	44,219	....	49,831	99,662	....	....
Mississippi	96,553	....	24,574	49,148	....	....
Missouri	39,410	....	41,709	83,418	....	....
Montana	9,632	....	10,047	20,094	....	....
Nebraska	17,659	....	16,772	33,544	....	....
Nevada	35,847	....	35,190	70,380	....	....
New Hampshire	17,908	....	16,543	33,086	....	....
New Jersey	124,947	....	129,304	258,608	....	....
New Mexico	21,596	....	15,853	31,706	....	....
New York	235,470	....	203,643	407,286	....	....
North Carolina	65,887	....	68,988	137,976	....	....
North Dakota	7,452	....	8,110	16,220	....	....
Ohio	103,585	....	105,580	211,160	....	....
Oklahoma	26,189	....	27,659	55,318	....	....
Oregon	55,579	....	58,005	116,010	....	....
Pennsylvania	153,955	....	162,351	324,702	....	....
Rhode Island	30,067	....	15,029	30,058	....	....
South Carolina	34,250	....	35,101	70,202	....	....
South Dakota	5,669	....	6,485	12,970	....	....
Tennessee	42,163	....	42,965	85,930	....	....
Texas	145,770	....	155,972	311,944	....	....
Utah	26,051	....	29,010	58,020	....	....
Vermont	8,010	....	9,184	18,368	....	....
Virginia	47,354	....	49,761	99,522	....	....
Washington	105,935	....	115,537	231,074	....	....
West Virginia	15,844	....	16,226	32,452	....	....
Wisconsin	72,581	....	77,728	155,456	....	....
Wyoming	9,070	....	10,091	20,182	....	....
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	21,484	....	21,003	42,006	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	3,220	....	2,137	4,274	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	4	....	....	....	3,842,895	....
Dept of Health and Human Services	2,236	....	2,240	4,480	2,240	100.00
Total	**3,159,264**	**.........**	**3,165,144**	**6,330,288**	**3,845,135**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Labor, Employment and Training Administration **16-0171-4-504**

Table 17–34. PATHWAYS BACK TO WORK

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	....	....	146,004	146,004	....	....
Alaska	....	....	18,909	18,909	....	....
Arizona	....	....	215,575	215,575	....	....
Arkansas	....	....	87,033	87,033	....	....
California	....	....	1,619,096	1,619,096	....	....
Colorado	....	....	155,030	155,030	....	....
Connecticut	....	....	107,836	107,836	....	....
Delaware	....	....	21,553	21,553	....	....
District of Columbia	....	....	27,239	27,239	....	....
Florida	....	....	673,754	673,754	....	....
Georgia	....	....	344,887	344,887	....	....
Hawaii	....	....	31,943	31,943	....	....
Idaho	....	....	48,441	48,441	....	....
Illinois	....	....	454,569	454,569	....	....
Indiana	....	....	206,195	206,195	....	....
Iowa	....	....	51,225	51,225	....	....
Kansas	....	....	65,725	65,725	....	....
Kentucky	....	....	163,892	163,892	....	....
Louisiana	....	....	125,896	125,896	....	....
Maine	....	....	37,965	37,965	....	....
Maryland	....	....	137,105	137,105	....	....
Massachusetts	....	....	162,470	162,470	....	....
Michigan	....	....	341,460	341,460	....	....
Minnesota	....	....	123,630	123,630	....	....
Mississippi	....	....	116,902	116,902	....	....
Missouri	....	....	175,085	175,085	....	....
Montana	....	....	28,682	28,682	....	....
Nebraska	....	....	23,493	23,493	....	....
Nevada	....	....	130,497	130,497	....	....
New Hampshire	....	....	19,672	19,672	....	....
New Jersey	....	....	296,029	296,029	....	....
New Mexico	....	....	57,663	57,663	....	....
New York	....	....	637,430	637,430	....	....
North Carolina	....	....	363,230	363,230	....	....
North Dakota	....	....	6,778	6,778	....	....
Ohio	....	....	346,278	346,278	....	....
Oklahoma	....	....	82,503	82,503	....	....
Oregon	....	....	135,735	135,735	....	....
Pennsylvania	....	....	365,912	365,912	....	....
Rhode Island	....	....	46,482	46,482	....	....
South Carolina	....	....	167,405	167,405	....	....
South Dakota	....	....	12,013	12,013	....	....
Tennessee	....	....	209,262	209,262	....	....
Texas	....	....	716,785	716,785	....	....
Utah	....	....	54,784	54,784	....	....
Vermont	....	....	10,422	10,422	....	....
Virginia	....	....	167,206	167,206	....	....
Washington	....	....	220,053	220,053	....	....
West Virginia	....	....	52,458	52,458	....	....
Wisconsin	....	....	152,885	152,885	....	....
Wyoming	....	....	8,751	8,751	....	....
American Samoa	....	....	2,825	2,825	....	....
Guam	....	....	9,588	9,588	....	....
Northern Mariana Islands	....	....	5,239	5,239	....	....
Puerto Rico	....	....	239,422	239,422	....	....
Freely Associated States	....	....	715	715	....	....
Virgin Islands	....	....	7,884	7,884	....	....
Indian Tribes	....	....	157,500	157,500	....	....
Undistributed	....	....	105,000	105,000	....	....
Total	**.........**	**.........**	**10,500,000**	**10,500,000**	**.........**	**.........**

NOTE: All appropriations and obligations for this program would be in 2013.

Department of Transportation, Federal Aviation Administration **69-8106-0-7-402**

Table 17–35. AIRPORT IMPROVEMENT PROGRAM (20.106)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from:			FY 2014 (estimated)	FY 2014 Percentage of distributed total
		Previous authority	2013 CR or New Authority	Total		
Alabama	64,220	....	53,021	53,021	45,782	1.68
Alaska	228,163	....	212,503	212,503	186,571	6.85
Arizona	78,617	....	71,020	71,020	63,244	2.32
Arkansas	67,886	....	47,991	47,991	42,834	1.57
California	264,136	....	243,067	243,067	204,344	7.50
Colorado	88,610	....	90,290	90,290	75,409	2.77
Connecticut	23,085	....	19,317	19,317	16,851	0.62
Delaware	5,684	....	4,614	4,614	3,677	0.13
District of Columbia	300	....	324	324	270	0.01
Florida	147,886	....	154,554	154,554	130,834	4.80
Georgia	83,067	....	82,589	82,589	70,416	2.58
Hawaii	44,166	....	31,840	31,840	27,070	0.99
Idaho	26,673	....	19,192	19,192	17,431	0.64
Illinois	166,422	....	133,940	133,940	120,238	4.41
Indiana	55,659	....	60,302	60,302	50,628	1.86
Iowa	63,815	....	43,027	43,027	38,079	1.40
Kansas	55,464	....	35,943	35,943	30,793	1.13
Kentucky	47,643	....	42,592	42,592	36,662	1.35
Louisiana	42,676	....	54,053	54,053	44,220	1.62
Maine	21,088	....	25,361	25,361	21,223	0.78
Maryland	34,304	....	22,438	22,438	17,613	0.65
Massachusetts	43,343	....	55,323	55,323	48,707	1.79
Michigan	79,288	....	80,477	80,477	67,257	2.47
Minnesota	51,496	....	53,853	53,853	44,479	1.63
Mississippi	34,481	....	43,926	43,926	38,130	1.40
Missouri	48,340	....	53,893	53,893	44,286	1.63
Montana	35,229	....	39,491	39,491	32,755	1.20
Nebraska	28,326	....	36,704	36,704	32,849	1.21
Nevada	41,919	....	45,081	45,081	38,257	1.40
New Hampshire	17,107	....	16,502	16,502	15,823	0.58
New Jersey	34,126	....	42,139	42,139	39,168	1.44
New Mexico	22,978	....	24,117	24,117	21,778	0.80
New York	112,272	....	115,964	115,964	102,041	3.75
North Carolina	98,925	....	82,555	82,555	70,501	2.59
North Dakota	52,027	....	32,432	32,432	30,208	1.11
Ohio	62,111	....	74,858	74,858	64,495	2.37
Oklahoma	43,762	....	39,194	39,194	34,237	1.26
Oregon	65,560	....	59,383	59,383	50,377	1.85
Pennsylvania	56,339	....	68,536	68,536	54,445	2.00
Rhode Island	8,263	....	8,981	8,981	7,256	0.27
South Carolina	48,120	....	47,827	47,827	40,397	1.48
South Dakota	26,267	....	30,821	30,821	27,147	1.00
Tennessee	83,751	....	79,148	79,148	66,709	2.45
Texas	171,445	....	213,400	213,400	172,036	6.31
Utah	61,130	....	46,825	46,825	43,311	1.59
Vermont	17,393	....	16,605	16,605	15,295	0.56
Virginia	92,225	....	71,191	71,191	61,381	2.25
Washington	75,714	....	95,911	95,911	81,461	2.99
West Virginia	19,069	....	19,747	19,747	17,155	0.63
Wisconsin	77,244	....	63,849	63,849	54,410	2.00
Wyoming	25,027	....	22,961	22,961	19,186	0.70
American Samoa	871	....	5,554	5,554	3,943	0.14
Guam	8,197	....	11,742	11,742	8,993	0.33
Northern Mariana Islands	18,501	....	11,909	11,909	10,618	0.39
Puerto Rico	25,733	....	16,957	16,957	16,005	0.59
Freely Associated States	....	....	....	....	....	....
Virgin Islands	7,540	....	7,918	7,918	5,381	0.20
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Total	**3,303,679**	....	**3,183,753**	**3,183,753**	**2,724,667**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Transportation, Federal Highway Administration **69-8083-0-7-401**

Table 17–36. HIGHWAY PLANNING AND CONSTRUCTION (20.205)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	665,999	....	709,620	709,620	711,202	1.98
Alaska	461,507	....	469,054	469,054	449,520	1.25
Arizona	654,796	....	665,653	665,653	671,203	1.86
Arkansas	568,443	....	463,184	463,184	474,378	1.32
California	3,423,175	....	3,511,409	3,511,409	3,371,887	9.37
Colorado	505,742	....	492,642	492,642	501,242	1.39
Connecticut	464,944	....	471,182	471,182	460,960	1.28
Delaware	172,943	....	151,518	151,518	155,183	0.43
District of Columbia	234,274	....	142,903	142,903	146,359	0.41
Florida	1,835,563	....	1,749,704	1,749,704	1,776,095	4.93
Georgia	1,225,049	....	1,181,778	1,181,778	1,210,359	3.36
Hawaii	154,955	....	165,138	165,138	151,719	0.42
Idaho	282,279	....	261,848	261,848	262,210	0.73
Illinois	1,301,370	....	1,301,211	1,301,211	1,332,693	3.70
Indiana	924,228	....	835,752	835,752	854,042	2.37
Iowa	509,363	....	437,287	437,287	440,881	1.22
Kansas	389,314	....	345,882	345,882	354,244	0.98
Kentucky	632,595	....	629,846	629,846	622,845	1.73
Louisiana	705,343	....	640,778	640,778	628,060	1.74
Maine	179,128	....	169,293	169,293	169,287	0.47
Maryland	561,049	....	525,623	525,623	538,336	1.50
Massachusetts	608,725	....	619,950	619,950	569,289	1.58
Michigan	1,028,154	....	963,623	963,623	986,935	2.74
Minnesota	641,842	....	646,600	646,600	597,879	1.66
Mississippi	550,698	....	436,945	436,945	443,132	1.23
Missouri	900,435	....	856,359	856,359	867,459	2.41
Montana	435,319	....	400,175	400,175	376,050	1.04
Nebraska	300,700	....	273,562	273,562	264,921	0.74
Nevada	366,811	....	325,398	325,398	333,270	0.93
New Hampshire	168,096	....	154,486	154,486	154,877	0.43
New Jersey	809,025	....	1,145,171	1,145,171	935,897	2.60
New Mexico	351,933	....	321,072	321,072	328,830	0.91
New York	1,538,148	....	1,877,092	1,877,092	1,573,368	4.37
North Carolina	1,021,850	....	990,968	990,968	933,055	2.59
North Dakota	483,525	....	248,539	248,539	232,725	0.65
Ohio	1,258,632	....	1,200,652	1,200,652	1,229,690	3.42
Oklahoma	635,292	....	575,543	575,543	581,029	1.61
Oregon	419,252	....	465,963	465,963	458,169	1.27
Pennsylvania	1,605,452	....	1,507,553	1,507,553	1,537,996	4.27
Rhode Island	217,840	....	214,629	214,629	200,518	0.56
South Carolina	572,634	....	575,534	575,534	588,529	1.63
South Dakota	311,084	....	246,739	246,739	252,702	0.70
Tennessee	845,746	....	768,365	768,365	774,665	2.15
Texas	2,767,779	....	2,888,901	2,888,901	2,958,150	8.22
Utah	324,325	....	288,353	288,353	295,324	0.82
Vermont	350,238	....	199,994	199,994	186,138	0.52
Virginia	916,199	....	920,431	920,431	933,141	2.59
Washington	674,886	....	607,015	607,015	621,693	1.73
West Virginia	475,243	....	392,976	392,976	400,503	1.11
Wisconsin	718,236	....	690,333	690,333	705,327	1.96
Wyoming	287,563	....	236,600	236,600	229,526	0.64
American Samoa	6,952	....	15,185	15,185	4,708	0.01
Guam	24,818	....	23,042	23,042	16,807	0.05
Northern Mariana Islands	11,371	....	7,580	7,580	7,700	0.02
Puerto Rico	138,249	....	135,879	135,879	129,793	0.36
Freely Associated States	....	....	....	....	....	....
Virgin Islands	13,622	....	9,081	9,081	9,225	0.03
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	[1] 4,735,593	4,735,593	[1] 5,893,274	....
Total	**37,632,733**	**........**	**41,287,186**	**41,287,186**	**41,894,999**	**[2] 100.00**

NOTE: This table also includes budget account numbers 69-0500-0-1-401, 69-0504-0-1-401, and 69-0548-0-1-401.

NOTE: The FY 2013 and FY 2014 columns are estimated distributions of Federal-aid highways obligation limitation plus estimated exempt contract authority and Emergency Relief Program amounts.

[1] This amount includes funding for allocated programs, which has not been identified as being provided to a specific State at this time.

2 Excludes undistributed obligations.

Department of Transportation, Federal Transit Administration **69-8350-0-7-401**

Table 17–37. TRANSIT FORMULA GRANTS PROGRAMS (20.507)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	48,404	54,072	19,747	73,819	78,416	0.78
Alaska	52,307	13,218	22,259	35,477	37,687	0.38
Arizona	139,534	97,272	59,378	156,650	166,406	1.66
Arkansas	27,301	2,924	11,618	14,542	15,447	0.15
California	1,735,156	648,017	738,389	1,386,406	1,472,749	14.66
Colorado	154,553	18,993	65,770	84,763	90,042	0.90
Connecticut	157,639	306,249	67,083	373,332	396,582	3.95
Delaware	7,310	31,060	3,111	34,171	36,299	0.36
District of Columbia	95,998	192,587	40,852	233,439	247,976	2.47
Florida	398,766	255,938	169,693	425,631	452,138	4.50
Georgia	185,766	201,284	79,052	280,336	297,795	2.96
Hawaii	82,325	25,290	35,033	60,323	64,080	0.64
Idaho	21,916	11,630	9,326	20,956	22,261	0.22
Illinois	574,213	156,682	244,354	401,036	426,011	4.24
Indiana	111,645	40,504	47,510	88,014	93,495	0.93
Iowa	49,888	18,796	21,230	40,026	42,518	0.42
Kansas	24,827	20,242	10,565	30,807	32,725	0.33
Kentucky	59,379	28,125	25,269	53,394	56,719	0.56
Louisiana	35,764	28,196	15,219	43,415	46,119	0.46
Maine	25,663	9,116	10,921	20,037	21,285	0.21
Maryland	123,652	189,925	52,620	242,545	257,650	2.57
Massachusetts	688,475	213,366	292,978	506,344	537,878	5.35
Michigan	170,329	95,464	72,483	167,947	178,406	1.78
Minnesota	116,620	68,253	49,627	117,880	125,222	1.25
Mississippi	23,298	16,474	9,914	26,388	28,032	0.28
Missouri	113,316	38,050	48,221	86,271	91,644	0.91
Montana	10,856	8,488	4,620	13,108	13,925	0.14
Nebraska	23,785	24,867	10,121	34,988	37,168	0.37
Nevada	32,250	36,725	13,724	50,449	53,591	0.53
New Hampshire	18,179	10,987	7,736	18,723	19,888	0.20
New Jersey	628,441	146,109	267,431	413,540	439,293	4.37
New Mexico	29,911	28,684	12,729	41,413	43,992	0.44
New York	1,360,211	1,207,164	578,833	1,785,997	1,897,223	18.89
North Carolina	111,366	100,771	47,392	148,163	157,389	1.57
North Dakota	9,462	10,344	4,027	14,371	15,266	0.15
Ohio	202,302	76,831	86,089	162,920	173,066	1.72
Oklahoma	37,042	8,261	15,763	24,024	25,520	0.25
Oregon	158,389	43,178	67,402	110,580	117,467	1.17
Pennsylvania	311,765	229,446	132,670	362,116	384,668	3.83
Rhode Island	36,748	37,621	15,638	53,259	56,576	0.56
South Carolina	49,281	28,662	20,971	49,633	52,724	0.52
South Dakota	12,167	5,860	5,178	11,038	11,726	0.12
Tennessee	74,729	45,063	31,801	76,864	81,650	0.81
Texas	498,377	172,380	212,082	384,462	408,406	4.07
Utah	70,433	9,636	29,972	39,608	42,075	0.42
Vermont	10,688	15,261	4,548	19,809	21,043	0.21
Virginia	125,701	94,522	53,492	148,014	157,231	1.57
Washington	296,518	81,120	126,182	207,302	220,213	2.19
West Virginia	18,053	18,252	7,682	25,934	27,550	0.27
Wisconsin	141,281	50,334	60,122	110,456	117,335	1.17
Wyoming	7,140	6,018	3,038	9,056	9,620	0.10
American Samoa	....	282	....	282	300	*
Guam	2,051	134	873	1,007	1,070	0.01
Northern Mariana Islands	....	1,435	....	1,435	1,524	0.02
Puerto Rico	51,738	108,328	22,017	130,345	138,463	1.38
Freely Associated States	....	....	....	....	....	....
Virgin Islands	2,730	1,570	1,161	2,731	2,902	0.03
Indian Tribes	....	....	....	....	....	....
Undistributed	[1] 48,466	[2] 79,659	[3] 20,873	100,532	[4] 80,891	....
Total	**9,604,104**	**5,469,719**	**4,086,389**	**9,556,108**	**10,125,337**	**[5] 100.00**

* $500 or less or 0.005 percent or less.

[1] FY 2012 Undistributed is the Oversight takedown.

[2] FY 2013 Undistributed includes the Oversight takedown $60,352 and a Undistributed amount of $19,307 thousands.

[3] FY 2013 new authority Undistributed line is the Oversight takedown.

[4] FY 2013 Undistributed includes the Oversight takedown of 61,506 and a undistirbuted amount of $19,385 thousands.

[5] Excludes undistributed obligations.

Environmental Protection Agency, Office of Water **68-0103-0-1-304**

Table 17–38. CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUND (66.458)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	32,474	992	14,968	15,960	11,999	1.10
Alaska	8,544	531	8,012	8,543	6,423	0.59
Arizona	15,776	599	9,042	9,641	7,248	0.66
Arkansas	9,341	580	8,757	9,337	7,020	0.64
California	104,839	6,344	95,739	102,083	76,749	7.01
Colorado	11,305	709	10,707	11,416	8,584	0.78
Connecticut	35,623	1,087	16,399	17,486	13,146	1.20
Delaware	34,058	435	6,572	7,007	5,268	0.48
District of Columbia	17,010	435	6,572	7,007	5,268	0.48
Florida	48,189	2,994	45,186	48,180	36,223	3.31
Georgia	24,137	1,500	22,633	24,133	18,144	1.66
Hawaii	11,057	687	10,368	11,055	8,311	0.76
Idaho	7,008	435	6,572	7,007	5,268	0.48
Illinois	65,240	4,012	60,542	64,554	48,533	4.43
Indiana	34,392	2,138	32,261	34,399	25,862	2.36
Iowa	39,209	1,200	18,117	19,317	14,524	1.33
Kansas	12,886	801	12,083	12,884	9,686	0.88
Kentucky	18,169	1,129	17,037	18,166	13,658	1.25
Louisiana	32,560	975	14,716	15,691	11,797	1.08
Maine	11,051	687	10,362	11,049	8,307	0.76
Maryland	34,528	2,145	32,376	34,521	25,954	2.37
Massachusetts	48,488	3,012	45,449	48,461	36,434	3.33
Michigan	61,384	3,814	57,559	61,373	46,142	4.21
Minnesota	26,239	1,630	24,604	26,234	19,724	1.80
Mississippi	129	799	12,061	12,860	9,668	0.88
Missouri	80,444	2,459	37,109	39,568	29,749	2.72
Montana	7,122	435	6,572	7,007	5,268	0.48
Nebraska	7,276	454	6,847	7,301	5,489	0.50
Nevada	7,008	435	6,572	7,007	5,268	0.48
New Hampshire	14,268	886	13,377	14,263	10,724	0.98
New Jersey	57,755	3,625	54,702	58,327	43,852	4.00
New Mexico	16,753	435	6,572	7,007	5,268	0.48
New York	162,069	9,791	147,753	157,544	118,445	10.82
North Carolina	26,908	1,601	24,159	25,760	19,367	1.77
North Dakota	14,130	435	6,572	7,007	5,268	0.48
Ohio	80,368	4,994	75,359	80,353	60,412	5.52
Oklahoma	19,067	717	10,815	11,532	8,670	0.79
Oregon	16,127	1,002	15,122	16,124	12,122	1.11
Pennsylvania	56,549	3,514	53,025	56,539	42,508	3.88
Rhode Island	9,586	596	8,988	9,584	7,206	0.66
South Carolina	15,273	909	13,713	14,622	10,993	1.00
South Dakota	7,108	435	6,572	7,007	5,268	0.48
Tennessee	20,738	1,289	19,446	20,735	15,589	1.42
Texas	65,414	4,054	61,183	65,237	49,048	4.48
Utah	7,522	467	7,053	7,520	5,654	0.52
Vermont	7,008	435	6,572	7,007	5,268	0.48
Virginia	29,216	1,815	27,396	29,211	21,962	2.01
Washington	24,826	1,542	23,279	24,821	18,662	1.70
West Virginia	22,254	1,383	20,867	22,250	16,728	1.53
Wisconsin	78,515	2,398	36,190	38,588	29,011	2.65
Wyoming	7,014	435	6,572	7,007	5,268	0.48
American Samoa	7,734	480	7,252	7,732	5,814	0.53
Guam	7,045	348	5,247	5,595	4,207	0.38
Northern Mariana Islands	3,595	233	3,371	3,604	2,702	0.25
Puerto Rico	38,074	1,157	17,459	18,616	13,996	1.28
Freely Associated States	....	....	....	....	....	....
Virgin Islands	4,781	279	4,209	4,488	3,374	0.31
Indian Tribes	16,859	1,810	27,319	29,129	21,900	2.00
Undistributed	....	....	....	....	....	..
Total	1,682,041	90,518	1,365,938	[1] 1,456,456	1,095,000	[2] 100.00

[1] FY2013 totals do not include supplemental funding provided by Public Law 113-2, the Disaster Relief Appropriations Act, 2013.

[2] Excludes undistributed obligations.

Environmental Protection Agency, Office of Water **68-0103-0-1-304**

Table 17–39. CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUND (66.468)

(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	22,799	906	10,219	11,125	9,899	1.21
Alaska	9,001	731	8,244	8,975	7,987	0.98
Arizona	22,181	1,467	16,559	18,026	16,040	1.96
Arkansas	27,834	1,106	12,476	13,582	12,086	1.48
California	85,058	6,834	77,123	83,957	74,702	9.14
Colorado	16,186	1,296	14,624	15,920	14,166	1.73
Connecticut	18,393	731	8,244	8,975	7,987	0.98
Delaware	9,125	731	8,244	8,975	7,987	0.98
District of Columbia	18,758	731	8,244	8,975	7,987	0.98
Florida	29,306	2,385	26,921	29,306	26,077	3.19
Georgia	46,793	1,726	19,482	21,208	18,872	2.31
Hawaii	9,125	731	8,244	8,975	7,987	0.98
Idaho	9,081	731	8,244	8,975	7,987	0.98
Illinois	33,879	2,758	31,121	33,879	30,146	3.69
Indiana	14,970	1,219	13,751	14,970	13,321	1.63
Iowa	16,077	1,247	14,075	15,322	13,633	1.67
Kansas	11,330	894	10,087	10,981	9,771	1.20
Kentucky	12,956	1,055	11,901	12,956	11,529	1.41
Louisiana	34,760	1,381	15,581	16,962	15,093	1.85
Maine	9,125	731	8,244	8,975	7,987	0.98
Maryland	14,795	1,134	12,792	13,926	12,392	1.52
Massachusetts	17,012	1,362	15,370	16,732	14,889	1.82
Michigan	27,263	2,219	25,044	27,263	24,259	2.97
Minnesota	15,062	1,226	13,836	15,062	13,403	1.64
Mississippi	19,143	760	8,581	9,341	8,312	1.02
Missouri	53,968	1,412	15,936	17,348	15,437	1.89
Montana	9,125	731	8,244	8,975	7,987	0.98
Nebraska	8,717	731	8,244	8,975	7,987	0.98
Nevada	9,125	731	8,244	8,975	7,987	0.98
New Hampshire	9,125	731	8,244	8,975	7,987	0.98
New Jersey	20,174	1,561	17,613	19,174	17,061	2.09
New Mexico	21,406	731	8,244	8,975	7,987	0.98
New York	61,322	4,814	54,324	59,138	52,622	6.44
North Carolina	24,698	1,916	21,621	23,537	20,944	2.56
North Dakota	18,393	731	8,244	8,975	7,987	0.98
Ohio	30,821	2,347	26,492	28,839	25,662	3.14
Oklahoma	11,337	908	10,243	11,151	9,923	1.21
Oregon	9,864	731	8,244	8,975	7,987	0.98
Pennsylvania	26,737	2,140	24,157	26,297	23,399	2.86
Rhode Island	18,393	731	8,244	8,975	7,987	0.98
South Carolina	9,418	731	8,244	8,975	7,987	0.98
South Dakota	9,125	731	8,244	8,975	7,987	0.98
Tennessee	10,142	812	9,163	9,975	8,876	1.09
Texas	116,946	4,643	52,398	57,041	50,755	6.21
Utah	9,125	731	8,244	8,975	7,987	0.98
Vermont	18,396	731	8,244	8,975	7,987	0.98
Virginia	15,469	1,238	13,977	15,215	13,539	1.66
Washington	22,914	1,865	21,049	22,914	20,389	2.50
West Virginia	9,278	731	8,244	8,975	7,987	0.98
Wisconsin	34,115	1,260	14,214	15,474	13,769	1.69
Wyoming	9,125	731	8,244	8,975	7,987	0.98
American Samoa	1,447	111	1,249	1,360	1,210	0.15
Guam	3,018	277	3,121	3,398	3,023	0.37
Northern Mariana Islands	4,007	331	3,734	4,065	3,618	0.44
Puerto Rico	18,393	731	8,244	8,975	7,987	0.98
Freely Associated States	....	....	....	....	....	....
Virgin Islands	4,869	378	4,262	4,640	4,128	0.51
Indian Tribes	18,394	1,494	16,864	18,358	16,341	2.00
Undistributed	....	....	....	....	....	....
[1] Unregulated Contaminant Monitoring Role (UCMR)	1,840	163	1,837	2,000	2,000	0.24
Total	**1,199,237**	**74,727**	**[1] 843,165**	**[2] 917,892**	**[3] 817,000**	**[4] 100.00**

[1] EPA is required by Section 1452(o) of the Safe Drinking Water Act (SDWA), as amended, to annually set-aside $2 million of State Revolving Funds to pay the costs of small system monitoring and sample analysis for contaminants for each cycle of the UCMR. EPA uses the Unregulated Contaminant Monitoring (UCM) program to collect data for contaminants suspected to be present in drinking water, but that do not have health-based standards set under the Safe Drinking Water Act (SDWA).

[2] FY2013 totals do not include supplemental funding provided by Public Laws 113-2, the Disaster Relief Appropriations Act, 2013.

[3] Since the results of the FY2011 Needs Survey have not yet been released, the FY2014 state allocations are currently based on the 2007 Needs Survey, which was used for both FY2012 and FY2013. The FY2014-2018 state allocations will ultimately be based on the most recent needs survey, which EPA will release separately.

[4] Excludes undistributed obligations.

Federal Communications Commission **27-5183-0-2-376**

Table 17–40. UNIVERSAL SERVICE FUND E-RATE
(Obligations in thousands of dollars)

State or Territory	FY 2012 Actual	Estimated FY 2013 obligations from: Previous authority	2013 CR or New Authority	Total	FY 2014 (estimated)	FY 2014 Percentage of distributed total
Alabama	42,628	32,197	10,167	42,364	43,815	2.33
Alaska	25,340	19,140	6,044	25,184	26,046	1.38
Arizona	53,557	40,451	12,774	53,225	55,048	2.92
Arkansas	18,645	14,082	4,447	18,529	19,164	1.02
California	272,316	205,679	64,951	270,630	279,901	14.87
Colorado	24,224	18,296	5,778	24,074	24,898	1.32
Connecticut	14,238	10,754	3,396	14,150	14,635	0.78
Delaware	1,963	1,483	468	1,951	2,018	0.11
District of Columbia	9,654	7,292	2,303	9,595	9,923	0.53
Florida	65,201	49,246	15,551	64,797	67,017	3.56
Georgia	89,690	67,743	21,392	89,135	92,188	4.90
Hawaii	2,002	1,512	478	1,990	2,058	0.11
Idaho	10,394	7,851	2,479	10,330	10,684	0.57
Illinois	83,874	63,350	20,005	83,355	86,210	4.58
Indiana	31,740	23,973	7,570	31,543	32,624	1.73
Iowa	12,800	9,668	3,053	12,721	13,157	0.70
Kansas	15,167	11,456	3,618	15,074	15,590	0.83
Kentucky	33,919	25,619	8,090	33,709	34,864	1.85
Louisiana	43,880	33,142	10,466	43,608	45,102	2.40
Maine	6,660	5,031	1,589	6,620	6,846	0.36
Maryland	38,236	28,880	9,120	38,000	39,301	2.09
Massachusetts	13,655	10,313	3,257	13,570	14,035	0.75
Michigan	42,591	32,169	10,159	42,328	43,777	2.33
Minnesota	24,543	18,537	5,854	24,391	25,226	1.34
Mississippi	21,334	16,114	5,088	21,202	21,928	1.17
Missouri	31,399	23,715	7,489	31,204	32,273	1.71
Montana	3,508	2,649	837	3,486	3,605	0.19
Nebraska	9,153	6,913	2,183	9,096	9,407	0.50
Nevada	3,470	2,621	828	3,449	3,567	0.19
New Hampshire	1,801	1,361	430	1,791	1,852	0.10
New Jersey	47,096	35,571	11,233	46,804	48,407	2.57
New Mexico	23,369	17,651	5,574	23,225	24,020	1.28
New York	98,071	74,073	23,391	97,464	100,803	5.36
North Carolina	49,187	37,151	11,732	48,883	50,557	2.69
North Dakota	3,185	2,406	760	3,166	3,274	0.17
Ohio	62,884	47,496	14,999	62,495	64,635	3.43
Oklahoma	48,680	36,768	11,611	48,379	50,036	2.66
Oregon	15,189	11,472	3,623	15,095	15,612	0.83
Pennsylvania	52,818	39,893	12,598	52,491	54,289	2.88
Rhode Island	5,602	4,231	1,336	5,567	5,758	0.31
South Carolina	34,282	25,893	8,177	34,070	35,237	1.87
South Dakota	4,340	3,278	1,035	4,313	4,461	0.24
Tennessee	39,316	29,695	9,377	39,072	40,411	2.15
Texas	171,089	129,223	40,807	170,030	175,854	9.34
Utah	15,137	11,433	3,610	15,043	15,559	0.83
Vermont	1,820	1,375	434	1,809	1,871	0.10
Virginia	25,582	19,322	6,102	25,424	26,295	1.40
Washington	25,650	19,373	6,118	25,491	26,364	1.40
West Virginia	11,159	8,428	2,662	11,090	11,470	0.61
Wisconsin	27,175	20,525	6,482	27,007	27,932	1.48
Wyoming	1,876	1,417	447	1,864	1,928	0.10
American Samoa	2,146	1,621	512	2,133	2,206	0.12
Guam	674	509	161	670	693	0.04
Northern Mariana Islands	558	421	133	554	574	0.03
Puerto Rico	9,559	7,220	2,280	9,500	9,825	0.52
Freely Associated States	....	....	....	....	....	....
Virgin Islands	7,088	5,354	1,691	7,045	7,286	0.39
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Total	1,831,114	1,383,036	436,749	1,819,785	1,882,116	[1] 100.00

[1] Excludes undistributed obligations.

18. 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, the environment, agriculture, crime, education, energy, 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 and equitable availability of objective, relevant, accurate, and timely Federal statistics.

The Federal statistical community is attentive to opportunities to improve these measures of our Nation's performance, which is critical to fostering long-term global competitiveness. For example, during 2012, Federal statistical agencies:

- initiated data collection for the 2012 Economic Census from over 29 million business establishments covering 84 percent of economic activity in the Gross Domestic Product *(Census Bureau)*;
- released reports updating information about how U.S. students compared to their counterparts in other nations in terms of math, reading, and science skills *(National Center for Education Statistics)*;
- released new measures of household expenditures on health care classified by disease that facilitate the assessment of benefits and costs of treatment and provide a better understanding of factors driving growth in health care spending *(Bureau of Economic Analysis)*;
- developed statistical techniques and processes to improve the accuracy and coverage of the Census of Agriculture *(National Agricultural Statistics Service)*;
- provided timely information and analysis on the impacts of one of the most severe and extensive U.S. droughts in 25 years in order to assess its potential effects on food prices and consumers, farms, and the crop and livestock sectors *(Economic Research Service)*;
- reviewed and strengthened methods used to prevent disclosure of taxpayer information in tabulated data disseminated over the Internet in order to preserve taxpayer confidentiality *(Statistics of Income Division, IRS)*;
- published, on an experimental basis, a new aggregation structure that includes Producer Price Indexes (PPI) for intermediate and final demand that measure inflation for U.S. services as well as goods, thereby greatly expanding PPI coverage of the United States economy *(Bureau of Labor Statistics)*;
- improved public access to 1.4 million data points of annual time-series data summarizing energy production, consumption, prices, and expenditures back to 1960 *(Energy Information Administration)*;
- expanded use of administrative records for statistical purposes by entering into two new agreements to link administrative data to survey data in other agencies, thus avoiding investments in more costly surveys *(Office of Research, Evaluation, and Statistics, SSA)*;
- provided current national and State-specific (for the largest States) data to track health insurance coverage, including coverage under both traditional and consumer-directed insurance arrangements *(National Center for Health Statistics)*;
- launched a new tool providing a direct and user-friendly way to work with 19 years of data about victims of crime *(Bureau of Justice Statistics)*;
- provided Commodity Flow Survey respondents, for the first time, with the option to report electronically via the Internet, resulting in reduced costs and overall improvement of data quality *(Bureau of Transportation Statistics)*;
- improved the timeliness, quality and efficiency of its Scientists and Engineers Statistical Data System by increasing the sample size of the National Survey of College Graduates for young graduates, thereby improving understanding of the transition to employment of science and engineering graduates *(National Center for Science and Engineering Statistics)*; and
- significantly increased the data quality of the American Community Survey by expanding its sample size to 3.5 million households *(Census Bureau)*.

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, transparency, 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 unlocking the power of Government data to improve the quality of information available to the American people while maximizing the cost-effective use of resources for the collection of Federal statistics within a constrained fiscal environment. This chapter presents highlights of principal statistical agencies' 2014 budget proposals.

Highlights of 2014 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 18–1). The remaining funding supports work in approximately 90 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 2014*, when it is published later this year. The following highlights 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), Department of Commerce: Funding is requested to provide support for ongoing BEA programs and to better capture and measure the impacts of foreign direct investment (FDI) in the U.S. economy. BEA will improve overall coverage and measurement of FDI by implementing a new survey that will identify and quantify new investment in the U.S. by foreign investors. In addition, BEA plans to: (1) continue to implement a critical modernization of the Bureau's information technology system that will lead to an increase in operational efficiency and security of BEA's statistical production and analysis and (2) continue to develop new measures of Gross Domestic Product (GDP) by industry on a quarterly basis to provide real-time information on the health and stability of sectors within the U.S. economy. BEA will replace its "Advance" GDP by industry measures, which are currently available only on an annual basis, with the new quarterly measures of GDP by industry.

Bureau of Justice Statistics (BJS), Department of Justice: Funding is requested to provide support for ongoing BJS programs and to: (1) improve BJS' criminal victimization statistics derived from the National Crime Victimization Survey with special emphasis on exploring the feasibility of generating sub-national estimates and enhancing data on the crimes of rape and sexual assault; (2) continue exploration of the use of administrative records data in police and correctional agencies to provide new statistics 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) improve the availability of justice statistics for Indian country; and (5) continue to support the enhancement of criminal justice statistics available through State statistical analysis centers.

Bureau of Labor Statistics (BLS), Department of Labor: Funding is requested to provide support for ongoing BLS programs and to: (1) 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; and (2) modify the Consumer Expenditure Survey to support the Census Bureau in its development of a supplemental statistical poverty measure. In order to preserve funding for core statistical programs, the funding request also includes four reductions that would produce savings: (1) eliminate the Green Jobs initiative; (2) eliminate the Mass Layoff Statistics program; (3) eliminate the International Labor Comparisons program; and (4) consolidate BLS IT help desk services.

Bureau of Transportation Statistics (BTS), Department of Transportation: Funding is requested to provide support for ongoing BTS programs and to: (1) continue product dissemination for the 2012 Commodity Flow Survey; (2) expand work on performance measures as required by MAP-21 (Moving Ahead for Progress in the 21st Century Act); (3) identify opportunities to integrate and improve safety data across transportation modes; (4) support collection of data on passenger travel; and (5) develop estimates of the value of transportation infrastructure and facilities to inform DOT investment strategies.

Census Bureau, Department of Commerce: Funding is requested to provide support for ongoing Census Bureau programs and to: (1) continue critical research and testing for the 2020 Census program to support fundamental changes to program, business, operational, and technical processes; (2) complete data collection and the review and publication of industry reports for the five-year benchmarking Economic Census; (3) complete data processing and development of data products for the Census of Governments; (4) deepen and broaden an existing Statistical Community of Practice and Engagement test bed to identify effective automated methods to improve the interoperability of cross-agency statistical and administrative data; and (5) pilot increased collaboration between Census and other Federal agencies, where Census would provide a secure mechanism for restricted access to those agencies' confidential data through its research data centers and possibly establish additional data linkage and disclosure procedures.

Economic Research Service (ERS), Department of Agriculture: Funding is requested to provide support for ongoing ERS programs, including research that: (1) explores how investments in rural people, businesses, and communities affect the capacity of rural economies to prosper in the new and changing global marketplace; (2) improves agricultural competitiveness and economic growth related to natural resource policies and programs that respond to the challenges of climate change and environmental protection; (3) analyzes the U.S. food and agriculture sector's performance in the context of increasingly globalized markets; (4) evaluates the Nation's nutrition assistance programs to study the relationship among the many factors that influence food choices and health outcomes including obesity; and (5) values societal benefits associated with reducing food safety risks. In addition, funding is requested for the Research Innovations for Improving Policy Effectiveness initiative, which will strengthen ERS' ability to conduct research through the use of behavioral economics and the statistical use of administrative data in order to address critical information gaps that hinder policy effectiveness.

Energy Information Administration (EIA), Department of Energy: Funding is requested to provide support for ongoing EIA programs and to: (1) complete the 2012 Commercial Buildings Energy Consumption Survey, including release of data that provide U.S. benchmarks used to inform investments in new technologies, performance labeling, and energy management practices; (2) launch the 2014 Residential Energy Consumption Survey, which collects information from a nationally representative sample of housing units, including data on energy characteristics of homes, usage patterns, and household demographics; (3) resume modernizing and streamlining data collection processes across energy supply surveys to yield significant efficiencies in the agency's largest operational area; (4) enhance EIA's ability to monitor, forecast, and report on international energy developments; (5) resume upgrades to EIA's forecasting capabilities through the modernization of the National Energy Modeling System; and (6) improve and expand customer internet access to EIA data and information.

National Agricultural Statistics Service (NASS), Department of Agriculture: Funding is requested to provide support for ongoing NASS programs and to: (1) publish Census of Agriculture products by congressional district, watershed, zip code, and Indian reservation; (2) conduct a Farm and Ranch Irrigation Survey to provide one of the most complete and detailed profiles of irrigation in the United States; (3) field a Census of Aquaculture to provide a comprehensive picture of the aquaculture sector at the State and national levels; and (4) produce four of the Current Industrial Reports, previously issued by the Census Bureau.

National Center for Education Statistics (NCES), Department of Education: Funding is requested to provide support for ongoing NCES programs and to: (1) 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; (2) collect student-level institutional administrative data on a 2-year cycle to supplement the National Postsecondary Student Aid Study 4-year student survey data with more frequent information on educational costs, financial aid, enrollment, and progress; and (3) conduct the National Adult Training and Education Pilot Study, in partnership with the Census Bureau, Bureau of Labor Statistics, and Council of Economic Advisers, to develop a methodology for collecting information on all postsecondary certificates and training, not just on those provided by institutions of higher education.

National Center for Health Statistics (NCHS), Department of Health and Human Services: Funding is requested to provide support for ongoing NCHS programs and to: (1) expand information from NCHS' family of provider surveys in order to monitor health care utilization more closely; and (2) support expansion within base resources of automated National Vital Statistics that are collected by the States and compiled by NCHS in order to fully implement electronic birth records in the two remaining jurisdictions and gradually phase in electronic death records in the 21 remaining jurisdictions over four years. The vital statistics information will be used to improve tracking of priority health initiatives related to births to unmarried women, teenage pregnancy, and causes of death.

National Center for Science and Engineering Statistics (NCSES), National Science Foundation: Funding is requested to provide support for ongoing NCSES programs and to: (1) conduct an R&D survey of nonprofit institutions; (2) conduct the State level R&D survey more frequently; (3) develop and test successful data collection strategies for the Microbusiness Innovation Science and Technology Survey; (4) expand the use of administrative records sources to augment existing survey information on the relationship of Federal grants to Science, Technology, Engineering, and Mathematics (STEM) education and outcomes, innovation, and other R&D information; (5) expand measures on the Survey of Doctorate Recipients to understand the role of, and better target funding of, Federal research support for graduate education and outcomes; and (6) plan and design program modifications to support the development of new science and technology indicators.

Office of Research, Evaluation, and Statistics (ORES), Social Security Administration: Funding is requested to provide support for ongoing ORES programs and to continue to: (1) support outside surveys and linkage of SSA administrative data to surveys; (2) field a topical module for the redesign of the Survey of Income and Program Participation to address Social Security's data needs for microsimulation models, program evaluation, and analysis; (3) strengthen microsimulation models that estimate the distributional effects of proposed changes in Social Security programs; (4) provide enhanced statistical and analytical support for initiatives to improve Social Security and other government agency programs; (5) fund retirement-related research through a Retirement Research Consortium; and (6) fund two Disability Research Centers to conduct disability-related research, focusing on collaborative efforts with other government agencies and interagency groups.

Statistics of Income Division (SOI), Department of the Treasury: Funding is requested to provide support for ongoing SOI programs and to: (1) further modernize tax data collection systems by efficiently assimilating data captured from the electronic filing of tax and information returns to the SOI program; (2) integrate population and information return data with SOI-edited data to provide rich longitudinal and/or cross-sector data that can be used to better understand the complex interaction between taxes and economic behavior; (3) develop improved statistical techniques for identifying and correcting outliers and data anomalies in Internal Revenue Service administrative population files; (4) partner with tax policy experts within and outside government to produce top quality research on important tax administration issues; and (5) enhance the design, quality and number of SOI's products and resources.

Table 18–1. 2012–2014 BUDGET AUTHORITY FOR PRINCIPAL STATISTICAL AGENCIES[1]

(In millions of dollars)

	2012 Actual	Estimate	
		2013 CR	2014
Bureau of Economic Analysis	92	93	100
Bureau of Justice Statistics[2]	52	56	64
Bureau of Labor Statistics	609	613	610
Bureau of Transportation Statistics	26	26	26
Census Bureau[3]	972	940	1013
Salaries and Expenses[3]	283	285	286
Periodic Censuses and Programs	689	655	727
Economic Research Service	78	78	79
Energy Information Administration	105	106	117
National Agricultural Statistics Service[4]	159	160	160
National Center for Education Statistics[5]	264	265	273
Statistics[5]	125	126	140
Assessment	130	130	125
National Assessment Governing Board	9	9	8
National Center for Health Statistics[6]	159	159	181
National Center for Science and Engineering Statistics , NSF[7]	43	43	49
Office of Research, Evaluation, and Statistics, SSA	29	26	30
Statistics of Income Division, IRS	39	37	37

[1] Reflects any rescissions.

[2] Includes reimbursable funding to BJS ($3.7 million) and funds for management and administrative costs ($7.2 million) totaling $10.9, $10.9, and $10.9 million in 2012, 2013, 2014, respectively, that were previously displayed separately.

[3] Salaries and Expenses funds include discretionary and mandatory funds.

[4] Includes funds for the periodic Census of Agriculture of $42, $42, and $42 million in 2012, 2013, and 2014, respectively. The 2014 Census of Agriculture request will be used for publishing the 2012 Census data and conducting follow-on surveys.

[5] Includes funds for salaries and expenses of $17, $17, and $17 million in 2012, 2013, and 2014, respectively, that are displayed in the Budget Appendix under the Institute of Education Sciences (IES). In addition, NCES manages the IES grant program for the State Longitudinal Data System which is funded at $38 million, $38 million, and $85 million in 2012, 2013, and 2014, respectively.

[6] All funds from the Public Health Service Evaluation Fund. The estimates do not include resources from the Prevention and Public Health Fund. The estimates appear larger than previously reported because the FY 2012–2014 levels are comparably adjusted for FY 12 and 13 to reflect business support services formerly shown separately but now included in the FY 2014 budget estimates.

[7] Includes funds for salaries and expenses of approximately $7 million each year.

19. 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 information technology (IT) is critical to the Administration's success in achieving that goal. The Federal Government for 2014 plans to invest over $82 billion a year in IT. To ensure that this investment in IT is optimized, the Federal Chief Information Officer (CIO) is focused on policy and oversight activities in three key areas: maximizing the return on investment in Federal IT; driving innovation to meet customer needs; and securing and protecting the Government's data. All Federal agencies will be tasked to:

- Deliver by Maximizing the Return on Investment of Federal IT – In order to innovate with less, the Government must better manage and integrate IT services. This means consolidating redundant applications, systems, and services and using enterprise-wide solutions. It also means establishing common testing platforms to foster interoperability and portability, streamlining the creation of new IT infrastructure, and shifting from an asset-ownership to a service-orientation model via cloud computing. Initiatives such as the IT Dashboard, TechStat, PortfolioStat,[1] the Federal Data Center Consolidation Initiative (FDCCI), and cloud computing efforts support this objective.
- Innovate to Better Serve Customers – The interconnectedness of our digital world dictates that the Government buy, build and manage IT in a new way. Rapidly adopting innovative technologies, improving the efficiency and effectiveness of the Federal workforce through technology, and fostering a more participatory and citizen-centric Government are critical to providing the services that citizens expect from a 21st Century Government. Initiatives such as the Digital Government Strategy[2] support this objective.
- Protect Federal IT Assets and Data Through Improved Cybersecurity – The President has identified the Cybersecurity threat as one of the most serious national security, public safety, and economic challenges we face as a nation. Ultimately, the Cybersecurity challenge in Federal government is not just a technology issue. It is also an organizational, people, and performance issue requiring creative solutions to address emerging and increasingly sophisticated threats, and new vulnerabilities introduced by rapidly changing technology. To overcome this challenge, Federal agencies must improve cybersecurity capabilities to provide safe, secure, and effective mission execution and services, with a focus on accountability. Specifically, agencies must continue to implement initiatives such as the Cybersecurity Cross-Agency Priority (CAP) Goal, which is part of the Administration's broader performance management improvement initiative (encompassing Trusted Internet Connections, continuous monitoring and strong authentication), the Federal Information Security Management Act (FISMA), and the Federal Risk Authorization and Management Program (FedRAMP), and continuously measure agency progress in improving information security performance through CyberStat reviews.

This chapter describes details on the Federal IT budget and on the Administration's Federal IT initiatives.

THE FEDERAL INFORMATION TECHNOLOGY (IT) PORTFOLIO

Federal Spending on IT—To innovate in an era of flat or declining budgets, it is critical for agencies to view IT as a strategic asset, and as a driver to deliver better customer service to taxpayers. When properly managed and applied, IT frees up resources from costly and inefficient business processes and enables the funding of new, innovative IT solutions. To encourage these efforts, in 2014 agencies have been directed in OMB Memorandum M-12-13 to implement a cut and reinvest strategy-- cutting duplicative commodity, business and enterprise IT investments and underperforming projects to fund more strategic investments.[3] Strategic reinvestments will focus on systems that demonstrably improve citizen services or administrative efficiencies, increase the adoption of shared services, improve the Government's cybersecurity posture, reduce Federal IT's energy consumption, and enhance analytical capabilities.

Total planned spending on IT in 2014 estimated for agencies represented on the IT Dashboard[4] is $82.0 billion, 2.1 percent above the 2012 estimated level of $80.3 billion, as shown in Table 19-1. Spending estimates in Chart 19-1 depict how growth in IT spending of 7.1 percent per year over 2001-2009 has been slowed to 0.78 percent per year for 2009-2014.

[1] OMB Memorandum M-12-10, "Implementing PortfolioStat." (March 30, 2012)—*http://www.whitehouse.gov/sites/default/files/omb/memoranda/2012/m-12-10_1.pdf*.

[2] Presidential Directive "Building a 21st Century Digital Government" (May 23, 2012)—*http://www.whitehouse.gov/sites/default/files/uploads/2012digital_mem_rel.pdf*.

[3] OMB guidance to agencies regarding the FY 2014 Budget, in OMB Memorandum M-12-13, "Fiscal Year 2014 Budget Guidance"—*http://www.whitehouse.gov/sites/default/files/omb/memoranda/2012/m-12-13.pdf*

[4] The IT Dashboard, first launched in June, 2009, is a Federal website designed to provide real-time information on the status of Federal agencies' IT spending. It is located at: *http://itdashboard.gov* .

Table 19–1. FEDERAL IT SPENDING, PRESIDENT'S BUDGET, FY 2014
(Spending in millions of dollars)

	2012	2013 CR	2014
IT Spending, Department of Defense [1]	39,588	38,810	39,599
IT Spending, non-Defense [2]	40,690	41,766	42,397
Total IT Investment Spending	**80,278**	**80,576**	**81,996**

[1] Spending levels on information technology investments shown here for DoD include estimates for IT investments for which details are classified. Totals shown here for DoD are higher than totals reflected on the IT Dashboard, which cannot reflect classified details.

[2] Non-Defense agencies for which IT investment information is displayed on the IT Dashboard are: Department of Agriculture, Department of Commerce, Department of Education, Department of Energy, Department of Health and Human Services, Department of Homeland Security, Department of Housing and Urban Development, Department of the Interior, Department of Justice, Department of Labor, Department of State, Department of Transportation, Department of the Treasury, Department of Veterans Affairs, Environmental Protection Agency, General Services Administration, National Aeronautics and Space Administration, National Archives and Records Administration, National Science Foundation, Nuclear Regulatory Commission, Office of Personnel Management, Small Business Administration, Smithsonian Institution, Social Security Administration, U.S. Agency for International Development, and U.S. Army Corps of Engineers.

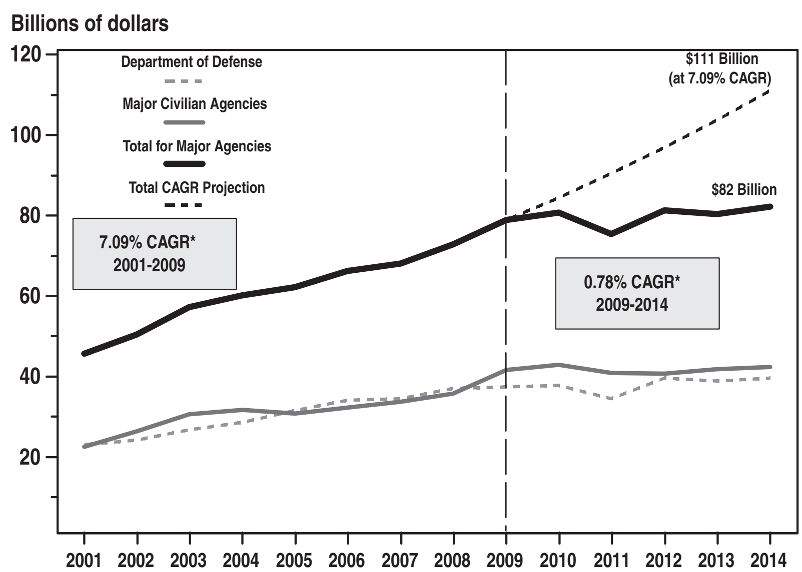
DELIVERING MAXIMUM RETURN ON INVESTMENT (ROI) FOR IT

Focusing IT Oversight on Comprehensive IT Portfolio Reviews and Planning—In 2013-2014, the Administration will continue to broaden its approach to managing IT by encouraging a more rigorous application of its PortfolioStat model.

In the initial PortfolioStat assessments in 2012, agencies collected and analyzed baseline data on 13 common types of commodity IT investments, spanning infrastructure, business systems, and enterprise IT. There are significant opportunities for reducing spending in these areas through consolidation and shared services. OMB worked with agencies to review their data and compare their spending with other agencies and private-sector benchmarks to assess the agency's current posture and develop a list of opportunities to reduce inefficiency, duplication, and unnecessary spending. Based on this analysis, agencies drafted PortfolioStat plans, which were then reviewed in Deputy Secretary-led PortfolioStat sessions with the Federal CIO. Incorporating OMB feedback from the sessions, agencies' final plans identified 98 opportunities to consolidate or eliminate commodity IT areas, ranging from the consolidation of multiple email systems across an agency to the reduction of duplicative mobile or desktop contracts.[5]

[5] While some opportunities for commodity IT savings must be addressed over several years, FY 2013 IT operating plans and the FY 2014 Budget include many efficiency improvements that were identified in the PortfolioStat process. Examples of potential savings which may be realized relatively soon include as much as $200 million in gross savings in some agencies. In the Department of Homeland Security, consolidations of infrastructure, including in mobile technology and other telecommunications, may range this high. Other savings achieved may be smaller -- such as potentially $10-15 million in gross savings for e-mail system consolidations at the Department of Transportation. Note that there may be costs associated with achieving efficiencies resulting in net savings which are significantly less than gross savings. Examples cited here are taken from agency-identified initiatives which could commence in FY 2013.

Chart 19-1. Trends in Federal IT Spending



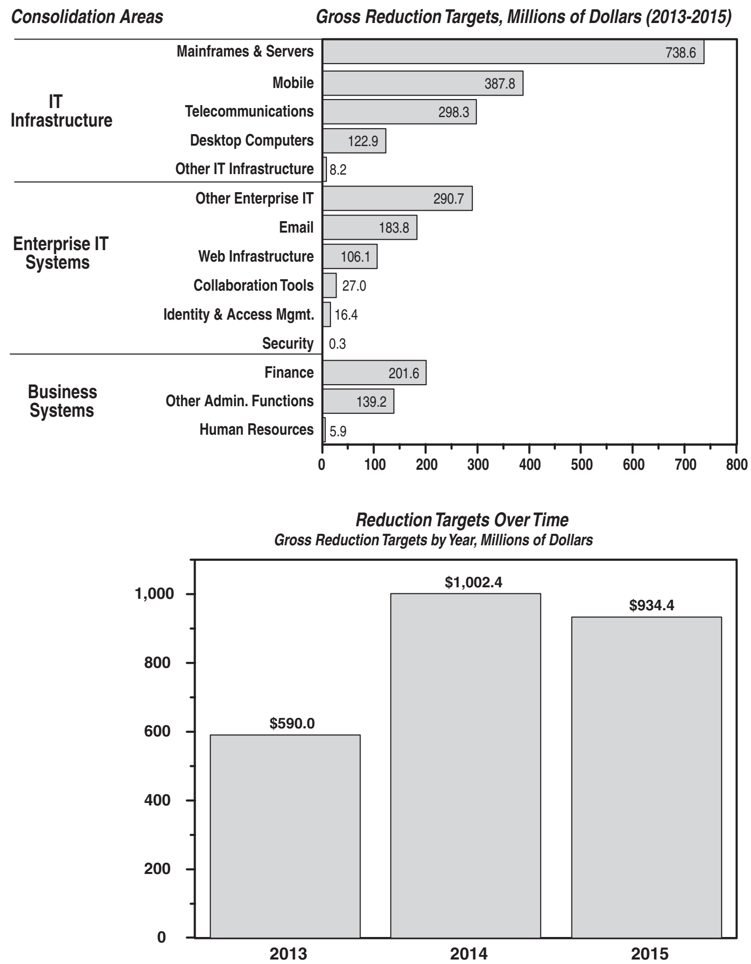
* Compound Annual Growth Rate

Source: Total IT spending from the IT Dashboard. Estimates of classified Dept. of Defense IT investments provided by DOD. Agency 2014 IT budgets reported February 2013.

Chart 19–2. Results of Portfolio Stats in 2012 PortfolioStat Commodity IT Reduction Targets

Government Wide Gross Reduction Targets Total Cost Savings and Avoidance Targets, 2013-2015

$2.53 Billion



PortfolioStat efforts resulted in ambitious, forward-looking plans with the potential to save the Government $2.5 billion over the next three years by consolidating duplicative systems, buying in bulk, and ending or streamlining off-track projects. In these initial agency assessments of planned savings, agencies focused on key categories of commodity IT spending, specifically purchases of IT assets or services that have become commonplace and that are not highly-customized for specific program support. Potential savings identified in the 2012 PortfolioStat process are illustrated in Chart 19-2 below.

Consolidating and Optimizing Commodity IT— PortfolioStat has played a pivotal role in accelerating agency adoption of shared services. Under the Shared First initiative agencies were tasked with identifying opportunities to shift to intra-agency commodity, support, and mission IT shared services, maximizing the use of strategic sourcing, and increasing the number of shared services that they provide or use. Following direction from the Federal CIO in May 2012, agencies completed the migration of at least two IT service areas to a shared delivery model, and agencies will work in 2013 toward more comprehensive shared services plans.

One other particularly large component of commodity IT spending is represented by the infrastructure investments in agency data centers. In 2012, agencies expanded their efforts under the FDCCI to include data centers of all sizes. Since agencies began executing their data center consolidation plans in 2011, they have closed over 400 data centers. During 2013, OMB will continue working with agencies to categorize the Federal data center inventory and refine plans and metrics to continue consolidation of the remaining data centers, while implementing measures to optimize the data centers that remain open.

Looking ahead to 2014, agencies will incorporate their data center consolidation efforts into a broader enterprise-wide approach to address commodity IT in an integrated, comprehensive manner. The FDCCI will play a significant role in supporting and achieving the goals of PortfolioStat. As these efforts converge, agencies will continue to focus on optimizing those data centers that are pivotal to delivering critical services, while closing duplicative and inefficient data centers.

Strengthening CIO Authorities – One finding from 2012 PortfolioStat sessions was that agencies with empowered CIOs tended to have less fragmented IT portfolios and better visibility into how IT was being spent. The role of agency CIOs will continue to strengthen as agencies implement OMB's 2011 Memorandum M-11-29 aimed at enhancing their authority to better manage Federal IT investments.[6] Already, fundamental changes to the role of the CIO have occurred at some agencies. At the General Services Administration (GSA), for example, the need to improve information technology services and ease access to agency data resulted in the consolidation of all information technology personnel, budgets, and systems under the Chief Information Officer. The result will be a new technology office that has the ability to provide the IT services and support needed. CIO authorities have been further reinforced by the broader OMB Memorandum M-11-31, on delivering a more efficient and accountable Government,[7] the implementation of PortfolioStat, and also the May 2012 release of guidance to agencies on Shared Services IT Strategy with milestones for 2012 and 2013.[8]

Cloud Computing—Under the Federal Cloud Computing Initiative, cloud computing has now become an accepted and integral part of the Federal IT environment. Agencies no longer question the utility and feasibility of cloud computing; but instead are seeking out opportunities to use cloud computing to reshape their IT portfolios to drive innovation, maximize ROI, and improve cybersecurity. In 2011-2012, implementing the *25 Point Implementation Plan to Reform Federal IT Management*,[9] agencies successfully migrated nearly 70 services to the cloud, supporting Government-wide efforts to expand access to open data, drive a more transparent and participatory Government, and move toward more environmentally sustainable platforms. With the ability to expand capacity at a moment's notice without having to procure new servers, add new data centers, and hire new staff, the cloud is essential to the Federal Government's ability to be flexible as demands change.

In order to accelerate the safe and secure adoption of cloud solutions, GSA is making tools available so that agencies can migrate high value solutions to the cloud. Last year, GSA awarded blanket purchase agreements for 17 vendors to provide Federal, State, local and tribal governments with the ability to buy cloud-based email, office automation, electronic records management, migration, and integration services. GSA is also working to provide agencies tools under existing contracts to purchase cloud data center services and cloud migration services, to help agencies ready legacy environments to migrate to the cloud. The latter will be especially important for smaller and independent Federal entities, which may not have the resources to grow or redeploy their staff to manage the migration to the cloud. Looking ahead to 2014, GSA will continue to explore whether a cloud brokerage concept, similar to that provided in the financial services industry, would help to increase cloud adoption.

Improved IT Dashboard—The IT Dashboard was initially launched in June of 2009, to facilitate real-time monitoring of agency IT investment performance by Federal officials, Congress, and the American people. As experience with the IT Dashboard has grown, OMB (in collaboration with agencies and with input from the Government Accountability Office) has worked to improve the quality and focus of data collection for this flagship transparency site. The IT Dashboard continues to set an example for a more open, accessible approach to the evolution of Federal Government systems, through its open source policy. IT Dashboard application code has been available since March 31, 2011 at the Sourceforge site,[10] a site dedicated to the sharing of open source code, where open discussion forums were later added.

In 2012, the IT Dashboard was updated with new data structures 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 agencies to deliver key functionality needed by Federal programs on time and within budget.

OMB continues to require that CIOs rate all major IT investments in the IT Dashboard, assessing how well the risks for major development efforts are being addressed. Based on preliminary analysis of these ratings for FY 2012, there is little evident trend up or down overall in major IT investment ratings by CIOs. Across this period, CIOs have rated almost ¾ of major investments as "Low Risk" or "Moderately Low Risk" ("green" in the IT Dashboard). But in looking at specifics by agency, some have experienced larger than average increases and decreases in ratings. For example, the U.S. Department of Agriculture CIO "green" ratings over this period dropped from 37 to 21. Over the same time interval, the Department of Transportation's "green" CIO ratings increased from 28 to 36. These ratings are one factor used to inform PortfolioStat and TechStat processes.

IT Investment Oversight (TechStats)—In 2010, OMB launched TechStat accountability sessions for major Federal IT investments, which helped improve oversight of major IT investments. A TechStat is a face-to-face, evidence-based accountability review of an IT investment. It enables the Federal Government to intervene, and turn

[6] OMB memorandum M-11-29, "Chief Information Officer Authorities" (August 8, 2011)—http://www.whitehouse.gov/sites/default/files/omb/memoranda/2011/m11-29.pdf.

[7] OMB Memorandum M-11-31, "Delivering and Efficient, Effective and Accountable Government" (August 17, 2011)—http://www.whitehouse.gov/sites/default/files/omb/memoranda/2011/m11-31.pdf.

[8] "Federal Information Technology Shared Services Strategy" (May 2, 2012)—*http://www.whitehouse.gov/sites/default/files/omb/assets/egov_docs/shared_services_strategy.pdf*

[9] "25 Point Implementation Plan to Reform Federal IT Management"—*http://www.whitehouse.gov/sites/default/files/omb/assets/egov_docs/25-point-implementation-plan-to-reform-federal-it.pdf*

[10] *http://sourceforge.net/projects/it-dashboard*

around, halt, or terminate IT projects that are failing to deliver results for key requirements on schedule. By accelerating intervention in troubled IT projects, TechStat reviews helped avoid significant costs, particularly in cases where projects were halted or terminated.

Since January 2010, OMB has led over 60 TechStat sessions, including 38 high-priority reviews between August and December 2010. These reviews resulted in remediation actions with cost implications for investments reviewed. The TechStats also resulted in an average acceleration of deliverables from over 24 months to 8 months for the investments reviewed.

When the Congress in December, 2011 enacted the appropriation for the Integrated, Efficient and Effective Uses of IT (IEEUIT) Fund[11] in the Executive Office of the President, to assist in supporting IT reform, OMB began reporting quarterly to the Congress on the savings from IT reform. In its Jan. 31, 2013 report, OMB estimated $489.1 million in cost savings and cost avoidance for the period since the IEEUIT appropriation was enacted, stemming principally from commodity IT acquisition efficiencies and consolidations, cloud migrations, and the results of the agency-led TechStat sessions which were initiated in 2011. In agency-led TechStats, agency CIOs lead their own TechStats at the agency level, reporting the results to OMB. To date, including the period before quarterly IEEUIT reporting began, CIOs across the Government have held over 300 agency-led TechStats.

Information Technology Acquisition—OMB will focus on the work of the Strategic Sourcing Leadership Council (SSLC) to drive greater efficiency in commodity IT acquisition and use of shared services. Through the PortfolioStat process, OMB achieves better insight into the acquisition and execution of commodity IT at the agency and sub-agency level. OMB will work through Federal CIO Council channels to identify opportunities to procure commodity IT at lower cost and more efficiently, while creating new opportunities for small businesses.

THE INNOVATION AGENDA—GOVERNMENT IN THE INFORMATION AGE

Changes in technology—such as the large increase in the number of mobile devices, the greater availability of data, the growth of cloud computing, and the evolution of social media and collaboration tools—are driving rapid changes in the way we consume information. This presents both opportunities and challenges, as growing expectations require the Federal Government to be ready to deliver and receive digital information and services anytime, anywhere and on any device. It must also do so safely, securely, and with fewer resources. To build for the future despite constrained budgets, the Federal Government needs to innovate with less and enable entrepreneurs and others in the public to better leverage Government data, simultaneously improving the quality of services to the American people.

The Administration's innovation agenda will build on the following initiatives:

Digital Government Strategy—On May 23, 2012, the President issued a directive entitled "Building a 21st Century Digital Government." It launched a comprehensive Digital Government Strategy aimed at delivering better digital services to the American people. The strategy has three main objectives: (1) enabling the American people and an increasingly mobile workforce to access high-quality, digital Government information and services anywhere, anytime, on any device; (2) ensuring that as the Government adjusts to this new digital world, we seize the opportunity to procure and manage devices, applications, and data in smart, secure and affordable ways; and (3) unlocking the power of Government data to spur innovation across our Nation and improve the quality of services for Federal employees and the American people.

Presidential Innovation Fellows—The Presidential Innovation Fellows program[12] pairs entrepreneurs from the private sector, non-profits, and academia with top innovators in Government to collaborate on solutions to high-impact challenges and deliver significant results in six months. The results of these projects are intended to save taxpayer money, fuel job growth, bring private sector best practices to Government, and provide tangible benefits to the American people. Each team of innovators is tasked with working on a specific high-impact issue using a focused, agile approach. In a time of constrained budgets, we need to find innovative ways to do more with less. What makes this initiative unique is its focus on tapping into the ingenuity, know-how, and patriotism of Americans from every sector of our society.

Managing Information—Open Data—The information maintained by the Federal Government is a national asset with tremendous potential value to the public, entrepreneurs, and to our own Government programs. The innovation agenda includes multiple initiatives that will open Government data to enhance information exchanges, interoperability, and public release (subject to valid restrictions). As a model, decades ago, the National Oceanic and Atmospheric Administration (NOAA) began making weather data available for free electronic download by anyone. Entrepreneurs utilized this data to create weather newscasts, websites, mobile applications, insurance, and much more, resulting in a multi-billion dollar industry. Similarly, the Government's decision to make the Global Positioning System (GPS) freely available resulted in private sector innovations ranging from navigation systems to precision crop farming, creating massive public benefits and contributing significantly to economic

[11] P.L. 112-74, Div. C, Title II appropriated funds to advance IT efficiency: "For necessary expenses for the furtherance of integrated, efficient and effective uses of information technology in the Federal Government, $5,000,000, to remain available until expended: Provided, That the Director of the Office of Management and Budget may transfer these funds to one or more other agencies to carry out projects to meet these purposes: Provided further, That the Director of the Office of Management and Budget shall submit quarterly reports to the Committees on Appropriations of the House and the Senate identifying the savings achieved by the Office of Management and Budget's Government-wide information technology reform efforts: Provided further, That such report shall include savings identified by fiscal year, agency and appropriation.

[12] Program description at: *http://www.whitehouse.gov/innovation-fellows*.

growth. To harness the value of Government open data to the fullest extent possible, OMB and the Office of Science and Technology Policy (OSTP), in conjunction with the Presidential Innovation Fellows Program, have launched six open data initiatives affecting diverse sectors including: health, energy, education, public safety, and global development. These efforts aim to make Government data available to entrepreneurs who will use this data to create tools, such as those that help Americans find the right health care providers, identify colleges that provide the best value for tuition costs, save money on electricity bills through smarter shopping for the right rate plan, and keep their families safe by knowing which products have been recalled.

Accelerating Federal Use of Mobile Devices—The Federal Government currently spends approximately $1.2 billion annually for mobile and wireless services and devices, maintaining an inventory of approximately 1.5 million active accounts. These figures will only increase as agencies accelerate their adoption of new mobile technologies, and as the public increasingly expects Government services to be made available anywhere, anytime, on any device. The Digital Government Strategy established a set of discrete actions to ensure that the Federal Government capitalizes on mobile solutions in smart, secure, and affordable ways. Actions included the release of bring-your-own-device (BYOD) guidance based on lessons learned from successful pilots at Federal agencies[13]; a requirement that agencies develop an enterprise-wide inventory of mobile devices and wireless service contracts[14]; the establishment of a Government-wide contract vehicle for mobile devices and wireless services[15]; a gap analysis and mobile security report to be generated by the Chief Information Officers Council[16]; and the development of a Government-wide mobile and wireless security baseline and reference architectures.[17]

Future-Ready Architecture—Agencies continue to face the challenge of having to provide new or updated business and technology services with limited resources. In May 2012, OMB released "The Common Approach to Federal Enterprise Architecture," providing guidance to help agencies promote more agile and standardized architecture methods.[18] This common architecture approach included an emphasis on modular development and contracting practices, and the utilization of cloud-based services to speed the delivery of value and lower the risk of failure in IT projects. In promulgating the common approach, OMB also required agencies to develop and submit an enterprise roadmap by August 31, 2012. The roadmap included an IT asset inventory, commodity IT consolidation plan (tied to PortfolioStat reviews), and plans for improving the quality and uptake of Government-wide Line of Business services.[19] In the future, Federal IT architects will also be called upon to address further methodology improvements supporting better analytical capabilities across all Federal IT assets.

Transition to Internet Protocol Version 6 (IPv6)—In September 2010, OMB issued a memorandum[20] requiring Executive branch agencies to 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,[21] "Transition Planning for Internet Protocol Version 6 (IPv6)," which led to the key early step of IPv6 being deployed in all Federal Government agency networks in 2008. In July 2012, the Federal Government released a roadmap for transitioning to the next-generation Internet networking technology. This Roadmap, "The Planning Guide/Roadmap Toward IPv6 Adoption within the U.S. Government"[22] was jointly developed with industry and provides best practices on how to successfully implement the next version of IPv6. Agency status regarding the transition to IPv6-enabling public Internet servers is available on the National Institute of Standards and Technology (NIST) IPv6 Deployment Monitor web site.[23]

Modular Software Development—While OMB requires agencies to implement shared-first strategies, some unique mission capabilities must still be developed which may require custom software development. One of the key lessons learned during TechStat reviews, however, is that investments that spend long periods of time defining requirements and designing components before realizing value are at significantly increased risk of failure. To help align the acquisition team and the IT team in reducing this risk, OMB published Contracting Guidance to Support Modular Development.[24] OMB will use the IT Dashboard to identify investments in which "time-to-value" measures are inconsistent with policy. Agencies should also be identifying these risky investments through the implementation of their internal TechStat processes and they should undertake corrective actions to deploy capabilities to the production environment in months instead of years. OMB will continue to monitor agency performance in this area.

[13] Item 3.3 in the Digital Government Strategy, *http://www.whitehouse.gov/sites/default/files/omb/egov/digital-government/digital-government.html*.

[14] Ibid. Items 5.2 and 5.3 respectively.

[15] Ibid. Item 5.1.

[16] Ibid. Items 10.2 and 10.3 respectively.

[17] Ibid. Item 9.1.

[18] *http://www.whitehouse.gov/sites/default/files/omb/assets/egov_docs/common_approach_to_federal_ea.pdf*

[19] Line of Business initiatives, most of which continue from previous Administration efforts, represent established inter-agency shared services with a lead agency and numerous partner agencies participating in governance.

[20] OMB Memorandum "Transition to Internet Protocol Version 6 (IPv6)" (Sept. 28, 2011)—*http://www.whitehouse.gov/sites/default/files/omb/assets/egov_docs/transition-to-ipv6.pdf*.

[21] OMB Memorandum "Transition Planning for Internet Protocol Version 6 (IPv6)" (Aug. 5, 2005)—see: *http://www.whitehouse.gov/*sites/default/files/omb/assets/omb/memoranda/fy2005/m05-22.pdf.

[22] https://cio.gov/wp-content/uploads/downloads/2012/09/2012_IPv6_Roadmap_FINAL_20120712.pdf

[23] See: *http://fedv6-deployment.antd.nist.gov/*.

[24] See OMB guidance "Contracting Guidance to Support Modular Development," page 2—at: *http://www.whitehouse.gov/sites/default/files/omb/procurement/guidance/modular-approaches-for-information-technology.pdf*.

BusinessUSA—On January 13, 2012, the Administration articulated a strategy to break down the stovepipes that have prevented the Government from delivering a comprehensive suite of services and capabilities to American businesses. Based on the President's premise of "…one website, one phone number, one mission," BusinessUSA, was launched on February 17, 2012.[25] For American entrepreneurs, interacting with the Federal Government should feel like they are working with one organization that puts them and their needs first, and does not force them to understand a complex Federal bureaucracy. BusinessUSA will continue to grow and evolve, becoming the single entry point for businesses to connect with Government programs to help them launch new endeavors and grow. Services offered through BusinessUSA are not limited to the Federal sector; the site includes links to State and local programs and services, so that businesses can connect with resources they need to start up, grow, and export their goods and services. In 2014, all Federal agencies with business-facing capabilities will be participating in integrating and expanding BusinessUSA's capabilities.

Geospatial Data—Consistent with the Digital Government Strategy, the guidance on Modular Development, and in support of the principle of open data,[26] agencies will continue to review their geospatial data and make it available to other agencies and the public. The progress of geospatial data being opened will be reflected on the Geospatial Platform – a Federal internet-based platform providing shared, trusted geospatial data, services and applications at *http://www.geoplatform.gov*.

Health Information Technology (Health IT)—The technologies collectively known as health IT enable the secure collection and exchange of vast amounts of health data about individuals. Health IT includes electronic health records (EHRs), personal health records, telehealth devices, remote monitoring technologies, and mobile health applications.

The Federal Government's health IT vision is a health system that uses information to empower individuals and to improve the health of the population. To improve the Federal Government's overall effectiveness, all investments in health IT share the following common policy and technology principles:

- **Putting individuals and their interests first.** In order to enhance the health and well-being of all Americans, the Government must meet the needs and protect the rights of each individual.
- **Being a worthy steward of the country's money and trust.** The Government seeks to use its resources judiciously. This means relying, to the extent possible, on private markets to accomplish important societal objectives, and acting to correct market failures when necessary. It also means developing Governmental policies through open and transparent processes.
- **Supporting health IT benefits for all.** All Americans should have equal access to quality health care. This includes the benefits conferred by health IT. The Government will endeavor to ensure that underserved and at-risk individuals enjoy these benefits to the same extent as all other citizens.
- **Focusing on outcomes.** Federal health IT policy will constantly focus on improving the outcomes of care, so as to advance the health of Americans and the performance of their health care system.
- **Building boldly on what works.** The Government will set ambitious goals and then work methodically to achieve them, monitoring health IT successes, and looking for ways to expand upon programs that work. It will seek to be nimble and action-oriented: evaluating existing Government activities, learning from experience, and changing course if necessary.
- **Encouraging innovation.** The Government is working to create an environment of testing, learning, and improving, thereby fostering breakthroughs that quickly and radically transform health care. The Government will support innovation in health IT.

With the Office of the National Coordinator for Health IT charged with the coordination of nationwide efforts to implement and use the most advanced health information technology, agencies such as the Department of Agriculture, Department of Commerce, Department of Defense, Department of Health and Human Services, Department of Veterans Affairs, Social Security Administration, and Office of Personnel Management are working together to maximize the benefits health IT has to offer providers and patients by accelerating Electronic Health Record (EHR) adoption and secure electronic exchange of health information.

PROTECTING DATA AND ASSETS—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 domestic or international 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. To combat these threats, the Administration will act on many fronts, while protecting individual privacy and civil liberties.

- **Secure Federal Networks—**The Administration's cybersecurity team will continue its vigorous and extensive build-out of technical and policy protec-

[25] See remarks by the President on Government Reform—*http://www.whitehouse.gov/the-press-office/2012/01/13/remarks-president-government-reform*.

[26] Open data is now a key principle guiding Federal IT -- that is, the principle that the Government's data should be provided in a manner that facilitates the use of this data by everyone.

tion 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.

- **Improve Federal Cybersecurity Defenses.** The Department of Homeland Security (DHS) will assess the state of operational readiness and cybersecurity risk of unclassified Federal networks and systems. DHS proactively engages with agencies to improve their cybersecurity posture by assessing capabilities, identifying vulnerabilities, evaluating risks and providing prioritized guidance that optimizes the remediation activities needed to close capability gaps, limit exposure, reduce exploitation, and increase the speed and effectiveness of cyber-attack responses.
- **Implement Cybersecurity Cross-Agency Priority (CAP) Goal.** The Administration selected cybersecurity as one of its 14 CAP goals required under the Government Performance and Results Act Modernization Act (GPRAMA) of 2010. The goal is to achieve 95% use of the Administration's priority cybersecurity capabilities on Federal executive branch information systems by the end of FY 2014. In order to achieve this goal, Federal spending will focus on two-factor authentication in accordance with Homeland Security Presidential Directive 12 (HSPD-12), Federal Trusted Internet Connections (TICs), and Continuous Monitoring policies.
- **Conduct CyberStat Sessions.** DHS will continue to work with agencies to identify and correct weaknesses in cybersecurity programs and ensure agencies are on track to meet the Cyber CAP goal through Cyberstat reviews. 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). CyberStat reviews will continue to focus on identifying prospects and strategies to improve cybersecurity performance.
- **Enhance Cybersecurity Program Monitoring, Management, and Reporting Under the Federal Information Security Management Act (FISMA).**[27] The Federal cybersecurity defensive posture is a constantly evolving environment because of the relentless and dynamic threat environment, emerging technologies, and new vulnerabilities. Many threats can be mitigated by following established cybersecurity best practices, but attackers often search for organizations with poor cybersecurity practices and target associated vulnerabilities. DHS will continue to improve FISMA metrics to focus on outcome-oriented measures that are quantitative, specific, automated when possible, and focused on reduction of risk. The FISMA metrics focus agency efforts on what data and information is entering and exiting their networks, what components are on their information networks, when security status changes, and who is on their systems. The Administration will focus agency efforts on improving the security of their networks by implementing the Cross-Agency Priority Goals for cybersecurity (i.e. Continuous Monitoring, Trusted Internet Connections, and HSPD-12).
- **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. As part of this effort, the National Initiative for Cybersecurity Education (NICE) developed the National Cybersecurity Workforce Framework to define the cybersecurity workforce and provide a common taxonomy and lexicon by which to classify and categorize the workforce. The Framework was developed as a direct result of the Administration's need to identify, quantify, and develop an effective cybersecurity workforce to develop our Nation's critical cyber infrastructure. In addition, the Administration will work to provide cybersecurity professionals with tools, tips, education, training, awareness, and other resources appropriate to their positions.
- **Implement Continuous Monitoring.** The Administration will work to design, build, and operate information and communication technology to specifically reduce the risk 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. Continuous monitoring is an integral part of an enterprise-wide risk management process that allows agencies to establish the context of their risk management programs, and subsequently assess risk, respond to risk, and monitor risk on an ongoing basis.

  Continuous monitoring programs are most effective when combined with other department and agency initiatives to strengthen the underlying information technology infrastructure by integrating security requirements into organizational processes (e.g., enterprise architecture, acquisition/procurement, systems engineering, and the system development life cycle). An example is the DHS Continuous Diagnostics and Mitigation (CDM) program, which will provide tested continuous monitoring, diagnosis, and mitigation activities designed to increase visibility into the security status of Federal information systems and environments of operation. The program can also enhance DHS's ability to assess agency security control effectiveness, and assist organizational personnel in identifying and responding to intrusions in their operational environments.

[27] Title III of the E-Government Act of 2002 (P.L. 107-347, enacted Dec. 17, 2002) is known as the "Federal Information Security Management Act of 2002" (FISMA).

Under this program, DHS will centrally oversee the procurement, operations, and maintenance of diagnostic sensors (tools) and dashboards deployed to each agency. Using input from the sensors and agency-level dashboards, officials at each agency will be able to quickly identify which problems to fix first, and empower technical managers to prioritize and mitigate risks. In addition, DHS will maintain a dashboard to provide situational awareness at the Federal level.

- **Improve Incident Reporting and Response.** The 2012 National Level Exercise (NLE) simulated what would happen if a series of significant cyber incidents occurred within the United States. The NLE demonstrated the need for the Federal Government to improve preparedness for Significant Cyber Incidents. The growing numbers of cyber attacks on our Federal networks are sophisticated, aggressive and dynamic. During FY 2012, the United States Computer Emergency Readiness Team (US-CERT) processed 157,850 incidents including cyber exploits that injected viruses, stole information or disrupted Federal network operations. 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.
- **Ensure Information Sharing and Safeguarding.** This continuing initiative ensures coordinated interagency development and reliable implementation of structural reforms to ensure responsible sharing and safeguarding of classified information on computer networks that shall be consistent with appropriate protections for privacy and civil liberties, pursuant to Presidential Executive Order 13587.
- **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.[28] 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, 2012, more than 5.2 million Personal Identity Verification (PIV) credentials (96 percent of those needed) were issued to the Federal workforce, and over 5 million background investigations (91 percent of those needed) were completed, in accordance with Homeland Security Presidential Directive 12 (HSPD-12). Agencies are expected in 2013 to accelerate the use of PIV credentials in securing Federal facilities and IT systems. Charged with revising the HSPD-12 standard (FIPS 201), NIST is also moving to address the integration of PIV credentials with mobile devices and related advances in technology. The Administration also released the National Strategy for Trusted Identities in Cyberspace (NSTIC) in April 2011,[29] 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.
- **Federal Risk Authorization Management Program (FedRAMP).** To support the Federal Cloud Computing Initiative, FedRAMP was launched during 2012. FedRAMP is changing the way cloud is bought within the Federal Government through a standardized approach for agencies to assess and authorize the security of cloud systems. This standardized approach strengthens security practices associated with cloud computing solutions, and in turn, builds greater trust between cloud providers and consumers. As a result, agencies can quickly deploy cloud solutions in support of delivering taxpayers services at a significantly reduced cost. As part of reaching its initial operating capability, FedRAMP published a baseline set of security controls, developed a comprehensive concept of operations, and a conformity assessment process to independently verify that providers are meeting the Government's security needs. In 2013-2014, FedRAMP will integrate lessons learned from initial efforts to achieve full operating capability, thereby accelerating the adoption of secure cloud solutions in Government through the reuse of assessments and authorizations.
- **Protect Privacy and Confidentiality—**The Administration will ensure that protecting individual privacy and confidentiality remains a top priority. The importance of protecting privacy has become even greater as new technologies emerge. Federal agencies must take steps to analyze and address privacy and confidentiality issues at the earliest stages of the planning process, and they must continue to manage information responsibly throughout the life cycle of the information. In addition, Federal agencies are expected to demonstrate continued progress in all aspects of privacy and confidentiality protection and to ensure compliance with all privacy and confidentiality 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. Moreover, agencies will continue to develop and implement policies that outline rules of behavior, detail training requirements for personnel, and identify consequences and corrective actions to address non-compliance.

[28] Federal Identity, Credential, and Access Management (FICAM) Roadmap and Implementation Guidance Version 2.0, December 2, 2011— *http://www.idmanagement.gov/documents/FICAM_Roadmap_ and_Implementation_Guidance_v2%200_20111202.pdf.*

[29] 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.*

CONCLUSION

The Administration is committed to continuously improving how its services are provided to the public. This will be accomplished by implementing a Federal IT strategy that focuses on delivering maximum return on IT investments, driving an innovation agenda, and promoting cybersecurity and privacy policies to protect data and assets across all Federal agencies.

20. 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 20–2 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 11, "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 20–1. 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 $503.3 billion in 2012. They are estimated to increase slightly to $503.7 billion in 2013 and increase to $568.4 billion in 2014. The major factors contributing to these changes are described below.

Major Federal investment outlays will comprise an estimated 15.0 percent of total Federal outlays in 2014 and 3.3 percent of the Nation's gross domestic product. Greater detail on Federal investment is available in Table 20–2 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 $267.7 billion in 2012 and are estimated to rise to $272.3 billion in 2013 and continue to rise to $311.6 billion in 2014. Physical investment outlays are for construction and rehabilitation, the pur-

Table 20–1. COMPOSITION OF FEDERAL INVESTMENT OUTLAYS
(In billions of dollars)

Federal Investment	Actual 2012	Estimate 2013	Estimate 2014
Major public physical capital investment:			
Direct Federal:			
National defense	138.1	132.1	163.6
Nondefense	44.4	57.1	55.3
Subtotal, direct major public physical capital investment	182.5	189.2	218.9
Grants to State and local governments	85.2	83.1	92.7
Subtotal, major public physical capital investment	267.7	272.3	311.6
Conduct of research and development:			
National defense	75.1	75.0	71.6
Nondefense	63.7	64.5	64.4
Subtotal, conduct of research and development	138.8	139.5	136.0
Conduct of education and training:			
Grants to State and local governments	63.9	62.3	76.2
Direct Federal	33.0	29.8	44.6
Subtotal, conduct of education and training	96.9	92.0	120.8
Total, major Federal investment outlays	**503.3**	**503.7**	**568.4**
MEMORANDUM			
Major Federal investment outlays:			
National defense	213.2	207.1	235.2
Nondefense	290.1	296.6	333.2
Total, major Federal investment outlays	503.3	503.7	568.4
Miscellaneous physical investment:			
Commodity inventories	–0.1	–0.0	–0.2
Other physical investment (direct)	2.5	2.7	2.8
Total, miscellaneous physical investment	2.4	2.7	2.7
Total, Federal investment outlays, including miscellaneous physical investment	505.8	506.4	571.0

chase of major equipment, and the purchase or sale of land and structures. Approximately two-thirds of these outlays are for direct physical investment by the Federal Government, with the remainder being grants to State and local governments for physical investment.

Direct physical investment outlays by the Federal Government are primarily for national defense. Defense outlays for physical investment are estimated to be $163.6 billion in 2014. This amount is up significantly from 2012 and 2013, largely because the entire placeholder for Overseas Contingency Operations (OCO) in 2014 is classified as physical investment. Two-thirds of defense physical investment outlays, or an estimated $99.6 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 decrease from $138.1 billion in 2012 to $132.1 billion in 2013, primarily due to reduced spending for the wars in Iraq and Afghanistan, and slowdowns in base budget Defense procurement.

Outlays for direct physical investment for nondefense purposes are estimated to be $55.3 billion in 2014. This is a reduction from the $57.1 billion in outlays in 2013, attributable largely to deadlines for project construction and completion for applications for grants for specified energy property in lieu of tax credits. Outlays for 2014 include $37.2 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 $17.5 billion in 2014. 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 $92.7 billion in 2014, up from $83.1 billion in 2013. Over 75 percent of these outlays, or $70.1 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 2013 to 2014. 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 $136.0 billion in 2014. 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 $71.6 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 $64.4 billion in 2014. 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 21, "Research and Development," in this volume.

Conduct of education and training. Outlays for the conduct of education and training were $92.0 billion in 2013 and are estimated to rise to $120.8 billion in 2014. 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 $76.2 billion in 2014, roughly 63 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 $62.3 billion in 2013 to $76.2 billion in 2014, largely due to grants to States for teacher stabilization. Direct Federal education and training outlays are estimated to be $44.6 billion in 2014, up from the levels in 2012 and 2013. Programs in this category primarily consist of aid for higher education through student financial assistance, loan subsidies, and veterans' education, training, and rehabilitation. Downward reestimates of student loan subsidies reduced net outlays for direct Federal education and training in 2012 and by greater amounts in 2013, leading to an increase in this category in 2014.

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 20–1. 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. Purchases are estimated to exceed sales by $158 million in 2014.

Outlays for other miscellaneous physical investment are estimated to be $2.8 billion in 2014. 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 20–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS
(In millions of dollars)

Description	Budget Authority			Outlays		
	2012 Actual	2013 Estimate	2014 Estimate	2012 Actual	2013 Estimate	2014 Estimate
GRANTS TO STATE AND LOCAL GOVERNMENTS						
Major public physical investment:						
Construction and rehabilitation:						
Transportation:						
Highways	39,723	40,647	39,118	43,896	42,636	42,101
Mass transportation	11,925	22,746	12,051	12,098	13,994	15,939
Rail transportation	....	....	3,660	532	1,127	2,511
Air and other transportation	3,685	3,686	53,228	3,219	4,129	9,531
Subtotal, transportation	55,333	67,079	108,057	59,745	61,886	70,082
Other construction and rehabilitation:						
Pollution control and abatement	2,545	3,194	2,123	4,100	3,393	3,179
Community and regional development	4,738	35,228	3,869	9,222	9,405	11,844
Housing assistance	3,658	3,680	4,982	6,031	4,957	4,659
Other	543	574	544	4,044	1,114	596
Subtotal, other construction and rehabilitation	11,484	42,676	11,518	23,397	18,869	20,278
Subtotal, construction and rehabilitation	66,817	109,755	119,575	83,142	80,755	90,360
Other physical assets	1,560	1,819	1,711	2,070	2,358	2,331
Subtotal, major public physical investment	68,377	111,574	121,286	85,212	83,113	92,691
Conduct of research and development:						
Agriculture	324	327	320	132	407	488
Other	164	320	312	124	144	167
Subtotal, conduct of research and development	488	647	632	256	551	655
Conduct of education and training:						
Elementary, secondary, and vocational education	37,249	55,569	41,564	45,489	43,516	55,794
Higher education	331	483	486	432	345	421
Research and general education aids	744	761	758	830	796	797
Training and employment	3,899	3,906	3,620	3,449	3,493	3,794
Social services	11,331	11,594	12,678	11,074	11,441	12,460
Agriculture	405	407	405	427	410	589
Other	2,164	2,243	2,395	2,150	2,253	2,381
Subtotal, conduct of education and training	56,123	74,963	61,906	63,851	62,254	76,236
Subtotal, grants for investment	**124,988**	**187,184**	**183,824**	**149,319**	**145,918**	**169,582**
DIRECT FEDERAL PROGRAMS						
Major public physical investment:						
Construction and rehabilitation:						
National defense:						
Military construction and family housing	11,060	11,078	8,849	12,667	14,623	10,963
Overseas Contingency Operations placeholder			[1] 88,482			[1] 52,505
Atomic energy defense activities and other	79	56	82	65	55	51
Subtotal, national defense	11,139	11,134	97,413	12,732	14,678	63,519
Nondefense:						
International affairs	1,049	1,024	1,907	1,064	808	1,070
General science, space, and technology	896	712	999	838	805	864
Water resources projects	2,686	6,153	2,246	4,182	3,106	3,701
Other natural resources and environment	1,073	1,604	1,053	1,529	1,322	1,316
Energy	8,391	10,775	8,355	9,563	12,783	10,265

Table 20–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued

(In millions of dollars)

Description	Budget Authority			Outlays		
	2012 Actual	2013 Estimate	2014 Estimate	2012 Actual	2013 Estimate	2014 Estimate
Postal service	320	373	669	241	490	605
Transportation	568	6,783	12,677	600	6,627	13,002
Veterans hospitals and other health facilities	3,423	3,478	2,674	3,497	3,376	2,566
Administration of justice	572	535	1,249	849	701	316
GSA real property activities	343	332	2,119	2,877	1,980	1,568
Other construction	1,948	6,863	11,135	2,955	7,779	1,931
Subtotal, nondefense	21,269	38,632	45,083	28,195	39,777	37,204
Subtotal, construction and rehabilitation	32,408	49,766	142,496	40,927	54,455	100,723
Acquisition of major equipment:						
National defense:						
Department of Defense	118,445	115,178	99,431	124,915	116,931	99,583
Atomic energy defense activities	614	534	575	442	466	503
Subtotal, national defense	119,059	115,712	100,006	125,357	117,397	100,086
Nondefense:						
General science and basic research	861	834	940	1,007	1,034	871
Postal service	205	627	1,666	266	516	963
Air transportation	3,705	4,207	3,520	3,389	3,972	3,621
Water transportation (Coast Guard)	1,240	1,252	884	1,077	1,381	1,243
Other transportation (railroads)	1,418	1,545	2,700	1,421	1,552	1,585
Hospital and medical care for veterans	2,620	1,901	1,310	1,720	1,850	1,639
Federal law enforcement activities	1,073	1,048	1,035	1,360	1,272	1,260
Department of the Treasury (fiscal operations)	330	332	303	358	376	348
National Oceanic and Atmospheric Administration	1,830	1,842	2,006	1,315	1,182	1,548
Other	3,828	3,816	4,467	4,063	3,831	4,442
Subtotal, nondefense	17,110	17,404	18,831	15,976	16,966	17,520
Subtotal, acquisition of major equipment	136,169	133,116	118,837	141,333	134,363	117,606
Purchase or sale of land and structures:						
National defense	–33	–35	–27	–12	24	–16
Natural resources and environment	229	304	420	224	283	346
General government	133	128	113	133	130	129
Other	–131	1,702	–153	–132	–93	82
Subtotal, purchase or sale of land and structures	198	2,099	353	213	344	541
Subtotal, major public physical investment	168,775	184,981	261,686	182,473	189,162	218,870
Conduct of research and development:						
National defense:						
Defense military	72,811	73,740	68,235	71,146	70,371	66,856
Atomic energy and other	4,051	4,496	4,742	3,975	4,610	4,711
Subtotal, national defense	76,862	78,236	72,977	75,121	74,981	71,567
Nondefense:						
International affairs	269	265	259	253	252	246
General science, space, and technology:						
NASA	10,622	10,567	10,883	10,027	10,620	10,974
National Science Foundation	5,101	5,137	5,600	5,124	5,969	5,293
Department of Energy	3,839	3,959	4,053	4,012	4,107	4,122
Subtotal, general science, space, and technology	19,562	19,663	20,536	19,163	20,696	20,389
Energy	2,197	2,388	3,186	3,019	2,532	2,933
Transportation:						
Department of Transportation	758	705	775	720	717	713
NASA	553	546	553	566	494	555
Other transportation	27	28	20	21	39	23
Subtotal, transportation	1,338	1,279	1,348	1,307	1,250	1,291
Health:						
National Institutes of Health	29,879	30,097	30,356	31,671	30,709	30,389
Other health	1,407	1,700	1,960	1,185	1,679	1,167

Table 20–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued

(In millions of dollars)

Description	Budget Authority			Outlays		
	2012 Actual	2013 Estimate	2014 Estimate	2012 Actual	2013 Estimate	2014 Estimate
Subtotal, health	31,286	31,797	32,316	32,856	32,388	31,556
Agriculture	1,556	1,504	1,612	1,772	1,641	1,681
Natural resources and environment	2,137	2,179	2,423	2,046	2,066	2,222
National Institute of Standards and Technology	466	480	1,530	533	557	618
Hospital and medical care for veterans	1,160	1,170	1,172	1,168	1,150	1,152
All other research and development	1,281	1,318	1,729	1,281	1,391	1,701
Subtotal, nondefense	61,252	62,043	66,111	63,398	63,923	63,789
Subtotal, conduct of research and development	138,114	140,279	139,088	138,519	138,904	135,356
Conduct of education and training:						
Elementary, secondary, and vocational education	1,444	1,480	1,690	1,276	1,367	1,372
Higher education	20,254	8,305	16,596	12,108	5,711	20,032
Research and general education aids	2,098	2,142	2,305	2,192	2,269	2,213
Training and employment	2,812	2,255	2,306	2,456	2,306	2,492
Health	1,526	1,631	1,446	1,644	1,804	1,562
Veterans education, training, and rehabilitation	12,527	11,559	13,489	10,734	13,512	14,063
General science and basic research	952	947	991	945	1,087	1,027
International affairs	651	624	583	670	631	786
Other	905	819	800	977	1,066	1,016
Subtotal, conduct of education and training	43,169	29,762	40,206	33,002	29,753	44,563
Subtotal, direct Federal investment	**350,058**	**355,022**	**440,980**	**353,994**	**357,819**	**398,789**
Total, Federal investment	**475,046**	**542,206**	**624,804**	**503,313**	**503,737**	**568,371**

[1] Includes the entire placeholder amount for Department of Defense Overseas Contingency Operations in 2014. The amended OCO request will be distributed across a range of investment and non-investment activities.

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 pre-school education and extending through graduate studies and adult education. Like physical assets, the capital stocks of R&D and education provide services over a number of years and depreciate as they become outdated.

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

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

It should be stressed that these estimates are rough approximations, and provide a basis only for making broad generalizations. Errors may arise from uncertainty about the useful lives and depreciation rates of different types of assets, incomplete data for historical outlays, and imprecision in the deflators used to express costs in constant dollars. 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 20–3 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 2.5 percent average annual rate from 1960 to 2012, with periods of faster growth during the late 1960s, the 1980s, as well as presently since the mid-2000s. The stock amounted to $3,134 billion in 2012 and is estimated to increase to $3,307 billion by 2014. In 2012, the national defense capital stock accounted for $950 billion, or 30 percent of the total, and nondefense stocks for $2,130 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 $2,185 billion in 2012. With the investments proposed in the Budget, nondefense stocks are estimated to grow to $2,306 billion in 2014. 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 $637 billion in 2001 to $1,001 billion in 2014.

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 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 2012, 25 percent of the federally financed nondefense stock was owned by the Federal Government and 75 percent by State and local governments.

Table 20–3. 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	619	270	99	62	37	171	104	31	24	12
1965	993	602	391	128	77	51	263	185	38	26	15
1970	1,182	650	531	152	92	60	379	269	55	31	24
1975	1,224	553	671	173	106	67	498	330	89	49	30
1980	1,333	475	858	200	126	74	658	396	140	91	31
1985	1,583	579	1,004	229	140	89	775	460	169	116	30
1990	1,902	752	1,150	265	151	114	885	537	184	131	33
1995	2,058	737	1,320	307	161	146	1,013	621	195	143	53
2000	2,162	641	1,522	349	165	184	1,173	720	213	152	88
Annual data:											
2005	2,481	693	1,788	414	173	241	1,373	860	230	160	123
2006	2,550	717	1,833	425	174	250	1,408	887	233	161	128
2007	2,627	747	1,880	435	175	260	1,444	911	239	162	133
2008	2,716	788	1,928	449	177	272	1,479	935	244	163	137
2009	2,823	837	1,986	474	180	294	1,512	960	246	163	142
2010	2,945	887	2,058	499	187	312	1,559	990	250	166	153
2011	3,054	924	2,130	523	197	326	1,607	1,018	254	169	166
2012	3,134	950	2,185	541	206	335	1,644	1,044	258	171	171
2013 est.	3,208	963	2,245	569	217	351	1,676	1,070	261	172	172
2014 est.	3,307	1,001	2,306	594	226	367	1,712	1,100	266	174	173

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 20–4, the R&D capital stock financed by Federal outlays is estimated to be $1,572 billion in 2012 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 2012. 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 $1,634 billion in 2014.

The growth of the nondefense R&D stock slowed from the 1970s to the 1980s, from an annual rate of 3.8 percent in the 1970s to a rate of 2.1 percent in the 1980s. Gross investment in real terms fell during 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.

Table 20–4. NET STOCK OF FEDERALLY FINANCED RESEARCH AND DEVELOPMENT [1]

(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:									
1960	137	6	132	41	18	22	178	24	154
1965	237	11	226	130	40	90	367	51	316
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	651	232	1,498	721	776
2011	625	72	553	911	675	235	1,535	747	788
2012	632	74	559	939	702	237	1,572	776	796
2013 est.	638	75	563	967	729	238	1,605	804	801
2014 est.	639	77	563	994	755	239	1,634	832	802

[1] Excludes stock of physical capital for research and development, which is included in Table 20–3.

The Stock of Education Capital

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

As shown in Table 20–5, the federally financed education stock is estimated at $2,108 billion in 2012 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 financed 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 5.0 percent from 1970 to 2012. The expansion of the education stock is projected to continue under this budget, with the stock rising to $2,242 billion in 2014.

Table 20–5. 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	80	58	22
1965	115	83	31
1970	264	207	57
1975	393	318	75
1980	544	427	117
1985	651	489	162
1990	825	614	211
1995	988	721	267
2000	1,275	929	346
Annual data:			
2005	1,529	1,117	413
2006	1,623	1,169	454
2007	1,721	1,239	482
2008	1,833	1,328	505
2009	1,911	1,412	500
2010	1,970	1,479	491
2011	2,001	1,516	484
2012	2,108	1,606	502
2013 est.	2,162	1,655	506
2014 est.	2,242	1,726	516

21. RESEARCH AND DEVELOPMENT

The President is committed to making investments in research and development (R&D) that will grow our economy and enable America to remain competitive. In the same way that past federal R&D investments led to American leadership in biotechnology and the development of the Internet, the President's focus on science and innovation will help create the industries and jobs of the future and address the challenges and opportunities of the 21st Century. Investing in science and technology-based innovation will let us do things like map the human brain, help find new answers in the fight against Alzheimer's and other diseases, devise new clean energy technologies, and promote new advanced manufacturing opportunities.

The President's 2014 Budget provides $143 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 9 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 2014 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 2014 Budget continues to strengthen U.S. international leadership by investing in the high-tech knowledge-based economy and innovation-fueled growth industries, such as advanced manufacturing. These investments 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 robust 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 [1]

The Budget[1] provides support for a broad spectrum of research and development, including multidisciplinary research and exploratory, potentially transformative, 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 develop 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 $68 billion for basic and applied research, an increase of 8 percent over the 2012 levels because such research is a reliable source of new knowledge to drive job creation and lasting economic growth.

The 2014 Budget maintains the commitment to increase total Federal investment in the combined budgets of three 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 endorsed in the America COMPETES Reauthorization Act of 2010. The Budget proposes $13.5 billion in 2014 for these three agencies, an increase of $1.0 billion (8.0 percent) over 2012 funding. These investments will expand the frontiers of human knowledge and establish the foundation for the industries and jobs of the future, including in clean energy, advanced manufacturing, biotechnology, Big Data, and new materials.

Private sector R&D investments remain essential to foster and deploy innovation as they provide a much wider range of 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 Cleaner American Energy

The Administration is committed to enabling a future where the Unites States leads the world in research, development, demonstration, and deployment of clean-energy technologies to reduce dependence on oil and other

[1] 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 21-1.

energy imports, reduce potential impacts on the environment, and respond to the threat of climate change, while creating high-paying clean energy jobs and new businesses. The Budget reflects the Administration's energy strategy, which includes: basic and applied research to address some of the fundamental unknowns to advancing clean energy technologies, such as understanding and developing new approaches to energy storage; research and development to create and dramatically improve clean energy products, like solar panels, batteries and electric vehicles, wind turbines, and modular nuclear reactors; and appropriate assistance to American entrepreneurs and businesses to commercialize the technologies that will lead the world in new clean energy technologies.

The Budget requests approximately $7.9 billion for clean energy technology programs government-wide to accelerate the transition to a low-carbon economy and position the United States as the world leader in clean energy. DOE will invest an additional $1.8 billion or 43 percent above 2012 levels, to advance the state of the art in clean energy technologies such as advanced vehicles and biofuels, industrial and building energy efficiency, and renewable electricity generation from solar, wind, water, and geothermal resources.

For example, the 2014 Budget invests $2 billion over the next ten years from Federal oil and gas development revenue in a new Energy Security Trust that would provide a reliable stream of mandatory funding for R&D on cost-effective transportation alternatives that reduce our dependence on oil. It would be designed to invest in research that will improve and reduce the cost of technologies that will allow us to run our cars and trucks on electricity, home-grown biofuels, renewable hydrogen, and domestically produced natural gas. In addition, the Budget provides a total of $957 million in discretionary funding for sustainable transportation activities in the Office of Energy Efficiency and Renewable Energy (EERE) at the Department of Energy, including $575 million for development of the next generation of advanced vehicles, $100 million for hydrogen and fuel cell technologies, and $282 million for advanced biofuel and biorefinery activities, which, combined with complementary U.S. Department of Agriculture efforts, support development of next-generation biofuels like cellulosic and algae-based biofuels. The Budget proposes $885 million in EERE for energy efficiency and advanced manufacturing activities to help reduce energy use and costs in commercial and residential buildings, in the industrial and business sectors, and in Federal buildings and fleets. And it provides $615 million for innovative projects to make clean, renewable power, such as solar energy and off-shore wind, more easily integrated into the electric grid and as affordable as electricity from conventional sources. It also includes $735 million to support nuclear energy, including research and development in areas of fuel cycle and reactor technologies, and $266 million for an R&D portfolio of carbon capture and storage technologies and advanced 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 $379 million for the Advanced Research Projects Agency-Energy (ARPA-E), a program that seeks to fund transformational energy R&D.

Defeating Diseases and Improving Americans' Health Outcomes

The Administration is committed to funding Federal R&D investments in biomedical and health research and supporting policies to improve health. The 2014 Budget strongly supports research that has the potential to accelerate the pace of discovery in the life sciences, especially imaging, neuroscience, bioinformatics, and high-throughput biology. These discoveries will help support the bioeconomy of the future.

The 2014 Budget proposes $31.3 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. The Budget supports basic and translational research to increase understanding of the causes of disease and spur development of diagnostic tests, treatments, and cures. By increasing the number of new grants, the Budget maintains the pace and scope of research and stimulates the development of new ideas. The Budget includes funding for projects to increase understanding of the brain, create a national patient-powered research network to improve clinical trials, maximize the impact of the Big Data revolution on biomedicine, and increase the diversity of biomedical researchers. To fund these new grants and ensure the highest-quality science is supported, the Budget includes policies to collect better information on administrative costs.

The Budget includes $40 million for a new advanced molecular diagnostics (AMD) initiative within the Centers for Disease Control and Prevention (CDC). The AMD initiative will allow CDC to more quickly determine where emerging diseases come from, whether microbes are resistant to antibiotics, and how microbes are moving through a population. This new whole-genome sequencing technology will also allow CDC to increase the timeliness and accuracy, and decrease the cost, of culture based analysis. These new investments will strengthen CDC's epidemiologic and laboratory expertise to guide public health actions.

The Budget includes approximately $498 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.

The Budget also proposes more than $1 billion for medical and prosthetic research across the Department of Veterans Affairs.

The Budget for the Department of Agriculture includes about $82 million for research on zoonotic animal diseases such as Rift Valley Fever, Bovine Spongiform Encephalopathy, Avian Influenza, Bovine Tuberculosis, and Brucellosis, that could spread to humans. In addition, about $119 million would be spent on food safety research to reduce the incidence of bacteria such as salmonella, E coli, Campylobacter and Listeria; food borne parasites; and natural toxins such as aflatoxins that affect public health.

Advanced Manufacturing

The Budget supports the Advanced Manufacturing Partnership (AMP), a national effort that brings together industry, universities, and the Federal government to develop and commercialize the emerging technologies that will create high-quality manufacturing jobs and enhance our global competitiveness. The 2014 Budget provides $2.9 billion for Federal R&D directly supporting advanced manufacturing at NSF, DOD, DOE, DOC, and other agencies. For example, the Budget provides DOE with $365 million for important technology efforts on innovative manufacturing processes and advanced industrial materials. These innovations will enable U.S. companies to cut manufacturing costs and reduce the life cycle energy consumption of technologies, while improving product quality and accelerating product development. The Budget also includes a $25 million increase for the Hollings Manufacturing Extension Partnership to establish Manufacturing Technology Acceleration Centers to assist manufacturers in adopting new technologies and $1 billion in mandatory funding to establish the National Network of Manufacturing Innovation, which will develop cutting-edge manufacturing technologies and capabilities. 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. 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 strategy is the Materials Genome Initiative: by leveraging advances in computer simulations and the overall material knowledge-base, this initiative aims to increase the rate by which we understand and characterize new materials, 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.

Understanding Global Climate Change and Its Impacts

The U.S. Global Change Research Program (USGCRP) coordinates and integrates 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. Within coordinated USGCRP interagency investments, the 2014 Budget supports the goals set forth in the program's 2012-2021 strategic plan, which include: advancing scientific knowledge of the integrated natural and human components of the Earth system; providing the scientific basis to inform and enable timely decisions on adaptation and mitigation; building sustained assessment capacity that improves the United States' ability to understand, anticipate, and respond to global change impacts and vulnerabilities; and advancing communications and education to broaden public understanding of global change. The 2014 Budget also supports an integrated and ongoing National Climate Assessment of climate change science, impacts, vulnerabilities, and response strategies. The 2014 Budget provides $2.7 billion for USGCRP programs.

Stewardship of Natural Resources

Sustainable stewardship of natural resources requires strong investments in research and development in the natural sciences to inform decision-making. The 2014 Budget provides $2.8 billion in R&D funding to support resource decision making and environmental stewardship at the Department of the Interior (DOI), Environmental Protection Agency (EPA), National Oceanic and Atmospheric Administration (NOAA), and Department of Agriculture (USDA). The Budget provides strong support for R&D related to the management of public lands, ecosystems, energy permitting, Earth observations (such as earth observing satellites and monitoring of water, wildlife, and invasive species), and expanded investments in natural resource management by American Indian tribes. The Budget also provides strong support for science to inform ocean and coastal stewardship, with investments in ocean observations and exploration, coastal mapping and assessment, coastal ecosystem research, and coastal habitat restoration. 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. Responding to the President's Council of Advisors on Science and Technology (PCAST) recent report, "Agricultural Preparedness & the United States Agricultural Research Enterprise", the 2014 Budget invests $383 million in USDA's Agriculture and Food Research Initiative (AFRI) which will be distributed through competitively awarded extramural research grants to support breakthrough research in national priorities including water quantity and quality, sustainable agricultural production, and climate change adaptation, as well as other USDA priorities such as bioenergy, food safety, and human nutrition.

Science and Technology for Security

Federal R&D investments in security aim to protect our nation from current and emerging threats. The development of technologies that allow our government to detect, counter and defeat threats is critical to our military's success and our national security. The Department of Defense's (DOD) R&D investments in the 2014 Budget focus on areas deemed to have the greatest impact on our nation and future military requirements. To this end, the 2014 Budget provides $68.3 billion for DOD R&D, a 6 percent decrease from the 2012 enacted level. The decrease represents reductions in development activities as programs mature and transition to production.

The 2014 Budget proposes $12.0 billion for DOD's Science & Technology (S&T) program, which consists of basic research, applied research and advanced technology development. Although this proposal represents a 1.8 percent decrease from the 2012 enacted level, but it is a 1.0 percent increase above the 2013 Budget Proposal. This year's proposal places special emphasis on basic research, the most fundamental type of research, which increases by 2.3 percent from the previous year's proposed level. DOD's increased investment in S&T demonstrates its continued commitment to researching and developing forward looking capabilities.

The 2014 Budget also maintains DOD's critical role in fostering promising technologies with $2.9 billion for the Defense Advanced Research Projects Agency (DARPA). This funding level represents an increase of $50 million (1.8 percent) from the 2012 enacted level. Investing in DARPA's high-risk and high-reward science is an Administration priority and critical to maintaining the technological superiority of the U.S. military.

For DOE, the Budget proposes $4.9 billion for investments in R&D for the Nation's nuclear stockpile, naval nuclear propulsion, and nonproliferation goals.

The Budget increases investments to develop state-of-the-art technologies and solutions for Federal, State, and local homeland security operators. The Budget proposes $574 million in funding for the Department of Homeland Security R&D programs that protect the Nation's people and critical infrastructure from chemical, biological, and cyber attacks. The Budget also proposes $714 million to construct a state-of-the-art facility to study and develop countermeasures for emerging zoonotic diseases that threaten human health and our agricultural industry.

Strengthening the R&D enterprise with related investments

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. That is why the Administration proposes a comprehensive reorganization of STEM education programs to increase the impact of Federal investments in four areas: K-12 instruction; undergraduate education; graduate fellowships; and education activities that typically take place outside the classroom, all with a focus on increasing participation and opportunities for individuals from groups historically underrepresented in these fields. The reorganization involves a consolidation of nearly 90 programs across 11 different agencies and realignment of ongoing STEM education activities to improve the delivery, impact, and visibility of STEM efforts. Nearly $180 million will be redirected from these consolidated programs towards the Department of Education, NSF, and the Smithsonian Institution to implement core initiatives in these four priority areas.

The Department of Education will restructure its own existing efforts to lead a cohesive and robust initiative around improving K-12 instruction and working effectively toward the President's goal of generating 100,000 effective STEM teachers over the next decade. The Budget invests $265 million, redirected from within the Department and from other agencies, to support STEM Innovation Networks, which would be districts or consortia of districts working in partnership with universities, science agencies, museums, businesses, and other educational entities. These public-private partnerships will work to harness local, regional, and national resources to dramatically transform teaching and learning by implementing research-based practices, supporting innovation, and building capacity at both school and district levels. Additionally, Networks will leverage the expertise of the Nation's most talented science and math teachers—through a new STEM Master Teachers Corps—to help improve instruction in their schools and districts, and to serve as a national resource for best practices in math and science teaching. The new investment also includes $80 million to support the President's goal of preparing 100,000 highly-effective teachers. To reinforce the Department's transformation of STEM teaching and learning, the Budget continues support for the joint K-16 Math Initiative.

NSF will enhance STEM undergraduate education and reform graduate fellowships so they reach more students and address national needs. The Budget proposes to consolidate disparate science and engineering undergraduate education activities across government into a new consolidated program at NSF. This reform will increase the efficiency and effectiveness of these streamlined investments by implementing evidence-based instructional practices and supporting an expanded evidence base. It also supports research on how new technologies can facilitate adoption and use of new approaches to instruction. The Budget provides $123 million for this new program. The Budget also provides $325 million for a newly consolidated NSF graduate research fellowship program.

Many agencies currently engage in various informal education activities to get the public, students, and teachers interested in their missions and research. The Budget also redirects $25 million from these agencies to the Smithsonian Institution to improve the reach of informal education activities by ensuring that they are aligned with State standards and are relevant to the classroom.

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 and 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. Also included in the NASA Budget is $821 million for the Commercial Crew program, an innovative partnership with American industry to transport crew to the International Space Station. The Budget provides $2.0 billion for NOAA to fund development of the next generation of polar-orbiting and geostationary satellite systems, which are critical to weather forecasting, as well as satellite-borne measurements of sea level and potentially damaging solar storms.

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. The 2014 Budget prioritizes infrastructure in support of Earth observation systems from all platforms (space-based, terrestrial, airborne, and marine) that contribute to clearly-defined societal benefit areas, such as managing agriculture and understanding climate change. These earth-observation systems provide the scientific data underpinning environmental research, weather forecasting, natural resource and land management, and geopositioning, among many other uses. The 2014 Budget makes investments to sustain earth-observation systems identified as high priority in the forthcoming National Earth Observations Strategy, including satellites, stream gages, light detection and ranging (LiDAR), and ocean observing systems. The Budget also includes support to make the output of the U.S.'s unparalleled Earth observing systems more accessible and usable, which will increase the utility of these investments for public good and foster private investment in innovative uses this information. Maintaining high quality federal research to serve the public requires up-to-date laboratory facilities. Therefore the Budget includes $155 million for the full cost of renovation and construction of a USDA poultry disease bio surveillance and research facility to reduce poultry diseases that could affect human health and the agricultural sector.

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 21–1 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 activities. Facilities include land, buildings, and fixed capital equipment, regardless of whether the facilities are to be used by the Government or by a private organization, and regardless of where title to the property may rest. This category includes such fixed facilities as reactors, wind tunnels, and particle accelerators.

III. MULTI-AGENCY R&D ACTIVITIES

Many research investments into the most promising areas for future industry, scientific discovery, 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 two such interagency efforts – networking and information technology R&D and nanotechnology 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 2014 Budget includes a focus on research to improve our ability to derive value and scientific inferences from unprecedented quantities of data ("big 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*.

Nanotechnology R&D: To accelerate nanotechnology development 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, sustainable design of nanoengineered materials, nanoscale sensors, 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*). Budget information is available at *nano.gov*.

Table 21–1. FEDERAL RESEARCH AND DEVELOPMENT SPENDING

(Budget authority, dollar amounts in millions)

	2012 Actual	2013 CR	2014 Proposed	Dollar Change: 2014 to 2012	Percent Change: 2014 to 2012
By Agency					
Defense	72,916	73,839	68,291	–4,625	–6%
Health and Human Services	31,377	31,734	32,046	669	2%
Energy	10,811	11,406	12,739	1,928	18%
NASA	11,315	11,282	11,605	290	3%
National Science Foundation	5,636	5,643	6,148	512	9%
Commerce	1,254	1,338	2,682	1,428	114%
Agriculture	2,331	2,249	2,523	192	8%
Homeland Security	481	514	1,374	893	186%
Veterans Affairs	1,160	1,170	1,172	12	1%
Interior	820	841	963	143	17%
Transportation	921	852	942	21	2%
Environmental Protection Agency	568	571	560	–8	–1%
Patient-Centered Outcomes Research Trust Fund	120	304	498	378	315%
Education	397	342	352	–45	–11%
Smithsonian Institution	243	241	250	7	3%
Other	562	577	628	66	12%
TOTAL	**140,912**	**142,903**	**142,773**	**1,861**	**1%**
Basic Research					
Defense	2,014	1,874	2,134	120	6%
Health and Human Services	16,195	16,096	16,182	–13	–0%
Energy	3,912	4,034	4,129	217	6%
NASA	3,181	3,360	3,656	475	15%
National Science Foundation	4,584	4,657	5,120	536	12%
Commerce	163	165	217	54	33%
Agriculture	927	847	891	–36	–4%
Homeland Security	15	19	44	29	193%
Veterans Affairs	470	476	478	8	2%
Interior	54	55	64	10	19%
Transportation	....	....	....	....	....
Environmental Protection Agency	....	....	....	....	....
Patient-Centered Outcomes Research Trust Fund	....	....	....	....	....
Education	6	7	7	1	17%
Smithsonian Institution	200	205	214	14	7%
Other	19	31	26	7	37%
SUBTOTAL	**31,740**	**31,826**	**33,162**	**1,422**	**4%**
Applied Research					
Defense	4,728	4,237	4,602	–126	–3%
Health and Human Services	14,933	15,434	15,660	727	5%
Energy	3,584	4,031	4,405	821	23%
NASA	2,650	2,689	2,645	–5	–0%
National Science Foundation	517	480	480	–37	–7%

Table 21–1. FEDERAL RESEARCH AND DEVELOPMENT SPENDING—Continued
(Budget authority, dollar amounts in millions)

	2012 Actual	2013 CR	2014 Proposed	Dollar Change: 2014 to 2012	Percent Change: 2014 to 2012
Commerce [1]	778	839	2,061	1,283	165%
Agriculture	1,124	1,127	1,190	66	6%
Homeland Security	146	153	230	84	58%
Veterans Affairs	618	622	622	4	1%
Interior	650	668	767	117	18%
Transportation	651	633	658	7	1%
Environmental Protection Agency	480	482	473	–7	–1%
Patient-Centered Outcomes Research Trust Fund	120	304	498	378	315%
Education	227	202	205	–22	–10%
Smithsonian Institution	....	....	....	....	....
Other	412	417	467	55	13%
SUBTOTAL	**31,618**	**32,318**	**34,963**	**3,345**	**11%**
Development					
Defense	66,069	67,629	61,499	–4,570	–7%
Health and Human Services	81	35	35	–46	–57%
Energy	2,446	2,669	3,338	892	36%
NASA	5,344	5,064	5,135	–209	–4%
National Science Foundation	....	....	....	....	....
Commerce	82	105	145	63	77%
Agriculture	191	184	188	–3	–2%
Homeland Security	223	232	322	99	44%
Veterans Affairs	72	72	72	0	0%
Interior	113	114	127	14	12%
Transportation	245	200	245	0	0%
Environmental Protection Agency	83	84	82	–1	–1%
Patient-Centered Outcomes Research Trust Fund	....	....	....	....	....
Education	164	133	140	–24	–15%
Smithsonian Institution	....	....	....	....	....
Other	131	129	135	4	3%
SUBTOTAL	**75,244**	**76,650**	**71,463**	**–3,781**	**–5%**
Facilities and Equipment					
Defense	105	99	56	–49	–47%
Health and Human Services	168	169	169	1	1%
Energy	869	672	867	–2	–0%
NASA	140	169	169	29	21%
National Science Foundation	535	506	548	13	2%
Commerce	231	229	259	28	12%
Agriculture	89	91	254	165	185%
Homeland Security	97	110	778	681	702%
Veterans Affairs	....	....	....	....	....
Interior	3	4	5	2	67%
Transportation	25	19	39	14	56%
Environmental Protection Agency	5	5	5	0	0%
Patient-Centered Outcomes Research Trust Fund	....	....	....	....	....
Education	....	....	....	....	....
Smithsonian Institution	43	36	36	–7	–16%
Other	....	....	....	....	....
SUBTOTAL	**2,310**	**2,109**	**3,185**	**875**	**38%**

[1] The amounts reported for applied research and total R&D at the Department of Commerce were corrected. Therefore these amounts are not consistent with those reported in the investment tables in Chapter 20.

22. 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 market 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 discusses current issues in credit budgeting. This year, the section is devoted to "fair value" cost estimates for Federal credit programs.

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. The presence of a market imperfection, however, 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. In addition to correcting market failures, Federal credit and insurance programs may provide subsidies to serve other policy purposes, such as reducing inequalities and extending opportunities to disadvantaged regions or segments of the population. The effectiveness of the use of credit assistance should be carefully compared with that of other policy tools, such as grants and tax credits.

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 pensions 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 may 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.

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.

The consequences of inflated house prices and loose mortgage underwriting during the housing bubble that peaked in 2007 created perilous conditions for many American homeowners. As broader economic conditions soured and home prices declined, millions of families have been foreclosed 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 five 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.

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 risky and hard-to-understand 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 private-sector credit. 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 and a reduction toward historical market shares for Federal assistance, 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 2012 to $213 billion. In line with the volume decrease, the FHA's market share for new home purchase loans declined to 20 percent through the first 10 months of 2012, 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 many 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 $65.8 billion excluding interest, with $37.7 billion of that reestimate occurring in the last four years.

FHA's budget estimates can be volatile and prone to forecast error because default claim rates are sensitive to a variety of dynamics. Insurance premium revenues are spread thinly but universally over pools of policyholders, making those inflows generally stable and subject to less forecast error than for mortgage defaults. 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.

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. Like many parties with credit-risk, however, FHA has been significantly hurt by house price depreciation.

Influenced by all these factors, FHA recorded a reestimate of $17.6 billion excluding interest in 2013 in the expected costs of its outstanding loan portfolio of the MMI Fund; an additional reestimate amount of $3.6 billion is recorded in the General and Special Risk Insurance Fund and is largely due to continued losses from Home Equity Conversion Mortgages (HECMs) and other single family commitments issued before 2009. 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 2013 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 2017. 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 financing into the mortgage market. These steps resulted 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 at this critical phase of the housing market recovery.

To increase FHA's capital resources and to encourage the return of large-scale private mortgage financing, there have been five premium increases since 2008. This year, FHA is implementing another increase of 0.1 percentage points in annual premiums. With this increase, upfront fees on home purchase guarantees will be 1.75 percent and annual fees will be 1.35 percent. For a typical borrower, the cumulative increases since 2008 are 0.25 percentage points in the upfront premium and 0.85 percentage points in annual premiums. 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.

In November, 2012, FHA announced the following steps to bolster financial performance, in addition to the 2013 premium increase.

1. Reverse a policy to cancel required premium payments after borrowers achieve an amortized loan to

value ratio of 78 percent. Under the current practice borrowers pay premiums for only about ten years even though FHA's 100 percent insurance guarantee remains in effect for up to 30 years. This change will apply only to new loans.

2. Revise its loss mitigation program to target deeper levels of payment relief for struggling borrowers, allowing more families to retain their homes and avoid foreclosure.

3. Expand the use of home short-sales, which provide opportunities for distressed borrowers for whom home retention is not feasible to transition to new housing without going through foreclosure.

4. For loans above $625,000, raise the minimum cash down-payment from 3.5 percent to 5 percent to create a larger borrower equity position.

5. For HECMs, institute a moratorium on new full-draw mortgages to eliminate a costly version of the product.

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 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 increased the annual premiums for jumbos by 0.25 percentage points in 2012.

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 conforms closer to industry standards and reduces 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 $22 billion in 2012 as private market alternatives to FHA financing have largely disappeared. Despite modest premium increases implemented for many programs on October 1, 2012, GISRI loan volumes are expected to remain elevated through 2014 with low interest rates contributing to a continued wave of refinancing activity. When existing FHA properties lower their debt service burden by refinancing at a lower interest rate, credit risk to FHA is reduced and the financial viability of multifamily housing properties is increased.

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 143,110 zero down payment loans in 2012. The number of loans VA guaranteed remained at a high level in 2012, 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 2012 allowed 188,999 Veteran borrowers to lower the interest rate on their home mortgages through refinancing. VA provided $120 billion in guarantees to assist 542,036 borrowers in 2012, compared with $72 billion and 343,556 borrowers in 2011.

VA, in cooperation with VA-guaranteed loan servicers, also assists borrowers through 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 80 percent of defaulted VA-guaranteed loans in 2012.

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 2014 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 $5.7 billion in loans for low income rural borrowers, which will provide 50,000 new homeownership opportunities to that income group. Overall, the program could potentially provide 171,000 new homeownership opportunities to low to moderate income rural residents in 2014.

For the single family housing guarantees, the Budget continues to include an annual and an up-front fee structure. This fee structure serves to reduce the overall subsidy cost of the loans without adding significant burden to the borrowers. The Budget also proposes to make USDA's guaranteed home loan program a direct endorsement program, which is consistent with VA and HUD's guaranteed home loan programs. This change will make RHS more efficient and allow the single family housing staff to refocus on other unmet needs. For USDA's single family housing direct loan program, the Budget provides a reduced loan level of $360 million for 2014. This decision reflects that with a $24 billion loan level for the single family housing guarantees and interest rates at their lowest levels in decades, demand for the direct loans should be waning, and hence the focus should be on the guarantee program.

For USDA's multifamily housing portfolio, the Budget focuses primarily on portfolio management. The Budget fully funds this rehabilitation effort by providing $26.7 million for the multifamily housing revitalization activities, which include loan modifications, grants, zero percent loans, and soft second loans as well as some funding for traditional multifamily housing direct loans to allow USDA to better address its inventory property. 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 $1.015 billion, which is sufficient to renew outstanding contracts. The Budget also provides $150 million in guaranteed multifamily housing loans and $14 million in budget authority for the Farm Labor Housing grants and loans program. The combined 2014 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 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.

Growing stress and losses in the mortgage markets in 2007 and 2008 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 GSEs' independent regulator, 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.

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 2 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 2012.

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 nearly 53 percent as of September 30, 2012.

Mission

The mission of the housing GSEs is to support certain aspects of the U.S. mortgage market. Fannie Mae and Freddie Mac's mission is to 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, 2012, they totaled $3.9 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, 2012, these retained mortgages, financed largely by GSE debt, totaled $1.2 trillion. As a term of their PSPA

contracts 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 this limitation was set to decline by 10 percent each year. To accelerate the return of private capital to the mortgage markets and the wind-down of the GSEs, Treasury revised the PSPA terms on August 17th, 2012, setting the effective limitation at $1.3 trillion as of December 31, 2012, and accelerating the reduction in this limitation to 15 percent each year until December 31, 2018, when the combined limitation will be fixed at $500 billion ($250 billion for each company).

As of November 30, 2012, the combined debt and guaranteed MBS of Fannie Mae and Freddie Mac totaled $5.1 trillion.

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 remains lending (secured by mortgages and financed by System debt issuances) to regulated depository institutions and insurance companies engaged in residential mortgage finance. 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 had 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, provided 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. FHFA has determined that Fannie Mae narrowly missed two of the single-family purchase goals for 2011 and that Freddie Mac missed all three purchase goals. FHFA has instructed Freddie Mac to review the reasons its goal qualifying share of single-family purchases are lower than the industry benchmarks, but FHFA is not requiring corrective housing plans from either enterprise due to their conservatorship. Fannie Mae and Freddie Mac both met the low-income refinance and multifamily goals for 2011. The housing goals for 2012 through 2014, promulgated on November 13, 2012, establish revised benchmarks but maintain the structural changes implemented for 2010 and 2011.

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 programs to provide temporary financial support to the GSEs under the temporary authority provided in HERA. These authorities expired on December 31, 2009.

1. PSPAs with Fannie Mae and Freddie Mac

Treasury 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, Treasury 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, 2012, $187.5 billion has been invested in the GSEs, and the redemption face value of GSE preferred stock held by Treasury has increased accordingly. The agreements also require that Fannie Mae and Freddie Mac pay quarterly dividends to Treasury. Prior to calendar year 2013, the quarterly dividend amount was based on an annual rate of 10 percent of the redemption value of Treasury's senior preferred stock. Amendments to the PSPAs effected on August 17th, 2012, replace the 10 percent dividend with an amount equivalent to the GSE's positive net worth above a capital reserve amount. The capital reserve amount for each company is initially set at $3.0 billion for calendar year 2013, and declines by $600 million at the beginning of each calendar year thereafter until it reaches zero. $55.2 billion in dividends have been paid as of December 31, 2012. The Budget estimates additional net dividend receipts of $183.3 billion from January 1, 2013 through FY2023. The cumulative budgetary impact of the PSPA agreements from the first PSPA purchase through FY2023 is estimated to be savings of $51 billion. The Temporary Payroll Tax Cut Continuation Act of 2011 signed into law on December 23, 2011, required that the GSEs increase their fees by an average of at least 0.10 percentage points above the average guarantee fee imposed in 2011. Revenues generated by this fee increase are remitted directly to the Treasury for deficit reduction and are not included in the PSPA amounts. The Budget estimates resulting deficit reductions from this fee of $21 billion from FY2012 through FY2023.

2. GSE MBS Purchase Programs

Treasury initiated a temporary program during the financial crisis 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 corresponding rates on Treasury securities. 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. Treasury sold the last of its MBS holdings in March 2012. The closing re-estimate included in the Budget indicates that the MBS purchase program generated $11.9 billion in budgetary savings, calculated on a net present value basis as required by the Federal Credit Reform Act.

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. Due to uncertainties and strain throughout the housing sector and the widening of spreads in the tax-exempt market, HFAs experienced challenges in issuing new bonds to fund new mortgage lending and faced difficulties in renewing required liquidity facilities on non-punitive terms. In response, Treasury has provided extensions to the NIBP and TCLP agreements. In November 2011, Treasury extended the contractual deadline for HFAs to use existing NIBP funds to December 31, 2012. By that date, State and local HFAs had used $13.2 billion to finance single and multi-family mortgages, and the remainder had been returned to Treasury. In late 2012, Treasury granted three-year extensions to the TCLP agreements for six HFAs in order to give these HFAs additional time to reduce their TCLP balances. The revised agreements will expire by December 2015. As of December 31, 2012, the remaining balance of TCLP backed bonds had decreased to $3.3 billion.

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 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 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 to reduce eligible homeowners' monthly payments to affordable levels. The incentive payments for the modification of loans not held by the GSEs are paid by Treasury's TARP fund, while the incentive payments for the modification of loans held by the GSEs are paid by the GSEs. As of November 30, 2012, almost 2 million trial modifications have been initiated, resulting in more than 1.1 million permanent mortgage modifications. Homeowners participating in HAMP programs have collectively experienced a 38 percent median reduction in their mortgage payments. Additionally, the MHA program has encouraged the mortgage industry to adopt similar programs that have helped millions more at no cost to the taxpayer.

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. These changes coupled with record low mortgage interest rates have contributed to an increase in HARP loan volumes; almost 800,000 HARP refinancings were completed from January through October of 2012 alone and more than 1.8 million refinancings have been completed since the program's inception.

The Administration has also worked with FHFA to develop a pilot program designed to 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. Fannie Mae closed on three bulk sales under this initiative in September and November of 2012 comprising more than 1,700 properties.

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. Temporary GSE conforming loan limits of up to $729,750 expired on September 30, 2011, and the allowable investment portfolios of Fannie Mae and Freddie Mac will continue to be reduced by 15 percent each year, according to the terms of Treasury's PSPA agreements with the enterprises as amended in August 2012. Increases in the guarantee fees charged by Fannie Mae and Freddie Mac are also enhancing the price-competitiveness of non-GSE mortgages.

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 significant technical challenges, 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 and moderate family incomes are eligible for loans with more generous terms. For those loans, the Federal Government provides a variety of subsidies, including not charging 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 to accelerate these benefits for current and future college students who have student loans. Under the plan, eligible borrowers are allowed to pay no more than 10 percent of their discretionary incomes for their monthly student loan payments and would forgive remaining balances after 20 years. This plan became available to certain eligible borrowers starting in December 2012 and will become available to all new borrowers starting in 2014.

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 2014 President's Budget makes several proposals on Federal student loans:

- *Making Student Loan Interest Rates More Market-Based.* Under current law, interest rates on subsidized Stafford loans are slated to rise this summer from 3.4 percent to 6.8 percent. At a time when the economy is still recovering and market interest rates remain low, the Budget proposes a cost-neutral reform to set interest rates, so they more closely follow market rates and provide students with more affordable repayment options. The rate on new loans would be set each year based on a market interest rate, which would remain fixed for the life of the loan so that borrowers would have certainty about the rates they would pay. The Budget also expands repayment options to ensure that borrowers do not have to pay more than 10 percent of their discretionary income on loan payments.
- *Reform and Expand the Perkins Loan Program.* This proposal, similar to the 2013 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 ED along with other Federal loans. 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 "rehabilitate" 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 2014 Budget again proposes to eliminate this program and replace it 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 the 2014 Budget reflects the Administration's 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 2012, SBA's outstanding balance of direct and guaranteed loans totaled approximately $103 billion.

The 2014 Budget proposes $112 million in business loan subsidy costs and $152 million in administrative funds for SBA to support nearly $24 billion in financing for small businesses through the 7(a) General Business Loan program and the 504 Certified Development Company (CDC) program. The 7(a) program will support $17.5 billion in guaranteed loans that will help small businesses operate and expand. This amount includes an estimated $15 billion in term loans and $1.8 billion in revolving lines of credit; the latter are expected to support $65 billion in total credit assistance through draws and repayments over the life of the guarantee. The 504 program will support $6.3 billion in guaranteed loans for fixed-asset financing. In addition, SBA will supplement the capital of Small Business Investment Corporations (SBICs) with up to $4 billion in long-term, guaranteed loans, representing a $1 billion increase, 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 $192 million to administer the program. Of this amount, $159 million is provided through the Budget Control Act's disaster relief cap adjustment for costs related to Stafford Act (Presidentially-declared) disasters.

For the 2014 Budget, SBA recorded a net downward reestimate of $805 million in the expected costs of its outstanding loan portfolio, which will decrease the 2013 budget deficit.

Due to improving economic conditions and refinements in program cost estimation, the 7(a) program is projected to have zero subsidy cost for 2014, a $231 million decrease from 2013. As a result, SBA's fees charged to lenders and borrowers will decrease from recent levels, and the Budget proposes to eliminate lender fees on loans of less than $150,000 in order to expand participation and financing availability. The 7(a) credit model will undergo continued review throughout 2014 to ensure that it accurately forecasts the 7(a) program's cost to taxpayers. The Budget provides $107 million in subsidy budget authority for the 504 program to support $6.3 billion in loan volume. Together with anticipated carryover balances, the Budget authorizes $7.5 billion in 504 loan volume in 2014. In addition, the Budget proposes to reauthorize the 504 loan refinancing program, a zero subsidy program that helps small businesses lock-in low, long-term interest rates on commercial mortgage debts and frees up resources that small business owners can then re-invest in their business.

The Budget also requests $5 million in subsidy budget authority for $25 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.

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 their 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 will 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, 2013, SSBCI had approved funding for 47 states, 5 territories, 4 municipalities, and the District of Columbia for a total of over $1.4 billion in obligations, of which $585 million had already been disbursed. During 2012, Treasury provided technical assistance to states that focused on elements of good program design, operation, and marketing. SSBCI hosted two conferences during 2012 at the San Francisco and Chicago Federal Reserve Banks for state program managers to share their expertise in providing credit support to small businesses. During 2013 and 2014, Treasury plans to spend nearly $2 million to provide intensive technical assistance to states in order to maximize participation in and effectiveness of the program and disseminate best practices.

The second Treasury program created by the Act was the Small Business Lending Fund (SBLF), a dedicated investment 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 helps 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 was 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 5 percent. For participants whose lending does not increase in the first two years, however, the rate will increase to 7 percent. 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. As of September 30, 2012, institutions participating in SBLF have increased their small business lending by $7.4 billion over a $36.5 billion baseline. The current reestimated subsidy rate and actual program volume of $4.03 billion result in projected budget savings of approximately $51 million, representing a decrease in the original projected subsidy cost of $1.31 billion. As of publication of the 2014 Budget, SBLF is working on a survey to help assess program participants' small business lending policies, use of SBLF funding, and small business outreach activities. The survey was administered in 2012, and results are expected to be disseminated in 2013.

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 2012, FSA provided loans and loan guarantees to just over 32,000 family farmers totaling $4.2 billion. Direct and guaranteed loan programs provided assistance totaling $1.75 billion to beginning farmers during 2012. Loans for socially disadvantaged farmers totaled $543 million, of which $269 million was in the farm ownership program and $274 million in the farm operating program. The average size of farm ownership loans was consistent over the past two years, with new customers receiving the bulk of the direct 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 continue to drive applicants from commercial credit to FSA direct programs. Also, record high land prices, market volatility and uncertainty are driving lenders to request guarantees in situations where they may not have in the past. In the 2014 Budget, FSA proposes to make $5.6 billion in direct and guaranteed loans through discretionary programs.

Lending to beginning farmers was strong during 2012. FSA provided direct or guaranteed loans to more than 16,000 beginning farmers. Loans provided under the Beginning Farmer Down Payment Loan Program represented over 37 percent of total direct ownership loans made during the year, recording a substantial increase over previous years. Fifty-four percent of direct operating loans were made to beginning farmers, an increase of 3% over 2011. Overall, as a percentage of funds available, lending to beginning farmers was 7 percentage points above the 2011 level. Lending to minority and women farmers was a significant portion of overall assistance provided, with $543 million in loans and loan guarantees provided to more than 6,500 farmers. This represents an increase of 11 percent in the overall number of direct 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 2014 Budget does not request budget authority for subsidized guaranteed farm operating loans or direct conservation loans. The Budget only requests funding for the guaranteed conservation loans. The overall loan level for conservation loans is unchanged from the 2013 level.

FSA continues to evaluate the farm loan programs in order to improve their effectiveness. FSA is releasing a new Microloan program to increase lending to small niche producers and minorities. This program dramatically reduces application procedures for small loans, and implements more flexible eligibility and experience requirements. FSA has also developed a nationwide continuing education program for its loan officers to ensure they remain experts in agricultural lending, and it is 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.

The Farm Credit System (Banks and Associations)

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, 2011, and September 30, 2012, the ratio of capital to assets increased from 15.8 percent to 16.1 percent. Capital consisted of $35.2 billion in unrestricted capital and $3.3 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 2012, net income equaled $3.16 billion, compared with $2.99 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, 2012, nonperforming loans as a percentage of total loans outstanding decreased from 1.94 percent to 1.53 percent, primarily because of an improvement in the credit quality of loans to borrowers in certain agricultural sectors. System assets grew 5.2 percent over the past 12 months as growth in portfolios of agribusiness, energy. and rural utilities outpaced declines in some segments of the agricultural portfolio. The number of FCS institutions continued to decrease because of consolidation. As of September 30, 2012, the System consisted of four banks and 82 associations, compared with seven banks and 104 associations in September 2002. Of the 86 FCS banks and associations, 75 had one of the top two examination ratings (1 or 2 on a 1 to 5 scale), 10 FCS institutions had a rating of 3, and 1 FCS institution had a rating of 4.

Over the 12-month period ending September 30, 2012, the System's loans outstanding grew by $14.8 billion, or 8.8 percent, while over the past five years they grew by $49.1 billion, or 36.3 percent. As required by law, borrowers are also stockholder-owners of System banks and associations. As of September 30, 2012, the System had 492,632 stockholders. Loans to young, beginning, and small farmers and ranchers represented 10.5 percent, 13.5 percent, and 15.7 percent, respectively, of the total dollar volume of all new farm loans made in 2011. The dollar volume of new loans made to young farmers in 2011 rose 4.9 percent from that of 2010, while new lending volume fell 5.1 percent to beginning farmers and 10.4 percent to small 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, 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, 2012, the assets in the Insurance Fund totaled $3.3 billion. As of September 30, 2012, the Insurance Fund as a percentage of adjusted insured debt was 1.96 percent. This was slightly below the statutory secure base amount of 2 percent. During the first nine months of calendar year 2012, outstanding insured System obligations grew by 4.3 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, 2012, Farmer Mac's total outstanding program volume (loans purchased and guaranteed, AgVantage bonds purchased and guaranteed, and real estate owned) amounted to $12.47 billion, which represents an increase of 5.3 percent from the level a year ago. Of total program activity, $8.6 billion were on-balance-sheet loans and guaranteed securities, and $3.9 billion were off-balance-sheet obligations. Total assets were $12.5 billion, with non-program investments (including cash and cash equivalents) accounting for $3.5 billion of those assets. Farmer Mac's net income for the first three quarters of calendar year 2012 was $34.3 million, a significant increase from the same period in 2011 during which Farmer Mac reported net income of $0.5 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 $23.3 million for the first three quarters of 2012, compared with $82.4 million for the same period in 2011 (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 and 2013, Congress provided no new loan authority or credit subsidy for DOE's Title 17 program. The President's 2014 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 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. One biofuels and one energy storage project have since withdrawn prior to any disbursement of funds.

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 $4 billion in direct loans for electricity distribution, construction of renewable energy facilities, transmission, and carbon capture projects on facilities to replace fossil fuels. The Budget also provides $690 million in direct telecommunications loans, $63 million in broadband loans, $10 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 2014 President's Budget is $1.55 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 2014, it will have a program level of $1.5 billion in direct loans and $17 million in grants.

USDA also provides grants, direct loans, and loan guarantees to assist rural businesses, cooperatives, nonprofits, and farmers in creating new community infrastructure (i.e. educational networks or healthcare coops) and to diversify the rural economy and employment opportunities. In 2014, USDA proposes to provide $782 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 the Rural Microentrepreneur Assistance 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 also responsible for the Rural Energy for America program through which the Budget proposes $90 million in funding to support $238 million in loan guarantees and grants 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 31 projects that have received TIFIA credit assistance represent over $42 billion of infrastructure investment in the United States. Government commitments in these partnerships constitute nearly $10.5 billion in Federal assistance with a budgetary cost of approximately $714 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 an additional $20 to $30 in non-Federal transportation infrastructure investment. In recent years, the demand for the TIFIA program has exceeded available resources, and the recent surface transportation reauthorization program dramatically increased program resources in an effort to help meet demand, providing $750 million in 2013 and $1 billion for the program in 2014. In 2014, the President's Budget requests $1 billion in resources as provided in MAP-21 for the TIFIA program. At the requested level, TIFIA could provide approximately $10 billion in credit support for up to $30 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 also 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 stipulates 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, over $1.7 billion 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.

National Infrastructure Bank

To direct Federal resources for infrastructure to projects that demonstrate the most merit and may be difficult to fund under the current patchwork of Federal programs, the President has called for the creation of an independent, non-partisan National Infrastructure Bank (NIB), led by infrastructure and financial experts. The NIB would offer broad eligibility and unbiased selection for transportation, water, and energy infrastructure projects. Projects would have a clear public benefit, meet rigorous economic, technical and environmental standards, and be backed by a dedicated revenue stream. Geographic, sector, and size considerations would also be taken into account. Interest rates on loans issued by the NIB would be indexed to United States Treasury rates, and the maturity could be extended up to 35 years, giving the NIB the ability to be a "patient" partner side-by-side with State, local, and private co-investors. To maximize leverage from Federal investments, the NIB would finance no more than 50 percent of the total costs of any project.

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 private and sovereign borrowers. These programs are intended to level the playing field for U.S. exporters, deliver robust support for U.S. goods and services, stabilize international financial markets, and promote sustainable development.

Leveling the Playing Field

Federal export credit programs counter official financing that foreign governments around the world, largely in Europe and Japan but also increasingly in emerging markets such as China and Brazil, 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). In its current form, this agreement has virtually eliminated direct interest rate subsidies, significantly constrained tied-aid grants, and standardized the fees for corporate and sovereign lending across all OECD ECAs –bringing the all-in costs of OECD export credit financing broadly in line with market levels. In addition to ongoing OECD negotiations, US government efforts resulted in the 2012 creation of the International Working Group (IWG) on export credits. This group includes China and other non-OECD providers of export credits in discussions on a broader framework that would bring common practices to ECAs throughout the world.

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 mobilizes private capital to help solve critical challenges such as renewable energy and infrastructure development, and in doing so, advances U.S. foreign policy. OPIC achieves its mission by providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds. These programs are intended to create more efficient financial markets, eventually encouraging the private sector to supplant OPIC finance in developing countries.

Ongoing Coordination

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

The Interagency Country Risk Assessment System (ICRAS) standardizes the way in which most agencies 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, 2012, the FDIC insured \$7.3 trillion of deposits at 7,181 commercial banks and thrifts, and the NCUA insured \$833.6 billion of shares at 6,888 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 balance to total estimated 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 DIF 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 implementing the Wall Street Reform Act, the FDIC issued a final rule setting a long-term (i.e., beyond 2020) reserve ratio target of 2 percent, a goal that FDIC considers necessary to maintain a positive fund balance during economic crises while permitting steady long-term assessment rates that provide 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 financial 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

After seven consecutive quarters of negative balances, the DIF balance became positive on June 30, 2011, standing at \$3.9 billion on an accrual basis, then doubling to \$7.8 billion on September 30, 2011. Over the next four quarters, the DIF balance more than tripled, growing to $25.2 billion on September 30, 2012. The growth in the DIF balance is a result of fewer bank failures and higher assessment revenue. The reserve ratio on September 30, 2012 was 0.35 percent.

As of September 30, 2012, the number of insured institutions on the FDIC's "problem list" (institutions with the highest risk ratings) totaled 694, which represented a decrease of nearly 18 percent from September 2011. Furthermore, the assets held by problem institutions decreased by more than 22 percent.

The SIF ended September 2012 with assets of $11.9 billion. The NCUA's equity ratio was 1.31 percent on December 31, 2012. If the equity ratio increases above the normal operating level of 1.30 percent, a distribution is normally paid to member credit unions to reduce the equity ratio to the normal operating level. In March 2012, NCUA distributed $279 million to the Temporary Corporate Credit Union Stabilization Fund (TCCUSF), which was created under the authority of the Helping Families Save Their Homes Act of 2009 (P.L. 111-22). Under this Act, SIF dividends must be paid to the TCCUSF when this fund has an outstanding loan from the U.S. Treasury, which totaled $3.2 billion on September 30, 2012.

Losses in the credit union industry have continued their recent decline. The ratio of insured shares in "problem institutions" to total insured shares decreased to 2.9 percent in September 2012 from a high of 5.7 percent in December 2009. With improving health of credit unions, NCUA has been steadily reducing reserves held for losses. As of September 2012, the SIF had set aside $399 million in reserves to cover potential losses, over 60 percent less than the $1.0 billion set-aside as of September 2011. Due to the continuing decline in the insurance loss reserve, there were no GAAP-based losses in 2011 or 2012.

Stabilizing Corporate Credit Unions

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 2012, this would allow the CLF to borrow up to approximately $46 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 2012, 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 2012, TCCUSF had net borrowings of $3.2 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.

The NCUA successfully stabilized the corporate credit union system, thereby ensuring that retail credit unions were able to rely on many of the services provided by corporate credit unions. The NCUA devised different approaches, such as providing emergency liquidity or spreading out the costs of losses over time, aimed at enabling the credit union industry to minimize losses and emerge from the crisis. The NCUA liquidated five corporate credit unions in 2009 and 2010 that had become insolvent due to investment losses in mortgage-backed securities. To facilitate the resolution process, the Board chartered four bridge corporate credit unions to purchase certain assets and assume certain liabilities and member shares from the liquidated credit unions. In October 2012, NCUA liquidated the last remaining bridge corporate credit union, U.S. Central Bridge Corporate Credit Union, after transferring its essential services. As a result of its liquidation, U.S. Central ended its role as the agent member to CLF and redeemed its CLF stock of $1.8 billion. Although this was an outflow from CLF, it was previously funded by U.S. Central. Additionally, since all NCUA activities are funded through assessments on regulated credit unions, these costs will have no impact on US taxpayers. NCUA continues to seek compensation from the parties that created and sold the faulty mortgage-backed securities to the five failed corporate credit unions. In 2012, NCUA filed four more lawsuits against several Wall Street firms that underwrote these securities, alleging failure to disclose significant risks. As of December 31, 2012, NCUA had reached settlements with three firms totaling $170 million. These settlements further the agency's goal of minimizing losses, and net proceeds will reduce the total assessments that all credit unions have to pay for the corporate credit union system's losses.

Restoration Plans

Pursuant to the Wall Street Reform Act, the restoration period for the FDIC's 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 net outflows in 2013 will reduce the DIF reserve ratio to 0.22 percent at the year-end. From 2014, however, it is expected to increase steadily, reaching the statutorily required level of 1.35 percent 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 CY 2009 and for all of CY 2010, 2011, and 2012. The FDIC collected approximately $45 billion in prepaid assessments. Unlike a special assessment, the prepaid assessments did not immediately affect bank earnings; it was 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, has provided the FDIC with ample operating cash flows to effectively and efficiently resolve bank failures during the short period in which the DIF balance was 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 flows over the entire 10-year budget horizon.

In 2010 and 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. The Budget projects that NCUA will collect $800 million in special assessments over the budget window.

Budget Outlook

The Budget estimates DIF net outlays of -$97.5 billion (i.e. net inflows into the fund) over the 10-year budget window. As a result of updated economic assumptions, technical changes to OMB's forecasting model, and modifications relating to the expiration of the Transaction Account Guarantee program, the projected inflows through 2023 are lower than the 2013 Mid-Session Review (MSR) projection by approximately $104.8 billion. The latest public data on the banking industry led to a downward 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 lower bank failure projection, the Budget projects much lower FDIC premiums necessary to reach the minimum Wall Street Reform Act DIF reserve ratio of 1.35 percent.

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

Table 22–1. TOP 10 FIRMS PRESENTING CLAIMS (1975-2012)

Single-Employer Program

	Firm	Fiscal Year(s) of Plan Termination(s)	Claims (by firm)	Percent of Total Claims (1975-2011)
1	United Airlines	2005	$7,304,186,216	15.64%
2	Delphi	2009	6,387,327,984	13.68%
3	Bethlehem Steel	2003	3,702,771,655	7.93%
4	US Airways	2003, 2005	2,723,720,013	5.83%
5	LTV Steel*	2002, 2003, 2004	2,134,985,884	4.57%
6	Delta Air Lines	2006	1,720,156,504	3.68%
7	National Steel	2003	1,319,009,117	2.82%
8	Pan American Air	1991, 1992	841,082,434	1.80%
9	Trans World Airlines	2001	668,377,106	1.43%
10	Weirton Steel	2004	640,480,970	1.37%
	Top 10 Total		$27,442,097,883	58.77%
	All Other Total		19,251,487,046	41.23%
	TOTAL		$46,693,584,930	100.00%

Sources: PBGC Fiscal Year Closing File (9/30/12), 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 trusteed 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.

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. Both types of PBGC premiums—the flat rate (a per person charge paid by all plans) and the variable rate (paid by underfunded single-employer plans) are set in statute. CBO and others have noted that the premium rates are far lower than what a private financial institution would charge for insuring the same risk.

Claims against PBGC's insurance programs are highly variable. A single large pension plan termination may result in a larger claim against PBGC 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.

PBGC's single-employer program has incurred substantial losses from underfunded plan terminations. Table 22-1 shows the ten largest plan termination losses in PBGC's history. Nine of the ten happened since 2001.

As of September 30, 2012, the single-employer and multi-employer programs reported deficits of $29.1 billion and $5.2 billion, respectively. Notwithstanding these deficits, the Corporation has $85 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 $320 billion. For FY 2012, 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 Moving Ahead for Progress in the 21st Century Act (MAP-21), signed on July 6, 2012, increased PBGC premiums for both single-employer and multiemployer plans. Flat-rate premiums for single-employer plans were increased to $42 for 2013, $49 for 2014, and will be indexed to inflation thereafter. Variable-rate premiums will also increase, and will also be indexed to inflation for the first time. Rates are expected to increase to $13 or $14 per $1000 of underfunding for 2014 and to $18 or $19 for 2015. The variable-rate premium will be capped in filing year 2013 at $400 times the number of plan participants. The cap will be indexed thereafter. Flat-rate premiums for multiemployer plans were increased to $12 for 2013, and will be indexed thereafter.

While the legislation brings in much-needed resources to improve PBGC's financial condition, reforms are still needed to bring PBGC's premium structure more in line with other government and private insurance programs. The 2014 Budget proposes to give the PBGC Board the authority to adjust premiums to better account for the risk the agency is insuring and make the premium structure fair to all premium payers. The Board would be directed to raise an additional $25 billion over ten years.

Consistent with previous Administration proposals, the Board would be required to consult with stakeholders prior to setting a new premium schedule and to establish a hardship waiver and other limitations on plan-specific premium increases. PBGC would be directed to try to make the premiums counter-cyclical and any increase would be phased in gradually. In determining the new premium rates, the Board would consider a number of factors, including a plan's risk of losses to PBGC and the amount of a plan's underfunding.

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 floodplain management measures. Coverage is limited to buildings and their contents. By the end of 2012, the program had over 5.5 million policies in more than 22,100 communities with over $1.2 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, to combine a program of insurance with flood mitigation measures to reduce the nation's risk of loss from flood, and to minimize Federal disaster-assistance expenditures. 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 floodplain management requirements, which make up 21.5 percent of the total policies in force, currently 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 for consumers to buy.

While these strategies have resulted in steady policy growth over recent years, the growth slowed somewhat since 2009 due to the severe downturn in the economy. In 2012, the program lost 54,000 policies.

DHS also has a multi-pronged strategy for reducing future flood damage. The NFIP offers flood mitigation assistance grants to assist flood victims to rebuild to current building codes, including base flood elevations, thereby reducing future flood damage costs. In addition, flood mitigation assistance grants 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 the flood mitigation grant program is 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 Hurricanes Katrina and Sandy as notable examples, 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 exercises its borrowing authority through the Treasury 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. Hurricane Sandy in 2012 also generated significant flood insurance claims. As a result, the Administration and Congress have increased the borrowing authority to $30.4 billion. The program's debt is currently $20.1 billion.

The catastrophic nature of the 2005 hurricane season also triggered an examination of the program, and the Administration worked with Congress to improve the program. On July 6, 2012, the Biggert Waters Flood Insurance Reform Act of 2012 was signed into law. In addition to reauthorizing the NFIP for 5 years, the bill also requires the NFIP generally to move to full risk-based premium rates and strengthens the NFIP financially and operationally.

Crop Insurance

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

The 2014 Budget continues to propose policies that are similar to those included in the 2013 Budget and recommended to the Joint Committee for Deficit Reduction:

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,

4. Lower even further the subsidy for producer premiums by 3 percentage points for policies where the Government subsidizes more than 50 percent of the premium (previous proposals reduced these by only 2 percentage points), and

5. A new addition for the 2014 Budget, reduce premium subsidy by 2 percentage points for revenue coverage that provides protection for upward price movements at harvest time.

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 2012, the 10 principal crops, (barley, corn, cotton, grain sorghum, peanuts, potatoes, rice, soybeans, tobacco, and wheat) accounted for over 86 percent of total liability, and approximately 80 percent of the 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 stemming 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.

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 2012, there were 21,976 vegetation and rainfall policies sold, covering over 48 million acres of pasture, rangeland and forage. There was over $784.9 million in liability, and through October 2012 nearly $118 million in indemnities paid to livestock producers who purchased coverage.

RMA is continuously working to develop new products and to expand or improve existing products in order to cover more agricultural commodities. Under the 508(h) authorities and procedures RMA may 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 508(h) authorities. In 2012, two submissions were approved as section 508(h) products and are available to producers for the 2013 crop year.

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

Insurance against Security-Related Risks

Terrorism Risk Insurance

The Terrorism Risk Insurance Program (TRIP) was authorized under P.L. 107-297 to help ensure the continued availability of property and casualty insurance following the terrorist attacks of September 11, 2001. TRIP's initial three-year authorization enabled the Federal Government to establish a system of shared public and private compensation for insured 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 enacted a further seven-year extension of TRIP and expanded the program to include losses from domestic as well as foreign acts of terrorism (P.L. 110-318). For all seven extension years, TRIP 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 minimum event cost triggering Federal coverage. The 2007 extension also requires Treasury to recoup 133 percent of any 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 through the expiration of the program on December 31, 2014. Using market data synthesized through a proprietary model, the Budget projects annual outlays and recoupment for TRIP. While the Budget does not forecast any specific triggering 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 $443 million over the 2014-2018 period and $526 million over the 2014-2023 period.

Airline War Risk Insurance

The Department of Transportation's authority to provide aviation war risk insurance expires on December 31, 2013. With the goal of building private capacity to manage aviation war risk, the Administration proposes to transform the program into a co-insurance arrangement in which DOT and a private insurer would jointly underwrite a common policy. In the case of a claim, DOT would pay an established fraction of the losses, and the private partner would pay the remainder. The Federal share would be slightly reduced each year as private capacity expands. The proposal would extend the existing program through 2014, during which time DOT would propose changes to its underlying statutory authority and work with the private insurance industry to develop co-insurance policies. The Budget proposes that a co-insurance arrangement would begin to reduce the government's share of any losses, starting in 2015.

IV. FAIR VALUE BUDGETING FOR CREDIT PROGRAMS

Accurate cost and revenue estimates support a sound budget—one that shows the fiscal position of the Federal Government and allocates limited resources across competing needs. Cost estimation is challenging for Federal credit programs because loans and loan guarantees create obligations for uncertain cash flows that can extend far into the future.

The Federal Credit Reform Act of 1990 (FCRA) greatly improved the accuracy of cost estimates for credit programs by reflecting the estimated lifetime costs of loans and loan guarantees up front on a net present value basis, requiring policy officials to budget for those lifetime costs when making programmatic decisions. Any change to FCRA should be consistent with the original goals of credit reform, to provide better information on the budgetary costs of credit programs and improve resource allocation by placing them on a comparable basis to other credit programs and other forms of Federal spending.

The Congressional Budget Office (CBO) and others have argued that credit programs impose costs on taxpayers that are not reflected under FCRA, such as the risk that assets may perform worse than expected, and propose to amend FCRA to require that the budget use fair value estimates to capture these costs. While fair value analysis may offer some useful insights and help inform decision-making for specific programs, use of fair value for budgetary costs would have drawbacks that far exceed the advantages of fair value estimates. Fair value would impose significant implementation costs and challenges, and have more potential to introduce noise and distortion into credit estimates than valuable information. Fair value as proposed would include costs not relevant to the Federal government and would make it more difficult to compare the costs of credit programs to each other, or to other forms of Federal spending. It would make cost estimates for credit programs impossible to validate, and treat uncertainty in a more punitive fashion for credit programs than other programs. Under fair value cost estimates, the cost estimate and estimated impact on the deficit for the same program could be different from one another, raising concerns about consistency and transparency. Thus, current proposals to use fair value for budgetary costs estimates would not be consistent with the goals of FCRA.

Estimating Costs under FCRA and Fair Value

Costs under FCRA. Before FCRA, the budget reflected the cash flows of loans and loan guarantees in the years that the cash flows occurred. The cost of new direct loans was greatly overstated—appropriations were required for the full face value of loans and did not consider expected repayment over time. In contrast, new loan guarantees appeared free, and there was no requirement to set aside a reserve to cover anticipated losses. FCRA greatly improved the accuracy of cost estimates by capturing the lifetime expected cash flows for loans and loan guarantees up front. Under FCRA, the subsidy cost is equal to the present value of the cash flows to and from the Government, netting out expected losses from default or other adverse events. The present value is estimated using the Government's cost of funds, as reflected in Treasury rates, to discount these cash flows.

Costs under Fair Value.[1] In contrast to FCRA where estimated cash flows are discounted by the Government's cost of funds (Treasury rates), under fair value cash flows would typically be discounted with interest rates that reflect estimated market pricing for the characteristics of the loan or loan guarantee (comparable market rates), instead of Treasury rates. Comparable market rates would need to be derived or estimated from available market data, and applied to cash flows. Discount rates would vary across programs, and in some cases by individual loan or guarantee. Because fair value estimates reflect market pricing of the uncertainty associated with loan performance and other factors not included in FCRA estimates, fair value costs would be higher in most cases.

[1] Pages 393-398 of the *Analytical Perspectives* volume of the 2013 *Budget* include more discussion of the issues raised in this section and the following section on Implementation.

Accuracy of Budgetary Cost Estimates under Fair Value

Accuracy and transparency in cost estimates. The budget should focus primarily on the accuracy and transparency of costs to the Government. FCRA costs reflect estimated cash flows, including expected losses due to default and other adverse events. Actual experience may deviate from initial estimates; however, through the reestimates the subsidy costs are ultimately tied to actual cash flows and these reestimates help agencies learn from past experience to improve techniques for generating new estimates. As a measure of expected budgetary cost, FCRA estimates have been fairly accurate overall, although not always on a program-by-program basis. Net lifetime reestimates of subsidy cost for credit programs[2] over the 21 years that FCRA has been in place are $8.5 billion upward—less than one percent of the face value of loans and guarantees made under FCRA. Indeed, CBO's rationale for fair value does not question the accuracy of FCRA cost estimates in measuring expected cost to the Government, but instead questions whether there are additional costs beyond those that would be captured under FCRA that should be reflected in the budget. Fair value cost estimates would include the same underlying credit risk assumptions as FCRA estimates, and add an additional premium above the expected costs.

Posing an additional challenge to the goals of transparency and accuracy, fair value cost estimates include unobservable factors—including the premium that a private actor would demand to compensate for uncertainty of future performance. In contrast to FCRA, one could not use actual cash flows of the credit programs to validate estimates of fair value. Except in the limited cases where a credit program intervened in a well-functioning liquid market with observable prices, estimates of fair value could only be compared to other estimates of fair value. Thus, confirming the accuracy of fair value estimates would be an insurmountable implementation challenge.

Inclusion of costs not relevant to taxpayers. Many of the factors reflected in fair value pricing are not relevant to taxpayers (versus market investors). As a result, fair value cost estimates overstate the cost to the Government. These estimates reflect a premium for uncertainty. However, the cost of uncertainty for the Federal government may be significantly lower than it would be for private sector lenders, particularly when dealing with assets that do not trade in well-functioning liquid markets that allow diversification among private investors.[3] The Government is able to spread risk across a large number of investments, and across a large set of stakeholders, including across generations, in ways that are not always possible for private investors.

[2] Excludes the Troubled Asset Relief Program and the International Monetary Fund increases provided in the 2009 Supplemental Appropriations Act, where reestimates reflect the return of a market risk adjustment premium. Also excludes reestimates from the Small Business Lending Fund, an equity program presented on a FCRA basis pursuant to legislation.

[3] See discussion on uncertainty premium on pages 397-398 of the *Analytical Perspectives* volume of the 2013 Budget.

Other factors aside from the uncertainty premium would also contribute to overstatement of the costs to taxpayers under fair value cost estimates. Such factors include the liquidity premium and a component related to the exemption of Treasuries from the State income tax. The liquidity premium in particular is less relevant to taxpayers, because the Government can easily borrow in the Treasury securities market with minimal transaction costs.

Lack of comparable market data. Due to the lack of historical data and market information, it is difficult to apply standard private sector methods to calculate fair value estimates for Federal credit programs. Often there are not comparable market instruments for Federal credit. The Government typically intervenes to improve efficiency in inefficient markets, so either comparable financial products do not exist, or their prices are distorted. Market information, including interest rates, can be also misleading during periods of financial instability. The availability of historical data varies widely across programs. Even in well-developed markets, the presence of Federal programs can distort market prices. For example, information problems discussed earlier in this chapter lead to inefficiencies in markets for student loans and small business loans. In those cases, market interest rates may reflect other complex factors that cannot be captured.

Lack of estimation methods. Even if data and information were available, estimating fair value costs requires advanced financial knowledge and sophisticated modeling techniques. Attempting to isolate the elements of fair value that are relevant to the Government would require judgment, and reasonable analysts would yield very different results. Estimating FCRA budget costs is much more straightforward, as expected costs can be compared to actuals, and actual experience can then inform new cost estimates. In contrast, because market factors are not observable and/or are difficult to estimate from market yields, there is no way to verify or validate the fair value component of costs. Using private sector valuation methods in these cases would produce highly subjective costs estimates which would be difficult to validate and raise conceptual concerns regarding consistency across credit programs and other forms of Federal spending.

Implications for fair value cost estimates. While there have been estimates of the "fair value" cost of credit programs, these estimates rely on analytical shortcuts to incorporate unobservable factors, and private sector valuation methods and assumptions that do not translate to Federal assistance. In contrast, FCRA costs reflect estimated cashflows, including expected risks. So if an initial FCRA cost estimate suggested a $2 million cost for a $100 million loan program, and actual lifetime costs proved to be $4 million, the change in cost can be traced back to the actual cashflows to and from the Government, and updated through reestimates. Actual experience may deviate from initial estimates; however, through the reestimates FCRA subsidy costs are ultimately tied to actual cashflows with the public and actual experience feeds into future estimates as appropriate. In contrast, fair value cost estimates include unobservable factors—including how the market would price specific contract terms, expected losses, and the premium that a private actor would demand to compensate for uncertainty of future performance. The original fair value cost estimate may be $10 million for the same program, but there would be no way to compare the market price assumptions against program experience after the fact, as these are not tied to actual cashflows and these unobservable costs would always remain unknown.

Imbalance in budgetary accounting. The primary role of the budget is to reflect the fiscal position of the Federal Government—and fair value as proposed would not produce an accurate estimate of the fiscal position. Where FCRA cost estimates and budgetary accounting tie the cost of credit programs to actual cash flows, fair value cost estimates could cause an imbalance because the cost estimate for a program would exceed the expected cost to the Government. Under fair value cost estimates, the cost estimate and estimated impact on the deficit for the same program could be different from one another, raising concerns about consistency and transparency. A full accounting of the scoring under fair value should result in the same net deficit effect as credit programs under FCRA—so if legislators are scored higher costs for the premium charged on a fair value basis, such scoring should also recognize the savings from the premium reflected in fair value costs.

Lack of Comparability across Federal Spending

FCRA placed loan and guarantee programs on a comparable basis, and also allowed comparison across forms of Federal spending based on lifetime expected costs. Because fair value estimates reflect market pricing, fair value costs would be higher than the lifetime expected costs reflected in FCRA estimates for credit programs, and cost estimates for other forms of Federal spending. If the budget were to include costs beyond the expected fiscal impact of Federal spending for credit programs, it should include other economic and indirect effects for all programs—both costs and benefits. For any program involving externalities, the economic costs may differ significantly from the budget costs. For example, the budgetary cost of building a highway does not include the social cost of environmental damages, or the social benefit of lower transportation costs. The right way to incorporate information beyond the fiscal impact of government activities is cost-benefit analysis, which weighs the social benefit of each program against its social cost in a comprehensive manner.

Efficient allocation of Federal resources across programs. It would be inconsistent to incorporate the uncertainty premium for credit programs alone, when it may also be relevant to many other Federal programs whose costs are tied to economic conditions, such as unemployment insurance. Changes in mandatory programs and tax law all have effects on the budget that need to be weighed against each other and against changes in discretionary spending on the basis of their uncertain estimates. Compared with the uncertainty associated with the deficit impact of mandatory programs and tax collection, the uncertainty in the outcomes of credit programs is minuscule. Scoring economic costs only to credit programs could distort decision making, placing a thumb on the scale against credit assistance.

Implementation Costs and Challenges of Fair Value

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. While the components of market prices may be estimated, the degree of accuracy can vary widely. 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 the effects of policy changes on program costs. However, it is not clear that it is possible to develop guidance that could overcome the inherent problems identified above.

In implementing current FCRA requirements, some Federal credit programs have faced significant administrative challenges in hiring staff with the right technical skill sets, and developing critical management infrastructure, including financial accounting systems, monitoring, and modeling capabilities. Fair value would place much greater demands on agencies in all of these areas. For some of these programs, greater investment in preparing FCRA estimates might do more to improve cost measurement than investment in preparing fair value estimates.

The Troubled Asset Relief Program (TARP) implemented a risk-adjusted cost estimate, similar to fair value, based on the direction in the Economic Emergency Stabilization Act of 2008. The Act provided Treasury permanent indefinite budget authority to fund administrative costs, 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. 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 value of the original fair value estimates.

Summary

Fair value cost of estimates for Federal credit programs have the potential to capture elements of cost that are not included in FCRA-based cost estimates. Using fair value cost estimates in the budget, however, would not represent an improvement over the methods in use today. The budget is more informative when it shows the direct cost to the Government in an accurate and transparent manner, as opposed to the economic cost, or other definitions of cost that depend on unobservable values. It is conceptually difficult to identify the uncertainty premium relevant to taxpayers, which differs in many cases from the uncertainty premium for private investors. Even if conceptual issues were resolved to a reasonable extent, it would be very costly and difficult to estimate fair value costs due to the paucity of historical data and limited relevance of market information.

For some programs, greater investment in preparing FCRA estimates might do more to improve cost measurement than investment in preparing fair value estimates. Alternatives to fair value budgeting to inform decision-making for credit programs should be evaluated—including greater investment in improving FCRA cost estimates, and strengthened cost-benefit analyses at the program level.

Chart 22-1. Face Value of Federal Credit Outstanding

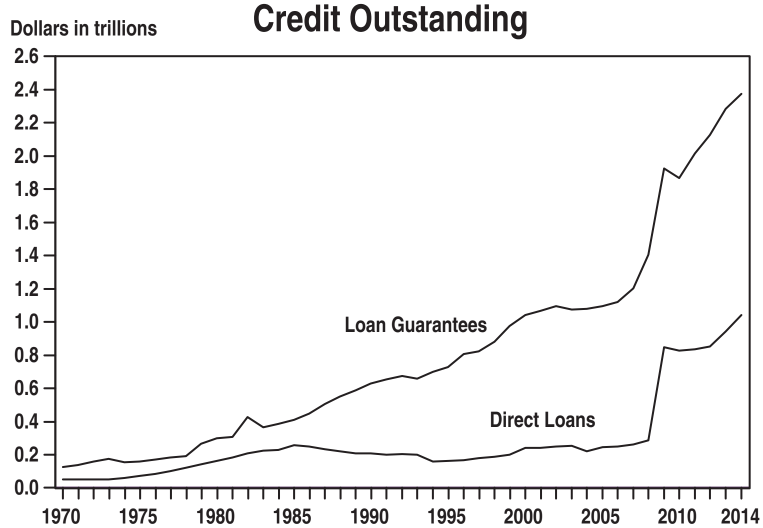


Table 22–2. ESTIMATED FUTURE COST OF OUTSTANDING FEDERAL CREDIT PROGRAMS

(In billions of dollars)

Program	Outstanding 2011	Estimated Future Costs of 2011 Outstanding [1]	Outstanding 2012	Estimated Future Costs of 2012 Outstanding [1]
Direct Loans: [2]				
Federal Student Loans	378	–14	510	–17
Troubled Asset Relief Program (TARP) [3]	100	42	40	24
Education Temporary Student Loan Purchase Authority	98	–13	95	–14
GSE Mortgage-Backed Securities Purchase Program	71	–2	....	....
Farm Service Agency (excl. CCC), Rural Development, Rural Housing	52	10	53	9
Rural Utilities Service and Rural Telephone Bank	47	2	52	2
State Housing Finance Authority Direct Loans	15	1	14	1
Export-Import Bank	9	7	10	8
Housing and Urban Development	9	2	13	2
Disaster Assistance	8	2	8	2
Department of Energy, Title 17, ATVM	7	1	12	2
Public Law 480	5	2	4	3
Agency for International Development	4	1	4	1
Small Business Lending Fund [3]	4	–*	4	–*
Other direct loan programs [3]	30	10	33	8
Total direct loans	837	51	852	31
Guaranteed Loans: [2]				
FHA-Mutual Mortgage Insurance Fund	1,043	28	1,118	43
Federal Student Loans	328	10	291	1
Department of Veterans Affairs (VA) Mortgages	258	5	296	6
FHA-General and Special Risk Insurance Fund	138	8	144	12
Farm Service Agency (excl. CCC), Rural Development, Rural Housing	83	4	97	4
Small Business Administration (SBA) [4]	82	5	87	4
Export-Import Bank	49	1	57	2
International Assistance	20	3	21	2
Commodity Credit Corporation	6	*	5	*
Government National Mortgage Association (GNMA) [4]	....	*	....	*
Other guaranteed loan programs [4, 5]	10	1	12	*
Total guaranteed loans	2,017	64	2,128	74
Total Federal credit	**2,854**	**115**	**2,980**	**105**

* $500 million or less.

[1] 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.

[2] 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.

[3] As authorized by the statute, table includes equity purchases under the TARP, the Small Business Lending Fund and IMF transactions resulting from the 2009 Supplemental Appropriations Act. Future costs for the TARP and IMF transactions reflected here are calculated using the discount rate required by the Federal Credit Reform Act adjusted for market risks, as directed in legislation.

[4] To avoid double-counting, outstandings for SBA and GNMA secondary market guarantees of federally-guaranteed loans, and the TARP FHA Letter of Credit are excluded from the totals.

[5] Includes Department of Energy Title 17 loan guarantees financed by private lenders.

Table 22–3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992-2012 [1]

(Outlays and receipts, in millions of dollars)

Agency and Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
DIRECT LOANS												
Agriculture:												
Agriculture Credit Insurance Fund	921	10	–701	–147	–2	–14	–251	–478	326	–147	93	1
Farm Storage Facility Loans	–1	–7	–8	7	–1	....	50	–47	–11	–19	–5	–19
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	22
Rural Electrification and Telecommunications Loans	–42	101	265	143	–197	–108	–149	293	248	192	–66	199
Rural Telephone Bank	....	–3	–7	–6	–17	–48	–22	36	1	–4	–2	1
Rural Housing Insurance Fund	–29	–435	–64	–200	109	....	–13	–405	18	170	297	188
Rural Economic Development Loans	–1	–1	....	–2	*	–3	3	–1	–4	–2	*	–1
Rural Development Loan Program	–1	–3	....	–3	–2	–7	*	–4	–4	–4	–3	–2
Rural Community Facilities Program	....	....	....	....	....	....	4	77	–19	–31	–100	–24
Rural Business and Industry Program	....	....	....	....	....	....	–22	–5	–5	4	–20	2
Rural Water and Waste Disposal Program	....	....	....	....	....	....	–13	72	–124	–52	–84	–193
Rural Community Advancement Program [2]	3	–1	–84	–34	–73	–77	....	....	....	....	....	....
P.L. 480	65	–348	33	–43	–239	–26	44	–163	–171	23	19	10
P.L. 480 Title I Food for Progress Credits	....	–112	–44	....	....	....	....	....	....	....	....	....
Commerce:												
Fisheries Finance	–1	–3	....	1	–15	–12	11	–16	–*	*	*	–9
Defense—Military Programs:												
Military Housing Improvement Fund	....	....	....	*	–4	–1	–8	–2	–13	–8	–29	–4
Education:												
Federal Direct Student Loan Program: [3]												
Volume reestimate	....	43	....	....	....	....	....	....	....	....	....	....
Other technical reestimate	....	3,678	1,999	855	2,827	2,674	408	–45	–1,176	–5,624	5,511	–8,273
Temporary Student Loan Purchase Authority: [3]												
Volume reestimate	....	....	....	....	....	....	....	418	....	....	....	....
Other technical reestimate	....	....	....	....	....	....	....	444	1,076	–5,529	–1,434	1,293
College Housing and Academic Facilities Loans	....	....	....	....	....	*	*	*	*	*	–*	–*
Historically Black Colleges and Universities	....	....	....	....	....	11	–16	–24	–75	68	–4	–125
TEACH Grants	....	....	....	....	....	....	....	....	11	–5	18	–15
Energy:												
Advanced Technology Vehicle Manufacturing Fund	....	....	....	....	....	....	....	....	12	–712	–985	–906
Title 17 Innovative Technology Fund	....	....	....	....	....	....	....	....	–*	55	409	12
Health and Human Services:												
Consumer Operated and Oriented Plan	....	....	....	....	....	....	....	....	....	....	....	3
Homeland Security:												
Disaster Assistance	–7	–6	*	4	*	*	*	....	–18	–1	–252	–23
Interior:												
Bureau of Reclamation Loans	–9	–14	....	17	1	1	5	–3	–1	–9	–9	–*
Bureau of Indian Affairs Direct Loans	–1	2	*	*	*	1	–1	....	1	1	*	....
Assistance to American Samoa	....	....	*	*	....	2	....	....	–4	*	–*	–*
Housing and Urban Development:												
Green Retrofit Program for Multifamily Housing, Recovery Act	....	....	....	....	....	....	....	....	....	....	....	1
State:												
Repatriation Loans	....	....	....	....	....	....	....	....	....	....	–7	–1
Transportation:												
Alameda Corridor Loan	....	....	–12	....	....	....	....	....	....	....	....	....
Transportation Infrastructure Finance and Innovation	....	....	....	3	–11	7	11	–163	92	17	–64	–55
Railroad Rehabilitation and Improvement Program	....	....	–5	–14	–11	–1	15	–8	15	13	–16	–7

Table 22–3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992-2012 [1]—Continued

(Outlays and receipts, in millions of dollars)

Agency and Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Treasury:												
GSE Mortgage-backed Securities Purchase Program	....	....	....	....	....	....	....	....	–8,165	2,054	–7,075	–320
Community Development Financial Institutions Fund	....	*	–1	*	–1	1	*	....	–2	2	–1	–*
Troubled Asset Relief Program Direct Loan [4]	....	....	....	....	....	....	....	....	–15,499	–4,195	3,334	–1,862
Troubled Asset Relief Program Equity [4]	....	....	....	....	....	....	....	....	–90,601	–47,207	11,220	–7,113
Small Business Lending Fund [4]	....	....	....	....	....	....	....	....	....	....	–368	32
Veterans Affairs:												
Veterans Housing Benefit Program Fund	–697	17	–178	987	–44	–76	–402	20	69	45	389	20
Native American Veteran Housing	....	–3	*	*	*	1	1	*	–*	2	6	3
Vocational Rehabilitation Loans	....	*	*	*	–1	1	–1	1	–*	*	–*	*
Environmental Protection Agency:												
Abatement, Control and Compliance	–1	*	–3	*	*	*	*	*	–*	–*	*	*
International Assistance Programs:												
Foreign Military Financing	119	–397	–64	–41	–7	–6	7	....	....	....	37	116
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	–12	11
IMF Quota and New Arrangements to Borrow [4]	....	....	....	....	....	....	....	....	....	....	17	....
Debt Reduction	....	*	–47	–104	54	–3	....	....	....	....	....	....
Small Business Administration:												
Business Loans	–2	1	25	....	–16	–4	4	7	3	1	1	–2
Disaster Loans	–14	266	589	196	61	258	–109	134	157	136	126	1
Other Independent Agencies:												
Export-Import Bank Direct Loans	117	–640	–305	111	–257	–227	–120	7	54	394	382	353
Federal Communications Commission	92	346	380	732	–24	11	....	–100	–23	12	3	–*
LOAN GUARANTEES												
Agriculture:												
Agriculture Credit Insurance Fund	40	–36	–33	–22	–162	20	–36	–48	–4	–58	–75	–26
Agriculture Resource Conservation Demonstration	....	1	–1	*	*	....	....	....	....	....	....	....
Biorefinery Assistance	....	....	....	....	....	....	....	....	....	*	20	–26
Commodity Credit Corporation Export Guarantees	....	–13	–230	–205	–366	–232	–225	–39	9	–22	48	36
Rural Electrification and Telecommunications Loans	....	....	....	....	....	*	*	*	–*	–*	–*	–*
Rural Housing Insurance Fund	–56	32	50	66	44	....	–19	–24	81	183	312	662
Rural Business and Industry Program	....	....	....	....	....	....	–9	–11	41	72	178	90
Rural Community Facilities Program	....	....	....	....	....	....	–1	13	7	11	13	–3
Rural Water and Waste Disposal Program	....	....	....	....	....	....	....	....	1	*	–*	–*
Rural Community Advancement Program [2]	17	91	15	29	–64	–16	....	....	....	....	....	....
Rural Energy for America	....	....	....	....	....	....	*	*	2	4	13	–*
Commerce:												
Fisheries Finance	–1	3	*	1	*	1	*	*	*	*	*	–*
Emergency Steel Guaranteed Loans	....	50	*	3	–75	–13	1	–53	....	....	....	....
Emergency Oil and Gas Guaranteed Loans	*	*	*	*	–1	*	*	....	....	....	....	....
Defense—Military Programs:												
Military Housing Improvement Fund	....	....	–3	–1	–3	–5	–1	–2	–3	–2	–2	–2
Defense Export Loan Guarantee	....	....	....	–5	....	....	....	....	....	....	....	....
Arms Initiative Guaranteed Loan Program	....	....	....	....	....	....	20	....	2	–3	....	–1
Education:												
Federal Family Education Loan Program: [3]												
Volume reestimate	....	277	....	....	....	....	....	....	....	....	....	....
Other technical reestimate	....	–2,483	–3,278	1,348	6,837	–3,399	–189	–13,463	–7,008	–14,455	–10,354	–6,305
Energy:												
Title 17 Innovative Technology Fund	....	....	....	....	....	....	....	....	....	*	12	–4

Table 22–3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992-2012 [1]—Continued

(Outlays and receipts, in millions of dollars)

Agency and Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Health and Human Services:												
Heath Center Loan Guarantees	*	*	....	1	*	*	–1	–2	*	–*	....	....
Health Education Assistance Loans	....	–5	–37	–33	–18	–20	*	–15	–5	13	–5	25
Housing and Urban Development:												
Indian Housing Loan Guarantee	*	–1	*	–3	–1	*	–5	–7	–7	–2	13	–9
Title VI Indian Guarantees	....	–1	1	4	*	–4	–3	–2	–2	–1	–2	–2
Native Hawaiian Housing	....	....	....	....	....	....	....	....	–*	–*	*	–1
Community Development Loan Guarantees	....	....	19	–10	–2	4	1	–1	–9	–8	2	5
FHA-Mutual Mortgage Insurance	–1,308	1,100	5,947	1,979	2,842	636	3,923	9,262	8,435	5,014	5,628	17,642
FHA-General and Special Risk Insurance Fund	–403	77	352	507	238	–1,254	–362	6,086	571	1,848	–1,200	3,626
Guarantees of Mortgage-backed Securities	....	....	....	....	....	....	....	....	....	684	132	97
Interior:												
Bureau of Indian Affairs Guaranteed Loans	–1	–2	–2	*	15	5	–30	–3	11	4	–19	....
Bureau of Indian Affairs Insured Loans	....	....	....	....	....	....	....	....	....	–*	....	....
Transportation:												
Maritime Guaranteed Loans (Title XI)	187	27	–16	4	–76	–11	–51	23	8	32	3	–15
Minority Business Resource Center	1	....	*	*	....	*	*	....	–*	–*	–*	–*
Treasury:												
Air Transportation Stabilization Program	....	113	–199	292	–109	–95	....	....	....	....	....	....
Troubled Asset Relief Program [4]	....	....	....	....	....	....	....	....	–517	–691	28	–159
Veterans Affairs:												
Veterans Housing Benefit Fund Program	–163	–184	–1,515	–462	–842	–525	182	–70	494	1,084	654	1,162
International Assistance Programs:												
U.S. Agency for International Development:												
Development Credit Authority	–1	....	1	–3	–2	2	11	5	–8	–6	4	–5
Micro and Small Enterprise Development	....	....	2	–2	....	–3	*	....	....	–1	....	....
Urban and Environmental Credit	–4	–15	48	–2	–5	–11	–22	7	–1	–10	–6	–3
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	–35
Loan Guarantees to Egypt	....	....	....	....	7	14	–12	12	–11	6	–54	213
Loan Guarantees to Tunisia	....	....	....	....	....	....	....	....	....	....	....	–18
Overseas Private Investment Corporation:												
OPIC Guaranteed Loans	5	77	60	–212	–21	–149	–268	–26	–23	–13	39	–27
Small Business Administration:												
Business Loans	–226	304	1,750	1,034	–390	–268	–140	931	3,746	3,711	1,512	–860
Other Independent Agencies:												
Export-Import Bank Guarantees	–417	–2,042	–1,133	–655	–1,164	–579	–174	23	571	–370	–312	291
Total	**–1,854**	**–142**	**3,468**	**6,008**	**9,003**	**–3,441**	**2,044**	**2,576**	**–107,214**	**–63,353**	**7,560**	**–338**

* Less than $500,000.

[1] Excludes interest on reestimates. Additional information on credit reform subsidy reestimates is available in the Federal Credit Supplement.

[2] Includes Rural Water and Waste Disposal, Rural Community Facilities, and Rural Business and Industry programs through 2007.

[3] Volume reestimates in mandatory programs represent a change in volume of loans disbursed in the prior years.

[4] 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 the TARP and IMF activity reflected on a credit reform basis are estimated using the discount rate required under the FCRA, adjusted for market risks, as directed in legislation. The Administration proposes restating IMF amounts provided in 2009. Please see the Budget Appendix for more information.

Table 22–4. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2012–2014

(Dollars in millions)

Agency and Program	2012 Actual			2013 CR			2014 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels
Agriculture:									
Agricultural Credit Insurance Fund Program Account	5.27	93	1,751	4.65	81	1,758	3.72	70	1,906
Farm Storage Facility Loans Program Account	–2.30	–5	200	–2.48	–7	309	–2.53	–8	309
Rural Electrification and Telecommunications Loans Program Account	–4.19	–202	4,822	–6.20	–299	4,822	–3.00	–140	4,690
Distance Learning, Telemedicine, and Broadband Program	3.55	2	69	9.47	5	53	13.05	34	257
Rural Water and Waste Disposal Program Account	9.58	91	947	8.07	77	951	–0.87	–10	1,200
Rural Community Facilities Program Account	–3.03	–39	1,271	–2.08	–27	1,300	–13.21	–198	1,500
Multifamily Housing Revitalization Program Account	52.12	8	15	53.96	11	19	50.32	18	36
Rural Housing Insurance Fund Program Account	6.68	65	973	9.67	83	858	5.83	28	472
Rural Microenterprise Investment Program Account	....	....	....	....	....	....	6.26	3	46
Rural Development Loan Fund Program Account	33.88	6	18	32.04	6	19	21.61	4	19
Rural Economic Development Loans Program Account	12.98	6	41	12.39	10	78	8.45	6	73
Commerce:									
Fisheries Finance Program Account	–8.45	–6	65	–4.21	–4	83	–7.56	–6	83
Defense—Military Programs:									
Defense Family Housing Improvement Fund	14.07	20	143	16.26	60	367	....	....	....
Education:									
College Housing and Academic Facilities Loans Program Account	5.50	13	235	6.29	20	318	3.09	10	320
Teacher Education Assistance	10.25	14	138	1.48	2	125	1.52	1	94
Federal Perkins Loan Program Account	....	....	....	....	....	....	–30.07	–1,409	4,684
Federal Direct Student Loan Program Account	–16.49	–27,101	164,302	–17.94	–26,141	145,690	–18.99	–29,174	153,604
Energy:									
Title 17 Innovative Technology Loan Guarantee Program	....	....	....	[2]	....	9,050	[2] 1.72	169	9,822
Advanced Technology Vehicles Manufacturing Loan Program Account	....	....	....	[2] 25.44	4,224	16,602	....	....	....
Health and Human Services:									
Consumer Operated and Oriented Plan Program Account	42.91	725	1,691	41.35	122	295	....	....	....
Consumer Operated and Oriented Plan Program Contingency Fund	....	....	....	37.66	68	180	....	....	....
Homeland Security:									
Disaster Assistance Direct Loan Program Account	86.06	4	5	85.69	335	392	....	....	....
Housing and Urban Development:									
FHA-Mutual Mortgage Insurance Program Account	....	....	....	....	....	50	....	....	20
FHA-General and Special Risk Program Account	....	....	....	....	....	1	....	....	1
Emergency Homeowners' Relief Fund	97.72	18	19	97.71	22	23	....	....	....
State:									
Repatriation Loans Program Account	57.85	1	2	57.67	1	2	63.06	1	2
Transportation:									
TIFIA General Fund Program Account, Federal Highway Administration, Transportation	1.05	6	546	8.28	39	466	....	....	....
Federal-aid Highways	5.50	47	852	9.66	746	7,723	10.16	995	9,793
Railroad Rehabilitation and Improvement Program	–2.12	–3	139	....	....	600	....	....	600
Treasury:									
Community Development Financial Institutions Fund Program Account	40.26	6	15	32.15	8	25	[2] 0.22	2	1,025
Veterans Affairs:									
Veterans Housing Benefit Program Fund	–1.93	–3	163	–12.20	–33	268	–21.58	–89	413
Native American Veteran Housing Loan Program Account	–8.82	–1	8	–13.87	–2	14	–13.12	–2	14
International Assistance Programs:									
Development Credit Authority Program Account	....	....	....	27.42	3	10	27.14	3	10
Overseas Private Investment Corporation Program Account	–1.64	–5	422	–3.10	–23	750	–4.28	–51	1,200

Table 22–4. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2012–2014—Continued
(Dollars in millions)

Agency and Program	2012 Actual			2013 CR			2014 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels
Small Business Administration:									
Disaster Loans Program Account	11.03	52	463	11.11	455	4,100	8.48	93	1,100
Business Loans Program Account	19.43	9	42	15.71	7	43	18.64	5	25
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account	–13.69	–1,611	11,765	15.03	15	100	9.70	15	150
National Infrastructure Bank:									
National Infrastructure Bank Program Account	....	....	....	....	....	....	[2] 11.57	58	500
Total	**N/A**	**–27,790**	**191,122**	**N/A**	**–20,136**	**197,444**	**N/A**	**–29,572**	**193,968**

N/A = Not applicable.
[1] Additional information on credit subsidy rates is available in the Federal Credit Supplement.
[2] Rate reflects notional estimate. Estimates will be determined at the time of execution, and will reflect the terms of the contracts and other characteristics.

Table 22–5. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2012–2014
(Dollars in millions)

Agency and Program	2012 Actual			2013 CR			2014 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels
Agriculture:									
Agricultural Credit Insurance Fund Program Account	0.66	16	2,434	0.64	25	3,859	0.40	14	3,650
Commodity Credit Corporation Export Loans Program Account	–0.69	–29	4,132	–1.16	–64	5,500	–1.14	–63	5,500
Rural Water and Waste Disposal Program Account	1.59	*	8	1.06	2	177	0.71	1	98
Rural Community Facilities Program Account	4.73	10	202	6.70	8	125	6.21	3	49
Rural Housing Insurance Fund Program Account	–0.03	–6	19,316	–0.25	–60	24,130	–0.14	–34	24,150
Rural Business Program Account	5.58	59	1,053	5.88	51	860	6.99	63	897
Rural Energy for America Program	26.19	4	14	24.01	13	53	27.43	33	120
Biorefinery Assistance Program Account	31.30	145	462	42.00	40	96	......	......	......
Health and Human Services:									
Health Resources and Services	2.67	*	10	1.79	*	12	4.53	*	6
Housing and Urban Development:									
Indian Housing Loan Guarantee Fund Program Account	1.46	12	792	1.35	5	368	0.33	6	1,818
Native Hawaiian Housing Loan Guarantee Fund Program Account	0.93	*	4	0.50	1	14	0.53	1	38
Native American Housing Block Grant	10.80	2	20	10.91	5	45	12.10	5	45
Community Development Loan Guarantees Program Account	2.48	5	206	2.46	9	364	......	......	500
FHA-Mutual Mortgage Insurance Program Account	–2.47	–5,582	226,523	–6.73	–18,177	270,180	–6.50	–12,959	199,336
FHA-General and Special Risk Program Account	–1.98	–438	22,050	–4.21	–996	23,670	–3.87	–848	21,912
Interior:									
Indian Guaranteed Loan Program Account	8.38	6	73	5.53	4	73	5.75	4	70
Transportation:									
Minority Business Resource Center Program	1.81	*	5	1.73	*	18	1.76	*	18
Federal-aid Highways	......	......	......	7.60	10	132	......	......	......
Railroad Rehabilitation and Improvement Program	......	......	......	......	......	100	......	......	100
Maritime Guaranteed Loan (Title XI) Program Account	......	......	......	9.02	38	421	......	......	......
Veterans Affairs:									
Veterans Housing Benefit Program Fund	–0.11	–143	120,252	–0.10	–108	108,211	–0.02	–13	65,533
International Assistance Programs:									
Loan Guarantees to Israel Program Account	......	......	......	......	......	1,270	......	......	1,274
Tunisia Loan Guarantee Program Account	6.16	30	485	......	......	......	......	......	......
Development Credit Authority Program Account	5.04	26	524	6.45	47	729	4.07	25	618
Overseas Private Investment Corporation Program Account	–8.84	–250	2,836	–5.99	–132	2,200	–6.57	–243	3,700
Small Business Administration:									
Disaster Loans Program Account	......	......	......	1.94	*	18	......	......	......
Business Loans Program Account	0.36	195	54,309	0.48	428	88,731	0.14	101	73,427
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account	–1.40	–336	24,020	–3.07	–1,178	38,372	–2.60	–1,107	42,531
National Infrastructure Bank:									
National Infrastructure Bank Program Account	......	......	......	......	......	......	[2] 8.85	18	200
Total	**N/A**	**–6,274**	**479,730**	**N/A**	**–20,029**	**569,728**	**N/A**	**–14,993**	**445,590**
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS									
GNMA:									
Guarantees of Mortgage-backed Securities Loan Guarantee Program Account	–0.19	–737	388,029	–0.23	–580	252,000	–0.22	–542	246,500
Treasury:									
Troubled Asset Relief Program, Housing Programs [3]	4.00	9	234	2.48	129	5,229	......	......	......
SBA:									
Secondary Market Guarantee Program	......	......	3,926	......	......	12,000	......	......	12,000
Total, secondary guaranteed loan commitments	**N/A**	**–728**	**392,189**	**N/A**	**–451**	**269,229**	**N/A**	**–542**	**258,500**

N/A = Not applicable.
* Less than $500,000.
[1] Additional information on credit subsidy rates is available in the Federal Credit Supplement.
[2] Rate reflects notional estimate. Estimates will be determined at the time of execution, and will reflect the terms of the contracts and other characteristics.
[3] 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.

Table 22–6. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES [1]
(In billions of dollars)

	Actual								Estimate	
	2005	2006	2007	2008	2009	2010	2011	2012	2013 CR	2014
Direct Loans:										
Obligations	56.3	57.8	42.5	75.6	812.9	246.0	296.3	191.1	197.4	194.0
Disbursements	50.6	46.6	41.7	41.1	669.4	218.9	186.7	170.0	179.9	222.8
New subsidy budget authority [2]	2.1	4.7	1.4	3.7	140.1	–9.2	–15.7	–27.2	–20.1	–26.7
Reestimated subsidy budget authority [2,3]	3.8	3.1	3.4	–0.8	–0.1	–125.1	–66.8	16.8	–19.5	....
Total subsidy budget authority	**6.0**	**7.8**	**4.8**	**–1.3**	**140.0**	**–134.3**	**–82.5**	**–10.4**	**–39.6**	**–26.7**
Loan Guarantees:										
Commitments [4]	248.5	280.7	270.2	367.7	879.2	507.3	446.7	479.7	569.7	445.6
Lender disbursements [4]	221.6	256.0	251.2	354.6	841.5	494.8	384.1	444.3	487.0	383.6
New subsidy budget authority [2]	10.1	17.2	5.7	–1.4	–7.8	–4.9	–7.4	–6.9	–20.5	–19.2
Reestimated subsidy budget authority [2,3]	3.5	7.0	–6.8	3.6	0.5	7.6	–4.0	–4.9	20.8	....
Total subsidy budget authority	**13.6**	**24.2**	**–1.1**	**2.2**	**–7.2**	**2.8**	**–11.4**	**–11.8**	**0.3**	**–19.2**

[1] 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.
[2] Credit subsidy costs for the TARP and IMF increases provided in the Supplemental Appropriations Act of 2009 are calculated using the discount rate required under the FCRA, adjusted for market risks, as directed in legislation. The Administration proposes restating IMF amounts provided in 2009. Please see the Budget Appendix for more information.
[3] Includes interest on reestimate.
[4] 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 Letter of Credit.

Table 22–7. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS

Agency and Program	In millions of dollars			As a percentage of outstanding loans [1]		
	2012 Actual	2013 Estimate	2014 Estimate	2012 Actual	2013 Estimate	2014 Estimate
DIRECT LOAN WRITE-OFFS						
Agriculture:						
Agricultural Credit Insurance Fund	41	46	54	0.43	0.48	0.54
Rural Business and Industry Program	2	....	....	8.00	....	....
Rural Community Facility	13	....	....	0.29	....	....
Rural Housing Insurance Fund	42	56	56	0.15	0.21	0.21
Rural Water and Waste Disposal	15	....	....	0.12	....	....
Commerce:						
Economic Development Revolving Fund Liquidating Account	1	1	1	20.00	33.33	100.00
Defense—Military Programs:						
Family Housing Improvement Fund	....	2	3	....	0.14	0.18
Housing and Urban Development:						
Emergency Homeowners' Relief Fund	....	24	20	....	23.53	20.83
Guarantees of Mortgage-backed Securities	....	1	1	....	12.50	14.29
International Assistance Programs:						
Debt Reduction (Agency for International Development)	36	....	....	2.68	....	....
Overseas Private Investment Corporation	4	4	5	0.25	0.19	0.17
Small Business Administration:						
Business Loans	5	2	2	2.72	1.10	1.08
Disaster Loans	163	158	198	2.04	1.60	1.79
Transportation:						
Railroad Rehabilitation and Improvement Program	....	1	1	....	0.09	0.06
Treasury:						
Community Development Financial Institutions Fund	....	2	2	....	3.57	1.69
Small Business Lending Fund [2]	....	6	13	....	0.15	0.42
Troubled Asset Relief Program Equity Purchases [2]	....	3,013	3,930	....	8.92	21.31
Veterans Affairs:						
Veterans Housing Benefit Program	12	32	14	1.41	3.63	1.13
Other Independent Agencies:						
Export-Import Bank	1	10	10	0.01	0.08	0.09
Spectrum Auction	20	24	24	15.15	21.43	27.27
Total, direct loan write-offs	**355**	**3,382**	**4,334**	**0.20**	**2.76**	**3.96**
GUARANTEED LOAN TERMINATIONS FOR DEFAULT						
Agriculture:						
Agricultural Credit Insurance Fund	138	78	78	0.91	0.47	0.44
Biorefinery Assistance Guaranteed Loans	38	7	10	17.27	2.33	2.02
Commodity Credit Corporation Export Loans	....	92	92	....	0.84	0.82
Rural Business and Industry Program	161	232	264	2.08	2.92	3.31
Rural Community Facility	8	10	10	0.64	0.71	0.70
Rural Energy for America Program	....	8	8	....	7.55	7.48
Rural Housing Insurance Fund	561	501	586	0.69	0.52	0.52
Defense—Military:						
Family Housing Improvement Fund	....	5	7	....	1.14	1.53
Education:						
Federal Family Education Loans	13,480	9,066	7,404	4.11	3.12	2.86
Health Education Assistance Loans [3]	....	....	13	....	....	2.78
Energy:						
Title 17 Innovative Technology	....	4	17	....	0.12	0.43
Health and Human Services:						
Health Center Loan Guarantees	1	1	1	1.14	1.14	1.22
Health Education Assistance Loans [3]	23	16	....	3.78	3.24	....

Table 22–7. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS—Continued

Agency and Program	In millions of dollars			As a percentage of outstanding loans [1]		
	2012 Actual	2013 Estimate	2014 Estimate	2012 Actual	2013 Estimate	2014 Estimate
Housing and Urban Development:						
FHA-General and Special Risk Insurance Fund	2,242	5,245	5,223	1.42	3.08	2.88
FHA-Mutual Mortgage Insurance	15,849	45,459	32,557	1.24	3.28	2.39
Home Ownership Preservation Equity Fund	1	2	2	0.83	1.64	1.69
Indian Housing Loan Guarantee	15	16	16	0.52	0.43	0.34
Native American Housing Block Grant	2	2	2	1.41	1.29	1.20
Interior:						
Indian Guaranteed Loans	....	2	2	....	0.33	0.34
International Assistance Programs:						
Development Credit Authority	2	3	3	0.47	0.56	0.48
Foreign Military Financing	2	1	....	0.46	0.34	....
Housing and Other Credit Guaranty Programs	8	7	8	1.37	1.36	1.78
Overseas Private Investment Corporation	23	79	55	0.32	0.81	0.42
Urban and Environmental Credit Program	4	4	4	1.62	1.71	1.89
Small Business Administration:						
Business Loans	3,279	2,966	2,764	3.22	2.74	2.37
Transportation:						
Maritime Guaranteed Loan (Title XI) Program	....	44	45	....	1.84	2.31
Treasury:						
Troubled Asset Relief Program, Home Affordable Modification	....	1	6	....	0.02	0.11
Veterans Affairs:						
Veterans Housing Benefit Program	2,057	2,173	2,473	0.54	0.54	0.54
Other Independent Agencies:						
Export-Import Bank	194	193	44	0.27	0.24	0.05
Total, guaranteed loan terminations for default	**38,088**	**66,217**	**51,694**	**1.56**	**2.54**	**1.95**
Total, direct loan write-offs and guaranteed loan terminations	**38,443**	**69,599**	**56,028**	**1.47**	**2.55**	**2.03**
ADDENDUM: WRITE-OFFS OF DEFAULTED GUARANTEED LOANS THAT RESULT IN LOANS RECEIVABLE						
Agriculture:						
Agricultural Credit Insurance Fund	18	10	10	11.54	6.21	5.75
Biorefinery Assistance Guaranteed Loans	33	....	....	86.84	....	....
Rural Business and Industry Program	63	46	68	12.48	9.68	11.09
Rural Energy for America Program	10	....	....	100.00	....	....
Rural Housing Insurance Fund	47	125	126	6.00	12.65	11.26
Education:						
Federal Family Education Loans	1,450	1,340	1,253	3.02	2.97	2.96
Health Education Assistance Loans [3]	....	....	21	....	....	2.54
Health and Human Services:						
Health Education Assistance Loans [3]	28	22	....	5.04	4.05	....
Housing and Urban Development:						
FHA-General and Special Risk Insurance Fund	830	962	1,166	13.81	12.57	13.78
FHA-Mutual Mortgage Insurance	....	126	142	....	3.91	3.31
International Assistance Programs:						
Overseas Private Investment Corporation	9	20	10	4.86	8.58	4.00
Small Business Administration:						
Business Loans	2,166	2,098	2,018	18.82	18.80	18.81
Veterans Affairs:						
Veterans Housing Benefit Program	2	4	2	13.33	12.90	10.53
Total, write-offs of loans receivable	**4,656**	**4,753**	**4,816**	**6.58**	**6.83**	**7.03**

[1] Loans outstanding at start of year plus new disbursements.
[2] Equity purchases under the TARP and the Small Business Lending Fund are reflected here as authorized by law.
[3] 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 22–8. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS [1]
(In millions of dollars)

Agency and Program	2012 Actual	2013 CR	2014 Estimate
DIRECT LOAN OBLIGATIONS			
Agriculture:			
Agricultural Credit Insurance Fund Direct Loan Financing Account	1,812	1,726	1,906
Distance Learning, Telemedicine, and Broadband Direct Loan Financing Account	69	53	257
Rural Economic Development Direct Loan Financing Account	33	33	33
Commerce:			
Fisheries Finance Direct Loan Financing Account	83	83	83
Education:			
Historically Black College and University Capital Financing Direct Loan Financing Account	368	368	320
Homeland Security:			
Disaster Assistance Direct Loan Financing Account	25	425	....
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	20
Treasury:			
Community Development Financial Institutions Fund Direct Loan Financing Account	25	25	1025
Veterans Affairs:			
Vocational Rehabilitation Direct Loan Financing Account	3	3	3
International Assistance Programs:			
Development Credit Authority Direct Loan Financing Account	10	10	10
Total, limitations on direct loan obligations	**2,498**	**2,796**	**3,677**
LOAN GUARANTEE COMMITMENTS			
Agriculture:			
Agricultural Credit Insurance Fund Guaranteed Loan Financing Account	2,611	3,859	3,650
Commerce:			
Economic Development Assistance Programs Financing Account	70	70	....
Housing and Urban Development:			
Indian Housing Loan Guarantee Fund Financing Account	360	360	1,818
Title VI Indian Federal Guarantees Financing Account	20	20	18
Native Hawaiian Housing Loan Guarantee Fund Financing Account	42	42	38
Community Development Loan Guarantees Financing Account	240	240	500
FHA-General and Special Risk Guaranteed Loan Financing Account	25,000	25,000	30,000
FHA-Mutual Mortgage Insurance Fund Guaranteed Loan Financing Account	400,000	400,000	400,000
Interior:			
Indian Guaranteed Loan Financing Account	73	73	70
Transportation:			
Minority Business Resource Center Guaranteed Loan Financing Account	18	18	18
International Assistance Programs:			
Development Credit Authority Guaranteed Loan Financing Account	740	740	740
Small Business Administration:			
Business Guaranteed Loan Financing Account [2]	28,000	28,000	35,500
Total, limitations on loan guarantee commitments	**457,174**	**458,422**	**472,352**
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS			
Housing and Urban Development:			
Guarantees of Mortgage-backed Securities Financing Account	500,000	500,000	500,000
Small Business Administration:			
Secondary Market Guarantees	12,000	12,000	12,000
Total, limitations on secondary guaranteed loan commitments	**512,000**	**512,000**	**512,000**

[1] Data represents loan level limitations enacted or proposed in appropriation acts. For information on actual and estimated loan levels supportable by new subsidy budget authority requested, see Tables 22–4 and 22–5.
[2] For SBA revolving credit facilities, amounts include maximum contingent liability.

Table 22–9. FACE VALUE OF GOVERNMENT-SPONSORED LENDING [1]
(In billions of dollars)

	Outstanding	
	2011	2012
Government-Sponsored Enterprises:		
Fannie Mae [2]	3,267	3,241
Freddie Mac [3]	1,963	2,031
Federal Home Loan Banks	415	412
Farm Credit System	167	180
Total	**5,812**	**5,864**

[1] New originations including issuance of securities and investment portfolio purchases, net of purchases of federally-guaranteed loans.
[2] Data for Fannie Mae is net of purchases of federally-guaranteed loans and Freddie Mac issuances, as reported by the FHFA.
[3] Data for Freddie Mac is net of purchases of federally-guaranteed loans and Fannie Mae issuances, as reported by the FHFA.

Table 22–10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]

(In millions of dollars)

Enterprise	2012
LENDING	
Federal National Mortgage Association:	
Portfolio programs:	
Net change	–67,889
Outstandings	654,269
Mortgage-backed securities:	
Net change	37,056
Outstandings	2,604,611
Federal Home Loan Mortgage Corporation:	
Portfolio programs:	
Net change	–111,167
Outstandings	567,966
Mortgage-backed securities:	
Net change	149,989
Outstandings	1,648,262
Farm Credit System:	
Agricultural credit bank:	
Net change	24,917
Outstandings	69,945
Farm credit banks:	
Net change	–12,374
Outstandings	97,404
Federal Agricultural Mortgage Corporation:	
Net change	627
Outstandings	12,468
Federal Home Loan Banks:	
Net change	–7,589
Outstandings	463,076
Less federally-guaranteed loans purchased by:	
Federal National Mortgage Association:	
Net change	–3,539
Outstandings	71,891
Federal Home Loan Mortgage Corporation:	
Net change	–364
Outstandings	3,847
Federal Home Loan Banks:	
Net change	2,979
Outstandings	13,091
Other:	
Net change	N/A
Outstandings	N/A
Less purchase of mortgage securities issued by other GSEs: [2]	
Net change	–32,702
Outstandings	80,318
BORROWING	
Federal National Mortgage Association:	
Portfolio programs:	
Net change	–57,916
Outstandings	680,257
Mortgage-backed securities:	
Net change	37,056

Table 22–10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]—Continued

(In millions of dollars)

Enterprise	2012
Outstandings	2,604,611
Federal Home Loan Mortgage Corporation:	
Portfolio programs:	
Net change	–119,598
Outstandings	570,320
Mortgage-backed securities:	
Net change	149,989
Outstandings	1,648,262
Farm Credit System:	
Agricultural credit bank:	
Net change	26,125
Outstandings	82,420
Farm credit banks:	
Net change	–17,100
Outstandings	113,879
Federal Agricultural Mortgage Corporation:	
Net change	1,034
Outstandings	11,640
Federal Home Loan Banks: [3]	
Net change	–23,350
Outstandings	679,448
DEDUCTIONS [4]	
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	–924
Outstandings	88,829
Less borrowing to purchase mortgage securities issued by other GSEs: [2]	
Net change	–32,702
Outstandings	80,318

N/A = Not available.

[1] Data do not reflect an official view of future GSE activity. 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.

[2] 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.

[3] The net change in borrowings is derived from a year-over-year comparison of borrowings in the Federal Home Loan Banks' audited financial statements.

[4] Where totals and subtotals have not been calculated, a portion of the total is unavailable.

23. 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.

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.

Table 23–1. HOMELAND SECURITY FUNDING BY AGENCY

(Budget authority in millions of dollars)

	Agency	2012 Actual	2012 Supplemental/ Emergency	2013 CR	2013 Supplemental	2014 Request
1	Department of Agriculture	435.4	....	445.3	....	607.3
2	Department of Commerce*	338.4	....	542.5	....	2,567.6
3	Department of Defense	17,780.0	....	17,481.4	88.4	17,360.1
4	Department of Education	30.9	....	31.4	....	33.0
5	Department of Energy	1,938.1	....	1,926.1	....	1,920.4
6	Department of Health and Human Services	4,118.1	....	4,080.3	....	4,723.1
7	Department of Homeland Security	35,088.1	....	35,717.5	2.0	35,837.3
8	Department of Housing and Urban Development	2.0	....	2.0	....	1.0
9	Department of the Interior	57.6	....	56.6	....	56.9
10	Department of Justice	4,038.9	....	4,053.7	....	4,172.9
11	Department of Labor	45.5	....	36.5	....	36.8
12	Department of State	2,673.7	....	2,795.7	....	2,995.9
13	Department of Transportation	245.4	....	235.0	....	211.2
14	Department of the Treasury	121.8	....	123.7	....	124.0
15	Department of Veterans Affairs	380.9	....	367.5	....	375.5
16	Corps of Engineers	14.8	....	15.0	....	13.6
17	Environmental Protection Agency	102.1	....	102.0	....	102.3
18	Executive Office of the President	10.4	....	9.0	....	9.1
19	General Services Administration	38.0	....	18.0	....	371.0
20	National Aeronautics and Space Administration	225.2	....	212.3	....	225.9
21	National Science Foundation	443.9	....	443.9	....	423.0
22	Office of Personnel Management	1.3	....	1.3	....	....
23	Social Security Administration	211.6	....	242.2	....	261.9
24	District of Columbia	15.0	....	25.0	....	15.0
25	Federal Communications Commission	2.6	....	1.6	....	1.6
26	Intelligence Community Management Account**	9.0	....	9.0	....	....
27	National Archives and Records Administration	22.6	....	22.6	....	24.7
28	Nuclear Regulatory Commission	78.5	....	78.5	....	73.2
29	Securities and Exchange Commission	8.0	....	8.0	....	8.0
30	Smithsonian Institution	97.0	....	101.1	....	101.2
31	United States Holocaust Memorial Museum	11.0	....	11.0	....	11.0
	Total, Homeland Security Budget Authority	**68,585.7**	**.........**	**69,195.8**	**90.4**	**72,664.4**
	Less Department of Defense	–17,780.0	....	–17,481.4	–88.4	–17,360.1
	Non-Defense Homeland Security BA	**50,805.8**	**.........**	**51,714.4**	**2.0**	**55,304.3**
	Less Fee-Funded Homeland Security Programs	6,051.8	....	6,412.2	....	7,258.2
	Less Mandatory Homeland Security Programs	–3,092.7	....	–3,349.4	....	–5,394.1
	Net Non-Defense Discretionary Homeland Security BA	**53,764.9**	**.........**	**54,777.2**	**2.0**	**57,168.4**

* One-time funding increase in 2014 authorized by the Middle Class Tax Relief and Job Creation Act of 2012 to build a nationwide broadband network for first responders.

** Funding for the Intelligence Community Management Account was moved under DoD beginning in 2013.

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 Internet at *www.budget.gov/budget/analytical_perspectives* and on the Budget 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 2014, the President's Budget includes $72.7 billion of gross budget authority for homeland security activities, a $4.1 billion (6 percent) increase above the 2012 enacted level. Excluding mandatory spending, fees, and the Department of Defense's (DOD) homeland security budget, the 2014 Budget proposes a net, non-Defense, discretionary budget authority level of $57.2 billion, which is an increase of $3.4 billion (6 percent) above the 2012 enacted level (see Table 23–1).

A total of 31 agency budgets include Federal homeland security funding in 2014. Six agencies—the Departments of Homeland Security (DHS), Defense (DOD), Health and Human Services (HHS), Justice (DOJ), State (DOS), and Commerce (DOC)—account for approximately $67.7 billion (93 percent) of total Government-wide gross discretionary homeland security funding in 2014.

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 resultant 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 2014, funding for intelligence-and-warning is distributed between DHS (50 percent), primarily in the Office of Intelligence and Analysis; and DOJ (48 percent), primarily in the Federal Bureau of Investigation (FBI). 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 88 percent, in 2014) 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 2014 request would keep funding for border and transportation security activities at a level consistent with the 2012 enacted 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

Table 23–2. PREVENT AND DISRUPT TERRORIST ATTACKS
(Budget authority in millions of dollars)

Agency	2012 Actual	2012 Supplemental/ Emergency	2013 CR	2013 Supplemental	2014 Request
Department of Agriculture	234.1	....	243.3	....	244.3
Department of Commerce	4.2	....	4.4	....	4.2
Department of Energy	....	....	....	....	0.5
Department of Homeland Security	27,657.7	....	27,799.8	2.0	27,042.7
Department of the Interior	0.4	....	0.4	....	0.4
Department of Justice	3,416.1	....	3,430.0	....	3,626.1
Department of State	2,587.5	....	2,688.1	....	2,896.5
Department of Transportation	42.8	....	33.7	....	33.9
Department of the Treasury	71.4	....	71.8	....	71.3
General Services Administration	....	....	....	....	288.0
Total, Prevent and Disrupt Terrorist Attacks	**34,014.1**	**........**	**34,271.5**	**2.0**	**34,207.9**

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 60 and 38 percent of funding for 2014, 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 are: HHS, largely for research at the National Institutes of Health (NIH) and for advanced development of medical countermeasures ($2.7 billion, or 42 percent, of the 2014 total); DOD ($1.6 billion, or 24 percent, of the 2014 total); and DHS ($1.9 billion, or 29 percent, of the 2014 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

Table 23–3. PROTECT THE AMERICAN PEOPLE, OUR CRITICAL INFRASTRUCTURE, AND KEY RESOURCES
(Budget authority in millions of dollars)

Agency	2012 Actual	2012 Supplemental/ Emergency	2013 CR	2013 Supplemental	2014 Request
Department of Agriculture	137.4	....	137.8	....	298.9
Department of Commerce	250.8	....	238.2	....	286.3
Department of Defense	16,210.7	....	15,956.9	25.6	15,698.6
Department of Energy	1,724.2	....	1,685.7	....	1,671.0
Department of Health and Human Services	2,154.3	....	2,175.0	....	2,843.0
Department of Homeland Security	5,287.5	....	5,525.2	....	6,321.4
Department of Justice	610.7	....	611.6	....	534.7
Department of Veterans Affairs	311.9	....	308.5	....	312.8
National Aeronautics and Space Administration	225.2	....	212.3	....	225.9
National Science Foundation	443.9	....	443.9	....	423.0
Social Security Administration	211.1	....	241.8	....	261.4
Other Agencies	698.8	....	676.0	....	706.9
Total, Protect the American People, Our Critical Infrastructure, and Key Resources	**28,266.5**	**........**	**28,212.8**	**25.6**	**29,584.1**

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 2014 ($14.1 billion, or 61 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 2014 funding. Another 24 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 2014 request increases funding for activities to protect the Nation's people, critical infrastructure and key resources by $1.3 billion, or 5 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 definition 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, how-

Table 23–4. RESPOND TO AND RECOVER FROM INCIDENTS

(Budget authority in millions of dollars)

Agency	2012 Actual	2012 Supplemental/ Emergency	2013 CR	2013 Supplemental	2014 Request
Department of Agriculture	63.9	....	64.3	....	64.1
Department of Commerce*	83.4	....	299.9	....	2,277.0
Department of Defense	1,569.2	....	1,524.5	62.8	1,661.4
Department of Education	1.2	....	1.2	....	1.2
Department of Energy	213.9	....	240.4	....	248.9
Department of Health and Human Services	1,963.9	....	1,905.2	....	1,880.1
Department of Homeland Security	2,142.9	....	2,392.5	....	2,473.2
Department of Housing and Urban Development	2.0	....	2.0	....	1.0
Department of the Interior	4.4	....	4.4	....	4.7
Department of Justice	12.1	....	12.2	....	12.1
Department of Labor	18.1	....	18.1	....	18.3
Department of State	7.7	....	26.1	....	26.1
Department of Transportation	22.3	....	25.0	....	24.8
Department of the Treasury	34.9	....	34.8	....	34.9
Department of Veterans Affairs	69.1	....	59.1	....	62.7
Environmental Protection Agency	54.2	....	54.0	....	53.0
Executive Office of the President	5.2	....	2.1	....	2.3
General Services Administration	3.0	....	3.0	....	3.0
Office of Personnel Management	0.4	....	0.4	....	....
Social Security Administration	0.4	....	0.5	....	0.5
District of Columbia	15.0	....	25.0	....	15.0
Federal Communications Commission	2.6	....	1.6	....	1.6
Intelligence Community Management Account**	9.0	....	9.0	....	....
National Archives and Records Administration	1.3	....	1.3	....	1.3
Securities and Exchange Commission	5.0	....	5.0	....	5.0
Total, Respond To and Recover From Incidents	**6,305.0**	**.........**	**6,711.6**	**62.8**	**8,872.3**

* One-time funding increase in 2014 authorized by the Middle Class Tax Relief and Job Creation Act of 2012 to build a nationwide broadband network for first responders.

** Funding for the Intelligence Community Management Account was moved under DoD beginning in 2013.

ever. 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 ($2.5 billion, or 28 percent, of the 2014 total); DOC ($2.3 billion, or 26 percent of the 2014 total, which is new funding to build a nationwide broadband network for first responders); HHS ($1.9 billion, or 21 percent of the 2014 total); and DOD ($1.7 billion, or 19 percent of the 2014 total). Nineteen other agencies include emergency preparedness and response funding. The President's 2014 request would increase funding by $2.6 billion (41 percent) above the 2012 enacted 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[1]

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 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.[2] The survey's findings were based on the responses from 471 counties (15 percent) nationwide, out of 3,140 counties or equivalents.[3]

A 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.[4] 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.[5] 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.[6] 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 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

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

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

[3] The National Association of Counties conducted a survey through its various state associations (48), responses were received from 471 counties in 26 states.

[4] 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*. Figures cited in this report have not been independently verified by the Office of Management and Budget.

[5] 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.

[6] 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.

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.[7] About 15 percent of the companies surveyed had increased their security spending by 20 percent or more.[8] Large increases in spending were especially evident in critical industries, such as transportation, energy, financial services, media and telecommunications, information technology, and healthcare. However, about one-third of the surveyed companies reported that they had not increased their security spending after September 11th.[9] 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.

[7] 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 report references 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."

[8] The Conference Board survey cites the sample size for this statistic was 192 corporate security directors.

[9] The Conference Board survey cites the sample size for this statistic was 199 corporate security directors.

Additional Tables

The tables in the Federal expenditures section of this chapter present data based on the President's policy for the 2014 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 Internet at *www.budget.gov/budget/analytical_perspectives* and on the Budget CD ROM.

Table 23–5. DISCRETIONARY FEE-FUNDED HOMELAND SECURITY ACTIVITIES BY AGENCY

(Budget authority in millions of dollars)

Agency	2012 Actual	2012 Supplemental/ Emergency	2013 CR	2013 Supplemental	2014 Request
Department of Commerce	....	....	....	....	–257.0
Department of Energy	–13.4	....	–17.8	....	–17.8
Department of Homeland Security	–3,297.2	....	–3,543.0	....	–3,551.0
Department of State	–2,489.0	....	–2,589.6	....	–2,798.0
General Services Administration	–30.0	....	–10.0	....	–363.0
Social Security Administration	–211.6	....	–242.2	....	–261.9
Federal Communications Commission	–2.6	....	–1.6	....	–1.6
Securities and Exchange Commission	–8.0	....	–8.0	....	–8.0
Total, Discretionary Homeland Security Fee-Funded Activities	**–6,051.8**	**.........**	**–6,412.2**	**.........**	**–7,258.2**

Table 23–6. MANDATORY HOMELAND SECURITY FUNDING BY AGENCY

(Budget authority in millions of dollars)

Agency	2012 Actual	2012 Supplemental/ Emergency	2013 CR	2013 Supplemental	2014 Request
Department of Agriculture	199.0	....	208.0	....	211.6
Department of Commerce*	2.5	....	214.0	....	2,174.0
Department of Defense	266.5	....	273.6	....	266.2
Department of Energy	10.0	....	15.0	....	15.0
Department of Health and Human Services	0.3	....	0.3	....	0.3
Department of Homeland Security	2,603.8	....	2,636.8	....	2,725.3
Department of Labor	10.6	....	1.7	....	1.7
Total, Homeland Security Mandatory Programs	**3,092.7**	**.........**	**3,349.4**	**.........**	**5,394.1**

* Funding increase authorized to build a nationwide broadband network for first responders.

Table 23–7. BASELINE ESTIMATES—TOTAL HOMELAND SECURITY FUNDING BY AGENCY
(Budget authority in millions of dollars)

Agency	2013	Baseline				
		2014	2015	2016	2017	2018
Department of Agriculture	449	458	471	482	489	498
Department of Commerce	543	2,509	2,463	8,944	2,776	367
Department of Defense	17,253	17,566	17,895	18,232	18,570	18,918
Department of Education	31	32	32	33	33	34
Department of Energy	1,927	1,967	2,004	2,045	2,084	2,126
Department of Health and Human Services	4,079	4,157	4,242	4,324	4,413	4,499
Department of Homeland Security	35,461	36,505	37,534	38,573	39,638	40,721
Department of Housing and Urban Development	2	2	2	2	2	2
Department of the Interior	57	58	60	62	66	67
Department of Justice	4,054	4,182	4,304	4,435	4,566	4,705
Department of Labor	38	36	37	37	37	38
Department of State	2,796	2,852	2,911	2,969	3,032	3,093
Department of Transportation	236	244	254	261	271	282
Department of the Treasury	123	127	129	134	137	140
Department of Veterans Affairs	368	376	386	396	405	414
Corps of Engineers	15	15	16	16	16	16
Environmental Protection Agency	103	107	107	111	115	118
Executive Office of the President	9	9	9	10	10	10
General Services Administration	18	18	18	18	19	19
National Aeronautics and Space Administration	213	217	221	226	230	233
National Science Foundation	444	453	461	470	479	487
Office of Personnel Management	1	1	1	1	1	1
Social Security Administration	242	262	267	272	277	282
District of Columbia	25	25	26	26	27	27
Federal Communications Commission	2	2	2	2	2	2
Intelligence Community Management Account	9	9	9	10	10	10
National Archives and Records Administration	23	23	24	24	25	25
Nuclear Regulatory Commission	78	80	84	85	88	91
Securities and Exchange Commission	8	8	8	8	9	9
Smithsonian Institution	102	106	109	114	118	122
United States Holocaust Memorial Museum	11	11	11	12	12	12
Total, Homeland Security Budget Authority	**68,720**	**72,417**	**74,097**	**82,334**	**77,957**	**77,368**
Less Department of Defense	–17,253	–17,566	–17,895	–18,232	–18,570	–18,918
Non-Defense Homeland Security BA	**51,467**	**54,851**	**56,202**	**64,102**	**59,387**	**58,450**
Less Fee-Funded Homeland Security Programs	–6,443	–6,522	–6,645	–6,771	–6,900	–7,031
Less Mandatory Homeland Security Programs	–3,352	–5,393	–5,424	–11,953	–5,825	–3,450
Net Non-Defense, Discretionary Homeland Security BA	**41,672**	**42,936**	**44,133**	**45,378**	**46,662**	**47,969**
Obligations Limitations						
Department of Transportation Obligations Limitation	....	....	....	....	....	....

Table 23–8. HOMELAND SECURITY FUNDING BY BUDGET FUNCTION

(Budget authority in millions of dollars)

Budget Function	2012 Actual	2013 CR	2014 Request
National Defense	22,831	22,338	22,465
International Affairs	2,674	2,792	2,992
General Science Space and Technology	749	737	734
Energy	114	125	124
Natural Resources and the Environment	300	298	316
Agriculture	426	437	599
Commerce and Housing Credit	205	417	2,517
Transportation	11,233	11,400	10,825
Community and Regional Development	2,569	2,601	2,639
Education, Training, Employment and Social Services	167	175	177
Health	4,110	4,069	4,712
Medicare	24	26	25
Income Security	14	5	1
Social Security	212	242	262
Veterans Benefits and Services	381	368	376
Administration of Justice	21,143	21,167	22,091
General Government	1,429	1,539	1,906
Total, Homeland Security Budget Authority	**68,581**	**68,736**	**72,761**
Less National Defense, DoD	–17,778	–17,253	–17,357
Non-Defense Homeland Security BA	**50,803**	**51,483**	**55,404**
Less Fee-Funded Homeland Security Programs	–6,028	–6,384	–7,455
Less Mandatory Homeland Security Programs	–3,094	–3,352	–5,393
Net Non-Defense, Discretionary Homeland Security BA	**41,681**	**41,747**	**42,556**

Table 23–9. BASELINE ESTIMATES—HOMELAND SECURITY FUNDING BY BUDGET FUNCTION

(Budget authority in millions of dollars)

Budget Function	2013	Baseline 2014	2015	2016	2017	2018
National Defense	22,338	22,777	23,229	23,696	24,166	24,649
International Affairs	2,792	2,848	2,907	2,965	3,028	3,089
General Science Space and Technology	737	752	765	781	795	808
Energy	125	128	132	134	137	141
Natural Resources and the Environment	298	305	311	319	329	336
Agriculture	437	446	459	469	476	484
Commerce and Housing Credit	417	2,381	2,331	8,810	2,639	227
Transportation	11,384	11,694	12,031	12,378	12,740	13,106
Community and Regional Development	2,601	2,653	2,702	2,755	2,811	2,863
Education, Training, Employment and Social Services	175	180	184	191	195	201
Health	4,069	4,146	4,229	4,311	4,398	4,484
Medicare	26	27	29	30	32	33
Income Security	5	3	3	3	3	3
Social Security	242	262	267	272	277	282
Veterans Benefits and Services	368	376	386	396	405	414
Administration of Justice	21,167	21,875	22,538	23,200	23,871	24,563
General Government	1,539	1,564	1,594	1,624	1,655	1,685
Total, Homeland Security Budget Authority	**68,720**	**72,417**	**74,097**	**82,334**	**77,957**	**77,368**
Less National Defense, DoD	–17,253	–17,566	–17,895	–18,232	–18,570	–18,918
Non-Defense, Discretionary Homeland Security BA	**51,467**	**54,851**	**56,202**	**64,102**	**59,387**	**58,450**
Less Fee-Funded Homeland Security Programs	–6,443	–6,522	–6,645	–6,771	–6,900	–7,031
Less Mandatory Homeland Security Programs	–3,352	–5,393	–5,424	–11,953	–5,825	–3,450
Net Non-Defense, Discretionary Homeland Security BA	**41,672**	**42,936**	**44,133**	**45,378**	**46,662**	**47,969**
Obligations Limitations						
Department of Transportation Obligations Limitation	....	....	....	....	....	....

24. FEDERAL DRUG CONTROL FUNDING

In support of the 2013 National Drug Control Strategy (Strategy), the President requests $25.4 billion in Fiscal Year (FY) 2014 to reduce drug use and its consequences in the United States. The 2013 Strategy articulates the Administration's vision for a modern, balanced drug policy, one that is based on a sophisticated approach to a complicated problem, encompassing prevention, early intervention, treatment, recovery, criminal justice reform, effective law enforcement, and international cooperation. The budget will continue to support a balanced approach that brings all sectors of society together in a national effort to improve public health and public safety.

Consistent with the restructuring of the drug control budget in FY 2012, the FY 2014 request includes one new program. This new program is the Byrne Memorial Justice Assistance Grant program. This program provides critical assistance to state and local law enforcement in addressing community problems with narcotics and much needed support for their local efforts to reduce substance abuse.

Program evaluation and performance measurement are important tools for the Office of National Drug Control Policy (ONDCP) in its oversight of Federal agencies –enabling ONDCP to assess the extent to which the Strategy is meeting its goals and objectives, and the contributions of drug control agencies. A key performance tool for ONDCP is the Performance Reporting System which was designed to appraise the performance of the large and complex interagency Federal effort set forth in the Strategy. The first report using this data was published in April 2012, and was developed through an extensive interagency process that brought together subject matter experts, policy and program analysts, researchers, statisticians, and leadership from Federal drug control agencies to capture 25 measures for the seven objectives of the Strategy. The targets identified in the report were determined by interagency groups for each measure, based on baseline and trend data. The next report will be published in 2013 and will address progress to date.

Table 24–1. FEDERAL DRUG CONTROL FUNDING, 2012–2014 [1]
(Budget authority, in millions of dollars)

Department/Agency	2012 Enacted	2013 Continuing Resolution	2014 President's Budget
Department of Agriculture:			
U.S. Forest Service	15.2	15.2	13.2
Court Services and Offender Supervision Agency for D.C.:	56.3	57.5	60.6
Department of Defense: [2]			
Drug Interdiction and Counterdrug Activities	1,775.1	1,632.5	1,084.0
Defense Health Program	94.4	108.2	119.7
Total DOD	**1,869.4**	**1,740.7**	**1,203.6**
Department of Education:	63.7	58.9	137.1
Federal Judiciary:	1,118.1	1,125.4	1,153.2
Department of Health and Human Services:			
Administration for Children and Families	20.0	20.0	20.0
Centers for Medicare and Medicaid Services [3]	3,500.0	3,720.0	4,670.0
Health Resources and Services Administration	17.8	17.9	18.2
Indian Health Service	98.0	96.4	112.4
National Institute on Alcohol Abuse and Alcoholism	61.6	62.0	62.2
National Institute on Drug Abuse	1,051.4	1,058.6	1,071.6
Substance Abuse and Mental Health Services Administration [4]	2,479.3	2,447.0	2,415.8
Total HHS	**7,228.1**	**7,421.9**	**8,370.2**
Department of Homeland Security:			
Customs and Border Protection	2,280.3	2,280.3	2,344.6
Federal Law Enforcement Training Center	48.5	48.7	48.8
Immigration and Customs Enforcement	523.5	523.5	485.0
Office of Counternarcotics Enforcement	1.8	1.8	0.0
U.S. Coast Guard[5]	1,332.5	1,253.3	1,127.8
Total DHS	**4,186.6**	**4,107.6**	**4,006.2**

Table 24–1. FEDERAL DRUG CONTROL FUNDING, 2012–2014 [1]—Continued

(Budget authority, in millions of dollars)

Department/Agency	2012 Enacted	2013 Continuing Resolution	2014 President's Budget
Department of Housing and Urban Development:			
Continuum of Care	**446.0**	**446.0**	**570.0**
Department of the Interior:			
Bureau of Indian Affairs	10.0	9.5	9.5
Bureau of Land Management	5.1	5.1	5.1
National Park Service	3.3	3.3	3.3
Total DOI	**18.4**	**17.9**	**17.9**
Department of Justice:			
Asset Forfeiture Fund	230.3	232.8	244.5
Bureau of Prisons	3,396.9	3,377.7	3,517.7
Criminal Division	39.6	41.0	40.2
Drug Enforcement Administration	2,357.0	2,400.4	2,428.9
Interagency Crime and Drug Enforcement	527.5	530.7	523.0
Federal Prisoner Detention / [Office of Federal Detention Trustee]	580.1	580.1	656.3
Office of Justice Programs	243.4	237.5	380.9
National Drug Intelligence Center	20.0	20.1	0.0
U.S. Attorneys	78.8	75.0	76.4
U.S. Marshals Service	248.8	250.5	251.5
Total DOJ	**7,722.5**	**7,746.0**	**8,119.3**
Department of Labor:			
Employment and Training Administration	**6.6**	**6.6**	**6.6**
Office of National Drug Control Policy:			
Operations	24.5	24.7	22.6
High Intensity Drug Trafficking Area Program	238.5	240.0	193.4
Other Federal Drug Control Programs	105.6	106.2	95.4
Total ONDCP	**368.6**	**370.8**	**311.4**
Department of State: 6			
Bureau of International Narcotics and Law Enforcement Affairs	494.6	494.6	510.5
Economic Support and Development Assistance	173.7	173.7	134.6
Total DOS	**668.3**	**668.3**	**645.1**
Department of the Transportation:			
Federal Aviation Administration	28.7	27.6	28.1
National Highway Safety Administration	2.7	2.7	2.2
Total DOT	**31.4**	**30.3**	**30.3**
Small Business Administration:	0.0	0.0	0.0
Department of the Treasury:			
Internal Revenue Service	60.3	60.3	60.9
Department of Veterans Affairs:			
Veterans Health Administration [7]	637.8	663.0	687.4
Total Federal Drug Budget	**24,497.2**	**24,536.4**	**25,393.2**

[1] Detail may not add due to rounding.

[2] As the Overseas Contingency Operations (OCO) amounts have not yet been finalized, this amount includes FY 2014 base budget resources only.

[3] The estimates for the Centers for Medicare & Medicaid Services reflect Medicaid and Medicare benefit outlays for substance abuse treatment; they do not reflect budget authority. The estimates were developed by the CMS Office of the Actuary.

[4] Includes budget authority and funding through evaluation set-aside authorized by Section 241 of the Public Health Service (PHS) Act.

[5] 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.

[6] State Department amounts include funding appropriated or requested for overseas contingency operations.

[7] VA Medical Care receives advance appropriations; FY 2014 funding was provided in the Consolidated and Furthering Continuing Appropriations Act, 2013 (Public Law 113-6).

25. 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 program 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 that includes the Bay-Delta Conservation Plan, the Delta Science Program, and the soon-to-be-released Delta Plan. Federal activities are currently coordinated though 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 and management, and continues to develop strategies to balance and achieve the program's four objectives: a renewed Federal-state partnership, smarter water supply and use, habitat restoration, and drought and 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 made towards 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 Army Corps of Engineers; the Department of Commerce's National Oceanic and Atmospheric Administration; and the Environmental Protection Agency.

The 2014 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 narratives that further account for recent programmatic and funding changes are available online at *www.budget.gov/budget/analytical_perspectives* and on the Budget CD-ROM. 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 this website: *http://www.doi.gov/documents/CAWaterWorkPlan.pdf*.

Table 25–1. BAY-DELTA FEDERAL FUNDING BUDGET CROSSCUT

(In millions of dollars)

Agency	Enacted															Pres. Budget	
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 [1]	2010	2011	2012	2013	2014
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	175.2	110.8	153.7
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	98.1	44.5	53.8	86.1
Natural Resources Conservation Service	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	44.1	52.2
NOAA Fisheries (NMFS)	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	1.5	1.4	1.4	1.3
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	8.1	9.9	10.6
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	5.2	4.9	4.9	4.9
Environmental Protection Agency [2]	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	78.0	85.9	84.7	69.2
Totals:	**261.6**	**240.3**	**310.8**	**228.4**	**266.2**	**208.0**	**279.3**	**282.6**	**279.0**	**263.9**	**252.8**	**531.9**	**341.1**	**430.4**	**376.0**	**309.6**	**377.9**

[1] The FY 2009 total includes American Recovery and Reinvestment Act projects and activities.

[2] EPA's 2012-2014 figures include estimated projections of California's total State Revolving Fund (SRF) allocations. Prior year columns do not.

Note: The 2012-2014 columns reflect categories in the Bay-Delta Interim Federal Action Plan. In some cases it may include different projects.

TECHNICAL BUDGET ANALYSES

26. 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 if policy is not changed, either for the Government's overall fiscal health or for individual tax and spending programs.

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. Defining this baseline is challenging because funding for many programs in operation today expires within the 10-year budget window. Most significantly, funding for discretionary programs is provided one year at a time in annual appropriations acts. Mandatory programs are not subject to annual appropriations, but many operate under multi-year authorizations that expire within the budget window. The framework used to construct the baseline must address whether and how to project forward the funding for these programs beyond their scheduled expiration dates.

Since the early 1970s, when the first requirements for the calculation of a "current services" baseline were enacted, the baseline has been constructed using a variety of concepts and measures. 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).

The Administration believes adjustments to the BBEDCA baseline are needed to better represent the deficit outlook under current policy and to serve as a more appropriate benchmark for measuring policy changes. This section provides detailed estimates of an adjusted baseline that corrects for some of the shortcomings in the BBEDCA baseline. It also discusses alternative formulations for the baseline. Table 26–1 shows estimates of receipts, outlays, and deficits under the Administration's adjusted baseline for 2012 through 2023. 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 of the Budget. 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 longstanding 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 2013 through 2023, the taxes affected by this exception are taxes deposited in the Airport and Airway Trust Fund, which expire on September 30, 2015; taxes deposited in the Highway Trust Fund, the Leaking Underground Storage Tank Trust Fund, and the Sport Fish Restoration and Boating Trust Fund, which expire on September 30, 2016; 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 2013. 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 from the Tobacco Trust Fund 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, and even though the receipts used to finance these payments are assumed to be continued in the baseline as noted in the previous bullet.
- The following tax credits provided to individuals and families under the American Recovery and Reinvestment Act of 2009 (ARRA), which were extended through 2017 by the American Taxpayer Relief Act of 2012 (ATRA), are further extended through 2023 in the adjusted baseline: increased refundability of the child tax credit, expansions in the earned income tax credit (EITC) for larger families and married taxpayers filing a joint return, and the American opportunity tax credit (AOTC).
- Medicare payment updates 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 over 10 years. Under the SGR formula, physician payment rates would be reduced by nearly 25 percent in 2014. 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.
- Under the Postal Accountability and Enhancement Act of 2006 (P.L. 109-435), the United States Postal Service (USPS) is required to make specified annual payments through 2016 to the Postal Service Retiree Health Benefits (RHB) Fund in the Office of Personnel Management. These payments are designed to prefund unfunded liabilities for health costs for future Postal retirees. Starting in 2017, the USPS's remaining unfunded liability is amortized over a 40-year period. Because of its current financial challenges, the USPS defaulted on two statutory RHB payments due in 2012, totaling $11.1 billion. In its notification letter to the White House and the Congress, the USPS also indicated that, absent changes to its financial forecast (largely dependent on legislative action), it would likely default on its $5.6 billion payment due September 30, 2013. While the BBEDCA baseline shows USPS making this $5.6 billion payment in 2013 as required, the adjusted baseline does not reflect the payment being made, given the likelihood of additional default. While defaulted payments remain as outstanding statutory liabilities, any default is factored into the 40-year amortization schedule mentioned above.

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. Under the BBEDCA, the baseline estimates for discretionary programs in the current year are based on enacted appropriations.[1] For the budget year and beyond, the spending authority enacted in the current year is adjusted for inflation, using specified inflation rates. [2] 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.)

[1] When current year appropriations have not been enacted, as was the case when this Budget was prepared, 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.

[2] The Administration's baseline uses the same inflation 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.

Table 26–1. CATEGORY TOTALS FOR THE ADJUSTED BASELINE
(In billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Receipts	2,450	2,712	3,000	3,277	3,476	3,660	3,865	4,097	4,325	4,559	4,785	5,045
Outlays:												
Discretionary:												
Defense	671	630	574	608	614	624	634	645	663	679	725	758
Non-defense	614	596	592	576	576	580	585	596	609	623	656	679
Subtotal, discretionary	1,285	1,226	1,166	1,184	1,190	1,204	1,219	1,241	1,272	1,302	1,381	1,438
Mandatory:												
Social Security	768	812	860	911	965	1,022	1,081	1,144	1,210	1,277	1,350	1,427
Medicare	466	498	519	546	597	614	639	702	756	813	902	941
Medicaid and CHIP	260	276	314	339	367	385	399	422	446	473	501	535
Other mandatory	539	595	543	572	598	612	629	670	692	729	789	804
Subtotal, mandatory	2,032	2,182	2,235	2,368	2,527	2,633	2,749	2,938	3,105	3,292	3,542	3,706
Disaster costs [1]	0	1	5	7	8	9	9	10	10	10	10	10
Net interest	220	222	222	252	298	370	459	544	616	677	741	804
Total, outlays	3,537	3,632	3,627	3,812	4,023	4,216	4,437	4,733	5,003	5,282	5,674	5,959
Unified deficit(+)/surplus(–)	1,087	919	627	536	547	556	571	637	678	723	889	913
On-budget	1,149	953	646	543	550	548	556	612	632	672	819	817
Off-budget	–62	–33	–19	–7	–3	8	16	25	46	52	70	96
Memorandum:												
BEA baseline deficit	1,087	912	687	655	698	728	764	815	869	928	1,041	1,041
Adjustments to reflect current tax policies	0	0	0	0	0	0	2	30	31	32	33	33
Adjustments to reflect current spending policies and disasters	0	7	19	27	36	36	34	38	40	42	45	45
Set discretionary budget authority at cap levels	0	*	–20	–34	–43	–48	–53	–57	–62	–68	–71	–74
Reflect Joint Committee enforcement	0	0	–50	–86	–101	–105	–107	–108	–108	–109	–48	–15
Remove non-recurring emergency costs	0	0	–9	–27	–40	–46	–50	–52	–55	–56	–58	–59
Related debt service	0	*	–*	–*	–2	–8	–18	–29	–37	–46	–53	–58
Adjusted baseline deficit	1,087	919	627	536	547	556	571	637	678	723	889	913

* $500 million or less.

[1] 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.

- The BBEDCA caps also allow for adjustments for disaster relief spending and for emergency requirements. The adjusted baseline does not reflect funding under the disaster relief or emergency cap adjustments beyond what has already been enacted for 2013. (See discussion of additional disaster funding below.) While the BBEDCA baseline projects forward the enacted supplemental appropriations for Superstorm Sandy, increased by the BBEDCA inflation rates, the adjusted baseline removes this extrapolation.[3]

Reclassification of transportation spending. — To provide an appropriate baseline for assessing the budgetary impact of the Administration's proposal for a five-year, $40 billion rail reauthorization, the adjusted baseline reclassifies Federal subsidies for the National Railroad Passenger Corporation (Amtrak) that will be included in the more comprehensive rail reauthorization from discretionary to mandatory. The Administration proposes to fund this proposal with mandatory Contract Authority (with associated mandatory outlays) out of a new Rail Account of an expanded Transportation Trust Fund (formerly Highway Trust Fund). 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 rail 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 2013 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 funding happened to have been provided in the current year. Rather, baselines should replace the projection of enacted current-year funding—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

[3] The BBEDCA caps also allow for adjustments for program integrity activities and Overseas Contingency Operations (OCO). The adjusted baseline reflects enacted funding for these cap adjustments inflated at the specified inflation rates in the BBEDCA baseline.

not result in enactment of legislation that reduces the deficit by at least $1.2 trillion, the BCA stipulates that, absent intervening legislation, enforcement procedures will be invoked on an annual basis to reduce the levels of discretionary and mandatory spending to accomplish deficit reduction. The reductions pursuant to the sequestration orders for 2013 and 2014 are already reflected in the BBEDCA baseline for the affected accounts. The adjusted baseline reflects the future enforcement procedures for discretionary cap reductions in 2014 onward and mandatory sequestrations for 2015 and beyond 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 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.

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 the 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 program that pays Medicare Part B premiums for certain low-income seniors and is scheduled to expire at the end of December, 2013, would be $11.9 billion over 2014-2023.
- *Do not extend any authorizing laws that expire.* If all mandatory programs were assumed to expire as scheduled, deficits for 2014 through 2023 would be $1,443 billion lower than in the Administration's baseline, including debt service. (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 $484 billion higher over the period 2014 through 2023, including debt service. If the tax relief provided to individuals and families that was extended only through taxable year 2017 under ATRA was assumed to expire, the deficit would be $177 billion lower over the 10 years.
- *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

Table 26–2. ALTERNATIVE BASELINE ASSUMPTIONS
(In billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Totals 2014–2018	Totals 2014–2023
Adjusted baseline deficit	919	627	536	547	556	571	637	678	723	889	913	2,837	6,678
Alternative assumptions ("+" represents deficit increase): [1]													
Do not extend any authorizing laws:													
Mandatory spending	–20	–99	–108	–114	–128	–141	–152	–161	–171	–180	–189	–591	–1,443
Trust fund excise taxes	....	....	1	14	56	59	63	67	71	75	78	130	484
ATRA tax credit extensions	....	....	....	....	....	–2	–31	–33	–35	–37	–40	–2	–177
Medicare physician payment relief	0	–15	–21	–23	–24	–25	–30	–33	–37	–41	–43	–108	–292
Account for inflation and population growth	–*	77	127	159	187	217	249	281	315	300	309	766	2,221
Do not extend any appropriations	....	–571	–960	–1,104	–1,211	–1,328	–1,446	–1,551	–1,650	–1,801	–1,933	–5,173	–13,552

* $500 million or less.
[1] Includes costs or savings from debt service.

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 $77 billion in 2014 and $2,221 billion over the period 2014-2023 relative to the baseline, including costs from debt service.

- *Do not extend any appropriations.* Discretionary spending continues in the BBEDCA baseline 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 instead the baseline were constructed using 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; otherwise, no new budgetary resources would be provided. If this rule were followed, outlays in 2014 would be reduced by $571 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 26–2 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 receive automatic cost-of-living adjustments (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 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 the Budget and the Administration's baseline are summarized in Table 26–3. The economic outlook underlying these assumptions is discussed in greater detail in Chapter 2 of this volume.

Table 26–3. SUMMARY OF ECONOMIC ASSUMPTIONS
(Fiscal years; dollar amounts in billions)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gross Domestic Product (GDP):												
Levels, dollar amounts in billions:												
Current dollars	15,704.8	16,383.8	17,234.8	18,180.6	19,192.1	20,247.3	21,275.2	22,247.1	23,219.4	24,216.4	25,252.5	26,330.8
Real, chained (2005) dollars	13,600.0	13,907.1	14,357.5	14,863.7	15,398.8	15,943.4	16,441.4	16,872.6	17,282.6	17,691.6	18,103.8	18,525.7
Percent change, year over year:												
Current dollars	4.2	4.3	5.2	5.5	5.6	5.5	5.1	4.6	4.4	4.3	4.3	4.3
Real, chained (2005) dollars	2.3	2.3	3.2	3.5	3.6	3.5	3.1	2.6	2.4	2.4	2.3	2.3
Inflation measures (percent change, year over year):												
GDP chained price index	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Consumer price index (all urban)	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Unemployment rate, civilian (percent)	8.1	7.7	7.2	6.7	6.2	5.7	5.5	5.4	5.4	5.4	5.4	5.4
Interest rates (percent):												
91-day Treasury bills	0.1	0.1	0.2	0.4	1.3	2.3	3.2	3.6	3.7	3.7	3.7	3.7
10-year Treasury notes	1.8	2.0	2.6	3.1	3.7	4.1	4.4	4.6	4.8	5.0	5.0	5.0
MEMORANDUM:												
Related program assumptions:												
Automatic benefit increases (percent):												
Social security and veterans pensions	3.6	1.7	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Federal employee retirement	3.6	1.7	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Food stamps [1]	0.0	0.0	–5.5	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Insured unemployment rate	2.7	2.6	2.5	2.4	2.3	2.2	2.1	2.1	2.1	2.1	2.1	2.1

[1] 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 proceeding June.

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 26–3, and assumptions about baseline caseload projections for the major benefit programs are shown in Table 26–4. 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.[4]

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 relief provided to individuals and families only through taxable year 2017 is 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 26–5 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 2013 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 26–5 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.

[4] Although these adjustments are applied at the account level, they have no effect in the aggregate because baseline levels are constrained to the BBEDCA caps.

Current Services Receipts, Outlays, and Budget Authority

Receipts.—Table 26–6 shows the Administration's baseline receipts by major source. Total receipts are projected to increase by $288 billion from 2013 to 2014, by $865 billion from 2014 to 2018, and by $1,180 billion from 2018 to 2023. 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 $124 billion from 2013 to 2014, by $542 billion from 2014 to 2018, and by $660 billion from 2018 to 2023 under baseline assumptions. This average annual rate of growth of 7.3 percent between 2014 and 2023 is primarily the effect of increased collections resulting from rising aggregate personal incomes.

Corporation income taxes are estimated to increase by $47 billion from 2013 to 2014, by $111 billion from 2014 to 2018, and by $76 billion from 2018 to 2023 under baseline assumptions. This average annual rate of growth of 5.1 percent between 2014 and 2023 is primarily attributable to growth in corporate profits.

Social insurance and retirement receipts are estimated to increase by $81 billion from 2013 to 2014, by an additional $235 billion between 2014 and 2018, and by an additional $325 billion between 2018 and 2023. These baseline estimates reflect expiration of the two-percentage point payroll tax holiday on December 31, 2012, increases in total wages and salaries paid, and scheduled increases in the Social Security taxable earnings base from $113,700 in 2013 to $134,400 in 2018 and to $165,000 in 2023, as shown in Table 26-7.

Other baseline receipts (excise taxes, estate and gift taxes, customs duties and miscellaneous receipts) are projected to increase by $36 billion between 2013 and 2014, and to rise to $371 billion by 2023.

Outlays.—Outlays in the Administration's baseline are estimated to decrease from $3,632 billion in 2013 to $3,627 billion in 2014, a 0.1 percent decrease. Between 2013 and 2018, the baseline outlays are projected to increase at an average annual rate of 4.1 percent, and between 2013 and 2023 are projected to increase at an average annual rate of 5.1 percent. Table 26–8 shows the growth from 2013 to 2014 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 in previous sections of this chapter, and reduced for estimated Joint Committee enforcement. Outlays for discretionary programs decrease by 4.9 percent from $1,226 billion in 2013 to $1,166 billion in 2014, largely due to the effects of Joint Committee enforcement in 2014, which are larger than the reductions for 2013, and reductions in OCO funding. Discretionary outlays decrease at an average annual rate of 0.1 percent from 2013 to 2018 and increase at an average annual rate of 1.6 percent from 2013 to 2023.

Entitlement and other mandatory programs are estimated to increase by 2.4 percent from $2,182 billion in 2013 to $2,235 billion in 2014. Several programs show notable outlay growth between 2013 and 2014: outlays for Medicaid, Medicare, and other health care programs increase by 11.5 percent; outlays for veterans programs increase by 6.2 percent; Social Security outlays increase by 5.8 percent; and Federal employee retirement and disability outlays increase by 4.2 percent. These increases are offset by reduced spending on unemployment compensation (29.4 percent), farm programs (19.1 percent), other income security programs (3.5 percent), and other mandatory programs (104.2 percent). The outlay reduction from 2013 to 2014 for other mandatory programs is largely due to projected increases in the dividends received by Treasury under Preferred Stock Purchase Agreements with Fannie Mae and Freddie Mac; a $5.7 billion projected refund of prepaid FDIC Deposit Insurance Fund assessments in 2013 followed by the revival of cash assessments following several years of prepaid Fund premiums in 2014; and elevated spending in 2013 for the National Flood Insurance Program to pay claims related to Superstorm Sandy.

Mandatory outlays increase each year after 2013, reaching $3,706 billion in 2023, which is due mostly to increased spending on Medicaid, Medicare, other health care programs, veterans programs and Social Security. 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 at an average annual rate of 13.7 percent from $222 billion in 2013 to $804 billion in 2023 due to increases in the amount of debt outstanding and to the average interest rate on the debt.

Tables 26–9 and 26–10 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 26–13 online at *www.whitehouse.gov/omb/budget/Analytical_Perspectives* and on the Budget CD-ROM.

Budget authority.—Tables 26–11 and 26–12 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 26–13 online at *www.whitehouse.gov/omb/budget/Analytical_Perspectives* and on the Budget CD-ROM.

Table 26–4. BASELINE BENEFICIARY PROJECTIONS FOR MAJOR BENEFIT PROGRAMS

(Annual average, in thousands)

	Actual 2012	Estimate 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Farmers receiving Federal payments	1,329	1,322	1,315	1,308	1,301	1,294	1,288	1,282	1,276	1,270	1,264	1,258
Federal direct student loans	11,270	11,089	11,420	11,773	12,139	12,517	12,908	13,314	13,735	14,171	14,622	15,090
Federal Pell Grants	8,965	9,171	9,373	9,515	9,660	9,771	9,874	10,044	10,153	10,276	10,390	10,515
Medicaid/Children's Health Insurance Program	63,155	63,276	71,658	76,997	79,939	79,963	78,868	79,167	80,362	80,901	81,448	82,005
Medicare-eligible military retiree health benefits	2,183	2,230	2,266	2,293	2,317	2,344	2,367	2,390	2,413	2,435	2,457	2,480
Medicare:												
Hospital insurance	49,856	51,490	53,109	54,742	56,361	57,998	59,665	61,370	63,122	64,908	66,729	68,576
Supplementary medical insurance:												
Part B	46,011	47,540	48,990	50,424	51,848	53,283	54,748	56,249	57,844	59,448	61,075	62,737
Part D	36,962	37,996	39,032	40,138	41,187	42,232	43,321	44,440	45,841	47,153	48,427	49,734
Prescription Drug Plans and Medicare Advantage:												
Prescription Drug Plans	31,230	34,541	36,736	38,477	40,203	41,403	42,468	43,563	44,939	46,226	47,474	48,755
Retiree Drug Subsidy	5,732	3,455	2,296	1,661	984	830	853	877	902	928	953	980
Managed Care Enrollment [1]	13,202	14,546	14,868	14,195	13,447	12,644	12,477	12,820	13,308	13,894	14,541	15,179
Railroad retirement	566	565	562	559	556	551	547	542	536	529	521	512
Federal civil service retirement	2,544	2,564	2,604	2,619	2,636	2,654	2,672	2,692	2,712	2,733	2,753	2,774
Military retirement	2,237	2,253	2,264	2,273	2,282	2,291	2,300	2,309	2,318	2,329	2,340	2,350
Unemployment insurance	8,893	8,970	9,172	9,095	8,940	8,740	8,561	8,475	8,464	8,481	8,503	8,525
Supplemental Nutrition Assistance Program (formerly Food Stamps)	46,609	47,105	44,734	42,629	40,656	38,755	36,979	35,373	34,046	33,173	32,616	32,274
Child nutrition	35,034	35,401	35,775	36,097	36,424	36,756	37,093	37,434	37,781	38,132	38,489	38,852
Foster care, Adoption Assistance and Guardianship Assistance	598	609	622	638	653	670	690	710	730	753	773	797
Supplemental security income (SSI):												
Aged	1,094	1,092	1,103	1,115	1,129	1,145	1,163	1,183	1,207	1,232	1,258	1,286
Blind/disabled	6,846	7,011	7,119	7,219	7,282	7,307	7,322	7,338	7,368	7,386	7,409	7,440
Total, SSI	7,940	8,103	8,222	8,334	8,411	8,452	8,485	8,521	8,575	8,618	8,667	8,726
Child care and development fund [2]	2,271	2,230	2,258	2,240	2,160	2,056	1,957	2,021	1,958	1,897	1,838	1,773
Social security (OASDI):												
Old age and survivor insurance	45,066	46,371	47,782	49,263	50,825	52,439	54,084	55,760	57,468	59,013	60,601	62,198
Disability insurance	10,700	10,946	11,125	11,280	11,415	11,526	11,607	11,670	11,726	11,840	11,969	12,087
Total, OASDI	55,766	57,318	58,907	60,543	62,240	63,965	65,691	67,430	69,194	70,853	72,571	74,285
Veterans compensation:												
Veterans	3,440	3,648	3,846	4,016	4,174	4,322	4,456	4,579	4,698	4,812	4,922	5,027
Survivors (non-veterans)	348	355	365	375	387	399	412	425	439	452	466	480
Total, Veterans compensation	3,788	4,003	4,211	4,391	4,561	4,721	4,868	5,004	5,137	5,264	5,388	5,507
Veterans pensions:												
Veterans	314	314	315	315	316	316	316	317	317	317	318	318
Survivors (non-veterans)	204	202	202	202	202	203	203	203	203	203	203	203
Total, Veterans pensions	518	516	517	517	518	519	519	520	520	520	521	521

[1] Enrollment figures include only beneficiaries who receive both Part A and Part B services through managed care.

[2] 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 26–5. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE

(Outlays in millions of dollars)

	Estimate										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
EXPIRING AUTHORIZATIONS											
Programs Extended in the Adjusted Baseline											
Spending:											
Agriculture:											
Natural Resources Conservation Service (NRCS):											
Environmental Quality Incentives Program	....	....	1,625	1,684	1,723	1,745	1,750	1,750	1,750	1,750	1,750
Wildlife Habitat Incentives Program	....	....	69	74	78	80	82	84	85	85	85
Farm and Ranch Land Protection Program	....	....	187	193	199	200	200	200	200	200	200
Conservation Stewardship Program	....	....	1,177	1,585	1,830	2,110	2,377	2,643	2,429	2,437	2,454
Chesapeake Bay Watershed Initiative	....	18	11	3	....	....	....	....	....	....	....
Conservation Reserve Program	....	32	28	25	21	18	16	11	7	3	3
Farm Service Agency (FSA) Programs:											
Agricultural Commodity Marketing Loans	....	46	19	22	29	4	18	5	12	4	3
Conservation Reserve Program	....	11	59	201	315	423	556	623	709	920	1,080
Dairy Product Price Support Program	....	31	29	27	24	22	20	17	16	14	12
Agricultural Commodity Counter-Cyclical Program	....	....	....	40	32	25	20	15	12	7	....
Average Crop Revenue Election (ACRE) Program	....	....	....	1,818	184	11	14	11	13	10	12
Direct Crop Payments	....	....	4,945	4,945	4,944	4,989	4,978	4,975	4,971	4,967	4,991
Market Access Program -- FAS	....	32	178	200	200	200	200	200	200	200	200
Forest Service (FS):											
Federal Lands Recreation Enhancement Fund	....	....	....	....	....	....	....	....	....	....	....
Child Nutrition Programs:											
State Administrative Expenses	....	....	....	273	279	284	290	297	305	316	326
Summer Food Service Program	....	....	....	514	542	570	600	632	665	700	738
NSLP Commodity Support (Bonus - Section 6(e)(1)(B) of NSLA)	....	....	....	....	....	....	....	....	100	100	100
Supplemental Nutrition Assistance Program (SNAP) (formerly Food Stamps)	....	74,058	72,300	71,262	70,270	69,364	68,594	68,172	68,511	67,640	67,141
Education:											
Rehabilitation Services and Disability Research	....	3,302	3,375	3,449	3,525	3,602	3,682	3,763	3,845	3,930	4,016
Health and Human Services:											
Centers for Medicare & Medicaid Services:											
Children's Health Insurance Program	....	....	....	....	9,100	6,400	5,900	5,800	5,700	5,700	5,700
Administration for Children and Families:											
Child Care Entitlements to States	2,908	2,915	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917
Promoting Safe and Stable Families	....	....	....	....	93	270	317	338	345	345	345
TANF	16,835	16,981	17,182	16,817	16,722	16,722	16,722	16,722	16,722	16,722	16,722
Contingency Fund	....	....	612	612	612	612	612	612	612	612	612
Homeland Security:											
National Flood Insurance Fund	....	....	....	....	....	6,266	6,396	6,537	6,844	6,996	7,153
Interior:											
Federal Land Recreation and Enhancement Act	....	....	–17	1	1	0	–1	–1	0	–2	–1
Sport Fish Restoration and Boating Trust Fund [1]	460	427	443	454	473	497	522	547	574	600	627
Labor:											
Trade Adjustment Assistance for Workers	....	....	32	241	410	484	528	568	607	643	675
Veterans Affairs:											
Veterans Compensation Cost of Living Adjustment	....	1,033	2,385	3,870	5,469	7,183	9,006	10,942	12,996	15,169	17,448
Revenues:											
Airport and Airway Trust Fund Taxes	....	....	....	12,755	13,293	13,817	14,272	14,703	15,157	15,615	16,103
Highway Trust Fund Taxes	....	....	....	....	40,049	40,290	40,468	40,582	40,965	41,349	41,447
Leaking Underground Storage Tank (LUST) Trust Fund Taxes	....	....	....	....	183	183	181	179	178	179	177

Table 26–5. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Oil Spill Liability Trust Fund Taxes	....	....	....	....	....	404	533	529	523	521	536
Sport Fish Restoration and Boating Safety Trust Fund Taxes [3]	....	....	....	....	634	663	694	725	754	785	816
Tobacco Assessment	....	....	960	960	960	960	960	960	960	960	960
Fee on Insured and Self Insured Plans	....	....	....	....	....	....	....	538	572	608	648
Programs and Provisions Not Extended in the Adjusted Baseline											
Spending:											
Agriculture:											
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	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:											
Biomass Crop Assistance Program (BCAP)	....	20	20	20	20	20	20	20	20	20	20
Voluntary Public Access	....	10	10	10	10	10	10	10	10	10	10
Disaster Relief Fund	....	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Natural Resources Conservation Service (NRCS):											
Healthy Forests Reserve Program	....	11	12	13	13	13	13	13	13	13	13
Grasslands Reserve Program	....	67	67	67	67	67	67	67	67	67	67
Wetlands Reserve Program	....	386	218	123	77	68	84	65	65	65	45
National Institute of Food and Agriculture (NIFA):											
Beginning Farmers and Ranchers Development Program	....	2	10	19	19	19	19	19	19	19	19
Organic Agriculture Research and Extension Iniitative	....	1	8	13	20	20	20	20	20	20	20
Specialty Crop Research Initiative	....	3	20	33	50	50	50	50	50	50	50
Animal and Plant Health Inspection Service:											
National Clean Plant Network	....	2	5	5	5	5	5	5	5	5	5
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
Rural Business-Cooperative Service:											
Rural Energy for America Program	....	60	65	68	70	70	70	70	70	70	70
Bioenergy Program for Advanced Biofuels	....	105	105	105	105	105	105	105	105	105	105
Value Added Agricultural Market Development Program	....	10	13	14	14	15	15	15	15	15	15
Repowering Assistance Program	....	35	35	35	35	35	35	35	35	35	35
Biorefinery Assistance Program	....	164	245	245	245	245	245	245	245	245	245
Rural Microentrepreneur Assistance Program	....	1	2	2	3	3	3	3	3	3	3
Trade Assistance Programs:											
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	....	....	6	8	10	10	10	10	10	10	10
Forest Service (FS):											
Forest County Safety Net Payments (Departments of Agriculture and the Interior)	....	279	262	246	231	217	203	190	178	166	155
Federal Land and Facility Enhancement Fund	....	....	....	....	23	19	20	20	20	21	21
Administration of Rights-of-Way and Other Land Uses Fund	8	9	9	9	9	9	9	10	10	10	10
Sect. 420 Sale of botanical products pilot program	....	....	2	2	2	2	2	2	2	2	2
Stewardship Contracting	....	10	10	10	10	10	10	10	10	10	10
Health and Human Services:											
TANF Supplemental Grants	....	257	319	319	319	319	319	319	319	319	319
Medicaid:											
Transitional Medical Assistance [4]	....	270	–45	–45	45	100	135	220	260	280	300
Medicare Low-Income Premium Assistance (Qualified Individuals) [4]	....	405	785	875	970	1,075	1,185	1,315	1,450	1,600	1,755

Table 26–5. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Interior:											
Oil and Gas Permit Processing Improvement Fund	....	....	....	18	17	17	16	16	15	14	14
Payments in Lieu of Taxes	....	411	419	426	434	442	449	458	466	474	482
Labor:											
Alternative Trade Adjustment Assistance	....	....	4	14	25	28	29	30	31	32	33
Social Security:											
SSI Extension for Elderly and Disabled Refugees Act (SSI)	....	46	53	....	....	....	....	....	....	....	....
OTHER IMPORTANT PROGRAM ASSUMPTIONS											
Health and Human Services:											
Children's Health Insurance Program (Title XXI):											
State allotments	9,300	9,600	10,400	14,800	12,100	7,000	6,000	5,800	5,700	5,700	5,700
Contingency fund	125	100	100	....	....	....	....	....	....	....	....
Performance bonus	330	340	....	....	....	....	....	....	....	....	....
Child health quality activities	47	53	....	....	....	....	....	....	....	....	....
Medicaid:											
Financial management reviews	–159	–182	–198	–213	–226	–239	–254	–270	–289	–307	–326
Vaccines for Children, Total program costs	3,607	4,293	4,465	4,608	4,689	4,912	5,137	5,375	5,623	5,883	6,154
Institutional long-term care	34,861	35,901	37,119	38,588	40,226	42,042	43,976	46,060	48,290	50,676	53,244
Home and community based institutional alternatives	31,759	34,373	36,738	38,452	41,099	44,310	47,487	51,018	54,842	58,888	63,183
Pharmaceuticals (FFS, net of rebates)	9,359	10,709	11,878	12,933	13,623	14,246	14,928	15,517	16,256	17,052	17,895
Managed care (Including Medicaid MCOs, PHPs, and PCCM)	66,936	83,864	98,142	110,096	119,393	129,280	139,506	148,938	159,950	171,814	184,261
Medicare:											
Contracting Reform [5]	–660	–730	–780	–840	–910	–990	–1,080	–1,180	–1,290	–1,380	–1,480
DME Competitive Bidding [5]	–470	–1,070	–1,340	–1,990	–2,450	–2,630	–2,820	–3,020	–3,250	–3,490	–3,740
LTCH payments policy for referrals from acute hospitals [5]	....	–230	–270	–290	–300	–310	–330	–350	–370	–390	–410
Medicare Administrative Savings	....	–2,000	–2,000	–2,000	–2,000	–2,000	–2,000	–2,000	–2,000	–2,000	–2,000
State Grants and Demonstrations:											
Ticket to Work Health Grant Programs:											
Infrastructure Grant Program	22	....	....	....	....	....	....	....	....	....	....
Demonstration to maintain independence and employment	*	*	....	....	....	....	....	....	....	....	....
Partnerships for Long-Term Care	3	....	....	....	....	....	....	....	....	....	....
Alternate Non-Emergency Care	1	....	....	....	....	....	....	....	....	....	....
Psychiatric Residential Treatment Demonstration	50	50	6	....	....	....	....	....	....	....	....
Money Follows the Person Program:											
Money Follows the Person (MFP) Demonstration	525	531	531	520	340	340	340	174	....	....	....
Money Follows the Person (MFP) Evaluation and Support	2	2	2	2	1	....	....	....	....	....	....
Medicaid Transformation Grants	5	....	....	....	....	....	....	....	....	....	....
Medicaid Integrity Program	96	86	88	85	87	89	91	93	94	92	92
Grants to Improve Outreach and Enrollment	18	20	26	12	1	....	....	....	....	....	....
Application of Prospective Payment system	1	....	....	....	....	....	....	....	....	....	....
Medicaid Emergency Psychiatric Demonstration	13	17	20	13	8	3	1	....	....	....	....
Incentives for Prevention of Chronic Diseases in Medicaid	35	27	17	11	3	....	....	....	....	....	....
Emergency Health Services for Undocumented Aliens	16	16	2	....	....	....	....	....	....	....	....
Katrina/Rita Support	*	....	....	....	....	....	....	....	....	....	....
Katrina Relief	*	....	....	....	....	....	....	....	....	....	....
Approved and Implemented Demonstrations and Pilot Programs:											
Medicare, HI:											
Rural Community Hospital:											
Baseline estimate	167	177	188	191	....	....	....	....	....	....	....
Demonstration estimate	196	234	248	253	....	....	....	....	....	....	....

Table 26–5. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued
(Outlays in millions of dollars)

	Estimate										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Medicare, SMI:											
Coordinated Care Disease Management Demonstration:											
Baseline estimate	14	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	14	....	....	....	....	....	....	....	....	....	....
Frontier Extended Stay Clinic Demonstration:											
Baseline estimate	1	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	1	....	....	....	....	....	....	....	....	....	....
Part D Retroactive & Immediate Coverage for New Dual Eligible Individuals: [6]											
Baseline estimate	403	458	129	....	....	....	....	....	....	....	....
Demonstration estimate	403	458	128	....	....	....	....	....	....	....	....
Multi-Payer Advanced Primary Care Demo:											
Baseline estimate	116	135	....	....	....	....	....	....	....	....	....
Demonstration estimate	97	108	....	....	....	....	....	....	....	....	....
Assess Appropriate Use of Imaging Services (MIPPA sec. 135):											
Baseline estimate	5	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	5	....	....	....	....	....	....	....	....	....	....
Power Mobility Device Demonstration:											
Baseline estimate	262	262	262	....	....	....	....	....	....	....	....
Demonstration estimate	242	232	242	....	....	....	....	....	....	....	....
Medicare: HI and SMI:											
Acute Care Episode Bundling Demonstration:											
Baseline estimate	76	8	....	....	....	....	....	....	....	....	....
Demonstration estimate	73	8	....	....	....	....	....	....	....	....	....
ESRD Disease Management Demonstration:											
Baseline estimate	3	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	3	....	....	....	....	....	....	....	....	....	....
Home Health Third-Party Liability Demonstration:											
Baseline estimate	220	28	....	....	....	....	....	....	....	....	....
Demonstration estimate	220	28	....	....	....	....	....	....	....	....	....
Physician Group Practice Demonstration:											
Baseline estimate	331	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	356	....	....	....	....	....	....	....	....	....	....
PACE for Profit:											
Baseline estimate	31	43	....	....	....	....	....	....	....	....	....
Demonstration estimate	31	43	....	....	....	....	....	....	....	....	....
Medicare Health Care Quality Demonstration Programs:											
Baseline estimate	4,913	3,917	....	....	....	....	....	....	....	....	....
Demonstration estimate	4,753	3,810	153	....	....	....	....	....	....	....	....
Nursing Home Value Based Purchasing Demonstration:											
Baseline estimate	....	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	17	....	....	....	....	....	....	....	....	....	....
Medicare Advantage Quality Bonus Payment Demonstration:											
Baseline estimate	....	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	2,525	1,900	....	....	....	....	....	....	....	....	....
A/B Rebilling Demonstration:											
Baseline estimate	3,464	3,764	....	....	....	....	....	....	....	....	....
Demonstration estimate	3,464	3,764	....	....	....	....	....	....	....	....	....
RAC Prepay Demonstration:											
Baseline estimate	1,816	1,816	1,816	....	....	....	....	....	....	....	....
Demonstration estimate	1,586	1,496	1,476	....	....	....	....	....	....	....	....
Medicare Independence at Home Demonstration:											
Baseline estimate	310	322	221	....	....	....	....	....	....	....	....
Demonstration estimate	297	309	212	....	....	....	....	....	....	....	....

Table 26–5. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Center for Medicare and Medicaid Innovation (CMMI) - Medicare:											
Pioneer Accountable Care Organizations:											
Baseline estimate	6,620	6,950	7,300	7,660	8,100	....	....	....	....	....	....
Demonstration estimate	6,470	6,790	7,200	7,440	8,220	....	....	....	....	....	....
Advance Payment ACOs: [7]											
Baseline estimate	7,000	7,350	7,718	8,103	....	....	....	....	....	....	....
Demonstration estimate	6,982	7,387	7,674	8,117	....	....	....	....	....	....	....
FQHC Demonstration:											
Baseline estimates	TBD	TBD	....	....	....	....	....	....	....	....	....
Demonstration estimates	TBD	TBD	....	....	....	....	....	....	....	....	....
Bundled Payments for Care Improvement:											
Baseline estimate	TBD	TBD	TBD	TBD	TBD	....	....	....	....	....	....
Demonstration estimate	TBD	TBD	TBD	TBD	TBD	....	....	....	....	....	....
Comprehensive ESRD Care (CEC):											
Baseline estimate	....	1,620	1,660	1,710	1,760	1,820	460	....	....	....	....
Demonstration estimate	....	1,580	1,620	1,640	1,680	1,700	480	....	....	....	....
Center for Medicare and Medicaid Innovation (CMMI) - Medicare and Medicaid:											
Partnerships for Patients:											
Baseline estimate	TBD	TBD	....	....	....	....	....	....	....	....	....
Demonstration estimate	TBD	TBD	....	....	....	....	....	....	....	....	....
Initiative to Reduce Avoidable Hospital Admissions Among Nursing Facility Residents:											
Baseline estimate	1,524	1,575	1,628	1,683	....	....	....	....	....	....	....
Demonstration estimate	1,529	1,562	1,613	1,668	....	....	....	....	....	....	....
Health Care Innovation Awards:											
Baseline estimate	TBD	TBD	TBD	....	....	....	....	....	....	....	....
Demonstration estimate	TBD	TBD	TBD	....	....	....	....	....	....	....	....
Comprehensive Primary Care Initiative:											
Baseline estimate	3,583	3,673	3,388	3,884	....	....	....	....	....	....	....
Demonstration estimate	3,646	3,644	3,313	3,770	....	....	....	....	....	....	....
State Innovation Models:											
Baseline estimate	TBD	TBD	TBD	TBD	....	....	....	....	....	....	....
Demonstation estimate	TBD	TBD	TBD	TBD	....	....	....	....	....	....	....
Center for Medicare and Medicaid Innovation (CMMI) - Medicaid:											
Strong Start for Mothers and Newborns:											
Baseline estimate	TBD	TBD	TBD	TBD	....	....	....	....	....	....	....
Demonstration estimate	TBD	TBD	TBD	TBD	....	....	....	....	....	....	....
State Demonstrations and Financial Models to Integrate Care for Medicare-Medicaid Enrollees:											
Massachusetts:											
Baseline estimate	1,102	1,150	1,189	1,235	1,288	....	....	....	....	....	....
Demonstration estimate	1,099	1,139	1,168	1,201	1,278	....	....	....	....	....	....
Ohio:											
Baseline estimate	TBD	TBD	TBD	TBD	TBD	....	....	....	....	....	....
Demonstration estimate	TBD	TBD	TBD	TBD	TBD	....	....	....	....	....	....
Washington:											
Baseline estimate	20	119	253	312	79	....	....	....	....	....	....
Demonstration estimate	20	121	253	305	82	....	....	....	....	....	....
Medicaid:											
Alabama Family Planning:											
Baseline estimate	49	28	....	....	....	....	....	....	....	....	....
Arizona AHCCCS:											
Baseline estimate	8,862	10,155	11,216	12,362	....	....	....	....	....	....	....
Arkansas Family Planning:											
Baseline estimate	13	6	....	....	....	....	....	....	....	....	....

Table 26–5. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Arkansas TEFRA:											
Baseline estimate	55	14	....	....	....	....	....	....	....	....	....
California Bridge to Reform:											
Baseline estimate	9,914	9,607	7,868	656	....	....	....	....	....	....	....
Colorado Adults without Dependent Children:											
Baseline estimate	46	24	....	....	....	....	....	....	....	....	....
Delaware Diamond State Health Plan:											
Baseline estimate	868	225	....	....	....	....	....	....	....	....	....
District of Columbia Childless Adults II:											
Baseline estimate	43	13	....	....	....	....	....	....	....	....	....
Florida Family Planning:											
Baseline estimate	14	4	....	....	....	....	....	....	....	....	....
Florida MEDS-AD Program: [8]											
Baseline estimate	....	....	....	....	....	....	....	....	....	....	....
Florida Medicaid Reform:											
Baseline estimate	7,689	6,311	....	....	....	....	....	....	....	....	....
Georgia Planning for Healthy Babies:											
Baseline estimate	526	132	....	....	....	....	....	....	....	....	....
Hawaii Health QUEST:											
Baseline estimate	1,044	267	....	....	....	....	....	....	....	....	....
Healthy Indiana Plan: [9]											
Baseline estimate	1,612	405	....	....	....	....	....	....	....	....	....
Idaho Adult Access Card:											
Baseline estimate	*	*	....	....	....	....	....	....	....	....	....
Illinois/Cook County Care:											
Baseline estimate	184	61	....	....	....	....	....	....	....	....	....
Illinois Family Planning: [9]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
IowaCare:											
Baseline estimate	106	28	....	....	....	....	....	....	....	....	....
Iowa Family Planning:											
Baseline estimate	18	5	....	....	....	....	....	....	....	....	....
Kansas:											
Baseline estimate	1,307	1,831	1,960	2,101	2,249	572	....	....	....	....	....
Kentucky Health Care Partnership Program: [10]											
Baseline estimate	....	....	....	....	....	....	....	....	....	....	....
Louisiana Family Planning: [9]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Louisiana GNO Community Health Connection:											
Baseline estimate	20	5	....	....	....	....	....	....	....	....	....
Maine HIV:											
Baseline estimate	11	3	....	....	....	....	....	....	....	....	....
MaineCare Childless Adults:											
Baseline estimate	58	15	....	....	....	....	....	....	....	....	....
Maryland Health Choice:											
Baseline estimate	3,256	887	....	....	....	....	....	....	....	....	....
Massachusetts MassHealth:											
Baseline estimate	5,349	4,309	....	....	....	....	....	....	....	....	....
Michigan Adult Benefits:											
Baseline estimate	153	165	....	....	....	....	....	....	....	....	....
Michigan Family Planning: [9]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Minnesota Prepaid Med. Assist. Project Plus:											
Baseline estimate	434	113	....	....	....	....	....	....	....	....	....

Table 26–5. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued
(Outlays in millions of dollars)

	Estimate										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Minnesota Family Planning:											
Baseline estimate	15	4	....	....	....	....	....	....	....	....	....
Mississippi Family Planning: [9]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Mississippi - Healthier Mississippi:											
Baseline estimate	70	18	....	....	....	....	....	....	....	....	....
Montana Basic Medicaid for Able-Bodied Adults:											
Baseline estimate	48	10	....	....	....	....	....	....	....	....	....
Montana Family Planning:											
Baseline estimate	2	1	....	....	....	....	....	....	....	....	....
Missouri Family Planning:											
Baseline estimate	25	7	....	....	....	....	....	....	....	....	....
Missouri Gateway to Better Health:											
Baseline estimate	19	5	....	....	....	....	....	....	....	....	....
New Jersey Comprehensive Waiver:											
Baseline estimate	5,049	5,049	5,654	6,017	4,726	....	....	....	....	....	....
New Mexico State Coverage Insurance:											
Baseline estimate	198	212	....	....	....	....	....	....	....	....	....
New York Federal-State Health Reform Partnership:											
Baseline estimate	7,869	4,190									
New York Partnership Plan:											
Baseline estimate	18,257	9,704									
North Carolina Family Planning: [9]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Ohio Metro Health:											
Baseline estimates	68	26	....	....	....	....	....	....	....	....	....
Oklahoma Sooner Care: [11]											
Baseline estimate	1,698	1,878	2,046	522	....	....	....	....	....	....	....
Oregon Family Planning: [9]											
Baseline estimate	18	....	....	....	....	....	....	....	....	....	....
Oregon Health Plan:											
Baseline estimate	3,502	4,533	5,281	5,937	6,680	....	....	....	....	....	....
Pennsylvania Family Planning: [9]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Rhode Island Global:											
Baseline estimate	1,572	625	....	....	....	....	....	....	....	....	....
TennCare II:											
Baseline estimate	5,329	....	....	....	....	....	....	....	....	....	....
Texas Family Planning: [12]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Texas Healthcare Transformation and Quality Improvement Program:											
Baseline estimate	15,005	16,761	18,010	19,277	....	....	....	....	....	....	....
Utah Primary Care Network:											
Baseline estimate	114	....	....	....	....	....	....	....	....	....	....
Vermont Long Term Care Plan:											
Baseline estimate	210	227	245	....	....	....	....	....	....	....	....
Vermont Global Commitment to Health:											
Baseline estimate	837	229	....	....	....	....	....	....	....	....	....
Washington Take Charge/Family Planning:											
Baseline estimate	20	3	....	....	....	....	....	....	....	....	....
Washington Transitional Bridge:											
Baseline estimate	225	57	....	....	....	....	....	....	....	....	....

Table 26–5. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued
(Outlays in millions of dollars)

	Estimate										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Wisconsin BadgerCare: [13]											
Demonstration estimate	....	....	....	....	....	....	....	....	....	....	....
Wisconsin BadgerCare Plus:											
Baseline estimate	108	28	....	....	....	....	....	....	....	....	....
Wyoming Family Planning:											
Baseline estimate	39	....	....	....	....	....	....	....	....	....	....
Pharmacy Plus:											
Wisconsin Pharmacy Plus:											
Demonstration estimate	835	1,162	1,228	311	....	....	....	....	....	....	....
Children's Health Insurance Program (CHIP)/Medicaid Demonstrations:											
New Jersey FamilyCare:											
Demonstration estimate (CHIP funds)	....	....	....	....	....	....	....	....	....	....	....
New Jersey Comprehensive Waiver:											
Demonstration estimate (CHIP funds)	323	....	....	....	....	....	....	....	....	....	....
Oregon Health Plan 2:											
Demonstration estimate (CHIP funds)	5	....	....	....	....	....	....	....	....	....	....
Arkansas ARKids B:											
Baseline estimate (CHIP)	87	91	....	....	....	....	....	....	....	....	....
Arkansas Safety Net Benefit Program:											
Demonstration estimate (CHIP funds)	14	....	....	....	....	....	....	....	....	....	....
Baseline estimate (Medicaid funds)	1,745	467	....	....	....	....	....	....	....	....	....
Colorado:											
Demonstration estimate (CHIP funds)	21	22	....	....	....	....	....	....	....	....	....
Idaho:											
Demonstration estimate (CHIP funds)	*	....	....	....	....	....	....	....	....	....	....
New Mexico:											
Demonstration estimate (CHIP funds)	62	....	....	....	....	....	....	....	....	....	....
Virginia:											
Demonstration estimate (CHIP funds)	11	....	....	....	....	....	....	....	....	....	....
Old Age and Survivors Insurance (OASI), Disability Insurance (DI) and Supplemental Security Income (SSI):											
Performance of CDRs in 2011 and Subsequent Years:											
OASDI	–33	–160	–191	–193	–193	–188	–182	–175	–168	–162	–156
SSI	–27	–260	–532	–855	–1,045	–1,164	–1,448	–1,629	–1,792	–2,088	–2,070
Collection of Overpayments:											
OASI	–1,172	–1,235	–1,306	–1,384	–1,384	–1,384	–1,384	–1,384	–1,384	–1,384	–1,384
DI	–989	–1,026	–1,063	–1,100	–1,100	–1,100	–1,100	–1,100	–1,100	–1,100	–1,100
SSI	–1,196	–1,272	–1,348	–1,446	–1,446	–1,446	–1,446	–1,446	–1,446	–1,446	–1,446
Debts Written off as Uncollectible (no effect on outlays):											
OASI	–150	–158	–167	–177	–177	–177	–177	–177	–177	–177	–177
DI	–482	–500	–518	–536	–536	–536	–536	–536	–536	–536	–536
SSI (Federal)	–27	–27	–28	–30	–30	–30	–30	–30	–30	–30	–30
Payments to States for Vocational Rehabilitation (excludes ticket payments):											
OASDI	104	122	138	148	158	164	168	171	174	176	178
SSI	42	48	52	57	60	61	63	64	66	68	69
Research and Demonstration Projects:											
OASDI	19	18	....	....	....	....	....	....	....	....	....
SSI	33	40	42	43	44	44	45	46	47	48	49
State Supplementation Benefit Payments (SSI):											
Payments from States	–3,337	–3,320	–3,447	–3,591	–3,726	–3,860	–3,984	–4,094	–4,205	–4,320	–4,445
Benefit Payments	3,310	3,435	3,580	4,020	3,860	3,660	4,085	4,195	4,310	4,795	4,570
Fees for Federal Administration of SSI State Supplemental Benefit Payments:											
Treasury Share	–135	–136	–137	–150	–139	–127	–139	–140	–140	–152	–141

Table 26–5. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SSA Share	–166	–173	–181	–205	–197	–188	–213	–221	–230	–259	–248
Performance of Non-Disability SSI Redeterminations	460	–898	–351	–138	–107	–58	–60	–41	–28	–24	38

* Indicates baseline amount rounds to zero.

[1] The amounts shown are the outlays for USFWS only. US Coast Guard and the USACE receive funding from the Sport Fish and Boating Trust Fund.

[2] Estimates are based on current year amount.

[3] The amounts shown are the excise tax estimates for the Sport Fish Restoration and Boating Trust Fund.

[4] Current law expires December 31, 2013.

[5] Medicare regulations reflect net of premium outlays.

[6] Part D Retroactive & Immediate Coverage for New Dual Eligible Individuals demo amount for FY 2014 includes Q1 only as demo expires December 31, 2014.

[7] 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. These savings are included in the above estimate.

[8] Demonstration will expend accumulated budget neutrality savings from prior years.

[9] The demonstration is on temporary extension.

[10] The demonstration ended December 31, 2012, with all beneficiaries moving into a 1915(b) waiver.

[11] The demonstration populations (children and pregnant women) are transitioning to the Medicaid and CHIP state plans effective January 1, 2013. However, the state will continue to have section 1115 authority in order to continue to provide title XXI funds for pregnant women through 185 percent of the FPL in the Medicaid state plan.

[12] The demonstration ended December 31, 2012.

[13] The demonstration includes only state plan eligible beneficiaries and has been provided no expenditure authority. This demonstration is presumed budget neutral.

Table 26–6. RECEIPTS BY SOURCE IN THE PROJECTION OF ADJUSTED BASELINE

(In billions of dollars)

	2012	Estimate										
	Actual	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Individual income taxes	1,132.2	1,234.1	1,358.2	1,511.8	1,644.6	1,776.0	1,899.8	2,017.5	2,144.0	2,273.8	2,402.1	2,559.5
Corporation income taxes	242.3	287.7	335.1	376.4	398.7	427.0	446.2	464.8	475.1	487.4	504.3	522.6
Social insurance and retirement receipts	845.3	951.1	1,031.9	1,084.5	1,148.4	1,203.5	1,267.3	1,329.1	1,386.9	1,462.4	1,527.0	1,592.0
On-budget	(275.8)	(277.6)	(292.3)	(305.6)	(320.9)	(332.6)	(348.0)	(362.5)	(378.0)	(397.9)	(411.1)	(429.3)
Off-budget	(569.5)	(673.5)	(739.7)	(778.9)	(827.5)	(870.9)	(919.3)	(966.6)	(1,008.9)	(1,064.6)	(1,115.9)	(1,162.7)
Excise taxes	79.1	85.3	93.0	98.8	100.4	104.5	112.0	125.2	130.0	137.4	145.1	155.1
Estate and gift taxes	14.0	12.9	13.0	13.6	15.1	16.4	17.8	19.0	20.1	21.2	22.3	23.3
Customs duties	30.3	33.6	39.3	42.8	46.0	49.3	52.5	55.3	58.4	61.4	64.7	68.3
Miscellaneous receipts	107.0	107.3	129.9	148.8	122.9	83.4	69.7	85.8	110.2	114.9	119.8	124.2
Total, receipts	**2,450.2**	**2,712.2**	**3,000.3**	**3,276.8**	**3,476.0**	**3,660.2**	**3,865.3**	**4,096.7**	**4,324.6**	**4,558.6**	**4,785.2**	**5,045.0**
On-budget	(1,880.7)	(2,038.7)	(2,260.6)	(2,497.9)	(2,648.5)	(2,789.2)	(2,946.0)	(3,130.0)	(3,315.7)	(3,494.0)	(3,669.3)	(3,882.3)
Off-budget	(569.5)	(673.5)	(739.7)	(778.9)	(827.5)	(870.9)	(919.3)	(966.6)	(1,008.9)	(1,064.6)	(1,115.9)	(1,162.7)

Table 26–7. EFFECT ON RECEIPTS OF CHANGES IN THE SOCIAL SECURITY TAXABLE EARNINGS BASE

(In billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Social security (OASDI) taxable earnings base increases:										
$113,700 to $115,800 on Jan. 1, 2014	1.0	2.6	2.9	3.2	3.6	3.9	3.4	3.4	4.0	4.5
$115,800 to $119,100 on Jan. 1, 2015	....	1.6	4.3	4.8	5.3	5.9	6.4	5.5	5.8	6.6
$119,100 to $123,600 on Jan. 1, 2016	....	....	2.3	6.1	6.8	7.5	8.2	8.5	7.5	8.0
$123,600 to $128,700 on Jan. 1, 2017	....	....	....	2.7	7.1	7.8	8.5	9.5	9.8	8.5
$127,800 to $134,400 on Jan. 1, 2018	....	....	....	....	3.1	8.0	8.7	9.6	10.6	11.1
$134,400 to $140,700 on Jan. 1, 2019	....	....	....	....	....	3.4	8.7	9.7	10.6	11.6
$140,700 to $146,400 on Jan. 1, 2020	....	....	....	....	....	....	3.0	8.0	8.8	9.5
$146,400 to $152,400 on Jan. 1, 2021	....	....	....	....	....	....	....	3.2	8.4	9.2
$152,400 to $158,700 on Jan. 1, 2022	....	....	....	....	....	....	....	....	3.4	8.9
$158,700 to $165,000 on Jan. 1, 2023	....	....	....	....	....	....	....	....	....	3.4

Table 26–8. CHANGE IN OUTLAY ESTIMATES BY CATEGORY IN THE ADJUSTED BASELINE

(Dollar amounts in billions)

	2013	2014	2018	2023	Change 2013 to 2014		Change 2013 to 2018		Change 2013 to 2023	
					Amount	Percent	Amount	Annual average rate	Amount	Annual average rate
Outlays:										
Discretionary:										
Defense	630	574	634	758	–56	–8.9%	4	0.1%	128	1.9%
Non-defense	596	592	585	679	–4	–0.7%	–11	–0.4%	83	1.3%
Subtotal, discretionary	1,226	1,166	1,219	1,438	–60	–4.9%	–7	–0.1%	212	1.6%
Mandatory:										
Farm programs	20	16	14	15	–4	–19.1%	–6	–6.5%	–5	–2.6%
Medicaid	267	304	392	529	37	14.0%	126	8.0%	263	7.1%
Other health care	42	78	146	195	35	83.1%	103	28.0%	153	16.5%
Medicare	498	519	639	941	21	4.2%	141	5.1%	443	6.6%
Federal employee retirement and disability	131	136	152	184	6	4.2%	21	3.1%	53	3.5%
Unemployment compensation	76	54	44	53	–22	–29.4%	–32	–10.3%	–23	–3.6%
Other income security programs	285	275	276	303	–10	–3.5%	–8	–0.6%	18	0.6%
Social Security	812	860	1,081	1,427	48	5.8%	269	5.9%	614	5.8%
Veterans programs	81	86	103	145	5	6.2%	22	5.0%	64	6.0%
Other mandatory programs	62	–3	5	36	–64	–104.2%	–57	–40.0%	–26	–5.2%
Undistributed offsetting receipts	–92	–89	–105	–122	2	–2.5%	–13	2.7%	–30	2.9%
Subtotal, mandatory	2,182	2,235	2,749	3,706	53	2.4%	567	4.7%	1,524	5.4%
Disaster costs [1]	1	5	9	10	3	241.8%	8	46.5%	9	21.9%
Net interest	222	222	459	804	–*	–0.1%	237	15.6%	582	13.7%
Total, outlays	3,632	3,627	4,437	5,959	–4	–0.1%	805	4.1%	2,327	5.1%

* $500 million or less.

[1] 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 26–9. OUTLAYS BY FUNCTION IN THE ADJUSTED BASELINE

(In billions of dollars)

Function	2012 Actual	Estimate										
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
National Defense:												
Department of Defense—Military	650.9	613.1	555.3	591.3	598.0	607.6	616.7	627.8	644.8	660.9	704.9	736.9
Other	27.0	25.3	26.4	25.8	25.1	25.4	25.8	26.3	26.8	27.3	29.4	30.5
Total, National Defense	677.9	638.3	581.7	617.1	623.0	633.0	642.5	654.1	671.5	688.1	734.3	767.5
International Affairs	47.2	56.0	57.1	58.2	59.3	59.9	60.1	61.1	62.3	63.8	65.4	66.2
General Science, Space, and Technology	29.1	30.0	30.0	30.6	31.1	31.5	32.0	32.7	33.7	34.5	35.2	35.8
Energy	14.9	14.6	12.2	8.9	5.6	3.7	5.3	4.4	4.8	4.5	4.6	4.0
Natural Resources and Environment	41.6	38.2	41.4	43.0	45.9	47.1	47.9	49.0	50.5	51.2	52.1	53.5
Agriculture	17.8	26.6	22.9	20.4	22.2	20.8	21.0	21.4	21.9	22.2	22.6	23.0
Commerce and Housing Credit	40.8	16.5	–39.2	–40.7	–37.8	–26.6	–20.0	–20.0	–26.1	–18.1	–21.0	–23.2
On-Budget	(38.2)	(16.2)	(–39.5)	(–40.9)	(–38.1)	(–26.8)	(–20.3)	(–20.3)	(–26.3)	(–18.4)	(–21.3)	(–23.5)
Off-Budget	(2.7)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Transportation	93.0	93.8	98.4	99.7	99.4	99.8	99.5	99.9	101.7	103.6	105.9	108.2
Community and Regional Development	25.1	37.2	32.3	26.3	18.9	17.2	16.6	15.8	15.4	15.8	15.3	15.3
Education, Training, Employment, and Social Services	90.8	71.7	84.5	89.9	95.5	104.5	112.2	117.7	122.2	126.1	131.1	134.1
Health	346.7	368.0	438.6	512.1	555.7	582.4	599.8	634.6	671.2	706.6	746.5	792.7
Medicare	471.8	504.2	525.3	552.4	604.3	621.5	647.2	710.6	764.4	822.2	911.8	951.4
Income Security	541.3	556.0	530.0	527.7	542.5	542.2	541.3	561.5	575.1	590.0	614.3	616.1
Social Security	773.3	818.0	865.6	917.5	971.1	1,028.3	1,087.8	1,150.6	1,217.2	1,284.5	1,357.2	1,434.1
On-Budget	(140.4)	(56.3)	(28.6)	(32.6)	(36.0)	(39.6)	(43.3)	(47.3)	(51.3)	(55.5)	(59.8)	(64.5)
Off-Budget	(632.9)	(761.8)	(837.0)	(884.9)	(935.1)	(988.7)	(1,044.5)	(1,103.3)	(1,165.8)	(1,229.1)	(1,297.4)	(1,369.6)
Veterans Benefits and Services	124.6	140.7	149.0	157.8	171.0	172.4	174.2	190.0	198.9	208.0	226.0	226.5
Administration of Justice	56.3	57.6	62.8	61.1	62.0	60.2	61.8	63.5	65.3	67.1	71.5	73.7
General Government	28.0	29.3	26.4	25.6	25.7	25.2	25.7	26.5	27.7	28.3	29.1	30.0
Net Interest	220.4	221.9	221.8	252.3	297.9	370.2	459.1	544.5	615.9	677.2	740.9	804.4
On-Budget	(332.8)	(327.5)	(321.9)	(348.0)	(389.9)	(460.9)	(548.4)	(635.1)	(705.0)	(767.2)	(827.8)	(889.9)
Off-Budget	(–112.4)	(–105.6)	(–100.0)	(–95.6)	(–92.0)	(–90.7)	(–89.4)	(–90.6)	(–89.1)	(–89.9)	(–86.8)	(–85.5)
Allowances	....	4.6	–24.3	–52.1	–67.0	–70.3	–72.5	–73.9	–76.3	–79.5	–49.9	–32.7
Undistributed Offsetting Receipts:												
Employer share, employee retirement (on-budget)	–68.3	–66.1	–65.6	–66.0	–67.4	–72.6	–74.7	–77.2	–79.8	–82.5	–85.3	–88.1
Employer share, employee retirement (off-budget)	–15.6	–16.2	–16.8	–17.7	–18.6	–19.4	–20.3	–21.3	–22.3	–23.3	–24.5	–25.5
Rents and royalties on the Outer Continental Shelf	–6.6	–6.8	–7.0	–7.2	–7.4	–7.3	–7.1	–7.6	–8.2	–8.4	–8.6	–8.3
Sale of major assets	–13.0	–2.6	....	....	....	....	....	....	....	....	....	....
Other undistributed offsetting receipts	....	....	....	–4.8	–9.4	–7.7	–2.6	–4.4	–4.4	....	....	....
Total, Undistributed Offsetting Receipts	–103.5	–91.7	–89.4	–95.6	–102.9	–107.0	–104.6	–110.6	–114.7	–114.3	–118.5	–122.0
On-Budget	(–87.9)	(–75.6)	(–72.6)	(–77.9)	(–84.3)	(–87.6)	(–84.3)	(–89.2)	(–92.4)	(–90.9)	(–93.9)	(–96.5)
Off-Budget	(–15.6)	(–16.2)	(–16.8)	(–17.7)	(–18.6)	(–19.4)	(–20.3)	(–21.3)	(–22.3)	(–23.3)	(–24.5)	(–25.5)
Total	**3,537.1**	**3,631.5**	**3,627.4**	**3,812.3**	**4,023.4**	**4,216.1**	**4,436.8**	**4,733.3**	**5,002.5**	**5,281.9**	**5,674.4**	**5,958.5**
On-Budget	(3,029.5)	(2,991.3)	(2,906.9)	(3,040.4)	(3,198.7)	(3,337.3)	(3,501.6)	(3,741.7)	(3,947.9)	(4,165.8)	(4,488.1)	(4,699.6)
Off-Budget	(507.6)	(640.3)	(720.4)	(771.9)	(824.7)	(878.8)	(935.1)	(991.6)	(1,054.7)	(1,116.1)	(1,186.3)	(1,258.9)

Table 27–10. OUTLAYS BY AGENCY IN THE ADJUSTED BASELINE

(In billions of dollars)

Agency	2012 Actual	Estimate										
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Legislative Branch	4.4	4.8	4.9	5.0	5.0	5.1	5.2	5.4	5.5	5.7	5.9	6.0
Judicial Branch	7.2	7.3	7.7	7.8	8.0	8.2	8.4	8.6	8.9	9.1	9.4	9.6
Agriculture	139.7	154.2	141.8	137.3	139.6	138.4	139.0	140.3	142.1	144.0	145.1	146.7
Commerce	10.3	9.3	9.1	9.5	11.3	9.8	10.4	9.7	9.7	10.0	10.3	10.5
Defense—Military Programs	650.9	616.1	594.0	648.4	663.5	678.1	690.9	705.2	724.7	743.3	761.6	779.9
Education	57.2	36.7	48.1	53.4	58.9	67.3	74.2	79.1	82.8	85.8	90.0	92.2
Energy	32.5	27.3	30.2	28.8	26.3	26.0	28.1	26.9	27.5	28.0	28.5	29.2
Health and Human Services	848.1	900.1	959.2	1,033.1	1,113.8	1,146.2	1,184.1	1,274.4	1,357.4	1,441.7	1,561.3	1,637.0
Homeland Security	47.4	59.5	53.1	51.3	47.2	47.9	48.9	49.1	50.4	52.4	55.6	57.2
Housing and Urban Development	49.6	57.7	39.1	36.0	34.8	33.2	32.6	32.3	31.8	31.7	31.9	31.8
Interior	12.9	10.0	13.0	13.9	14.1	14.7	14.8	15.0	15.3	15.7	15.9	16.2
Justice	31.2	33.3	38.5	36.2	36.1	33.8	34.6	35.5	36.5	37.5	38.5	39.5
Labor	104.6	91.3	68.4	60.3	58.5	59.3	60.4	62.5	65.3	68.1	70.8	73.2
State	26.9	29.5	31.5	31.8	32.9	33.5	33.8	34.3	34.8	35.5	36.1	36.9
Transportation	75.1	79.4	81.5	81.4	81.1	81.1	80.3	80.6	81.8	83.1	84.7	86.3
Treasury	464.7	489.5	505.3	559.4	616.0	699.9	797.8	896.9	980.1	1,058.1	1,133.4	1,207.5
Veterans Affairs	124.1	140.3	148.5	157.3	170.5	171.9	173.7	189.5	198.4	207.5	225.5	225.9
Corps of Engineers—Civil Works	7.8	6.8	8.1	9.0	9.9	10.3	10.3	10.3	10.6	10.5	10.8	11.1
Other Defense Civil Programs	77.3	59.7	61.2	63.3	69.7	67.4	63.4	69.9	72.2	74.7	83.1	79.1
Environmental Protection Agency	12.8	9.1	8.5	8.7	9.0	8.8	9.1	9.4	9.7	9.9	10.2	10.4
Executive Office of the President	0.4	0.4	0.4	0.4	0.4	0.7	0.5	4.8	4.6	0.5	0.5	0.5
General Services Administration	1.8	0.9	0.1	–0.2	–0.8	–1.6	–1.7	–1.8	–1.8	–1.9	–1.9	–1.9
International Assistance Programs	20.0	25.5	25.3	26.1	26.1	26.1	26.1	26.6	27.3	28.1	28.9	29.0
National Aeronautics and Space Administration	17.2	17.3	18.3	18.8	19.3	19.5	19.9	20.3	20.8	21.3	21.7	22.1
National Science Foundation	7.3	8.3	7.2	7.2	7.2	7.3	7.2	7.4	7.9	8.1	8.3	8.4
Office of Personnel Management	79.5	84.3	83.6	87.9	92.1	103.6	107.2	112.1	117.0	121.8	126.9	132.2
Small Business Administration	2.9	0.9	1.2	1.4	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.4
Social Security Administration	821.1	872.0	921.7	977.0	1,037.9	1,092.7	1,149.3	1,219.0	1,287.7	1,357.2	1,437.6	1,511.3
On-Budget	(188.2)	(110.2)	(84.7)	(92.1)	(102.8)	(104.0)	(104.8)	(115.7)	(121.9)	(128.1)	(140.2)	(141.7)
Off-Budget	(632.9)	(761.8)	(837.0)	(884.9)	(935.1)	(988.7)	(1,044.5)	(1,103.3)	(1,165.8)	(1,229.1)	(1,297.4)	(1,369.6)
Other Independent Agencies	32.9	46.8	22.8	19.5	20.2	22.0	27.2	25.5	20.6	34.0	32.1	30.8
On-Budget	(30.2)	(46.5)	(22.5)	(19.2)	(19.9)	(21.8)	(26.9)	(25.2)	(20.3)	(33.7)	(31.8)	(30.5)
Off-Budget	(2.7)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Allowances	....	1.6	–65.0	–112.1	–135.8	–144.2	–150.1	–154.9	–159.9	–165.7	–108.8	–77.4
Undistributed Offsetting Receipts												
On-Budget	(–102.7)	(–126.5)	(–122.7)	(–132.1)	(–140.0)	(–142.0)	(–140.2)	(–150.1)	(–157.0)	(–162.0)	(–169.3)	(–173.4)
Off-Budget	(–128.0)	(–121.8)	(–116.8)	(–113.3)	(–110.7)	(–110.2)	(–109.6)	(–112.0)	(–111.5)	(–113.3)	(–111.4)	(–111.0)
Total	**3,537.1**	**3,631.5**	**3,627.4**	**3,812.3**	**4,023.4**	**4,216.1**	**4,436.8**	**4,733.3**	**5,002.5**	**5,281.9**	**5,674.4**	**5,958.5**
On-Budget	(3,029.5)	(2,991.3)	(2,906.9)	(3,040.4)	(3,198.7)	(3,337.3)	(3,501.6)	(3,741.7)	(3,947.9)	(4,165.8)	(4,488.1)	(4,699.6)
Off-Budget	(507.6)	(640.3)	(720.4)	(771.9)	(824.7)	(878.8)	(935.1)	(991.6)	(1,054.7)	(1,116.1)	(1,186.3)	(1,258.9)

Table 26–11. BUDGET AUTHORITY BY FUNCTION IN THE ADJUSTED BASELINE

(In billions of dollars)

Function	2012 Actual	Estimate										
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
National Defense:												
Department of Defense—Military	655.4	581.3	571.5	586.7	599.0	613.3	627.7	642.3	657.8	673.4	743.4	761.6
Other	26.0	25.0	24.3	24.8	25.1	25.6	26.1	26.6	27.1	27.6	30.5	31.1
Total, National Defense	681.4	606.3	595.8	611.5	624.2	639.0	653.8	668.9	684.9	701.0	773.8	792.6
International Affairs	93.3	54.4	50.6	50.1	51.4	53.3	56.4	60.4	63.2	65.0	67.3	68.7
General Science, Space, and Technology	29.2	27.9	29.9	30.6	31.2	31.9	32.5	33.2	33.9	34.6	35.4	36.1
Energy	7.7	10.9	9.7	8.2	7.0	5.2	5.3	6.0	6.5	6.2	6.0	5.3
Natural Resources and Environment	37.0	41.0	41.9	43.4	44.6	46.8	48.4	49.4	50.9	52.0	53.1	54.5
Agriculture	20.9	24.1	22.0	20.1	22.2	21.0	21.2	21.6	22.1	22.4	22.8	23.2
Commerce and Housing Credit	12.4	52.4	–18.3	–12.5	–7.6	0.8	4.5	10.3	10.4	6.6	6.9	7.0
On-Budget	(10.2)	(52.4)	(–18.3)	(–12.5)	(–7.6)	(0.8)	(4.5)	(10.3)	(10.4)	(6.6)	(6.9)	(7.0)
Off-Budget	(2.3)	....	....	(0.0)	....	(–0.0)	(–0.0)	(–0.0)	(–0.0)	(–0.0)	(–0.0)	(–0.0)
Transportation	88.6	98.1	88.6	90.7	91.8	92.9	94.1	95.2	96.5	97.8	99.1	100.4
Community and Regional Development	18.5	55.8	13.4	14.1	13.9	14.1	15.1	15.4	15.7	16.2	16.6	16.9
Education, Training, Employment, and Social Services	91.7	68.3	75.0	89.3	97.6	106.4	113.7	119.7	123.5	127.8	132.9	136.0
Health	361.9	360.5	425.6	525.3	543.0	574.1	598.1	633.3	681.0	707.2	748.1	794.0
Medicare	484.3	504.1	525.5	552.4	604.2	621.8	647.4	710.8	764.8	822.5	911.9	951.9
Income Security	548.9	540.6	527.9	528.4	543.0	548.1	553.6	568.9	582.2	596.6	614.7	622.5
Social Security	777.6	822.4	869.6	921.4	975.5	1,032.8	1,092.6	1,155.7	1,222.6	1,290.0	1,363.0	1,440.4
On-Budget	(140.4)	(56.1)	(28.4)	(32.5)	(36.0)	(39.6)	(43.3)	(47.3)	(51.3)	(55.5)	(59.8)	(64.5)
Off-Budget	(637.2)	(766.4)	(841.3)	(888.9)	(939.5)	(993.2)	(1,049.3)	(1,108.4)	(1,171.3)	(1,234.6)	(1,303.2)	(1,375.9)
Veterans Benefits and Services	124.5	137.6	149.9	157.6	166.3	173.8	182.9	191.5	200.5	209.6	219.0	228.3
Administration of Justice	55.3	51.9	66.7	57.3	60.7	60.6	62.2	64.0	65.8	67.6	72.0	74.2
General Government	26.5	28.2	25.2	25.1	25.7	26.3	27.0	27.7	28.5	29.3	30.2	31.1
Net Interest	219.9	221.9	221.8	252.3	297.9	370.2	459.1	544.5	615.9	677.2	740.9	804.4
On-Budget	(332.3)	(327.5)	(321.9)	(348.0)	(389.9)	(460.9)	(548.4)	(635.1)	(705.0)	(767.2)	(827.8)	(889.9)
Off-Budget	(–112.4)	(–105.6)	(–100.0)	(–95.6)	(–92.0)	(–90.7)	(–89.4)	(–90.6)	(–89.1)	(–89.9)	(–86.8)	(–85.5)
Allowances	....	10.9	–43.0	–68.2	–71.3	–72.0	–74.1	–75.6	–78.4	–81.9	–28.1	–29.0
Undistributed Offsetting Receipts:												
Employer share, employee retirement (on-budget)	–68.3	–66.1	–65.6	–66.0	–67.4	–72.6	–74.7	–77.2	–79.8	–82.5	–85.3	–88.1
Employer share, employee retirement (off-budget)	–15.6	–16.2	–16.8	–17.7	–18.6	–19.4	–20.3	–21.3	–22.3	–23.3	–24.5	–25.5
Rents and royalties on the Outer Continental Shelf	–6.6	–6.8	–7.0	–7.2	–7.4	–7.3	–7.1	–7.6	–8.2	–8.4	–8.6	–8.3
Sale of major assets	–13.0	–2.6	....	....	....	....	....	....	....	....	....	....
Other undistributed offsetting receipts	....	....	....	–4.8	–9.4	–7.7	–2.6	–4.4	–4.4	....	....	....
Total, Undistributed Offsetting Receipts	–103.5	–91.7	–89.4	–95.6	–102.9	–107.0	–104.6	–110.6	–114.7	–114.3	–118.5	–122.0
On-Budget	(–87.9)	(–75.6)	(–72.6)	(–77.9)	(–84.3)	(–87.6)	(–84.3)	(–89.2)	(–92.4)	(–90.9)	(–93.9)	(–96.5)
Off-Budget	(–15.6)	(–16.2)	(–16.8)	(–17.7)	(–18.6)	(–19.4)	(–20.3)	(–21.3)	(–22.3)	(–23.3)	(–24.5)	(–25.5)
Total	**3,576.2**	**3,625.4**	**3,588.4**	**3,801.6**	**4,018.3**	**4,240.1**	**4,489.1**	**4,790.4**	**5,075.7**	**5,333.7**	**5,767.2**	**6,036.6**
On-Budget	(3,064.7)	(2,980.8)	(2,864.0)	(3,026.0)	(3,189.5)	(3,357.0)	(3,549.5)	(3,794.0)	(4,015.8)	(4,212.4)	(4,575.3)	(4,771.8)
Off-Budget	(511.5)	(644.6)	(724.4)	(775.6)	(828.8)	(883.1)	(939.7)	(996.5)	(1,059.8)	(1,121.3)	(1,191.8)	(1,264.8)
MEMORANDUM												
Discretionary budget authority:												
National Defense	669.6	598.0	588.1	603.1	615.8	630.6	645.4	660.3	676.2	692.1	764.9	783.5
International affairs	54.3	51.9	56.3	57.6	58.8	60.1	61.5	62.8	64.2	65.6	67.0	68.5
Domestic	472.3	476.0	422.6	435.8	445.6	455.9	467.5	480.7	492.7	504.9	550.1	564.2
Total, discretionary	1196.2	1125.8	1067.0	1096.4	1120.2	1146.6	1174.4	1203.7	1233.1	1262.5	1382.0	1416.2

Table 26–12. BUDGET AUTHORITY BY AGENCY IN THE ADJUSTED BASELINE

(In billions of dollars)

Agency	2012 Actual	Estimate										
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Legislative Branch	4.5	4.3	4.7	4.8	5.0	5.1	5.3	5.5	5.6	5.8	6.0	6.1
Judicial Branch	7.2	7.0	7.5	7.8	8.0	8.3	8.5	8.8	9.0	9.3	9.6	9.8
Agriculture	151.8	152.4	145.2	143.6	145.9	144.9	145.6	146.5	148.1	150.3	151.0	152.5
Commerce	8.0	7.8	10.3	9.5	13.1	9.1	9.4	9.6	9.9	10.1	10.4	10.7
Defense—Military Programs	655.4	586.3	640.6	656.7	672.4	688.5	705.2	722.4	740.1	758.3	776.8	796.0
Education	57.5	33.1	38.7	53.3	60.9	68.9	75.4	80.6	83.6	87.1	91.4	93.7
Energy	22.7	21.5	25.7	26.1	26.5	26.8	27.5	28.0	28.6	29.1	29.6	30.3
Health and Human Services	874.5	892.2	946.4	1,046.3	1,101.5	1,138.4	1,182.5	1,274.2	1,368.0	1,442.8	1,563.0	1,638.8
Homeland Security	45.9	67.1	42.4	44.4	45.4	46.7	48.7	50.2	51.6	53.2	57.3	59.1
Housing and Urban Development	40.1	67.9	44.1	45.1	46.1	47.1	48.1	49.3	50.5	51.6	52.9	54.2
Interior	11.5	11.7	12.4	12.8	13.1	13.9	14.3	14.7	15.3	15.4	15.8	16.2
Justice	31.4	28.2	41.7	32.3	34.9	34.0	34.8	35.8	36.7	37.7	38.7	39.7
Labor	105.4	89.3	68.4	60.6	60.3	60.1	60.3	61.6	63.7	65.9	68.2	70.1
State	30.1	28.7	31.0	31.6	32.3	33.0	33.8	34.5	35.3	36.1	36.9	37.7
Transportation	70.1	82.7	72.1	73.6	74.1	74.6	75.2	75.8	76.4	77.0	77.7	78.3
Treasury	442.6	530.3	498.1	553.9	613.9	699.8	799.0	898.5	981.2	1,059.4	1,134.7	1,208.9
Veterans Affairs	124.0	137.2	149.5	157.1	165.8	173.3	182.4	191.0	200.0	209.1	218.5	227.8
Corps of Engineers—Civil Works	6.8	9.8	8.7	9.0	9.3	9.6	9.9	10.2	10.6	10.9	11.3	11.6
Other Defense Civil Programs	81.1	59.3	61.4	63.5	65.5	67.5	68.1	70.2	72.5	74.9	77.5	79.3
Environmental Protection Agency	10.8	8.5	8.6	8.8	9.0	9.3	9.5	9.8	10.0	10.2	10.5	10.8
Executive Office of the President	0.4	0.4	0.4	0.4	0.4	0.7	0.5	4.8	4.6	0.5	0.5	0.6
General Services Administration	–1.0	0.3	–1.5	–1.6	–1.6	–1.6	–1.6	–1.7	–1.7	–1.7	–1.7	–1.7
International Assistance Programs	63.2	25.1	19.1	17.9	18.5	19.7	22.0	25.3	27.2	28.3	29.6	30.1
National Aeronautics and Space Administration	17.8	17.0	18.3	18.7	19.1	19.5	20.0	20.4	20.9	21.3	21.8	22.3
National Science Foundation	7.2	6.8	7.3	7.5	7.6	7.7	7.9	8.0	8.2	8.4	8.5	8.7
Office of Personnel Management	83.6	86.9	85.3	89.3	93.4	105.3	109.8	114.6	119.5	124.7	130.3	135.7
Small Business Administration	2.7	1.0	1.1	1.1	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.4
Social Security Administration	826.0	876.4	925.7	981.0	1,042.0	1,097.3	1,154.4	1,224.2	1,293.2	1,362.7	1,443.1	1,517.6
On-Budget	(188.8)	(110.0)	(84.4)	(92.0)	(102.5)	(104.1)	(105.2)	(115.7)	(122.0)	(128.1)	(139.9)	(141.7)
Off-Budget	(637.2)	(766.4)	(841.3)	(888.9)	(939.5)	(993.2)	(1,049.3)	(1,108.4)	(1,171.3)	(1,234.6)	(1,303.2)	(1,375.9)
Other Independent Agencies	25.6	28.5	29.9	33.1	33.4	34.2	36.1	38.0	38.7	39.6	39.9	39.8
On-Budget	(23.3)	(28.5)	(29.9)	(33.1)	(33.4)	(34.2)	(36.2)	(38.0)	(38.7)	(39.6)	(39.9)	(39.8)
Off-Budget	(2.3)	....	....	(0.0)	....	(–0.0)	(–0.0)	(–0.0)	(–0.0)	(–0.0)	(–0.0)	(–0.0)
Allowances	....	5.9	–115.3	–141.4	–148.0	–150.6	–155.0	–159.4	–164.4	–170.6	–63.1	–65.0
Undistributed Offsetting Receipts												
On-Budget	(–102.7)	(–126.5)	(–122.7)	(–132.1)	(–140.0)	(–142.0)	(–140.2)	(–150.1)	(–157.0)	(–162.0)	(–169.3)	(–173.4)
Off-Budget	(–128.0)	(–121.8)	(–116.8)	(–113.3)	(–110.7)	(–110.2)	(–109.6)	(–112.0)	(–111.5)	(–113.3)	(–111.4)	(–111.0)
Total	**3,576.2**	**3,625.4**	**3,588.4**	**3,801.6**	**4,018.3**	**4,240.1**	**4,489.1**	**4,790.4**	**5,075.7**	**5,333.7**	**5,767.2**	**6,036.6**
On-Budget	(3,064.7)	(2,980.8)	(2,864.0)	(3,026.0)	(3,189.5)	(3,357.0)	(3,549.5)	(3,794.0)	(4,015.8)	(4,212.4)	(4,575.3)	(4,771.8)
Off-Budget	(511.5)	(644.6)	(724.4)	(775.6)	(828.8)	(883.1)	(939.7)	(996.5)	(1,059.8)	(1,121.3)	(1,191.8)	(1,264.8)

27. 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.[1] 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, 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."[2] 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.[3]

[1] 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.

[2] See Chapter 15 in this volume for more information on offsetting collections and offsetting receipts.

[3] 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.

The Federal Government uses the term "trust fund" differently than the way in which it is commonly used. In 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.[4]

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 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.[5] 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.

[4] Deposit funds are discussed briefly in Chapter 12 of this volume, "Coverage of the Budget."

[5] Securities held by trust funds (and by other Government accounts), debt held by the public, and gross Federal debt are discussed in Chapter 5 of this volume, "Federal Borrowing and Debt."

Income and Outgo by Fund Group

Table 27–1 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.[6] 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 from Federal sources that are credited to expenditure accounts (which, as noted above, are referred to as offsetting collections); the spending that is financed by those collections is included in outgo and the collections from Federal sources are subsequently subtracted from outgo.[7] Although it would be conceptually correct to add interfund offsetting collections from Federal sources 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 from Federal sources are offset against outgo in Table 27–1 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 trust funds 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 Supplementary Medical Insurance trust fund for the cost of Medicare Parts B (outpatient

[6] 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 27–1 so that the total trust fund income and outgo shown in the table reflect disbursements to the public and to Federal funds.

[7] Collections from non-Federal sources are shown as income and spending that is financed by those collections is shown as outgo. For example, postage stamp fees are deposited as offsetting collections in the Postal Service Fund. As a result, the Fund's income reported in Table 27–1 includes Postage stamp fees and the Fund's outgo is gross disbursements, including disbursements financed by those fees.

Table 27–1. RECEIPTS, OUTLAYS AND SURPLUS OR DEFICIT BY FUND GROUP
(In billions of dollars)

	2012 Actual	Estimate 2013	2014	2015	2016	2017	2018
Receipts:							
Federal funds cash income:							
From the public	1,897.5	2,063.4	2,306.5	2,548.1	2,704.8	2,845.8	3,001.9
From trust funds	2.3	1.9	1.8	1.7	1.6	1.6	1.6
Total, Federal funds cash income	1,899.8	2,065.3	2,308.3	2,549.8	2,706.4	2,847.4	3,003.5
Trust funds cash income:							
From the public	1,042.5	1,154.1	1,241.0	1,308.6	1,399.6	1,467.0	1,532.0
From Federal funds:							
Interest	127.1	156.6	150.2	149.8	147.8	145.2	145.4
Other	588.2	521.5	510.6	558.2	613.3	646.5	660.2
Total, Trust funds cash income	1,757.9	1,832.2	1,901.8	2,016.6	2,160.7	2,258.6	2,337.5
Offsetting collections from the public and receipts:							
Federal funds	–356.2	–366.3	–369.0	–367.7	–371.3	–373.3	–378.9
Trust funds	–851.3	–819.1	–807.4	–866.9	–934.3	–972.2	–988.1
Total, offsetting collections from the public and receipts	–1,207.5	–1,185.4	–1,176.4	–1,234.7	–1,305.6	–1,345.5	–1,367.0
Total, unified budget receipts	2,450.2	2,712.0	3,033.6	3,331.7	3,561.5	3,760.5	3,974.0
Federal funds	1,543.6	1,699.0	1,939.3	2,182.0	2,335.1	2,474.1	2,624.6
Trust funds	906.6	1,013.1	1,094.4	1,149.7	1,226.4	1,286.4	1,349.4
Outlays:							
Federal funds cash outgo	3,076.6	3,105.9	3,129.5	3,244.4	3,385.7	3,511.0	3,646.2
Trust funds cash outgo	1,668.0	1,764.5	1,824.7	1,898.5	2,009.8	2,082.0	2,170.1
Offsetting collections from the public and receipts:							
Federal funds	–356.2	–366.3	–369.0	–367.7	–371.3	–373.3	–378.9
Trust funds	–851.3	–819.1	–807.4	–866.9	–934.3	–972.2	–988.1
Total, offsetting collections from the public and receipts	–1,207.5	–1,185.4	–1,176.4	–1,234.7	–1,305.6	–1,345.5	–1,367.0
Total, unified budget outlays	3,537.1	3,684.9	3,777.8	3,908.2	4,089.8	4,247.4	4,449.2
Federal funds	2,720.4	2,739.5	2,760.5	2,876.6	3,014.4	3,137.6	3,267.3
Trust funds	816.7	945.4	1,017.3	1,031.5	1,075.5	1,109.8	1,182.0
Surplus or deficit(–):							
Federal funds	–1,176.8	–1,040.6	–821.2	–694.6	–679.3	–663.5	–642.7
Trust funds	89.9	67.6	77.0	118.1	150.9	176.6	167.4
Total, unified surplus/deficit(–)	–1,087.0	–972.9	–744.2	–576.5	–528.4	–486.9	–475.3

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).

and physician benefits) and D (prescription drug benefits) that is not covered by premiums (or, for Part D, transfers from States).

In 2011, 2012, and 2013, general fund transfers were made to the Social Security trust funds to hold the funds harmless for the two-year (2 percentage point) reduction in the Social Security payroll tax rate initially enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 and subsequently extended in the Temporary Tax Cut Continuation Act of 2011 and the Middle Class Tax Relief and Job Creation Act of 2012. These transfers substitute for the payroll tax revenue lost by the payroll tax reduction, so that the balances of the Social Security trust funds are the same as they would have been in the absence of the legislation. As a result, the payroll tax reduction did not impact the long-term solvency of the trust funds.

In addition to investing their balances with Treasury, some funds in the Federal funds group and most trust funds are authorized to borrow from the general fund of the Treasury.[8] Similar to the treatment of funds invested 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 out-

[8] For example, the Unemployment trust fund borrowed $22 billion from the general fund in 2011 for unemployment benefits; the Bonneville Power Administration Fund, a revolving fund in the Department of Energy, is authorized to borrow from the general fund; and the Black Lung Disability Trust Fund, a trust fund in the Department of Labor, is authorized to receive appropriations of repayable advances from the general fund, which constitutes a form of borrowing.

Table 27–2. COMPARISON OF TOTAL FEDERAL FUND AND TRUST FUND RECEIPTS TO UNIFIED BUDGET RECEIPTS, FISCAL YEAR 2012
(In billions of dollars)

Gross Trust fund receipts	1,748.7
Gross Federal fund receipts	1,715.6
Total, gross receipts	3,464.3
Deduct intrafund receipts (from funds within same fund group):	
Trust fund intrafund receipts	–9.1
Federal fund intrafund receipts	–4.8
Subtotal, intrafund receipts	–13.9
Total Trust funds and Federal Funds cash income	3,450.4
Deduct other offsetting receipts:	
Trust fund receipts from Federal funds:	
Interest in receipt accounts	–127.1
General fund payments to Medicare Parts B and D	–210.5
Employing agencies' payments for pensions, Social Security, and Medicare	–72.8
General fund payments for unfunded liabilities of Federal employees' retirement funds	–98.2
Transfer of taxation of Social Security and RRB benefits to OASDI, HI, and RRB	–46.6
Other receipts from Federal funds	–160.1
Subtotal, Trust fund receipts from Federal funds	–715.4
Federal fund receipts from Trust funds	–2.3
Proprietary receipts	–273.9
Offsetting governmental receipts	–8.6
Subtotal, offsetting receipts	–1,000.2
Unified budget receipts	2,450.2

Note: Offsetting receipts are included in cash income for each fund group, but are deducted from outlays in the unified budget.

go. 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.[9]

Some income in both Federal funds and trust funds consists of offsetting receipts.[10] 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. Net outlays reflect the government's net transactions with the public.

As shown in Table 27-1, 37.0 percent of all governmental receipts were deposited in trust funds in 2012 and the remaining 63.0 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 23.1 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 27–1 includes offsetting receipts and offsetting collections from the public, offsetting receipts and offsetting collections from the public must be deducted from the two fund groups' combined gross income in order to reconcile to total governmental receipts in the unified budget. Similarly, because the outgo for Federal funds and trust funds in Table 27–1 consists of outlays gross of offsetting receipts and offsetting collections from the public, the amount of the offsetting receipts and offsetting collections from the public 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 27–2 reconciles, for fiscal year 2012, 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 27–1) and with the receipt total of the unified budget.

Income, Outgo, and Balances of Trust Funds

Table 27–3 shows, for the trust funds group as a whole, the funds' balance at the start of each year, income and outgo during the year, and the end-of-year balance.[11] 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 27–1 in one important way. Trust fund collections that are offset against outgo (offsetting collections from Federal sources) within expenditure accounts instead of being deposited in separate receipt accounts are classified as income in this table, but not in Table 27–1. 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 from Federal sources. The difference was approximately $47 billion in 2012. Table 27–3, therefore, provides a more complete summary of trust fund income and outgo.

The trust funds group is expected to have large 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.[12] The size of the anticipated balances 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 $4.4 trillion in 2012. The current balances are estimated to increase by approximately 17 percent by the year 2018, rising to $5.1 trillion. Almost all

[9] Borrowing and debt repayment are discussed in Chapter 5 of this volume, "Federal Borrowing and Debt," and Chapter 11 of this volume, "Budget Concepts."

[10] 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.

[11] The Budget's proposal to move to chained CPI will likely affect trust funds, but those effects are not reflected in tables in this chapter.

[12] Because of the economic downturn, Social Security trust fund collections from the public (payroll taxes) fell well below Social Security benefit payments in 2010, 2011, and 2012; however, because of interest earnings on trust fund investments, Social Security trust fund balances continued to grow in these years.

Table 27–3. INCOME, OUTGO, AND BALANCES OF TRUST FUNDS GROUP
(In billions of dollars)

	2012 Actual	Estimate					
		2013	2014	2015	2016	2017	2018
Balance, start of year	4,297.8	4,388.5	4,456.0	4,533.1	4,651.2	4,802.1	4,978.7
Adjustments	0.8	....	....	....	....	....	....
Total balance, start of year	4,298.6	4,388.5	4,456.0	4,533.1	4,651.2	4,802.1	4,978.7
Income:							
Governmental receipts	906.6	1,013.1	1,094.4	1,149.7	1,226.4	1,286.4	1,349.4
Offsetting governmental receipts	*	*	*	3.0	9.4	8.6	2.2
Proprietary receipts	135.9	141.0	146.6	155.9	163.8	171.9	180.3
Receipts from Federal funds:							
Interest	128.5	158.5	151.5	151.0	149.0	146.7	147.7
Other	634.3	566.7	557.8	607.2	664.6	700.4	716.9
Subtotal, income	1,805.3	1,879.3	1,950.3	2,066.8	2,213.2	2,314.0	2,396.6
Outgo (–):							
To the public	–1,716.8	–1,810.6	–1,872.2	–1,947.6	–2,061.2	–2,136.2	–2,227.9
To Federal funds	1.4	–1.0	–1.0	–1.1	–1.1	–1.2	–1.3
Subtotal, outgo	–1,715.4	–1,811.6	–1,873.2	–1,948.7	–2,062.3	–2,137.4	–2,229.1
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	–38.6	–90.8	–74.4	–32.9	1.9	29.9	19.8
Interest from Federal funds	128.5	158.5	151.5	151.0	149.0	146.7	147.7
Subtotal, surplus or deficit (–)	89.9	67.6	77.0	118.1	150.9	176.6	167.4
Borrowing/Transfers/lapses (net)	0.2	0.2	*	....	....	....	....
Subtotal, change in fund balance	0.2	0.2	*	....	....	....	....
Balance, end of year	4,388.5	4,456.0	4,533.1	4,651.2	4,802.1	4,978.7	5,146.2

Note: In contrast to table 27–1, income also includes income that is offset within expenditure accounts as offsetting collections from Federal sources, instead of being deposited in receipt accounts.

of these balances are invested in Treasury securities and earn interest. The balances represent the value, in current dollars, of the unspent portion of (1) taxes and fees received by the Government and dedicated to trust funds and (2) intragovernmental payments (from the general fund and from agencies) to the trust funds.

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 27–4 shows estimates of income, outgo, and balances for 2012 through 2018 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 27–3 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, 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, Supplementary Medical Insurance (SMI), finances Part B (outpatient and physician benefits) and Part D (prescription drug benefits). SMI receives premium payments from covered individuals and transfers from the general fund of the Treasury for the portion of Part B and Part D costs not covered by premiums or, for Part D, transfers from States. In addition, like other 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 2012 the Unemployment Trust Fund borrowed $12.9 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 27–5 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 27–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS

(In billions of dollars)

	2012 Actual	Estimate					
		2013	2014	2015	2016	2017	2018
Airport and Airway Trust Fund							
Balance, start of year	10.3	11.6	11.6	11.5	12.0	13.1	14.9
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	10.3	11.6	11.6	11.5	12.0	13.1	14.9
Income:							
Governmental receipts	12.5	11.9	13.0	13.5	14.1	14.7	15.3
Offsetting governmental receipts							
Proprietary receipts	....	*	*	*	*	*	*
Receipts from Federal funds:							
Interest	0.2	0.2	0.2	0.2	0.2	0.3	0.4
Other	0.1	0.1	*	*	*	*	*
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	12.8	12.3	13.3	13.8	14.4	15.1	15.8
Outgo (–):							
To the public	–11.5	–12.3	–13.4	–13.3	–13.3	–13.3	–13.6
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–11.5	–12.3	–13.4	–13.3	–13.3	–13.3	–13.6
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	1.1	–0.3	–0.3	0.3	0.9	1.5	1.8
Interest	0.2	0.2	0.2	0.2	0.2	0.3	0.4
Subtotal, surplus or deficit(–)	1.3	–0.1	–0.1	0.5	1.1	1.8	2.2
Borrowing/Transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	1.3	–0.1	–0.1	0.5	1.1	1.8	2.2
Balance, end of year	11.6	11.6	11.5	12.0	13.1	14.9	17.1
Civil Service Retirement and Disability Fund							
Balance, start of year	803.8	826.6	839.7	847.6	852.7	860.0	865.8
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	803.8	826.6	839.7	847.6	852.7	860.0	865.8
Income:							
Governmental receipts	3.7	3.7	4.5	5.2	6.1	6.4	6.6
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	....	....	....	....	....	....	....
Receipts from Federal funds:							
Interest	34.6	31.6	30.0	28.7	27.6	27.0	27.5
Other	58.4	57.8	58.9	60.0	61.6	63.7	65.3
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	96.8	93.2	93.3	94.0	95.2	97.1	99.4
Outgo (–):							
To the public	–74.1	–80.0	–85.5	–88.9	–87.9	–91.4	–95.0
Payments to other funds	–*	–*	–*	–*	–*	–*	–*
Subtotal, outgo	–74.1	–80.0	–85.5	–88.9	–87.9	–91.4	–95.0
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–11.9	–18.5	–22.1	–23.6	–20.3	–21.3	–23.1
Interest	34.6	31.6	30.0	28.7	27.6	27.0	27.5
Subtotal, surplus or deficit(–)	22.7	13.2	7.9	5.1	7.3	5.7	4.4
Borrowing/Transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	22.7	13.2	7.9	5.1	7.3	5.7	4.4
Balance, end of year	826.6	839.7	847.6	852.7	860.0	865.8	870.2

Table 27–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2012 Actual	Estimate					
		2013	2014	2015	2016	2017	2018
Federal Employees Health Benefits Fund							
Balance, start of year	19.1	21.2	21.8	22.0	21.9	21.6	21.4
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	19.1	21.2	21.8	22.0	21.9	21.6	21.4
Income:							
Governmental receipts	....	....	....	....	....	....	....
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	13.1	13.4	14.2	14.9	15.9	16.9	18.0
Receipts from Federal funds:							
Interest	0.2	0.3	0.2	0.2	0.2	0.3	0.6
Other	31.5	32.2	33.6	35.2	37.3	39.7	42.3
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	44.7	46.0	48.0	50.3	53.3	56.9	60.9
Outgo (–):							
To the public	–42.6	–45.3	–47.8	–50.4	–53.7	–57.0	–60.6
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–42.6	–45.3	–47.8	–50.4	–53.7	–57.0	–60.6
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	1.9	0.3	–*	–0.3	–0.6	–0.4	–0.3
Interest	0.2	0.3	0.2	0.2	0.2	0.3	0.6
Subtotal, surplus or deficit(–)	2.1	0.6	0.2	–0.1	–0.4	–0.1	0.3
Borrowing/Transfers/lapses (net)	–*	....	....	....	....	....	....
Total, change in fund balance	2.1	0.6	0.2	–0.1	–0.4	–0.1	0.3
Balance, end of year	21.2	21.8	22.0	21.9	21.6	21.4	21.7
Foreign Military Sales Trust Fund							
Balance, start of year	18.5	18.9	18.1	17.8	17.3	17.0	17.0
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	18.5	18.9	18.1	17.8	17.3	17.0	17.0
Income:							
Governmental receipts	....	....	....	....	....	....	....
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	26.3	31.4	33.0	35.0	35.0	34.4	32.7
Receipts from Federal funds:							
Interest	....	....	....	....	....	....	....
Other	....	....	....	....	....	....	....
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	26.3	31.4	33.0	35.0	35.0	34.4	32.7
Outgo (–):							
To the public	–25.9	–32.2	–33.3	–35.6	–35.3	–34.5	–32.7
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–25.9	–32.2	–33.3	–35.6	–35.3	–34.5	–32.7
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	0.4	–0.8	–0.3	–0.6	–0.2	–0.1	*
Interest	....	....	....	....	....	....	....
Subtotal, surplus or deficit(–)	0.4	–0.8	–0.3	–0.6	–0.2	–0.1	*
Borrowing/Transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	0.4	–0.8	–0.3	–0.6	–0.2	–0.1	*
Balance, end of year	18.9	18.1	17.8	17.3	17.0	17.0	17.0

Table 27–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2012 Actual	Estimate 2013	2014	2015	2016	2017	2018
Medicare: Hospital Insurance (HI) Trust Fund							
Balance, start of year	245.7	229.3	200.7	186.1	183.5	181.0	184.5
Adjustments	0.1	....	....	....	....	....	....
Total balance, start of year	245.8	229.3	200.7	186.1	183.5	181.0	184.5
Income:							
Governmental receipts	201.7	209.1	224.5	238.4	254.7	269.1	284.8
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	10.9	9.6	9.8	9.8	10.0	10.2	10.5
Receipts from Federal funds:							
Interest	11.3	10.0	8.8	8.3	8.2	8.0	7.8
Other	25.0	21.1	26.3	29.0	31.9	34.7	37.7
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	248.9	249.8	269.3	285.6	304.8	322.0	340.9
Outgo (–):							
To the public	–265.3	–278.4	–283.9	–288.2	–307.4	–318.5	–335.3
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–265.3	–278.4	–283.9	–288.2	–307.4	–318.5	–335.3
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–27.8	–38.7	–23.4	–10.9	–10.8	–4.5	–2.3
Interest	11.3	10.0	8.8	8.3	8.2	8.0	7.8
Subtotal, surplus or deficit(–)	–16.5	–28.7	–14.6	–2.6	–2.5	3.5	5.6
Borrowing/Transfers/lapses (net)	....	–*	....	....	....	....	....
Total, change in fund balance	–16.5	–28.7	–14.6	–2.6	–2.5	3.5	5.6
Balance, end of year	229.3	200.7	186.1	183.5	181.0	184.5	190.0
Medicare: Supplementary Medical Insurance (SMI) Trust Fund							
Balance, start of year	72.8	71.7	69.9	68.6	72.4	71.4	79.3
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	72.8	71.7	69.9	68.6	72.4	71.4	79.3
Income:							
Governmental receipts	2.8	4.2	3.0	3.0	3.0	3.8	4.1
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	74.4	79.0	82.3	88.4	95.1	102.6	111.3
Receipts from Federal funds:							
Interest	2.9	2.1	3.0	3.0	3.3	3.6	3.9
Other	212.7	233.0	255.5	277.5	299.5	313.3	329.2
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	292.9	318.3	343.8	372.0	400.9	423.3	448.4
Outgo (–):							
To the public	–293.9	–320.2	–345.0	–368.2	–401.9	–415.4	–433.0
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–293.9	–320.2	–345.0	–368.2	–401.9	–415.4	–433.0
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–4.0	–3.9	–4.2	0.8	–4.3	4.2	11.6
Interest	2.9	2.1	3.0	3.0	3.3	3.6	3.9
Subtotal, surplus or deficit(–)	–1.1	–1.9	–1.2	3.8	–1.0	7.9	15.4
Borrowing/Transfers/lapses (net)	....	–*	....	....	....	....	....
Total, change in fund balance	–1.1	–1.9	–1.2	3.8	–1.0	7.9	15.4
Balance, end of year	71.7	69.9	68.6	72.4	71.4	79.3	94.7

Table 27–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued

(In billions of dollars)

	2012 Actual	Estimate					
		2013	2014	2015	2016	2017	2018
Military Retirement Fund							
Balance, start of year	368.6	375.7	422.3	470.7	524.8	577.9	635.2
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	368.6	375.7	422.3	470.7	524.8	577.9	635.2
Income:							
Governmental receipts	....	....	....	....	....	....	....
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	....	....	....	....	....	....	....
Receipts from Federal funds:							
Interest	–36.3	4.9	5.8	11.2	13.5	12.3	12.8
Other	92.2	95.4	98.0	100.0	102.9	105.9	109.3
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	55.9	100.3	103.8	111.2	116.4	118.2	122.1
Outgo:							
To the public	–48.8	–53.7	–55.4	–57.1	–63.3	–60.9	–57.8
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–48.8	–53.7	–55.4	–57.1	–63.3	–60.9	–57.8
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	43.4	41.7	42.6	42.9	39.6	45.0	51.4
Interest	–36.3	4.9	5.8	11.2	13.5	12.3	12.8
Subtotal, surplus or deficit(–)	7.1	46.6	48.4	54.1	53.1	57.3	64.2
Borrowing/Transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	7.1	46.6	48.4	54.1	53.1	57.3	64.2
Balance, end of year	375.7	422.3	470.7	524.8	577.9	635.2	699.4
Railroad Retirement Trust Funds							
Balance, start of year	18.6	20.3	18.8	17.2	15.7	14.0	12.6
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	18.6	20.3	18.8	17.2	15.7	14.0	12.6
Income:							
Governmental receipts	4.3	4.9	5.0	5.3	5.5	5.6	5.8
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	3.5	0.6	0.5	0.6	0.6	0.7	0.7
Receipts from Federal funds:							
Interest	*	*	*	*	*	*	*
Other	0.9	0.8	0.7	0.7	0.7	0.8	0.8
Receipts from Trust funds	4.7	4.3	4.6	4.8	4.6	5.1	5.2
Subtotal, income	13.4	10.6	10.8	11.4	11.4	12.2	12.5
Outgo:							
To the public	–11.6	–12.0	–12.3	–12.7	–13.0	–13.4	–13.7
Payments to other funds	–0.1	–0.1	–0.1	–0.1	–0.2	–0.2	–0.2
Subtotal, outgo	–11.7	–12.1	–12.5	–12.9	–13.2	–13.6	–14.0
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	1.7	–1.5	–1.7	–1.5	–1.8	–1.5	–1.5
Interest	*	*	*	*	*	*	*
Subtotal, surplus or deficit(–)	1.7	–1.5	–1.7	–1.5	–1.7	–1.4	–1.4
Borrowing/Transfers/lapses (net)	*	–*	....	....	....	....	....
Total, change in fund balance	1.7	–1.5	–1.7	–1.5	–1.7	–1.4	–1.4
Balance, end of year	20.3	18.8	17.2	15.7	14.0	12.6	11.1

Table 27–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2012 Actual	Estimate 2013	2014	2015	2016	2017	2018
Social Security:							
Old-Age, Survivors and Disability Insurance (OASDI) Trust Funds							
Balance, start of year	2,653.5	2,718.1	2,751.1	2,770.3	2,777.7	2,779.8	2,771.5
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	2,653.5	2,718.1	2,751.1	2,770.3	2,777.7	2,779.8	2,771.5
Income:							
Governmental receipts	569.5	673.5	739.1	778.3	825.6	868.7	917.5
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Receipts from Federal funds:							
Interest	112.4	105.6	100.0	95.6	92.0	90.7	89.4
Other	167.4	84.1	57.7	62.9	67.5	72.1	76.7
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	849.4	863.3	896.9	936.9	985.2	1,031.6	1,083.6
Outgo:							
To the public	–779.3	–825.0	–872.2	–923.7	–977.5	–1,033.8	–1,092.8
Payments to other funds	–5.5	–5.2	–5.5	–5.8	–5.5	–6.1	–6.2
Subtotal, outgo	–784.9	–830.2	–877.7	–929.5	–983.1	–1,039.9	–1,099.0
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–47.8	–72.5	–80.9	–88.3	–89.9	–99.0	–104.7
Interest	112.4	105.6	100.0	95.6	92.0	90.7	89.4
Subtotal, surplus or deficit(–)	64.6	33.1	19.2	7.4	2.1	–8.3	–15.4
Borrowing/Transfers/lapses (net)	0.2	0.2	....	....	....	....	....
Total, change in fund balance	64.8	33.3	19.2	7.4	2.1	–8.3	–15.4
Balance, end of year	2,718.1	2,751.1	2,770.3	2,777.7	2,779.8	2,771.5	2,756.1
Transportation Trust Fund							
Balance, start of year	21.6	15.6	9.5	9.8	30.1	71.0	117.7
Adjustments	0.7	....	....	....	....	....	....
Total balance, start of year	22.3	15.6	9.5	9.8	30.1	71.0	117.7
Income:							
Governmental receipts	40.2	38.7	39.0	39.4	39.8	40.0	40.3
Offsetting governmental receipts	*	*	*	*	*	*	*
Proprietary receipts	0.1	*	....	....	....	....	....
Receipts from Federal funds:							
Interest	*	*	....	....	....	....	....
Other	0.1	6.6	15.5	37.5	58.8	65.9	51.2
Receipts from Trust funds	2.4	....	....	....	....	....	....
Subtotal, income	42.8	45.2	54.5	76.9	98.6	105.9	91.5
Outgo:							
To the public	–49.5	–51.3	–54.2	–56.6	–57.7	–59.2	–60.8
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–49.5	–51.3	–54.2	–56.6	–57.7	–59.2	–60.8
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–6.7	–6.1	0.3	20.3	40.9	46.7	30.7
Interest	*	*	....	....	....	....	....
Subtotal, surplus or deficit(–)	–6.7	–6.1	0.3	20.3	40.9	46.7	30.7
Borrowing/Transfers/lapses (net)	–*	–*	....	....	....	....	....
Total, change in fund balance	–6.7	–6.1	0.3	20.3	40.9	46.7	30.7
Balance, end of year	15.6	9.5	9.8	30.1	71.0	117.7	148.4

Table 27–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued

(In billions of dollars)

	2012 Actual	Estimate					
		2013	2014	2015	2016	2017	2018
Unemployment Trust Fund							
Balance, start of year	–26.7	–12.6	–3.6	4.7	14.1	35.9	58.2
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	–26.7	–12.6	–3.6	4.7	14.1	35.9	58.2
Income:							
Governmental receipts	66.6	60.6	58.2	58.0	69.1	69.1	66.1
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	1.2	*	*	0.4	0.2	0.2	0.2
Receipts from Federal funds:							
Interest	0.5	0.6	0.7	0.9	1.0	1.1	1.4
Other	42.1	31.9	8.2	1.0	0.9	0.9	0.9
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	110.4	93.1	67.2	60.2	71.2	71.3	68.5
Outgo:							
To the public	–96.2	–84.1	–58.8	–50.8	–49.4	–49.0	–49.0
Payments to Federal funds	....	....	....	....	....	....	....
Subtotal, outgo	–96.2	–84.1	–58.8	–50.8	–49.4	–49.0	–49.0
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	13.7	8.4	7.6	8.5	20.8	21.2	18.1
Interest	0.5	0.6	0.7	0.9	1.0	1.1	1.4
Subtotal, surplus or deficit(–)	14.2	8.9	8.3	9.4	21.8	22.3	19.5
Borrowing/Transfers/lapses (net)	*	....	....	....	....	....	....
Total, change in fund balance	14.2	8.9	8.3	9.4	21.8	22.3	19.5
Balance, end of year	–12.6	–3.6	4.7	14.1	35.9	58.2	77.6
Veterans Life Insurance Funds							
Balance, start of year	9.5	8.9	8.1	7.4	6.6	5.8	5.0
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	9.5	8.9	8.1	7.4	6.6	5.8	5.0
Income:							
Governmental receipts	....	....	....	....	....	....	....
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	0.3	0.3	0.2	0.2	0.2	0.2	0.1
Receipts from Federal funds:							
Interest	0.5	0.4	0.4	0.3	0.3	0.2	0.2
Other	....	....	....	....	....	....	....
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	0.8	0.7	0.6	0.5	0.4	0.4	0.3
Outgo:							
To the public	–1.5	–1.4	–1.4	–1.3	–1.2	–1.1	–1.1
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–1.5	–1.4	–1.4	–1.3	–1.2	–1.1	–1.1
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–1.1	–1.2	–1.1	–1.1	–1.0	–1.0	–0.9
Interest	0.5	0.4	0.4	0.3	0.3	0.2	0.2
Subtotal, surplus or deficit(–)	–0.7	–0.8	–0.8	–0.8	–0.8	–0.8	–0.7
Borrowing/Transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	–0.7	–0.8	–0.8	–0.8	–0.8	–0.8	–0.7
Balance, end of year	8.9	8.1	7.4	6.6	5.8	5.0	4.3

Table 27–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued

(In billions of dollars)

	2012 Actual	Estimate					
		2013	2014	2015	2016	2017	2018
Other Trust Funds							
Balance, start of year	82.4	83.2	88.1	99.5	122.5	153.7	195.8
Adjustments	*	....	....	....	....	....	....
Total balance, start of year	82.4	83.2	88.1	99.5	122.5	153.7	195.8
Income:							
Governmental receipts	5.2	6.6	8.1	8.6	8.6	8.9	9.0
Offsetting governmental receipts	*	*	*	3.0	9.4	8.6	2.2
Proprietary receipts	6.1	6.5	6.4	6.5	6.6	6.7	6.7
Receipts from Federal funds:							
Interest	2.0	2.8	2.4	2.5	2.7	3.1	3.8
Other	3.9	3.7	3.4	3.3	3.4	3.4	3.5
Receipts from Trust funds	*	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal, income	17.3	19.7	20.4	24.0	30.8	30.8	25.3
Outgo:							
To the public	–16.6	–14.7	–8.9	–0.9	0.5	11.4	17.5
Payments to other funds	–*	–0.1	–0.1	–0.1	–0.1	–0.2	–0.2
Subtotal, outgo	–16.6	–14.7	–9.0	–1.0	0.4	11.2	17.3
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–1.4	2.2	8.9	20.5	28.5	39.0	38.8
Interest	2.0	2.8	2.4	2.5	2.7	3.1	3.8
Subtotal, surplus or deficit(–)	0.7	4.9	11.4	23.0	31.2	42.1	42.6
Borrowing/Transfers/lapses (net)	–*	–*	*	....	....	....	....
Total, change in fund balance	0.7	4.9	11.4	23.0	31.2	42.1	42.6
Balance, end of year	83.2	88.1	99.5	122.5	153.7	195.8	238.4

Note: The effects for 2014 through 2018 of the Budget's Medicare savings proposals are included in "Other Trust Funds" in Table 27-4, because the detailed estimates of the effects of those proposals on the Medicare Hospital Insurance and Supplementary Medical Insurance trust funds and associated receipt accounts were not available in time for publication.

Table 27–5. INCOME, OUTGO, AND BALANCE OF MAJOR FEDERAL FUNDS

(In billions of dollars)

	2012 Actual	Estimate					
		2013	2014	2015	2016	2017	2018
Abandoned Mine Reclamation Fund							
Balance, start of year	2.7	2.8	2.8	2.8	2.9	2.9	2.9
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	2.7	2.8	2.8	2.8	2.9	2.9	2.9
Income:							
Governmental receipts	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Proprietary receipts	....	....	....	....	....	....	....
Receipts from Federal funds:							
Interest	0.1	0.1	*	*	*	*	0.1
Other	....	....	....	....	....	....	....
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Outgo (–):							
To the public	–0.3	–0.2	–0.2	–0.2	–0.3	–0.3	–0.4
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–0.3	–0.2	–0.2	–0.2	–0.3	–0.3	–0.4
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–*	–*	*	*	–*	–*	–0.1
Interest	0.1	0.1	*	*	*	*	0.1
Subtotal, surplus or deficit(–)	*	*	*	*	*	*	–*
Borrowing/Transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	*	*	*	*	*	*	–*
Balance, end of year	2.8	2.8	2.8	2.9	2.9	2.9	2.9
Credit Union Share Insurance Fund							
Balance, start of year	10.7	10.3	10.6	10.8	11.1	11.5	12.2
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	10.7	10.3	10.6	10.8	11.1	11.5	12.2
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	0.3	0.6	0.5	0.5	0.5	0.7	0.8
Receipts from Federal funds:							
Interest	0.2	0.2	0.2	0.3	0.4	0.4	0.5
Other	*	....	....	....	....	....	....
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	0.5	0.8	0.7	0.7	0.9	1.2	1.3
Outgo (–):							
To the public	–0.7	–0.5	–0.4	–0.4	–0.4	–0.5	–0.5
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–0.7	–0.5	–0.4	–0.4	–0.4	–0.5	–0.5
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–0.4	0.1	*	*	0.1	0.3	0.3
Interest	0.2	0.2	0.2	0.3	0.4	0.4	0.5
Subtotal, surplus or deficit(–)	–0.2	0.3	0.2	0.3	0.4	0.7	0.8
Borrowing/Transfers/lapses (net)	–0.3	....	....	....	....	....	....
Total, change in fund balance	–0.5	0.3	0.2	0.3	0.4	0.7	0.8
Balance, end of year	10.3	10.6	10.8	11.1	11.5	12.2	13.0

Table 27–5. INCOME, OUTGO, AND BALANCE OF MAJOR FEDERAL FUNDS

(In billions of dollars)

	2012 Actual	Estimate 2013	2014	2015	2016	2017	2018
Department of Defense Medicare-Eligible Retiree Health Care Fund							
Balance, start of year	186.1	175.9	184.9	190.0	194.9	200.2	205.9
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	186.1	175.9	184.9	190.0	194.9	200.2	205.9
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	....	....	....	....	....	....	....
Receipts from Federal funds:							
Interest	–19.4	4.2	4.1	4.2	4.5	4.9	6.3
Other	....	....	....	....	....	....	....
Receipts from Trust funds	17.9	14.7	10.5	10.7	11.3	11.8	12.4
Subtotal, income	–1.6	18.8	14.6	14.9	15.8	16.7	18.7
Outgo (–):							
To the public	–8.7	–9.9	–9.5	–10.0	–10.5	–11.0	–11.5
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–8.7	–9.9	–9.5	–10.0	–10.5	–11.0	–11.5
Change in fund balance:							
Surplus or deficit(–):	....	....	....	....	....	....	....
Excluding interest	9.2	4.8	1.0	0.7	0.8	0.8	0.9
Interest	–19.4	4.2	4.1	4.2	4.5	4.9	6.3
Subtotal, surplus or deficit(–)	–10.2	9.0	5.1	5.0	5.3	5.7	7.2
Borrowing/Transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	–10.2	9.0	5.1	5.0	5.3	5.7	7.2
Balance, end of year	175.9	184.9	190.0	194.9	200.2	205.9	213.1
Overseas Private Investment Corporation Noncredit Account							
Balance, start of year	5.1	5.2	5.3	5.4	5.5	5.7	5.8
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	5.1	5.2	5.3	5.4	5.5	5.7	5.8
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	0.1	*	*	*	*	*	*
Receipts from Federal funds:							
Interest	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Other	*	*	*	*	*	*	*
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	0.3	0.2	0.2	0.2	0.2	0.2	0.2
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	0.1	0.1	0.1	0.1	0.1
Subtotal, surplus or deficit(–)	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Borrowing/Transfers/lapses (net)	–0.1	–0.1	–0.1	....	....	....	....
Total, change in fund balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Balance, end of year	5.2	5.3	5.4	5.5	5.7	5.8	5.9

Table 27–5. INCOME, OUTGO, AND BALANCE OF MAJOR FEDERAL FUNDS

(In billions of dollars)

	2012 Actual	Estimate					
		2013	2014	2015	2016	2017	2018
Pension Benefit Guaranty Corporation Fund							
Balance, start of year	15.6	15.8	16.8	18.4	23.5	28.2	31.9
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	15.6	15.8	16.8	18.4	23.5	28.2	31.9
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	5.5	6.8	7.9	12.2	12.7	12.8	13.0
Receipts from Federal funds:							
Interest	0.7	0.7	0.7	0.8	1.0	1.1	1.2
Other	....	....	....	....	....	....	....
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	6.2	7.4	8.6	13.0	13.7	13.9	14.2
Outgo (–):							
To the public	–5.9	–6.5	–7.0	–7.9	–9.0	–10.2	–11.3
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–5.9	–6.5	–7.0	–7.9	–9.0	–10.2	–11.3
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–0.4	0.3	0.9	4.2	3.7	2.6	1.7
Interest	0.7	0.7	0.7	0.8	1.0	1.1	1.2
Subtotal, surplus or deficit(–)	0.4	1.0	1.6	5.1	4.7	3.7	2.9
Borrowing/Transfers/lapses (net)	–0.1	....	....	....	....	....	....
Total, change in fund balance	0.3	1.0	1.6	5.1	4.7	3.7	2.9
Balance, end of year	15.8	16.8	18.4	23.5	28.2	31.9	34.8

28. 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 because all of these affect the government's claim on economic resources.

Federal transactions are included in the NIPAs as part of the government sector.[1] The Federal subsector is designed to measure certain important economic effects of Federal transactions in a way that is consistent with the conceptual framework of the entire set of integrated accounts. The NIPA Federal subsector is not 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 coverage. These differences cause current receipts and expenditures in the NIPAs to differ from total receipts and outlays in the budget, albeit by relatively small amounts.[2] Differences in timing and coverage also cause the NIPA measure of net Federal Government saving to differ from the budget surplus or deficit. Unlike timing and coverage differences, netting and grossing differences have equal effects on receipts and expenditures and thus have no effect on net Government saving. The NIPAs also combine transactions into different categories from those used in the budget.

Netting and grossing differences arise because the budget records certain transactions as offsets to outlays that are recorded as current receipts in the NIPAs (or vice versa). The budget treats 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. 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 impute the social insurance contributions to the expenditures of employing agencies—again, treating the Federal Government like any other employer.

[1] 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.

[2] Over the period 1994–2012, NIPA current expenditures averaged 3.8 percent higher than budget outlays, while NIPA current receipts averaged 3.9 percent higher than budget receipts. Including capital transfers and net investment, NIPA total expenditures averaged 6.7 percent higher than budget outlays, while NIPA total receipts averaged 5.0 percent higher than budget receipts.

Timing differences for receipts occur because the NIPAs generally record business taxes when they accrue, while the budget generally records receipts when cash is 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 current expenditures, such as when the first day of a month falls on a weekend or holiday and therefore 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. Similar timing differences also occur in gross investment, particularly in national defense investment, where work in progress over long-term production timelines are recognized as business inventories in the NIPAs until the item is completed and delivered to the Government. The budget reflects all payments as current outlays in the period in which the work is undertaken.

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 NIPA current expenditures exclude current investments but include a depreciation charge on past investments ("consumption of general government fixed capital").' 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, sale, or transfer 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 Department of Defense Medicare-Eligible 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 since they do include in total revenues the taxation of capital gains.

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 NIPA 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.[3]

The treatment of Government pension plan income and outgo creates a coverage difference. Whereas the budget treats employee contributions to these pension plans as governmental receipts, and employer contributions by agencies as offsets to outlays because they are intragovernmental, the NIPAs treat employee contributions 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, and treats employer contributions as personal income. 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.

[3] The range of the Government's financial stabilization efforts is discussed further in Chapter 3 of this volume, "Financial Stabilization Efforts and their Budgetary Effects." 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 TARP, 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. Purchase of Government Sponsored Enterprise (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.

Table 28–1. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 2003–2014
(In billions of dollars)

											Estimate	
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CURRENT RECEIPTS												
Current tax receipts	1056.5	1115.7	1346.2	1538.5	1632.0	1511.7	1178.9	1259.7	1472.3	1625.7	1720.2	1928.8
Personal current taxes	781.5	782.3	913.2	1033.7	1140.6	1122.9	900.1	863.7	1040.0	1131.9	1203.8	1340.6
Taxes on production and imports	88.7	93.4	98.0	99.1	94.4	95.2	90.4	94.7	105.0	118.6	122.3	149.6
Taxes on corporate income	177.8	230.8	323.0	393.8	380.8	277.1	170.7	287.2	311.3	358.4	375.7	420.7
Taxes from the rest of the world	8.4	9.3	12.0	11.8	16.1	16.4	17.7	14.2	16.0	16.7	18.4	17.9
Contributions for government social insurance	753.4	795.4	847.9	892.7	936.6	969.4	952.5	960.9	935.0	931.1	1057.0	1136.2
Income receipts on assets	21.6	23.1	24.1	25.2	28.4	32.2	41.9	52.2	55.4	50.5	46.6	65.2
Current transfer receipts	24.9	27.8	32.4	38.1	42.2	49.1	69.9	70.3	68.9	54.0	59.5	92.8
Current surplus of government enterprises	4.0	1.7	–3.7	–3.3	–2.3	–3.5	–4.1	–5.6	–10.9	–12.0	–37.0	–17.7
Total current receipts	**1860.4**	**1963.7**	**2246.9**	**2491.2**	**2636.9**	**2558.9**	**2239.1**	**2337.5**	**2520.7**	**2649.3**	**2846.3**	**3205.3**
CURRENT EXPENDITURES												
Consumption expenditures	646.3	704.7	756.5	797.6	831.2	906.7	969.8	1040.6	1061.8	1073.0	1077.5	1075.7
Defense	422.9	469.7	507.3	531.3	562.8	616.3	653.6	694.5	710.6	708.7	689.3	673.1
Nondefense	223.4	235.0	249.3	266.3	268.4	290.4	316.3	346.1	351.2	364.3	388.2	402.6
Current transfer payments	1317.0	1392.2	1473.4	1566.0	1661.2	1808.0	2074.0	2286.8	2325.2	2263.0	2389.7	2548.1
Government social benefits	960.5	1014.9	1076.9	1166.6	1249.5	1372.3	1561.6	1714.0	1748.1	1750.8	1849.1	1939.9
Grants-in-aid to State and local governments	328.4	347.8	359.6	360.9	373.9	389.8	458.7	520.1	518.7	461.6	483.1	555.8
Other transfers to the rest of the world	28.1	29.5	37.0	38.5	37.8	45.9	53.7	52.6	58.3	50.6	57.5	52.4
Interest payments	215.7	215.8	242.8	284.4	302.9	314.2	239.2	276.4	322.5	308.5	307.4	311.6
Subsidies	48.1	44.6	57.6	54.6	47.6	48.9	56.9	55.1	60.0	60.6	71.7	71.8
Wage disbursements less accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current expenditures	**2227.1**	**2357.3**	**2530.3**	**2702.6**	**2842.9**	**3077.8**	**3339.9**	**3658.9**	**3769.5**	**3705.1**	**3846.3**	**4007.2**
Net Federal Government saving	**–366.7**	**–393.6**	**–283.4**	**–211.4**	**–206.0**	**–518.9**	**–1100.8**	**–1321.4**	**–1248.8**	**–1055.8**	**–1000.0**	**–801.9**
ADDENDUM: TOTAL RECEIPTS AND EXPENDITURES												
Current receipts	1860.3	1963.7	2246.9	2491.2	2636.9	2558.9	2239.1	2337.5	2520.7	2649.3	2846.3	3205.3
Capital transfer receipts	21.7	24.7	24.6	27.7	25.8	28.6	23.3	18.3	7.3	13.8	12.8	12.9
Total receipts	**1882.0**	**1988.4**	**2271.5**	**2518.9**	**2662.7**	**2587.5**	**2262.4**	**2355.8**	**2528.0**	**2663.1**	**2859.1**	**3218.2**
Current expenditures	2227.1	2357.3	2530.3	2702.6	2842.9	3077.8	3339.9	3658.9	3769.5	3705.1	3846.3	4007.2
Net investment:												
Gross government investment:												
Defense	61.4	67.1	73.8	78.6	86.1	98.7	111.1	114.4	110.8	106.2	102.0	87.3
Nondefense	33.7	33.5	34.8	40.0	40.1	41.9	45.4	50.3	52.3	48.3	44.6	41.2
Less: Consumption of fixed capital:												
Defense	61.4	63.7	67.8	72.0	76.3	81.6	85.8	89.7	94.8	97.8	100.3	99.6
Nondefense	29.0	29.7	31.3	33.0	34.8	36.4	38.0	39.0	40.7	42.5	45.6	46.8
Capital transfer payments	51.3	62.2	83.7	69.5	69.4	90.7	268.3	176.7	131.1	126.9	115.1	111.5
Net purchases of nonproduced assets	*	0.1	–0.7	–0.3	–13.9	–10.0	–16.6	0.1	–0.1	0.1	0.1	0.1
Total expenditures	**2283.0**	**2427.0**	**2622.7**	**2785.5**	**2913.5**	**3181.1**	**3624.3**	**3871.7**	**3928.1**	**3846.3**	**3962.2**	**4100.9**
Net lending or net borrowing (–)	**–400.9**	**–438.7**	**–351.3**	**–266.6**	**–250.8**	**–593.6**	**–1361.9**	**–1515.9**	**–1400.1**	**–1183.2**	**–1103.1**	**–882.7**

The NIPAs, like the budget, include all interest transactions with the public, including interest received by and paid to the loan financing accounts[4]; and both the NIPAs and the budget include administrative costs of credit program operations.

[4] The budget excludes interest transactions between the public and the nonbudgetary financing accounts, but includes interest transactions between Treasury and the financing accounts.

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. The budget treats these deposit insurance transactions on a cash basis. This exclusion from the NIPAs 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 28–1 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 — 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 (GSEs) Fannie Mae and Freddie Mac. The current transfer receipts category, virtually all of which is netted against outlays in the budget, consists primarily of deposit insurance premiums, regulatory and other fees, fines and other receipts from both individuals and businesses, and net insurance settlements from the National Flood Insurance Program, which can be negative or positive receipts depending on whether flood insurance claims paid exceed premiums collected for the current period. 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

Table 28–2. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPAS
(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
RECEIPTS												
Budget receipts	1782.3	1880.1	2153.6	2406.9	2568.0	2524.0	2105.0	2162.7	2303.5	2450.2	2712.0	3033.6
Contributions to government employee retirement plans	–4.6	–4.6	–4.5	–4.4	–4.3	–4.2	–4.1	–4.1	–4.1	–3.7	–3.7	–4.5
Capital transfers received	–21.7	–24.7	–24.6	–27.7	–25.8	–28.6	–23.3	–18.3	–7.3	–13.8	–12.7	–12.8
Other coverage differences	–5.4	–6.4	–6.9	–7.0	–7.5	–7.7	–7.8	–8.3	–8.0	–9.6	–9.6	–9.3
Netting and grossing	87.2	91.5	97.6	110.9	121.8	137.1	168.1	219.8	172.7	151.7	148.5	211.9
Timing differences	22.6	27.7	31.6	12.6	–15.4	–61.7	1.2	–14.3	63.9	74.6	11.8	–13.7
NIPA current receipts	**1860.3**	**1963.7**	**2246.9**	**2491.2**	**2636.9**	**2558.9**	**2239.0**	**2337.6**	**2520.7**	**2649.3**	**2846.2**	**3205.2**
EXPENDITURES												
Budget outlays	2159.9	2292.8	2472.0	2655.0	2728.7	2982.5	3517.7	3456.2	3603.1	3537.1	3684.9	3777.8
Government employee retirement plan transactions	33.0	33.2	38.9	41.6	39.9	52.0	30.6	51.0	62.0	–14.2	37.1	32.4
Deposit insurance and other financial transactions	–1.8	–0.9	–0.5	–9.8	–12.7	–57.9	–511.0	–35.7	28.4	–58.8	–79.2	–97.9
Capital transfer payments	–45.7	–46.8	–65.1	–51.8	–53.1	–59.2	–236.3	–142.2	–99.0	–97.7	–88.0	–88.4
Net purchases of nonproduced assets	–*	–0.1	0.7	0.3	13.9	10.0	16.6	–0.1	0.1	–0.1	–0.1	–0.1
Net investment	–4.7	–7.3	–9.5	–13.6	–15.1	–22.7	–32.7	–35.9	–27.6	–14.2	–0.7	17.8
Other coverage differences	–1.9	–8.2	–12.4	–23.3	9.7	20.9	396.9	149.6	53.1	88.7	130.4	139.2
Netting and grossing differences	87.2	91.5	97.6	110.9	121.8	137.1	168.1	219.8	172.7	151.7	148.5	211.9
Timing differences	1.1	3.1	8.6	–6.5	9.6	15.0	–9.8	–3.9	–23.3	112.3	13.4	14.5
NIPA current expenditures	**2227.0**	**2357.4**	**2530.2**	**2702.7**	**2842.8**	**3077.8**	**3340.0**	**3658.9**	**3769.4**	**3705.0**	**3846.3**	**4007.2**
ADDENDUM												
Budget surplus or deficit (–)	–377.6	–412.7	–318.4	–248.1	–160.7	–458.5	–1412.7	–1293.5	–1299.6	–1086.9	–972.9	–744.2
NIPA net Federal Government saving	–366.7	–393.7	–283.3	–211.5	–205.9	–518.9	–1101.0	–1321.3	–1248.7	–1055.7	–1000.1	–802.0

* $50 million or less.

of enterprise fixed capital) is netted in calculating the current surplus of Government enterprises.

Federal Sector Current Expenditures

Table 28–1 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 28–1) is excluded from current expenditures and does not figure in computing net Government saving on a NIPA basis, whereas depreciation—charges on federally-owned fixed capital ("consumption of general government fixed capital")—is included. The NIPAs treat State and local investment and capital consumption in the same way—regardless of the extent to which it is financed with Federal aid (capital transfer payments) or from State and local own-source receipts.

Although gross investment is not included in Government current expenditures, Government gross investment is included in total GDP along with current consumption expenditures (including depreciation), which makes the treatment of the government sector in the NIPAs similar to that of the private sector. Investment includes structures, equipment, and computer software.

The largest expenditure category, current transfer payments, consists mainly of 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 to the public and debt held by Federal employee pension plans. 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 28–1 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 nets 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), 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. Over the last decade, the difference between the budget deficit and the NIPA net Federal Government saving has not shown a distinct positive or negative pattern, except in 2009 when the budget deficit exceeded the NIPA measure by an historically high difference of $311.9 billion, due primarily to differing treatment of TARP and other financial stabilization measures. Over the eight years from 2007 to the projected year 2014, the NIPA measure exceeds the unified budget deficit in five of them, with no positive or negative difference, aside from 2009, exceeding the previous historical high difference from 1991.

Table 28–1 displays Federal transactions using NIPA concepts with actual data for 2003–2012 and estimates for 2013 and 2014 consistent with the Administration's Budget proposals. Table 28–2 summarizes the reasons for differences between the NIPA and budget measures. Annual NIPA data for 1948–2014 are published in Section 14 of a separate budget volume, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2014.*

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.*

29. 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 results for 2012 with the current services estimates shown in the 2012 Budget, published in February 2011.

Part II of the chapter presents a broader comparison of estimates and actual outcomes. This part first discusses the historical record of budget year estimates versus actual results over the last 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 2012

This part of the chapter compares the actual receipts, outlays, and deficit for 2012 with the current services estimates shown in the 2012 Budget, published in February 2011.[1] This part also presents a more detailed comparison for mandatory and related programs, and reconciles the actual receipts, outlays, and deficit totals shown here with the figures for 2012 previously published by the Department of the Treasury.

[1] The current services concept is discussed in Chapter 26, "Current Services Estimates." For mandatory programs and receipts, the February 2011 current services estimate was based on laws then in place, adjusted to reflect extension of certain expiring tax provisions. 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 2012 Budget re-classified a large number of surface transportation programs as mandatory. The estimate for nondefense discretionary spending was $608 billion and $2,115 billion for mandatory outlays in the published Budget. This proposal was not subsequently enacted, so the applicable costs are shown as discretionary in this chapter for comparability. For a detailed explanation of the 2012 estimate, see "Current Services Estimates," Chapter 27 in *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2012*.

Receipts

Actual receipts for 2012 were $2,450 billion, $158 billion less than the $2,609 billion current services estimate in the 2012 Budget. As shown in Table 29–1, 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 2011 current services estimate of 2012 receipts reflected permanent extension of estate, gift, and generation-skipping transfer 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 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010; and permanent extension of most of the income tax reductions for middle-income taxpayers enacted in 2001 and 2003 (as amended by subsequent legislation) that were scheduled to expire on December 31, 2012.

Table 29–1. COMPARISON OF ACTUAL 2012 RECEIPTS WITH THE INITIAL CURRENT SERVICES ESTIMATES
(In billions of dollars)

	Estimate (February 2011)	Changes			Total changes	Actual
		Policy	Economic	Technical		
Individual income taxes	1,145	32	–24	–20	–12	1,132
Corporation income taxes	327	–1	–22	–62	–85	242
Social insurance and retirement receipts	927	–84	–11	13	–82	845
Excise taxes	80	1	–1	–*	–1	79
Estate and gift taxes	13	....	*	1	1	14
Customs duties	31	–2	–*	1	–1	30
Miscellaneous receipts	86	....	3	18	21	107
Total receipts	2,609	–55	–54	–50	–158	2,450

*$500 million or less.

Those provisions were estimated to reduce 2012 receipts by a net $36 billion relative to then-current law; however, they were not enacted before October 1, 2012 and had no effect on 2012 receipts. Several laws were enacted after February 2011 that reduced 2012 receipts by a net $91 billion, $55 billion more than the net tax reductions reflected in the current services estimate. The bulk of the legislated tax reductions enacted after February 2011 that affected 2012 receipts were provided in the Temporary Payroll Tax Cut Continuation Act of 2011 and the Middle Class Tax Relief and Job Creation Act of 2012, which reduced 2012 receipts by an estimated $21 billion and $64 billion, respectively. The major provisions of these two laws extended the two-percentage point reduction in the Social Security payroll tax rate for employees and self-employed individuals to apply to taxable wages and self-employment earnings received during calendar year 2012. Other legislation enacted after February 2011 that affected 2012 receipts included the Trade Adjustment Assistance Extension Act of 2011, the Moving Ahead for Progress in the 21st Century (MAP-21) Act, and the FAA Modernization and Reform Act of 2012.

Economic differences. Differences between the economic assumptions upon which the current services estimates were based and actual economic performance reduced 2012 receipts by a net $54 billion below the February 2011 estimate. These differences had the greatest effect on individual income taxes, corporation income taxes, and social insurance and retirement receipts, reducing those sources of receipts by $24 billion, $22 billion, and $11 billion, respectively. The reduction in individual income tax receipts was primarily attributable to lower-than-anticipated wages and salaries and other sources of taxable personal income than assumed in February 2011. Lower-than-anticipated 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. Corporations were less profitable than initially projected, which reduced collections of corporation income taxes below the February 2011 estimate. Reductions in these three sources of receipts were partially offset by a net $2 billion increase in other sources of receipts. An increase in deposits of earnings of the Federal Reserve System of $3 billion, attributable to different interest rates and other economic factors than projected in February 2011, was in large part responsible for the net increase in other sources of receipts.

Technical factors. Technical factors reduced receipts by a net $50 billion relative to the February 2011 current services estimate. These factors had the greatest effect on individual and corporation income taxes, reducing collections by $20 billion and $62 billion, respectively. The models used to prepare the February 2011 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 2011 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 reductions in corporation and individual income taxes were partially offset by increases in social insurance and retirement receipts and miscellaneous receipts of $13 billion and $18 billion, respectively. An increase in deposits by States to the unemployment insurance trust fund to replenish depleted balances accounted for $9 billion of the $13 billion increase in social insurance and retirement receipts relative to the February 2011 estimate. The additional $4 billion increase in social insurance and retirement receipts—primarily Social Security and Medicare payroll taxes—was attributable in large part to models based on historical economic data and then-current data from employer returns that underestimated the percentage of wages and salaries and self-employment earnings subject to payroll taxes. Changes in the size and composition of the investments of the Federal Reserve System from what was assumed in February 2011 were primarily responsible for the $18 billion increase in miscellaneous receipts.

Outlays

Outlays for 2012 were $3,537 billion, $162 billion less than the $3,699 billion current services estimate in the 2012 Budget. Table 29–2 distributes the $162 billion net decrease in outlays among discretionary and mandatory programs and net interest.[2] The table also shows rough estimates according to three reasons for the changes: policy; economic conditions; and technical estimating differences, a residual.

Policy differences. 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 2012, policy changes decreased outlays by less than $1 billion relative to the initial current services estimates. Final 2011 discretionary appropriations were not enacted at the time of the 2012 Budget, so the February 2011 estimate of discretionary outlays was based on an annualized continuing resolution rate that was higher than the final bill. The combined policy changes from final 2011 and 2012 appropriations, including Overseas Contingency Operations, reduced discretionary outlays by $47 billion.

Policy changes increased mandatory outlays by a net $46 billion above current law. Much of this increase was the result of changes in unemployment compensation enacted in 2011 and 2012 that increased 2012 outlays by $31 billion. The extension of relief from scheduled re-

[2] 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 depends on eligibility criteria, benefit levels, and other factors.

Table 29–2. COMPARISON OF ACTUAL 2012 OUTLAYS WITH THE INITIAL CURRENT SERVICES ESTIMATES
(In billions of dollars)

	Estimate	Changes			Total changes	Actual
		Policy	Economic	Technical		
Discretionary:						
Defense	735	–23	....	–42	–65	671
Nondefense [1]	662	–23	....	–25	–48	614
Subtotal, discretionary	1,398	–47	....	–67	–113	1,285
Mandatory:						
Social Security	761	–*	15	–8	7	768
Medicare and Medicaid	737	13	1	–35	–21	717
Other programs [1]	557	33	–7	–35	–9	548
Subtotal, mandatory	2,055	46	10	–78	–23	2,032
Disaster costs [2]	7	....	....	–7	–7	....
Net interest	240	*	–28	9	–20	220
Total outlays	3,699	–*	–19	–143	–162	3,537

* $500 million or less.

[1] The current services estimates published in the 2012 Budget re-classified a large number of surface transportation programs as mandatory. The estimate for nondefense discretionary spending was $608 billion and $2,115 billion for mandatory outlays in the published Budget. This proposal was not subsequently enacted, so the applicable costs are shown as discretionary in this table for comparability.

[2] These amounts were included in the 2012 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 were included as outlays for convenience.

ductions in Medicare physician payments enacted in the Temporary Payroll Tax Cut Continuation Act of 2011 and the Middle Class Tax Relief and Job Creation Act of 2012 increased outlays by an additional $13 billion. Debt service costs associated with the policy changes increased outlays by less than $1 billion.

Economic differences. There was a net decrease in outlays of $19 billion as a result of differences between actual economic conditions and those forecast in February 2011. The greatest change was in net interest, where lower-than-anticipated inflation and other changes in economic factors decreased outlays by $28 billion. Unemployment compensation spending was $7 billion lower than the current services estimate due to economic factors. However, these reductions were partially offset by increases in Social Security spending of $15 billion due to differences in economic conditions: the cost of living adjustment for January 2012 projected in the 2012 Budget was 0.9 percent but the actual adjustment was 3.6 percent.

Technical factors. Technical estimating factors resulted in a net decrease in outlays of $143 billion. Technical changes result from changes in such factors as the number of beneficiaries for entitlement programs, crop conditions, or other factors not associated with policy changes or economic conditions. Outlays for discretionary programs decreased by $67 billion, as agencies spent resources more slowly than assumed in February 2011, particularly following enactment of lower spending caps for discretionary programs as part of the Budget Control Act of 2011. Outlays for mandatory programs decreased a net $78 billion; the largest change was a $26 billion decrease in unemployment compensation due to a reduction in the insured unemployment rate relative to the broader civilian unemployment rate and a lower-than-anticipated portion of the unemployed receiving benefits. There were also $18 billion and $17 billion decreases in Medicare and Medicaid spending, respectively. This was partially offset by a $15 billion upward reestimate of the cost of the Troubled Asset Relief Program (TARP).[3] Net interest outlays increased by $9 billion due to technical factors.

[3] For more information on TARP costs, please see Chapter 3 of this volume, "Financial Stabilization Efforts and their Budgetary Effects."

Table 29–3. COMPARISON OF THE ACTUAL 2012 DEFICIT WITH THE INITIAL CURRENT SERVICES ESTIMATE
(In billions of dollars)

	Estimate	Changes			Total changes	Actual
		Policy	Economic	Technical		
Receipts	2,609	–55	–54	–50	–158	2,450
Outlays	3,699	–*	–19	–143	–162	3,537
Deficit	1,090	55	35	–93	–4	1,087

Note: Deficit changes are outlays minus receipts. For these changes, a positive number indicates an increase in the deficit.
* $500 million or less.

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 2012. This section combines these effects to show the net deficit impact of these differences.

As shown in Table 29–3, the 2012 current services deficit was initially estimated to be $1,090 billion. The actual deficit was $1,087 billion, which was a $4 billion decrease from the initial estimates. Receipts and outlays were $158 billion and $162 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 $55 billion. Economic conditions that differed from the initial assumptions in February 2011 increased the deficit by $35 billion. Technical factors decreased the deficit by an estimated $93 billion.

Comparison of the Actual and Estimated Outlays for Mandatory and Related Programs for 2012

This section compares the original 2012 outlay estimates for mandatory and related programs in the current services estimates of the Budget with the actual outlays. Major examples of these programs include Social Security and Medicare benefits, Medicaid and unemployment compensation payments, 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 29–4 shows the differences between the actual outlays for these programs in 2012 and the current services estimates included in the 2012 Budget.[4] Actual outlays for mandatory spending and net interest in 2012 were $2,252 billion, which was $42 billion less than the current services estimate of $2,295 billion in February 2011.

As Table 29–4 shows, actual outlays for mandatory human resources programs were $2,059 billion, $28 billion less than originally estimated. This decrease was the net effect of legislative action, differences between actual and assumed economic conditions, differences between the anticipated and actual number of beneficiaries, and other technical differences. Most significantly, outlays for Medicaid decreased by $19 billion. Outlays for programs in other functions were $11 billion more than originally estimated, largely due to upward reestimates in the Troubled Asset Relief Program, and net outlays for undistributed offsetting receipts were $6 billion lower than expected.

Outlays for net interest were $220 billion, or $20 billion less than the original estimate. As shown on Table 29–4, interest payments on Treasury debt securities decreased by $115 billion, offset by reduced interest earnings. This difference is chiefly due to a large adjustment to reflect a change in the accounting method for interest transactions with Defense Civil Programs from an accrual basis to a cash basis. This accounting change resulted in a $75 billion reduction of Treasury intragovernmental interest outlays to reflect the premiums that would have been recorded at the time of purchase under the cash-based method. The change resulted in offsetting increases in net outlays for interest received by trust funds and other interest of $49 billion and $26 billion respectively. This intragovernmental interest adjustment had no net effect on the deficit.

Reconciliation of Differences with Amounts Published by the Treasury for 2012

Table 29–5 provides a reconciliation of the receipts, outlays, and deficit totals for 2012 published by the Department of the Treasury in the September 2012 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 decreased outlays by $160 million. Additional adjustments for the 2014 Budget increased receipts by $1,071 million and decreased outlays by $1,159 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 2011 through August 2012. 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 $2,040 million for 2012. Aside from this timing difference, 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 2012 outlays reported to Treasury after preparation of the Treasury Combined Statement.

[4] See footnote 1 for an explanation of the current services concept.

Table 29–4. COMPARISON OF ACTUAL AND ESTIMATED OUTLAYS FOR MANDATORY AND RELATED PROGRAMS UNDER CURRENT LAW

(In billions of dollars)

	2012		
	Estimate	Actual	Change
Mandatory outlays:[1]			
Human resources programs:			
Education, training, employment, and social services:			
Higher education	–9	–14	–5
Other	12	10	–2
Total, education, training, employment, and social services	3	–5	–8
Health:			
Medicaid	269	251	–19
Other	38	36	–2
Total, health	307	286	–20
Medicare	468	466	–2
Income security:			
Retirement and disability	129	130	1
Unemployment compensation	93	91	–2
Food and nutrition assistance	100	99	–1
Other	160	156	–4
Total, income security	482	476	–6
Social Security	761	768	7
Veterans benefits and services:			
Income security for veterans	55	56	1
Other	11	12	1
Total, veterans benefits and services	66	68	2
Total, mandatory human resources programs	2,087	2,059	–28
Other functions:			
Agriculture	12	12	–*
International	–1	–3	–1
Mortgage credit	6	–2	–8
Deposit insurance	4	7	2
Other advancement of commerce (includes the Troubled Asset Relief Program)	12	34	21
Other functions	31	29	–3
Total, other functions	65	77	11
Undistributed offsetting receipts:			
Employer share, employee retirement	–81	–84	–3
Rents and royalties on the Outer Continental Shelf	–7	–7	1
Other undistributed offsetting receipts	–9	–13	–4
Total, undistributed offsetting receipts	–97	–104	–6
Total, mandatory	2,055	2,032	–23
Net interest:			
Interest on Treasury debt securities (gross)	474	359	–115
Interest received by trust funds	–181	–127	53
Other interest	–54	–12	42
Total, net interest	240	220	–20
Total, outlays for mandatory and net interest	2,295	2,252	–42

* $500 million or less.

[1] The current services estimates published in the 2012 Budget re-classified a large number of surface transportation programs as mandatory. The estimate for nondefense discretionary spending was $608 billion and $2,115 billion for mandatory outlays in the published Budget. This proposal was not subsequently enacted, so the applicable costs are excluded from this table for comparability.

Table 29–5. RECONCILIATION OF FINAL AMOUNTS FOR 2012
(In millions of dollars)

	Receipts	Outlays	Deficit
Totals published by Treasury (September MTS)	2,449,093	3,538,446	1,089,353
Miscellaneous Treasury adjustments	....	–160	–160
Totals published by Treasury in Combined Statement	2,449,093	3,538,286	1,089,193
National Railroad Retirement Investment Trust	....	–2,040	–2,040
Standard Setting Body	39	39	....
Public Company Accounting Oversight Board	215	229	14
Affordable Housing Program	286	286	....
Securities Investor Protection Corporation	396	220	–176
Electric Reliability Organization	100	100	....
United Mine Workers of America benefit funds	35	35	....
Federal Retirement Thrift Investment Board program expenses	....	–13	–13
Other	....	–15	–15
Total adjustments, net	1,071	–1,159	–2,230
Totals in the Budget	2,450,164	3,537,127	1,086,963
MEMORANDUM:			
Total change since year-end statement	1,071	–1,319	–2,390

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 29–6 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 2012 differs from that shown in Table 29–3, which is on a current services basis. Earlier comparisons of actual and estimated surpluses or deficits were on a policy basis, so for consistency the figures in Table 29–6 are on this basis.

On average, the estimates for the budget year underestimated actual deficits (or overestimated actual surpluses) by $51 billion over the 31-year period. Policy outcomes that differed from the original proposals increased the deficit by an average of $68 billion. Differences between economic assumptions and actual economic performance increased the deficit an average of $25 billion. Differences due to these two factors were partly offset by technical revisions, which reduced the deficit an average of $42 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 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 $129 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 29–6, the standard deviation of the deficit differences since 1982 is $218 billion and the root mean squared error is $224 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 31-year period. The change from the 2009 Budget to the actual is still the greatest deficit increase over this 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 2 of this volume, "Economic Assumptions and Interactions with 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

Table 29–6. COMPARISON OF ESTIMATED AND ACTUAL SURPLUSES OR DEFICITS SINCE 1982

(In billions of dollars)

Budget	Surplus (–) or deficit (+) estimated for budget year [1]	Differences due to			Total difference	Actual surplus (–) or deficit (+)	Total difference as a percent of GDP
		Enacted legislation	Economic factors	Technical factors			
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
2012	1,101	44	35	–93	–14	1,087	–0.1
Average		68	25	–42	51		0.6
Absolute average [2]		71	48	88	129		1.4
Standard deviation		116	68	111	218		1.9
Root mean squared error		135	72	119	224		2.0

* $500 million or less.

[1] Surplus or deficit estimate includes the effect of the Budget's policy proposals.

[2] Absolute average is the average without regard to sign.

Table 29–7. 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 (BY+1)	Two years (BY+2)	Three years (BY+3)	Four years (BY+4)
In dollars:						
Average difference	62	–51	–154	–224	–275	–297
Average absolute difference [1]	91	128	231	313	368	396
Standard deviation	120	218	337	407	435	428
Root mean squared error	135	224	370	464	515	521
As a percent of GDP:						
Average difference	0.5	–0.6	–1.5	–2.0	–2.5	–2.7
Average absolute difference	0.9	1.4	2.3	3.0	3.5	3.8
Standard deviation	1.0	1.9	2.8	3.2	3.4	3.4
Root mean squared error	1.1	2.0	3.2	3.8	4.2	4.3

Note: A positive figure represents an overestimate of the deficit or an underestimate of the surplus.

[1] Average absolute difference is the difference without regard to sign.

two years earlier raises questions about the degree of variability for estimates of years beyond the budget year. Table 29–7 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 $62 billion, but underestimated the deficit in the budget year by $51 billion. The budget estimates on average understated the deficit in the years following, by amounts growing from $154 billion one year beyond the budget year to $297 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 2 of this volume, “Economic Assumptions and Interactions with the Budget,” further discusses the variability in the difference between estimated and actual deficits over the budget horizon and includes Chart 2–2, which is based on the variability measures shown in Table 29–7.

30. 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 key 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[1] compile the data using different methods and present the data using different formats, 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.[2] 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,[3] and the treatment of Federal transactions under national income and product accounting and under budgetary accounting is compared in Chapter 28 of this volume, "National Income and Product Accounts."

The Purpose of Budget and Financial Reporting

Budget and financial reporting provide accountability and transparency in Government spending and revenue. For example, the exercise of the authority to tax means that the Government should be accountable to the public for its use of tax dollars and be transparent in its activities by 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, the Government should report balances for, among other things, cash on hand, other financial assets, and dedicated funds,[4] 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 6, 7, 8, and 9 of this volume, "Social Indicators," "Delivering a High-Performance Government," "Program Evaluation and Data Analytics," and "Benefit-Cost Analysis" provide more information about the Government's operating performance and performance measurement. 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 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 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 4 of this volume, "Long Term Budget Outlook." The Financial Report also contains information

[1] 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 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.

[2] 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.

[3] 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.

[4] 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.

about the Government's long-run fiscal condition, showing projections of long-run sustainability and detailed information about social insurance[5] 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 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 they occur regardless of when the cash is exchanged.

Measures

Budget measures that represent flows include budget authority, obligations, outlays, receipts,[6] 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.[7] 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.[8] 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.[9] Chapter 11 of this volume, "Budget Concepts," and Chapter 5 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. 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 subfunction. 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).[10]

[5] As used in this chapter, "social insurance" refers to Social Security, Medicare, Unemployment Insurance, Railroad Retirement, and the Black Lung Programs.

[6] 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 11 of this volume, "Budget Concepts," for an explanation of the difference between governmental receipts, offsetting receipts, and offsetting collections.

[7] 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.

[8] 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.

[9] For inflation-indexed securities, debt is measured as the par value plus a periodic adjustment for inflation.

[10] The deficit and debt, as well as other measures, are presented as a percent of gross domestic product because these measures are best compared over time by looking at them in relation to the size of the economy

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 4 of this volume, "Long Term Budget Outlook."

Structure

The President's Budget consists of multiple volumes, including 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. 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 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[11] 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.[12]

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., holdings of debt) 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,[13] and the Statement of Changes in Social Insurance. 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 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

as a whole, as measured by GDP.

[11] 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."

[12] Federal financial reporting is conducted in accordance with generally accepted accounting principles (GAAP).

[13] See footnote 6 for a definition of social insurance.

Insurance and Changes in Social Insurance.[14] Two statements required at the agency level are not included in the *Financial Report*: the Statement of Budgetary Resources and, if applicable, the Statement of Custodial Activity.[15]

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."[16] 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[17] 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.[18] As a result of the difference between cash 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 and outlays. Both the deficit and the net operating cost are measures of "cost," reflecting generally the difference between resources collected and used in a given year.

Table 30–1. 2012 BUDGET AND FINANCIAL MEASURES AND CY 2011 INTEGRATED ACCOUNTS MEASURES

(In Billions of Dollars)

2012 Budget Measures	
Receipts.	2450.2
Less: Outlays	3537.1
Surplus/(Deficit)	(1087.0)
New Borrowing from the Public	1152.9
Debt Held by the Public	11,281.1
2012 Financial Measures	
Revenues	2518.2
Less: Expenses	3814.3
Less: Unmatched Transactions	20.2
Net Operating Cost	(1316.3)
Assets	2748.3
Less: Liabilities	18,849.3
Net Position	(16,101.0)
CY 2011 Integrated Macroeconomic Accounts Measures	
Current Receipts	2519.6
Less: Current Expenditures	3757.0
Net Saving	(1237.4)
Net Borrowing, Capital	1394.1
Net Borrowing, Financial	1358.9
Assets	3514.6
Less: Liabilities	12258.8
Net Worth	(8744.1)

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 that is cited as a measure of the Government's cumulative fiscal results. Debt held by the public, which is a legal liability, 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 2012, were approximately 67 percent greater than 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. Assets are not generally

[14] Only agencies with social insurance programs are required to prepare the two social insurance statements.

[15] Only agencies with custodial accounts are required to prepare the Statement of Custodial Activity.

[16] 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.

[17] Undelivered orders are treated as obligations, but are not recognized as expenses. Once an undelivered order is delivered, it is recognized as an expense.

[18] Some items that are reflected in budget outlays on an accrual basis were noted in footnote 8 above.

reflected in any budget measures after they are acquired, apart from certain financial assets, such as cash balances and loan receivables, which are reflected in a measure of debt held by the public net of financial assets. 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[19] 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.[20] 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.[21] These seven accounts reflect seven different types of economic activity and include, among others, a balance sheet account, a current account, a capital account, and a financial account.[22] 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.[23]

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. "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[24] and fees; some taxes such as the estate and gift taxes are not included in current receipts.[25] Current expenditures include goods and services purchased by the Government (including the cost of future retirement benefits for current 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 period 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.[26]

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 be-

[19] 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*.

[20] The other five sectors are households and nonprofit institutions serving households, nonfinancial noncorporate business, nonfinancial corporate business, financial business, and State and local governments.

[21] Current data can be found at *http://www.bea.gov/national/nipaweb/Ni_FedBeaSna/Index.asp*.

[22] The other three accounts are the other changes in volume account, the revaluation account, and the changes in balance sheet account.

[23] 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*.

[24] 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.

[25] 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.

[26] Differences between the NIPAs and the budget are shown in Table 28-2 of this volume and shown in more detail at the NIPA website cited in footnote 23.

tween 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. 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.

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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