

FISCAL YEAR 2015

# ANALYTICAL PERSPECTIVES

BUDGET OF THE U.S. GOVERNMENT



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# THE BUDGET DOCUMENTS

*Budget of the United States Government, Fiscal Year 2015* 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 2015* 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 has supplemental materials (formerly part of the printed volume) that include tables showing the budget by agency and account and by function, subfunction, and program. These and other tables and additional supplemental materials are available on the Internet at [www.budget.gov/budget/Analytical\\_Perspectives](http://www.budget.gov/budget/Analytical_Perspectives).

*Historical Tables, Budget of the United States Government, Fiscal Year 2015* 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 2015 or 2019.

To the extent feasible, the data have been adjusted to provide consistency with the 2015 *Budget* and to provide comparability over time.

*Appendix, Budget of the United States Government, Fiscal Year 2015* 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.

## ELECTRONIC SOURCES OF BUDGET INFORMATION

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

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

**Budget CD-ROM.** The CD-ROM contains all of the budget documents in fully indexed PDF format along with the software required for viewing the documents. The CD-ROM has many of the budget tables in spreadsheet format and also contains the materials that were previously included in the printed *Analytical Perspectives* volume, but are now available on the Internet.

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. Public Law 113-82, commonly referred to as the Military Retired Pay Restoration Act, was signed into law on February 15, 2014. The estimates in the 2015 Budget do not reflect the effects of this Act due to the late date of enactment.

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# INTRODUCTION

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## 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 volume. Beginning with the 1995 Budget, the volume has been named *Analytical Perspectives*.

Several supplemental tables as well as several longer tables that were previously published within the volume are available at [http://www.budget.gov/budget/Analytical\\_Perspectives](http://www.budget.gov/budget/Analytical_Perspectives) and on the Budget CD-ROM. These tables are shown in the List of Tables in the front of this volume with an asterisk instead of a page number.

### 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; provides sensitivity estimates for the effects on the Budget of changes in specified economic assumptions; and reviews past errors in economic projections. It also provides estimates of the cyclical and structural components of the budget deficit.

*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 trends in debt, debt held by the public net of financial assets and liabilities, 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 and illustrate how this picture has changed over

time. Included are economic, demographic and civic, socioeconomic and health statistics. There are also indicators covering security and safety, and environment and energy.

*Delivering a High-Performance Government.* This chapter describes the 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 the 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.

*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 engagement, 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. A detailed table, “Table 13–5, Offsetting Receipts by Type” is available at the Internet address cited above and on the Budget CD-ROM.

*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. An appendix to this chapter includes State-by-State spending estimates of major grant programs. A detailed table, “Table 15–2, Federal Grants to State and Local Governments—Budget Authority and Outlays” is available at the Internet address cited above and on the Budget CD-ROM.

*Strengthening Federal Statistics.* This chapter discusses 2015 Budget proposals for the Government’s principal statistical programs.

*Information Technology.* This chapter gives an overview of Federal investments in information technology (IT), and the major initiatives through which the Administration is seeking to improve the management of Federal data and IT to deliver better value to taxpayers

through improving program performance, cost effectiveness, transparency of Government, and citizen participation, while continuing to provide strong information security and protection of privacy. The chapter also discusses the Administration’s progress in advancing technology innovation through its Open Data Policy, to unlock the potential of Government data to create economic opportunity and improve Americans’ quality of life.

*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.

*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 discusses issues relating to “fair value” cost estimates for Federal credit programs. Additional Credit and Insurance chapter tables, “Table 20–6, Reestimates of Credit Subsidies on Loans Disbursed Between 1992-2013,” “Table 20–7, Face Value of Government Sponsored Lending,” “Table 20–8, Lending and Borrowing by Government-Sponsored Enterprises (GSEs),” and two detailed tables, “Table 20–9, Direct Loan Transactions of the Federal Government” and “Table 20–10, Guaranteed Loan Transactions of the Federal Government,” are available at the Internet address cited above and on the Budget CD-ROM.

*Financial Stabilization Efforts and Their Budgetary Effects.* The chapter provides special analyses of the Troubled Asset Relief Program (TARP) as described in Section 203(a) of the Emergency Economic Stabilization Act of 2008. The chapter also includes a summary of other key Government programs supporting economic recovery and financial market reforms.

*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. 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 and Emergency Deficit Control Act (BBEDCA), as amended by the Budget Control Act of 2011. Two detailed tables, “Table 25–4, Impact of Regulations, Expiring Authorizations, and Other Assumptions in the Baseline” and “Table 25–12, Current Services Budget Authority and Outlays by Function, Category, and Program” are 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.

*Comparison of Actual to Estimated Totals.* This chapter

compares the actual receipts, outlays, and deficit for 2013 with the estimates for that year published in the 2013 Budget.

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

#### **Detailed Functional Table**

*Detailed Functional Table.* Table 28–1, “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 Budget by Agency and Account**

*The Federal Budget by Agency and Account.* Table 29–1, “Federal Budget by Agency and Account,” displays budget authority and outlays for each account, organized by agency, bureau, fund type, and account.



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# ECONOMIC AND BUDGET ANALYSES

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## 2. ECONOMIC ASSUMPTIONS AND INTERACTIONS WITH THE BUDGET

This chapter presents the economic forecast on which the 2015 Budget projections are based.<sup>1</sup> When the President took office in January 2009, the economy was in the midst of an historic economic crisis. The first order of business for the new Administration was to arrest the rapid decline in economic activity that threatened to plunge the country into a second Great Depression. The President and 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.<sup>2</sup> Further measures to aid the recovery were taken in December 2010, such as temporarily cutting payroll taxes and continuing extended unemployment insurance. At the start of 2013, the American Taxpayer Relief Act of 2012 (ATRA) prevented income tax increases on the vast majority of taxpayers and provided greater certainty for the years ahead.

Over the past 18 quarters, through the fourth quarter of 2013, real Gross Domestic Product (GDP) has grown at an average annual rate of 2.4 percent, and since February 2010, 8.5 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 6.6 percent in January.

The recovery is projected to gain momentum in 2014 and to strengthen further in 2015. However, even with healthy economic growth, unemployment is expected to be higher than is consistent with full employment for a few more years. The Administration is projecting unemployment to continue to decline until it stabilizes at 5.4 percent in 2018. This chapter contains several sections:

- The first section 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 assumptions about key 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. The recovery began in the third quarter of 2009, with real growth averaging 2.4 percent since that point, including 2.7 percent for the most recent four quarters. Looking ahead, the likely strength of the recovery is one of the key issues for the forecast.

***Housing Markets Show Further 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.<sup>3</sup> During the downturn, as house prices fell, investment in housing plummeted, reducing the annualized rate of

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

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

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



real GDP growth by an average of 1 percentage point per quarter. Housing prices started to rise again in 2012, with a cumulative gain of 17 percent over the last seven quarters, according to the Case-Shiller index. Residential investment began to increase steadily in the second quarter of 2011, and has risen at an annual rate of about 15 percent during 2012 and 2013.

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, and increased to over 900,000 units over the 12 months through December 2013. Typically, about 1.65 million starts a year are needed to accommodate the needs of an expanding population with an increasing number of households, 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 to real GDP growth over the forecast horizon, especially over the next three years.

**Deleveraging has Slowed Consumption, but it May be Near an End.**—Between the first quarter of 2007 and the first quarter of 2009, the real net worth of American households declined by \$15 trillion at 2009 prices (19 percent) – the equivalent of 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 and now exceeds its previous peak. Most of this is accounted for by the rise in equity prices. The turnaround in housing prices has raised residential wealth, although it remains below well below its previous peak level.<sup>4</sup>

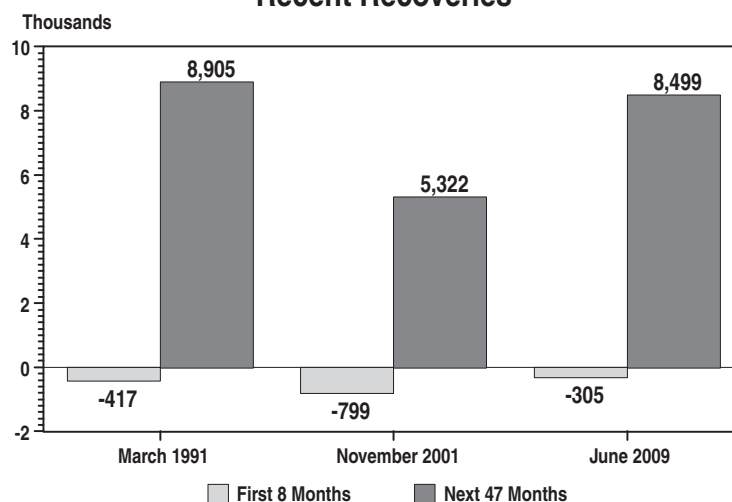
<sup>4</sup> Real wealth is computed by deflating household net worth from the Flow-of-Funds Accounts by the Chained Price Index for Personal Consumption Expenditures. Data are available through 2013:Q3.

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 2 percent in mid-2005. It remained low, averaging only about 3 percent through the end of 2007, but since then, as wealth has declined, the saving rate has increased to an average of 5-1/2 percent between 2008 and 2012, declining somewhat to 4-1/2 percent last year. A sudden increase in the desire to save implies a corresponding reduction in consumer demand, and a fall-off in consumption had a negative effect on the economy during the recession of 2008 and early 2009. During that period, real consumer spending fell at an annual rate of almost 2 percent. Since then, real consumer spending has recovered, although it has increased only 1.9 percent over the past four quarters.

**Rebound in Business Investment.**—Business fixed investment fell sharply during the 2008-2009 contraction. It rose rapidly in 2010 through 2013, and real investment at the end of 2013 exceeded its pre-recession levels for the first time. The cost of capital is low and American corporations at the end of 2013 held substantial levels of cash reserves, which could provide funding for future investments as the economy continues to recover. The main constraint on business investment is poor sales expectations, which have been dampened by the slow pace of recovery. However, if consumption 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 at 10 percent. Private employment has grown for the past 47 straight months and the unemployment rate has declined to 6.6 percent. However, it remains above the level of unemployment consistent with nonaccelerating inflation, estimated at about 5.4 percent. Also, the rate of long-term unemployment (those out of work for more than 6 months) remains high. Unemployment has had devastating effects on American families, and the recovery will not be fully real for most Americans until the job market strengthens further. The

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





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 expansion in the 1990s (see Chart 2-1).

**Domestic Energy Boom.**—In the last five years, there has been a dramatic increase in domestic energy production. The United States is now one of the world's largest producers of oil and gas. Domestic production of crude oil rose above imports in October for the first time since 1995. This broad-based energy boom supports jobs directly in production and distribution, as well as indirectly by making the United States more attractive as a location

for manufacturing by multi-national firms in energy-intensive industries.

**Fiscal Drag has Peaked.**—Fiscal policy restraint has substantially slowed the expansion over the past two years, but fiscal drag will be a much smaller factor in 2014 as the reduction in Federal Government expenditures will be less than in 2013. In addition, tax increases took place in early 2013 which will not be repeated this year. And State and local level purchases has shifted to being a slightly positive factor for GDP growth. Therefore, private sector demand will not be offset by the Government as it was over the last several quarters, during which it reduced real GDP growth by over a percentage point. CBO

**Table 2-1. ECONOMIC ASSUMPTIONS<sup>1</sup>**

(Calendar years; dollar amounts in billions)

	Actual 2012	Projections											
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Gross Domestic Product (GDP):</b>													
<b>Levels, dollar amounts in billions:</b>													
Current dollars .....	16,245	16,768	17,544	18,454	19,432	20,460	21,459	22,445	23,454	24,484	25,551	26,664	27,826
Real, chained (2009) dollars .....	15,471	15,736	16,218	16,763	17,323	17,884	18,389	18,855	19,315	19,766	20,221	20,686	21,162
Chained price index (2009 = 100), annual average .....	105.0	106.5	108.1	110.1	112.1	114.4	116.7	119.0	121.4	123.8	126.3	128.9	131.5
<b>Percent change, fourth quarter over fourth quarter:</b>													
Current dollars .....	3.8	3.6	5.0	5.2	5.3	5.3	4.7	4.6	4.5	4.4	4.4	4.4	4.4
Real, chained (2009) dollars .....	2.0	2.3	3.3	3.4	3.3	3.2	2.6	2.5	2.4	2.3	2.3	2.3	2.3
Chained price index (2009 = 100) .....	1.8	1.3	1.6	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Percent change, year over year:</b>													
Current dollars .....	4.6	3.2	4.6	5.2	5.3	5.3	4.9	4.6	4.5	4.4	4.4	4.4	4.4
Real, chained (2009) dollars .....	2.8	1.7	3.1	3.4	3.3	3.2	2.8	2.5	2.4	2.3	2.3	2.3	2.3
Chained price index (2009 = 100) .....	1.7	1.4	1.6	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Incomes, billions of current dollars:</b>													
Domestic Corporate Profits .....	1,591	1,693	1,844	2,036	2,175	2,204	2,127	2,025	1,981	1,944	1,896	1,852	1,802
Employee Compensation .....	8,612	8,837	9,189	9,630	10,137	10,695	11,274	11,846	12,427	13,026	13,638	14,290	14,965
Wages and salaries .....	6,927	7,116	7,402	7,754	8,173	8,648	9,124	9,592	10,059	10,536	11,028	11,552	12,066
Other taxable income <sup>2</sup> .....	3,725	3,948	4,125	4,336	4,615	4,974	5,359	5,709	6,012	6,302	6,582	6,854	7,134
<b>Consumer Price Index (all urban):<sup>3</sup></b>													
Level (1982–84 = 100), annual average .....	229.6	232.9	236.6	241.3	246.5	252.0	257.7	263.5	269.5	275.6	281.8	288.2	294.7
Percent change, fourth quarter over fourth quarter .....	1.9	1.1	1.9	2.0	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Percent change, year over year .....	2.1	1.4	1.6	2.0	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
<b>Unemployment rate, civilian, percent:</b>													
Fourth quarter level .....	7.8	7.2	6.7	6.2	5.8	5.5	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Annual average .....	8.1	7.5	6.9	6.4	6.0	5.6	5.4	5.4	5.4	5.4	5.4	5.4	5.4
<b>Federal pay raises, January, percent:</b>													
Military <sup>4</sup> .....	1.6	1.7	1.0	1.0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Civilian <sup>5</sup> .....	0.0	0.0	1.0	1.0	NA	NA	NA	NA	NA	NA	NA	NA	NA
<b>Interest rates, percent:</b>													
91-day Treasury bills <sup>6</sup> .....	0.1	0.1	0.1	0.3	1.2	2.3	3.2	3.6	3.7	3.7	3.7	3.7	3.7
10-year Treasury notes .....	1.8	2.3	3.0	3.5	4.0	4.3	4.6	4.7	4.9	5.0	5.1	5.1	5.1

NA = Not Available

<sup>1</sup> Based on information available as of mid-November 2013.

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

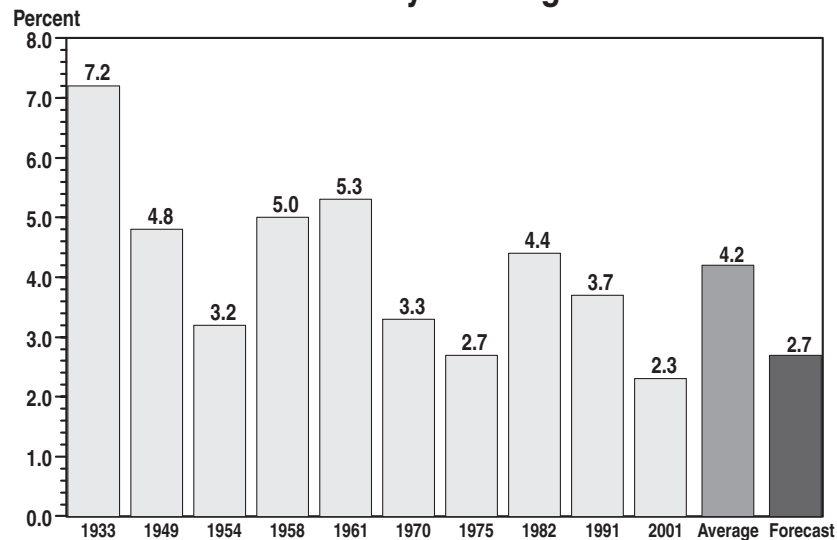
<sup>3</sup> Seasonally adjusted CPI for all urban consumers.

<sup>4</sup> Percentages apply to basic pay only; percentages to be proposed for years after 2014 have not yet been determined.

<sup>5</sup> Overall average increase, including locality pay adjustments. Percentages to be proposed for years after 2015 have not yet been determined.

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

**Chart 2-2. Seven-Year Average Growth Following Business Cycle Troughs**



has estimated that changes in fiscal policy restrained output growth in 2013 by about 1-1/2 percentage points, and the drag this year should only be about 1/4 percentage point under current law.

### Economic Projections

The economic projections underlying the 2015 Budget estimates are summarized in Table 2-1. The assumptions are based on information available as of mid-November 2013. 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.**—Real GDP grew 2.7 percent during the four quarters of 2013. The Administration projects the economic recovery that began in mid-2009 will continue with real GDP growing at an average annual rate of 3.3 percent over the next four years. This economic forecast, as always, is based on the assumption that the Administration's budget proposals are enacted in full, including a proposal for investment in infrastructure, research, and other priorities to boost the economy and help lay a foundation for long-term growth. The Budget also assumes that the deep cuts in defense and nondefense discretionary spending which began with the across-the-board sequester in March 2013, and which were partially alleviated by the Congress in the recent bipartisan budget agreement, are replaced by the closure of tax loopholes and mandatory spending reductions. Real GDP growth is projected to ease to 2.5 percent by 2019, and to grow at a steady 2.3 percent rate for the final 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

recovery (history plus projected) reflect the depth and severity of the preceding recession. 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 most recent recession, there was 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 limited the pace of the recovery in the first stages of the expansion, while less favorable demographics also slowed growth relative to previous recoveries.

The U.S. economy has substantial 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 2014-15, particularly if the President's Budget proposals are adopted. As noted previously, the sharp fiscal restraint that was implemented to bring down the deficit has peaked, with much smaller restraint projected over the next couple of years. Monetary policy likely will continue to support growth as the Federal Reserve Open Market Committee's January directive states that "...it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6-1/2 percent, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal." However, financial markets here and in Europe have been troubled by weak economic growth, the sustainability of fiscal policy in some European countries, and sovereign debt concerns. The drag from a slowdown in European or emerging markets could hamper the growth of 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 21<sup>st</sup> 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. These projections do not include the effects of immigration reform, which has the potential to attenuate this slowdown in labor force growth.

**Unemployment.**—In January 2014, the overall unemployment rate was 6.6 percent. In line with the increased growth in the economy projected after 2013, the unemployment rate is expected to decline to 5.4 percent by 2018 and to continue 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 1.5 percent for the 12 months ending in December 2013. Over the previous 12 months it had risen by 1.8 percent. The decline in inflation in 2013 was due mainly to lower energy price inflation. The “core” CPI, excluding both food and energy, was up 1.7 percent in 2013, down slightly from the 1.9 percent during 2012.

Weak demand continues to hold down prices for many goods and services, and continued high unemployment together with other measures of economic slack are 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 projects that the rate of change in the CPI-U will average 2.3 percent and that the GDP price index will increase at a 2.0 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. The Federal Reserve’s policy of purchasing long-term Treasury securities has helped to hold down long-term rates, but market expectations changed somewhat last summer when speculation grew that the FOMC would start to reduce its quantitative easing, which happened a few months later in December. During 2013, the 10-year rate increased sharply by over 1 percentage point to 2.8 percent in the fourth quarter, although short-term rates stayed near zero. 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 2020. The 10-year rate continues to rise moderately in 2014 and reaches 5.1 percent by 2021. After

adjusting for inflation, the projected real interest rates in the last few years of the projection are close to their historical averages.

**Income Shares.**—The share of labor compensation was extremely low by historical standards in 2013 at 52.7 percent of GDP. It is expected to fall to 52.2 percent of GDP by 2015. 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 53.8 percent of GDP in 2024. In the expansion that ended in 2007, hourly 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 wages and salaries is expected to rise from 42.4 percent of GDP in 2013 to 43.4 percent in 2024. The share of domestic corporate profits is expected to rise from 10.1 percent of GDP in 2013 to 11.2 percent in 2016, after which it will decline to 6.5 percent in 2024.

**Changes in Economic Assumptions from Last Year’s Budget.**—The 2015 Budget forecast reflects economic developments over the past year, but some of the forecast values are similar to those of the 2014 Budget, especially in the long run (see Table 2–2). 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 unemployment in 2013. Projected interest rates are higher in the medium term, reflecting the actual rise in long-term interest rates during 2013, but are little changed in the long term. 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 2.3 percent for the CPI-U and 2.0 percent for the GDP price index.

### 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 differences are relatively small compared with the margin of error in all economic forecasts. Like the Administration’s forecast, 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, providing important support for economic growth. The 50 or so private forecasters in the Blue Chip Consensus make differing policy assumptions, but it is safe to assume that they do not

Table 2-2. COMPARISON OF ECONOMIC ASSUMPTIONS IN THE 2014 AND 2015 BUDGETS

(Calendar years; dollar amounts in billions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Nominal GDP:</b>											
2014 Budget Assumptions <sup>1</sup> .....	16,955	17,836	18,815	19,861	20,953	22,017	23,023	24,029	25,061	26,133	27,249
2015 Budget Assumptions .....	16,768	17,544	18,454	19,432	20,460	21,459	22,445	23,454	24,484	25,551	26,664
<b>Real GDP (2009 dollars):</b>											
2014 Budget Assumptions <sup>1</sup> .....	15,836	16,349	16,926	17,535	18,155	18,722	19,213	19,680	20,146	20,615	21,096
2015 Budget Assumptions .....	15,736	16,218	16,763	17,323	17,884	18,389	18,855	19,315	19,766	20,221	20,686
<b>Real GDP (percent change):<sup>2</sup></b>											
2014 Budget Assumptions .....	2.3	3.2	3.5	3.6	3.5	3.1	2.6	2.4	2.4	2.3	2.3
2015 Budget Assumptions .....	1.7	3.1	3.4	3.3	3.2	2.8	2.5	2.4	2.3	2.3	2.3
<b>GDP Price Index (percent change):<sup>2</sup></b>											
2014 Budget Assumptions .....	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
2015 Budget Assumptions .....	1.4	1.6	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Consumer Price Index (all-urban; percent change):<sup>2</sup></b>											
2014 Budget Assumptions .....	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
2015 Budget Assumptions .....	1.4	1.6	2.0	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3
<b>Civilian Unemployment Rate (percent):<sup>3</sup></b>											
2014 Budget Assumptions .....	7.7	7.2	6.7	6.2	5.7	5.5	5.4	5.4	5.4	5.4	5.4
2015 Budget Assumptions .....	7.5	6.9	6.4	6.0	5.6	5.4	5.4	5.4	5.4	5.4	5.4
<b>91-day Treasury bill rate (percent):<sup>3</sup></b>											
2014 Budget Assumptions .....	0.1	0.2	0.4	1.3	2.3	3.2	3.6	3.7	3.7	3.7	3.7
2015 Budget Assumptions .....	0.1	0.1	0.3	1.2	2.3	3.2	3.6	3.7	3.7	3.7	3.7
<b>10-year Treasury note rate (percent):<sup>3</sup></b>											
2014 Budget Assumptions .....	2.0	2.6	3.1	3.7	4.1	4.4	4.6	4.8	5.0	5.0	5.0
2015 Budget Assumptions .....	2.3	3.0	3.5	4.0	4.3	4.6	4.7	4.9	5.0	5.1	5.1

<sup>1</sup> Adjusted for July 2013 NIPA revisions.<sup>2</sup> Calendar year over calendar year.<sup>3</sup> Calendar year average.

generally assume full enactment of the Administration's budget proposals. CBO is required in making its projections to assume that current law will continue, resulting in scheduled reductions in discretionary spending relative to the original BCA caps

The Administration projections were completed in mid-November. The nearly four-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. In addition, the appropriation bills for 2014 were not completed until mid-January, stretching out the time needed to complete the 2015 Budget. Forecasts made at different dates will differ if economic news between the two dates alters the economic outlook. The Blue Chip Consensus for 2014-2024 in this table was the latest available, from early February for projections through 2015 and from October for long-term projections. The CBO forecast is from its February 2014 report on the budget outlook, but the economic assumptions were locked in early December. The FOMC members' central tendencies of their forecasts are from December 2013.

**Real GDP Growth.**—In 2014-16, the Administration expects more growth than Blue Chip and CBO, partly because the forecast assumes that all of the Budget pro-

posals 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 still high levels of unemployment imply a few years of higher-than-normal growth as employment increases and real GDP makes up the lost ground. In the Blue Chip projections, real GDP growth exceeds its long-run average only briefly in the 11-year forecast period. CBO anticipates a stronger recovery than Blue Chip between 2015 and 2017—close to the Administration's projection—but projects a sharper decline in growth in the later years than the Administration, Blue Chip, or the FOMC. CBO assumes slower growth in productivity and potential GDP in the long-term and also assumes that actual GDP will remain below potential after the economy has completed its cyclical recovery. The high end of the FOMC's projections are about the same as the Administration's.

All economic forecasts are subject to error, and looking back, past forecast errors are generally 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.

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Nominal GDP:</b>												
2015 Budget .....	16,768	17,544	18,454	19,432	20,460	21,459	22,445	23,454	24,484	25,551	26,664	27,826
CBO .....	16,769	17,472	18,357	19,329	20,281	21,180	22,097	23,035	23,998	25,000	26,036	27,095
Blue Chip .....	16,803	17,565	18,429	19,348	20,295	21,268	22,265	23,285	24,341	25,443	26,594	27,804
<b>Real GDP (year-over-year):</b>												
2015 Budget .....	1.7	3.1	3.4	3.3	3.2	2.8	2.5	2.4	2.3	2.3	2.3	2.3
CBO .....	1.7	2.7	3.3	3.4	3.0	2.4	2.3	2.2	2.2	2.1	2.1	2.0
Blue Chip .....	1.9	2.9	3.0	2.9	2.7	2.6	2.5	2.4	2.4	2.4	2.4	2.4
<b>Real GDP (fourth-quarter-over-fourth-quarter):</b>												
2015 Budget .....	2.3	3.3	3.4	3.3	3.2	2.6	2.5	2.4	2.3	2.3	2.3	2.3
CBO .....	2.1	3.1	3.4	3.4	2.7	2.4	2.3	2.2	2.2	2.1	2.1	2.0
Blue Chip .....	2.7	2.7	3.0	2.8	2.7	2.6	2.5	2.4	2.4	2.4	2.4	2.4
Federal Reserve Central Tendency .....	2.2 - 2.3	2.8 - 3.2	3.0 - 3.4	2.5 - 3.2								
<b>GDP Price Index:<sup>1</sup></b>												
2015 Budget .....	1.4	1.6	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CBO .....	1.4	1.5	1.7	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Blue Chip .....	1.4	1.6	1.9	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
<b>Consumer Price Index (CPI-U):<sup>1</sup></b>												
2015 Budget .....	1.4	1.6	2.0	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
CBO .....	1.5	1.7	2.0	2.1	2.2	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Blue Chip .....	1.5	1.6	2.0	2.2	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3
<b>Unemployment Rate:<sup>2</sup></b>												
2015 Budget .....	7.5	6.9	6.4	6.0	5.6	5.4	5.4	5.4	5.4	5.4	5.4	5.4
CBO .....	7.4	6.8	6.5	6.1	5.9	5.8	5.7	5.7	5.6	5.6	5.5	5.5
Blue Chip .....	7.4	6.6	6.1	6.1	5.8	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Federal Reserve Central Tendency <sup>3</sup> .....	7.0 - 7.1	6.3 - 6.6	5.8 - 6.1	5.3 - 5.8								
<b>Interest Rates:<sup>2</sup></b>												
<b>91-Day Treasury Bills (discount basis):</b>												
2015 Budget .....	0.1	0.1	0.3	1.2	2.3	3.2	3.6	3.7	3.7	3.7	3.7	3.7
CBO .....	0.1	0.2	0.4	1.8	3.3	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Blue Chip .....	0.1	0.1	0.5	2.0	3.0	3.4	3.5	3.6	3.6	3.6	3.6	3.6
<b>10-Year Treasury Notes:</b>												
2015 Budget .....	2.3	3.0	3.5	4.0	4.3	4.6	4.7	4.9	5.0	5.1	5.1	5.1
CBO .....	2.4	3.1	3.7	4.3	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Blue Chip .....	2.4	3.1	3.7	4.2	4.6	4.7	4.8	4.7	4.7	4.7	4.7	4.7

NA = Not Available

Sources: Administration; CBO, The Budget and Economic Outlook: Fiscal Years 2014 to 2024 October 2013 and February 2014 Blue Chip Economic Indicators, Aspen Publishers, Inc.; Federal Reserve Open Market Committee, December 18, 2013.

<sup>1</sup> Year-over-year percent change.

<sup>2</sup> Annual averages, percent.

<sup>3</sup> Average of 4th quarter values.

**Unemployment, Inflation, and Interest Rates.—** The Administration forecasts unemployment falling steadily over the next few years to a level of 5.4 percent. In the long run, the FOMC, Blue Chip and CBO also show similar declines in the unemployment to about 5-1/2 percent which is about 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 consis-

tent with the Federal Reserve's long-run policy goal. All forecasts have interest rates increasing substantially in the long run to similar levels.

### 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 develop-



**Table 2-4. SENSITIVITY OF THE BUDGET TO ECONOMIC ASSUMPTIONS**

(Fiscal years; in billions of dollars)

Budget effect	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total of Effects, 2014-2024
<b>Real Growth and Employment</b>												
<b>Budgetary effects of 1 percent lower real GDP growth:</b>												
<b>(1) For calendar year 2014 only, with real GDP recovery in 2015-16:</b>												
Receipts .....	-17.3	-27.7	-12.9	-1.5	0.0	0.0	-0.0	-0.0	-0.1	-0.1	-0.2	-59.8
Outlays .....	4.5	10.8	5.7	1.8	2.4	3.0	3.2	3.3	3.4	3.5	3.7	45.2
Increase in deficit (+) .....	21.8	38.5	18.6	3.3	2.3	3.0	3.2	3.3	3.5	3.6	3.8	104.9
<b>(2) For calendar year 2014 only, with no subsequent recovery:</b>												
Receipts .....	-17.3	-36.9	-42.5	-45.3	-47.8	-50.5	-53.4	-56.5	-59.7	-63.1	-66.6	-539.6
Outlays .....	4.5	13.2	15.6	19.2	24.0	28.9	33.0	37.1	41.4	46.0	50.8	313.7
Increase in deficit (+) .....	21.8	50.1	58.1	64.5	71.8	79.4	86.4	93.5	101.2	109.1	117.4	853.3
<b>(3) Sustained during 2014 - 2024, with no change in unemployment:</b>												
Receipts .....	-17.5	-56.8	-106.0	-161.4	-221.5	-287.2	-358.6	-436.2	-520.3	-611.4	-709.2	-3,486.1
Outlays .....	-0.2	-0.5	0.1	3.5	11.1	22.1	34.4	48.5	65.4	85.3	109.0	378.8
Increase in deficit (+) .....	17.3	56.3	106.2	164.9	232.7	309.3	393.1	484.7	585.7	696.7	818.2	3,864.9
<b>Inflation and Interest Rates</b>												
<b>Budgetary effects of 1 percentage point higher rate of:</b>												
<b>(4) Inflation and interest rates during calendar year 2014 only:</b>												
Receipts .....	23.6	50.1	49.8	47.7	50.7	53.7	56.9	60.2	63.4	66.8	70.1	593.0
Outlays .....	22.9	41.6	36.3	36.6	35.4	35.6	33.8	33.7	32.8	32.7	31.7	373.1
Decrease in deficit (-) .....	-0.7	-8.5	-13.6	-11.1	-15.3	-18.1	-23.0	-26.4	-30.6	-34.1	-38.4	-219.9
<b>(5) Inflation and interest rates, sustained during 2014 - 2024:</b>												
Receipts .....	23.6	77.4	137.0	196.2	258.7	329.8	414.0	504.9	600.7	704.3	815.7	4,062.4
Outlays .....	20.8	70.3	114.7	157.8	197.3	240.7	283.2	326.4	373.3	413.8	450.4	2,648.8
Decrease in deficit (-) .....	-2.8	-7.0	-22.3	-38.3	-61.4	-89.1	-130.8	-178.5	-227.4	-290.5	-365.4	-1,413.6
<b>(6) Interest rates only, sustained during 2014 - 2024:</b>												
Receipts .....	6.1	20.7	32.2	36.8	39.0	43.1	52.7	61.0	66.4	70.9	74.4	503.4
Outlays .....	11.2	41.2	63.3	83.6	101.2	118.8	134.7	149.6	162.6	175.2	186.4	1,227.9
Increase in deficit (+) .....	5.1	20.5	31.1	46.7	62.2	75.8	82.0	88.6	96.2	104.3	111.9	724.5
<b>(7) Inflation only, sustained during 2014 - 2024:</b>												
Receipts .....	17.4	56.4	104.3	158.5	218.5	285.2	359.4	441.6	531.5	630.1	737.5	3,540.3
Outlays .....	9.6	29.4	52.2	75.8	98.8	126.5	155.5	186.6	224.1	256.3	287.2	1,502.1
Decrease in deficit (-) .....	-7.8	-27.0	-52.1	-82.6	-119.7	-158.7	-203.9	-254.9	-307.4	-373.7	-450.3	-2,038.2
<b>Interest Cost of Higher Federal Borrowing</b>												
(8) Outlay effect of \$100 billion increase in borrowing in 2014 ...	0.1	0.2	0.9	2.1	3.2	4.0	4.4	4.6	4.8	5.0	5.2	34.6

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

ments 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 changes in key economic assumptions. Many of the budgetary effects of such changes are fairly predictable, and a set of general principles or “rules of thumb” embodying these relationships can aid in estimating how changes in the economic assumptions would alter outlays, receipts, and the surplus or deficit. These rules of thumb should be understood as suggesting orders of magnitude; they do not account for potential secondary effects.

Table 2-5. FORECAST ERRORS, JANUARY 1982-PRESENT

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

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 which does not account for how policymakers might change taxes and spending 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, the rate of growth of real GDP reflects mainly

the rates of growth of productivity and the labor force, and is not 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 or lower 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 2-4.

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

**Table 2-6. BUDGET EFFECTS OF ALTERNATIVE SCENARIOS**  
(Fiscal years; in billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Alternative Budget Deficit Projections:</b>											
Administration Economic Assumptions .....	649	564	531	458	413	503	512	504	530	482	434
percent of GDP .....	3.7%	3.1%	2.8%	2.3%	1.9%	2.3%	2.2%	2.1%	2.1%	1.8%	1.6%
Alternative Scenario 1 .....	637	568	566	526	502	604	622	620	650	604	559
percent of GDP .....	3.7%	3.1%	3.0%	2.6%	2.4%	2.8%	2.7%	2.6%	2.6%	2.3%	2.1%
Alternative Scenario 2 .....	626	531	499	428	377	448	435	399	391	303	211
percent of GDP .....	3.6%	2.9%	2.6%	2.1%	1.8%	2.0%	1.8%	1.6%	1.5%	1.1%	0.7%

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.

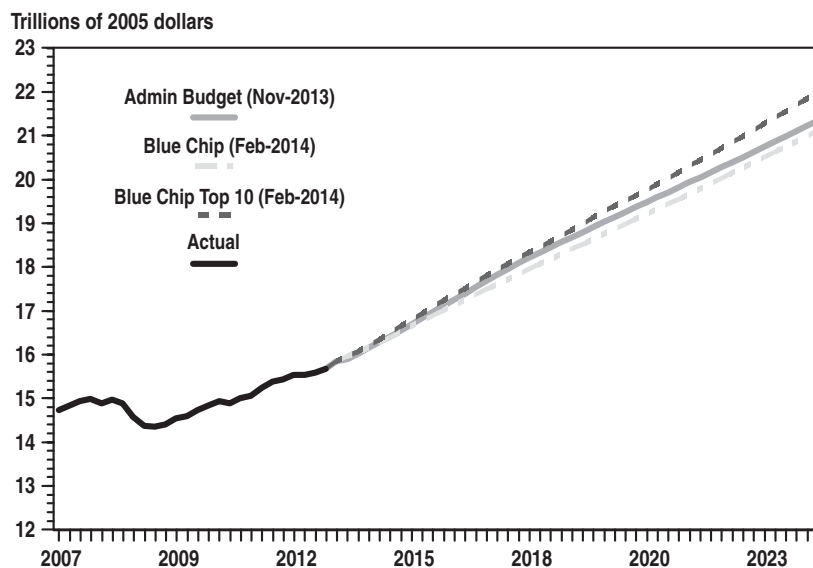
- The second block shows the effect of a reduction in real GDP growth by one percentage point sustained for one year, with no subsequent recoupment of the lost growth, accompanied by a permanent increase in the natural rate of unemployment (and of the actual unemployment rate) of one-half percentage 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:

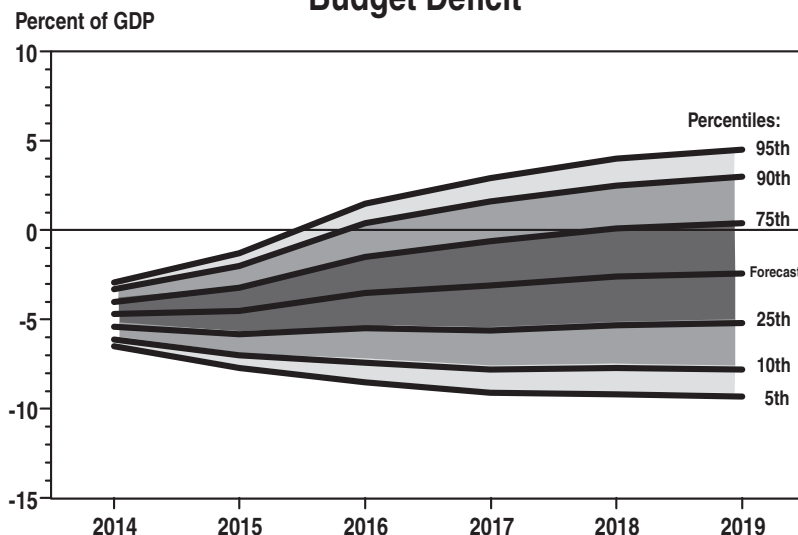
- The fourth block shows the effect of a one percentage point higher rate of inflation and one percentage point higher nominal interest rates maintained for the first year only. In subsequent years, the price level and nominal GDP would both be one percentage point higher than in the base case, but interest 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 policymakers 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

**Chart 2-3. Real GDP: Alternative Projections**





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



percentage above their base levels. In this case, again the effect on receipts is more than the effect on outlays. As in the previous case, these results assume that annually appropriated spending remains fixed under the discretionary spending limits. Over the time period covered by the budget, leaving the discretionary limits unchanged would significantly erode the real value of this category of spending.

- The effects of a one percentage point increase in interest rates alone are shown in the sixth block. The outlay effect mainly reflects higher interest costs for Federal debt. The receipts portion of this rule-of-thumb is due to the Federal Reserve's deposit of earnings on its securities portfolio and the effect of interest rate changes on both individuals' income (and taxes) and financial corporations' profits (and taxes).
- The seventh block shows that a sustained one percentage point increase in inflation in the CPI and GDP price index 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 discussed in the previous section, 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 2-5 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.<sup>5</sup>

In the forecasts made since 1982, over a two-year horizon, the average error in projecting the annual real GDP growth rate was near zero for the Administration, but over a six-year horizon growth was slightly overestimated.

<sup>5</sup> Two-year errors for real GDP and the GDP price index are the average annual errors in percentage points for year-over-year growth rates for the current year and budget year. For interest rates, the error is based on the average error for the level of the 91-day Treasury bill rate for the two-year and six-year period. Administration forecasts are from the budgets released starting in February 1982 (1983 Budget) and through February 2011 (2012 Budget), so that the last year included in the projections is 2012. The six-year forecasts are constructed similarly, but the last forecast used is from February 2007 (2008 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. DIFFERENCES BETWEEN ESTIMATED AND ACTUAL SURPLUSES OR DEFICITS FOR FIVE-YEAR BUDGET ESTIMATES SINCE 1982**  
(Percent of GDP)

	Current year estimate	Budget year estimate	Estimate for budget year plus			
			One year (BY+1)	Two years (BY+2)	Three years (BY+3)	Four years (BY+4)
Average difference .....	0.6	-0.5	-1.4	-1.9	-2.4	-2.6
Average absolute difference .....	0.9	1.4	2.3	2.9	3.4	3.6
Standard deviation .....	1.0	1.9	2.7	3.1	3.3	3.2
Root Mean Squared Error .....	1.1	1.9	3.0	3.7	4.0	4.2

<sup>1</sup> A positive figure represents an overestimate of the deficit or an underestimate of the surplus.

<sup>2</sup> Average absolute difference is the difference without regard to sign.

Over both periods growth was slightly underestimated by the CBO and Blue Chip. 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 professional opinions on whether GDP growth is mean reverting are 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 supply-side 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 nominal 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 nominal 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 al-

ternative scenarios presented in this section and shown in Chart 2-3.

The first alternative scenario assumes that real GDP growth and unemployment beginning in 2013:Q4 follow the projections in the February 2014 Blue Chip forecast for the period through the end of 2015, and are extended through 2024 from the semi-annual October 2013 Blue Chip report. In this case, after 2013, 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 February and October forecasts. This forecast is slightly higher than the Administration's forecast through 2017 with the high-10 Blue Chip growth exceeding the Administration's considerably in the out years.

Table 2-6 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 with the Administration's forecast. In the second alternative, the deficit is modestly higher than the Administration's projection in the near term, but results in a substantially 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 the Administration's 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. Table 2-7 shows total deficit errors as a percentage of GDP for the current-year forecast in each year's budget as well as the errors for the budget-year and four following years. As expected, the size of the average absolute errors increases the far-

**Table 2-8. THE STRUCTURAL BALANCE**  
(Fiscal years; in billions of dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Unadjusted surplus (-) or deficit .....	459	1,413	1,293	1,300	1,087	680	649	564	531	458	413	503	512	504	530	482	434
Cyclical component .....	-41	283	404	399	363	389	373	314	224	127	49	12	-4	2	-2	0	-0
Structural surplus (-) or deficit .....	500	1,129	889	900	724	290	276	249	307	331	364	491	516	501	532	481	434
(Fiscal years; percent of Gross Domestic Product)																	
Unadjusted surplus (-) or deficit .....	3.1%	9.8%	8.7%	8.4%	6.8%	4.1%	3.7%	3.1%	2.8%	2.3%	1.9%	2.3%	2.2%	2.1%	2.1%	1.8%	1.6%
Cyclical component .....	-0.3%	2.0%	2.7%	2.6%	2.3%	2.3%	2.2%	1.7%	1.2%	0.6%	0.2%	0.1%	-0.0%	0.0%	-0.0%	0.0%	-0.0%
Structural surplus (-) or deficit .....	3.4%	7.8%	6.0%	5.9%	4.5%	1.7%	1.6%	1.4%	1.6%	1.6%	1.7%	2.2%	2.2%	2.1%	2.1%	1.8%	1.6%

NOTE: The NAIRU is assumed to be 5.4%.

ther ahead in the future for which the year the projection is made. Average errors have overestimated the current year's deficit, but have underestimated future years by increasing amounts. 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 2019, but has a 90 percent chance of being within a range of a surplus of 4.6 percent of GDP and a deficit of 9.1 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 stable inflation, 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 budget deficit. The portion of the deficit traceable to the response of the automatic stabilizers to the 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 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 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 effect on capital gains 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 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 was 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 was 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 recov-

ery. Between 2014 and 2018, the cyclical component of the deficit is projected to decline sharply to near zero as the economy recovers at an above-trend rate of GDP growth. The structural deficit shrank by six percentage points between 2009 and 2013, reflecting the relatively sharp fiscal tightening measures taken during that period.

### 3. 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 with the practical limits on the construction of detailed budget projections for years in the future.

Decisions made today can have important repercussions beyond the 10-year horizon. Consequently, 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 2015 Budget for 75 years through 2089. Because of the uncertainties involved in making long-run projections, results are presented for a base case and for several alternative scenarios embodying various assumptions.

Legislation since 2010 has led to significant improvements in the Nation’s projected 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 directly 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 outlay path by placing discretionary spending under tight limits and enacting cuts in mandatory spending through 2021. Third, enactment of the American Taxpayer Relief Act of 2012 (ATRA) increased income tax rates on the highest-income taxpayers, contributing \$700 billion to deficit reduction in the first decade and increasing long-run tax receipts above prior projections.

The 2015 Budget includes further initiatives that would help control future deficits if enacted. There is significant uncertainty surrounding any long-term budget forecast, and additional reforms will be needed to ensure that programs like Medicare Part A and Social Security, which are financed from dedicated revenue sources, remain self-sustaining. Still, the long-run projections show that overall budgetary resources would be sufficient to support future spending over the long term if Budget policies and assumptions are carried forward.

#### The Long-Run Budget Outlook

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. Economic recovery and spending and tax legislation have substantially reduced deficits over the last few years, and, as noted above, measures like the ACA, BCA, and ATRA will constrain future spending, increase revenues, and further narrow the deficit. The 2015 Budget also includes nearly \$2.2 trillion in additional net deficit reduction over the next 10 years. Combined with the deficit reduction already enacted, by 2018 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.

Beyond the 10-year horizon, demographic trends and relatively high costs for health care are likely to put upward pressure on the deficits and the debt. In the projections for the decade and a half beyond 2024, deficits as a share of GDP rise from the levels at the end of the 10-year budget window, mainly because the aging of the population and the continuing high costs of health care drive up outlays for Social Security, Medicare, and Medicaid as a share of GDP. Revenues also increase as a share of GDP, but at a more measured pace, leading deficits to peak at 2.5 percent of GDP in the mid 2030s and debt to remain flat near 69 percent of GDP through 2040.

By the mid 2030s, the easing of baby boom retirements, continued restraint in discretionary spending and health costs, and gradually rising revenues due to growing household incomes turn the country on a course toward resuming the reduction in the debt-to-GDP ratio. The budget reaches balance in 2053, when revenues are 20.9 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 2072 (see Chart 3–1).

#### The Fiscal Gap

The 75-year fiscal gap is one measure of the size of the adjustment needed to preserve fiscal sustainability in the long run.<sup>1</sup> It is defined as the present value of the increase in taxes or reduction in non-interest expenditures over the next 75 years required for the ratio of Government debt to GDP at the end of the period to equal its current level. The gap can be measured in present value dollars or as a percentage of present value GDP. If publicly held debt at the end of the period is projected to be lower than current debt, there is a fiscal surplus rather than a fis-

<sup>1</sup> Alan J. Auerbach, “The U.S. Fiscal Problem: Where We Are, How We Got Here, and Where We’re Going,” NBER: Macroeconomics Annual 1994, pp 141 – 175.



cal gap. Table 3–2 shows 75-year fiscal gap or surplus calculations for the base case as well as under different assumptions. These values can be interpreted as the average level of deficit change needed each year from 2015 to 2089 to maintain the current level of debt held by the public as a percentage of GDP. Since debt in the base case eventually reaches zero, the base case has a fiscal surplus of 1.8 percent of GDP, which means that deficit reduction is not needed to reach the current level of debt at the end of the 75-year period.

By comparison, last year’s long-run projections showed a 75-year fiscal surplus of 1.6 percent of GDP and debt peaking at 76 percent of GDP before beginning to decline, versus 69 percent of GDP this year.

### Trends Underlying the Projections

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.

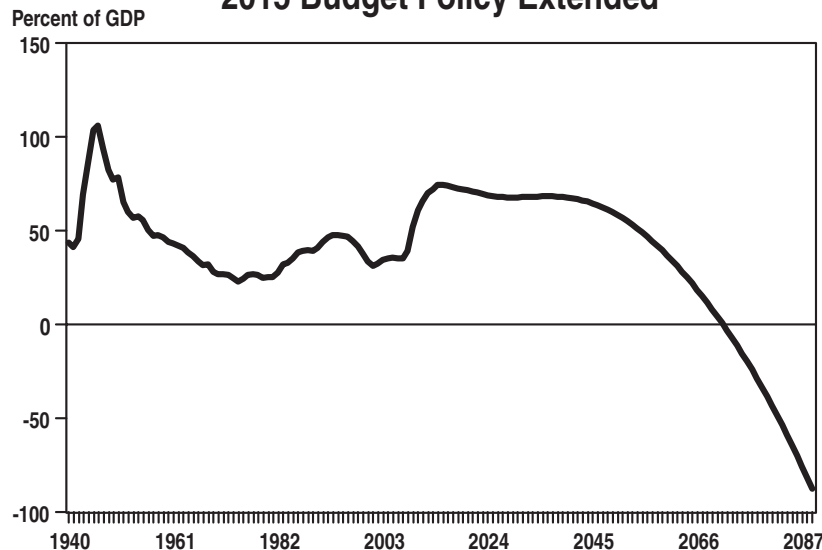
- *Medicare.* Medicare’s growth has generally exceeded that of other Federal spending for decades, tracking the growth in overall health care costs. Growth in overall national health costs has slowed to historically low rates in the past few years, with a corresponding slowdown in Medicare spending that is already yielding substantial fiscal dividends. Moreover, there is increasing evidence that part of the slowdown is structural, suggesting that it may continue into the future.<sup>2</sup> Nonetheless, despite the recent slowdown and ACA reforms that will help curtail future cost growth and improve health outcomes, Medicare

spending is still projected to increase significantly as a share of the economy, due both to rising health costs and the aging population.

- *Medicaid.* Medicaid’s growth has generally tracked the growth in Medicaid enrollment and overall per capita health spending, and therefore historically exceeded the growth rate of other Federal spending. Medicaid assistance will expand further beginning this year 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, as Medicare cost containment spills over into the rest of the health sector.
- *Social Security.* Outlays for Social Security benefits will rise as a share of the economy over the next two decades as the population ages, putting pressure on the long-term budget.
- *Discretionary spending.* 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 through 2021. It is unlikely that the growth in discretionary spending will 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. This is a conservative assumption that results in a higher growth rate than that assumed in the 10-year baselines of the Office of Management and Budget (OMB) and the CBO in the absence of discretionary spending limits. (Because economic growth exceeds inflation and population growth, discretionary spending

<sup>2</sup> Council of Economic Advisors, “Trends in Health Care Cost Growth and the Role of the Affordable Care Act,” November 2013, p 10.

**Chart 3-1. Publicly Held Debt Under 2015 Budget Policy Extended**



**Table 3–1. LONG-RUN BUDGET PROJECTIONS**  
(As a Percent of GDP)

	1980	1990	2000	2010	2020	2030	2040	2050	2060	2070	2080	2085
Receipts .....	18.5	17.4	19.9	14.6	19.2	19.7	20.1	20.7	21.4	22.1	22.8	23.1
Outlays:												
Discretionary .....	9.9	8.5	6.1	9.1	5.1	4.2	3.6	3.1	2.7	2.3	2.0	1.9
Mandatory:												
Social Security .....	4.2	4.2	4.0	4.7	5.1	5.8	5.8	5.6	5.7	5.8	5.8	5.8
Medicare .....	1.1	1.6	1.9	3.0	3.0	3.8	4.3	4.4	4.6	4.7	4.8	4.8
Medicaid .....	0.5	0.7	1.2	1.8	1.9	2.2	2.5	2.7	2.7	2.8	2.8	2.7
Other .....	3.6	3.1	2.3	3.3	3.7	3.2	3.0	2.8	2.6	2.5	2.4	2.4
Subtotal, mandatory .....	9.4	9.6	9.4	12.9	13.7	14.9	15.6	15.5	15.5	15.8	15.8	15.8
Net interest .....	1.9	3.1	2.2	1.3	2.7	3.0	3.0	2.6	1.7	0.3	-1.6	-2.7
Total outlays .....	21.1	21.2	17.6	23.4	21.4	22.1	22.2	21.3	19.9	18.3	16.2	14.9
Surplus (+) or deficit (-) .....	-2.6	-3.7	2.3	-8.7	-2.2	-2.4	-2.2	-0.6	1.5	3.7	6.6	8.2
Primary Surplus (+) or deficit (-) .....	-0.8	-0.6	4.5	-7.4	0.4	0.6	0.9	2.1	3.2	4.0	5.0	5.5
Federal debt (+) or asset (-) held by the public, end of period .....	25.5	40.8	33.6	61.0	71.6	67.9	67.8	58.6	37.0	4.6	-38.1	-64.2

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

continues to decline as a share of the economy, but more slowly.)

- *Revenues.* Without any further changes in tax law, revenues will gradually rise as a share of the economy over the 75-year horizon. This occurs because individuals' real incomes grow over time, and so a portion of their income falls into higher tax brackets (which are indexed for inflation). The projections take into account the automatic growth in revenues that would result under a continuation of 2015 Budget policies, consistent with how they treat automatic growth in Social Security, Medicare, and other mandatory spending programs.

The long-run projections presented here are not intended to be a prediction of future legislative action, nor are they intended to reflect explicit policy proposals for the years beyond 2024. 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 3–1. 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. The forecast shows that, under 2015 Budget policies, in the long run the budget does not run deficits or increase the debt.

Future budget outcomes depend on a host of unknowns—changing economic conditions, unforeseen international developments, unexpected demographic shifts, and the unpredictable forces of technological advance, along with 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 key assumptions. Alternatives presented in this chapter range from altering assumptions for major policy levers such as discretionary spending and revenue growth to changes in economic variables such as productivity. As demonstrated later, these changes can have a dramatic effect on the long-term fiscal sustainability of the Government's finances, with debt-to-GDP ratios even 40 years in the future ranging from 49 percent in the base case to 104 percent in the most pessimistic scenario and -31 percent in the most optimistic scenario.

### Key Drivers of Program Growth: Health Costs and Demographic Changes

**Health Costs.**—Health care costs have risen faster than inflation for decades. That growth has slowed to historic lows in the past few years. While some of the slowdown reflects the recession, there is increasing evidence that the deceleration is also due in part to structural changes. For example, since Medicare beneficiaries are typically retired or disabled, Medicare cost growth tends to be less sensitive to economic conditions than overall health care spending. But Medicare cost growth has slowed over the past few years in line with the overall slowdown in health care costs, and Medicare per-beneficiary spending growth has been below overall health care per capita growth. There is some evidence that the reforms enacted in the Affordable Care Act are already contributing to the health care cost slowdown, for example by reducing Medicare excessive payments to private insurers and providers and creating strong incentives for hospitals to reduce readmission rates. Going forward, the ACA (and additional reforms proposed in the 2015 Budget) will

**Table 3–2. 75-YEAR FISCAL GAP (–)/SURPLUS (+)  
UNDER ALTERNATIVE BUDGET SCENARIOS**  
(Percent of GDP)

2015 Base Case .....	1.8
<b>Immigration:</b>	
Immigration reform extended .....	2.6
<b>Health:</b>	
Excess cost growth averages 0% .....	3.3
Excess cost growth averages 1% .....	1.2
<b>Discretionary Outlays:</b>	
Grow with inflation .....	2.1
Grow with GDP .....	0.6
<b>Revenues:</b>	
Income tax brackets are regularly increased .....	0.6
<b>Productivity:</b>	
Productivity grows by 0.25 percentage point per year faster than the base case .....	3.7
Productivity grows by 0.25 percentage point per year slower than the base case .....	–0.2
<b>Combined:</b>	
Optimistic (higher productivity and lower health cost growth) .....	4.6
Pessimistic (lower productivity and higher health cost growth) .....	–0.7

have a larger impact on health care cost and quality, and, 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 spending is likely to continue to increase as a share of the economy 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 (May 2013), except the projections include the Budget's proposal to strengthen the Independent Payment Advisory Board (IPAB) by lowering the target growth rate to 0.5 percentage points above GDP per capita.<sup>3</sup> Generally, the IPAB mechanism helps to control excess cost growth in the two decades after the budget window, before excess cost growth dips below the proposed threshold due to the Trustees' long-range assumptions affecting the overall health sector. The Trustees' projections imply that average long-run annual growth in Medicare spending per enrollee, with current-law IPAB in place, is 0.4 percentage points per year faster than the projected growth rate in GDP per capita, but the growth rate slows to about 0.3 percentage points with a strengthened IPAB. This growth rate for Medicare is significantly smaller than previous projections prior to the

<sup>3</sup> 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 the IPAB mechanism by lowering the target growth rate applicable for 2020 onward from GDP +1.0 percentage points to GDP +0.5 percentage points.

passage of the ACA—a reduction the Trustees largely attribute to the ACA-mandated changes to certain Medicare payment rates—but is higher than the projections in the 2013 Budget, when a refinement in the long-run pre-ACA cost growth assumption for Medicare was introduced, as recommended by the Medicare Technical Review Panel and included in the 2012 and 2013 Trustees' reports.

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. The ACA also includes an array of delivery system reforms, including incentives for accountable care organizations and payment reform demonstrations that have the potential to re-orient the medical system toward providing higher quality care, not just more care, and thus reduce cost growth in the future.<sup>4</sup> Because of these broader reforms, Medicaid spending per beneficiary and private health spending per capita are also projected to slow, though not as much as Medicare.<sup>5</sup>

**Elderly Population.**—An aging population also poses a serious long-run budgetary challenge, particularly through its effects on Social Security, Medicare, and Medicaid long-term care costs. In 2008, when the oldest members of the baby boom generation became eligible for early retirement under Social Security, the ratio of workers to Social Security beneficiaries was 3.2. That ratio is currently around 2.8, and the Social Security actuaries project it to fall to a level of 2.5 in 2021 and 2.1 in 2031, at which point most of the baby boomers will have retired. Because of lower expected fertility and improved longevity, the actuaries project that the ratio will decline very slowly thereafter, reaching 1.9 by 2089.

With fewer workers to pay the taxes needed to support the retired population, budgetary pressures will steadily mount. Social Security program costs will grow from 4.9 percent of GDP today to a peak of 5.9 percent of GDP in 2089, with about 0.5 percentage points of this growth occurring by 2024, the end of the standard 10-year budget window. Without reforms, trust fund exhaustion is projected by the Social Security Trustees to occur in 2033, after which time the Trustees project annual income to the trust funds will be sufficient to pay about 77 percent of scheduled benefits. In the projections here, however, Social Security payments are supported by transfers from general revenues, as discussed below.

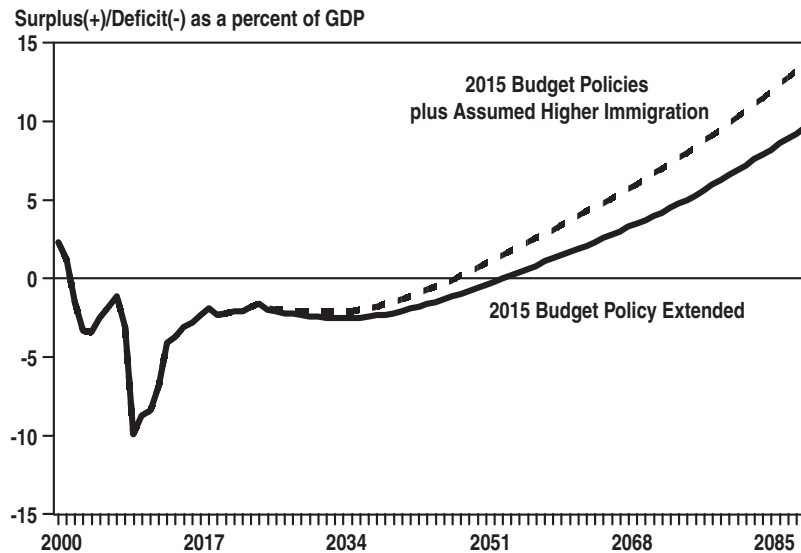
**Other Programs.**— Other mandatory programs are generally projected to decline relative to the size of the economy. These include Federal pension benefits for

<sup>4</sup> Groups of providers meeting certain criteria can be recognized as accountable care organizations (ACOs), which allow them to coordinate care and manage chronic disease more easily thereby improving the quality of care for patients. ACOs can then share in any cost savings they achieve for Medicare if they meet quality standards.

<sup>5</sup> The projections assume that growth in Medicaid spending per enrollee and private health spending per capita exceeds growth in GDP per capita by just under 0.7 percentage points.



Chart 3-2. Higher Immigration



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. Recent reforms in FERS have increased employee contributions to the system, but have left the eventual FERS retirement benefit levels unchanged. As a result of the shift from CSRS to FERS, spending for Federal retirement is expected to permanently shrink 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.

### 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.

**Immigration Reform.**— While the Budget includes an allowance for deficit reduction from commonsense immigration reform, the long-term projections conservatively exclude the effects of immigration reform, with the rate of net immigration assumed to average around 1.1 million immigrants per year in the long run (see Chart 3–2).<sup>6</sup>

<sup>6</sup> The *Analytical Perspectives* volume of the *Fiscal Year 2014 Budget* included an analysis of the effects of alternative fertility, mortality, and immigration assumptions. The underlying assumptions were drawn from the high-cost and low cost-alternatives presented in the 2012 So-

cial Security Trustees' report. The results are summarized on p. 56 of the *Analytical Perspectives* volume ([www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/econ\\_analyses.pdf](http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/econ_analyses.pdf))

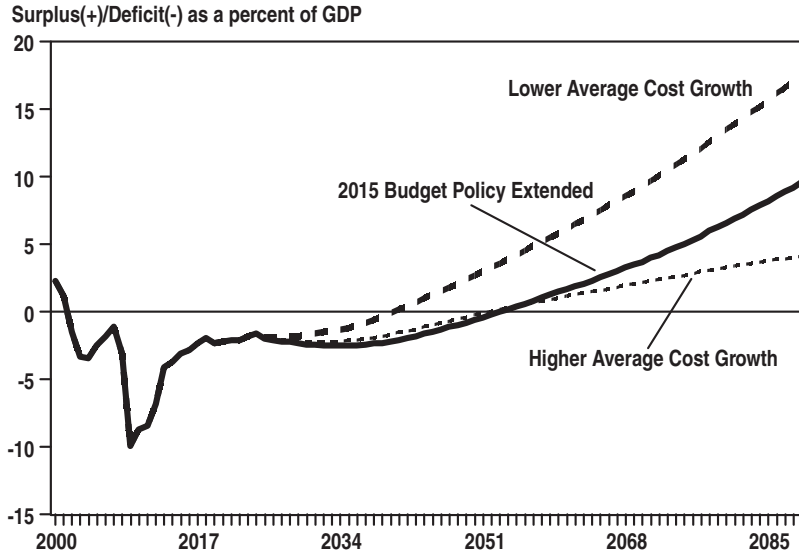
Higher net immigration relieves some of the downward pressure on population growth from low fertility and allows total population to expand throughout the projection period, although at a much slower rate than has prevailed historically. With higher net immigration flows of 0.5 million per year (roughly in line with the CBO forecasts based on the Senate-passed immigration bill's reforms to the legal immigration system), the 75-year fiscal surplus rises from 1.8 percent of 75-year present value GDP in the base case to 2.6 percent of GDP, and the debt-to-GDP ratio falls steadily throughout the projection period, instead of holding stable for a decade before beginning to fall, as in the base case.

**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 2015 Budget. The health cost alternatives illustrated in Chart 3–3 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 point 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 3–2 shows the effect of these alternatives on the 75-year present value fiscal surplus, which falls from 1.8 percent of 75-year present value GDP in the base case to 1.2 percent of GDP in the high health cost growth scenario and rises to 3.3 percent of GDP in the low health cost growth scenario.

**Discretionary Spending.**— The current base projection for discretionary spending assumes that after 2024, discretionary spending grows with inflation and population (see Chart 3–4). 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

cial Security Trustees' report. The results are summarized on p. 56 of the *Analytical Perspectives* volume ([www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/econ\\_analyses.pdf](http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/econ_analyses.pdf))

**Chart 3-3. Alternative Health Care Costs**



with inflation. As shown in Table 3–2, the 75-year fiscal surplus falls from 1.8 percent of 75-year present value GDP in the base case to 0.6 percent of GDP in the growth with GDP scenario, and rises to 2.1 percent of GDP in the growth with inflation scenario.

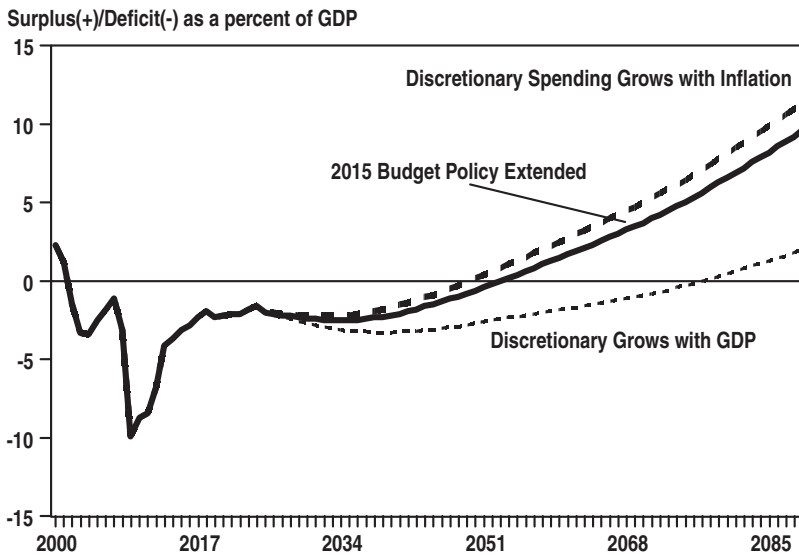
**Alternative Revenue Projections.**—In the base projection, tax receipts rise gradually relative to GDP as real incomes rise. Chart 3–5 shows alternative receipts assumptions. Assuming that Congress will act to cut taxes to avoid the revenue increases associated with rising incomes would bring about higher deficits and publicly held debt throughout the 75-year horizon. The 75-year fiscal surplus falls from 1.8 percent of 75-year present value GDP in the base case to 0.6 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

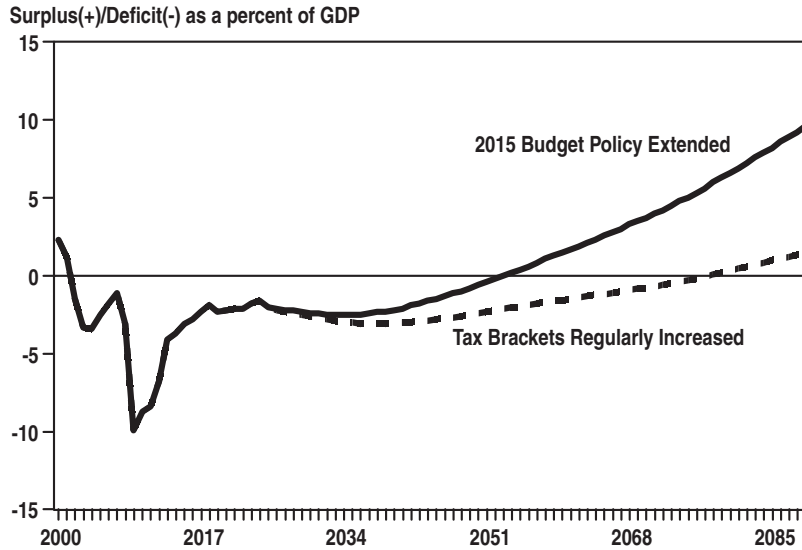
Chart 3–6). It is also highly uncertain. Over the next few decades, an increase in productivity growth would reduce projected budget deficits. Higher productivity growth adds directly to the growth of the major tax bases, while it has a smaller immediate effect on outlay growth. For much of the last 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 real GDP per hour worked will grow at an average annual rate of 1.7 percent per year. 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 1.8 percent of 75-year present value GDP in the base case to 3.7 percent of GDP in the faster productivity

**Chart 3-4. Alternative Discretionary Projections**



**Chart 3-5. Alternative Revenue Projections**



scenario, but falls to a fiscal gap of 0.2 percent of GDP in the slower productivity scenario.

The long-run budget outlook is highly uncertain (see Chart 3-7). With pessimistic assumptions, the fiscal picture can quickly deteriorate back into deficits and rising debt. For example, combining the assumptions of lower productivity growth and higher-than-expected health care cost growth leads to a potential fiscal gap of 0.7 percent of GDP. Conversely, more optimistic assumptions imply an even earlier return to surpluses and declining debt. Combining the alternatives of higher productivity and lower-than-expected health care cost growth leads to a potential fiscal surplus of 4.6 percent of GDP. 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**

While the Administration’s long-run projections focus on the unified budget outlook, Social Security and Medicare Hospital Insurance benefits are paid out of trust funds financed by dedicated payroll tax revenue. Though the unified budget is in long-run balance under these projections, dedicated revenues to the trust funds fall short of the levels necessary to finance benefit costs.

The Social Security and Medicare 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 speci-

**Chart 3-6. Alternative Productivity Assumptions**

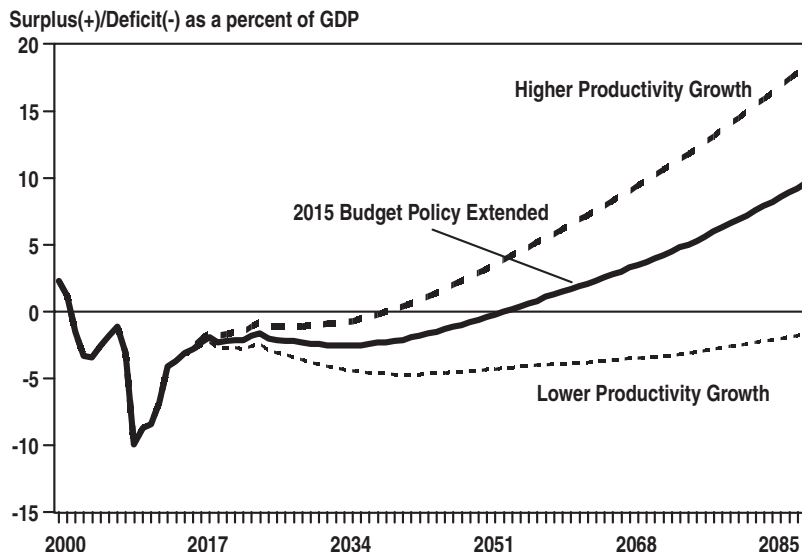
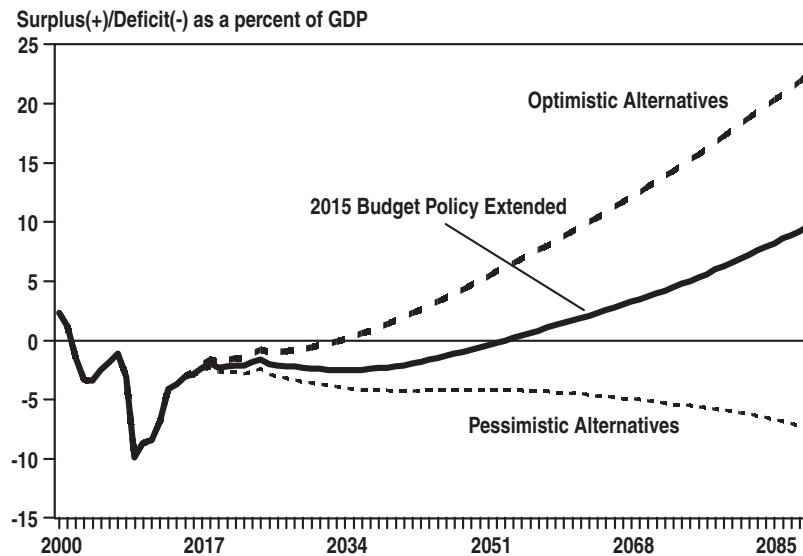


Chart 3-7. Combined Alternatives



fied 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 3–3 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 2011 and the 2012 reports are shown along with the latest data from the 2013 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. In the 2011 Trustees' report, Medicare HI trust fund costs as a percentage of Medicare covered payroll were projected to rise from 3.7 percent to 5.0 percent between 2012 and 2080 and the HI trust fund imbalance was projected to be -0.7 percent in 2080. In the 2012 report, costs rose from 3.7 percent of Medicare taxable payroll in 2012 to 6.3 percent in 2080 and the imbalance in the HI trust fund in 2080 was -2.0 percent. On average, the HI cost rate declined slightly in the 2013 report compared with 2012. In the 2013 report, HI costs rise from 3.7 percent of Medicare taxable payroll in 2010 to 5.9 percent in 2080 and the imbalance in the HI trust fund in 2080 is -1.7 percent.

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 2013

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, when the trust fund began using a portion of its interest earnings to cover benefit payments. The 2013 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 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 Security covered payroll in 2012 to 14.3 percent of payroll in 2020, 16.5 percent of payroll in 2030 and 17.8 percent of payroll in 2080. Revenues excluding interest are projected to rise only slightly from 12.8 percent of payroll today to 13.2 percent in 2080. Thus the annual balance is projected to decline from -1.0 percent of payroll in 2012 to -1.3 percent of payroll in 2020, -3.4 percent of payroll in 2030, and -4.5 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

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

	2012	2020	2030	2050	2080
	Percent of Payroll				
<b>Medicare Hospital Insurance (HI)</b>					
<b>Income Rate</b>					
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
2013 Trustees' Report .....	3.2	3.4	3.6	3.9	4.2
<b>Cost Rate</b>					
2011 Trustees' Report .....	3.7	3.6	4.4	5.1	5.0
2012 Trustees' Report .....	3.7	3.6	4.7	5.8	6.3
2013 Trustees' Report .....	3.7	3.5	4.5	5.4	5.9
<b>Annual Balance</b>					
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
2013 Trustees' Report .....	-0.5	-0.1	-0.8	-1.6	-1.7
Projection Interval:			25 years	50 years	75 years
Actuarial Balance: 2011 Trustees' Report .....			-0.5	-0.8	-0.8
Actuarial Balance: 2012 Trustees' Report .....			-0.7	-1.2	-1.4
Actuarial Balance: 2013 Trustees' Report .....			-0.6	-1.0	-1.1
	Percent of Payroll				
<b>Old Age Survivors and Disability Insurance (OASDI)</b>					
<b>Income Rate</b>					
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
2013 Trustees' Report .....	12.8	13.0	13.1	13.2	13.2
<b>Cost Rate</b>					
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
2013 Trustees' Report .....	13.8	14.3	16.5	16.8	17.8
<b>Annual Balance</b>					
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
2013 Trustees' Report .....	-1.0	-1.3	-3.4	-3.6	-4.5
Projection Interval:			25 years	50 years	75 years
Actuarial Balance: 2011 Trustees' Report .....			-0.6	-1.8	-2.2
Actuarial Balance: 2012 Trustees' Report .....			-1.2	-2.3	-2.7
Actuarial Balance: 2013 Trustees' Report .....			-1.3	-2.3	-2.7

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 2013 Trustees' report presents projections on this point. Beginning in 2033, 77 percent of projected Social Security scheduled benefits would be funded. This percentage would eventually decline to 72 percent by 2087.

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

The long-run 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 2014-2024, the assumptions are drawn from the Administration's economic projections used for the

2015 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 2013 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 2.3 percent per year, the unemployment rate is constant at 5.4 percent, the yield on 10-year Treasury notes is steady at 5.1 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 3.4 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, real GDP growth averages between 2.1 percent and 2.3 percent per year for the period following the end of the 10-year budget window.

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 2024, receipts follow the 2015 Budget's policy projections. After 2024, 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-run economic and demographic assumptions. Medicare benefits are projected based on a projection of beneficiary growth and excess health care cost growth from the 2013 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.



## 4. FEDERAL BORROWING AND DEBT

Debt is the largest legally and contractually binding obligation of the Federal Government. At the end of 2013, the Government owed \$11,983 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 \$259 billion of interest on this debt. At the same time, the Government also held financial assets, net of other financial liabilities, of \$1,056 billion. Therefore, debt net of financial assets was \$10,926 billion.

The \$11,983 billion debt held by the public at the end of 2013 represents an increase of \$701 billion over the level at the end of 2012. In 2013, the \$680 billion deficit and other financing transactions totaling \$22 billion caused the Government to increase its borrowing from the public by \$701 billion. Debt held by the public increased from 70.1 percent of Gross Domestic Product (GDP) at the end of 2012 to 72.1 percent of GDP at the end of 2013.<sup>1</sup> Meanwhile, financial assets net of liabilities grew by \$56 billion in 2013. Debt held by the public net of financial assets increased from 63.9 percent of GDP at the end of 2012 to 65.7 percent of GDP at the end of 2013. The deficit is estimated to fall to \$649 billion, or 3.7 percent of GDP, in 2014, and to fall below 3 percent of GDP starting in 2016. With declining deficits and continued GDP growth, debt held by the public is projected to reach 74.4 percent of GDP at the end of 2014 and to peak at 74.6 percent at the end of 2015, after which it is projected to decline for the remainder of the 10-year budget window, reaching 69.0 percent of GDP at the end of 2024. Debt net of financial assets is expected to increase to 66.8 percent of GDP at the end of 2014, then decrease to 66.6 percent at the end of 2015 and continue to decrease in each of the following years.

### Trends in Debt Since World War II

Table 4–1 depicts trends in Federal debt held by the public from World War II to the present and estimates from the present through 2019. (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 106.1 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

<sup>1</sup> These figures reflect the revisions to GDP released by the Department of Commerce's Bureau of Economic Analysis as part of the July 2013 revisions to the National Income and Product Accounts (NIPA). The revisions increased historical levels of GDP, thereby reducing historical figures for debt as a percent of GDP.

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 78.5 percent of GDP to 24.5 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 48 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 47.8 percent of GDP in 1993 to 31.4 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 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

**Table 4–1. TRENDS IN FEDERAL DEBT HELD BY THE PUBLIC**  
(Dollar amounts in billions)

Fiscal Year	Debt held by the public:		Debt held by the public as a percent of:		Interest on the debt held by the public as a percent of: <sup>3</sup>	
	Current dollars	FY 2013 dollars <sup>1</sup>	GDP	Credit market debt <sup>2</sup>	Total outlays	GDP
1946 .....	241.9	2,342.9	106.1	N/A	7.4	1.8
1950 .....	219.0	1,716.3	78.5	53.3	11.4	1.7
1955 .....	226.6	1,560.7	55.7	43.2	7.6	1.3
1960 .....	236.8	1,445.1	44.3	33.7	8.5	1.5
1965 .....	260.8	1,490.4	36.7	26.9	8.1	1.3
1970 .....	283.2	1,348.6	27.0	20.8	7.9	1.5
1975 .....	394.7	1,385.0	24.5	18.4	7.5	1.6
1980 .....	711.9	1,738.5	25.5	18.6	10.6	2.2
1985 .....	1,507.3	2,809.4	35.3	22.3	16.2	3.6
1990 .....	2,411.6	3,864.7	40.8	22.6	16.2	3.4
1995 .....	3,604.4	5,097.4	47.5	26.4	15.8	3.2
2000 .....	3,409.8	4,445.6	33.6	19.0	13.0	2.3
2005 .....	4,592.2	5,341.4	35.6	17.0	7.7	1.5
2006 .....	4,829.0	5,440.0	35.3	16.4	8.9	1.7
2007 .....	5,035.1	5,522.6	35.1	15.7	9.2	1.8
2008 .....	5,803.1	6,236.3	39.3	17.0	8.7	1.8
2009 .....	7,544.7	8,013.8	52.3	21.2	5.7	1.4
2010 .....	9,018.9	9,497.1	61.0	24.6	6.6	1.5
2011 .....	10,128.2	10,460.6	65.8	26.7	7.4	1.7
2012 .....	11,281.1	11,450.9	70.1	28.5	6.6	1.4
2013 .....	11,982.6	11,982.6	72.1	29.0	7.5	1.6
2014 estimate .....	12,902.7	12,712.4	74.4	N/A	7.4	1.6
2015 estimate .....	13,591.8	13,164.6	74.6	N/A	7.7	1.7
2016 estimate .....	14,256.6	13,557.4	74.3	N/A	8.8	1.9
2017 estimate .....	14,843.5	13,840.9	73.5	N/A	10.3	2.2
2018 estimate .....	15,370.5	14,051.0	72.4	N/A	11.9	2.5
2019 estimate .....	15,982.0	14,322.8	72.0	N/A	12.9	2.7

N/A = Not available.

<sup>1</sup> Debt in current dollars deflated by the GDP chain-type price index with fiscal year 2013 equal to 100.

<sup>2</sup> 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.

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

began increasing rapidly in 2008. The deficit increased 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, fell in 2012, and then decreased markedly in 2013. Under the proposals in the Budget, the deficit is projected to fall in 2014, both in nominal terms and as a share of the economy, and continue to fall as a percentage of GDP through 2018, then remain

relatively stable for the remainder of the 10-year budget window. Debt held by the public as a percent of GDP is estimated to be 74.4 percent at the end of 2014 and 74.6 percent at the end of 2015, after which it declines gradually for the remainder of the 10-year budget window, falling to 69.0 percent of GDP in 2024. Debt net of financial assets as a percent of GDP is estimated to grow to 66.8 percent at the end of 2014 and then fall to 66.6 percent at the end of 2015 and continue 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.<sup>2</sup> Second, it issues debt to Federal Government accounts, primarily trust funds, which accumulate surpluses. By law, trust fund surpluses must generally be invested in Federal securities. The gross Federal debt is defined to consist of both the debt held by the public and the debt held by Government accounts. Nearly all the Federal debt has been issued by the Treasury and is sometimes called “public debt,” but a small portion has been issued by other Government agencies and is called “agency debt.”<sup>3</sup>

Borrowing from the public, whether by the Treasury or by some other Federal agency, is important because it represents the Federal demand on credit markets. Regardless of whether the proceeds are used for tangible or intangible investments or to finance current consumption, the Federal demand on credit markets has to be financed out of the saving of households and businesses, the State and local sector, or the rest of the world. Federal borrowing thereby competes with the borrowing of other sectors of the domestic or international 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. 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

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

<sup>3</sup> The term “agency debt” is defined more narrowly in the budget than customarily in the securities market, where it includes not only the debt of the Federal agencies listed in Table 4–4, but also certain Government-guaranteed securities and the debt of the Government-Sponsored Enterprises listed in Table 20–7 in the supplemental materials to the “Credit and Insurance” chapter. (Table 20-7 is available on the Internet at: [www.budget.gov/budget/Analytical\\_Perspectives](http://www.budget.gov/budget/Analytical_Perspectives) and on the Budget CD-ROM.)

the general fund to the funds that hold the securities, and are a mechanism for crediting interest to those funds on their recorded balances. These balances generally provide the fund with authority to draw upon the U.S. Treasury in later years to make future payments on its behalf to the public. Public policy may result in the Government’s running surpluses and accumulating debt in trust funds and other Government accounts in anticipation of future spending.

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

Furthermore, the debt held by Government accounts does not represent the estimated amount of the account’s obligations or responsibilities to make future payments to the public. For example, if the account records the transactions of a social insurance program, the debt that it holds does not necessarily represent the actuarial present value of estimated future benefits (or future benefits less taxes) for the current participants in the program; nor does it necessarily represent the actuarial present value of estimated future benefits (or future benefits less taxes) for the current participants plus the estimated future participants over some stated time period. The future transactions of Federal social insurance and employee retirement programs, which own 93 percent of the debt held by Government accounts, are important in their own right and need to be analyzed separately. This can be done through information published in the actuarial and financial reports for these programs.<sup>4</sup>

This Budget uses a variety of information sources to analyze the condition of Social Security and Medicare, the Government’s two largest social insurance programs. Table 3-1 in Chapter 3, “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 very different in concept and much larger in size than the amount of Treasury securities that these programs hold.

<sup>4</sup> Extensive actuarial analyses of the Social Security and Medicare programs are published in the annual reports of the boards of trustees of these funds. The actuarial estimates for Social Security, Medicare, and the major Federal employee retirement programs are summarized in the *Financial Report of the United States Government*, prepared annually by the Department of the Treasury in coordination with the Office of Management and Budget.

**Table 4-2. FEDERAL GOVERNMENT FINANCING AND DEBT**  
(In billions of dollars)

	Actual 2013	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Financing:</b>												
Unified budget deficit .....	679.5	648.8	563.6	531.1	457.8	413.3	502.7	512.2	503.6	530.3	481.7	433.7
Other transactions affecting borrowing from the public:												
Changes in financial assets and liabilities: <sup>1</sup>												
Change in Treasury operating cash balance	2.9	1.6	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Net disbursements of credit financing accounts:												
Direct loan accounts .....	139.0	125.6	120.9	127.2	122.7	108.7	102.3	102.8	104.2	105.9	111.0	113.9
Guaranteed loan accounts .....	-0.5	25.9	9.9	7.8	7.7	6.3	7.7	6.8	3.9	1.2	-0.7	-1.6
Troubled Asset Relief Program equity purchase accounts .....	-7.0	-1.5	-4.1	-0.3	-0.2	-0.1	-0.2	-0.1	-*	-*	-*	-*
Subtotal, net disbursements .....	131.6	150.0	126.8	134.8	130.2	114.8	109.8	109.5	108.0	107.1	110.2	112.3
Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust .....	1.3	-*	-1.1	-1.0	-1.0	-0.9	-0.8	-0.8	-0.8	-0.9	-0.6	-0.5
Net change in other financial assets and liabilities <sup>2</sup> .....	-113.5	119.9	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Subtotal, changes in financial assets and liabilities .....	22.3	271.4	125.7	133.8	129.2	113.9	109.0	108.7	107.2	106.2	109.6	111.8
Seigniorage on coins .....	-0.4	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Total, other transactions affecting borrowing from the public .....	21.9	271.3	125.6	133.7	129.0	113.7	108.8	108.5	107.0	106.0	109.4	111.6
Total, requirement to borrow from the public (equals change in debt held by the public) .....	701.4	920.1	689.1	664.8	586.9	527.0	611.5	620.7	610.7	636.3	591.1	545.3
<b>Changes in Debt Subject to Statutory Limitation:</b>												
Change in debt held by the public .....	701.4	920.1	689.1	664.8	586.9	527.0	611.5	620.7	610.7	636.3	591.1	545.3
Change in debt held by Government accounts .....	-32.9	253.1	131.7	133.3	163.2	172.3	98.2	85.4	77.9	47.0	48.8	52.0
Less: change in debt not subject to limit and other adjustments .....	3.9	-8.3	0.9	2.4	2.5	2.1	2.5	2.6	2.1	2.3	2.9	2.7
Total, change in debt subject to statutory limitation .....	672.4	1,164.9	821.8	800.5	752.6	701.5	712.2	708.7	690.7	685.6	642.8	600.0
<b>Debt Subject to Statutory Limitation, End of Year:</b>												
Debt issued by Treasury .....	16,691.7	17,864.0	18,684.5	19,483.1	20,234.1	20,934.4	21,645.1	22,352.3	23,041.7	23,726.1	24,367.7	24,966.7
Less: Treasury debt not subject to limitation (-) <sup>3</sup> .....	-6.7	-14.1	-12.8	-10.9	-9.3	-8.2	-6.6	-5.1	-3.9	-2.7	-1.5	-0.5
Agency debt subject to limitation .....	*	*	*	*	*	*	*	*	*	*	*	*
Adjustment for discount and premium <sup>4</sup> .....	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Total, debt subject to statutory limitation <sup>5</sup> .....	16,699.4	17,864.3	18,686.0	19,486.6	20,239.2	20,940.6	21,652.9	22,361.5	23,052.2	23,737.8	24,380.6	24,980.6
<b>Debt Outstanding, End of Year:</b>												
<b>Gross Federal debt:<sup>6</sup></b>												
Debt issued by Treasury .....	16,691.7	17,864.0	18,684.5	19,483.1	20,234.1	20,934.4	21,645.1	22,352.3	23,041.7	23,726.1	24,367.7	24,966.7
Debt issued by other agencies .....	27.7	28.6	29.0	28.5	27.6	26.6	25.6	24.6	23.7	22.6	21.0	19.2
Total, gross Federal debt .....	16,719.4	17,892.6	18,713.5	19,511.6	20,261.7	20,961.1	21,670.7	22,376.8	23,065.4	23,748.7	24,388.7	24,985.9
<b>Held by:</b>												
Debt held by Government accounts .....	4,736.9	4,990.0	5,121.7	5,255.0	5,418.3	5,590.6	5,688.8	5,774.2	5,852.1	5,899.1	5,948.0	5,999.9
Debt held by the public <sup>7</sup> .....	11,982.6	12,902.7	13,591.8	14,256.6	14,843.5	15,370.5	15,982.0	16,602.6	17,213.3	17,849.6	18,440.7	18,986.0

\*\$50 million or less.

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

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

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

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

<sup>5</sup>Legislation enacted February 15, 2014, (P.L. 113-83) temporarily suspends the debt limit through March 15, 2015.

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

<sup>7</sup>At the end of 2013, the Federal Reserve Banks held \$2,072.3 billion of Federal securities and the rest of the public held \$9,910.3 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

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 4–2 summarizes Federal borrowing and debt from 2013 through 2024.<sup>5</sup> In 2013 the Government borrowed \$701 billion, increasing the debt held by the public from \$11,281 billion at the end of 2012 to \$11,983 billion at the end of 2013. The debt held by Government accounts decreased \$33 billion, and gross Federal debt increased by \$669 billion to \$16,719 billion.

**Debt held by the public.**—The Federal Government primarily finances deficits by borrowing from the public, and it primarily uses surpluses to repay debt held by the public.<sup>6</sup> Table 4–2 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 Interactions with the Budget,” in this volume.

The total or unified budget deficit consists of two parts: the on-budget deficit; and the surplus of the off-budget Federal entities, which have been excluded from the budget by law. Under present law, the off-budget Federal entities are the Social Security trust funds (Old-Age and Survivors Insurance and Disability Insurance) and the Postal Service Fund.<sup>7</sup> The on-budget and off-budget surpluses or deficits are added together to determine the Government’s financing needs.

Over the long run, it is a good approximation to say that “the deficit is financed by borrowing from the public” or “the surplus is used to repay debt held by the public.” However, the Government’s need to borrow in any given year has always depended on several other factors besides the unified budget surplus or deficit, such as the change in the Treasury operating cash balance. These other factors—“other transactions affecting borrowing from the public”—can either increase or decrease the Government’s need to borrow and can vary considerably in size from year to year. The other transactions affecting borrowing from the public are presented in Table 4–2 (an increase in the need to borrow is represented by a positive sign, like the deficit).

<sup>5</sup> For projections of the debt beyond 2024, see Chapter 3, “Long Term Budget Outlook.”

<sup>6</sup> Treasury debt held by the public is measured as the sales price plus the amortized discount (or less the amortized premium). At the time of sale, the book value equals the sales price. Subsequently, it equals the sales price plus the amount of the discount that has been amortized up to that time. In equivalent terms, the book value of the debt equals the principal amount due at maturity (par or face value) less the unamortized discount. (For a security sold at a premium, the definition is symmetrical.) For inflation-indexed notes and bonds, the book value includes a periodic adjustment for inflation. Agency debt is generally recorded at par.

<sup>7</sup> For further explanation of the off-budget Federal entities, see Chapter 10, “Coverage of the Budget.”

In 2013 the deficit was \$680 billion while these other factors increased the need to borrow by \$22 billion, or 3 percent of total borrowing from the public. As a result, the Government borrowed \$701 billion from the public. The other factors are estimated to increase borrowing by \$271 billion (29 percent of total borrowing from the public) in 2014, and \$126 billion (18 percent) in 2015. In 2016–2024, these other factors are expected to increase borrowing by annual amounts ranging from \$106 billion to \$134 billion.

Three specific factors presented in Table 4–2 have historically been especially important.

**Change in Treasury operating cash balance.**—The cash balance increased by \$27 billion, to \$85 billion, in 2012 and increased by \$3 billion, to \$88 billion, in 2013. The operating cash balance is projected to increase by \$2 billion, to \$90 billion at the end of 2014. 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.

**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.<sup>8</sup>

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.

<sup>8</sup> The FCRA (sec. 505(b)) requires that the financing accounts be non-budgetary. They are non-budgetary in concept because they do not measure cost. For additional discussion of credit programs, see Chapter 20, “Credit and Insurance,” and Chapter 9, “Budget Concepts.”



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.

Borrowing due to credit financing accounts was \$132 billion in 2013. In 2014 credit financing accounts are projected to increase borrowing by \$150 billion. After 2014, the credit financing accounts are expected to increase borrowing by amounts ranging from \$107 billion to \$135 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. There was a net upward reestimate of \$1.1 billion in 2013 and a net upward reestimate of \$0.4 billion in 2014.

*Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust (NRRIT).*—This trust fund, which was established by the Railroad Retirement and Survivors' Improvement Act of 2001, invests its assets primarily in private stocks and bonds. The Act required special treatment of the purchase or sale of non-Federal assets by the NRRIT 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. In 2013, net increases, including purchases and gains, were \$1 billion. A small net decrease is projected for 2014 and net decreases of roughly \$1 billion annually are projected for 2015 and subsequent years.<sup>9</sup>

*Net change in other financial assets and liabilities.*—In addition to the three factors discussed above, in 2013, the net change in other financial assets and liabilities was also particularly significant. Generally, the amounts in this category are relatively small. For example, this category decreased the need to borrow by \$1 billion in 2012 and increased the need to borrow by \$5 billion in 2011. However, in 2013, this "other" category reduced the need to borrow by a net \$114 billion. Of the net \$114 billion, \$120 billion—offset slightly by other factors—was due to the suspension of the daily reinvestment of the Thrift Savings Plan (TSP) Government Securities Investment

Fund (G-Fund).<sup>10</sup> The Department of the Treasury is authorized to suspend the issuance of obligations to the TSP G-Fund as an "extraordinary measure" if issuances could not be made without causing the public debt of the United States to exceed the debt limit. The suspension of the daily reinvestment of the TSP G-Fund resulted in the amounts being moved from debt held by the public to deposit fund balances, an "other" financial liability. Once Treasury is able to do so without exceeding the debt limit, Treasury is required to fully reinvest the TSP G-Fund and restore any foregone interest. Accordingly, the TSP G-Fund was fully reinvested in October 2013. Table 4–2 reflects the \$120 billion reinvestment, which returns the amount from deposit fund balances to debt held by the public. The debt ceiling and the use of the TSP G-Fund are discussed in further detail below.

*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 91 percent of the total Federal debt held by Government accounts at the end of 2013. Investment may differ from the surplus due to changes in the amount of cash assets not currently invested. In 2013, the total trust fund surplus was \$86 billion, and trust fund investment in Federal securities decreased by \$42 billion. This \$129 billion difference was primarily due to the Civil Service Retirement and Disability Fund (CSRDF), which had a surplus of \$16 billion but disinvested \$107 billion, as a result of the extraordinary measures that the Treasury Department is authorized to take with the fund when the Government is at the debt ceiling. For further details on such measures, see the discussion below. The remainder of debt issued to Government accounts is owned by a number of special funds and revolving funds. The debt held in major accounts and the annual investments are shown in Table 4–5.

### **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 United States 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

<sup>9</sup> The budget treatment of this fund is further discussed in Chapter 9, "Budget Concepts."

<sup>10</sup> The TSP is a defined contribution pension plan for Federal employees. The G-Fund is one of several components of the TSP.

**Table 4–3. DEBT HELD BY THE PUBLIC NET OF FINANCIAL ASSETS AND LIABILITIES**  
(Dollar amounts in billions)

	Actual 2013	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Debt Held by the Public:</b>												
Debt held by the public .....	11,982.6	12,902.7	13,591.8	14,256.6	14,843.5	15,370.5	15,982.0	16,602.6	17,213.3	17,849.6	18,440.7	18,986.0
As a percent of GDP .....	72.1%	74.4%	74.6%	74.3%	73.5%	72.4%	72.0%	71.6%	71.1%	70.6%	69.9%	69.0%
<b>Financial Assets Net of Liabilities:</b>												
Treasury operating cash balance .....	88.4	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
Credit financing account balances:												
Direct loan accounts .....	943.8	1,069.4	1,190.3	1,317.5	1,440.3	1,549.0	1,651.3	1,754.1	1,858.3	1,964.2	2,075.1	2,189.0
Guaranteed loan accounts .....	-10.4	15.5	25.5	33.3	40.9	47.2	54.8	61.6	65.5	66.7	66.0	64.4
Troubled Asset Relief Program equity purchase accounts .....	6.6	5.1	1.0	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1
Subtotal, credit financing account balances .....	940.0	1,090.0	1,216.8	1,351.5	1,481.7	1,596.6	1,706.3	1,815.8	1,923.9	2,031.0	2,141.2	2,253.5
Government-sponsored enterprise preferred stock .....	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2
Non-Federal securities held by NRRIT .....	24.2	24.1	23.1	22.1	21.1	20.2	19.4	18.6	17.7	16.8	16.2	15.7
Other assets net of liabilities .....	-136.6	-16.7	-16.7	-16.7	-16.7	-16.7	-16.7	-16.7	-16.7	-16.7	-16.7	-16.7
Total, financial assets net of liabilities .....	1,056.2	1,327.6	1,453.3	1,587.1	1,716.3	1,830.2	1,939.2	2,047.9	2,155.1	2,261.3	2,370.9	2,482.7
<b>Debt Held by the Public Net of Financial Assets and Liabilities:</b>												
Debt held by the public net of financial assets .....	10,926.4	11,575.1	12,138.5	12,669.4	13,127.1	13,540.2	14,042.7	14,554.7	15,058.2	15,588.4	16,069.8	16,503.4
As a percent of GDP .....	65.7%	66.8%	66.6%	66.1%	65.0%	63.8%	63.3%	62.7%	62.2%	61.7%	60.9%	59.9%

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 loan. Similarly, when NRRIT 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.

Table 4–3 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 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. Government-Sponsored Enterprise (GSE) preferred stock is measured at market value.

Net financial assets increased by \$56 billion, to \$1,056 billion, in 2013. At the end of 2013, debt held by the public was \$11,983 billion, or 72.1 percent of GDP. The Government held \$1,056 billion in net financial assets, including a cash balance of \$88 billion, net credit financing account balances of \$940 billion, and other assets and liabilities that aggregated to a net asset of \$28 billion. Therefore, debt net of financial assets was \$10,926 billion, or 65.7 percent of GDP. As shown in Table 4–3, the value of the Government’s net financial assets is projected to increase to \$1,328 billion in 2014, due to increases in the net balances of credit financing accounts and other factors. While debt held by the public is expected to increase from 72.1 percent to 74.4 percent of GDP during 2014, net debt is expected to increase from 65.7 percent to 66.8 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).

### 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 (SLGS).<sup>11</sup> Treasury nonmarketable debt cannot be bought or sold on the secondary market.

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

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

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

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

*Treasury Inflation-Protected Securities (TIPS)*—Treasury inflation-protected—or inflation-indexed—securities are coupon issues for which the par value of the security rises with inflation. The principal value is adjusted 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 67 months at the end of 2013.

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. Treasury's floating rate notes are benchmarked to the Treasury 13-week bill. Treasury held the first floating rate securities auction in January 2014. Currently, Treasury is issuing floating rate securities with a maturity of two years.

In addition to quarterly announcements about the overall auction calendar, Treasury publicly announces in advance the auction of each security. Individuals can participate directly in Treasury auctions or can purchase securities through brokers, dealers, and other financial institutions. Treasury accepts two types of auction bids—competitive and noncompetitive. In a competitive bid, the bidder specifies the yield. A significant portion of competitive bids are submitted by primary dealers, which are banks and securities brokerages that have been designated to trade in Treasury securities with the Federal Reserve System. In a noncompetitive bid, the bidder agrees to accept the yield determined by the auction.<sup>12</sup> 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 2013, there was net disinvestment in nonmarketables, necessitating additional marketable borrowing to finance the redemption of nonmarketable debt.<sup>13</sup>

### Agency Debt

A few Federal agencies, shown in Table 4–4, sell or have sold debt securities to the public and, at times, to other Government accounts. Currently, new debt is issued only by the Tennessee Valley Authority (TVA) and the Federal Housing Administration (FHA); the remain-

<sup>11</sup> Under the SLGS 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.

<sup>12</sup> Noncompetitive bids cannot exceed \$5 million.

<sup>13</sup> Detail on the marketable and nonmarketable securities issued by Treasury is found in the *Monthly Statement of the Public Debt*, published on a monthly basis by the Department of the Treasury.

**Table 4-4. AGENCY DEBT**  
(In millions of dollars)

	2013 Actual		2014 Estimate		2015 Estimate	
	Borrowing/ Repayment(-)	Debt, End-of-Year	Borrowing/ Repayment(-)	Debt, End-of-Year	Borrowing/ Repayment(-)	Debt, End-of-Year
<b>Borrowing from the public:</b>						
Housing and Urban Development:						
Federal Housing Administration .....		19	*	19		19
Architect of the Capitol .....	-7	121	-7	114	-7	107
National Archives .....	-17	134	-18	116	-20	97
Tennessee Valley Authority:						
Bonds and notes .....	718	24,816	1,086	25,902	596	26,498
Lease/leaseback obligations .....	-56	2,142	-88	2,054	-102	1,952
Prepayment obligations .....	-102	510	-100	410	-100	310
<b>Total, borrowing from the public</b> .....	<b>537</b>	<b>27,741</b>	<b>874</b>	<b>28,615</b>	<b>368</b>	<b>28,982</b>
<b>Borrowing from other funds:</b>						
Tennessee Valley Authority <sup>1</sup> .....	1	5		5		5
<b>Total, borrowing from other funds</b> .....	<b>1</b>	<b>5</b>		<b>5</b>		<b>5</b>
<b>Total, agency borrowing</b> .....	<b>537</b>	<b>27,746</b>	<b>874</b>	<b>28,620</b>	<b>368</b>	<b>28,988</b>
<b>Memorandum:</b>						
Tennessee Valley Authority bonds and notes, total .....	718	24,821	1,086	25,907	596	26,504

\* \$500,000 or less.

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

ing agencies are repaying past borrowing. Agency debt increased from \$27.2 billion at the end of 2012 to \$27.7 billion at the end of 2013, 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 \$0.9 billion in 2014 and by \$0.4 billion in 2015.

The predominant agency borrower is TVA, which had borrowings of \$27.5 billion from the public as of the end of 2013, or 99 percent of the total debt of all agencies. TVA issues debt primarily to finance capital projects.

TVA has traditionally financed its capital construction by selling bonds and notes to the public. Since 2000, it has also employed two types of alternative financing methods, lease/leaseback obligations and prepayment obligations. Under the lease/leaseback obligations method, TVA signs contracts to lease some facilities and equipment to private investors and simultaneously leases them back. It receives a lump sum for leasing out its assets, and then leases them back at fixed annual payments for a set number of years. TVA retains substantially all of the economic benefits and risks related to ownership of the assets.<sup>14</sup> Under the prepayment obligations method, TVA's power distributors may prepay a portion of the price of the power they plan to purchase in the future. In return, they obtain a discount on a specific quantity of the future power they buy from TVA. The quantity varies, depending on TVA's estimated cost of borrowing.

<sup>14</sup> This arrangement is at least as governmental as a "lease-purchase without substantial private risk." For further detail on the current budgetary treatment of lease-purchase without substantial private risk, see OMB Circular No. A-11, Appendix B.

The OMB 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.<sup>15</sup> The budget presentation is consistent with the reporting of these obligations as liabilities on TVA's balance sheet under generally accepted accounting principles. Table 4-4 presents these alternative financing methods separately from TVA bonds and notes to distinguish between the types of borrowing. Obligations for lease/leasebacks were \$2.1 billion at the end of 2013 and are estimated to be \$2.1 billion at the end of 2014 and \$2.0 billion at the end of 2015. Obligations for prepayments were \$0.5 billion at the end of 2013 and are estimated to be \$0.4 billion at the end of 2014 and \$0.3 billion at the end of 2015.

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.

<sup>15</sup> This budgetary treatment differs from the treatment in the *Monthly Treasury Statement of Receipts and Outlays of the United States Government (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 NRRIT and treatment of the Federal debt held by the Securities Investor Protection Corporation.



tures. 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.

Total investment by trust funds and other Government accounts decreased by \$33 billion in 2013. Investment by Government accounts is estimated to be \$253 billion in 2014 and \$132 billion in 2015, as shown in Table 4–5. The holdings of Federal securities by Government accounts are estimated to increase to \$5,122 billion by the end of 2015, 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 (HI) and Supplementary Medical Insurance (SMI) 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, 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 2015, these Social Security, Medicare, and Federal employee retirement funds are estimated to own 92 percent of the total debt held by Government accounts. During 2013–2015, the Military Retirement Fund has a large surplus and is estimated to invest a total of \$160 billion, 45 percent of total net investment by Government accounts, and the Social Security OASI fund is projected to invest \$151 billion, 43 percent of the net total. CSRDF is

projected to invest \$52 billion, 15 percent of the net total. Some Government accounts reduce their investments in Federal securities during 2013–2015. During these years, the Social Security DI fund disinvests \$99 billion, or 28 percent of the total net investment and the Medicare HI trust fund disinvests \$42 billion, or 12 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 4–5 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 \$20.4 billion at the end of 2013.

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 4–5 it is shown as a separate item at the end of the table and not distributed by account. The amount was \$1.9 billion at the end of 2013.

### 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.<sup>16</sup> Federal Reserve holdings were \$2,072 billion (17 percent of debt held by the public) at the end of 2013, up from \$1,645 billion (15 percent of debt held by the public) at the end of 2012. Over the last 10 years, the Federal Reserve holdings have averaged 14 percent of debt held by the public. 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

<sup>16</sup> For further detail on the monetary policy activities of the Federal Reserve and the treatment of the Federal Reserve in the Budget, see Chapter 10, “Coverage of the Budget.”



**Table 4-5. DEBT HELD BY GOVERNMENT ACCOUNTS<sup>1</sup>**  
(In millions of dollars)

Description	Investment or Disinvestment (-)			Holdings, End of 2015 Estimate
	2013 Actual	2014 Estimate	2015 Estimate	
<b>Investment in Treasury debt:</b>				
<b>Energy:</b>				
Nuclear waste disposal fund <sup>1</sup> .....	2,179	628	628	31,655
Uranium enrichment decontamination fund .....	-348	-487	160	3,346
<b>Health and Human Services:</b>				
Federal hospital insurance trust fund .....	-22,282	-17,016	-3,174	185,820
Federal supplementary medical insurance trust fund .....	-1,939	5,254	99	72,738
Vaccine injury compensation fund .....	50	80	91	3,415
Child enrollment contingency fund .....	3	-2,098	.....	.....
<b>Homeland Security:</b>				
Aquatic resources trust fund .....	-76	36	-11	1,891
Oil spill liability trust fund .....	659	618	723	4,554
<b>Housing and Urban Development:</b>				
Federal Housing Administration mutual mortgage fund .....	-2,774	7,877	13,167	21,044
Guarantees of mortgage-backed securities .....	-306	6,485	689	8,986
<b>Interior:</b>				
Abandoned mine reclamation fund .....	-1	20	-69	2,702
Federal aid in wildlife restoration fund .....	686	108	30	1,559
Environmental improvement and restoration fund .....	58	133	1,330	2,790
<b>Justice:</b> Assets forfeiture fund .....	583	-309	-2,471	1,896
<b>Labor:</b>				
Unemployment trust fund .....	8,805	9,522	4,000	43,000
Pension Benefit Guaranty Corporation <sup>1</sup> .....	1,636	-141	611	17,962
<b>State:</b> Foreign service retirement and disability trust fund .....	471	504	504	18,372
<b>Transportation:</b>				
Airport and airway trust fund .....	1,383	261	-1,259	10,810
Transportation trust fund .....	-8,013	-1,957	14,628	14,628
Aviation insurance revolving fund .....	119	57	153	2,147
<b>Treasury:</b>				
Exchange stabilization fund .....	-11	-3	4	22,670
Treasury forfeiture fund .....	1,193	-867	.....	1,957
Comptroller of the Currency assessment fund .....	-66	-*	.....	1,293
<b>Veterans Affairs:</b>				
National service life insurance trust fund .....	-656	-840	-721	4,695
Veterans special life insurance fund .....	-39	-75	-88	1,751
<b>Corps of Engineers:</b> Harbor maintenance trust fund .....	820	802	866	9,374
<b>Other Defense-Civil:</b>				
Military retirement trust fund .....	44,888	55,927	58,896	536,150
Medicare-eligible retiree health care fund .....	12,552	10,447	9,863	208,974
Education benefits fund .....	-112	-106	-117	1,556
<b>Environmental Protection Agency:</b>				
Leaking underground storage tank trust fund .....	64	64	-57	1,330
Hazardous substance trust fund .....	-63	-63	1	3,125
<b>International Assistance Programs:</b> Overseas Private Investment Corporation .....	150	59	29	5,480
<b>Office of Personnel Management:</b>				
Civil service retirement and disability trust fund .....	-107,099	143,248	15,975	878,679
Postal Service retiree health benefits fund .....	-3,023	11,771	7,166	61,261
Employees life insurance fund .....	701	*	1,170	43,121
Employees health benefits fund .....	2,168	697	1,164	25,290
<b>Social Security Administration:</b>				
Federal old-age and survivors insurance trust fund <sup>2</sup> .....	68,901	49,860	31,998	2,737,457
Federal disability insurance trust fund <sup>2</sup> .....	-31,554	-33,079	-34,109	33,603

**Table 4-5. DEBT HELD BY GOVERNMENT ACCOUNTS<sup>1</sup>—Continued**  
(In millions of dollars)

Description	Investment or Disinvestment (-)			Holdings, End of 2015 Estimate
	2013 Actual	2014 Estimate	2015 Estimate	
<b>District of Columbia:</b> Federal pension fund .....	-434	-25	-10	3,174
<b>Farm Credit System Insurance Corporation:</b>				
Farm Credit System Insurance fund .....	107	260	176	3,637
<b>Federal Communications Commission:</b>				
Universal service fund .....	609	-*	.....	7,150
<b>Federal Deposit Insurance Corporation:</b>				
Deposit insurance fund .....	366	4,240	10,356	51,460
Senior unsecured debt guarantee fund .....	-1,104	.....	.....	.....
FSLIC resolution fund .....	-2,599	4	-399	430
<b>National Credit Union Administration:</b>				
Share insurance fund .....	346	461	399	11,503
Central liquidity facility .....	-1,815	70	8	205
Postal Service funds <sup>2</sup> .....	269	*	.....	2,860
Railroad Retirement Board trust funds .....	54	-20	-33	2,337
Securities Investor Protection Corporation <sup>3</sup> .....	315	95	128	2,138
United States Enrichment Corporation fund .....	10	10	16	1,634
Other Federal funds .....	343	-61	377	5,882
Other trust funds .....	745	672	-1,181	4,079
Unrealized discount <sup>1</sup> .....	146	.....	.....	-1,892
<b>Total, investment in Treasury debt<sup>1</sup></b> .....	<b>-32,935</b>	<b>253,121</b>	<b>131,706</b>	<b>5,121,678</b>
<b>Investment in agency debt:</b>				
<b>Railroad Retirement Board:</b>				
National Railroad Retirement Investment Trust .....	1	.....	.....	5
<b>Total, investment in agency debt<sup>1</sup></b> .....	<b>1</b>	<b>.....</b>	<b>.....</b>	<b>5</b>
<b>Total, investment in Federal debt<sup>1</sup></b> .....	<b>-32,934</b>	<b>253,121</b>	<b>131,706</b>	<b>5,121,683</b>
<b>Memorandum:</b>				
Investment by Federal funds (on-budget) .....	8,839	38,732	42,341	481,643
Investment by Federal funds (off-budget) .....	269	*	.....	2,860
Investment by trust funds (on-budget) .....	-79,537	197,608	91,476	1,868,013
Investment by trust funds (off-budget) .....	37,348	16,781	-2,111	2,771,060
Unrealized discount <sup>1</sup> .....	146	.....	.....	-1,892

\* \$500 thousand or less.

<sup>1</sup>Debt held by Government accounts is measured at face value except for the Treasury zero-coupon bonds held by the Nuclear waste disposal fund and the Pension Benefit Guaranty Corporation (PBGC), which are recorded at market or redemption price; and the unrealized discount on Government account series, which is not distributed by account. Changes are not estimated in the unrealized discount. If recorded at face value, at the end of 2013 the debt figures would be \$20.2 billion higher for the Nuclear waste disposal fund and \$0.2 billion higher for PBGC than recorded in this table.

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

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

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 4-2 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 securities mature on dates from June 30, 2009, through June 30, 2019. At the end of 2013, \$6 billion of these securities remained outstanding. On October 1, 2013, FFB issued \$9 billion of securities to the CSRDF, in exchange for an equal amount of special-issue Treasury securities issued by the Treasury and held by the CSRDF. The securities issued in October 2013 mature on dates from June 30, 2015, through June 30, 2024. The FFB secu-

rities have the same interest rates and maturities as the Treasury securities for which they were exchanged.

The Housing and Economic Recovery Act of 2008 created another 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 \$494 million at the end of 2013 and is projected to fall to \$32 million at the end of 2014 and then to increase gradually 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 \$485 million at the end of 2013 and is projected to gradually decline over time.

The sole agency debt currently subject to the general limit, \$209,000 at the end of 2013, is certain debentures issued by the Federal Housing Administration.<sup>17</sup>

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

The comparison between Treasury debt and debt subject to limit also includes an adjustment for measurement differences in the treatment of discounts and premiums. As explained earlier in this chapter, debt securities may be sold at a discount or premium, and the measurement of debt may take this into account rather than recording the face value of the securities. However, the measurement differs between gross Federal debt (and its components) and the statutory definition of debt subject to limit. An adjustment is needed to derive debt subject to limit (as defined by law) from Treasury debt. The amount of the adjustment was \$14.4 billion at the end of 2013 compared with the total unamortized discount (less premium) of \$46.5 billion on all Treasury securities.

**Changes in the debt limit.**—The statutory debt limit has been changed many times. Since 1960, the Congress has passed 81 separate acts to raise the limit, revise the definition, extend the duration of a temporary increase, or temporarily suspend the limit.<sup>18</sup>

The \$16,394 billion debt ceiling that had been established by the Budget Control Act of 2011 was reached on December 31, 2012.

The three subsequent laws addressing the debt limit have each provided for a temporary suspension followed by an increase in an amount equivalent to the debt that was issued during that suspension period in order to fund commitments requiring payment through the specified end date. The No Budget, No Pay Act of 2013 suspended the debt limit from February 4, 2013, through May 18, 2013, and then raised the debt limit on May 19, 2013, by \$305 billion, to \$16,699 billion. Subsequently, Treasury began to take extraordinary measures to meet the Government’s obligation to pay its bills and invest

its trust funds while remaining below the statutory limit. The Continuing Appropriations Act, 2014, suspended the \$16,699 billion debt ceiling from October 17, 2013, through February 7, 2014, and then raised the debt limit on February 8, 2014, by \$512 billion to \$17,212 billion. Again, Treasury began to take extraordinary measures to meet the Government’s obligations. The Temporary Debt Limit Extension Act suspended the \$17,212 billion debt ceiling from February 15, 2014, through March 15, 2015.

At many times in the past several decades, including 2013 and 2014, 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 extraordinary measures to meet the Government’s financial obligations. One such measure is the partial or full suspension of the daily reinvestment of the Thrift Savings Plan G-Fund. 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 December 2013, the TSP G-Fund had an outstanding balance of \$173 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.<sup>19</sup> 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 December 2013.

As the debt nears the limit, including in 2013 and 2014, Treasury has also suspended the issuance of SLGS to reduce unanticipated fluctuations in the level of the debt.

In addition to these steps, Treasury has previously exchanged Treasury securities held by the CSRDF with borrowing by the FFB, which, as explained above, is not subject to the debt limit. This measure was most recently taken in November 2004 and October 2013.

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.

<sup>17</sup> At the end of 2013, there were also \$18 million of FHA debentures not subject to limit.

<sup>18</sup> The Acts and the statutory limits since 1940 are listed in *Historical Tables, Budget of the United States Government, Fiscal Year 2015*, Table 7.3.

<sup>19</sup> Both the CSRDF and the PSRHBF are administered by the Office of Personnel Management.

**Table 4-6. FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO STATUTORY LIMIT**  
(In billions of dollars)

Description	Actual 2013	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Change in Gross Federal Debt:</b>												
Federal funds deficit (+) .....	765.9	743.7	668.9	621.6	573.9	538.4	556.3	550.0	539.8	526.2	476.8	429.8
Other transactions affecting borrowing from the public -- Federal funds <sup>1</sup> .....	20.6	271.3	126.6	134.6	130.0	114.7	109.6	109.3	107.9	106.9	110.1	112.1
Increase (+) or decrease (-) in Federal debt held by Federal funds .....	9.1	38.7	42.3	42.8	47.1	47.2	44.6	47.6	41.7	51.2	53.7	55.9
Adjustments for trust fund surplus/deficit not invested/ disinvested in Federal securities <sup>2</sup> .....	-127.2	119.5	-17.0	-1.0	-1.0	-0.9	-0.8	-0.8	-0.8	-0.9	-0.6	-0.5
Change in unrealized discount on Federal debt held by Government accounts .....	0.1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Total financing requirements</b> .....	<b>668.5</b>	<b>1,173.2</b>	<b>820.8</b>	<b>798.1</b>	<b>750.1</b>	<b>699.3</b>	<b>709.7</b>	<b>706.1</b>	<b>688.6</b>	<b>683.3</b>	<b>639.9</b>	<b>597.3</b>
<b>Change in Debt Subject to Limit:</b>												
Change in gross Federal debt .....	668.5	1,173.2	820.8	798.1	750.1	699.3	709.7	706.1	688.6	683.3	639.9	597.3
Less: increase (+) or decrease (-) in Federal debt not subject to limit .....	-0.9	8.3	-0.9	-2.4	-2.5	-2.1	-2.5	-2.6	-2.1	-2.3	-2.9	-2.7
Less: change in adjustment for discount and premium <sup>3</sup> .....	-3.0	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Total, change in debt subject to limit</b> .....	<b>672.4</b>	<b>1,164.9</b>	<b>821.8</b>	<b>800.5</b>	<b>752.6</b>	<b>701.5</b>	<b>712.2</b>	<b>708.7</b>	<b>690.7</b>	<b>685.6</b>	<b>642.8</b>	<b>600.0</b>
<b>Memorandum:</b>												
<b>Debt subject to statutory limit</b> <sup>4</sup> .....	<b>16,699.4</b>	<b>17,864.3</b>	<b>18,686.0</b>	<b>19,486.6</b>	<b>20,239.2</b>	<b>20,940.6</b>	<b>21,652.9</b>	<b>22,361.5</b>	<b>23,052.2</b>	<b>23,737.8</b>	<b>24,380.6</b>	<b>24,980.6</b>

<sup>1</sup> Includes Federal fund transactions that correspond to those presented in Table 4-2, but that are for Federal funds alone with respect to the public and trust funds.

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

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

<sup>4</sup> Legislation enacted February 15, 2014, (P.L. 113-83) temporarily suspends the debt limit through March 15, 2015.

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 \$17,864 billion by the end of 2014 and to \$18,686 billion by the end of 2015.

**Federal funds financing and the change in debt subject to limit.**—The change in debt held by the public, as shown in Table 4-2, 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 4-2. The change

in debt held by Government accounts results in 15 percent of the estimated total increase in debt subject to limit from 2014 through 2024.

The budget is composed of two groups of funds, Federal funds and trust funds. The Federal funds, in the main, are derived from tax receipts and borrowing and are used for the general purposes of the Government. The trust funds, on the other hand, are financed by taxes or other receipts dedicated by law for specified purposes, such as for paying Social Security benefits or making grants to State governments for highway construction.<sup>20</sup>

A Federal funds deficit must generally be financed by borrowing, which can be done either by selling securities to the public or by issuing securities to Government accounts that are not within the Federal funds group. Federal funds borrowing consists almost entirely of Treasury securities that are subject to the statutory debt limit. Very little debt subject to statutory limit has been issued for reasons except to finance the Federal funds deficit. The change in debt subject to limit is therefore determined primarily by the Federal funds deficit, which is equal to the difference between the total Government deficit or surplus and the trust fund surplus. Trust fund surpluses are almost entirely invested in securities subject to the debt limit, and trust funds hold most of the debt held by Government accounts. The trust fund surplus reduces the total budget deficit or increases the total budget surplus, decreasing the need to borrow from the public or increasing the ability to repay borrowing from the public. When

<sup>20</sup> For further discussion of the trust funds and Federal funds groups, see Chapter 26, "Trust Funds and Federal Funds."

**Table 4-7. FOREIGN HOLDINGS OF FEDERAL DEBT**

(Dollar amounts in billions)

Fiscal Year	Debt held by the public			Change in debt held by the public <sup>2</sup>	
	Total	Foreign <sup>1</sup>	Percentage foreign	Total	Foreign
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	4,912.1	48.5	1,109.3	587.9
2012 .....	11,281.1	5,476.0	48.5	1,152.9	563.9
2013 .....	11,982.6	5,652.9	47.2	701.4	176.9

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

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

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 4-6 derives the change in debt subject to limit. In 2013 the Federal funds deficit was \$766 billion, and other factors increased financing requirements by \$21 billion. The change in the Treasury operating cash balance increased financing requirements by \$3 billion and the net financing disbursements of credit financing accounts increased financing requirements by \$132 billion, largely offset by other factors, which decreased financing requirements by \$114 billion. As discussed earlier in this chapter, this net \$114 billion in other factors was mainly due to the suspension of investment of the TSP G-Fund, undertaken as an extraordinary measure to continue Federal Government operations while at the debt ceiling. In addition, special funds and revolving funds, which are part of the Federal funds group, invested a net of \$9 billion in Treasury securities. A \$127 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 NRRIT's investments in non-Federal securities). As discussed above, this unusually large adjustment amount is due primarily to the extraordinary measures taken with the

CSRDF. As a net result of all these factors, \$669 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 \$3 billion, the debt subject to limit increased by \$672 billion, while debt held by the public increased by \$701 billion.

Debt subject to limit is estimated to increase by \$1,165 billion in 2014 and by \$822 billion in 2015. 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 4-6. While debt held by the public increases by \$7,003 billion from the end of 2013 through 2024, debt subject to limit increases by \$8,281 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 4–7. At the end of 2013, foreign holdings of Treasury debt were \$5,653 billion, which was 47 percent of the total debt held by the public.<sup>21</sup> Foreign central banks and foreign official institutions owned 71 percent of the foreign holdings of Federal debt; private investors owned nearly all the rest. At the end of 2013, the nations holding the largest shares of U.S. Federal debt were China, which held 23 percent of all foreign holdings, and Japan, which held 21 percent. All of the foreign holdings of Federal debt are denominated in dollars.

Although the amount of foreign holdings of Federal debt has grown greatly over this period, the proportion that foreign entities and individuals own, after increasing abruptly in the very early 1970s, remained about 15–20 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 fell from 49 percent at the end of 2012 to 47 percent at the end of 2013. The increase in foreign holdings was about 25 percent of total Federal borrowing from the public in 2013 and 46 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 are discussed in Chapter 20, "Credit and Insurance," in this volume. Detailed data are presented in tables accompanying that chapter.

<sup>21</sup> The debt calculated by the Bureau of Economic Analysis is different, though similar in size, because of a different method of valuing securities.

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## PERFORMANCE AND MANAGEMENT

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## 5. 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 their quality.

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 6.6 percent in January 2014 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 2013, 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 over \$53 trillion in 2012, 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 5.7 percent in 2000 to 2.7 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 boom 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 2.9 percent of GDP for the past 50 years, trending upward in recent years.

*Demographic and Civic:* The U.S. population has steadily increased from 1970, where it numbered 204 million, to 316 million in 2013. The foreign born population has increased rapidly since 1970, quadrupling from about 10 million in 1970 to over 40 million in 2012. 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 2012, the percent of the population over age 65 increased from 9.8 to 13.7, and the percent over age 85 increased from 0.7 to 1.9.

The composition of American households and families has evolved considerably over time. The percent of Americans who have ever married continues 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 2011, the number of births per 1,000 unmarried women age 15-17 fell from 30.1 to 14.9, a level below that of 1970. Meanwhile, the fraction of single parent households stopped increasing in 1995, stabilizing at slightly 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.<sup>1</sup> However, the effects of the 2008-2009 recession are evident in

<sup>1</sup> 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.

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 2012, 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 election voting rate rebounded in the past three elections, averaging close to 57 percent. The cultural engagement of Americans has changed over time. The percentage of adults attending visual or performing arts activities, including movie going, decreased from 72 percent in 1980 to 64 percent in 2012. The percentage of Americans engaging in leisure reading decreased from 66 percent in 1990 to 58 percent in 2012. However, new modes of cultural engagement have emerged, such as consumption of art via the internet and handheld devices.

*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 32 percent in 2012. Measures of reading and mathematics achievement show little if any improvement for American 17-year olds over the period from 1970 to 2012. However, these measures have improved among 9- and 13-year olds, especially for mathematics and especially since the 2004 assessment. While the percentage of the population with a graduate degree has risen over time, 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 13 percent in 2012.

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 21 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 2011. In contrast, the income share of the bottom 50 percent of taxpayers declined from 18 percent in 1980 to 12 percent in 2011. From 2000 to 2012, 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 hous-

ing 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 over 17 percent in 2012. This increase in health care spending has coincided with improvements in medical technology that have improved health, but the level of per capita spending 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. In recent years, growth in health care spending has slowed slightly, reflecting some combination of structural changes and economic conditions. Despite high health care costs, 21 percent of adults and 9 percent of children were without health insurance in 2012. 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 25 million by 2016.<sup>2</sup>

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 2012 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 2011, 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 2012.

*Security and Safety:*

The last three decades have witnessed a remarkable decline in crime. From 1980 to 2012, the property crime rate dropped by roughly 70 percent while the murder rate was cut in 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.

The number of military personnel on active duty has declined for several years, reflecting the withdrawal of U.S. troops from Iraq and Afghanistan. In 2013 the active duty count fell to the same 1.38 million level of 2000, prior to the wars in Iraq and Afghanistan. The highest count of active duty military personnel in the table is 3.07 million in 1970, reached during the Vietnam War. The number of

<sup>2</sup> Congressional Budget Office. 2013. "Effects on Health Insurance and the Federal Budget for the Insurance Coverage Provisions in the Affordable Care Act - May 2013 Baseline." Washington, DC: Congressional Budget Office.

veterans has declined from 28 million in 1980 to 22 million in 2013.

*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 33 percent from 2000 to 2012. Moving forward, the greatest environmental challenge is reducing greenhouse gas emissions. The President announced a target reduction in the range of 17 percent of 2005 emissions by 2020. From 2005 to 2011, gross greenhouse gas emissions fell by 6.9 percent. Gross greenhouse gas emissions per capita and per unit of GDP fell by 11.7 and 11.6 percent, respectively. However, annual mean atmospheric carbon

dioxide(CO<sub>2</sub>) concentration, a global measure of climate change, continues to rise. In 1960 the level of CO<sub>2</sub> concentration was 13 percent above its pre-industrial level of 280 ppm; in 2013 it was 42 percent above the pre-industrial level.

While technological advances and a shift in production patterns mean that Americans now use less than half as much energy per real dollar of GDP as they did 50 years ago, rising income levels mean that the level of per capita consumption has remained relatively 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 12.2 percent.

**Table 5-1. SOCIAL INDICATORS**

Calendar Years		1960	1970	1980	1990	1995	2000	2005	2010	2011	2012	2013
<b>Economic</b>												
General Economic Conditions												
1	Real GDP per person (chained 2009 dollars) <sup>1</sup> .....	17,182	23,003	28,295	35,756	38,125	44,495	48,094	47,710	48,239	49,226	49,599
2	Real GDP per person change, 5-year annual average .....	0.8	2.4	2.6	2.4	1.3	3.1	1.6	-0.1	-0.3	0.0	N/A
3	Consumer Price Index <sup>2</sup> .....	12.7	16.7	35.4	56.1	65.4	73.9	83.8	93.6	96.6	98.6	100.0
4	Private goods producing (%) .....	N/A	N/A	N/A	39.7	37.2	33.7	32.1	29.5	30.8	N/A	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	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	63.2
7	Employment (millions) .....	65.8	78.7	99.3	118.8	124.9	136.9	141.7	139.1	139.9	142.5	143.9
8	Employment-population ratio (%) .....	56.1	57.4	59.2	62.8	62.9	64.4	62.7	58.5	58.4	58.6	58.6
9	Payroll employment change - December to December, SA (millions) <sup>3</sup> .....	-0.4	-0.5	0.3	0.3	2.2	1.9	2.5	1.1	2.1	2.2	2.3
10	Payroll employment change - 5-year annual average, NSA (millions) <sup>4</sup> .....	0.7	2.0	2.7	2.4	1.6	2.9	0.4	-0.7	-0.9	-0.8	-0.2
11	Civilian unemployment rate (%) .....	5.5	4.9	7.1	5.6	5.6	4.0	5.1	9.6	8.9	8.1	7.4
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	13.8
13	Receiving Social Security disabled-worker benefits (% of population) <sup>5</sup> .....	0.9	2.0	2.8	2.5	3.3	3.7	4.5	5.5	5.7	5.9	5.9
Infrastructure, Innovation, and Capital Investment												
14	Nonfarm business output per hour (average 5 year % change) <sup>6</sup> ....	1.8	2.1	1.2	1.6	1.6	2.8	3.2	1.9	1.9	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	10,780	14,000
16	Real net stock of fixed assets and consumer durable goods (billions of 2012\$) <sup>7</sup> .....	13,242	19,784	29,219	33,148	35,420	41,197	51,026	53,117	53,172	53,572	N/A
17	Population served by secondary wastewater treatment or better (%) <sup>8</sup> .....	N/A	41.6	56.4	63.7	61.1	71.4	74.3	72.0	N/A	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	13,336	13,159	12,896	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	N/A
20	Net national saving rate (% of GDP) <sup>1</sup> .....	10.8	8.5	7.2	3.9	4.0	5.7	2.7	-0.8	0.1	0.8	1.8
21	R&D spending (% of GDP) .....	2.60	2.53	2.27	2.62	2.48	2.70	2.57	2.81	2.84	2.89	N/A
<b>Demographic and Civic</b>												
Population												
22	Total population (millions) <sup>9</sup> .....	N/A	204.0	227.2	249.6	266.3	282.2	295.5	309.3	311.6	313.9	316.1
23	Foreign born population (millions) <sup>10</sup> .....	9.7	9.6	14.1	19.8	N/A	31.1	37.5	40.0	40.4	40.8	N/A
24	17 years and younger (%) <sup>9</sup> .....	N/A	N/A	28.0	25.7	26.1	25.7	24.9	24.0	23.7	23.5	23.3
25	65 years and older (%) <sup>9</sup> .....	N/A	9.8	11.3	12.5	12.7	12.4	12.4	13.1	13.3	13.7	N/A
26	85 years and older (%) <sup>9</sup> .....	N/A	0.7	1.0	1.2	1.4	1.5	1.6	1.8	1.8	1.9	N/A
Household Composition												
27	Ever married (% of age 15 and older) <sup>11</sup> .....	78.0	75.1	74.1	73.8	72.9	71.9	70.9	69.3	69.2	68.8	68.6
28	Average family size <sup>12</sup> .....	3.7	3.6	3.3	3.2	3.2	3.2	3.1	3.2	3.1	3.1	3.1
29	Births to unmarried women age 15-17 (per 1,000 unmarried women age 15-17) .....	N/A	17.1	20.6	29.6	30.1	23.9	19.4	16.8	14.9	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	9.1

Table 5-1. SOCIAL INDICATORS—Continued

Calendar Years		1960	1970	1980	1990	1995	2000	2005	2010	2011	2012	2013
<b>Civic and Cultural Engagement</b>												
31	Average charitable contribution per itemized tax return (2011 dollars) <sup>13</sup> .....	2,128	2,111	2,436	3,062	3,255	4,320	4,422	3,765	3,769	N/A	N/A
32	Voting for President (% of voting age population) <sup>14</sup> .....	63.4	57.0	55.1	56.4	49.8	52.1	56.7	58.3	N/A	54.9	N/A
33	Persons volunteering (% age 16 and older) <sup>15</sup> .....	N/A	N/A	N/A	20.4	N/A	N/A	28.8	26.3	26.8	26.5	N/A
34	Attendance at visual or performing arts activity, including movie going (% age 18 and older) <sup>16</sup> .....	N/A	N/A	71.7	72.1	N/A	70.1	N/A	N/A	63.9	63.5	N/A
35	Leisure reading (books not required for work or school) <sup>16</sup> .....	N/A	N/A	N/A	66.0	N/A	58.9	N/A	N/A	58.9	58.1	N/A
<b>Socioeconomic</b>												
<b>Education</b>												
36	High school graduates (% of age 25–34) <sup>17</sup> .....	58.1	71.5	84.2	84.1	N/A	83.9	86.4	87.2	87.9	88.4	N/A
37	College graduates (% of age 25–34) <sup>18</sup> .....	11.0	15.5	23.3	22.7	N/A	27.5	29.9	31.1	31.5	32.2	N/A
38	Reading achievement score (age 17) <sup>19</sup> .....	N/A	285	285	290	288	288	283	286	N/A	287	N/A
39	Math achievement score (age 17) <sup>20</sup> .....	N/A	304	298	305	306	308	305	306	N/A	306	N/A
40	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	12.7	N/A
41	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	12.9	N/A	N/A
<b>Income, Savings, and Inequality</b>												
42	Real median income: all households (2012 dollars) .....	N/A	46,089	46,985	50,994	50,978	55,987	54,486	51,892	51,100	51,017	N/A
43	Real disposable income per capita (chained 2009 dollars) <sup>1</sup> .....	11,877	16,643	20,159	25,556	27,180	31,525	34,428	35,706	36,293	36,756	36,661
44	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	18.7	N/A	N/A
45	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	11.6	N/A	N/A
46	Personal saving rate (% of disposable personal income) <sup>1</sup> .....	10.0	12.6	10.6	7.8	6.4	4.0	2.6	5.6	5.7	5.6	4.4
47	Poverty rate (%) <sup>21</sup> .....	22.2	12.6	13.0	13.5	13.8	11.3	12.6	15.1	15.0	15.0	N/A
48	Food-insecure households (% of all households) <sup>22</sup> .....	N/A	N/A	N/A	N/A	11.9	10.5	11.0	14.5	14.9	14.5	N/A
49	Supplemental Nutrition Assistance Program (formerly Food Stamps) <sup>23</sup> .....	N/A	3.3	9.5	8.2	9.9	6.1	8.9	13.5	14.6	15.0	15.1
50	Median wealth of households, age 55–64 (in thousands of 2011 dollars) <sup>24</sup> .....	75	N/A	148	170	169	234	299	185	N/A	N/A	N/A
<b>Housing</b>												
51	Homeownership among families with children (%) .....	61.9	62.9	64.4	64.2	65	66.2	66.9	65.1	64.6	N/A	N/A
52	Families with children and severe housing cost burden (%) <sup>25</sup> .....	N/A	N/A	8	10	12	11	14.5	17.9	18.3	N/A	N/A
53	Families with children and inadequate housing (%) <sup>26</sup> .....	N/A	N/A	9	9	7	7	5.4	5.3	5.5	N/A	N/A
<b>Health</b>												
<b>Health Status</b>												
54	Life expectancy at birth (years) <sup>27</sup> .....	69.7	70.8	73.7	75.4	75.8	76.8	77.6	78.7	78.7	N/A	N/A
55	Infant mortality (per 1,000 live births) <sup>27</sup> .....	26.0	20.0	12.6	9.2	7.6	6.9	6.9	6.1	6.1	N/A	N/A
56	Low birthweight (<2,500 gms) (% of babies) <sup>28</sup> .....	7.7	7.9	6.8	7.0	7.3	7.6	8.2	8.1	8.1	8.0	N/A
57	Activity limitation (% of age 5–17) <sup>29</sup> .....	N/A	N/A	N/A	N/A	N/A	7.0	8.0	9.2	9.3	9.4	N/A
58	Activity limitation (% of age 18 and over) <sup>30</sup> .....	N/A	N/A	N/A	N/A	N/A	27.9	29.1	29.9	29.8	28.4	N/A
59	Difficulties with activities of daily living (% of age 65 and over) <sup>31</sup> .....	N/A	N/A	N/A	N/A	N/A	6.3	6.2	6.8	7.3	6.5	N/A
<b>Health Behavior</b>												
60	Engaged in regular physical activity (% of age 18 and older) <sup>32</sup> .....	N/A	N/A	N/A	N/A	N/A	15.0	16.6	20.7	21.0	20.8	N/A
61	Obesity (% of age 20–74 with BMI 30 or greater) <sup>33</sup> .....	13.3	14.6	15.1	23.3	N/A	31.1	34.1	N/A	35.3	N/A	N/A
62	Obesity (% of age 2–19) <sup>34</sup> .....	N/A	5.1	5.5	10.0	N/A	13.9	15.4	16.9	16.9	N/A	N/A
63	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	18.2	N/A
64	Excessive alcohol use (% of age 18 and older) <sup>35</sup> .....	N/A	N/A	N/A	N/A	N/A	8.7	8.9	10.1	9.4	9.6	N/A
<b>Access to Health Care</b>												
65	Total national health expenditures (% of GDP) .....	5.0	7.0	8.9	12.1	13.4	13.4	15.5	17.4	17.3	17.2	N/A
66	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	21.0	N/A
67	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	8.9	N/A
68	Children age 19–35 months with recommended vaccinations (%) <sup>36</sup> .....	N/A	N/A	N/A	N/A	55.1	72.8	76.1	56.6	68.5	68.4	N/A
<b>Security and Safety</b>												
<b>Crime</b>												
69	Property crimes (per 100,000 households) <sup>37</sup> .....	N/A	N/A	49,610	34,890	31,547	19,043	15,947	12,541	13,868	15,584	N/A
70	Violent crime victimizations (per 100,000 population age 12 or older) <sup>38</sup> .....	N/A	N/A	4,940	4,410	7,068	3,749	2,842	1,928	2,257	2,612	N/A
71	Murder rate (per 100,000 persons) .....	5.1	7.9	10.2	9.4	8.2	5.5	5.6	4.8	4.7	4.7	N/A



Table 5-1. SOCIAL INDICATORS—Continued

Calendar Years		1960	1970	1980	1990	1995	2000	2005	2010	2011	2012	2013
<b>National Security</b>												
72	Military personnel on active duty (thousands) <sup>39</sup> .....	2,475	3,065	2,051	2,044	1,518	1,384	1,389	1,431	1,425	1,400	1,382
73	Veterans (thousands) .....	22,534	26,976	28,640	27,320	26,198	26,551	24,521	23,032	22,676	22,328	21,973
<b>Transportation Safety</b>												
74	Safety belt use (%) .....	N/A	N/A	N/A	N/A	N/A	71	82	85	84	86	N/A
75	Highway fatalities .....	36,399	52,627	51,091	44,599	41,817	41,945	43,510	32,999	32,367	N/A	N/A
<b>Environment and Energy</b>												
<b>Air Quality and Greenhouse Gases</b>												
76	Ground level ozone (ppm) based on 230 monitoring sites .....	N/A	N/A	0.101	0.089	0.090	0.082	0.080	0.073	0.074	0.076	N/A
77	Particulate matter 2.5 (ug/m3) based on 570 monitoring sites .....	N/A	N/A	N/A	N/A	N/A	13.8	13.1	10.0	9.8	9.3	N/A
78	Annual mean atmospheric CO <sub>2</sub> concentration (Mauna Loa, Hawaii; ppm) <sup>40</sup> .....	316.9	325.7	338.7	354.4	360.8	369.5	379.8	389.9	391.6	393.8	396.5
79	Gross greenhouse gas emissions (teragrams CO <sub>2</sub> equivalent) <sup>41</sup> .....	N/A	N/A	N/A	6,183	6,557	7,076	7,195	6,810	6,702	N/A	N/A
80	Net greenhouse gas emissions, including sinks (teragrams CO <sub>2</sub> equivalent) .....	N/A	N/A	N/A	5,389	5,759	6,395	6,197	5,922	5,797	N/A	N/A
81	Gross greenhouse gas emissions per capita (metric tons CO <sub>2</sub> equivalent) .....	N/A	N/A	N/A	24.4	24.3	24.7	24.0	21.7	21.2	N/A	N/A
82	Gross greenhouse gas emissions per 2005\$ of GDP (kilograms CO <sub>2</sub> equivalent) .....	N/A	N/A	N/A	0.770	0.722	0.631	0.570	0.521	0.504	N/A	N/A
<b>Energy</b>												
83	Energy consumption per capita (million Btu) .....	250	331	344	338	342	350	339	317	312	302	N/A
84	Energy consumption per 2009\$ GDP (thousand Btu per 2009\$) .....	14.5	14.4	12.1	9.4	9.0	7.9	7.0	6.6	6.5	6.1	N/A
85	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	12.5	12.2	N/A

#NA=Number is not available.

<sup>1</sup> Data for 2013 are averages of the first 3 quarters.

<sup>2</sup> Adjusted CPI-U, 2013=100. Values for prior years have been revised from the prior version of this publication.

<sup>3</sup> Values for 2000, 2010, 2011, and 2012 have been revised from the prior version of this publication.

<sup>4</sup> Values for 2010 and 2012 have been revised from the prior version of this publication.

<sup>5</sup> 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.

<sup>6</sup> Values for prior years have been revised from the prior version of this publication.

<sup>7</sup> Data adjusted by OMB to real 2012 dollars.

<sup>8</sup> Data correspond to years 1972, 1982, 1992, 1996, 2000, 2004, 2008.

<sup>9</sup> Data source and values for 2010 to 2012 have been updated relative to the prior version of this publication.

<sup>10</sup> Data source for 1960 to 2000 is the decennial census; data source for 2006, 2010, 2011, and 2012 is the American Community Survey.

<sup>11</sup> For 1960, age 14 and older.

<sup>12</sup> 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.

<sup>13</sup> Charitable giving reported as itemized deductions on Schedule A.

<sup>14</sup> Data correspond to years 1964, 1972, 1980, 1992, 1996, 2000, 2004, 2008, and 2012. The voting statistics in this table are presented as ratios of official voting tallies, as reported by the U.S. Clerk of the House, to population estimates from the "Current Population Survey."

<sup>15</sup> 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.

<sup>16</sup> The 1980, 1990, 2000, and 2011 data come from the 1982, 1992, 2002, and 2008 waves of the survey, respectively.

<sup>17</sup> 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.

<sup>18</sup> 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.

<sup>19</sup> Data correspond to years 1971, 1980, 1990, 1994, 1999, 2004, 2008, and 2012.

<sup>20</sup> Data correspond to years 1973, 1982, 1990, 1994, 1999, 2004, 2008, and 2012.

<sup>21</sup> The poverty rate does not reflect noncash government transfers.

<sup>22</sup> 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.

<sup>23</sup> 2013 reflects average monthly participation from January through September 2013.

<sup>24</sup> 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.

<sup>25</sup> Expenditures for housing and utilities exceed 50 percent of reported income. Some data interpolated.

<sup>26</sup> Inadequate housing has moderate to severe problems, usually poor plumbing, or heating or upkeep problems. Some data interpolated.

<sup>27</sup> Data for 2011 are preliminary.

<sup>28</sup> Data for 2012 are preliminary.

<sup>29</sup> Total activity limitation includes receipt of special education services; assistance with personal care needs; limitations related to the child's ability to walk; difficulty remembering or periods of confusion; limitations in any activities because of physical, mental, or emotional problems.

<sup>30</sup> 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.

Table 5-1. SOCIAL INDICATORS—Continued

- <sup>31</sup> Activities of daily living include personal care activities: bathing or showering, dressing, getting on or out of bed or a chair, using the toilet, and eating. Persons are considered to have an ADL limitation if any condition(s) causing the respondent to need help with the specific activities was chronic.
- <sup>32</sup> Participation in leisure-time aerobic and muscle-strengthening activities that meet 2008 Federal physical activity guidelines.
- <sup>33</sup> BMI refers to body mass index.
- <sup>34</sup> Percentage at or above the sex-and age-specific 95<sup>th</sup> percentile BMI cutoff points from the 2000 CDC growth charts.
- <sup>35</sup> Percent of age 18 and over who had five or more drinks in a day on at least 12 days in the past year.
- <sup>36</sup> Recommended vaccine series changed over time. 1995 and 2000 data correspond with the 4:3:1:3\*3:1:4 series; 2005 data correspond with the 4:3:1:3:3:1 series; 2010, 2011 and 2012 data correspond with the 4:3:1:3\*3:1:4 series.
- <sup>37</sup> 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.
- <sup>38</sup> 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, NCJ 237308, BJS web, April 2012 for further discussion of the new counting strategy and supporting research.
- <sup>39</sup> For all years, the actuals reflect Active Component only excluding full-time Reserve Component members and RC mobilized to active duty. End Strength for 2013 is preliminary.
- <sup>40</sup> Data for 2013 are preliminary.
- <sup>41</sup> 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 5-2. SOURCES FOR SOCIAL INDICATORS

	Indicator	Source
<b>Economic</b>		
General Economic Conditions		
1	Real GDP per person (chained 2009 dollars) .....	Bureau of Economic Analysis, National Economic Accounts Data. <a href="http://www.bea.gov/national">http://www.bea.gov/national</a>
2	Real GDP per person change, 5-year annual average .....	Bureau of Economic Analysis, National Economic Accounts Data. <a href="http://www.bea.gov/national">http://www.bea.gov/national</a>
3	Consumer Price Index .....	Bureau of Labor Statistics, BLS Consumer Price Index Program. <a href="http://www.bls.gov/cpi">http://www.bls.gov/cpi</a>
4	Private goods producing (%) .....	Bureau of Economic Analysis, National Economic Accounts Data. <a href="http://www.bea.gov/national">http://www.bea.gov/national</a>
5	Private services producing (%) .....	Bureau of Economic Analysis, National Economic Accounts Data. <a href="http://www.bea.gov/national">http://www.bea.gov/national</a>
Jobs and Unemployment		
6	Labor force participation rate (%) .....	Bureau of Labor Statistics, Current Population Survey. <a href="http://www.bls.gov/cps">http://www.bls.gov/cps</a>
7	Employment (millions) .....	Bureau of Labor Statistics, Current Population Survey. <a href="http://www.bls.gov/cps">http://www.bls.gov/cps</a>
8	Employment-population ratio (%) .....	Bureau of Labor Statistics, Current Population Survey. <a href="http://www.bls.gov/cps">http://www.bls.gov/cps</a>
9	Payroll employment change - December to December, SA (millions) .....	Bureau of Labor Statistics, Current Employment Statistics program. <a href="http://www.bls.gov/ces/">http://www.bls.gov/ces/</a>
10	Payroll employment change - 5-year annual average, NSA (millions) ....	Bureau of Labor Statistics, Current Employment Statistics program. <a href="http://www.bls.gov/ces/">http://www.bls.gov/ces/</a>
11	Civilian unemployment rate (%) .....	Bureau of Labor Statistics, Current Population Survey. <a href="http://www.bls.gov/cps">http://www.bls.gov/cps</a>
12	Unemployment plus marginally attached and underemployed (%) .....	Bureau of Labor Statistics, Current Population Survey. <a href="http://www.bls.gov/cps">http://www.bls.gov/cps</a>
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. <a href="http://www.ssa.gov/policy/docs/statcomps/supplement/">http://www.ssa.gov/policy/docs/statcomps/supplement/</a>
Infrastructure, Innovation, and Capital Investment		
14	Nonfarm business output per hour (average 5 year % change) .....	Bureau of Labor Statistics, Major Sector Productivity Program. <a href="http://www.bls.gov/lpc/">http://www.bls.gov/lpc/</a>
15	Corn for grain production (billion bushels) .....	National Agricultural Statistics Service, Agricultural Estimates Program. <a href="http://www.nass.usda.gov">http://www.nass.usda.gov</a>
16	Real net stock of fixed assets and consumer durable goods (billions of 2012\$) .....	Bureau of Economic Analysis, National Economic Accounts Data. <a href="http://www.bea.gov/national">http://www.bea.gov/national</a>
17	Population served by secondary wastewater treatment or better (%) .....	U.S. Environmental Protection Agency, Clean Watersheds Needs Survey. <a href="http://www.epa.gov/cwns">http://www.epa.gov/cwns</a>
18	Electricity net generation (kWh per capita) .....	U.S. Energy Information Administration, Monthly Energy Review, December 2013, Table 7.2a <a href="http://www.eia.gov/totalenergy/data/monthly/index.cfm">http://www.eia.gov/totalenergy/data/monthly/index.cfm</a> ; EIA, Annual Energy Review 2011, Table D1 (1960-2005) <a href="http://www.eia.gov/totalenergy/data/annual/index.cfm">http://www.eia.gov/totalenergy/data/annual/index.cfm</a> ; and, U.S. Census Bureau, Population Division, Vintage 2013 Population Estimates (2010-2012) <a href="http://www.census.gov/popest/data/national/totals/2013/index.html">http://www.census.gov/popest/data/national/totals/2013/index.html</a> .
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. <a href="http://www.uspto.gov/products/catalog/ptmd/patent_statistics.jsp">http://www.uspto.gov/products/catalog/ptmd/patent_statistics.jsp</a>
20	Net national saving rate (% of GDP) .....	Bureau of Economic Analysis, National Economic Accounts Data. <a href="http://www.bea.gov/national">http://www.bea.gov/national</a>
21	R&D spending (% of GDP) .....	National Science Foundation, National Patterns of R&D Resources. <a href="http://www.nsf.gov/statistics/natpatterns/">http://www.nsf.gov/statistics/natpatterns/</a>
<b>Demographic and Civic</b>		



Table 5–2. SOURCES FOR SOCIAL INDICATORS—Continued

	Indicator	Source
	<b>Population</b>	
22	Total population (millions) .....	U.S. Census Bureau, Population Division, Vintage 2013 Population Estimates (2013), Vintage 2012 Population Estimates (2010-2012), 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) .....	U.S. Census Bureau, Population Division, Decennial Census and American Community Survey. <a href="http://www.census.gov/prod/www/abs/decennial/">http://www.census.gov/prod/www/abs/decennial/</a> and <a href="http://www.census.gov/acs">http://www.census.gov/acs</a>
24	17 years and younger (%) .....	U.S. Census Bureau, Population Division, Vintage 2013 Population Estimates (2013), Vintage 2012 Population Estimates (2010-2012), 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 (2010-2012), 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 (2010-2012), 2000-2010 Intercensal Estimates (2000-2005), 1990-1999 Intercensal Estimates (1990-1995), 1980-1990 Intercensal Estimates (1980), 1970-1980 Intercensal Estimates (1970)
	<b>Household Composition</b>	
27	Ever married (% of age 15 and older) .....	U.S. Census Bureau, Current Population Survey. <a href="http://www.census.gov/hhes/families/">http://www.census.gov/hhes/families/</a>
28	Average family size .....	U.S. Census Bureau, Current Population Survey. <a href="http://www.census.gov/hhes/families/">http://www.census.gov/hhes/families/</a>
29	Births to unmarried women age 15-17 (per 1,000 unmarried women age 15-17) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System (natality); Births: Final data for 2011: <a href="http://www.cdc.gov/nchs/data/nvsr/nvsr62/nvsr62_01.pdf">http://www.cdc.gov/nchs/data/nvsr/nvsr62/nvsr62_01.pdf</a> .
30	Single parent households (%) .....	U.S. Census Bureau, Current Population Survey. <a href="http://www.census.gov/hhes/families/">http://www.census.gov/hhes/families/</a>
	<b>Civic and Cultural Engagement</b>	
31	Average charitable contribution per itemized tax return (2011 dollars) .....	U.S. Internal Revenue Service, Statistics of Income - Individual Income Tax Returns (IRS Publication 1304). <a href="http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax&gt;Returns-Publication-1304-(Complete-Report)">http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax&gt;Returns-Publication-1304-(Complete-Report)</a>
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. <a href="http://www.census.gov/cps/">http://www.census.gov/cps/</a>
33	Persons volunteering (% age 16 and older) .....	Bureau of Labor Statistics, Current Population Survey. <a href="http://www.bls.gov/cps">http://www.bls.gov/cps</a>
34	Attendance at visual or performing arts activity, including movie going (% age 18 and older) .....	The National Endowment for the Arts, Survey of Public Participation in the Arts.
35	Leisure reading (books not required for work or school) .....	The National Endowment for the Arts, Survey of Public Participation in the Arts.
	<b>Socioeconomic</b>	
	<b>Education</b>	
36	High school graduates (% of age 25-34) .....	U.S. Census Bureau, Decennial Census and American Community Survey. <a href="http://www.census.gov/prod/www/abs/decennial/">http://www.census.gov/prod/www/abs/decennial/</a> and <a href="http://www.census.gov/acs">http://www.census.gov/acs</a>
37	College graduates (% of age 25-34) .....	U.S. Census Bureau, American Community Survey. <a href="http://www.census.gov/acs">http://www.census.gov/acs</a>
38	Reading achievement score (age 17) .....	National Center for Education Statistics, National Assessment of Educational Progress. <a href="http://nces.ed.gov/nationsreportcard/">http://nces.ed.gov/nationsreportcard/</a>
39	Math achievement score (age 17) .....	National Center for Education Statistics, National Assessment of Educational Progress. <a href="http://nces.ed.gov/nationsreportcard/">http://nces.ed.gov/nationsreportcard/</a>
40	Science and engineering graduate degrees (% of total graduate degrees) .....	National Center for Education Statistics, Integrated Postsecondary Education Data System. <a href="http://nces.ed.gov/ipeds/">http://nces.ed.gov/ipeds/</a>
41	Receiving special education services (% of age 3-21 public school students) .....	National Center for Education Statistics, Digest of Education Statistics, 2012. <a href="http://nces.ed.gov/programs/digest/d12/tables/dt12_046.asp">http://nces.ed.gov/programs/digest/d12/tables/dt12_046.asp</a>
	<b>Income, Savings, and Inequality</b>	
42	Real median income: all households (2012 dollars) .....	U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements. <a href="http://www.census.gov/hhes/www/income/data/historical/household/">http://www.census.gov/hhes/www/income/data/historical/household/</a>
43	Real disposable income per capita (chained 2009 dollars) .....	Bureau of Economic Analysis, National Economic Accounts Data. <a href="http://www.bea.gov/national">http://www.bea.gov/national</a>
44	Adjusted gross income share of top 1% of all taxpayers .....	U.S. Internal Revenue Service, Statistics of Income. <a href="http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Statistical-Tables-by-Tax-Rate-and-Income-Percentile">http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Statistical-Tables-by-Tax-Rate-and-Income-Percentile</a>
45	Adjusted gross income share of lower 50% of all taxpayers .....	U.S. Internal Revenue Service, Statistics of Income. <a href="http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Statistical-Tables-by-Tax-Rate-and-Income-Percentile">http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Statistical-Tables-by-Tax-Rate-and-Income-Percentile</a>
46	Personal saving rate (% of disposable personal income) .....	Bureau of Economic Analysis, National Economic Accounts Data. <a href="http://www.bea.gov/national">http://www.bea.gov/national</a>
47	Poverty rate (%) .....	U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements. <a href="http://www.census.gov/hhes/www/poverty/publications/pubs-cps.html">http://www.census.gov/hhes/www/poverty/publications/pubs-cps.html</a>
48	Food-insecure households (% of all households) .....	Economic Research Service, Household Food Security in the United States report series. <a href="http://www.ers.usda.gov/topics/food-nutrition-assistance/food-security-in-the-us/readings.aspx">http://www.ers.usda.gov/topics/food-nutrition-assistance/food-security-in-the-us/readings.aspx</a>
49	Supplemental Nutrition Assistance Program (formerly Food Stamps) .....	Food and Nutrition Service, USDA
50	Median wealth of households, age 55-64 (in thousands of 2011 dollars) ..	Board of Governors of the Federal Reserve System, Survey of Consumer Finances Chartbook. <a href="http://www.federalreserve.gov/econresdata/scf/scfindex.htm">http://www.federalreserve.gov/econresdata/scf/scfindex.htm</a>
	<b>Housing</b>	

Table 5–2. SOURCES FOR SOCIAL INDICATORS—Continued

	Indicator	Source
51	Homeownership among families with children (%) .....	U.S. Census Bureau, American Housing Survey. <a href="http://www.census.gov/housing/ahs">http://www.census.gov/housing/ahs</a>
52	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 Research. <a href="http://www.census.gov/housing/ahs">http://www.census.gov/housing/ahs</a>
53	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 Research. <a href="http://www.census.gov/housing/ahs">http://www.census.gov/housing/ahs</a>
<b>Health</b>		
Health Status		
54	Life expectancy at birth (years) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System (mortality); Deaths: Preliminary data for 2011: <a href="http://www.cdc.gov/nchs/data/nvsr/nvsr61/nvsr61_06.pdf">http://www.cdc.gov/nchs/data/nvsr/nvsr61/nvsr61_06.pdf</a> , Health, United States, 2013 forthcoming, Table 18.
55	Infant mortality (per 1,000 live births) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System (mortality and natality); Deaths: Preliminary data for 2011: <a href="http://www.cdc.gov/nchs/data/nvsr/nvsr61/nvsr61_06.pdf">http://www.cdc.gov/nchs/data/nvsr/nvsr61/nvsr61_06.pdf</a> , Health, United States, 2013 forthcoming, Table 13.
56	Low birthweight [<2,500 gms] (% of babies) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System (natality); Births: Preliminary data for 2012: <a href="http://www.cdc.gov/nchs/data/nvsr/nvsr62/nvsr62_03.pdf">http://www.cdc.gov/nchs/data/nvsr/nvsr62/nvsr62_03.pdf</a> , Health, United States, 2013 forthcoming, Table 6.
57	Activity limitation (% of age 5-17) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey; America's Children in Brief: Key National Indicators of Well-Being, 2013, Table HEALTH5, crude percentages: <a href="http://www.childstats.gov/americaschildren/tables/health5.asp?popup=true">http://www.childstats.gov/americaschildren/tables/health5.asp?popup=true</a> .
58	Activity limitation (% of age 18 and over) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey, <a href="http://www.cdc.gov/nchs/nhis.htm">http://www.cdc.gov/nchs/nhis.htm</a> , Health, United States, 2013 forthcoming, Table 49, age-adjusted.
59	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, <a href="http://www.cdc.gov/nchs/nhis.htm">http://www.cdc.gov/nchs/nhis.htm</a> .
Health Behavior		
60	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, <a href="http://www.cdc.gov/nchs/nhis.htm">http://www.cdc.gov/nchs/nhis.htm</a> , Health, United States, 2013 forthcoming, Table 68, age adjusted.
61	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, <a href="http://www.cdc.gov/nchs/nhanes.htm">http://www.cdc.gov/nchs/nhanes.htm</a> , Health, United States, 2013 forthcoming, Table 69, age adjusted.
62	Obesity (% of age 2-19) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health and Nutrition Examination Survey, <a href="http://www.cdc.gov/nchs/nhanes.htm">http://www.cdc.gov/nchs/nhanes.htm</a> . Health E-stat: <a href="http://www.cdc.gov/nchs/data/hestat/obesity_child_09_10/obesity_child_09_10.htm">http://www.cdc.gov/nchs/data/hestat/obesity_child_09_10/obesity_child_09_10.htm</a> and unpublished data (for 2011).
63	Cigarette smokers (% of age 18 and older) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey, <a href="http://www.cdc.gov/nchs/nhis.htm">http://www.cdc.gov/nchs/nhis.htm</a> , Health, United States, 2013 forthcoming, Table 56, age adjusted.
64	Excessive alcohol use (% of age 18 and older) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey, <a href="http://www.cdc.gov/nchs/nhis.htm">http://www.cdc.gov/nchs/nhis.htm</a> , Health, United States, 2013 forthcoming, Table 63, age adjusted.
Access to Health Care		
65	Total national health expenditures (% of GDP) .....	Centers for Medicare and Medicaid Services, National Health Expenditures Data. <a href="http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index.html">http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index.html</a>
66	Persons without health insurance (% of age 18-64) .....	U.S. Census Bureau, Current Population Survey Annual Social and Economic Supplement. <a href="http://www.census.gov/hhes/www/poverty/publications/pubs-cps.html">http://www.census.gov/hhes/www/poverty/publications/pubs-cps.html</a>
67	Persons without health insurance (% of age 17 and younger) .....	U.S. Census Bureau, Current Population Survey Annual Social and Economic Supplement. <a href="http://www.census.gov/hhes/www/poverty/publications/pubs-cps.html">http://www.census.gov/hhes/www/poverty/publications/pubs-cps.html</a>
68	Children age 19-35 months with recommended vaccinations (%) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Immunization Survey (for 1995-2005): <a href="http://www.cdc.gov/vaccines/stats-surv/nis/default.htm#nis">http://www.cdc.gov/vaccines/stats-surv/nis/default.htm#nis</a> ; (for 2010, 2011 and 2012): Table 1 in <a href="http://www.cdc.gov/mmwr/pdf/wk/mm6236.pdf">http://www.cdc.gov/mmwr/pdf/wk/mm6236.pdf</a> .
<b>Security and Safety</b>		
Crime		
69	Property crimes (per 100,000 households) .....	Bureau of Justice Statistics, National Crime Victimization Survey. <a href="http://www.bjs.gov/index.cfm?ty=dcdetail&amp;iid=245">http://www.bjs.gov/index.cfm?ty=dcdetail&amp;iid=245</a>
70	Violent crime victimizations (per 100,000 population age 12 or older) .....	Bureau of Justice Statistics, National Crime Victimization Survey. <a href="http://www.bjs.gov/index.cfm?ty=dcdetail&amp;iid=245">http://www.bjs.gov/index.cfm?ty=dcdetail&amp;iid=245</a>
71	Murder rate (per 100,000 persons) .....	Federal Bureau of Investigation, Uniform Crime Reports, Crime in the United States. <a href="http://www.fbi.gov/about-us/cjis/ucr/ucr">http://www.fbi.gov/about-us/cjis/ucr/ucr</a>
National Security		
72	Military personnel on active duty (thousands) .....	ES actuals for 1960 and 1970 as reported in Table 2-11 of the DoD Selected Manpower Statistics for FY 1997 (DoD WHS, Directorate for Information Operations and Reports). The source for the remaining fiscal year actuals are the Service budget justification books.
73	Veterans (thousands) .....	U.S. Department of Veterans Affairs. 1960-1999: Annual Report of the Secretary of Veterans Affairs; 2000-2009: VetPop07, Office of Actuary; 2010-2013: VetPop11, Office of Actuary.

Table 5–2. SOURCES FOR SOCIAL INDICATORS—Continued

Indicator		Source
74	Transportation Safety Safety belt use (%) .....	Bureau of Transportation Statistics, National Transportation Statistics (as compiled from Safety Belt and Helmet Use in 2002 and Traffic Safety Facts). <a href="http://www.rita.dot.gov/bts/sites/rita.dot.gov/bts/files/publications/national_transportation_statistics/index.html">http://www.rita.dot.gov/bts/sites/rita.dot.gov/bts/files/publications/national_transportation_statistics/index.html</a>
75	Highway fatalities .....	Bureau of Transportation Statistics, National Transportation Statistics. <a href="http://www.rita.dot.gov/bts/sites/rita.dot.gov/bts/files/publications/national_transportation_statistics/index.html">http://www.rita.dot.gov/bts/sites/rita.dot.gov/bts/files/publications/national_transportation_statistics/index.html</a>
<b>Environment and Energy</b>		
Air Quality and Greenhouse Gases		
76	Ground level ozone (ppm) based on 230 monitoring sites .....	U.S. Environmental Protection Agency, AirTrends Website. <a href="http://www.epa.gov/airtrends/ozone.html">http://www.epa.gov/airtrends/ozone.html</a>
77	Particulate matter 2.5 (ug/m3) based on 570 monitoring sites .....	U.S. Environmental Protection Agency, AirTrends Website. <a href="http://www.epa.gov/airtrends/pm.html">http://www.epa.gov/airtrends/pm.html</a>
78	Annual mean atmospheric CO <sub>2</sub> concentration (Mauna Loa, Hawaii; ppm) .	National Oceanic and Atmospheric Administration. <a href="http://www.esrl.noaa.gov/gmd/ccgg/trends/">http://www.esrl.noaa.gov/gmd/ccgg/trends/</a>
79	Gross greenhouse gas emissions (teragrams CO <sub>2</sub> equivalent) .....	U.S. Environmental Protection Agency, Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2011. <a href="http://epa.gov/climatechange/ghgemissions/usinventoryreport.html">http://epa.gov/climatechange/ghgemissions/usinventoryreport.html</a>
80	Net greenhouse gas emissions, including sinks (teragrams CO <sub>2</sub> equivalent) .....	U.S. Environmental Protection Agency, Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2011. <a href="http://epa.gov/climatechange/ghgemissions/usinventoryreport.html">http://epa.gov/climatechange/ghgemissions/usinventoryreport.html</a>
81	Gross greenhouse gas emissions per capita (metric tons CO <sub>2</sub> equivalent)	U.S. Environmental Protection Agency, Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2011. <a href="http://epa.gov/climatechange/ghgemissions/usinventoryreport.html">http://epa.gov/climatechange/ghgemissions/usinventoryreport.html</a>
82	Gross greenhouse gas emissions per 2005\$ of GDP (kilograms CO <sub>2</sub> equivalent) .....	U.S. Environmental Protection Agency, Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2011. <a href="http://epa.gov/climatechange/ghgemissions/usinventoryreport.html">http://epa.gov/climatechange/ghgemissions/usinventoryreport.html</a>
Energy		
83	Energy consumption per capita (million Btu) .....	U.S. Energy Information Administration (EIA), Monthly Energy Review, December 2013, Table 1.3 <a href="http://www.eia.gov/totalenergy/data/monthly/index.cfm">http://www.eia.gov/totalenergy/data/monthly/index.cfm</a> ; EIA, Annual Energy Review 2011, Table D1 (1960-2005) <a href="http://www.eia.gov/totalenergy/data/annual/index.cfm">http://www.eia.gov/totalenergy/data/annual/index.cfm</a> ; and, U.S. Census Bureau, Population Division, Vintage 2013 Population Estimates (2010-2012) <a href="http://www.census.gov/popest/data/national/totals/2013/index.html">http://www.census.gov/popest/data/national/totals/2013/index.html</a> .
84	Energy consumption per 2009\$ GDP (thousand Btu per 2009\$) .....	U.S. Energy Information Administration, Monthly Energy Review (December 2013), Table 1.7 <a href="http://www.eia.gov/totalenergy/data/monthly/index.cfm">http://www.eia.gov/totalenergy/data/monthly/index.cfm</a> .
85	Electricity net generation from renewable sources, all sectors (% of total)	U.S. Energy Information Administration, Monthly Energy Review (December 2013), Table 7.2a. <a href="http://www.eia.gov/totalenergy/data/monthly/index.cfm">http://www.eia.gov/totalenergy/data/monthly/index.cfm</a> .



## 6. DELIVERING A HIGH-PERFORMANCE GOVERNMENT

Since taking office, the President has challenged Federal leaders and managers to deliver a Government that is leaner, smarter, and more effective, while delivering the best results for the American taxpayer. In designing the Administration's performance management approach we reviewed successful practices from public and private organizations. Based on that review, it was clear that the critical success factor of any performance management system is that it is used by senior leadership to drive results.

Beginning in 2009, OMB asked each agency head to identify a limited number of near-term, implementation-focused priority goals. To ensure leadership remained engaged through implementation, agency Deputy Secretaries, in their role as Chief Operating Officers (COOs), were tasked to conduct at least quarterly data-driven reviews of progress against these goals. Several agencies are now doing these reviews monthly. Furthermore, the Administration reinvigorated the role of the Performance Improvement Officer (PIO), who reports directly to the COO, and brought agencies together through the Performance Improvement Council (PIC) to build capacity and spread the adoption of effective practices in performance improvement across agencies.

These new operating practices shifted the emphasis away from the publication of performance plans and reports to a model that is focused on the use of performance information to inform decision-making and deliver greater impact. Since then, the Administration also established a limited number of Cross-Agency Priority Goals where coordination across agencies is critical to the end result. Importantly, in 2010 the Administration worked with the Congress to enact the GRPA Modernization Act, which incorporated lessons learned and ensured these reforms continue into future administrations.

Overall, the Administration's approach to delivering more effective and efficient Government rests on the following proven management practices:

- Engaging Leaders
- Focusing on Clear Goals and Data-Driven Reviews
- Expanding Impact through Strategic Plans and Strategic Reviews
- Strengthening Agency Capabilities, Collaboration, and Learning
- Communicating Performance Results Effectively

The remainder of this chapter reviews the progress to date for each of these practices and outlines priorities going forward in implementing the Administration's performance management approach.

### Engaging Leaders

As previously discussed, frequent and sustained leadership engagement is foundational to any successful performance management effort. The Administration has taken steps to clearly define the roles and responsibilities of key leaders.

To lead the performance management efforts at each agency, the Secretary or equivalent is required to name a COO, often the Deputy Secretary. OMB has outlined several roles and responsibilities for each COO including conducting data-driven performance reviews at least once per quarter. COOs are critical to bringing a broader set of actors together to solve problems across the organization. For example, senior leaders at the Department of Housing and Urban Development and Veterans Affairs come together regularly to review progress on the goal to end veterans homelessness.

Each COO also names a PIO who reports directly to the COO and is responsible for coordinating performance improvement efforts across the agency with program managers, management support, and other agencies. For each strategic objective and Agency Priority Goal, specific Goal Leaders are also held accountable for leading implementation efforts such as determining strategies, managing execution toward goals, and engaging others to make course corrections. These responsibilities often go beyond their traditional organizational scope to engage all components who are needed to deliver against the specified goals.

### Focusing on Clear Goals and Data-Driven Reviews

Where implementation-focused two-year priorities set out in Agency Priority Goals are likely to accelerate progress, agency heads have set ambitious targets that have potential to advance the well-being of the American people, to stimulate economic growth and job creation, and to cut the costs of delivery. For instance, agencies have set targets for improving access to capital to enhance job creation, reducing foodborne illness through targeted inspections, coordinating multiple agency services to reduce veteran's homelessness, and reducing hospital acquired infections. Through the GPRA Modernization Act framework, agencies establish Priority Goals every two years with responsible Goal Leaders, quarterly metrics, milestones, and clearly identified contributing programs with at least quarterly data-driven reviews led by agency COOs to remove barriers and accelerate progress. In many cases, significant results have been demonstrated.

Several recent Government Accountability Office (GAO) reports have reviewed the Administration's progress in implementation of the GPRA Modernization Act, and provided recommendations. GAO found in their sur-



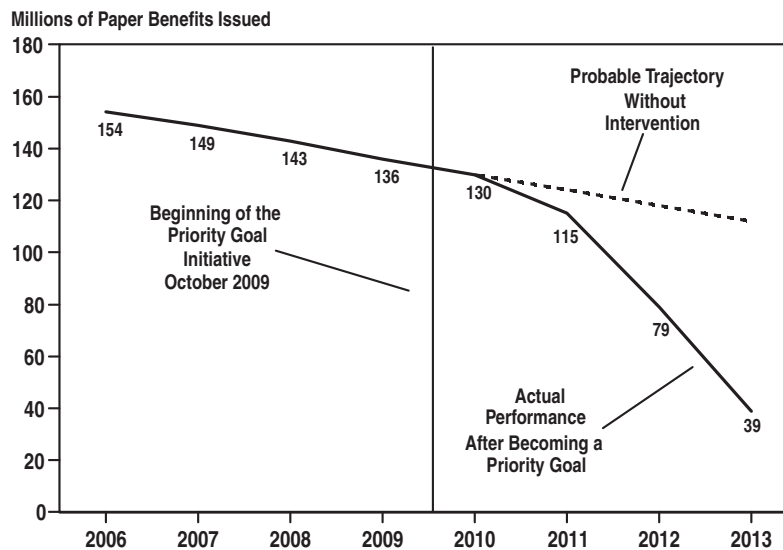
vey of PIOs that agency leadership actively participated in these quarterly data-driven reviews and that leaders are using the reviews to drive performance improvements. For example, GAO's report concluded that "agency officials said their reviews allowed different functional management groups and program areas within their agencies to collaborate and identify strategies which led to performance improvements."<sup>1</sup> GAO also recommended agencies build upon this success, and do more to coordinate with other agencies that have programs contributing to the outcome.

Some examples of the improvements we have seen from our Priority Goal approach include the following:

- The Department of the Treasury has worked across its bureaus through its 'Treasury Stat' effort to advance its Priority Goal to increase electronic transactions with the public. The Department estimates that it has saved the American people hundreds of millions of dollars by creating an Agency Priority Goal around increasing electronic transactions with the public to improve service, prevent fraud, and reduce costs. Included in this goal was an effort to modernize the Federal Government's payment and

year and costs the United States \$96 billion in medical costs and \$97 billion in lost productivity each year. Despite progress in reducing tobacco use, the decline in adult smoking rates had stalled, coincident with reductions in state investments in tobacco control programs. In response, an Agency Priority Goal at HHS expanded from initially tracking the percentage of communities that adopted smoke-free policies to a goal to reduce nation-wide cigarette consumption per capita. Shifting the agency's focus from policy adoption to reducing cigarette use has helped to accelerate progress and included a broader set of contributing programs to execute the comprehensive tobacco control strategy. The strategy was designed to mobilize the agency's expertise and resources in support of proven, pragmatic, achievable actions that can be aggressively implemented at the Federal, State, and community levels. In 2012, annual per capita adult cigarette consumption decreased to 1,196 per capita from a level of 2,076, representing a 42 percent-decrease over 12 years. Setting and analyzing progress on the right goal makes a difference in the innovations and results the Government can achieve.

**Chart 6-1. Decrease in the Number of Paper Transactions with the Public**



collection systems, which resulted in paper benefit payments dropping from 131 million in 2010 to 39 million in 2013, allowing Treasury to get money to beneficiaries and back into the economy faster than ever. At the same time, electronic collections jumped from 85 percent of total collections in 2010 to 97 percent in 2013, reducing costs to the Federal Government.

- The Department of Health and Human Services (HHS) set a goal to reduce tobacco use which kills an estimated 443,000 people in the United States each

- After designating the improvement of business loan efficiency as an Agency Priority Goal, the Small Business Administration (SBA) has made considerable progress in making it more efficient for small businesses to get loans, while also reducing cost. The SBA increased the use of paperless processing in their 7(a) loan program (which provides financing for various business uses, such as working capital and real estate) from 72 percent in 2011 to 90 percent in 2013, and from 55 percent to 76 percent in their 504 loan program (which provides financing for real estate and major equipment). The adoption of electronic loan processing also contributed to a 5.6

<sup>1</sup> GAO-13-228, GAO Report: *Managing for Results: Data-Driven Performance Reviews Show Promise But Agencies Should Explore How to Involve Other Relevant Agencies*. February 2013



percent increase in loan volume from 2012 to 2013, growing the number of small businesses assisted.

- After establishing an Agency Priority Goal focused on preventing Americans at-risk of foreclosure from losing their homes, the Department of Housing and Urban Development (HUD) initiated a number of measures to improve agency operations and help borrowers at the very early stages of delinquency when interventions can prevent serious delinquency. HUD increased the number of households assisted with early intervention by 31 percent between 2010 and 2013. HUD also reduced six month re-default rates from 17 percent in 2011 to 8 percent in 2013 among those who were helped by the agency's mitigation programs.

To ensure the COO-led data-driven reviews continue improving and produce an even broader record of impact, the PIC Reviews Working Group has met monthly over the past two years to share promising practices related to engaging leaders in data-driven reviews and to identify promising implementation strategies. Today, based on a survey by the Performance Improvement Council, agencies report that securing adequate leadership sponsorship is not among their major challenges to conducting data-driven reviews. This completes a positive three-year trend in PIC survey results that consistently shows agency leaders are not just setting Agency Priority Goals but are consistently engaged in taking action to drive toward goal achievement.

The impact of these efforts extends beyond agency top leadership. In their 2013 Federal Managers Survey<sup>2</sup>, GAO surveyed more than 4,000 mid-level and upper-level civilian managers and supervisors working in the major 24 Federal agencies. GAO's survey found approximately 82 percent of Federal managers' knew about their agency's Priority Goals. Their analysis also suggests that COO-led reviews are positively related to managers' perceptions of their leadership's demonstrated commitment to using performance information. Of those who reported familiarity with the reviews, 76 percent agreed that their top leadership demonstrates a strong commitment to using performance information to guide decision making to a great or very great extent. In contrast, of those not familiar with the reviews, only 36 percent agreed to a great or very great extent with the same statement. The analysis demonstrates that the fundamental approaches the Administration has used to engage leadership are having an impact but need to be expanded.

In addition to the Agency Priority Goals, OMB and the PIC have also worked to support progress on Cross-Agency Priority Goals (CAP). Agencies have used these goals to help them break down organizational barriers and achieve better results than one agency can achieve on its own. We are seeing promising results on some of these cross-agency goals. For example:

- Since the President launched the National Export Initiative in 2010, an ambitious plan to sell more

American goods and services into foreign markets, U.S. exports hit record levels for four consecutive years, reaching \$2.3 trillion in 2013. As a result, American jobs supported by exports increased by 1.3 million.

- The President set a priority to expand broadband capabilities and ensure 4G wireless broadband coverage for 98 percent of Americans by 2016. Access to broadband capabilities continues to grow at a rapid rate despite tougher economic conditions. The most recently available data indicates that 90 percent of Americans now have access to advanced wireless broadband, up from 36 percent in mid-2010, assuming that users of advanced wireless service should be able to enjoy minimum "real-world" download speeds (as opposed to advertised or "up to" speeds) of at least 6 megabytes per second. When wired connections are included, the availability figure jumps to almost 96 percent. By any measure, the availability of high-speed access has grown steadily since the President announced the 98 percent goal in his 2011 State of the Union address.

With this Budget, the Administration has set new Cross-Agency and Agency Priority Goals to further stimulate innovation, efficiency, and progress on key outcomes. These goals will be available on *Performance.gov* with progress updated quarterly.

### **Expanding Impact through Strategic Plans and Strategic Reviews**

In addition to the focus on Priority Goals, with this Budget the Administration is releasing updates to Executive Branch agency strategic plans on *Performance.gov* and agency websites. These plans include strategic goals, objectives, and metrics that cover the breadth of the agency's mission.

To make sure agencies drive progress on all of the objectives outlined in the strategic plans, and expand effective practices beyond a limited set of priorities, the Administration is also taking the unprecedented step of establishing annual strategic reviews at each agency. The strategic reviews will ensure there is a comprehensive framework in place at each agency to make strategic and budget decisions across the entire agency. The annual assessment will incorporate a variety of analytical, research, and evaluation methods to support outcome-oriented assessments, the results of which will inform the decision-making processes at the agency, as well as with OMB and the Congress.

The assessment will also consider evaluation results, performance goals, and other indicators related to each strategic objective, as well as other challenges, risks, and external factors that may affect outcomes. The strategic reviews will build agency capacity to improve results over time by using the best evidence available to drive strategic decisions. They will also increase understanding of the external influences and complexities of achieving outcomes across many organizational units and delivery partners. The first progress updates at the strategic

<sup>2</sup> GAO-13-518, *Managing for Results: Executive Branch Should More Fully Implement the GPRA Modernization Act to Address Pressing Governance Challenges*. June 2013

objective level will be published in agency 2014 Annual Performance Reports.

As part of this comprehensive effort, the Administration also remains committed to leveraging these performance reviews to inform budget and other decisions including reducing duplication, overlap and fragmentation. For example, this year, as in the past, the President's Budget includes a significant number of proposals that are inefficient, duplicative, or simply no longer needed.

### **Strengthening Agency Capabilities, Collaboration, and Learning**

A critical next step is to build upon lessons learned from the performance reviews at agency headquarters, and expand the establishment of effective performance management practices at all levels of Federal agencies. In the 2013 Federal Managers Survey, GAO found that 82 percent of agency managers said there are performance measures defined for their programs, operations, or projects, yet only 64 percent of agency managers' report having sufficient analytical tools to collect, analyze, and use performance data. The Employee Viewpoint Survey also shows that 83 percent of all employees report knowing how their work relates to the agency goals and priorities; however, only 61 percent say managers review and evaluate organizations progress toward meeting their goals and objectives.

The PIC has taken a leadership role in facilitating the exchange of useful practices to strengthen agency performance management capabilities and is fostering inter-agency dialogue around solutions to key performance challenges. GAO recently surveyed agency PIOs, who reported that, in general, "they found the PIC helpful and that there was strong agency participation in the council and its working groups." The PIC's own survey of its PIO and staff community identified significant participation in sharing best practices, with 67 percent of PIOs reporting partnering with other offices (components, support functions, local agencies etc.).

For example, the PIC's Internal Agency Reviews Working Group facilitated sharing of best practices for quarterly data-driven reviews led by the COO since 2011, and is now shifting its focus to effective strategic reviews. The working group, which continues to meet on a monthly basis, has grown to nearly 100 members from over 30 agencies, both large and small.

Additionally, the PIC has also established the Performance Ambassador Program for employees to learn about specific performance topics and transfer that knowl-

edge back to their agency. The pilot program provides a part-time, four-month detail with a mentoring component that delivers both contextual and focused learning. The PIC also provides professional development opportunities using an intensive six-month cross-agency experience. Since 2011, the PIC has supported the President's Management Council (PMC) Interagency Rotation Fellows Program, where selected applicants are assigned to different agencies to carry out highly scoped projects. Now in its 5<sup>th</sup> cohort, PMC Fellows' projects range from supporting cross-agency goals supporting veterans' career readiness to developing tools that build the project management capabilities of Government employees.

### **Communicating Performance Results Effectively**

Finally, in support of the President's commitment to transparency, we continue to develop *Performance.gov* to inform stakeholders on our performance improvement efforts. Compared to reports posted to individual agency web sites, *Performance.gov* has helped to improve accountability and provide one place for the public to find information on agency programs, goals, and regular progress updates.

The full list of Agency Priority Goals, including progress on each, can be found at [www.Goals.Performance.gov](http://www.Goals.Performance.gov), where they are presented in the context of agency strategic goals and objectives to show how the priorities fit within the agencies' longer term efforts. In May 2013, OMB also worked with agencies to publish an initial Federal Program Inventory with summary information on nearly 1,600 programs. The central program list has the potential to facilitate coordination by making it easier to find programs that may contribute to a shared goal, as well as improve public understanding about what agencies do. We plan to learn from this initial effort and work with agencies to ensure it is useful to both managers and stakeholders.

### **Looking Ahead**

Moving forward, the Administration will continue to deliver more value for the taxpayer's dollar by building on its strong track record of increasing the usage and effectiveness of performance management practices across Government. While significant progress has been made since the President took office, the Administration will continue to enhance its efforts to engage leadership, present clear goals, measure and analyze progress, and conduct reviews to further improve our Government, help the American people in their daily lives, and deliver the greatest impact for every dollar spent.

## 7. PROGRAM EVALUATION AND DATA ANALYTICS

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.

Both the “Evaluation” chapter in the Council of Economic Advisers 2014 Economic Report of the President and the *July 2013 “Next Steps in the Evidence and Innovation” memo*, jointly signed by the Office of Management and Budget, the Domestic Policy Council, the Office of Science and Technology Policy, and the Council of Economic Advisers, are strong signals of this Administration’s widespread commitment to an evidence culture. The July 2013 memo encouraged a broad-based set of activities to better integrate evidence and rigorous evaluation in budget, management, and policy decisions, such as (1) making better use of already-collected data within government agencies; (2) promoting the use of high-quality, low-cost evaluations and rapid, iterative experimentation; (3) adopting more evidence-based structures for grant programs; and (4) building agency evaluation capacity and developing tools to better communicate what works. The memo built upon OMB’s *May 2012 “Use of Evidence and Evaluation in the 2014 Budget”* memo, which 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, which collectively comprise an “evidence infrastructure,” to learn what works (and what doesn’t) and improve results. In doing so, they support 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 evaluations focused on more fundamental questions about program strategy.
- 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 publicly 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.
- It is a culture that sees program evaluation, statistical series, data analytics, and performance measurement as valuable, complementary tools, since each has different strengths.

### Role of Program Evaluation

Among the most important analytical tools is program evaluation, which can produce direct evidence about program effectiveness and about the comparative effectiveness of different interventions. Rigorous impact evaluations, for example those with random assignment to treatment and control groups or those that use other strategies to isolate the causal effect of an intervention, can provide strong evidence about whether a program or intervention works and whether alternative practices 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? To answer this question, an evaluation could compare the employment of participants (i.e. those in the “treatment” group) to comparable individuals who did not participate in the program (i.e. the “control” group) to isolate the effects of the training from other factors.

Evaluations can answer a wide range of important policy 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 real-time pricing increases energy efficiency, and whether re-employment services are cost-effective.

This Administration strongly encourages 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, free from political interference, and



produce actionable results are especially valuable in such circumstances. Historically, evaluations have generally not been built into program designs, and, once a program is up and running, identifying capacity and resources for evaluation can become more difficult. As described below, the Administration has made progress in embedding evaluation and evidence-based decision making directly into the design of new programs and will seek continued help from Congress and other stakeholders in doing so.

Other types of evaluation and data analytics can complement the evidence obtained from rigorous impact evaluations. For example, qualitative evidence can provide insight into how programs and practices can be implemented successfully, as well as insight into the underlying mechanisms driving evaluation results. Likewise, descriptive (rather than causal) analyses of administrative and survey data can reveal important patterns, which may directly inform decisions (such as how to better match recipients with appropriate services) or call attention to problems or promising practices that are worthy of additional scrutiny. Agencies also often use statistical time series data, such as those presented in Chapter 5, “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. However, simply collecting performance data is unlikely to change anything by itself. Performance data become more useful when programs identify measurable goals and objectives, collect high-quality data and actively use them to ask and answer questions about what is being achieved, identify the most pressing program challenges, set goals, monitor results, celebrate progress, and adjust actions based on data-driven insights. This is the process of moving from performance measurement to performance management.

Performance measurement and program evaluation can be complementary tools, with each enhancing the value of the other. 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, such as how a program is affecting participants’ long-term outcomes. Program evaluations provide context for the performance measures and help us better understand what can be learned from them. Too often, though, performance measurement and program evaluation are applied in isolation, with agency experts housed in separate units that work independently of each other. Bridging that divide

will be important to take advantage of the synergy between the two tools.

An example of successful synergy comes from the Mentoring Children of Prisoners (MCP) program. The MCP program awards grants to faith-based and community organizations, along with tribes and state and local government entities, which provide children and youth of incarcerated parents with caring adult mentors. Although there were no rigorous impact evaluations of MCP, evidence from rigorous evaluations of other mentoring programs had shown that high-quality mentoring relationships lasting for at least 12 months can have positive impacts on youth, while relationships that last three months or less can be disruptive and potentially harmful. Meanwhile, the MCP program performance data suggested that fewer than half of program participants each year were in matches that lasted at least 12 months and a significant number of matches lasted less than three months. The evaluation evidence from other mentoring programs alone would not have helped policymakers make decisions about MCP, since what it showed was that mentoring programs could be either effective or ineffective depending on the length of the matches. Similarly, the performance measurement evidence alone might have led policymakers to conclude that matches were not lasting that long, but a short match is better than nothing. But, together, the evaluation and performance measurement evidence implied that the MCP program was unlikely to be effective unless it was able to produce longer matches. Largely on the basis of this evidence, The Department of Health and Human Services re-allocated funding for MCP to programs that were likely to be more effective.

### **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 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 commitment to 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

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. To do so, the program managers need a team that includes data analysis and evaluation capabilities to provide the data and analysis to help inform the program's operational and policy decisions. These can include understanding the different types of evidence available and their implications for decisions, as well as identifying the need for new descriptive data and evaluation studies.

The Administration and the Congress have made progress in basing Federal decision-making on data and evidence, but more progress is needed. Chapter 6, "Delivering A High-Performance Government," in this volume discusses how Administration efforts are helping focus agencies on setting high-priority goals and measuring their progress on those goals.

### **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. By encouraging a greater share of grant funding to be spent on approaches with strong evidence of effectiveness and building more evaluation into grant-making, 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 K-12 education interventions, teenage pregnancy prevention, social innovations, voluntary home visitations for parents, workforce interventions, and international assistance efforts. In 2014, the Department of Education will also launch a new tiered evidence program, First in the World, focused on using and building evidence of effectiveness in postsecondary education. 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 implement practices with strong evidence qualify for the top, "scale up" tier and receive the most funding including for a large scale rigorous evaluation. Grantees that use approaches with more limited evidence qualify for the middle, "validation" tier and receive more limited funding along with support for a rigorous evaluation. 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 can apply for funding to develop, validate, or scale up their program. The Department issued regulations in 2013 that

would allow any of its other competitive grant programs to adopt this tiered-evidence model.

With a multi-tiered grant structure, organizations understand that to be considered for funding they must provide credible evaluation results that show promise and/or be ready to subject their models to analysis. Equally important, tiered evidence models provide a built-in mechanism for scaling up interventions with proven high returns.

### **Pay for Success**

The Administration is continuing to invest in Pay for Success to support evidence-based innovation at the State and local levels. 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 the subset of cost-effective interventions that produce government savings, since those savings can be used to pay for results. For example the Department of Labor awarded nearly \$24 million to the States of New York and Massachusetts for Pay for Success projects to increase employment and reduce recidivism among formerly incarcerated individuals. Funds will be paid out only after outcomes are achieved. In addition, 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. The Administration is promoting the Pay for Success model in several other Federal programs, including housing, workforce, and education, and is re-proposing a \$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 alongside better outcomes in communities.

### **Examples of Evaluations and Innovative Pilots**

The Administration supports evaluations with rigorous research designs that address questions critical to program design, and supports strengthening agency capacity to support such evaluations. The Budget supports new evaluations across the Federal Government to analyze program impacts, including how to structure student aid 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.

For example, 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, the Administration is proposing to restore demonstration authority for the Social Security Disability Insurance program, while also providing new authority for the Social Security

Administration and partner agencies to test early-intervention strategies that would help people with disabilities remain in the workforce.

The Department of Energy, in partnership with States and local utilities, has invested in evaluating the impact of time-varying pricing on consumer behavior. Experts have long suggested time-varying pricing as a way of increasing the efficiency of electricity use and reducing electricity demand, thereby allowing utilities to defer investments in expensive new power plants and reduce pollution. However, most electricity delivery systems have not invested in the in-home technologies necessary to allow residential consumers to respond to time-varying prices. In addition, regulators have been hesitant to approve varying rates, and private companies have been reluctant to invest in modernizing their systems without knowing whether time-varying pricing will significantly impact consumer behavior. While the Energy Department studies, which randomized residential consumers into a variety of time-varying pricing structures, are still ongoing, two utilities and their regulators have already decided to implement time-varying rates across their service territories based on the results observed to date.

In another example, the Partnership Fund for Program Integrity Innovation launched 11 pilots to test 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 Department of Justice is helping state and local juvenile justice agencies generate cost-effectiveness scorecards for service providers, promoting research-informed tools to improve outcomes for all the youth in their care. Evaluation of these pilots will help determine which strategies lead to better results at lower cost, allowing Federal and State governments to identify those that warrant expansion.

Rigorous evaluation will also be a central component of the Administration's Performance Partnership pilots, which will enable leading edge States and localities to experiment with new approaches to assisting disconnected youth, by giving them flexibility to pool discretionary funds across several Federal programs serving similar populations and communities in exchange for greater accountability for results. The Consolidated Appropriations Act, 2014 authorizes up to 10 State and local performance partnership pilots to improve outcomes for disconnected youth. Pilot projects will support innovative, efficient, outcome-focused strategies using blended funding from separate youth-serving programs in the Departments of Education, Labor, Health and Human Services, and the Corporation for National and Community Service. Authorization for up to 10 new pilots is proposed in the 2015 Budget.

### **Evaluation Capacity, Sharing Best Practices, and Administrative Data**

Research, statistics 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 these areas should never be viewed as a luxury but rather as an essential element of running effective government programs. However, new funding is only part of the Administration's efforts to support evidence activities across the Federal Government. The Administration is also working to: (1) build agency capacity for a robust evaluation and data analytics infrastructure by supporting agencies in standing up central evaluation offices that lead to strong and coordinated evaluation efforts; (2) empower existing evaluation offices; (3) institutionalize forward-looking policies, such as annual strategic reviews of agency priority goals; and (4) hire evaluation and data analytics experts into key administrative positions.

The July 2013 memo described earlier inaugurated a series of OMB-hosted workshops to support evidence efforts in agencies. Those workshops began in the fall of 2013 and will continue into 2014. Topics include helping agencies (1) focus evaluation resources on the most important program and policy questions; (2) use administrative data sets from multiple programs and levels of government to answer important questions while protecting privacy; (3) conduct rigorous program evaluations and data analytics on a tight budget; (4) use existing authorities to turn traditional competitive grant programs into innovative, evidence-based grant programs; and (5) apply research findings from the social and behavioral sciences to test and implement low-cost approaches to improving program results. In addition, an inter-agency working group of evaluators across the Federal Government is sharing best practices, such as helping to spread effective procurement practices, developing common evidence standards, and better integrating evaluation and performance measurement efforts. The Performance Improvement Council also is playing an important role with the latter effort.

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, can sometimes make both performance measurement and rigorous program evaluations more informative and less costly, while also providing strong privacy protections. 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 policymakers 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 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 of programs —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. This approach is 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.

Nonetheless, accessing administrative data for these statistical uses is challenging. For example, while some agencies have an established history of using administrative data for statistical and evaluation purposes, in many cases access to such data is not readily available due to real or perceived legal, policy, or operational barriers. In some cases, extensive negotiations with the agency responsible for the data are needed to gain access to the data for use in evaluation studies; sometimes the efforts are not successful even after months or years of negotiations.

To help address these barriers, OMB in February 2014 issued *“Guidance for Providing and Using Administrative Data for Statistical Purposes”* to assist both program and statistical agencies (and statistical components within agencies) in increasing the opportunities to use administrative data for statistical purposes, which includes evaluation. In part, this guidance requires government departments to engage both program and statistical agencies in identifying administrative datasets of potential value for statistical purposes; communicating the importance to staff of promoting the use of administrative data for statistical purposes; and identifying several datasets with the most value for statistical purposes but which are not currently being provided, along with descriptions of critical barriers that appear to preclude providing access for statistical purposes. The guidance also offers tools, developed under the auspices of the Federal Committee on Statistical Methodology, to help agencies understand relevant legal requirements, facilitate more efficient interagency agreements, and assess administrative data quality. Departments must also report to OMB on their efforts to encourage collaboration and increase access to administrative data for statistical purposes. In this way, OMB can continue to learn from and foster progress among agencies in their evidence-building efforts.

### **Social and Behavioral Sciences Team**

Increasingly, agencies are using insights from behavioral science to implement low-cost evaluations that can be used to improve program design. Using randomized

experiments or other rigorous evaluation designs, these studies examine aspects of program operations that can be re-designed to help people take better advantage of available programs and services. These studies have tested the impact of simplifying outreach and collection letters or highlighting the availability of student financial aid. Recently, the White House Office of Science and Technology Policy assembled a cross-agency team of behavioral science and evaluation experts, the U.S. Social and Behavioral Sciences Team, to help agencies identify promising opportunities for embedding behavioral insights into program designs and to provide the necessary technical tools to rigorously evaluate impact. Such low-cost, real-time experiments can help Federal programs operate more effectively and efficiently.

### **Common Evidence Standards and “What Works” Repositories**

OMB and Federal agencies are working together to develop common standards and guidelines for research and evaluation, i.e. “common evidence standards.” These common evidence standards should facilitate both production and use of reliable, rigorous evidence. Policymakers, program managers, and practitioners could use these common evidence standards 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 issued *Common Guidelines for Education Research and Development* in 2013. These guidelines clarify how different types of studies contribute to the evidence base, including basic research and impact evaluations, and set expectations for the evidence that different types of studies should seek to generate. Other agencies such as the Department of Labor and components of the Department of Health and Human Services are using the same guidelines for their evaluation activities. Research experts from Federal agencies, States, and academia are working with the National Academy of Sciences on ways to build consensus on standards for benefit-cost analysis of preventive interventions for children, youth, and families. Those standards would help government compare the benefits and costs of multiple strategies focused on similar target populations and outcomes. 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.” The 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. They can 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.

## Acting on Evidence

The Administration is committed to producing more and better empirical evidence. The ultimate goal, however, is to use evidence to drive better outcomes. In a number of cases, the Administration has taken or is proposing to take evidence-driven approaches to scale, making programs more effective in achieving their goals. For example, based upon a strong body of evidence showing positive long-term effects on children and families, the 2015 Budget proposes to continue the Maternal, Infant, and Early Childhood Home Visiting Program in the Department of Health and Human Services and expand the availability of voluntary home visiting programs to reach additional families in need. The Administration is also investing in the Jobs-Plus program in the Department of Housing and Urban Development, because its combination of job training and financial incentives has been shown to boost annual incomes by \$1,300, on average. And the Administration is proposing to provide those Unemployment Insurance beneficiaries most at risk of exhausting their benefits, as well as all recently separated service members, with reemployment and eligibility assessments and reemployment services, based on evidence that these services are effective in getting UI recipients back to work faster and in jobs with higher wages.

A particularly successful example of evidence-based policymaking is in the area of reducing homelessness. Although chronic homelessness was long considered an intractable problem, a broad body of research (including rigorous evaluations) has demonstrated that permanent supportive housing is effective at reducing chronic homelessness and is more effective than traditional approaches, such as transitional housing. By investing heavily in evidence-based approaches, the Administration has made significant progress toward the goal of ending homelessness among veterans, reducing the total number of homeless veterans by almost 18,000 since 2009. The Budget proposes to continue investments in supportive housing, keeping the Nation on track to meet the President's goal of changing veterans' homelessness by 2015.

Creating more of these success stories will require building more evidence of what works, but also more consistently acting on the evidence available. Part of doing both is to increase demand for data and evidence in Federal decision-making processes. One piece of this is the process of setting strategic objectives and high-priority performance goals then measuring progress towards meeting them, as described in Chapter 6, "Delivering A High-Performance Government," in this volume. The Administration's goal-setting and performance measurement process is enhancing the demand for reliable 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 results point in different directions. There is a tremendous need for credible, systematic, and user-friendly 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 (WSIPP). 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. Examples of the Institute's assessment of the evidence of 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 Pew-MacArthur Results First initiative has partnered with over a dozen states to implement a benefit-cost model using the WSIPP methodology that helps States invest in evidence-based policies and programs, demonstrating a growing demand for this type of analysis among State governments.

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 more often yield the highest social returns on carefully targeted investments.

## 8. IMPROVING THE FEDERAL WORKFORCE

A high-performing government depends on an engaged, well-prepared, and well-trained workforce with the right set of skills for the missions of the Government. Today's Federal public servants come from all walks of life and from every corner of America to carry forward that proud American tradition.

The Federal Government is America's largest employer, with more than 2 million civilian workers and 1.4 million active duty military who serve in all 50 States and around the world. Eighty-five percent of Federal employees live and work outside of the Washington, D.C. metropolitan area.

As the President said in a message to Federal employees during the government shutdown in October, "Public service is noble. Public service is important. And by choosing public service, you carry on a proud tradition at the heart of some of this country's greatest and most lasting achievements. In fact, more than 50 current or former Federal employees have received the Nobel Prize for their efforts. It was grants from the Department of Energy that helped businesses unlock new sources of renewable energy, and from the National Science Foundation that helped entrepreneurs like the founders of Google change the world. It is your efforts that will help this country meet the great challenge of our time—rebuilding an economy where all who work hard can get ahead."

The last few years have been challenging for the Federal workforce. Three years of a Federal pay freeze, harmful sequester cuts, a 16-day shutdown of Government, and a challenging political climate have made it increasingly difficult to deliver on agency missions. Yet, Federal employees continue to persevere, continuing to serve the American people with passion, professionalism, and skill.

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.

This chapter discusses four broad areas related to the Federal workforce. First it describes trends in Federal employment levels over the past several decades and includes estimates for the FY 2015 Budget. Second, it outlines the shifts in the composition of Federal workers, relative to their private sector counterparts, that have led to a Federal workforce that is now more highly educated, more concentrated in higher paying professions and based in higher cost metropolitan areas. Third, the chapter lays out some of the challenges the Federal workforce has faced such as recent pay freezes, sequester, and furloughs. Finally, it discusses the Administration's recent

accomplishments and future actions for fully capitalizing on the talents in the workforce today and recruiting and developing the capabilities we need to serve the American people most effectively and efficiently.

### Trends in Federal Workforce Size

#### *Long-Term Trends*

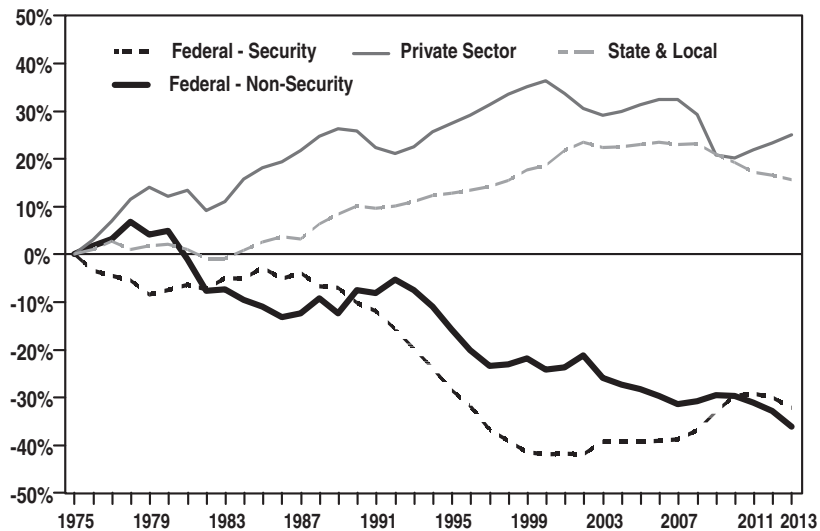
The size of the Federal civilian workforce relative to the country's population has declined dramatically over the last several decades, notwithstanding occasional upticks due, for example, to military conflicts and the administration of the Census. Since the 1960s, the U.S. population increased by 65 percent, the private sector workforce increased 125 percent, and State and local government workforces (excluding education workers) increased 173 percent, while the size of the Federal workforce rose just 9 percent.<sup>1</sup>

Chart 8-1 highlights the sharp drops, relative to population, in both the security and non-security parts of the Federal workforce since 1975 (the end of the Vietnam War), comparing it to increases in the private sector and State and local governments (again excluding education). Since 1975, both the security and non-security parts of the Federal workforce have declined more than 30 percent relative to the population, but the patterns in the declines are different. The security part of the Federal workforce (62 percent of the current Federal civilian workforce) fell at the end of the Vietnam War, increased in the early 1980s, and dropped significantly by 40 percent as the Cold War ended. That decline reversed itself after 9/11 and with the onset of the wars in Iraq and Afghanistan. The non-security part of the Federal workforce (currently about 800,000 workers) increased at a rate between that of the private sector and State and local governments for the first five years after the Vietnam War ended. Then it declined by almost 20 percentage points between 1980 and 1986. A little over a third of that decline was reversed between 1986 and 1992. Since 1992 the non-security part of the Federal workforce has declined by about 30 percentage points.

The divergent trends in Chart 8-1 are striking. The evolution of the Federal security workforce largely tracks major foreign policy developments: the end of the Vietnam and Cold Wars could potentially explain the declines in the Federal Security workforce between 1975 and 2000, while 9/11 along with new conflicts in Iraq and Afghanistan help explain the relative rise in the Federal security workforce since the early 2000s.

<sup>1</sup> Teachers, professors, and workers in schools, colleges, and universities make up almost half of the State and local workforce. To make the State and local workforce more comparable to the Federal workforce, those educational workers are excluded from these comparisons.

**Chart 8-1. Changes Since 1975 in Employment/Population by Sector**



Source: Office of Personnel Management and Bureau of Labor Statistics.

Notes: Security includes the Department of Defense, the Department of Homeland Security, the Department of State, and the Department of Veteran Affairs. Non-Security includes the remainder of the Executive Branch. State & Local excludes education workers.

But the reasons for the decline in the non-security Federal workforce are less clear, especially in light of mission changes, such as significant growth in Social Security, Medicare, and Medicaid, the enactment of the Medicare prescription drug benefit and the Affordable Care Act, dramatic increases in the Federal prison population, and growing Federal roles in financial regulation and education.

Possible explanations for the relative decline of the non-security Federal workforce include: (1) relative increases in efficiency in the Federal sector (compared to the private sector and State and local governments); (2) an increase in the contract workforce (which likely also played a role on the security side); and (3) shifting of some duties of the Federal government to State and local governments. While all of these factors, particularly the increase in the contract workforce, probably contributed to the long-term trends, there is not enough evidence to quantify their contributions or evaluate whether they fully explain the relative decline. Also noteworthy, both an increased reliance on a contract workforce and shifting responsibilities to State and local governments would imply that the Federal workforce has taken on greater management roles over time. This may help explain why – as discussed below – the skill level of the Federal workforce, as measured by educational level, has increased faster than that of the private sector workforce. It is unclear if these increases have been fast enough to keep up with the increased demands on the Federal workforce.

### **Short-Term Trends**

Table 8-2 shows actual Federal civilian full-time equivalent (FTE) levels in the Executive Branch by agency

for 2012 and 2013, with estimates for 2014 and 2015. Estimated employment levels for 2015 result in an estimated 0.7 percent increase compared to prior year estimates. The Budget proposes continued growth in VA for strengthening medical care for veterans. Additional increases are expected at the Department of Justice for enhancements to ensure protection of civil rights as well as to continue efforts to combat cyber threats, at Customs and Border Protection in the Department of Homeland Security to facilitate increased travel and trade at U.S. air, land, and sea ports, and at the Social Security Administration for increasing program integrity and preventing service deterioration.

A few other agencies have staff increases that are narrowly focused and frequently supported by congressionally authorized fees, rather than taxpayer dollars. Increased fee collections support timely commercialization of innovative technologies through faster and higher-quality patent reviews at the Patent and Trade Office of the Department of Commerce, and stronger food safety measures at the Food and Drug Administration of the Department of Health and Human Services. Commitments to continue bringing newly completed and acquired prisons on-line result in maintaining necessary personnel increases at the Department of Justice. Additionally, targeted increases at the Internal Revenue Service for program integrity and taxpayer service efforts will help ensure companies and individuals are paying their fair share of taxes owed.

In contrast, agencies such as the Environmental Protection Agency (EPA), the National Aeronautics and Space Administration (NASA), and the General Services Administration (GSA) are reevaluating and restructuring



their workforces to better align with their current mission and to meet continued budget constraints. Decreases at the EPA reflect strong efforts to realign skill sets within the workforce to meet modern day environmental challenges in partnering with the states; NASA will reduce its workforce as the agency seeks to become more efficient in the wake of major changes to the agency's programs, including an increased focus on technology development and cooperation with the space industry; and GSA is working to better match employee skills with job requirements while controlling personnel costs. Additionally, the Transportation Security Administration (TSA) at the Department of Homeland Security is expanding risk based security initiatives and enhancing its use of technology to improve the efficiency of airline passenger screening that will result in fewer TSA officers while sustaining improvements in the passenger service experience.

In recent years, the Executive Branch has had made considerable progress 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 2011, veterans made up 29 percent of the total *new hires* in the Federal Government. By the end of FY 2013, veterans made up approximately 31 percent of new hires, and 54% of new hires at DOD. The total number of *veterans employed* by the Government also increased. In FY 2011, there were 602,775 veterans in the Federal Government, which was 29 percent of the workforce. By the end of FY 2013, the number of veterans had grown to over 607,000, or 30 percent of the Federal workforce, and represented 47% of the workforce at DoD.

**Table 8–1. OCCUPATIONS OF FEDERAL AND PRIVATE SECTOR WORKFORCES**  
(Grouped by Average Private Sector Salary)

Occupational Groups	Percent	
	Federal Workers	Private Sector Workers
<b>Highest Paid Occupations Ranked by Private Sector Salary</b>		
Lawyers and judges .....	1.8%	0.6%
Engineers .....	3.9%	1.9%
Scientists and social scientists .....	4.7%	0.7%
Managers .....	11.7%	13.6%
Pilots, conductors, and related mechanics .....	2.1%	0.5%
Doctors, nurses, psychologists, etc. ....	8.1%	6.1%
Miscellaneous professionals .....	15.2%	8.5%
Administrators, accountants, HR personnel .....	6.7%	2.7%
Inspectors .....	1.4%	0.3%
<b>Total Percentage .....</b>	<b>55.7%</b>	<b>34.9%</b>
<b>Medium Paid Occupations Ranked by Private Sector Salary</b>		
Sales including real estate, insurance agents .....	1.2%	6.2%
Other miscellaneous occupations .....	3.0%	4.3%
Automobile and other mechanics .....	2.0%	3.1%
Law enforcement and related occupations .....	9.1%	0.8%
Social workers .....	1.4%	0.5%
Office workers .....	2.3%	6.2%
Drivers of trucks and taxis .....	0.7%	3.2%
Laborers and construction workers .....	4.0%	9.6%
Clerks and administrative assistants .....	13.5%	11.4%
Manufacturing .....	2.6%	7.5%
<b>Total Percentage .....</b>	<b>39.7%</b>	<b>52.8%</b>
<b>Lowest Paid Occupations Ranked by Private Sector Salary</b>		
Other miscellaneous service workers .....	2.2%	5.8%
Janitors and housekeepers .....	1.6%	2.4%
Cooks, bartenders, bakers, and wait staff .....	0.8%	4.1%
<b>Total Percentage .....</b>	<b>4.6%</b>	<b>12.3%</b>

Source: 2009–2013 Current Population Survey, Integrated Public Use Microdata Series.

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.

## Attributes of the Federal Workforce

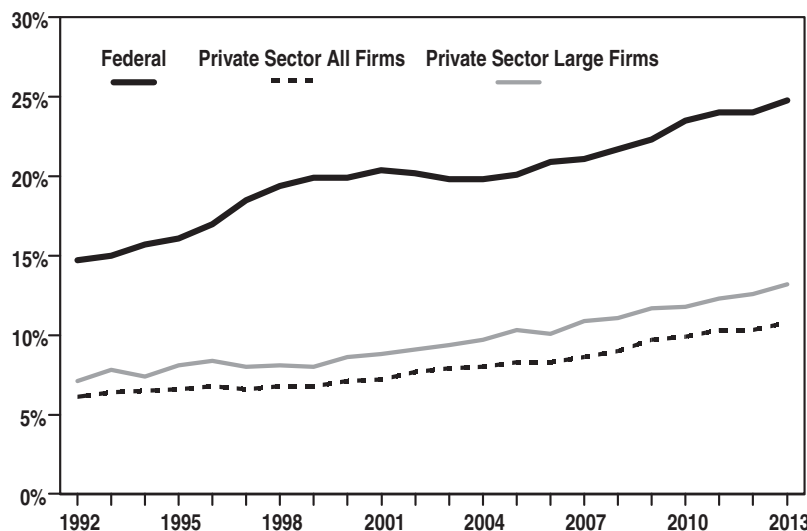
The “Trends in Workforce Size” section described the long-term decline in the size of the Federal workforce relative to the population, the private sector workforce, and State and local government workforces. That relative reduction in size in the face of a Federal mission that has only grown more complex, along with an historical trend of greater reliance on contractors and State and local partners in many areas, implies that Federal jobs are becoming increasingly complex and thus are requiring greater levels of skill. It is equally important to consider how the Federal workforce differs from the private sector and how it has changed over time. As discussed in more detail below, in comparison to private sector jobs, Federal jobs are concentrated in higher paying professions and are based in higher cost metropolitan areas. Also, Federal workers hold more high-level degrees, and the share that has such degrees is growing.

**Type of occupation.** The last half century has seen significant shifts in the composition of the Federal workforce. 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. Federal employees must manage highly sensitive tasks that require great skill, experience, and judgment. Many 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 2009-2013 of full-time, full-year workers, Table 8-1 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. Professionals such as doctors, engineers, scientists, statisticians, and lawyers now make up a large and growing portion of the Federal workforce. For example, the Federal STEM workforce has increased by 12 percent from FY2008 to FY2012. More than half (56 percent) of Federal workers work in the nine highest-paying private sector occupation groups such as judges and lawyers, engineers, and scientists, compared to about a third (35 percent) of private sector workers in those same nine highest paying occupation groups. In contrast, 12 percent of private sector workers work in the three lowest-paying occupation groups as cooks, janitors, service workers, etc. Only about 5 percent of Federal workers work in those three lowest-paying occupation groups.

**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. Charts 8-2 and 8-3 present trends in educational levels for the Federal and private sector workforces over the past two decades. In 1992 there were only about half as many highly educated Federal workers (masters degrees or above) compared to less educated workers (high school degrees or less); by 2013 there were 50 percent more highly educated Federal workers than less educated workers. The private sector has also experienced increases in educational level, but the increases in highly educated workers have been slower than in the Federal sector. Even in large firms the percentage of highly educated workers is only about half that of the Federal sec-

**Chart 8-2. Masters Degree or Above by Year for Federal and Private Sectors**

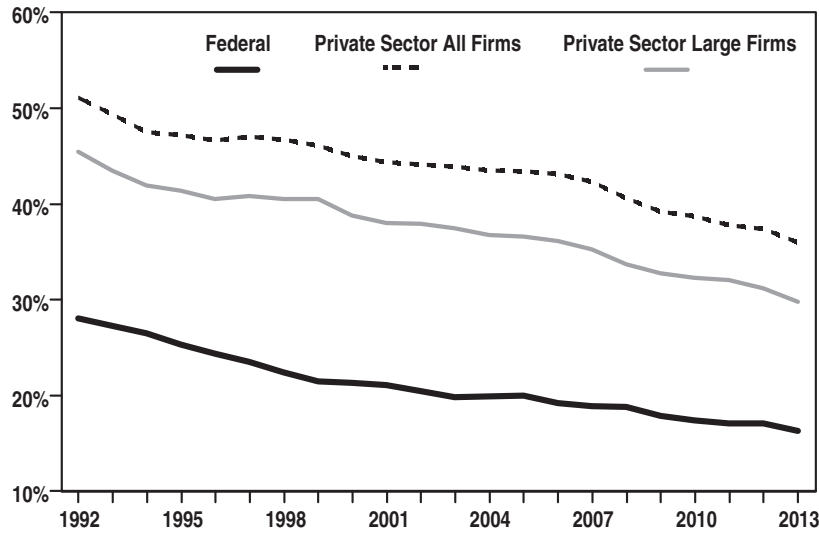


Source: 1992-2013 Current Population Survey, Integrated Public Use Microdata Series.

Notes: Federal excludes the military and Postal Service, but includes all other Federal workers. Private Sector excludes the self-employed. Neither category includes State and local government workers. Large firms have at least 1,000 workers. This analysis is limited to full-time, full-year, i.e. those with at least 1,500 annual hours of work.



**Chart 8-3. High School Graduate or Less by Year for Federal and Private Sectors**



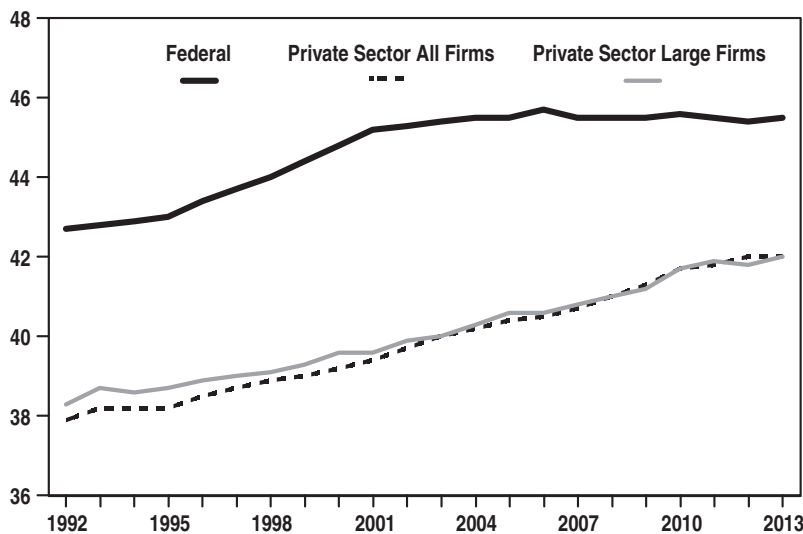
Source: 1992-2013 Current Population Survey, Integrated Public Use Microdata Series.

Notes: Federal excludes the military and Postal Service, but includes all other Federal workers. Private Sector excludes the self-employed. Neither category includes State and local government workers. Large firms have at least 1,000 workers. This analysis is limited to full-time, full-year, i.e. those with at least 1,500 annual hours of work.

tor and the rate of growth over the last decade is only about two thirds as fast. These relative increases in educational level in the Federal workforce may have generated some increases in efficiency for the Federal workforce; it also would suggest that pay should have increased faster in the Federal workforce than 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 66 million Social Security and Supplemental Security Income beneficiaries each year,

**Chart 8-4. Average Age by Year for Federal and Private Sectors**



Source: 1992-2013 Current Population Survey, Integrated Public Use Microdata Series.

Notes: Federal excludes the military and Postal Service, but includes all other Federal workers. Private Sector excludes the self-employed. Neither category includes State and local government workers. Large firms have at least 1,000 workers. This analysis is limited to full-time, full-year, i.e. those with at least 1,500 annual hours of work.

providing medical care to 8.9 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 17 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. However, even large private sector firms may not be ideal comparisons to the Federal sector, because the Federal sector is larger and more highly educated (see Charts 10-3 and 10-4).

**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, Federal workers, on average, are 45.5 years old – up from 2.7 years from 20 years ago and higher than the average age of 42 years old in the private sector (even in large firms). Chart 10-4 shows the trends in average age in both the Federal and private sectors over the past two decades.

### ***Federal Compensation Trends***

Chart 8-5 shows how the Federal pay scale has compared to the private sector wages since 1978. 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

While increases in public and private sector pay remained fairly even during the early 1990s, private sector pay incrementally rose in comparison to the public sector in the mid-1990s. That trend reversed itself in the 2000s when the Federal pay scale rose quite a bit relative to private sector wages. Over the last few years, public sector wages have fallen consistently and significantly relative to the private sector. This reflects a combination of pay freezes, discussed further below, and increases in employee retirement contributions. 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 workforce after December 31, 2012 who have less than five years of creditable civilian service. The Bipartisan Budget Act of 2013 increased employee contributions for those joining the Federal workforce after December 31, 2013 by an additional 1.3 percentage points. (Neither of these increases in retirement contributions would change the amount of each employee's benefit.) Taking into account both the recent pay freezes and the changes in retirement contributions, earnings for new

Federal employees have fallen 10 percentage points relative to the private sector between 2009 and 2014.

However, in January, the President ended the three-year pay freeze with a one percent pay increase for General Schedule employees in 2014. The 2015 Budget assumes a one percent pay increase in 2015 to help the Government remain competitive in attracting and retaining our Federal workforce. While the Administration recognizes that this proposal is lower than private sector increases and the statutory formula, it strikes a balance between the tight budget constraints we continue to face, while also recognizing the critical role our employees play in our country, from providing relief to those affected by natural disasters, to reducing pollution of the nation's water, air, and lands, to providing care to our nation's veterans. It also recognizes the sacrifices they have already made through prior pay freezes, reductions in awards, and furloughs due to sequestration last year. In addition, the Bipartisan Budget Act of 2013 will bring more stability and predictability to the Federal Government. In particular, the budget deal significantly reduces the negative impact that continued sequestration cuts would have had on the Federal workforce as well as avoiding furloughs and shutdowns

### ***Comparisons of Federal and Private Sector Compensation***

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. It also should account for all types of compensation in both the Federal and private sector, including pay and bonuses, health benefits, retirement benefits, flexibility of work schedules, job security, training opportunities, and profit sharing/preferred stock/stock options.

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 prior to the three-year Federal pay freeze, Federal pay, on average, was slightly higher (2.0 percent) than comparable private sector pay. CBO reported that overall Federal sector compensation (including benefits) 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 CBO study also excluded forms of compensation, such as job security, that favor the Federal sector and training opportunities and profit sharing/preferred stock/stock options that favor the private sector. These forms of compensation are substantial and thus could alter the CBO findings.

Perhaps more importantly, the CBO reports emphasized that focusing on averages is misleading, because the Federal/private sector differentials vary dramatically by education and complexity of job. Compensation for highly

educated Federal workers (or those in more complex jobs) is lower than for comparable workers in the private sector, whereas CBO found the opposite for less educated workers. These findings suggest that across-the-board compensation increases or cuts are unlikely to efficiently target Federal resources.

The CBO reports focus on *workers* and ask what employees with the educational backgrounds and other characteristics of Federal workers earn in the private sector. An alternative approach, used by the Federal Salary Council, focuses on *jobs* and asks what the private sector would pay people with the same roles and responsibilities as Federal workers. Unlike CBO, which finds that Federal pay is (on average) roughly in line with private sector pay, the Federal Salary Council finds that in 2013 Federal jobs paid 35 percent less than comparable non-Federal jobs.

There are a number of possible explanations for the discrepancy in the CBO versus the Federal Salary Council findings. First, methodological issues around the classification of Federal and private sector jobs introduce considerable uncertainty into the Federal Salary Council approach. It is significantly easier to compare college graduates in Federal versus private sector jobs than it is to determine what private sector job is most comparable to a given Federal job. Second, the Federal Salary Council findings may suggest that, at least in some jobs, the Federal government has difficulty hiring and retaining workers with the same skills or managerial experience as their counterparts in equivalent private sector jobs. This could be a reason for concern, given the decline in the size of the Federal workforce relative to the population and the increasingly supervisory role it plays (e.g., supervising contractors and State and local governments).

### Workforce Challenges

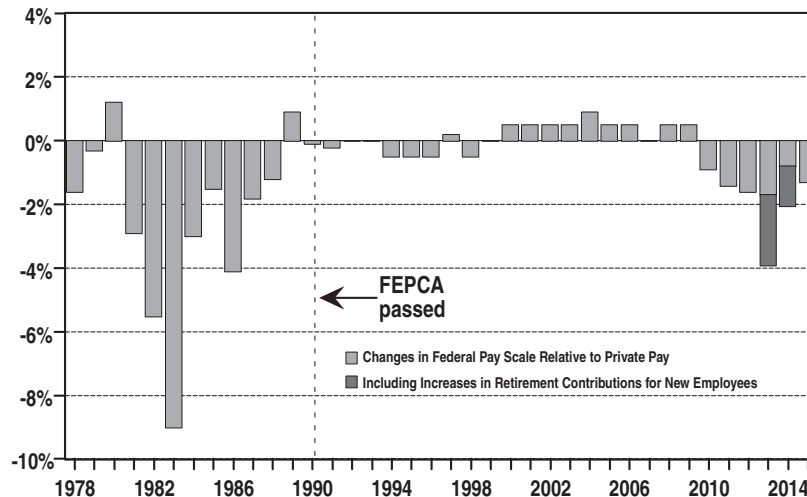
The Federal Government faces unique human capital challenges, including a personnel system that requires further modernization and an aging and retiring workforce. If the Government loses top talent, experience, and institutional memory through retirements, but cannot recruit, retain, and train highly qualified workers, performance suffers. The age distribution and potential for a large number of retiring workers poses a challenge, but it also creates an opportunity to reshape the workforce and to infuse it with new – and in some cases lower-cost – workers excited about Government service and equipped with strong management skills, problem-solving ability, technology skills, 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 some progress in simplifying hiring, additional reforms are needed to update the hiring, 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. 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 increase responsibilities of and encourage adequate flexibility to family caregivers, among other factors.

To address issues in the long-term, Federal managers and employees need a modernized personnel system. To

**Chart 8-5. Pay Raises for Federal vs. Private Workforce, 1978-2015**



Source: Public Laws, Executive Orders, and the Bureau of Labor Statistics

Notes: Federal pay is for civilians and includes base and locality pay. Private pay is measured by the Employee Cost Index wages and salaries, private industry workers series, lagged 15 months.

that end, the Administration proposed to the Joint Select Committee on Deficit Reduction that the Congress establish a Commission on Federal Public Service Reform comprised of Members of Congress, representatives from the President's National Council on Federal Labor-Management Relations, members of the private sector, and academic experts. The 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 2013 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, 112,817 in 2012, and 114,697 in 2013. Increases in retirement are expected to continue. Nearly twenty-five percent of the over 376,577 respondents to the 2013 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 by maximizing 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***

OPM administers the Government-wide Federal Employee Viewpoint Survey (EVS) to gather employee perceptions about whether, and to what extent, conditions characterizing successful organizations are present in their agencies. The 2013 EVS results demonstrated that federal employees continue to be as engaged in their work as prior years. Despite this dedication, however, the EVS responses revealed a significant drop in employee satisfaction and continued declines across the majority of questions. One of the biggest drops was whether employees had sufficient resources needed to get their jobs done. This drop contributed to fewer employees recommending their organizations as good places to work. Any employer seeing this meaningful level of decline would be very concerned. The EVS results serve as an important warning about the long-term consequences of pay freezes, sequestration, and budget uncertainty.

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 2013 EVS indicate that nearly 96 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, the percent of employees government-wide who “feel encouraged to come up with new and better ways of doing things” was only 56 percent. The EVS Employee Engagement Index is an important tool OPM has developed to measure the conditions likely to lead to employee engagement. The 2013 EVS results reflected a slight government-wide decline in each of the three subfactors (Leaders Lead, Supervisor/Employee Relationships, and Intrinsic Work Experiences) that comprise the index. Engaging agency leaders and managers to make improvements in these areas will be a top priority of the President's Second Term Management Agenda.

### ***Budgetary Constraints***

The last several years have been challenging for the Federal workforce. 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, and the pay freeze was extended an additional year in 2013 by Congress. 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, and have continued to place limits through 2014.

In 2013, the Federal workforce endured the third year of a pay freeze; sequestration which in many agencies resulted in hiring freezes, cuts in training funds, unpaid furloughs; and a 16-day government shutdown. Due to sequestration cuts in FY 2013, roughly three-quarters of a million Federal employees were furloughed, and these furloughs resulted in over \$1 billion in lost salary. Agencies reduced their investments in training, including in technical, soft skills, and leadership topic areas to stave off deeper reductions in force and/or furloughs. In fact, seven percent fewer of federal employees reported that their training needs were assessed in 2013 than in 2011, although that rate had held steady since 2006. These decisions generated the short-term savings needed to meet sequestration levels, but could have a long-term impact on the Federal government's ability to meet its mission objectives and to deliver services to the American people.

In addition, the 16-day shutdown significantly impacted the Federal government's role as an employer. Job stability and a sense of mission have typically been advantages of working in the Federal sector, but increases in political acrimony may be leading to a deterioration of those advantages. During the shutdown, hundreds of thousands of Federal employees did not receive their full paychecks, including many employees that were legally



required to work during the lapse. While all Federal employees ultimately have been compensated for the period of the shutdown, the burden of delayed paychecks on Federal workers and their families was significant and harmful. The President noted in an open letter to federal employees shortly after the end of the shutdown, “You should never have been treated this way... ..The public service you perform – the role you play in the life of our country – it is important. It matters.” We are hopeful that the recent budget deal will remove the uncertainty that the American people, including Federal employees, have endured in the form of shutdowns and furloughs.

Looking forward, tight discretionary caps for 2015 and the resumption of sequestration funding levels in 2016 will make it increasingly challenging for the Federal government to keep pace with private sector, especially in hard to recruit fields, both in terms of pay and in areas like training. This is one of many reasons that the Budget proposes to increase discretionary funding levels while fully offsetting the cost with other spending and tax reforms.

### **Addressing the Challenges**

The Administration is committed to further accelerating its employee performance and human capital management and these initiatives are a core component of the President’s Management Agenda, as discussed in the Creating a 21st Century Government Chapter of the main *Budget* volume. 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 using the EVS as a diagnostic tool to guide management of our federal workers, expanding implementation of our successful data-driven HRStat review sessions, greater alignment between human capital and mission performance, and quarterly updates of key HR performance indicators on Performance.gov.

As discussed earlier, OPM’s EVS 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. Notably, OPM has worked with agencies in recent years to increase the number of office-level components within agencies for which office-specific results are available. Whereas only 1,687 components received results in 2011, 12,550 offices received results in

2013. 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.

In 2012, CHCO level agencies began piloting HRstat (Human Resources Statistics) reviews. These quarterly data-driven reviews, which are led by the agency CHCOs in collaboration with the Performance Improvement Officer (PIO), focus on agency specific human capital performance and key human resources management metrics that drive agency performance and align with mission accomplishment. Agencies have the flexibility to focus on areas critical to their mission and use metrics to understand issues such as performance management, succession planning, recruitment timeliness, and strategic workforce planning. The HRstat reviews are intended to enable quick course correction, if needed, to help ensure progress is being made on key human resources issues. For example, through HRstat, the Treasury Department matched up different bureaus as partners to collaborate on veterans hiring and in one year more than doubled the rate of new veteran hires. In 2014, the final eight CHCO agencies will complete the HRstat pilot with government-wide implementation occurring in 2015.

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.

The Administration also continues to centralize existing personnel data and explore opportunities to use them to improve management. Government-wide centralization helps eliminate redundant information collections, work processes, and generation of reports. In response to Executive Order 13583, OPM developed a Human Capital Report consolidation strategy in 2012. A key component was exploration of which annual reports could be replaced by a centralized and automated mechanism for continuous monitoring. By the end of 2013, more than ten administrative reports that agencies were previously required to produce were eliminated. The Budget supports continued exploration of which personnel data can be leveraged centrally to assist agencies in the management of their workforces.

#### ***Creating a Culture of Excellence and Engagement to Enable Higher Performance***

Leadership, organizational culture, and employee engagement are critical factors in the success of private and public institutions. While employee engagement is linked to everything from higher earnings per share, to lower workplace accidents and turnover, and overall high performance in the private sector<sup>2</sup>, the Administration’s focus on employee engagement and mission performance are crucial ingredients to supporting a Culture

<sup>2</sup> Heskett, J. L., T. O. Jones, G. W. Loveman, W. Earl Sasser, and L. A. Schlesinger. “Putting the Service-Profit Chain to Work.” *Harvard Business Review* 72, no. 2 (March-April 1994): 164-174; Heskett, J., W. E. Sasser Jr., and L. Schlesinger. *The Service Profit Chain*. N.Y.: Free Press, 1997

**Table 8–2. 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: 2014 to 2015	
	2012	2013	2014	2015	FTE	Percent
<b>Cabinet agencies:</b>						
Agriculture .....	91.7	88.0	90.2	90.8	0.6	0.7%
Commerce .....	39.9	39.9	42.6	45.1	2.5	5.9%
Defense .....	765.2	738.3	755.4	749.1	-6.3	-0.8%
Education .....	4.3	4.1	4.1	4.1	0.0	0.0%
Energy .....	15.7	15.3	15.7	15.9	0.2	1.3%
Health and Human Services .....	69.3	70.1	72.5	74.6	2.1	2.9%
Homeland Security .....	184.0	183.7	190.1	189.8	-0.3	-0.2%
Housing and Urban Development .....	9.3	8.7	8.7	8.9	0.2	2.3%
Interior .....	70.0	67.3	69.2	69.9	0.7	1.0%
Justice .....	115.1	114.8	116.8	117.4	0.6	0.5%
Labor .....	17.2	17.2	17.2	17.8	0.6	3.5%
State .....	33.0	33.2	33.3	33.3	0.0	0.0%
Transportation .....	56.9	55.9	55.9	56.8	0.9	1.6%
Treasury .....	106.3	102.3	101.4	108.8	7.4	7.3%
Veterans Affairs .....	301.4	312.8	319.2	321.4	2.2	0.7%
<b>Other agencies—excluding Postal Service:</b>						
Broadcasting Board of Governors .....	1.9	1.8	1.8	1.8	0.0	0.0%
Corps of Engineers—Civil Works .....	23.1	22.4	22.7	22.5	-0.2	-0.9%
Environmental Protection Agency .....	17.0	15.8	15.6	15.4	-0.2	-1.3%
Equal Employment Opportunity Commission .....	2.3	2.1	2.3	2.3	0.0	0.0%
Federal Deposit Insurance Corporation .....	8.1	7.7	7.3	7.2	-0.1	-1.4%
General Services Administration .....	12.5	11.9	12.5	12.1	-0.4	-3.2%
International Assistance Programs .....	5.6	5.4	5.5	5.6	0.1	1.8%
National Aeronautics and Space Admin .....	18.1	17.9	17.9	17.6	-0.3	-1.7%
National Archives and Records Administration .....	3.2	3.0	3.0	3.0	0.0	0.0%
National Labor Relations Board .....	1.6	1.6	1.6	1.6	0.0	0.0%
National Science Foundation .....	1.4	1.4	1.4	1.4	0.0	0.0%
Nuclear Regulatory Commission .....	3.8	3.7	3.8	3.9	0.1	2.6%
Office of Personnel Management .....	5.3	5.3	5.4	5.4	0.0	0.0%
Railroad Retirement Board .....	0.9	0.9	0.9	0.9	0.0	0.0%
Securities and Exchange Commission .....	3.8	4.0	4.2	4.7	0.5	11.9%
Small Business Administration .....	3.4	3.9	3.3	3.3	0.0	0.0%
Smithsonian Institution .....	5.0	5.1	5.3	5.5	0.2	3.8%
Social Security Administration .....	64.7	62.5	62.2	64.1	1.9	3.1%
Tennessee Valley Authority .....	12.8	12.6	12.7	12.9	0.2	1.6%
All other small agencies .....	16.9	17.4	18.3	19.1	0.8	4.4%
<b>Total, Executive Branch civilian employment* ...</b>	<b>2,090.7</b>	<b>2,058.0</b>	<b>2,100.0</b>	<b>2,114.0</b>	<b>14.0</b>	<b>0.7%</b>

\* Totals may not add due to rounding.

of Excellence that can improve all federal services to the people of our nation, and is an important component of the Management Agenda.

In 2014, the Administration will use EVS data to create an engagement dashboard for use by agency Chief Operating Officers and supervisor alike. When coupled with agency mission performance data, this information will provide actionable insights to target areas where improvement is needed the most. OPM will also support these areas of focus with increased cross-government attention on employee leadership and skill development. In 2014, it will begin a review of training and development resources, with a multi-year goal of ensuring they are consistently ex-

cellent and easily accessible government-wide. It will also accelerate the testing and scaling of tools that allow managers to tap into skills from a wider range of people within and across agencies and allow virtual teams to surge onto new projects, discrete initiatives, and crises. There are also effective tools available for managers and supervisors to address employee performance challenges. OPM offers periodic classroom training sessions; on-line training on HR University; and an OPM desk guide for supervisors to assist them in addressing and resolving poor performance of employees they supervise. As capabilities are enhanced and credibility is built, these efforts will incorporate continuous



**Table 8–3. TOTAL FEDERAL EMPLOYMENT**  
(As measured by Full-Time Equivalents)

Description	2013 Actual	2014		2015		Change: 2014 to 2015	
		Estimate	Estimate	Estimate	FTE	Percent	
<b>Executive Branch Civilian:</b>							
All Agencies, Excluding Postal Service .....	2,057,992	2,100,023	2,114,037	14,014	0.7%		
Postal Service <sup>1</sup> .....	575,876	561,665	559,265	-2,400	-0.4%		
Subtotal, Executive Branch Civilian .....	2,633,868	2,661,688	2,673,302	11,614	0.4%		
<b>Executive Branch Uniformed Military:</b>							
Department of Defense <sup>2</sup> .....	1,451,059	1,408,942	<sup>3</sup> 1,316,710	-92,232	-6.5%		
Department of Homeland Security (USCG) .....	41,992	42,334	41,973	-361	-0.9%		
Commissioned Corps (DOC, EPA, HHS) .....	7,058	7,124	7,124	0	0.0%		
Subtotal, Uniformed Military .....	1,500,109	1,458,400	1,365,807	-92,593	-6.3%		
Subtotal, Executive Branch .....	4,133,977	4,120,088	4,039,109	-80,979	-2.0%		
Legislative Branch <sup>4</sup> .....	29,375	33,698	33,714	16	0.0%		
Judicial Branch .....	33,480	32,740	33,013	273	0.8%		
<b>Grand total .....</b>	<b>4,196,832</b>	<b>4,186,526</b>	<b>4,105,836</b>	<b>-80,690</b>	<b>-1.9%</b>		

<sup>1</sup> Includes Postal Rate Commission.

<sup>2</sup> Includes activated Guard and Reserve members on active duty. Does not include Full-Time Support (Active Guard & Reserve (AGRs)) paid from Reserve Component Appropriations.

<sup>3</sup> FY 2015 excludes Overseas Contingency Operations (OCO) funded activated Guard and Reserve members on active duty and OCO funded non-enduring strength of 12,285 for Army and 3,469 for the Marine Corps.

<sup>4</sup> FTE data not available for the Senate (positions filled were used).

improvement in learning and development opportunities and tools available to Federal managers and employees.

Also, as part of the Government Performance and Results Act implementation, agencies are aligning strategic human capital planning, with mission planning – specifically strategic and performance plans.

### ***Building a World-Class Federal Management Team Starting with Enhancements to the Senior Executive Service***

Drawing from leading practices, the Administration is committed to investing in our civil service leadership by expanding on the strong experience and skills base across the Federal Executive Corps. The SES hiring process relies extensively on lengthy written qualifications statements and a centralized qualifications certification process which can impact our ability to successfully attract a broad sector of top talent. In 2014, we will examine the SES hiring process to identify efficiencies and to ensure we have effective processes for hiring the best executive talent. We will also build a stronger SES onboarding program so our leaders can more effectively transition into organizations, hit the ground running, and understand the high standards that are expected of them from the beginning. The Management Agenda continues the Administration's commitment to expanding management development opportunities for SES and SES candidates by linking and coordinating existing cross-agency and cross-sector leadership initiatives. Also in 2014, and continuing in 2015, OPM will strengthen the SES-wide leadership and engagement training curriculum – including an emphasis on diversity and the changing needs of the 21st century workforce.

### ***Enabling Agencies to Hire the Best Talent from All Segments of Society***

The Administration is committed to working with labor groups to improve hiring outcomes by exploring flexible approaches to recruit and retain individuals with high-demand talents and skills. As part of the Management Agenda, the Administration will launch demonstration projects in 2015 to identify promising practices in recruiting, hiring, onboarding, and deploying talent across agencies. The goal of these projects will be reducing skills gaps, increasing diversity, and improving organizational outcomes.

### ***Family Friendly Workplace Policies***

A growing number of working Americans – both men and women – struggle to balance the needs of their families with the responsibilities of their jobs. Leading companies in the private sector are working to develop new tools to redesign their workplaces to provide greater flexibility to workers. The Federal government should be a model employer and has already aggressively increased the use of telework and other policies to promote family-friendly policies.

The 2012 EVS indicated that teleworkers (81 percent) are more likely than non-teleworkers (79 percent) to know what is expected of them on the job, more likely to feel empowered (50 percent versus 41 percent), and more likely (73 percent compared to 65 percent of non-teleworkers) to be satisfied with their jobs. Finally, employees who telework are more likely to want to stay with their agencies (71 percent compared to 66 percent of non-teleworkers) and to recommend their agencies to others (72 percent compared to 63 percent of non-teleworkers). As documented by OPM's 2013 report on the

**Table 8–4. PERSONNEL COMPENSATION AND BENEFITS**  
(In millions of dollars)

Description	2013 Actual	2014 Estimate	2015 Estimate	Change: 2014 to 2015	
				Dollars	Percent
<b>Civilian Personnel Costs:</b>					
<b>Executive Branch (excluding Postal Service):</b>					
Direct compensation .....	171,008	179,654	183,523	3,869	2.2%
Personnel Benefits .....	68,234	73,893	75,925	2,032	2.7%
Subtotal .....	239,242	253,547	259,448	5,901	2.3%
<b>Postal Service:</b>					
Direct compensation .....	35,711	34,631	34,261	–370	–1.1%
Personnel benefits .....	17,691	24,994	27,896	2,902	11.6%
Subtotal .....	53,402	59,625	62,157	2,532	4.2%
<b>Legislative Branch: <sup>1</sup></b>					
Direct compensation .....	2,017	2,045	2,105	60	2.9%
Personnel benefits .....	627	643	658	15	2.3%
Subtotal .....	2,644	2,688	2,763	75	2.8%
<b>Judicial Branch:</b>					
Direct compensation .....	3,070	3,257	3,367	110	3.4%
Personnel benefits .....	1,080	1,096	1,135	39	3.6%
Subtotal .....	4,150	4,353	4,502	149	3.4%
<b>Total, Civilian Personnel Costs .....</b>	<b>299,438</b>	<b>320,213</b>	<b>328,870</b>	<b>8,657</b>	<b>2.7%</b>
<b>Military personnel costs:</b>					
<b>Department of Defense</b>					
Direct compensation .....	98,927	98,283	93,250	–5,033	–5.1%
Personnel benefits .....	48,155	46,566	43,698	–2,868	–6.2%
Subtotal .....	147,082	144,849	136,948	–7,901	–5.5%
<b>All other executive branch, uniformed personnel:</b>					
Direct compensation .....	3,266	3,231	3,197	–34	–1.1%
Personnel benefits .....	729	676	640	–36	–5.3%
Subtotal .....	3,995	3,907	3,837	–70	–1.8%
Total, Military Personnel Costs <sup>2</sup> .....	151,077	148,756	140,785	–7,971	–5.4%
<b>Grand total, personnel costs .....</b>	<b>450,515</b>	<b>468,969</b>	<b>469,655</b>	<b>686</b>	<b>0.1%</b>
<b>ADDENDUM</b>					
<b>Former Civilian Personnel:</b>					
<b>Retired pay for former personnel</b>					
Government payment for Annuitants: .....	79,234	81,788	84,546	2,758	3.4%
Employee health benefits .....	10,964	11,071	11,459	388	3.5%
Employee life insurance .....	46	49	50	1	2.0%
<b>Former Military personnel:</b>					
Retired pay for former personnel .....	54,668	55,682	57,011	1,329	2.4%
Military annuitants health benefits .....	8,654	9,263	9,821	558	6.0%

<sup>1</sup> Excludes members and officers of the Senate.

<sup>2</sup> Amounts in this table for military compensation reflect direct pay and benefits for all service members, including active duty, guard, and reserve members.

status of telework, the percentage of eligible Federal employees who participated in routine telework grew to 21 percent as of September 2012, compared to 10 percent during calendar year 2009. The number of employees teleworking also continued to increase, from 168,558 in 2011 to 209,192 in 2012. Equally important, the number of employees deemed eligible to telework increased by nearly 50 percent from 2011 to 2012, from 684,589 employees to 1,020,034 employees. However, there is still more work to be done in breaking down barriers to the effective use of telework.

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.

### ***Closing Skills Gaps in the Workforce***

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 her of their progress, including by providing updated metrics that will be reported on [Performance.gov](http://Performance.gov).

OPM will continue to work with the 2012-2013 Cross Agency Priority Goal sub-goal leaders in this area to close skill gaps and implement strategies in other mission-critical occupations. In Cybersecurity, awareness has been expanded about Federal Cybersecurity work and job opportunities. During 2013, the community conducted outreach for Cybersecurity talent through a new venue that reached over 1,600 participants involved in U.S. Cyber Challenges and Competitions. In the STEM functional area, a specific Pathways Program was developed for attracting STEM applicants for the Presidential Management Fellows opportunity. The new PMF-STEM Pathways track is being piloted during FY14. The Acquisition area has begun to increase efficiencies in training, development, and management of the workforce by requiring civilian agency use of an integrated acquisition career management system. Interagency workgroups are exploring possible pilots to test special hiring and compensation authorities for several occupations, including Economist, STEM, and Cybersecurity. OPM is assisting the Auditor occupational area in studying what changes are needed to the classification and qualification requirements for the talent brought into that workforce.

Individual agencies are also identifying and targeting critical skills gaps as a priority, and are piloting innovative approaches to competency gap closure. OPM is helping agencies share promising practices and lessons learned from these pilot projects, and will drive replication of best practices upon completion of the pilots.

Successful skills gaps closure is particularly dependent on a strong HR workforce who can provide strategies, programs and tools that help occupational leaders design and implement skills gaps closure efforts. For this reason, OPM has been focusing heavily on this workforce and designated HR Skills Gaps as an Agency Priority Goal.

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 realizes savings through the sharing of resources (agencies no longer need to independently develop courses that already exist) 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. OPM set a Priority Goal to have 80% of the human resources workforce (GS-201s/203s) enrolled on HR University by September 30, 2014.

### ***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, and enhance institutional knowledge transfer. For example, OPM is developing a phased retirement program that provides employees who once had a financial incentive to retire fully, to work part time while mentoring and training new employees. 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.

### ***Informing Our Work with a Diversity of Experiences***

A rich diversity of experiences and talents inform the abilities of federal applicants and everyday work of federal employees. Opportunities exist both in employee hiring and throughout employment experiences to leverage this diversity.

In recent years, OPM has been focusing on improving the way agencies use federal applicant and applicant flow data to improve the hiring process. In 2014, OPM will increase the accessibility and use of this data by hiring managers, so they can determine whether outreach, recruitment, and hiring strategies have been successful in attracting and retaining a workforce that reflects the diversity of our country and the many talents of its people.

Leveraging the diversity of our workforce also requires that we measure and improve the extent to which diversity and inclusion are supported in work units. To that end, and mirroring the aforementioned efforts to measure and target improvements in employee engagement, OPM

developed a 20-question index of the EVS that represents each work unit's support of diversity and inclusion and is providing feedback to executive leadership, program managers, and supervisors on how well work units are leveraging the unique experiences, perspectives, and viewpoints of their employees to improve program delivery.

Importantly, the Budget does not just support increased availability of this data. Fostering inclusive work environments and realizing the full potential of our workforce's diversity requires agencies to employ effective management practices. To that end, OPM recently developed a set of change management tools to supplement the inclusion index. The index and tools, referred to jointly as the New Inclusion Quotient Plus, arm agencies with instruments and practices necessary to support diversity and inclusion more fully. In addition, OPM will continue to promote proven practices in using all workforce data to inform everyday support diversity and inclusion in the workplace.

### ***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 2015, Labor-Management Forums will continue to use metrics to track progress.

In recent Council meetings, representatives from both management and labor have presented on their successful efforts to improve employee engagement and satisfaction while at the same time improving performance and productivity at the U.S. Patent and Trademark Office (PTO). Labor representatives from the Patent Office Professional Association and the National Treasury Employees Union joined PTO management representatives in briefing the Council on their enormous successes using pre-decisional

involvement. PTO reorganized around line workers by involving labor representatives in the decision making process before management has determined how to proceed. As a result, PTO reduced the patent application backlog by 31% and the trademark application processing time from 13.4 months to 10 months (while applications continue to increase in number every year).

Through constant engagement with labor representatives, PTO's Global Satisfaction Index score increased from 56% to 82%, from 2006 to 2013. It also has improved in the Partnership for Public Service's Best Places to Work in the Federal Government rankings from #172 to #1 out of 300 agency subcomponents in that same time period. Since the EVS began to include an Engagement Index in 2010, that PTO's score in that area increased from 71% to 82%.

In another case, labor and management representatives at the Federal Aviation Administration (FAA) collaborated to successfully implement a new computer system (ERAM) that replaced a 40-year-old system used at air route traffic control centers nationwide. The representatives attributed the recent success of the project to the governance structure of the work groups which are co-chaired by labor and management. The work groups agree on recommendations and speak with "one voice" to the field. This structure improved overall buy-in of the new system and general workforce engagement which allowed for smoother transitions. The lessons learned with the ERAM project are now being leveraged on other FAA programs to seek similar successes.

The Council will continue to seek ways to spread these labor-management successes to other agencies in 2014 and 2015. By developing training and guidance using these best practices as examples, the Council will continue working to ensure that additional labor-management forums transition into effective partnerships with a focus on improving the productivity and effectiveness of the Federal Government.

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## BUDGET CONCEPTS AND BUDGET PROCESS

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## 9. 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 2015. (Fiscal year 2015 will begin on October 1, 2014, and end on September 30, 2015.) 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 2014, 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 2013, 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.

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. For various reasons, on occasion parts or all of the budget documents have been transmitted after the scheduled date. In some years, the late or pending enactment of appropriations acts, other spending legislation, and tax laws considered in the previous budget cycle have delayed preparation and transmittal of complete budgets. For this reason, President Reagan submitted his budget for 1988 forty-five days after the date specified in law. For the 2015 Budget, because of the 17-day shutdown in October and uncertainty over 2014 appropriations, which were completed in mid-January, OMB was unable to provide by the date specified in law the material normally contained in the President’s Budget.

### **Congressional Action<sup>1</sup>**

The Congress considers the President’s budget proposals and approves, modifies, or disapproves them. It can change funding levels, eliminate programs, or add programs not requested by the President. It can add or 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 appropriation 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. There are procedural hurdles associated with considering appropriations bills (so-called “discretionary” spending) that would breach or further breach an Appropriations subcommittee’s target. Similar procedural

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

hurdles exist for considering legislation that would cause the overall spending target for any such committee to be breached or further breached. The Budget Committees' reports may discuss assumptions about the level of funding for major programs. While these assumptions do not bind the other committees and subcommittees, they may influence their decisions.

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

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

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

first in the House and then in the Senate, the Congress sends it to the President for approval or veto.

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

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

The Congress also provides budget authority in laws other than appropriations acts. In fact, while annual appropriations acts fund the majority of Federal programs, they account for only about a third of the total spending in a typical year. Authorizing legislation controls the rest of the spending, which is commonly called "mandatory spending." A distinctive feature of these authorizing laws is that they provide agencies with the authority or requirement to spend money without first requiring the Appropriations Committees to enact funding. This category of spending includes interest the Government pays on the public debt and the spending of several major programs, such as Social Security, Medicare, Medicaid, unemployment insurance, and Federal employee retirement. This chapter discusses the control of budget authority and outlays in greater detail under "Budget Authority and Other Budgetary Resources, Obligations, and Outlays." Almost all taxes and most other receipts also result from authorizing laws. Article I, Section 7, of the Constitution provides that all bills for raising revenue shall originate in the House of Representatives. In the House, the Ways

### 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



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

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

Such a large and complicated bill would be difficult to enact under normal legislative procedures because it usually involves changes to tax rates or to popular social programs, generally to reduce projected deficits. The Senate considers such omnibus reconciliation acts under expedited procedures that limit total debate on the bill. To offset the procedural advantage gained by expedited procedures, the Senate places significant restrictions on the substantive content of the reconciliation measure itself, as well as on amendments to the measure. Any material in the bill that is extraneous or that contains changes to the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance programs is not in order under the Senate's expedited reconciliation procedures. Non-germane amendments are also prohibited. In addition, the Senate does not allow reconciliation bills as a whole to increase projected deficits or reduce projected surpluses. This Senate prohibition complements the Statutory Pay-As-You-Go Act of 2010, discussed below. The House does not allow reconciliation bills to increase mandatory spending in net, but does allow such bills to increase deficits by reducing revenues. See "Budget Enforcement" 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 Budget Control Act of 2011 (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 originally established by the BCA 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 the American Taxpayer

Relief Act of 2012 (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 Bipartisan Budget Act of 2013 (BBA) set new discretionary caps for 2014 at \$520.5 billion for the revised security category and \$491.8 billion for the revised nonsecurity category and for 2015 at \$521.3 billion for the revised security category and \$492.4 billion for the revised nonsecurity category. In addition, the BBA reaffirmed the defense and nondefense category limits for 2016 through 2021.

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 spe-

cial 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 discretionary caps, 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 seques-



tration order implementing across-the-board cuts to non-exempt 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](http://www.whitehouse.gov/omb/paygo_description).

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

The House, in contrast, imposes points of order on legislation increasing mandatory spending in net, whether or not those costs are offset by revenue increases, but the House rule does not constrain the size of tax cuts or require them to be offset. On January 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; however, ATRA postponed the reductions until March 1, 2013. On that date, the President issued the order to reduce budgetary resources for fiscal year 2013 as specified in the BBEDCA.<sup>2</sup> The sequestration order for mandatory programs for 2014 was released with the 2014 President's Budget and became effective on October 1, 2013.<sup>3</sup>

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.<sup>4</sup>
- 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 in ATRA 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

<sup>2</sup> 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.

<sup>3</sup> OMB's calculations of the percentage and dollar amount of the required reduction for each non-exempt budget account with mandatory spending and an explanation of the calculations can be found in the OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2014 and OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014 (April 10, 2013).

<sup>4</sup> 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.

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 and the sequestration order for 2014 was released with the 2014 President's Budget, as described above. The sequestration order for each of the fiscal years 2015 through 2021 is also required to be issued with the release of the President's Budget and goes into effect on the first day (October 1) of the fiscal year. The BBA extended the sequestration on mandatory spending to 2022 and 2023 at the rate required by the BCA for 2021.<sup>5</sup>
- The reduction for discretionary programs for 2013, achieved by a sequestration of non-exempt discretionary spending, became effective March 1, 2013, as described above. The reductions to the discretionary caps required for 2014 were made in the *OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2014*. The BBA included sufficient savings to replace \$44.8 billion of the discretionary spending reductions required in fiscal year 2014, and set new caps for fiscal year 2015, as described in the discretionary cap enforcement section above, and specified that the discretionary spending limits would not be reduced in the sequestration preview report for fiscal year 2015. These new caps are approximately \$18.5 billion more than CBO's estimate of the post-reduction discretionary spending limits in 2015. In both 2014 and 2015, the spending reduction replacement was split evenly between defense and non-defense programs. For fiscal years 2016 through 2021, the BCA continues to require the reduction of discretionary spending 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 issued with each President's Budget.

The BBA was an important first step toward replacing a portion of the Joint Committee reductions with sensible long-term reforms, including a number of reforms proposed in previous President's Budgets. The 2015 Budget builds upon that progress and includes a sepa-

<sup>5</sup> Public Law 113-82, commonly referred to as the Military Retired Pay Restoration Act and signed into law on February 15, 2014, extended the sequestration of mandatory spending into 2024. The estimates in the 2015 Budget do not reflect the effects of this Act due to the late date of enactment.

rate, fully paid-for Opportunity, Growth, and Security Initiative, split evenly between defense and non-defense, to make additional discretionary investments that promote growth and opportunity, and enhance national security. 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 2015 through 2023.

### 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 Federal Home Loan Banks, are not included in the on-budget or off-budget totals. Federal laws established these enterprises for public policy purposes, but they are privately owned and operated corporations. Nevertheless, because of their public charters, the budget discusses them and reports sum-

mary 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 10 of this volume, "Coverage of the Budget," provides more information on this subject.

### Functional Classification

The functional classification is used to organize 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 classification 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—enable the functional classification system to cover the entire 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).

**Table 9-1. TOTALS FOR THE BUDGET AND THE FEDERAL GOVERNMENT**

(In billions of dollars)

	2013 Actual	Estimate	
		2014	2015
<b>Budget authority</b>			
Unified .....	3,480	3,644	3,969
On-budget .....	2,841	2,925	3,207
Off-budget .....	639	719	762
<b>Receipts:</b>			
Unified .....	2,775	3,002	3,337
On-budget .....	2,102	2,269	2,580
Off-budget .....	673	732	758
<b>Outlays:</b>			
Unified .....	3,455	3,651	3,901
On-budget .....	2,821	2,939	3,143
Off-budget .....	634	711	758
<b>Deficit (-) / Surplus (+):</b>			
Unified .....	-680	-649	-564
On-budget .....	-719	-670	-564
Off-budget .....	39	21	*

\* \$500 million or less



- 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.

In consultation with Congress, the functional classification is adjusted from time to time as warranted. Detailed functional tables, which provide information on Government activities by function and subfunction, are available online at [www.budget.gov/budget/Analytical\\_Perspectives](http://www.budget.gov/budget/Analytical_Perspectives) and on the *Budget CD-ROM*.

### 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.budget.gov/budget/Analytical\\_Perspectives](http://www.budget.gov/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 26 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. However, the budget measures only costs, and the benefits with which these costs are compared,

based on policy makers' judgment, must be presented in supplementary materials. By these means, the budget allows the total cost of capital investment to be compared up front in a rough way with the total expected future net benefits. 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 18 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, budget 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 12 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 net 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 net 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 net 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 13, "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 2014 appropriations act extends the availability of unobligated budget authority that expired at the end of 2013, new budget authority would be recorded for 2014. This scorekeeping is used because a reappropriation has exactly the same effect as allowing the earlier appropriation to expire at the end of 2013 and enacting a new appropriation for 2014.

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.

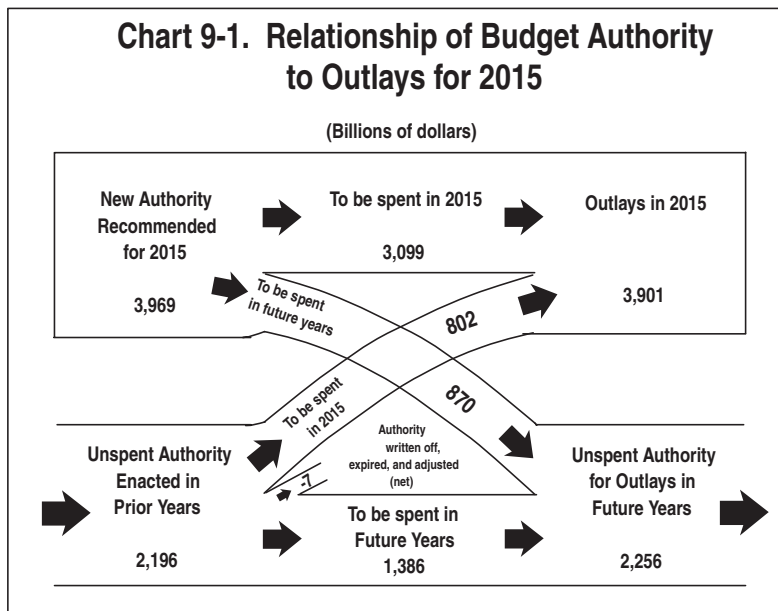
Agency, function and subfunction, and Government-wide outlay totals are stated net of offsetting collections and offsetting receipts for most budget presentations. (Offsetting receipts from a few sources do not offset any specific function, subfunction, or agency, as explained previously, but only offset 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 ac-





count 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 2015 will be obligated or spent in 2015. 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.

## 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.

As shown in the accompanying chart, \$3,099 billion of outlays in 2015 (79 percent of the outlay total) will be made from that year’s \$3,969 billion total of proposed new budget authority (a first-year spendout rate of 78 percent). Thus, the remaining \$802 billion of outlays in 2015 (21 percent of the outlay total) will be made from budget authority enacted in previous years. At the same time, \$870 billion of the new budget authority proposed for 2015 (22 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 33 percent of total outlays in 2013 (\$1,147 billion) are discretionary and the remaining 67 percent (\$2,307 billion in 2013) are mandatory spending and net interest. Such a large portion of total spending is mandatory because authorizing rather than appropriations legislation determines net interest (\$221 billion in 2013) and the spending for a few programs with large amounts of spending each year, such as Social Security (\$808 billion in 2013) and Medicare (\$492 billion in 2013).

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.

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.<sup>6</sup> (Some advocate for fair value treatment of loans and guarantees, which would discount cash flows using market rates. See Chapter 20 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*.

<sup>6</sup> Present value is a standard financial concept that considers 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.



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 guarantees are modified as described above. In that case, the budget records the subsidy cost or savings of the modification, as appropriate, and begins to account for the associated transactions 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 (NAB) 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 present value basis. Under this proposal, the budget would still reflect a present value cost to Government for the increase proposed in 2015, but for the 2009 increase and the proposed 2015 increase, transactions would no longer be treated on a FCRA basis. 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 Federal 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 transactions affecting borrowing from the public, or 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, the net effect may be significant.

### **Borrowing and Debt Repayment**

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

In 2013, the Government borrowed \$701 billion from the public, bringing debt held by the public to \$11,983 billion. This borrowing financed the \$680 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 4 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 simulta-

neously receives an equal, offsetting, interest-bearing, 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 monetary assets (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 to allow appropriators to have jurisdiction over changes to the IMF quota, 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 111–32, Title XIV, International Monetary Programs) and directed that the increases in this Act be scored under the requirements of the Federal Credit Reform Act of 1990, with an adjustment to the discount rate for market risk. Accordingly, for the quota and the NAB increases provided by the Supplemental Appropriations Act of 2009, the baseline reflects obligations and outlays for the estimated present value cost to Government as if these transactions were direct loans under credit reform, plus an additional risk premium. Like credit programs, under this treatment, the nominal cash flows between the U.S. Treasury and the IMF are treated as a means of financing (see “Credit Financing Accounts” earlier in this chapter), and 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 2015 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 SDR-denominated interest-bearing portion of the U.S. reserve position—the amount of the quota actually being used by the IMF for its lending programs. Changes in the value of the portion of the U.S. quota held at Treasury in a letter of credit are recorded as a change in obligations.

The 2015 Budget includes the Administration’s proposal to implement IMF reforms agreed to by the IMF membership in 2010, which would reduce the amount of the NAB facility provided in the 2009 Supplemental Appropriations Act, and increase the quota by an equal

amount. The Administration also proposes to reflect the costs of these transactions on a present value basis. Under the proposed treatment, the budget would still reflect obligations and outlays for the present value cost to Government, and costs would be the same as those estimated under FCRA. However, there would be no additional fair value market risk premium added to the cost. The change also provides Treasury flexibility to account for the nominal cash flows with the IMF in a manner more consistent with how the facilities operate. Increases to the quota and the NAB provided in the 2009 Supplemental Appropriations Act would be restated to reflect the same present value treatment, and recorded in the same accounts with changes resulting from the 2010 Agreement. The Budget assumes enactment of this proposal in 2015.

### **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 8 of this volume, "Improving the Federal Workforce," provides em-

ployment levels measured in full-time equivalents (FTE). Agency FTEs are the measure of total hours worked by an agency's Federal employees divided by the total number of one person's compensable work hours in a fiscal year.

## BASIS FOR BUDGET FIGURES

### Data for the Past Year

The past year column (2013) 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 27 of this volume, "Comparison of Actual to Estimated Totals," for a summary of these differences).

### Data for the Current Year

The current year column (2014) 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 (2015) 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 (2016 through 2024) 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.

### 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.

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 25 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.)

**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.

**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.

**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.

and indicates the President's priorities for the Federal Government.

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

**Budget 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. 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 (i.e. consolidated) totals for Federal activity.

**Budget year** refers to the fiscal year for which the budget is being considered, that is, with respect to a session of Congress, the fiscal year of the government that starts on October 1 of the calendar year in which that session of Congress begins.

**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 BBEDCA 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 BBEDCA 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 a discretionary appropriation 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 BBEDCA. 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 BBEDCA.

**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, separate financing accounts are required for direct loan cash flows and for loan guarantee cash flows. (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 chartered by the Federal Government for public policy purposes. They are classified as non-budgetary and not included in the Federal budget because they are private companies, and their securities are not backed by the full faith and credit of the Federal Government. However, the budget presents statements of financial condition for certain Government sponsored enterprises such as the Federal National Mortgage Association. (Cf. off-budget.)

**Intragovernmental fund** —see Revolving fund.

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

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

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

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

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

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

**Off-budget** refers to transactions of the Federal Government that would be treated as budgetary had the Congress not designated them by statute as “off-budget.” Currently, transactions of the Social Security trust funds and the Postal Service 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 a discretionary appropriation 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 BBEDCA. 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 BBEDCA 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 that remains available for obligation under law in unexpired accounts. The term "expired balances available for adjustment only" refers to unobligated amounts in expired accounts.

**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).

## 10. COVERAGE OF THE BUDGET

The budget serves as the central instrument of national policy making. It is the Government's financial plan for proposing and deciding the allocation of resources to serve national objectives. The budget provides information on the cost and scope of Federal activities to inform decisions and serves as a means to control the allocation of resources. When enacted, it establishes the level of public goods and services provided by the Government, reflecting the fiscal policy of the Government for promoting high employment, price stability, healthy growth of the national economy, and equilibrium in the balance of payments.

Federal Government activities that involve the direct and measurable allocation of Federal resources are characterized as "budgetary." The payments to and from the public resulting from these activities are included in the budget's measures of receipts and expenditures. In contrast, Federal activities that do not involve the direct and measurable allocation of Federal resources are characterized as "non-budgetary," and are not included in the budget's measures of receipts and expenditures. However, the budget documents include information on some non-budgetary activities, because they can be important instruments of Federal policy and because the data provide insight into the scope and nature of Federal activities. For example, data on the deposit funds owned by Native American Indian Tribes are not included in the budget because these funds are privately owned. The Government manages these funds only in a fiduciary capacity. The budget includes information on cashflows that are a means of financing Federal activity to provide insight into the transactions. However, means of financing amounts are not included in the estimates of receipts or expenditures to avoid double-counting—the costs of the underlying Federal activities are already reflected in the deficit.<sup>1</sup> Similarly, while budget totals of receipts and expenditures do not include non-Federal costs resulting from Federal regulation, the Office of Management and Budget (OMB) annually reports on the costs and benefits of Federal regulation to non-Federal entities.<sup>2</sup> The budget includes detailed information on budgetary activities and selected information on non-budgetary activities.

### Budgetary Activities

The Federal Government has used the unified budget concept as the foundation for its budgetary analysis and presentation since 1968, starting with the 1969 Budget.

<sup>1</sup> For more information on means of financing, please see the "Budget Deficit or Surplus and Means of Financing" section of chapter 9, "Budget Concepts," in this volume.

<sup>2</sup> For the 2013 draft of the "Report to Congress on the Benefits and Costs of Federal Regulation and Agency Compliance with the Unfunded Mandates Act," see [http://www.whitehouse.gov/sites/default/files/omb/inforeg/2013\\_cb/draft\\_2013\\_cost\\_benefit\\_report.pdf](http://www.whitehouse.gov/sites/default/files/omb/inforeg/2013_cb/draft_2013_cost_benefit_report.pdf).

This change implemented a recommendation made by the 1967 President's Commission on Budget Concepts (Commission) to include the financial transactions of all of the Federal Government's programs and agencies. For this reason, the budget includes information on the financial transactions of all 15 Executive departments, all independent agencies (from all three branches of Government), and all Government corporations. Government corporations are designated by statute.<sup>3</sup> Many, though not all, Government corporations are entities with business-type operations, and charge the public for services at prices intended to allow the entity to be self-sustaining. Often these entities are more independent in nature than other agencies, and have limited exemptions from certain Federal personnel requirements to allow for flexibility. Government corporations are distinct from Government-Sponsored Enterprises (GSEs), which, as discussed below, are private entities and therefore are classified as non-budgetary.

All accounts in Table 29-1, "Federal Budget by Agency and Account," in the supplemental materials to this volume are budgetary.<sup>4</sup> The 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. The Commission recommended that the budget be comprehensive, but it also recognized that proper budgetary classification would require weighing all relevant factors regarding establishment, ownership, and control of an entity. Generally, entities that are primarily owned

<sup>3</sup> Government corporations are Government entities that are defined as corporations pursuant to the Government Corporation Control Act, as amended (31 U.S.C. 9101), or elsewhere in law. Examples 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, the Tennessee Valley Authority, the African Development Foundation (22 U.S.C. 290h-6), the Inter-American Foundation (22 U.S.C. 290f), the Presidio Trust (16 U.S.C. 460bb note), and the Valles Caldera Trust (16 U.S.C. 698v-4).

<sup>4</sup> Table 29-1 can be found on the Budget CD-ROM and on the Internet at: [http://www.budget.gov/budget/analytical\\_perspectives](http://www.budget.gov/budget/analytical_perspectives).



**Table 10–1. COMPARISON OF TOTAL, ON-BUDGET, AND OFF-BUDGET TRANSACTIONS<sup>1</sup>**  
(In billions of dollars)

Fiscal Year	Receipts			Outlays			Surplus or deficit (–)		
	Total	On-budget	Off-budget	Total	On-budget	Off-budget	Total	On-budget	Off-budget
1980	517.1	403.9	113.2	590.9	477.0	113.9	–73.8	–73.1	–0.7
1981	599.3	469.1	130.2	678.2	543.0	135.3	–79.0	–73.9	–5.1
1982	617.8	474.3	143.5	745.7	594.9	150.9	–128.0	–120.6	–7.4
1983	600.6	453.2	147.3	808.4	660.9	147.4	–207.8	–207.7	–0.1
1984	666.4	500.4	166.1	851.8	685.6	166.2	–185.4	–185.3	–0.1
1985	734.0	547.9	186.2	946.3	769.4	176.9	–212.3	–221.5	9.2
1986	769.2	568.9	200.2	990.4	806.8	183.5	–221.2	–237.9	16.7
1987	854.3	640.9	213.4	1,004.0	809.2	194.8	–149.7	–168.4	18.6
1988	909.2	667.7	241.5	1,064.4	860.0	204.4	–155.2	–192.3	37.1
1989	991.1	727.4	263.7	1,143.7	932.8	210.9	–152.6	–205.4	52.8
1990	1,032.0	750.3	281.7	1,253.0	1,027.9	225.1	–221.0	–277.6	56.6
1991	1,055.0	761.1	293.9	1,324.2	1,082.5	241.7	–269.2	–321.4	52.2
1992	1,091.2	788.8	302.4	1,381.5	1,129.2	252.3	–290.3	–340.4	50.1
1993	1,154.3	842.4	311.9	1,409.4	1,142.8	266.6	–255.1	–300.4	45.3
1994	1,258.6	923.5	335.0	1,461.8	1,182.4	279.4	–203.2	–258.8	55.7
1995	1,351.8	1,000.7	351.1	1,515.7	1,227.1	288.7	–164.0	–226.4	62.4
1996	1,453.1	1,085.6	367.5	1,560.5	1,259.6	300.9	–107.4	–174.0	66.6
1997	1,579.2	1,187.2	392.0	1,601.1	1,290.5	310.6	–21.9	–103.2	81.4
1998	1,721.7	1,305.9	415.8	1,652.5	1,335.9	316.6	69.3	–29.9	99.2
1999	1,827.5	1,383.0	444.5	1,701.8	1,381.1	320.8	125.6	1.9	123.7
2000	2,025.2	1,544.6	480.6	1,789.0	1,458.2	330.8	236.2	86.4	149.8
2001	1,991.1	1,483.6	507.5	1,862.8	1,516.0	346.8	128.2	–32.4	160.7
2002	1,853.1	1,337.8	515.3	2,010.9	1,655.2	355.7	–157.8	–317.4	159.7
2003	1,782.3	1,258.5	523.8	2,159.9	1,796.9	363.0	–377.6	–538.4	160.8
2004	1,880.1	1,345.4	534.7	2,292.8	1,913.3	379.5	–412.7	–568.0	155.2
2005	2,153.6	1,576.1	577.5	2,472.0	2,069.7	402.2	–318.3	–493.6	175.3
2006	2,406.9	1,798.5	608.4	2,655.0	2,233.0	422.1	–248.2	–434.5	186.3
2007	2,568.0	1,932.9	635.1	2,728.7	2,275.0	453.6	–160.7	–342.2	181.5
2008	2,524.0	1,865.9	658.0	2,982.5	2,507.8	474.8	–458.6	–641.8	183.3
2009	2,105.0	1,451.0	654.0	3,517.7	3,000.7	517.0	–1,412.7	–1,549.7	137.0
2010	2,162.7	1,531.0	631.7	3,457.1	2,902.4	554.7	–1,294.4	–1,371.4	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	2,775.1	2,101.8	673.3	3,454.6	2,820.8	633.8	–679.5	–719.0	39.5
2014 estimate	3,001.7	2,269.4	732.3	3,650.5	2,939.3	711.2	–648.8	–669.9	21.1
2015 estimate	3,337.4	2,579.5	757.9	3,901.0	3,143.4	757.6	–563.6	–563.8	0.3
2016 estimate	3,568.0	2,756.5	811.5	4,099.1	3,291.5	807.6	–531.1	–535.1	3.9
2017 estimate	3,810.8	2,960.9	849.8	4,268.6	3,409.1	859.5	–457.8	–448.1	–9.7
2018 estimate	4,029.9	3,132.1	897.8	4,443.1	3,527.3	915.8	–413.3	–395.3	–18.0
2019 estimate	4,226.1	3,281.0	945.1	4,728.8	3,752.6	976.2	–502.7	–471.6	–31.1

<sup>1</sup> Off-budget transactions consist of the Social Security trust funds and the Postal Service fund.

and controlled by the Government are classified as budgetary. Determinations regarding the budgetary classification of entities are made by the OMB, the Congressional Budget Office (CBO), and the Budget Committees of the Congress.

**Off-budget Federal activities.**—Despite the 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 legal requirement.<sup>5</sup> Such off-budget Federal activities are

<sup>5</sup> While the term “off-budget” is sometimes used colloquially to mean non-budgetary, the term has a meaning distinct from non-budgetary. Off-budget activities would be considered budgetary, absent legal requirement to exclude these activities from the budget totals.

funded by the Government and administered according to Federal legal requirements, but their net 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, conceptually there is no difference between the two. Off-budget Federal activities reflect the same kinds of governmental roles as on-budget activities, and result in outlays and receipts. 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.

Off-budget Federal activities currently consist of the U.S. Postal Service and the two Social Security Trust Funds: Old-Age and Survivors Insurance and Disability Insurance. Social Security has been classified as off-budget since 1986, and the Postal Service has been classified as off-budget since 1990.<sup>6</sup> Other activities that had been designated in law as off-budget at various times before 1986 have been classified as on-budget by law since at least 1985. Activities that were off-budget at one time but that are now on-budget are classified as on-budget for all years. Table 10–1 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 to provide a consistent comparison over time.

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 2015, off-budget receipts are an estimated 22.7 percent of total receipts and off-budget outlays are a smaller, but still significant, percentage of total outlays at 19.4 percent. The estimated unified budget deficit in 2015 is \$563.6 billion—comprised of a \$563.8 billion on-budget deficit and a \$0.3 billion off-budget surplus. There is an off-budget surplus of \$21.1 billion projected for 2014, almost entirely due to Social Security.<sup>7</sup> Social Security had small deficits or surpluses from its inception through the early 1980s and large

and growing surpluses from the mid-1980s until 2008. The surplus fell sharply in 2009 because of the economic downturn, and Social Security is projected to remain in deficit after 2016 over the 10-year budget window. Without further legislative action, the trust funds will be depleted in 2033, according to the 2013 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.<sup>8</sup> Some of the Government’s major non-budgetary activities are discussed 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.” 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 administrative costs. Outlays equal to the subsidy cost are recorded in the budget up front as they are incurred—for example, when a loan is made or guaranteed. Credit program cash flows to and from the public underlying the subsidy cost are recorded in non-budgetary financing accounts, and the information is included in budget documents to provide insight into the program size and costs. For more information, the mechanisms of credit programs are discussed in more detail in Chapter 9 of this volume, “Budget Concepts,” and credit programs are discussed in more detail in Chapter 20 of this volume, “Credit and Insurance.”

**Deposit funds.**—Deposit funds are non-budgetary accounts that record amounts held by the Government temporarily until ownership is determined (such as earnest money paid by bidders for mineral leases) or held by the Government as an agent for others (such as State income taxes withheld from Federal employees’ salaries and not yet paid to the States). The largest deposit fund is the Government Securities Investment Fund, which is also known as the G-Fund. It is one of several investment funds managed by the Federal Retirement Thrift Investment Board, as an agent, for Federal employees who participate in the Government’s defined contribution retirement plan, the Thrift Savings Plan (which is similar

<sup>6</sup> See 42 U.S.C. 911, and 39 U.S.C. 2009a, respectively. 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 Insurance Trust Fund and the Federal Disability Insurance Trust Fund, both of which have mandatory and discretionary funding.

<sup>7</sup> The 2015 off-budget surplus reflects a \$0.7 billion deficit for Social Security, offset by a \$1.0 billion surplus for the Postal Service. The estimated 2016 off-budget surplus reflects a \$4.4 billion surplus for Social Security and a \$0.5 billion deficit for the Postal Service. The projected 2017 off-budget deficit reflects a \$10.1 billion deficit for Social Security and a \$0.4 billion surplus for the Postal Service.

<sup>8</sup> Tax expenditures, which are discussed in Chapter 14 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.

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.<sup>9</sup> For similar reasons, the budget excludes funds that are owned by Native American Indians but held and managed by the Government in a fiduciary capacity.

**Government-Sponsored Enterprises (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. 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 20 of this volume, "Credit and Insurance."

In September 2008, in response to the financial market crisis, the director of the Federal Housing Finance Agency (FHFA)<sup>10</sup> placed Fannie Mae and Freddie Mac into conservatorship for the purpose of preserving the assets and restoring the solvency of these two GSEs. As conservator, FHFA has broad authority to direct the operations of these GSEs. However, these GSEs remain private companies with Boards of Directors and management responsible for their day-to-day operations. This Budget continues to treat these two GSEs as non-budgetary private entities in conservatorship rather than as Government agencies. By contrast, CBO treats these GSEs as budgetary Federal agencies. Both treatments include budgetary and non-budgetary amounts.

All of the GSEs' transactions with the public are reflected as non-budgetary in the Budget, 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 Fannie Mae's and Freddie Mac's 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 Fannie Mae's and Freddie Mac's 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.<sup>11</sup>

FFRDCs are entities that conduct agency-specific research under contract or cooperative agreement. Most FFRDCs were created by and conduct research for the Departments of Defense and Energy, and most are administered by colleges, universities, or other non-profit entities. Examples of federally-funded research and development centers are the Center for Naval Analysis, Los Alamos National Laboratory, and the Jet Propulsion Laboratory.<sup>12</sup> Though FFRDCs are non-budgetary, Federal 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 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 fami-

<sup>9</sup> The administrative functions of the Federal Retirement Thrift Investment Board are carried out by Government employees and included in the budget totals.

<sup>10</sup> The Housing and Economic Recovery Act of 2008 (12 U.S.C. 4511), established the FHFA as the 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.

<sup>11</sup> Although most entities created by the Federal Government are budgetary, as discussed in this section, the GSEs and the Federal Reserve System were created by the Federal Government, but are classified as non-budgetary. In addition, Congress and the President have chartered, but not necessarily created, approximately 100 non-profit 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 non-profit 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 non-profits, including the Red Cross, would be budgetary, the non-profits themselves are classified as non-budgetary. On March 14, 2013, the Subcommittee on Immigration Policy and Enforcement of the Committee on the Judiciary in the U.S. House of Representatives adopted a policy prohibiting Congress from granting new Federal charters to private, non-profit organizations. This policy has been adopted by every subcommittee with jurisdiction over charters since the 101st Congress.

<sup>12</sup> The National Science Foundation maintains a list of FFRDCs at [www.nsf.gov/statistics/ffrdc](http://www.nsf.gov/statistics/ffrdc).



lies), 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. These entities include Gallaudet University, Howard University, the United States Enrichment Corporation, and the Universal Services Administrative Company, among others.<sup>13</sup> Most of these entities receive direct appropriations or other recurring payments from the Government, and the appropriations or other payments are budgetary and included in Table 29-1, 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.

**Regulation.**—Federal Government regulations often require the private sector or other levels of government 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.<sup>14</sup>

The estimated costs and benefits of Federal regulation have been published annually by OMB since 1997. In the most recent report, OMB indicates that the estimated annual benefits of Federal regulations it reviewed from October 1, 2001, to September 30, 2012, range from \$193 billion to \$800 billion, while the estimated annual costs range from \$57 billion to \$84 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.

**Monetary policy.**—As a fiscal policy tool, the budget is used by elected Government officials to promote economic growth and achieve other public policy objectives. Monetary policy is another tool that governments use to promote public policy objectives. In the United States, monetary policy is conducted by the Federal Reserve System, which is composed of a Board of Governors and 12 regional Federal Reserve Banks. The Federal Reserve

Act provides that the goal of monetary policy is to “maintain long-run growth of the monetary and credit aggregates commensurate with the economy’s long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”<sup>15</sup> The dual goals of full employment and price stability were reaffirmed by the Full Employment and Balanced Growth Act of 1978, also known as the Humphrey-Hawkins Act.<sup>16</sup>

By law, the Federal Reserve System is a self-financing entity that is independent of the Executive Branch and subject only to broad oversight by the Congress. Consistent with the recommendations of the Commission, the effects of monetary policy and the actions of the Federal Reserve System are non-budgetary, with exceptions for excess income generated through its operations. 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. The Federal Reserve System remits to Treasury any excess income over expenses annually. In 2013, Treasury recorded \$75.8 billion in receipts from the Federal Reserve System. In addition to remitting excess income to Treasury, the Federal Reserve is required by law to transfer a portion of its excess earnings to the Consumer Financial Protection Bureau (CFPB), an independent bureau of the Federal Reserve.<sup>17</sup>

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

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

<sup>13</sup> Under section 415(b) of the Amtrak Reform and Accountability Act of 1997, (49 U.S.C. 24304 and note), Amtrak was required to redeem all of its outstanding common stock. Once all outstanding common stock is redeemed, Amtrak will be wholly-owned by the Government and, at that point, its non-budgetary status may need to be reassessed.

<sup>14</sup> The most recent Regulatory Plan and introduction to the Unified Agenda issued by the General Services Administration’s Regulatory Information Service Center are available on-line at [www.reginfo.gov](http://www.reginfo.gov) and at [www.gpoaccess.gov](http://www.gpoaccess.gov).

<sup>15</sup> See 12 U.S.C. 225a.

<sup>16</sup> See 15 U.S.C. 3101 et seq.

<sup>17</sup> See section 1011 of Public Law 111-203 (12 U.S.C. 5491), (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.





## 11. 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 exceeds the \$1.2 trillion savings target for the Joint Select Committee on Deficit Reduction, repeals the Joint Committee reductions, and restores amounts that were reduced by the 2015 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; and changes to the budgetary treatment of the International Monetary Fund quota. 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.<sup>1</sup>

<sup>1</sup> 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 2015 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 to establish the Joint Select Committee for Deficit Reduction to recommend legislation to achieve at least \$1.2 trillion of deficit reduction over the period of fiscal years 2012 through 2021. The BCA included automatic reductions as a mechanism to compel the Congress to enact legislation to achieve this goal. On multiple occasions, the President has presented comprehensive plans to replace these reductions with a mix of specific spending cuts and revenue proposals. The failure of the Congress to enact such comprehensive deficit reduction legislation to achieve the \$1.2 trillion goal has already triggered a sequestration of discretionary and mandatory spending in 2013, reductions to the discretionary caps and a mandatory sequestration in 2014, and a mandatory sequestration in 2015 which is scheduled to take effect as of October 1 based on the order released with the 2015 Budget.

To date, legislation has been enacted to partially address the reductions required in each of these years. The American Taxpayer Relief Act of 2012 reduced the sequestration required of 2013 discretionary and manda-

tory spending by \$24 billion. In addition, the Bipartisan Budget Act of 2013 (BBA) decreased the reductions otherwise required to the 2014 discretionary caps by \$44.8 billion and set new discretionary caps in 2015 that are approximately \$18.5 billion more than CBO's estimate of the post-reduction discretionary spending limits in that year. The BBA also further specified that the discretionary spending limits would not be reduced in the sequestration preview report for fiscal year 2015. All of these revisions were paid for by enacting alternative deficit reduction.

In addition to the mandatory sequestration for 2015 noted above, damaging annual reductions of \$109 billion will continue to be required for each of fiscal years 2016 through 2021, unless the Congress enacts balanced deficit reduction legislation that replaces and repeals the Joint Committee reductions. Also, since the BBA extended the sequestration of mandatory spending into 2022 and 2023 at the percentage reduction that would apply for 2021, additional cuts will be required in those years. The reductions to discretionary spending for fiscal years 2016 through 2021 are to be implemented in the sequestration preview report for each year by reducing the discretionary caps. The reductions to mandatory programs are to be

implemented by a sequestration of non-exempt mandatory budgetary resources for fiscal years 2015 through 2023, which is triggered by the transmittal of the President's Budget and takes effect on the first day of the fiscal year.<sup>2</sup>

The President has emphasized 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 to replace these reductions. The BBA took an important first step by replacing a portion of the Joint Committee reductions with sensible long-term reforms, including a number of reforms proposed in previous President's Budgets. The 2015 Budget builds upon that progress by including a separate, fully paid-for Opportunity, Growth, and Security Initiative, split evenly between defense and non-defense, to make additional discretionary investments in economic growth and security. The President will work with the Congress to enact deficit reduction sufficient to replace and repeal the Joint Committee reductions.

### Program Integrity Funding

Critical programs such as Social Security, Medicare, and Medicaid, should be run efficiently and effectively. Still, the Government made an estimated \$106 billion in improper payments last year. Although this amount reflects an improvement in both the improper payment amount and the improper payment rate (which was 3.53 percent in 2013), 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 Improper Payments Elimination and Recovery Improvement Act of 2012 (P.L. 112-248), 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 admin-

<sup>2</sup> Public Law 113-82, commonly referred to as the Military Retired Pay Restoration Act and signed into law on February 15, 2014, extended the sequestration of mandatory spending into 2024. The estimates in the 2015 Budget do not reflect the effects of this Act due to the late date of enactment.

istrative 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 avoided benefit 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 \$6 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 always provided the full amount of program integrity funding authorized in BBEDCA, as amended. The Consolidated Appropriations Act, 2014 (P.L. 113-76) fully funded the adjustment to the discretionary spending limit for SSA for the first time since the cap adjustment was available in 2012, but the adjustment for HCFAC for the Medicare and Medicaid programs has never been appropriated. 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 2016 for SSA and 2015 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.

Because the SSA adjustment was fully funded for 2014 and therefore may again be funded in 2015, both the base SSA program integrity funding (\$273 million)

and the SSA cap adjustment (\$1,123 million) are proposed to be funded through discretionary appropriations in 2015. However, once that transition year has passed, to maximize the potential savings, the Budget proposes only mandatory funding for SSA program integrity starting in 2016. For HCFAC for 2015, the Budget proposes to provide the base funding that was provided in 2014 (\$294 million for HHS and DOJ) through discretionary appropriations, plus an additional \$25 million for the Centers for Medicare & Medicaid Services (CMS) to monitor and prevent fraud, waste, and abuse in the Health Insurance Marketplace. After 2015, no discretionary funding is being proposed for this purpose for HCFAC. In addition, the Budget proposes an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA, as amended, beginning in 2016 to offset the cost of shifting the base funding from discretionary to mandatory. This proposal, including the more stable mandatory program integrity funding, will produce new net deficit savings of almost \$37.4 billion over 10 years.

***Social Security Administration Continuing Disability Reviews and Redeterminations of Eligibility.***—For the Social Security Administration, the Budget's proposed \$1,396 million in discretionary funding in 2015 will allow SSA to conduct at least 888,000 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 the discretionary funding requested in 2015 and the increased mandatory funding requested in 2016 through 2024, SSA would recoup almost \$48.2 billion in gross savings in the DI and SSI programs, with additional savings after the 10-year period, according to estimates of SSA's Office of the Actuary. Taking into account the \$12.1 billion cost of the increased funding, this would produce new net deficit savings of \$34.9 billion in the 10-year window, and additional savings in the out-years. These costs and savings are reflected in Table 11-1. The cost of shifting the current SSA base funding of \$273 million from discretionary to mandatory in 2016 through 2024 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 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. However, the frequency of CDRs and redeterminations is constrained by the availability of funds to support these activities. As noted above, for 2014, the base amounts, as well as an additional \$924 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 2014 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 discretionary funding requested in 2015 and the increased mandatory funding requested in 2016 through 2024.

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 4 to 1. As in prior years, the ROI for CDRs is calculated based on the direct marginal costs of processing additional CDRs. In 2014, the ROI for CDRs is temporarily lower because the funding provided through the appropriations act was directed at covering additional overhead costs as well as the direct CDR activities. The Budget proposes to return to funding only the direct marginal costs of CDRs in 2015 and beyond. The savings from one year of program integrity activities are realized over multiple years because some CDRs find that beneficiaries have medically improved and are capable of working, which may mean that they are no longer eligible to receive DI or SSI benefits. Redeterminations focus on an individual's eligibility for the means-tested SSI program and generally result in a revision of the individual's benefit level. However, the schedule of savings resulting from redeterminations will be different for the base funding and the cap adjustment funding in 2015 or increased mandatory funding in 2016 through 2024. 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 reflects 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 \$378 million (in addition to the discretionary base funding of \$294 million and \$25 million for program integrity activities in the Health Insurance Marketplace) for HCFAC activities in 2015 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 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



**Table 11-1. PROPOSAL TO SHIFT TO MANDATORY FUNDING FOR ENACTED CAP ADJUSTMENTS, INCLUDING MANDATORY SAVINGS**  
(Outlays in millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015 - 2024 Total
<b>SSA Program Integrity</b>											
Discretionary Costs <sup>1</sup> .....	1,123										1,123
Mandatory Costs <sup>1</sup> .....		1,477	1,527	1,437	1,352	1,270	1,270	1,270	1,270	1,270	12,143
Mandatory Savings <sup>2</sup> .....	-214	-2,164	-3,436	-4,079	-4,939	-5,569	-6,159	-6,977	-7,221	-7,393	-48,151
Net Savings .....	909	-687	-1,909	-2,642	-3,587	-4,299	-4,889	-5,707	-5,951	-6,123	-34,885
<b>Health Care Fraud and Abuse Control Program</b>											
Mandatory Costs <sup>1</sup> .....	378	412	431	451	471	492	513	535	558	582	4,827
Mandatory Savings <sup>3</sup> .....	-552	-610	-646	-684	-725	-758	-791	-825	-861	-899	-7,351
Net Savings .....	-174	-198	-215	-233	-254	-266	-278	-290	-303	-317	-2,524

<sup>1</sup> The cost of shifting the current SSA and HCFAC base funding (\$273 million and \$294 million, respectively) from discretionary to mandatory is not reflected above in 2016 through 2024 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 2014, for both SSA and HCFAC, the base amounts were enacted in the annual appropriations bill and, for SSA, an additional \$924 million was provided as a discretionary cap adjustment pursuant to section 251(b)(2)(B) of BBEDCA. For 2015, the Budget continues to request the SSA and HCFAC base funding through discretionary appropriations. In addition, the Budget also requests that a \$1,123 million discretionary cap adjustment for SSA is funded through discretionary appropriations in 2015. 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.

<sup>2</sup> This is based on SSA's Office of the Actuary estimates of savings. In the first year, 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. The 10-year savings from the 2015 cap adjustment costs that will continue to be funded as discretionary are estimated to be \$8.6 billion.

<sup>3</sup> These savings are based on estimates from the HHS Office of the Actuary for return on investment (ROI) from program integrity activities.

Human Services Office of Inspector General, and DOJ. Over 2015 through 2024, as reflected in Table 11-1, this \$4,827 million increase in net HCFAC mandatory funding will generate approximately \$7,351 million in savings to Medicare and Medicaid, for new net deficit reduction of \$2,524 million over the 10-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 \$294 million from discretionary to mandatory in 2016 through 2024 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. A portion of the base amounts for 2014 was enacted in the annual appropriations bill. The mandatory savings from that partial base funding, assuming that amount is to continue in future years, are included in the BBEDCA baseline. Since the 2014 appropriations bill did not fully fund the base or the cap adjustment for 2014 for HCFAC, \$450 million in deficit savings that was assumed to result from the enactment of the cap adjustments in BBEDCA will not materialize.

**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 Alcohol and Tobacco Tax and Trade Bureau (TTB) for tax code enforcement and the Department of Labor (DOL) to reduce improper payments in the Unemployment Insurance (UI) program. As shown in Table 11-2, the proposed adjustments are estimated to result in more than \$53.1 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 1-2.

**Internal Revenue Service and Treasury's Alcohol and Tobacco 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 \$480 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 2015 in direct enforcement revenue. The IRS estimates that the proposed new 2015 enforcement initiatives will yield an additional \$370 million in revenue from the work done in 2015. Further, once the new staff are trained and become fully operational in 2017, the extra revenue brought in by the work done in each year will rise to more than \$2.1 billion, or roughly \$6 in additional revenue for every \$1 in IRS expenses. New investments are also proposed beyond 2015, with cap adjustments in fiscal years 2016 through 2019 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 2024 will generate \$52 billion in additional revenue over 10 years and will cost \$17.1 billion for an estimated net savings of \$34.9 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 an \$80 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. Research, including a random-assignment evaluation, shows that a combination of eligibility reviews and reemployment services reduces the time on UI, increases earnings, and reduces improper payments to claimants who are not eligible for benefits. Based on this research, the Budget proposes to expand the REA initiative to include reemployment services, which may include the development of reemployment and work search plans, provision of skills assessments, career counseling, job

matching and referrals, and referrals to training as appropriate. The focus will be on providing this assistance to the top quarter of UI claimants identified as most likely to exhaust their UI benefits as well as all newly separated veterans claiming unemployment compensation for ex-servicemembers. The proposed expansion to the base effort to \$133 million, if continued through 2024, would result in savings in UI benefit payments of an estimated \$3,738 million. These benefit savings would allow States to reduce their UI taxes by \$981 million (net of the income tax offset), reducing the burden on employers. 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 benefit savings from this initiative are short-term because the maximum UI benefit period is limited, typically 26 weeks for regular

**Table 11–2. PROPOSALS FOR DISCRETIONARY PROGRAM INTEGRITY BASE FUNDING AND CAP ADJUSTMENTS, INCLUDING MANDATORY AND RECEIPTS SAVINGS**  
(Budget authority in millions of dollars)

	2015 Proposed	2016 Proposed	2017 Proposed	2018 Proposed	2019 Proposed	2020 Proposed	2021 Proposed	2022 Proposed	2023 Proposed	2024 Proposed	2015– 2024 Total
<b>IRS Tax Enforcement</b>											
<b>Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:</b>											
Enforcement Base .....	9,445	9,745	10,038	10,341	10,652	10,972	11,303	11,641	11,992	12,353	
<b>Cap Adjustments:</b>											
BA .....	480	857	1,222	1,604	1,997	2,066	2,116	2,179	2,243	2,310	17,074
Outlays .....	451	834	1,200	1,581	1,973	2,062	2,113	2,175	2,239	2,306	16,935
<b>Receipt Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:<sup>1</sup></b>											
Enforcement Base <sup>2</sup> .....	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-550,000
Cap Adjustment <sup>3</sup> .....	-370	-1,265	-2,584	-3,978	-5,426	-6,620	-7,431	-7,850	-8,137	-8,343	-52,004
<b>Unemployment Insurance Improper Payments</b>											
<b>Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:</b>											
Enforcement Base .....	133	133	133	133	133	133	133	133	133	133	
<b>Cap Adjustments:</b>											
BA .....	25	30	35	40	45	50	55	60	65	70	475
Outlays .....	25	30	35	40	45	50	55	60	65	70	475
<b>Mandatory Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:<sup>4</sup></b>											
Enforcement Base .....	-146	-353	-363	-374	-385	-395	-411	-427	-437	-447	-3,738
Cap Adjustment .....	-27	-80	-96	-113	-130	-149	-170	-192	-213	-236	-1,406

<sup>1</sup> Savings for IRS are revenue increases rather than spending reductions. They are shown as negatives for consistency in presentation.

<sup>2</sup> No official estimate for FY 2015 enforcement revenue has been produced, so this figure is an approximation and included only for illustrative purposes.

<sup>3</sup> The Internal Revenue Service (IRS) cap adjustment funds cost increases for existing enforcement initiatives and activities and new initiatives. The IRS enforcement program helps maintain the more than \$2 trillion in taxes paid each year without direct enforcement measures. The cost increases will help maintain the base revenue while generating additional revenue through targeted program investments. The activities and new initiatives funded out of the cap adjustment will yield \$52 billion in savings over ten years. Aside from direct enforcement revenue, the deterrence impact of these activities suggests the potential for even greater savings.

<sup>4</sup> The maximum UI benefit period is typically 26 weeks unless temporary extended benefits programs are in effect. As a result, preventing an ineligible individual from collecting UI benefits would save at most a half year of benefits in the absence of extended benefits. The savings estimates are based on regular UI benefits and spread over two years, reflecting the fact that reemployment and eligibility assessments conducted late in the year affect individuals whose benefits would have continued into the subsequent fiscal year. As a result of the benefit savings, many States will be able to reduce their unemployment taxes. The estimated revenue loss from the enforcement base is \$981 million, net of the income tax offset. The estimated revenue loss from the cap adjustment is \$320 million, net of the offset.



State UI programs, although durations are currently longer in response to the elevated unemployment rate. The proposed cap adjustments would begin at \$25 million in 2015 and total \$475 million through 2024, providing total gross outlay savings estimated at \$1.406 billion. These outlay savings from the cap adjustments would result in some States reducing their UI taxes, which would result in an estimated revenue loss of \$320 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 declines, totals \$611 million.

**Partnership Fund for Program Integrity Innovation.**—Funded from fiscal year 2010 through 2013, the Partnership Fund 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.

Early pilots results include:

- The Department of Labor conducted a pilot simulation with three States to test how access to data from financial institutions could help to detect overpayments in the Unemployment Insurance program. For the 15-month period, the pilot analysis found approximately \$65 million in potential overpayments due to 27,562 potential instances of unreported earnings that the State may not have found otherwise using currently available data. DOL is now partnering with additional States to test the pilot approach in actual practice;
- CMS and States worked 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, finding that collaborative data analysis could help to identify potential fraud. While this approach holds promise, the pilot has not yet been able to quantify potential savings; and
- CMS, working with States, issued a series of challenges to produce a prototype shared services solution for States to verify Medicaid provider eligibility. The prototype solution is now being tested in a live environment by one State. CMS estimated the cost to procure the crowd-sourced solution as approximately one-fifth the cost of traditional procurement methods, exclusive of ongoing support costs.

**Mandatory Program Integrity Initiatives.**—Table 11-3 lays out the mandatory and receipt savings from other program integrity initiatives that are included in the 2015 Budget, beyond the expansion in resources resulting from the increases in administrative funding discussed above. These savings total almost \$8.4 billion over ten years. Almost 30 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 strengthens Medicaid and the Children's Health Insurance Program (CHIP) by providing tools to States, Territories, and the Federal Government to fight fraud, waste, and abuse. Together, the CMS program integrity authority would save approximately \$1.1 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 \$232 million in PAYGO savings over ten years and allow States to reduce their unemployment taxes by \$58 million:

- **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.
- **Cross-Match Prisoner Data to Reduce Improper Payments.**—The Budget proposes to expand State Unemployment Insurance agency use of the Social Security Administration's (SSA's) Prisoner Update Processing System (PUPS), which contains Federal,

State, and local prisoner data. Recent legislation has expanded 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 unemployment compensation.

**Improve Treasury Debt Collection.**—The Budget includes four 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 \$743 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 \$30 million over 10 years.

- **Increase delinquent Federal non-tax debt collections. Authorize administrative bank garnishment for non-tax debts of commercial entities.**—Allow Federal agencies to collect non-tax debt by garnishing the bank and other financial institution accounts of delinquent commercial debtors without a court order and after providing full administrative due process. The Budget proposes to direct the Secretary of the Treasury to issue government-wide regulations implementing the authority of bank garnishment for non-tax debts of commercial entities. Bank garnishment orders under this authority would be subject to Treasury’s rule (31 CFR 212) protecting exempt benefit payments from garnishment. To reach income of commercial entities and other non-wage income and funds available to commercial debtors owing delinquent non-tax obligations to the United States, this proposal would authorize agencies to issue garnishment orders to financial institutions without a court order. Agencies would be required to provide debtors with appropriate administrative due process and other protections to ensure that debtors have had the full opportunity to contest the debts and/or enter into repayment agreements to avoid issuance of an order. The Internal Revenue Service currently has similar authority to collect Federal tax debts. The Debt Collection Improvement Act of 1996 (DCIA) authorized Federal agencies to collect delinquent non-tax debt by garnishing the wages of debtors without the need to first obtain a court order. Since July 2001, the U.S. Department of the Treasury’s Bureau of the Fiscal Service has collected \$131.6 million in garnished wages (as of April 30, 2013) on behalf of Federal agencies. This proposal would result in estimated savings of \$320 million over 10 years in commercial debts.

**Improve Collection of Pension Information from States and Localities.**—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

**Table 11–3. MANDATORY AND RECEIPT SAVINGS FROM OTHER PROGRAM INTEGRITY INITIATIVES**  
(Receipts and outlays in millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	10-year total
<b>Department of Health and Human Services:</b>											
Cut Waste, Fraud, and Abuse in Medicare and Medicaid <sup>1</sup> .....	6	-43	-63	-72	-92	-91	-91	-100	-99	-99	-744
Cut Waste, Fraud, and Abuse in Medicare and Medicaid (non-PAYGO) <sup>1</sup> .....	-6	-15	-23	-34	-43	-43	-44	-45	-47	-48	-348
<b>Department of Labor:</b>											
Implement Unemployment Insurance Integrity .....	-5	-9	-14	-15	-15	-16	-16	-17	-18	-18	-143
Implement Unemployment Insurance Integrity (non-PAYGO receipt effect) .....				2	3	5	5	7	7	8	37
Cross-Match Prisoner Data for Improper Payments .....	-4	-8	-9	-9	-9	-9	-10	-10	-10	-11	-89
Cross-Match Prisoner Data for Improper Payments (non-PAYGO receipt effect) .....				1	2	2	3	4	4	5	21
<b>Department of the Treasury:</b>											
Increase levy authority for payments to Medicare providers with delinquent tax debt (receipt effect) .....	-50	-71	-74	-76	-76	-77	-78	-80	-80	-81	-743
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 .....	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-30
Increase delinquent Federal non-tax debt collection .....	-32	-32	-32	-32	-32	-32	-32	-32	-32	-32	-320
<b>Social Security Administration:</b>											
Improve Collection of Pension Information from States and Localities .....	70										70
Improve Collection of Pension Information from States and Localities (non-PAYGO) .....	-52	28	24	-307	-675	-907	-986	-935	-924	-905	-5,639
Reconcile OPM/SSA retroactive disability payments .....	6										6
<b>Office of Personnel Management:</b>											
Reconcile OPM/SSA retroactive disability payments .....			-38	-41	-41	-41	-41	-41	-41	-41	-325
<b>Total, Mandatory and Receipt Savings</b> .....	<b>-82</b>	<b>-165</b>	<b>-244</b>	<b>-598</b>	<b>-993</b>	<b>-1,224</b>	<b>-1,305</b>	<b>-1,264</b>	<b>-1,255</b>	<b>-1,237</b>	<b>-8,367</b>
<i>PAYGO Savings</i> .....	-24	-178	-245	-260	-280	-281	-283	-295	-295	-297	-2,438
<i>Non-PAYGO Savings</i> .....	-58	13	1	-338	-713	-943	-1,022	-969	-960	-940	-5,929

<sup>1</sup> Savings estimates may not include all interactions.

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 \$5.6 billion over 10 years, which would be scored as non-PAYGO savings because the program is off-budget.

**Coordination of Disability Benefit Payments between the Office of Personnel Management (OPM) and SSA through Automation.**— The Budget proposes legislation to provide SSA with authority to automate coordination of disability benefit payments with OPM, which would substantially reduce OPM overpayments. This proposal would result in PAYGO savings of \$325 million over 10 years. In addition, SSA is provided \$6 million in 2015 to administer the coordination effort.

**Other Program Integrity Initiatives.**

**Leveraging Technology to Reduce Improper Payments.**— Under this Administration, the Federal Government has focused on increased use of technology to address improper payments. 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 re-

quested, 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 helped to expand the number of databases and infrastructure of the “Do Not Pay” list, to procure the detection technology and hire staff to support an operations center to analyze fraud patterns utilizing public and private-sector information, and to 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 Improper Payments and Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. 112-248), he reinforced the Administration’s “Do Not Pay Initiative” already underway. Spearheaded by the Department of the Treasury, the Do Not Pay system contains an online portal that enables Federal Government officials to access information from



multiple data sources. In addition, the enactment of the Bipartisan Budget Act of 2013 (P.L. 113-67) expanded the Do Not Pay initiative to include the information provided to the Prisoner Updates Processing System (PUPS) to prevent improper payment of Federal funds to incarcerated individuals. 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. As of June 1, 2013, agencies have been checking all payments and awards through a Do Not Pay working system as appropriate.

***Use of the Death Master File to Prevent Federal Improper Payments.***—The Administration is continuing to pursue opportunities to improve information sharing by developing or enhancing policy guidance, ensuring privacy protection, and developing legislative proposals to leverage available information and technology in determining benefit eligibility and other opportunities to prevent improper payments. In particular, on August 16, 2013, OMB issued Memorandum M-13-20, Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative, which updated guidance for Federal agencies, and enabled Treasury to publish a System of Records Notification, in accordance with the Privacy Act of 1974, as amended, for the Do Not Pay system.

The Budget proposes to further reduce improper payments by improved sharing and use of death data by government agencies. The proposal provides the Treasury Do Not Pay system access to the Social Security Administration full Death Master File database, which includes any information received from a State or any other source on reports of the deceased to prevent, identify, or recover all improper payments.

***Social Security Workers' Compensation Enforcement Provision.***—The Budget repropose 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 and would reduce program overpayments and underpayments.

***Apply the Treasury Offset Program (TOP) to Retroactive Social Security Disability Insurance (DI) Payments.***—The Budget includes an administrative proposal to apply TOP to retroactive DI payments, consistent with existing offset rules. This action will provide increased debt collections while still providing beneficiaries with a base level of income support, generating savings assumed in the baseline of \$900 million over 10 years. Currently TOP is applied to ongoing DI monthly benefits but not to retroactive DI payments.

***Reduce Costs for States Collecting Delinquent Income Tax Obligations.***—Under current law, the

Bureau of the Fiscal Service may offset Federal tax refunds to collect delinquent State income tax obligations only after the State sends the delinquent debtor a notice by certified mail. The statutory notice requirements for Federal tax refund offset for all other types of debts, including Federal non-tax, child support, and State unemployment insurance compensation debts, are silent as to the notice delivery method. Federal tax refund offset regulations for all debts other than state income tax obligations require Federal and State creditor agencies to send notices by regular first class mail. Similarly, notice requirements for other debt collection actions, including administrative wage garnishment, do not require delivery by certified mail. This proposal would allow the Fiscal Service to amend its regulations to permit States to send notices for State income tax obligations by first class mail, saving States certified mail costs and standardizing notice procedures across debt types. While no Federal savings would be realized from this proposal, States would save an estimated \$143 million over 10 years.

***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 adjustment for disaster funding through 2024.

As required by law, OMB included in its Sequestration Update Report for FY 2014 a preview estimate of the 2014 adjustment for disaster relief. The ceiling for the disaster relief adjustment in 2014 was calculated to be \$12,143 million. Exactly \$5,626 million was included for 2014 for the Federal Emergency Management Agency's (FEMA's) Disaster Relief Fund (DRF) in the Consolidated Appropriations Act, 2014 (P.L. 113-76). OMB must include in its Sequestration Update Report for FY 2015 a preview estimate of the ceiling on the adjustment for disaster relief funding for fiscal year 2015. This estimate will contain an average funding calculation that incorporates seven years (2005 through 2011) using the definition of disaster relief from OMB's September 1, 2011 report and three years using the funding the Congress designated in 2012 through 2014 for disaster relief pursuant to BBEDCA, as amended, excluding the highest and lowest years. The amounts enacted as appropriations for disaster relief in 2014 are \$6,517 million below the preview adjustment estimate of \$12,143 million. If no further appropriations are enacted in 2014 that are designated as disaster relief, OMB will add the \$6,517 million underage to OMB's preview estimate of the 2015 adjustment in its August 2014 Sequestration Update Report for FY 2015.

At this time, the Administration is requesting \$6,593 million in funding in two accounts to be designated for disaster relief by the Congress: more than \$6.4 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 2015, and \$155 million in the Small

Business Administration's Disaster Loans Program Account for administrative expenses. For these two programs, the Budget requests funding for both known needs based on expected costs of prior declared disasters and the typical average expenditures in these programs. This is consistent with past practice of requesting and funding these as part of regular appropriations bills. Also consistent with past practice, the 2015 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 2014 supplemental appropriations (designated as either disaster relief or emergency requirements 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".

### **Proposed Adjustment to the Discretionary Spending Limits for Wildfire Suppression Operations at the Departments of Agriculture and the Interior**

On December 19, 2013, Senator Ron Wyden and Senator Mike Crapo introduced the Wildfire Disaster Funding Act of 2013 (S. 1875). On February 5, 2014 Representative Mike Simpson and Representative Kurt Schrader introduced a companion bill in the House (H.R. 3992), with Representative Peter Defazio and Representative Raul Labrador as cosponsors. This legislation amends section 251(b)(2) of BBEDCA to add an adjustment to the discretionary spending limits for wildfire suppression operations. The adjustment allows for an increase in the discretionary caps for each of fiscal years 2014 through 2021 of up to \$2.7 billion if appropriations bills provide funding for wildfire suppression operations at specified base levels. The \$2.7 billion permissible adjustment is a ceiling, rather than a target. It is intended to give flexibility to respond to severe, complex, and threatening fires or a severe fire season that is not captured by the historical averages. In addition, it does not increase overall discretionary spending, since it would reduce the ceiling for the existing disaster relief cap adjustment by an equivalent amount as is provided for wildfire suppression operations.

The base levels are defined in the legislation as 70 percent of the average costs for wildfire suppression operations over the previous 10 years. These base levels ensure that the cap adjustment would only be used for the most



severe fire activity since it is 1 percent of fires that cause 30 percent of costs. Only extreme fires that require emergency response or are near urban areas or activities during abnormally active fire seasons including large fires that require emergency response, which rightly should be considered disasters, would be permitted to be funded through the adjustment to the discretionary spending limits.

Wildfire suppression operations are defined by the legislation as the emergency and unpredictable aspects of wildland firefighting including support, response, and emergency stabilization activities, other emergency management activities, and funds necessary to repay any transfers needed for those costs. This means that related activities, such as fire preparedness, must continue to be funded from base appropriations and are not considered when determining if the cap adjustment is triggered.

As described above, the legislation does not allow for an increase in total discretionary spending. Rather, by its design, total funding for disasters is not expected to increase above currently estimated levels because the bill allocates funding for wildfire suppression operations from within the existing disaster relief funding cap adjustment described under the previous heading. Specifically, the ceiling for the disaster relief adjustment would be reduced by the amount provided for wildfire suppression operations under the cap adjustment for the preceding fiscal year.

The two introduced Wildfire Disaster Funding Acts attempt to create a more responsible way to budget for wildfire suppression operations that allows for improved agency planning and management. The reality is that the Government has historically - and will in the future - fully fund wildfire suppression operations. It is inefficient and ineffective to provide those resources on an ad hoc basis and to raid other critical land management operations to pay for suppression operation needs. The practice of doing so in prior years led to destabilizing transfers from other accounts, and ultimately to underinvesting in other areas that are critical to long-term forest health and resilience. That is why the Administration is including a wildfire suppression operations cap adjustment as a proposal in this Budget.

The Budget assumes that the cap adjustment will begin in 2015 and will remain in effect through 2024. The only significant departure from the two introduced Wildfire Disaster Funding Acts is that the Budget proposes to phase in the size of the cap adjustment, beginning with a maximum permissible adjustment of \$1.4 billion in 2015 that increases slowly to \$2.7 billion by 2021 and remains at that level thereafter. At this time, the Administration is requesting to fund only \$1.2 billion through the wildfire suppression operations cap adjustment in 2015 (\$954 million in the Department of Agriculture and \$240 million in the Department of the Interior). If the cap adjustment were to be enacted additional requests, in the form of amendments to the Budget, might be transmitted as additional information about the severity of the fire season becomes known.

## 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 upfront 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 \$28,839 million in advance appropriations for 2016 and freezes them at this level in subsequent years. (One exception is the elimination of 2017 through 2024 advances for the Department of Labor’s dislocated worker program, because the Budget proposes a New Career Pathways 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 for 2015, similar to the limits enacted as sections 112 and 115(c) of the Bipartisan Budget Act of 2013 (P.L. 113-67) for the Senate and the House, respectively. Those limits apply only to the accounts explicitly specified in a statement submitted to the Congressional Record by the Chairman of the Committee on the Budget in each House.

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 \$22,596 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 90 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. The Department of Veterans Affairs has included detailed information in its Congressional Budget Justifications about the overall 2016 VA medical care funding requirement.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2013 or for which the Budget requests advance appropriations for 2016 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 2015 Budget includes structural reforms to surface transportation programs that mirror the recommendation of the Fiscal Commission. These reforms help ensure that when crafting a surface transportation plan, the President and the Congress will work together to ensure that funding increases do not increase the deficit.

The Budget uses transition revenue from pro-growth business tax reform to offset the cost of President’s four-year surface transportation proposal beyond what the current funding mechanism can cover. Beyond the reauthorization window (2015-2018), the Budget assumes that spending returns to baseline levels based on what

was enacted in 2014, and a return to the structural deficit between baseline trust fund spending and baseline trust fund receipts. This reflects the assumption that while the Administration has identified a revenue source that will sustain baseline spending levels and programmatic increases proposed in the pending reauthorization, the offset does not offer a permanent solution. The proposal fills the gap between baseline receipts and baseline spending for the four-year period of the reauthorization, while also funding outlays associated with programmatic increases during the four-year reauthorization. Policy-makers will need to work together to develop other fiscally responsible solutions beyond the four-year reauthorization period.

The Budget also includes a surface transportation reauthorization proposal that would broaden the scope of programs included under the Trust Fund umbrella: the HTF is renamed the Transportation Trust Fund (TTF), and supports additional highway safety and transit programs, as well as passenger rail programs and multimodal programs administered by the Department of Transportation. The mechanics of the 2015 proposal are described in greater detail below. Generally speaking:

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

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

While the Administration envisions both types of committees playing important roles, the central innovation of the proposed scorekeeping regime is that it would require all stakeholders to identify offsets for new spending during the authorization process. A scorekeeping regime that closes loopholes in current practice and forecloses options

that are not fiscally responsible is necessary for budget discipline and to drive policy makers towards consensus.

The proposal for surface transportation and the corresponding structural changes differ from the proposal presented in the 2014 Budget in several substantive ways. First, whereas the 2014 Budget proposed budget year spending levels for highway, transit, and highway safety programs in line with the most recently enacted authorizing legislation (MAP-21), the 2015 Budget presents the Administration's proposal for a four-year \$302 billion reauthorization of transportation programs that would substantially increase average annual spending over the four years compared to MAP-21. The Budget separately requests a multi-sector infrastructure bank that is not incorporated into the surface transportation framework. Finally, as discussed above, the Administration proposes to pay for the reauthorization proposal by using transition revenue from pro-growth business tax reform.

As a matter of policy, the Administration believes that the proceeds from existing Highway Trust Fund excise taxes should be dedicated solely to the highway and transit accounts; no existing excise taxes would be diverted to rail or other activities. Rather, under the Administration's proposal, transition revenue from business tax reform would offset the General Fund transfers that have been used in recent years to compensate for the projected shortfall in the Highway and Mass Transit accounts, cover increased funding for highways and mass transit, and finance passenger rail and multimodal activities.

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

**Account-by-Account Budgetary Treatment.**—The Budget proposes the enactment of contract authority for the Transportation Trust Fund for each year, 2015-2018, totaling \$302 billion over four years. The contract authority is to be enacted by the reauthorization bill and, as under current law, will be classified as mandatory.

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

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



resource trajectory for highways, transit, passenger rail, and multimodal activities.

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

- For accounts that are presently classified as having discretionary budget authority and outlays, but that the Administration proposes to incorporate into the TTF (for example, the Federal Transit Administration's Capital Investment Grants account), the Budget includes separate schedules that:
  - Show baseline budget authority and outlays as discretionary, consistent with current classifications.
  - Reclassify baseline budget authority and outlays as mandatory in all years, including 2013 and 2014, for comparability purposes (i.e., to enable a comparison of funding levels across years in an account).
  - Show adjustments (subject to PAYGO) to the reclassified mandatory amounts so that the proposal properly accounts for requested program growth in the new trust fund accounts.
- For accounts that are presently funded from the HTF and that the Administration proposes to incorporate into the TTF (for example, Federal-Aid Highways), the Budget includes separate schedules that:
  - Show baseline levels of mandatory contract authority and discretionary outlays resulting from obligation limitations contained in appropriations acts. Since under current law MAP-21 will expire September 30, 2014, the contract authority is frozen in all years subsequent to that date, consistent with current scorekeeping conventions.
  - Reclassify discretionary outlays from obligation limitations as mandatory outlays from mandatory contract authority for the 2014 estimate and create a new baseline of contract authority that is equal to the previous inflated discretionary baseline for obligation limitations.
  - Reclassify 2013 enacted budget authority and outlays as mandatory for comparability purposes (i.e., to enable a comparison of funding levels across years in an account).
  - Show proposed mandatory spending above or below the baseline as PAYGO costs or savings.
- For proposed new accounts supported by the TTF (for example, the Federal Railroad Administration's Rail Service Improvement Program account), the Budget includes a schedule that includes new man-

datory contract authority and outlays requested to support those programs.

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

- Office of the Secretary, National Infrastructure Investments.
- Federal Railroad Administration (FRA): Operating Subsidy Grants to the National Railroad Passenger Corporation; Capital and Debt Service Grants to the National Railroad Passenger Corporation; Capital Assistance for High-Speed Rail Corridors.
- National Highway Traffic Safety Administration (NHTSA): Operations and Research.
- Federal Transit Administration (FTA): Administrative Expenses; Capital Investment Grants; Transit Research and Training; Public Transportation Emergency Relief.

Amounts in these accounts total \$4.1 billion in discretionary budget authority for 2014. The baseline levels for these amounts are what constitute the discretionary cap adjustment noted in the OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2015. Note that in a number of cases, activities captured in these accounts are requested under a new account in the Administration's reauthorization proposal. For example, activities under the two existing Amtrak accounts are requested as part of the Federal Railroad Administration's new Current Passenger Rail Service account. In those instances, the PAYGO impact of the Administration's reauthorization proposal must be calculated at the aggregate level rather than the individual account level (i.e., the change between the reclassified baseline amounts in the existing General Fund accounts and the proposed levels in the successor account).

**Outyear Assumptions.**—Beyond the reauthorization proposal, the Budget assumes that contract authority will return to baseline levels, as calculated from 2014, for 2019 and thereafter. This reflects that while the Administration has identified savings to offset the presently-pending reauthorization, policy-makers will need to develop alternative fiscally responsible solutions for 2019 and beyond.

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

- The Highway Account subsumes the highway and highway safety activities currently in the Highway Trust Fund plus the NHTSA Operations and Research account, currently a General Fund account.
- The Mass Transit Account subsumes the transit activities currently in the Highway Trust Fund plus four FTA accounts currently financed by the General Fund: Capital Investment Grants; Transit Research

and Training; Public Transportation Emergency Relief; and Administrative Expenses.

- The Rail Account focuses on developing high-performance 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 Multimodal Account includes a multimodal, competitive program that the Department currently operates: National Infrastructure Investments (TIGER) grants.

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

**Offsets.**—The 2015 Budget fully pays for the 2015-2018 reauthorization proposal by applying transition revenue from pro-growth business tax reform to cover outlays associated with: 1) new spending associated with the Administration’s four-year surface transportation reauthorization proposal; and 2) shortfalls between revenue and spending that exist under current law for the same time period. As discussed above, the Budget proposes to make surface transportation spending subject to PAYGO rules, and specific savings are identified to cover the PAYGO costs.

Because the Budget retains the Trust Fund concept, fully-offset transfers from the General Fund to the TTF are reflected to maintain TTF solvency through the reauthorization period and to cover outlays generated from the four-year proposal but projected to occur beyond the reauthorization period. Offsets from business tax reform are only used to cover the structural deficit for four years and all new outlays associated with the reauthorization pro-

posal 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 2014 and spending again outstrips revenue.

**Explanation of the Administration’s Proposal and PAYGO Treatment.**—Table 11-4 details the Administration’s surface transportation reauthorization proposal.

- Line one illustrates the proposed contract authority levels for accounts under the TTF, including accounts presently reflected as General Fund budget authority, HTF-funded accounts (hybrid treatment), and new activities. Line two illustrates outlay estimates associated with that contract authority, as well as prior-year outlays from the HTF.
- Line three illustrates the baseline level of budgetary resources for all activities proposed under the TTF (including enacted appropriations and programs authorized under MAP-21). For comparability, those budgetary resources that were previously classified as discretionary are displayed here as mandatory. Line four illustrates the outlay estimates associated with those budgetary resources, including prior year outlays from the HTF.
- Lines five and six calculate the mandatory budget authority and outlay changes—the increases over the baseline levels. As previously noted and indicated in this line, after this reauthorization period, spending falls back to baseline levels. Line six is the amount that would be subject to PAYGO.
- Line seven indicates the assumed deposits to the Transportation Trust Fund necessary to liquidate outlays. That figure is made up of two components: estimates associated with current law receipts (line eight)

**Table 11-4. FUNDING, SPENDING, REVENUES, AND DEPOSITS ASSOCIATED WITH THE TRANSPORTATION TRUST FUND**

(Dollars in billions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	4-year	10-year
1. Funding for the Transportation Trust Fund (Contract Authority) ...	74	75	76	78	61	62	63	64	65	67	302	684
2. Estimated outlays .....	59	66	70	73	72	68	67	66	66	66	268	674
3. Baseline funding (Contract Authority and Budget Authority) .....	56	57	58	59	61	62	63	64	65	67	231	612
4. Estimated baseline outlays* .....	55	57	58	59	60	61	62	63	64	65	229	603
5. Proposed funding increase .....	18	18	18	18	0	0	0	0	0	0	72	72
6. Estimated outlay increase .....	4	9	12	14	12	7	5	3	2	1	39	70
7. Deposits into the Transportation Trust Fund .....	76	76	77	77	40	41	41	41	41	41	306	551
8. Highway Trust Fund revenues (at current rates) .....	38	39	39	40	40	41	41	41	41	41	156	401
9. Corporate Tax Proposal Savings .....	38	38	38	38	.....	.....	.....	.....	.....	.....	150	150
10. Transportation Trust Fund annual cash flow (net) .....	17	10	6	4	(32)	(28)	(26)	(25)	(25)	(25)	37	(123)
11. Transportation Trust Fund end-of-year balances .....	17	27	33	37	5	(22)	(48)	(73)	(98)	(123)	114	(246)

\*Note that the FY15 proposal would incorporate into the Transportation Trust Fund all new spending from accounts that would previously have been considered discretionary (e.g. the Federal Transit Administration’s Capital Investment Grants account), and future outlays from these accounts will now be paid from the Transportation Trust Fund.



to the Highway Trust Fund and offset transfers needed to maintain Trust Fund solvency during the four-year reauthorization and cover outlays from this reauthorization that are expected to occur after 2018 (line nine).

- Line ten illustrates the net cash flow to the TTF assumed in each year (revenues minus outlays).
- Line eleven illustrates the notional cash balances of the TTF over the ten-year period. As mentioned above, offsets from transition revenue from business tax reform only cover the structural deficit for four years and new outlays associated with the reauthorization proposal; since the Administration's proposed offset is finite, after the reauthorization period spending levels drop back to baseline levels calculated from 2014 and structural deficits return.

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

First, congressional scorekeeping must accommodate the initial shift from discretionary to mandatory outlays. As illustrated by line four, the activities that the administration proposes to incorporate in the TTF as mandatory outlays would generate discretionary outlays under current law totaling an estimated \$229 billion over four years. If those outlays are reclassified, they should not be added to the PAYGO cost of any legislation by virtue of the fact that they are new to the mandatory side of the budget. Rather, the mandatory baseline should be adjusted to include those outlays that would occur under current law—as the 2015 Budget does—and calculate any changes from that baseline. Without this initial accommodation, scorekeeping rules would overstate the cost of legislation intended to reform the hybrid system.

Second, to reflect the true cost of fully funding the surface transportation program for the four-year reauthorization period, any offset should be required to cover: 1) the difference between current law revenues and baseline HTF outlays (\$63 billion, including a \$5 billion cash management cushion for the reauthorization period) to restore solvency to the existing HTF, 2) any reclassification of baseline activities currently financed by the General Fund (\$16 billion in the Administration's proposal, of which \$12 billion outlays over the first four years), and 3) all program increases relative to the baseline (\$72 billion). While PAYGO rules only require an offset to spending above the BBEDCA baseline, the Administration believes that for both scoring purposes and Trust Fund solvency the offset should cover both proposed spending increases and the gap between baseline spending and current law revenue. As discussed earlier, the outyears beyond the reauthorization, 2019-2024, reflect lower surface transportation spending at baseline levels calculated from 2014 to illustrate that after the current reauthorization, the structural deficit returns and the Transportation Trust Fund faces insolvency. As a matter of policy, the Administration believes that the spending levels under its

reauthorization proposal should be the starting point for subsequent authorizations, but policy makers will again have to confront the gap between spending and revenue.

### Pell Grants

The Pell Grant program includes features that make it unlike other discretionary programs. In recent years, the program's costs have risen significantly, 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.

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 2014-2015 is \$5,730, of which \$4,860 will be established in the annual appropriations act and the remaining \$870 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.<sup>3</sup>
- To prevent deliberate underfunding of Pell costs, in 2006 the congressional and Executive Branch score-

<sup>3</sup> This ability to "borrow" from a subsequent appropriation is unique to the Pell program. It comes about for two reasons. First, like many education programs, Pell is "forward-funded"—the budget authority enacted in the fall of one year is intended for the subsequent academic year, which begins in the following July. Second, even though the amount of funding is predicated on the expected cost of Pell during one academic year, the money is made legally available for the full 24-month period covering the current fiscal year and the subsequent fiscal year. This means that, if the funding for an academic year proves inadequate, the following year's appropriation will legally be available to cover the funding shortage for the first academic year. The 2015 appropriation, for instance, will support the 2015-2016 academic year beginning in July 2015 but will become available in October 2014 and can therefore help cover any shortages that may arise in funding for the 2014-2015 academic year.

**Table 11-5. EFFECT OF STUDENT AID PROPOSALS ON DISCRETIONARY PELL FUNDING NEEDS**

(Dollars in Billions)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
Full Funding, Discretionary Pell .....		21.3	27.8	27.9	28.2	28.7	29.0	29.3	29.6	29.9	30.2	
Mandatory Funding Previously Provided .....				(1.6)	(1.4)	(1.4)	(1.4)	(1.1)	(1.1)	(1.1)	(1.1)	
Discretionary Need .....	22.8	21.3	27.8	26.3	26.8	27.2	27.5	28.2	28.4	28.8	29.0	
Fund Pell at 2015 Full Funding Estimate .....	22.8	21.3	21.3	21.3	21.3	21.3	21.3	21.3	21.3	21.3	21.3	
Discretionary Funding Gap .....			(6.4)	(5.0)	(5.5)	(5.9)	(6.2)	(6.8)	(7.1)	(7.4)	(7.7)	(58.1)
Fund Pell at 2014 Enacted Level .....		1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	
Remaining Funding Gap .....		1.4	(5.0)	(3.6)	(4.0)	(4.5)	(4.7)	(5.4)	(5.6)	(6.0)	(6.3)	(43.6)
Carry Forward 2015 BA Request to Help Fund 2016 .....		(1.4)	1.4									
Remaining Funding Gap .....			(3.5)	(3.6)	(4.0)	(4.5)	(4.7)	(5.4)	(5.6)	(6.0)	(6.3)	(43.6)
Enact Changes to Reduce Pell Program Costs .....		(0.0)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Remaining Funding Gap .....		(0.0)	(3.4)	(3.4)	(3.9)	(4.4)	(4.6)	(5.3)	(5.5)	(5.9)	(6.2)	(42.6)
Proposed Mandatory Funding in the Budget .....			3.4	0.4			0.6	0.6	0.6	0.7	0.7	
Remaining Funding Gap .....		(0.0)	0.0	(3.0)	(3.9)	(4.4)	(4.0)	(4.7)	(4.9)	(5.2)	(5.5)	(35.5)

keepers 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 to fund the program well above the level that could have been provided by the regular discretionary appropriation. In 2016, those extra mandatory funds in large part run out, and the program faces a significant funding gap (see Table 11-4).

Administration policy is to fully fund the maximum award. The Budget provides sufficient resources to fully fund the 2015-2016 and 2016-2017 award years. The Budget provides \$22.8 billion in discretionary budget authority in 2015, the same level of discretionary budget

authority provided in 2014. Level-funding Pell in 2015 provides \$1.4 billion more than is needed to fully fund the program in the 2015-16 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 2016. Cutting the budget authority in Pell to only the level needed to fund the program in 2015 would have a doubly detrimental impact on the 2016 cliff; it would reduce the budget authority carried forward from 2015, 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 expanding and reforming the Perkins loan program, and by changes to Pell program rules to strengthen academic progress requirements to encourage students to complete their studies on time. The Pell program cost changes reduce future discretionary program costs by \$0.9 billion over 10 years. Combined, the total mandatory budget authority and outlay savings from these reforms amount to a \$6.6 billion, 10-year reduction. This savings allows \$7.1 billion in budget authority to be appropriated as part of proposed authorizing legislation, with outlays of \$6.6 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 2016-2017 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 \$3.5 billion in 2016 if Pell is funded in 2015 at the same level of discretionary budget authority provided in 2014). 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 2015 and instead waits until fiscal year 2016 to confront a 2016-2017 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 reductions in Pell Grants may be required in 2016. The Administration is therefore committed to working with the Congress to achieve two goals: first, enacting in fiscal year 2015 the changes needed to fully fund Pell through the 2016-2017 award year; and second, in the near term, 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

To implement the terms of a 2010 agreement reached by G-20 Leaders and the International Monetary Fund (IMF) membership, the Budget proposes an increase to the U.S. quota and an equivalent rollback in U.S. participation in the New Arrangements to Borrow (NAB), with no net change in overall U.S. financial participation in the IMF. As explained below, the budgetary treatment of the

U.S. participation in the IMF has changed over time to address jurisdictional and other political exigencies, most recently in 2009. The Administration would prefer to return to the pre-2009 budgetary treatment. However, recognizing the desire to show a financial cost for the IMF, as explained below, the Budget proposes to begin estimating the transactions on a present value basis.

**History of Budgetary Treatment.**—The United States participates in the 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 the amount of countries' international reserves counted towards the IMF's general resources and access to IMF financing. The United States also participates in the NAB, which is a standing arrangement among certain IMF members to supplement IMF quota resources if necessary 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. Because such transactions neither increase nor decrease the Government's assets or obligations, they were not recorded as budget authority or outlays in the Federal budget, a treatment that was affirmed by the President's Commission on Budget Concepts.<sup>4</sup>

As a result of a compromise reached in 1980 between the Administration and the Appropriations Committees in order to allow Appropriators to have jurisdiction over IMF quota increases, 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 exchanges of equivalent monetary assets.<sup>5</sup> The same scoring was applied to the NAB when it was established in 1998. To accommodate the relatively large and infrequent appropriations for these purposes, the budget process allowed for adjustments to the limits on discretionary spending equal to these appropriations. For example, OMB's final sequestration report for 1993 included a \$12.3 billion adjustment to the budget authority limit on discretionary international spending, which was a 57 percent increase to the \$21.5 billion limit.<sup>6</sup> An amount this large clearly

<sup>4</sup> Report of the President's Commission on Budget Concepts, October 1967, p. 31. The Report notes that the IMF "is more like a bank in which funds are deposited and from which funds in the form of needed foreign currencies can be withdrawn."

<sup>5</sup> However, the budget records actual interest earnings received 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.

<sup>6</sup> OMB Final Sequestration Report to the President and Congress for Fiscal Year 1993, Office of Management and Budget, October 23, 1992, p.3.



could not be accommodated within a limit on appropriations for annually-recurring expenses.

This scoring agreement remained in place until 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, with no impact on budget authority or outlays. The Congress did not accept the proposed scoring change. Instead, the Supplemental Appropriations Act of 2009 (Public Law 111-32), the Act directed that the 2009 appropriation to increase the U.S. participation in the IMF be scored in accordance with the Federal Credit Reform Act of 1990 (FCRA), including an additional adjustment to the discount rate for market risk.<sup>7</sup>

Given that the 2015 proposal rolls back part of the 2009 appropriation, it is understandable that the scoring might entail estimating subsidy costs. However, the application of FCRA with a market risk adjustment to the quota appropriation is not the best method for measuring cost. 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. Since its inception nearly seventy years ago, the IMF has never defaulted on any U.S. reserve claims on the IMF, even after the worst financial crisis since the Great Depression. 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 exceptionally strong balance sheet with reserves of \$17 billion and 90 million ounces of gold worth more than \$115 billion at market prices (as of February 10, 2014). In addition, the United States earns interest on its reserve position in the IMF.<sup>8</sup>

For all of these reasons, the risk of loss—and consequently the FCRA cost to Government—is negligible. Treating the U.S. quota or participation in the NAB as a loan is not likely to lead to better decisions by the President and Congress about the U.S. participation in the IMF or by program officials who manage the U.S. participation. Instead, FCRA imposes a number of operational requirements that are appropriate for managing a

loan portfolio but have little relevance to the IMF quota, such as treating each cash deposit into the IMF as a separate risk category that must be estimated and tracked in perpetuity as long as the U.S. maintains its membership in the IMF.

Under FCRA, the cost of a credit program equals the present value cost to Government—setting loans and loan guarantees on a comparable basis to each other and other forms of spending, and thereby improving the allocation of resources. In contrast, fair value cost estimates reflect market pricing and include costs that are not relevant to taxpayers—overstating the cost to Government and introducing a bias relative to other forms of Federal spending. Beyond conceptual concerns, there are practical ones that call into question the treatment's usefulness in decision making. Estimating the adjustment to the interest rate requires making assumptions about how the market might price different characteristics. The fair value estimate is particularly distorting for IMF transactions, as there is no private market equivalent to inform or validate such adjustments—introducing more noise than valuable information to inform allocation decisions.

**Proposed Budgetary Treatment.**—The 2014 Budget proposed to return to the pre-2009 scoring arrangement, with budget authority reflecting the dollar amount of the change in the size of the U.S. quota to the IMF authorized by the Congress and zero outlays, which recognized that the transaction is an exchange of equivalent monetary assets. Recognizing the connection between the 2010 agreement and the FY 2009 Supplemental Appropriations Act and the desire to show budget authority and outlay costs relative to the scoring of that Act, the 2015 Budget proposes to estimate costs on a present value basis, using Treasury rates to discount the cash flows. This will result in the restatement of the transactions from the FY 2009 supplemental on this basis. The methods for estimating present value would be similar to the methods used under FCRA, but FCRA requirements for program and financing accounts, cohort-accounting, and reestimates would not apply. Under this proposal, the Budget would record budget authority and outlays equal to the estimated present value in the year that the U.S. contribution is enacted. Cash deposits into the IMF account at the Federal Reserve Bank of New York would be treated as a means of financing, similar to the treatment of other monetary assets. Interest earnings and realized gains and losses due to currency fluctuations would continue to be recorded in the budget on a cash basis, as they are for quota increases authorized prior to 2009. Revisions to the U.S. position at the NAB would receive the same treatment.

<sup>7</sup> The fair value adjustment to the discount rate for market risks is intended to capture private sector pricing for comparable instruments.

<sup>8</sup> When a quota increase occurs, 75 percent is held in a Department of Treasury letter of credit (LOC) and the remaining 25 percent is deposited with the IMF in any combination of yen, euros, British pounds, U.S. dollars, or SDRs. The IMF credits the U.S. reserve tranche with an equivalent amount of SDRs. Funds held in the reserve tranche, which are part of the U.S. international reserves, earn interest paid to Treasury. The amount held in the reserve tranche relative to the LOC changes over time, rising as the IMF draws upon the U.S. quota temporarily for loans to other IMF members and falling as the IMF returns the funds.



## II. STATUTORY PAYGO

The Statutory Pay-As-You-Go Act of 2010 (PAYGO, or “the Act”) was enacted on February 12, 2010. The Act 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.<sup>9</sup>

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](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. As originally in force, PAYGO also provided exemptions for the costs of extending certain policies that were already in place but that were scheduled to expire, such as the costs of extending tax cuts enacted in 2001 and 2003 and the costs of extending relief from scheduled reductions in Medicare physician payments. The authority for these exemptions, known as “current policy adjustments,” expired as of December 31, 2011.

In addition to the exemptions in the PAYGO Act itself, in the last three sessions of Congress six laws affecting mandatory revenues or receipts have included provisions that directed that those laws be held off of the PAYGO scorecard. In the most recent Congressional session, for example, two pieces of legislation were enacted with such provisions: the Bipartisan Student Loan Certainty Act of 2013 (Public Law 113-28), and the Bipartisan Budget Act of 2013 and Pathway for SGR Reform Act of 2013 (Public Law 113-67).

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 non-exempt 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 Security

Income (SSI).<sup>10</sup> 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.

As was the case during 1990s PAYGO, sequestration has not been required during the four 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. In the most recent session, enacted legislation added net costs of \$25 million in each year of the 5-year scorecard and \$7 million in each year of the 10-year scorecard. However, balances of net savings from prior sessions of Congress were more than sufficient to offset these costs in the budget year column (2014) of each scorecard, so no sequestration was required. As of the end of the most recent session, both scorecards showed net savings in the 2015 column but the 5-year scorecard showed net costs of \$1.0 billion in the 2016 column. Absent legislation to address these net costs, a PAYGO sequestration order would be required after the end of the 2015 Congressional session.<sup>11</sup>

### Administrative PAYGO

The Administration continues to review potential administrative actions by Executive Branch agencies affecting entitlement programs, as stated in a memorandum issued on May 23, 2005, by the Director of the Office of Management and Budget. This effectively establishes a PAYGO requirement for administrative actions involving mandatory spending programs. Exceptions to this requirement are only provided in extraordinary or compelling circumstances.<sup>12</sup>

<sup>10</sup> Although many programs are exempt from sequestration, those programs are rarely exempt from PAYGO. For example, a bill to increase veterans’ disability benefits or Medicaid benefits must be offset, even though a sequestration, if it is required, will not reduce those benefits.

<sup>11</sup> OMB’s annual PAYGO reports and other explanatory material about the PAYGO Act are available at [www.whitehouse.gov/omb/paygo\\_default](http://www.whitehouse.gov/omb/paygo_default).

<sup>12</sup> For a review of the application of Administrative PAYGO, see USDA’s Application of Administrative PAYGO to Its Mandatory Spending Programs, GAO, October 31, 2011, GAO-11-921R.

<sup>9</sup> Mandatory spending is termed direct spending in the PAYGO Act. The term mandatory encompasses entitlement programs, e.g., Medicare and Medicaid, and any funding not controlled by annual appropriations bills, such as the automatic availability of immigration examination fees to the Department of Homeland Security.

### 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 surface transportation and 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 25, “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.<sup>13</sup>

**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 individuals and families under the American Recovery and Reinvestment Act of 2009 (ARRA), which were extended

<sup>13</sup> The PAYGO Act originally provided for “current policy adjustments” that exempted the extension of certain tax and mandatory policies from being counted on the PAYGO scorecard. These adjustments applied only for legislation enacted through December 31, 2011, and are no longer in force.

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 2014 as disaster relief funding.

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 more than \$5.6 billion in the BBEDCA-designated disasters in 2014, the Budget is specifically requesting almost \$6.6 billion in 2015 for major disasters, and major natural or man-made disasters may occur in the near future and 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 2014 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 an-

nual 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, and defaulted on its \$5.6 billion payment due September 30, 2013. While the BBEDCA baseline shows USPS making the payments due in 2014, 2015, and 2016 as required, the adjusted baseline only reflects a portion of these 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**

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.

**Nuclear Waste Fund Settlements and the Judgment Fund Baseline.**—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 fiscal year 2014 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 now 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.

**Nuclear Waste Fee Collections.**—To satisfy a U.S. Court of Appeals mandate in *National Association of Regulatory Utility Commissioners v. United States Department of Energy*, the Secretary of Energy submit-



ted a proposal to the Congress in January 2014 to adjust the Nuclear Waste Fund fee to zero, which if implemented would result in a loss of approximately \$750 million in annual receipts. The court-ordered proposal submitted by the Department of Energy was not the result of and was not consistent with the determination the Secretary is required to make pursuant to the Nuclear Waste Policy Act (NWPA), as amended, 42 U.S.C. 10101 et seq, regarding the adequacy of the fee. The Secretary of Energy has not determined that the fees being collected are in excess of those required to offset the costs of the nuclear waste management and disposal program, nor has the Secretary determined that collecting no fee will “insure full cost recovery.” The Department of Justice is seeking a rehearing en banc in *National Association of Regulatory Utility Commissioners v. United States Department of Energy*. Consequently, both the BBEDCA and adjusted baselines currently assume that the fee will continue to be collected.

### **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 20, “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 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. Under FCRA, the costs of loans and guarantees take into account all of the cash flows associated with the credit instrument, and the Government’s cost of financing these cashflows by discounting using the Treasury rate.

In recent years, some analysts 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 for credit programs. 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 20, “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, net of the Government’s expected losses on the loan. 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. 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 also better indicate the effect of the Federal Government on the financial markets. For further discussion of debt net of financial assets, see Chapter 4, “Federal Borrowing and Debt.”





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## FEDERAL RECEIPTS

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## 12. GOVERNMENTAL RECEIPTS

Since taking office, President Obama has signed several major tax bills designed to jumpstart the economy and provide tax relief, starting with the American Recovery and Reinvestment Act of 2009 (ARRA) and culminating with the American Taxpayer Relief Act of 2012 (ATRA), which passed with bipartisan support on January 1, 2013.

The Administration believes that more needs to be done to grow the economy and create jobs and supports tax reform as a critical step to rebuilding the economy to be stronger and more stable than in the past.

As a first step toward balanced deficit reduction and tax reform, the President proposes that the Congress enact two measures that would raise \$651 billion in receipts by broadening the tax base and reducing tax benefits for higher-income taxpayers. The Budget also includes

proposals to support and reward work by expanding the Earned Income Tax Credit (EITC) for workers without qualifying children and to help families save for retirement and pay for college and child care, all paid for by tax loophole closers and other measures to broaden the tax base. In addition, consistent with the President's 2012 Framework for Business Tax Reform, the Budget includes proposals to broaden the business tax base, strengthen incentives for research and clean energy, and reform the international tax system.

Beyond these measures, the President is committed to working with the 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 12-1. RECEIPTS BY SOURCE—SUMMARY**  
(In billions of dollars)

	2013 Actual	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Individual income taxes .....	1,316.4	1,386.1	1,533.9	1,647.8	1,780.7	1,920.1	2,047.1	2,178.5	2,314.1	2,450.7	2,591.5	2,733.1
Corporation income taxes .....	273.5	332.7	449.0	501.7	528.0	539.9	514.4	526.6	541.9	557.4	571.4	591.9
Social insurance and retirement receipts .....	947.8	1,021.1	1,055.7	1,127.3	1,193.8	1,255.7	1,313.7	1,372.1	1,445.1	1,515.4	1,582.6	1,653.9
(On-budget) .....	(274.5)	(288.8)	(297.9)	(315.8)	(344.0)	(357.9)	(368.6)	(384.7)	(403.2)	(421.4)	(439.9)	(458.9)
(Off-budget) .....	(673.3)	(732.3)	(757.9)	(811.5)	(849.8)	(897.8)	(945.1)	(987.4)	(1,041.9)	(1,094.0)	(1,142.7)	(1,195.0)
Excise taxes .....	84.0	93.5	110.5	115.4	118.9	122.1	126.7	130.3	135.1	140.3	146.4	153.6
Estate and gift taxes .....	18.9	15.7	17.5	19.6	21.2	22.8	39.4	42.3	45.8	49.3	53.3	56.7
Customs duties .....	31.8	35.0	37.0	40.7	44.3	47.7	50.9	54.2	57.7	61.3	65.1	69.5
Miscellaneous receipts .....	102.6	117.6	131.7	103.6	95.9	82.6	88.9	101.2	111.2	116.0	124.9	132.6
Allowance for immigration reform .....	.....	.....	2.0	12.0	28.0	39.0	45.0	47.0	55.0	64.0	77.0	87.0
<b>Total, receipts .....</b>	<b>2,775.1</b>	<b>3,001.7</b>	<b>3,337.4</b>	<b>3,568.0</b>	<b>3,810.8</b>	<b>4,029.9</b>	<b>4,226.1</b>	<b>4,452.3</b>	<b>4,705.7</b>	<b>4,954.3</b>	<b>5,212.1</b>	<b>5,478.2</b>
(On-budget) .....	(2,101.8)	(2,269.4)	(2,579.5)	(2,756.5)	(2,960.9)	(3,132.1)	(3,281.0)	(3,464.9)	(3,663.8)	(3,860.3)	(4,069.4)	(4,283.1)
(Off-budget) .....	(673.3)	(732.3)	(757.9)	(811.5)	(849.8)	(897.8)	(945.1)	(987.4)	(1,041.9)	(1,094.0)	(1,142.7)	(1,195.0)
Total receipts as a percentage of GDP .....	16.7	17.3	18.3	18.6	18.9	19.0	19.0	19.2	19.4	19.6	19.8	19.9

### 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 \$3,001.7 billion in 2014, an increase of \$226.6 billion or 8.2 percent from 2013. The

estimated increase in 2014 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 2014 receipts. Receipts in 2014 are estimated to be 17.3 percent of Gross Domestic Product (GDP), which is higher than in 2013, when receipts were 16.7 percent of GDP.



Receipts are estimated to rise to \$3,337.4 billion in 2015, an increase of \$335.7 billion or 11.2 percent relative to 2014. Receipts are projected to grow at an average annual rate of 6.1 percent between 2015 and 2019, rising to \$4,226.1 billion. Receipts are projected to rise to \$5,478.2 billion in 2024, growing at an average annual rate of 5.3

percent between 2019 and 2024. 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 17.3 percent in 2014 to 18.3 percent in 2015, and to rise to 19.9 percent in 2024.

### BIPARTISAN BUDGET ACT OF 2013 AND PATHWAY FOR SGR REFORM ACT OF 2013 (PUBLIC LAW 113-67)

This Act, which was signed into law by President Obama on December 26, 2013, was the only major legislation affecting receipts that was enacted since transmittal of the Fiscal Year 2014 Budget to the Congress on April 10, 2013. The provisions of this Act that affect receipts are described below.

**Increase the contributions of new employees to certain Federal defined benefit retirement plans.**—For most individuals who join the Federal workforce after December 31, 2013, this Act increases employee contributions to the Federal Employee Retirement System and to the Foreign Service Pension System by 1.3 percentage points of pay. Pension benefits for such employees are unchanged.

**Require States to use the Treasury Offset Program (TOP) to recover overpayments of unemployment compensation.**—This Act requires States to use TOP to recover overpayments of unemployment compensation from claimants' tax refunds when such overpayments remain uncollected as of the date that is one year after the debt was finally determined to be due and collected.

**Restrict access to the Death Master File (DMF).**—The public DMF, which is available through the Department of Commerce (DOC) for a fee, 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 have used the DMF for illegitimate purposes, including identity theft and the filing of fraudulent tax returns. This Act strengthens safeguards against identity theft and fraud by requiring that the DOC not disclose information contained in the DMF with respect to a deceased individual during the three-year period beginning on the date of the individual's death, unless the person requesting access to the information has been certified (under a process established by the Secretary of Commerce) to have a legitimate need to access the file immediately for specific purposes. This Act also imposes penalties on each improper disclosure or misuse of information obtained from the DMF.

**Provide the Secretary of the Treasury authority to access prisoner data to prevent and identify improper payments.**—This Act provides the Secretary of the Treasury access to information contained in the SSA's Prisoner Update Processing System for the purposes of tax administration, debt collection, and identifying, preventing, and recovering improper payments under Federally funded programs. This Act also expands the information the prisons are required to report to SSA to include release date, last known address, and prison assigned inmate number.

### 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 receipt and outlay levels under current law. However, current law includes a number of scheduled policy changes that are unlikely to occur and that prevent the BBEDCA baseline from serving as an appropriate 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 American Opportunity Tax Credit (AOTC).

The adjusted baseline permanently continues the tax relief provided to individuals and families under ARRA

that was extended only through taxable year 2017 under ATRA. A more general explanation of the adjusted baseline concept is provided in Chapter 25 of this volume, "Current Services Estimates."

**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.

**Table 12–2. ADJUSTMENTS TO THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT (BBEDCA) BASELINE ESTIMATES OF GOVERNMENTAL RECEIPTS**

(In billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–19	2015–24
<b>BBEDCA baseline receipts</b> .....	<b>3,004.6</b>	<b>3,250.5</b>	<b>3,457.3</b>	<b>3,656.2</b>	<b>3,852.1</b>	<b>4,065.2</b>	<b>4,278.0</b>	<b>4,512.5</b>	<b>4,742.9</b>	<b>4,976.6</b>	<b>5,224.5</b>	<b>18,281.3</b>	<b>42,015.9</b>
<b>Adjustments to BBEDCA baseline:</b>													
Extend increased refundability of the child tax credit <sup>1</sup> .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Extend EITC marriage penalty relief <sup>1</sup> .....	.....	.....	.....	.....	-0.1	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-8.5
Extend EITC for larger families <sup>1</sup> .....	.....	.....	.....	.....	-*	-*	-*	-*	-*	-*	-*	-*	-0.2
Extend AOTC <sup>1</sup> .....	.....	.....	.....	.....	-0.7	-6.5	-6.0	-5.9	-5.6	-5.1	-4.9	-7.2	-34.7
<b>Total, adjustments to BBEDCA baseline</b> .....	.....	.....	.....	.....	<b>-0.8</b>	<b>-7.9</b>	<b>-7.4</b>	<b>-7.3</b>	<b>-7.0</b>	<b>-6.6</b>	<b>-6.4</b>	<b>-8.7</b>	<b>-43.4</b>
<b>Adjusted baseline receipts</b> .....	<b>3,004.6</b>	<b>3,250.5</b>	<b>3,457.3</b>	<b>3,656.2</b>	<b>3,851.3</b>	<b>4,057.2</b>	<b>4,270.6</b>	<b>4,505.2</b>	<b>4,735.9</b>	<b>4,970.1</b>	<b>5,218.2</b>	<b>18,272.6</b>	<b>41,972.5</b>

\* \$50 million or less.

<sup>1</sup> This provision affects both receipts and outlays. Only the receipt effect is shown here. The outlay effects are listed below:

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–19	2015–24
Extend increased refundability of the child tax credit .....	.....	.....	.....	.....	0.5	10.7	10.7	10.7	10.7	10.8	10.8	11.2	64.9
Extend EITC marriage penalty relief .....	.....	.....	.....	.....	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.7
Extend EITC for larger families .....	.....	.....	.....	.....	0.1	1.9	1.9	2.0	2.0	2.0	2.1	2.0	12.0
Extend AOTC .....	.....	.....	.....	.....	.....	3.3	5.9	5.9	5.9	5.9	5.8	3.3	32.6
<b>Total, outlay effects of adjustments to BBEDCA baseline</b> .....	.....	.....	.....	.....	<b>0.7</b>	<b>15.9</b>	<b>18.6</b>	<b>18.7</b>	<b>18.7</b>	<b>18.8</b>	<b>18.8</b>	<b>16.6</b>	<b>110.2</b>

## RESERVE FOR LONG-RUN 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 to maintain a tax code burdened with such tax breaks; instead, the tax code needs to ensure that the United States is the most attractive place for entrepreneurship and business growth. Therefore, in this Budget, the President is calling on the Congress to immediately begin work on business tax reform and has laid out a framework that includes the following five elements: (1) eliminate loopholes and subsidies, 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 without adding 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 business tax reform that is revenue neutral over the long run. 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. However, the transition to a reformed business tax system will generate temporary revenue, for example from addressing \$1 to \$2 trillion of untaxed foreign earnings that U.S. companies have accumulated overseas and from reforming accelerated depreciation. The Budget

proposes to use these one-time savings to pay for one-time investments in transportation infrastructure.

### **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. The proposal would be effective for expenses paid or incurred after the date of enactment.

***Enhance and make permanent the research and experimentation (R&E) tax credit.***—A tax credit of 20 percent is provided for qualified research and experimentation expenditures above a base amount. An alternative simplified credit of 14 percent is also provided. These R&E tax credits expired with respect to expenditures paid or incurred after December 31, 2013. The Administration proposes to permanently extend these R&E tax credits for expenditures paid or incurred after December 31, 2013, and to raise the rate of the alternative simplified credit to 17 percent for expenditures paid or incurred after December 31, 2014.

***Extend and modify certain employment tax credits, including incentives for hiring veterans.***—The work opportunity tax credit (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, beginning in 2015, the Administration proposes to: (1) expand the definition of disabled veterans eligible for the WOTC to include disabled veterans who use the GI bill to receive education or training starting within one year after discharge and who are hired within six

months of leaving the program, and (2) 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.

***Modify and permanently extend renewable electricity production tax credit.***—Current law provides production tax credits for renewable energy facilities, the construction of which began before the end of 2013. Qualified energy resources include wind, closed-loop biomass, open-loop biomass, geothermal energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy. Current law also provides an investment tax credit for energy property. A nonrefundable 10-percent business energy credit is allowed for the cost of new property that is equipment that either: (1) uses solar energy to generate electricity, to heat or cool a structure, or to provide solar process heat, or (2) is used to produce, distribute, or use energy derived from a geothermal deposit. The credit for solar energy property is increased to 30 percent for solar facilities placed in service prior to January 1, 2017. An energy investment credit is also available for qualifying geothermal heat pump property, small wind property, combined heat and power property fuel cells, and micro-turbines.

The Administration proposes to extend current law for facilities on which construction begins before the end of 2014. For facilities on which construction begins after December 31, 2014, the proposal would permanently extend the renewable electricity production tax credit and make it refundable. The renewable electricity production tax credit would also be available to otherwise eligible renewable electricity consumed directly by the producer rather than sold to an unrelated third party, to the extent that its production can be independently verified. The proposal also would allow solar facilities that currently qualify for the investment tax credit to claim the renewable electricity production tax credit in lieu of the investment tax credit through 2016. The permanent 10-percent business energy credit for solar and geothermal property would be repealed and solar facilities placed in service after 2016 would only be eligible for the renewable electricity production tax credit.

***Modify and permanently extend the deduction for energy-efficient commercial building property.***—The Administration proposes to extend the current deduction for energy-efficient building property for property placed in service before January 1, 2015. For property placed in service after calendar year 2014, the Administration proposes to offer fixed deductions for the installation of energy-efficient commercial building property that reach an energy savings target. In addition, the proposal would enable existing buildings to qualify for the deductions. The new deductions would be permanent.

### **Tax Relief for Small Business**

***Extend increased expensing for small business.***—Business taxpayers were 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 could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded \$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.**—A 100-percent exclusion from tax is provided 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 10 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 Alternative Minimum Tax (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. The proposal would clarify that small business stock can include stock acquired upon the exercise of warrants and options if such stock rights are acquired at original issue from the corporation, and that all relevant holding periods for such stock start on the date the stock is issued by the corporation to the taxpayer. Reporting requirements would be tightened to ensure compliance. These proposals would be effective for qualified small business stock issued after December 31, 2013.

**Increase the limitations for deductible new business expenditures and consolidate provisions for start-up and organizational expenditures.**—A taxpayer generally is allowed to elect to deduct up to \$5,000 of start-up expenditures in the taxable year in which the active trade or business begins. Similarly, a taxpayer may also elect to deduct up to \$5,000 of organizational expenditures in the taxable year in which the corporation or partnership begins business. In each case, the \$5,000 amount is reduced (but not below zero), by the amount by which such expenditures exceed \$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 was reduced (but not below zero) by the amount by which such start-up expenditures exceeded \$60,000. To lower the tax cost of investigating new business opportunities and investing in new business activities, and to simplify tax ad-

ministration and reduce new business owners' tax compliance burden, the Administration proposes to consolidate the Internal Revenue Code provisions relating to start-up expenditures and organizational expenditures and to double permanently, from \$10,000 to \$20,000, the combined amount of new business 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 combined new business expenditures exceed \$120,000.

**Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance.**—The Affordable Care Act provides a tax credit to help small employers provide health insurance for 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 after 2013, the credit is generally 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 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 non-discrimination laws will still apply), and eliminating the reduction in the qualifying contribution for premiums that exceed the av-



erage premium in the rating area. The proposal would be effective for taxable years beginning after December 31, 2013.

### Incentives to Promote Regional Growth

**Modify and permanently 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. The NMTC provision expired 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. The tax credit would be allowed in each year from 2015 to 2024, 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 2024. 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.

**Reform and expand the Low-Income Housing tax credit (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, effective for volume cap received by States for calendar years beginning after the date of enactment. This proposal would give each State more flexibility to address its highest affordable housing priorities. Also, a building would be able to qualify for 30-percent-present-value LIHTCs without issuing bonds if the building receives an adequate allocation of tax-exempt volume cap effective for projects that are allocated volume cap after the date of enactment. This proposal would eliminate some transaction costs and avoid the issuance of private activity bonds that are not needed for financing.

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. In the case of 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, a special rule would permit certain non-income-qualified tenants to remain in residence without impairing the LIHTCs earned by the project. The provision would apply to LIHTC elections that are made after the date of enactment.

Third, the Administration proposes to change the formulas that produce the rates for the credits that are subject to the LIHTC allocation cap. In lieu of the nine-percent floor that expired 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 on or after the date of enactment.

Fourth, the Administration proposes to add preservation of Federally-assisted affordable housing to the selection criteria for LIHTC allocation. This factor would join the 10 criteria that State housing agencies must include in the qualified allocation plans that they consider in deciding which applicants receive LIHTCs. The proposal would apply to allocations made in calendar years beginning after the date of enactment.

Fifth, 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 proposal would be effective for taxable years that end after the date of enactment.

Finally, under the Administration's proposal, protection for victims of domestic violence would become a mandatory provision of the long-term-use agreement that the Internal Revenue Code requires between each LIHTC taxpayer and the State in which the taxpayer's LIHTC building is located. To make the protection meaningful, victims of domestic violence would be given a right to enforce the agreement in State courts.

### 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 inter-

est 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. The proposal would be effective for taxable years beginning after December 31, 2014.

**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. The proposal would be effective for taxable years beginning after December 31, 2014.

**Tax currently excess returns associated with transfers of intangibles offshore.**—The Internal Revenue Service (IRS) has broad authority to allocate income among commonly controlled businesses under section 482 of the Internal Revenue Code. Notwithstanding the transfer pricing rules, there is evidence of income shifting offshore, including through transfers of intangible rights to subsidiaries that bear little or no foreign income tax. Under the Administration's proposal, if a U.S. parent transfers an intangible to a controlled foreign corporation (CFC) in circumstances that demonstrate excessive income shifting from the United States, then an amount equal to the excessive return would be treated as subpart F income. The proposal would be effective for transactions in taxable years beginning after December 31, 2014.

**Limit shifting of income through intangible property transfers.**—Under current law, there is a lack of clarity regarding the scope of the definition of intangible property under section 936(h)(3)(B) of the Internal Revenue Code. This definition of intangible property applies for purposes of the special rules under section 367 of the Internal Revenue Code relating to transfers of intangible property by a U.S. person to a foreign corporation and the allocation of income and deductions among taxpayers under section 482 of the Internal Revenue Code to prevent inappropriate shifting of income outside the United States. The Administration's proposal would provide that the definition of intangible property under section 936(h)(3)(B) (and therefore for purposes of sections 367 and 482) also includes workforce in place, goodwill, and going concern value, and any other item owned or controlled by a taxpayer that is not a tangible or financial

asset and that has substantial value independent of the services of any individual. The proposal would be effective for taxable years beginning after December 31, 2014.

**Disallow the deduction for excess non-taxed reinsurance premiums paid to affiliates.**—Under the Administration's proposal, a U.S. insurance company would be denied a deduction for certain non-taxed reinsurance premiums paid to foreign affiliates, offset by an exclusion for return premiums, ceding commissions, reinsurance recovered, or other amounts received from such affiliates. The proposal would be effective for policies issued in taxable years beginning after December 31, 2014.

**Restrict deductions for excessive interest of members of financial reporting groups.**—Section 163(j) of the Internal Revenue Code generally places a cap on the amount of interest expense paid to related parties (and to unrelated parties on debt guaranteed by a related party) that a corporation can deduct relative to its U.S. earnings, but does not consider whether a foreign-parented group's U.S. operations are more leveraged than the rest of the group's operations. In lieu of applying section 163(j), the Administration's proposal would limit the U.S. interest expense deduction of an entity that is a member of a group that prepares consolidated financial statements to the member's interest income plus the member's proportionate share of the group's net interest expense determined based on the member's proportionate share of the group's earnings (with certain adjustments). If a member fails to substantiate its share of the group's net interest expense, or a member so elects, the member's interest deduction alternatively would be limited to 10 percent of the member's U.S. adjusted taxable income. The proposal would not apply to financial services entities or financial reporting groups that would otherwise report less than \$5 million of net U.S. interest expense for a taxable year. The proposal would be effective for taxable years beginning after December 31, 2014.

**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). The proposal would be effective for taxable years beginning after December 31, 2014.

**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. The proposal would be effective for sales and exchanges after December 31, 2014.

**Prevent use of leveraged distributions from related corporations to avoid dividend treatment.**—The

Administration proposes to tax immediately a non-dividend distribution from a corporation (domestic or foreign) to the extent the distribution was funded by a related corporation with a principal purpose of avoiding dividend treatment from a distribution directly from the related corporation to the distributee shareholder. The proposal would be effective for distributions made after December 31, 2014.

**Extend section 338(h)(16) to certain asset acquisitions.**—Under section 338 of the Internal Revenue Code, 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. The proposal would be effective for transactions occurring after December 31, 2014.

**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. The proposal would be effective for transactions occurring after December 31, 2014.

**Create a new category of Subpart F income for transactions involving digital goods or services.**—The existing categories of subpart F income do not adequately address mobile income earned from providing digital goods and services. This enables CFCs to shift income related to digital goods and services to low-tax jurisdictions, in many cases eroding the U.S. tax base. The Administration proposes to create a new category of subpart F income, foreign base company digital income, which generally would include income of a CFC from the lease or sale of a digital copyrighted article or from the provision of a digital service in cases where the CFC uses intangible property developed by a related party (including property developed under a cost sharing arrangement) to produce the income and the CFC does not, through its own employees, make a substantial contribution to the development of the property or services that give rise to the income. An exception would apply for income derived from consumers in the CFC's country of incorporation. The proposal would be effective for taxable years beginning after December 31, 2014.

**Prevent avoidance of foreign base company sales income through manufacturing service arrangements.**—In order for the foreign base company sales income rules of subpart F to apply, a CFC generally must engage in both a purchase and subsequent sale of personal property where such property is purchased from, or sold to, a related person. Under existing law, taxpayers take the position that a CFC can avoid foreign base company sales income by structuring the related party transaction as the provision of a manufacturing service to the CFC rather than a purchase of the property by the CFC. The Administration proposes to expand the category of foreign base company sales income to include income of a CFC from the sale of property manufactured on behalf of the CFC by a related person, regardless of whether the CFC is characterized as obtaining the property through a purchase transaction or through a manufacturing service. The existing exception to foreign base company sales income would continue to apply. The proposal would be effective for taxable years beginning after December 31, 2014.

**Restrict the use of hybrid arrangements that create stateless income.**—Taxpayers currently use a variety of cross-border hybrid arrangements to claim deductions in the United States without corresponding inclusions in the payee jurisdiction. Similarly, taxpayers use hybrid arrangements to claim multiple deductions for the same payment in different jurisdictions. The Administration proposes to deny deductions for interest and royalty payments paid to related parties when either: (1) as a result of a hybrid arrangement there is no corresponding inclusion to the recipient in the foreign jurisdiction, or (2) a hybrid arrangement would permit the taxpayer to claim an additional deduction for the same payment in more than one jurisdiction. Regulatory authority would be granted to the Department of the Treasury to issue any regulations necessary to carry out the purposes of this proposal, including regulations that would: (1) deny interest and royalty deductions arising from certain conduit arrangements that involve a hybrid arrangement between at least two of the parties to the arrangement; (2) deny interest and royalty deductions arising from certain hybrid arrangements involving unrelated parties in appropriate circumstances, such as structured transactions; and (3) deny all or a portion of a deduction claimed with respect to an interest or royalty payment that, as a result of the hybrid arrangement, is subject to inclusion in the recipient's jurisdiction pursuant to a preferential regime that has the effect of reducing the generally applicable statutory rate by at least 25 percent. The proposal would be effective for taxable years beginning after December 31, 2014.

**Limit the application of exceptions under Subpart F for certain transactions that use reverse hybrids to create stateless income.**—Under current law, if a U.S. person owns an interest in a reverse hybrid, which is an entity that is treated as a corporation for U.S. tax purposes but as fiscally transparent under the laws of the foreign jurisdiction in which it is created or organized, income earned by the reverse hybrid generally would not be



subject to tax currently in either the United States or the foreign jurisdiction. Even if the reverse hybrid is treated as a CFC, section 954(c)(3) of the Internal Revenue Code and, when in effect, section 954(c)(6) could apply to exclude from treatment as subpart F income certain interest, rent, and royalty payments received by the reverse hybrid from certain related persons. As a result, related parties can make deductible payments to the reverse hybrid without creating any corresponding inclusion. The Administration proposes to disallow the application of sections 954(c)(3) and 954(c)(6) to payments made to foreign reverse hybrids held directly by a U.S. owner when such amounts are treated as deductible payments by a related foreign payor. The proposal would be effective for taxable years beginning after December 31, 2014.

**Limit the ability of domestic entities to expatriate.**—Section 7874 of the Internal Revenue Code applies to certain transactions (known as “inversion transactions”) in which a U.S. corporation is replaced by a foreign corporation as the parent company of a worldwide affiliated group. Under current law, if an inversion transaction occurs, certain adverse tax consequences apply depending upon whether the continuing ownership of historical shareholders of the U.S. corporation in the foreign acquiring corporation is either 80 percent or more (in which case the foreign acquiring corporation is treated as a domestic corporation for all U.S. tax purposes) or at least 60 percent but less than 80 percent (in which case the foreign status of the acquiring corporation is respected but other penalties apply). The Administration proposes to broaden the definition of an inversion transaction by reducing the 80-percent shareholder continuity threshold to a greater-than-50-percent threshold, and to eliminate the 60-percent threshold. The Administration also proposes to provide that, regardless of the level of shareholder continuity, an inversion transaction will occur if the affiliated group that includes the foreign acquiring corporation has substantial business activities in the United States and the foreign acquiring corporation is primarily managed and controlled in the United States. The proposal would be effective for transactions that are completed after December 31, 2014.

### 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 any contract the value of which is determined, directly or indirectly, in whole or in part, by actively traded property. 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 taxpayer that enters into a derivative contract that substantially diminishes the risk of loss on actively traded stock that is not otherwise marked to market would be required to mark the stock to market with preexisting gain recognized at that time and loss recognized when the financial instrument would have been recognized in the absence of the straddle. 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, 2014.

**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. The proposal also would modify the transfer-for-value rule by eliminating the exception that currently applies if the buyer is a partner of the insured, a partnership in which the insured is a partner, or a corporation in which the insured is a shareholder or officer. Instead, under the proposal, the transfer-for-value rule would not apply in the case of a transfer to the insured, or to a partnership or a corporation of which the insured owns at least 20 percent of the partnership or corporation. Other exceptions to the rule would continue to apply. 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, 2014.

**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 the policyholders’ 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 of life insurance companies 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 propor-



tion of reserves to total assets of the account. The proposal would be effective for taxable years beginning after December 31, 2014.

**Expand pro rata interest expense disallowance for corporate-owned life insurance.**—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, 2014, 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, natural 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 natural gas activities are proposed to be repealed beginning in 2015: (1) the enhanced oil recovery credit for eligible costs attributable to a qualified enhanced oil recovery project; (2) the credit for oil and natural 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 natural gas wells; (7) the ability to claim the domestic production manufacturing deduction against income derived from the production of oil and natural 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 natural gas producers. The following tax preferences available for coal activities are proposed to be repealed beginning in 2015: (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, 2014.

**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, 2014. 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 income resulting from the change in accounting ratably over 10 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 taxable years beginning after December 31, 2014. Taxpayers would recognize any income resulting from the change in accounting method 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, 2014.

**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 in reorganizations 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 Administration also proposes to align the available pool of earnings and profits for such distributions with that for ordinary distributions. The proposal would be effective for taxable years beginning after December 31, 2014.

**Expand the definition of substantial built-in loss for purposes of partnership loss transfers.**—Upon a sale or exchange of a partnership interest, certain partnerships, including partnerships that have a substantial built-in loss in their assets, must adjust the bases of those 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. The proposal would apply to sales or exchanges after the date of enactment.

**Extend partnership basis limitation rules to non-deductible 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 partner-

ship interest at the end of the partnership year in which such expenditure occurred. The proposal would apply to a partnership’s taxable year beginning on or after the date of enactment.

**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) of the Internal Revenue Code 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. The proposal would apply to transfers made after the date of enactment.

**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, 2015.

**Modify like-kind exchange rules for real property.**—Under section 1031 of the Internal Revenue Code, no gain or loss is recognized when business or investment property is exchanged for “like-kind” business or investment property. The Administration proposes to limit the amount of capital gain deferred under section 1031 from the exchange of real property to \$1,000,000 (indexed for inflation) per taxpayer per taxable year. The proposal would be effective for like-kind exchanges completed after December 31, 2014.

**Conform corporate ownership standards.**—Tax-free treatment of corporate reorganizations, distributions, and incorporations generally turns on whether shareholders acquire or retain “control” of the relevant corporation. For this purpose, control is defined as the ownership of 80 percent of the corporation’s voting stock and 80 percent of the number of shares of all other classes of stock of the corporation. In contrast, the ownership standard for corporate affiliation (required for filing consolidated returns, tax-free parent-subsidiary liquidations, and treating certain stock dispositions as asset sales) is the direct or indirect ownership by a parent corporation of at least 80 percent of the total voting power of another corporation’s stock and at least 80 percent of the total value of

that other corporation's stock. The control test for tax-free reorganizations, distributions, and incorporations is easily manipulated by allocating voting power among the shares of a corporation, and the absence of a value component allows shareholders to retain voting control of a corporation but to economically "sell" a significant amount of the value of the corporation. In addition, the existence of two ownership standards in the corporate tax area causes unnecessary complexity and traps for the unwary. The Administration proposes to substitute the ownership test for affiliation for the control test used in connection with tax-free incorporations, distributions, and reorganizations. The proposal would be effective for transactions occurring after December 31, 2014.

***Prevent elimination of earnings and profits through distributions of certain stock.***—To avoid taxing distributions as dividends in a subsequent period, corporate groups reduce earnings and profits by distributing

high-basis/low-value subsidiary stock to the shareholders in the preceding period. Under current law, the distributing corporation may not recognize any loss on the distributed built-in loss stock, but is permitted to permanently eliminate an amount of its earnings and profits equivalent to the adjusted basis in the distributed built-in loss stock, as if the loss had been recognized but without any economic diminution in the assets of the distributing corporation. The proposal would amend the rules governing earnings and profits so that earnings and profits are reduced only by the distributing corporation's basis in the high-basis distributed stock, determined without regard to basis adjustments resulting from actual or deemed dividend equivalent redemptions or any series of distributions or transactions undertaken with a view to create and distribute high-basis stock of any corporation. The proposal would be effective upon enactment.

Table 12-3. RESERVE FOR LONG-RUN REVENUE-NEUTRAL BUSINESS TAX REFORM

(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
<b>Incentives for manufacturing, research, clean energy, and insourcing and creating jobs:</b>													
Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas .....		-14	-18	-19	-21	-21	-22	-23	-24	-24	-26	-93	-212
Enhance and make permanent the R&E tax credit .....	-3,259	-6,524	-7,731	-8,671	-9,591	-10,483	-11,309	-12,148	-13,019	-13,894	-14,776	-43,000	-108,146
Extend and modify certain employment tax credits, including incentives for hiring veterans .....	-382	-747	-821	-885	-928	-964	-994	-1,029	-1,072	-1,115	-1,159	-4,345	-9,714
Modify and permanently extend renewable electricity production tax credit <sup>1</sup> .....		-141	-499	-848	-1,193	-1,584	-2,002	-2,458	-2,963	-3,509	-4,089	-4,265	-19,286
Modify and permanently extend the deduction for energy-efficient commercial building property .....	-61	-190	-371	-515	-607	-675	-720	-738	-745	-751	-756	-2,358	-6,068
Total, incentives for manufacturing, research, clean energy, and insourcing and creating jobs .....	-3,702	-7,616	-9,440	-10,938	-12,340	-13,727	-15,047	-16,396	-17,823	-19,293	-20,806	-54,061	-143,426
<b>Tax relief for small business:</b>													
Extend increased expensing for small business .....	-6,712	-9,321	-7,197	-6,246	-5,563	-4,981	-4,703	-4,586	-4,622	-4,735	-4,874	-33,308	-56,828
Eliminate capital gains taxation on investments in small business stock .....						-227	-719	-1,245	-1,762	-2,310	-2,939	-227	-9,202
Increase the limitations for deductible new business expenditures and consolidate provisions for start-up and organizational expenditures .....		-360	-449	-446	-440	-434	-431	-428	-427	-424	-419	-2,129	-4,258
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance <sup>1</sup> .....	-219	-313	-322	-219	-133	-95	-66	-52	-50	-48	-28	-1,082	-1,326
Total, tax relief for small business .....	-6,931	-9,994	-7,968	-6,911	-6,136	-5,737	-5,919	-6,311	-6,861	-7,517	-8,260	-36,746	-71,614
<b>Incentives to promote regional growth:</b>													
Modify and permanently extend the NMTC ...	-17	-77	-191	-351	-548	-772	-1,013	-1,245	-1,429	-1,529	-1,558	-1,939	-8,713
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
Reform and expand the LIHTC .....		-28	-66	-96	-127	-147	-168	-178	-188	-196	-196	-464	-1,390
Total, incentives to promote regional growth .....	-17	-305	-457	-647	-875	-1,119	-1,381	-1,623	-1,817	-1,925	-1,954	-3,403	-12,103
<b>Reform U.S. international tax system:</b>													
Defer deduction of interest expense related to deferred income of foreign subsidiaries .....		2,976	5,028	5,219	5,444	5,651	5,864	4,051	2,850	2,962	3,093	24,318	43,138
Determine the foreign tax credit on a pooling basis .....		3,963	6,697	6,952	7,251	7,527	7,810	8,115	8,436	8,766	9,155	32,390	74,672
Tax currently excess returns associated with transfers of intangibles offshore .....		1,578	2,693	2,787	2,832	2,798	2,718	2,664	2,636	2,626	2,633	12,688	25,965
Limit shifting of income through intangible property transfers .....		71	137	172	207	244	283	325	373	427	489	831	2,728
Disallow the deduction for excess non-taxed reinsurance premiums paid to affiliates ...		366	632	682	721	755	794	833	882	928	975	3,156	7,568
Restrict deductions for excessive interest of members of financial reporting groups ...		1,944	3,434	3,778	4,156	4,571	5,028	5,531	6,084	6,693	7,362	17,883	48,581
Modify tax rules for dual capacity taxpayers		527	906	953	1,002	1,049	1,096	1,147	1,179	1,233	1,290	4,437	10,382
Tax gain from the sale of a partnership interest on look-through basis .....		139	241	253	265	279	293	307	323	339	356	1,177	2,795
Prevent use of leveraged distributions from related corporations to avoid dividend treatment .....		188	318	331	345	358	371	386	401	417	433	1,540	3,548
Extend section 338(h)(16) to certain asset acquisitions .....		60	100	100	100	100	100	100	100	100	100	460	960



Table 12-3. RESERVE FOR LONG-RUN REVENUE-NEUTRAL BUSINESS TAX REFORM—Continued

(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
Remove foreign taxes from a section 902 corporation's foreign tax pool when earnings are eliminated .....		13	27	36	46	50	50	50	50	50	51	172	423
Create a new category of Subpart F income for transactions involving digital goods or services .....		585	1,004	1,055	1,107	1,163	1,221	1,282	1,346	1,413	1,484	4,914	11,660
Prevent avoidance of foreign base company sales income through manufacturing service arrangements .....		1,235	2,120	2,226	2,337	2,454	2,576	2,705	2,840	2,983	3,132	10,372	24,608
Restrict the use of hybrid arrangements that create stateless income .....		38	66	73	80	88	97	107	117	129	142	345	937
Limit the application of exceptions under Subpart F for certain transactions that use reverse hybrids to create stateless income .....		67	115	121	127	133	140	147	154	162	170	563	1,336
Limit the ability of domestic entities to expatriate .....		150	415	706	1,025	1,375	1,756	2,173	2,627	3,120	3,657	3,671	17,004
Total, reform U.S. international tax system .....		13,900	23,933	25,444	27,045	28,595	30,197	29,923	30,398	32,348	34,522	118,917	276,305
<b>Reform treatment of financial and insurance industry institutions and products:</b>													
Require that derivative contracts be marked to market with resulting gain or loss treated as ordinary .....		2,583	4,674	3,900	2,600	1,655	1,132	697	506	528	529	15,412	18,804
Modify rules that apply to sales of life insurance contracts .....		14	42	46	48	50	54	56	58	62	65	200	495
Modify proration rules for life insurance company general and separate accounts .....		353	607	652	682	691	688	676	668	657	643	2,985	6,317
Extend pro rata interest expense disallowance for corporate-owned life insurance .....		32	91	168	268	392	540	706	900	1,109	1,340	951	5,546
Total, reform treatment of financial and insurance industry institutions and products .....		2,982	5,414	4,766	3,598	2,788	2,414	2,135	2,132	2,356	2,577	19,548	31,162
<b>Eliminate fossil fuel preferences:</b>													
<b>Eliminate oil and natural gas preferences:</b>													
Repeal enhanced oil recovery credit <sup>2</sup> .....													
Repeal credit for oil and natural gas produced from marginal wells <sup>2</sup> .....													
Repeal expensing of intangible drilling costs .....		2,317	3,244	2,348	1,803	1,469	1,110	665	463	464	467	11,181	14,350
Repeal deduction for tertiary injectants .....		10	10	10	10	10	10	10	10	10	10	50	100
Repeal exception to passive loss limitations for working interests in oil and natural gas properties .....		5	7	7	7	6	6	6	5	5	5	32	59
Repeal percentage depletion for oil and natural gas wells .....		1,502	1,568	1,469	1,375	1,306	1,261	1,219	1,181	1,089	1,060	7,220	13,030
Repeal domestic manufacturing deduction for oil and natural gas production .....		963	1,614	1,585	1,522	1,453	1,421	1,410	1,408	1,416	1,426	7,137	14,218
Increase geological and geophysical amortization period for independent producers to seven years .....		103	382	596	581	463	337	224	144	123	128	2,125	3,081
Subtotal, eliminate oil and natural gas preferences .....		4,900	6,825	6,015	5,298	4,707	4,145	3,534	3,211	3,107	3,096	27,745	44,838
<b>Eliminate coal preferences:</b>													
Repeal expensing of exploration and development costs .....		39	66	69	73	77	77	75	73	70	60	324	679

Table 12-3. RESERVE FOR LONG-RUN REVENUE-NEUTRAL BUSINESS TAX REFORM—Continued

(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
Repeal percentage depletion for hard mineral fossil fuels .....		167	173	182	195	203	211	218	225	234	244	920	2,052
Repeal capital gains treatment for royalties .....		20	43	47	49	52	55	58	61	61	62	211	508
Repeal domestic manufacturing deduction for the production of coal and other hard mineral fossil fuels ....		36	63	67	70	73	77	80	83	87	90	309	726
Subtotal, eliminate coal preferences ....		262	345	365	387	405	420	431	442	452	456	1,764	3,965
Total, eliminate fossil fuel preferences .....		5,162	7,170	6,380	5,685	5,112	4,565	3,965	3,653	3,559	3,552	29,509	48,803
<b>Other revenue changes and loophole closers:</b>													
Repeal the excise tax credit for distilled spirits with flavor and wine additives <sup>3</sup> ...		85	112	112	112	112	112	112	112	112	112	533	1,093
Repeal LIFO method of accounting for inventories .....		4,151	7,823	8,786	8,965	8,850	8,778	8,818	8,917	8,770	8,850	38,575	82,708
Repeal lower-of-cost-or-market inventory accounting method .....		644	1,404	1,526	1,537	903	270	283	296	309	323	6,014	7,495
Modify depreciation rules for purchases of general aviation passenger aircraft .....		87	273	411	456	532	549	385	209	155	153	1,759	3,210
Repeal gain limitation for dividends received in reorganization exchanges .....		153	263	276	290	305	319	335	352	370	388	1,287	3,051
Expand the definition of substantial built-in loss for purposes of partnership loss transfers .....		5	7	7	7	7	7	8	8	10	10	33	76
Extend partnership basis limitation rules to nondeductible expenditures .....		63	90	97	102	105	108	110	112	114	116	457	1,017
Limit the importation of losses under related party loss limitation rules .....		56	81	87	92	95	97	99	100	102	104	411	913
Deny deduction for punitive damages .....			25	36	37	38	38	40	40	41	43	136	338
Modify like-kind exchange rules for real property .....		616	1,875	1,894	1,914	1,936	1,958	1,981	2,006	2,031	2,059	8,235	18,270
Conform corporate ownership standards ....		24	48	51	54	57	60	63	66	69	72	234	564
Prevent elimination of earnings and profits through distributions of certain stock ....	2	22	33	35	37	39	41	43	45	47	49	166	391
Total, other revenue changes and loophole closers .....	2	5,906	12,034	13,318	13,603	12,979	12,337	12,277	12,263	12,130	12,279	57,840	119,126
<b>Total, reserve for long-run revenue-neutral business tax reform <sup>4</sup> .....</b>	<b>-10,648</b>	<b>10,035</b>	<b>30,686</b>	<b>31,412</b>	<b>30,580</b>	<b>28,891</b>	<b>27,166</b>	<b>23,970</b>	<b>21,945</b>	<b>21,658</b>	<b>21,910</b>	<b>131,604</b>	<b>248,253</b>

<sup>1</sup> This proposal affects both receipts and outlays. Both effects are shown here. The outlay effects included in these estimates are listed below:

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
Modify and permanently extend renewable electricity production tax credit .....		28	120	241	382	523	661	811	978	1,158	1,349	1,294	6,251
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance ....	11	50	47	41	23	13	10	6	5	7	5	174	207
Total, outlay effects of reserve for long-run revenue-neutral business tax reform .....	11	78	167	282	405	536	671	817	983	1,165	1,354	1,468	6,458

<sup>2</sup> This provision is estimated to have zero receipt effect under the Administration's current economic projections.

<sup>3</sup> Net of income offsets.

<sup>4</sup> Because the Administration believes that these proposals should be enacted in the context of comprehensive business tax reform, the amounts are not reflected in the budget estimates of receipts and are not counted toward meeting the Administration's deficit reduction goals. The Administration's proposals that are reflected in the budget estimates of receipts are presented in Table 12-4. These include an allowance, also presented below, for temporary receipts that would be generated by the transition to a reformed business tax system.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
Transition to a reformed business tax system ..		37,500	37,500	37,500	37,500							150,000	150,000

## BUDGET PROPOSALS

The Administration's receipt 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, help make work pay by expanding the EITC for workers without qualifying children, 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.

### **Incentives for Job Creation, Clean Energy, and Manufacturing**

***Provide additional tax credits for investment in qualified property used in a qualifying advanced energy manufacturing project.***—ARRA provided a 30-percent credit for investment in eligible property used in a qualifying advanced energy manufacturing project. A qualifying 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 qualifying 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 Administration proposes to provide an additional \$2.5 billion in credits, thereby increasing the amount of credits to \$4.8 billion. In addition, the Administration proposes to allow up to \$200 million of these credits to be allocated to the construction of infrastructure that contributes to networks of refueling stations that serve alternative fuel vehicles.

***Designate Promise Zones.***—The Administration proposes to designate 20 Promise Zones (14 in urban areas and six in rural areas) in 2014, five of which have already been chosen. Zone designations would become effective in 2015 and 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 designated promise zones 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.

***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, 2015 through 2017.

***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, 2014, 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. In general, the credit would be scalable based on the vehicle's miles per gallon gasoline equivalent, but would be capped at \$10,000 (\$7,500 for vehicles with a manufacturer's suggested retail price 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, 2014, and before January 1, 2022. The credit would be limited to 75 percent of the otherwise allowable amount for vehicles placed in service in 2019, to 50 percent of such amount for vehicles placed in service in 2020, and to 25 percent of such amount for vehicles placed in service in 2021. The credit would be allowed to the vehicle manufacturer and would be transferable.

***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 \$25,000 for vehicles weighing between 14,000 and 26,000

pounds and \$40,000 for vehicles weighing more than 26,000 pounds. The credit would be allowed for vehicles placed in service after December 31, 2014, and before January 1, 2021. For vehicles placed in service in calendar year 2020, the credit would be limited to 50 percent of the otherwise allowable amount. The credit would be allowed to the manufacturer of the vehicle and would be transferable.

**Modify tax-exempt bonds for Indian tribal governments (ITGs).**—In general, current law limits ITGs 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 ITGs 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 ITG tax-exempt bond financing. The Administration proposes to modify the standards for ITG 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 ITG eligibility to issue tax-exempt governmental bonds. The proposal would repeal the existing essential governmental function standard for ITG tax-exempt bond financing. In addition, the proposal would allow ITGs 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 ITG 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.

**Extend the tax credit for cellulosic biofuel.**—The Administration proposes to retroactively extend the tax credit for blending cellulosic fuel, which expired on December 31, 2013, at \$1.01 per gallon through December 31, 2020. The amount of the credit would then be reduced by 20.2 cents per gallon in each subsequent year, so that the credit would expire after December 31, 2024.

**Modify and extend the tax credit for the construction of energy-efficient new homes.**—Under the Administration’s proposal, the tax credit for energy-efficient new homes, which expired on December 31, 2013,

would be extended through December 31, 2014. The Administration proposes replacing this credit with a two-tier credit starting in 2015. The proposal would provide a \$1,000 tax credit to homebuilders for the construction of each qualified ENERGY STAR certified new home that meets guidelines for energy efficiency and construction set by the Environmental Protection Agency. The proposal would also provide a \$4,000 tax credit for the construction of each qualified Challenge Home certified to meet substantially higher standards for energy savings and construction set by the Department of Energy (DOE). To ensure that a new home meets the ENERGY STAR or DOE Challenge Home guidelines, verification by a qualified third party would be required. The new credits would apply to qualified new homes acquired from the homebuilder for use as a residence after December 31, 2014, and before January 1, 2025.

**Reduce excise taxes on liquefied natural gas (LNG) to bring into parity with diesel.**—The Administration proposes to reduce the excise tax on LNG from 24.3 cents to 14.1 cents per gallon after December 31, 2014.

### Incentives for Investment in Infrastructure

**Provide America Fast Forward Bonds and expand eligible uses.**—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 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 section 501(c)(3) nonprofit entities. The proposal, which would be effective for bonds issued beginning in 2015, recommends precluding direct payments to State and local government issuers under the American Fast Forward Bond program from being subject to sequestration.

**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 the types of projects and programs that can be financed with qualified private activity bonds (in addition to financing for section 501(c)(3) nonprofit entities), subject to applicable State bond volume caps for the qualified private activity bond category.

**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 non-hospital 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 non-hospital, 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, non-hospital, 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 that 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 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

**Expand EITC for workers without qualifying children.**—Low and moderate income workers may be eligible for a refundable EITC. The EITC generally equals a specified percentage of earned income, up to a maximum dollar amount, and is gradually phased out once income exceeds a specified threshold. Different credit schedules apply for taxpayers based on the number of qualifying children the taxpayer claims. Taxpayers with low wages who do not have a qualifying child and are at least 25 years old and less than 65 years old (or for whom, if filing jointly, the age of at least one spouse is within these limits) may be eligible to claim the small EITC for workers without qualifying children. The Administration proposes to increase the credit for workers without qualifying children. The phase-in rate and the phase-out rate would be increased from 7.65 percent to 15.30 percent, which would double the size of the maximum credit from about \$500 to about \$1,000 in 2015. The income at which the credit would begin to phase out would be increased to \$11,500 (\$17,000 for joint filers) in 2015 and indexed thereafter. The Administration also proposes to expand eligibility to workers at least 21 years old and less than 67 years old. As under current law, taxpayers who may be claimed as a dependent or as the qualifying child of another taxpayer (e.g. taxpayers who are dependent students age 19 to age 23), may not claim the EITC for workers without children. This proposal would be effective for tax years beginning after December 31, 2014.

**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, 2015. Employers with 10 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 plan, Simplified Employee Plan (SEP), or Savings Incentive Match Plan for Employees (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, the Administration proposes to encourage small employers not currently sponsoring a qualified retirement plan, SEP, or SIMPLE plan to do so by doubling this tax credit to a maximum of \$1,000 per year for three years (effective for taxable years beginning after December 31, 2015) and extending it to four years (rather than three) for any small employer that adopts a new qualified retirement plan, 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 expense is reduced by the aggregate amount excluded from income under a dependent care assistance program. Eligible taxpayers may claim the credit of 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 adjusted gross income (AGI) over \$15,000 until the percentage of expenses reaches 20 percent (at incomes above \$43,000). The income phase-down and the credit are not indexed for inflation. The proposal would allow all taxpayers to claim the child and dependent care tax credit as under current law and would give taxpayers an additional credit on total expenses of up to \$4,000 per child under age 5, for up to two children. The credit rate for the additional young child credit would be 30 percent, and would phase down at a rate of 1 percentage point for every \$2,000 (or part thereof) of AGI over \$61,000 until the rate reaches zero at incomes

above \$119,000. The income phasedown and the amount of expenses eligible for the additional credit would not be indexed for inflation. Together, the current law child and dependent care tax credit and the additional credit would provide a total credit of up to 65 percent of the first \$3,000 in child care expenses for one child under age 5 and up to 65 percent of the first \$6,000 in child care expenses for two children under age 5. The additional credit would also provide a credit of up to 30 percent on the next \$1,000 in child care expenses for each child under age 5, for up to two children. The proposal would be effective for tax years beginning after December 31, 2014.

**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, which expired on December 31, 2013. The exclusion would be extended for three years, to apply to amounts that are discharged after December 31, 2013, and before January 1, 2017, or that are discharged pursuant to an arrangement 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 the end of their repayment period without repaying their loan in full, 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, 2014.

**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, 2014, and for qualifying scholarship amounts received after December 31, 2014.

**Make Pell Grants excludable from income.**—Under current law, a Federal Pell Grant is generally excluded from gross income to the extent it is used to pay for qualified tuition and related expenses. A Pell Grant that is used to pay for living expenses, such as room and board, is not excluded from income. Also under current law, a taxpayer who meets certain income and other eligibility requirements may claim an AOTC of up to \$2,500 or a Lifetime Learning Credit (LLC) of up to \$2,000 for qualified tuition and related expenses. For purposes of claiming either credit, qualified tuition and related expenses are reduced by any amount that has been excluded from gross income. The Administration proposes to allow Pell Grants to be excludable from income without regard to which expenses they are applied so long as the proceeds are spent in accordance with the Pell Grant program. For the purposes of the AOTC and LLC, taxpayers would be able to treat the entire amount of the Pell Grant as used to pay expenses other than qualified tuition and related expenses. The proposal would be effective for tax years beginning after December 31, 2014.

### 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, 2014.

**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 al-



lowed after the overall limitation on itemized deductions (Pease). The final FST is the excess, if any, of the tentative FST over the sum of the taxpayer's: (1) regular income tax (after certain credits) including the 3.8 percent net investment income tax, (2) the AMT, and (3) 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 2015. The proposal would be effective for taxable years beginning after December 31, 2014.

### Modify Estate and Gift Tax Provisions

**Restore the estate, gift, and generation-skipping transfer (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 appropri-

ate. The proposal would be effective for transfers after the year of enactment.

**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 the GRAT must have a minimum term of 10 years and a maximum term of 10 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. The proposal would apply to trusts created after the date of enactment.

**Limit duration of GST tax exemption.**—Current law provides that each person has a lifetime GST tax exemption (\$5,340,000 in 2014) 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 \$5,340,000 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, which, 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. The proposal would apply to trusts created after enactment, and to the portion of a pre-existing trust attributable to additions to such a trust made after that date.

**Coordinate certain income and transfer tax rules applicable to grantor trusts.**—A grantor trust is ig-



nored 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. The proposal would be effective with regard to trusts that engage in a described transaction on or after the date of enactment.

**Extend the lien on estate tax deferrals where estate consists largely of interest in closely held business.**—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, the estate tax payments on interests in certain closely held businesses are deferred for 14 years. Thus, 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 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. The proposal would be effective for the estates of all decedents dying on or after the date of enactment, as well as for all estates of decedents dying before the date of enactment as to which the section 6324(a)(1) lien has not then expired.

**Modify 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 provide 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.

**Simplify gift tax exclusion for annual gifts.**—The annual per-donee gift tax exclusion (currently \$14,000) is available only for gifts of "present interests," but generally a transfer can be converted into a present interest by granting the donee an immediate right to withdraw the property ("Crummey power"). In an effort to simplify tax compliance and administration, and to prevent the possible abuse of such withdrawal powers, the Administration proposes to eliminate the present interest requirement, define a new category of transfers that will not be affected by withdrawal or put rights, and impose an annual per-donor cap of \$50,000 on the total amount of gifts in that new category that can be exempted from gift tax by the annual per-donee exclusion. The new category would include transfers in trust (other than to a trust described in section 2642(c)(2) of the Internal Revenue Code), transfers of interests in pass-through entities, transfers of interests subject to a prohibition on sale, and other transfers of property that, without regard to withdrawal, put, or other such rights in the donee, cannot be immediately liquidated by the donee. The proposal would be effective for gifts made after the year of enactment.

**Expand applicability of definition of executor.**—Under current law, the statutory definition of executor applies only for purposes of the estate tax; therefore, an executor of an estate does not have the authority to extend a statute of limitation, claim a refund, agree to a compromise or assessment, or pursue judicial relief for a tax liability that arose prior to the decedent's death. To empower an authorized party to act on behalf of the decedent in such matters, the Administration proposes to make the statutory definition of executor applicable for all tax purposes, and to authorize such executor to do anything on behalf of the decedent in connection with the decedent's pre-death tax liabilities or obligations that the decedent could have done if still living. In addition, because this definition frequently results in multiple parties being an executor, the proposal would grant regulatory authority to adopt rules to resolve conflicts among multiple executors authorized by that definition. The proposal would be effective upon enactment, regardless of the decedent's date of death.

### **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 interna-

tional firms that fall into these categories with assets in excess of \$50 billion would also be covered. The fee would be based on covered liabilities of the firm and would raise approximately \$56 billion over ten years and would be effective on January 1, 2016.

**Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt.**—Just 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, 2014.

**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 shares of portfolio stock held by a taxpayer that have a long-term holding period. The proposal would apply to covered securities acquired after December 31, 2014.

### Loophole Closers

**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"). 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, 2014.

**Require non-spouse beneficiaries of deceased 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 joint life expectancy of the owner or plan participant and the designated beneficiary, 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, 2014.

**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 \$210,000 payable in the form of a joint and survivor benefit commencing at age 62, is indexed for inflation. The proposal would be effective for taxable years beginning after December 31, 2014.

**Conform Self-Employment Contributions Act (SECA) taxes for professional service businesses.**—The self-employment tax system treats business owners differently according to the legal form of their ownership, rather than their operational roles in the business. In some cases the rules are outdated and do not reflect significant changes to State law business forms. As a result, many owners of pass-through entities avoid payroll tax on income that looks like self-employment earnings and that would be taxed as self-employment earnings (subject

to employment taxes) if the business had a different legal structure. The Administration proposes to tax owners of pass-through businesses providing professional services consistently, regardless of the legal form of the organization. Owners who provide services and materially participate in a business that provides professional services would be subject to self-employment tax on their distributive shares of income, as currently applied to general partners and sole proprietors. Owners who do not materially participate would be subject to self-employment tax only on an amount equal to reasonable compensation for services provided. The proposal would be effective for taxable years beginning after December 31, 2014.

### Other Revenue Raisers

**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 in (other than on the premises where produced for extracting oil or natural gas) 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, 2014, 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, 2014.

**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 2014, with expiration for periods and tax years after 2024. 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 2015. 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, 2014.

**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, 2015.

**Provide short-term tax relief to employers and expand Federal Unemployment Tax Act (FUTA) base.**—The lingering effects of the economic downturn continue 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 2014 and 2015 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 2017, 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 to conform to the new FUTA taxable wage base. This will put State UI systems on a firmer financial footing for the future.

**Enhance and modify the conservation easement deduction.**—A deduction is generally available for charitable contributions of cash and property. In general, no charitable deduction is allowed for a contribution of a partial interest in property. An exception to this rule allows a donor to deduct the value of a conservation easement (a partial interest) that is donated to a qualified charitable organization exclusively for conservation purposes,



including the preservation of recreational outdoor spaces and certain certified historical structures. 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. Special rules for the deductibility of qualified conservation contributions were temporarily enacted, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2005, and before January 1, 2014. The Administration proposes the following enhancements and modifications to the conservation easement deduction.

**Enhance and make permanent incentives for the donation of conservation easements.**—The Pension Protection Act of 2006 temporarily raised the percentage-of-income limitations for gifts of conservation easements made after December 31, 2005, allowing individuals to deduct up to 50 percent of their contribution base (generally, AGI) and allowing individuals who are qualified farmers and ranchers to deduct up to 100 percent of their contribution base. Certain corporate farmers and ranchers could deduct the value of contributions of property used in agriculture or livestock production (and restricted so as to remain available for such production) up to 100 percent of taxable income. Additionally, all of these donors could deduct any remaining value of the donated easement over the succeeding 15 years. The Administration proposes to make permanent the temporary enhanced incentives for conservation easement contributions that expired on December 31, 2013. This proposal would be effective for contributions made on or after January 1, 2014.

**Eliminate the deduction for contributions of conservation easements on golf courses.**—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. This proposal would be effective for contributions made after the date of enactment.

**Restrict deductions and harmonize the rules for contributions of conservation easements for historic preservation.**—Concerns have been raised that the deduction amounts claimed for contributions of conservation easements for historic preservation 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.

A 2006 amendment to the Internal Revenue Code added several special rules, including additional substantiation rules, for contributions of easements protecting the exterior of buildings located in registered

historic districts. These rules do not currently apply to buildings listed in the National Register of Historic Places. The Administration proposes to extend these special rules to contributions of conservation easements on buildings listed in the National Register of Historic Places. This proposal would be effective for contributions made after the date of enactment.

**Eliminate deduction for dividends on stock of publicly-traded corporations held in employee stock ownership plans (ESOPs).**—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, dividends paid on employer stock held in an “ESOP account” that is one of the investment options available to employees under a typical 401(k) plan. This special rule has been justified as encouraging employee ownership, which has been viewed as having a productivity incentive effect. However, ownership of stock of a publicly-traded corporation generally does not result in employees owning a significant percentage of the corporation and can result in an excessive concentration of assets intended for retirement security in a single investment. The Administration’s proposal would repeal the deduction for dividends paid with respect to employer stock held by an ESOP that is sponsored by a publicly-traded corporation. This proposal would be effective with respect to dividends paid after the date of enactment.

**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 past mining practices, 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, 2015, 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 under-



ground 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, 2014, to provide additional resources to continue addressing the legacy of abandoned coal mines.

## 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, 2014.

**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 payments of estimated income taxes and SECA taxes. 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, 2014.

**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 ex-

penses). 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 and process (for instance, Pell grants). Only expenses paid net of scholarships qualify 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 2015. The proposal would be effective for tax years beginning after December 31, 2014.

**Provide for reciprocal reporting of information in connection with the implementation of 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 non-resident 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 require certain financial institutions to report the account balance for U.S. financial accounts held by foreign persons, expand the current reporting required with respect to U.S. source income paid to accounts held by foreign persons to include similar non-U.S. source payments, and provide the Secretary of the Treasury with authority to prescribe regulations that would require reporting of such other information that is necessary to enable the IRS to facilitate FATCA implementation by exchanging similar information with cooperative foreign governments in appropriate circumstances. The proposal would be effective for returns required to be filed after December 31, 2015.

**Provide authority to readily share beneficial ownership information of U.S. companies with law enforcement.**—Beneficial ownership of a company generally means the individual or individuals who have a level of control over, or entitlement to, the funds or assets of the company that, as a practical matter, enables

the individual(s), directly or indirectly, to control, manage, or direct the company and the disposition of its funds and assets. Knowledge of beneficial owners can help law enforcement officials identify and investigate criminals who form and misuse U.S. companies to commit financial crimes, including laundering criminal proceeds and financing terrorism through the international banking system. However, such information is not readily available to law enforcement officials because: (1) States do not collect all the relevant information at the time a company is formed, and (2) while the IRS collects such information for many companies (those with an employer identification number or EIN), that information cannot be shared with law enforcement officials without a court order. The proposal would allow the Secretary of the Treasury or his delegate to share beneficial ownership information with law enforcement without a court order to combat money laundering, terrorist financing, and other financial crimes. Such sharing would advance criminal investigations and successful prosecution, and assist in identifying criminal proceeds and assets. In addition, the proposal would require all companies formed in the United States to obtain an EIN, which would provide a universal identifier for these companies. Further, the proposal would provide the Secretary of the Treasury with the authority to impose anti-money laundering/countering the financing of terrorism obligations on persons in the business of forming companies. Finally, the proposal would establish standards for States to improve their regulation and oversight of the incorporation process.

### ***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, regardless of how many information returns are filed (under current law, regulations may require electronic filing only when 250 or more information returns are filed). Also, corporations and partnerships with assets of \$10 million or more would be required to file their tax returns electronically. In addition, regardless of asset size, corporations with more than 10 shareholders and partnerships with more than 10 partners would be required to file their tax returns electronically. The proposal would be effective for taxable years ending after December 31, 2014.

***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, 2014.

***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.

***Increase information sharing to administer excise taxes.***—Current law allows the IRS and the Alcohol and Tobacco Tax and Trade Bureau to disclose specific items of tax return information to permit the effective administration of excise taxes. This disclosure provision is too narrow and prevents effective administration and enforcement of the excise tax rules. The Administration proposes to facilitate excise tax administration and increase collections by amending current law to permit disclosure of tax return information to Department of Homeland Security employees whose job responsibilities include tax administration. The proposal would be effective upon enactment.

### ***Strengthen Tax Administration***

***Impose liability on shareholders to collect unpaid income taxes of applicable corporations.***—Certain

shareholders, corporate officers and directors, and their advisors have engaged in “Intermediary Transaction Tax Shelters.” In a typical case, an intermediary entity purportedly purchases the shareholders’ stock, either after or shortly before the corporation sells its assets. The 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 from selling shareholders as a result of these transactions. The Administration therefore proposes to add a new section to the Internal Revenue Code that would impose on the shareholders who sell stock of an “applicable C corporation” secondary liability (without resort to any State law) for payment of such corporation’s unpaid corporate taxes. Shareholders would be liable to the extent they received proceeds, directly or indirectly, for their shares in an applicable C corporation. This proposal would be effective for sales of stock of applicable C corporations occurring on or after April 10, 2013.

**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 (FPLP), Treasury deducts (levies) a portion of a Government payment to an individual or business 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 FPLP, whereby Treasury is authorized to continuously levy up to 15 percent of a payment to a Medicare provider 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, as amended, 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 2015 cap adjustment for the IRS and TTB will fund about \$480 million in enforcement and compliance initiatives and investments above current levels of enforcement and compliance activity. Beyond 2015, the Administration proposes further increases in additional new tax enforcement initiatives each year from 2016 through 2019 and to sustain all of the new initiatives plus inflationary costs via adjustments through 2024. The total cost of starting and sustaining the new initiatives above current levels of enforcement and compliance activity would be roughly \$17 billion over the budget window, and is estimated to generate an additional \$52 billion in revenue over that same period for a net savings of \$35 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 2015 cap adjustment will continue to target international tax compliance and restore previously reduced enforcement levels.

**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. 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. The proposal would be effective for offers-in-compromise submitted after the date of enactment.

**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



laws, including civil and criminal sanctions. The proposal would be effective upon enactment.

***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 aggregate 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 term of imprisonment for not more than five years, a fine of not more than \$250,000 (\$500,000 in the case of a corporation), or both. The proposal would be effective for returns required to be filed after December 31, 2014.

***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 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. The proposal would be effective for disclosures made after enactment.

***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 later 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, 2014.

***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. The proposal would be effective for disclosures made after enactment.

***Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a scannable 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. 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 scannable code that would enable the IRS to convert the paper return into an electronic format. The proposal would be effective for tax returns filed after December 31, 2014.

***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 pro-



hibited 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. The proposal would be effective for payments made after the date of enactment.

***Provide the IRS with greater flexibility to address correctable errors.***—The IRS may correct certain mathematical or clerical errors made on tax returns to reflect the taxpayer's correct tax liability without following the regular deficiency procedures (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 to remove the existing specific grants of math error authority, and provide that "math error authority" will refer only to computational errors and the incorrect use of any table provided by the IRS. In addition, the proposal will add a new category of "correctable errors." Under this new category, the Department of the Treasury would have regulatory authority to permit the IRS to correct errors in cases where (1) the information provided by the taxpayer does not match the information contained in government databases, (2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit, or (3) the taxpayer has failed to include with his or her return documentation that is required by statute. The proposal would increase efficiency by eliminating the need to enact legislation specifically extending math error authority to the IRS on a case-by-case basis, and would promote the efficient use of IRS and taxpayer resources. The proposal would be effective on the date of enactment. However, the IRS' current grant of math error authority would continue to apply until the Department of the Treasury and the IRS issue final regulations addressing correctable errors.

***Make e-filing mandatory for exempt organizations.***—The Administration proposes to require that all Form 8872 and Form 990 series tax and information returns be filed electronically. The proposal would also require the IRS to make the electronically filed returns publicly available in a machine readable format in a timely manner. The proposal would be effective for taxable years beginning after the date of enactment, after allowing time for implementation.

***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 Internal Revenue Code requirements (such as data on coverage needed to test compliance with nondiscrimination rules) and not to DOL's Employee Retirement Income Security Act 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 not be simple or 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, 2014.

***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 proposes an assessable penalty for a failure to comply with a requirement of electronic (or other machine-readable) format for a return that is filed on paper. The amount of the penalty would be \$25,000 for a corporation or \$5,000 for a tax-exempt organization. The penalty would be waived if it is shown that the failure to file electronically is due to reasonable cause. The proposal would be effective for returns required to be electronically filed after December 31, 2014.

***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. The proposal would be effective upon enactment.

***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. The proposal would be effective upon enactment.

**Index all penalties for inflation.**—Currently, the amount of a tax penalty that is a set dollar amount is established when the penalty is added to the Internal Revenue Code and is 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. The 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. This proposal would be effective for tax years beginning after December 31, 2014.

**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. The proposal would be effective upon enactment.

**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.

**Allow States to send notices of intent to offset Federal tax refunds to collect State tax obligations by regular first-class mail instead of certified mail.**—Under current law, the Department of the Treasury, Bureau of Fiscal Service, may offset Federal tax refunds to collect delinquent State income tax obligations only after the State sends the delinquent debtor a notice by certified mail. With respect to all other types of debts, including Federal nontax, child support, and State unemployment insurance compensation debts, the statute is silent as to the notice delivery method. However, the regulations require that for all debts other than State income tax obligations, Federal and State creditor agencies send notices by regular first class mail. Similarly, notice requirements for other debt collection actions, including administrative wage garnishment, do not require delivery by certified mail. The Administration's proposal would remove the statutory requirement to use certified mail, thereby allowing States to send notices for delinquent State income tax obligations by first class mail, saving States certified mail costs and standardizing notice procedures across debt types. The proposal would be effective upon enactment.

**Explicitly provide that the Department of the Treasury and IRS have authority to regulate all paid return preparers.**—Under existing law, the Department of the Treasury and IRS have the authority to regulate individuals who practice before the IRS and have promulgated rules exercising that authority in Circular 230. In June 2011, Circular 230 was revised to reflect rules issued by the Department of the Treasury and IRS clarifying that "practice before the IRS" includes the preparation of a tax return. These revisions also included the creation of Registered Tax Return Preparers, a new category of tax return preparer required to demonstrate their competence by passing an examination and completing annual continuing education requirements. Paid tax return preparers challenged these regulations in *Loving v. Commissioner*. The Court of Appeals for the District of Columbia Circuit determined that these regulations exceeded the IRS's authority. In the interest of furthering tax administration and voluntary compliance by increasing oversight of tax return preparers, the Administration proposes to explicitly provide that the Department of the

Treasury and the IRS have the authority to regulate all paid tax return preparers. The proposal would be effective on or after the date of enactment.

**Rationalize tax return filing due dates so they are staggered.**—The Administration’s proposal would modify tax filing due dates so that the information statements of pass-through entities would be due before individual income tax returns and the income tax returns of non-pass-through entities. The proposal would also accelerate the due date for filing information returns with the IRS or SSA and eliminate the extended due date for electronically filed information returns. Under the Administration’s proposal, which would be effective for returns required to be filed after December 31, 2014: (1) the returns of partnerships (Forms 1065 and Schedules K-1) would be due by March 15; (2) the returns of corporations other than S corporations would be due by April 15; and (3) the date for filing certain information returns with the IRS or SSA would be accelerated to January 31.

**Increase the penalty applicable to paid tax preparers who engage in willful or reckless conduct.**—Current law imposes a penalty on paid tax return preparers for non-willful understatements of tax due to unreasonable positions taken on a return or claim for refund, unless there is reasonable cause for the understatement and the preparer acted in good faith. The penalty for non-willful understatements is the greater of \$1,000 or 50 percent of the income derived (or to be derived) by the preparer with respect to the return or claim for refund. The Internal Revenue Code imposes a separate penalty on paid tax return preparers for understatements that occur due to a paid preparer’s willful or reckless conduct, equal to the greater of \$5,000 or 50 percent of the income derived (or to be derived) by the preparer with respect to the return or claim for refund. Because in many cases 50 percent of the income derived (or to be derived) by a preparer is greater than the fixed-dollar penalty, a preparer is often subject to the same penalty amount regardless of whether the understatement is due to willful or reckless conduct. Having the same penalty for willful and non-willful conduct does not sufficiently discourage willful or reckless conduct and is unfair to paid tax return preparers whose conduct was not willful. The proposal increases the penalty rate for understatements due to willful or reckless conduct to the greater of \$5,000 or 75 percent (instead of the current 50 percent) of the income derived (or to be derived) by the preparer with respect to the return or claim for refund. The proposal would be effective for returns required to be filed after December 31, 2014.

**Enhance administrability of the appraiser penalty.**—Current law imposes a penalty on preparers of appraisals that result in a substantial or gross valuation misstatement. There is an exception to the penalty if the value in the appraisal is “more likely than not” the proper value. Valuations of property are generally provided as a specific value or a range of values that are applicable, not as a value that is “more likely than not” the proper value. Further, there is no coordination between this penalty and the preparer understatement penalty in cases where the person providing the appraisal is also treated

as a paid tax return preparer with respect to the position on the return or claim for refund relying on the valuation in the appraisal. The proposal would increase administrability of the appraiser penalty by replacing the existing “more likely than not” exception with a reasonable cause exception. In addition, under the proposal, an appraiser would not be subject to both penalties for the same conduct. The proposal would be effective for returns required to be filed after December 31, 2014.

**Enhance UI program integrity.**—The Administration proposes to make investments in UI program integrity by increasing funding for in-person Reemployment and Eligibility Assessments, coupled with Reemployment Services, which are conducted by the States. These assessments and supplemental services help ensure that benefits go only to eligible claimants and that they get the services they need to return to work. In general, reduced outlays allow States to keep UI taxes lower, reducing overall receipts to the UI trust funds. The Administration proposes to expand State use of the Separation Information Data Exchange System (SIDES), which already improves program integrity. 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. In addition, the Administration proposes to require States to cross match claimants against the Prisoner Update Processing System (PUPS), which is currently used by some States. Mandating the use of PUPS will reduce or eliminate improper payments to prisoners by identifying claimants ineligible due to incarceration. Finally, the Administration proposes legislation to reduce an individual’s Social Security Disability Insurance (DI) benefit in any month in which that person also receives a State or Federal UI benefit. This proposal would eliminate duplicative payments covering the same period a beneficiary is out of the workforce, while still providing a base level of income support. While the primary impact of this proposal will be to reduce DI benefits, UI benefit outlays will also be reduced.

### 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, 2014.

**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 ITGs 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 ITGs to make this determination, effective for tax years beginning after December 31, 2014.

**Simplify minimum required distribution (MRD) rules.**—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 the joint life expectancy of the owner or plan participant and the designated beneficiary. 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 \$100,000 on a measurement date. The MRD requirements would phase in for individuals with aggregate retirement balances between \$100,000 and \$110,000. 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 Administration also proposes to harmonize the application of the MRD requirements for holders of designated Roth accounts and of Roth IRAs by generally treating Roth IRAs in the same manner as all other tax-favored retirement accounts, i.e., requiring distributions to begin shortly after age 70 1/2, without regard to whether amounts are held in designated Roth accounts or in Roth IRAs. Consistent with this change to the MRD rules for Roth IRAs, individuals also would not be permitted to make additional contributions to Roth IRAs after they reach age 70 1/2. The proposal would be effective for taxpayers attaining age 70 1/2 and taxpayers who die before age 70 1/2 after December 31, 2014.

**Allow all inherited plan and IRA balances 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, 2015.

**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, 2014.

**Repeal preferential dividend rule for publicly traded and publicly offered Real Estate Investment Trusts (REITs).**—REITs and regulated investment companies (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 preferential dividend rule has been repealed for most RICs. The Administration proposes to repeal the preferential dividend rule for publicly traded and publicly offered REITs as well. 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 is-

suer eligibility. The proposal would be effective for bonds issued after the date of enactment.

**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 permitting only new mortgages for first-time homebuyers); 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 five 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 five-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 in-

curred for self-constructed property by eligible taxpayers after December 31, 2014.

**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 is a holdover that addressed the notion common under prior State laws that tied the identity of a partnership to its partners. As this view of partnerships has evolved, the utility of the provision has essentially been eliminated, and it is now primarily a trap for unwary taxpayers. The Administration proposes eliminating technical terminations effective for transfers after December 31, 2014.

**Repeal anti-churning rules of section 197.**—Section 197 of the Internal Revenue Code 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 20 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, 2014.

**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, 2014.

**Repeal the telephone excise tax.**—Current law imposes a three-percent excise tax on amounts paid for taxable communications services, which include local telephone service and toll telephone service. Local telephone service is defined as access to a local telephone system and the privilege of telephonic communication with substantially all persons having telephones in the local system. Taxpayers are no longer required to pay tax on similar services, such as plans that provide bundled local and long distance service for either a flat monthly fee or a charge that varies with the elapsed transmission time for which the service is used. As a result, the only communications services that remain subject to the tax are purely local telephone services, of which the poor and the elderly are the primary users. The Administration proposes to repeal the tax on these services. The proposal would be

effective for amounts paid pursuant to bills first rendered more than 90 days after the date of enactment.

**Increase the standard mileage rate for automobile use by volunteers.**—Under current law, volunteers may deduct the use of their car in the service of charitable organizations at a standard mileage rate of 14 cents per mile driven. This rate is set by statute and is not indexed for inflation; it was last increased in 1997. The Administration proposes to harmonize the standard mileage rate for the charitable contribution deduction with the rate for miles driven for purposes of the medical and moving expense deductions, which are set annually by the IRS to cover the estimated variable costs of operating an automobile. The proposal would be effective for tax years beginning after December 31, 2014.

### 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 would help finance future capital investments in these waterways to support 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 2015.

**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, 2014.

**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.

**Permanently extend and reallocate the travel promotion surcharge.**—Under the Travel Promotion Act of 2009, a \$10 surcharge is added to the existing Electronic System for Travel Authorization user fee that travelers from visa waiver countries pay before arriving in the United States. Under current law, \$100 million of the amount collected from the surcharge in each year may be used by the Corporation for Travel Promotion (BrandUSA) in support of travel promotion activities. The Administration proposes to permanently extend the authorization to collect the surcharge, which is scheduled to expire on September 30, 2015. Under the proposal, 80 percent of the amount collected will be allocated to BrandUSA and 20 percent will be allocated to U.S. Customs and Border Protection. These funds will support BrandUSA's efforts to promote international travel to the United States, thereby increasing U.S. tourism exports, and the hiring of 125 new officers by CBP, which will reduce wait times for travelers entering the United States.

### 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 expired on July 31, 2013, through December 31, 2015.

### Other Initiatives

**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, 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, 2014.



**Modify indexing to prevent deflationary adjustments.**—Many parameters of the tax system – including the size of personal exemptions and standard deductions, the width of income tax rate brackets, the amount of other deductions and credits, and the maximum amount of various saving and retirement deductions – may be adjusted annually for the effects of inflation, based on annual changes in the Consumer Price Index. Under current law, if price levels decline, most (but not all) of the inflation adjustment provisions would permit tax parameters to become smaller, so long as they do not decline to less than their base period values. The Administration proposes to modify inflation adjustment provisions to prevent the size of all indexed tax parameters from decreasing from the previous year’s levels if the underlying price index falls. Subsequent inflation-related increases would be based on the highest previous level of the price index relevant for adjusting the particular tax parameter. The proposal would be effective as of the date of enactment.

**Immigration Reform**

**Enact comprehensive immigration reform.**—The Administration proposes to enact comprehensive immigration reform that strengthens the Nation’s border security, cracks down on employers who hire undocumented workers, and provides a pathway to earned citizenship for individuals who pay a penalty and taxes, learn English, pass a background check, and go to the back of the line. Comprehensive immigration reform will contribute to a safer and more just society, boost economic growth, reduce deficits, and improve the solvency of Social Security. The Administration supports the approach to immigration reform in S. 744, which passed the Senate last year with bipartisan support. The Congressional Budget Office (CBO) estimated that the Senate-passed bill would reduce the deficit by about \$160 billion in the first decade and by about \$850 billion over 20 years. The 2015 Budget includes an allowance for the budget effects of immigration reform based on the CBO cost estimate for this bill.

**Table 12–4. EFFECT OF BUDGET PROPOSALS**  
(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–19	2015–24
<b>Incentives for job creation, clean energy, and manufacturing:</b>													
Provide additional tax credits for investment in qualified property used in a qualifying advanced energy manufacturing project .....			-86	-398	-660	-641	-285	-8	61	66	55	-1,785	-1,896
Designate Promise Zones <sup>1</sup> .....		-366	-693	-641	-609	-594	-588	-582	-583	-598	-622	-2,903	-5,876
Provide new Manufacturing Communities tax credit .....		-20	-104	-275	-454	-589	-676	-737	-749	-646	-414	-1,442	-4,664
Provide a tax credit for the production of advanced technology vehicles .....		-705	-675	-753	-875	-984	-850	-537	-21	281	294	-3,992	-4,825
Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles .....		-54	-86	-71	-64	-65	-47	-14	.....	.....	.....	-340	-401
Modify tax-exempt bonds for ITGs .....		-4	-12	-12	-12	-12	-12	-12	-12	-12	-12	-52	-112
Extend the tax credit for cellulosic biofuel .....	-30	-70	-121	-157	-178	-204	-236	-237	-210	-171	-114	-730	-1,698
Modify and extend the tax credit for the construction of energy-efficient new homes .....	-78	-127	-137	-163	-182	-199	-215	-231	-246	-261	-287	-808	-2,048
Reduce excise taxes on LNG to bring into parity with diesel <sup>2</sup> .....		-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-10	-20
Total, incentives for job creation, clean energy, and manufacturing .....	-108	-1,348	-1,916	-2,472	-3,036	-3,290	-2,911	-2,360	-1,762	-1,343	-1,102	-12,062	-21,540
<b>Incentives for investment in infrastructure:</b>													
Provide America Fast Forward Bonds and expand eligible uses <sup>1</sup> .....			-1	.....	.....	.....	1	-1	-1	.....	1	-1	-1
Allow eligible uses of America Fast Forward Bonds to include financing all qualified private activity bond categories <sup>1</sup> .....		-1	-4	-10	-14	-21	-27	-32	-39	-46	-52	-50	-246
Allow current refundings of State and local governmental bonds .....		-3	-5	-5	-5	-5	-5	-5	-5	-5	-5	-23	-48
Repeal the \$150 million non-hospital bond limitation on all qualified 501(c)(3) bonds .....			-1	-3	-5	-7	-9	-11	-13	-16	-17	-16	-82
Increase national limitation amount for qualified highway or surface freight transfer facility bonds .....			-3	-16	-34	-52	-72	-92	-113	-133	-154	-105	-669
Eliminate the volume cap for private activity bonds for water infrastructure ...			-3	-5	-9	-14	-20	-27	-33	-41	-49	-31	-201



Table 12-4. EFFECT OF BUDGET PROPOSALS—Continued

(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
Increase the 25-percent limit on land acquisition restriction on private activity bonds .....			-2	-4	-8	-11	-15	-19	-23	-27	-32	-25	-141
Allow more flexible research arrangements for purposes of private business use limits .....					-1	-1	-1	-1	-3	-3	-3	-2	-13
Repeal the government ownership requirement for certain types of exempt facility bonds .....		-14	-66	-140	-216	-290	-364	-437	-509	-579	-644	-726	-3,259
Exempt foreign pension funds from the application of FIRPTA .....		-114	-196	-205	-216	-227	-238	-250	-262	-275	-289	-958	-2,272
Total, incentives for investment in infrastructure .....		-132	-281	-388	-508	-628	-750	-875	-1,001	-1,125	-1,244	-1,937	-6,932
<b>Tax cuts for families and individuals:</b>													
Expand EITC for workers without qualifying children <sup>1</sup> .....		-490	-6,308	-6,335	-6,362	-6,444	-6,536	-6,653	-6,760	-6,874	-6,978	-25,939	-59,740
Provide for automatic enrollment in IRAs, including a small employer tax credit, and double the tax credit for small employer plan start-up costs <sup>1</sup> .....			-817	-1,276	-1,309	-1,410	-1,552	-1,728	-1,902	-2,137	-2,376	-4,812	-14,507
Expand child and dependent care tax credit <sup>1</sup> .....		-287	-1,064	-1,060	-1,056	-1,045	-1,039	-1,030	-1,021	-1,011	-997	-4,512	-9,610
Extend exclusion from income for cancellation of certain home mortgage debt .....	-2,687	-3,497	-3,343	-825								-7,665	-7,665
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	-3		-5
Provide exclusion from income for student loan forgiveness and for certain scholarship amounts for participants in the IHS Health Professions Programs .....		-6	-14	-14	-15	-16	-18	-19	-20	-21	-22	-65	-165
Make Pell Grants excludable from income <sup>1</sup> .....		-23	-768	-1,184	-1,116	-1,068	-1,019	-977	-938	-904	-867	-4,159	-8,864
Total, tax cuts for families and individuals .....	-2,687	-4,303	-12,314	-10,694	-9,858	-9,983	-10,164	-10,407	-10,641	-10,949	-11,243	-47,152	-100,556
<b>Upper-income tax provisions:</b>													
Reduce the value of certain tax expenditures .....		26,587	43,356	47,943	53,259	58,632	63,750	68,720	73,649	78,581	83,589	229,777	598,066
Implement the Buffett Rule by imposing a new "Fair Share Tax" .....		10,536	-1,241	1,609	4,383	5,598	5,874	6,173	6,427	6,645	7,022	20,885	53,026
Total, upper-income tax provisions .....		37,123	42,115	49,552	57,642	64,230	69,624	74,893	80,076	85,226	90,611	250,662	651,092
<b>Modify estate and gift tax provisions:</b>													
Restore the estate, gift, and GST tax parameters in effect in 2009 .....						15,930	17,309	18,846	20,412	22,250	23,535	15,930	118,282
Require consistency in value for transfer and income tax purposes .....			215	228	242	257	272	290	310	333	354	942	2,501
Require a minimum term for GRATs .....			244	325	411	504	602	711	843	1,004	1,067	1,484	5,711
Limit duration of GST tax exemption .....													
Coordinate certain income and transfer tax rules applicable to grantor trusts .....			59	77	97	125	157	201	256	326	346	358	1,644
Extend the lien on estate tax deferrals where estate consists largely of interest in closely held business .....			19	20	21	22	23	24	26	28	30	82	213
Modify GST tax treatment of HEETs .....			-30	-29	-27	-26	-24	-23	-21	-20	-18	-112	-218
Simplify gift tax exclusion for annual gifts .....			70	138	205	268	328	358	435	517	605	681	2,924
Expand applicability of definition of executor .....													
Total, modify estate and gift tax provisions .....			577	759	949	17,080	18,667	20,407	22,261	24,438	25,919	19,365	131,057
<b>Reform treatment of financial industry institutions and products:</b>													
Impose a financial crisis responsibility fee .....			3,058	6,142	6,271	6,395	6,507	6,673	6,830	6,993	7,155	21,866	56,024
Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt .....		14	38	47	46	44	41	36	32	28	24	189	350





**Table 12-4. EFFECT OF BUDGET PROPOSALS—Continued**  
(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
Index all penalties for inflation .....		45	60	61	62	63	65	66	68	70	71	291	631
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 .....													
Allow States to send notices of intent to offset Federal tax refunds to collect State tax obligations by regular first-class mail instead of certified mail .....													
Explicitly provide that the Department of the Treasury and IRS have authority to regulate all paid return preparers .....													
Rationalize tax return filing due dates so they are staggered <sup>1</sup> .....		210	220	230	242	252	263	273	285	297	309	1,154	2,581
Increase the penalty applicable to paid tax preparers who engage in willful or reckless conduct .....				1	1	1	1	1	1	1	1	3	8
Enhance administrability of the appraiser penalty .....													
Enhance UI program integrity <sup>2</sup> .....			-1	-5	-15	-38	-55	-74	-86	-101	-198	-59	-573
Subtotal, strengthen tax administration .....	309	1,154	2,276	3,630	5,055	6,514	7,724	8,552	9,007	9,322	9,476	18,629	62,710
Total, reduce the tax gap and make reforms .....	313	1,272	2,803	4,578	6,202	7,752	9,063	9,995	10,561	10,994	11,270	22,607	74,490
<b>Simplify the tax system:</b>													
Simplify the rules for claiming the EITC for workers without qualifying children <sup>1</sup> .....		-44	-587	-599	-612	-598	-609	-621	-632	-598	-609	-2,440	-5,509
Modify adoption credit to allow tribal determination of special needs .....						-1	-1	-1	-1	-1	-1	-1	-6
Simplify MRD rules .....		-5	-5	-3	5	19	38	60	88	122	165	11	484
Allow all inherited plan and IRA balances to be rolled over within 60 days .....													
Repeal non-qualified preferred stock designation .....		31	52	51	50	47	44	39	34	30	27	231	405
Repeal preferential dividend rule for publicly traded and publicly offered REITs .....													
Reform excise tax based on investment income of private foundations .....			-4	-4	-5	-5	-5	-5	-6	-6	-7	-18	-47
Remove bonding requirements for certain taxpayers subject to Federal excise taxes on distilled spirits, wine, and beer .....													
Simplify arbitrage investment restrictions .....		-2	-10	-18	-28	-38	-46	-58	-68	-76	-87	-96	-431
Simplify single-family housing mortgage bond targeting requirements .....		-1	-3	-5	-7	-10	-12	-17	-20	-22	-24	-26	-121
Streamline private business limits on governmental bonds .....		-1	-3	-5	-7	-9	-11	-13	-15	-17	-19	-25	-100
Exclude self-constructed assets of small taxpayers from the UNICAP rules .....		-47	-50	-68	-71	-90	-95	-98	-103	-107	-112	-326	-841
Repeal technical terminations of partnerships .....		16	20	21	22	23	23	24	25	25	26	102	225
Repeal anti-churning rules of section 197 .....		-25	-106	-209	-278	-313	-328	-331	-331	-331	-331	-931	-2,583
Repeal special estimated tax payment provision for certain insurance companies .....													
Repeal the telephone excise tax <sup>2</sup> .....		-419	-357	-302	-253	-213	-178	-148	-122	-102	-83	-1,544	-2,177
Increase the standard mileage rate for automobile use by volunteers .....		-16	-47	-45	-44	-44	-44	-45	-46	-48	-49	-196	-428
Total, simplify the tax system .....		-513	-1,100	-1,186	-1,228	-1,232	-1,224	-1,214	-1,197	-1,131	-1,104	-5,259	-11,129



**Table 12-4. EFFECT OF BUDGET PROPOSALS—Continued**

(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
<b>User fees:</b>													
Reform inland waterways funding <sup>2</sup> .....		82	113	113	113	113	113	113	113	113	114	534	1,100
Increase fees for Migratory Bird Hunting and Conservation Stamps .....		14	14	14	14	14	14	14	14	14	14	70	140
Establish a mandatory surcharge for air traffic services <sup>2</sup> .....		725	756	787	816	844	870	894	921	947	973	3,928	8,533
Reauthorize special assessment on domestic nuclear utilities .....		200	204	209	213	218	223	229	234	239	245	1,044	2,214
Permanently extend and reallocate the travel promotion surcharge .....			114	118	123	126	129	132	135	139	142	481	1,158
Total, user fees .....		1,021	1,201	1,241	1,279	1,315	1,349	1,382	1,417	1,452	1,488	6,057	13,145
<b>Trade initiative:</b>													
Extend GSP <sup>2</sup> .....	-372	-696	-161									-857	-857
<b>Other initiatives:</b>													
Allow offset of Federal income tax refunds to collect delinquent State income taxes for out-of-state residents .....													
Authorize the limited sharing of business tax return information to improve the accuracy of important measures of the economy .....													
Eliminate certain reviews conducted by the U.S. TIGTA .....													
Modify indexing to prevent deflationary adjustments .....													
Total, other initiatives .....													
<b>Transition to a reformed business tax system</b> .....		37,500	37,500	37,500	37,500							150,000	150,000
<b>Enact comprehensive immigration reform</b> .....		2,000	12,000	28,000	39,000	45,000	47,000	55,000	64,000	77,000	87,000	126,000	456,000
<b>Total, effect of proposals</b> .....	<b>-2,854</b>	<b>86,378</b>	<b>102,544</b>	<b>144,602</b>	<b>167,144</b>	<b>155,920</b>	<b>166,955</b>	<b>183,992</b>	<b>199,944</b>	<b>221,664</b>	<b>237,715</b>	<b>656,588</b>	<b>1,666,858</b>

<sup>1</sup> This proposal affects both receipts and outlays. Both effects are shown here. The outlay effects included in these estimates are listed below:

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
Designate Promise Zones .....		11	23	23	25	26	28	30	31	33	36	108	266
Provide America Fast Forward Bonds and expand eligible uses .....		216	966	2,051	3,221	4,505	5,878	7,325	8,826	10,360	11,914	10,959	55,262
Allow eligible uses of America Fast Forward Bonds to include financing all qualified private activity bond categories .....		50	227	489	765	1,054	1,356	1,668	1,990	2,319	2,651	2,585	12,569
Expand EITC for workers without qualifying children .....		272	5,436	5,457	5,476	5,545	5,623	5,722	5,811	5,900	5,981	22,186	51,223
Provide for automatic enrollment in IRAs, including a small employer tax credit, and double the tax credit for small employer plan start-up costs .....			96	148	150	152	153	156	160	164	168	546	1,347
Expand child and dependent care tax credit .....			347	342	348	352	362	368	374	382	392	1,389	3,267
Make Pell Grants excludable from income .....			547	959	906	862	824	793	764	735	704	3,274	7,094
Modify reporting of tuition expenses and scholarships on Form 1098-T .....			-20	-20	-20	-20	-20	-20	-20	-21	-21	-80	-182
Provide the IRS with greater flexibility to address correctable errors .....		-3	-6	-7	-7	-7	-8	-8	-8	-9	-9	-30	-72
Rationalize tax return filing due dates so they are staggered .....		-28	-28	-28	-29	-29	-30	-30	-31	-32	-33	-142	-298
Simplify the rules for claiming the EITC for workers without qualifying children .....		26	516	526	538	526	536	546	556	526	536	2,132	4,832
Total, outlay effects of receipt proposals .....		544	8,104	9,940	11,373	12,966	14,702	16,550	18,453	20,357	22,319	42,927	135,308

<sup>2</sup> Net of income offsets.

**Table 12-5. RECEIPTS BY SOURCE**  
(In millions of dollars)

Source	2013 Actual	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Individual income taxes:</b>												
Federal funds .....	1,316,405	1,388,651	1,498,347	1,606,057	1,726,605	1,854,210	1,970,901	2,094,486	2,222,983	2,352,854	2,487,207	2,621,810
Legislative proposal, not subject to PAYGO .....			370	1,265	2,584	3,979	5,428	6,622	7,433	7,853	8,141	8,349
Legislative proposal, subject to PAYGO .....		-2,583	35,225	40,428	51,488	61,874	70,807	77,408	83,635	89,952	96,155	102,943
<b>Total, Individual income taxes .....</b>	<b>1,316,405</b>	<b>1,386,068</b>	<b>1,533,942</b>	<b>1,647,750</b>	<b>1,780,677</b>	<b>1,920,063</b>	<b>2,047,136</b>	<b>2,178,516</b>	<b>2,314,051</b>	<b>2,450,659</b>	<b>2,591,503</b>	<b>2,733,102</b>
<b>Corporation income taxes:</b>												
<b>Federal funds:</b>												
Federal funds .....	273,506	332,524	411,581	463,261	488,226	500,735	512,376	523,683	537,921	552,485	565,651	585,440
Legislative proposal, subject to PAYGO .....		216	36,470	37,107	38,329	37,677	496	1,418	2,389	3,340	4,085	4,746
<b>Total, Federal funds .....</b>	<b>273,506</b>	<b>332,740</b>	<b>448,051</b>	<b>500,368</b>	<b>526,555</b>	<b>538,412</b>	<b>512,872</b>	<b>525,101</b>	<b>540,310</b>	<b>555,825</b>	<b>569,736</b>	<b>590,186</b>
<b>Trust funds:</b>												
Legislative proposal, subject to PAYGO .....			969	1,333	1,422	1,467	1,501	1,515	1,549	1,592	1,634	1,677
<b>Total, Corporation income taxes .....</b>	<b>273,506</b>	<b>332,740</b>	<b>449,020</b>	<b>501,701</b>	<b>527,977</b>	<b>539,879</b>	<b>514,373</b>	<b>526,616</b>	<b>541,859</b>	<b>557,417</b>	<b>571,370</b>	<b>591,863</b>
<b>Social insurance and retirement receipts (trust funds):</b>												
<b>Employment and general retirement:</b>												
Old-age survivors insurance (off-budget) ....	575,555	626,034	646,103	691,109	725,133	765,976	805,611	841,474	887,833	931,920	973,374	1,017,725
Legislative proposal, not subject to PAYGO .....							2	4	5	6	9	16
Legislative proposal, subject to PAYGO .....		2	1,762	2,585	1,340	1,477	2,286	2,565	2,802	3,273	3,455	3,832
Disability insurance (off-budget) .....	97,719	106,296	109,713	117,359	123,136	130,071	136,802	142,892	150,765	158,250	165,290	172,821
Legislative proposal, not subject to PAYGO .....								1	1	1	1	2
Legislative proposal, subject to PAYGO .....			299	438	227	251	387	435	475	556	585	649
Hospital Insurance .....	209,270	219,463	231,046	247,628	260,927	276,262	290,674	303,651	320,331	336,383	351,645	368,484
Legislative proposal, not subject to PAYGO .....									2	2	3	2
Legislative proposal, subject to PAYGO .....		7	679	1,445	1,693	1,945	2,260	2,433	2,597	2,833	2,991	3,203
<b>Railroad retirement:</b>												
Social security equivalent account .....	2,110	2,258	2,302	2,366	2,442	2,516	2,587	2,660	2,733	2,807	2,883	2,951
Rail pension & supplemental annuity ....	2,791	2,891	3,057	3,175	3,276	3,377	3,474	3,570	3,667	3,764	3,862	4,131
<b>Total, Employment and general retirement ...</b>	<b>887,445</b>	<b>956,951</b>	<b>994,961</b>	<b>1,066,105</b>	<b>1,118,174</b>	<b>1,181,877</b>	<b>1,244,086</b>	<b>1,299,688</b>	<b>1,371,212</b>	<b>1,439,799</b>	<b>1,504,098</b>	<b>1,573,819</b>
On-budget .....	(214,171)	(224,619)	(237,084)	(254,614)	(268,338)	(284,100)	(298,995)	(312,316)	(329,330)	(345,790)	(361,383)	(378,773)
Off-budget .....	(673,274)	(732,332)	(757,877)	(811,491)	(849,836)	(897,777)	(945,091)	(987,372)	(1,041,882)	(1,094,009)	(1,142,715)	(1,195,046)
<b>Unemployment insurance:</b>												
Deposits by States <sup>1</sup> .....	48,952	52,064	50,154	49,488	49,219	47,696	47,846	48,671	49,439	51,602	52,818	54,553
Legislative proposal, not subject to PAYGO .....				-1	-5	-16	-34	-48	-62	-75	-85	-146
Legislative proposal, subject to PAYGO .....			7	191	13,130	13,463	9,252	10,377	10,111	8,695	9,506	7,909
Federal unemployment receipts <sup>1</sup> .....	7,748	8,293	8,701	9,534	8,238	5,717	5,818	6,906	6,006	6,099	6,196	6,292
Legislative proposal, subject to PAYGO .....			-2,014	-2,231	477	2,032	1,482	768	2,042	2,327	2,647	2,981
Railroad unemployment receipts <sup>1</sup> .....	111	36	75	134	152	125	92	104	136	146	129	118
<b>Total, Unemployment insurance .....</b>	<b>56,811</b>	<b>60,393</b>	<b>56,923</b>	<b>57,115</b>	<b>71,211</b>	<b>69,017</b>	<b>64,456</b>	<b>66,778</b>	<b>67,672</b>	<b>68,794</b>	<b>71,211</b>	<b>71,707</b>
<b>Other retirement:</b>												
Federal employees retirement-employee share .....	3,538	3,740	3,837	4,029	4,402	4,757	5,162	5,628	6,168	6,793	7,248	8,361
Non-Federal employees retirement <sup>2</sup> .....	26	25	23	22	21	20	19	18	16	15	15	13
<b>Total, Other retirement .....</b>	<b>3,564</b>	<b>3,765</b>	<b>3,860</b>	<b>4,051</b>	<b>4,423</b>	<b>4,777</b>	<b>5,181</b>	<b>5,646</b>	<b>6,184</b>	<b>6,808</b>	<b>7,263</b>	<b>8,374</b>
<b>Total, Social insurance and retirement receipts (trust funds) .....</b>	<b>947,820</b>	<b>1,021,109</b>	<b>1,055,744</b>	<b>1,127,271</b>	<b>1,193,808</b>	<b>1,255,671</b>	<b>1,313,723</b>	<b>1,372,112</b>	<b>1,445,068</b>	<b>1,515,401</b>	<b>1,582,572</b>	<b>1,653,900</b>
On-budget .....	(274,546)	(288,777)	(297,867)	(315,780)	(343,972)	(357,894)	(368,632)	(384,740)	(403,186)	(421,392)	(439,857)	(458,854)

**Table 12-5. RECEIPTS BY SOURCE—Continued**  
(In millions of dollars)

Source	2013 Actual	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Off-budget .....	(673,274)	(732,332)	(757,877)	(811,491)	(849,836)	(897,777)	(945,091)	(987,372)	(1,041,882)	(1,094,009)	(1,142,715)	(1,195,046)
<b>Excise taxes:</b>												
<b>Federal funds:</b>												
Alcohol .....	9,253	9,919	9,948	9,985	10,028	10,202	10,428	10,660	10,903	11,153	11,412	11,668
Tobacco .....	15,083	15,710	15,222	14,992	14,890	14,772	14,729	14,590	14,471	14,036	13,895	13,840
Legislative proposal, subject to PAYGO .....			10,396	13,248	12,468	11,651	10,937	10,294	9,689	9,120	8,585	7,903
Transportation fuels .....	-2,681	-1,649	-858	-879	-901	-911	-941	-959	-961	-964	-961	-960
Telephone and teletype services .....	733	646	558	476	402	338	284	237	197	163	135	110
Legislative proposal, subject to PAYGO .....			-558	-476	-402	-338	-284	-237	-197	-163	-135	-110
High-cost health insurance coverage .....						1,712	6,210	8,286	11,499	15,387	19,961	25,177
Health insurance providers .....		6,400	10,640	11,300	13,380	14,220	14,966	15,867	16,806	17,756	18,770	19,837
Indoor tanning services .....	92	97	103	109	115	121	126	131	136	142	147	152
Medical devices .....	1,343	2,098	2,179	2,257	2,357	2,482	2,621	2,781	2,945	3,127	3,321	3,523
Other Federal fund excise taxes .....	4,507	2,526	2,459	2,469	2,529	2,601	2,686	2,772	2,858	2,952	3,045	3,127
Legislative proposal, subject to PAYGO .....			6	8	14	16	18	20	21	21	21	21
<b>Total, Federal funds</b> .....	<b>28,330</b>	<b>35,747</b>	<b>50,095</b>	<b>53,489</b>	<b>54,880</b>	<b>56,866</b>	<b>61,780</b>	<b>64,442</b>	<b>68,367</b>	<b>72,730</b>	<b>78,196</b>	<b>84,288</b>
<b>Trust funds:</b>												
Transportation .....	36,462	37,936	38,215	38,673	39,193	39,572	40,029	40,623	40,850	41,016	41,034	41,352
Legislative proposal, subject to PAYGO .....			-2	-3	-3	-3	-3	-3	-3	-3	-3	-3
Airport and airway .....	12,854	13,347	13,814	14,407	14,926	15,426	15,887	16,368	16,882	17,388	17,936	18,512
Legislative proposal, subject to PAYGO .....			967	1,008	1,050	1,089	1,124	1,159	1,193	1,227	1,262	1,298
Sport fish restoration and boating safety .....	539	554	572	593	620	649	679	712	741	770	802	831
Tobacco assessments .....	947	1,065	960	960	960	960	960	960	960	960	960	960
Black lung disability insurance .....	531	562	572	547	550	570	362	275	279	286	293	296
Inland waterway .....	75	88	91	94	97	100	101	104	106	109	111	114
Legislative proposal, subject to PAYGO .....			2	2	2	2	2	2	2	2	2	2
Hazardous substance superfund (Legislative proposal, subject to PAYGO) .....			845	1,137	1,150	1,159	1,171	1,184	1,194	1,204	1,215	1,223
Oil spill liability .....	410	495	500	502	546	553	552	549	546	544	540	536
Legislative proposal, subject to PAYGO .....			81	110	116	123	125	132	137	143	149	153
Vaccine injury compensation .....	204	249	256	264	270	277	283	291	298	305	315	324
Leaking underground storage tank .....	162	178	179	180	181	182	182	184	182	183	182	182
Supplementary medical insurance .....	3,216	2,960	3,000	3,000	3,920	4,092	2,904	2,800	2,800	2,800	2,800	2,800
Patient-centered outcomes research .....	277	347	392	420	448	479	513	546	579	614	652	693
<b>Total, Trust funds</b> .....	<b>55,677</b>	<b>57,781</b>	<b>60,444</b>	<b>61,894</b>	<b>64,026</b>	<b>65,230</b>	<b>64,871</b>	<b>65,886</b>	<b>66,746</b>	<b>67,548</b>	<b>68,250</b>	<b>69,273</b>
<b>Total, Excise taxes</b> .....	<b>84,007</b>	<b>93,528</b>	<b>110,539</b>	<b>115,383</b>	<b>118,906</b>	<b>122,096</b>	<b>126,651</b>	<b>130,328</b>	<b>135,113</b>	<b>140,278</b>	<b>146,446</b>	<b>153,561</b>
<b>Estate and gift taxes:</b>												
Federal funds .....	18,912	15,746	17,526	19,020	20,434	21,860	23,169	24,440	26,006	27,499	29,179	31,013
Legislative proposal, subject to PAYGO .....				577	759	949	16,200	17,871	19,784	21,791	24,093	25,666
<b>Total, Estate and gift taxes</b> .....	<b>18,912</b>	<b>15,746</b>	<b>17,526</b>	<b>19,597</b>	<b>21,193</b>	<b>22,809</b>	<b>39,369</b>	<b>42,311</b>	<b>45,790</b>	<b>49,290</b>	<b>53,272</b>	<b>56,679</b>
<b>Customs duties and fees:</b>												
<b>Federal funds:</b>												
Federal funds .....	30,216	33,813	36,161	39,046	42,331	45,606	48,731	51,882	55,216	58,650	62,313	66,616
Legislative proposal, subject to PAYGO .....		-496	-928	-215								
<b>Total, Federal funds</b> .....	<b>30,216</b>	<b>33,317</b>	<b>35,233</b>	<b>38,831</b>	<b>42,331</b>	<b>45,606</b>	<b>48,731</b>	<b>51,882</b>	<b>55,216</b>	<b>58,650</b>	<b>62,313</b>	<b>66,616</b>
<b>Trust funds:</b>												
Trust funds .....	1,599	1,649	1,732	1,846	1,968	2,090	2,203	2,329	2,466	2,606	2,750	2,904
<b>Total, Customs duties and fees</b> .....	<b>31,815</b>	<b>34,966</b>	<b>36,965</b>	<b>40,677</b>	<b>44,299</b>	<b>47,696</b>	<b>50,934</b>	<b>54,211</b>	<b>57,682</b>	<b>61,256</b>	<b>65,063</b>	<b>69,520</b>

**Table 12-5. RECEIPTS BY SOURCE—Continued**  
(In millions of dollars)

Source	2013 Actual	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Miscellaneous receipts:</b>												
<b>Federal funds:</b>												
Miscellaneous taxes .....	663	504	503	503	503	503	504	504	504	504	504	505
Deposit of earnings, Federal Reserve System .....	75,767	90,422	88,292	58,097	33,774	20,069	24,942	34,181	43,496	46,896	53,906	58,336
Transfers from the Federal Reserve .....	518	534	583	604	626	650	661	672	683	696	707	719
Fees for permits and regulatory and judicial services .....	13,530	13,704	29,331	27,740	28,030	24,943	27,440	28,970	28,218	27,886	27,691	28,668
Legislative proposal, subject to PAYGO .....			266	580	591	601	611	620	629	583	592	601
Fines, penalties, and forfeitures .....	9,600	10,330	10,391	14,009	30,353	33,523	32,548	33,961	35,650	37,530	39,518	41,741
Legislative proposal, subject to PAYGO .....				1	1	6	4	3	2	2	2	2
Refunds and recoveries .....	-33	-44	-42	-42	-42	-42	-42	-42	-42	-42	-42	-42
<b>Total, Federal funds .....</b>	<b>100,045</b>	<b>115,450</b>	<b>129,324</b>	<b>101,492</b>	<b>93,836</b>	<b>80,253</b>	<b>86,668</b>	<b>98,869</b>	<b>109,140</b>	<b>114,055</b>	<b>122,878</b>	<b>130,530</b>
<b>Trust funds:</b>												
United Mine Workers of America, combined benefit fund .....	33	30	27	25	23	27	20	15	13	12	11	10
Defense cooperation .....	297	127	297	396	359	573	597	608	275	133	136	139
Inland waterways (Legislative proposal, subject to PAYGO) .....			80	111	111	111	111	111	111	111	111	112
Fines, penalties, and forfeitures .....	2,263	1,957	1,961	1,549	1,590	1,678	1,537	1,581	1,627	1,674	1,723	1,774
<b>Total, Trust funds .....</b>	<b>2,593</b>	<b>2,114</b>	<b>2,365</b>	<b>2,081</b>	<b>2,083</b>	<b>2,389</b>	<b>2,265</b>	<b>2,315</b>	<b>2,026</b>	<b>1,930</b>	<b>1,981</b>	<b>2,035</b>
<b>Total, Miscellaneous receipts .....</b>	<b>102,638</b>	<b>117,564</b>	<b>131,689</b>	<b>103,573</b>	<b>95,919</b>	<b>82,642</b>	<b>88,933</b>	<b>101,184</b>	<b>111,166</b>	<b>115,985</b>	<b>124,859</b>	<b>132,565</b>
<b>Allowance for immigration reform .....</b>			<b>2,000</b>	<b>12,000</b>	<b>28,000</b>	<b>39,000</b>	<b>45,000</b>	<b>47,000</b>	<b>55,000</b>	<b>64,000</b>	<b>77,000</b>	<b>87,000</b>
<b>Total, budget receipts .....</b>	<b>2,775,103</b>	<b>3,001,721</b>	<b>3,337,425</b>	<b>3,567,952</b>	<b>3,810,779</b>	<b>4,029,856</b>	<b>4,226,119</b>	<b>4,452,278</b>	<b>4,705,729</b>	<b>4,954,286</b>	<b>5,212,085</b>	<b>5,478,190</b>
On-budget .....	(2,101,829)	(2,269,389)	(2,579,548)	(2,756,461)	(2,960,943)	(3,132,079)	(3,281,028)	(3,464,906)	(3,663,847)	(3,860,277)	(4,069,370)	(4,283,144)
Off-budget .....	(673,274)	(732,332)	(757,877)	(811,491)	(849,836)	(897,777)	(945,091)	(987,372)	(1,041,882)	(1,094,009)	(1,142,715)	(1,195,046)

<sup>1</sup> Deposits by States cover the benefit part of the program. Federal unemployment receipts cover administrative costs at both the Federal and State levels. Railroad unemployment receipts cover both the benefits and administrative costs of the program for the railroads.

<sup>2</sup> Represents employer and employee contributions to the civil service retirement and disability fund for covered employees of Government-sponsored, privately owned enterprises and the District of Columbia municipal government.





## 13. 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 2013, gross outlays to the public were \$4,076 billion,<sup>1</sup> or 24.5 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 2013, net outlays were \$3,455 billion or 20.8 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 2013, governmental receipts were \$2,775 billion or 16.7 percent of GDP and the deficit was \$680 billion, or 4.1 percent of GDP.

There are two sources of offsetting receipts and offsetting collections: from the public and from other budget accounts. In 2013, offsetting receipts and offsetting collections from the public were \$622 billion, while intragovernmental offsetting receipts and offsetting collections were \$1,041 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 13-1).<sup>2</sup>

<sup>1</sup> Gross outlays to the public are derived by subtracting intragovernmental outlays from gross outlays. For 2013, gross outlays were \$5,118 billion. Intragovernmental outlays are payments from one Government account to another Government account. For 2013, intragovernmental outlays totaled \$1,041 billion.

<sup>2</sup> For the purposes of this discussion, “collections from the public” include collections from non-budgetary Government accounts, such as credit financing accounts and deposit funds. For more information on these non-budgetary accounts, see Chapter 10, “Coverage of the Budget.”

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.<sup>3</sup> 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 (\$8.8 billion in 2013) 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.<sup>4</sup> Most of the offsetting collections and offsetting receipts in this category derive from fees from Government regulatory services or Government licenses, and include, for example, charges for regulating the nuclear energy industry, bankruptcy filing fees, immigration fees, food inspection fees, passport fees, and patent and trademark fees.

A third source of offsetting collections and offsetting receipts is intragovernmental transfers. Examples of intragovernmental transfers include interest payments to

<sup>3</sup> Showing collections from business-type transactions as offsets on the spending side of the budget follows the concept recommended by the Report of the President’s Commission on Budget Concepts in 1967 and is discussed in Chapter 9 of this volume, “Budget Concepts.”

<sup>4</sup> Offsetting governmental receipts, which are a subset of offsetting receipts, result from the Government’s exercise of its sovereign power to tax, but by law or tradition 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 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 13–1. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC**  
(In billions of dollars)

	Actual 2013	Estimate	
		2014	2015
<b>Offsetting collections (credited to expenditure accounts):</b>			
<b>User charges:</b>			
Postal Service stamps and other USPS fees (off-budget) .....	72.4	67.2	66.8
Defense Commissary Agency .....	5.9	6.2	6.1
Employee contributions for employees and retired employees health benefits funds .....	13.4	13.8	14.3
Sale of energy:			
Tennessee Valley Authority .....	65.1	64.3	64.6
Bonneville Power Administration .....	3.7	4.0	4.0
All other user charges .....	67.3	67.0	80.8
Subtotal, user charges .....	227.8	222.6	236.7
<b>Other collections credited to expenditure accounts:</b>			
Commodity Credit Corporation fund .....	6.7	6.1	7.0
Supplemental Security Income (collections from the States) .....	3.3	3.3	3.4
Other collections .....	17.4	9.8	7.5
Subtotal, other collections .....	27.5	19.3	17.9
Subtotal, offsetting collections .....	255.3	241.8	254.6
<b>Offsetting receipts (deposited in receipt accounts):</b>			
<b>User charges:</b>			
Medicare premiums .....	68.9	72.9	75.5
Outer Continental Shelf rents, bonuses, and royalties .....	8.9	8.2	8.0
All other user charges .....	30.4	30.6	35.3
Subtotal, user charges deposited in receipt accounts .....	108.2	111.6	118.8
<b>Other collections deposited in receipt accounts:</b>			
Military assistance program sales .....	26.7	31.6	30.5
Interest received from credit financing accounts .....	35.0	51.5	54.6
Proceeds, GSE equity related transactions .....	95.7	68.8	19.0
All other collections deposited in receipt accounts .....	101.0	84.5	43.6
Subtotal, other collections deposited in receipt accounts .....	258.4	236.4	147.6
Subtotal, offsetting receipts .....	366.6	348.0	266.4
<b>Total, offsetting collections and offsetting receipts from the public .....</b>	<b>621.8</b>	<b>589.8</b>	<b>521.0</b>
Total, offsetting collections and offsetting receipts excluding off-budget .....	549.2	522.5	454.1
<b>ADDENDUM:</b>			
User charges that are offsetting collections and offsetting receipts <sup>1</sup> .....	336.0	334.2	355.5
Other offsetting collections and offsetting receipts from the public .....	285.8	255.6	165.5

<sup>1</sup> Excludes user charges that are classified on the receipts side of the budget. For total user charges, see Table 13-3.

funds that hold Government securities (such as the Social Security trust funds), general fund transfers to civilian 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 themselves, with no 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 demon-

strates the total cost to the Government today 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.

**Table 13–2. OFFSETTING RECEIPTS BY TYPE SUMMARY**

(In millions of dollars)

Receipt Type	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
Intragovernmental .....	704,655	704,855	735,380	752,445	771,536	802,461	812,418
Receipts from non-Federal sources:							
Proprietary .....	357,714	337,553	251,575	257,925	265,554	278,827	288,930
Offsetting governmental .....	8,842	10,429	14,872	16,926	22,722	19,584	15,744
Total, receipts from non-Federal sources .....	366,556	347,982	266,447	274,851	288,276	298,411	304,674
Total Offsetting receipts .....	1,071,211	1,052,837	1,001,827	1,027,296	1,059,812	1,100,872	1,117,092

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 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 13–1 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 2015, the table shows that total offsetting collections and offsetting receipts from the public are estimated to be \$521.0 billion or 2.9 percent of GDP. Of these, an estimated \$254.6 billion are offsetting collections and an estimated \$266.4 billion are offsetting receipts. Table 13–1 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 13–2 and 13-5 provide further detail about offsetting receipts, including both offsetting receipts from the public (as summarized in Table 13–1) and intragovernmental transactions. Table 13-5, formerly printed in this chapter, is available on the Internet at [www.budget.gov/budget/Analytical\\_Perspectives](http://www.budget.gov/budget/Analytical_Perspectives) and on the Budget CD-ROM. In total, offsetting receipts are estimated to be \$1,001.8 billion in 2015; \$735.4 billion are from intragovernmental transactions and \$266.4 billion are from the public. The offsetting receipts from the public consist of proprietary receipts (\$251.6 billion) and those classified as offsetting receipts by law or long-standing practice (\$14.9 billion) and 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<sup>5</sup> 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 2015, only an estimated 1.3 percent of user charges are classified as governmental receipts. As summarized in Table 13-3, total user charges for 2015 are estimated to be \$360.3 billion with \$355.5 billion being offsetting collections or offsetting receipts, and accounting for more than half of all offsetting collections and offsetting receipts from the public.

<sup>5</sup> In this chapter, the term “user charge” is generally used and has the same meaning as the term “user fee.” The term “user charge” is the one used in OMB Circular No. A–11, “Preparation, Submission, and Execution of the Budget;” OMB Circular No. A–25, “User Charges;” and Chapter 9 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.



**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 13-1 for offsetting collections and offsetting receipts. User charges exclude certain offsetting collections and offsetting receipts from the public, such as payments received from credit programs, interest, 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.

A narrower definition of user charges could be limited to proceeds from the sale of goods and services, excluding the proceeds from the sale of assets, and to proceeds that are dedicated to financing the goods and services being provided. This definition is similar to one the House of Representatives uses as a guide for purposes of committee jurisdiction. (See the *Congressional Record*, January 3, 1991, p. H31, item 8.) The definition of user charges could be even narrower by excluding regulatory fees and focusing solely on business-type transactions. Alternatively, the user charge definition could be broader than the one used in this chapter by including beneficiary- or liability-based excise taxes.<sup>6</sup>

<sup>6</sup> Beneficiary- and liability-based taxes are terms taken from the Congressional Budget Office, *The Growth of Federal User Charges*, August 1993, and updated in October 1995. Gasoline taxes are an example of beneficiary-based taxes. An example of a liability-based tax is the excise tax that formerly helped fund the hazardous substance superfund in the Environmental Protection Agency. This tax was paid by industry

**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 include 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 include 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

groups to finance environmental cleanup activities related to the industry activity but not necessarily caused by the payer of the fee.

**Table 13-3. GROSS OUTLAYS, USER CHARGES, OTHER OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC, AND NET OUTLAYS**

(In billions of dollars)

	Actual 2013	Estimate	
		2014	2015
Gross outlays to the public .....	4,076.4	4,240.3	4,422.0
Offsetting collections and offsetting receipts from the public:			
User charges <sup>1</sup> .....	336.0	334.2	355.5
Other .....	285.8	255.6	165.5
Subtotal, offsetting collections and offsetting receipts from the public .....	621.8	589.8	521.0
Net outlays .....	3,454.6	3,650.5	3,901.0

<sup>1</sup> \$4.1 billion of the total user charges for 2013 were classified as governmental receipts, and the remainder were classified as offsetting collections and offsetting receipts. \$4.2 billion and \$4.8 billion of the total user charges for 2014 and 2015 are classified as governmental receipts, respectively.

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 generally cover only part of the 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 considered. For example, if fees are charged for entering or using Government-owned land then there must be clear points of entry onto the land and attendants patrolling and monitoring the land's use.

**What amount should be charged?** When the Government is acting in its capacity as sovereign and where user charges are appropriate, 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.<sup>7</sup> If the Government is

<sup>7</sup> Policies for setting user charges are promulgated in OMB Circular No. A-25: "User Charges" (July 8, 1993).

engaged in a purely business-type transaction and economic resources are allocated efficiently, then this market price should be equal to or greater than the Government's full cost of production.

**Classification of user charges in the budget.** As shown in the note to Table 13-3, 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 2015 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 \$355.5 billion in 2015, 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 13-1, an estimated \$236.7 billion of user charges for 2015 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 \$118.8 billion of user charges for 2015 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 13-4, the Administration is proposing new or increased user charges that would, in the aggregate, increase collections by an estimated \$3.1 billion in 2015 and an average of \$13.7 billion per year from 2016-24. 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 9, "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, 2015, and in each subsequent year through February 28, 2019, 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.

**Rural Utilities Service: Infrastructure permitting fee.** The Administration proposes to collect new fees from loan applicants for electric transmission infrastructure projects to cover costs incurred by the agency for participation in public engagement activities, tribal and state consultation, and interagency meetings required to meet environmental review requirements. Annual collections are estimated to be \$105,000.

**Rural Housing Service: Guaranteed Underwriting System (GUS) fee.** The 2015 Budget includes a proposal that would require a \$50 per loan guaranteed underwriting fee for lenders who participate in the section 502 single family housing loan guarantee program, which would

become a dedicated funding source to offset the cost of systems upgrades and maintenance for the GUS.

### Department of Commerce

*National Oceanic and Atmospheric Administration (NOAA): Infrastructure permitting fee.* The budget includes a proposal to allow NOAA to collect user fees from private entities for activities related to regulatory permitting. This authority would allow NOAA to expedite studies and data collection supporting decision-making in collaboration with private entities seeking regulatory permits. Annual collections are estimated to be \$100,000.

### Department of Health and Human Services

*Food and Drug Administration (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.

### Department of Homeland Security

*Transportation Security Administration (TSA): Aviation passenger security fee increase.* Since 2001 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 pursuant to the Aviation and Transportation Security Act. Pursuant to the Bipartisan Budget Act of 2013 (BBA), starting in July 2014, this fee will be restructured into a single per-trip charge and increased to \$5.60 per one-way trip. Over the next 10 years, this restructured fee is projected to provide \$4.3 billion in additional discretionary offsetting collections and \$12.6 billion for deficit reduction.

The 2015 Budget proposes an authority to increase the \$5.60 fee established by the BBA to \$6.00 for fiscal year 2015, which will generate \$195 million in additional

discretionary offsetting collections. Under this proposal, discretionary collections from the passenger fee would cover approximately 39 percent of the costs of TSA aviation security programs. The 2015 Budget also proposes to authorize TSA to increase the aviation passenger security fee annually by 50 cents from fiscal years 2016 to 2018, resulting in a fee of \$7.50 in 2018, capturing 44 percent of the costs of aviation security in 2018 and 62 percent by 2024. This proposal would increase receipts by an estimated \$11.3 billion between fiscal years 2016 to 2024. Of that amount, \$5.9 billion will be categorized as discretionary offsetting collections to pay for the costs of aviation security while the remaining \$5.4 billion will be deposited in the general fund to help offset the cost of the proposed Opportunity, Growth, and Security Initiative.

*TSA: Aviation security infrastructure fee.* Since the establishment of TSA, air carriers have paid a fee reflecting the aviation industry's share of the costs for screening passengers and property as well as providing other aviation security services. This fee, known as the Aviation Security Infrastructure Fee, was authorized in 2001 by the Aviation and Transportation Security Act and will total \$420 million in 2014. The Bipartisan Budget Act of 2013 repealed the Aviation Security Infrastructure Fee, effective October 1, 2014. Such a repeal would cause offsetting collections to decrease by \$4.2 billion over ten years. The 2015 Budget proposes that TSA continue to collect the Aviation Security Infrastructure Fee in fiscal year 2015. The 2015 Budget also proposes to authorize TSA to collect the Aviation Security Infrastructure Fee permanently in the future while providing a mechanism for the agency to more equitably apportion the collection of \$420 million among air carriers on the basis of current market share.

### Department of Housing and Urban Development

*Federal Housing Administration (FHA): Administrative support fee.* The Budget requests authority to charge lenders using FHA mortgage insurance an administrative support fee, which would generate an estimated \$30 million annually in offsetting collections. These additional collections will offset the cost of enhancements to administrative contract support and FHA staffing, with a focus on increasing the number of loans reviewed annually for quality assurance.

### 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 2015, 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



2015, 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 2015, 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.

*Fish and Wildlife Service (FWS): Non-toxic shot review and approval fees.* The Migratory Bird Treaty Act of 1918, as amended, authorized the Secretary of the Interior to regulate the take of migratory birds. As part of that responsibility, FWS currently approves non-toxic shot under 50 CFR 10.134. The Budget proposes to allow for the spending of a new fee for the review of non-toxic shot that FWS recently established pursuant to regulation at 50 CFR Part 20. The new fee is \$20,000 per application, and will be collected pursuant to the general fee authority found in 31 U.S.C. 9701. No fees have yet been collected, but the anticipated fee collection over 10 years is less than \$400,000.

### 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. Revenues 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 2016, and it is estimated that annual HSR fees would total \$340 million (\$170 million for each of Federal Trade Commission and DOJ Antitrust Division), an increase of \$126 million per year (\$63 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.

*Occupational Safety and Health Administration (OSHA): OSHA Training Institute fees.* The OSHA Training Institute provides compliance and safety train-

ing for occupational health and safety professionals in State and Federal governments, and the private sector. The Administration proposes to increase the amount OSHA is authorized to retain for fees collected from course tuition and training fees from \$200,000 to \$499,000.

### 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, 2015. 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 2015 as a result of this change.

### Department of Transportation (DOT)

*Safe Transport of Oil fee.* To respond to emerging concerns with the transport of crude oil by rail or truck, in addition to regulatory or other measures, the 2015 Budget establishes a new one-time appropriated fund to provide \$40 million in discretionary resources to support prevention and response activities associated with the safe transportation of crude oil. Because this effort is a partnership with industry, the Administration also proposes to give the Secretary of Transportation additional temporary authority from 2016 through 2020 to share costs with industry (i.e., charging fees) to offset costs associated with ensuring that these cargoes move safely.

### Commodity Futures Trading Commission (CFTC)

*CFTC fee.* The Budget proposes an amendment to the Commodity Exchange Act, effective in 2016, 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.

### Consumer Product Safety Commission (CPSC)

*Import surveillance user fee.* The fee, effective in 2016, will support a new CPSC initiative to keep dangerous products out of the hands of U.S. consumers. CPSC will proactively detect and stop hazardous products that do not meet safety standards from entering U.S. ports, while expediting compliant trade. The program will use a risk-



based methodology as a cost-efficient means to target and inspect high risk imports.

### **Federal Maritime Commission (FMC)**

*Filing and service fees.* The FMC is an independent federal agency responsible for regulating the U.S. international ocean transportation system for the benefit of U.S. exporters, importers and consumers. Fees are collected by FMC for filing ocean freight transportation intermediary license applications, service contracts, service agreements, and passenger vessel performance and casualty certificate applications; for filing petitions and complaints; for providing public information services, such as record searches and admissions to practice before the Commission in adjudications; and for other services. The Budget includes a proposal to permanently reclassify FMC fees from mandatory receipts that are currently being collected pursuant to the general fee authority found in 31 USC 9701 and deposited into the General Fund of the Treasury to discretionary offsetting collections triggered by appropriations language each year. The proposal allows the Commission to retain up to \$300,000 for necessary agency expenses to better align the Commission with the self-financing structure of other federal 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): 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.

*CBP: Immigration inspection user fee (IUF) increase and lifting of IUF fee limitation.* The Budget includes a proposal to increase the immigration inspection user fee by \$2. The current fees are \$7 for air and commercial vessel passengers and \$3 for partially exempted commer-

cial vessel passengers whose trips originate in Canada, Mexico, the U.S. Territories and adjacent Islands. This fee is paid by passengers and is used to recover some of the costs related to determining the admissibility of passengers entering the US. 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. CBP has also identified several automation and technology development initiatives to improve its business processes related to cruise ship processing, should this fee increase be realized, including mobile devices for passenger processing; automated passport control and Global Entry Kiosks; and Entry/Exit Biometric technology development, all for the cruise environment.

The Budget also includes a proposal to lift the exemption for passengers traveling from those partially-exempt regions so that the same fee will be applied to all sea passengers. As noted, each sea passenger arriving in the United States is charged a \$7 fee if his or her journey originated from a place outside of the United States except for certain regions. Lifting this fee limitation will bring collections more in line with the cost of conducting sea passenger inspections as well as help modernize and create more efficient and effective business processes and systems in the cruise environment. Together, the additional receipts collected from these increases would fund 1,210 new CBP officers, which will reduce wait times at air and sea ports of entry, especially as cruise volumes continue to grow as projected in future years. 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): Pipeline design review fees.* The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 (P.L. 112-90) established a new fee for companies engaged in the design, permitting, and construction of new pipeline projects. The legislation allowed for the collection of the fee as a mandatory receipt with the spending subject to appropriations. No fees have been collected to date pursuant to this authority. The Consolidated Appropriations Act of 2014 provided the authority to retain fees collected in FY 2014 pursuant to P.L. 112-90. However, since the Administration would like to use these fees as an offset for discretionary spending and does not wish to collect them as a mandatory receipt in exactly the manner prescribed in P.L. 112-90, the Administration proposes collection of this fee pursuant to appropriations language.

*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. USDA issues labels for biobased products through the BioPreferred® program 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 Labor

*Pension Benefit Guaranty Corporation (PBGC): Premium increases.* PBGC acts as a backstop to protect pension payments for workers whose companies have failed. Currently, PBGC's pension insurance programs are underfunded, and its liabilities far exceed its assets. PBGC receives no taxpayer funds and its premiums are currently much lower than what a private financial institution would charge for insuring the same risk. The Budget proposes to give the PBGC Board the authority to adjust premiums and directs PBGC to take into account the risks that different sponsors pose to their retirees and to PBGC. This reform will both encourage companies to fully fund their pension benefits and ensure the continued financial soundness of PBGC. This proposal is estimated to save \$20 billion over the next decade.

#### Department of Transportation

*Federal Aviation Administration (FAA): Aviation war-risk insurance.* The authority of the Department of Transportation (DOT) to provide aviation war risk insurance expires on September 30, 2014. With the goal of utilizing private capacity to manage aviation war risk, the Administration proposes to reform the program, beginning in FY 2015, by only covering losses resulting from the use of nuclear, bio-chemical, and radioactive (NBCR) attacks and providing a backstop that would trigger FAA full war risk insurance for 90 days in the event of a widespread cancellation of coverage by the private insurance market. Air carriers would be free to negotiate the charge for commercial war risk coverage in the private insurance market. FAA would offer NBCR coverage, and air carriers would pay premiums to FAA for this coverage.

#### Environmental Protection Agency (EPA)

*Confidential Business Information management fee.* EPA receives filings under the Toxic Substances Control Act that may contain information claimed as confidential

business information (CBI). The Budget proposes to expand EPA's existing authority to collect fees to recover a portion of the costs of reviewing and maintaining the CBI.

### 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 2015.

*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 \$28 million in 2015.

*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.

#### 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 2018, this proposal would restructure income-related premiums by increasing the lowest income-related premium 5 percentage points and creating new tiers every 12.5 percentage points 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 who need the subsidy the least.

*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 2018 who purchase Medigap policies with par-

ticularly 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 Homeland Security

*CBP: Permanently extend and reallocate the travel promotion surcharge.* Under the Travel Promotion Act of 2009, a \$10 surcharge is added to the existing Electronic System for Travel Authorization (ESTA) user fee that travelers from visa waiver countries pay before arriving in the United States. Under current law, \$100 million of the amount collected from the surcharge in each year may be used by the Corporation for Travel Promotion (BrandUSA) in support of travel promotion activities. The Administration proposes to permanently extend the authorization to collect the surcharge, which is scheduled to expire September 30, 2015. Under the proposal, 80 percent of the amount collected will be allocated to BrandUSA (listed below as governmental receipts), and 20 percent will be allocated to CBP. These funds will support BrandUSA's efforts to promote international travel to the U.S., thereby increasing U.S. tourism exports, and the hiring of 125 new officers by CBP, which will reduce wait times for travelers entering the U.S.

*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 incrementally over 2016-2018. The fee would be \$7.50 per one-way trip beginning in 2018 and would generate \$5.4 billion in mandatory receipts over the 10-year budget window, which would be deposited in the general fund to help offset the cost of the proposed Opportunity, Growth, and Security Initiative.

### 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 roy-

alty 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 receipts 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 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.

### Environmental Protection Agency (EPA)

*Pre-manufacture notice fee.* EPA currently collects fees from chemical manufacturers seeking to market new chemicals. These fees are authorized by the Toxic Substances Control Act and are subject to a statutory cap. The Budget proposes to lift the cap so that EPA can recover a greater portion of the program cost.

### 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. These receipts would help offset the cost of the proposed Opportunity, Growth, and Security Initiative.

*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 2015-2024. These receipts would help offset the cost of the proposed Opportunity, Growth, and Security Initiative.



*Auction or assign via fee 1675-1680 megahertz.* The Budget proposes 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.<sup>8</sup> The land and water interests located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 20 years. The

Administration proposes to increase these fees to \$25 per stamp per year, effective beginning in 2015.

#### Department of Transportation

*FAA: 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, 2014.

#### 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.

#### Corporation for Travel Promotion (BrandUSA)

*Permanently extend and reallocate the travel promotion surcharge.* Under the Travel Promotion Act of 2009, a \$10 surcharge is added to the existing ESTA user fee that travelers from visa waiver countries pay before arriving in the United States. Under current law, \$100 million of the amount collected from the surcharge in each year may be used by the Corporation for Travel Promotion (BrandUSA) in support of travel promotion activities. The Administration proposes to permanently extend the authorization to collect the surcharge, which is scheduled to expire September 30, 2015. Under the proposal, 80 percent of the amount collected will be allocated to BrandUSA and 20 percent will be allocated to CBP (listed above as mandatory offsetting receipts). These funds will support BrandUSA's efforts to promote international travel to the U.S., thereby increasing U.S. tourism exports, and the hiring of 125 new officers by CBP, which will reduce wait times for travelers entering the U.S.

<sup>8</sup> By law, duck stamp proceeds are available for use without further action by Congress, and, in this way, are similar to offsetting collections.



**Table 13-4. USER CHARGE PROPOSALS IN THE FY 2015 BUDGET<sup>1</sup>**  
(Estimated collections in millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
<b>OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS</b>													
<b>DISCRETIONARY:</b>													
<i>1. Offsetting collections</i>													
<b>Department of Agriculture</b>													
Forest Service: Grazing administrative processing fee .....		5	5	5	5	.....	.....	.....	.....	.....	.....	20	20
Rural Utilities Service: Infrastructure permitting fee .....		*	*	*	*	*	*	*	*	*	*	*	1
Rural Housing Service: Guaranteed Underwriting System fee .....		9	9	9	9	9	9	9	9	9	9	45	90
<b>Department of Commerce</b>													
National Oceanic and Atmospheric Administration: Infrastructure permitting fee .....		*	*	*	*	*	*	*	*	*	*	*	1
<b>Department of Health and Human Services</b>													
Food and Drug Administration (FDA): Food facilities registration, inspection, and import fees .....		229	234	238	243	248	253	258	263	268	274	1,192	2,508
FDA: International courier fees .....		6	6	6	6	6	6	7	7	7	7	30	64
FDA: Cosmetic facility registration fees .....		19	20	20	21	21	21	22	22	23	23	101	212
FDA: Food contact substances notification fee .....		5	5	5	5	6	6	6	6	6	6	26	56
Health Resources and Services Administration: 340B Pharmacy Affairs fee .....		7	7	7	7	7	7	7	7	7	7	35	70
<b>Department of Homeland Security</b>													
Transportation Security Administration (TSA): Aviation passenger security fee increase .....		195	397	523	662	678	695	712	730	753	777	2,455	6,122
TSA: Aviation security infrastructure fee .....		420	420	420	420	420	420	420	420	420	420	2,100	4,200
<b>Department of Housing and Urban Development</b>													
Federal Housing Administration: Administrative support fee .....		30	30	30	30	30	30	30	30	30	30	150	300
<b>Department of the Interior</b>													
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	7	7	.....	.....	.....	.....	.....	.....	.....	21	21
Fish and Wildlife Service: Non-toxic shot review and approval fees .....		*	*	*	*	*	*	*	*	*	*	*	*
<b>Department of Justice</b>													
Antitrust Division: Increase Hart-Scott-Rodino fees .....			63	65	67	69	70	72	74	76	79	264	635
<b>Department of Labor</b>													
Mine Safety and Health Administration: Rock dust analysis fee .....			1	1	1	1	1	1	1	1	1	4	9
Occupational Safety and Health Administration (OSHA): OSHA Training Institute fees .....		*	*	*	*	*	*	*	*	*	*	2	3
<b>Department of State</b>													
Western Hemisphere Travel Initiative surcharge extension .....		344	.....	.....	.....	.....	.....	.....	.....	.....	.....	344	344
Border Crossing Card fee increase .....		17	17	17	17	17	17	17	17	17	17	85	170
<b>Department of Transportation</b>													
Safe Transport of Oil fee .....			20	20	20	20	20	.....	.....	.....	.....	80	100
<b>Commodity Futures Trading Commission (CFTC)</b>													
CFTC fee .....			285	292	298	305	311	318	326	334	343	1,180	2,812
<b>Consumer Product Safety Commission</b>													
Import surveillance user fee .....			18	36	36	36	36	36	36	36	36	126	306
<b>Federal Maritime Commission</b>													
Filing and service fees .....		*	*	*	*	*	*	*	*	*	*	2	3
<b>Federal Trade Commission</b>													
Increase Hart-Scott-Rodino fees .....			63	65	67	69	70	72	74	76	79	264	635

**Table 13–4. USER CHARGE PROPOSALS IN THE FY 2015 BUDGET <sup>1</sup>—Continued**  
(Estimated collections in millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015– 2019	2015– 2024
<i>2. Offsetting receipts</i>													
<b>Department of Department of Homeland Security</b>													
Customs and Border Protection (CBP): COBRA and Express Consignment Courier Facilities fees .....		132	182	189	197	202	207	212	217	222	.....	902	1,760
CBP: Immigration inspection user fee (IUF) increase and lifting of IUF fee limitation .....		200	277	287	300	307	315	322	330	337	345	1,371	3,020
<b>Department of Transportation</b>													
Pipeline and Hazardous Materials Safety Administration (PHMSA): Pipeline design review fees .....		2	2	2	2	2	3	3	3	3	3	10	25
PHMSA: Hazardous materials special permits and approvals fees .....		12	12	12	12	12	13	13	13	13	13	60	125
Subtotal, discretionary user charge proposals .....		1,687	2,128	2,304	2,473	2,513	2,558	2,585	2,633	2,686	2,517	11,109	24,092
<b>MANDATORY:</b>													
<i>1. Offsetting collections</i>													
<b>Department of Agriculture</b>													
Biobased labeling fee .....		1	1	1	1	1	1	1	1	1	1	5	10
<b>Department of Labor</b>													
Pension Benefit Guaranty Corporation: Premium increases .....				1,318	1,648	2,003	2,332	2,662	3,016	3,346	3,676	4,969	20,001
<b>Department of Transportation</b>													
Federal Aviation Administration: Aviation war-risk insurance .....		45	46	46	47	48	49	50	51	51	52	232	485
<b>Environmental Protection Agency</b>													
Confidential Business Information management fee .....			2	1	1	1	2	1	1	1	2	5	12
<i>2. Offsetting receipts</i>													
<b>Department of Agriculture</b>													
Food Safety and Inspection Service: Performance and other charges ....		4	4	4	5	5	5	5	5	5	5	22	47
Grain, Inspection, Packers, and Stockyards Administration: Standardization and licensing activities .....		28	28	29	29	29	30	30	31	32	33	143	299
Animal and Plant Health Inspection Service: Inspection and licensing charges .....		20	27	27	28	29	30	31	32	33	34	131	291
<b>Department of Health and Human Services</b>													
Centers for Medicare and Medicaid Services (CMS): Income-related premium increase under Medicare Parts B and D .....					1,720	2,600	5,760	7,870	9,540	11,530	13,770	4,320	52,790
CMS: Medicare Part B premium surcharge .....					70	160	270	380	510	640	710	230	2,740
CMS: Survey and certification revisit fee .....			5	10	10	20	25	25	25	25	25	45	170
<b>Department of Homeland Security</b>													
CBP: Permanently extend and reallocate the travel promotion surcharge .....			28	30	31	32	32	33	34	35	35	121	290
TSA: Aviation passenger security fee increase .....			200	425	650	660	670	680	690	695	700	1,935	5,370
<b>Department of the Interior</b>													
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 the Federal Land Transaction Facilitation Act .....		4	6	9	12	3	.....	.....	.....	.....	.....	34	34
<b>Environmental Protection Agency</b>													
Pre-manufacture notice fee .....		4	8	8	8	8	8	8	8	8	8	36	76
<b>Federal Communications Commission</b>													
Spectrum license fee authority .....		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 .....		381	802	2,542	5,115	6,324	9,955	12,532	14,720	17,194	19,865	15,164	89,430
Subtotal, user charge proposals that are offsetting collections and offsetting receipts .....		2,068	2,930	4,846	7,588	8,837	12,513	15,117	17,353	19,880	22,382	26,273	113,522

**Table 13-4. USER CHARGE PROPOSALS IN THE FY 2015 BUDGET <sup>1</sup>—Continued**  
(Estimated collections in millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015- 2019	2015- 2024
<b>GOVERNMENTAL RECEIPTS</b>													
<b>Department of Energy</b>													
Reauthorize special assessment on domestic nuclear facilities .....		200	204	209	213	218	223	229	234	239	245	1,044	2,214
<b>Department of the Interior</b>													
Migratory bird hunting and conservation stamp fees .....		14	14	14	14	14	14	14	14	14	14	70	140
<b>Department of Transportation:</b>													
Federal Aviation Administration: Mandatory surcharge for air traffic services .....		725	756	787	816	844	870	894	921	947	973	3,928	8,533
<b>Corps of Engineers - Civil Works</b>													
Reform inland waterways funding .....		82	113	113	113	113	113	113	113	113	114	534	1,100
<b>Corporation for Travel Promotion (BrandUSA)</b>													
Permanently extend and reallocate the travel promotion surcharge .....			114	118	123	126	129	132	135	139	142	481	1,158
Subtotal, governmental receipts user charge proposals .....		1,021	1,201	1,241	1,279	1,315	1,349	1,382	1,417	1,452	1,488	6,057	13,145
<b>Total, user charge proposals .....</b>		<b>3,089</b>	<b>4,131</b>	<b>6,087</b>	<b>8,867</b>	<b>10,152</b>	<b>13,862</b>	<b>16,499</b>	<b>18,770</b>	<b>21,332</b>	<b>23,870</b>	<b>32,330</b>	<b>126,667</b>

\* \$500,000 or less.

<sup>1</sup> A positive sign indicates an increase in collections.

## 14. 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 2013–2019 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, 2013. In most cases, expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity occurring before fiscal year 2013. The estimates are based on the economic assumptions from the Mid-Session Review of the 2014 Budget (except for health tax expenditures which are updated using assumptions in the February FY15 Budget.) The estimates 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.

The total revenue effects for tax expenditures for fiscal years 2013–2019 are displayed according to the Budget’s functional categories in Table 14–1. Descriptions of the specific tax expenditure provisions follow the tables of estimates and the discussion of general features of the tax expenditure concept.

Two baseline concepts—the normal tax baseline and the reference tax law baseline—are used to identify and estimate tax expenditures.<sup>1</sup> For the most part, the two concepts coincide. However, items treated as tax expendi-

tures 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 14–2 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 14–3 ranks the major tax expenditures by the size of their 2015–2019 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 14–1 through 14–3, as well as to the descriptions below.

#### Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 14–1, 14–2, and 14–3 do not necessarily equal the increase in Federal revenues (or the change in the budget

<sup>1</sup> These baseline concepts are thoroughly discussed in Special Analysis G of the 1985 Budget, where the former is referred to as the pre-1983 method and the latter the post-1982 method.



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 14–1 are the totals of individual and corporate income tax revenue effects reported in Table 14–2 and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 14–1 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 14–4. 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 14–4 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 2013 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2013 would cause a de-

ferred tax payments on wages in 2013 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2013 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.
- 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



**Table 14–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2013–2019—Continued**  
(In millions of dollars)

		Total from corporations and individuals							
		2013	2014	2015	2016	2017	2018	2019	2015–19
46	Capital gains treatment of certain income .....	920	800	920	1,060	1,160	1,230	1,280	5,650
47	Income averaging for farmers .....	130	130	130	140	140	140	140	690
48	Deferral of gain on sale of farm refiners .....	20	20	20	20	20	20	20	100
49	Expensing of reforestation expenditures .....	70	70	70	80	80	90	100	420
<b>Commerce and housing:</b>									
Financial institutions and insurance:									
50	Exemption of credit union income .....	2,000	2,070	1,970	2,370	2,700	2,770	3,000	12,810
51	Exclusion of interest on life insurance savings .....	18,930	21,270	23,040	24,690	26,370	28,180	30,090	132,370
52	Special alternative tax on small property and casualty insurance companies .....	10	10	10	10	20	20	20	80
53	Tax exemption of certain insurance companies owned by tax-exempt organizations .....	600	660	690	730	760	790	830	3,800
54	Small life insurance company deduction .....	30	30	40	40	40	40	40	200
55	Exclusion of interest spread of financial institutions .....	210	1,260	1,840	1,940	2,030	2,130	2,230	10,170
Housing:									
56	Exclusion of interest on owner-occupied mortgage subsidy bonds .....	1,230	1,360	1,510	1,700	1,880	2,000	2,140	9,230
57	Exclusion of interest on rental housing bonds .....	1,000	1,090	1,230	1,390	1,520	1,640	1,750	7,530
58	Deductibility of mortgage interest on owner-occupied homes .....	69,020	70,370	73,910	79,830	89,150	100,600	112,840	456,330
59	Deductibility of State and local property tax on owner-occupied homes .....	29,290	31,740	33,880	36,570	39,600	42,730	45,770	198,550
60	Deferral of income from installment sales .....	1,140	1,330	1,470	1,630	1,760	1,860	1,950	8,670
61	Capital gains exclusion on home sales .....	34,270	52,250	56,510	61,110	66,090	71,480	77,300	332,490
62	Exclusion of net imputed rental income .....	72,440	76,220	79,810	83,470	87,900	92,570	97,488	441,238
63	Exception from passive loss rules for \$25,000 of rental loss .....	8,660	9,820	10,360	10,910	11,550	12,240	12,810	57,870
64	Credit for low-income housing investments .....	7,410	8,310	8,280	8,330	8,730	9,080	9,420	43,840
65	Accelerated depreciation on rental housing (normal tax method) .....	1,780	2,090	2,500	3,020	3,560	4,130	4,710	17,920
66	Discharge of mortgage indebtedness .....	3,360	870	0	0	0	0	0	0
Commerce:									
67	Discharge of business indebtedness .....	0	–60	–80	–80	–60	–20	20	–220
68	Exceptions from imputed interest rules .....	20	30	40	40	50	50	60	240
69	Treatment of qualified dividends .....	23,650	23,840	26,650	28,580	30,040	31,290	32,390	148,950
70	Capital gains (except agriculture, timber, iron ore, and coal) .....	68,860	60,030	68,850	79,300	86,950	91,550	95,620	422,270
71	Capital gains exclusion of small corporation stock .....	140	340	480	640	850	1,000	1,010	3,980
72	Step-up basis of capital gains at death .....	23,050	30,780	32,370	34,010	35,750	37,600	39,580	179,310
73	Carryover basis of capital gains on gifts .....	2,870	2,290	2,560	2,810	3,060	3,260	3,400	15,090
74	Ordinary income treatment of loss from small business corporation stock sale .....	60	60	60	60	60	60	60	300
75	Accelerated depreciation of buildings other than rental housing (normal tax method) .....	–7,650	–7,570	–7,540	–7,690	–7,970	–8,350	–8,990	–40,540
76	Accelerated depreciation of machinery and equipment (normal tax method) .....	48,460	15,300	15,470	35,640	52,860	69,300	84,420	257,690
77	Expensing of certain small investments (normal tax method) .....	3,950	–1,180	–2,040	–570	380	1,080	1,570	420
78	Graduated corporation income tax rate (normal tax method) .....	4,300	4,200	4,130	4,100	4,220	4,200	4,370	21,020
79	Exclusion of interest on small issue bonds .....	170	190	210	230	250	280	290	1,260
80	Deduction for US production activities .....	12,860	13,790	14,480	15,200	15,840	16,820	16,150	78,490
81	Special rules for certain film and TV production .....	290	207	120	80	40	10	0	250
<b>Transportation:</b>									
82	Tonnage tax .....	60	70	70	70	80	80	90	520
83	Deferral of tax on shipping companies .....	20	20	20	20	20	20	20	100
84	Exclusion of reimbursed employee parking expenses .....	2,580	2,670	2,780	2,900	3,010	3,110	3,220	15,020
85	Exclusion for employer-provided transit passes .....	710	710	710	770	810	860	920	4,070
86	Tax credit for certain expenditures for maintaining railroad tracks .....	120	60	0	0	0	0	0	0
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities .....	240	230	220	210	200	190	170	990
<b>Community and regional development:</b>									
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 .....	740	820	920	1,030	1,130	1,210	1,300	5,590
90	Exemption of certain mutuals' and cooperatives' income .....	110	120	120	120	130	130	130	630
91	Empowerment zones, the DC enterprise zone, and renewal communities .....	450	350	200	190	190	180	150	910

**Table 14–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2013–2019—Continued**  
(In millions of dollars)

		Total from corporations and individuals							
		2013	2014	2015	2016	2017	2018	2019	2015–19
92	New markets tax credit .....	950	1,010	1,040	1,050	960	750	560	4,360
93	Expensing of environmental remediation costs .....	–180	–180	–170	–160	–160	–160	–160	–810
94	Credit to holders of Gulf Tax Credit Bonds .....	220	240	280	310	340	360	390	1,680
95	Recovery Zone Bonds <sup>6</sup> .....	120	130	150	160	180	190	210	890
96	Tribal Economic Development Bonds .....	20	40	40	60	60	60	60	280
<b>Education, training, employment, and social services:</b>									
Education:									
97	Exclusion of scholarship and fellowship income (normal tax method) .....	2,890	2,980	3,090	3,200	3,310	3,420	3,550	16,570
98	HOPE tax credit .....	0	0	0	0	0	720	7,230	7,950
99	Lifetime Learning tax credit .....	1,810	1,680	1,720	1,740	1,740	1,880	3,100	10,180
100	American Opportunity Tax Credit <sup>7</sup> .....	12,540	15,530	15,240	15,310	15,370	13,760	0	59,680
101	Education Individual Retirement Accounts .....	70	80	100	110	120	130	150	610
102	Deductibility of student-loan interest .....	1,720	1,720	1,780	1,780	1,790	1,790	1,840	8,980
103	Deduction for higher education expenses .....	600	560	0	0	0	0	0	0
104	Qualified tuition programs .....	1,680	1,770	1,900	2,050	2,200	2,350	2,520	11,020
105	Exclusion of interest on student-loan bonds .....	510	560	620	700	760	820	880	3,780
106	Exclusion of interest on bonds for private nonprofit educational facilities .....	2,240	2,480	2,760	3,120	3,430	3,660	3,930	16,900
107	Credit for holders of zone academy bonds <sup>8</sup> .....	200	180	160	130	120	110	100	620
108	Exclusion of interest on savings bonds redeemed to finance educational expenses .....	10	10	10	20	20	20	20	90
109	Parental personal exemption for students age 19 or over .....	5,200	5,320	5,400	5,490	5,570	5,660	5,760	27,880
110	Deductibility of charitable contributions (education) .....	4,550	5,040	5,370	5,810	6,290	6,780	7,290	31,540
111	Exclusion of employer-provided educational assistance .....	710	750	800	850	900	950	1,000	4,500
112	Special deduction for teacher expenses .....	190	170	0	0	0	0	0	0
113	Discharge of student loan indebtedness .....	90	90	90	90	100	100	100	480
114	Qualified school construction bonds <sup>9</sup> .....	580	650	650	650	650	650	650	3,250
Training, employment, and social services:									
115	Work opportunity tax credit .....	900	880	460	250	200	170	130	1,210
116	Employer provided child care exclusion .....	880	920	970	1,040	1,110	1,170	1,240	5,530
117	Employer-provided child care credit .....	10	10	10	10	10	10	10	50
118	Assistance for adopted foster children .....	530	530	560	590	620	660	700	3,130
119	Adoption credit and exclusion <sup>10</sup> .....	450	540	580	600	640	730	660	3,210
120	Exclusion of employee meals and lodging (other than military) .....	2,185	3,700	3,797	3,910	4,032	4,155	4,278	20,172
121	Child credit <sup>11</sup> .....	23,480	23,350	23,500	23,620	23,480	23,450	23,480	117,530
122	Credit for child and dependent care expenses .....	4,160	4,200	4,310	4,460	4,590	4,690	4,760	22,810
123	Credit for disabled access expenditures .....	30	30	30	30	30	40	40	170
124	Deductibility of charitable contributions, other than education and health .....	39,260	43,600	46,630	50,600	54,940	59,390	64,250	275,810
125	Exclusion of certain foster care payments .....	380	380	390	380	370	370	360	1,870
126	Exclusion of parsonage allowances .....	737	720	758	798	840	885	931	4,212
127	Indian employment credit .....	50	40	20	20	20	10	10	80
<b>Health:</b>									
128	Exclusion of employer contributions for medical insurance premiums and medical care <sup>12</sup> ...	185,330	196,010	207,200	217,140	229,000	241,070	256,290	1,150,700
129	Self-employed medical insurance premiums .....	6,140	6,670	6,970	7,240	7,550	7,870	8,170	37,800
130	Medical Savings Accounts / Health Savings Accounts .....	3,110	3,900	4,890	6,110	7,630	9,440	11,720	39,790
131	Deductibility of medical expenses .....	8,010	8,090	8,560	8,910	8,840	9,370	10,510	46,190
132	Exclusion of interest on hospital construction bonds .....	3,430	3,790	4,210	4,740	5,220	5,570	5,970	25,710
133	Refundable Premium Assistance Tax Credit <sup>13</sup> .....	0	0	–3,940	–4,060	–5,740	–6,290	–6,540	–26,570
134	Credit for employee health insurance expenses of small business <sup>14</sup> .....	630	870	1,050	1,040	760	470	330	3,650
135	Deductibility of charitable contributions (health) .....	4,470	4,980	5,350	5,820	6,340	6,880	7,460	31,850
136	Tax credit for orphan drug research .....	1,040	1,260	1,520	1,830	2,210	2,660	3,210	11,430
137	Special Blue Cross/Blue Shield deduction .....	190	230	360	430	480	440	370	2,080
138	Tax credit for health insurance purchased by certain displaced and retired individuals <sup>15</sup> .....	10	0	0	0	0	0	0	0
139	Distributions from retirement plans for premiums for health and long-term care insurance .....	320	360	400	440	460	480	500	2,280



**Table 14-1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2013–2019—Continued**  
(In millions of dollars)

	Total from corporations and individuals								
	2013	2014	2015	2016	2017	2018	2019	2015–19	
<b>Income security:</b>									
140	Exclusion of railroad retirement system benefits .....	380	370	360	350	320	300	270	1,600
141	Exclusion of workers' compensation benefits .....	10,090	10,310	10,500	10,640	10,790	10,950	11,100	53,980
142	Exclusion of public assistance benefits (normal tax method) .....	770	790	820	860	900	940	980	4,500
143	Exclusion of special benefits for disabled coal miners .....	30	30	30	20	20	20	20	110
144	Exclusion of military disability pensions .....	110	110	110	110	110	110	110	550
	Net exclusion of pension contributions and earnings:								
145	Defined benefit employer plans .....	37,860	40,090	42,340	44,750	47,270	49,160	51,440	234,960
146	Defined contribution employer plans .....	50,670	59,380	61,050	77,020	88,740	92,770	94,820	414,400
147	Individual Retirement Accounts .....	19,310	17,450	17,480	18,540	19,630	20,650	21,720	98,020
148	Low and moderate income savers credit .....	1,190	1,200	1,210	1,260	1,300	1,280	1,300	6,350
149	Self-Employed plans .....	19,400	23,300	25,530	28,100	30,890	33,860	37,150	155,530
	Exclusion of other employee benefits:								
150	Premiums on group term life insurance .....	1,910	1,940	1,980	2,030	2,080	2,130	2,180	10,400
151	Premiums on accident and disability insurance .....	310	310	310	320	320	330	330	1,610
152	Income of trusts to finance supplementary unemployment benefits .....	20	20	30	40	40	50	60	220
153	Special ESOP rules .....	1,650	1,730	1,810	1,910	2,000	2,090	2,200	10,010
154	Additional deduction for the blind .....	30	30	30	30	40	40	40	180
155	Additional deduction for the elderly .....	2,380	2,560	2,800	3,040	3,310	3,610	3,850	16,610
156	Tax credit for the elderly and disabled .....	10	10	10	10	10	10	10	50
157	Deductibility of casualty losses .....	310	340	360	380	400	420	430	1,990
158	Earned income tax credit <sup>16</sup> .....	4,070	4,330	4,330	4,400	4,520	4,640	4,550	22,440
<b>Social Security:</b>									
	Exclusion of social security benefits:								
159	Social Security benefits for retired workers .....	26,440	28,730	29,840	30,900	31,920	33,010	34,260	159,930
160	Social Security benefits for disabled workers .....	8,200	8,560	8,740	8,930	9,100	9,250	9,420	45,440
161	Social Security benefits for spouses, dependents and survivors .....	3,760	3,970	4,100	4,300	4,470	4,540	4,740	22,150
<b>Veterans benefits and services:</b>									
162	Exclusion of veterans death benefits and disability compensation .....	4,620	5,080	5,490	5,980	6,500	7,080	7,700	32,750
163	Exclusion of veterans pensions .....	410	430	450	470	480	490	510	2,400
164	Exclusion of GI bill benefits .....	980	1,110	1,160	1,240	1,320	1,410	1,500	6,630
165	Exclusion of interest on veterans housing bonds .....	10	10	20	20	30	30	30	130
<b>General purpose fiscal assistance:</b>									
166	Exclusion of interest on public purpose State and local bonds .....	28,440	31,450	35,010	39,420	43,400	46,340	49,660	213,830
167	Build America Bonds <sup>17</sup> .....	0	0	0	0	0	0	0	0
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes .....	44,020	46,710	49,290	53,450	58,120	62,800	67,140	290,800
<b>Interest:</b>									
169	Deferral of interest on U.S. savings bonds .....	1,020	1,080	1,090	1,100	1,120	1,130	1,140	5,580
<b>Addendum: Aid to State and local governments:</b>									
	Deductibility of:								
	Property taxes on owner-occupied homes .....	29,290	31,740	33,880	36,570	39,600	42,730	45,770	198,550
	Nonbusiness State and local taxes other than on owner-occupied homes .....	44,020	46,710	49,290	53,450	58,120	62,800	67,140	290,800
	Exclusion of interest on State and local bonds for:								
	Public purposes .....	28,440	31,450	35,010	39,420	43,400	46,340	49,660	213,830
	Energy facilities .....	20	30	30	30	30	30	30	150
	Water, sewage, and hazardous waste disposal facilities .....	450	490	560	630	690	730	790	3,400
	Small-issues .....	170	190	210	230	250	280	290	1,260
	Owner-occupied mortgage subsidies .....	1,230	1,360	1,510	1,700	1,880	2,000	2,140	9,230
	Rental housing .....	1,000	1,090	1,230	1,390	1,520	1,640	1,750	7,530
	Airports, docks, and similar facilities .....	740	820	920	1,030	1,130	1,210	1,300	5,590

**Table 14–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2013–2019—Continued**  
(In millions of dollars)

	Total from corporations and individuals							
	2013	2014	2015	2016	2017	2018	2019	2015–19
Student loans .....	510	560	620	700	760	820	880	3,780
Private nonprofit educational facilities .....	2,240	2,480	2,760	3,120	3,430	3,660	3,930	16,900
Hospital construction .....	3,430	3,790	4,210	4,740	5,220	5,570	5,970	25,710
Veterans' housing .....	10	10	20	20	30	30	30	130

<sup>1</sup> Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010. The effect of the grant on outlays (in millions of dollars) is as follows: 2013 \$8,080; 2014 \$4,710; 2015 \$2,520; 2016 \$1,580; 2017 \$330; 2018 \$0; 2019 \$0.

<sup>2</sup> In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2013 \$10; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0; 2018 \$0; 2019 \$0. The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2013 \$350; 2014 \$200; 2015 \$0; 2016 \$0; 2017 \$0; 2018 \$0; 2019 \$0.

<sup>3</sup> In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2013 \$1600; 2014 \$610; 2015 \$0; 2016 \$0; 2017 \$0; 2018 \$0; 2019 \$0.

<sup>4</sup> In addition, the provision has outlay effects of (in millions of dollars): 2013 \$40; 2014 \$50; 2015 \$50; 2016 \$50; 2017 \$50; 2018 \$50; 2019 \$50.

<sup>5</sup> In addition, the provision has outlay effects of (in millions of dollars): 2013 \$50; 2014 \$60; 2015 \$60; 2016 \$60; 2017 \$60; 2018 \$60; 2019 \$60.

<sup>6</sup> In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2013 \$160, 2014 \$160, 2015 \$160, 2016 \$160; and 2017 \$160; 2018 \$160; 2019 \$160.

<sup>7</sup> The figures in the table indicate the effect of the American opportunity tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$4,040; 2014 \$6,170; 2015 \$6,280; 2016 \$6,280; 2017 \$6,090; 2018 \$5,970; 2019 \$2,680.

<sup>8</sup> In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2013 \$20; 2014 \$30; 2015 \$30; 2016 \$30; 2017 \$30; 2018 \$30; and 2019 \$30.

<sup>9</sup> In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2013 \$940; 2014 \$940; 2015 \$940; 2016 \$940; 2017 \$940, 2018 \$940, and 2019 \$940.

<sup>10</sup> The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$0.

<sup>11</sup> The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$21,660; 2014 \$21,680; 2015 \$21,700; 2016 \$21,600; 2017 \$21,680; 2018 \$21,930; and 2019 \$15,790.

<sup>12</sup> The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2013 \$117,920; 2014 \$122,990; 2015 \$127,980; 2016 \$132,400; 2017 \$138,330; 2018 \$145,270; 2019 \$153,870.

<sup>13</sup> In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 \$34,020, 2015 \$55,140; 2016 \$70,610; 2017 \$82,150; 2018 \$86,460; 2019 \$90,600.

<sup>14</sup> In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2013 \$80; 2014 \$100; 2015 \$110; 2016 \$120; 2017 \$110; 2018 \$70; 2019 \$50.

<sup>15</sup> The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$120; 2014 \$30; 2015 \$0;

<sup>16</sup> The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$56,760; 2014 \$58,430; 2015 \$58,070; 2016 \$58,360; 2017 \$59,500; 2018 \$60,900; and 2019 \$59,330.

<sup>17</sup> In addition, Build America Bonds have outlay effects of (in millions of dollars): 2013 \$3,190; 2014 \$3,190; 2015 \$3,190; 2016 \$3,190; 2017 \$3,190; 2018 \$3,190, and 2019 \$3190.

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 14–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2013-2019**  
(In millions of dollars)

	Corporations								Individuals																
	2013	2014	2015	2016	2017	2018	2019	2015-19	2013	2014	2015	2016	2017	2018	2019	2015-19									
<b>National Defense</b>																									
1	Exclusion of benefits and allowances to armed forces personnel .....								11,620	12,620	13,230	12,200	12,310	12,730	13,240	63,710									
<b>International affairs:</b>																									
2	Exclusion of income earned abroad by U.S. citizens .....								4,410	4,310	4,350	4,470	4,730	4,990	5,200	23,740									
3	Exclusion of certain allowances for Federal employees abroad .....								1,100	1,160	1,220	1,280	1,340	1,410	1,480	6,730									
4	Inventory property sales source rules exception .....								3,320	3,600	3,890	4,220	4,560	4,940	5,352	22,962									
5	Deferral of income from controlled foreign corporations (normal tax method) .....								63,440	72,740	75,540	76,380	76,260	73,970	71,060	373,210									
6	Deferred taxes for financial firms on certain income earned overseas .....								6,660	2,700	0	0	0	0	0	0									
<b>General science, space, and technology:</b>																									
7	Expensing of research and experimentation expenditures (normal tax method) .....								5,340	4,730	4,480	5,080	5,800	6,450	6,760	28,570	500	430	320	370	430	480	510	2,110	
8	Credit for increasing research activities .....								7,910	5,150	3,040	2,740	2,460	2,200	1,940	12,380	520	270	130	120	110	100	90	550	
<b>Energy:</b>																									
9	Expensing of exploration and development costs, fuels .....								460	430	430	490	500	460	430	2,310	90	80	80	100	100	90	90	460	
10	Excess of percentage over cost depletion, fuels .....								450	560	650	760	880	1,010	1,140	4,440	80	110	130	160	190	220	250	950	
11	Alternative fuel production credit .....								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 .....																20	20	20	20	20	20	20	100	
13	Capital gains treatment of royalties on coal																90	80	90	110	120	120	130	570	
14	Exclusion of interest on energy facility bonds .....								10	10	10	10	10	10	10	50	10	20	20	20	20	20	20	20	100
15	Energy production credit <sup>1</sup> .....								1,250	1,780	2,250	2,500	2,530	2,410	2,350	12,040	420	590	750	830	840	800	780	4,000	
16	Energy investment credit <sup>1</sup> .....								1,560	1,470	1,180	1,100	680	180	-20	3,120	390	370	290	280	170	40	0	780	
17	Alcohol fuel credits <sup>2</sup> .....								10	0	0	0	0	0	0	0	30	10	10	0	0	0	0	10	
18	Bio-Diesel and small agri-biodiesel producer tax credits <sup>3</sup> .....								10	10	0	0	0	0	0	0	10	10	0	0	0	0	0	0	0
19	Tax credits for clean-fuel burning vehicles ....								60	100	120	130	100	50	20	420	210	340	550	550	550	350	130	2,130	
20	Exclusion of utility conservation subsidies ...								20	20	20	20	10	10	10	70	320	320	320	320	310	310	310	1,570	
21	Credit for holding clean renewable energy bonds <sup>4</sup> .....								20	20	20	20	20	20	20	100	50	50	50	50	50	50	50	250	
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy .....									-60	-220	-220	-200	-170	-140	-950	0	0	0	0	0	0	0	0	0
23	Credit for investment in clean coal facilities								170	190	130	40	20	-10	-10	170	10	10	10	0	0	0	0	10	
24	Temporary 50% expensing for equipment used in the refining of liquid fuels .....								600	-100	-700	-830	-870	-800	-660	-3,860	0	0	0	0	0	0	0	0	
25	Natural gas distribution pipelines treated as 15-year property .....								100	100	100	110	110	120	120	560	0	0	0	0	0	0	0	0	
26	Amortize all geological and geophysical expenditures over 2 years .....								80	80	100	100	90	80	80	450	20	30	30	30	30	20	20	130	
27	Allowance of deduction for certain energy efficient commercial building property ...								30	20	10	0	0	-10	-10	-10	40	20	10	0	0	-10	-10	-10	
28	Credit for construction of new energy efficient homes .....								50	40	20	10	0	0	0	30	100	80	40	10	0	0	0	50	
29	Credit for energy efficiency improvements to existing homes .....																610	0	0	0	0	0	0	0	
30	Credit for energy efficient appliances .....								150	130	120	100	0	0	0	220	0	0	0	0	0	0	0	0	
31	Credit for residential energy efficient property .....								0	0	0	0	0	0	0	0	960	1,060	1,170	1,300	540	0	0	3,010	
32	Qualified energy conservation bonds <sup>5</sup> .....								10	10	10	10	10	10	10	50	10	20	20	20	20	20	20	100	
33	Advanced Energy Property Credit .....								210	110	90	0	0	-10	-10	70	0	0	0	0	0	0	0		
34	Advanced nuclear power production credit ....									0	0	0	160	350	440	950	0	0	0	0	50	120	150	320	

**Table 14-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2013-2019—Continued**  
(In millions of dollars)

	Corporations								Individuals								
	2013	2014	2015	2016	2017	2018	2019	2015-19	2013	2014	2015	2016	2017	2018	2019	2015-19	
<b>Natural resources and environment:</b>																	
35	Expensing of exploration and development costs, nonfuel minerals .....	50	50	50	60	60	60	60	290	0	0	0	0	0	0	0	0
36	Excess of percentage over cost depletion, nonfuel minerals .....	540	540	550	560	570	580	590	2,850	40	50	40	40	40	40	50	210
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities ....	140	120	160	200	230	230	240	1,060	310	370	400	430	460	500	550	2,340
38	Capital gains treatment of certain timber income .....									90	80	90	110	120	120	130	570
39	Expensing of multiperiod timber growing costs .....	170	180	180	190	200	210	230	1,010	110	120	120	130	130	130	130	640
40	Tax incentives for preservation of historic structures .....	490	500	510	520	530	540	550	2,650	80	80	90	90	90	90	90	450
41	Industrial CO2 capture and sequestration tax credit .....	80	80	80	130	250	120	0	580	0	0	0	0	0	0	0	0
42	Deduction for endangered species recovery expenditures .....	10	10	10	10	10	10	10	50	10	10	10	20	20	20	20	90
<b>Agriculture:</b>																	
43	Expensing of certain capital outlays .....	10	10	10	10	10	10	10	50	80	90	90	100	100	110	110	510
44	Expensing of certain multiperiod production costs .....	10	10	10	10	10	10	10	50	130	130	130	130	140	140	150	690
45	Treatment of loans forgiven for solvent farmers .....									40	40	40	40	40	40	40	200
46	Capital gains treatment of certain income ....									920	800	920	1,060	1,160	1,230	1,280	5,650
47	Income averaging for farmers .....									130	130	130	140	140	140	140	690
48	Deferral of gain on sale of farm refiners ....	20	20	20	20	20	20	20	100	0	0	0	0	0	0	0	0
49	Expensing of reforestation expenditures ....	20	20	20	20	20	30	30	120	50	50	50	60	60	60	70	300
<b>Commerce and housing:</b>																	
Financial institutions and insurance:																	
50	Exemption of credit union income .....	2,000	2,070	1,970	2,370	2,700	2,770	3,000	12,810								
51	Exclusion of interest on life insurance savings .....	3,210	3,710	4,100	4,270	4,520	4,820	5,010	22,720	15,720	17,560	18,940	20,420	21,850	23,360	25,080	109,650
52	Special alternative tax on small property and casualty insurance companies ...	10	10	10	10	20	20	20	80								
53	Tax exemption of certain insurance companies owned by tax-exempt organizations .....	600	660	690	730	760	790	830	3,800								
54	Small life insurance company deduction ....	30	30	40	40	40	40	40	200								
55	Exclusion of interest spread of financial institutions .....	0	0	0	0	0	0	0	0	210	1,260	1,840	1,940	2,030	2,130	2,230	10,170
Housing:																	
56	Exclusion of interest on owner-occupied mortgage subsidy bonds .....	380	340	430	540	620	630	650	2,870	850	1,020	1,080	1,160	1,260	1,370	1,490	6,360
57	Exclusion of interest on rental housing bonds .....	310	270	350	440	500	520	530	2,340	690	820	880	950	1,020	1,120	1,220	5,190
58	Deductibility of mortgage interest on owner-occupied homes .....									69,020	70,370	73,910	79,830	89,150	100,600	112,840	456,330
59	Deductibility of State and local property tax on owner-occupied homes .....									29,290	31,740	33,880	36,570	39,600	42,730	45,770	198,550
60	Deferral of income from installment sales ....									1,140	1,330	1,470	1,630	1,760	1,860	1,950	8,670
61	Capital gains exclusion on home sales ..									34,270	52,250	56,510	61,110	66,090	71,480	77,300	332,490
62	Exclusion of net imputed rental income ..									72,440	76,220	79,810	83,470	87,900	92,570	97,488	441,238
63	Exception from passive loss rules for \$25,000 of rental loss .....									8,660	9,820	10,360	10,910	11,550	12,240	12,810	57,870
64	Credit for low-income housing investments .....	7,040	7,890	7,870	7,910	8,290	8,630	8,950	41,650	370	420	410	420	440	450	470	2,190
65	Accelerated depreciation on rental housing (normal tax method) .....	300	340	410	500	600	710	830	3,050	1,480	1,750	2,090	2,520	2,960	3,420	3,880	14,870
66	Discharge of mortgage indebtedness ....									3,360	870	0	0	0	0	0	0



**Table 14-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2013-2019—Continued**  
(In millions of dollars)

	Corporations								Individuals																	
	2013	2014	2015	2016	2017	2018	2019	2015-19	2013	2014	2015	2016	2017	2018	2019	2015-19										
<b>Commerce:</b>																										
67	Discharge of business indebtedness .....								0	-60	-80	-80	-60	-20	20	-220										
68	Exceptions from imputed interest rules ....								20	30	40	40	50	50	60	240										
69	Treatment of qualified dividends .....								23,650	23,840	26,650	28,580	30,040	31,290	32,390	148,950										
70	Capital gains (except agriculture, timber, iron ore, and coal) .....								68,860	60,030	68,850	79,300	86,950	91,550	95,620	422,270										
71	Capital gains exclusion of small corporation stock .....								140	340	480	640	850	1,000	1,010	3,980										
72	Step-up basis of capital gains at death ...								23,050	30,780	32,370	34,010	35,750	37,600	39,580	179,310										
73	Carryover basis of capital gains on gifts ...								2,870	2,290	2,560	2,810	3,060	3,260	3,400	15,090										
74	Ordinary income treatment of loss from small business corporation stock sale ...								60	60	60	60	60	60	60	300										
75	Accelerated depreciation of buildings other than rental housing (normal tax method) .....								-3,450	-3,340	-3,340	-3,440	-3,610	-3,840	-4,230	-18,460	-4,200	-4,230	-4,200	-4,250	-4,360	-4,510	-4,760	-22,080		
76	Accelerated depreciation of machinery and equipment (normal tax method) ..								32,680	8,330	8,090	22,270	34,580	46,660	58,110	169,710	15,780	6,970	7,380	13,370	18,280	22,640	26,310	87,980		
77	Expensing of certain small investments (normal tax method) .....								570	-260	-390	-160	-10	110	200	-250	3,380	-920	-1,650	-410	390	970	1,370	670		
78	Graduated corporation income tax rate (normal tax method) .....								4,300	4,200	4,130	4,100	4,220	4,200	4,370	21,020										
79	Exclusion of interest on small issue bonds .....								50	50	60	70	80	90	90	390	120	140	150	160	170	190	200	870		
80	Deduction for US production activities ....								9,730	10,430	10,950	11,500	11,980	12,720	12,220	59,370	3,130	3,360	3,530	3,700	3,860	4,100	3,930	19,120		
81	Special rules for certain film and TV production .....								230	167	100	60	30	10	0	200	60	40	20	20	10	0	0	50		
<b>Transportation:</b>																										
82	Tonnage tax .....								60	70	70	70	80	80	90	520										
83	Deferral of tax on shipping companies .....								20	20	20	20	20	20	20	100										
84	Exclusion of reimbursed employee parking expenses .....																2,580	2,670	2,780	2,900	3,010	3,110	3,220	15,020		
85	Exclusion for employer-provided transit passes .....																710	710	710	770	810	860	920	4,070		
86	Tax credit for certain expenditures for maintaining railroad tracks .....								100	50	0	0	0	0	0	0	20	10	0	0	0	0	0	0	0	
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		
<b>Community and regional development:</b>																										
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	20	100	
89	Exclusion of interest for airport, dock, and similar bonds .....								230	200	260	330	370	380	400	1,740	510	620	660	700	760	830	900	3,850		
90	Exemption of certain mutuals' and cooperatives' income .....								110	120	120	120	130	130	130	630										
91	Empowerment zones, the DC enterprise zone, and renewal communities .....								180	100	50	50	50	50	40	240	270	250	150	140	140	130	110	670		
92	New markets tax credit .....								930	990	1,020	1,030	940	730	550	4,270	20	20	20	20	20	20	10	90		
93	Expensing of environmental remediation costs .....								-150	-150	-140	-130	-130	-130	-130	-660	-30	-30	-30	-30	-30	-30	-30	-30	-150	
94	Credit to holders of Gulf Tax Credit Bonds. ...								70	60	80	100	110	110	120	520	150	180	200	210	230	250	270	1,160		
95	Recovery Zone Bonds <sup>6</sup> .....								40	30	40	50	60	60	60	270	80	100	110	110	120	130	150	620		
96	Tribal Economic Development Bonds .....								10	10	10	20	20	20	20	90	10	30	30	40	40	40	40	190		
<b>Education, training, employment, and social services:</b>																										
<b>Education:</b>																										
97	Exclusion of scholarship and fellowship income (normal tax method) .....																									
									2,890	2,980	3,090	3,200	3,310	3,420	3,550	16,570										
98	HOPE tax credit .....								0	0	0	0	0	720	7,230	7,950										
99	Lifetime Learning tax credit .....								1,810	1,680	1,720	1,740	1,740	1,880	3,100	10,180										
100	American Opportunity Tax Credit <sup>7</sup> .....								12,540	15,530	15,240	15,310	15,370	13,760	0	59,680										

**Table 14-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2013-2019—Continued**  
(In millions of dollars)

	Corporations								Individuals							
	2013	2014	2015	2016	2017	2018	2019	2015-19	2013	2014	2015	2016	2017	2018	2019	2015-19
101	Education Individual Retirement Accounts .....								70	80	100	110	120	130	150	610
102	Deductibility of student-loan interest .....								1,720	1,720	1,780	1,780	1,790	1,790	1,840	8,980
103	Deduction for higher education expenses ....								600	560	0	0	0	0	0	0
104	Qualified tuition programs .....								1,680	1,770	1,900	2,050	2,200	2,350	2,520	11,020
105	Exclusion of interest on student-loan bonds .....								160	140	180	220	250	260	270	1,180
106	Exclusion of interest on bonds for private nonprofit educational facilities .....								690	610	780	990	1,130	1,160	1,200	5,260
107	Credit for holders of zone academy bonds <sup>8</sup> .....								200	180	160	130	120	110	100	620
108	Exclusion of interest on savings bonds redeemed to finance educational expenses .....								10	10	10	20	20	20	20	90
109	Parental personal exemption for students age 19 or over .....								5,200	5,320	5,400	5,490	5,570	5,660	5,760	27,880
110	Deductibility of charitable contributions (education) .....								730	780	830	870	920	960	990	4,570
111	Exclusion of employer-provided educational assistance .....								710	750	800	850	900	950	1,000	4,500
112	Special deduction for teacher expenses ...								190	170	0	0	0	0	0	0
113	Discharge of student loan indebtedness								90	90	90	90	100	100	100	480
114	Qualified school construction bonds <sup>9</sup> .....								150	160	160	160	160	160	160	800
Training, employment, and social services:																
115	Work opportunity tax credit .....								670	610	300	160	130	110	80	780
116	Employer provided child care exclusion ...								880	920	970	1,040	1,110	1,170	1,240	5,530
117	Employer-provided child care credit .....								10	10	10	10	10	10	10	50
118	Assistance for adopted foster children ....								530	530	560	590	620	660	700	3,130
119	Adoption credit and exclusion <sup>10</sup> .....								450	540	580	600	640	730	660	3,210
120	Exclusion of employee meals and lodging (other than military) .....								2,185	3,700	3,797	3,910	4,032	4,155	4,278	20,172
121	Child credit <sup>11</sup> .....								23,480	23,350	23,500	23,620	23,480	23,450	23,480	117,530
122	Credit for child and dependent care expenses .....								4,160	4,200	4,310	4,460	4,590	4,690	4,760	22,810
123	Credit for disabled access expenditures ...								10	10	10	10	10	20	20	70
124	Deductibility of charitable contributions, other than education and health .....								1,590	1,670	1,740	1,830	1,900	1,970	2,050	9,490
125	Exclusion of certain foster care payments .....								380	380	390	380	370	370	360	1,870
126	Exclusion of parsonage allowances .....								737	720	758	798	840	885	931	4,212
127	Indian employment credit .....								30	20	10	10	10	0	0	30
<b>Health:</b>																
128	Exclusion of employer contributions for medical insurance premiums and medical care <sup>12</sup> .....								185,330	196,010	207,200	217,140	229,000	241,070	256,290	1,150,700
129	Self-employed medical insurance premiums .....								6,140	6,670	6,970	7,240	7,550	7,870	8,170	37,800
130	Medical Savings Accounts / Health Savings Accounts .....								3,110	3,900	4,890	6,110	7,630	9,440	11,720	39,790
131	Deductibility of medical expenses .....								8,010	8,090	8,560	8,910	8,840	9,370	10,510	46,190
132	Exclusion of interest on hospital construction bonds .....								1,060	940	1,190	1,500	1,720	1,760	1,820	7,990
133	Refundable Premium Assistance Tax Credit <sup>13</sup> .....								0	0	-3,940	-4,060	-5,740	-6,290	-6,540	-26,570
134	Credit for employee health insurance expenses of small business <sup>14</sup> .....								190	280	460	470	430	250	170	1,780
135	Deductibility of charitable contributions (health) .....								210	230	240	250	260	280	300	1,330
136	Tax credit for orphan drug research .....								1,040	1,260	1,520	1,830	2,210	2,660	3,210	11,430
137	Special Blue Cross/Blue Shield deduction .								190	230	360	430	480	440	370	2,080

**Table 14-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2013-2019—Continued**  
(In millions of dollars)

	Corporations								Individuals							
	2013	2014	2015	2016	2017	2018	2019	2015-19	2013	2014	2015	2016	2017	2018	2019	2015-19
138 Tax credit for health insurance purchased by certain displaced and retired individuals <sup>15</sup> .....									10	0	0	0	0	0	0	0
139 Distributions from retirement plans for premiums for health and long-term care insurance .....									320	360	400	440	460	480	500	2,280
<b>Income security:</b>																
140 Exclusion of railroad retirement system benefits .....									380	370	360	350	320	300	270	1,600
141 Exclusion of workers' compensation benefits .....									10,090	10,310	10,500	10,640	10,790	10,950	11,100	53,980
142 Exclusion of public assistance benefits (normal tax method) .....									770	790	820	860	900	940	980	4,500
143 Exclusion of special benefits for disabled coal miners .....									30	30	30	20	20	20	20	110
144 Exclusion of military disability pensions .....									110	110	110	110	110	110	110	550
Net exclusion of pension contributions and earnings: .....																
145 Defined benefit employer plans .....									37,860	40,090	42,340	44,750	47,270	49,160	51,440	234,960
146 Defined contribution employer plans .....									50,670	59,380	61,050	77,020	88,740	92,770	94,820	414,400
147 Individual Retirement Accounts .....									19,310	17,450	17,480	18,540	19,630	20,650	21,720	98,020
148 Low and moderate income savers credit ..									1,190	1,200	1,210	1,260	1,300	1,280	1,300	6,350
149 Self-Employed plans .....									19,400	23,300	25,530	28,100	30,890	33,860	37,150	155,530
Exclusion of other employee benefits:																
150 Premiums on group term life insurance ...									1,910	1,940	1,980	2,030	2,080	2,130	2,180	10,400
151 Premiums on accident and disability insurance .....									310	310	310	320	320	330	330	1,610
152 Income of trusts to finance supplementary unemployment benefits .....									20	20	30	40	40	50	60	220
153 Special ESOP rules .....	1,550	1,630	1,710	1,800	1,890	1,980	2,080	9,460	100	100	100	110	110	110	120	550
154 Additional deduction for the blind .....									30	30	30	30	40	40	40	180
155 Additional deduction for the elderly .....									2,380	2,560	2,800	3,040	3,310	3,610	3,850	16,610
156 Tax credit for the elderly and disabled .....									10	10	10	10	10	10	10	50
157 Deductibility of casualty losses .....									310	340	360	380	400	420	430	1,990
158 Earned income tax credit <sup>16</sup> .....									4,070	4,330	4,330	4,400	4,520	4,640	4,550	22,440
<b>Social Security:</b>																
Exclusion of social security benefits:																
159 Social Security benefits for retired workers .....									26,440	28,730	29,840	30,900	31,920	33,010	34,260	159,930
160 Social Security benefits for disabled workers .....									8,200	8,560	8,740	8,930	9,100	9,250	9,420	45,440
161 Social Security benefits for spouses, dependents and survivors .....									3,760	3,970	4,100	4,300	4,470	4,540	4,740	22,150
<b>Veterans benefits and services:</b>																
162 Exclusion of veterans death benefits and disability compensation .....									4,620	5,080	5,490	5,980	6,500	7,080	7,700	32,750
163 Exclusion of veterans pensions .....									410	430	450	470	480	490	510	2,400
164 Exclusion of GI bill benefits .....									980	1,110	1,160	1,240	1,320	1,410	1,500	6,630
165 Exclusion of interest on veterans housing bonds .....	0	0	10	10	10	10	10	50	10	10	10	10	20	20	20	80
<b>General purpose fiscal assistance:</b>																
166 Exclusion of interest on public purpose State and local bonds .....	8,780	7,780	9,930	12,490	14,330	14,640	15,140	66,530	19,660	23,670	25,080	26,930	29,070	31,700	34,520	147,300
167 Build America Bonds <sup>17</sup> .....	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 .....									44,020	46,710	49,290	53,450	58,120	62,800	67,140	290,800

**Table 14-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2013-2019—Continued**  
(In millions of dollars)

	Corporations								Individuals							
	2013	2014	2015	2016	2017	2018	2019	2015-19	2013	2014	2015	2016	2017	2018	2019	2015-19
<b>Interest:</b>																
169 Deferral of interest on U.S. savings bonds ...									1,020	1,080	1,090	1,100	1,120	1,130	1,140	5,580
<b>Addendum: Aid to State and local governments:</b>																
Deductibility of:																
Property taxes on owner-occupied homes .....									29,290	31,740	33,880	36,570	39,600	42,730	45,770	198,550
Nonbusiness State and local taxes other than on owner-occupied homes .....									44,020	46,710	49,290	53,450	58,120	62,800	67,140	290,800
Exclusion of interest on State and local bonds for:																
Public purposes .....	8,780	7,780	9,930	12,490	14,330	14,640	15,140	66,530	19,660	23,670	25,080	26,930	29,070	31,700	34,520	147,300
Energy facilities .....	10	10	10	10	10	10	10	50	10	20	20	20	20	20	20	100
Water, sewage, and hazardous waste disposal facilities .....	140	120	160	200	230	230	240	1,060	310	370	400	430	460	500	550	2,340
Small-issues .....	50	50	60	70	80	90	90	390	120	140	150	160	170	190	200	870
Owner-occupied mortgage subsidies .....	380	340	430	540	620	630	650	2,870	850	1,020	1,080	1,160	1,260	1,370	1,490	6,360
Rental housing .....	310	270	350	440	500	520	530	2,340	690	820	880	950	1,020	1,120	1,220	5,190
Airports, docks, and similar facilities .....	230	200	260	330	370	380	400	1,740	510	620	660	700	760	830	900	3,850
Student loans .....	160	140	180	220	250	260	270	1,180	350	420	440	480	510	560	610	2,600
Private nonprofit educational facilities .....	690	610	780	990	1,130	1,160	1,200	5,260	1,550	1,870	1,980	2,130	2,300	2,500	2,730	11,640
Hospital construction .....	1,060	940	1,190	1,500	1,720	1,760	1,820	7,990	2,370	2,850	3,020	3,240	3,500	3,810	4,150	17,720
Veterans' housing .....	0	0	10	10	10	10	10	50	10	10	10	10	20	20	20	80

<sup>1</sup> Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010. The effect of the grant on outlays (in millions of dollars) is as follows: 2013 \$8,080; 2014 \$4,710; 2015 \$2,520; 2016 \$1,580; 2017 \$330; 2018 \$0; 2019 \$0.

<sup>2</sup> In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2013 \$10; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0; 2018 \$0; 2019 \$0. The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2013 \$350; 2014 \$200; 2015 \$0; 2016 \$0; 2017 \$0; 2018 \$0; 2019 \$0.

<sup>3</sup> In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2013 \$1600; 2014 \$610; 2015 \$0; 2016 \$0; 2017 \$0; 2018 \$0; 2019 \$0.

<sup>4</sup> In addition, the provision has outlay effects of (in millions of dollars): 2013 \$40; 2014 \$50; 2015 \$50; 2016 \$50; 2017 \$50; 2018 \$50; 2019 \$50.

<sup>5</sup> In addition, the provision has outlay effects of (in millions of dollars): 2013 \$50; 2014 \$60; 2015 \$60; 2016 \$60; 2017 \$60; 2018 \$60; 2019 \$60.

<sup>6</sup> In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2013 \$150, 2014 \$140, 2015 \$150, 2016 \$150; and 2017 \$150; 2018 \$150; 2019 \$150.

<sup>7</sup> The figures in the table indicate the effect of the American opportunity tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$4,040; 2014 \$6,170; 2015 \$6,280; 2016 \$6,280; 2017 \$6,090; 2018 \$5,970; 2019 \$2,680.

<sup>8</sup> In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2013 \$20; 2014 \$30; 2015 \$30; 2016 \$30; 2017 \$30; 2018 \$30; and 2019 \$30.

<sup>9</sup> In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2013 \$900; 2014 \$840; 2015 \$900; 2016 \$900; 2017 \$900, 2018 \$900, and 2019 \$900.

<sup>10</sup> The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$0.

<sup>11</sup> The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$21,660; 2014 \$21,680; 2015 \$21,700; 2016 \$21,600; 2017 \$21,680; 2018 \$21,930; and 2019 \$15,790.

<sup>12</sup> The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2013 \$117,920; 2014 \$122,990; 2015 \$127,980; 2016 \$132,400; 2017 \$138,330; 2018 \$145,270; 2019 \$153,870.

<sup>13</sup> In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 \$34,020, 2015 \$55,140; 2016 \$70,610; 2017 \$82,150; 2018 \$86,460; 2019 \$90,600.

<sup>14</sup> In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2013 \$80; 2014 \$100; 2015 \$110; 2016 \$120; 2017 \$110; 2018 \$70; 2019 \$50.

<sup>15</sup> The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$120; 2014 \$30; 2015 \$0;

<sup>16</sup> The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$56,760; 2014 \$58,430; 2015 \$58,070; 2016 \$58,360; 2017 \$59,500; 2018 \$60,900; and 2019 \$59,330.

<sup>17</sup> In addition, Build America Bonds have outlay effects of (in millions of dollars): 2013 \$3,060; 2014 \$2,840; 2015 \$3,060; 2016 \$3,060; 2017 \$3,060; 2018 \$3,060, and 2019 \$3060.

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 14-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2015-2019 PROJECTED REVENUE EFFECT**  
(In millions of dollars)

	Provision	2015	2015-19
128	Exclusion of employer contributions for medical insurance premiums and medical care .....	207,200	1,150,700
58	Deductibility of mortgage interest on owner-occupied homes .....	73,910	456,330
62	Exclusion of net imputed rental income .....	79,810	441,238
70	Capital gains (except agriculture, timber, iron ore, and coal) .....	68,850	422,270
146	Defined contribution employer plans .....	61,050	414,400
5	Deferral of income from controlled foreign corporations (normal tax method) .....	75,540	373,210
61	Capital gains exclusion on home sales .....	56,510	332,490
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes .....	49,290	290,800
124	Deductibility of charitable contributions, other than education and health .....	46,630	275,810
76	Accelerated depreciation of machinery and equipment (normal tax method) .....	15,470	257,690
145	Defined benefit employer plans .....	42,340	234,960
166	Exclusion of interest on public purpose State and local bonds .....	35,010	213,830
59	Deductibility of State and local property tax on owner-occupied homes .....	33,880	198,550
72	Step-up basis of capital gains at death .....	32,370	179,310
159	Social Security benefits for retired workers .....	29,840	159,930
149	Self-Employed plans .....	25,530	155,530
69	Treatment of qualified dividends .....	26,650	148,950
51	Exclusion of interest on life insurance savings .....	23,040	132,370
121	Child credit .....	23,500	117,530
147	Individual Retirement Accounts .....	17,480	98,020
80	Deduction for US production activities .....	14,480	78,490
1	Exclusion of benefits and allowances to armed forces personnel .....	13,230	63,710
100	Lifetime Learning tax credit .....	15,240	59,680
63	Exception from passive loss rules for \$25,000 of rental loss .....	10,360	57,870
141	Exclusion of workers' compensation benefits .....	10,500	53,980
131	Deductibility of medical expenses .....	8,560	46,190
160	Social Security benefits for disabled workers .....	8,740	45,440
64	Credit for low-income housing investments .....	8,280	43,840
130	Medical Savings Accounts / Health Savings Accounts .....	4,890	39,790
129	Self-employed medical insurance premiums .....	6,970	37,800
162	Exclusion of veterans death benefits and disability compensation .....	5,490	32,750
135	Deductibility of charitable contributions (health) .....	5,350	31,850
110	Deductibility of charitable contributions (education) .....	5,370	31,540
7	Expensing of research and experimentation expenditures (normal tax method) .....	4,800	30,680
109	Parental personal exemption for students age 19 or over .....	5,400	27,880
132	Exclusion of interest on hospital construction bonds .....	4,210	25,710
2	Exclusion of income earned abroad by U.S. citizens .....	4,350	23,740
4	Inventory property sales source rules exception .....	3,890	22,962
122	Credit for child and dependent care expenses .....	4,310	22,810
158	Earned income tax credit .....	4,330	22,440
161	Social Security benefits for spouses, dependents and survivors .....	4,100	22,150
78	Graduated corporation income tax rate (normal tax method) .....	4,130	21,020
120	Exclusion of employee meals and lodging (other than military) .....	3,797	20,172
65	Accelerated depreciation on rental housing (normal tax method) .....	2,500	17,920
106	Exclusion of interest on bonds for private nonprofit educational facilities .....	2,760	16,900
155	Additional deduction for the elderly .....	2,800	16,610
97	Exclusion of scholarship and fellowship income (normal tax method) .....	3,090	16,570
15	New technology credit .....	3,000	16,040
73	Carryover basis of capital gains on gifts .....	2,560	15,090
84	Exclusion of reimbursed employee parking expenses .....	2,780	15,020
8	Credit for increasing research activities .....	3,170	12,930
50	Exemption of credit union income .....	1,970	12,810
136	Tax credit for orphan drug research .....	1,520	11,430
104	Qualified Tuition Programs .....	1,900	11,020
150	Premiums on group term life insurance .....	1,980	10,400
99	Lifetime Learning tax credit .....	1,720	10,180
55	Exclusion of interest spread of financial institutions .....	1,840	10,170
153	Special ESOP rules .....	1,810	10,010
56	Exclusion of interest on owner-occupied mortgage subsidy bonds .....	1,510	9,230

**Table 14-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2015-2019 PROJECTED REVENUE EFFECT—Continued**  
(In millions of dollars)

	Provision	2015	2015-19
102	Deductibility of student-loan interest .....	1,780	8,980
60	Deferral of income from installment sales .....	1,470	8,670
98	HOPE tax credit .....	0	7,950
57	Exclusion of interest on rental housing bonds .....	1,230	7,530
3	Exclusion of certain allowances for Federal employees abroad .....	1,220	6,730
164	Exclusion of GI bill benefits .....	1,160	6,630
148	Low and moderate income savers credit .....	1,210	6,350
46	Capital gains treatment of certain income .....	920	5,650
89	Exclusion of interest for airport, dock, and similar bonds .....	920	5,590
169	Deferral of interest on U.S. savings bonds .....	1,090	5,580
116	Employer provided child care exclusion .....	970	5,530
10	Excess of percentage over cost depletion, fuels .....	780	5,390
142	Exclusion of public assistance benefits (normal tax method) .....	820	4,500
111	Exclusion of employer-provided educational assistance .....	800	4,500
92	New markets tax credit .....	1,040	4,360
126	Exclusion of parsonage allowances .....	758	4,212
85	Exclusion for employer-provided transit passes .....	710	4,070
71	Capital gains exclusion of small corporation stock .....	480	3,980
16	Energy investment credit .....	1,470	3,900
53	Tax exemption of certain insurance companies owned by tax-exempt organizations .....	690	3,800
105	Exclusion of interest on student-loan bonds .....	620	3,780
134	Credit for employee health insurance expenses of small business .....	1,050	3,650
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities .....	560	3,400
114	Qualified school construction bonds .....	650	3,250
119	Adoption credit and exclusion .....	580	3,210
118	Assistance for adopted foster children .....	560	3,130
40	Tax incentives for preservation of historic structures .....	600	3,100
36	Excess of percentage over cost depletion, nonfuel minerals .....	590	3,060
31	30% credit for residential purchases/installations of solar and fuel cells .....	1,170	3,010
9	Expensing of exploration and development costs, fuels .....	510	2,770
19	Tax credits for clean-fuel burning vehicles .....	670	2,550
163	Exclusion of veterans pensions .....	450	2,400
139	Distributions from retirement plans for premiums for health and long-term care insurance .....	400	2,280
137	Special Blue Cross/Blue Shield deduction .....	360	2,080
157	Deductibility of casualty losses .....	360	1,990
125	Exclusion of certain foster care payments .....	390	1,870
94	Credit to holders of Gulf Tax Credit Bonds .....	280	1,680
39	Expensing of multiperiod timber growing costs .....	300	1,650
20	Exclusion of utility conservation subsidies .....	340	1,640
151	Premiums on accident and disability insurance .....	310	1,610
140	Exclusion of railroad retirement system benefits .....	360	1,600
34	Advanced nuclear power production credit .....	0	1,270
79	Exclusion of interest on small issue bonds .....	210	1,260
115	Work opportunity tax credit .....	460	1,210
87	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities .....	220	990
91	Empowerment zones, Enterprise communities, and Renewal communities .....	200	910
95	Recovery Zone Bonds .....	150	890
44	Expensing of certain multiperiod production costs .....	140	740
47	Income averaging for farmers .....	130	690
90	Exemption of certain mutuals' and cooperatives' income .....	120	630
107	Credit for holders of zone academy bonds .....	160	620
101	Education Individual Retirement Accounts .....	100	610
41	Industrial CO2 capture and sequestration tax credit .....	80	580
26	Amortize all geological and geophysical expenditures over 2 years .....	130	580
38	Capital gains treatment of certain timber income .....	90	570
13	Capital gains treatment of royalties on coal .....	90	570
43	Expensing of certain capital outlays .....	100	560
25	Natural gas distribution pipelines treated as 15-year property .....	100	560
144	Exclusion of military disability pensions .....	110	550

**Table 14-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2015-2019 PROJECTED REVENUE EFFECT—Continued**  
(In millions of dollars)

Provision		2015	2015-19
82	Tonnage tax .....	70	520
113	Discharge of student loan indebtedness .....	90	480
77	Expensing of certain small investments (normal tax method) .....	-2,040	420
49	Expensing of reforestation expenditures .....	70	420
21	Credit for holding clean renewable energy bonds .....	70	350
74	Ordinary income treatment of loss from small business corporation stock sale .....	60	300
35	Expensing of exploration and development costs, nonfuel minerals .....	50	290
96	Tribal Economic Development Bonds .....	40	280
81	Special rules for certain film and TV production .....	120	250
68	Exceptions from imputed interest rules .....	40	240
152	Income of trusts to finance supplementary unemployment benefits .....	30	220
30	Credit for energy efficient appliances .....	120	220
54	Small life insurance company deduction .....	40	200
45	Treatment of loans forgiven for solvent farmers .....	40	200
154	Additional deduction for the blind .....	30	180
23	Credit for investment in clean coal facilities .....	140	180
123	Credit for disabled access expenditures .....	30	170
88	Investment credit for rehabilitation of structures (other than historic) .....	30	150
32	Qualified energy conservation bonds .....	30	150
14	Exclusion of interest on energy facility bonds .....	30	150
42	Deduction for endangered species recovery expenditures .....	20	140
165	Exclusion of interest on veterans housing bonds .....	20	130
143	Exclusion of special benefits for disabled coal miners .....	30	110
83	Deferral of tax on shipping companies .....	20	100
48	Deferral of gain on sale of farm refiners .....	20	100
12	Exception from passive loss limitation for working interests in oil and gas properties .....	20	100
108	Exclusion of interest on savings bonds redeemed to finance educational expenses .....	10	90
127	Indian employment credit .....	20	80
52	Special alternative tax on small property and casualty insurance companies .....	10	80
28	Credit for construction of new energy efficient homes .....	60	80
33	Advanced Energy Property Credit .....	90	70
156	Tax credit for the elderly and disabled .....	10	50
117	Employer-provided child care credit .....	10	50
17	Alcohol fuel credits .....	10	10
167	Build America Bonds .....	0	0
138	Tax credit for health insurance purchased by certain displaced and retired individuals .....	0	0
112	Special deduction for teacher expenses .....	0	0
103	Deduction for higher education expenses .....	0	0
86	Tax credit for certain expenditures for maintaining railroad tracks .....	0	0
66	Discharge of mortgage indebtedness .....	0	0
29	Credit for energy efficiency improvements to existing homes .....	0	0
18	Bio-Diesel and small agri-biodiesel producer tax credits .....	0	0
11	Alternative fuel production credit .....	0	0
6	Deferred taxes for financial firms on certain income earned overseas .....	0	0
27	Allowance of deduction for certain energy efficient commercial building property .....	20	-20
67	Discharge of business indebtedness .....	-80	-220
93	Expensing of environmental remediation costs .....	-170	-810
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy .....	-220	-950
24	Temporary 50% expensing for equipment used in the refining of liquid fuels .....	-700	-3,860
133	Refundable Premium Assistance Tax Credit .....	-3,940	-26,570
75	Accelerated depreciation of buildings other than rental housing (normal tax method) .....	-7,540	-40,540

**Table 14-4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2013**

(In millions of dollars)

	Provision	2013 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method) .....	36,010
7	Expensing of research and experimentation expenditures (normal tax method) .....	2,310
21	Credit for holding clean renewable energy bonds .....	310
9	Expensing of exploration and development costs - fuels .....	320
35	Expensing of exploration and development costs - nonfuels .....	50
39	Expensing of multiperiod timber growing costs .....	120
44	Expensing of certain multiperiod production costs - agriculture .....	0
43	Expensing of certain capital outlays - agriculture .....	0
49	Expensing of reforestation expenditures .....	30
51	Deferral of income on life insurance and annuity contracts .....	16,860
65	Accelerated depreciation on rental housing .....	5,100
75	Accelerated depreciation of buildings other than rental .....	-15,030
76	Accelerated depreciation of machinery and equipment .....	16,160
77	Expensing of certain small investments (normal tax method) .....	500
107	Credit for holders of zone academy bonds .....	160
64	Credit for low-income housing investments .....	6,780
104	Deferral for state prepaid tuition plans .....	3,070
145	Defined benefit employer plans .....	21,890
146	Defined contribution employer plans .....	66,610
147	Exclusion of IRA contributions and earnings .....	1,660
147	Exclusion of Roth earnings and distributions .....	3,400
147	Exclusion of non-deductible IRA earnings .....	150
149	Exclusion of contributions and earnings for Self-Employed plans .....	3,230
166	Exclusion of interest on public-purpose bonds .....	12,240
	Exclusion of interest on non-public purpose bonds .....	3,980
169	Deferral of interest on U.S. savings bonds .....	220

adjust the cost basis of capital assets and debt for changes in the general price level. Thus, under a comprehensive income tax baseline, the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure (i.e., a tax penalty), and failure to take account of inflation in measuring interest costs would be regarded as a positive tax expenditure (i.e., a tax subsidy).

Although the reference law and normal tax baselines are generally similar, areas of difference include:

**Tax rates.** The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The normal tax baseline is similar, except that, by convention, it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first \$10 million of corporate income are thus regarded as a tax expenditure under the normal tax. By convention, the Alternative Minimum Tax is treated as part of the baseline rate structure under both the reference and normal tax methods.

**Income subject to the tax.** Income subject to tax is defined as gross income less the costs of earning that in-

come. Under the reference tax rules, gross income does not include gifts defined as receipts of money or property that are not consideration in an exchange nor does gross income include most transfer payments from the Government.<sup>2</sup> The normal tax baseline also excludes gifts between individuals from gross income. Under the normal tax baseline, however, all cash transfer payments from the Government to private individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining taxable income under both the reference and normal tax baselines.<sup>3</sup>

**Capital recovery.** Under the reference tax law baseline no tax expenditures arise from accelerated depreciation. Under the normal tax baseline, the depreciation allow-

<sup>2</sup> Gross income does, however, include transfer payments associated with past employment, such as Social Security benefits.

<sup>3</sup> In the case of individuals who hold "passive" equity interests in businesses, the pro-rata shares of sales and expense deductions reportable in a year are limited. A passive business activity is defined generally to be one in which the holder of the interest, usually a partnership interest, does not actively perform managerial or other participatory functions. The taxpayer may generally report no larger deductions for a year than will reduce taxable income from such activities to zero. Deductions in excess of the limitation may be taken in subsequent years, or when the interest is liquidated. In addition, costs of earning income may be limited under the Alternative Minimum Tax.



ance 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, 2013.

### 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 (\$97,600 in 2013), 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. Under current law, this provision expires at the end of 2013.

### 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 invest-

ments 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 of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years. The credit does not apply to expenses paid or incurred after December 31, 2013.

### 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 deple-

tion 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 2013, tax rates on regular income vary from 10 percent to 39.6 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 20 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 20 percent maximum tax rate on capital gains.

**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 qualified cellulosic biofuel production. This provision expired on December 31, 2013.

18. **Bio-Diesel tax credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows an income tax credit for bio-diesel used or sold and for bio-diesel derived from virgin sources. In lieu of the bio-diesel credit, the taxpayer may claim a refundable excise tax credit. In addition, small agri-biodiesel producers are eligible for a separate income tax credit for ethanol production and a separate credit is available for qualified renewable diesel fuel mixtures. This provision expired on December 31, 2013.

19. **Tax credits for clean-fuel burning vehicles and refueling property.**—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a number of credits for certain types of vehicles and property. These are available for alternative fuel vehicle refueling property, fuel cell vehicles, plug-in electric-drive motor vehicles, and two- and three-wheeled plug-in electric vehicles.

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 authorized 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, 2013.

23. **Credit for investment in clean coal facilities.**—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides investment tax credits for clean coal facilities producing electricity and for industrial gasification combined cycle projects.

24. **Temporary 50 percent expensing for equipment used in the refining of liquid fuels.**—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over 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 nor-



mal 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, 2013.

**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, 2013.

**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, 2013.

**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 2013, tax rates on regular income vary from 10 percent to 39.6 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 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.

41. **Industrial CO<sub>2</sub> capture and sequestration tax credit.**—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows a credit of \$20 per metric ton for qualified carbon dioxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit of \$10 per metric ton of qualified carbon dioxide that is captured at a qualified facility and as a tertiary injectant in a qualified enhanced oil or natural gas recovery project.

42. **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

43. **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.

44. **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.

45. **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.

46. **Capital gains treatment of certain income.**—For individuals in 2013, tax rates on regular income vary from 10 percent to 39.6 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 20 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 20 percent maximum tax rate on capital gains.

47. **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.

48. **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.

49. **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.

50. **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.

51. **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.

**52. *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.

**53. *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.

**54. *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.

**55. *Exclusion of interest spread of financial institutions.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Consumers and non-profit organizations pay for some deposit-linked services, such as check cashing, by accepting a below-market interest rate on their demand deposits. If they received a market rate of interest on those deposits and paid explicit fees for the associated services, they would pay taxes on the full market rate and (unlike businesses) could not deduct the fees. The Government thus foregoes tax on the difference between the risk-free market interest rate and below-market interest rates on demand deposits, which

under competitive conditions should equal the value added of deposit services.

**56. *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.

**57. *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.

**58. *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 residence and one secondary residence 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.

**59. *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.

**60. *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 includ-

able 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.

**61. 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.

**62. 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.

**63. 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.

**64. 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.

**65. 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.

**66. 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, 2014.

**67. Discharge of business 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, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge qualified real property business indebtedness by taxpayers other than a C corporation. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled.

**68. 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.

**69. 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 2013, tax rates on regular income vary from 10 percent to 39.6 percent, depending on the taxpayer's income. In contrast, under current law, qualified dividends are taxed at a preferentially low rate that is no higher than 20 percent.

**70. 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 2013, tax rates on regular income vary from 10 percent to 39.6 percent, depending on the taxpayer's income. In contrast, under current law, capital gains on assets held for more than one year are taxed at a preferentially low rate that is no higher than 20 percent.

**71. 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, 2014. A qualified small business is a corporation whose gross assets do not exceed \$50 million as of the date of issuance of the stock.

**72. 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.

**73. 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.

**74. 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.

**75. 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.

**76. 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.

**77. 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.

**78. 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.

**79. 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.

**80. 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.

**81. 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. This provision expires at the end of 2013.



## Transportation

82. **Tonnage tax.**—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. 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.

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.

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 2013, the maximum amount of the parking exclusion is \$245 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. The maximum amount of the transit exclusion is \$130 (indexed) per month in 2014. (There had been a parity provision that had temporary resulted in a higher maximum equal to those for parking passes for several years, which expired on December 31, 2013.)

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. This provision expires at the end of 2013.

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 authority to finance qualified highway or surface freight transfer facilities. The authority to issue these bonds expires on December 31, 2015.

## Community and Regional Development

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.

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, the DC Enterprise Zone, 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 expired December 31, 2013.

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 \$3.5 billion for 2013, the last year for which allocations can be made.

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 allowed local governments to issue up to \$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, local governments could issue up to \$15 billion in tax exempt Recovery Zone Facility Bonds. These bonds financed 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 2013, the credit is phased out ratably for taxpayers with modified AGI between \$107,000 and \$127,000 if married filing jointly (\$53,000 and \$63,000 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 2013, the credit is phased out ratably for taxpayers with modified AGI between \$107,000 and \$127,000 if married filing jointly (\$53,000 and \$63,000 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 2013, 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 expires at the end of 2017.

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 2013 is \$2,000 per beneficiary. In 2013, 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 2013, 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 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, 2013.

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. The total amount of zone academy bonds that may be issued was 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, 2013.

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 \$112,050 and \$142,050 if married filing jointly (\$74,700 and \$89,700 for other taxpayers) in 2013.

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, 2013.

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 vol-



ume limit is \$22.4 billion over 2009 and 2010. As of March 2010, issuers of such bonds could opt to receive direct payment with the yield becoming fully taxable.

**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, 2013 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. Also, certain categories of veterans are eligible for a higher maximum credit of up to \$9,600. 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.

**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 non-recurring adoption expenses; special needs adoptions receive the maximum benefit even if that amount not spent. These payments are excluded from gross income under current law.

**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 \$12,970 per child for 2013, and is phased-out ratably for taxpayers with modified AGI between \$194,580 and \$234,580. 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). After 2017 refundability is based on earnings in excess of \$10,000 indexed from 2000, rather than from \$3,000 (unindexed); taxpayers with three or more children may continue to use the alternative calculation.

**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 2013, 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. Indian employment 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 employers with a tax credit for qualified wages paid to employees who are enrolled members of Indian tribes. The amount of the credit that can be claimed is 20 percent of the excess of qualified wages and health insurance costs paid by the employer in the current tax year over the amount of such wages and costs paid by the employer in 1993. Qualified wages and health insurance costs with respect to any employee for the taxable year may not exceed \$20,000. Employees must live on or near the reservation where he or she works to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed. The credit does not apply to taxable years beginning after December 31, 2013.

## 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 2013, \$3,250 for taxpayers with individual coverage and \$6,450 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 in-

vestment 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 2013, an employee could exclude up to \$17,500 (indexed) of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to \$23,000 in contributions (indexed). The defined contribution plan limit, including both employee and employer contributions, is \$51,000 in 2013 (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 \$5,500 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 \$59,500 for joint filers, \$444,250 for head of household filers, and \$29,500 for other filers in 2013.

**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 \$51,000 in 2013. 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 (to the extent that the employer's share of the total costs does not exceed the cost of \$50,000 of such insurance) even though the employer's costs for the insurance are a deductible business expense.

**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 deduction for a targeted group within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional \$1,500 standard deduction if single, or \$1,200 if married in 2013.

**155. *Additional deduction for the elderly.***—Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group 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 \$1,500 standard deduction if single, or \$1,200 if married in 2013.

**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 or disabled, and up to \$7,500 for joint returns where both spouses are 65 years of age or older or 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 \$9,560 of earned income in 2013. The credit is 40 percent of the first \$13,430 of income for a family with two qualifying children, and it is 45 percent of the first \$13,430 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 \$6,370 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. In 2013, the phasedown for married filers begins at incomes \$5,340 greater than for otherwise similar unmarried filers. Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals. After 2017, the additional benefit for families with three or more children will be eliminated and the marriage penalty relief will be reduced to \$3,000 (indexed from 2008).

### 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, previous-

ly 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 income. (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. (See provision number 159, Social Security benefits for retired workers.)

### 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 could 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. The ability for taxpayers to elect to deduct State and local sales taxes in lieu of State and local income taxes applies to taxable years beginning after December 31, 2003 and before January 1, 2014. (The estimates for this tax expenditure do not include the estimates for the deductibility of State and local property tax on owner-occupied homes. See item 59.)

### 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.<sup>4</sup> Because there is an existing public administrative and private compliance structure for the tax system, income based programs that require little oversight might be efficiently run through the tax system. In addition, some tax expenditures actually simplify the operation of the tax system (for example, the exclusion

<sup>4</sup> Although this chapter focuses upon tax expenditures under the income tax, tax expenditures also arise under the unified transfer, payroll, and excise tax systems. Such provisions can be useful when they relate to the base of those taxes, such as excise tax exemption for certain types of consumption deemed meritorious.

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 dispari-

ties. 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.

### **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 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 example, 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 ef-

fects 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 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, a limitation that would affect only the highest-income households. 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, 2014. 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.

*Enhance and make permanent the Research and Experimentation (R&E) credit and modify and make permanent the Renewable Energy Production Tax Credit.* The extension of the R&E 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. For similar reasons, the Budget also proposes to permanently extend and enhance the production tax credit for renewable energy property.

*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.

*Eliminate a range of tax expenditures in the context of business tax reform.* The President's framework for business tax reform calls for eliminating dozens of tax loopholes and subsidies and reinvesting the revenue to lower the corporate tax rate to 28 percent. Consistent with the framework, the Budget includes a number of proposals to eliminate inefficient business tax expenditures. For

example, 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 Pittsburgh 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.





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## SPECIAL TOPICS

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## 15. 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 2015 Budget. Information on Federal credit programs may be found in Chapter 20, “Credit and Insurance,” in this volume. Chapter 14, “Tax Expenditures,” in this volume, includes a display of tax expenditures that particularly aid State and local governments at the end of Tables 14-1 and 14-2.

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. WIC 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 predetermined end product or duration.

They can include grants for research, training, evaluation, planning, technical assistance, survey work, and construction. The Government Accountability Office describes each of these categories of 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.”<sup>1</sup>

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.<sup>2</sup>

Most State spending comes from general fund revenues, but Federal funds are also a significant part of States’ overall budgets. In 2013, general funds<sup>3</sup> were 40.5 percent, Federal funds 30.9 percent, other state funds 26.1 percent, and bonds 2.5 percent of total State spending.<sup>4</sup> The Federal funds share has decreased since 2011 due to increasing general fund revenues over the last several years and the end of temporary measures enacted in the Recovery Act and its extensions.<sup>5</sup>

According to the fall 2013 Fiscal Survey of States, total State spending in 2013 is estimated to be \$1.71 trillion; this is a 4.6 percent increase over the prior year.<sup>6</sup> The components of total State spending for 2013 are estimated to be: Medicaid, 24.5 percent; elementary and secondary education, 20.0 percent; higher education, 10.0 percent; transportation, 8.0 percent; corrections, 3.1 percent;

<sup>1</sup> United States Government Accountability Office. “Grants to State and Local Governments, An Overview of Federal Funding Levels and Selected Challenges.” September 2012. p. 3.

<sup>2</sup> Keegan, Natalie. “Federal Grants-in-Aid Administration: A Primer.” Congressional Research Service. October 3, 2012. p. 6-7.

<sup>3</sup> State general funds are raised from States’ own taxes and fees.

<sup>4</sup> “State Expenditure Report, Examining Fiscal 2011-2013 State Spending.” National Association of State Budget Officers. p. 1.

<sup>5</sup> 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.

<sup>6</sup> “The Fiscal Survey of States.” National Association of State Budget Officers. Fall 2013. p. 1.



public assistance, 1.4 percent; and all other expenditures, 33.0 percent.<sup>7</sup>

The Fiscal Survey of States looks at enacted State budgets to make projections for the coming year. According to the most recent report, 2014 State budgets show that “modest [S]tate fiscal improvements are widespread across the country”.<sup>8</sup> Fiscal 2014 could be the fourth consecutive year of general fund spending growth. The report also states that “forty-three [S]tates enacted higher spending levels in fiscal 2014 compared to fiscal 2013” and “many [S]tates ended fiscal 2013 with a budget surplus” but, growth will be less than the historical average of 5.6 percent.<sup>9</sup>

As a share of the total Federal budget, outlays for Federal grants-in-aid accounted for 15.8 percent of total outlays in 2013 and totaled \$546.2 billion. This was an increase of \$1.6 billion over 2012, less than one percent, and \$14.8 billion less than what was estimated for 2013 in last year’s Budget. Federal grant spending in 2014 is estimated to be \$607.2 billion, an increase of 11.2 percent from 2013. The Budget provides \$640.8 billion in outlays for aid to State and local governments in 2015, an increase of 5.5 percent from 2014. In addition to the outlays for grant spending detailed in this chapter, the Budget includes a \$56 billion Opportunity, Growth, and Security Initiative in 2015 to fund a range of priorities, including a number of grant programs, some of which are mentioned later in this chapter.

Federal grants help State and local governments finance programs covering most areas of domestic public spending including infrastructure, education, social services, and public safety. The term for these broad purposes in the Budget is “functions.” The distribution of grant spending in 2015 among functions remains similar to recent years. Of total proposed grant spending in 2015, 55.7 percent is for health programs, with most of the funding going to Medicaid, a program which makes health insurance accessible for low-income Americans. Beyond health programs, 17.0 percent of Federal aid is estimated to go to income security programs; 10.8 percent to education, training, and social services; 10.5 percent to transportation; 2.7 percent to community and regional development; and 3.3 for all other functions. Section A. of Table 15-1 (on the next page), Trends in Federal Grants to State and Local Governments, shows actual spending at the start

of each decade since 1960, actual spending for 2013, and estimates for 2014 and 2015 by budget function.

The Federal budget also classifies grant spending by BEA category—mandatory and discretionary. 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. Funding levels for discretionary grant programs are determined annually through appropriations acts.<sup>10</sup> Section B. of Table 15-1 shows the distribution of grants between mandatory and discretionary spending.

Outlays for mandatory grant programs were \$404.0 billion in 2013. The three largest mandatory grant programs in 2013 were Medicaid, with outlays of \$265.4 billion; Child Nutrition programs, which include the School Breakfast Program, the National School Lunch Program and others, \$19.3 billion; and Temporary Assistance for Needy Families, \$17.1 billion.<sup>11</sup> Outlays for mandatory grant programs in 2014 were \$414.5 billion, a 2.6 percent increase. In 2015 grants-in-aid with mandatory funding are estimated to have outlays of \$468.1 billion, an increase of 12.9 percent from 2014.<sup>12</sup>

Outlays for discretionary grant programs were \$142.2 billion in 2013. The three largest discretionary programs in 2013 were Federal-Aid Highways, \$40.8 billion; Tenant Based Rental Assistance, \$18.0 billion; and Accelerating Achievement and Ensuring Equity (Education for the Disadvantaged), \$16.7 billion.<sup>13</sup> Outlays for discretionary grant programs in 2014 are estimated to be \$192.8 billion, an increase of 35.6 percent. In 2015, grants-in-aid with discretionary funding are estimated to have outlays of \$173.7 billion, a decrease of 10.4 percent from 2014.<sup>14</sup>

<sup>10</sup> For more information on these categories, see Chapter 9, “Budget Concepts,” in this volume.

<sup>11</sup> Obligation data by State for programs in each of these budget accounts is found in the appendix to this chapter.

<sup>12</sup> The year-to-year pattern of mandatory and discretionary grant spending is heavily influenced by the Budget’s proposal to reclassify surface transportation programs from discretionary to mandatory. Mandatory outlays for grants outside the transportation function are estimated to increase by 13.9 percent from 2013 to 2014, and increase by 9.8 percent from 2014 to 2015.

<sup>13</sup> Obligation data by State for programs in each of these budget accounts is found in the appendix to this chapter.

<sup>14</sup> As stated in footnote number 13, the year-to-year pattern of mandatory and discretionary grant spending is heavily influenced by the Budget’s proposal to reclassify surface transportation programs from discretionary to mandatory. Discretionary outlays for grants outside the transportation function are estimated to increase by 7.5 percent from 2013 to 2014, and then to decrease by 6.8 percent from 2014 to 2015. The decrease in 2015 is largely due to the phase out of one-time outlays in 2014 for disaster relief and education programs.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid. p. vii.

<sup>9</sup> Ibid.

**Table 15–1. TRENDS IN FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS**  
(Outlays in billions of dollars)

	Actual								Estimate	
	1960	1970	1980	1990	2000	2005	2010	2013	2014	2015
<b>A. Distribution of grants by function:</b>										
Natural resources and environment .....	0.1	0.4	5.4	3.7	4.6	5.9	9.1	7.3	6.3	6.5
Agriculture .....	0.2	0.6	0.6	1.3	0.7	0.9	0.8	0.7	1.2	1.0
Transportation .....	3.0	4.6	13.0	19.2	32.2	43.4	61.0	60.5	62.8	67.2
Community and regional development .....	0.1	1.8	6.5	5.0	8.7	20.2	18.8	16.8	22.2	17.4
Education, training, employment, and social services .....	0.5	6.4	21.9	21.8	36.7	57.2	97.6	62.7	67.4	69.3
Health .....	0.2	3.8	15.8	43.9	124.8	197.8	290.2	283.0	329.8	357.0
Income security .....	2.6	5.8	18.5	36.8	68.7	90.9	115.2	102.2	104.0	109.1
Administration of justice .....	.....	*	0.5	0.6	5.3	4.8	5.1	4.6	4.9	4.7
General government .....	0.2	0.5	8.6	2.3	2.1	4.4	5.2	4.0	4.2	4.1
Other .....	*	0.1	0.7	0.8	2.1	2.6	5.4	4.4	4.4	4.4
<b>Total .....</b>	<b>7.0</b>	<b>24.1</b>	<b>91.4</b>	<b>135.3</b>	<b>285.9</b>	<b>428.0</b>	<b>608.4</b>	<b>546.2</b>	<b>607.2</b>	<b>640.8</b>
<b>B. Distribution of grants by BEA category:</b>										
Discretionary .....	N/A	10.2	53.3	63.3	116.7	181.7	207.7	142.2	192.8	172.7
Mandatory .....	N/A	13.9	38.1	72.0	169.2	246.3	400.7	404.0	414.5	468.1
<b>Total .....</b>	<b>7.0</b>	<b>24.1</b>	<b>91.4</b>	<b>135.3</b>	<b>285.9</b>	<b>428.0</b>	<b>608.4</b>	<b>546.2</b>	<b>607.2</b>	<b>640.8</b>
<b>C. Composition:</b>										
<b>Current dollars:</b>										
Payments for individuals <sup>1</sup> .....	2.5	8.7	32.6	77.3	182.6	273.9	384.5	375.8	423.1	454.2
Physical capital <sup>1</sup> .....	3.3	7.1	22.6	27.2	48.7	60.8	93.3	78.4	84.2	85.5
Other grants .....	1.2	8.3	36.2	30.9	54.6	93.3	130.6	92.0	100.0	101.1
<b>Total .....</b>	<b>7.0</b>	<b>24.1</b>	<b>91.4</b>	<b>135.3</b>	<b>285.9</b>	<b>428.0</b>	<b>608.4</b>	<b>546.2</b>	<b>607.2</b>	<b>640.8</b>
<b>Percentage of total grants:</b>										
Payments for individuals <sup>1</sup> .....	35.3%	36.2%	35.7%	57.1%	63.9%	64.0%	63.2%	68.8%	69.7%	70.9%
Physical capital <sup>1</sup> .....	47.3%	29.3%	24.7%	20.1%	17.0%	14.2%	15.3%	14.4%	13.9%	13.3%
Other grants .....	17.4%	34.5%	39.6%	22.8%	19.1%	21.8%	21.5%	16.8%	16.5%	15.8%
<b>Total .....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Constant (FY 2009) dollars:</b>										
Payments for individuals <sup>1</sup> .....	14.2	39.8	75.8	115.9	221.2	298.8	378.5	349.3	387.8	408.6
Physical capital <sup>1</sup> .....	23.8	38.2	54.7	45.7	68.6	74.2	93.7	74.0	77.9	76.8
Other grants .....	14.4	64.7	134.1	62.8	77.1	107.5	130.9	86.3	92.0	90.4
<b>Total .....</b>	<b>52.4</b>	<b>142.7</b>	<b>264.7</b>	<b>224.3</b>	<b>366.9</b>	<b>480.4</b>	<b>603.0</b>	<b>509.7</b>	<b>557.8</b>	<b>575.7</b>
<b>D. Total grants as a percent of:</b>										
<b>Federal outlays:</b>										
Total .....	7.6%	12.3%	15.5%	10.8%	16.0%	17.3%	17.6%	15.8%	16.6%	16.4%
Domestic programs <sup>2</sup> .....	18.0%	23.2%	22.2%	17.1%	22.0%	23.5%	23.4%	20.6%	21.3%	20.9%
State and local expenditures .....	14.3%	19.6%	27.3%	18.7%	21.8%	23.5%	26.4%	23.2%	N/A	N/A
Gross domestic product .....	1.3%	2.3%	3.3%	2.3%	2.8%	3.3%	4.1%	3.3%	3.5%	3.5%
<b>E. As a share of total State and local gross investments:</b>										
Federal capital grants .....	24.6%	25.4%	35.4%	21.9%	22.0%	22.0%	27.5%	23.8%	N/A	N/A
State and local own-source financing .....	75.4%	74.6%	64.6%	78.1%	78.0%	78.0%	72.5%	76.2%	N/A	N/A
<b>Total .....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>		

\* \$50 million or less.

N/A: Not available at publishing.

<sup>1</sup> Grants that are both payments for individuals and physical capital are shown under capital investment.

<sup>2</sup> Excludes national defense, international affairs, net interest, and undistributed offsetting receipts.

## HIGHLIGHTS OF FEDERAL AID TO STATES AND LOCALITIES

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 grants in every budget account can be found in Table 15-2, organized by functional category and by Federal agency. This table, formerly printed in this chapter, is available on the OMB web site at [www.budget.gov/budget/Analytical\\_Perspectives](http://www.budget.gov/budget/Analytical_Perspectives) and on the Budget CD-ROM.

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 2015.

The Budget represents an unprecedented commitment to America's natural heritage through investments in Land and Water Conservation Fund (LWCF) programs. The proposal includes full funding for LWCF programs in the Department of the Interior (DOI) and USDA and, similar to last year's proposal, includes a mix of discretionary and mandatory funding in 2015 to transition to all mandatory funding beginning in 2016. Starting in 2015, the Budget proposes to invest \$900 million annually, equal to the amount of receipts deposited in the LWCF each year. In 2015, \$575 million is proposed to conserve lands in or near national parks, refuges, forests, and other public lands, including collaborative LWCF funds for DOI and the U.S. Forest Service to jointly and strategically conserve the most critical landscapes. This funding will provide the stability needed for agencies and States to make strategic, long-term investments in our natural infrastructure and outdoor economy to support jobs, preserve natural and cultural resources, bolster outdoor recreation opportunities, and protect wildlife. Such investments support the President's America's Great Outdoors Initiative to promote job creation and economic growth by strengthening our natural infrastructure for outdoor recreation and enjoyment. Other America's Great Outdoors programs 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.

In recent years, honey bee colony collapse disorder and other pollinator declines have led to rising concerns among both the scientific and agricultural communities regarding the health of these insect populations, the risks posed to pollinator services and the implications for agriculture. To help combat this multi-faceted problem, the Budget provides \$50 million across multiple agencies within the Department of Agriculture (USDA) to enhance research through intramural projects, public-private research grants, to strengthen pollinator habitat in core areas, to double the number of acres in the Conservation Reserve Program that are dedicated to pollinator health,

and to increase funding for surveys to determine the impacts on pollinator losses.

The Budget calls for a fundamental change in how wild-fire suppression is funded to help reduce fire risk, manage landscapes more holistically and increase the resiliency of our Nation's forests and rangelands and the communities that border them. Since responsibility for improving community resilience to wildland fires is the responsibility of Federal, State, local, and Tribal governments and homeowners, the Budget also targets funding for fuels management and certain State programs to communities that implement programs to reduce fire risk on non-Federal lands, including improved building standards for fire resiliency and defensible spaces.

The Budget increases support for the Environmental Protection Agency's (EPA) partnership with States and Tribes. Under the Clean Water Act (CWA), the Clean Air Act (CAA), and other Federal environmental laws, EPA sets standards and enforceable pollution limits and establishes best practices to ensure human health and the environment are protected. States and localities implement the rules while taking into account each State's specific needs, while addressing the public health and environmental standards and requirements. Categorical grants to States and Tribes to implement their delegated authorities are funded at \$1.1 billion, \$76 million above the 2014 enacted level. Within these totals, funding is increased in priority areas including \$20 million for State implementation of the President's Climate Action Plan, \$31 million to build Tribal capacity and assist Tribes in leveraging other EPA and Federal funding, and \$18 million for activities including water permitting and improving nutrient management.

The Budget builds on existing collaboration of EPA and its partners to improve water quality across the United States while utilizing new approaches. For example, over the past two years, EPA, USDA, and State water quality agencies have collaborated to select more than 150 priority watersheds, where voluntary conservation programs could help reduce water impairments from non-point source pollution. The Budget builds upon this collaboration by having agencies work with key Federal partners, agricultural producer organizations, conservation districts, States, Tribes, non-governmental organizations, and other local leaders to implement a monitoring framework and begin collecting baseline performance data to demonstrate that this focused and coordinated approach can achieve significant improvements in water quality. In addition, in 2015, EPA will work to develop tools to improve measurement of water quality and expand technical assistance efforts for communities to develop effective stormwater plans. Through its water quality programs and through the Clean Water State Revolving Fund, EPA will promote green infrastructure approaches such as green roofs, rain gardens, wetlands and forest buffers, all of which can help to effectively meet CWA requirements and protect and restore the Nation's resources for safe drinking water, recreation and economic development.

The Budget provides \$1.775 billion for the Clean Water and Drinking Water State Revolving Funds (SRFs), \$581 million below the 2014 enacted level. The budget proposes a reduction to focus on communities most in need of assistance but will still allow the SRFs to finance approximately \$6 billion in wastewater and drinking water infrastructure projects annually. Nearly \$60 billion has been provided for the programs to date, including over \$21 billion since 2009. Going forward, EPA will continue efforts to target assistance to small and underserved communities that have a limited ability to repay loans, including Tribes.

### **Transportation**

Grant outlays in support of transportation programs are estimated to be \$67.2 billion in 2015.

To spur economic growth and allow States to initiate sound multi-year investments, the Budget proposes a four-year, \$302 billion surface transportation reauthorization proposal to support critical infrastructure projects and create jobs while improving America's roads, bridges, transit systems, and railways. The reauthorization proposal will also include reforms to improve the review process and delivery of infrastructure projects; support American exports by improving movement within our country's freight networks; increase economic mobility by linking economically isolated communities to job opportunities; permanently authorize the TIGER grant program to help spur innovation by competitively awarding funding to projects around the Nation; improve regional coordination by Metropolitan Planning Organizations to stimulate economic development; and advance the Climate Action Plan by building more resilient infrastructure and reducing transportation emissions by shifting travel growth from roads to transit.

The Administration's four-year reauthorization plan would dedicate approximately \$4 billion for a competitive grant program, Fixing and Accelerating Surface Transportation, designed to create incentives for State and local partners to adopt critical reforms in a variety of areas, including safety and peak traffic demand management. Federally-inspired safety reforms, such as seat belt and drunk-driving laws, have saved thousands of lives and avoided billions in property losses. This initiative will seek to repeat past successes across the complete spectrum of transportation policy priorities. Specifically, the Department will work with States and localities to set ambitious goals in different areas—implementing distracted driving safety requirements or modifying transportation plans to include mass transit, bike, and pedestrian options—and tie resources to goal-achievement.

Too many elements of the U.S. surface transportation infrastructure—our highways, bridges, and transit assets—fall short of a state of good repair. This can impact the capacity, performance, and safety of our transportation system. At the same time, States and localities have incentives to emphasize new investments over improving the condition of the existing infrastructure. The Administration's reauthorization proposal will underscore the importance of preserving and improving

existing assets, encouraging government and industry partners to make optimal use of current capacity, and minimizing life-cycle costs through sound asset management principles. Accountability is a key element of this system, as States and localities will be required to report on highway condition and performance measures.

The Budget provides \$10 billion over four years for a dedicated regional freight infrastructure investment program to support multi-modal, corridor-based projects designed to eliminate existing freight transportation bottlenecks and improve the efficiency of moving goods in support of the President's National Export Initiative. The Budget also provides \$19.1 billion over four years to fund the development of high-performance rail and other passenger rail programs as part of an integrated national transportation strategy. The proposal also benefits freight rail and significantly restructures Federal support for Amtrak to increase transparency, accountability, and performance.

The Budget nearly doubles annual transit investment over the prior reauthorization, with resources supporting both existing capacity and capacity expansion (New Starts) in projects involving bus rapid transit, subway, light rail, and commuter rail systems. These investments are driven by data showing that demand for public transit continues to climb, and would represent a historic increase in transit funding. Additional funding would enable a major expansion of new transit projects in suburbs, fast-growing cities, small towns, and rural areas across the country, while meeting the growing needs of established, and aging, transit systems, which will improve the quality of life in our neighborhoods and communities by providing affordable transportation options. All of these efforts will also help ensure that workers can access jobs, supporting economic mobility and opportunity.

To ensure the highest safety standards for the U.S. pipeline system, the Budget proposes a Pipeline Safety Reform initiative to both enhance and revamp the Department's Pipeline Safety program. The need for reform is acute; pipeline safety inspectors, who work in collaboration with State partners, are spread too thinly across the 2.6 million miles of pipeline, and the current staffing levels cannot ensure prompt investigations following incidents. The Budget increases funding for the State Pipeline Safety Grant program, institutes reforms to the Federal program, and funds the next phase of a multi-year effort to more than double the number of Federal pipeline safety inspectors. In addition, the Budget modernizes pipeline data collection, mapping capabilities and analysis, improves Federal investigation of pipeline accidents of all sizes, and expands public education and outreach.

### **Community and Regional Development**

Grant outlays for community and regional development programs are estimated to be \$17.4 billion in 2015.

The Budget provides \$2.8 billion for the Community Development Block Grant (CDBG) program and \$950 million for the HOME Investment Partnerships Program. These funding levels represent a total decrease of \$280 million below the 2014 enacted level for these two pro-



grams. However, the Budget also proposes a series of reforms to improve each program's performance by eliminating small grantees, thereby improving efficiency, driving regional coordination, and supporting grantees in making strategic, high-impact investments that address local community goals.

The Budget also proposes reforms to the economic development grants within the Economic Development Administration (EDA) to ensure grantees demonstrate measurable progress in achieving economic development goals, and provides EDA the flexibility to award catalytic grants tailored to address communities' specific economic needs, delivering the greatest impact for distressed regions.

The Budget provides \$58 million for a new economic development grant program, within USDA, designed to target small and emerging private businesses and cooperatives in rural areas. The program will utilize performance targets and evidence of what works best to create jobs and foster economic growth, strengthening the agency's grant allocation and evaluation process. It is anticipated that this new program will aid in creating or saving nearly 14,000 jobs and assisting more than 10,000 businesses. Roughly 25 percent of rural households lack access to high-speed Internet. The Budget proposes to double the current funding for broadband grants that serve the neediest, most rural communities, which are least likely to have access to high-speed broadband infrastructure sufficient for economic development. This level of funding is anticipated to support 16 rural communities.

First responders are at the forefront of addressing natural disasters and other threats. The Budget provides \$2.2 billion for State, local, and Tribal governments to hire, equip, and train first responders and build preparedness capabilities. To better target these funds, the Budget proposes to eliminate duplicative, stand-alone grant programs within the Department of Homeland Security, 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. The National Preparedness Grant Program will apply a comprehensive process that identifies and prioritizes deployable capabilities, ensures grantees put 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 \$69.3 billion in 2015.

The Budget maintains support for the landmark 2014 Preschool for All proposal to ensure four-year-olds across the Nation have access to high-quality preschool programs. The proposal, financed through an increase in the tobacco tax, establishes a Federal-State partnership to provide all low- and moderate-income four-year-old children with high-quality preschool, while providing States with incentives to expand these programs to reach addi-

tional children from middle class families and put in place full-day kindergarten policies. To support this effort, the Budget also proposes to double the current discretionary investment in Preschool Development Grants to \$500 million in 2015. An additional \$250 million would be provided through the Opportunity, Growth, and Security Initiative for a total discretionary investment of \$750 million. These grants will ensure that States and localities willing to commit to expanding preschool access are able to make the critical investments necessary to support high-quality programs. The preschool initiative is coupled with companion investments in the Department of Health and Human Services (HHS) voluntary home visiting and high-quality early care and education for infants and toddlers, described further below.

The Department of Education has focused its reforms on building evidence and improving outcomes. The Department's most mature reforms are its signature K-12 initiatives—Race to the Top (RTT), Investing in Innovation (i3), School Improvement Grants (SIG), the Teacher Incentive Fund (TIF), and Promise Neighborhoods—which have contributed to a sea change in how schools across the country deliver education. The Budget continues to invest in these priority programs, the successes of which are now becoming apparent. The President named the first five Promise Zones in January 2014, and 15 other communities will be created in the year ahead. In support of the goals of this initiative, the Budget requests \$100 million to support current Promise Neighborhoods and create up to five more and includes \$200 million in the Opportunity, Growth, and Security Initiative to support another 35 awards.

The Budget includes a new proposal that acts on the findings in the final 2013 report of the Equity and Excellence Commission by proposing a new \$300 million RTT Equity and Opportunity competition centered on closing the achievement gap. The RTT initiative will link together State and local fiscal, student achievement, and human resource data systems, allowing them to work in concert to provide underserved students access to high-quality teachers and leaders, coursework, and other evidence-based supports. RTT Equity and Opportunity grants will reward tracking resources at the school level and using data, including return on investment metrics, to target intensive interventions to schools that most need the extra help. The initiative will also leverage resources from other Federal programs, such as Title I Grants and the State Longitudinal Data Systems, which the Budget proposes to double in funding to \$70 million.

In addition, the Budget maintains significant investments in Title I Grants and IDEA Grants to States to ensure communities receive a critical base of support for their low-income and high-need students. The Budget also provides \$150 million for a new program to redesign high schools to focus on providing students challenging, relevant learning experiences, and \$200 million for the ConnectEDucators program to ensure that students receive the full benefit of the next-generation broadband and wireless connections in their schools and libraries.

The Budget also proposes \$5 billion in mandatory funds for RESPECT (Recognizing Educational Success, Professional Excellence, and Collaborative Teaching) grants to support teachers by improving preparation and early career assistance; helping teachers as they lead the transition to college- and career-ready standards; and ensuring that teachers have a supportive work environment.

In addition, the Budget proposes \$4 billion in mandatory funds for a new competitive grant program, the State Higher Education Performance Fund. This fund will support States that are committed to investing in higher education and improving performance and outcomes at their public higher education institutions.

Within the Department of Labor, the Budget invests more than \$3 billion in formula grants to States and localities to provide training and employment services to more than 20 million Americans at 2,500 American Job Centers across the country. The Opportunity, Growth, and Security Initiative would add another \$750 million to restore prior cuts to these grants; increase the investment in innovation, evidence-based practices, and performance in the workforce system; and provide additional funding for programs that serve populations with significant barriers to employment, including Native Americans, ex-offenders, and people with disabilities.

The Budget invests an amount equal to five percent of Workforce Investment Act (WIA) formula grants in driving innovation and performance at the State and local level through: (1) \$60 million in the Workforce Innovation Fund, to support innovative State and regional approaches to service delivery, and (2) \$80 million for improved Incentive Grants to reward States that succeed through their WIA programs in serving workers with the greatest barriers to employment. Combined, these funds will fuel innovative approaches to workforce system service delivery and incentivize better program coordination to serve those who need the most help to find high-quality jobs.

The Budget proposes to include in the Opportunity, Growth, and Security Initiative \$1.5 billion in 2015 to support a four-year, \$6 billion Community College Job-Driven Training Fund, which will offer competitive grants to partnerships of community colleges, public and non-profit training entities, industry groups, and employers to launch new training programs and apprenticeships that will prepare participants for in-demand jobs and careers. The fund will also help to create common credentials and skill assessments to allow employers to more easily identify and hire qualified candidates. Five hundred million dollars of each year's funding will be set aside for grants to States and regional consortia to create new apprenticeships and increase participation in existing apprenticeship programs. This four-year investment would support doubling the number of apprenticeships in America over the next five years. The Budget also invests \$2.5 billion in mandatory funding for Summer Jobs Plus, which will fund summer and year-round job opportunities for 600,000 youth as well as innovation grants aimed at improving skills and career options for disadvantaged youth.

The Administration is also exploring opportunities to reform the job training system to streamline access, more fully engage employers to ensure that training is well matched to jobs, and improve efficiency and outcomes. For example, the Budget proposes a New Career Pathways program that will reach as many as one million workers a year with a set of core services, combining the best elements of two existing programs—Trade Adjustment Assistance for Workers and WIA Dislocated Workers. The Administration is proposing strong accountability for outcomes and ensuring that the needs of all job-seekers and workers, including those with barriers to employment, continue to be met.

The Budget supports initiatives that will help every child reach his or her potential and strengthen the Nation's competitiveness. This includes \$650 million in the base program budget and \$800 million in the Opportunity, Growth, and Security Initiative for Early Head Start-Child Care Partnerships, to provide access to high-quality infant and toddler care for more than 100,000 children, and additional resources in the Opportunity, Growth, and Security Initiative to support Head Start grantees who are expanding program duration and investing in teacher quality.

The Community Services Block Grant (CSBG) provides funding for the important work of community action agencies, but the program's current structure does little to hold these agencies accountable for outcomes. The Budget provides \$350 million for CSBG and proposes to competitively award funds to high-performing agencies that are most successful at meeting community needs.

## Health

Grant outlays for health related programs are estimated to be \$357.0 billion in 2015.

The Budget includes \$164 million to support the President's Now is the Time initiative, a plan to protect our children and our communities by reducing gun violence, to expand mental health treatment and prevention services across the Substance Abuse and Mental Health Services Administration (SAMHSA) and Centers for Disease Control and Prevention (CDC). The Now is the Time initiative includes \$55 million for Project AWARE (Advancing Wellness and Resilience in Education) to help States and communities implement plans to keep schools safe and refer students with behavioral health challenges to the services they need as well as to provide Mental Health First Aid training in schools and communities to equip adults who work with youth to detect signs of mental illness; \$50 million to train 5,000 new mental health professionals to serve students and young adults; \$20 million for Healthy Transitions to help support transitioning youth (ages 16-25) and their families in accessing and navigating behavioral health treatment systems; and \$5 million to change the attitudes of Americans about behavioral health workforce needs.

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 strengthens Medicaid and the Children's Health Insurance Program (CHIP) by providing tools to States, Territories, and the Federal government to fight fraud, waste, and abuse, and make it easier for eligible children to get and maintain coverage. The Budget also includes other program improvements aimed at improving efficiency and effectiveness as States expand Medicaid. The Administration remains committed to providing affordable, comprehensive coverage for children covered by CHIP and the Budget proposes to extend the CHIP performance bonus fund in anticipation of work with Congress to ensure their coverage.

The Budget makes room for new investments through a series of eliminations and reductions among public health programs that we can no longer afford, such as terminating the Preventive Health and Health Services Block Grant (PHHSBG). The PHHSBG is duplicative with existing activities that could be more effectively implemented through targeted programs within CDC.

### **Income Security**

Grant outlays for income security programs are estimated to be \$109.1 billion in 2015.

The Budget makes an investment of \$158 million in reemployment and eligibility assessments and reemployment services (REA/RES), an evidence-based approach to speed the return to work of Unemployment Insurance (UI) beneficiaries. This investment would reach those who are most likely to exhaust their UI benefits, as well as all recently separated veterans transitioning to civilian jobs.

The Budget also provides \$2 billion in mandatory funding to encourage States to adopt Bridge to Work programs, which would allow individuals to continue receiving their weekly UI check while participating in a short-term work placement; and support other strategies for getting UI claimants back to work more quickly. In addition, the Budget provides \$4 billion in mandatory funding to support partnerships between businesses and education and training providers to train approximately 1 million long-term unemployed workers for new jobs.

Too many American workers must make the painful choice between the care of their families and a paycheck they desperately need. While the Family and Medical Leave Act allows many workers to take job-protected unpaid time off, millions of families cannot afford to use unpaid leave. A handful of States have enacted policies to offer paid family leave, but more States should have the chance to follow their example. The Budget supports a \$5 million State Paid Leave Fund to provide technical assistance and support to States that are considering paid leave programs. The Opportunity, Growth, and Security Initiative would provide an additional \$100 million to support this effort.

The Budget includes \$20.0 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 not only supports all existing vouchers, but restores reductions in assisted

housing units that resulted from the 2013 sequestration and provides an additional 40,000 new vouchers including 10,000 for homeless veterans.

The Budget provides \$2.4 billion for Homeless Assistance Grants. This funding supports new permanent supportive housing units and maintains over 330,000 HUD-funded beds that assist the homeless nationwide. In addition, under the Housing Choice Voucher program, the Budget proposes \$75 million to expand assistance under the Department of Veterans Affairs Supportive Housing (HUD-VASH) program to 10,000 homeless veterans. Supported by the collection of robust data and using best practices from across the country, this evidence-based investment will continue to make progress towards two of the President's homelessness goals, providing the resources needed to end Veterans homelessness by 2015 and to end chronic homelessness by 2016. Between 2010 and 2013, homelessness among Veterans declined by 24 percent, and the total number of individuals experiencing chronic homelessness on a single night declined by 15.7 percent.

To support affordable housing priorities, the Budget also proposes an investment of \$1 billion in mandatory funding for the Housing Trust Fund.

The Budget also includes \$9.7 billion for the Project-Based Rental Assistance program to maintain affordable rental housing for 1.2 million families. This amount is sufficient to continue assistance to the same number of units currently subsidized. Further, the Budget provides \$6.5 billion in operating and capital subsidies to preserve affordable public housing for 1.1 million families.

An additional \$10 million for the Rental Assistance Demonstration (RAD) will be targeted to public housing properties in high-poverty neighborhoods, including designated Promise Zones, where the Administration is also supporting comprehensive revitalization efforts. RAD leverages private financing to reduce backlogs of capital repairs and the Budget proposes to eliminate the cap on the number of units eligible for this demonstration.

The Budget provides an increase of \$120 million for Choice Neighborhoods, a program that works to change neighborhoods of concentrated poverty into opportunity-rich, mixed-income neighborhoods. This funding level will be used to revitalize HUD-assisted housing and surrounding neighborhoods through partnerships between local governments, housing authorities, nonprofits, and for-profit developers. Preference for these funds will be given to designated Promise Zones. To further support Promise Zones, the Budget includes companion investments of \$100 million in the Department of Education's Promise Neighborhoods program and \$29.5 million in the Department of Justice's Byrne Criminal Justice Innovation Grants program, as well as tax incentives to promote investment, jobs and economic growth. To help public housing residents increase their employment and earnings potential, the Budget also provides \$25 million for the evidence-based Jobs-Plus program. Through Jobs-Plus, public housing residents receive on-site employment and training services, financial incentives that encourage work and "neighbor-to-neighbor" information-sharing



about job openings, training and other employment-related opportunities. Rigorous evaluations have found that this program improves employment outcomes for public housing residents who participate in the program.

The Budget also proposes funding for HUD programs in the Opportunity, Growth, and Security Initiative to fully grow our economy and create opportunity. The Initiative includes an additional \$125 million for Jobs-Plus to increase employment opportunities for a total of 50,000 public housing residents. It also includes an additional \$280 million for Choice Neighborhoods and \$75 million for Integrated Planning and Investment Grants. These investments will help fully realize the President's vision for Promise Zones, and assist communities to develop comprehensive housing and transportation plans that help expand economic opportunity.

The Administration strongly supports the Supplemental Nutrition Assistance Program (SNAP) and other programs that reduce hunger and help families meet their nutritional needs. SNAP, administered by the USDA, is the cornerstone of our Nation's nutrition assistance safety net, touching the lives of 47 million Americans, the majority of whom are children, the elderly, or people with disabilities. In addition to supporting SNAP, the Budget also invests \$30 million to support summer electronic benefit pilots, which are proving successful in reducing childhood hunger and improving nutrition in the months when school meals are unavailable.

The Budget supports the ongoing implementation of the Healthy, Hunger-Free Kids Act of 2010 with an increased investment of \$35 million in school equipment grants to aid in the provision of healthy meals and continued support for other school-based resources. The Budget also provides \$6.8 billion to support the 8.7 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 supports changes to the WIC food package that will improve consumption of nutritious foods that are important to healthy child development. In addition, the Budget invests \$13 million at USDA in a newly authorized Healthy Food Financing Initiative, which will provide funding to improve access to affordable, healthy foods in underserved areas. This complements investments through the Department of Treasury's Community Development Financial Institutions Fund.

The Budget provides \$2.8 billion for the Low Income Home Energy Assistance Program to help families with residential heating and cooling costs, including \$200 million in contingency funds to address extreme weather conditions or short-term spikes in energy prices and \$50 million for competitive grants to reduce energy burdens.

The Budget invests \$18 billion over ten years to support access to higher-quality child care. With this level of funding, comprehensive improvements in the quality of child care will not come at the expense of access for working families. Further, the Budget provides additional discretionary and mandatory resources for States to support higher-quality child care, and dedicates \$200 million in

discretionary funds to improve the quality of child care. In addition, the Budget invests \$15 billion in mandatory funds over the next 10 years to extend and expand evidence-based, voluntary home visiting programs, which enable nurses, social workers, and other professionals to connect families to services and educational supports that improve a child's health, development, and ability to learn.

The Budget proposes to modernize the Child Support Enforcement Program, which touches the lives of one-quarter of the Nation's children and helps secure contributions toward their financial and emotional well-being from non-custodial parents. The Budget proposes to change current law to encourage non-custodial parents to take greater responsibility for their children while maintaining rigorous enforcement efforts. The Budget also continues funding for evidence-based models that prevent teenage pregnancy.

The Budget proposes to redirect \$602 million in annual Temporary Assistance for Needy Families (TANF) funding to a Pathways to Jobs initiative, which will support State partnerships with employers to provide subsidized job opportunities for low-income individuals. This proved in recent years to be an effective strategy for getting disadvantaged adults back into the workforce, and the Budget proposes to build on that success.

### Administration of Justice

Grant outlays for justice programs are estimated to be \$4.7 billion in 2015.

The Budget bolsters the Administration's efforts to ensure that more Federal grant funding flows to evidence-based activities in State and local criminal justice. Within the Department of Justice, 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; 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.

The Budget includes \$147 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 \$75 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 proposes \$299.4 million for the Department's Juvenile Justice Programs and includes evidence-based investments to prevent youth violence. This includes \$18 million for the Community-Based Violence Prevention Initiative; and \$4 million for the National Forum on Youth



Violence Prevention. 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 \$274 million to support evidence-based community policing in the Nation's local law enforcement agencies. Of the amount provided, \$247 million is provided for the hiring and retention of police officers and sheriffs' deputies across the United States. Thirty-five million dollars of the total is set aside for Tribal Law

Enforcement to help ensure the safety and security of our tribal partners.

The Budget provides \$422.5 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. The Budget also provides \$35 million for a new grant for communities to develop plans to address their untested sexual assault kits at law enforcement agencies or backlogged at crime labs.

## OTHER INFORMATION ON FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

A number of other sources provide State-by-State spending data and other information on Federal grants, but use a slightly different 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* and *Report 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, produces 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, which are available at *bea.gov/national*, include data on Federal grants to State and local governments.

## 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 89 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 2013 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 2014 from balances of previous budget authority and obligations in 2014 from new budget authority distributed by State.
- Estimates of 2015 obligations by State, which are based on the 2015 Budget request, unless otherwise noted.
- The percentage share of 2015 estimated program funds distributed to each State.

**Table 15-3. SUMMARY OF PROGRAMS BY AGENCY, BUREAU, AND PROGRAM**  
(Obligations in millions of dollars)

Agency, Bureau, and Program	FY 2013 (actual)	Estimated FY 2014 obligations from:			FY 2015 (estimated)
		Previous authority	New authority	Total	
<b>Department of Agriculture, Food and Nutrition Service</b>					
School Breakfast Program (10.553) .....	3,610	.....	3,713	3,713	3,905
National School Lunch Program (10.555) .....	11,053	848	10,634	11,482	11,675
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557) .....	6,830	294	6,604	6,898	7,033
Child and Adult Care Food Program (10.558) .....	3,083	.....	3,051	3,051	3,150
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Food Stamps) (10.561) ...	3,975	17	4,349	4,366	4,973
<b>Department of Education, Office of Elementary and Secondary Education</b>					
Title I College-And-Career-Ready Students (Formerly Title I Grants to Local Educational Agencies) (84.010) ...	13,760	.....	14,385	14,385	14,385
Improving Teacher Quality State Grants (84.367) .....	2,338	.....	2,350	2,350	.....
Effective Teachers and Leaders State Grants .....	.....	.....	.....	.....	2,000
<b>Department of Education, Office of Special Education and Rehabilitative Services</b>					
Vocational Rehabilitation Grants (84.126) .....	3,066	.....	3,064	3,064	3,335
Special Education-Grants to States (84.027) .....	10,975	.....	11,473	11,473	11,573
<b>Department of Health and Human Services, Centers for Medicare and Medicaid Services</b>					
Children's Health Insurance Program (93.767) .....	8,939	.....	9,514	9,514	10,388
Grants to States for Medicaid (93.778) .....	286,920	.....	313,581	313,581	343,370
Affordable Insurance Exchange Grants (93.525) .....	2,175	1,268	1,268	2,537	785
<b>Department of Health and Human Services, Administration for Children and Families</b>					
Temporary Assistance for Needy Families (TANF)-Family Assistance Grants (93.558) .....	16,722	.....	16,737	16,737	16,739
Child Support Enforcement-Federal Share of State and Local Administrative Costs and Incentives (93.563) .....	4,234	.....	4,175	4,175	3,929
Low Income Home Energy Assistance Program (93.568) .....	3,255	.....	3,425	3,425	2,800
Child Care and Development Block Grant (93.575) .....	2,206	.....	2,360	2,360	2,417
Child Care and Development Fund-Mandatory (93.596A) .....	1,239	.....	1,239	1,239	1,277
Child Care and Development Fund-Matching (93.596B) .....	1,678	.....	1,678	1,678	2,390
Head Start (93.600) .....	7,573	.....	8,598	8,598	8,868
Foster Care-Title IV-E (93.658) .....	4,135	.....	4,272	4,272	4,344
Adoption Assistance (93.659) .....	2,278	.....	2,384	2,384	2,504
Social Services Block Grant (93.667) .....	1,613	.....	1,578	1,578	1,700
<b>Department of Health and Human Services, Health Resources and Services Administration</b>					
Ryan White HIV/AIDS Treatment Modernization Act-Part B HIV Care Grants (93.917) .....	1,239	.....	1,315	1,315	1,315
<b>Department of Housing and Urban Development, Public and Indian Housing Programs</b>					
Public Housing Operating Fund (14.850) .....	4,058	.....	4,399	4,399	4,486
Section 8 Housing Choice Vouchers (14.871) .....	17,897	225	19,178	19,403	20,100
Public Housing Capital Fund (14.872) .....	1,776	83	1,874	1,957	1,879
<b>Department of Housing and Urban Development, Community Planning and Development</b>					
Community Development Block Grant (14.218; 14.225; 14.228; 14.862) .....	2,959	648	2,463	3,111	2,907
Community Development Block Grant - Disaster Recovery (14.218; 14.228; 14.269) .....	2,205	3,795	.....	3,795	4,296
<b>Department of Labor, Employment and Training Administration</b>					
Unemployment Insurance (17.225) .....	2,950	.....	2,862	2,862	2,855
<b>Department of Transportation, Federal Aviation Administration</b>					
Airport Improvement Program (20.106) .....	3,047	.....	3,168	3,168	2,877
<b>Department of Transportation, Federal Highway Administration</b>					
Highway Planning and Construction (20.205) .....	40,066	.....	41,506	41,506	48,750
<b>Department of Transportation, Federal Transit Administration</b>					
Transit Formula Grants Programs (20.507) .....	9,070	5,673	3,289	8,962	10,987
<b>Environmental Protection Agency, Office of Water</b>					
Capitalization Grants for Clean Water State Revolving Fund (66.458) .....	1,422	561	1,362	1,924	1,018
Capitalization Grants for Drinking Water State Revolving Fund (66.468) .....	927	168	835	1,002	757
<b>Federal Communications Commission</b>					
Universal Service Fund E-Rate .....	1,751	1,459	461	1,920	2,332
<b>Total</b> .....	<b>491,025</b>	<b>15,038</b>	<b>513,143</b>	<b>528,181</b>	<b>568,098</b>

**Table 15-4. SUMMARY OF PROGRAMS BY STATE**  
(Obligations in millions of dollars)

State or Territory	All programs FY 2013 (actual)	Programs distributed in all years			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Estimated FY 2014 obligations from:				
		Previous authority	New authority	Total		
Alabama	3,027	187	6,912	7,099	7,278	1.38
Alaska	2,174	53	2,124	2,177	2,343	0.44
Arizona	9,132	178	10,158	10,336	11,557	2.19
Arkansas	5,071	59	5,614	5,673	6,767	1.28
California	60,575	1,921	66,014	67,935	70,109	13.27
Colorado	5,261	106	6,010	6,116	6,787	1.28
Connecticut	5,964	329	6,163	6,492	6,715	1.27
Delaware	1,556	49	1,655	1,704	1,675	0.32
District of Columbia	2,779	295	2,796	3,091	3,139	0.59
Florida	20,245	494	21,634	22,128	23,158	4.38
Georgia	12,017	252	12,180	12,432	12,480	2.36
Hawaii	1,929	40	1,979	2,019	2,097	0.40
Idaho	2,126	82	2,229	2,311	1,961	0.37
Illinois	16,929	205	16,573	16,778	17,641	3.34
Indiana	9,113	97	9,642	9,739	10,041	1.90
Iowa	4,091	56	4,081	4,137	4,153	0.79
Kansas	3,034	43	3,189	3,232	3,248	0.61
Kentucky	7,300	65	7,965	8,030	8,910	1.69
Louisiana	7,968	258	8,099	8,358	8,705	1.65
Maine	2,731	30	2,442	2,472	2,477	0.47
Maryland	7,634	167	7,415	7,582	8,060	1.53
Massachusetts	11,686	357	12,544	12,901	13,549	2.57
Michigan	14,428	214	15,946	16,160	17,716	3.35
Minnesota	7,152	139	8,280	8,419	8,960	1.70
Mississippi	5,790	90	6,012	6,102	6,315	1.20
Missouri	9,128	176	9,441	9,617	10,095	1.91
Montana	1,683	15	1,626	1,641	1,732	0.33
Nebraska	2,180	40	2,142	2,182	2,233	0.42
Nevada	2,462	62	2,755	2,817	3,152	0.60
New Hampshire	1,335	24	1,379	1,403	1,376	0.26
New Jersey	12,950	1,118	13,862	14,980	16,617	3.15
New Mexico	3,941	122	4,549	4,671	4,892	0.93
New York	45,323	4,271	50,502	54,773	54,609	10.34
North Carolina	13,394	185	13,520	13,704	13,918	2.64
North Dakota	1,105	40	1,210	1,250	1,404	0.27
Ohio	18,117	173	19,584	19,756	20,469	3.88
Oklahoma	5,419	120	5,665	5,785	5,910	1.12
Oregon	6,106	58	6,690	6,748	7,290	1.38
Pennsylvania	19,860	306	19,714	20,020	20,709	3.92
Rhode Island	1,991	80	2,068	2,148	2,180	0.41
South Carolina	5,998	91	6,514	6,605	6,348	1.20
South Dakota	1,154	13	1,131	1,144	1,190	0.23
Tennessee	9,586	116	10,493	10,609	11,442	2.17
Texas	31,880	631	35,660	36,291	36,703	6.95
Utah	2,909	56	2,997	3,054	3,137	0.59
Vermont	1,537	22	1,470	1,492	1,468	0.28
Virginia	7,811	169	8,086	8,254	8,616	1.63
Washington	8,117	226	7,786	8,012	8,519	1.61
West Virginia	3,684	42	3,987	4,030	4,164	0.79
Wisconsin	7,604	86	7,626	7,712	8,043	1.52
Wyoming	862	8	851	859	877	0.17
American Samoa	121	3	128	131	149	0.03
Guam	185	6	184	189	189	0.04
Northern Mariana Islands	64	2	67	69	70	0.01
Puerto Rico	3,422	192	3,460	3,652	3,589	0.68
Freely Associated States	41	3	41	44	45	0.01
Virgin Islands	170	8	163	171	156	0.03
Indian Tribes	922	8	981	989	1,054	0.20
<b>Total, programs distributed by State in all years</b>	<b>460,776</b>	<b>14,237</b>	<b>493,985</b>	<b>508,222</b>	<b>528,185</b>	<b>100.00</b>
<b>MEMORANDUM:</b>						
Not distributed by State in all years <sup>1</sup>	26,657	801	19,157	19,959	39,913	N/A
Total, including undistributed	487,433	15,038	513,143	528,181	568,098	N/A

<sup>1</sup> The sum of programs not distributed by State in all years.

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**Table 15-5. SCHOOL BREAKFAST PROGRAM (10.553)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama .....	61,937	.....	65,756	65,756	69,147	1.77
Alaska .....	8,687	.....	9,223	9,223	9,698	0.25
Arizona .....	78,690	.....	83,542	83,542	87,851	2.25
Arkansas .....	44,828	.....	47,592	47,592	50,047	1.28
California .....	428,102	.....	454,500	454,500	477,939	12.24
Colorado .....	38,112	.....	40,462	40,462	42,549	1.09
Connecticut .....	24,815	.....	26,345	26,345	27,704	0.71
Delaware .....	9,573	.....	10,163	10,163	10,687	0.27
District of Columbia .....	9,651	.....	10,246	10,246	10,775	0.28
Florida .....	201,074	.....	213,473	213,473	224,482	5.75
Georgia .....	164,718	.....	174,875	174,875	183,893	4.71
Hawaii .....	11,044	.....	11,725	11,725	12,330	0.32
Idaho .....	16,986	.....	18,033	18,033	18,963	0.49
Illinois .....	123,818	.....	131,453	131,453	138,232	3.54
Indiana .....	67,233	.....	71,379	71,379	75,060	1.92
Iowa .....	22,250	.....	23,622	23,622	24,840	0.64
Kansas .....	25,591	.....	27,169	27,169	28,570	0.73
Kentucky .....	70,447	.....	74,791	74,791	78,648	2.01
Louisiana .....	68,557	.....	72,784	72,784	76,538	1.96
Maine .....	11,071	.....	11,754	11,754	12,360	0.32
Maryland .....	50,299	.....	53,401	53,401	56,155	1.44
Massachusetts .....	41,272	.....	43,817	43,817	46,077	1.18
Michigan .....	97,776	.....	103,805	103,805	109,159	2.80
Minnesota .....	39,922	.....	42,384	42,384	44,569	1.14
Mississippi .....	59,500	.....	63,169	63,169	66,427	1.70
Missouri .....	65,926	.....	69,991	69,991	73,601	1.88
Montana .....	6,925	.....	7,352	7,352	7,731	0.20
Nebraska .....	14,317	.....	15,200	15,200	15,984	0.41
Nevada .....	25,962	.....	27,563	27,563	28,984	0.74
New Hampshire .....	4,945	.....	5,250	5,250	5,521	0.14
New Jersey .....	65,648	.....	69,696	69,696	73,290	1.88
New Mexico .....	37,793	.....	40,123	40,123	42,193	1.08
New York .....	180,152	.....	191,260	191,260	201,124	5.15
North Carolina .....	114,837	.....	121,918	121,918	128,206	3.28
North Dakota .....	4,388	.....	4,659	4,659	4,899	0.13
Ohio .....	105,517	.....	112,023	112,023	117,801	3.02
Oklahoma .....	55,934	.....	59,383	59,383	62,446	1.60
Oregon .....	33,327	.....	35,382	35,382	37,207	0.95
Pennsylvania .....	85,227	.....	90,482	90,482	95,149	2.44
Rhode Island .....	9,073	.....	9,632	9,632	10,129	0.26
South Carolina .....	73,705	.....	78,250	78,250	82,285	2.11
South Dakota .....	6,665	.....	7,076	7,076	7,441	0.19
Tennessee .....	89,268	.....	94,772	94,772	99,660	2.55
Texas .....	493,001	.....	523,400	523,400	550,393	14.09
Utah .....	18,524	.....	19,666	19,666	20,680	0.53
Vermont .....	5,179	.....	5,498	5,498	5,782	0.15
Virginia .....	65,864	.....	69,925	69,925	73,531	1.88
Washington .....	49,701	.....	52,766	52,766	55,487	1.42
West Virginia .....	28,518	.....	30,276	30,276	31,838	0.82
Wisconsin .....	40,249	.....	42,731	42,731	44,935	1.15
Wyoming .....	3,410	.....	3,620	3,620	3,807	0.10
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	2,544	.....	2,701	2,701	2,840	0.07
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	33,958	.....	36,052	36,052	37,911	0.97
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	1,265	.....	1,343	1,343	1,412	0.04
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	112,375	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>3,610,150</b>	<b>.....</b>	<b>3,713,453</b>	<b>3,713,453</b>	<b>3,904,967</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.



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**Table 15-6. NATIONAL SCHOOL LUNCH PROGRAM (10.555)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	197,452	15,227	191,020	206,247	209,719	1.80
Alaska	31,040	2,394	30,029	32,423	32,968	0.28
Arizona	254,525	19,628	246,234	265,862	270,337	2.32
Arkansas	125,301	9,663	121,220	130,883	133,085	1.14
California	1,402,947	108,192	1,357,249	1,465,441	1,490,106	12.76
Colorado	125,241	9,658	121,162	130,820	133,022	1.14
Connecticut	87,101	6,717	84,264	90,981	92,512	0.79
Delaware	30,076	2,319	29,096	31,415	31,944	0.27
District of Columbia	22,668	1,748	21,930	23,678	24,076	0.21
Florida	680,866	52,507	658,688	711,195	723,165	6.19
Georgia	465,865	35,927	450,690	486,617	494,807	4.24
Hawaii	42,732	3,295	41,340	44,635	45,387	0.39
Idaho	50,918	3,927	49,259	53,186	54,081	0.46
Illinois	429,504	33,122	415,514	448,636	456,187	3.91
Indiana	240,406	18,540	232,575	251,115	255,341	2.19
Iowa	94,982	7,325	91,888	99,213	100,883	0.86
Kansas	93,121	7,181	90,088	97,269	98,906	0.85
Kentucky	183,229	14,130	177,261	191,391	194,612	1.67
Louisiana	200,200	15,439	193,679	209,118	212,638	1.82
Maine	32,699	2,522	31,634	34,156	34,730	0.30
Maryland	145,815	11,245	141,065	152,310	154,874	1.33
Massachusetts	155,303	11,977	150,244	162,221	164,951	1.41
Michigan	291,874	22,509	282,367	304,876	310,007	2.66
Minnesota	146,464	11,295	141,693	152,988	155,563	1.33
Mississippi	162,018	12,494	156,741	169,235	172,083	1.47
Missouri	195,085	15,045	188,730	203,775	207,205	1.77
Montana	25,262	1,948	24,439	26,387	26,831	0.23
Nebraska	63,014	4,860	60,961	65,821	66,929	0.57
Nevada	85,306	6,579	82,527	89,106	90,606	0.78
New Hampshire	22,650	1,747	21,912	23,659	24,057	0.21
New Jersey	230,029	17,739	222,536	240,275	244,320	2.09
New Mexico	88,222	6,804	85,348	92,152	93,703	0.80
New York	643,609	49,634	622,645	672,279	683,594	5.86
North Carolina	349,110	26,923	337,738	364,661	370,799	3.18
North Dakota	17,434	1,344	16,866	18,210	18,517	0.16
Ohio	339,814	26,206	328,745	354,951	360,925	3.09
Oklahoma	153,322	11,824	148,328	160,152	162,847	1.39
Oregon	100,528	7,753	97,253	105,006	106,773	0.91
Pennsylvania	315,900	24,362	305,610	329,972	335,525	2.87
Rhode Island	28,877	2,227	27,936	30,163	30,671	0.26
South Carolina	186,864	14,411	180,777	195,188	198,473	1.70
South Dakota	26,793	2,066	25,920	27,986	28,458	0.24
Tennessee	237,292	18,299	229,563	247,862	252,034	2.16
Texas	1,308,486	100,908	1,265,864	1,366,772	1,389,776	11.90
Utah	93,653	7,222	90,602	97,824	99,471	0.85
Vermont	14,364	1,108	13,896	15,004	15,256	0.13
Virginia	213,870	16,493	206,904	223,397	227,157	1.95
Washington	183,637	14,162	177,655	191,817	195,046	1.67
West Virginia	64,771	4,995	62,661	67,656	68,795	0.59
Wisconsin	156,708	12,085	151,604	163,689	166,444	1.43
Wyoming	14,046	1,083	13,588	14,671	14,919	0.13
American Samoa	.....	.....	.....	.....	.....	.....
Guam	7,188	554	6,954	7,508	7,635	0.07
Northern Mariana Islands	.....	.....	.....	.....	.....	.....
Puerto Rico	128,283	9,893	124,104	133,997	136,253	1.17
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	5,795	447	5,606	6,053	6,155	0.05
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	60,562	.....	.....	.....	.....	.....
<b>Total</b>	<b>11,052,821</b>	<b>847,702</b>	<b>10,634,202</b>	<b>11,481,904</b>	<b>11,675,158</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

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**Table 15-7. SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC) (10.557)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama .....	115,061	4,964	111,398	116,362	118,639	1.69
Alaska .....	23,714	1,023	22,959	23,982	24,451	0.35
Arizona .....	126,707	5,467	122,673	128,140	130,647	1.86
Arkansas .....	70,088	3,024	67,857	70,881	72,267	1.03
California .....	1,198,573	51,713	1,160,414	1,212,127	1,235,843	17.57
Colorado .....	75,388	3,253	72,988	76,241	77,732	1.11
Connecticut .....	46,279	1,997	44,806	46,803	47,718	0.68
Delaware .....	16,300	703	15,781	16,484	16,807	0.24
District of Columbia .....	14,867	641	14,394	15,035	15,329	0.22
Florida .....	366,924	15,831	355,242	371,073	378,334	5.38
Georgia .....	249,475	10,764	241,532	252,296	257,233	3.66
Hawaii .....	34,686	1,497	33,582	35,079	35,765	0.51
Idaho .....	30,757	1,327	29,778	31,105	31,713	0.45
Illinois .....	224,949	9,705	217,787	227,492	231,944	3.30
Indiana .....	109,903	4,742	106,404	111,146	113,320	1.61
Iowa .....	44,192	1,907	42,785	44,692	45,566	0.65
Kansas .....	51,716	2,231	50,070	52,301	53,324	0.76
Kentucky .....	102,719	4,432	99,449	103,881	105,913	1.51
Louisiana .....	121,089	5,224	117,234	122,458	124,854	1.78
Maine .....	18,443	796	17,856	18,652	19,016	0.27
Maryland .....	111,258	4,800	107,716	112,516	114,718	1.63
Massachusetts .....	85,876	3,705	83,142	86,847	88,546	1.26
Michigan .....	191,363	8,256	185,271	193,527	197,314	2.81
Minnesota .....	100,022	4,315	96,838	101,153	103,132	1.47
Mississippi .....	84,988	3,667	82,282	85,949	87,631	1.25
Missouri .....	100,525	4,337	97,325	101,662	103,651	1.47
Montana .....	16,348	705	15,828	16,533	16,856	0.24
Nebraska .....	32,327	1,395	31,298	32,693	33,332	0.47
Nevada .....	50,880	2,195	49,260	51,455	52,462	0.75
New Hampshire .....	10,952	473	10,603	11,076	11,293	0.16
New Jersey .....	146,040	6,301	141,390	147,691	150,581	2.14
New Mexico .....	43,685	1,885	42,294	44,179	45,043	0.64
New York .....	484,891	20,921	469,453	490,374	499,969	7.11
North Carolina .....	198,927	8,583	192,594	201,177	205,113	2.92
North Dakota .....	10,828	467	10,483	10,950	11,165	0.16
Ohio .....	182,390	7,869	176,583	184,452	188,061	2.67
Oklahoma .....	65,730	2,836	63,637	66,473	67,774	0.96
Oregon .....	77,989	3,365	75,506	78,871	80,414	1.14
Pennsylvania .....	205,995	8,888	199,437	208,325	212,400	3.02
Rhode Island .....	19,536	843	18,914	19,757	20,143	0.29
South Carolina .....	98,303	4,241	95,173	99,414	101,360	1.44
South Dakota .....	16,343	705	15,823	16,528	16,851	0.24
Tennessee .....	122,899	5,302	118,986	124,288	126,721	1.80
Texas .....	533,301	23,009	516,322	539,331	549,884	7.82
Utah .....	46,848	2,021	45,356	47,377	48,305	0.69
Vermont .....	13,158	568	12,739	13,307	13,567	0.19
Virginia .....	101,041	4,359	97,824	102,183	104,183	1.48
Washington .....	152,472	6,578	147,618	154,196	157,213	2.24
West Virginia .....	38,405	1,657	37,182	38,839	39,599	0.56
Wisconsin .....	92,492	3,991	89,547	93,538	95,368	1.36
Wyoming .....	8,667	374	8,391	8,765	8,937	0.13
American Samoa .....	7,746	334	7,499	7,833	7,987	0.11
Guam .....	9,628	415	9,321	9,736	9,927	0.14
Northern Mariana Islands .....	5,642	243	5,462	5,705	5,817	0.08
Puerto Rico .....	243,701	10,515	235,942	246,457	251,279	3.57
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	7,588	327	7,346	7,673	7,824	0.11
Indian Tribes .....	60,290	2,601	58,371	60,972	62,165	0.88
Undistributed .....	8,782	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>6,829,686</b>	<b>294,287</b>	<b>6,603,745</b>	<b>6,898,032</b>	<b>7,033,000</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

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**Table 15–8. CHILD AND ADULT CARE FOOD PROGRAM (10.558)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	37,956		40,459	40,459	41,773	1.33
Alaska	9,074		9,672	9,672	9,986	0.32
Arizona	45,699		48,712	48,712	50,294	1.60
Arkansas	57,091		60,856	60,856	62,832	1.99
California	329,308		351,023	351,023	362,421	11.51
Colorado	23,082		24,604	24,604	25,403	0.81
Connecticut	15,291		16,299	16,299	16,829	0.53
Delaware	14,523		15,481	15,481	15,983	0.51
District of Columbia	7,556		8,054	8,054	8,316	0.26
Florida	183,483		195,582	195,582	201,933	6.41
Georgia	105,579		112,541	112,541	116,195	3.69
Hawaii	6,745		7,190	7,190	7,423	0.24
Idaho	6,625		7,062	7,062	7,291	0.23
Illinois	133,665		142,479	142,479	147,106	4.67
Indiana	48,074		51,244	51,244	52,908	1.68
Iowa	28,262		30,126	30,126	31,104	0.99
Kansas	32,186		34,308	34,308	35,422	1.12
Kentucky	33,306		35,502	35,502	36,655	1.16
Louisiana	76,208		81,233	81,233	83,871	2.66
Maine	9,654		10,291	10,291	10,625	0.34
Maryland	48,652		51,860	51,860	53,544	1.70
Massachusetts	58,689		62,559	62,559	64,590	2.05
Michigan	65,209		69,509	69,509	71,766	2.28
Minnesota	64,228		68,463	68,463	70,686	2.24
Mississippi	38,050		40,559	40,559	41,876	1.33
Missouri	48,070		51,240	51,240	52,904	1.68
Montana	10,257		10,933	10,933	11,288	0.36
Nebraska	32,596		34,745	34,745	35,874	1.14
Nevada	7,029		7,492	7,492	7,736	0.25
New Hampshire	4,282		4,564	4,564	4,713	0.15
New Jersey	66,035		70,389	70,389	72,675	2.31
New Mexico	32,885		35,053	35,053	36,192	1.15
New York	205,019		218,538	218,538	225,634	7.16
North Carolina	85,447		91,081	91,081	94,039	2.99
North Dakota	9,707		10,347	10,347	10,683	0.34
Ohio	90,865		96,857	96,857	100,002	3.17
Oklahoma	54,935		58,557	58,557	60,459	1.92
Oregon	31,949		34,056	34,056	35,162	1.12
Pennsylvania	94,221		100,434	100,434	103,695	3.29
Rhode Island	7,807		8,322	8,322	8,592	0.27
South Carolina	29,598		31,550	31,550	32,574	1.03
South Dakota	9,009		9,603	9,603	9,915	0.31
Tennessee	62,807		66,949	66,949	69,123	2.19
Texas	295,667		315,163	315,163	325,398	10.33
Utah	27,043		28,826	28,826	29,762	0.94
Vermont	5,363		5,717	5,717	5,902	0.19
Virginia	43,211		46,060	46,060	47,556	1.51
Washington	42,776		45,597	45,597	47,077	1.49
West Virginia	15,384		16,398	16,398	16,931	0.54
Wisconsin	38,603		41,149	41,149	42,485	1.35
Wyoming	5,139		5,478	5,478	5,656	0.18
American Samoa						
Guam	393		419	419	433	0.01
Northern Mariana Islands						
Puerto Rico	26,393		28,133	28,133	29,047	0.92
Freely Associated States						
Virgin Islands	1,236		1,318	1,318	1,360	0.04
Indian Tribes						
Undistributed	221,079					
<b>Total</b>	<b>3,083,000</b>		<b>3,050,636</b>	<b>3,050,636</b>	<b>3,149,699</b>	<b>100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Agriculture, Food and Nutrition Service

12-3505-0-1-605

**Table 15-9. STATE ADMINISTRATIVE MATCHING GRANTS FOR THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (FOOD STAMPS) (10,561)**  
(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama .....	40,192	188	48,668	48,856	55,655	1.12
Alaska .....	11,583	54	14,026	14,080	16,039	0.32
Arizona .....	63,075	296	76,376	76,672	87,342	1.76
Arkansas .....	30,417	143	36,831	36,974	42,119	0.85
California .....	813,371	3,812	984,892	988,704	1,126,300	22.65
Colorado .....	50,662	237	61,345	61,582	70,153	1.41
Connecticut .....	40,154	188	48,622	48,810	55,602	1.12
Delaware .....	12,156	57	14,719	14,776	16,833	0.34
District of Columbia .....	12,320	58	14,918	14,976	17,060	0.34
Florida .....	89,600	420	108,495	108,915	124,072	2.49
Georgia .....	78,638	369	95,221	95,590	108,892	2.19
Hawaii .....	14,638	69	17,725	17,794	20,270	0.41
Idaho .....	9,543	45	11,555	11,600	13,214	0.27
Illinois .....	104,425	489	126,446	126,935	144,601	2.91
Indiana .....	41,692	195	50,484	50,679	57,732	1.16
Iowa .....	21,868	102	26,479	26,581	30,281	0.61
Kansas .....	23,268	109	28,175	28,284	32,220	0.65
Kentucky .....	45,181	212	54,709	54,921	62,564	1.26
Louisiana .....	54,387	255	65,856	66,111	75,311	1.51
Maine .....	10,735	50	12,999	13,049	14,865	0.30
Maryland .....	53,107	249	64,306	64,555	73,539	1.48
Massachusetts .....	53,072	249	64,264	64,513	73,490	1.48
Michigan .....	149,390	700	180,893	181,593	206,865	4.16
Minnesota .....	55,010	258	66,610	66,868	76,174	1.53
Mississippi .....	24,801	116	30,031	30,147	34,343	0.69
Missouri .....	44,971	211	54,454	54,665	62,273	1.25
Montana .....	12,502	59	15,138	15,197	17,312	0.35
Nebraska .....	12,331	58	14,931	14,989	17,075	0.34
Nevada .....	19,406	91	23,498	23,589	26,872	0.54
New Hampshire .....	7,630	36	9,239	9,275	10,565	0.21
New Jersey .....	132,645	622	160,617	161,239	183,678	3.69
New Mexico .....	29,183	137	35,337	35,474	40,411	0.81
New York .....	356,609	1,671	431,809	433,480	493,808	9.93
North Carolina .....	90,507	424	109,593	110,017	125,328	2.52
North Dakota .....	8,395	39	10,165	10,204	11,625	0.23
Ohio .....	92,516	434	112,025	112,459	128,110	2.58
Oklahoma .....	42,278	198	51,193	51,391	58,544	1.18
Oregon .....	71,309	334	86,346	86,680	98,744	1.99
Pennsylvania .....	168,861	791	204,470	205,261	233,827	4.70
Rhode Island .....	10,152	48	12,293	12,341	14,058	0.28
South Carolina .....	25,036	117	30,315	30,432	34,668	0.70
South Dakota .....	6,948	33	8,413	8,446	9,621	0.19
Tennessee .....	61,003	286	73,867	74,153	84,473	1.70
Texas .....	206,452	967	249,988	250,955	285,881	5.75
Utah .....	23,513	110	28,471	28,581	32,559	0.65
Vermont .....	9,639	45	11,672	11,717	13,347	0.27
Virginia .....	99,226	465	120,150	120,615	137,401	2.76
Washington .....	80,622	378	97,623	98,001	111,640	2.24
West Virginia .....	15,708	74	19,020	19,094	21,751	0.44
Wisconsin .....	50,269	236	60,870	61,106	69,609	1.40
Wyoming .....	4,930	23	5,970	5,993	6,827	0.14
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	1,382	6	1,673	1,679	1,914	0.04
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	.....	.....	.....	.....	.....	.....
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	4,163	20	5,041	5,061	5,765	0.12
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	383,529	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>3,975,000</b>	<b>16,833</b>	<b>4,348,826</b>	<b>4,365,659</b>	<b>4,973,222</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.



Department of Education, Office of Elementary and Secondary Education

91-0900-0-1-501

**Table 15–10. 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 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	215,160		221,908	221,908	221,859	1.54
Alaska	37,767		38,306	38,306	38,066	0.26
Arizona	311,045		324,201	324,201	323,656	2.25
Arkansas	147,089		158,818	158,818	158,755	1.10
California	1,540,847		1,689,377	1,689,377	1,702,866	11.85
Colorado	139,574		152,462	152,462	153,546	1.07
Connecticut	107,665		115,457	115,457	115,965	0.81
Delaware	42,595		44,081	44,081	43,995	0.31
District of Columbia	44,013		43,246	43,246	42,752	0.30
Florida	701,541		779,308	779,308	787,082	5.48
Georgia	481,412		507,962	507,962	509,146	3.54
Hawaii	47,598		53,291	53,291	53,861	0.37
Idaho	53,679		58,472	58,472	58,807	0.41
Illinois	627,985		646,192	646,192	650,414	4.52
Indiana	248,168		259,224	259,224	259,363	1.80
Iowa	83,471		85,068	85,068	85,192	0.59
Kansas	96,510		105,936	105,936	106,464	0.74
Kentucky	210,474		221,595	221,595	222,077	1.54
Louisiana	279,286		291,414	291,414	290,941	2.02
Maine	48,799		52,114	52,114	52,078	0.36
Maryland	181,688		197,854	197,854	199,924	1.39
Massachusetts	204,213		213,542	213,542	215,009	1.50
Michigan	511,731		521,579	521,579	516,098	3.59
Minnesota	145,454		145,424	145,424	145,452	1.01
Mississippi	176,722		186,682	186,682	185,813	1.29
Missouri	224,772		237,023	237,023	236,184	1.64
Montana	42,989		44,567	44,567	44,372	0.31
Nebraska	65,230		71,408	71,408	71,786	0.50
Nevada	101,368		115,750	115,750	117,002	0.81
New Hampshire	39,809		42,980	42,980	42,740	0.30
New Jersey	278,123		306,191	306,191	306,188	2.13
New Mexico	112,088		110,483	110,483	109,653	0.76
New York	1,078,369		1,087,979	1,087,979	1,081,393	7.52
North Carolina	379,295		413,458	413,458	416,648	2.90
North Dakota	32,448		33,194	33,194	33,194	0.23
Ohio	555,292		567,393	567,393	565,217	3.93
Oklahoma	148,120		154,690	154,690	154,322	1.07
Oregon	145,927		147,563	147,563	147,636	1.03
Pennsylvania	532,380		553,193	553,193	552,649	3.84
Rhode Island	47,193		48,446	48,446	48,126	0.33
South Carolina	205,586		214,090	214,090	215,102	1.50
South Dakota	41,482		42,170	42,170	42,170	0.29
Tennessee	264,087		275,641	275,641	277,379	1.93
Texas	1,311,223		1,320,476	1,320,476	1,315,013	9.15
Utah	84,915		88,515	88,515	89,327	0.62
Vermont	31,925		33,603	33,603	33,603	0.23
Virginia	220,136		234,076	234,076	235,002	1.63
Washington	203,756		215,576	215,576	215,981	1.50
West Virginia	89,837		88,023	88,023	87,972	0.61
Wisconsin	211,698		208,626	208,626	207,940	1.45
Wyoming	32,439		33,817	33,817	33,817	0.24
American Samoa	10,583		10,740	10,740	10,843	0.08
Guam	11,171		15,698	15,698	15,848	0.11
Northern Mariana Islands	4,039		6,988	6,988	7,055	0.05
Puerto Rico	453,904		434,566	434,566	417,397	2.90
Freely Associated States						
Virgin Islands	13,473		12,125	12,125	10,913	0.08
Indian Tribes	93,299		93,257	93,257	94,149	0.65
Undistributed	8,777		8,984	8,984	9,000	
<b>Total</b>	<b>13,760,219</b>		<b>14,384,802</b>	<b>14,384,802</b>	<b>14,384,802</b>	<sup>1</sup> 100.00

<sup>1</sup> Excludes undistributed obligations.

Department of Education, Office of Elementary and Secondary Education

91-1000-0-1-501

**Table 15-11. IMPROVING TEACHER QUALITY STATE GRANTS (84.367)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	36,446	.....	36,421	36,421	.....	.....
Alaska	10,869	.....	10,869	10,869	.....	.....
Arizona	35,693	.....	35,640	35,640	.....	.....
Arkansas	22,067	.....	22,107	22,107	.....	.....
California	254,874	.....	255,403	255,403	.....	.....
Colorado	25,502	.....	25,584	25,584	.....	.....
Connecticut	21,661	.....	21,650	21,650	.....	.....
Delaware	10,869	.....	10,869	10,869	.....	.....
District of Columbia	10,869	.....	10,869	10,869	.....	.....
Florida	103,193	.....	103,350	103,350	.....	.....
Georgia	60,014	.....	60,138	60,138	.....	.....
Hawaii	10,869	.....	10,869	10,869	.....	.....
Idaho	10,886	.....	10,900	10,900	.....	.....
Illinois	94,180	.....	93,979	93,979	.....	.....
Indiana	39,054	.....	38,983	38,983	.....	.....
Iowa	17,933	.....	17,873	17,873	.....	.....
Kansas	18,274	.....	18,317	18,317	.....	.....
Kentucky	36,017	.....	35,972	35,972	.....	.....
Louisiana	52,216	.....	52,205	52,205	.....	.....
Maine	10,869	.....	10,869	10,869	.....	.....
Maryland	33,309	.....	33,312	33,312	.....	.....
Massachusetts	41,975	.....	41,962	41,962	.....	.....
Michigan	91,628	.....	91,613	91,613	.....	.....
Minnesota	31,352	.....	31,301	31,301	.....	.....
Mississippi	34,059	.....	34,141	34,141	.....	.....
Missouri	39,562	.....	39,582	39,582	.....	.....
Montana	10,869	.....	10,869	10,869	.....	.....
Nebraska	11,146	.....	11,146	11,146	.....	.....
Nevada	11,441	.....	11,478	11,478	.....	.....
New Hampshire	10,869	.....	10,869	10,869	.....	.....
New Jersey	52,275	.....	52,377	52,377	.....	.....
New Mexico	18,128	.....	18,100	18,100	.....	.....
New York	188,660	.....	188,609	188,609	.....	.....
North Carolina	49,941	.....	50,015	50,015	.....	.....
North Dakota	10,869	.....	10,869	10,869	.....	.....
Ohio	86,229	.....	86,145	86,145	.....	.....
Oklahoma	26,278	.....	26,305	26,305	.....	.....
Oregon	22,277	.....	22,209	22,209	.....	.....
Pennsylvania	93,850	.....	93,835	93,835	.....	.....
Rhode Island	10,869	.....	10,869	10,869	.....	.....
South Carolina	28,646	.....	28,610	28,610	.....	.....
South Dakota	10,869	.....	10,869	10,869	.....	.....
Tennessee	38,983	.....	38,966	38,966	.....	.....
Texas	187,802	.....	187,518	187,518	.....	.....
Utah	15,003	.....	14,977	14,977	.....	.....
Vermont	10,869	.....	10,869	10,869	.....	.....
Virginia	40,865	.....	40,851	40,851	.....	.....
Washington	37,530	.....	37,524	37,524	.....	.....
West Virginia	19,728	.....	19,699	19,699	.....	.....
Wisconsin	37,830	.....	37,827	37,827	.....	.....
Wyoming	10,869	.....	10,869	10,869	.....	.....
American Samoa	2,656	.....	2,673	2,673	.....	.....
Guam	4,474	.....	4,496	4,496	.....	.....
Northern Mariana Islands	1,634	.....	1,644	1,644	.....	.....
Puerto Rico	70,876	.....	70,651	70,651	.....	.....
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	2,867	.....	2,878	2,878	.....	.....
Indian Tribes	11,631	.....	11,690	11,690	.....	.....
Undistributed	46,757	.....	58,746	58,746	.....	.....
<b>Total</b>	<b>2,337,830</b>	<b>.....</b>	<b>2,349,830</b>	<b>2,349,830</b>	<b>.....</b>	<b>.....</b>

Department of Education, Office of Elementary and Secondary Education

91-0204-0-1-501

**Table 15–12. EFFECTIVE TEACHERS AND LEADERS STATE GRANTS**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama					28,106	1.59
Alaska					8,387	0.47
Arizona					27,504	1.55
Arkansas					17,060	0.96
California					197,097	11.14
Colorado					19,743	1.12
Connecticut					16,707	0.94
Delaware					8,387	0.47
District of Columbia					8,387	0.47
Florida					79,757	4.51
Georgia					46,409	2.62
Hawaii					8,387	0.47
Idaho					8,411	0.48
Illinois					72,525	4.10
Indiana					30,084	1.70
Iowa					13,793	0.78
Kansas					14,135	0.80
Kentucky					27,760	1.57
Louisiana					40,287	2.28
Maine					8,387	0.47
Maryland					25,707	1.45
Massachusetts					32,382	1.83
Michigan					70,698	3.99
Minnesota					24,156	1.36
Mississippi					26,347	1.49
Missouri					30,546	1.73
Montana					8,387	0.47
Nebraska					8,601	0.49
Nevada					8,858	0.50
New Hampshire					8,387	0.47
New Jersey					40,420	2.28
New Mexico					13,968	0.79
New York					145,552	8.22
North Carolina					38,597	2.18
North Dakota					8,387	0.47
Ohio					66,479	3.76
Oklahoma					20,300	1.15
Oregon					17,139	0.97
Pennsylvania					72,414	4.09
Rhode Island					8,387	0.47
South Carolina					22,079	1.25
South Dakota					8,387	0.47
Tennessee					30,070	1.70
Texas					144,709	8.18
Utah					11,558	0.65
Vermont					8,387	0.47
Virginia					31,525	1.78
Washington					28,958	1.64
West Virginia					15,202	0.86
Wisconsin					29,191	1.65
Wyoming					8,387	0.47
American Samoa					2,705	0.15
Guam					3,729	0.21
Northern Mariana Islands					1,721	0.10
Puerto Rico					54,522	3.08
Freely Associated States						
Virgin Islands					1,845	0.10
Indian Tribes					10,000	0.56
Undistributed					230,000	
<b>Total</b>					<b>2,000,000</b>	<sup>1</sup> <b>100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Education, Office of Special Education and Rehabilitative Services

91-0301-0-1-506

**Table 15-13. VOCATIONAL REHABILITATION GRANTS (84.126)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama .....	55,705	.....	59,630	59,630	64,185	1.92
Alaska .....	10,097	.....	10,090	10,090	11,173	0.34
Arizona .....	61,324	.....	64,197	64,197	70,844	2.12
Arkansas .....	39,311	.....	36,777	36,777	39,712	1.19
California .....	289,882	.....	298,624	298,624	327,411	9.82
Colorado .....	40,051	.....	40,919	40,919	45,098	1.35
Connecticut .....	26,288	.....	20,808	20,808	22,490	0.67
Delaware .....	13,097	.....	10,090	10,090	11,173	0.34
District of Columbia .....	13,090	.....	13,568	13,568	14,854	0.45
Florida .....	138,751	.....	171,256	171,256	188,621	5.66
Georgia .....	100,223	.....	103,487	103,487	112,988	3.39
Hawaii .....	12,900	.....	11,437	11,437	12,700	0.38
Idaho .....	16,952	.....	17,988	17,988	19,864	0.60
Illinois .....	109,148	.....	109,171	109,171	118,262	3.55
Indiana .....	60,270	.....	74,236	74,236	80,462	2.41
Iowa .....	26,099	.....	31,304	31,304	33,879	1.02
Kansas .....	27,921	.....	27,757	27,757	30,101	0.90
Kentucky .....	46,103	.....	54,798	54,798	59,091	1.77
Louisiana .....	34,038	.....	53,133	53,133	57,133	1.71
Maine .....	16,503	.....	15,193	15,193	16,471	0.49
Maryland .....	47,382	.....	39,554	39,554	43,035	1.29
Massachusetts .....	62,012	.....	46,345	46,345	49,888	1.50
Michigan .....	100,199	.....	109,439	109,439	118,407	3.55
Minnesota .....	50,343	.....	46,780	46,780	50,782	1.52
Mississippi .....	44,467	.....	41,451	41,451	44,520	1.33
Missouri .....	63,571	.....	64,935	64,935	70,180	2.10
Montana .....	12,648	.....	11,284	11,284	12,485	0.37
Nebraska .....	19,411	.....	17,779	17,779	19,406	0.58
Nevada .....	15,885	.....	23,843	23,843	26,515	0.80
New Hampshire .....	11,602	.....	11,048	11,048	12,114	0.36
New Jersey .....	58,220	.....	57,255	57,255	61,983	1.86
New Mexico .....	24,258	.....	23,965	23,965	26,027	0.78
New York .....	145,605	.....	140,684	140,684	151,864	4.55
North Carolina .....	104,537	.....	105,185	105,185	114,732	3.44
North Dakota .....	10,097	.....	10,090	10,090	11,173	0.34
Ohio .....	110,716	.....	127,716	127,716	137,782	4.13
Oklahoma .....	43,405	.....	42,153	42,153	45,770	1.37
Oregon .....	38,669	.....	38,971	38,971	42,569	1.28
Pennsylvania .....	111,450	.....	125,831	125,831	135,353	4.06
Rhode Island .....	12,752	.....	10,090	10,090	11,173	0.34
South Carolina .....	56,304	.....	56,408	56,408	61,444	1.84
South Dakota .....	10,172	.....	10,090	10,090	11,173	0.34
Tennessee .....	58,994	.....	72,234	72,234	78,289	2.35
Texas .....	237,121	.....	238,119	238,119	262,094	7.86
Utah .....	37,529	.....	31,164	31,164	34,378	1.03
Vermont .....	16,047	.....	10,090	10,090	11,173	0.34
Virginia .....	72,009	.....	65,057	65,057	70,869	2.12
Washington .....	53,535	.....	54,399	54,399	59,720	1.79
West Virginia .....	40,427	.....	25,366	25,366	27,278	0.82
Wisconsin .....	57,089	.....	59,058	59,058	63,788	1.91
Wyoming .....	9,008	.....	10,090	10,090	11,173	0.34
American Samoa .....	924	.....	921	921	1,027	0.03
Guam .....	834	.....	2,821	2,821	3,067	0.09
Northern Mariana Islands .....	816	.....	800	800	902	0.03
Puerto Rico .....	69,764	.....	69,640	69,640	73,791	2.21
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	1,866	.....	1,986	1,986	2,150	0.06
Indian Tribes .....	37,224	.....	37,201	37,201	40,488	1.21
Undistributed .....	81,547	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>3,066,192</b>	<b>.....</b>	<b>3,064,305</b>	<b><sup>1</sup> 3,064,305</b>	<b><sup>2</sup> 3,335,074</b>	<b><sup>3</sup> 100.00</b>

<sup>1</sup> FY 2014 obligations reflect the sequester reduction of 7.2 percent required for mandatory programs by the Budget Control Act of 2011.<sup>2</sup> The FY 2015 estimates reflect the Administration's proposal to consolidate the Supported Employment State grants program into the Vocational Rehabilitation State Grants program. State estimates are illustrative and are subject to change.<sup>3</sup> Excludes undistributed obligations.



Department of Education, Office of Special Education and Rehabilitative Services

91-0300-0-1-507

**Table 15-14. SPECIAL EDUCATION-GRANTS TO STATES (84.027)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	172,172		179,202	179,202	179,202	1.55
Alaska	34,450		36,122	36,122	36,122	0.31
Arizona	177,430		188,142	188,142	188,142	1.63
Arkansas	106,046		110,376	110,376	110,376	0.95
California	1,158,460		1,205,768	1,205,768	1,205,768	10.42
Colorado	145,696		154,492	154,492	154,492	1.33
Connecticut	126,118		131,268	131,268	131,268	1.13
Delaware	32,508		34,472	34,472	34,472	0.30
District of Columbia	16,346		17,332	17,332	17,332	0.15
Florida	598,406		634,534	634,534	634,534	5.48
Georgia	309,690		328,388	328,388	328,388	2.84
Hawaii	37,708		39,248	39,248	39,248	0.34
Idaho	52,204		55,356	55,356	55,356	0.48
Illinois	479,682		499,270	499,270	499,270	4.31
Indiana	244,540		255,246	255,246	255,246	2.21
Iowa	115,832		120,562	120,562	120,562	1.04
Kansas	101,162		105,292	105,292	105,292	0.91
Kentucky	149,790		155,906	155,906	155,906	1.35
Louisiana	178,692		185,988	185,988	185,988	1.61
Maine	51,918		54,038	54,038	54,038	0.47
Maryland	189,680		197,426	197,426	197,426	1.71
Massachusetts	269,334		280,332	280,332	280,332	2.42
Michigan	378,526		393,984	393,984	393,984	3.40
Minnesota	179,844		187,188	187,188	187,188	1.62
Mississippi	113,530		118,166	118,166	118,166	1.02
Missouri	215,494		224,294	224,294	224,294	1.94
Montana	35,200		36,872	36,872	36,872	0.32
Nebraska	70,846		73,740	73,740	73,740	0.64
Nevada	66,726		70,754	70,754	70,754	0.61
New Hampshire	45,022		46,860	46,860	46,860	0.40
New Jersey	342,950		356,956	356,956	356,956	3.08
New Mexico	86,420		89,948	89,948	89,948	0.78
New York	719,688		749,078	749,078	749,078	6.47
North Carolina	308,408		327,028	327,028	327,028	2.83
North Dakota	26,396		27,990	27,990	27,990	0.24
Ohio	413,778		430,676	430,676	430,676	3.72
Oklahoma	139,984		146,448	146,448	146,448	1.27
Oregon	122,048		127,032	127,032	127,032	1.10
Pennsylvania	403,908		420,404	420,404	420,404	3.63
Rhode Island	41,492		43,186	43,186	43,186	0.37
South Carolina	167,788		174,640	174,640	174,640	1.51
South Dakota	31,446		33,344	33,344	33,344	0.29
Tennessee	224,140		234,532	234,532	234,532	2.03
Texas	926,936		982,898	982,898	982,898	8.49
Utah	103,478		109,726	109,726	109,726	0.95
Vermont	25,452		26,988	26,988	26,988	0.23
Virginia	266,858		280,428	280,428	280,428	2.42
Washington	209,104		217,694	217,694	217,694	1.88
West Virginia	72,056		74,998	74,998	74,998	0.65
Wisconsin	197,228		205,282	205,282	205,282	1.77
Wyoming	26,702		28,314	28,314	28,314	0.24
American Samoa	6,298		6,358	6,358	6,358	0.05
Guam	13,962		14,096	14,096	14,096	0.12
Northern Mariana Islands	4,786		4,832	4,832	4,832	0.04
Puerto Rico	108,460		115,008	115,008	115,008	0.99
Freely Associated States	6,580		6,580	6,580	6,580	0.06
Virgin Islands	8,874		8,960	8,960	8,960	0.08
Indian Tribes	92,910		93,804	93,804	93,804	0.81
Undistributed						
Technical Assistance Set-aside	23,500		15,000	15,000	15,000	0.13
Results Driven Accountability Incentive Grants					100,000	0.86
<b>Total</b>	<b>10,974,682</b>		<b>11,472,846</b>	<b>11,472,846</b>	<b>11,572,846</b>	<b>1 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Centers for Medicare and Medicaid Services

75-0515-0-1-551

**Table 15-15. CHILDREN'S HEALTH INSURANCE PROGRAM (93.767)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama .....	162,846	.....	173,059	173,059	218,095	2.10
Alaska .....	20,558	.....	21,847	21,847	25,900	0.25
Arizona .....	25,392	.....	27,043	27,043	79,920	0.77
Arkansas .....	103,118	.....	109,673	109,673	114,588	1.10
California .....	1,296,015	.....	1,377,293	1,377,293	1,715,707	16.52
Colorado .....	131,841	.....	140,522	140,522	143,545	1.38
Connecticut .....	41,328	.....	43,920	43,920	41,961	0.40
Delaware .....	15,738	.....	16,740	16,740	17,863	0.17
District of Columbia .....	14,867	.....	16,307	16,307	16,863	0.16
Florida .....	359,047	.....	382,280	382,280	445,772	4.29
Georgia .....	282,709	.....	300,851	300,851	357,190	3.44
Hawaii .....	25,809	.....	27,465	27,465	25,157	0.24
Idaho .....	35,957	.....	38,212	38,212	45,832	0.44
Illinois .....	275,566	.....	292,847	292,847	378,523	3.64
Indiana .....	144,858	.....	153,943	153,943	142,339	1.37
Iowa .....	92,496	.....	98,297	98,297	108,586	1.05
Kansas .....	55,399	.....	58,873	58,873	66,921	0.64
Kentucky .....	147,886	.....	157,160	157,160	159,088	1.53
Louisiana .....	171,875	.....	182,927	182,927	172,704	1.66
Maine .....	31,479	.....	33,453	33,453	31,584	0.30
Maryland .....	160,475	.....	170,539	170,539	199,633	1.92
Massachusetts .....	330,876	.....	351,627	351,627	332,775	3.20
Michigan .....	54,797	.....	58,233	58,233	104,658	1.01
Minnesota .....	32,082	.....	34,094	34,094	33,251	0.32
Mississippi .....	176,877	.....	187,970	187,970	192,920	1.86
Missouri .....	122,948	.....	130,658	130,658	146,936	1.41
Montana .....	59,390	.....	63,115	63,115	81,172	0.78
Nebraska .....	42,464	.....	45,294	45,294	54,366	0.52
Nevada .....	31,454	.....	33,497	33,497	43,241	0.42
New Hampshire .....	18,195	.....	19,336	19,336	18,004	0.17
New Jersey .....	640,184	.....	680,333	680,333	328,295	3.16
New Mexico .....	124,226	.....	132,016	132,016	66,744	0.64
New York .....	579,751	.....	616,109	616,109	715,078	6.88
North Carolina .....	304,201	.....	323,738	323,738	452,601	4.36
North Dakota .....	17,311	.....	18,787	18,787	21,278	0.20
Ohio .....	336,051	.....	357,126	357,126	387,144	3.73
Oklahoma .....	114,193	.....	121,937	121,937	144,424	1.39
Oregon .....	143,895	.....	152,920	152,920	173,908	1.67
Pennsylvania .....	305,718	.....	324,890	324,890	355,279	3.42
Rhode Island .....	39,507	.....	41,984	41,984	57,940	0.56
South Carolina .....	98,283	.....	104,749	104,749	113,056	1.09
South Dakota .....	19,438	.....	20,762	20,762	18,518	0.18
Tennessee .....	200,235	.....	212,945	212,945	241,025	2.32
Texas .....	891,518	.....	955,760	955,760	1,087,739	10.47
Utah .....	62,494	.....	66,844	66,844	43,426	0.42
Vermont .....	13,037	.....	13,854	13,854	14,499	0.14
Virginia .....	186,576	.....	198,338	198,338	220,768	2.13
Washington .....	96,942	.....	103,283	103,283	101,580	0.98
West Virginia .....	48,276	.....	51,303	51,303	53,890	0.52
Wisconsin .....	103,003	.....	109,463	109,463	105,770	1.02
Wyoming .....	10,764	.....	11,523	11,523	12,422	0.12
American Samoa .....	1,302	.....	1,384	1,384	1,471	0.01
Guam .....	4,532	.....	4,816	4,816	5,118	0.05
Northern Mariana Islands .....	934	.....	993	993	1,055	0.01
Puerto Rico .....	132,659	.....	140,979	140,979	149,820	1.44
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	.....	.....	.....	.....	.....	.....
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>8,939,372</b>	<b>.....</b>	<b>9,513,911</b>	<b>9,513,911</b>	<b>10,387,942</b>	<b><sup>1</sup> 100.00</b>

NOTE: The FY 2015 CHIP allotments are projections based on the most current available data and are subject to change.

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Centers for Medicare and Medicaid Services

75-0512-0-1-551

**Table 15–16. GRANTS TO STATES FOR MEDICAID (93.778)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	3,592,161		4,038,932	4,038,932	4,150,563	1.25
Alaska	848,492		971,967	971,967	1,063,215	0.32
Arizona	5,886,360		7,031,141	7,031,141	8,143,611	2.46
Arkansas	3,120,980		3,763,171	3,763,171	4,795,134	1.45
California	34,097,644		40,414,562	40,414,562	42,794,819	12.92
Colorado	2,703,190		3,410,048	3,410,048	4,035,135	1.22
Connecticut	3,419,943		3,823,446	3,823,446	4,065,480	1.23
Delaware	938,144		1,065,976	1,065,976	1,061,575	0.32
District of Columbia	1,661,305		1,860,261	1,860,261	1,986,316	0.60
Florida	11,175,808		12,928,986	12,928,986	13,709,082	4.14
Georgia	6,196,251		6,557,803	6,557,803	6,286,750	1.90
Hawaii	906,575		1,134,225	1,134,225	1,190,426	0.36
Idaho	1,261,790		1,362,962	1,362,962	1,078,553	0.33
Illinois	8,493,218		8,797,755	8,797,755	8,924,200	2.69
Indiana	5,620,463		6,187,877	6,187,877	6,354,567	1.92
Iowa	2,317,170		2,359,857	2,359,857	2,343,845	0.71
Kansas	1,557,549		1,753,761	1,753,761	1,707,029	0.52
Kentucky	4,191,916		5,231,083	5,231,083	5,971,179	1.80
Louisiana	4,701,417		4,967,009	4,967,009	5,313,150	1.60
Maine	1,871,045		1,614,851	1,614,851	1,619,208	0.49
Maryland	4,123,553		4,197,991	4,197,991	4,470,215	1.35
Massachusetts	6,937,940		8,093,951	8,093,951	8,778,588	2.65
Michigan	8,592,519		10,296,076	10,296,076	11,730,180	3.54
Minnesota	4,266,632		5,479,858	5,479,858	5,979,104	1.80
Mississippi	3,605,171		3,872,071	3,872,071	4,090,642	1.23
Missouri	5,715,711		6,129,503	6,129,503	6,449,550	1.95
Montana	726,015		759,897	759,897	779,432	0.24
Nebraska	1,078,951		1,087,755	1,087,755	1,106,131	0.33
Nevada	1,164,922		1,455,714	1,455,714	1,739,104	0.52
New Hampshire	673,089		737,530	737,530	712,566	0.22
New Jersey	5,639,230		8,133,851	8,133,851	9,692,983	2.93
New Mexico	2,438,571		3,037,937	3,037,937	3,378,177	1.02
New York	27,310,551		34,832,162	34,832,162	35,540,893	10.73
North Carolina	8,211,889		8,590,452	8,590,452	8,532,084	2.58
North Dakota	451,079		619,824	619,824	747,998	0.23
Ohio	11,004,596		12,602,073	12,602,073	13,070,288	3.94
Oklahoma	3,092,307		3,400,658	3,400,658	3,432,119	1.04
Oregon	3,492,929		4,390,416	4,390,416	4,765,715	1.44
Pennsylvania	11,850,308		12,234,661	12,234,661	12,545,979	3.79
Rhode Island	1,060,709		1,210,047	1,210,047	1,245,153	0.38
South Carolina	3,473,332		4,109,935	4,109,935	3,770,684	1.14
South Dakota	499,361		498,301	498,301	506,268	0.15
Tennessee	6,004,552		7,009,416	7,009,416	7,652,922	2.31
Texas	17,427,927		21,513,259	21,513,259	21,272,086	6.42
Utah	1,545,776		1,659,668	1,659,668	1,730,784	0.52
Vermont	853,313		893,747	893,747	832,070	0.25
Virginia	3,910,875		4,381,411	4,381,411	4,575,125	1.38
Washington	4,272,311		4,096,632	4,096,632	4,595,080	1.39
West Virginia	2,289,012		2,664,681	2,664,681	2,751,446	0.83
Wisconsin	4,455,583		4,617,953	4,617,953	4,830,309	1.46
Wyoming	312,094		334,858	334,858	327,745	0.10
American Samoa	14,471		15,898	15,898	15,898	*
Guam	35,230		35,036	35,036	35,036	0.01
Northern Mariana Islands	19,677		17,338	17,338	17,338	0.01
Puerto Rico	973,694		1,030,029	1,030,029	1,075,697	0.32
Freely Associated States						
Virgin Islands	16,213		26,675	26,675	19,797	0.01
Indian Tribes						
Undistributed	20,285,442		1,250,129	1,250,129	12,026,953	
Survey & Certification	226,878		235,400	235,400	242,400	0.07
Fraud Control Units	222,201		224,479	224,479	233,977	0.07
Vaccines for Children	3,607,016		3,562,470	3,562,470	4,076,617	1.23
Medicare Part B Transfer	477,445		755,000	755,000	760,000	0.23
Incurred But Not Reported			4,211,000	4,211,000	6,641,000	2.00
<b>Total</b>	<b>286,920,496</b>		<b>313,581,415</b>	<b>313,581,415</b>	<b>343,369,970</b>	<b>1 100.00</b>

\* 0.005 percent or less.

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Centers for Medicare and Medicaid Services

75-0115-0-1-551

**Table 15-17. AFFORDABLE INSURANCE EXCHANGE GRANTS (93.525)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama						
Alaska						
Arizona						
Arkansas	16,471	14,217	14,217	28,434		
California	673,705	155,077	155,077	310,154		
Colorado	116,246					
Connecticut	27,600	20,302	20,302	40,604		
Delaware	8,537	8,322	8,322	16,644		
District of Columbia	16,969	34,419	34,419	68,838		
Florida						
Georgia						
Hawaii	128,087					
Idaho		48,019	48,019	96,038		
Illinois	115,824					
Indiana						
Iowa	6,845	17,462	17,462	34,924		
Kansas						
Kentucky	182,708					
Louisiana						
Maine						
Maryland	24,670					
Massachusetts	80,226	27,841	27,841	55,682		
Michigan	30,668					
Minnesota	39,326	41,851	41,851	83,702		
Mississippi		21,569	21,569	43,138		
Missouri						
Montana						
Nebraska						
Nevada	9,021	6,999	6,999	13,998		
New Hampshire	6,267	2,048	2,048	4,096		
New Jersey						
New Mexico	18,600	69,402	69,402	138,804		
New York	245,888					
North Carolina	73,961					
North Dakota						
Ohio						
Oklahoma						
Oregon	238,263					
Pennsylvania						
Rhode Island	19,074	27,672	27,672	55,344		
South Carolina						
South Dakota						
Tennessee						
Texas						
Utah	1,000	3,248	3,248	6,496		
Vermont	49,372					
Virginia	5,568					
Washington	29,601	84,634	84,634	169,268		
West Virginia	10,165					
Wisconsin						
Wyoming						
American Samoa						
Guam						
Northern Mariana Islands						
Puerto Rico						
Freely Associated States						
Virgin Islands						
Indian Tribes						
Undistributed		<sup>1</sup> 685,383	<sup>1</sup> 685,383	1,370,766	<sup>1</sup> 785,000	
<b>Total</b>	<b>2,174,662</b>	<b>1,268,465</b>	<b>1,268,465</b>	<b>2,536,930</b>	<b>785,000</b>	

<sup>1</sup> Grants are awarded to States based on state applications, so State-by-State distribution for FY 2015 and the remainder of FY 2014 is not yet known.



Department of Health and Human Services, Administration for Children and Families

75-1552-0-1-609

**Table 15–18. TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)-FAMILY ASSISTANCE GRANTS (93.558)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	93,315		93,315	93,315	93,315	0.56
Alaska	45,260		45,260	45,260	45,260	0.27
Arizona	200,141		200,141	200,141	200,141	1.20
Arkansas	56,733		56,733	56,733	56,733	0.34
California	3,659,357		3,657,747	3,657,747	3,657,747	21.85
Colorado	136,057		136,057	136,057	136,057	0.81
Connecticut	266,788		266,788	266,788	266,788	1.59
Delaware	32,291		32,291	32,291	32,291	0.19
District of Columbia	92,610		92,610	92,610	92,610	0.55
Florida	562,340		562,340	562,340	562,340	3.36
Georgia	330,742		330,742	330,742	330,742	1.98
Hawaii	98,905		98,905	98,905	98,905	0.59
Idaho	30,413		30,413	30,413	30,413	0.18
Illinois	585,057		585,057	585,057	585,057	3.50
Indiana	206,799		206,799	206,799	206,799	1.24
Iowa	131,030		131,030	131,030	131,030	0.78
Kansas	101,931		101,931	101,931	101,931	0.61
Kentucky	181,288		181,288	181,288	181,288	1.08
Louisiana	163,972		163,972	163,972	163,972	0.98
Maine	78,121		78,121	78,121	78,121	0.47
Maryland	229,098		229,098	229,098	229,098	1.37
Massachusetts	459,371		459,371	459,371	459,371	2.74
Michigan	775,353		775,353	775,353	775,353	4.63
Minnesota	263,434		263,434	263,434	263,434	1.57
Mississippi	86,768		86,768	86,768	86,768	0.52
Missouri	217,052		217,052	217,052	217,052	1.30
Montana	38,039		38,039	38,039	38,039	0.23
Nebraska	57,514		57,514	57,514	57,514	0.34
Nevada	43,907		43,907	43,907	43,907	0.26
New Hampshire	38,521		38,521	38,521	38,521	0.23
New Jersey	404,035		404,035	404,035	404,035	2.41
New Mexico	110,578		110,578	110,578	110,578	0.66
New York	2,442,931		2,442,931	2,442,931	2,442,931	14.59
North Carolina	302,240		302,240	302,240	302,240	1.81
North Dakota	26,400		26,400	26,400	26,400	0.16
Ohio	727,968		727,968	727,968	727,968	4.35
Oklahoma	145,281		145,281	145,281	145,281	0.87
Oregon	166,799		166,799	166,799	166,799	1.00
Pennsylvania	719,499		719,499	719,499	719,499	4.30
Rhode Island	95,022		95,022	95,022	95,022	0.57
South Carolina	99,968		99,968	99,968	99,968	0.60
South Dakota	21,280		21,280	21,280	21,280	0.13
Tennessee	191,524		191,524	191,524	191,524	1.14
Texas	486,257		486,257	486,257	486,257	2.90
Utah	75,609		75,609	75,609	75,609	0.45
Vermont	47,353		47,353	47,353	47,353	0.28
Virginia	158,285		158,285	158,285	158,285	0.95
Washington	380,545		380,545	380,545	380,545	2.27
West Virginia	110,176		110,176	110,176	110,176	0.66
Wisconsin	314,499		314,499	314,499	314,499	1.88
Wyoming	18,500		18,500	18,500	18,500	0.11
American Samoa						
Guam	3,465		3,465	3,465	3,465	0.02
Northern Mariana Islands						
Puerto Rico	71,047		71,047	71,047	71,047	0.42
Freely Associated States						
Virgin Islands	2,847		2,847	2,847	2,847	0.02
Indian Tribes	181,712		183,321	183,321	183,321	1.10
Undistributed						
Discretionary Funds	148,335		148,128	148,128	150,000	0.90
Other	7,535		22,633	22,633	22,633	0.14
<b>Total</b>	<b>16,721,897</b>		<b>16,736,787</b>	<b>16,736,787</b>	<b>16,738,659</b>	<b>1 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1501-0-1-609

**Table 15-19. CHILD SUPPORT ENFORCEMENT-FEDERAL SHARE OF STATE AND LOCAL ADMINISTRATIVE COSTS AND INCENTIVES (93.563)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama .....	48,684	.....	47,931	47,931	44,983	1.14
Alaska .....	19,816	.....	19,509	19,509	18,309	0.47
Arizona .....	54,730	.....	53,883	53,883	50,569	1.29
Arkansas .....	34,543	.....	34,008	34,008	31,917	0.81
California .....	668,837	.....	658,482	658,482	617,987	15.73
Colorado .....	56,003	.....	55,136	55,136	51,745	1.32
Connecticut .....	57,308	.....	56,421	56,421	52,951	1.35
Delaware .....	37,116	.....	36,542	36,542	34,294	0.87
District of Columbia .....	22,523	.....	22,174	22,174	20,810	0.53
Florida .....	194,097	.....	191,092	191,092	179,341	4.56
Georgia .....	72,208	.....	71,090	71,090	66,718	1.70
Hawaii .....	14,570	.....	14,345	14,345	13,463	0.34
Idaho .....	17,043	.....	16,779	16,779	15,747	0.40
Illinois .....	141,809	.....	139,614	139,614	131,028	3.34
Indiana .....	74,585	.....	73,430	73,430	68,914	1.75
Iowa .....	41,044	.....	40,408	40,408	37,923	0.97
Kansas .....	37,389	.....	36,811	36,811	34,547	0.88
Kentucky .....	44,123	.....	43,440	43,440	40,768	1.04
Louisiana .....	53,712	.....	52,880	52,880	49,628	1.26
Maine .....	17,487	.....	17,216	17,216	16,158	0.41
Maryland .....	93,520	.....	92,072	92,072	86,410	2.20
Massachusetts .....	98,770	.....	97,241	97,241	91,261	2.32
Michigan .....	152,798	.....	150,432	150,432	141,181	3.59
Minnesota .....	117,524	.....	115,705	115,705	108,589	2.76
Mississippi .....	24,476	.....	24,097	24,097	22,616	0.58
Missouri .....	58,753	.....	57,844	57,844	54,286	1.38
Montana .....	10,781	.....	10,614	10,614	9,961	0.25
Nebraska .....	28,132	.....	27,696	27,696	25,993	0.66
Nevada .....	39,951	.....	39,333	39,333	36,914	0.94
New Hampshire .....	14,027	.....	13,810	13,810	12,960	0.33
New Jersey .....	190,528	.....	187,578	187,578	176,043	4.48
New Mexico .....	31,916	.....	31,422	31,422	29,490	0.75
New York .....	256,534	.....	252,562	252,562	237,031	6.03
North Carolina .....	102,490	.....	100,903	100,903	94,698	2.41
North Dakota .....	12,784	.....	12,586	12,586	11,812	0.30
Ohio .....	204,719	.....	201,549	201,549	189,154	4.81
Oklahoma .....	51,104	.....	50,313	50,313	47,219	1.20
Oregon .....	57,564	.....	56,673	56,673	53,188	1.35
Pennsylvania .....	183,181	.....	180,345	180,345	169,254	4.31
Rhode Island .....	10,011	.....	9,856	9,856	9,250	0.24
South Carolina .....	33,264	.....	32,749	32,749	30,735	0.78
South Dakota .....	6,975	.....	6,867	6,867	6,445	0.16
Tennessee .....	64,402	.....	63,405	63,405	59,506	1.51
Texas .....	257,365	.....	253,381	253,381	237,798	6.05
Utah .....	29,465	.....	29,009	29,009	27,225	0.69
Vermont .....	11,428	.....	11,251	11,251	10,559	0.27
Virginia .....	73,389	.....	72,252	72,252	67,809	1.73
Washington .....	104,953	.....	103,328	103,328	96,974	2.47
West Virginia .....	31,508	.....	31,020	31,020	29,113	0.74
Wisconsin .....	81,032	.....	79,777	79,777	74,871	1.91
Wyoming .....	8,503	.....	8,372	8,372	7,857	0.20
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	3,909	.....	3,849	3,849	3,612	0.09
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	31,010	.....	30,530	30,530	28,653	0.73
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	4,368	.....	4,301	4,301	4,036	0.10
Indian Tribes .....	45,135	.....	51,183	51,183	58,412	1.49
Undistributed .....	.....	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>4,233,896</b>	<b>.....</b>	<b>4,175,096</b>	<b>4,175,096</b>	<b>3,928,715</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1502-0-1-609

**Table 15-20. LOW INCOME HOME ENERGY ASSISTANCE PROGRAM (93.568)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	47,937		48,652	48,652	35,582	1.27
Alaska	10,150		11,161	11,161	8,327	0.30
Arizona	21,437		21,757	21,757	15,912	0.57
Arkansas	26,746		27,563	27,563	21,579	0.77
California	144,173		152,593	152,593	112,886	4.03
Colorado	44,270		46,477	46,477	34,479	1.23
Connecticut	76,014		77,577	77,577	58,976	2.11
Delaware	12,573		13,044	13,044	10,436	0.37
District of Columbia	9,976		10,497	10,497	7,686	0.27
Florida	76,356		77,496	77,496	56,677	2.02
Georgia	60,387		61,288	61,288	44,823	1.60
Hawaii	5,416		6,172	6,172	4,514	0.16
Idaho	18,275		19,229	19,229	14,081	0.50
Illinois	160,191		167,814	167,814	124,493	4.45
Indiana	72,367		75,975	75,975	56,360	2.01
Iowa	51,292		53,849	53,849	39,948	1.43
Kansas	31,367		31,045	31,045	23,486	0.84
Kentucky	43,483		48,391	48,391	36,372	1.30
Louisiana	40,864		42,152	42,152	33,869	1.21
Maine	36,046		37,843	37,843	28,074	1.00
Maryland	70,390		68,659	68,659	53,947	1.93
Massachusetts	132,150		140,200	140,200	103,774	3.71
Michigan	164,585		164,798	164,798	117,988	4.21
Minnesota	109,335		114,785	114,785	85,153	3.04
Mississippi	29,257		30,127	30,127	23,452	0.84
Missouri	66,553		71,034	71,034	51,215	1.83
Montana	18,591		19,561	19,561	14,324	0.51
Nebraska	28,196		29,669	29,669	21,721	0.78
Nevada	10,964		11,127	11,127	8,138	0.29
New Hampshire	24,321		25,590	25,590	18,739	0.67
New Jersey	124,480		124,835	124,835	91,267	3.26
New Mexico	14,670		15,435	15,435	11,644	0.42
New York	349,983		367,429	367,429	272,575	9.73
North Carolina	86,142		86,886	86,886	69,462	2.48
North Dakota	18,994		19,570	19,570	14,331	0.51
Ohio	144,794		154,642	154,642	110,886	3.96
Oklahoma	32,650		33,787	33,787	27,053	0.97
Oregon	33,674		35,372	35,372	26,138	0.93
Pennsylvania	190,810		203,504	203,504	146,492	5.23
Rhode Island	23,908		23,796	23,796	17,773	0.63
South Carolina	38,335		38,908	38,908	28,455	1.02
South Dakota	16,712		17,584	17,584	12,877	0.46
Tennessee	56,856		58,163	58,163	45,524	1.63
Texas	127,064		128,960	128,960	94,316	3.37
Utah	22,493		23,631	23,631	17,384	0.62
Vermont	18,230		19,181	19,181	14,046	0.50
Virginia	78,971		82,052	82,052	64,211	2.29
Washington	54,401		57,113	57,113	42,367	1.51
West Virginia	27,723		29,170	29,170	21,361	0.76
Wisconsin	98,417		103,323	103,323	76,650	2.74
Wyoming	8,866		9,322	9,322	6,827	0.24
American Samoa	73		<sup>3</sup> 281	281	208	0.01
Guam	160		<sup>3</sup> 616	616	457	0.02
Northern Mariana Islands	55		<sup>3</sup> 214	214	159	0.01
Puerto Rico	3,966		<sup>3</sup> 15,281	15,281	11,344	0.41
Freely Associated States						
Virgin Islands	151		<sup>3</sup> 582	582	432	0.02
Indian Tribes	36,358		38,799	38,799	28,750	1.03
Undistributed						
Training and Technical Assistance	2,838		2,988	2,988	3,000	0.11
Discretionary Funds			27,000	27,000	<sup>1</sup> 77,000	2.75
Other					<sup>2</sup> 200,000	7.14
<b>Total</b>	<b>3,255,436</b>		<b>3,424,549</b>	<b>3,424,549</b>	<b>2,800,000</b>	<b><sup>4</sup> 100.00</b>

NOTE: Total State allocation amounts in all years are subject to change based on tribal agreements, therefore all final State allocations will be included on the HHS/ACF Office of Community Services web site located at: <http://www.acf.hhs.gov/programs/ocs/resource/liheap-funding-tables>.

<sup>1</sup> FY 2015 - These funds consist of \$23,985,000 for the Leveraging Incentive (Leveraging) program, \$3,015,000 for the Residential Energy Assistance Challenge (REACH) program, and an additional \$50,000,000 consist of new funds, which are targeted for Energy Burden Reduction activities.

<sup>2</sup> The FY 2015 Budget includes \$200,000,000 in the LIHEAP Contingency Fund for unanticipated home-energy related emergencies, such as extreme weather patterns, natural disasters, and fuel price spikes.

<sup>3</sup> In FY 2014, HHS increased the territory set-aside from 0.1 percent to 0.5 percent.

<sup>4</sup> Excludes undistributed obligations.

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75-1515-0-1-609

**Table 15-21. CHILD CARE AND DEVELOPMENT BLOCK GRANT (93.575)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama .....	41,348	.....	44,246	44,246	44,969	1.86
Alaska .....	4,237	.....	4,534	4,534	4,608	0.19
Arizona .....	54,843	.....	58,687	58,687	59,645	2.47
Arkansas .....	27,113	.....	29,014	29,014	29,487	1.22
California .....	240,745	.....	257,621	257,621	261,825	10.83
Colorado .....	27,729	.....	29,672	29,672	30,157	1.25
Connecticut .....	14,237	.....	15,235	15,235	15,484	0.64
Delaware .....	5,473	.....	5,857	5,857	5,953	0.25
District of Columbia .....	3,008	.....	3,219	3,219	3,272	0.14
Florida .....	120,188	.....	128,613	128,613	130,712	5.41
Georgia .....	90,117	.....	96,434	96,434	98,008	4.05
Hawaii .....	7,415	.....	7,935	7,935	8,065	0.33
Idaho .....	13,619	.....	14,574	14,574	14,812	0.61
Illinois .....	77,165	.....	82,574	82,574	83,921	3.47
Indiana .....	51,377	.....	54,978	54,978	55,875	2.31
Iowa .....	19,589	.....	20,962	20,962	21,304	0.88
Kansas .....	20,422	.....	21,853	21,853	22,210	0.92
Kentucky .....	38,175	.....	40,851	40,851	41,517	1.72
Louisiana .....	39,920	.....	42,719	42,719	43,416	1.80
Maine .....	7,217	.....	7,723	7,723	7,849	0.32
Maryland .....	26,283	.....	28,126	28,126	28,585	1.18
Massachusetts .....	26,106	.....	27,937	27,937	28,392	1.17
Michigan .....	68,528	.....	73,332	73,332	74,529	3.08
Minnesota .....	29,449	.....	31,513	31,513	32,027	1.33
Mississippi .....	32,103	.....	34,354	34,354	34,914	1.44
Missouri .....	41,657	.....	44,577	44,577	45,305	1.87
Montana .....	6,412	.....	6,861	6,861	6,973	0.29
Nebraska .....	12,636	.....	13,522	13,522	13,743	0.57
Nevada .....	17,260	.....	18,470	18,470	18,771	0.78
New Hampshire .....	5,051	.....	5,406	5,406	5,494	0.23
New Jersey .....	38,536	.....	41,237	41,237	41,910	1.73
New Mexico .....	19,403	.....	20,763	20,763	21,102	0.87
New York .....	98,338	.....	105,232	105,232	106,949	4.42
North Carolina .....	73,858	.....	79,035	79,035	80,325	3.32
North Dakota .....	3,699	.....	3,958	3,958	4,023	0.17
Ohio .....	77,004	.....	82,402	82,402	83,747	3.46
Oklahoma .....	32,859	.....	35,162	35,162	35,736	1.48
Oregon .....	25,287	.....	27,059	27,059	27,501	1.14
Pennsylvania .....	66,178	.....	70,818	70,818	71,973	2.98
Rhode Island .....	5,283	.....	5,653	5,653	5,746	0.24
South Carolina .....	39,870	.....	42,665	42,665	43,361	1.79
South Dakota .....	5,671	.....	6,068	6,068	6,167	0.26
Tennessee .....	51,062	.....	54,641	54,641	55,533	2.30
Texas .....	237,713	.....	254,376	254,376	258,528	10.70
Utah .....	26,251	.....	28,091	28,091	28,550	1.18
Vermont .....	2,963	.....	3,171	3,171	3,223	0.13
Virginia .....	41,544	.....	44,456	44,456	45,181	1.87
Washington .....	37,661	.....	40,301	40,301	40,959	1.69
West Virginia .....	13,842	.....	14,812	14,812	15,054	0.62
Wisconsin .....	34,318	.....	36,724	36,724	37,323	1.54
Wyoming .....	2,903	.....	3,107	3,107	3,157	0.13
American Samoa .....	44,111	.....	47,200	47,200	60,425	2.50
Guam .....	2,507	.....	2,682	2,682	2,747	0.11
Northern Mariana Islands .....	4,359	.....	4,664	4,664	4,777	0.20
Puerto Rico .....	2,185	.....	2,338	2,338	2,395	0.10
Freely Associated States .....	30,954	.....	33,124	33,124	33,664	1.39
Virgin Islands .....	.....	.....	.....	.....	.....	.....
Indian Tribes .....	1,977	.....	2,115	2,115	2,166	0.09
Undistributed .....	.....	.....	.....	.....	.....	.....
Training and Technical Assistance .....	5,514	.....	5,900	5,900	12,085	0.50
Discretionary Funds .....	946	.....	996	996	1,000	0.04
Other .....	9,331	.....	9,851	9,851	9,871	0.41
<b>Total .....</b>	<b>2,205,549</b>	<b>.....</b>	<b>2,360,000</b>	<b>2,360,000</b>	<b>2,417,000</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.



Department of Health and Human Services, Administration for Children and Families

75-1550-0-1-609

**Table 15–22. CHILD CARE AND DEVELOPMENT FUND-MANDATORY (93.596A)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	16,442		16,442	16,442	16,442	1.29
Alaska	3,545		3,545	3,545	3,545	0.28
Arizona	19,827		19,827	19,827	19,827	1.55
Arkansas	5,300		5,300	5,300	5,300	0.42
California	85,593		85,593	85,593	85,593	6.70
Colorado	10,174		10,174	10,174	10,174	0.80
Connecticut	18,738		18,738	18,738	18,738	1.47
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	43,026		43,026	43,026	43,026	3.37
Georgia	36,548		36,548	36,548	36,548	2.86
Hawaii	4,972		4,972	4,972	4,972	0.39
Idaho	2,868		2,868	2,868	2,868	0.22
Illinois	56,874		56,874	56,874	56,874	4.45
Indiana	26,182		26,182	26,182	26,182	2.05
Iowa	8,508		8,508	8,508	8,508	0.67
Kansas	9,812		9,812	9,812	9,812	0.77
Kentucky	16,702		16,702	16,702	16,702	1.31
Louisiana	13,864		13,864	13,864	13,864	1.09
Maine	3,019		3,019	3,019	3,019	0.24
Maryland	23,301		23,301	23,301	23,301	1.82
Massachusetts	44,973		44,973	44,973	44,973	3.52
Michigan	32,082		32,082	32,082	32,082	2.51
Minnesota	23,367		23,367	23,367	23,367	1.83
Mississippi	6,293		6,293	6,293	6,293	0.49
Missouri	24,669		24,669	24,669	24,669	1.93
Montana	3,191		3,191	3,191	3,191	0.25
Nebraska	10,595		10,595	10,595	10,595	0.83
Nevada	2,580		2,580	2,580	2,580	0.20
New Hampshire	4,582		4,582	4,582	4,582	0.36
New Jersey	26,374		26,374	26,374	26,374	2.07
New Mexico	8,308		8,308	8,308	8,308	0.65
New York	101,984		101,984	101,984	101,984	7.99
North Carolina	69,639		69,639	69,639	69,639	5.45
North Dakota	2,506		2,506	2,506	2,506	0.20
Ohio	70,125		70,125	70,125	70,125	5.49
Oklahoma	24,910		24,910	24,910	24,910	1.95
Oregon	19,409		19,409	19,409	19,409	1.52
Pennsylvania	55,337		55,337	55,337	55,337	4.33
Rhode Island	6,634		6,634	6,634	6,634	0.52
South Carolina	9,867		9,867	9,867	9,867	0.77
South Dakota	1,711		1,711	1,711	1,711	0.13
Tennessee	37,702		37,702	37,702	37,702	2.95
Texas	59,844		59,844	59,844	59,844	4.69
Utah	12,592		12,592	12,592	12,592	0.99
Vermont	3,945		3,945	3,945	3,945	0.31
Virginia	21,329		21,329	21,329	21,329	1.67
Washington	41,883		41,883	41,883	41,883	3.28
West Virginia	8,727		8,727	8,727	8,727	0.68
Wisconsin	24,511		24,511	24,511	24,511	1.92
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	91,675	7.18
Undistributed						
Training and Technical Assistance	3,097		3,097	3,097	7,787	0.61
<b>Total</b>	<b>1,238,962</b>		<b>1,238,962</b>	<b>1,238,962</b>	<b>1,276,987</b>	<b>1 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1550-0-1-609

**Table 15-23. CHILD CARE AND DEVELOPMENT FUND-MATCHING (93.596B)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	25,383	.....	25,383	25,383	36,083	1.51
Alaska	4,335	.....	4,335	4,335	6,163	0.26
Arizona	37,201	.....	37,201	37,201	52,883	2.21
Arkansas	16,246	.....	16,246	16,246	23,095	0.97
California	208,357	.....	208,357	208,357	296,185	12.39
Colorado	28,434	.....	28,434	28,434	40,419	1.69
Connecticut	17,627	.....	17,627	17,627	25,058	1.05
Delaware	4,635	.....	4,635	4,635	6,589	0.28
District of Columbia	2,490	.....	2,490	2,490	3,540	0.15
Florida	89,521	.....	89,521	89,521	127,256	5.32
Georgia	56,991	.....	56,991	56,991	81,015	3.39
Hawaii	7,017	.....	7,017	7,017	9,975	0.42
Idaho	9,886	.....	9,886	9,886	14,053	0.59
Illinois	69,671	.....	69,671	69,671	99,039	4.14
Indiana	36,177	.....	36,177	36,177	51,427	2.15
Iowa	16,481	.....	16,481	16,481	23,428	0.98
Kansas	16,649	.....	16,649	16,649	23,667	0.99
Kentucky	23,272	.....	23,272	23,272	33,082	1.38
Louisiana	25,650	.....	25,650	25,650	36,462	1.53
Maine	5,922	.....	5,922	5,922	8,419	0.35
Maryland	30,330	.....	30,330	30,330	43,115	1.80
Massachusetts	31,198	.....	31,198	31,198	44,349	1.86
Michigan	50,778	.....	50,778	50,778	72,183	3.02
Minnesota	29,101	.....	29,101	29,101	41,367	1.73
Mississippi	17,109	.....	17,109	17,109	24,321	1.02
Missouri	31,981	.....	31,981	31,981	45,461	1.90
Montana	5,039	.....	5,039	5,039	7,163	0.30
Nebraska	10,644	.....	10,644	10,644	15,131	0.63
Nevada	15,199	.....	15,199	15,199	21,605	0.90
New Hampshire	6,081	.....	6,081	6,081	8,644	0.36
New Jersey	45,651	.....	45,651	45,651	64,894	2.72
New Mexico	11,933	.....	11,933	11,933	16,963	0.71
New York	95,841	.....	95,841	95,841	136,240	5.70
North Carolina	52,417	.....	52,417	52,417	74,513	3.12
North Dakota	3,471	.....	3,471	3,471	4,934	0.21
Ohio	60,383	.....	60,383	60,383	85,836	3.59
Oklahoma	21,614	.....	21,614	21,614	30,724	1.29
Oregon	19,576	.....	19,576	19,576	27,828	1.16
Pennsylvania	61,351	.....	61,351	61,351	87,212	3.65
Rhode Island	4,845	.....	4,845	4,845	6,887	0.29
South Carolina	24,715	.....	24,715	24,715	35,133	1.47
South Dakota	4,701	.....	4,701	4,701	6,682	0.28
Tennessee	33,867	.....	33,867	33,867	48,143	2.01
Texas	160,592	.....	160,592	160,592	228,287	9.55
Utah	20,842	.....	20,842	20,842	29,627	1.24
Vermont	2,748	.....	2,748	2,748	3,907	0.16
Virginia	42,197	.....	42,197	42,197	59,984	2.51
Washington	36,003	.....	36,003	36,003	51,179	2.14
West Virginia	8,661	.....	8,661	8,661	12,312	0.52
Wisconsin	29,900	.....	29,900	29,900	42,503	1.78
Wyoming	3,130	.....	3,130	3,130	4,500	0.19
American Samoa	.....	.....	.....	.....	.....	.....
Guam	.....	.....	.....	.....	.....	.....
Northern Mariana Islands	.....	.....	.....	.....	.....	.....
Puerto Rico	.....	.....	.....	.....	.....	.....
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	.....	.....	.....	.....	.....	.....
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	.....	.....	.....	.....	.....	.....
Training and Technical Assistance	4,195	.....	4,195	4,195	10,548	0.44
<b>Total</b>	<b>1,678,038</b>	<b>.....</b>	<b>1,678,038</b>	<b>1,678,038</b>	<b>2,390,013</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

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75-1536-0-1-506

**Table 15–24. HEAD START (93.600)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	119,127		127,343	127,343	129,253	1.46
Alaska	13,620		14,559	14,559	14,778	0.17
Arizona	115,365		123,321	123,321	125,171	1.41
Arkansas	71,236		76,148	76,148	77,290	0.87
California	907,791		970,356	970,356	984,911	11.11
Colorado	76,563		81,843	81,843	83,071	0.94
Connecticut	55,676		59,515	59,515	60,408	0.68
Delaware	14,538		15,540	15,540	15,773	0.18
District of Columbia	26,406		28,227	28,227	28,651	0.32
Florida	296,887		317,361	317,361	322,122	3.63
Georgia	188,186		201,164	201,164	204,181	2.30
Hawaii	24,253		25,925	25,925	26,314	0.30
Idaho	25,824		27,605	27,605	28,019	0.32
Illinois	297,848		318,389	318,389	323,165	3.64
Indiana	109,183		116,712	116,712	118,463	1.34
Iowa	56,161		60,034	60,034	60,935	0.69
Kansas	56,666		60,574	60,574	61,482	0.69
Kentucky	118,927		127,128	127,128	129,035	1.45
Louisiana	159,175		170,152	170,152	172,705	1.95
Maine	29,881		31,942	31,942	32,421	0.37
Maryland	84,708		90,550	90,550	91,908	1.04
Massachusetts	116,291		124,311	124,311	126,176	1.42
Michigan	253,637		271,129	271,129	275,196	3.10
Minnesota	79,395		84,871	84,871	86,144	0.97
Mississippi	170,864		182,647	182,647	185,387	2.09
Missouri	131,680		140,762	140,762	142,873	1.61
Montana	22,728		24,296	24,296	24,660	0.28
Nebraska	39,976		42,733	42,733	43,374	0.49
Nevada	28,390		30,348	30,348	30,803	0.35
New Hampshire	14,726		15,742	15,742	15,978	0.18
New Jersey	141,739		151,514	151,514	153,786	1.73
New Mexico	59,272		63,359	63,359	64,310	0.73
New York	468,089		500,370	500,370	507,875	5.73
North Carolina	162,733		173,956	173,956	176,566	1.99
North Dakota	19,008		20,319	20,319	20,624	0.23
Ohio	271,641		290,375	290,375	294,730	3.32
Oklahoma	92,547		98,929	98,929	100,413	1.13
Oregon	66,619		71,214	71,214	72,282	0.82
Pennsylvania	248,078		265,186	265,186	269,164	3.04
Rhode Island	23,731		25,368	25,368	25,748	0.29
South Carolina	94,008		100,491	100,491	101,998	1.15
South Dakota	20,473		21,885	21,885	22,213	0.25
Tennessee	129,935		138,896	138,896	140,979	1.59
Texas	530,285		566,855	566,855	575,358	6.49
Utah	42,748		45,696	45,696	46,382	0.52
Vermont	14,350		15,339	15,339	15,569	0.18
Virginia	109,243		116,777	116,777	118,529	1.34
Washington	111,301		118,977	118,977	120,762	1.36
West Virginia	55,150		58,953	58,953	59,838	0.67
Wisconsin	99,670		106,544	106,544	108,142	1.22
Wyoming	12,734		13,612	13,612	13,816	0.16
American Samoa	2,147		2,295	2,295	2,329	0.03
Guam	2,350		2,512	2,512	2,550	0.03
Northern Mariana Islands	1,661		1,776	1,776	1,803	0.02
Puerto Rico	263,475		281,646	281,646	285,870	3.22
Freely Associated States						
Virgin Islands	8,930		9,546	9,546	9,689	0.11
Indian Tribes	212,154		226,785	226,785	230,187	2.60
Undistributed						
Migrant Program	309,266		330,594	330,594	335,553	3.78
Palau	1,331		1,423	1,423	1,444	0.02
Training and Technical Assistance	189,330		215,822	215,822	221,710	2.50
Discretionary Funds <sup>1</sup>	23,561		502,500	502,500	643,750	7.26
Other <sup>2</sup>	79,813		97,354	97,354	103,773	1.17
<b>Total</b>	<b>7,573,080</b>		<b>8,598,095</b>	<b>8,598,095</b>	<b>8,868,389</b>	<sup>3</sup> <b>100.00</b>

<sup>1</sup> FY 2014 and 2015 include 1) \$25 million 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. 2) Remaining funds provide support for Early Head Start-Child Care Partnerships increase the number of Early Head Start slots for infants and toddlers in high quality comprehensive programs.

<sup>2</sup> Includes funding for Research/Evaluation, Monitoring Support, and Program Support. Included in these totals are \$10 million in FY 2014 and \$15 million in FY 2015 for Federal Administration and Evaluation activities associated with the Early Head Start-Child Care Partnerships.

<sup>3</sup> Excludes undistributed obligations.

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75-1545-0-1-609

**Table 15–25. FOSTER CARE-TITLE IV-E (93.658)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	28,371		29,158	29,158	29,117	0.67
Alaska	15,682		16,117	16,117	16,095	0.37
Arizona	105,388		108,314	108,314	108,162	2.49
Arkansas	40,698		41,828	41,828	41,769	0.96
California	1,155,916		1,187,999	1,187,999	1,186,338	27.31
Colorado	56,073		57,629	57,629	57,548	1.32
Connecticut	54,832		56,354	56,354	56,275	1.30
Delaware	6,548		6,730	6,730	6,721	0.15
District of Columbia	36,220		37,226	37,226	37,174	0.86
Florida	181,196		186,225	186,225	185,965	4.28
Georgia	69,598		71,530	71,530	71,430	1.64
Hawaii	13,759		14,141	14,141	14,121	0.33
Idaho	8,761		9,004	9,004	8,992	0.21
Illinois	184,354		189,470	189,470	189,206	4.36
Indiana	61,281		62,982	62,982	62,894	1.45
Iowa	20,343		20,907	20,907	20,878	0.48
Kansas	23,072		23,713	23,713	23,680	0.55
Kentucky	41,462		42,613	42,613	42,553	0.98
Louisiana	43,089		44,285	44,285	44,223	1.02
Maine	16,346		16,799	16,799	16,776	0.39
Maryland	60,283		61,956	61,956	61,870	1.42
Massachusetts	49,498		50,871	50,871	50,800	1.17
Michigan	124,832		128,297	128,297	128,118	2.95
Minnesota	40,898		42,033	42,033	41,974	0.97
Mississippi	17,432		17,916	17,916	17,891	0.41
Missouri	58,871		60,505	60,505	60,420	1.39
Montana	11,653		11,977	11,977	11,960	0.28
Nebraska	11,906		12,237	12,237	12,219	0.28
Nevada	36,965		37,991	37,991	37,938	0.87
New Hampshire	16,616		17,077	17,077	17,053	0.39
New Jersey	94,521		97,144	97,144	97,008	2.23
New Mexico	18,014		18,514	18,514	18,488	0.43
New York	286,659		294,615	294,615	294,203	6.77
North Carolina	66,473		68,318	68,318	68,222	1.57
North Dakota	10,820		11,120	11,120	11,105	0.26
Ohio	189,104		194,353	194,353	194,082	4.47
Oklahoma	35,308		36,288	36,288	36,237	0.83
Oregon	84,402		86,745	86,745	86,624	1.99
Pennsylvania	188,646		193,882	193,882	193,611	4.46
Rhode Island	12,198		12,537	12,537	12,519	0.29
South Carolina	33,939		34,882	34,882	34,833	0.80
South Dakota	5,320		5,468	5,468	5,461	0.13
Tennessee	36,182		37,186	37,186	37,134	0.85
Texas	227,221		233,527	233,527	233,201	5.37
Utah	22,415		23,037	23,037	23,005	0.53
Vermont	9,166		9,420	9,420	9,407	0.22
Virginia	48,853		50,210	50,210	50,140	1.15
Washington	79,814		82,029	82,029	81,914	1.89
West Virginia	19,622		20,167	20,167	20,139	0.46
Wisconsin	53,164		54,639	54,639	54,563	1.26
Wyoming	1,602		1,646	1,646	1,644	0.04
American Samoa						
Guam						
Northern Mariana Islands						
Puerto Rico						
Freely Associated States						
Virgin Islands						
Indian Tribes	3,214		15,000	15,000	39,000	0.90
Undistributed						
Training and Technical Assistance	16,689		27,300	27,300	29,300	0.67
<b>Total</b>	<b>4,135,289</b>		<b>4,271,911</b>	<b>4,271,911</b>	<b>4,344,000</b>	<b><sup>1</sup> 100.00</b>

NOTE: Multiple States have capped allocation waiver demonstration projects under Section 1130 of the Social Security Act for portions of their Foster Care programs. This table may not fully reflect the terms and conditions of any such waiver agreement.

<sup>1</sup> Excludes undistributed obligations.



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75-1545-0-1-609

**Table 15–26. ADOPTION ASSISTANCE (93.659)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	10,079		10,547	10,547	11,078	0.44
Alaska	11,383		11,912	11,912	12,512	0.50
Arizona	93,180		97,510	97,510	102,418	4.09
Arkansas	17,806		18,633	18,633	19,571	0.78
California	445,674		466,385	466,385	489,861	19.56
Colorado	19,611		20,522	20,522	21,555	0.86
Connecticut	36,724		38,430	38,430	40,365	1.61
Delaware	1,626		1,701	1,701	1,787	0.07
District of Columbia	14,954		15,649	15,649	16,437	0.66
Florida	100,904		105,593	105,593	110,908	4.43
Georgia	33,608		35,170	35,170	36,940	1.48
Hawaii	13,647		14,281	14,281	15,000	0.60
Idaho	6,410		6,708	6,708	7,046	0.28
Illinois	80,611		84,357	84,357	88,603	3.54
Indiana	57,383		60,049	60,049	63,072	2.52
Iowa	35,851		37,517	37,517	39,405	1.57
Kansas	14,845		15,535	15,535	16,317	0.65
Kentucky	44,989		47,080	47,080	49,450	1.97
Louisiana	17,335		18,141	18,141	19,054	0.76
Maine	13,748		14,387	14,387	15,111	0.60
Maryland	24,817		25,970	25,970	27,277	1.09
Massachusetts	31,229		32,681	32,681	34,326	1.37
Michigan	117,983		123,465	123,465	129,680	5.18
Minnesota	25,803		27,002	27,002	28,361	1.13
Mississippi	9,283		9,715	9,715	10,204	0.41
Missouri	37,392		39,130	39,130	41,099	1.64
Montana	7,507		7,855	7,855	8,251	0.33
Nebraska	11,120		11,636	11,636	12,222	0.49
Nevada	21,832		22,847	22,847	23,997	0.96
New Hampshire	4,227		4,423	4,423	4,646	0.19
New Jersey	58,235		60,942	60,942	64,009	2.56
New Mexico	19,225		20,119	20,119	21,131	0.84
New York	126,483		132,361	132,361	139,024	5.55
North Carolina	51,330		53,715	53,715	56,419	2.25
North Dakota	5,242		5,485	5,485	5,761	0.23
Ohio	157,377		164,691	164,691	172,981	6.91
Oklahoma	35,657		37,314	37,314	39,192	1.57
Oregon	32,678		34,197	34,197	35,918	1.43
Pennsylvania	81,853		85,657	85,657	89,969	3.59
Rhode Island	6,798		7,114	7,114	7,472	0.30
South Carolina	15,719		16,449	16,449	17,277	0.69
South Dakota	3,856		4,036	4,036	4,239	0.17
Tennessee	39,454		41,287	41,287	43,365	1.73
Texas	107,745		112,752	112,752	118,427	4.73
Utah	7,794		8,156	8,156	8,567	0.34
Vermont	8,154		8,533	8,533	8,962	0.36
Virginia	38,908		40,716	40,716	42,765	1.71
Washington	50,483		52,829	52,829	55,488	2.22
West Virginia	19,639		20,551	20,551	21,586	0.86
Wisconsin	49,174		51,459	51,459	54,049	2.16
Wyoming	770		806	806	846	0.03
American Samoa						
Guam						
Northern Mariana Islands						
Puerto Rico						
Freely Associated States						
Virgin Islands						
Indian Tribes						
Undistributed						
<b>Total</b>	<b>2,278,135</b>		<b>2,384,000</b>	<b>2,384,000</b>	<b>2,504,000</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1534-0-1-506

**Table 15–27. SOCIAL SERVICES BLOCK GRANT (93.667)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama .....	24,728	.....	24,181	24,181	26,057	1.53
Alaska .....	3,721	.....	3,639	3,639	3,921	0.23
Arizona .....	33,376	.....	32,638	32,638	35,170	2.07
Arkansas .....	15,127	.....	14,792	14,792	15,940	0.94
California .....	194,063	.....	189,769	189,769	204,493	12.03
Colorado .....	26,345	.....	25,762	25,762	27,760	1.63
Connecticut .....	18,436	.....	18,028	18,028	19,427	1.14
Delaware .....	4,671	.....	4,567	4,567	4,921	0.29
District of Columbia .....	3,182	.....	3,111	3,111	3,353	0.20
Florida .....	98,121	.....	95,950	95,950	103,394	6.08
Georgia .....	50,535	.....	49,417	49,417	53,251	3.13
Hawaii .....	7,078	.....	6,922	6,922	7,459	0.44
Idaho .....	8,161	.....	7,980	7,980	8,599	0.51
Illinois .....	66,260	.....	64,793	64,793	69,820	4.11
Indiana .....	33,554	.....	32,811	32,811	35,357	2.08
Iowa .....	15,767	.....	15,418	15,418	16,614	0.98
Kansas .....	14,783	.....	14,456	14,456	15,577	0.92
Kentucky .....	22,496	.....	21,999	21,999	23,705	1.39
Louisiana .....	23,554	.....	23,033	23,033	24,820	1.46
Maine .....	6,838	.....	6,687	6,687	7,206	0.42
Maryland .....	30,008	.....	29,344	29,344	31,621	1.86
Massachusetts .....	33,917	.....	33,167	33,167	35,740	2.10
Michigan .....	50,849	.....	49,724	49,724	53,582	3.15
Minnesota .....	27,519	.....	26,910	26,910	28,998	1.71
Mississippi .....	15,335	.....	14,996	14,996	16,159	0.95
Missouri .....	30,947	.....	30,262	30,262	32,610	1.92
Montana .....	5,139	.....	5,026	5,026	5,416	0.32
Nebraska .....	9,487	.....	9,277	9,277	9,997	0.59
Nevada .....	14,022	.....	13,711	13,711	14,775	0.87
New Hampshire .....	6,787	.....	6,637	6,637	7,152	0.42
New Jersey .....	45,417	.....	44,412	44,412	47,858	2.82
New Mexico .....	10,721	.....	10,484	10,484	11,297	0.66
New York .....	100,220	.....	98,002	98,002	105,606	6.21
North Carolina .....	49,718	.....	48,618	48,618	52,390	3.08
North Dakota .....	3,521	.....	3,443	3,443	3,711	0.22
Ohio .....	59,441	.....	58,126	58,126	62,636	3.68
Oklahoma .....	19,521	.....	19,089	19,089	20,570	1.21
Oregon .....	19,935	.....	19,494	19,494	21,006	1.24
Pennsylvania .....	65,609	.....	64,157	64,157	69,135	4.07
Rhode Island .....	5,413	.....	5,293	5,293	5,704	0.34
South Carolina .....	24,092	.....	23,559	23,559	25,387	1.49
South Dakota .....	4,243	.....	4,149	4,149	4,471	0.26
Tennessee .....	32,969	.....	32,239	32,239	34,741	2.04
Texas .....	132,191	.....	129,265	129,265	139,295	8.19
Utah .....	14,505	.....	14,184	14,184	15,284	0.90
Vermont .....	3,225	.....	3,154	3,154	3,399	0.20
Virginia .....	41,687	.....	40,764	40,764	43,927	2.58
Washington .....	35,166	.....	34,388	34,388	37,055	2.18
West Virginia .....	9,553	.....	9,341	9,341	10,066	0.59
Wisconsin .....	29,408	.....	28,757	28,757	30,988	1.82
Wyoming .....	2,925	.....	2,861	2,861	3,082	0.18
American Samoa .....	57	.....	56	56	60	*
Guam .....	278	.....	272	272	293	0.02
Northern Mariana Islands .....	56	.....	54	54	59	*
Puerto Rico .....	8,345	.....	8,160	8,160	8,793	0.52
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	278	.....	272	272	293	0.02
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>1,613,300</b>	<b>.....</b>	<b>1,577,600</b>	<b>1,577,600</b>	<b>1,700,000</b>	<b><sup>1</sup> 100.00</b>

\* 0.005 percent or less.

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Health Resources and Services Administration

75-0350-0-1-550

**Table 15–28. RYAN WHITE HIV/AIDS TREATMENT MODERNIZATION ACT-PART B HIV CARE GRANTS (93.917)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	22,139					
Alaska	1,365					
Arizona	16,220					
Arkansas	7,917					
California	152,100					
Colorado	14,972					
Connecticut	13,825					
Delaware	5,385					
District of Columbia	18,512					
Florida	137,918					
Georgia	58,582					
Hawaii	3,502					
Idaho	2,051					
Illinois	44,617					
Indiana	11,575					
Iowa	3,953					
Kansas	3,486					
Kentucky	9,026					
Louisiana	27,797					
Maine	1,756					
Maryland	36,539					
Massachusetts	19,424					
Michigan	17,480					
Minnesota	7,828					
Mississippi	13,639					
Missouri	13,197					
Montana	1,307					
Nebraska	2,795					
Nevada	8,076					
New Hampshire	1,467					
New Jersey	50,643					
New Mexico	3,932					
New York	153,752					
North Carolina	37,997					
North Dakota	683					
Ohio	23,038					
Oklahoma	8,153					
Oregon	6,262					
Pennsylvania	39,949					
Rhode Island	3,691					
South Carolina	25,037					
South Dakota	1,222					
Tennessee	24,114					
Texas	83,891					
Utah	5,177					
Vermont	863					
Virginia	31,702					
Washington	13,788					
West Virginia	2,326					
Wisconsin	9,075					
Wyoming	747					
American Samoa	48					
Guam	259					
Northern Mariana Islands	47					
Puerto Rico	33,120					
Freely Associated States	39					
Virgin Islands	1,127					
Indian Tribes						
Undistributed			1,315,005	1,315,005	2,131,505	
Marshall Islands	46					
Republic of Palau	43					
<b>Total</b>	<b>1,239,221</b>		<b>1,315,005</b>	<b>1,315,005</b>	<b>1,315,005</b>	

<sup>1</sup> FY 2014 data for each State and territory is not available.

<sup>2</sup> FY 2015 data for each State and territory is not available.

## Department of Housing and Urban Development, Public and Indian Housing Programs

86-0163-0-1-604

**Table 15-29. PUBLIC HOUSING OPERATING FUND (14.850)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama .....	128,884	.....	139,699	139,699	142,464	3.18
Alaska .....	9,160	.....	9,929	9,929	10,125	0.23
Arizona .....	21,299	.....	23,087	23,087	23,544	0.52
Arkansas .....	32,318	.....	35,030	35,030	35,723	0.80
California .....	125,338	.....	135,855	135,855	138,544	3.09
Colorado .....	26,588	.....	28,819	28,819	29,390	0.66
Connecticut .....	62,906	.....	68,185	68,185	69,534	1.55
Delaware .....	10,112	.....	10,961	10,961	11,178	0.25
District of Columbia .....	46,078	.....	49,945	49,945	50,933	1.14
Florida .....	123,363	.....	133,714	133,714	136,361	3.04
Georgia .....	124,682	.....	135,145	135,145	137,820	3.07
Hawaii .....	21,646	.....	23,462	23,462	23,927	0.53
Idaho .....	1,310	.....	1,419	1,419	1,448	0.03
Illinois .....	230,740	.....	250,102	250,102	255,052	5.69
Indiana .....	42,398	.....	45,956	45,956	46,865	1.04
Iowa .....	6,263	.....	6,788	6,788	6,923	0.15
Kansas .....	19,263	.....	20,880	20,880	21,293	0.47
Kentucky .....	56,413	.....	61,147	61,147	62,357	1.39
Louisiana .....	56,780	.....	61,545	61,545	62,763	1.40
Maine .....	13,230	.....	14,341	14,341	14,624	0.33
Maryland .....	94,232	.....	102,139	102,139	104,160	2.32
Massachusetts .....	139,572	.....	151,284	151,284	154,278	3.44
Michigan .....	62,104	.....	67,315	67,315	68,647	1.53
Minnesota .....	46,321	.....	50,207	50,207	51,201	1.14
Mississippi .....	34,050	.....	36,907	36,907	37,638	0.84
Missouri .....	40,204	.....	43,578	43,578	44,440	0.99
Montana .....	5,062	.....	5,487	5,487	5,596	0.12
Nebraska .....	13,728	.....	14,880	14,880	15,174	0.34
Nevada .....	14,399	.....	15,607	15,607	15,916	0.35
New Hampshire .....	10,838	.....	11,747	11,747	11,980	0.27
New Jersey .....	151,822	.....	164,562	164,562	167,819	3.74
New Mexico .....	10,880	.....	11,793	11,793	12,026	0.27
New York .....	918,532	.....	995,607	995,607	1,015,313	22.63
North Carolina .....	123,562	.....	133,931	133,931	136,581	3.04
North Dakota .....	3,185	.....	3,452	3,452	3,521	0.08
Ohio .....	171,685	.....	186,091	186,091	189,774	4.23
Oklahoma .....	34,189	.....	37,058	37,058	37,792	0.84
Oregon .....	19,016	.....	20,612	20,612	21,020	0.47
Pennsylvania .....	276,171	.....	299,344	299,344	305,269	6.81
Rhode Island .....	31,067	.....	33,674	33,674	34,340	0.77
South Carolina .....	46,642	.....	50,555	50,555	51,556	1.15
South Dakota .....	2,820	.....	3,057	3,057	3,117	0.07
Tennessee .....	106,529	.....	115,468	115,468	117,754	2.63
Texas .....	162,454	.....	176,086	176,086	179,571	4.00
Utah .....	3,780	.....	4,097	4,097	4,178	0.09
Vermont .....	4,583	.....	4,968	4,968	5,066	0.11
Virginia .....	68,909	.....	74,691	74,691	76,170	1.70
Washington .....	47,922	.....	51,943	51,943	52,972	1.18
West Virginia .....	16,010	.....	17,354	17,354	17,697	0.39
Wisconsin .....	19,232	.....	20,846	20,846	21,259	0.47
Wyoming .....	1,674	.....	1,815	1,815	1,851	0.04
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	3,631	.....	3,935	3,935	4,013	0.09
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	195,401	.....	211,798	211,798	215,990	4.82
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	19,164	.....	20,772	20,772	21,183	0.47
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>4,058,141</b>	<b>.....</b>	<b>4,398,669</b>	<b>4,398,669</b>	<b>4,485,730</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.



Department of Housing and Urban Development, Public and Indian Housing Programs

86-0302-0-1-604

**Table 15-30. SECTION 8 HOUSING CHOICE VOUCHERS (14.871)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	179,632	2,256	188,923	191,179	198,368	1.01
Alaska	35,131	441	36,947	37,388	38,903	0.20
Arizona	166,512	2,092	175,124	177,216	180,802	0.92
Arkansas	93,724	1,177	98,571	99,748	97,875	0.50
California	3,232,753	40,608	3,439,950	3,480,558	3,660,617	18.55
Colorado	228,492	2,870	240,309	243,179	246,275	1.25
Connecticut	355,916	4,471	374,324	378,795	397,563	2.02
Delaware	38,960	489	40,974	41,463	41,703	0.21
District of Columbia	175,597	2,206	184,680	186,886	196,954	1.00
Florida	825,355	10,368	868,042	878,410	910,923	4.62
Georgia	454,390	5,708	477,891	483,599	515,257	2.61
Hawaii	106,520	1,338	112,029	113,367	114,482	0.58
Idaho	37,556	472	39,499	39,971	39,975	0.20
Illinois	813,568	10,220	855,646	865,866	952,516	4.83
Indiana	199,680	2,508	210,007	212,515	210,816	1.07
Iowa	93,449	1,174	98,282	99,456	99,862	0.51
Kansas	61,006	766	64,162	64,928	67,544	0.34
Kentucky	181,692	2,282	191,089	193,371	203,397	1.03
Louisiana	344,159	4,323	361,959	366,282	337,527	1.71
Maine	83,102	1,044	87,399	88,443	92,376	0.47
Maryland	494,262	6,209	519,825	526,034	522,893	2.65
Massachusetts	842,122	10,578	885,676	896,254	904,562	4.58
Michigan	335,606	4,216	352,963	357,179	371,536	1.88
Minnesota	215,803	2,711	226,964	229,675	239,570	1.21
Mississippi	134,243	1,686	141,186	142,872	133,727	0.68
Missouri	234,867	2,950	247,014	249,964	256,338	1.30
Montana	30,035	377	31,588	31,965	32,281	0.16
Nebraska	65,075	817	68,440	69,257	71,967	0.36
Nevada	130,146	1,635	136,878	138,513	145,942	0.74
New Hampshire	79,932	1,004	84,066	85,070	89,435	0.45
New Jersey	686,260	8,621	721,753	730,374	711,347	3.61
New Mexico	71,040	892	74,713	75,605	70,136	0.36
New York	2,226,250	27,965	2,375,814	2,403,779	2,515,546	12.75
North Carolina	339,424	4,264	356,978	361,242	370,919	1.88
North Dakota	29,659	373	31,193	31,566	33,842	0.17
Ohio	541,632	6,804	569,645	576,449	590,811	2.99
Oklahoma	123,344	1,549	129,723	131,272	134,998	0.68
Oregon	211,816	2,661	222,770	225,431	229,747	1.16
Pennsylvania	558,631	7,017	587,523	594,540	626,565	3.18
Rhode Island	83,099	1,044	87,397	88,441	87,302	0.44
South Carolina	140,413	1,764	147,674	149,438	154,680	0.78
South Dakota	27,495	345	28,917	29,262	29,775	0.15
Tennessee	202,044	2,538	212,494	215,032	235,314	1.19
Texas	1,014,846	12,750	1,067,342	1,080,092	1,060,001	5.37
Utah	68,446	860	71,986	72,846	75,172	0.38
Vermont	49,086	617	51,624	52,241	52,586	0.27
Virginia	380,069	4,774	399,725	404,499	404,877	2.05
Washington	413,229	5,191	434,602	439,793	468,325	2.37
West Virginia	62,844	789	66,094	66,883	69,855	0.35
Wisconsin	148,607	1,867	156,292	158,159	167,771	0.85
Wyoming	12,612	158	13,264	13,422	14,761	0.07
American Samoa	.....	.....	.....	.....	.....	.....
Guam	32,874	413	34,574	34,987	37,707	0.19
Northern Mariana Islands	3,583	45	3,768	3,813	4,191	0.02
Puerto Rico	186,434	2,342	196,076	198,418	200,164	1.01
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	14,139	178	14,870	15,048	11,622	0.06
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	.....	.....	<sup>1</sup> 280,528	280,528	<sup>1</sup> 370,000	.....
<b>Total</b>	<b>17,897,161</b>	<b>224,817</b>	<b>19,177,746</b>	<b>19,402,563</b>	<b>20,100,000</b>	<sup>2</sup> 100.00

<sup>1</sup> Includes obligations for the Contract Renewal Set-Aside, Tenant Protection Vouchers, HUD-VASH, and Rental Assistance Demonstration conversions.

<sup>2</sup> Excludes undistributed obligations.

Department of Housing and Urban Development, Public and Indian Housing Programs

86-0304-0-1-604

**Table 15-31. PUBLIC HOUSING CAPITAL FUND (14.872)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama .....	53,829	1,415	54,536	55,951	55,618	3.05
Alaska .....	2,047	54	2,073	2,127	2,115	0.12
Arizona .....	7,650	201	7,750	7,951	7,904	0.43
Arkansas .....	17,221	453	17,447	17,900	17,793	0.98
California .....	71,099	1,869	72,032	73,901	73,461	4.03
Colorado .....	10,197	268	10,331	10,599	10,536	0.58
Connecticut .....	21,088	554	21,365	21,919	21,789	1.20
Delaware .....	3,670	96	3,718	3,814	3,791	0.21
District of Columbia .....	14,019	368	14,202	14,570	14,484	0.80
Florida .....	48,776	1,282	49,416	50,698	50,397	2.77
Georgia .....	64,245	1,688	65,088	66,776	66,379	3.64
Hawaii .....	9,293	244	9,415	9,659	9,602	0.53
Idaho .....	891	23	902	925	920	0.05
Illinois .....	122,807	3,227	124,418	127,645	126,887	6.96
Indiana .....	21,383	562	21,663	22,225	22,093	1.21
Iowa .....	4,644	122	4,705	4,827	4,798	0.26
Kansas .....	9,802	258	9,931	10,189	10,128	0.56
Kentucky .....	31,221	821	31,631	32,452	32,258	1.77
Louisiana .....	38,257	1,005	38,759	39,764	39,528	2.17
Maine .....	5,301	139	5,370	5,509	5,477	0.30
Maryland .....	26,417	694	26,763	27,457	27,294	1.50
Massachusetts .....	51,617	1,357	52,294	53,651	53,331	2.93
Michigan .....	30,794	809	31,198	32,007	31,817	1.75
Minnesota .....	28,070	738	28,438	29,176	29,002	1.59
Mississippi .....	19,729	518	19,987	20,505	20,384	1.12
Missouri .....	26,868	706	27,220	27,926	27,760	1.52
Montana .....	2,561	67	2,595	2,662	2,646	0.15
Nebraska .....	7,739	203	7,840	8,043	7,996	0.44
Nevada .....	5,321	140	5,391	5,531	5,498	0.30
New Hampshire .....	4,822	127	4,885	5,012	4,982	0.27
New Jersey .....	58,583	1,540	59,352	60,892	60,529	3.32
New Mexico .....	5,516	145	5,589	5,734	5,700	0.31
New York .....	314,688	8,270	318,816	327,086	325,142	17.85
North Carolina .....	49,839	1,310	50,493	51,803	51,495	2.83
North Dakota .....	2,050	54	2,077	2,131	2,119	0.12
Ohio .....	76,765	2,017	77,772	79,789	79,315	4.35
Oklahoma .....	14,781	388	14,974	15,362	15,272	0.84
Oregon .....	8,476	223	8,587	8,810	8,757	0.48
Pennsylvania .....	120,308	3,162	121,887	125,049	124,305	6.82
Rhode Island .....	12,017	316	12,174	12,490	12,416	0.68
South Carolina .....	19,656	517	19,914	20,431	20,309	1.11
South Dakota .....	1,604	42	1,625	1,667	1,657	0.09
Tennessee .....	50,776	1,334	51,442	52,776	52,463	2.88
Texas .....	73,189	1,923	74,149	76,072	75,621	4.15
Utah .....	2,302	60	2,332	2,392	2,378	0.13
Vermont .....	2,140	56	2,168	2,224	2,211	0.12
Virginia .....	28,387	746	28,759	29,505	29,330	1.61
Washington .....	26,734	703	27,085	27,788	27,622	1.52
West Virginia .....	8,034	211	8,139	8,350	8,300	0.46
Wisconsin .....	14,943	393	15,139	15,532	15,439	0.85
Wyoming .....	827	22	838	860	855	0.05
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	1,117	29	1,131	1,160	1,154	0.06
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	103,999	2,733	105,364	108,097	107,454	5.90
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	5,181	136	5,249	5,385	5,354	0.29
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	12,566	36,711	87,533	124,244	57,135	.....
<b>Total .....</b>	<b>1,775,856</b>	<b>83,049</b>	<b>1,873,951</b>	<b>1,957,000</b>	<b>1,879,000</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Housing and Urban Development, Community Planning and Development

86-0162-0-1-451

**Table 15-32. COMMUNITY DEVELOPMENT BLOCK GRANT (14.218; 14.225; 14.228; 14.862)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	40,503	3,806	37,221	41,027	37,983	1.31
Alaska	2,441	1,772	2,382	4,154	3,920	0.13
Arizona	47,795	.....	47,490	47,490	43,659	1.50
Arkansas	23,484	729	23,079	23,808	21,934	0.75
California	323,699	76,319	285,128	361,447	336,908	11.59
Colorado	27,745	9,770	24,451	34,221	32,085	1.10
Connecticut	43,163	8,338	27,766	36,104	33,719	1.16
Delaware	6,640	.....	6,524	6,524	5,998	0.21
District of Columbia	13,905	14,345	.....	14,345	13,969	0.48
Florida	160,147	53,549	75,852	129,401	122,797	4.22
Georgia	78,134	.....	76,017	76,017	69,885	2.40
Hawaii	4,951	7,817	4,872	12,689	12,170	0.42
Idaho	11,102	2,465	8,883	11,348	10,662	0.37
Illinois	152,060	21,554	129,040	150,594	139,964	4.82
Indiana	68,871	.....	61,219	61,219	56,282	1.94
Iowa	35,448	.....	33,450	33,450	30,751	1.06
Kansas	24,245	2,122	21,906	24,028	22,231	0.76
Kentucky	40,068	.....	39,590	39,590	36,397	1.25
Louisiana	24,653	42,513	3,745	46,258	44,943	1.55
Maine	17,740	1,317	15,445	16,762	15,492	0.53
Maryland	35,167	10,326	34,314	44,640	41,826	1.44
Massachusetts	94,947	16,240	76,502	92,742	86,324	2.97
Michigan	90,886	63,650	50,654	114,304	109,206	3.76
Minnesota	48,672	1,699	47,148	48,847	45,020	1.55
Mississippi	28,077	2,134	24,943	27,077	24,985	0.86
Missouri	58,787	212	57,650	57,862	53,209	1.83
Montana	7,860	.....	7,687	7,687	7,066	0.24
Nebraska	16,817	1,973	14,773	16,746	15,529	0.53
Nevada	10,865	8,074	10,999	19,073	18,286	0.63
New Hampshire	10,754	2,527	8,832	11,359	10,619	0.37
New Jersey	81,469	16,837	63,833	80,670	75,257	2.59
New Mexico	14,568	401	14,625	15,026	13,848	0.48
New York	311,590	21,187	268,844	290,031	267,996	9.22
North Carolina	70,032	.....	69,930	69,930	64,290	2.21
North Dakota	5,122	.....	5,004	5,004	4,600	0.16
Ohio	139,812	5,636	133,300	138,936	128,102	4.41
Oklahoma	26,023	4,654	20,626	25,280	23,479	0.81
Oregon	29,767	1,958	29,440	31,398	29,001	1.00
Pennsylvania	176,562	10,238	161,618	171,856	158,631	5.46
Rhode Island	6,017	12,690	3,064	15,754	15,314	0.53
South Carolina	33,871	1,270	33,677	34,947	32,224	1.11
South Dakota	6,702	.....	6,535	6,535	6,008	0.21
Tennessee	46,810	.....	45,860	45,860	42,161	1.45
Texas	190,521	121,962	98,949	220,911	210,516	7.24
Utah	19,474	1,936	17,220	19,156	17,753	0.61
Vermont	6,572	690	6,508	7,198	6,666	0.23
Virginia	49,176	17,582	33,337	50,919	48,093	1.65
Washington	38,253	13,940	37,145	51,085	47,884	1.65
West Virginia	21,132	92	18,993	19,085	17,550	0.60
Wisconsin	35,713	24,885	32,523	57,408	54,551	1.88
Wyoming	3,396	.....	3,389	3,389	3,115	0.11
American Samoa	.....	1,016	19	1,035	1,032	0.04
Guam	3,158	2,957	56	3,013	3,025	0.10
Northern Mariana Islands	793	950	18	968	965	0.03
Puerto Rico	36,708	28,900	34,480	63,380	58,844	2.02
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	1,890	1,946	37	1,983	1,975	0.07
Indian Tribes	54,515	2,600	66,799	69,399	70,000	2.41
Undistributed	.....	.....	.....	.....	.....	.....
<b>Total</b>	<b>2,959,272</b>	<b>647,578</b>	<b>2,463,391</b>	<b>3,110,969</b>	<b>2,906,699</b>	<b>1 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Housing and Urban Development, Community Planning and Development

86-0162-0-1-451

**Table 15-33. COMMUNITY DEVELOPMENT BLOCK GRANT—DISASTER RECOVERY (14.218; 14.228; 14.269)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama		76,811		76,811	42,917	1.53
Alaska						
Arizona						
Arkansas						
California						
Colorado		47,100		47,100	15,700	0.56
Connecticut	15,000	55,656		55,656	34,164	1.22
Delaware						
District of Columbia						
Florida						
Georgia						
Hawaii						
Idaho						
Illinois		21,600		21,600	7,200	0.26
Indiana						
Iowa						
Kansas						
Kentucky						
Louisiana	50,000	113,367		113,367	73,611	2.63
Maine						
Maryland		10,912		10,912	7,728	0.28
Massachusetts		18,232		18,232	10,874	0.39
Michigan						
Minnesota						
Mississippi						
Missouri		75,072		75,072	50,048	1.79
Montana						
Nebraska						
Nevada						
New Hampshire						
New Jersey	1,021,835	749,980		749,980	804,804	28.78
New Mexico						
New York	1,075,138	2,505,056		2,505,056	1,688,724	60.39
North Carolina						
North Dakota		24,979		24,979	16,653	0.60
Ohio						
Oklahoma		27,675		27,675	9,225	0.33
Oregon						
Pennsylvania	42,881	28,429		28,429	18,952	0.68
Rhode Island		5,792		5,792	5,448	0.19
South Carolina						
South Dakota						
Tennessee		15,750		15,750	5,524	0.20
Texas		5,061		5,061		
Utah						
Vermont		13,232		13,232	4,700	0.17
Virginia						
Washington						
West Virginia						
Wisconsin						
Wyoming						
American Samoa						
Guam						
Northern Mariana Islands						
Puerto Rico						
Freely Associated States						
Virgin Islands						
Indian Tribes						
Undistributed					1,500,000	
<b>Total</b>	<b>2,204,854</b>	<b>3,794,704</b>		<b>3,794,704</b>	<b>4,296,272</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.



Department of Labor, Employment and Training Administration

16-0179-0-1-603

**Table 15-34. UNEMPLOYMENT INSURANCE (17.225)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	32,013		32,707	32,707		
Alaska	23,849		26,185	26,185		
Arizona	39,269		38,945	38,945		
Arkansas	23,197		23,698	23,698		
California	419,564		397,361	397,361		
Colorado	43,472		38,738	38,738		
Connecticut	55,844		53,921	53,921		
Delaware	10,539		10,993	10,993		
District of Columbia	10,393		11,743	11,743		
Florida	91,667		93,345	93,345		
Georgia	68,194		71,821	71,821		
Hawaii	15,608		15,488	15,488		
Idaho	19,863		17,440	17,440		
Illinois	153,996		167,906	167,906		
Indiana	43,271		48,499	48,499		
Iowa	28,186		29,029	29,029		
Kansas	22,680		19,792	19,792		
Kentucky	31,347		30,828	30,828		
Louisiana	34,795		30,207	30,207		
Maine	17,228		14,779	14,779		
Maryland	130,841		66,166	66,166		
Massachusetts	69,477		62,124	62,124		
Michigan	116,706		135,902	135,902		
Minnesota	42,561		45,807	45,807		
Mississippi	22,856		20,735	20,735		
Missouri	37,322		40,216	40,216		
Montana	8,736		9,815	9,815		
Nebraska	16,631		15,970	15,970		
Nevada	29,453		30,605	30,605		
New Hampshire	15,652		14,611	14,611		
New Jersey	124,860		113,232	113,232		
New Mexico	16,119		14,844	14,844		
New York	202,990		191,454	191,454		
North Carolina	59,777		66,152	66,152		
North Dakota	10,104		7,340	7,340		
Ohio	93,739		94,310	94,310		
Oklahoma	22,931		23,312	23,312		
Oregon	51,340		55,909	55,909		
Pennsylvania	144,406		144,729	144,729		
Rhode Island	15,100		14,486	14,486		
South Carolina	32,288		32,622	32,622		
South Dakota	6,139		6,009	6,009		
Tennessee	38,315		39,190	39,190		
Texas	138,558		138,334	138,334		
Utah	23,629		27,521	27,521		
Vermont	15,181		8,283	8,283		
Virginia	43,991		46,623	46,623		
Washington	97,785		97,845	97,845		
West Virginia	20,000		14,254	14,254		
Wisconsin	68,834		65,789	65,789		
Wyoming	11,689		9,379	9,379		
American Samoa						
Guam						
Northern Mariana Islands						
Puerto Rico	18,433		19,119	19,119		
Freely Associated States						
Virgin Islands	4,561		1,765	1,765		
Indian Tribes						
Undistributed	5				2,855,443	
DOL Evaluation Office	11,600		11,600	11,600		
Dept. Health & Human Services	2,098		2,098	2,098		
<b>Total</b>	<b>2,949,682</b>		<b>2,861,575</b>	<b>2,861,575</b>	<b>2,855,443</b>	

Department of Transportation, Federal Aviation Administration

69-8106-0-7-402

**Table 15-35. AIRPORT IMPROVEMENT PROGRAM (20.106)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama .....	76,684	.....	59,518	59,518	54,041	1.88
Alaska .....	204,605	.....	217,291	217,291	197,296	6.86
Arizona .....	59,026	.....	71,403	71,403	64,832	2.25
Arkansas .....	28,474	.....	45,601	45,601	41,405	1.44
California .....	261,274	.....	244,492	244,492	221,994	7.72
Colorado .....	78,016	.....	85,628	85,628	77,748	2.70
Connecticut .....	4,148	.....	16,126	16,126	14,642	0.51
Delaware .....	8,148	.....	5,176	5,176	4,700	0.16
District of Columbia .....	300	.....	312	312	283	0.01
Florida .....	190,136	.....	162,331	162,331	147,394	5.12
Georgia .....	69,304	.....	79,516	79,516	72,199	2.51
Hawaii .....	44,035	.....	34,757	34,757	31,559	1.10
Idaho .....	24,443	.....	21,751	21,751	19,749	0.69
Illinois .....	172,808	.....	150,677	150,677	136,812	4.76
Indiana .....	79,562	.....	64,145	64,145	58,243	2.02
Iowa .....	49,667	.....	46,347	46,347	42,083	1.46
Kansas .....	31,565	.....	35,119	35,119	31,887	1.11
Kentucky .....	48,503	.....	44,506	44,506	40,410	1.40
Louisiana .....	32,062	.....	46,631	46,631	42,340	1.47
Maine .....	23,328	.....	24,443	24,443	22,194	0.77
Maryland .....	34,631	.....	23,645	23,645	21,469	0.75
Massachusetts .....	64,729	.....	59,503	59,503	54,028	1.88
Michigan .....	70,005	.....	76,485	76,485	69,447	2.41
Minnesota .....	38,135	.....	48,453	48,453	43,995	1.53
Mississippi .....	26,479	.....	40,576	40,576	36,842	1.28
Missouri .....	38,441	.....	48,291	48,291	43,847	1.52
Montana .....	32,560	.....	36,807	36,807	33,420	1.16
Nebraska .....	34,046	.....	37,951	37,951	34,459	1.20
Nevada .....	24,854	.....	40,052	40,052	36,366	1.26
New Hampshire .....	13,450	.....	17,851	17,851	16,209	0.56
New Jersey .....	15,333	.....	39,530	39,530	35,892	1.25
New Mexico .....	26,243	.....	26,102	26,102	23,700	0.82
New York .....	108,204	.....	118,010	118,010	107,151	3.72
North Carolina .....	81,159	.....	82,495	82,495	74,903	2.60
North Dakota .....	32,868	.....	35,597	35,597	32,321	1.12
Ohio .....	50,451	.....	69,867	69,867	63,438	2.21
Oklahoma .....	32,366	.....	38,572	38,572	35,023	1.22
Oregon .....	38,502	.....	54,133	54,133	49,152	1.71
Pennsylvania .....	64,753	.....	63,052	63,052	57,250	1.99
Rhode Island .....	19,140	.....	10,984	10,984	9,974	0.35
South Carolina .....	27,659	.....	42,581	42,581	38,662	1.34
South Dakota .....	30,250	.....	31,757	31,757	28,835	1.00
Tennessee .....	72,000	.....	76,646	76,646	69,593	2.42
Texas .....	218,427	.....	203,343	203,343	184,632	6.42
Utah .....	53,761	.....	52,565	52,565	47,728	1.66
Vermont .....	14,462	.....	17,452	17,452	15,846	0.55
Virginia .....	73,882	.....	72,768	72,768	66,072	2.30
Washington .....	86,407	.....	93,408	93,408	84,813	2.95
West Virginia .....	20,188	.....	20,262	20,262	18,398	0.64
Wisconsin .....	59,678	.....	62,917	62,917	57,127	1.99
Wyoming .....	30,714	.....	24,419	24,419	22,172	0.77
American Samoa .....	6,488	.....	4,859	4,859	4,411	0.15
Guam .....	5,400	.....	9,030	9,030	8,199	0.29
Northern Mariana Islands .....	4,768	.....	10,747	10,747	9,758	0.34
Puerto Rico .....	2,127	.....	15,214	15,214	13,814	0.48
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	8,835	.....	6,544	6,544	5,942	0.21
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>3,047,483</b>	<b>.....</b>	<b>3,168,238</b>	<b>3,168,238</b>	<b>2,876,699</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Transportation, Federal Highway Administration

69-8083-0-7-401

**Table 15-36. HIGHWAY PLANNING AND CONSTRUCTION (20.205)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	842,743		711,652	711,652	804,520	1.92
Alaska	596,940		470,430	470,430	536,741	1.28
Arizona	768,351		712,698	712,698	776,195	1.85
Arkansas	576,308		463,208	463,208	549,032	1.31
California	3,728,508		3,430,674	3,430,674	3,896,779	9.28
Colorado	572,716		772,687	772,687	791,961	1.89
Connecticut	485,696		453,889	453,889	532,678	1.27
Delaware	170,516		153,687	153,687	179,397	0.43
District of Columbia	176,855		146,057	146,057	169,215	0.40
Florida	1,909,494		1,736,549	1,736,549	2,011,703	4.79
Georgia	1,257,520		1,181,931	1,181,931	1,369,306	3.26
Hawaii	181,986		154,821	154,821	179,369	0.43
Idaho	297,823		262,970	262,970	303,318	0.72
Illinois	1,455,164		1,301,438	1,301,438	1,507,820	3.59
Indiana	862,259		868,698	868,698	1,010,481	2.41
Iowa	496,399		459,207	459,207	525,174	1.25
Kansas	377,280		345,912	345,912	400,736	0.95
Kentucky	785,120		608,192	608,192	704,579	1.68
Louisiana	735,876		644,846	644,846	744,262	1.77
Maine	199,023		168,972	168,972	195,762	0.47
Maryland	568,868		545,503	545,503	637,330	1.52
Massachusetts	629,904		563,047	563,047	644,146	1.53
Michigan	1,070,019		966,206	966,206	1,120,100	2.67
Minnesota	610,497		590,511	590,511	691,521	1.65
Mississippi	518,245		438,603	438,603	512,873	1.22
Missouri	925,259		861,913	861,913	1,003,902	2.39
Montana	467,248		375,570	375,570	435,100	1.04
Nebraska	303,165		265,382	265,382	306,517	0.73
Nevada	339,596		330,905	330,905	385,109	0.92
New Hampshire	170,497		150,342	150,342	175,222	0.42
New Jersey	1,069,364		910,644	910,644	1,058,953	2.52
New Mexico	341,542		331,016	331,016	403,750	0.96
New York	1,754,708		1,541,973	1,541,973	1,780,273	4.24
North Carolina	1,067,754		957,085	957,085	1,106,029	2.63
North Dakota	282,469		222,238	222,238	263,280	0.63
Ohio	1,343,441		1,253,029	1,253,029	1,434,039	3.41
Oklahoma	626,026		578,734	578,734	672,534	1.60
Oregon	482,008		460,028	460,028	530,052	1.26
Pennsylvania	1,773,012		1,507,995	1,507,995	1,740,024	4.14
Rhode Island	238,157		200,370	200,370	231,925	0.55
South Carolina	704,573		614,696	614,696	711,528	1.69
South Dakota	272,272		255,496	255,496	299,065	0.71
Tennessee	848,721		763,712	763,712	896,133	2.13
Texas	3,228,567		3,159,676	3,159,676	3,660,571	8.72
Utah	322,431		317,853	317,853	368,237	0.88
Vermont	216,570		186,030	186,030	215,235	0.51
Virginia	1,046,641		921,961	921,961	1,079,176	2.57
Washington	717,237		622,743	622,743	718,926	1.71
West Virginia	429,188		400,029	400,029	463,433	1.10
Wisconsin	771,160		708,748	708,748	797,920	1.90
Wyoming	264,180		245,913	245,913	271,675	0.65
American Samoa	14,141		18,962	18,962	26,049	0.06
Guam	19,694		14,432	14,432	14,553	0.03
Northern Mariana Islands	57		42	42	42	*
Puerto Rico	134,522		137,185	137,185	143,550	0.34
Freely Associated States						
Virgin Islands	17,911		13,124	13,124	13,235	0.03
Indian Tribes						
Undistributed			<sup>1</sup> 5,025,595	5,025,595	<sup>3</sup> 6,749,192	
<b>Total</b>	<b>40,066,221</b>		<b><sup>2</sup> 41,505,809</b>	<b>41,505,809</b>	<b><sup>3</sup> 48,750,227</b>	<b><sup>4</sup> 100.00</b>

\* 0.005 percent or less.

NOTE: This table also includes budget account numbers 69-0500-0-1-401, 69-0504-0-1-401, 69-0548-0-1-401, and the proposed Fixing and Accelerating Surface Transportation (FAST) Program.

NOTE: The estimated FY 2015 obligation limitation distribution is calculated based on FY 2014 Apportionment Shares under the Moving Ahead for Progress in the 21st Century Act (MAP-21) and does not reflect any reauthorization proposal on apportionment formulas.

<sup>1</sup> This amount includes funding for allocated programs which has not been identified as being provided to a specific State at this time.

<sup>2</sup> The FY 2014 column reflects the estimated distribution of Federal-aid Highways obligation limitation plus exempt contract authority post sequestration and estimated Emergency Relief Program amounts.

<sup>3</sup> The FY 2015 column reflects estimated distributions of Federal-aid Highways obligation limitation plus exempt contract authority and estimated Emergency Relief Program amounts.

<sup>4</sup> Excludes undistributed obligations.

Department of Transportation, Federal Transit Administration

69-8350-0-7-401

**Table 15-37. TRANSIT FORMULA GRANTS PROGRAMS (20.507)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	44,092	55,380	15,977	71,357	53,401	0.49
Alaska	56,172	6,436	20,354	26,790	68,031	0.62
Arizona	120,861	108,539	43,795	152,334	146,379	1.34
Arkansas	26,303	6,032	9,531	15,563	31,856	0.29
California	642,221	1,264,793	232,712	1,497,505	777,812	7.12
Colorado	118,069	14,865	42,783	57,648	142,997	1.31
Connecticut	267,302	217,843	96,858	314,701	323,737	2.96
Delaware	15,706	33,256	5,691	38,947	19,022	0.17
District of Columbia	241,175	234,034	87,391	321,425	292,094	2.67
Florida	262,313	303,433	95,050	398,483	317,695	2.91
Georgia	252,698	141,563	91,567	233,130	306,050	2.80
Hawaii	44,702	22,788	16,198	38,986	54,140	0.50
Idaho	17,879	15,282	6,479	21,761	21,654	0.20
Illinois	691,458	42,057	250,553	292,610	837,445	7.67
Indiana	109,856	38,179	39,807	77,986	133,050	1.22
Iowa	51,861	14,632	18,792	33,424	62,810	0.57
Kansas	36,626	15,896	13,272	29,168	44,359	0.41
Kentucky	82,030	16,354	29,724	46,078	99,349	0.91
Louisiana	41,307	40,810	14,968	55,778	50,028	0.46
Maine	17,420	17,676	6,312	23,988	21,098	0.19
Maryland	306,945	104,766	111,223	215,989	371,750	3.40
Massachusetts	346,801	244,762	125,665	370,427	420,021	3.84
Michigan	171,412	80,397	62,112	142,509	207,602	1.90
Minnesota	156,324	55,070	56,645	111,715	189,329	1.73
Mississippi	8,841	25,564	3,203	28,767	10,707	0.10
Missouri	132,547	48,616	48,029	96,645	160,531	1.47
Montana	21,589	7,653	7,823	15,476	26,147	0.24
Nebraska	26,307	22,940	9,532	32,472	31,861	0.29
Nevada	57,119	29,355	20,697	50,052	69,178	0.63
New Hampshire	13,671	12,534	4,954	17,488	16,558	0.15
New Jersey	751,059	44,522	272,150	316,672	909,630	8.33
New Mexico	51,596	20,724	18,696	39,420	62,490	0.57
New York	1,495,886	1,207,755	542,042	1,749,797	1,811,711	16.58
North Carolina	127,259	93,236	46,113	139,349	154,127	1.41
North Dakota	15,123	8,773	5,480	14,253	18,316	0.17
Ohio	233,523	66,856	84,618	151,474	282,827	2.59
Oklahoma	23,272	24,138	8,433	32,571	28,186	0.26
Oregon	175,112	27,828	63,453	91,281	212,084	1.94
Pennsylvania	501,514	171,673	181,726	353,399	607,398	5.56
Rhode Island	59,221	23,512	21,459	44,971	71,725	0.66
South Carolina	31,506	36,047	11,416	47,463	38,158	0.35
South Dakota	16,646	5,212	6,032	11,244	20,160	0.18
Tennessee	94,446	41,501	34,223	75,724	114,386	1.05
Texas	342,957	216,583	124,142	340,725	414,929	3.80
Utah	46,775	28,764	16,949	45,713	56,650	0.52
Vermont	40,934	2,708	14,832	17,540	49,576	0.45
Virginia	137,025	97,194	49,652	146,846	165,955	1.52
Washington	261,100	75,814	94,611	170,425	316,226	2.89
West Virginia	22,276	19,399	8,072	27,471	26,980	0.25
Wisconsin	145,741	17,489	52,810	70,299	176,512	1.62
Wyoming	17,193	2,470	6,230	8,700	20,823	0.19
American Samoa	.....	.....	.....	.....	.....	.....
Guam	.....	.....	.....	.....	.....	.....
Northern Mariana Islands	2,949	.....	1,069	1,069	3,572	0.03
Puerto Rico	42,102	117,593	15,256	132,849	50,991	0.47
Freely Associated States	3,547	3,474	1,285	4,759	4,296	0.04
Virgin Islands	.....	.....	.....	.....	.....	.....
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	<sup>1</sup> 49,639	<sup>2</sup> 77,938	20,848	98,786	<sup>3</sup> 62,627	.....
<b>Total</b>	<b>9,070,008</b>	<b>5,672,708</b>	<b>3,289,294</b>	<b>8,962,002</b>	<b>10,987,026</b>	<sup>4</sup> <b>100.00</b>

<sup>1</sup> Undistributed line contains the Oversight take down of \$49,639

<sup>2</sup> Includes the Oversight take down \$64,757 and a undistributed amount of \$13,181.

<sup>3</sup> FY 2015 Undistributed line contains the Oversight take down of \$62,627

<sup>4</sup> Excludes undistributed obligations.



Environmental Protection Agency, Office of Water

68-0103-0-1-304

**Table 15–38. CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUND (66.458)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	15,080	950	14,886	15,836	11,048	1.09
Alaska	8,071	509	7,967	8,476	5,913	0.58
Arizona	14,812	574	8,992	9,566	6,673	0.66
Arkansas	8,819	556	8,709	9,265	6,463	0.63
California	98,111	6,077	95,213	101,290	70,662	6.94
Colorado	10,787	680	10,649	11,329	7,903	0.78
Connecticut	16,521	1,041	16,309	17,350	12,104	1.19
Delaware	6,620	417	6,536	6,953	4,850	0.48
District of Columbia	6,620	417	6,536	6,953	4,850	0.48
Florida	45,521	2,868	44,938	47,806	33,350	3.28
Georgia	22,801	1,437	22,509	23,946	16,705	1.64
Hawaii	10,095	658	10,311	10,969	7,652	0.75
Idaho	6,620	417	6,536	6,953	4,850	0.48
Illinois	60,992	3,843	60,209	64,052	44,684	4.39
Indiana	32,514	2,048	32,083	34,131	23,811	2.34
Iowa	11,176	1,150	18,018	19,168	13,372	1.31
Kansas	12,173	767	12,017	12,784	8,918	0.88
Kentucky	17,316	1,081	16,944	18,025	12,575	1.24
Louisiana	14,822	934	14,635	15,569	10,861	1.07
Maine	10,439	658	10,305	10,963	7,648	0.75
Maryland	32,617	2,055	32,198	34,253	23,896	2.35
Massachusetts	45,786	2,885	45,199	48,084	33,545	3.30
Michigan	57,986	3,654	57,242	60,896	42,482	4.17
Minnesota	24,787	1,562	24,469	26,031	18,160	1.78
Mississippi	21,286	766	11,994	12,760	8,902	0.87
Missouri	37,709	2,356	36,905	39,261	27,389	2.69
Montana	6,620	417	6,536	6,953	4,850	0.48
Nebraska	13,812	435	6,809	7,244	5,054	0.50
Nevada	6,622	417	6,536	6,953	4,850	0.48
New Hampshire	13,477	849	13,304	14,153	9,874	0.97
New Jersey	55,109	<sup>1</sup> 194,578	54,402	248,980	40,374	3.97
New Mexico	6,617	417	6,536	6,953	4,850	0.48
New York	149,066	<sup>2</sup> 292,481	146,932	439,413	109,056	10.71
North Carolina	49,846	1,534	24,026	25,560	17,831	1.75
North Dakota	6,620	417	6,536	6,953	4,850	0.48
Ohio	75,919	4,784	74,945	79,729	55,621	5.46
Oklahoma	10,892	687	10,755	11,442	7,982	0.78
Oregon	15,234	960	15,039	15,999	11,161	1.10
Pennsylvania	53,539	3,366	52,734	56,100	39,137	3.84
Rhode Island	9,055	571	8,939	9,510	6,634	0.65
South Carolina	24,204	871	13,638	14,509	10,122	0.99
South Dakota	6,620	417	6,536	6,953	4,850	0.48
Tennessee	19,590	1,234	19,340	20,574	14,353	1.41
Texas	61,142	3,884	60,847	64,731	45,158	4.44
Utah	7,106	448	7,014	7,462	5,206	0.51
Vermont	6,620	417	6,536	6,953	4,850	0.48
Virginia	27,599	1,739	27,245	28,984	20,220	1.99
Washington	23,482	1,478	23,151	24,629	17,182	1.69
West Virginia	21,023	1,325	20,752	22,077	15,402	1.51
Wisconsin	36,458	2,297	35,991	38,288	26,710	2.62
Wyoming	6,620	417	6,536	6,953	4,850	0.48
American Samoa	7,306	462	7,231	7,693	5,353	0.53
Guam	9,133	334	5,232	5,566	3,873	0.38
Northern Mariana Islands	3,396	214	3,361	3,575	2,488	0.24
Puerto Rico	17,190	1,108	17,364	18,472	12,886	1.27
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	3,249	268	4,197	4,465	3,107	0.31
Indian Tribes	18,644	1,739	27,239	28,978	30,000	2.95
Undistributed	<sup>3</sup> 439	<sup>4</sup> 500	<sup>5</sup> 3,622	4,122	.....	.....
<b>Total</b>	<b>1,422,330</b>	<b>561,425</b>	<b>1,362,170</b>	<b>1,923,595</b>	<b>1,018,000</b>	<sup>6</sup> <b>100.00</b>

<sup>1</sup> Includes \$191.1 million from P.L. 113–2, the Disaster Relief Appropriations Act of 2013.

<sup>2</sup> Includes \$283.1 million from P.L. 113–2, the Disaster Relief Appropriations Act of 2013.

<sup>3</sup> Includes \$62,000 for a SEE employee supporting SRF activities in Region 7s States, \$336,000 for an award to the Indian Health Service overseeing a project in the St. Regis Mohawk Tribe, and \$41,000 from P.L. 113–2 for the Management and Oversight of Sandy Supplemental funds.

<sup>4</sup> For the management and oversight of Sandy supplemental funds, P.L. 113–2.

<sup>5</sup> Buy American set aside, P.L. 113–76.

<sup>6</sup> Excludes undistributed obligations.

Environmental Protection Agency, Office of Water

68-0103-0-1-304

**Table 15-39. CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUND (66.468)**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama .....	10,438	1,351	15,541	16,892	14,037	1.86
Alaska .....	8,421	708	8,137	8,845	7,350	0.97
Arizona .....	21,274	1,278	14,691	15,969	13,270	1.76
Arkansas .....	12,743	1,083	12,451	13,534	11,246	1.49
California .....	79,040	6,658	76,563	83,221	69,154	9.16
Colorado .....	14,937	1,232	14,162	15,394	12,793	1.69
Connecticut .....	8,421	717	8,245	8,962	7,448	0.99
Delaware .....	8,421	708	8,137	8,845	7,350	0.97
District of Columbia .....	8,421	708	8,137	8,845	7,350	0.97
Florida .....	27,496	2,588	29,762	32,350	26,883	3.56
Georgia .....	19,899	1,543	17,741	19,284	16,025	2.12
Hawaii .....	7,971	708	8,137	8,845	7,350	0.97
Idaho .....	8,421	708	8,137	8,845	7,350	0.97
Illinois .....	32,116	2,953	33,958	36,911	30,672	4.06
Indiana .....	14,046	1,148	13,200	14,348	11,923	1.58
Iowa .....	29,697	1,058	12,171	13,229	10,993	1.46
Kansas .....	10,302	806	9,274	10,080	8,377	1.11
Kentucky .....	12,372	1,102	12,668	13,770	11,443	1.52
Louisiana .....	8,421	970	11,157	12,127	10,077	1.33
Maine .....	8,421	708	8,137	8,845	7,350	0.97
Maryland .....	13,066	1,201	13,811	15,012	12,475	1.65
Massachusetts .....	15,699	1,315	15,126	16,441	13,662	1.81
Michigan .....	25,579	2,202	25,328	27,530	22,877	3.03
Minnesota .....	14,131	1,266	14,561	15,827	13,152	1.74
Mississippi .....	8,773	733	8,426	9,159	7,611	1.01
Missouri .....	16,303	1,428	16,427	17,855	14,838	1.97
Montana .....	8,421	708	8,137	8,845	7,350	0.97
Nebraska .....	8,500	708	8,137	8,845	7,350	0.97
Nevada .....	8,421	1,009	11,605	12,614	10,482	1.39
New Hampshire .....	8,421	708	8,137	8,845	7,350	0.97
New Jersey .....	17,990	<sup>1</sup> 39,567	15,482	55,049	13,984	1.85
New Mexico .....	10,463	708	8,137	8,845	7,350	0.97
New York .....	55,485	<sup>2</sup> 60,017	39,059	99,076	35,280	4.67
North Carolina .....	42,918	1,656	19,039	20,695	17,197	2.28
North Dakota .....	8,421	708	8,137	8,845	7,350	0.97
Ohio .....	27,058	1,967	22,619	24,586	20,431	2.71
Oklahoma .....	15,914	1,140	13,111	14,251	11,842	1.57
Oregon .....	8,421	1,005	11,558	12,563	10,439	1.38
Pennsylvania .....	24,673	2,262	26,018	28,280	23,501	3.11
Rhode Island .....	8,421	708	8,137	8,845	7,350	0.97
South Carolina .....	17,396	708	8,137	8,845	7,350	0.97
South Dakota .....	8,729	708	8,137	8,845	7,350	0.97
Tennessee .....	9,359	708	8,137	8,845	7,350	0.97
Texas .....	53,517	5,116	58,837	63,953	53,144	7.04
Utah .....	8,421	738	8,491	9,229	7,670	1.02
Vermont .....	8,421	708	8,137	8,845	7,350	0.97
Virginia .....	14,275	1,172	13,482	14,654	12,177	1.61
Washington .....	21,499	1,579	18,162	19,741	16,404	2.17
West Virginia .....	8,421	708	8,137	8,845	7,350	0.97
Wisconsin .....	14,518	1,234	14,191	15,425	12,818	1.70
Wyoming .....	8,421	708	8,137	8,845	7,350	0.97
American Samoa .....	1,287	123	1,419	1,542	1,282	0.17
Guam .....	5,158	317	3,641	3,958	3,289	0.44
Northern Mariana Islands .....	3,829	271	3,118	3,389	2,816	0.37
Puerto Rico .....	8,421	708	8,137	8,845	7,350	0.97
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	9,021	350	4,028	4,378	3,638	0.48
Indian Tribes .....	14,371	1,451	16,687	18,138	20,000	2.65
Undistributed .....	<sup>3</sup> 13,279	<sup>4</sup> 660	<sup>5</sup> 4,107	<sup>6</sup> 4,767	<sup>6</sup> 2,000	.....
<b>Total .....</b>	<b>926,699</b>	<b>167,718</b>	<b>834,520</b>	<b>1,002,238</b>	<b>757,000</b>	<sup>7</sup> <b>100.00</b>

<sup>1</sup> Includes \$38.2 million from P.L. 113-2, the Disaster Relief Appropriations Act of 2013.<sup>2</sup> Includes \$56.6 million from P.L. 113-2, the Disaster Relief Appropriations Act of 2013.<sup>3</sup> Includes \$13.24 million for Unregulated Contaminant Monitoring (UCM), which 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, and \$36,000 from P.L. 113-2 for the management and oversight of Sandy Supplemental funds.<sup>4</sup> Includes \$160 thousand for UCMR and \$500 thousand from P.L. 113-2 for the management and oversight of Sandy Supplemental funds.<sup>5</sup> Includes \$1.84 million for UCMR and \$2.26 million from P.L. 113-76 for the Buy American set aside.<sup>6</sup> UCMR set aside.<sup>7</sup> Excludes undistributed obligations.

Federal Communications Commission

27-5183-0-2-376

**Table 15-40. UNIVERSAL SERVICE FUND E-RATE**

(Obligations in thousands of dollars)

State or Territory	FY 2013 Actual	Estimated FY 2014 obligations from:			FY 2015 (estimated)	FY 2015 Percentage of distributed total
		Previous authority	New Authority	Total		
Alabama	29,909	24,930	7,873	32,803	39,836	1.71
Alaska	47,363	39,477	12,466	51,943	63,082	2.71
Arizona	47,724	39,778	12,561	52,339	63,563	2.73
Arkansas	26,019	21,687	6,849	28,536	34,655	1.49
California	246,682	205,611	64,930	270,541	328,554	14.09
Colorado	19,587	16,326	5,156	21,482	26,088	1.12
Connecticut	14,003	11,672	3,686	15,358	18,651	0.80
Delaware	2,768	2,307	729	3,036	3,687	0.16
District of Columbia	6,828	5,692	1,797	7,489	9,095	0.39
Florida	61,588	51,334	16,211	67,545	82,029	3.52
Georgia	63,479	52,910	16,709	69,619	84,547	3.63
Hawaii	2,108	1,757	555	2,312	2,808	0.12
Idaho	10,647	8,874	2,802	11,676	14,180	0.61
Illinois	67,005	55,849	17,637	73,486	89,244	3.83
Indiana	34,512	28,766	9,084	37,850	45,967	1.97
Iowa	13,195	10,999	3,473	14,472	17,575	0.75
Kansas	15,726	13,108	4,139	17,247	20,946	0.90
Kentucky	29,813	24,849	7,847	32,696	39,707	1.70
Louisiana	40,165	33,478	10,572	44,050	53,495	2.29
Maine	6,616	5,514	1,741	7,255	8,811	0.38
Maryland	17,796	14,833	4,684	19,517	23,702	1.02
Massachusetts	21,433	17,864	5,641	23,505	28,546	1.22
Michigan	32,743	27,292	8,618	35,910	43,610	1.87
Minnesota	22,157	18,468	5,832	24,300	29,511	1.27
Mississippi	24,552	20,465	6,462	26,927	32,701	1.40
Missouri	30,333	25,282	7,984	33,266	40,400	1.73
Montana	3,908	3,257	1,029	4,286	5,204	0.22
Nebraska	8,375	6,981	2,204	9,185	11,155	0.48
Nevada	6,678	5,566	1,758	7,324	8,894	0.38
New Hampshire	2,157	1,798	568	2,366	2,873	0.12
New Jersey	45,227	37,697	11,904	49,601	60,238	2.58
New Mexico	24,254	20,216	6,384	26,600	32,304	1.39
New York	90,747	75,638	23,886	99,524	120,865	5.18
North Carolina	56,138	46,792	14,776	61,568	74,770	3.21
North Dakota	3,549	2,958	934	3,892	4,727	0.20
Ohio	59,920	49,944	15,772	65,716	79,807	3.42
Oklahoma	53,383	44,495	14,051	58,546	71,101	3.05
Oregon	14,573	12,147	3,836	15,983	19,410	0.83
Pennsylvania	55,142	45,962	14,514	60,476	73,444	3.15
Rhode Island	5,427	4,523	1,428	5,951	7,228	0.31
South Carolina	37,585	31,328	9,893	41,221	50,060	2.15
South Dakota	4,010	3,343	1,056	4,399	5,341	0.23
Tennessee	35,166	29,311	9,256	38,567	46,837	2.01
Texas	166,288	138,602	43,769	182,371	221,478	9.50
Utah	13,053	10,879	3,436	14,315	17,385	0.75
Vermont	2,071	1,726	545	2,271	2,758	0.12
Virginia	28,819	24,021	7,586	31,607	38,384	1.65
Washington	25,861	21,556	6,807	28,363	34,444	1.48
West Virginia	15,518	12,935	4,085	17,020	20,669	0.89
Wisconsin	25,295	21,084	6,658	27,742	33,691	1.45
Wyoming	3,127	2,606	823	3,429	4,164	0.18
American Samoa	1,081	901	285	1,186	1,440	0.06
Guam	674	562	177	739	898	0.04
Northern Mariana Islands	458	382	121	503	610	0.03
Puerto Rico	22,212	18,514	5,846	24,360	29,584	1.27
Freely Associated States						
Virgin Islands	5,106	4,256	1,344	5,600	6,801	0.29
Indian Tribes						
Undistributed						
<b>Total</b>	<b>1,750,553</b>	<b>1,459,102</b>	<b>460,769</b>	<b>1,919,871</b>	<b>2,331,554</b>	<b>100.00</b>

<sup>1</sup> Excludes undistributed obligations.







## 16. 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 2013 and 2014, Federal statistical agencies:

- addressed data gaps exposed by the recent financial crisis and recession in the comprehensive revision of the national income and product accounts (*Bureau of Economic Analysis*);
- redesigned and modernized the National Crime Victimization Survey to produce more reliable, valid, and relevant estimates of the Nation's crime victimization incidents (*Bureau of Justice Statistics*);
- added new variables on self-employed persons to the Current Population Survey's public use files to support analysis of additional characteristics of the self-employed and investigations of how these change over time (*Bureau of Labor Statistics*);
- improved access to geospatial data through the National Transportation Atlas Viewer and to all forms of transportation data through the National Transportation Library (*Bureau of Transportation Statistics*);
- achieved a significant electronic response rate increase for the Economic Census from 29 percent in 2007 to 53 percent in 2012 (*Census Bureau*);
- accelerated the release of an international trade in goods and services economic indicator to foster U.S. global competitiveness and economic growth for American businesses, workers, and consumers (*Bureau of Economic Analysis and Census Bureau*);
- linked Supplemental Nutrition Assistance Program (SNAP) administrative records from Texas to American Community Survey data to enable SNAP Administrators to better target outreach within the largest counties of Texas (*Economic Research Service*);
- combined real-time data feeds from the National Hurricane Center with extensive energy infrastructure and resource geospatial data layers to launch a mapping application that visualizes storm threats to energy systems (*Energy Information Administration*);
- provided farmer data to the Conservation Effects Assessment Project whose results indicate that, compared to 2006, producers in the Chesapeake Bay watershed have increased adoption of conservation practices on cultivated cropland which has resulted in a significant decrease in pollution (*National Agricultural Statistics Service*);
- monitored educational progress by providing estimates indicating that the percentages of students at or above proficient levels in mathematics at grade 4, and in reading at grades 4 and 8 increased from 2011 to 2013, and were higher than in the early 1990s in both subjects and grades (*National Center for Education Statistics*);
- produced the most current and complete national and State-specific (for the largest States) data available to track health insurance coverage, affordability of medical care and medications, usual source of medical care, preventive services, and emergency room visits (*National Center for Health Statistics*);
- incorporated Research and Development (R&D) survey data into the U.S. Gross Domestic Product and other national income and product accounts by treating R&D as an investment that generates future income and product thereby facilitating international comparisons of national economic statistics (*Bureau of Economic Analysis and National Center for Science and Engineering Statistics*);
- negotiated and implemented 40 data sharing agreements supporting the wide variety of research and statistical activities of our Federal, State, and local agency partners to leverage and enhance the value of already collected administrative data (*Office of Research, Evaluation, and Statistics, SSA*);
- addressed key tax administration issues through the Joint Statistical Research Program by leveraging the skills and resources of academics, non-profit organizations, and other Federal Government agencies (*Statistics of Income Division, IRS*); and
- released, for the first time, real (inflation-adjusted) personal income for States and metropolitan areas based on regional price parities that allow the comparison of real personal income across regions and time periods (*Bureau of Economic Analysis*).

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' 2015 budget proposals.

### Highlights of 2015 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 16–1). 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 2015*, 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.

**Bureau of Economic Analysis (BEA), Department of Commerce:** Funding is requested to provide support for ongoing BEA programs and to: (1) create a new suite of small business data products, including expanding data on small businesses by developing a Small Business Satellite Account, with a new Small Business GDP to track the overall growth and health of the small-business sector; and (2) continue to implement a critical modernization of BEA's information technology system that will lead to an increase in operational efficiency and security of statistical production and analysis.

**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 generating sub-national estimates and enhancing data on the crimes

of rape and sexual assault; (2) launch statistical collections which examine public defender agencies, programs and operations; (3) 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; (4) expand the surveys of inmates of prisons and jails to inform the process of re-entry; (5) improve the availability of justice statistics for Indian country; and (6) continue to support the enhancement of criminal justice statistics available through State statistical analysis centers.

**Bureau of Labor Statistics (BLS), Department of Labor:** In FY 2015, funding is requested to provide support for ongoing BLS programs and to: (1) add an annual supplement to the Current Population Survey (CPS) 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 (CE) Survey to support the Census Bureau in its development of a supplemental statistical poverty measure.

**Bureau of Transportation Statistics (BTS), Department of Transportation:** Funding is requested to support ongoing BTS programs and to: (1) reinstitute a travel data program to measure city-to-city passenger travel by all modes of transportation to inform the Nation's transportation investments, including high-speed rail initiatives, and to illuminate DOT's continued focus on safety; (2) estimate the inventory and use of trucks nationally to capture their physical and operating characteristics, conduct safety analyses, estimate fuel consumption, evaluate their economic productivity, and develop statistics of highway usage and cost allocation; and (3) improve methods and data for calculating the value of transportation infrastructure and services.

**Census Bureau, Department of Commerce:** Funding is requested to provide support for ongoing Census Bureau programs and to: (1) conduct critical research, testing, and development for the 2020 Census program to support key operational decisions about fundamental changes to program, business, operational, and technical processes that must be made by the end of FY 2015; (2) complete data releases for the 2012 Economic Census and begin planning for the 2017 Economic Census; (3) reinstate the Boundary and Annexation Survey in 2015; and (4) support a Census Enterprise Data Collection and Processing Initiative which will create an integrated and standardized "system of systems" that will replace unique, survey-specific systems with an enterprise solution.

**Economic Research Service (ERS), Department of Agriculture:** Funding is requested to provide support for ongoing ERS programs, and to expand internal expertise, support collaboration with USDA program agencies, and form partnerships with extramural researchers to: (1) perform and evaluate experiments that incorporate concepts from behavioral economics to identify high (and low) performing program alternatives before incurring the costs associated with new program implementation; and (2) create and evaluate unique merged administrative data systems by linking multiple data sources, as-

sessing statistical properties, and analyzing the merged data for policy-relevant findings.

**Energy Information Administration (EIA), Department of Energy:** Funding is requested to provide support for ongoing EIA programs and to: (1) improve EIA's capability to track and report on rapidly-changing domestic energy market dynamics, including expanded collection of domestic oil and gas production and collaboration with member States of the Ground Water Protection Council to make EIA a repository for well-level petroleum data from States; (2) illuminate domestic energy market dynamics within the broader context of the world energy system, including the global markets for liquefied natural gas, crude oil, and refined products; and (3) develop an interface that enables groups with common interests to crowd-source, or pool information to determine the actual effectiveness of specific building efficiency technologies, practices, and characteristics in reducing energy use while maintaining energy services.

**National Agricultural Statistics Service (NASS), Department of Agriculture:** Funding is requested to provide support for ongoing NASS programs and to: (1) conduct a survey to provide baseline estimates of the extent of honey bee Colony Collapse Disorder, and quantitative information on potential causes of these significant losses in pollinator populations; (2) expand geospatial research to enable more accurate, detailed, and systematic greenhouse gas modeling, monitoring, and assessment; (3) restore fruit, nut, and vegetable in-season production reports; (4) restore reports on chemical use on major row crops, on vegetable crops, and in post-harvest activities; (5) continue the annual Current Agriculture Industrial Reports to support Federal agencies' agricultural production estimation requirements as well as private industry's efforts to monitor the effect of international trade on domestic production, evaluate the relationship between company and industry performance, and support market analysis and planning; (6) conduct the Quinquennial Census of Horticulture Specialties study to provide estimates of horticultural product production and sales as well as industry expenses, growing area, and hired labor; and (7) conduct the Tenure, Ownership, and Transition of Agricultural Land Census of Agriculture follow-on study to inform policy decisions for USDA programs linked to farm land ownership and rental arrangements, support research on generational transitions in agriculture, and provide updated agricultural parameters for the National Accounts.

**National Center for Education Statistics (NCES), Department of Education:** Funding is requested to provide support for ongoing NCES activities 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 two-year cycle to supplement the National Postsecondary Student Aid Study student survey with more frequent information on educational costs, financial aid, enrollment, and progress; (3) collect data on elementary and secondary school teachers and principals every two years, instead of every four years, in order to

provide more timely information about this key workforce; and (4) include in the 2015 National Household Education Surveys an adult education survey that provides information on training that adults seek and receive outside of traditional colleges and universities.

**National Center for Health Statistics (NCHS), Department of Health and Human Services:** Funding is requested to provide support for ongoing NCHS core programs to: (1) provide relevant, accurate, and timely estimates of high priority health measures; (2) enhance the quality and usability of health data through improved access tools and tutorials; (3) use birth and death data collected by the States for tracking priority health initiatives in prevention, cancer control, births to unmarried women, and teenage pregnancy; (4) monitor health care utilization through the family of provider surveys; (5) provide National Health and Nutrition Examination Survey data on diet and nutrition, blood pressure, chronic diseases, and other health indicators; and (6) provide information annually and quarterly on the health status of the U.S. civilian non-institutionalized population through confidential household interviews conducted by the National Health Interview Survey.

**National Center for Science and Engineering Statistics (NCSES), National Science Foundation:** Funding is requested to continue NCSES's core mission to measure research and development trends, the science and engineering workforce, U.S. competitiveness, and the condition and progress of the Nation's STEM education and to support targeted improvements in NCSES statistical programs by: (1) enhancing the Survey of Doctorate Recipients to expand the sample to facilitate more finely detailed estimates by subfield, race, and gender, which will greatly augment the knowledge and understanding of these individuals and their contributions to the U.S. workforce; (2) planning and conducting a survey of R&D in the nonprofit sector, filling a data gap on this important segment of the economy; and (3) conducting a new data collection to gather in-depth information about post-doctoral appointees and other doctorate recipients who earned their first doctorate within the past 10 years.

**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 survey and linkage of SSA administrative data to surveys; (2) complete data collection, produce data files and provide SSA with data from the redesigned Survey of Income and Program Participation to address Social Security's data needs for microsimulation models, program evaluation, and analysis; (3) provide enhanced statistical and analytical support for initiatives to improve Social Security and other government agency programs; and (4) expand use of administrative data for policy research through the Retirement Research Consortium and Disability Research Consortium.

**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 utilizing new infor-



mation technology to better support SOI's complex data collection programs; (2) integrate population and information return data with SOI-edited data to provide rich longitudinal and/or cross-sectional 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 key tax administration issues; (5) enhance the design, quality, clarity, and number of SOI's products; and (6) stringently protect taxpayer data from inadvertent disclosure.

**Table 16–1. 2013–2015 BUDGET AUTHORITY FOR PRINCIPAL STATISTICAL AGENCIES <sup>1</sup>**

(In millions of dollars)

	Actual 2013	Estimate	
		2014	2015
Bureau of Economic Analysis .....	93	99	111
Bureau of Justice Statistics <sup>2</sup> .....	53	53	63
Bureau of Labor Statistics .....	577	592	610
Bureau of Transportation Statistics .....	26	26	29
Census Bureau <sup>3</sup> .....	859	944	1210
Salaries and Expenses <sup>3</sup> .....	238	252	248
Periodic Censuses and Programs .....	621	692	962
Economic Research Service .....	71	78	83
Energy Information Administration .....	100	117	123
National Agricultural Statistics Service <sup>4</sup> .....	167	161	179
National Center for Education Statistics <sup>5</sup> .....	249	259	273
Statistics <sup>5</sup> .....	118	119	140
Assessment .....	123	132	125
National Assessment Governing Board .....	8	8	8
National Center for Health Statistics <sup>6</sup> .....	154	155	155
National Center for Science and Engineering Statistics , NSF <sup>7</sup> .....	42	47	59
Office of Research, Evaluation, and Statistics, SSA .....	27	29	30
Statistics of Income Division, IRS .....	35	37	37

<sup>1</sup> Reflects any rescissions and sequestration.

<sup>2</sup> Includes funds for management and administrative costs of \$7.6, \$7.2, and \$7.2 million in 2013, 2014, 2015, respectively, that were previously displayed separately.

<sup>3</sup> Salaries and Expenses funds include discretionary and mandatory funds. 2013 Total does not reflect Working Capital Fund balances.

<sup>4</sup> Includes funds for the periodic Census of Agriculture of \$59, \$46, and \$45 million in 2013, 2014, and 2015, respectively.

<sup>5</sup> Includes funds for salaries and expenses of \$15, \$16, and \$17 million in 2013, 2014, and 2015, 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 \$36 million, \$35 million, and \$70 million in 2013, 2014, and 2015, respectively.

<sup>6</sup> All funds from the Public Health Service Evaluation Fund. The amounts do not include resources from the Prevention and Public Health Fund.

<sup>7</sup> Includes funds for salaries and expenses of \$7.2, \$7.6, and \$7.8 million in 2013, 2014, and 2015, respectively.

## 17. INFORMATION TECHNOLOGY

*The Administration continues its commitment to building a 21st century Government that is more efficient and effective for the American people. The Budget supports the President's Management Agenda, a comprehensive and forward-looking plan to deliver better, faster, and smarter services to citizens and businesses; increase quality and value in the Government's core administrative functions and continue efforts underway to enhance productivity to achieve cost savings across the Government; open Government-funded data and research to the public to spur innovation and economic growth; and unlock the full potential of today's Federal workforce and build the workforce we need for tomorrow. Delivering smarter information technology (IT) services is critical to achieving the Administration's management goals, and requires a strong emphasis on meeting user needs and delivering on intended impact. The Federal Government for 2015 plans to invest \$79 billion in IT, sustaining efforts on cost savings and effective oversight. To ensure that this investment in IT serves American taxpayers well, the Administration has refined policies and oversight activities to address three key areas: delivering value in Federal IT investments; driving innovation to meet customer needs; and securing and protecting the Government's data.*

This chapter describes the Federal IT budget and the Administration's Federal IT initiatives.

### DELIVERING VALUE IN FEDERAL IT INVESTMENTS

**Federal Spending on IT**—For Federal programs to succeed it is critical that agencies view IT as a strategic asset, one that should be harnessed to increase efficiency and effectiveness in program performance and maximize customer service not only for agency users across the Government, but also for non-Federal users of Government information, such as States, localities, businesses, and individuals. Federal IT management policies have recently required agencies to modernize and streamline their IT investments, with a view to delivering on IT management goals of efficiency, effectiveness, customer service, and security. Through policy and oversight, this Administration has rationalized IT spending across the most important national priorities to increase efficiency, arresting the growth in IT spending witnessed prior to 2009, and delivering better value from IT to American taxpayers.

Total planned spending on IT for the FY 2015 Budget is estimated<sup>1</sup> to be \$79.0 billion, 2.9 percent below the 2014

<sup>1</sup> Based on agencies represented on the IT Dashboard, located at: <http://itdashboard.gov>. Agencies for which IT investment information is displayed on the IT Dashboard are: Department of Agriculture, Department of Commerce, Department of Defense, Department of Educa-

tion, 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.

estimated level of \$81.4 billion, as shown in Table 17-1. Spending estimates in Chart 17-1 depict how growth in IT spending of 7.10 percent per year over 2001-2009 has been slowed to 0.27 percent per year for 2009-2015. (This time series has been revised back to 2001, based on a revision of estimates for the Department of Defense.) As the graph of spending over 2001-2015 shows, the basic trends reported in the past have persisted, despite the recent years showing significantly lower levels for both Defense and non-Defense. The lower spending levels in recent years are due to a number of factors, which may include the lower overall Federal budget levels for discretionary spending, as well as the achievement of improved efficiency in how funds are invested in IT.

**Table 17-1. FEDERAL IT SPENDING**  
(Millions of dollars)

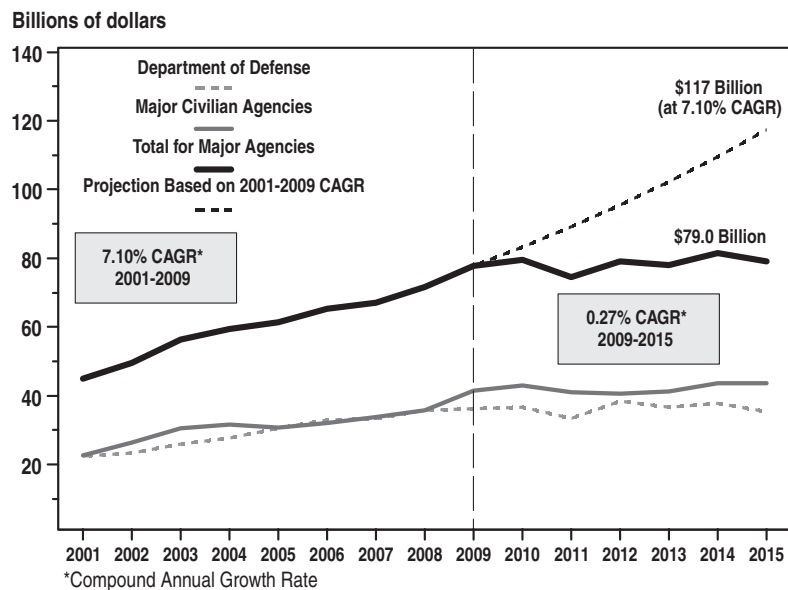
	2013	2014	2015
Department of Defense .....	36,624	37,644	35,370
Non-Defense .....	41,273	43,754	43,655
<b>Total .....</b>	<b>77,897</b>	<b>81,398</b>	<b>79,025</b>

Note: Defense IT spending includes estimates for IT investments for which details are classified, and not reflected on the IT Dashboard. DoD estimates shown for 2013-2015 also reflect improved internal accounting. Historical data in Chart 17-1 have been adjusted for DoD, to reflect the agency's judgment that previously reported 2001-2012 data should be adjusted down by 3 percent annually, to account for past overstatements in amounts for the Defense Working Capital Fund. All spending estimates reflect data available as of Feb. 26, 2014.

**Focusing Agency IT Oversight on Comprehensive IT Portfolio Reviews**—Information technology is essential to everything the Government does. The approximately \$80 billion we invest each year in Federal IT helps airplanes land safely, small businesses secure loans, and retirees receive their Social Security benefits. As with any investment, we must ensure we get the maximum return on the Government's investment. In 2014-2015, the Administration will build on its approach strategically manage Federal IT by implementing a more rigorous application of its PortfolioStat model, which employs data-driven reviews of agency IT portfolios led by the Office of Management and Budget (OMB).

tion, 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.

### Chart 17-1. Trends in Federal IT Spending



Source: Total IT spending for agencies reporting to the IT Dashboard. Department of Defense has provided estimates for classified IT investments not shown on the IT Dashboard. Data for 2001-2012 for DOD reflect the agency's current determination that estimates should be adjusted down by 3 percent for past overstatements of Defense Working Capital Fund amounts. Chart reflects data available as of Feb. 26, 2014.

PortfolioStat assessments in 2012 and 2013 required agencies to collect and analyze baseline data on 13 common types of commodity IT investments, including infrastructure, business systems, and enterprise IT. OMB worked with agencies to review this data and compare spending levels with other agencies and private-sector benchmarks. This analysis resulted in the development of a list of opportunities to reduce inefficiencies, duplication, and unnecessary spending, and to reinvest those funds in the modernization of obsolete legacy systems. Since 2012, PortfolioStat reviews have helped agencies realize savings through strategic sourcing, the optimization of data centers, the consolidation of multiple email systems, the migration of services to cloud platforms, and the reduction of duplicative mobile device and desktop contracts. Agencies regularly report on these savings, which are summarized in OMB's quarterly reports to Congress and address the cost savings achieved by the Administration's reform initiatives. Recently, agencies have been able to report cumulative savings stemming from PortfolioStat of approximately \$1.6 billion -- nearly 2/3 of the total potential savings identified through the initial PortfolioStat sessions conducted in 2012<sup>2</sup>. Examples of savings<sup>3</sup> reported by agencies include:

- Federal Aviation Administration (FAA) Procurement Consolidation: \$20 million.
- Department of Veterans Affairs Renegotiated Enterprise Licenses: \$50 million.
- Department of Commerce (DOC) Data Center Consolidation: \$21 million.

In addition, the FY 2013 PortfolioStat reviews also identified improvement opportunities in the areas of IT governance, transparency, program management, and IT talent management. These efforts range from ensuring higher visibility of major IT investments monitored on the Federal IT Dashboard, sourcing of qualified hires to fill critical IT skill gaps, and increasing the use of modular development and delivery approaches.

**Strategic Sourcing of Commodity IT**—OMB will continue to work with the Strategic Sourcing Leadership Council to drive greater efficiencies in the acquisition of commodity IT. Through the PortfolioStat process, OMB will continue to work with agencies to improve agency IT procurement processes, and find lower prices on specific commodities that agency IT managers buy. Actions to secure better value for each IT dollar spent will include:

- Reducing mobile device costs by comparing prices paid by agencies against the Federal Strategic Sourcing Initiative (FSSI)'s government-wide Wireless program prices<sup>4</sup>.

<sup>2</sup> The potential savings identified by agencies in the initial round of agency PortfolioStat sessions was \$2.5 billion.

<sup>3</sup> Savings can be recognized in two different ways, as defined in OMB Circular A-131: (a) Cost-Savings: A reduction in actual expenditures below the projected level of costs to achieve a specific objective; and, (b) Cost-Avoidance: An action taken in the immediate timeframe that will decrease costs in the future. For example, an engineering improvement that increases the mean time between failures and thereby decreases operation and maintenance costs is a cost-avoidance action.

<sup>4</sup> For the FSSI's Wireless program, see: <http://www.gsa.gov/portal/category/100931>.

- Synchronizing the acquisition of desktops across agencies to ensure purchases at the lowest possible price.
- Rationalizing the licensing of software so that the Government is paying only for solutions it is utilizing and is acquiring that software at bulk purchase rates.
- Moving agencies from the acquisition of system-specific hardware in support of IT investments to service based solutions; for example, moving optimized data centers that support many investments to FedRAMP<sup>5</sup>-certified cloud computing services.

**Improved Transparency of IT Management Information**—Under the direction of the Federal CIO, the funding provided through the Information Technology Oversight and Reform (ITOR) appropriation will continue to be used to support enhanced availability and visibility of IT management data. Improved data collection and analytics to better assess the Government’s approximately \$80 billion investment in IT will build on information from the IT Dashboard, and PortfolioStat’s integrated agency data collection process. In support of the Federal CIO and agencies, for use in PortfolioStats and other decision venues, funding will help identify underperforming and duplicative investments, and facilitate corrective actions. Funds will also support greater IT productivity through the optimization of Federal IT infrastructure investments and enhanced agency use of shared services.

**Smarter IT Delivery**—While the Government continues to put significant focus on efficiency gains, opportunities remain to refashion how we procure and implement technology in the Government. Accordingly, funding from ITOR will be used to incubate and scale new approaches to developing Federal digital services that provide a world-class customer experience to citizens and businesses. Additional strategies may include standards and policy to drive more effective citizen experience, improved tactics to measure customer satisfaction and performance of Federal digital services, and solutions to increase technology talent inside government.

## A PLATFORM FOR INNOVATION - OPENING GOVERNMENT DATA

During a time of fiscal constraint and economic uncertainty, it is important to open access to Government data and to provide a platform for innovation that can improve opportunities and service quality for all Americans. By opening up taxpayer-financed assets such as data, and the policies and processes surrounding this data, we can empower individuals and businesses to significantly increase the public’s return on this investment. Opening up Federally-housed data can spur innovation, scientific discovery, and job creation, enhancing growth and pub-

<sup>5</sup> FedRAMP refers to the Federal Risk and Authorization Management Program, which provides Government agencies with a standardized approach to security assessment, authorization, and continuous monitoring for cloud products and services. See: <http://www.fedramp.gov>.

lic welfare across sectors of the economy, and improving public administration through improved information exchange and interaction with an involved public. The Administration’s open data/innovation agenda builds on the following initiatives:

**Open Data Policy and Initiatives**—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. 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 growth.

The Obama Administration is committed to responsibly unleashing data from the vaults of Government to fuel innovation that fuels economic growth while also advancing government efficiency and accountability. On May 9, 2013, President Obama signed an Executive Order<sup>6</sup> and OMB issued a policy Memorandum<sup>7</sup> making “open and machine-readable” the new default for Government information and taking other historic steps to make Government-held data more accessible to the public, entrepreneurs, and innovators while appropriately safeguarding sensitive information and rigorously protecting privacy. To build on this effort to make Government data more accessible, the Administration launched multiple initiatives aimed at scaling up open data efforts across the health, energy, education, financial, public safety, and global development sectors of the economy. These efforts aim to make Government data available to entrepreneurs. Previously, entrepreneurs have used this kind of data to create tools that help Americans find the right health care providers, identify colleges that provide the best value for tuition costs, make better decisions about retirement plans and financial advisors, help farmers around the world protect and improve their farming operations, save money on electricity bills, and keep their families safe by knowing which products have been recalled.

**Delivering Mobile Services**—During 2012 and 2013, Federal agencies worked to implement the Digital Government Strategy, built upon the proposition that all Americans should be able to access information from their Government anywhere, anytime, and on any device. Looking ahead, agencies will continue to increase the number of Federal services delivered via mobile devices. Such efforts will also improve interactions and

<sup>6</sup> Executive Order 13642 “Making Open and Machine Readable the New Default for Government Information”: <https://www.federalregister.gov/articles/2013/05/14/2013-11533/making-open-and-machine-readable-the-new-default-for-government-information>.

<sup>7</sup> OMB Memorandum M-13-13 “Open Data Policy-Managing Information as an Asset”: <http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-13.pdf>.



access to information within Government, empower the Federal workforce, enable the Government to reimagine service delivery by leveraging the power of citizens as co-creators. Examples of recently released mobile applications include:

- **America's Economy Application:** DOC's Census Bureau developed a mobile application called "America's Economy". This application provides real updates for 16 key economic indicators released from the Census Bureau, the Department of Labor's Bureau of Labor Statistics, and DOC's Bureau of Economic Analysis.
- **SaferCar:** The Department of Transportation's National Highway Traffic Safety Administration's (NHTSA) SaferCar application provides important information and functions that will help taxpayers make informed safety decisions involving vehicles, including information on recalls and complaints, 5-star safety ratings, and installing child seats.
- **Arlington National Cemetery Explorer Application:** The Department of Defense has created a mobile application to enable family members and the public to explore the Arlington National Cemetery's events, locate gravesites, or other points of interest.

**Open Government Directive**—Openness in Government strengthens our democracy and promotes a more efficient, effective, and accountable Government. In support of these principles, the Obama Administration launched the historic Open Government Directive in 2009 and released the first U.S. Open Government National Action Plan (NAP) in 2011 — a set of 26 commitments that have increased public integrity, enhanced public access to information, improved management of public resources, and given the public a more active voice in the U.S. Government's policymaking process. A notable example of the progress made since the release of the first NAP is the successful launch of We the People, the White House petitions platform that gives Americans a direct line to voice their concerns to the Administration via online petitions. In two years, more than 10 million users have generated over 270,000 petitions on a diverse range of topics, including gun violence, which received a video response from the President, and unlocking cell phones for use across provider networks, which led directly to policy action.

Building upon these efforts to create a more efficient, effective, and accountable Government, on December 5, 2013 the Administration issued the second Open Government National Action Plan which includes a wide range of actions the Administration will take over the next two years supported by the Budget, including commitments that build upon past successes as well as several new initiatives. For example, with the Global Initiative on Fiscal Transparency, the United States will join an international network of governments and non-government organizations aimed at enhancing financial transparency, accountability, and stakeholder engagement in domestic and global spending. Additionally, the government will

promote community-led, participatory budgeting as a tool for enabling citizens to play a role in identifying and discussing certain local public spending projects, and for giving citizens a voice in how taxpayer dollars are spent in their communities.

**Presidential Innovation Fellows** — The Presidential Innovation Fellows program<sup>8</sup> 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 to twelve 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. 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. The first round of Fellows was welcomed in August 2012 with 18 inaugural fellows, expanding in round two in the summer of 2013 to over 35 fellows across nine projects. The second class of fellows began in June 2013 with more than 40 Fellows. Examples of projects include:

- **Blue Button**, which is helping more than 150 million veterans and other Americans across the country gain secure electronic access to their own personal health records and increase access to private-sector applications and services.
- **MyUSA**, which is greatly simplifying the online interface that citizens can use to find what they need from the Federal Government.
- **RFP-EZ**, a new system that simplifies how the Federal Government asks for bids on services like building websites and can help save taxpayer money.

## PROTECTING DATA AND ASSETS— CYBERSECURITY AND PRIVACY

**Cybersecurity**—American citizens depend on Federal agencies for essential services, ranging from disaster assistance, to Social Security and national defense. These services, in turn, rely on safe, secure, and resilient Government information and infrastructure. To ensure the safety and security of Government information and infrastructure, as called for by the Federal Information Security Management Act (FISMA)<sup>9</sup>, the Administration will act on many fronts, while protecting individual privacy and civil liberties. Some key cybersecurity focus areas for OMB and the Department of Homeland Security (DHS) for FY 2015 include:

- **Managing Information Security Risk on a Continuous Basis**—To strengthen the nation's cybersecurity posture, OMB issued *Memorandum 14-03 on Enhancing the Security of Federal Information and Information*

<sup>8</sup> Program description at: <http://www.whitehouse.gov/innovationfellows>.

<sup>9</sup> FISMA was enacted in Title II of the E-Government Act of 2002 (P.L. 107-347, 116 Stat. 2899).

**Systems.** This memorandum provides agencies with guidance for managing information security risk on a continuous basis and builds upon efforts towards achieving the Cybersecurity Cross Agency Priority (CAP) Goal. The effort includes the requirement to monitor the security controls in Federal information systems and the environments in which those systems operate on an ongoing basis, which allows agencies to maintain ongoing awareness of information security vulnerabilities and threats to support organizational risk management decisions.

- A key component of managing information security risk on a continuous basis is DHS's Continuous Diagnostics and Mitigation (CDM) program. By FY 2015, DHS anticipates that the CDM Program will provide specialized IT tools to combat cyber threats in the civilian ".gov" networks. The CDM approach moves the Government toward real time monitoring in order to more rapidly respond to threats to the nation's networks. The tools and services delivered through the CDM program will provide DHS, other Federal agencies, and State, local, regional, and tribal governments with the ability to enhance and automate their existing continuous network monitoring capabilities; correlate and analyze critical security-related information; and enhance risk-based decision making across the Government. Information obtained from the automated monitoring tools will allow for the correlation and analysis of security-related information across the Federal enterprise to improve the overall Federal cybersecurity posture.
- FISMA Metrics and FY 2015 Cybersecurity Cross-Agency Priority (CAP) Goal—OMB, in partnership with the National Security Council staff and DHS, will improve FISMA metrics to focus on outcome-oriented measures that are quantitative, specific, automated when possible, and focused on reduction of threats. As part of the work to improve the FY 2015 FISMA metrics, OMB plans to issue an updated Cybersecurity CAP goal, as required by the Government Performance and Results Act Modernization Act (GPRAMA). The updated CAP goal will focus on managing information security risk on a continuous basis; Identity, Credential, and Access Management (ICAM); and Phishing and Malware Defense. Moving forward, OMB will establish baselines and agency targets to monitor agency progress.
- Improved Oversight through CyberStat process—OMB, in partnership with DHS, will continue to

work with agencies to identify and remediate weaknesses in cybersecurity programs, while ensuring agency progress towards the FY 2015 Cybersecurity CAP Goal through CyberStat reviews. The reviews provide the opportunity for agencies to identify the cybersecurity capability areas where they may be facing implementation roadblocks, including technology, organizational culture, processes, human capital, or resource challenges.

**Protect Privacy and Confidentiality**—The Administration is committed to protecting individual privacy and confidentiality. 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. In particular, 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. 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.

**Insider Threat Mitigation**—In accordance with Executive Order 13587 - *Structural Reforms to Improve the Security of Classified Networks and the Responsible Sharing and Safeguarding of Classified Information*, the Administration is working with agencies to implement 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. Agencies bear the primary responsibility for meeting these twin goals. These structural reforms will ensure coordinated interagency development and reliable implementation of policies and minimum standards regarding information security, personnel security, and systems security; address both internal and external security threats and vulnerabilities; and provide policies and minimum standards for sharing classified information both within and outside the Federal Government. These policies and minimum standards will address all agencies that operate or access classified computer networks, all users of classified computer networks (including contractors and others who operate or access classified computer networks controlled by the Federal Government), and all classified information on those networks.

## CONCLUSION

The Administration is committed to continuously improving how Federal IT investments are designed, developed, and deployed to deliver increasing value to taxpayers. It will do so by ensuring efficient and effective agency IT investment portfolios, advancing a customer-focused

innovation agenda, and protecting Government data and personal privacy through policies and practices constantly updated to address the dynamic information technology environment in which we all live.



## 18. 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 for physical capital, research and development, and education and training, 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.

### 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 18–2 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 9, "Budget Concepts," in this volume.

This discussion 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 18–1. 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 \$464.9 billion in 2013. They are estimated to increase slightly to \$465.7 billion in 2014 and increase to \$483.7 billion in 2015. The major factors contributing to these changes are described below.

Major Federal investment outlays will comprise an estimated 12.4 percent of total Federal outlays in 2015 and 2.7 percent of the Nation's gross domestic product. Greater detail on Federal investment is available in Table 18–2 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 \$251.5 billion in 2013 and are estimated to decline to \$232.4 billion in 2014 and continue to decline to \$231.6 billion in 2015. Physical investment outlays are for construction and rehabilitation, the purchase of major equipment, and the purchase or sale of land and structures. Approximately two-thirds of these outlays are for direct physical investment by the Federal Government, with the remainder being grants to State and local governments for physical investment.

Direct physical investment outlays by the Federal Government are primarily for national defense. Defense outlays for physical investment are estimated to be \$105.6 billion in 2015. Approximately 90 percent of defense physical investment outlays, or an estimated \$95.8 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 \$126.9 billion in 2013 to \$104.0 billion in 2014, primarily due to reduced

**Table 18–1. COMPOSITION OF FEDERAL INVESTMENT OUTLAYS**

(In billions of dollars)

Federal Investment	Actual 2013	Estimate	
		2014	2015
Major public physical capital investment:			
Direct Federal:			
National defense .....	126.9	104.0	105.6
Nondefense .....	46.1	44.1	40.5
Subtotal, direct major public physical capital investment .....	173.0	148.2	146.2
Grants to State and local governments .....	78.4	84.2	85.5
Subtotal, major public physical capital investment .....	251.5	232.4	231.6
Conduct of research and development:			
National defense .....	71.1	61.0	68.6
Nondefense .....	61.4	62.8	62.5
Subtotal, conduct of research and development .....	132.5	123.8	131.0
Conduct of education and training:			
Grants to State and local governments .....	58.6	63.6	59.6
Direct Federal .....	22.3	45.8	61.5
Subtotal, conduct of education and training .....	81.0	109.5	121.0
<b>Total, major Federal investment outlays .....</b>	<b>464.9</b>	<b>465.7</b>	<b>483.7</b>
<b>MEMORANDUM</b>			
Major Federal investment outlays:			
National defense .....	198.0	165.0	174.2
Nondefense .....	266.9	300.7	309.5
Total, major Federal investment outlays .....	464.9	465.7	483.7
Miscellaneous physical investment:			
Commodity inventories .....	–*	–0.3	–*
Other physical investment (direct) .....	2.4	2.4	2.5
Total, miscellaneous physical investment .....	2.4	2.1	2.5
<b>Total, Federal investment outlays, including miscellaneous physical investment .....</b>	<b>467.3</b>	<b>467.8</b>	<b>486.2</b>

\*\$50 million or less.

spending related to overseas contingency operations and declines in base budget Defense procurement budget authority over the past several years.

Outlays for direct physical investment for nondefense purposes are estimated to be \$40.5 billion in 2015. This is a reduction from the \$44.1 billion in outlays in 2014, largely attributable to reductions in outlays for grants for specified energy property in lieu of tax credits, due to deadlines for project construction and completion of grant applications. Outlays for 2015 include \$32.5 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 \$17.2 billion in 2015. The largest amounts are for the air traffic control system; weather and climate monitoring in the National Oceanic and Atmospheric Administration; law enforcement activities, largely in the Department of Homeland Security and the Federal Bureau of Investigation; and information systems in the Department of Veterans Affairs.

Grants to State and local governments for physical investment are estimated to be \$85.5 billion in 2015, up from \$84.2 billion in 2014. Over 75 percent of these outlays, or \$65.9 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 2014 to 2015. 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 \$131.0 billion in 2015. 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 \$68.6 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 \$62.5 billion in 2015. 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 19, "Research and Development," in this volume.

*Conduct of education and training.* Outlays for the conduct of education and training were \$109.5 billion in 2014 and are estimated to rise to \$121.0 billion in 2015. 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 \$59.6 billion in 2015, roughly 49 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 decrease from \$63.6 billion in 2014 to \$59.6 billion in 2015, largely due to completed outlays of American Reinvestment and Recovery Act funding in 2014. Direct Federal education and training outlays are estimated to be \$61.5 billion in 2015, up from the levels in 2013 and 2014. Programs in this category primarily consist of aid for higher education through student financial assistance, loan subsidies, and veterans' education, training, and rehabilitation. Increased costs in the student loan program due to legislative and technical changes reduced negative subsidy estimates in 2014 and 2015 that are accounted for as offsets to spending. The Administration proposes expansion of and reforms to the income-based repayment plan that further increase the cost of the student loan program and reduce negative subsidies in 2015.

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 18–1. These items, all for physical investment, are generally unrelated to improving Government operations or enhancing economic activity.

Outlays for commodity inventories are for the purchase or sale of agricultural products pursuant to farm price support programs and other commodities. Sales are estimated to exceed purchases by \$31 million in 2015.

Outlays for other miscellaneous physical investment are estimated to be \$2.5 billion in 2015. 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 18–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS**

(In millions of dollars)

Description	Budget Authority			Outlays		
	2013 Actual	2014 Estimate	2015 Estimate	2013 Actual	2014 Estimate	2015 Estimate
<b>GRANTS TO STATE AND LOCAL GOVERNMENTS</b>						
Major public physical investment:						
Construction and rehabilitation:						
Transportation:						
Highways .....	41,729	39,453	46,685	43,427	43,449	45,095
Mass transportation .....	22,056	11,892	18,889	11,506	12,698	14,238
Rail transportation .....			2,303	780	1,275	2,621
Air and other transportation .....	3,652	3,908	3,843	3,724	4,093	3,933
Subtotal, transportation .....	67,437	55,253	71,720	59,437	61,515	65,887
Other construction and rehabilitation:						
Pollution control and abatement .....	3,188	2,931	2,124	3,393	3,181	2,909
Community and regional development .....	19,233	4,030	18,559	8,156	12,173	9,900
Housing assistance .....	3,467	3,625	4,603	4,512	4,270	4,265
Other .....	507	627	592	706	704	597
Subtotal, other construction and rehabilitation .....	26,395	11,213	25,878	16,767	20,328	17,671
Subtotal, construction and rehabilitation .....	93,832	66,466	97,598	76,204	81,843	83,558
Other physical assets .....	1,668	1,850	1,743	2,227	2,392	1,923
Subtotal, major public physical investment .....	95,500	68,316	99,341	78,431	84,235	85,481
Conduct of research and development:						
Agriculture .....	299	334	330	275	487	487
Other .....	179	184	179	148	161	129
Subtotal, conduct of research and development .....	478	518	509	423	648	616
Conduct of education and training:						
Elementary, secondary, and vocational education .....	35,993	42,200	39,433	40,260	43,428	39,931
Higher education .....	455	471	342	448	482	480
Research and general education aids .....	710	737	772	832	816	794
Training and employment .....	3,700	3,580	3,083	3,361	4,154	3,879
Social services .....	10,967	11,732	11,901	11,071	11,718	11,654
Agriculture .....	376	416	416	336	646	471
Other .....	2,315	2,399	2,395	2,313	2,377	2,371
Subtotal, conduct of education and training .....	54,516	61,535	58,342	58,621	63,621	59,580
<b>Subtotal, grants for investment .....</b>	<b>150,494</b>	<b>130,369</b>	<b>158,192</b>	<b>137,475</b>	<b>148,504</b>	<b>145,677</b>
<b>DIRECT FEDERAL PROGRAMS</b>						
Major public physical investment:						
Construction and rehabilitation:						
National defense:						
Military construction and family housing .....	7,485	7,696	4,954	11,579	11,511	9,625
Atomic energy defense activities and other .....	21	81	259	51	97	280
Subtotal, national defense .....	7,506	7,777	5,213	11,630	11,608	9,905
Nondefense:						
International affairs .....	2,068	1,994	1,602	1,142	1,248	1,479
General science, space, and technology .....	1,133	1,283	1,198	957	1,444	1,397
Water resources projects .....	5,999	2,705	2,003	3,089	4,097	4,334
Other natural resources and environment .....	1,429	1,056	1,255	1,269	1,311	1,193
Energy .....	7,546	8,264	5,024	8,730	9,099	6,136
Postal service .....	367	350	587	336	355	652
Transportation .....	582	70	270	390	83	296
Veterans hospitals and other health facilities .....	3,564	2,753	2,396	2,913	2,609	2,397
Administration of justice .....	1,372	2,260	2,258	2,018	2,188	1,439
GSA real property activities .....	361	1,653	2,002	1,558	1,458	1,593
Other construction .....	7,064	1,880	11,323	7,630	2,217	1,639
Subtotal, nondefense .....	31,485	24,268	29,918	30,032	26,109	22,555
Subtotal, construction and rehabilitation .....	38,991	32,045	35,131	41,662	37,717	32,460

**Table 18–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued**  
(In millions of dollars)

Description	Budget Authority			Outlays		
	2013 Actual	2014 Estimate	2015 Estimate	2013 Actual	2014 Estimate	2015 Estimate
Acquisition of major equipment:						
National defense:						
Department of Defense .....	100,000	99,917	96,950	114,984	92,138	95,346
Atomic energy defense activities .....	358	338	468	318	303	411
Subtotal, national defense .....	100,358	100,255	97,418	115,302	92,441	95,757
Nondefense:						
General science and basic research .....	444	519	476	521	526	478
Postal service .....	387	850	1,255	343	657	811
Air transportation .....	3,405	3,341	3,374	3,663	3,515	3,600
Water transportation (Coast Guard) .....	1,047	1,183	864	1,045	1,608	1,326
Other transportation (railroads) .....	1,641	1,390	2,450	1,364	1,625	1,454
Hospital and medical care for veterans .....	2,006	1,316	620	1,895	1,600	1,321
Federal law enforcement activities .....	1,400	1,385	1,395	1,500	1,232	1,373
Department of the Treasury (fiscal operations) .....	313	315	332	267	314	358
National Oceanic and Atmospheric Administration .....	1,846	2,042	2,217	1,179	1,185	1,430
Other .....	4,085	4,413	4,631	4,065	5,040	5,029
Subtotal, nondefense .....	16,574	16,754	17,614	15,842	17,302	17,180
Subtotal, acquisition of major equipment .....	116,932	117,009	115,032	131,144	109,743	112,937
Purchase or sale of land and structures:						
National defense .....	–49	–18	–37	–28	–5	–35
Natural resources and environment .....	253	266	645	231	262	412
General government .....	132	109	.....	125	58	.....
Other .....	1,876	22	–82	–94	403	378
Subtotal, purchase or sale of land and structures .....	2,212	379	526	234	718	755
Subtotal, major public physical investment .....	158,135	149,433	150,689	173,040	148,178	146,152
Conduct of research and development:						
National defense:						
Defense military .....	63,767	63,633	64,329	67,288	56,697	63,923
Atomic energy and other .....	4,142	4,327	4,782	3,827	4,269	4,664
Subtotal, national defense .....	67,909	67,960	69,111	71,115	60,966	68,587
Nondefense:						
International affairs .....	350	280	280	277	267	267
General science, space, and technology:						
NASA .....	10,567	11,037	11,052	10,620	10,776	10,617
National Science Foundation .....	4,947	5,191	5,188	5,269	5,051	5,739
Department of Energy .....	3,845	3,996	4,094	3,966	4,060	4,101
Subtotal, general science, space, and technology .....	19,359	20,224	20,334	19,855	19,887	20,457
Energy .....	2,289	2,309	2,579	2,033	2,057	2,233
Transportation:						
Department of Transportation .....	678	708	819	670	682	722
NASA .....	546	476	432	494	481	555
Other transportation .....	19	19	18	21	38	22
Subtotal, transportation .....	1,243	1,203	1,269	1,185	1,201	1,299
Health:						
National Institutes of Health .....	28,322	29,205	29,403	30,003	30,174	28,784
Other health .....	1,858	1,936	1,963	1,273	1,508	1,794
Subtotal, health .....	30,180	31,141	31,366	31,276	31,682	30,578
Agriculture .....	1,454	1,686	1,746	1,566	1,750	1,706
Natural resources and environment .....	2,053	2,189	2,230	1,896	2,047	2,043
National Institute of Standards and Technology .....	520	591	611	504	622	618
Hospital and medical care for veterans .....	1,164	1,174	1,178	1,072	1,152	1,158
All other research and development .....	1,460	1,674	1,644	1,278	1,513	1,487
Subtotal, nondefense .....	60,072	62,471	63,237	60,942	62,178	61,846
Subtotal, conduct of research and development .....	127,981	130,431	132,348	132,057	123,144	130,433



**Table 18–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued**  
(In millions of dollars)

Description	Budget Authority			Outlays		
	2013 Actual	2014 Estimate	2015 Estimate	2013 Actual	2014 Estimate	2015 Estimate
Conduct of education and training:						
Elementary, secondary, and vocational education .....	1,401	1,354	1,233	1,361	1,293	1,301
Higher education .....	2,184	20,315	35,651	–661	22,321	37,197
Research and general education aids .....	2,031	2,119	2,207	2,196	2,101	2,047
Training and employment .....	2,104	2,174	2,290	2,176	1,930	2,177
Health .....	1,550	1,511	1,307	1,676	1,634	1,496
Veterans education, training, and rehabilitation .....	11,601	13,456	15,084	13,220	13,767	14,539
General science and basic research .....	897	968	1,004	876	914	1,142
International affairs .....	593	581	595	650	766	591
Other .....	688	826	873	851	1,111	976
Subtotal, conduct of education and training .....	23,049	43,304	60,244	22,345	45,837	61,466
<b>Subtotal, direct Federal investment .....</b>	<b>309,165</b>	<b>323,168</b>	<b>343,281</b>	<b>327,442</b>	<b>317,159</b>	<b>338,051</b>
<b>Total, Federal investment .....</b>	<b>459,659</b>	<b>453,537</b>	<b>501,473</b>	<b>464,917</b>	<b>465,663</b>	<b>483,728</b>

## 19. RESEARCH AND DEVELOPMENT

The President is committed to making investments in research and development (R&D) that will grow our economy, sustain our competitive advantage in the global economy, and enable America to remain the world leader in innovation. 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 produce vaccines that stay ahead of drug-resistant bacteria, find new answers in the fight against Alzheimer's and other diseases, devise new clean energy technologies, and promote new advanced manufacturing opportunities in areas such as new materials.

The President's 2015 Budget provides \$135 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 2014 levels<sup>1</sup> for R&D. In addition, the Opportunity, Growth, and Security Initiative includes \$5.3 billion for research and development. These investments reinforce the Administration's commitment to science, technology, and innovation. In conjunction with this investment, the 2015 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.

Finally, the 2015 Budget continues to strengthen U.S. international leadership by investing in the high-tech knowledge-based economy and innovation-fueled growth industries. These investments will enable us to lead the world in clean energy, advanced manufacturing, aerospace, 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 the entrepreneurial nature of our R&D enterprise.

<sup>1</sup> Please note that R&D spending figures for FY 2014 are preliminary and may change as agency operating plans are finalized.

### I. PRIORITIES FOR FEDERAL RESEARCH AND DEVELOPMENT <sup>1</sup>

The Budget<sup>2</sup> 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 the development of radically new technologies. The Administration's commitment to supporting ground-breaking research and development is underscored by the Opportunity, Growth, and Security Initiative, which includes funding for a number of innovative research and development programs and projects across a wide-array of disciplines including clean energy, climate resiliency, and basic research into fundamental scientific questions affecting human health, our understanding of the universe, food and agriculture, and national security. Descriptions of individual Opportunity, Growth, and Security Initiative proposals are included in the Agency Budget Chapters and in Agency Congressional Justifications.

#### **Promoting Sustainable Economic Growth and Job Creation through Innovation**

The Administration recognizes the Government's role in fostering scientific and technological breakthroughs,

and has committed significant resources to ensuring that America continues to lead the world in science and engineering and the innovations of the future. The Budget provides \$65 billion for basic and applied research because such research is a reliable source of new knowledge, which drives job creation and lasting economic growth.

The 2015 Budget continues 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). The Budget proposes \$13.0 billion in 2015 for these three agencies, an increase of \$0.2 billion over 2014 funding. These investments will expand the frontiers of human knowledge and establish the foundation for 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 fostering and deploying 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

<sup>2</sup> Note that some numbers in the text include non-R&D activities and thus will be different from the R&D numbers reflected in Table 19-1.

Budget proposes to simplify and enhance the Research and Experimentation tax credit, and make it permanent.

### **Moving Toward Cleaner American Energy**

The Administration is committed to a future where the United States leads the world in research, development, demonstration, and deployment of clean-energy technologies to reduce air pollution, greenhouse-gas emissions, and dependence on oil, while creating high-wage, highly-skilled clean energy jobs and new businesses. The Budget advances the Administration's all-of-the-above energy strategy by investing in programs to drive innovation in the energy sector. These investments include: basic and applied research to address some of the fundamental unknowns to advancing clean energy technologies; research and development to create and dramatically improve clean energy products, such as solar panels and wind turbines, modular nuclear reactors, electric and other alternative-fuel vehicles, and energy efficient systems for homes and businesses; and appropriate assistance to American entrepreneurs and businesses to commercialize the technologies that will lead the world in new clean energy industries.

The Budget requests approximately \$6.9 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 the energy industries of the 21st Century.

In the Department of Energy, the 2015 Budget provides about \$5.2 billion in discretionary funding for clean energy technology programs. It provides \$2.3 billion for the Office of Energy Efficiency and Renewable Energy (EERE) to accelerate research and development, build on ongoing successes, increase the use of critical clean energy technologies, and further reduce costs. Within EERE, the Budget increases funding by 15 percent above 2014 enacted levels for sustainable vehicle and fuel technologies, by 39 percent for energy efficiency and advanced manufacturing activities, and by 16 percent for innovative renewable power projects such as those in the SunShot Initiative to make solar power directly price-competitive with other forms of electricity by 2020. The U.S. Department of Agriculture also pursues complementary biofuel efforts to support development of next-generation biofuels. The Budget also provides funding within EERE to help State and local decision-makers develop policies and regulations that encourage greater deployment of renewable energy and energy efficiency technologies and to improve the integration and utilization of natural gas in manufacturing and transportation. Within the Office of Electricity Delivery and Energy Reliability, the Budget also invests in R&D and other activities that will facilitate the transition from our current electricity delivery infrastructure to a Smart Grid. The Budget also supports clean energy R&D through the Office of Nuclear Energy and Office of Fossil Energy, including funding for advanced small modular reactors R&D and activities primarily dedicated to further lowering the costs of carbon capture and storage and advanced power systems. This includes \$25 million in the Office of Fossil Energy to demonstrate capture and stor-

age of carbon emissions from natural gas power systems. The Budget also includes \$325 million for the Advanced Research Projects Agency–Energy (ARPA-E), a program that seeks to fund transformative energy research, and over \$900 million for basic clean energy research in the Office of Science. In addition, the 2015 Budget invests \$2 billion over the next ten years from existing Federal oil and gas development royalty revenues in a new Energy Security Trust that would provide a reliable stream of mandatory funding for R&D on cost-effective transportation alternatives utilizing cleaner sources of energy such as electricity, homegrown biofuels, renewable hydrogen, and domestically produced natural gas.

### **Defeating Diseases and Improving Americans' Health Outcomes**

The Administration is committed to funding Federal R&D investments in biomedical and health research and to supporting policies to improve health. The 2015 Budget strongly supports research that has the potential to foster innovations in health and to accelerate the pace of discovery in the life sciences, especially imaging, neuroscience, bioinformatics, and high-throughput biology. These discoveries will help improve the prevention and treatment of diseases and support the bioeconomy of the future.

The 2015 Budget proposes \$30.2 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. The Budget maintains the pace and scope of research and stimulates the development of new innovative approaches by funding a new advanced research program modeled after the cutting-edge Defense Advanced Research Projects Agency (DARPA) program at DOD. In addition, the Budget continues to invest in Alzheimer's research, and includes \$100 million for NIH's contribution to the multi-agency BRAIN Initiative. To increase transparency and efficiency, NIH will implement new measures to reduce grant review administrative costs and improve reporting on disease specific funding levels.

The Budget includes over \$500 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 \$1 billion for medical and prosthetic research across the Department of Veterans Affairs.

The Budget for the Department of Agriculture includes about \$76 million for intramural 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 \$110 million would be spent on intramural 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.

### **Revitalizing and Transforming American Manufacturing**

The Budget continues to support the “National Strategic Plan for Advanced Manufacturing,” a blueprint for Federal efforts in partnership with industry and universities to develop and commercialize the emerging technologies that will create high-quality manufacturing jobs and sustain a renaissance in American manufacturing. The 2015 Budget provides \$2.2 billion for Federal R&D directly supporting advanced manufacturing at NSF, DOD, DOE, DOC, and other agencies. For example, the Budget provides DOE with \$305 million for important technology efforts to improve industrial energy efficiency and clean energy manufacturing through innovative processes and advanced materials. These innovations will enable U.S. companies to cut manufacturing costs and reduce the lifecycle energy consumption of technologies, while improving product quality and accelerating product development. The Budget also includes \$141 million for the Hollings Manufacturing Extension Partnership, in part to support Manufacturing Technology Acceleration Centers to assist manufacturers in adopting new technologies. It includes \$2.4 billion through the Opportunity, Growth, and Security Initiative to establish the National Network of Manufacturing Innovation, which will develop cutting-edge manufacturing technologies and capabilities. The Administration has already launched four manufacturing innovation institutes and has committed to funding five additional institutes to bring the total to nine. 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. Manufacturing at the nanoscale is also a part of this effort, with important work highlighted in a sustainable nanomanufacturing signature program under the National Nanotechnology Initiative.

### **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 in understanding, assessing, predicting, and responding to the human-induced and natural processes of global change and their related impacts and effects. Within coordinated USGCRP interagency investments, the 2015 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 document changes on the regional, landscape, and local level to understand, anticipate, and respond to global change impacts and vulnerabilities; and advancing communications and education to broaden public understanding of global change. The 2015 Budget also supports an integrated suite of climate change observations, process-based research, modeling and assessment and adaptation science activities that serve as a foundation for providing timely and responsive information including but not limited to technical reports, impact and vulnerability assessments, and adaptation response strategies to a broad array of stakeholders. All of these outcomes are essential elements of the USGCRP 2012-2021 strategic plan and are described as important deliverables for USGCRP in the President’s Climate Action Plan. The 2015 Budget provides approximately \$2.5 billion for USGCRP programs.

### **Enabling Better Stewardship of Natural Resources and Our Environment**

Sustainable stewardship of natural resources requires strong investments in research and development in the natural sciences to strengthen the scientific basis for decision-making. The 2015 Budget provides \$2.6 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, and Earth observations (such as earth observing satellites and monitoring of water, wildlife, and invasive species). 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) report, “Agricultural Preparedness & the United States Agricultural Research Enterprise”, the 2015 Budget invests \$325 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, as well as bioenergy, food safety, and human nutrition. The budget also invests in three multi-disciplinary research centers focused on topics including advanced bio-based manufacturing and anti-microbial research to



address national challenges in food and agriculture, as well as including funding to respond to the serious problem of pollinator losses.

### **Strengthening Our Security through Science and Technology**

Federal R&D investments in security aim to meet the threats of the future and to develop new innovative security capabilities. The Department of Defense's (DOD) R&D investments in the 2015 Budget focus on areas deemed to have the greatest impact on our nation and future military requirements. To this end, the 2015 Budget provides \$64.4 billion for DOD R&D, an increase of 1 percent from the 2014 enacted level.

The 2015 Budget proposes \$11.5 billion for DOD's Science & Technology (S&T) program, which consists of basic research, applied research and advanced technology development.

The 2015 Budget also maintains DOD's critical role in fostering breakthrough approaches for discovering promising technologies with \$2.9 billion for the Defense Advanced Research Projects Agency (DARPA). This funding level represents an increase of \$136 million from the 2014 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 \$4.7 billion for investments in R&D for the Nation's nuclear stockpile, naval nuclear propulsion, and nonproliferation goals.

The Budget supports investments in state-of-the-art technologies and solutions for Federal, State, and local homeland security operators. The Budget proposes \$514 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 \$300 million to fund the remaining requirement for a state-of-the-art facility to study and develop countermeasures for emerging zoonotic diseases that threaten human health and our agricultural industry.

### **Preparing Our Students with Skills through Science, Technology, Engineering, and Mathematics (STEM) Education**

Our Nation's competitiveness depends on our ability to improve and expand science, technology, engineering, and mathematics (STEM) learning in the United States. The

Budget proposes a fresh Government-wide reorganization of STEM education programs designed to enable more strategic investment in STEM education and more critical evaluation of outcomes, while leveraging Government resources more effectively to meet national goals. This proposal reduces fragmentation of STEM education programs across Government, and focuses efforts around the five key areas identified by the Federal STEM Education 5-Year Strategic Plan: P-12 instruction; undergraduate education; graduate education; broadening participation in STEM to women and minorities traditionally underrepresented in these fields; and education activities that typically take place outside of the classroom.

### **Expanding Our Capabilities in Space**

The Budget provides \$17.5 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, national defense, developing space transportation technologies, and scientific discovery. As part of these efforts, NASA will conduct technology development and test programs aimed at increasing these capabilities and reducing the cost of NASA, other government, and U.S. commercial space activities. NASA will also support innovative fundamental research and systems-level applications to reduce fuel needs, noise, and emissions of aircraft. Within NASA, the Budget provides \$1.8 billion for Earth Science to sustain progress toward important satellite missions and research to advance climate science and to sustain vital space-based Earth observations. The Budget provides \$5 billion for NASA Science to expand the frontiers of knowledge about the solar system, the universe, the Sun, and our planet and \$3 billion to develop the systems needed for human exploration of deep space. Also included in the NASA Budget is \$850 million for the Commercial Crew program, an innovative partnership with American industry to transport crew to the International Space Station, an orbiting research facility that will operate until at least 2024. The Budget provides \$2 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.

## **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 character 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 19–1 shows agency-by-agency spending on basic research, 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 includes 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. OTHER 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 design, high-confidence systems, human computer interaction, cyber-physical systems, Big Data, health IT, wireless spectrum sharing, cloud computing, and other information technologies.

The 2015 Budget includes a focus on research to improve our ability to accelerate scientific discoveries and derive value from the fast-growing quantities and varieties of digital data (“Big Data”) while appropriately protecting the privacy of personal data. The Budget continues to prioritize cybersecurity research framed by the *Trustworthy Cyberspace: Strategic Plan for the Federal Cybersecurity R&D Program* to develop novel approaches and technolo-

gies that can protect U.S. systems from cyber-attacks, to promote R&D in high-end computing to address advanced applications, and to emphasize research that advances the efficient use of wireless spectrum and spectrum sharing technologies. Budget information for NITRD is available at [www.nitrd.gov](http://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 sustainable nanomanufacturing, solar energy, sustainable design of nanoengineered materials, nanoinformatics and modeling, nanoscale nanotechnology for sensors, and nanoelectronics through close alignment of existing and planned research programs, public-private partnerships, and research roadmaps (for details see [nano.gov/signatureinitiatives](http://nano.gov/signatureinitiatives)). Budget information is available at [nano.gov](http://nano.gov).

**Table 19-1. FEDERAL RESEARCH AND DEVELOPMENT SPENDING**  
(Budget authority, dollar amounts in millions)

	2013 Actual	2014 Enacted	2015 Proposed	Dollar Change: 2015 to 2014	Percent Change: 2015 to 2014
<b>By Agency</b>					
Defense <sup>1</sup> .....	63,838	63,856	64,430	574	1%
Health and Human Services .....	29,969	30,912	31,069	157	1%
Energy .....	10,740	11,359	12,309	950	8%
NASA .....	11,282	11,667	11,555	-112	-1%
National Science Foundation .....	5,319	5,729	5,727	-2	-0%
Commerce .....	1,360	1,632	1,597	-35	-2%
Agriculture .....	2,116	2,418	2,447	29	1%
Homeland Security .....	684	1,032	876	-156	-15%
Veterans Affairs .....	1,164	1,174	1,178	4	0%
Interior .....	785	840	925	85	10%
Transportation <sup>1</sup> .....	829	853	865	12	1%
Environmental Protection Agency .....	532	560	560	0	0%
Patient-Centered Outcomes Research Trust Fund .....	488	464	528	64	14%
Education .....	319	323	336	13	4%
Smithsonian Institution .....	238	232	252	20	9%
Other <sup>1</sup> .....	669	631	698	67	11%
<b>TOTAL .....</b>	<b>130,332</b>	<b>133,682</b>	<b>135,352</b>	<b>1,670</b>	<b>1%</b>
<b>Basic Research</b>					
Defense .....	1,835	1,931	2,052	121	6%
Health and Human Services .....	15,424	15,861	16,085	224	1%
Energy .....	3,851	4,046	4,143	97	2%
NASA .....	3,360	3,907	3,086	-821	-21%
National Science Foundation .....	4,357	4,711	4,708	-3	-0%
Commerce .....	184	215	224	9	4%
Agriculture .....	830	930	957	27	3%
Homeland Security .....	41	42	37	-5	-12%
Veterans Affairs .....	476	478	484	6	1%
Interior .....	51	52	55	3	6%
Transportation .....	.....	.....	.....	.....	.....
Environmental Protection Agency .....	.....	.....	.....	.....	.....
Patient-Centered Outcomes Research Trust Fund .....	.....	.....	.....	.....	.....
Education .....	6	6	6	0	0%
Smithsonian Institution .....	202	205	216	11	5%
Other .....	31	26	26	0	0%
<b>SUBTOTAL .....</b>	<b>30,648</b>	<b>32,410</b>	<b>32,079</b>	<b>-331</b>	<b>-1%</b>
<b>Applied Research</b>					
Defense .....	4,158	4,376	4,530	154	4%
Health and Human Services .....	14,294	14,851	14,783	-68	-0%
Energy .....	3,852	3,886	4,269	383	10%
NASA .....	2,689	2,444	2,389	-55	-2%
National Science Foundation .....	590	480	480	0	0%
Commerce .....	881	1,078	1,014	-64	-6%
Agriculture .....	1,046	1,224	1,238	14	1%
Homeland Security .....	210	209	213	4	2%
Veterans Affairs .....	614	622	618	-4	-1%
Interior .....	624	665	718	53	8%
Transportation <sup>1</sup> .....	628	646	672	26	4%
Environmental Protection Agency .....	450	473	473	0	0%
Patient-Centered Outcomes Research Trust Fund .....	488	464	528	64	14%
Education .....	190	191	201	10	5%
Smithsonian Institution .....	.....	.....	.....	.....	.....
Other .....	485	450	515	65	14%
<b>SUBTOTAL .....</b>	<b>31,199</b>	<b>32,059</b>	<b>32,641</b>	<b>582</b>	<b>2%</b>

**Table 19-1. FEDERAL RESEARCH AND DEVELOPMENT SPENDING—Continued**  
(Budget authority, dollar amounts in millions)

	2013 Actual	2014 Enacted	2015 Proposed	Dollar Change: 2015 to 2014	Percent Change: 2015 to 2014
<b>Development</b>					
Defense .....	57,774	57,326	57,747	421	1%
Health and Human Services .....	35	29	29	0	0%
Energy .....	2,466	2,585	2,927	342	13%
NASA .....	5,064	5,162	6,009	847	16%
National Science Foundation .....	.....	.....	.....	.....	.....
Commerce .....	78	112	109	-3	-3%
Agriculture .....	162	181	173	-8	-4%
Homeland Security .....	321	348	311	-37	-11%
Veterans Affairs .....	74	74	76	2	3%
Interior .....	107	110	113	3	3%
Transportation .....	180	187	155	-32	-17%
Environmental Protection Agency .....	77	82	82	0	0%
Patient-Centered Outcomes Research Trust Fund .....	.....	.....	.....	.....	.....
Education .....	123	126	129	3	2%
Smithsonian Institution .....	.....	.....	.....	.....	.....
Other .....	153	155	157	2	1%
<b>SUBTOTAL .....</b>	<b>66,614</b>	<b>66,477</b>	<b>68,017</b>	<b>1,540</b>	<b>2%</b>
<b>Facilities and Equipment</b>					
Defense <sup>1</sup> .....	71	223	101	-122	-55%
Health and Human Services .....	216	171	172	1	1%
Energy .....	571	842	970	128	15%
NASA .....	169	154	71	-83	-54%
National Science Foundation .....	372	538	539	1	0%
Commerce .....	217	227	250	23	10%
Agriculture .....	78	83	79	-4	-5%
Homeland Security .....	112	433	315	-118	-27%
Veterans Affairs .....	.....	.....	.....	.....	.....
Interior .....	3	13	39	26	200%
Transportation .....	21	20	38	18	90%
Environmental Protection Agency .....	5	5	5	0	0%
Patient-Centered Outcomes Research Trust Fund .....	.....	.....	.....	.....	.....
Education .....	.....	.....	.....	.....	.....
Smithsonian Institution .....	36	27	36	9	33%
Other <sup>1</sup> .....	.....	.....	.....	.....	.....
<b>SUBTOTAL .....</b>	<b>1,871</b>	<b>2,736</b>	<b>2,615</b>	<b>-121</b>	<b>-4%</b>

<sup>1</sup> The amounts reported for facilities and equipment and total R&D at the Department of Defense and Army Corps of Engineers were corrected. Also, the amounts for applied research and total R&D at the Department of Transportation were corrected and are not consistent with the amounts reported in the investment tables in Chapter 18.





## 20. CREDIT AND INSURANCE

The Federal Government offers direct loans and loan guarantees to support a wide range of activities including home ownership, education, small business, farming, energy, infrastructure investment, and exports. Also, Government-Sponsored Enterprises (GSEs) operate under Federal charters for the purpose of enhancing credit availability for targeted sectors. Through its insurance programs, the Federal Government insures deposits at depository institutions, guarantees private defined-benefit pensions, and insures against some other risks such as flood and terrorism. Over the last few years, many of these programs have been playing more active roles to address financing difficulties triggered by the recent financial crisis.

This chapter discusses the roles of these diverse programs:

- The first section emphasizes the roles of Federal credit and insurance programs in addressing mar-

ket imperfections that may prevent the private market from efficiently providing credit and insurance.

- The second section discusses individual credit programs and the GSEs. Credit programs are broadly classified into five categories: housing, education, small business and farming, energy and infrastructure, and international lending.
- The third section reviews Federal deposit insurance, pension guarantees, disaster insurance, and insurance against terrorism and other security-related risks.
- The last section 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 are unable to raise equity publicly and do not have 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 entrepreneurial or academic 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 or highly risky 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 su-

pervision 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 managed to reduce disruption to 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 often 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.

### Federal Credit Program Management

The objective of Federal credit policies is to support the most efficient use of limited Federal resources by designing programs that maximize progress towards policy goals while minimizing undue risk to the taxpayer. The goal is not to eliminate risk—but to target assistance where it will do the most good, and proactively manage programs within acceptable risk thresholds. Over the last year, the Office of Management and Budget (OMB) has taken steps to support agency management of Federal credit programs. In January 2013, OMB published updates to Federal credit policies to support best practices, generate efficiencies, and identify opportunities for improved targeting of Federal credit assistance.<sup>1</sup> The revised guidance defines objectives of strong credit program management, and provides supplemental materials that outline elements to consider in designing and evaluating management frameworks. It also clarifies guidance on program reviews to emphasize evidence-based proposals to improve efficiency and effectiveness of credit programs. OMB and Treasury have also convened the Federal Credit Policy Council (FCPC). The FCPC is a collaborative forum for agencies to discuss best practices, raise issues relevant to their credit and debt collection activities, and to identify solutions to common problems.

<sup>1</sup> Please see OMB Circular A-129, “Policies for Federal Credit Programs and Non-Tax Receivables”: [http://www.whitehouse.gov/sites/default/files/omb/assets/a129/rev\\_2013/pdf/a-129.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/a129/rev_2013/pdf/a-129.pdf)

## 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- and moderate-income people, veterans, and rural residents. Recently, the target market 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 six 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, 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 return of conventional financing to the mortgage market—with appropriate safeguards for consumers and investors including proper assessment and disclosure of risk—will 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 home purchase loans declined to 19 percent through the first 9 months of calendar year 2013, after peaking at 28 percent in calendar year 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 2014, 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 when credit reform accounting began, the net cost of FHA Mutual Mortgage Insurance (MMI) Fund insurance (comprised of nearly all FHA single-family mortgages) has been reestimated and increased by a

total of \$68.4 billion excluding interest, with \$39.3 billion of that reestimate occurring in the last five years due particularly to loans originated from 2006 to 2009. Since that time, however, the quality of FHA loans has increased considerably, as discussed in the section below.

FHA's budget estimates can be volatile and prone to forecast error because default claim rates are sensitive to a variety of dynamics. FHA 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 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., one percent), net FHA 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 after the recent housing bubble burst 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 2013, over 70 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 net upward reestimate of \$2.6 billion excluding interest in 2014 in the expected costs of its outstanding loan portfolio of the MMI Fund. Under the provisions of the Federal Credit Reform Act, these subsidy reestimate costs are recorded as mandatory outlays in the year the reestimates are performed and will increase the 2014 budget deficit. According to its annual actuarial analysis, FHA has been below its 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 2016. 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.

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. In 2013, FHA implemented 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 most guarantees. 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. As a result of these premium increases and other risk management practices taken by FHA, as well as the improved economic and housing sector forecast, FHA's MMI subsidy rate is estimated to be minus 9.03 percent in 2015, resulting in discretionary receipts estimated to exceed \$10 billion.

Also during 2013, FHA took the following steps to bolster financial performance, in addition to the premium increase.

1. Reversed a policy to cancel required premium payments after borrowers achieve an amortized loan-to-value ratio of 78 percent. Under the previous practice borrowers paid premiums for only about ten years even though FHA's 100 percent insurance guarantee remains in effect for up to 30 years. This change applies only to new loans.
2. Revised 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. Expanded 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. Limited initial loan disbursements and required financial assessments and, where appropriate, cash set-asides to increase compliance with property in-

surance and tax requirements for HECM reverse mortgages.

To increase FHA support of credit during the financial crisis and its aftermath, temporary higher loan limits were enacted in 2008. These limits capped the size of FHA mortgages at the lesser of \$729,750 or 125 percent of area median house price. These limits expired at the end of calendar year 2013. The permanent limits now in effect are the lesser of \$625,500 or 115 percent of area median price.

In 2010, FHA implemented new loan-to-value 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, remain eligible for FHA assistance with a credit score as low as 500. FHA also is reducing allowable seller concessions from 6 percent of property value to 3 percent or \$6,000, whichever is higher but no higher than 6 percent. 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 continue to 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 \$24 billion in 2013 as private market alternatives to FHA financing largely disappeared and low interest rates drove up refinancing activity. However, GISRI loan volume is projected to decline to \$21 billion in 2015 as private financing options increase and rising interest rates reduce refinancing volume, especially in the multifamily rental market.

### **VA Housing Program**

The Department of Veterans Affairs (VA) assists veterans, members of the Selected Reserve, and active duty personnel in purchasing homes in recognition of their service to the Nation. The housing program effectively substitutes the Federal guarantee for the borrower's down payment, making the lending terms more favorable than loans without a VA guarantee. VA does not guarantee the entire mortgage loan to veterans, but provides a 100 percent guarantee on the first 25 percent of losses upon default. VA provided 162,327 zero down payment loans and 203,174 fee-exempt loans to veterans with service-connected disabilities in 2013. The number of loans VA guaranteed remained at a high level in 2013, 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 2013 allowed 187,885 Veteran borrowers to lower the interest rate on their home mortgages through refinancing. VA provided almost \$135 billion in guarantees to assist 600,023 borrowers in 2013, compared with \$120 billion and 542,036 borrowers in 2012.

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 loan modifications, special forbearances, repayment plans, and acquired loans; as well as assistance to complete compromise sales or deeds-in-lieu of foreclosure. These joint efforts helped resolve nearly 80 percent of defaulted VA-guaranteed loans in 2013.

### **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. For the direct loan program, approximately 40 percent of borrowers earn less than 50 percent of their area's median income; the remainder earn between 50 percent and 80 percent (maximum for the program) of area median income. The single family housing guaranteed loan program is designed to provide home loan guarantees for moderate-income rural residents whose incomes are between 80 percent and 115 percent (maximum for the program) of area median income.

The 2015 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 RHS 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 2015.

For the single family housing guarantees, the Budget continues to include an annual and an up-front fee structure, as FHA does. 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 FHA 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 2015. This decision reflects that with a \$24 billion loan level for the single family housing guarantees and interest rates near 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 \$29.8 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 rental housing to the low- and very-low-income population in rural America. The Budget also proposes to codify these activities into permanent law. In addition, rental assistance grants, which supplement tenant rental payments to the property owners and are vital to the proper underwriting of the multifamily housing direct loan portfolio, are funded at \$1.089 billion, which is sufficient to renew outstanding contracts. The rental assistance grant funding assumes a \$20 million savings from a new \$50 minimum tenant rent contribution requirement, similar to the ones that are already in place for HUD programs that provide rental subsidies. The Budget also provides \$150 million in guaranteed multifamily housing loans and \$16 million in budget authority for the Farm Labor Housing grants and loans program. The combined 2015 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 2.5 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 6 percent in 2013.

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 about 5 percent as of September 30, 2013.

### **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, 2013, they totaled \$4.1 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, 2013, these retained mortgages, financed largely by GSE debt, totaled \$962 billion. 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 directed 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 in August 2012, setting the effective portfolio limitation at \$1.1 trillion as of December 31, 2013, 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, 2013, 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, such as for purchases of single-family mortgages provided to low-income families, 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. 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. FHFA has determined that both Fannie Mae and Freddie



Mac exceeded the 2012 benchmark levels on all of the single-family and multifamily goals. However, FHFA also noted that both Fannie Mae and Freddie Mac lagged market performance in 2012, which FHFA views as a relevant measure for evaluating the companies' performance in years when the market levels are higher than the benchmark levels.

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, given the role they played in the secondary mortgage market and the potential impact of their failure on broader financial markets. 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 senior 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 established funding commitments 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 for each GSE. 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. Based on the financial results reported by each company as of December 31, 2012, the cumulative funding commitment

for Fannie Mae and Freddie Mac was set at \$445.5 billion. In total, as of December 31, 2013, \$187.5 billion has been invested in the GSEs, and the liquidation preference of the senior 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 liquidation preference of Treasury's senior preferred stock. Amendments to the PSPAs effected on August 17<sup>th</sup>, 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 was 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. Through December 31, 2013, the GSEs have paid a total of \$185.2 billion in dividends payments to Treasury on the senior preferred stock. The Budget estimates additional dividend receipts of \$181.5 billion from January 1, 2014, through FY 2024. The cumulative budgetary impact of the PSPA agreements from the first PSPA purchase through FY 2024 is estimated to be a net return to taxpayers of \$179.2 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 \$32.8 billion from FY 2012 through FY 2024.

#### ***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 MBS purchase program generated \$11.9 billion in net 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 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 into 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 November 30, 2013, the remaining balance of TCLP backed bonds had decreased to \$1.7 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 private 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, 2013, more than 2.1 million trial modifications have been initiated, resulting in almost 1.3 million permanent mortgage modifications. HAMP has also encouraged the mortgage industry to adopt similar programs that have helped mil-

lions more at no cost to the taxpayer. In May of 2013, the Administration announced a two year extension of HAMP to December 31, 2015 to align with extended deadlines for HARP and other programs for homeowners with loans owned or guaranteed by Fannie Mae and Freddie Mac. For more information on HAMP, see the Financial Stabilization Efforts and their Budgetary Effects chapter of this volume.

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 and who are current on their loan payments 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 enhanced by lowering the fees charged by Fannie Mae and Freddie Mac on these refinancings, 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; more than 800,000 HARP refinancings were completed from January through October of 2013 alone and almost 3 million refinancings have been completed since the program's inception. In April of 2013, FHFA announced a two year extension of HARP to December 31, 2015.

#### ***Future of the GSEs***

The Administration is committed to working with the Congress to reform the housing finance system to prevent future crises, protect taxpayers, and preserve affordable access to mortgages—including the 30-year fixed rate mortgage. The Administration also continues to support 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.

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. In 2013, Fannie Mae and Freddie Mac initiated a series of credit risk-sharing transactions with private market participants that add an additional layer of private loss coverage, further limiting taxpayer exposure to credit losses from the GSEs and potentially providing a model for

future reforms. 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 and provide more beneficial student loan repayment terms. 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 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 many other benefits, including not charging interest while undergraduate borrowers are in school and during certain deferment periods.

In 2013 President Obama signed the Bipartisan Student Loan Certainty Act which amended the Higher Education Act of 1965 to establish interest rates for new direct student loans made on or after July 1, 2013. Interest rates on Direct Loans would be set at a variable interest rate that would be determined annually but would be fixed for the life of the loan. Interest rates for Federal Direct Stafford Loans, Federal Direct Unsubsidized Stafford Loans, and Federal Direct PLUS Loans would be set by: (1) indexing the interest rate to the rate of ten-year Treasury notes; and (2) adding the indexed rate to a specific base percent for each type of loan. The Act also set specific caps for each type of direct student loan. For Federal Direct Stafford Loans and Federal Direct Unsubsidized Stafford Loans issued to undergraduate students, the Act set the rate at 2.05 percentage points above to the Treasury 10-year note rate with a cap of 8.25 percent. For Federal Direct Unsubsidized Stafford Loans issued to graduate or professional students, the rate is 3.6 percentage points above the Treasury rate and capped at 9.5 percent. Finally, for Federal Direct PLUS Loans issued to parents and graduate/professional students, the rate is 4.6 percentage points above the Treasury rate and capped at 10.5 percent.

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 a "Pay As You Earn" (PAYE) initiative to accelerate these benefits for current and fu-

ture college students who have student loans. Under the plan, eligible borrowers have their loan payments set at no more than 10 percent of their discretionary incomes and would have balances forgiven after 20 years. This plan became available to certain eligible borrowers in December 2012. The 2015 Budget proposes to extend similar benefits to all student borrowers, regardless of when they borrowed, while reforming the PAYE terms to ensure that it is well-targeted and provides safeguard against rising tuition at high-cost institutions. In addition, the Budget proposes to create an expanded, modernized Perkins Loan program providing \$8.5 billion in 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 appropriated to the Pell Grant 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 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 at a reasonable price 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 2013, SBA's outstanding balance of direct and guaranteed loans totaled approximately \$110 billion.

The 2015 Budget supports more than \$30 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 \$15.7 billion in term loans and \$1.8 billion in revolving lines of credit; the latter are expected to support over \$40 billion in total credit assistance through draws and repayments over the life of the commitment. The 504 program will support \$7.5 billion in guaranteed loans for fixed-asset financing, and the Budget also extends an additional \$7.5 billion in no-cost 504 guarantees to allow small businesses to refinance to take advantage of current interest rates and free up resources for expansion. In addition, SBA will supplement the capital of Small Business Investment Corporations (SBICs) with up to \$4 billion in long-term, guaranteed loans to support SBIC financing assistance for venture capital investments in small businesses, including an added focus in 2015 within

the SBIC's Impact Investment Fund to provide support for young manufacturing firms scaling up their first commercial facility. The Budget also supports SBA's disaster direct loan program at its 10-year average volume of \$1.1 billion in loans, and includes \$187 million to administer the program. Of this amount, \$155 million is provided through the Budget Control Act's disaster relief cap adjustment for costs related to Stafford Act (Presidentially-declared) disasters.

For the 2015 Budget, SBA recorded a net downward reestimate of \$780 million in the expected costs of its outstanding loan portfolio, reflecting an improved loan performance forecast, which will decrease the 2014 budget deficit.

Due to improving economic conditions and the 2013 refinements in program cost estimation, the 7(a) program is projected to have zero subsidy cost for 2014. As a result, SBA's fees charged to lenders and borrowers have decreased from recent years. SBA eliminated lender fees on loans of less than \$150,000 in 2014 to promote lending to small businesses that face the greatest constraints on credit access. SBA also took action in 2014 to support veterans by waiving upfront fees on 7(a) Express loans between \$150,000 and \$350,000 for veteran-owned businesses at a minimal cost to taxpayers. The easing of fees for veteran-owned businesses will expand in 2015 by adding a 50 percent upfront fee waiver to non-SBA Express 7(a) loans above \$150,000 to veterans, a group often underserved in credit markets. 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 also requests \$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 programs to increase financing assistance to small businesses, administered by the Department of the Treasury.

Treasury's State Small Business Credit Initiative (SSBCI) is designed to support state programs that make new loans or investments to small businesses and small manufacturers. SSBCI offered states and territories (and in certain circumstances, municipalities) the opportunity to apply for Federal funds to finance programs that partner with private lenders to extend new credit to small businesses to create jobs. These funds allow States to create new or build on existing models for small business programs, including collateral support programs, capital access programs, revolving loan and loan guarantee programs, loan participation programs, and State venture capital programs. SSBCI guidelines state that all approved programs must demonstrate a reasonable expectation of 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 September 30, 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 \$912 million had already been disbursed. During 2013, Treasury provided technical assistance to States in order to improve program impacts, focusing on elements of good program design, operation, and marketing.

The Budget includes an additional \$1.5 billion for a second round of the State Small Business Credit Initiative. The proposal requires \$1 billion of the funding to be competitively awarded to States best able to target underserved groups, leverage Federal funding and evaluate results. The remaining \$500 million will be allocated to States according to a need-based formula based on economic factors such as job losses and pace of economic recovery.

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. The current reestimated subsidy rate and actual program volume of \$4.03 billion result in projected budget savings of approximately \$25 million, representing a decrease in the original projected subsidy cost of \$1.3 billion. In 2013, Treasury released the results of a study on the Small Business Lending Fund analyzing changes in small business lending by SBLF participants as of June 30, 2013. Among other findings, the study concluded that:

- SBLF participants have, in total, increased their small business lending by \$10.4 billion over a \$36.5 billion baseline;
- Increases in small business lending were widespread, with 92 percent of participants having in-



creased their small business lending over baseline levels; and

- When compared with changes relative to a peer group, SBLF banks have increased business loans outstanding by a median of 48.2 percent over baseline levels, versus a 10.3 percent median increase for the representative peer group.

### 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 2013, FSA provided loans and loan guarantees to almost 30,000 family farmers totaling \$3.9 billion. Direct and guaranteed loan programs provided assistance totaling \$1.7 billion to beginning farmers during 2013. Loans for socially disadvantaged farmers totaled \$570 million, of which \$268 million was in the farm ownership program and \$302 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 2015 Budget, FSA proposes to make \$5.6 billion in direct and guaranteed loans through discretionary programs. The Budget also requests funding for the guaranteed conservation loans. The overall loan level for conservation loans is unchanged from the 2014 requested level of \$150 million.

Lending to beginning farmers was strong during 2013. FSA provided direct or guaranteed loans to more than 23,500 beginning farmers. Loans provided under the

Beginning Farmer Down Payment Loan Program represented 29 percent of total direct ownership loans made during the year, substantially less than the previous year. Fifty six percent of direct operating loans were made to beginning farmers, an increase of 23 percent in dollar volume over 2012. Overall, as a percentage of funds available, lending to beginning farmers was 1 percentage point above the 2012 level. Lending to minority and women farmers was a significant portion of overall assistance provided, with \$570 million in loans and loan guarantees provided to more than 7,100 farmers. This represents an increase of 4 percent in the overall number of direct loans to minority and women 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.

FSA continues to evaluate the farm loan programs in order to improve their effectiveness. FSA released 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, 2012 and September 30, 2013, the ratio of capital to assets increased from 16.1 percent to 16.5 percent. Capital consisted of \$38.3 billion in unrestricted capital and \$3.4 billion in restricted capital in the Farm Credit Insurance Fund, which is held by the Farm Credit System Insurance Corporation (FCSIC). For the first nine months of calendar year 2013, net income equaled \$3.5 billion compared with \$3.2 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, 2013, nonperforming loans as a percentage of total loans outstanding decreased from 1.53 percent to 1.15 percent, primarily because of an improvement in the credit quality of loans to borrowers in certain agricultural sectors. System assets grew a moderate 5.5 percent during that period as growth in real estate mortgage, production and interme-



diate, energy and water/waste water, and other loans offset declines in loans to cooperatives and communication loans.

Over the same period, the System's loans outstanding grew by \$8.8 billion, or 4.7 percent, while over the past five years they grew by \$36.1 billion, or 22.9 percent. As required by law, borrowers are also stockholder-owners of System banks and associations. As of September 30, 2013, the System had 502,044 stockholders.

The number of FCS institutions continued to decrease because of consolidation. As of September 30, 2013, 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, 77 of them had one of the top two examination ratings (1 or 2 on a 1 to 5 scale) and accounted for 98.4 percent of gross System's assets. Eight FCS institutions had a rating of 3, and 1 FCS institution had a rating of 4.

Loans to young, beginning, and small farmers and ranchers represented 11.7 percent, 15.2 percent, and 17.4 percent, respectively, of the total dollar volume of all new farm loans made in 2012. The shares of all three categories were higher than those reported for 2011. Between 2011 and 2012, the increase in the dollar volume of new loans was 18.5 percent for young farmers, 19.2 percent for beginning farmers, and 17.9 percent for 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. High grain prices and a weak housing industry put considerable stress on the protein, dairy and ethanol industries, as well as housing related sectors such as timber and nurseries. However, credit conditions in these industries have improved substantially in the past year. 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, 2013, the assets in the Insurance Fund totaled \$3.4 billion. As of September 30, 2013, the Insurance Fund as a percentage of adjusted insured debt was 1.99 percent. This was slightly below the statutory secure base amount of 2 percent. During the first nine months of calendar year 2013, outstanding insured System obligations grew by 1.7 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, 2013, Farmer Mac's total outstanding program volume (loans purchased and guaranteed, standby loan purchase commitments, and AgVantage bonds purchased and guaranteed) amounted to \$13.79 billion, which represents an increase of 10.6 percent from the level a year ago. Of total program activity, \$9.7 billion were on-balance-sheet loans and guaranteed securities, and \$4.1 billion were off-balance-sheet obligations. Total assets were \$13.1 billion, with nonprogram investments (including cash and cash equivalents) accounting for \$3.2 billion of those assets. Farmer Mac's net income for the first three quarters of calendar year 2013 was \$59.3 million, a significant increase from the same period in 2012 during which Farmer Mac reported net income of \$34.3 million. Farmer Mac's earnings can be substantially influenced by unrealized fair-value gains and losses. For example, fair-value changes on financial derivatives resulted in an unrealized gain of \$22.5 million for the first three quarters of 2013, compared with unrealized losses \$23.3 million for the same period in 2012 (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 en-

hance 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, \$8 billion for advanced fossil energy technologies, and \$18.5 billion for energy efficiency, renewable energy, and transmission and distribution projects. The 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. Congress has since provided no new loan authority or credit subsidy for DOE's Title 17 program. The President's 2015 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 financed by 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 provided guarantees for up to 80 percent of loan amounts financed by private sector financial institutions. This structure utilized private sector expertise, expedited the lending/underwriting process, and leveraged the program's funds by sharing project risks with the private sector, while increasing private sector experience with financing new 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 trans-

mission/energy storage projects. Four projects withdrew prior to any disbursement of funds.

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 \$5 billion in direct loans for electricity distribution, construction of renewable energy facilities to replace fossil fuels. The Budget also provides \$690 million in direct telecommunications loans, \$44 million in broadband loans, \$20 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. That coupled with the historically low funding costs for the Government has resulted in negative subsidy rates for these programs.

The program level for the Water and Wastewater treatment facility loan and grant program in the 2015 President's Budget is \$1.5 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 2015, it will have a program level of \$2.2 billion in direct loans and \$21 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 and healthcare networks) and to diversify the rural economy and employment opportunities. In 2015, USDA proposes to provide \$627 million in loan guarantees and direct loans to entities that serve communities of 25,000 or less through the Intermediary Relending program and to entities that serve communities of 50,000 or less through the Business and Industry guaranteed loan program and the Rural Microentrepreneur

Assistance 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 \$10 million in funding to support \$52 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 39 projects that have received TIFIA credit assistance represent over \$55 billion of infrastructure investment in the United States. Government commitments in these partnerships constitute nearly \$15 billion in Federal assistance with a budgetary cost of approximately one billion dollars.

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. Prior to the most recent surface transportation reauthorization, MAP-21, the demand for the TIFIA program far exceeded available resources. MAP-21 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 2015, the President's Budget continues to build upon prior success by requesting \$1 billion 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.

### **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 de-

positors 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) through the National Credit Union Share Insurance Fund (SIF). As of September 30, 2013, the FDIC insured \$6 tril-



lion of deposits at 6,891 commercial banks and thrifts, and the NCUA insured \$862 billion of shares at 6,620 credit unions. The expiration of the Transaction Account Guarantee program on December 31, 2012 led to a large one time reduction in FDIC insured deposits as amounts above \$250,000 deposited in domestic noninterest-bearing transaction accounts are no longer insured by FDIC. See the Financial Stabilization Efforts and their Budgetary Effects chapter of the Analytical Perspectives volume of the 2014 President's Budget for more information on the Transaction Account Guarantee program.

### Recent Reforms

Since its creation, the Federal deposit insurance system has undergone many reforms. As a result of the recent crisis, several reforms were enacted to protect both the acute and longer-term integrity of the Federal deposit insurance system. The Helping Families Save Their Homes Act of 2009 (P.L. 111–22) provided NCUA with tools to protect the Share Insurance Fund as well as support to credit union member institutions. Notably, the Helping Families Save Their Homes Act:

- Segregated losses of corporate credit unions into the Temporary Corporate Credit Union Stabilization Fund (TCCUSF), providing a mechanism for assessing losses related to the corporate credit unions to member institutions over an extended period of time;
- Allowed a restoration plan to spread insurance premium assessments over a period of up to eight years if the equity ratio fell below 1.2 percent; and
- Increased the Share Insurance Fund's borrowing authority to \$6 billion.

The Dodd-Frank Wall Street Reform and Consumer Protection (Wall Street Reform) Act of 2010 included provisions allowing 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 2024) 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 Fund Performance

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. As of September 30, 2013, the DIF fund balance stood at \$40.8 billion. The growth in the DIF balance is a result of fewer bank failures and higher assessment revenue. The reserve ratio on September 30, 2013 was 0.68 percent.

As of September 30, 2013, the number of insured institutions on the FDIC's "problem list" (institutions with the highest risk ratings) totaled 515, which represented a decrease of nearly 42 percent from December 2010. Furthermore, the assets held by problem institutions decreased by more than 55 percent.

The SIF ended September 2013 with assets of \$11.7 billion. The NCUA's equity ratio was 1.31 percent in March 2013. 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. However, the Helping Families Save Their Homes Act requires that SIF dividends be directed to Treasury for the repayment of any outstanding TCCUSF loans before a distribution can be paid to member credit unions. In March of 2013, NCUA distributed SIF dividends of \$88 million to the TCCUSF. As of September 30, 2013, the TCCUSF had a \$4.7 billion loan outstanding from the Department of the Treasury.

The health of the credit union industry continues to improve. Consequently, the ratio of insured shares in problem institutions to total insured shares decreased to 1.6 percent in September 2013 from a high of 5.7 percent in December 2009. With the improving health of credit unions, NCUA has been steadily reducing SIF loss reserves. As of September 30, 2013, the SIF had set aside \$243.8 million in reserves to cover potential losses, over 75 percent less than the \$1.0 billion set-aside as of September 30, 2011.

### Restoring the Deposit Insurance Funds

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 changes in net provisions for losses coupled with low-

er projected investment income in 2014 will slightly decrease the DIF reserve ratio to 0.64 percent at year-end. From 2015 on, 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 pursuant to this rule. 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, 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.

While the NCUA has successfully restored the reserve ratio of the SIF to the required level, NCUA continues to seek compensation from the parties that created and sold troubled assets to the failed corporate credit unions. As of December 31, 2013, NCUA's gross recoveries from securities underwriters total more than \$1.75 billion, helping to minimize losses and future assessments on federally in-

sured credit unions. These recoveries have also accelerated repayment of the TCCUSF's outstanding U.S. Treasury borrowings.

### Budget Outlook

The Budget estimates DIF net outlays of -\$92.9 billion (i.e. net inflows into the fund) over the 10-year budget window. As a result of updated economic assumptions and technical changes to OMB's forecasting model, the projected inflows between 2014 and 2023 are lower than the 2014 Mid-Session Review (MSR) projection by approximately \$5.8 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 un-

**Table 20-1. TOP 10 FIRMS PRESENTING CLAIMS (1975-2013)**

Single-Employer Program			
Firm	Fiscal Year(s) of Plan Termination(s)	Claims (by firm)	Percent of Total Claims (1975-2013)
1 United Airlines	2005	\$7,304,186,216	15.01%
2 Delphi	2009	6,387,327,984	13.13%
3 Bethlehem Steel	2003	3,702,771,655	7.61%
4 US Airways	2003, 2005	2,723,720,013	5.60%
5 LTV Steel*	2002, 2003, 2004	2,134,985,884	4.39%
6 Delta Air Lines	2006	1,720,156,504	3.53%
7 National Steel	2003	1,319,009,117	2.71%
8 Pan American Air	1991, 1992	841,082,434	1.73%
9 Trans World Airlines	2001	668,377,106	1.37%
10 Weirton Steel	2004	640,480,970	1.32%
Top 10 Total		\$27,442,097,883	56.39%
All Other Total		\$21,219,218,191	43.61%
TOTAL		\$48,661,316,074	100.00%

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

Sources: PBGC Fiscal Year Closing File (9/30/13), PBGC Case Management System, and PBGC Participant System (PRISM).

Due to rounding of individual items, numbers and percentages may not add up to totals.

Data in this table have been calculated on a firm basis and, except as noted, include all trustee plans of each firm.

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

derfunded plans. In the longer term, loss exposure results from the possibility that healthy firms become distressed and well-funded plans become underfunded due to inadequate contributions, poor investment results, or increased liabilities.

PBGC monitors companies with underfunded plans and acts to protect the interests of the pension insurance program's stakeholders where possible. Under its Early Warning Program, PBGC works with companies to strengthen plan funding or otherwise protect the insurance program from avoidable losses. However, PBGC's authority to prevent undue risks to the insurance program is limited. Most private insurers can diversify or reinsure their catastrophic risks as well as flexibly price these risks. Unlike private insurers, PBGC cannot deny insurance coverage or adjust premiums according to risk. Both types of PBGC premiums—the flat rate (a per person charge paid by all plans) and the variable rate (paid by some underfunded 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. One 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 termination of a limited number of very large plans.

PBGC operates two legally distinct insurance programs: one for single employer plans and another for multiemployer plans. Single employer plans generally provide benefits to the employees of one employer. When an underfunded single employer plan terminates, usually through bankruptcy, PBGC becomes trustee of the plan, applies legal limits on payouts, and pays benefits. The amount of benefit paid is determined after taking into account (a) the benefit that a beneficiary had accrued in the terminated plan, (b) the availability of assets from the terminated plan to cover benefits, and (c) the legal maximum benefit level set in statute. In 2013, the maximum annual payment guaranteed under the single-employer program was \$55,841 for a retiree aged 65.

PBGC's single-employer program has incurred substantial losses from underfunded plan terminations. Table 20-1 shows the ten largest plan termination losses in PBGC's history. Nine of the ten happened since 2001.

Multiemployer plans are collectively bargained pension plans maintained by more than one unrelated employer, usually within the same or related industries, and one or more labor unions. PBGC's role in the multiemployer program is more like that of a re-insurer; if a company sponsoring a multiemployer plan fails, its liabilities are assumed by the other employers in the collective bargaining agreement, not by PBGC, although those employers can withdraw from a plan for an exit fee. PBGC becomes responsible for insurance coverage when the plan runs out of money to pay benefits at the statutorily guaranteed level, which usually occurs after all contributing employers have withdrawn from the plan, leaving the plan without a source of income. PBGC provides insolvent multiem-

ployer plans with financial assistance in the form of loans sufficient to pay guaranteed benefits and administrative expenses. Benefits under the multiemployer program are calculated based on the benefit a participant would have received under the insolvent plan, subject to the legal multiemployer maximum set in statute. The maximum guaranteed amount depends on the participant's years of service. In 2013, for example, the maximum annual payment for a participant with 30 years of service was \$12,870.

As of September 30, 2013, the single-employer and multi-employer programs reported deficits of \$27.4 billion and \$8.3 billion, respectively. Although PBGC will be able to pay benefits for years to come, it is still projected to be unable to meet its long-term obligations under current law. 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 \$329 billion. For 2013, 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 Congress has raised premiums twice since 2012. The Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21), signed on July 6, 2012, increased PBGC premiums for both single-employer and multiemployer plans. The Bipartisan Budget Act, signed on December 26, 2013, raised single-employer premiums. Flat-rate premiums for single-employer plans will be increased to \$64 by 2016, 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 \$29 per \$1000 of underfunding by 2016. The variable-rate premium will be capped in filing year 2013 at \$400 times the number of plan participants; the cap increases to \$500 by 2016, and is indexed thereafter. Flat-rate premiums for multiemployer plans were increased to \$12 for 2013, and will be indexed thereafter.

While this legislation brings in much-needed resources to improve PBGC's financial condition, rates remain much lower than what a private financial institution would charge for insuring the same risk. Any further premium increases need to be carefully crafted to avoid worsening PBGC's financial condition and harming workers' retirement security by driving healthy plans that pose little risk of presenting a claim to PBGC out of the system.

To address these concerns, the 2015 Budget proposes to give the PBGC Board the authority to adjust premiums in both the single and multi-employer programs to better account for the risk that different sponsors pose. In the multiemployer program, these premium increases are crucial to improving solvency but will not be sufficient to address the complex challenges facing these plans. The Administration looks forward to working with Congress to develop a more comprehensive solution. This proposal is estimated to save \$20 billion over the next decade.

Consistent with previous Administration proposals, the Board would be required to consult with stakeholders prior to setting a new premium schedule and to es-



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 2013, the program had over 5.5 million policies in more than 22,200 communities with over \$1.3 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,

and 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. After a slight decline in 2012, the program grew by 16,000 policies in 2013.

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 particular, 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 \$24 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 re-authorizing 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.



In 2013, the NFIP began phasing in risk-based premiums for certain properties, as required by the law.

### 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 2015 Budget continues to propose policies that are similar to those included in the 2013 and 2014 Budget and recommended to the Joint Committee for Deficit Reduction:

1. Lower the cap for the crop insurance companies' return on retained premium to 12 percent,
2. Lower the cap on the companies' administrative expense reimbursement to \$0.9 billion, adjusted annually for inflation,
3. Lower the subsidy for producer premiums by 3 percentage points for policies where the Government subsidizes more than 50 percent of the premium, and
4. Reduce premium subsidy by 4 percentage points for revenue coverage that is tied to 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 2013, the 10 principal crops, (barley, corn, cotton, grain sorghum, peanuts, potatoes, rice, soybeans, tobacco, and wheat) accounted for over 85 percent of total liability, and approximately 86 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.

The pilot Rainfall Index and Vegetation Index plans of insurance are pilot area plans of insurance that insure against a decline in an index value covering Pasture, Rangeland, and Forage. These pilot programs meet the needs of livestock producers who purchase insurance for protection from losses of forage produced for grazing or harvested for hay. In 2013, there were 26,679 vegetation and rainfall policies sold, covering over 54 million acres of pasture, rangeland and forage. There was over \$1 billion in liability, and through January 2014 nearly \$159 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 2013, two new privately developed crop insurance programs, Downed Rice Endorsement and Machine Harvested Cucumbers, were approved under the authorities provided by section 508(h) of the Federal Crop Insurance Act and were made available to producers for the 2014 crop year. Five other privately developed products were approved for expansion to producers in additional states and counties: APH Olive, Camelina, Pulse Crop Revenue, Fresh Market Beans and Louisiana Sweet Potato. There are three additional privately developed products currently under the FCIC Board of Directors review process along with four Concept Proposals the FCIC Board has approved for reimbursement of a portion of research and development expenses that are targeted to be available to producers in 2015.

Lastly, RMA contracts for the development of new or improved programs subject to FCIC Board approval. One new program, for Tart Cherries, was developed and approved by the FCIC Board for sale to producers beginning with the 2014 crop year, and another program, the Area Risk Protection Insurance for Rice, was approved but will not be available until the 2015 crop year."

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

## Insurance against Security-Related Risks

### Terrorism Risk Insurance

The Terrorism Risk Insurance Program (TRIP) was authorized under P.L. 107-297 to help 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 increas-

ing 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 of up to \$100 billion above the deductible, and a \$100 million minimum event cost triggering Federal coverage. The 2007 extension also requires Treasury to recoup 133 percent of all Federal payments made under the program up to \$27.5 billion, and accelerates deadlines for recoupment of any Federal payments made before September 30, 2017. The current authorization expires on December 31, 2014.

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 \$230 million over the 2015-2019 period and \$300 million over the 2015-2024 period.

In order to preserve the long-term availability and affordability of property and casualty insurance for terrorism risk, the Budget proposes to extend the Terrorism Risk Insurance Program and to implement programmatic

reforms to limit taxpayer exposure and achieve cost neutrality. The Administration will work with Congress to identify appropriate adjustments to program terms to achieve budget neutrality and, over the longer term, full transition of the program to the private sector. Building on previously enacted reforms to the program, this extension may include changes to the size of the deductible, the threshold for a certified terrorist event, or the loss-sharing percentages for the Government and covered firms after the deductible is exceeded.

#### **Airline War Risk Insurance**

The aviation war risk insurance program expires on September 30, 2014. In the months following the attacks of September 11, 2001, Congress enacted legislation requiring the Secretary of Transportation to expand insurance provided to U.S. air carriers for war and terrorism risks to include hull loss, passenger loss of life, and third party liability, but established limits on the amount of premiums the Secretary could charge. As a result, the program does not collect enough premiums to cover its potential risk. With the goal of utilizing private capacity to manage aviation war risk, the Administration proposes to reform the program, beginning in 2015, by only covering losses resulting from the use of nuclear, bio-chemical, and radioactive (NBCR) attacks and providing a backstop that would trigger FAA full war risk insurance in the event of a widespread cancellation of coverage by the private insurance market. Air carriers would be free to negotiate the charge for commercial war risk coverage in the private insurance market. FAA would offer NBCR coverage, and air carriers would pay premiums to FAA for this coverage. Most foreign air carriers currently obtain most of their war risk insurance from commercial insurers.

### **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.

Some analysts have argued that credit programs impose costs on taxpayers that are not reflected under FCRA, in particular, costs related to uncertainty. As an alternative, they have proposed to require that the budget

use "fair value" estimates for credit programs. In practice, this would mean discounting credit program cash flows using a market interest rate, instead of the interest rate on U.S. government debt, which would generally increase the cost of these programs.

While fair value analysis may offer some useful insights and help inform decision-making for specific programs, fair value budgeting would have drawbacks that far exceed its advantages. Fair value would create significant inconsistencies across the Federal budget, making it more difficult to compare the costs of credit programs to each other or to other forms of Federal spending, and it would make Federal budgeting less transparent by introducing a wedge between cost estimates and estimated deficit effects for the same program. It would also incorporate costs not relevant to the Federal government, generally overstating the uncertainty premium that is relevant for Federal government decision-making. Finally, fair value would impose significant implementation costs and challenges and could introduce more noise and distortion than valuable information into credit estimates.

## Estimating Costs under FCRA and Fair Value

Since the enactment of FCRA, cost estimates for Federal credit programs—whether loan guarantees or direct lending—equal the present value of expected cash flows to and from the Government over the life of the loan, excluding administrative costs. For example, the cost of a direct loan is the sum of disbursements minus the present value of estimated repayments after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries. Likewise, the cost of a loan guarantee equals the present value of expected claims minus the present value of payments to the Government including fees, penalties, and recoveries. Expected cash flows are discounted by Treasury rates of comparable maturity.

FCRA significantly improved budgeting for credit programs by putting estimates for loans and loan guarantees on the same footing as most other programs, eliminating a systematic bias against direct loans and in favor of loan guarantees. 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 relative to both loan guarantees and non-credit programs—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. Under FCRA, loan guarantees and direct loans are both scored on the basis of their total expected lifetime costs to the Government. In addition to putting credit assistance on the same basis, FCRA placed the cost of credit programs on a comparable basis to most other forms of Federal spending, allowing for an efficient allocation of resources across competing needs.

FCRA estimates have been fairly accurate overall, although not always on a program-by-program basis. Net lifetime re-estimates of subsidy cost for credit programs over the 21 years that FCRA has been in place are \$17 billion upward—less than one percent of the face value of the loans and guarantees made under FCRA.

Proponents of fair value budgeting do not necessarily question the accuracy of FCRA cost estimates in measuring expected cost to the Federal government. Rather, they argue that expected cost is an incomplete measure of total cost and that budget estimates should also include an additional uncertainty premium. For this reason, proponents of fair value budgeting argue for discounting the cash flow costs of credit programs using market interest rates, instead of Treasury rates. Federal credit programs produce uncertain cash flows that are subject to default, prepayment, and other risks. In contrast, market interest rates are generally higher than Treasury rates, in part because they do include this uncertainty premium. (Market rates also differ from Treasury rates for other reasons; see the box below: “Differences between FCRA and Fair Value Estimates.” Moreover, under fair value, discount rates would need to be derived from available market data, and would vary across programs and in some cases by individual loan.)

## Problems with Fair Value Budgeting

*Consistency.* Any change to credit budgeting should maintain FCRA’s accomplishments in providing better information on the budgetary costs of credit programs and placing credit programs on a comparable basis to other forms of Federal spending. In contrast, fair value budgeting would make it more difficult to compare the costs of credit programs and other types of Federal spending.

Uncertainty is not unique to credit programs. The costs of virtually all mandatory programs, in particular all of the major social insurance programs such as Social Security, Medicare, and Unemployment Insurance, are uncertain and, in some cases, strongly correlated with economic conditions. Revenue estimates are uncertain and also correlated with the business cycle. The uncertainty premium is not budgeted for any of these programs, although their market prices (the premium that a private insurer would charge to insure against unemployment, for example) would be higher than the expected cost. Compared with the uncertainty associated with the deficit impact of mandatory programs and tax collections, the uncertainty in the outcome of credit programs is small. Scoring an uncertainty premium only for credit programs could distort decision making, placing a thumb on the scale against credit assistance.

Some fair value proponents argue that fair value budgeting for credit programs would improve consistency because the costs of most other government activities, consisting of grants, transfers, and purchases from the private sector, are calculated on the basis of market prices. This claim is mistaken. Estimates in these cases are based on accounting costs, that is, cash flows; in many cases, but not always, the accounting cost is the same as the market price paid by other buyers of the same goods and services in the private market. There is no occasion in which the Government chooses the market price over the accounting cost for the budgeting purpose when the accounting cost differs from the market price. For example, no one would propose that budget estimates for Medicare should reflect average prices paid by private insurers, as opposed to the actual Medicare fee schedule.

*Transparency.* The primary role of the budget is to reflect the fiscal position of the Federal Government. 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 deficit impact of the same program would be different from one another, raising concerns about consistency and transparency.<sup>2</sup> Moreover, if one were to attempt to address the consistency issues discussed above by applying fair value principles across the Federal government, the costs in terms of transparency would be magnified because there would be even larger systematic divergences between budgetary cost estimates and expected

<sup>2</sup> A full accounting of costs under fair value should result in the same net deficit impact as under FCRA—so while legislators would be scored higher costs for the uncertainty premium, the actual cost to Government would be lower by the amount of the premium.



deficit effects. Put simply, it would no longer be possible to subtract estimated outlays from estimated revenues and arrive at the expected path for budget deficits and debt.

Equally important, fair value cost estimates include factors that are often unobservable or extremely difficult to compute—including the premium that a private actor would demand to compensate for uncertainty of future performance. The Government typically intervenes to improve efficiency in inefficient markets, where either comparable products do not exist or their prices are distorted. Many federal loans are targeted to borrowers who cannot get credit elsewhere and for whom, in most cases, no private market comparable product exists. Given these complexities, fair value budgeting would sometimes require guessing at comparable market rates without reliable references to generate or validate assumptions.

Moreover, 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. Reasonable analysts would arrive at very different results. The lack of objectivity would further reduce transparency and consistency across programs and contrasts with the comparatively straightforward principles of FCRA budgeting.

FCRA costs reflect estimated cash flows, including expected risks. For example, assume an initial FCRA cost estimate suggested a \$2 million cost for a \$100 million loan program, the original fair value cost estimate was \$10 million for the same program, and actual lifetime costs proved to be \$4 million. Under FCRA, the change in cost is recognized through reestimates where program costs are updated for actual experience and changes in future expectation on an annual basis. Ultimately, one can trace back the change in cost to the actual transactions with the public under FCRA, and that actual experience can feed into future estimates as appropriate. In contrast, fair value cost estimates include factors that can never be observed, even after the fact—including how the market would price specific contract terms, expected losses, and the risk premium for uncertainty. Because fair value includes market price assumptions that are not tied to actual cashflows, there is no way to validate these assumptions and feed them into improved estimates of future costs.

*Accuracy.* Even if one accepts that credit program budget estimates should attempt to incorporate costs related to uncertainty, fair value estimates may not be an improvement on FCRA estimates. Many of the factors reflected in fair value pricing are irrelevant or less relevant to taxpayers than to private investors. Most important, the Federal government has greater ability to diversify risk (across activities, individuals, and generations) than any private actor. Thus, the uncertainty premium incorporated in market interest rates will generally overstate the true cost of uncertainty to Federal taxpayers. Such factors include the liquidity premium, which may be large when dealing with assets that do not trade in well-functioning liquid markets and which is less relevant to taxpayers, because the Government can easily borrow in the Treasury securities market with minimal transac-

tion costs. (See the box below: “Differences between FCRA and Fair Value Estimates.”) Overall, there is no guarantee that fair value estimates will consistently improve on traditional estimates, even judged by the criteria used by fair-value proponents.

### **Implementation Costs and Challenges of Fair Value**

In addition to the conceptual issues discussed above, practical implementation issues represent a major barrier to fair value budgeting. Due to the difficulties and complexities involved in its implementation, fair value budgeting 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 re-estimates over time, raising the question of the value of the original fair value estimates.



## Summary

Fair value cost estimates for Federal credit programs contain some elements that might be useful for benefit-cost analysis. Using fair value cost estimates in the budget, however, would represent a step backward from the methods in use today. Budget estimates for credit programs are more informative when they show the direct cost to the Government in an accurate and transparent manner, comparable to costing methodologies used for other federal programs, as opposed to 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 uncer-

tainty premium for private investors. Apart from conceptual issues, it would also be very costly and difficult to estimate fair value costs due to the paucity of historical data and limited relevance of market information.

For the purpose of improving the accuracy and transparency of budget estimates, it might be more effective and practical to explore improvements to FCRA estimates, like better modeling of interest rate and prepayment options, rather than exploring alternative measures. 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.

### DIFFERENCES BETWEEN FCRA AND FAIR VALUE ESTIMATES

Some of the factors incorporated in fair value estimates are irrelevant or less relevant for the Federal government. Decomposing the difference between FCRA and fair value estimates can shed light on which factors are not equally relevant to taxpayers and private investors. (For a more detailed discussion, see pages 393-395 and 397-398 of the 2013 *Analytical Perspectives*.)

*Time Preference (incorporated in both FCRA and fair value estimates).* Time preference reflects the higher value that people give to money received now than to money received in the future. This factor is fully incorporated in both Treasury rates and comparable market rates.

*Expected Loss from Default (incorporated in both FCRA and fair value estimates).* Comparable market rates reflect the expected loss from default. Although Treasury rates do not reflect the expected loss from default, FCRA budgeting fully accounts for it by deducting expected amounts of default from future cash flows.

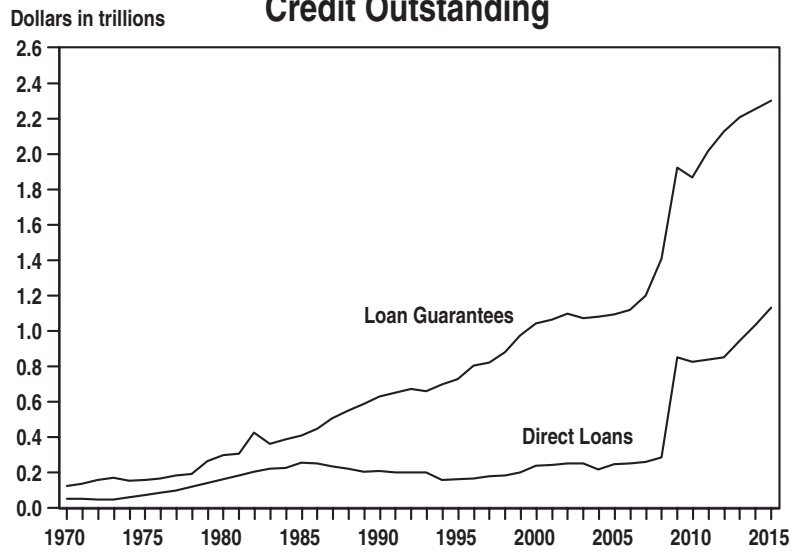
*Uncertainty Premium (raises fair value costs relative to FCRA costs in most cases).* The uncertainty premium, an extra expected return that investors demand as compensation for uncertain returns, is the crux of the debate over fair value estimates. While the expected losses associated with defaults are incorporated into both FCRA and fair value estimates, the additional uncertainty premium associated with variance in the loss rate is reflected in the comparable market rate but not in the Treasury rate because Treasury securities are considered to be free of default risk. Uncertainty about the loss rate may matter to taxpayers. However, uncertainty can be reduced or eliminated through diversification across assets and spreading among a large number of individuals. A possibility of a low return on an asset doesn't really increase risk if it can be offset by a high return on another asset, and uncertainty faced by each individual becomes insignificant when moderate uncertainty is spread among a large number of individuals. While the Federal government cannot completely diversify risk, it generally has greater ability to diversify (across activities, individuals, and generations) than any private actor. For this reason, the uncertainty premium relevant to taxpayers is generally lower than the uncertainty premium relevant to private investors, which is the premium incorporated in fair value estimates. The exact portion of the uncertainty premium relevant to taxpayers is complex to determine and may vary across programs.

*Liquidity Premium (raises fair value costs relative to FCRA costs).* To hold an illiquid asset, investors have to sacrifice the flexibility to sell it quickly or accept a below-market price in doing so. Thus, they demand a higher interest rate, a "liquidity premium," if an asset is less liquid. The difference between comparable market rates and Treasury rates reflects a liquidity premium because most private assets are less liquid than Treasury securities, which trade in the most liquid market. This component is irrelevant to taxpayers. Even though a Federal loan itself may be illiquid, the illiquidity of the loan does not restrict other activities of the Government which can easily borrow in the Treasury securities market at a minimal transaction cost. The Government and hence taxpayers benefit from the high liquidity of the Treasury securities market without incurring an extra cost.

*Tax Differential (raises fair value costs relative to FCRA costs).* Interest income from Treasury securities is exempt from State income tax. This tax advantage results in a higher spread between Treasuries and private interest rates; investors in private loans will demand a higher before-tax return to compensate for the impact that State taxes have on their after-tax return. The Treasuries' tax advantage lowers the cost to the Government of financing direct loans. But that same tax advantage results in lost tax revenue at the State level, which may ultimately have to be made up by taxpayers. Thus, unlike the liquidity premium, this may not be a costless benefit. The extent to which it matters to taxpayers, however, is hard to determine.

*Administrative Costs (included in fair value estimates; treated separately under current budget practices).* Lending involves various administrative costs, related to loan processing, servicing, and debt collection, that are necessary to preserve the value of the loan portfolio. Since the Government cannot avoid these costs, this component is relevant to taxpayers. However, consistent with all other Federal administrative costs, administrative costs of running credit programs are provided on a cash basis, separate from the credit subsidy. Private lenders would build essential costs into their pricing. Administrative expenses would need to be estimated and removed from market rates for fair value estimates, which may be difficult. Data on private lender administrative costs is not readily available. Although administrative costs are relevant to both private investors and taxpayers, the amounts may not be the same for a variety of reasons, including different cost structures, levels of service and technical assistance. On the Federal side, it may also be difficult to tease out what costs are "essential" to the value of the loan, and which costs are discretionary policy choices given program goals.

### Chart 20-1. Face Value of Federal Credit Outstanding



**Table 20–2. ESTIMATED FUTURE COST OF OUTSTANDING DIRECT LOANS AND LOAN GUARANTEES**  
(In billions of dollars)

Program	Outstanding 2012	Estimated Future Costs of 2012 Outstanding <sup>1</sup>	Outstanding 2013	Estimated Future Costs of 2013 Outstanding <sup>1</sup>
<b>Direct Loans:<sup>2</sup></b>				
Federal Student Loans .....	510	-17	623	-54
Education Temporary Student Loan Purchase Authority .....	95	-14	90	-13
Farm Service Agency, Rural Development, Rural Housing .....	53	10	53	6
Rural Utilities Service and Rural Telephone Bank .....	52	2	54	2
Troubled Asset Relief Program (TARP) <sup>3</sup> .....	40	24	18	6
State Housing Finance Authority Direct Loans .....	14	1	9	1
Export-Import Bank .....	13	2	18	2
Advance Technology Vehicle Manufacturing, Title 17 Loans .....	12	2	14	2
Housing and Urban Development .....	10	8	11	7
Disaster Assistance .....	8	2	8	2
Transportation Infrastructure Finance and Innovation Act Loans .....	5	*	7	*
Small Business Lending Fund (SBLF) <sup>3</sup> .....	4	-*	4	-*
Public Law 480 .....	4	3	4	2
Agency for International Development .....	4	1	3	1
Other direct loan programs <sup>3</sup> .....	28	8	31	9
Total direct loans .....	852	32	947	-27
<b>Guaranteed Loans:<sup>2</sup></b>				
FHA Mutual Mortgage Insurance Fund .....	1,118	43	1,142	32
Department of Veterans Affairs (VA) Mortgages .....	296	6	349	8
Federal Student Loan Guarantees .....	291	1	264	*
FHA General and Special Risk Insurance Fund .....	143	12	148	9
Farm Service Agency, Rural Development, Rural Housing .....	97	4	112	5
Small Business Administration (SBA) Business Loan Guarantees <sup>4</sup> .....	87	4	93	3
Export-Import Bank .....	57	2	62	2
International Assistance .....	21	2	21	2
Commodity Credit Corporation Export Loan Guarantees .....	5	*	5	*
Title 17 Loan Guarantees .....	3	*	3	*
Government National Mortgage Association (GNMA) <sup>4</sup> .....	.....	*	.....	*
Other guaranteed loan programs <sup>3</sup> .....	10	*	8	1
Total guaranteed loans .....	2,128	74	2,207	62
<b>Total Federal credit .....</b>	<b>2,980</b>	<b>105</b>	<b>3,154</b>	<b>35</b>

\* \$500 million or less.

<sup>1</sup>Future costs represent balance sheet estimates of allowance for subsidy cost, liabilities for loan guarantees, and estimated uncollectible principal and interest.

<sup>2</sup>Excludes loans and guarantees by deposit insurance agencies and programs not included under credit reform, such as Commodity Credit Corporation price supports. Defaulted guaranteed loans that result in loans receivable are included in direct loan amounts.

<sup>3</sup>As authorized by statute, table includes TARP and SBLF equity purchases, and International Monetary Fund (IMF) transactions resulting from the 2009 Supplemental Appropriations Act. Future costs for TARP and IMF transactions are calculated using the discount rate required by the Federal Credit Reform Act adjusted for market risks, as directed in legislation.

<sup>4</sup>To avoid double-counting, outstandings for GNMA and SBA secondary market guarantees and TARP FHA Letter of Credit program are excluded from the totals.

**Table 20-3. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2013-2015**

(Dollars in millions)

Agency and Program	2013 Actual			2014 Enacted			2015 Proposed		
	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels
<b>Agriculture:</b>									
Agricultural Credit Insurance Fund Program Account .....	5.18	80	1,542	3.70	70	1,891	1.45	41	2,873
Farm Storage Facility Loans Program Account .....	-2.47	-6	244	-2.54	-9	320	-3.00	-10	320
Rural Electrification and Telecommunications Loans Program Account .....	-6.26	-319	5,106	-3.14	-176	5,590	-5.24	-298	5,690
Distance Learning, Telemedicine, and Broadband Program .....	9.47	8	89	13.07	6	44	18.20	8	46
Rural Water and Waste Disposal Program Account .....	8.07	71	877	-1.13	-14	1,240	-0.61	-7	1,200
Rural Community Facilities Program Account .....	-2.08	-28	1,343	-13.21	-291	2,200	-12.41	-273	2,200
Multifamily Housing Revitalization Program Account .....	57.38	8	14	45.56	9	21	55.93	48	87
Rural Housing Insurance Fund Program Account .....	7.61	67	891	4.35	45	1,029	11.24	54	473
Rural Microenterprise Investment Program Account .....	.....	.....	.....	6.26	3	50	12.81	5	38
Rural Development Loan Fund Program Account .....	32.04	6	17	21.61	4	19	30.80	3	10
Rural Economic Development Loans Program Account .....	12.39	6	49	8.45	4	50	12.77	12	93
<b>Commerce:</b>									
Fisheries Finance Program Account .....	-4.72	-2	39	-7.50	-9	124	-4.39	-6	124
<b>Defense—Military Programs:</b>									
Defense Family Housing Improvement Fund .....	17.55	58	330	.....	.....	.....	.....	.....	.....
<b>Education:</b>									
College Housing and Academic Facilities Loans Program Account .....	6.29	13	215	3.09	19	303	5.94	20	340
TEACH Grant Program Account .....	11.01	13	119	13.75	15	106	16.53	18	108
Federal Perkins Loan Program Account .....	.....	.....	.....	.....	.....	.....	-17.67	-828	4,684
Federal Direct Student Loan Program Account .....	-19.75	-29,952	151,641	-15.71	-21,585	137,358	-10.22	-14,399	140,895
<b>Energy:</b>									
Title 17 Innovative Technology Loan Guarantee Program .....	.....	.....	.....	<sup>2</sup> 0.47	34	7,226	<sup>2</sup> 2.17	123	5,666
Advanced Technology Vehicles Manufacturing Loan Program Account .....	.....	.....	.....	<sup>2</sup> 25.42	4,220	16,602	.....	.....	.....
<b>Health and Human Services:</b>									
Consumer Operated and Oriented Plan Program Account .....	41.37	122	294	.....	.....	.....	.....	.....	.....
Consumer Operated and Oriented Plan Program Contingency Fund .....	37.66	2	7	40.64	210	518	.....	.....	.....
<b>Homeland Security:</b>									
Disaster Assistance Direct Loan Program Account .....	91.63	160	175	95.25	28	30	96.35	29	30
<b>Housing and Urban Development:</b>									
FHA-Mutual Mortgage Insurance Program Account .....	.....	.....	.....	.....	.....	20	.....	.....	20
FHA-General and Special Risk Program Account .....	.....	.....	.....	.....	.....	1	.....	.....	1
Emergency Homeowners' Relief Fund .....	97.71	4	4	.....	.....	.....	.....	.....	.....
<b>State:</b>									
Repatriation Loans Program Account .....	57.67	1	2	63.06	2	2	52.65	1	2
<b>Transportation:</b>									
TIFIA General Fund Program Account, Federal Highway Administration, Transportation .....	7.41	37	499	.....	.....	.....	.....	.....	.....
Federal-aid Highways .....	8.87	145	1,639	7.07	925	13,083	9.53	925	9,706
Railroad Rehabilitation and Improvement Program .....	.....	.....	.....	.....	.....	600	.....	.....	600
<b>Treasury:</b>									
Community Development Financial Institutions Fund Program Account .....	-1.02	-4	338	<sup>2</sup> 0.29	3	775	<sup>2</sup> 0.30	3	1,025
<b>Veterans Affairs:</b>									
Veterans Housing Benefit Program Fund .....	-2.29	*	2	-23.26	-51	220	-20.27	-68	331
Native American Veteran Housing Loan Program Account .....	-12.55	-1	7	-13.12	-2	14	-13.31	-2	14
<b>International Assistance Programs:</b>									
Overseas Private Investment Corporation Program Account .....	-8.45	-62	729	-4.28	-17	400	-3.74	-26	700



**Table 20-3. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2013–2015—Continued**  
(Dollars in millions)

Agency and Program	2013 Actual			2014 Enacted			2015 Proposed		
	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels
Small Business Administration:									
Disaster Loans Program Account .....	11.11	146	1,317	8.48	93	1,100	12.37	136	1,100
Business Loans Program Account .....	15.71	7	43	18.64	5	25	10.12	3	25
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account .....	-8.68	-597	6,874	-0.05	-2	5,020	-9.26	-278	3,000
National Infrastructure Bank:									
National Infrastructure Bank Program Account .....	.....	.....	.....	.....	.....	.....	<sup>2</sup> 11.57	116	1,000
<b>Total .....</b>	<b>N/A</b>	<b>-30,017</b>	<b>174,446</b>	<b>N/A</b>	<b>-16,461</b>	<b>195,981</b>	<b>N/A</b>	<b>-14,650</b>	<b>182,401</b>

N/A = Not applicable

\* Less than \$500,000.

<sup>1</sup>Additional information on credit subsidy rates is available in the Federal Credit Supplement.

<sup>2</sup>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 20–4. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2013-2015**  
(Dollars in millions)

Agency and Program	2013 Actual			2014 Enacted			2015 Proposed		
	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels
<b>Agriculture:</b>									
Agricultural Credit Insurance Fund Program Account .....	0.40	10	2,398	0.40	14	3,650	0.34	12	3,543
Commodity Credit Corporation Export Loans Program Account .....	-1.10	-39	3,545	-1.17	-64	5,500	-1.11	-61	5,500
Rural Water and Waste Disposal Program Account .....	1.06	*	18	0.71	*	42	0.59	1	172
Rural Community Facilities Program Account .....	6.75	7	101	4.97	9	189	4.78	1	13
Rural Housing Insurance Fund Program Account .....	-0.25	-56	22,403	-0.14	-34	24,150	-0.58	-141	24,150
Rural Business Program Account .....	5.72	54	939	6.98	79	1,126	5.11	41	806
Rural Business Investment Program Account .....							10.19	4	39
Rural Energy for America Program .....	24.01	8	33	27.43	43	155	10.58	36	342
Biorefinery Assistance Program Account .....				41.43	131	315	40.32	50	124
<b>Commerce:</b>									
Economic Development Assistance Programs .....							15.60	5	32
<b>Defense—Military Programs:</b>									
Defense Family Housing Improvement Fund .....	14.71	69	471						
<b>Health and Human Services:</b>									
Health Resources and Services .....				4.18	*	12	4.37	*	6
<b>Housing and Urban Development:</b>									
Indian Housing Loan Guarantee Fund Program Account .....	1.35	9	642	0.47	4	900	0.84	10	1,200
Native Hawaiian Housing Loan Guarantee Fund Program Account .....	0.50	*	25	0.53	*	25	0.62	*	25
Native American Housing Block Grant .....	10.91	2	16	12.10	3	25	11.21	3	27
Community Development Loan Guarantees Program Account .....	2.46	6	231	2.56	8	313	0.00	*	500
FHA-Mutual Mortgage Insurance Program Account .....	-6.83	-17,444	255,164	-6.63	-10,186	153,530	-8.10	-12,190	150,642
FHA-General and Special Risk Program Account .....	-4.29	-1,045	24,356	-3.86	-888	23,039	-4.22	-886	20,945
<b>Interior:</b>									
Indian Guaranteed Loan Program Account .....	5.53	4	73	5.75	4	70	6.64	4	70
<b>Transportation:</b>									
Minority Business Resource Center Program .....	1.73	*	3	1.76	*	18	2.27	*	18
Maritime Guaranteed Loan (Title XI) Program Account .....				10.35	64	626	9.25	8	85
<b>Veterans Affairs:</b>									
Veterans Housing Benefit Program Fund .....	-0.10	-135	134,859	-0.02	-22	112,026	0.27	249	92,070
<b>International Assistance Programs:</b>									
Loan Guarantees to Israel Program Account .....						1,909			1,905
MENA Loan Guarantee Program Account .....				9.75	122	1,250			
Development Credit Authority Program Account .....	2.02	10	496	4.07	25	618	6.30	37	581
Overseas Private Investment Corporation Program Account .....	-12.51	-411	3,289	-5.85	-148	2,530	-5.60	-181	3,230
<b>Small Business Administration:</b>									
Disaster Loans Program Account .....							1.93	*	18
Business Loans Program Account .....	0.65	377	58,063	0.19	130	67,599	0.06	45	75,010
<b>Export-Import Bank of the United States:</b>									
Export-Import Bank Loans Program Account .....	-1.80	-368	20,466	-2.19	-568	25,915	-3.37	-1,163	34,557
<b>National Infrastructure Bank:</b>									
National Infrastructure Bank Program Account .....							<sup>2</sup> 8.85	18	200
<b>Total .....</b>	<b>N/A</b>	<b>-18,942</b>	<b>527,591</b>	<b>N/A</b>	<b>-11,274</b>	<b>425,532</b>	<b>N/A</b>	<b>-14,098</b>	<b>415,810</b>

**Table 20-4. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2013-2015—Continued**  
(Dollars in millions)

Agency and Program	2013 Actual			2014 Enacted			2015 Proposed		
	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels
<b>ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS</b>									
Government National Mortgage Association:									
Guarantees of Mortgage-backed Securities Loan Guarantee Program Account .....	-0.23	-1,068	460,373	-0.22	-542	246,500	-0.28	-832	297,000
Treasury:									
Troubled Asset Relief Program, Housing Programs <sup>3</sup> .....	2.48	5	183	.....	.....	.....	.....	.....	.....
Small Business Administration:									
Secondary Market Guarantee Program .....	.....	.....	4,490	.....	.....	12,000	.....	.....	12,000
<b>Total, secondary guaranteed loan commitments .....</b>	<b>N/A</b>	<b>-1,063</b>	<b>465,046</b>	<b>N/A</b>	<b>-542</b>	<b>258,500</b>	<b>N/A</b>	<b>-832</b>	<b>309,000</b>

N/A = Not applicable.

<sup>1</sup>Less than \$500,000.

<sup>2</sup>Additional information on credit subsidy rates is available in the Federal Credit Supplement.

<sup>3</sup>Rate reflects notional estimate. Estimates will be determined at the time of execution, and will reflect the terms of the contracts and other characteristics.

<sup>4</sup>Amounts reflect the TARP FHA Refinance Letter of Credit Program. Subsidy costs for this program are calculated using the discount rate required by the Federal Credit Reform Act, adjusted for market risks, as directed in legislation.

**Table 20-5. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES<sup>1</sup>**  
(In billions of dollars)

	Actual								Estimate	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Direct loans:</b>										
Obligations .....	57.8	42.5	75.6	812.9	246.0	296.3	191.1	174.4	196.0	182.4
Disbursements .....	46.6	41.7	41.1	669.4	218.9	186.7	170.0	157.5	156.8	165.7
New subsidy budget authority <sup>2</sup> .....	4.7	1.4	3.7	140.1	-9.2	-15.7	-27.2	-29.8	-16.5	-14.8
Reestimated subsidy budget authority <sup>2,3</sup> .....	3.1	3.4	-0.8	-0.1	-125.1	-66.8	16.8	-19.7	-0.8	.....
<b>Total subsidy budget authority .....</b>	<b>7.8</b>	<b>4.8</b>	<b>-1.3</b>	<b>140.0</b>	<b>-134.3</b>	<b>-82.5</b>	<b>-10.4</b>	<b>-49.4</b>	<b>-17.2</b>	<b>-14.8</b>
<b>Loan guarantees:</b>										
Commitments <sup>4</sup> .....	280.7	270.2	367.7	879.2	507.3	446.7	479.7	527.6	425.5	415.8
Lender disbursements <sup>4</sup> .....	256.0	251.2	354.6	841.5	494.8	384.1	444.3	491.5	373.0	352.9
New subsidy budget authority <sup>2</sup> .....	17.2	5.7	-1.4	-7.8	-4.9	-7.4	-6.9	-17.9	-10.7	-13.3
Reestimated subsidy budget authority <sup>2,3</sup> .....	7.0	-6.8	3.6	0.5	7.6	-4.0	-4.9	20.8	1.2	.....
<b>Total subsidy budget authority .....</b>	<b>24.2</b>	<b>-1.1</b>	<b>2.2</b>	<b>-7.2</b>	<b>2.8</b>	<b>-11.4</b>	<b>-11.8</b>	<b>2.8</b>	<b>-9.6</b>	<b>-13.3</b>

<sup>1</sup> As authorized by statute, table includes TARP and SBLF equity purchases and International Monetary Fund (IMF) transactions resulting from the 2009 Supplemental Appropriations Act.

<sup>2</sup> Credit subsidy costs for TARP and IMF transactions are calculated using the discount rate required by the Federal Credit Reform Act adjusted for market risks, as directed in legislation.

<sup>3</sup> Includes interest on reestimate.

<sup>4</sup> To avoid double-counting, the face value of GNMA and SBA secondary market guarantees and the TARP FHA Letter of Credit program are excluded from the totals.

## 21. 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 to expand access to credit, strengthen financial institutions, restore confidence in U.S. financial markets, and stabilize the housing sector.

This chapter provides 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. The cost estimates in this report analyze transactions as of November 30, 2013, and expected transactions as reflected in the budget and required under EESA. Where noted, a descriptive analysis of additional transactions that occurred after November 30, 2013 is provided. This chapter also includes an overview of the Wall Street Reform Act signed into law in 2010 and a summary of other key Government programs supporting economic recovery and financial market reforms.

### TROUBLED ASSET RELIEF PROGRAM

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 restore confidence in U.S. financial institutions, to restart markets critical to financing American household and business activity, and to address housing market problems and the foreclosure crisis. Under EESA, TARP purchase authority was 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, 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.

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. Consistent with statutory requirements, the 2015 Budget data presented in this report reflect revised subsidy costs for the TARP programs using actual performance and updated market information through November 30,

2013. Proceeds from sales of TARP-related financial assets occurring from November 30, 2013 to January 31, 2014 exceeded estimates and will ultimately lower lifetime deficit costs relative to the estimates provided in this report. For information on subsequent TARP program developments, please consult the Treasury Department's Troubled Asset Relief Program Monthly 105(a) Reports.

The Administration's current estimate of TARP's deficit cost for its \$456.6 billion in cumulative obligations is \$39.0 billion (see Tables 21-1 and 21-7). 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 21-9 for an estimate of TARP subsidy costs stripped of the market-risk adjustment.)

A description of the market impact of TARP programs, followed by a detailed analysis of the assets purchased through TARP, is provided at the end of this report.

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

Under EESA, Treasury has purchased different types of financial instruments with varying terms and conditions. The budget reflects the costs of these instruments using the methodology as provided by Section 123 of EESA. The costs of equity purchases, loans, guarantees, and loss sharing under the FHA Refinance program are the net present value of cash flows to and from the Government over the life of the instrument, per the Federal Credit Reform Act (FCRA) of 1990 (2 U.S.C. 661 et seq.), with an adjustment



to the discount rate for market risks. 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.<sup>1</sup>

The estimated costs of each transaction reflect the underlying structure of the instrument. TARP financial instruments include direct loans, structured loans, equity, loan guarantees, and 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. Each cash flow model reflects the specific terms and conditions of the program, and technical assumptions regarding the underlying assets, risk of default or other losses, and other factors that may affect cash flows to and from the Government. For instruments other than direct incentive payments, projected cash flows are discounted using the appropriate Treasury rates, adjusted for market risks as prescribed under EESA. Risk adjustments to the discount rates are intended to capture a risk premium for uncertainty around future cash flows, and were made using available data and methods. Consistent with the requirement under FCRA to reflect the lifetime present value cost, subsidy cost estimates are reestimated every year an instrument is outstanding, with a final closing reestimate once an instrument is fully liquidated. Reestimates update the cost for actual transactions, and updated future expectations. When all investments in a given cohort are liquidated, their actual costs (including any market risk effects) become known and are reflected in final closing reestimates. The basic methods for each of these models are outlined below.

### **Direct Loans and Asset-Backed Securities**

Direct loan cash flow models 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 economic projections, where available, or publically available proxy data including aggregated credit rating agency historical performance data. Direct loans also include structured loans where an intermediary special purpose vehicle (SPV) was established to purchase or commit to purchase assets from beneficiaries such as under the Term Asset-Backed Loan Securities Loan Facility. TARP asset purchases are reflected as direct loans, with fees and repay-

<sup>1</sup> Section 123 of the EESA provides the Administration the authority to record TARP equity purchases pursuant to the FCRA, with required adjustments to the discount rate for market risks. The Making Home Affordable programs and HFA Hardest Hit Fund involve the purchase of financial instruments which have no provision for repayment or other return on investment, and do not constitute direct loans or guarantees under FCRA. Therefore these purchases are recorded on a cash basis. Administrative expenses are recorded for all of TARP under the Office of Financial Stability and the Special Inspector General for TARP on a cash basis, consistent with other Federal administrative costs, but are recorded separately from TARP program costs.

ments from the SPV, or other cashflows from the proceeds of any purchased assets. The model 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. Where the Government purchases securities backed by debt instruments, this is considered a direct loan because in purchasing the security, the Government is effectively stepping into the shoes of the lender, and providing the capital for the underlying loans. Repayments are derived from the principal and interest payments on the underlying loans, and are part of the forecast revenue stream.

### **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 had to be structured such that fees and other income 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.

### **Equity Purchases**

Purchases of preferred stock result in dividends and other proceeds from such stock or other consideration, such as warrants. Cash flow projections reflect the risk of losses associated with adverse events, such as the failure of an institution, or other negative market movements. Estimated cash flows depend on the interest rate environment and the strength of a financial institution's assets—both of which affect the institution's decision to repurchase its stock, and the price expected if Treasury elects to sell the stock. 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.

### **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. Through the LOC agreement with Citigroup, Treasury is committed to make claim payments to private lenders to cover a portion of defaulted single-family mortgage 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.

### **Other TARP Housing**

Foreclosure mitigation incentive payments occur when the Government makes incentive payments to borrowers, servicers, and investors 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

**Table 21–1. CHANGE IN PROGRAMMATIC COSTS OF TROUBLED ASSET RELIEF ACTIONS**  
(In billions of dollars)

TARP Actions	2014 Budget		2015 Budget		Change from 2014 Budget to 2015 Budget	
	TARP Obligations <sup>1</sup>	Estimated Cost (+) / Savings (-)	TARP Obligations <sup>1</sup>	Estimated Cost (+) / Savings (-)	TARP Obligations <sup>1</sup>	Estimated Cost (+) / Savings (-)
Equity purchases .....	336.8	10.2	336.8	6.1	.....	-4.1
Direct loans and asset-backed security purchases .....	77.5	17.4	76.2	16.6	-1.2	-0.9
Guarantees of troubled asset purchases <sup>2</sup> .....	5.0	-3.8	5.0	-3.9	.....	-0.1
TARP housing programs <sup>3</sup> .....	38.5	37.6	38.5	37.5	-*	-0.1
<b>Total programmatic costs<sup>4</sup> .....</b>	<b>457.8</b>	<b>61.5</b>	<b>456.6</b>	<b>56.3</b>	<b>-1.2</b>	<b>-5.2</b>
<b>Memorandum:</b>						
<b>Deficit impact with interest on reestimates<sup>5</sup> .....</b>		<b>47.5</b>		<b>39.0</b>		<b>-8.5</b>

\*\$50 Million or less.

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

<sup>2</sup>The total assets supported by the Asset Guarantee Program were \$301 billion.

<sup>3</sup>TARP obligations include FHA Refinance Letter of Credit first loss coverage of eligible FHA insured mortgages.

<sup>4</sup>Total programmatic costs of the TARP exclude interest on reestimates.

<sup>5</sup>The total deficit impact of TARP as of November 30, 2013 includes \$17.43 billion in subsidy cost for TARP investments in AIG. Additional proceeds of \$17.55 billion resulting from Treasury holdings of non-TARP shares in AIG are not included.

sale, or receiving a deed in lieu of foreclosure. The method for estimating these cash flows includes forecasting the total eligible loans, the timing of the loans entering into the program, loan characteristics, the overall participation rate in the program, the re-default rate, home price appreciation, and the size of the incentive payments. For the HFA Hardest-Hit Fund (HHF), the Government provides a cash infusion, similar to a grant, to the eligible entities of state Housing Financing Agencies (HFAs) to design and implement innovative programs to prevent foreclosures and bring stability to local housing markets. The estimated cash flows for the HHF are based on the program plans submitted by the HFAs and approved by Treasury.

### TARP Program Costs and Current Value of Assets

This section provides the special analysis required under Sections 202 and 203 of EESA, including estimates of the cost to taxpayers and the budgetary effects of TARP transactions as reflected in the budget.<sup>2</sup> This section explains the changes in TARP costs, and includes alternative estimates as prescribed under EESA. It also includes a comparison of the cost estimates with previous estimates provided by OMB and by the Congressional Budget Office (CBO).

Table 21–1, above, summarizes the cumulative and anticipated activity under TARP, and the estimated lifetime budgetary cost reflected in the Budget, compared to estimates from the 2014 Budget. The direct impact of TARP on the deficit is projected to be \$39.0 billion, down \$8.5 billion from the \$47.5 billion estimate in the 2014 Budget. The total programmatic cost represents the lifetime net present value cost of TARP obligations from the date of disbursement, which is now estimated to be \$56.3 billion, excluding interest on reestimates.<sup>3</sup> The final subsidy cost

<sup>2</sup> The analysis does not assume the effects on net TARP costs of a recoupment proposal required by Section 134 of EESA.

<sup>3</sup> With the exception of the Making Home Affordable and HFA Har-

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 for uncertainty on future estimated TARP cash flows is returned to the General Fund through subsidy reestimates, as actual cash flows are known. 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 cashflows to and from the public.<sup>4</sup> Therefore, 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 true-up assets and liabilities, setting the net debt or cash balance in the financing account equal to the present value of future cashflows.<sup>5</sup>

est-Hit Fund programs, all the other TARP investments are reflected on a present value basis pursuant to the FCRA and the EESA.

<sup>4</sup> 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.

<sup>5</sup> For a full explanation of FCRA budgetary accounting, please see chapter 20, "Credit and Insurance," in this volume.

**Table 21–2. TROUBLED ASSET RELIEF PROGRAM CURRENT VALUE<sup>1</sup>**  
(In billions of dollars)

	Actual					Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Financing Account Balances:</b>																
Troubled Asset Relief Program Equity Purchase Financing Account .....	105.4	76.9	74.9	13.6	6.6	5.1	1.0	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1
Troubled Asset Relief Program Direct Loan Financing Account .....	23.9	42.7	28.5	17.9	3.1	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 .....	.....	.....	—*	—*	—*	—*	—*	—*	—*	—*	—*	.....	.....	.....	.....	.....
<b>Total Financing Account Balances .....</b>	<b>129.9</b>	<b>122.0</b>	<b>104.1</b>	<b>32.2</b>	<b>9.7</b>	<b>5.9</b>	<b>1.0</b>	<b>0.7</b>	<b>0.5</b>	<b>0.4</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

\*\$50 million or less.

<sup>1</sup>Current value as reflected in the 2015 Budget. Amounts exclude housing activity under the Making Home Affordable program and the Hardest Hit Fund as these programs are reflected on a cash basis.

Table 21–2 shows the actual balances of TARP financing accounts as of November 30, 2013, and projected balances for each subsequent year through 2024.<sup>6</sup> 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 2013, total TARP net asset value decreased to \$9.7 billion, reflecting the realized value of TARP assets as repayments, primarily from large banks, and exceeding amounts TARP paid for financial assets. Estimates in 2014 and beyond reflect estimated TARP net asset values over time as of November 30, 2013, and all other anticipated transactions. The overall balance of the financing accounts is estimated to continue falling over the next few years, as TARP investments wind down.

no financing account balance as of the end of 2013. 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 reserves are projected to fall as claims are paid and as the TARP coverage expires.

Where Table 21–2 displays the estimated value of TARP investments, guarantees, and loss share agreements over time, Table 21–3 shows the actual and estimated face value of outstanding TARP investments at the end of each year through 2015. For equity investments, the par value of Treasury's remaining investment is reflected. The outstanding amount of equity investments and direct loans decreased in 2013, as Treasury continued to wind down its

**Table 21–3. TROUBLED ASSET RELIEF PROGRAM FACE VALUE OF TARP OUTSTANDING<sup>1</sup>**  
(In billions of dollars)

	Actual					Estimate	
	2009	2010	2011	2012	2013	2014	2015
Equity purchases .....	229.6	119.0	88.2	33.8	17.4	5.6	1.0
Direct loans and asset-backed security purchases .....	60.5	15.7	11.5	6.6	0.8	.....	.....
Guarantees of troubled assets .....	251.4	.....	.....	.....	.....	.....	.....
FHA Refinance Letter of Credit .....	.....	.....	0.1	0.3	0.5	0.5	0.4
<b>Total Face Value of TARP Outstanding .....</b>	<b>541.5</b>	<b>134.7</b>	<b>99.8</b>	<b>40.7</b>	<b>18.7</b>	<b>6.1</b>	<b>1.5</b>

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

The value of TARP equity purchases reached a high of \$105.4 billion in 2009, and has since declined significantly with the wind down of 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. TARP direct loans are expected to be fully wound down by the beginning of 2015. The Asset Guarantee Program concluded with the February 2013 liquidation of trust preferred shares Treasury received from the FDIC, following termination of the guarantee on Citigroup assets and shows

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 21–6), and was extinguished with the termination of the Citibank guarantee in 2009. Likewise, while TARP supports nearly \$0.5 billion in FHA Refinance mortgages by the letter of credit facility, the TARP's estimated liability is much lower (including \$25 million set aside for administrative fees). The TARP coverage ratio or share of default losses was 15.17 percent in 2012 and 9.82 percent in 2013 for covered FHA Short Refinancing loans. The overall out-

<sup>6</sup> Reestimates for TARP are calculated using actual data through November 30, 2013, and updated projections of future activity. Thus, the full impacts of TARP reestimates are reflected in the 2014 financing account balances.



standing face value of mortgages supported by the FHA Refinance Letter of Credit reached \$0.5 billion in 2013. Currently it is not anticipated that additional guarantees will require TARP loss coverage after 2013 because FHA's premium collections are sufficient to cover estimated claim costs, though a reserve is maintained to support the program through December 31, 2014.<sup>7</sup> The face value of TARP FHA Refinance Letter of Credit instruments in Table 21-3 does not include FHA Refinancing guarantees 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 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. As shown in Table 21-4, direct activity under the TARP is expected to decrease the 2014 deficit by \$2.6 billion. This reflects estimated TARP housing outlays of \$5.2 billion, offset by \$8.1 billion in downward reestimates on TARP investments, including interest on reestimates. The estimates of U.S. Treasury debt attributable to TARP include borrowing to finance both 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 2014 is \$23.8 billion.

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 \$17.9 billion as of the end of 2014. This is \$16.4 billion lower than the projected 2014 debt held net of financial assets reflected in the 2014 Budget. However, debt net of financial assets is anticipated to increase annually starting in 2014, as debt is incurred to finance TARP housing costs and debt service.

In 2014, Table 21-4 shows total TARP activity including interest effects and administrative costs, reducing the deficit by \$2.6 billion. Financing account interest transactions are estimated to be roughly \$2 billion. Under 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, 2013, 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, with no additional risk adjustment.<sup>8</sup> 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.<sup>9</sup> 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 21-5, for comparison to those estimates in Table 21-4 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 transac-

<sup>8</sup> As TARP transactions wind down, the final lifetime cost estimates under the requirements of Section 123 of EESA will reflect no adjustment to the discount rate for market risks, as these risks have already been realized in the actual cash flows. Therefore, the final subsidy cost for TARP transactions will equal the cost per FCRA, where the net present value costs are estimated by discounting cashflows using Treasury rates.

<sup>9</sup> For the Making Home Affordable programs and the HFA Hardest Hit Fund, Treasury's purchase of financial instruments does not result in the acquisition of an asset with potential for future cash flows, and therefore are recorded on a cash basis.

<sup>7</sup> Changes to the FHA program fee structure were sufficient to cover anticipated losses on new guarantees beginning in 2013. As a result, TARP first-loss coverage is not provided for FHA Short Refi loans after the revised fee structure was implemented.



**Table 21–4. TROUBLED ASSET RELIEF PROGRAM EFFECTS ON THE DEFICIT AND DEBT<sup>1</sup>**  
(Dollars in billions)

	Actual					Estimate											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
<b>Deficit Effect:</b>																	
<b>Programmatic and administrative expenses:</b>																	
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	-0.1	-*	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	
Guarantees of troubled asset purchases .....	-1.0	-1.4	.....	.....	-0.1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	
TARP housing programs .....	*	0.5	1.9	3.1	3.9	5.2	6.2	5.2	5.2	3.0	1.5	1.5	0.4	.....	.....	.....	
Reestimates of credit subsidy costs .....	.....	-116.5	-58.5	20.3	-12.6	-8.1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	
Subtotal, programmatic expenses .....	151.2	-109.9	-37.7	24.3	-8.8	-3.0	6.2	5.2	5.2	3.0	1.5	1.5	0.4	.....	.....	.....	
Administrative expenses .....	0.1	0.2	0.4	0.3	0.2	0.4	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	-8.5	-2.6	6.4	5.4	5.3	3.1	1.6	1.6	0.4	*	*	*	
<b>Interest effects:</b>																	
Interest transactions with credit financing accounts <sup>2</sup> ...	-2.8	-4.7	-3.0	-1.6	-0.6	-2.0	-0.2	-0.1	-0.1	-*	-*	-*	-*	-*	-*	-*	
Debt service <sup>3</sup> .....	2.8	4.7	3.0	1.7	0.6	2.0	0.2	0.3	0.7	1.2	1.6	1.8	1.9	2.0	2.0	2.1	
Subtotal, interest effects .....	*	*	*	*	*	-0.1	-*	0.3	0.7	1.2	1.6	1.7	1.9	2.0	2.0	2.1	
<b>Total deficit impact .....</b>	<b>151.3</b>	<b>-109.6</b>	<b>-37.3</b>	<b>24.7</b>	<b>-8.5</b>	<b>-2.6</b>	<b>6.4</b>	<b>5.6</b>	<b>6.0</b>	<b>4.3</b>	<b>3.1</b>	<b>3.3</b>	<b>2.3</b>	<b>2.0</b>	<b>2.1</b>	<b>2.2</b>	
<b>Other TARP transactions affecting borrowing from the public — net disbursements of credit financing accounts:</b>																	
Troubled Asset Relief Program Equity Purchase Financing Account .....	105.4	-28.5	-2.0	-61.3	-7.0	-1.5	-4.1	-0.3	-0.2	-0.1	-0.2	-0.1	-*	-*	-*	-*	
Troubled Asset Relief Program Direct Loan Financing Account .....	23.9	18.8	-14.2	-10.6	-14.8	-2.2	-0.9	.....	.....	.....	.....	.....	.....	.....	.....	.....	
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 .....	.....	.....	-*	-*	-*	*	*	*	*	*	*	*	*	.....	.....	.....	
Total, other transactions affecting borrowing from the public .....	129.9	-7.9	-17.8	-71.9	-22.5	-3.8	-5.0	-0.3	-0.2	-0.1	-0.2	-0.1	-*	-*	-*	-*	
<b>Change in debt held by the public .....</b>	<b>281.2</b>	<b>-117.5</b>	<b>-55.1</b>	<b>-47.2</b>	<b>-31.0</b>	<b>-6.4</b>	<b>1.4</b>	<b>5.3</b>	<b>5.8</b>	<b>4.2</b>	<b>3.0</b>	<b>3.2</b>	<b>2.3</b>	<b>2.0</b>	<b>2.1</b>	<b>2.1</b>	
<b>Debt held by the public .....</b>	<b>281.2</b>	<b>163.6</b>	<b>108.5</b>	<b>61.3</b>	<b>30.3</b>	<b>23.8</b>	<b>25.3</b>	<b>30.6</b>	<b>36.4</b>	<b>40.6</b>	<b>43.6</b>	<b>46.8</b>	<b>49.1</b>	<b>51.1</b>	<b>53.1</b>	<b>55.3</b>	
As a percent of GDP .....	2.0	1.1	0.7	0.4	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
<b>Debt held by the public net of financial assets:</b>																	
Debt held by the public .....	281.2	163.6	108.5	61.3	30.3	23.8	25.3	30.6	36.4	40.6	43.6	46.8	49.1	51.1	53.1	55.3	
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	6.6	5.1	1.0	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1	
Troubled Asset Relief Program Direct Loan Financing Account .....	23.9	42.7	28.5	17.9	3.1	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 .....	.....	.....	-*	-*	-*	-*	-*	-*	-*	-*	-*	-*	.....	.....	.....	.....	
Total, financial assets net of liabilities .....	129.9	122.0	104.1	32.2	9.7	5.9	1.0	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1	
<b>Debt held by the public net of financial assets .....</b>	<b>151.3</b>	<b>41.6</b>	<b>4.4</b>	<b>29.0</b>	<b>20.5</b>	<b>17.9</b>	<b>24.3</b>	<b>29.9</b>	<b>35.9</b>	<b>40.2</b>	<b>43.4</b>	<b>46.7</b>	<b>49.0</b>	<b>51.0</b>	<b>53.1</b>	<b>55.2</b>	
As a percent of GDP .....	1.0	0.3	0.0	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	

\*\$50 million or less.

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

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

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

**Table 21–5. TROUBLED ASSET RELIEF PROGRAM EFFECTS ON THE DEFICIT AND DEBT CALCULATED ON A CASH BASIS<sup>1</sup>**  
(Dollars in billions)

	Actual					Estimate											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
<b>Deficit Effect:</b>																	
<b>Programmatic and administrative expenses:</b>																	
Programmatic expenses:																	
Equity purchases .....	217.6	-121.9	-36.8	-47.2	-16.4	-9.3	-4.2	-0.4	-0.3	-0.1	-0.2	-0.1	-0.1	-*	-*	-*	
Direct loans and purchases of asset-backed securities .....	61.1	-1.0	-21.3	-5.0	-18.4	-4.6	-1.0	.....	.....	.....	.....	.....	.....	.....	.....	.....	
Guarantees of troubled asset purchases .....	-0.5	-0.3	-2.3	-*	-1.1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	
TARP housing programs .....	*	0.5	1.9	3.1	3.9	5.2	6.2	5.2	5.2	3.0	1.5	1.5	0.4	.....	.....	.....	
Subtotal, programmatic expenses .....	278.3	-122.6	-58.6	-49.2	-31.9	-8.8	1.0	4.8	4.9	2.9	1.3	1.4	0.3	-*	-*	-*	
Administrative expenses .....	0.1	0.2	0.4	0.3	0.2	0.4	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	-31.6	-8.4	1.3	5.0	5.1	3.0	1.4	1.5	0.4	*	*	*	
Debt service <sup>2</sup> .....	2.8	4.7	3.0	1.7	0.6	2.0	0.2	0.3	0.7	1.2	1.6	1.8	1.9	2.0	2.0	2.1	
<b>Total deficit impact .....</b>	<b>281.2</b>	<b>-117.5</b>	<b>-55.1</b>	<b>-47.2</b>	<b>-31.0</b>	<b>-6.4</b>	<b>1.4</b>	<b>5.3</b>	<b>5.8</b>	<b>4.2</b>	<b>3.0</b>	<b>3.2</b>	<b>2.3</b>	<b>2.0</b>	<b>2.1</b>	<b>2.1</b>	
<b>Change in debt held by the public .....</b>	<b>281.2</b>	<b>-117.5</b>	<b>-55.1</b>	<b>-47.2</b>	<b>-31.0</b>	<b>-6.4</b>	<b>1.4</b>	<b>5.3</b>	<b>5.8</b>	<b>4.2</b>	<b>3.0</b>	<b>3.2</b>	<b>2.3</b>	<b>2.0</b>	<b>2.1</b>	<b>2.1</b>	
<b>Debt held by the public .....</b>	<b>281.2</b>	<b>163.6</b>	<b>108.5</b>	<b>61.3</b>	<b>30.3</b>	<b>23.8</b>	<b>25.3</b>	<b>30.6</b>	<b>36.4</b>	<b>40.6</b>	<b>43.6</b>	<b>46.8</b>	<b>49.1</b>	<b>51.1</b>	<b>53.1</b>	<b>55.3</b>	
As a percent of GDP .....	2.0	1.1	0.7	0.4	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
<b>Debt Held by the Public Net of Financial Assets:</b>																	
Debt held by the public .....	281.2	163.6	108.5	61.3	30.3	23.8	25.3	30.6	36.4	40.6	43.6	46.8	49.1	51.1	53.1	55.3	
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	6.6	5.1	1.0	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1	
Troubled Asset Relief Program Direct Loan Financing Account .....	23.9	42.7	28.5	17.9	3.1	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.....	.....	.....	-*	-*	-*	-*	-*	-*	-*	-*	-*	-*	.....	.....	.....	.....	
Total, financial assets net of liabilities .....	129.9	122.0	104.1	32.2	9.7	5.9	1.0	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1	
<b>Debt held by the public net of financial assets .....</b>	<b>151.3</b>	<b>41.6</b>	<b>4.4</b>	<b>29.0</b>	<b>20.5</b>	<b>17.9</b>	<b>24.3</b>	<b>29.9</b>	<b>35.9</b>	<b>40.2</b>	<b>43.4</b>	<b>46.7</b>	<b>49.0</b>	<b>51.0</b>	<b>53.1</b>	<b>55.2</b>	
As a percent of GDP .....	1.0	0.3	0.0	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	

\*\$50 million or less.

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

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

tions associated with the guarantee as they occurred. Updates to estimates of future performance would affect the deficit in the year that they occur, and there would not be credit reestimates.

Under cash reporting, TARP would decrease the deficit in 2014 by an estimated \$6.4 billion, so the 2014 deficit would be \$3.8 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 21–4 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, 2013, and November 30, 2013. The specific effects are as follows:

- TARP reestimates and interest on reestimates will decrease the deficit by \$8.1 billion in 2014, including \$4.2 billion in decreased subsidy costs for TARP programs, and \$3.9 billion in interest on reestimates.
- Outlays for the TARP Housing Programs are estimated at \$5.2 billion in 2014, which includes payments under the MHA program and Hardest Hit

**Table 21–6. 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 11/30/2013
<b>Equity Programs:</b>					
Automotive Industry Financing Program (Equity):					
2009 .....	54.52%	13.45%	-3.9	-4.7	12.5
2010 .....	30.25%	-16.78%	-0.9	-1.6	3.8
Capital Purchase Program:					
2009 .....	26.99%	-6.76%	-1.0	-65.7	204.6
2010 .....	5.77%	5.71%	-*	-*	0.3
AIG Investments:					
2009 .....	82.78%	21.88%	.....	-38.5	67.8
Legacy Securities Public-Private Investment Program:					
2009 .....	34.62%	-20.41%	.....	-0.3	0.7
2010 .....	22.97%	-51.11%	-0.5	-3.7	5.5
Targeted Investment Program:					
2009 .....	48.85%	-8.47%	.....	-23.2	40.0
Community Development Capital Initiative:					
2010 .....	48.06%	21.07%	-*	-0.1	0.6
<b>Subtotal equity program reestimates .....</b>			<b>-6.3</b>	<b>-137.1</b>	<b>335.8</b>
<b>Structured and Direct Loan Programs:</b>					
Automotive Industry Financing Program (AIFP) .....					
2009 .....	58.75%	21.43%	-1.8	-20.0	63.4
Legacy Securities Public-Private Investment Program:					
2009 .....	-2.52%	-0.29%	.....	*	1.4
2010 .....	-10.85%	1.84%	-*	1.3	11.0
Small Business Lending Initiative 7(a) purchases:					
2010 .....	0.48%	-1.35%	.....	-*	0.4
Term-Asset Backed Securities Loan Facility <sup>1</sup> :					
2009 .....	-104.23%	-577.50%	-*	-0.4	0.1
<b>Subtotal direct loan program reestimates .....</b>			<b>-1.8</b>	<b>-19.0</b>	<b>76.2</b>
<b>Guarantee Programs:</b>					
Asset Guarantee Program <sup>2</sup> :					
2009 .....	-0.25%	-1.20%	.....	-1.4	301.0
FHA Refinance Letter of Credit:					
2011 .....	1.26%	0.90%	-*	-*	0.1
2012 .....	4.00%	3.18%	-*	-*	0.2
2013 .....	2.48%	2.57%	*	*	0.2
<b>Subtotal guarantee program reestimates .....</b>			<b>-*</b>	<b>-1.3</b>	<b>301.5</b>
<b>Total TARP Reestimates .....</b>			<b>-8.1</b>	<b>-157.5</b>	<b>713.6</b>

\*\$50 million or less.

<sup>1</sup>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 \$0.1 billion.

<sup>2</sup>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.

Fund. Outlays for the TARP Housing Program are estimated to decline gradually through 2020.

- Administrative outlays for TARP are estimated at \$353 million in 2014, and expected to decrease annually thereafter as TARP winds down through 2024. Costs for the Special Inspector General for TARP are
- Interest transactions with credit financing accounts include interest paid to Treasury on borrowing by the financing accounts, offset by interest paid by Treasury on the financing accounts' uninvested balances. Although the financing accounts are non-budgetary, Treasury payments to these accounts and receipt of interest from them are budgetary transac-

estimated at \$46 million in 2015, and are expected to remain relatively stable through 2024.

**Table 21–7. DETAILED TARP PROGRAM LEVELS AND COSTS**  
(In billions of dollars)

Program	2014 Budget		2015 Budget	
	TARP Obligations	Subsidy Costs	TARP Obligations	Subsidy Costs
<b>Equity Purchases:</b>				
Capital Purchase Program .....	204.9	-7.7	204.9	-8.3
AIG Investments .....	67.8	18.1	67.8	17.4
Targeted Investment Program .....	40.0	-3.6	40.0	-3.6
Automotive Industry Financing Program (AIFP) .....	16.3	5.3	16.3	3.0
Public-Private Investment Program - Equity .....	7.2	-2.0	7.2	-2.5
Community Development Capital Initiative .....	0.6	0.2	0.6	0.1
Subtotal equity purchases .....	336.8	10.2	336.8	6.1
<b>Direct Loan Programs:</b>				
Automotive Industry Financing Program (AIFP) .....	63.4	17.7	63.4	17.0
Term Asset-Backed Securities Loan Facility (TALF) .....	0.1	-0.5	0.1	-0.5
Public-Private Investment Program - Debt .....	13.6	0.2	12.4	0.1
Small Business 7(a) Program .....	0.4	*	0.4	*
Subtotal direct loan programs .....	77.5	17.4	76.2	16.6
<b>Guarantee Programs under Section 102:</b>				
Asset Guarantee Program <sup>1</sup> .....	5.0	-3.8	5.0	-3.9
Subtotal asset guarantees .....	5.0	-3.8	5.0	-3.9
<b>TARP Housing Programs:</b>				
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 <sup>2</sup> .....	1.0	0.1	1.0	*
Subtotal TARP housing programs .....	38.5	37.6	38.5	37.5
<b>Totals</b> .....	<b>457.8</b>	<b>61.5</b>	<b>456.6</b>	<b>56.3</b>
<b>Memorandum:</b>				
Interest on reestimates <sup>3</sup> .....		-13.9		-17.2
<b>Deficit impact with interests on reestimates</b> .....		<b>47.5</b>		<b>39.0</b>

\*\$50 million or less

<sup>1</sup>The total assets supported by the Asset Guarantee Program were \$301 billion.

<sup>2</sup>TARP obligations under the FHA Refinance Letter of Credit provide first loss coverage of eligible FHA insured mortgages.

<sup>3</sup>Total programmatic costs of the TARP exclude interest on reestimates of \$13.9 billion in the 2014 Budget and \$17.2 billion in the 2015 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.

tions 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 \$2.0 billion in 2014 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 \$2.0 billion for 2014 (as shown in Table 21–4), and then expected to increase to \$2.1 billion by 2024, 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 2014 reflect TARP disbursements through November 30, 2013, while reestimated subsidy rates reflect the full lifetime costs, including anticipated future disbursements. Detailed information on upward and downward reestimates to program costs is reflected in Table 21–6.

The current reestimate reflects a significant decrease in estimated TARP costs from the 2014 Budget. This decrease was due in large part to improved market conditions and significant progress winding down TARP investments over the past year.



**Table 21–8. COMPARISON OF OMB AND CBO TARP COSTS**  
(In billions of dollars)

Program	Estimates of Deficit Impact <sup>1</sup>	
	CBO Cost Estimate <sup>2</sup>	OMB Cost Estimate
Capital Purchase Program .....	–17	–16
Targeted Investment Program & Asset Guarantee Program .....	–8	–8
AIG Assistance .....	15	15
Automotive Industry Financing Program .....	17	14
Term Asset-Backed Securities Loan Facility .....	*	–1
Other Programs <sup>3</sup> .....	–2	–3
TARP Housing Programs .....	16	37
<b>Total .....</b>	<b>21</b>	<b>39</b>

\*Amounts round to less than \$1 billion.

<sup>1</sup>Totals include interest on reestimates.

<sup>2</sup>CBO estimates from May 2013, available online at [http://www.cbo.gov/sites/default/files/cbofiles/attachments/44256\\_TARP.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/44256_TARP.pdf)

<sup>3</sup>“Other Programs” reflects an aggregate cost for PPIP (debt and equity purchases), CDCI, and small business programs. In previous budgets, other programs included AGP.

### ***Differences Between Current and Previous OMB Estimates***

As shown in Table 21–7, the Budget reflects a total TARP deficit impact of \$39.0 billion before administrative costs and interest effects. This is a decrease of \$8.5 billion from the 2014 Budget projection of \$47.5 billion.

The estimated TARP deficit impact reflected in 21–7 differs from the subsidy cost of \$56.3 billion in the Budget because the deficit impact includes subsidy cost and \$17.2 billion in cumulative downward adjustments for interest on reestimates. See footnote 3 in Table 21–7.

### ***Differences Between OMB and CBO Estimates***

Table 21–8 compares the OMB estimate for TARP’s deficit impact against the deficit impact estimated by the Congressional Budget Office in its “Report on the Troubled Asset Relief Program—May 2013.”<sup>10</sup>

CBO estimates the total cost of TARP at \$21 billion, based on estimated lifetime TARP disbursements of \$428 billion. The Budget reflects current estimates of roughly \$456.6 billion in program obligations, and total deficit impact of \$39 billion, including 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 billion estimate. CBO and OMB cost estimates for the Capital Purchase Program are \$1 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 is determined pursuant to the FCRA, except that the discount rate is 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.

Table 21–9 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 2015 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 2.7 percent (\$0.5 billion) from current estimates. Programs that have fully wound down reflect no difference between the EESA and FCRA estimates, as there are no future cashflows that would be discounted using a risk-adjusted rate under EESA. The share price of common stock is inherently adjusted for market risk and, therefore, there is no additional market risk adjustment necessary for the EESA directive. As a result, there is no difference in the cost of the Automotive Industry Financing Program 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 November 30, 2013, valuations, TARP investments discounted at a risk adjusted rate will cost an estimated

<sup>10</sup> Available at: [http://www.cbo.gov/sites/default/files/cbofiles/attachments/44256\\_TARP.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/44256_TARP.pdf)

**Table 21–9. COMPARISON OF EESA AND FCRA TARP SUBSIDY COSTS**  
(In billions of dollars)

Program	TARP Obligations	Subsidy Cost	
		EESA	FCRA
<b>TARP Equity and Direct Loans:</b>			
Capital Purchase Program .....	204.9	-8.3	-8.7
Targeted Investment Program .....	40.0	-3.6	-3.6
Asset Guarantee Program <sup>1</sup> .....	5.0	-3.9	-3.9
Community Development Capital Initiative .....	0.6	0.1	0.1
Term Asset-Backed Securities Loan Facility .....	0.1	-0.5	-0.5
Small Business 7(a) Program .....	0.4	—*	—*
Public Private Investment Program <sup>2</sup> .....	19.6	-2.4	-2.4
AIG Investments .....	67.8	17.4	17.4
Automotive Industry Financing Program <sup>2</sup> .....	79.7	20.0	20.0
Subtotal TARP equity and direct loans .....	418.1	18.8	18.3
<b>TARP Housing Programs:</b>			
Making Home Affordable Programs <sup>3</sup> .....	29.9	29.9	29.9
Hardest Hit Fund <sup>3</sup> .....	7.6	7.6	7.6
Subtotal Non-Credit Programs .....	37.5	37.5	37.5
FHA Refinance Letter of Credit <sup>4</sup> .....	1.0	*	*
Subtotal TARP Housing .....	38.5	37.5	37.5
<b>Total<sup>5</sup> .....</b>	<b>456.6</b>	<b>56.3</b>	<b>55.8</b>

\*\$50 million or less

<sup>1</sup> The total assets supported by the Asset Guarantee Program were \$301 billion.

<sup>2</sup> Rates for PPIP and AIFP reflect weighted average subsidy costs across various instruments.

<sup>3</sup> TARP Making Home Affordable programs and Hardest Hit Fund involve financial instruments without any provision for income or other returns, and are recorded on a cash basis. The table reflects 100 percent subsidy cost for these programs.

<sup>4</sup> TARP obligations under the FHA Refinance Letter of Credit provide first loss coverage of eligible FHA insured mortgages.

<sup>5</sup> 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.

\$56.3 billion. TARP investments discounted under FCRA are estimated to have a lifetime cost of \$55.8 billion.

### **TARP Market Impact**

Although challenges in the economy remain, TARP's support to the banking sector through the Capital Purchase Program, Targeted Investment Program, Asset Guarantee Program, and the Community Development Capital Initiative helped stabilize the financial system and strengthen the financial position of the Nation's banking institutions. With the auto industry profitable and growing again, in December 2013, Treasury sold all its remaining shares of General Motors, recouping a total of \$39 billion from the original GM investment. Since publication of the 2014 Budget, Treasury also sold a substantial portion of its remaining Ally holdings. Sales of TARP assets occurring after November 30, 2013 are not included in the cost analysis provided in this report.

The housing market is also strengthening while still recovering, but the Administration's housing programs implemented through the TARP have helped stabilize the market and kept millions of borrowers in their homes. As of November 30, 2013, nearly 1.3 million borrowers have received permanent modifications through the Home Affordable Modification Program (HAMP), which amounts to an estimated \$24.2 billion in realized monthly mort-

gage 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 7.3 million mortgage modifications, which is nearly double the number of foreclosures completed 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. See the "Credit and Insurance" chapter of this volume for more information on the Administration's efforts to support the housing market.

### **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 had 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 November 30, 2013, Treasury had received approximately \$197.7 billion in principal repayments and \$26.8 billion in revenues from dividends, interest, warrants, gains/other interest and fees. CPP cash proceeds of \$224.5 billion now exceed Treasury's initial investment by \$19.6 billion. As of November 30, 2013, \$2.1 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 November 30, 2013, Treasury has received \$130 million in cash back on its CDCI investments and \$470 million remains outstanding.

**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 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 business-

es 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 stock in a public offering that reduced Treasury's AIG common stock position to zero, including its shares acquired outside of TARP from the FRBNY. With this final sale, the Treasury and the FRBNY have fully recovered all funds committed to stabilize AIG during the financial crisis.<sup>11</sup> 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 can be found in the Analytical Perspectives volume of the President's 2014 Budget. TARP's AIG commitments totaled \$67.8 billion and, with the program closed, yielded \$55.3 billion in total cash back.

**Targeted Investment Program (TIP):** The goal of the TIP was to stabilize the financial system by making investments in institutions that are critical to the functioning of the financial system. Investments made through the TIP sought to avoid significant market disruptions resulting from the deterioration of one financial institution that could threaten other financial institutions and impair broader financial markets, and thereby pose a threat to the overall economy. Under the TIP, the Treasury purchased \$20 billion in preferred stock from Citigroup and \$20 billion in preferred stock from Bank of America. The Treasury also received stock warrants from each company. Both Citigroup and Bank of America repaid their TIP investments in full in December 2009, along with dividend payments of approximately \$3.0 billion. In March 2010, Treasury sold all of its Bank of America warrants for \$1.2 billion, and in January 2011, the Treasury sold Citigroup warrants acquired through the TIP for \$190.4 million. After obligating \$40 billion, TIP investments yielded gross proceeds of \$44.4 billion. The TIP is closed and has no remaining assets.

<sup>11</sup> 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 collected proceeds of \$17.5 billion for its non-TARP shares in AIG.



**Asset Guarantee Program (AGP):** The AGP was created to provide Government assurances for assets held by financial institutions that were critical to the functioning of the nation's financial system. Under the AGP, the Treasury and FDIC guaranteed up to \$5 billion and \$10 billion, respectively, of potential losses incurred on a \$301 billion portfolio of financial assets held by Citigroup. In exchange, the Treasury received \$4 billion of preferred stock that was later converted to trust preferred securities; the FDIC received \$3 billion in preferred stock.<sup>12</sup> The preferred stock provided an 8 percent annual dividend. On December 23, 2009, in connection with Citigroup's TIP repayment, Citigroup and the Government terminated the AGP agreement. The Treasury and FDIC 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. 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 and, in 2013, sold them for \$894 million. The TARP's Citigroup asset guarantees yielded \$3.9 billion in total cash back.

In May 2009, Bank of America announced a similar asset guarantee agreement with respect to approximately \$118 billion in Bank of American assets, but the final agreement was never executed. As a result, in 2009 Bank of America paid a termination fee of \$425 million to the Government. Of this amount, \$276 million was paid to the TARP, \$92 million was paid to FDIC, and \$57 million was paid to the Federal Reserve. In total, AGP obligated \$5 billion, but never paid a claim. Treasury sold the last of its AGP holdings in 2013, ending the program and yielding \$4.1 billion in total cash back.

**Automotive Industry Support Programs:** In December 2008, in order to mitigate a systemic threat to the Nation's economy and a potential loss of thousands of jobs, the Treasury established several programs to prevent the collapse of the domestic automotive industry. Through the Auto Industry Financing Program (AIFP), the largest and only remaining active auto program, TARP made emergency loans to Chrysler, Chrysler Financial, and General Motors (GM). Additionally, TARP bought equity in Ally Financial, formerly GMAC, and assisted Chrysler and GM during their bankruptcy proceedings. The Chrysler program is now closed. In total, of the \$12.4 billion committed to Chrysler, TARP was repaid \$11.1 billion in total cash back.<sup>13</sup>

Over the last year, Treasury liquidated much of its remaining AIFP holdings. On November 20, 2013, Ally

repaid \$5.9 billion of TARP's original commitment. Significant additional sales of AIFP related TARP assets have also occurred since November 30, 2013 and are, therefore, not reflected in the cost analysis provided in this report. Notably, on December 9, 2013, TARP sold its last remaining shares in GM, recouping \$38.8 billion from TARP's \$51 billion investment in GM. Then on January 16, 2014, Treasury announced that TARP sold 410,000 shares of Ally common equity for \$3 billion in a private placement, leaving TARP with only 571,971 remaining Ally shares. As of January 31, 2014, of the \$78.6 billion committed for AIFP, only \$5.7 billion remains outstanding for Ally.

Through the Auto Supplier Support Program (Supplier Program) and the Auto Warranty Commitment Program (Warranty Program), Treasury disbursed \$1.1 billion in direct loans to GM and Chrysler to support auto parts manufacturers and suppliers. Both the Supplier and Warranty programs have closed and, in aggregate, these investments yielded \$1.2 billion in total cash back.

**Credit Market Programs:** The Credit Market programs were 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 provided 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. In March 2009 Treasury disbursed \$0.1 billion of this amount to the TALF SPV to implement the program. 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 November 30, 2013 Treasury had received gross cash proceeds of \$690 million from TALF.

**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

<sup>12</sup> Trust Preferred Securities (TruPS) are financial instruments that have the following features: they are taxed like debt; counted as equity by regulators; are generally longer term; have early redemption features; make quarterly fixed interest payments; and mature at face value.

<sup>13</sup> Chrysler repayments of \$11.1 billion include \$560 million in proceeds from the sale of Treasury's 6 percent fully diluted equity interest in Chrysler to Fiat and Treasury's interest in an agreement with the UAW retiree trust that were executed on July 21, 2011.



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) were 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. On June 30, 2010, PPIP closed for new funding and as of December 2012 the PPIFs can no longer deploy capital and make new investments. Treasury may continue to manage these investments for up to five additional years. As of November 30, 2013, after obligating \$19.6 billion, PPIP investments had yielded \$22.5 billion in total cash back.

**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. These housing programs are focused on creating sustainably affordable mortgages for responsible homeowners who are making a good faith effort to make their mortgage payments, while mitigating the spillover effects of foreclosures on neighborhoods, communities, the financial system and the economy. Following the enactment of the Wall Street Reform Act, Treasury reduced its commitments to the TARP Housing programs to \$45.6 billion. These programs fall into three initiatives:

- Making Home Affordable (MHA);
- Housing Finance Agency (HFA) Hardest-Hit Fund (HHF); and
- Federal Housing Administration (FHA) Refinance Program.<sup>14</sup>

The MHA initiative includes among its components the Home Affordable Modification Program (HAMP), FHA-HAMP, the Second Lien Modification Program (2MP), and the second lien extinguishment portion of the FHA-

<sup>14</sup> This program has also been referred to as the FHA Short Refinance Program or Option in other reporting. The FHA Refinance Program is a HUD not a Treasury program, but is supported through the TARP with \$1 billion to cover a share of any losses on FHA Refinance loans.

Refinance Program, and Rural Development-HAMP.<sup>15</sup> Under MHA programs, the Treasury contracts with servicers to modify loans in accordance with the program's guidelines, and to make incentive payments to the borrowers, servicers, and investors for those modification or other foreclosure alternatives. 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. In May of 2013, the Administration announced a two-year extension of HAMP and HAFA to December 31, 2015. As of November 30, 2013, TARP has paid \$7.0 billion in HAMP and HAFA related incentive payments and an additional \$22.9 billion in TARP funds is obligated for future payments.

**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 60 percent of the HHF funds are dedicated to programs that help unemployed borrowers stay in their homes, 40 percent of HHF funds facilitate principal write-downs for borrowers who owe more than their home is worth and other activities including blight elimination, transition assistance, and administrative expenses. The flexibility of the HHF funds has allowed States to design and tailor innovative programs to meet the unique needs of their community. Over the past year, the Administration has taken key actions to help communities turn the corner to recovery, including working with Michigan, Ohio, and Indiana to use \$235 million of their HHF allocations for blight elimination.

**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 through a letter of credit agreement with Citigroup 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. As

<sup>15</sup> For additional information on MHA programs, visit: <http://www.makinghomeaffordable.gov/>.

of November 30, 2013, TARP's remaining commitment to the FHA Refinance Program letter of credit was \$0.5 billion.

### **TARP Oversight and Accountability**

Ensuring effective internal controls and monitoring of TARP programs and funds to protect taxpayer investments remains a top priority of Treasury's 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 to ensure appropriate coverage of high-impact areas. A Senior Assessment Team and the Risk and Control Group 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 OFS finan-

cial statements for 2009 through 2013 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***

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 January 29, 2014, SIGTARP's investigations have resulted in criminal charges against 174 defendants, 112 of which were senior officers. As of January 2014, 122 have been convicted with others awaiting trial.

## **FEDERAL REFORMS IN RESPONSE TO THE FINANCIAL CRISIS**

This section provides an overview of the financial reforms and regulatory actions put in place in response to the financial crisis of 2008. The analysis is presented in three parts. The first part, "Reforming Financial Regulation," discusses implementation of financial reforms mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The second part, "Federal Reserve Actions," analyzes the extraordinary measures conducted by the Board of Governors of the Federal Reserve System (the "Federal Reserve" or the "Fed"). The chapter concludes with a discussion of multilateral efforts to strengthen international financial regulation under the heading "International Financial Reform." See the "Credit and Insurance" chapter of this volume for a detailed analysis of additional programs and Administration initiatives designed to support the housing market, depository institutions, credit unions, and small businesses.

### **Reforming Financial Regulation**

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act<sup>16</sup> (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:

### ***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 it 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. 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 addition, the CFPB is

<sup>16</sup> P.L. 111-203.

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.

The CFPB finalized several mortgage rules in January 2013 and subsequently promulgated clarifying amendments in September 2013. Among these rules, the Ability-to-Repay rule protects consumers from irresponsible mortgage lending by requiring that lenders generally make a reasonable, good-faith determination that prospective borrowers have the ability to repay their loans. The mortgage servicing rules establish strong protections for homeowners facing foreclosure, and the loan originator compensation rules address certain practices that created incentives to steer borrowers into risky or high-cost loans. In addition to providing stronger consumer protections for mortgages, CFPB continued broader enforcement actions in 2013, provided relief through assessments of \$394 million to 2.1 million consumers harmed by credit card companies that had violated Federal consumer financial laws, and assessed an additional \$50 million in civil monetary penalties to help deter future occurrences of unfair, deceptive and abusive acts or practices in marketing consumer financial products and services.

The CFPB is funded through transfers from the Federal Reserve. The Budget reflects funding for the CFPB through these authorized transfers from the Federal Reserve, estimated at \$583 million in 2015.

### ***Increasing 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. Despite their constrained funding through appropriations in recent years, both agencies are aggressively working 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.

The Wall Street Reform Act gave the SEC significant new responsibilities and tasked the agency 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 investors 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 December 2013, the SEC had proposed or adopted more than 80 percent of the rules required by the Act. For example, the SEC has adopted and implemented all the rules designed to enhance the oversight of advisers to hedge funds and other private funds, and has adopted rules to pay awards to eligible whistleblowers who voluntarily provide the agency with original information about violations of the Federal securities laws. In calendar year

2013, among other things, the SEC adopted final rules for municipal advisor registration and issued comprehensive proposed rules regarding the regulatory treatment of cross-border security-based swap transactions. The SEC also issued or proposed rules required under the Jumpstart Our Business Startups Act (JOBS Act) intended to increase access to capital for small businesses, including rules permitting the use of general solicitation in certain private offerings and permitting securities offerings through "crowdfunding".

In 2013, the SEC also strengthened its enforcement policies by beginning to require admissions of misconduct in certain cases where there is a heightened need for public accountability. In 2013, the SEC's Enforcement Division filed 686 enforcement actions. The agency also continued to hold accountable those whose actions contributed to the financial crisis, and has now charged 169 entities and individuals with wrongdoing stemming from the crisis, 70 of whom were CEOs, CFOs, or other senior executives. Those efforts have resulted in over \$3 billion in disgorgement, prejudgment interest, civil penalties, and other monetary relief agreed to or ordered.

In addition to its longstanding responsibility to ensure fair, open, and efficient futures 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 appropriations that in recent years have been significantly below the Administration's request, the CFTC has adapted its mission to include these new responsibilities. In 2013, the CFTC issued final rules and guidance for the registration and operation of swap execution facilities (SEFs), and within months oversaw the successful launch of SEF platforms that are already bringing transparency to the previously unregulated U.S. swaps market (a market notionally valued at more than \$380 trillion) by making trade data available to market participants and regulators.

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. In 2013, CFTC filed 82 enforcement actions, bringing the total over the past three fiscal years to 283, nearly double the number of actions brought during the prior three fiscal years. As a result of these actions, CFTC's Division of Enforcement obtained orders imposing more than \$1.7 billion in sanctions in 2013, including orders for more than \$1.5 billion in civil monetary penalties and more than \$200 million in restitution and disgorgement.

In support of the SEC's mission, the President's Budget provides \$1.7 billion in new resources in 2015, an increase of \$350 million over 2014. For CFTC, \$280 million is provided, an increase of \$65 million over 2014. Additionally, the Administration strongly supports legislation authorizing the CFTC to collect user fees to fund its activities beginning in 2016 as reflected in the Budget. The CFTC is the only Federal financial regulator funded through taxpayer rather than user fee funds.



### ***Ending Too-Big-to-Fail***

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. Under the framework of Wall Street Reform, bankruptcy is the preferred option in the event of a failure of a large, interconnected financial institution. To achieve this goal, the Act requires all large bank-holding companies to submit resolution plans, or “living-wills,” to demonstrate how the company could be resolved in a rapid and orderly manner in the midst of a crisis. In 2011, the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve finalized the resolution plan rule and in 2012 and 2013 received initial living wills from all qualifying institutions. As of December 31, 2013, the FDIC and the Federal Reserve are in the process of reviewing the plans under the standards provided in the Wall Street Reform Act.

In cases where resolution under the Bankruptcy Code may result in serious adverse effects on US financial stability, the FDIC now may unwind failing nonbank financial companies in an orderly manner to prevent widespread disruptions. Through its new orderly liquidation authority under the Title II of the Act, the FDIC serves as receiver of non-depository financial companies whose failure and resolution under otherwise applicable law would have serious adverse effects on U.S. financial stability. In December 2013, the FDIC issued a Federal Register notice on the Single Point of Entry Strategy for resolving a failing financial company and sought public comment on how the policy objectives set forth in Title II of Wall Street Reform Act could be better achieved.

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, by law, be recovered in full, so there is no long-run cost to taxpayers. The probabilistic ten-year cost from this authority of \$21 billion, reflected in the Budget in the Orderly Liquidation Fund, is due to the fact that cost recovery occurs only over a period of years after liquidation expenses are incurred. For a further discussion of FDIC, see the “Credit and Insurance” chapter in this volume.

### ***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 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 is also charged with facilitating information sharing and coordination among its member agencies and identifying gaps in the U.S. regulatory regime that could pose risks to U.S. financial stability.

The FSOC has moved quickly to identify key issues and firms posing risks to U.S. financial stability, while emphasizing the importance of transparency and stakeholder collaboration throughout the process. The FSOC’s 2013

annual report identified a number of risks and emerging threats to financial stability along with a series of associated recommendations to regulators, policy makers, and market participants. Additionally, in the summer of 2013, the FSOC designated American International Group, Inc., General Electric Capital Corporation, Inc., and Prudential Financial, Inc. for enhanced prudential standards and consolidated supervision by the Federal Reserve, adding to the eight financial market utilities designated by the FSOC for enhanced risk management standards in 2012. 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 finance, commodity market volatility, foreign financial markets, and the U.S. fiscal position.

The Secretary of the Treasury, as Chairperson of the FSOC, also coordinated the joint rulemaking required by the Wall Street Reform Act to implement the Volcker Rule—providing critical leadership to help agencies finalize the rule. Adopted on December 10, 2013, the rule prohibits banking entities from engaging in speculative proprietary trading activities for their own benefit, rather than their customers; restricts banks’ investments in private equity and hedge funds, while preserving their ability to maintain liquidity and hedge their risks; and requires robust compliance regimes that are commensurate with a firm’s size and trading activity.

The Act established the Financial Research Fund (FRF) to fund the FSOC, the Office of Financial Research (OFR), and certain Orderly Liquidation Authority implementation expenses of the FDIC. The OFR, an office 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 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. The FRF is fee-funded through assessments on bank holding companies with total consolidated assets of \$50 billion or greater and nonbank financial companies subject to supervision by the Federal Reserve. The Budget projects gross 2015 FRF assessments of \$115 million.

### ***Improving Insurance 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” a systemic crisis. The FIO was created, in part, to streamline what is currently a decentralized regulatory regime. In December 2013, the FIO released its report on the modernization and improvement of the system of insurance regulation in the United States. The report made 27 recommendations designed to improve our insurance regulatory system by making it more responsive to the needs of consumers,



market participants, and regulators in a global environment. In 2013, the FIO also continued its work representing the United States in the International Association of Insurance Supervisors to develop a common supervisory framework for internationally active insurance groups. In 2014, the FIO plans to release a report on the reinsurance market. The FIO is funded with discretionary resources through the Treasury's Departmental Offices.

### Federal Reserve Actions

Beginning in August 2007, the Federal Reserve responded to the financial crisis by taking a number of actions designed to support the liquidity positions of financial institutions and foster improved conditions in financial markets. When significant financial stresses first emerged, in August 2007, the Federal Open Market Committee (FOMC) responded quickly through traditional means, first through liquidity actions—cutting the discount rate and extending term loans to banks—and by lowering the target for the federal funds rate from 5.25 percent in August 2007 to nearly zero by December 2008.

In late 2008 and early 2009 as the crisis deepened, the Federal Reserve began taking extraordinary steps to provide liquidity and support credit market functioning, including establishing a number of emergency lending facilities and creating or extending currency swap agreements with 14 central banks around the world. In its role as banking regulator, the Federal Reserve also led stress tests of the largest U.S. bank holding companies, setting the stage for the companies to raise capital. Many of the Federal Reserve's crisis response actions were coordinated with other Federal agencies. For discussions of the Federal Reserve's role in TARP programs, including AIG support and the Term Asset-Backed Securities Loan Facility, please see the "Description of Assets Purchased Through the TARP, by Program" subsection of this chapter.

With the global financial crisis cresting and the Federal funds rate at its effective lower bound, the Federal Reserve turned to non-traditional policy approaches to avoid deflation and repair the damage caused by the crisis. To provide stimulus to household and business spending, in November 2008 the Federal Reserve began a series of large-scale asset purchases known as "quantitative easing." Initially, the Federal Reserve's quantitative easing programs used a "stock" approach by specifying total amounts of Treasury bond, GSE debt, or mortgage-backed security purchases to be completed within certain timeframes. But after several rounds of quantitative easing using this approach, in September 2012 the FOMC announced it would begin using a "flow" approach, where the Federal Reserve would buy a set amount of Treasury bonds and mortgage-backed securities every month until economic conditions sufficiently improved. After buying \$85 billion a month for more than a year, in 2014 the Federal Reserve began "tapering" its asset purchases to \$75 billion in January, and then \$65 billion in February.

With the zero lower bound conditions on the Federal funds rate set to continue, the Federal Reserve has also

made considerable use of "forward guidance" as a policy tool to foster expectations of lower future interest rates. In practice, "forward guidance" has referred to the Federal Reserve's attempts to more clearly articulate objectives, timeframes, and thresholds for policy adjustments—leading to more accommodative financial conditions. As a notable example, in December 2012, the FOMC indicated that the Federal funds target rate would remain near zero until either unemployment drops below 6.5 percent, or inflation exceeds 2.5 percent.

The Federal Reserve has also made considerable progress in implementing the statutory mandates in the Wall Street Reform Act, helping to further improve financial stability and mitigate systemic risk. In October 2013, the Federal Reserve and other Federal banking agencies issued a proposed rule, consistent with section 165 of the Act, which would implement the first broadly applicable quantitative liquidity requirement for U.S. banking firms. The Federal Reserve has continued conducting comprehensive stress tests required by the Act, which in late 2013 provided key information to improve the Fed's supervisory efforts of large banking firms. In December 2013, the Federal Reserve also approved a final rule clarifying the treatment of uninsured U.S. branches and agencies of foreign banks under section 716 of the Act, which generally prohibits certain types of Federal assistance—such as discount window lending and deposit insurance—to swap dealers and major swap participants.

Earnings resulting from the expansion of the Federal Reserve's balance sheet through the large-scale asset purchases have, over the last several years, increased the surplus the Federal Reserve deposits in the Treasury, reducing the budget deficit. As its support winds down, transfers are likely to return to lower, more normal levels. In 2013, Treasury received \$75.8 billion from the Federal Reserve, which represents an 8 percent decrease below 2012 deposits. The Budget projects Treasury will receive \$90.4 billion and \$88.3 billion from the Federal Reserve in 2014 and 2015, respectively.

### 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), Cannes (November 2011), Los Cabos (June 2012), and Saint Petersburg (September 2013), 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 adop-

tion of a leverage ratio that will more tightly limit the amount banks may lend relative to their capital reserves. In 2013, the Office of the Comptroller of the Currency, the FDIC, and the Federal Reserve implemented a rule reflecting the most recent international capital framework published by the Basel Committee on Banking Supervision. This rule strengthens the definition of regulatory capital, increases risk-based capital requirements, and amends the methodologies for determining risk-weighted assets.

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 recent financial 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.



## 22. 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 22-1. HOMELAND SECURITY FUNDING BY AGENCY**  
(Budget authority in millions of dollars)

Agency	2013 Actual	2013 Supplemental/ Emergency	2014 Enacted	2014 Supplemental	2015 Request
1 Department of Agriculture .....	430.5	.....	486.5	.....	475.7
2 Department of Commerce* .....	612.5	25.2	3,898.8	.....	4,931.4
3 Department of Defense .....	16,526.6	268.2	16,364.8	227.4	15,762.4
4 Department of Education .....	31.4	.....	37.1	.....	36.6
5 Department of Energy .....	1,990.7	.....	1,914.4	.....	1,959.6
6 Department of Health and Human Services .....	4,015.9	.....	4,774.8	.....	4,477.8
7 Department of Homeland Security .....	33,714.8	9.9	35,561.0	.....	35,491.1
8 Department of Housing and Urban Development .....	2.0	.....	2.7	.....	1.8
9 Department of the Interior .....	56.6	.....	55.5	.....	56.8
10 Department of Justice .....	3,685.2	2.1	4,022.2	.....	4,030.1
11 Department of Labor .....	36.5	.....	32.0	.....	32.4
12 Department of State .....	2,929.2	.....	2,943.9	.....	3,345.4
13 Department of Transportation .....	249.3	.....	211.8	.....	210.8
14 Department of the Treasury .....	119.2	.....	118.0	.....	121.7
15 Department of Veterans Affairs .....	367.5	.....	373.4	.....	390.6
16 Corps of Engineers .....	15.5	.....	13.6	.....	10.9
17 Environmental Protection Agency .....	95.9	.....	93.9	.....	95.4
18 Executive Office of the President .....	9.0	.....	8.0	.....	7.2
19 General Services Administration .....	36.0	.....	363.0	.....	516.0
20 National Aeronautics and Space Administration .....	208.9	.....	227.0	.....	241.3
21 National Science Foundation .....	433.5	.....	442.7	.....	407.1
22 Office of Personnel Management .....	1.2	.....	.....	.....	.....
23 Social Security Administration .....	231.2	.....	259.4	.....	283.4
24 District of Columbia .....	23.0	.....	24.0	.....	15.0
25 Federal Communications Commission .....	1.4	.....	1.4	.....	1.4
26 Intelligence Community Management Account** .....	0.0	.....	.....	.....	.....
27 National Archives and Records Administration .....	22.7	.....	22.7	.....	22.4
28 Nuclear Regulatory Commission .....	73.9	.....	73.7	.....	69.6
29 Securities and Exchange Commission .....	8.0	.....	8.0	.....	8.0
30 Smithsonian Institution .....	97.4	.....	101.0	.....	99.5
31 United States Holocaust Memorial Museum .....	11.0	.....	11.0	.....	11.0
<b>Total, Homeland Security Budget Authority .....</b>	<b>66,036.5</b>	<b>305.4</b>	<b>72,446.3</b>	<b>227.4</b>	<b>73,112.3</b>
Less Department of Defense .....	-16,526.6	-268.2	-16,364.8	-227.4	-15,762.4
<b>Non-Defense Homeland Security BA .....</b>	<b>49,509.9</b>	<b>37.2</b>	<b>56,081.5</b>	<b>.....</b>	<b>57,349.9</b>
Less Fee-Funded Homeland Security Programs .....	-6,314.0	.....	-8,672.4	.....	-10,568.1
Less Mandatory Homeland Security Programs .....	-3,431.9	.....	-6,745.3	.....	-7,907.1
<b>Net Non-Defense Discretionary Homeland Security BA .....</b>	<b>39,764.0</b>	<b>37.2</b>	<b>40,663.9</b>	<b>-</b>	<b>38,874.7</b>

\* Funding increase authorized to build a nationwide broadband network for first responders.

\*\* Funding for the Intelligence Community Management Account was moved under DoD beginning in 2013.



**Table 22–2. PREVENT AND DISRUPT TERRORIST ATTACKS**  
(Budget authority in millions of dollars)

Agency	2013 Actual	2013 Supplemental/ Emergency	2014 Enacted	2014 Supplemental	2015 Request
Department of Agriculture .....	233.6	.....	266.6	.....	266.5
Department of Commerce .....	4.1	.....	3.8	.....	4.1
Department of Defense .....	.....	.....	.....	.....	0.1
Department of Energy .....	.....	.....	.....	.....	0.5
Department of Homeland Security .....	25,884.1	2.8	26,895.7	.....	27,093.7
Department of the Interior .....	0.4	.....	0.5	.....	0.5
Department of Justice .....	3,198.6	0.1	3,495.1	.....	3,500.2
Department of State .....	2,822.0	.....	2,845.3	.....	3,251.0
Department of Transportation .....	34.7	.....	34.4	.....	34.7
Department of the Treasury .....	67.1	.....	66.9	.....	70.8
General Services Administration .....	.....	.....	295.0	.....	420.0
<b>Total, Prevent and Disrupt Terrorist Attacks .....</b>	<b>32,244.6</b>	<b>2.9</b>	<b>33,903.3</b>	<b>.....</b>	<b>34,642.0</b>

### 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](http://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 2015, the President’s Budget includes \$73.1 billion of gross

budget authority for homeland security activities, a \$666 million (0.9 percent) increase above the 2014 appropriations level. Excluding mandatory spending, fees, and the Department of Defense’s (DOD) homeland security budget, the 2015 Budget proposes a net, non-Defense, discretionary budget authority level of \$38.9 billion, which is a decrease of \$1.8 billion (4.4 percent) below the 2014 appropriations level (see Table 22–1).

A total of 31 agency budgets include Federal homeland security funding in 2015. 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 \$68.0 billion (93 percent) of total Government-wide gross discretionary homeland security funding in 2015.

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 2015, funding for intelligence-and-warning is

distributed between DHS (50 percent), primarily in the Office of Intelligence and Analysis; and DOJ (47 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 is in DHS (\$24.7 billion, or 86 percent, in 2015), largely for the U.S. Customs and Border Protection (CBP), the Transportation Security Administration (TSA), and the U.S. Coast Guard. Other DHS components 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 2015 request for border and transportation security activities would increase funding by \$730 million (2.6 percent) above the 2014 appropriations level.

Funding for domestic counterterrorism contains Federal and Federally-supported efforts to identify, thwart, and prosecute terrorists in the United States. It also includes pursuit not only of the individuals directly involved in terrorist activity, but also their sources of support: the people and organizations that knowingly fund

the terrorists and those that provide them with logistical assistance. In today’s world, preventing and interdicting terrorist activity within the United States is a priority for law enforcement at all levels of government. The largest contributors to the domestic counterterrorism goal are law enforcement organizations, with DOJ (largely for the FBI) and DHS (largely for Immigration and Customs Enforcement) accounting for 60 and 38 percent of funding for 2015, 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

**Table 22-3. PROTECT THE AMERICAN PEOPLE, OUR CRITICAL INFRASTRUCTURE, AND KEY RESOURCES**

(Budget authority in millions of dollars)

Agency	2013 Actual	2013 Supplemental	2014 Enacted	2014 Supplemental	2015 Request
Department of Agriculture .....	137.8	.....	154.8	.....	144.0
Department of Commerce .....	241.9	.....	257.2	.....	259.5
Department of Defense .....	15,283.5	268.2	14,997.4	227.4	14,427.2
Department of Energy .....	1,754.1	.....	1,693.3	.....	1,719.8
Department of Health and Human Services .....	2,142.0	.....	2,858.1	.....	2,639.0
Department of Homeland Security .....	5,525.7	7.1	6,218.2	.....	5,970.9
Department of Justice .....	471.2	2.0	507.3	.....	509.1
Department of Veterans Affairs .....	308.5	.....	311.7	.....	323.1
National Aeronautics and Space Administration .....	208.9	.....	227.0	.....	241.3
National Science Foundation .....	433.5	.....	442.7	.....	407.1
Social Security Administration .....	229.4	.....	257.5	.....	281.4
Other Agencies .....	697.7	.....	684.6	.....	706.1
<b>Total, Protect the American People, Our Critical Infrastructure, and Key Resources .....</b>	<b>27,434.2</b>	<b>277.3</b>	<b>28,609.8</b>	<b>227.4</b>	<b>27,628.6</b>

**Table 22–4. RESPOND TO AND RECOVER FROM INCIDENTS**  
(Budget authority in millions of dollars)

Agency	2013 Actual	2013 Supplemental	2014 Enacted	2014 Supplemental	2015 Request
Department of Agriculture .....	59.2	.....	65.2	.....	65.2
Department of Commerce* .....	366.5	25.2	3,637.7	.....	4,667.7
Department of Defense .....	1,243.0	.....	1,367.4	.....	1,335.2
Department of Education .....	1.2	.....	1.3	.....	1.2
Department of Energy .....	236.6	.....	221.1	.....	239.8
Department of Health and Human Services .....	1,873.9	.....	1,916.7	.....	1,838.8
Department of Homeland Security .....	2,305.0	.....	2,447.1	.....	2,426.5
Department of Housing and Urban Development .....	2.0	.....	2.7	.....	1.8
Department of the Interior .....	4.4	.....	4.5	.....	4.5
Department of Justice .....	15.3	.....	19.8	.....	20.7
Department of Labor .....	18.1	.....	17.9	.....	18.2
Department of State .....	23.0	.....	23.3	.....	20.6
Department of Transportation .....	25.7	.....	25.3	.....	25.5
Department of the Treasury .....	35.1	.....	34.6	.....	33.9
Department of Veterans Affairs .....	59.1	.....	61.7	.....	67.4
Environmental Protection Agency .....	51.6	.....	48.6	.....	46.2
Executive Office of the President .....	2.1	.....	1.6	.....	1.2
General Services Administration .....	3.0	.....	3.0	.....	3.0
Office of Personnel Management .....	0.4	.....	.....	.....	.....
Social Security Administration .....	1.8	.....	1.9	.....	1.9
District of Columbia .....	23.0	.....	24.0	.....	15.0
Federal Communications Commission .....	1.4	.....	1.4	.....	1.4
Intelligence Community Management Account** .....	.....	.....	.....	.....	.....
National Archives and Records Administration .....	1.4	.....	1.4	.....	1.4
Securities and Exchange Commission .....	5.0	.....	5.0	.....	5.0
<b>Total, Respond To and Recover From Incidents .....</b>	<b>6,357.7</b>	<b>25.2</b>	<b>9,933.3</b>	<b>.....</b>	<b>10,842.3</b>

\* Funding authorized to build a nationwide broadband network for first responders.

\*\* Funding for the Intelligence Community Management Account was moved under DoD beginning in 2013.

countermeasures (\$2.4 billion, or 45 percent, of the 2015 total, not including \$415 million for the BioShield Special Reserve Fund); DHS (\$1.4 billion, or 26 percent, of the 2015 total); and DOD (\$1.2 billion, or 23 percent, of the 2015 total).

Protecting the Nation's critical infrastructure and key resources (CI/KR) is a complex challenge for two reasons: (1) the diversity of infrastructure and (2) the high level of private ownership of the Nation's critical infrastructure and key assets. Efforts to protect CI/KR include unifying disparate efforts to protect critical infrastructure across the Federal Government and with State, local, and private stakeholders; accurately assessing CI/KR and prioritizing protective action based on risk; and reducing threats and vulnerabilities in cyberspace. In fact, securing our cyberspace is a top priority of the Obama Administration both to protect Americans and our way of life and as a foundation for continuing to grow the Nation's economy. DOD continues to report the largest share of funding in this category for 2015 (\$13.2, or 59 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 \$ 4.6 billion (20 percent) of 2015

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 2015 request decreases funding for activities to protect the Nation's people, critical infrastructure and key resources by \$981 million, or 3 percent.

### Respond To and Recover From Incidents

The ability to respond to and recover from incidents requires efforts to bolster capabilities nationwide to prevent and protect against terrorist attacks, and also minimize the damage from attacks through effective response and recovery. This includes programs that help to plan, equip, train, and practice the capabilities of many different response units (including first responders, such as police officers, firefighters, emergency medical providers, public works personnel, and emergency management officials) that are instrumental in their preparedness to mobilize without warning for an emergency. Building this capability encompasses a broad range of agency incident management activities, as well as grants and other assistance to States and localities for first responder preparedness capabilities. Response to natural disasters and other major incidents, including catastrophic natural events such as

Hurricanes Katrina and Sandy, 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, however. Additionally, lessons learned from the response to Hurricane Katrina have been used to revise and strengthen catastrophic response planning. The agencies with the most significant participation in this effort are: DOC (\$4.7 billion, or 43 percent of the 2015 total, much of which is new funding to build a nationwide broadband network for first responders); DHS (\$2.4 billion, or 22 percent, of the 2015 total); HHS (\$1.8 billion, or 17 percent of the 2015 total,); and DOD (\$1.3 billion, or 12 percent of the 2015 total). Nineteen other agencies include emergency preparedness and response funding. The President's 2015 request would increase funding by \$909 million (9 percent) above the 2014 appropriations level.

### Continue to Strengthen the Homeland Security Foundation

Preventing and disrupting terrorist attacks; protecting the American people, critical infrastructure, and key resources; and responding to and recovering from incidents that do occur are enduring homeland security responsibilities. For the long-term fulfillment of these responsibilities it is necessary to continue to strengthen the principles, systems, structures, and institutions that cut across the homeland security enterprise and support our activities to secure the Nation. Long-term success across several cross-cutting areas is essential to protect the United States. In addition, an all-of-Nation integration of effort and the leveraging of resources that exist in local communities, as manifest in the Obama Administration's "Whole of Community" initiative, for example, are essential to effective preparedness and incident response capabilities. While these areas are not quantifiable in terms of budget figures, they are important elements in the management and budgeting processes. As the Administration sets priorities and determines funding for new and existing homeland security programs, consideration must be given to areas such as the assessment and management of risk, which underlie the full spectrum of homeland security activities. This includes decisions about when, where, and how to invest resources in capabilities or assets that eliminate, control, or mitigate risks. Likewise, research and development initiatives promote the application of science and technology to homeland security activities and can drive improvements in processes and efficiencies to reduce the vulnerability of the Nation.

### Non-Federal Expenditures<sup>1</sup>

State and local governments and private-sector firms also have devoted resources of their own to the task of

defending against terrorist threats. Some of the spending has been of a one-time nature, such as investment in new security equipment and infrastructure; some spending has been ongoing, such as hiring more personnel, and increasing overtime for existing security personnel. In many cases, own-source spending has supplemented the resources provided by the Federal Government.

Many governments and businesses, though not all, place a high priority on, and provide additional resources, for security. A 2004 survey conducted by the National Association of Counties found, that as a result of intergovernmental homeland security planning and funding processes, three out of four counties believed they were better prepared to respond to terrorist threats. Moreover, almost 40 percent of the surveyed counties had appropriated their own funds to assist with homeland security. Own-source resources supplemented funds provided by States and the Federal Government. However, the same survey revealed that 54 percent of counties had not used any of their own funds.<sup>2</sup> The survey's findings were based on the responses from 471 counties (15 percent) nationwide, out of 3,140 counties or equivalents.<sup>3</sup>

A recent study conducted by the Heritage Foundation, one of the few organizations to compile homeland security spending estimates from States and localities, provides data on State and local spending in support of homeland security activities.<sup>4</sup> The report surveyed 43 jurisdictions that are eligible for DHS' Urban Areas Security Initiative (UASI) grant funds due to the risk of a terrorist attack.<sup>5</sup> These jurisdictions are home to approximately 145 million people or 47 percent of the total United States population. According to the report, the 2007 homeland security budgets for the jurisdictions examined (which include 26 States and the District of Columbia, 50 primary cities, and 35 primary counties) totaled \$37 billion, while the same entities received slightly more than \$2 billion in Federal homeland security grants.<sup>6</sup> The report further states that from 2000 - 2007, these States and localities spent \$220 billion on homeland security activities, which includes increases of three to six percent a year for law

from State, local, or private entities directly.

<sup>2</sup> Source: National Association of Counties, "Homeland Security Funding—2003 State Homeland Security Grants Programs I and II."

<sup>3</sup> The National Association of Counties conducted a survey through its various state associations (48), responses were received from 471 counties in 26 states.

<sup>4</sup> Source: Matt A. Mayer, "An Analysis of Federal, State, and Local Homeland Security Budgets," A Report of the Heritage Center for Data Analysis, CDA09-01, March 9, 2009, at [http://www.heritage.org/Research/HomelandSecurity/upload/CDA\\_09\\_01.pdf](http://www.heritage.org/Research/HomelandSecurity/upload/CDA_09_01.pdf). Figures cited in this report have not been independently verified by the Office of Management and Budget.

<sup>5</sup> The Heritage Foundation report's methodology in selecting the states, cities, and counties to include in the report is as follows: the state had to possess a designated UASI jurisdiction and the city and county had to belong to a designated UASI jurisdiction that had received at least \$15 million from 2003 to 2007 from the DHS.

<sup>6</sup> The Heritage Foundation report's budget data for homeland security included primary law enforcement agencies, fire departments, homeland security offices, and emergency management agencies. In some cases, state and local emergency management agency budget data was embedded in the fire department budget data and was not separately noted in its own category.

<sup>1</sup> OMB does not collect detailed homeland security expenditure data



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 billion on State and local homeland security related activities.

There is also a diversity of responses in the businesses community. A 2003 survey of 199 corporate security directors conducted by the Conference Board showed that just over half of the companies reported that they had permanently increased security spending post-September 11, 2001.<sup>7</sup> About 15 percent of the companies surveyed had increased their security spending by 20 percent or more.<sup>8</sup> Large increases in spending were especially evident in critical industries, such as transportation, energy, financial services, media and telecommunications, infor-

mation technology, and healthcare. However, about one-third of the surveyed companies reported that they had not increased their security spending after September 11th.<sup>9</sup> Given the difficulty of obtaining survey results that are representative of the universe of States, localities, and businesses, it is likely that there will be a wide range of estimates of non-Federal security spending for critical infrastructure protection.

**Additional Tables**

The tables in the Federal expenditures section of this chapter present data based on the President’s policy for the 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 *Analytical Perspectives* CD ROM.

<sup>7</sup> Source: Thomas E. Cavanagh and Meredith Whiting, “2003 Corporate Security Management: Organization and Spending Since 9/11,” The Conference Board. R-1333-03-RR. July 2003. This 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.”

<sup>8</sup> The Conference Board survey cites the sample size for this statistic was 192 corporate security directors.

<sup>9</sup> The Conference Board survey cites the sample size for this statistic was 199 corporate security directors.

**Table 22-5. DISCRETIONARY FEE-FUNDED HOMELAND SECURITY ACTIVITIES BY AGENCY**

(Budget authority in millions of dollars)

Agency	2013 Actual	2013 Supplemental	2014 Enacted	2014 Supplemental	2015 Request
Department of Commerce .....	.....	.....	1,647.0	.....	2,275.0
Department of Energy .....	11.4	.....	10.9	.....	16.8
Department of Homeland Security .....	3,310.5	.....	3,619.0	.....	4,298.2
Department of State .....	2,723.6	.....	2,771.7	.....	3,177.4
General Services Administration .....	28.0	.....	355.0	.....	508.0
Social Security Administration .....	231.2	.....	259.4	.....	283.4
Federal Communications Commission .....	1.4	.....	1.4	.....	1.4
Securities and Exchange Commission .....	8.0	.....	8.0	.....	8.0
<b>Total, Discretionary Homeland Security Fee-Funded Activities .....</b>	<b>6,314.0</b>	<b>.....</b>	<b>8,672.4</b>	<b>.....</b>	<b>10,568.1</b>



**Table 22–8. HOMELAND SECURITY FUNDING BY BUDGET FUNCTION**  
(Budget authority in millions of dollars)

Budget Function	2013 Actual	2014 Enacted	2015 Request
National Defense .....	21,957	21,441	20,892
International Affairs .....	2,926	2,941	3,344
General Science Space and Technology .....	717	750	740
Energy .....	113	170	173
Natural Resources and the Environment .....	349	312	307
Agriculture .....	418	463	450
Commerce and Housing Credit .....	462	3,748	4,777
Transportation .....	10,678	10,846	10,754
Community and Regional Development .....	2,698	2,860	2,583
Education, Training, Employment and Social Services .....	168	173	171
Health .....	4,005	4,764	4,880
Medicare .....	26	26	27
Income Security .....	5	6	5
Social Security .....	231	259	283
Veterans Benefits and Services .....	368	371	386
Administration of Justice .....	19,624	21,137	21,654
General Government .....	1,609	1,947	2,089
<b>Total, Homeland Security Budget Authority .....</b>	<b>66,354</b>	<b>72,214</b>	<b>73,515</b>
Less National Defense, DoD .....	-16,798	-16,364	-15,761
<b>Non-Defense Homeland Security BA .....</b>	<b>49,556</b>	<b>55,850</b>	<b>57,754</b>
Less Fee-Funded Homeland Security Programs .....	-6,291	-7,004	-8,597
Less Mandatory Homeland Security Programs .....	-3,436	-6,753	-7,912
<b>Net Non-Defense, Discretionary Homeland Security BA .....</b>	<b>39,829</b>	<b>42,093</b>	<b>41,245</b>

**Table 22–9. BASELINE ESTIMATES—HOMELAND SECURITY FUNDING BY BUDGET FUNCTION**  
(Budget authority in millions of dollars)

Budget Function	2013	Baseline				
		2015	2016	2017	2018	2019
National Defense .....	21,441	21,840	22,275	22,743	23,217	23,705
International Affairs .....	2,941	2,760	2,815	2,875	2,936	2,997
General Science Space and Technology .....	750	762	776	794	810	824
Energy .....	170	182	188	193	197	202
Natural Resources and the Environment .....	312	317	326	334	344	351
Agriculture .....	463	468	493	507	518	529
Commerce and Housing Credit .....	3,748	4,780	6,127	239	246	251
Transportation .....	10,846	11,281	11,527	11,848	12,179	12,511
Community and Regional Development .....	2,860	2,912	2,969	3,030	3,092	3,157
Education, Training, Employment and Social Services .....	173	178	184	189	193	198
Health .....	4,764	4,849	4,948	5,052	5,156	5,263
Medicare .....	26	27	29	30	32	33
Income Security .....	6	6	4	4	5	5
Social Security .....	259	283	288	294	300	306
Veterans Benefits and Services .....	371	379	390	400	408	418
Administration of Justice .....	21,137	21,925	22,600	23,268	23,968	24,642
General Government .....	1,947	2,101	2,145	2,186	2,230	2,273
<b>Total, Homeland Security Budget Authority .....</b>	<b>72,214</b>	<b>75,050</b>	<b>78,084</b>	<b>73,986</b>	<b>75,831</b>	<b>77,665</b>
Less National Defense, DoD .....	-16,364	-16,634	-16,944	-17,280	-17,617	-17,969
<b>Non-Defense, Discretionary Homeland Security BA .....</b>	<b>55,850</b>	<b>58,416</b>	<b>61,140</b>	<b>56,706</b>	<b>58,214</b>	<b>59,696</b>
Less Fee-Funded Homeland Security Programs .....	-7,051	-7,103	-7,238	-7,383	-7,531	-7,679
Less Mandatory Homeland Security Programs .....	-6,746	-7,905	-9,429	-3,638	-3,736	-3,817
<b>Net Non-Defense, Discretionary Homeland Security BA .....</b>	<b>42,053</b>	<b>43,408</b>	<b>44,473</b>	<b>45,685</b>	<b>46,947</b>	<b>48,200</b>
<b>Obligations Limitations</b>						
Department of Transportation Obligations Limitation .....	-219	-226	-234	-241	-247	-255

## 23. FEDERAL DRUG CONTROL FUNDING

In support of the *2014 National Drug Control Strategy (Strategy)*, the President requests \$25.4 billion in Fiscal Year 2015 to reduce drug use and its consequences in the United States. The *Strategy* represents a 21st century approach to drug policy that outlines innovative policies and programs and recognizes that substance use disorders are not just a criminal justice issue, but also a major public health concern. Decades of research demonstrate that addiction is a disease of the brain - one that can be prevented, treated, and from which people can recover. The *Strategy* lays out an evidence-based plan for real drug policy reform, spanning the spectrum of prevention, early intervention, treatment, recovery support, criminal justice reform, effective law enforcement, and international cooperation.

The Office of National Drug Control Policy (ONDCP) develops the *Strategy* and a consolidated National Drug

Control Program Budget. Program evaluation and performance measurement are important tools for 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 (PRS), which appraises the performance of the large and complex interagency Federal effort set forth in the *Strategy*. The PRS is essential because it will act as a signal to indicate where the *Strategy* is on track, and when and where further attention, assessment, evaluation, and problem-solving are needed. The first PRS report, which will be released soon, is the first assessment of interagency progress, and will assist in making adjustments to the *Strategy's* policy and program actions as required to achieve the *Strategy's* goals and objectives.

**Table 23–1. FEDERAL DRUG CONTROL FUNDING, 2013–2015<sup>1</sup>**  
(Budget authority, in millions of dollars)

Department/Agency	2013 Enacted	2014 Enacted	2015 President's Budget
<b>Department of Agriculture:</b>			
U.S. Forest Service .....	15.2	12.4	12.3
<b>Court Services and Offender Supervision Agency for D.C.:</b> .....	47.7	54.0	56.1
<b>Department of Defense:<sup>2</sup></b>			
Drug Interdiction and Counterdrug Activities .....	1,599.1	1,538.8	956.0
Defense Health Program .....	99.5	101.2	91.4
<b>Total DOD</b> .....	<b>1,698.6</b>	<b>1,639.9</b>	<b>1,047.4</b>
<b>Department of Education:</b>			
Office of Elementary and Secondary Education .....	55.6	39.5	102.1
<b>Federal Judiciary:</b> .....	1,061.0	1,200.4	1,243.0
<b>Department of Health and Human Services:</b>			
Administration for Children and Families .....	20.0	20.0	20.0
Centers for Medicare and Medicaid Services <sup>3</sup> .....	3,620.0	4,350.0	5,070.0
Health Resources and Services Administration .....	18.0	22.0	23.0
Indian Health Service .....	91.6	112.0	113.6
National Institute on Alcohol Abuse and Alcoholism .....	61.8	63.4	63.4
National Institute on Drug Abuse .....	992.2	1,015.8	1,023.3
Substance Abuse and Mental Health Services Administration <sup>4</sup> .....	2,395.4	2,478.6	2,427.4
<b>Total HHS</b> .....	<b>7,199.1</b>	<b>8,061.7</b>	<b>8,740.8</b>
<b>Department of Homeland Security:</b>			
Customs and Border Protection .....	2,270.5	2,442.2	2,385.6
Federal Law Enforcement Training Center .....	43.8	46.2	43.6
Immigration and Customs Enforcement .....	474.9	496.3	489.3
U.S. Coast Guard <sup>5</sup> .....	1,333.8	1,305.3	1,205.0
<b>Total DHS</b> .....	<b>4,122.9</b>	<b>4,289.9</b>	<b>4,123.5</b>
<b>Department of Housing and Urban Development:</b>			
Office of Community Planning and Development .....	421.5	458.9	524.5



**Table 23–1. FEDERAL DRUG CONTROL FUNDING, 2013–<sup>2015</sup><sup>1</sup>—Continued**  
(Budget authority, in millions of dollars)

Department/Agency	2013 Enacted	2014 Enacted	2015 President's Budget
<b>Department of the Interior:</b>			
Bureau of Indian Affairs .....	9.5	9.7	9.7
Bureau of Land Management .....	5.1	5.1	5.1
National Park Service .....	3.1	3.3	3.3
<b>Total DOI .....</b>	<b>17.7</b>	<b>18.1</b>	<b>18.1</b>
<b>Department of Justice:</b>			
Assets Forfeiture Fund .....	234.5	227.1	238.4
Bureau of Prisons .....	3,212.8	3,460.3	3,477.6
Criminal Division .....	38.6	40.1	41.7
Drug Enforcement Administration .....	2,242.1	2,353.3	2,384.7
Organized Crime Drug Enforcement Task Force .....	484.4	514.0	505.0
Office of Justice Programs .....	251.9	244.6	274.6
U.S. Attorneys .....	75.0	76.0	77.0
U.S. Marshals Service .....	228.2	242.5	242.4
Federal Prisoner Detention .....	604.3	529.0	543.0
<b>Total DOJ .....</b>	<b>7,371.9</b>	<b>7,686.9</b>	<b>7,784.4</b>
<b>Department of Labor:</b>			
Employment and Training Administration .....	6.6	6.6	4.8
<b>Office of National Drug Control Policy:</b>			
Operations .....	23.2	22.8	22.6
High Intensity Drug Trafficking Area Program .....	226.0	238.5	193.4
Other Federal Drug Control Programs .....	100.3	105.4	95.4
<b>Total ONDCP .....</b>	<b>349.6</b>	<b>366.7</b>	<b>311.4</b>
<b>Department of State:<sup>6</sup></b>			
Bureau of International Narcotics and Law Enforcement Affairs .....	523.2	473.2	458.3
United States Agency for International Development .....	164.4	138.6	148.6
<b>Total DOS .....</b>	<b>687.6</b>	<b>611.8</b>	<b>606.9</b>
<b>Department of the Transportation:</b>			
Federal Aviation Administration .....	26.8	30.5	30.8
National Highway Traffic Safety Administration .....	2.7	2.2	2.2
<b>Total DOT .....</b>	<b>29.4</b>	<b>32.7</b>	<b>33.1</b>
<b>Department of the Treasury:</b>			
Internal Revenue Service .....	57.1	60.3	58.4
<b>Department of Veterans Affairs:</b>			
Veterans Health Administration <sup>7</sup> .....	658.9	672.4	696.6
<b>Total Federal Drug Budget .....</b>	<b>23,800.4</b>	<b>25,212.2</b>	<b>25,363.3</b>

<sup>1</sup> Detail may not add due to rounding.

<sup>2</sup> As the Overseas Contingency Operations (OCO) amounts have not yet been finalized, this amount includes FY 2015 base budget resources only.

<sup>3</sup> 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.

<sup>4</sup> Includes budget authority and funding through evaluation set-aside authorized by Section 241 of the Public Health Service (PHS) Act.

<sup>5</sup> The USCG budgets by appropriation rather than individual missions. The USCG projects resource allocations by mission through use of an activity-based costing system. Actual allocations will vary depending upon operational environment and mission need.

<sup>6</sup> State Department amounts include funding appropriated or requested for overseas contingency operations.

<sup>7</sup> VA Medical Care receives advance appropriations; FY 2014 funding was provided in the Consolidated and Furthering Continuing Appropriations Act, 2013 (Public Law 113–6).

## 24. 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 in 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 restore and maintain the ecological integrity of the area and mitigate 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 Delta Plan, released in May of 2013. Federal activities are currently coordinated through the Interim Federal Action Plan (established in 2010), under the leadership of the White House Council on Environmental Quality, the Department of the Interior, and California's Delta Stewardship Council.

The Interim Federal Action Plan uses an adaptive management approach to water resources development 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 2015 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](http://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/news/doinews/upload/CAWaterWorkPlan.pdf>.

**Table 24-1. BAY-DELTA FEDERAL FUNDING BUDGET CROSSCUT**

(In millions of dollars)

Agency	Enacted																Pres. Budget	
	98	99	00	01	02	03	04	05	06	07	08	09 <sup>1</sup>	10	11	12	13		14
Bureau of Reclamation .....	153	115	139	80	103	74	76	81	100	101	66	157	95	186	175	121	152	135
Corps of Engineers .....	101	103	94	54	58	58	73	52	91	87	51	141	73	98	45	54	86	56
Natural Resources Conservation Service .....	0	15	13	17	39	38	49	36	35	27	41	44	40	56	56	45	48	56
NOAA Fisheries (NMFS) .....	0	0	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Geological Survey .....	3	3	4	5	5	5	5	5	5	4	4	4	3	6	8	7	7	8
Fish and Wildlife Service .....	1	1	4	18	6	11	14	9	11	8	22	24	7	5	5	5	5	6
Environmental Protection Agency <sup>2</sup> .....	3	3	57	53	54	21	63	98	37	36	68	161	124	78	86	80	83	64
<b>Totals:</b> .....	<b>262</b>	<b>240</b>	<b>311</b>	<b>228</b>	<b>266</b>	<b>208</b>	<b>279</b>	<b>283</b>	<b>279</b>	<b>264</b>	<b>253</b>	<b>532</b>	<b>341</b>	<b>430</b>	<b>376</b>	<b>312</b>	<b>383</b>	<b>327</b>

<sup>1</sup> The FY 2009 total includes American Recovery and Reinvestment Act projects and activities.

<sup>2</sup> EPA's 2012-2015 figures include estimated projections of California's total State Revolving Fund (SRF) allocations. Prior year columns do not.

Note: The 2012-2015 columns reflect categories in the Bay-Delta Interim Federal Action Plan. In some cases it may include different projects.



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## TECHNICAL BUDGET ANALYSES

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## 25. CURRENT SERVICES ESTIMATES

Current services, or “baseline,” estimates are designed to provide a benchmark against which budget 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 reflecting 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. Throughout the 1990s, the baseline was calculated using a detailed set of rules enacted through amendments to the Balanced Budget Emergency Deficit Control Act of 1985 (BBEDCA) made by the Budget Enforcement Act of 1990 (BEA). The BBEDCA baseline rules lapsed after the enforcement provisions of the BEA expired in 2002, but even after the lapse they were largely adhered to in practice until they were officially 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. The next section provides detailed estimates of an adjusted baseline that corrects for some of the shortcomings in the BBEDCA baseline. Table 25–1 shows estimates of receipts, outlays, and deficits under the Administration’s adjusted baseline for 2013 through 2024.<sup>1</sup> The estimates are based on the economic assumptions described later in this chapter. The table also shows the Administration’s estimates by major component of the budget. Estimates

<sup>1</sup> The estimates are shown on a unified budget basis; i.e., the off-budget receipts and outlays of the Social Security trust funds and the Postal Service Fund are added to the on-budget receipts and outlays to calculate the unified budget totals.

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.

*Direct spending and receipts.*—Direct spending includes the major entitlement programs, such as Social Security, Medicare, Medicaid, Federal employee retirement, unemployment compensation, and the Supplemental Nutrition Assistance Program (SNAP). It also includes such programs as deposit insurance and farm price and income supports, where the Government is legally obligated to make payments under certain conditions. Receipts and direct spending are alike in that they involve ongoing activities that generally operate under permanent or long-standing authority, and the underlying statutes generally specify the tax rates or benefit levels that must be collected or paid, and who must pay or who is eligible to receive benefits.

The baseline generally—but not always—assumes that receipts and direct spending programs continue in the future as specified by current law. The budgetary effects of anticipated regulatory and administrative actions that are permissible under current law are also reflected in the estimates. BBEDCA requires several exceptions to this general rule, and the Administration’s adjusted baseline also provides exceptions to reflect a more realistic deficit outlook. Exceptions in the BBEDCA and the Administration’s adjusted baselines are described below:

- Consistent with BBEDCA, expiring excise taxes dedicated to a trust fund are assumed to be extended at current rates. During the projection period of 2014 through 2024, the taxes affected by this exception are tobacco assessments deposited in the Tobacco Trust Fund, which expire on September 30, 2014; 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; 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.
- While BBEDCA requires the extension of trust fund excise taxes, it otherwise bases the receipt estimates

on current law. 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 assumed to expire according to current law in the BBEDCA 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). However, the Administration's adjusted baseline extends these tax credits permanently.

- 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 vocational rehabilitation State grants program is scheduled to expire at the end of 2015. The baseline estimates assume continuation of this program through the projection period.<sup>2</sup>
- 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 the Congress has routinely overridden for more than a decade. Under the SGR formula, physician payment rates would be reduced by nearly 24 percent on April 1, 2014, and these reductions are reflected in the BBEDCA baseline. However, rather than reflect 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 and defaulted on the \$5.6 billion payment due September 30, 2013. The USPS indicated that, absent changes to its financial forecast (largely dependent on legislative action), the USPS will likely default on future

RHB payments. While the BBEDCA baseline shows USPS making the \$5.7 billion payment in 2014 as required, the adjusted baseline assumes USPS would not have the resources to make the full payment and would likely default absent legislative action. Both the BBEDCA and the adjusted baselines show USPS making its full 2015 and 2016 payments. While defaulted payments remain as outstanding statutory liabilities, any default amount 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 BBEDCA, the baseline estimates for discretionary programs in the current year are based on that year's enacted appropriations.<sup>3</sup> For the budget year and beyond, the spending authority enacted in the current year is adjusted for inflation, using specified inflation rates.<sup>4</sup> The definition attempts to keep discretionary spending roughly level in real terms. The Administration's adjusted baseline makes 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 BBEDCA, which limit the amount of discretionary budget authority that can be pro-

<sup>2</sup> 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 over \$1 billion, and even though the receipts used to finance these payments are assumed to be continued in the baseline as noted in the previous bullet. In addition, if commodity price support programs typically funded in the Farm Bill expire, they are assumed to continue to operate in the same way they operated immediately before the expiration, even if the authority has lapsed at the time the baseline is prepared.

<sup>3</sup> When current year appropriations have not been enacted the BBEDCA requires the baseline estimates for discretionary spending and collections for the current year to be based on the levels provided in the full-year continuing resolution or the annualized level of the part-year continuing resolution.

<sup>4</sup> 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.

vided through the annual appropriations process. The current caps were initially established by the BCA and later amended for 2013, 2014, and 2015 by ATRA and the Bipartisan Budget Act of 2013. (Chapter 9 of this volume, “Budget Concepts,” provides more information on the effects of BBEDCA, as amended by the BCA and subsequent legislation.)

- The BBEDCA caps allow for adjustments for disaster relief spending and for emergency requirements.<sup>5</sup> The adjusted baseline does not reflect funding under the disaster relief or emergency cap adjustments beyond what has already been enacted for 2014. While the BBEDCA baseline projects forward the \$5.6 billion of enacted disaster relief funding for the Department of Homeland Security in 2014, increased by the BBEDCA inflation rates, the adjusted baseline removes this extrapolation. At the time the Budget

was prepared there were no 2014 appropriations designated as emergency requirements, so there was no need for a baseline adjustment.

*Reclassification of transportation spending.* — To provide an appropriate baseline for assessing the budgetary impact of the Administration’s proposal for surface transportation and rail reauthorization, the adjusted baseline reclassifies surface transportation spending from discretionary to mandatory. The Administration requests to fund the proposal with mandatory contract authority (with associated mandatory outlays) out of a new Transportation Trust Fund (formerly Highway Trust Fund). The 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 surface transportation and 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 2014 and in subsequent years is

<sup>5</sup> The BBEDCA caps also allow for adjustments for Overseas Contingency Operations (OCO) and program integrity activities. The adjusted baseline for OCO is identical to the BBEDCA baseline, reflecting 2014 enacted funding for OCO inflated at the specified inflation rates. The adjusted baseline also reflects the BBEDCA cap adjustment for Social Security program integrity in 2015.

**Table 25–1. CATEGORY TOTALS FOR THE ADJUSTED BASELINE**

(In billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Receipts .....	2,775	3,005	3,251	3,457	3,656	3,851	4,057	4,271	4,505	4,736	4,970	5,218
Outlays:												
Discretionary:												
Defense .....	626	612	606	619	629	637	649	659	675	726	756	778
Non-defense .....	522	562	543	520	519	524	534	546	558	591	614	631
Subtotal, discretionary .....	1,147	1,174	1,150	1,139	1,148	1,161	1,182	1,204	1,233	1,316	1,370	1,409
Mandatory:												
Social Security .....	808	852	896	947	1,003	1,063	1,127	1,195	1,264	1,337	1,415	1,499
Medicare .....	492	513	529	580	596	617	682	734	790	879	914	947
Medicaid and CHIP .....	275	319	342	368	386	400	422	446	471	499	528	562
Other mandatory .....	512	550	638	666	682	680	728	753	781	820	819	847
Subtotal, mandatory .....	2,086	2,234	2,405	2,561	2,667	2,760	2,960	3,128	3,306	3,535	3,677	3,855
Disaster costs <sup>1</sup> .....	0	2	6	8	8	9	9	10	10	10	10	10
Net interest .....	221	223	251	318	393	480	563	635	697	761	827	886
Total, outlays .....	3,455	3,633	3,812	4,025	4,217	4,409	4,714	4,978	5,247	5,623	5,884	6,160
Unified deficit(+)/surplus(–) .....	680	628	560	569	560	559	658	707	741	887	914	942
On-budget .....	719	648	558	569	548	538	623	651	676	800	800	799
Off-budget .....	–39	–19	3	–1	12	20	34	56	66	87	114	143
Memorandum:												
BBEDCA baseline deficit .....	680	617	568	617	629	637	721	773	812	907	918	918
Adjustments to reflect current tax policies .....	0	0	0	0	0	1	24	26	26	26	25	25
Adjustments to reflect current spending policies .....	0	9	14	13	14	9	9	11	12	14	15	15
Set discretionary budget authority at cap levels .....	0	0	–24	1	13	15	14	13	9	8	8	8
Reflect Joint Committee enforcement .....	0	0	0	–66	–96	–102	–105	–107	–107	–54	–38	–10
Remove non-recurring emergency costs .....	0	0	–2	–4	–6	–6	–7	–7	–7	–7	–8	–8
Add placeholder for future emergency costs .....	0	2	6	8	8	9	9	10	10	10	10	10
Related debt service .....	0	*	*	–*	–2	–5	–8	–11	–14	–16	–16	–16
Adjusted baseline deficit .....	680	628	561	568	560	558	657	707	741	887	914	942

\*\$500 million or less.

<sup>1</sup> These amounts represent the probability of major disasters requiring Federal assistance for relief and reconstruction. Such assistance might be provided in the form of discretionary or mandatory outlays or tax relief. These amounts are included as outlays for convenience.



**Table 25–2. SUMMARY OF ECONOMIC ASSUMPTIONS**  
(Fiscal years; in billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Gross Domestic Product (GDP):												
Levels, in billions of dollars:												
Current dollars .....	16,618.6	17,332.3	18,219.4	19,180.6	20,199.4	21,216.3	22,196.1	23,199.7	24,224.8	25,280.1	26,381.4	27,530.6
Real, chained (2009) dollars .....	15,648.3	16,087.1	16,623.9	17,182.8	17,743.6	18,271.1	18,739.2	19,200.7	19,654.2	20,106.3	20,568.8	21,041.9
Percent change, year over year:												
Current dollars .....	3.3	4.3	5.1	5.3	5.3	5.0	4.6	4.5	4.4	4.4	4.4	4.4
Real, chained (2009) dollars .....	1.6	2.8	3.3	3.4	3.3	3.0	2.6	2.5	2.4	2.3	2.3	2.3
Inflation measures (percent change, year over year):												
GDP chained price index .....	1.5	1.5	1.7	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer price index (all urban) .....	1.6	1.4	1.9	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Unemployment rate, civilian (percent) .....	7.6	7.1	6.6	6.1	5.7	5.5	5.4	5.4	5.4	5.4	5.4	5.4
Interest rates (percent):												
91-day Treasury bills .....	0.1	0.1	0.2	1.0	2.0	3.0	3.6	3.7	3.7	3.7	3.7	3.7
10-year Treasury notes .....	2.1	2.9	3.4	3.9	4.3	4.5	4.7	4.8	5.1	5.1	5.1	5.1
MEMORANDUM:												
Related program assumptions:												
Automatic benefit increases (percent):												
Social security and veterans pensions .....	1.7	1.5	1.4	2.0	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Federal employee retirement .....	1.7	1.5	1.4	2.0	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Supplemental Nutrition Assistance Program <sup>1</sup> .....	0.0	0.7	1.9	2.0	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Insured unemployment rate .....	2.4	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1

<sup>1</sup> Enhanced Thrifty Food Plan (TFP) benefits provided by the Recovery Act (P.L. 111–5) expired on October 31, 2013. Benefits have now returned to regular levels and will be updated annually based on the TFP from the preceding June.

assumed in the adjusted baseline 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 not result in enactment of legislation that reduced the deficit by at least \$1.2 trillion, the BCA stipulated that, absent intervening legislation, enforcement procedures would be invoked on an annual basis to reduce the levels of discretionary and mandatory spending to accomplish deficit reduction. The BBEDCA baseline includes those across-the-board reductions (“sequestration”) already invoked by sequestration orders for discretionary and mandatory funding in 2013 and mandatory funding only in 2014, as well as the mandatory sequestration order for 2015 issued with the transmittal of the 2015 Budget.<sup>6</sup> As stated above, the BBEDCA baseline also reflects the revised discretionary caps for 2014 and 2015, as established by the Bipartisan Budget Act of 2013 (BBA), which replaced \$63 billion of the discretionary spending reductions that would otherwise have been required by Joint Committee enforcement in 2014 and 2015. Joint Committee enforcement for years after 2015—consisting

<sup>6</sup> The 2013 and 2014 reductions are reflected in the detailed schedules for the affected budget accounts, while the 2015 reductions are reflected in an allowance due to the timing of the preparation of the detailed budget estimates and the issuance of the sequestration order.

of mandatory sequestration and discretionary cap reductions for 2016 through 2021—are reflected as adjustments to the BBEDCA baseline in the form of an allowance in the amount of the required reductions. Pursuant to the BBA, the adjusted baseline also includes the extension of mandatory sequestration to 2022 and 2023 at the rate required for 2021 by the BCA.<sup>7,8</sup>

### Economic Assumptions

As discussed above, an important purpose of the baseline is to serve 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. 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

<sup>7</sup> The BBA also specified that, notwithstanding the 2 percent limit on Medicare sequestration in the BCA, in extending sequestration into 2023 the reduction in the Medicare program should be 2.90 percent for the first half of the sequestration period and 1.11 percent for the second half of the period.

<sup>8</sup> The Military Retired Pay Restoration Act extended the sequestration of mandatory spending into 2024, but the effects are not included in the 2015 Budget estimates because of the late date of enactment.

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. Using the same economic assumptions for the baseline and the President's Budget eliminates this potential source of confusion. The economic assumptions underlying the Budget and the Administration's baseline are summarized in Table 25-2. The economic outlook underlying these assumptions is discussed in greater detail in Chapter 2, "Economic Assumptions and Interactions with the Budget," of this volume.

### Major Programmatic Assumptions

In addition to the baseline adjustments described early in this chapter, a number of programmatic assumptions must be made 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 25-2, and assumptions about baseline caseload projections for the major benefit programs are shown in Table 25-3. 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.<sup>9</sup>

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. 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. Table 25-4, available on the Internet at [www.budget.gov/budget/Analytical\\_Perspectives](http://www.budget.gov/budget/Analytical_Perspectives) and on the Budget CD-ROM, provides a listing of mandatory programs and taxes assumed to continue in the baseline after their expiration.<sup>10</sup> Many other important assumptions must be made in order to calculate the baseline estimates. These include assumptions about the timing and substance of regulations that will be issued over the projection period, the use of administrative discretion provided under current law, and other assumptions about the way programs operate. Table 25-4 lists many of these assumptions and their effects on the baseline estimates. It is not intended to be an exhaustive listing; the variety and complexity of Government programs are too great to provide a complete list. Instead, some of the more important assumptions are shown.

### Current Services Receipts, Outlays, and Budget Authority

*Receipts.*—Table 25-5 shows the Administration's baseline receipts by major source. Table 25-6 shows the scheduled increases in the Social Security taxable earnings base.

*Outlays.*—Table 25-7 shows the growth from 2014 to 2015 and average annual growth over the five-year and ten-year periods for certain discretionary and major mandatory programs. Tables 25-8 and 25-9 show the Administration's baseline outlays by function and by agency, respectively. A more detailed presentation of these outlays (by function, category, subfunction, and program) is available on the Internet as part of Table 25-12 at [www.budget.gov/budget/Analytical\\_Perspectives](http://www.budget.gov/budget/Analytical_Perspectives) and on the Budget CD-ROM.

*Budget authority.*—Tables 25-10 and 25-11 show estimates of budget authority in the Administration's baseline by function and by agency, respectively. A more detailed presentation of this budget authority with program level estimates is also available on the Internet as part of Table 25-12 at [www.budget.gov/budget/Analytical\\_Perspectives](http://www.budget.gov/budget/Analytical_Perspectives) and on the Budget CD-ROM.

<sup>9</sup> Although these adjustments are applied at the account level, they have no effect in the aggregate because discretionary baseline levels are constrained to the BBEDCA caps.

<sup>10</sup> All discretionary programs with enacted non-emergency, non-disaster appropriations in the current year and the 2014 costs for overseas contingency operations in Iraq and Afghanistan and other recurring international activities are assumed to continue, and are therefore not presented in Table 25-4.

**Table 25-3. BASELINE BENEFICIARY PROJECTIONS FOR MAJOR BENEFIT PROGRAMS**  
(Annual average, in thousands)

	Actual 2013	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Farmers receiving Federal payments .....	1,170	1,164	1,158	1,152	1,146	1,140	1,134	1,128	1,122	1,116	1,110	1,104
Federal direct student loans .....	10,453	9,907	9,846	10,150	10,461	10,782	11,113	11,458	11,816	12,186	12,571	12,971
Federal Pell Grants .....	8,861	8,711	8,852	9,015	9,168	9,304	9,478	9,598	9,734	9,848	9,993	10,120
Medicaid/Children's Health Insurance Program .....	64,877	70,897	77,381	82,253	82,943	81,491	81,614	82,741	83,060	83,423	83,774	84,134
Medicare-eligible military retiree health benefits .....	2,230	2,269	2,298	2,323	2,349	2,374	2,397	2,421	2,446	2,472	2,496	2,522
<b>Medicare:</b>												
Hospital insurance .....	51,564	53,217	54,897	56,569	58,265	59,994	61,762	63,575	65,418	67,302	69,195	71,075
Supplementary medical insurance:												
Part B .....	47,621	49,157	50,611	52,065	53,541	55,047	56,592	58,192	59,819	61,487	63,176	64,844
Part D .....	38,655	40,107	41,445	42,781	44,069	45,360	46,680	48,063	49,457	50,874	52,298	53,712
Prescription Drug Plans and Medicare Advantage:												
Prescription Drug Plans .....	34,794	37,678	39,779	41,793	43,236	44,501	45,796	47,154	48,521	49,911	51,309	52,696
Retiree Drug Subsidy .....	3,861	2,430	1,666	988	834	858	883	909	935	962	989	1,016
Managed Care Enrollment <sup>1</sup> .....	14,527	15,508	15,833	16,144	16,829	17,291	17,971	18,782	19,611	20,422	21,194	21,909
Railroad retirement .....	535	532	529	526	523	519	514	509	502	495	486	478
Federal civil service retirement .....	2,591	2,604	2,617	2,632	2,648	2,666	2,685	2,704	2,724	2,744	2,764	2,779
Military retirement .....	2,246	2,257	2,265	2,273	2,281	2,289	2,296	2,304	2,313	2,322	2,332	2,360
Unemployment insurance .....	8,247	8,152	8,356	8,396	8,401	8,366	8,342	8,360	8,414	8,401	8,406	8,421
Supplemental Nutrition Assistance Program .....	47,636	47,596	46,949	44,701	42,550	40,683	39,027	37,444	36,192	35,280	34,156	33,046
Child nutrition .....	34,333	34,172	34,471	34,268	34,521	34,778	35,040	35,305	35,575	35,850	36,129	36,412
Foster care, Adoption Assistance and Guardianship Assistance .....	613	612	624	649	665	684	704	725	747	771	796	821
<b>Supplemental security income (SSI):</b>												
Aged .....	1,089	1,095	1,105	1,117	1,129	1,142	1,156	1,173	1,189	1,206	1,225	1,246
Blind/disabled .....	7,000	7,101	7,147	7,177	7,181	7,182	7,196	7,225	7,242	7,268	7,304	7,349
Total, SSI .....	8,089	8,196	8,252	8,294	8,310	8,324	8,352	8,398	8,431	8,474	8,529	8,595
Child care and development fund .....	2,134	2,091	2,112	2,155	2,111	2,050	2,032	2,163	2,142	2,117	2,097	2,081
<b>Social security (OASDI):</b>												
Old age and survivors insurance .....	46,167	47,650	49,177	50,778	52,455	54,167	55,906	57,668	59,255	60,887	62,528	64,179
Disability insurance .....	10,916	11,028	11,125	11,217	11,306	11,380	11,444	11,504	11,622	11,753	11,870	11,960
Total, OASDI .....	57,083	58,678	60,302	61,995	63,761	65,547	67,350	69,172	70,877	72,640	74,398	76,139
<b>Veterans compensation:</b>												
Veterans .....	3,633	3,903	4,187	4,377	4,521	4,654	4,778	4,898	5,015	5,129	5,240	5,349
Survivors (non-veterans) .....	358	369	382	397	414	432	451	470	490	511	532	554
Total, Veterans compensation .....	3,991	4,272	4,569	4,774	4,935	5,086	5,229	5,368	5,505	5,640	5,772	5,903
<b>Veterans pensions:</b>												
Veterans .....	309	308	309	309	309	309	310	310	310	311	311	311
Survivors (non-veterans) .....	207	209	211	213	216	218	221	223	226	228	231	234
Total, Veterans pensions .....	516	517	520	522	525	527	531	533	536	539	542	545

<sup>1</sup> Enrollment figures include only beneficiaries who receive both Part A and Part B services through managed care.





**Table 25–7. CHANGE IN OUTLAY ESTIMATES BY CATEGORY IN THE ADJUSTED BASELINE**  
(In billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Change 2014 to 2015		Change 2014 to 2019		Change 2014 to 2024		
												Amount	Percent	Amount	Average annual rate	Amount	Average annual rate	
<b>Outlays:</b>																		
Discretionary:																		
Defense .....	612	606	619	629	637	649	659	675	726	756	778	-6	-1.0%	36	1.2%	166	2.4%	
Non-defense .....	562	543	520	519	524	534	546	558	591	614	631	-19	-3.3%	-28	-1.0%	69	1.2%	
Subtotal, discretionary .....	1,174	1,150	1,139	1,148	1,161	1,182	1,204	1,233	1,316	1,370	1,409	-25	-2.1%	8	0.1%	235	1.8%	
Mandatory:																		
Farm programs .....	16	12	18	21	20	13	13	13	13	12	12	-4	-26.5%	-2	-3.4%	-3	-2.4%	
GSE support .....	-71	-21	-23	-23	-23	-19	-17	-15	-14	-13	-12	49	-69.9%	51	-22.8%	58	-16.1%	
Medicaid .....	308	331	353	373	393	416	440	466	493	522	556	23	7.5%	108	6.2%	248	6.1%	
Other health care .....	79	116	132	145	143	151	157	162	169	177	184	36	45.5%	71	13.6%	104	8.8%	
Medicare .....	513	529	580	596	617	682	734	790	879	914	947	16	3.1%	169	5.9%	434	6.3%	
Federal employee retirement and disability .....	135	139	148	149	149	158	163	168	180	180	180	4	3.3%	23	3.2%	45	2.9%	
Unemployment compensation ....	45	41	41	42	43	45	47	49	51	53	55	-5	-10.6%	-1	-0.4%	9	1.9%	
Other income security programs ....	278	279	283	283	281	292	297	301	312	311	310	*	0.2%	14	1.0%	31	1.1%	
Social Security .....	852	896	947	1,003	1,063	1,127	1,195	1,264	1,337	1,415	1,499	44	5.2%	275	5.8%	647	5.8%	
Veterans programs .....	89	94	106	104	104	118	125	132	148	146	144	5	5.5%	30	5.9%	55	5.0%	
Other mandatory programs .....	77	85	77	77	74	79	78	84	79	71	97	7	9.4%	2	0.5%	20	2.3%	
Undistributed offsetting receipts .....	-88	-94	-102	-104	-103	-102	-103	-106	-110	-113	-116	-6	6.3%	-13	2.8%	-28	2.8%	
Subtotal, mandatory .....	2,234	2,405	2,561	2,667	2,760	2,960	3,128	3,306	3,535	3,677	3,855	172	7.7%	726	5.8%	1,622	5.6%	
Disaster costs <sup>1</sup> .....	2	6	8	8	9	9	10	10	10	10	10	4	193.3%	8	38.0%	8	18.2%	
Net interest .....	223	251	318	393	480	563	635	697	761	827	886	28	12.7%	340	20.3%	663	14.8%	
<b>Total, outlays .....</b>	<b>3,633</b>	<b>3,812</b>	<b>4,025</b>	<b>4,217</b>	<b>4,409</b>	<b>4,714</b>	<b>4,978</b>	<b>5,247</b>	<b>5,623</b>	<b>5,884</b>	<b>6,160</b>	<b>179</b>	<b>4.9%</b>	<b>1,082</b>	<b>5.4%</b>	<b>2,528</b>	<b>5.4%</b>	

\*Less than \$500 million.

<sup>1</sup>These amounts represent the statistical probability of a major disaster requiring federal assistance for relief and reconstruction. Such assistance might be provided in the form of discretionary or mandatory outlays or tax relief. These amounts are included as outlays for convenience.

**Table 25–8. OUTLAYS BY FUNCTION IN THE ADJUSTED BASELINE**  
(In billions of dollars)

Function	2013 Actual	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>National Defense:</b>												
Department of Defense—Military .....	607.8	593.3	585.4	599.8	608.9	617.4	628.9	638.5	654.2	702.3	731.5	752.7
Other .....	25.6	27.2	29.2	27.9	28.1	27.8	28.3	28.9	29.4	31.6	32.9	33.7
<b>Total, National Defense .....</b>	<b>633.4</b>	<b>620.6</b>	<b>614.6</b>	<b>627.7</b>	<b>637.0</b>	<b>645.2</b>	<b>657.3</b>	<b>667.4</b>	<b>683.6</b>	<b>733.9</b>	<b>764.4</b>	<b>786.4</b>
International Affairs .....	46.4	48.5	51.1	53.6	54.4	55.1	55.8	56.5	56.9	56.2	58.4	59.6
General Science, Space, and Technology .....	28.9	28.7	31.1	30.7	31.0	31.5	32.0	32.8	33.9	34.5	35.2	35.7
Energy .....	11.0	13.4	9.2	5.6	3.8	2.8	2.9	3.1	3.4	3.4	3.0	3.1
Natural Resources and Environment .....	38.1	39.1	42.1	42.2	42.1	42.1	43.5	44.7	45.5	46.6	47.9	48.8
Agriculture .....	29.5	22.7	17.9	24.5	27.7	26.4	20.0	20.1	20.0	20.0	20.1	20.1
Commerce and Housing Credit .....	-83.2	-80.6	-32.4	-33.6	-31.9	-34.9	-27.4	-28.8	-19.9	-23.0	-25.1	-26.9
On-Budget .....	(-81.3)	(-78.3)	(-33.4)	(-34.8)	(-32.7)	(-35.1)	(-27.7)	(-29.1)	(-20.2)	(-23.3)	(-25.4)	(-27.2)
Off-Budget .....	(-1.9)	(-2.3)	(1.0)	(1.3)	(0.8)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Transportation .....	91.7	95.5	95.9	96.4	97.3	96.1	97.4	99.1	100.3	101.7	103.6	107.4
Community and Regional Development .....	32.3	33.3	26.9	19.2	14.8	15.0	14.2	13.7	14.1	13.6	13.6	13.7
Education, Training, Employment, and Social Services .....	72.8	100.5	101.8	105.4	110.3	115.0	118.2	121.1	123.4	126.6	128.6	130.3
Health .....	358.3	447.4	504.4	543.8	577.6	596.8	628.5	659.4	691.9	727.9	766.3	809.1
Medicare .....	497.8	518.7	535.3	586.4	602.9	624.0	689.4	742.0	798.4	888.2	923.5	957.0
Income Security .....	536.5	524.8	527.1	540.4	542.5	543.0	566.1	579.5	593.3	618.6	622.4	624.4
Social Security .....	813.6	857.3	902.6	951.1	1,007.6	1,067.9	1,132.0	1,200.0	1,268.6	1,342.2	1,420.6	1,504.3
On-Budget .....	(56.0)	(26.2)	(32.2)	(35.3)	(38.8)	(42.4)	(46.1)	(49.9)	(53.7)	(57.8)	(62.2)	(66.6)
Off-Budget .....	(757.5)	(831.1)	(870.4)	(915.9)	(968.8)	(1,025.5)	(1,085.9)	(1,150.1)	(1,214.9)	(1,284.5)	(1,358.4)	(1,437.7)
Veterans Benefits and Services .....	138.9	151.2	159.8	174.9	174.5	176.0	191.6	200.5	209.6	227.9	228.7	228.1
Administration of Justice .....	52.6	53.1	64.4	61.2	62.5	60.6	62.1	65.4	65.5	67.2	69.0	74.2
General Government .....	27.8	22.4	24.2	25.3	25.0	24.9	25.6	26.7	27.2	28.1	28.9	30.0
Net Interest .....	220.9	223.0	251.4	317.7	393.3	479.6	563.0	635.2	697.4	761.2	826.8	886.1
On-Budget .....	(326.5)	(323.3)	(347.6)	(410.6)	(485.3)	(571.2)	(654.3)	(725.4)	(787.8)	(847.8)	(911.1)	(967.9)
Off-Budget .....	(-105.7)	(-100.2)	(-96.2)	(-93.0)	(-92.0)	(-91.6)	(-91.2)	(-90.2)	(-90.4)	(-86.6)	(-84.3)	(-81.8)
Allowances .....		1.9	-21.6	-45.1	-52.0	-54.8	-56.1	-57.8	-60.3	-42.0	-39.2	-15.2
<b>Undistributed Offsetting Receipts:</b>												
Employer share, employee retirement (on-budget) .....	-65.2	-63.8	-66.2	-66.9	-70.3	-71.7	-73.5	-75.6	-77.8	-80.1	-82.4	-84.9
Employer share, employee retirement (off-budget) .....	-16.2	-15.7	-16.0	-16.7	-17.3	-17.9	-18.8	-19.6	-20.4	-21.3	-22.0	-22.7
Rents and royalties on the Outer Continental Shelf .....	-8.9	-8.2	-8.2	-8.1	-7.5	-7.1	-7.3	-7.5	-7.8	-8.1	-8.4	-8.3
Sale of major assets .....	-2.6	*										
Other undistributed offsetting receipts .....		-0.7	-3.6	-10.6	-8.8	-6.2	-2.1	-0.3	-0.3	-0.2	-0.1	
<b>Total, Undistributed Offsetting Receipts .....</b>	<b>-92.8</b>	<b>-88.4</b>	<b>-94.0</b>	<b>-102.3</b>	<b>-103.8</b>	<b>-102.9</b>	<b>-101.7</b>	<b>-103.0</b>	<b>-106.3</b>	<b>-109.8</b>	<b>-113.0</b>	<b>-116.0</b>
On-Budget .....	(-76.6)	(-72.7)	(-77.9)	(-85.6)	(-86.6)	(-85.0)	(-82.9)	(-83.4)	(-85.9)	(-88.5)	(-91.0)	(-93.3)
Off-Budget .....	(-16.2)	(-15.7)	(-16.0)	(-16.7)	(-17.3)	(-17.9)	(-18.8)	(-19.6)	(-20.4)	(-21.3)	(-22.0)	(-22.7)
<b>Total .....</b>	<b>3,454.6</b>	<b>3,632.9</b>	<b>3,811.8</b>	<b>4,025.3</b>	<b>4,216.6</b>	<b>4,409.5</b>	<b>4,714.5</b>	<b>4,977.6</b>	<b>5,246.5</b>	<b>5,623.0</b>	<b>5,883.8</b>	<b>6,160.5</b>
On-Budget .....	(2,820.8)	(2,920.0)	(3,052.6)	(3,217.8)	(3,356.3)	(3,493.2)	(3,738.3)	(3,937.0)	(4,142.1)	(4,446.2)	(4,631.3)	(4,827.0)
Off-Budget .....	(633.8)	(712.9)	(759.2)	(807.5)	(860.3)	(916.3)	(976.2)	(1,040.6)	(1,104.4)	(1,176.8)	(1,252.4)	(1,333.4)

\*\$50 million or less.

**Table 25–9. OUTLAYS BY AGENCY IN THE ADJUSTED BASELINE**  
(In billions of dollars)

Agency	2013 Actual	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Legislative Branch .....	4.3	4.7	4.7	4.9	5.0	5.0	5.2	5.3	5.4	5.5	5.7	5.9
Judicial Branch .....	7.1	7.3	7.6	7.7	7.8	8.0	8.2	8.4	8.7	8.9	9.1	9.3
Agriculture .....	155.9	149.2	141.3	146.7	149.4	148.4	142.6	143.5	144.9	147.0	148.8	148.6
Commerce .....	9.1	8.2	9.5	9.9	8.7	10.1	10.3	10.5	10.7	10.6	10.4	10.6
Defense—Military Programs .....	607.8	593.3	592.2	615.6	628.1	638.3	651.3	661.9	678.5	694.6	711.4	728.8
Education .....	40.9	65.6	66.1	70.2	74.9	79.3	82.0	84.3	86.1	88.7	90.0	91.2
Energy .....	24.7	27.8	29.4	28.0	27.4	26.5	27.0	27.6	28.1	28.7	29.3	29.8
Health and Human Services .....	886.3	957.4	1,008.6	1,082.2	1,115.9	1,150.1	1,240.3	1,318.2	1,400.2	1,518.5	1,584.7	1,654.9
Homeland Security .....	57.2	51.6	47.8	44.4	43.0	44.6	44.9	45.9	47.3	47.8	49.0	55.2
Housing and Urban Development .....	56.6	42.1	37.4	34.2	31.6	30.9	30.6	29.8	29.3	29.1	28.8	28.6
Interior .....	9.6	12.8	13.3	13.1	13.2	13.2	13.4	13.7	14.1	14.4	14.7	14.6
Justice .....	29.7	28.7	41.0	36.0	36.3	34.0	34.9	37.5	36.7	37.7	38.7	39.6
Labor .....	80.3	61.1	56.4	55.7	57.0	58.9	61.3	64.5	68.1	71.1	74.0	76.7
State .....	25.9	27.8	30.0	30.8	30.9	31.1	31.7	32.2	32.7	33.1	33.8	34.5
Transportation .....	76.3	80.5	80.8	81.1	81.6	80.2	81.1	82.5	83.4	84.2	85.6	87.3
Treasury .....	399.1	469.1	571.4	648.9	737.5	830.6	931.9	1,018.3	1,096.5	1,168.9	1,246.2	1,314.8
Veterans Affairs .....	138.5	150.7	159.3	174.4	174.1	175.5	191.2	200.1	209.1	227.4	228.2	227.6
Corps of Engineers—Civil Works .....	6.3	7.2	8.4	7.9	7.3	6.7	7.2	7.3	7.1	7.3	7.4	7.6
Other Defense Civil Programs .....	56.8	57.9	57.4	62.9	60.3	57.0	63.4	64.8	67.0	75.2	72.5	69.8
Environmental Protection Agency .....	9.5	8.1	8.4	8.3	8.2	8.5	8.8	9.2	9.4	9.6	9.9	10.1
Executive Office of the President .....	0.4	0.4	0.5	3.0	3.0	0.4	0.5	0.5	0.5	0.6	0.6	0.5
General Services Administration .....	–0.4	–0.5	0.5	1.3	0.7	*	0.1	*	*	*	0.1	0.1
International Assistance Programs .....	19.7	20.4	21.3	23.0	23.6	23.9	24.1	24.2	24.0	22.8	24.4	24.8
National Aeronautics and Space Administration .....	17.0	17.1	18.3	18.7	18.8	19.2	19.6	20.1	20.5	21.0	21.3	21.8
National Science Foundation .....	7.4	7.1	8.1	7.3	7.3	7.4	7.3	7.6	8.1	8.2	8.4	8.6
Office of Personnel Management .....	83.9	86.7	84.5	87.9	98.2	102.0	106.2	110.6	115.0	119.8	124.5	129.7
Small Business Administration .....	0.5	0.4	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.2
Social Security Administration .....	867.4	914.4	961.3	1,015.8	1,070.9	1,128.7	1,199.6	1,269.8	1,340.5	1,421.7	1,497.0	1,577.6
On-Budget .....	(109.8)	(83.3)	(90.8)	(99.9)	(102.1)	(103.2)	(113.7)	(119.7)	(125.6)	(137.2)	(138.5)	(139.9)
Off-Budget .....	(757.5)	(831.1)	(870.4)	(915.9)	(968.8)	(1,025.5)	(1,085.9)	(1,150.1)	(1,214.9)	(1,284.5)	(1,358.4)	(1,437.7)
Other Independent Agencies .....	26.3	20.4	20.8	19.2	20.9	20.5	26.0	22.5	31.3	28.8	27.1	26.0
On-Budget .....	(28.2)	(22.7)	(19.8)	(17.9)	(20.1)	(20.2)	(25.7)	(22.2)	(31.1)	(28.5)	(26.8)	(25.7)
Off-Budget .....	(–1.9)	(–2.3)	(1.0)	(1.3)	(0.8)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Allowances .....		1.9	–28.7	–61.6	–72.2	–76.7	–79.5	–82.3	–85.8	–34.0	–18.1	9.8
Undistributed Offsetting Receipts .....	–249.5	–246.4	–246.8	–252.9	–253.7	–253.9	–257.5	–262.0	–272.2	–275.5	–280.9	–285.4
On-Budget .....	(–127.6)	(–130.5)	(–134.6)	(–143.3)	(–144.5)	(–144.4)	(–147.5)	(–152.2)	(–161.4)	(–167.6)	(–174.6)	(–180.8)
Off-Budget .....	(–121.8)	(–115.9)	(–112.2)	(–109.6)	(–109.2)	(–109.5)	(–110.0)	(–109.8)	(–110.8)	(–107.9)	(–106.3)	(–104.6)
<b>Total .....</b>	<b>3,454.6</b>	<b>3,632.9</b>	<b>3,811.8</b>	<b>4,025.3</b>	<b>4,216.6</b>	<b>4,409.5</b>	<b>4,714.5</b>	<b>4,977.6</b>	<b>5,246.5</b>	<b>5,623.0</b>	<b>5,883.8</b>	<b>6,160.5</b>
On-Budget .....	(2,820.8)	(2,920.0)	(3,052.6)	(3,217.8)	(3,356.3)	(3,493.2)	(3,738.3)	(3,937.0)	(4,142.1)	(4,446.2)	(4,631.3)	(4,827.0)
Off-Budget .....	(633.8)	(712.9)	(759.2)	(807.5)	(860.3)	(916.3)	(976.2)	(1,040.6)	(1,104.4)	(1,176.8)	(1,252.4)	(1,333.4)

\*\$50 million or less.

**Table 25–10. BUDGET AUTHORITY BY FUNCTION IN THE ADJUSTED BASELINE**  
(In billions of dollars)

Function	2013 Actual	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>National Defense:</b>												
Department of Defense—Military .....	585.2	586.9	589.5	593.1	607.3	621.8	636.3	651.9	667.1	736.0	754.0	772.3
Other .....	24.9	26.7	26.7	26.7	27.2	27.8	28.3	28.9	29.4	32.6	33.3	33.9
Total, National Defense .....	610.1	613.6	616.2	619.8	634.5	649.6	664.6	680.7	696.5	768.6	787.3	806.3
International Affairs .....	40.6	38.5	40.7	43.8	46.1	48.9	52.6	55.3	56.6	58.5	61.2	62.6
General Science, Space, and Technology .....	28.0	29.4	29.9	30.6	31.2	31.9	32.6	33.3	34.0	34.8	35.5	36.3
Energy .....	8.4	8.4	7.5	5.7	4.6	4.2	3.9	4.0	4.6	4.3	3.9	4.0
Natural Resources and Environment .....	41.0	37.0	38.0	39.0	40.6	41.7	42.7	44.2	45.2	46.3	47.7	48.6
Agriculture .....	27.4	24.8	18.0	24.4	27.9	26.7	20.3	20.6	20.5	20.3	20.7	20.8
Commerce and Housing Credit .....	–36.5	–62.9	–8.4	–5.0	–5.1	–6.2	–0.5	2.8	5.5	7.0	8.8	10.3
On-Budget .....	(–36.5)	(–63.2)	(–8.4)	(–5.3)	(–5.4)	(–6.5)	(–0.7)	(2.5)	(5.2)	(6.7)	(8.5)	(10.0)
Off-Budget .....	.....	(0.3)	(*)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Transportation .....	99.3	86.9	87.7	89.6	91.7	93.7	95.8	98.0	100.2	102.5	104.9	108.8
Community and Regional Development .....	51.1	17.9	13.0	12.7	12.8	13.7	14.0	14.2	14.7	15.0	15.3	15.5
Education, Training, Employment, and Social Services .....	71.2	91.3	96.4	107.3	112.4	116.7	120.1	122.6	125.2	128.4	130.5	132.1
Health .....	339.0	444.8	520.0	540.9	569.9	595.6	628.3	670.5	693.4	730.0	768.1	810.1
Medicare .....	507.8	525.1	535.4	586.6	603.2	624.3	689.7	742.3	798.8	888.6	923.9	957.4
Income Security .....	533.6	529.4	527.0	537.7	544.7	552.1	572.1	584.8	598.7	617.7	627.0	634.6
Social Security .....	816.5	860.8	905.4	956.1	1,012.7	1,073.3	1,137.8	1,206.1	1,274.8	1,348.8	1,427.7	1,511.8
On-Budget .....	(55.9)	(26.0)	(32.0)	(35.3)	(38.8)	(42.4)	(46.1)	(49.9)	(53.7)	(57.8)	(62.2)	(66.6)
Off-Budget .....	(760.6)	(834.8)	(873.4)	(920.8)	(973.9)	(1,030.9)	(1,091.7)	(1,156.2)	(1,221.1)	(1,291.0)	(1,365.5)	(1,445.3)
Veterans Benefits and Services .....	136.6	151.3	161.6	169.5	176.4	185.7	194.4	203.4	212.6	222.3	232.1	242.1
Administration of Justice .....	51.7	54.6	67.0	58.2	61.3	61.0	62.6	64.3	66.0	67.8	69.6	74.7
General Government .....	26.0	24.9	24.8	25.3	25.8	26.6	27.3	28.0	28.8	29.6	30.4	31.1
Net Interest .....	220.9	223.0	251.4	317.7	393.3	479.6	563.0	635.2	697.4	761.2	826.8	886.1
On-Budget .....	(326.5)	(323.3)	(347.6)	(410.6)	(485.3)	(571.2)	(654.3)	(725.4)	(787.8)	(847.8)	(911.1)	(967.9)
Off-Budget .....	(–105.7)	(–100.2)	(–96.2)	(–93.0)	(–92.0)	(–91.6)	(–91.2)	(–90.2)	(–90.4)	(–86.6)	(–84.3)	(–81.8)
Allowances .....	.....	7.5	–30.1	–59.8	–54.6	–56.4	–57.3	–59.5	–62.5	–30.2	–31.4	–8.4
<b>Undistributed Offsetting Receipts:</b>												
Employer share, employee retirement (on-budget) .....	–65.2	–63.8	–66.2	–66.9	–70.3	–71.7	–73.5	–75.6	–77.8	–80.1	–82.4	–84.9
Employer share, employee retirement (off-budget) .....	–16.2	–15.7	–16.0	–16.7	–17.3	–17.9	–18.8	–19.6	–20.4	–21.3	–22.0	–22.7
Rents and royalties on the Outer Continental Shelf .....	–8.9	–8.2	–8.2	–8.1	–7.5	–7.1	–7.3	–7.5	–7.8	–8.1	–8.4	–8.3
Sale of major assets .....	–2.6	–*	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Other undistributed offsetting receipts .....	.....	–0.7	–3.6	–10.6	–8.8	–6.2	–2.1	–0.3	–0.3	–0.2	–0.1	.....
Total, Undistributed Offsetting Receipts .....	–92.8	–88.4	–94.0	–102.3	–103.8	–102.9	–101.7	–103.0	–106.3	–109.8	–113.0	–116.0
On-Budget .....	(–76.6)	(–72.7)	(–77.9)	(–85.6)	(–86.6)	(–85.0)	(–82.9)	(–83.4)	(–85.9)	(–88.5)	(–91.0)	(–93.3)
Off-Budget .....	(–16.2)	(–15.7)	(–16.0)	(–16.7)	(–17.3)	(–17.9)	(–18.8)	(–19.6)	(–20.4)	(–21.3)	(–22.0)	(–22.7)
<b>Total .....</b>	<b>3,479.7</b>	<b>3,617.8</b>	<b>3,807.6</b>	<b>3,997.7</b>	<b>4,225.7</b>	<b>4,459.6</b>	<b>4,762.6</b>	<b>5,047.8</b>	<b>5,304.7</b>	<b>5,711.7</b>	<b>5,976.9</b>	<b>6,268.8</b>
On-Budget .....	(2,841.0)	(2,898.7)	(3,046.5)	(3,186.3)	(3,360.7)	(3,537.9)	(3,780.6)	(4,001.0)	(4,194.1)	(4,528.3)	(4,717.4)	(4,927.8)
Off-Budget .....	(638.8)	(719.1)	(761.1)	(811.4)	(865.0)	(921.7)	(982.0)	(1,046.8)	(1,110.6)	(1,183.4)	(1,259.5)	(1,341.0)
<b>MEMORANDUM</b>												
<b>Discretionary budget authority:</b>												
National Defense .....	600.4	606.0	608.1	611.6	626.4	641.3	656.3	672.3	688.3	760.4	779.1	797.9
International affairs .....	51.9	50.7	51.8	52.9	54.1	55.3	56.5	57.7	58.9	60.2	61.5	62.8
Domestic .....	484.0	470.7	444.1	441.9	452.2	463.0	476.0	487.8	499.5	547.5	561.4	575.5
Total, discretionary .....	1,136.3	1,127.4	1,104.0	1,106.4	1,132.7	1,159.6	1,188.7	1,217.7	1,246.7	1,368.1	1,401.9	1,436.2

\*\$50 million or less.



**Table 25–11. BUDGET AUTHORITY BY AGENCY IN THE ADJUSTED BASELINE**  
(In billions of dollars)

Agency	2013 Actual	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Legislative Branch .....	4.3	4.5	4.6	4.7	4.9	5.0	5.2	5.3	5.5	5.6	5.8	6.0
Judicial Branch .....	6.9	7.3	7.5	7.7	7.9	8.1	8.3	8.6	8.8	9.0	9.3	9.5
Agriculture .....	154.9	158.4	148.3	152.3	155.2	154.2	148.6	149.8	151.4	153.0	154.9	154.6
Commerce .....	8.0	10.3	11.0	11.7	9.1	9.3	9.5	9.8	10.0	10.2	10.5	10.8
Defense—Military Programs .....	585.2	586.9	600.4	614.4	629.0	644.4	660.0	676.2	692.4	709.3	726.7	744.7
Education .....	39.5	56.7	61.7	72.0	76.8	80.6	83.5	85.5	87.5	90.1	91.5	92.7
Energy .....	21.2	22.5	25.7	26.3	26.8	27.4	27.5	28.1	28.6	29.2	29.8	30.5
Health and Human Services .....	873.3	961.9	1,023.0	1,078.5	1,107.3	1,148.1	1,240.4	1,329.1	1,401.3	1,520.2	1,585.9	1,656.2
Homeland Security .....	61.9	45.3	40.6	41.5	42.6	44.4	45.6	46.9	48.2	49.6	50.9	57.1
Housing and Urban Development .....	69.0	41.5	43.5	44.6	45.6	46.7	48.4	49.6	50.8	52.1	53.5	54.6
Interior .....	11.8	11.6	11.6	11.8	12.5	12.9	13.2	13.8	13.9	14.3	14.7	14.6
Justice .....	28.1	29.5	41.5	32.8	35.2	34.2	35.1	35.9	36.9	37.8	38.8	39.8
Labor .....	82.3	60.8	55.1	56.1	57.3	58.7	60.3	62.5	65.0	67.2	69.5	71.8
State .....	29.6	28.5	29.0	29.7	30.3	31.0	31.7	32.4	33.1	33.8	34.5	35.3
Transportation .....	84.3	72.4	73.6	75.0	76.6	78.2	79.8	81.5	83.2	84.9	86.7	88.6
Treasury .....	440.9	463.9	566.8	645.4	734.0	829.5	932.4	1,018.4	1,097.9	1,170.6	1,247.9	1,316.1
Veterans Affairs .....	136.0	150.9	161.2	169.0	175.9	185.2	193.9	202.9	212.1	221.8	231.6	241.6
Corps of Engineers—Civil Works .....	9.7	5.3	5.5	5.6	5.8	5.9	6.1	6.2	6.4	6.6	6.7	6.9
Other Defense Civil Programs .....	57.6	57.2	57.6	58.7	60.3	61.7	63.6	65.0	67.3	69.8	72.6	75.9
Environmental Protection Agency .....	8.4	8.1	8.3	8.5	8.7	8.9	9.2	9.4	9.6	9.9	10.1	10.4
Executive Office of the President .....	0.4	0.4	0.5	3.0	3.0	0.4	0.5	0.5	0.5	0.6	0.6	0.5
General Services Administration .....	-1.3	1.8	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
International Assistance Programs .....	10.8	9.3	11.2	13.7	15.4	17.5	20.5	22.4	22.9	24.0	25.9	26.5
National Aeronautics and Space Administration .....	16.9	17.6	18.0	18.4	18.8	19.3	19.7	20.2	20.6	21.1	21.6	22.1
National Science Foundation .....	7.0	7.3	7.4	7.5	7.7	7.9	8.0	8.2	8.3	8.5	8.7	8.9
Office of Personnel Management .....	87.0	89.7	87.1	90.4	101.0	105.2	109.6	114.1	118.7	123.7	128.6	133.0
Small Business Administration .....	1.0	0.2	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.2
Social Security Administration .....	869.6	917.8	964.1	1,020.5	1,076.1	1,134.4	1,205.5	1,275.9	1,346.7	1,428.0	1,504.1	1,585.2
On-Budget .....	(109.0)	(83.0)	(90.7)	(99.6)	(102.2)	(103.5)	(113.8)	(119.7)	(125.6)	(136.9)	(138.6)	(140.0)
Off-Budget .....	(760.6)	(834.8)	(873.4)	(920.8)	(973.9)	(1,030.9)	(1,091.7)	(1,156.2)	(1,221.1)	(1,291.0)	(1,365.5)	(1,445.3)
Other Independent Agencies .....	25.3	29.4	29.9	31.6	31.8	33.0	34.8	35.4	36.8	37.1	37.5	38.3
On-Budget .....	(25.3)	(29.1)	(29.9)	(31.3)	(31.5)	(32.7)	(34.6)	(35.1)	(36.5)	(36.8)	(37.2)	(38.0)
Off-Budget .....	.....	(0.3)	(*)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Allowances .....	.....	7.5	-41.5	-82.2	-77.4	-80.0	-82.1	-85.0	-89.0	-2.1	-2.8	20.6
Undistributed Offsetting Receipts .....	-249.5	-246.4	-246.8	-252.9	-253.7	-253.9	-257.5	-262.0	-272.2	-275.5	-280.9	-285.4
On-Budget .....	(-127.6)	(-130.5)	(-134.6)	(-143.3)	(-144.5)	(-144.4)	(-147.5)	(-152.2)	(-161.4)	(-167.6)	(-174.6)	(-180.8)
Off-Budget .....	(-121.8)	(-115.9)	(-112.2)	(-109.6)	(-109.2)	(-109.5)	(-110.0)	(-109.8)	(-110.8)	(-107.9)	(-106.3)	(-104.6)
<b>Total .....</b>	<b>3,479.7</b>	<b>3,617.8</b>	<b>3,807.6</b>	<b>3,997.7</b>	<b>4,225.7</b>	<b>4,459.6</b>	<b>4,762.6</b>	<b>5,047.8</b>	<b>5,304.7</b>	<b>5,711.7</b>	<b>5,976.9</b>	<b>6,268.8</b>
On-Budget .....	(2,841.0)	(2,898.7)	(3,046.5)	(3,186.3)	(3,360.7)	(3,537.9)	(3,780.6)	(4,001.0)	(4,194.1)	(4,528.3)	(4,717.4)	(4,927.8)
Off-Budget .....	(638.8)	(719.1)	(761.1)	(811.4)	(865.0)	(921.7)	(982.0)	(1,046.8)	(1,110.6)	(1,183.4)	(1,259.5)	(1,341.0)

\*\$50 million or less.

## 26. TRUST FUNDS AND FEDERAL FUNDS

As is common for State and local government budgets, the budget for the Federal Government contains information about collections and expenditures for different types of funds. This chapter presents summary information about the transactions of the two major fund groups used by the Federal Government, trust funds and Federal funds. It also presents information about the income and outgo of the major trust funds and a number of Federal funds that are financed by dedicated collections in a manner similar to trust funds.

### The Federal Funds Group

The Federal funds group includes all financial transactions of the Government that are not required by law to be recorded in trust funds. It accounts for a larger share of the budget than the trust funds group.

The Federal funds group includes the “general fund,” which is used for the general purposes of Government rather than being restricted by law to a specific program. The general fund is the largest fund in the Government and it receives all collections not dedicated for some other fund, including virtually all income taxes and many excise taxes. The general fund is used for all programs that are not supported by trust, special, or revolving funds.

The Federal funds group also includes special funds and revolving funds, both of which receive collections that are dedicated by law for specific purposes. Where the law requires that Federal fund collections be dedicated to a particular program, the collections and associated disbursements are recorded in special fund receipt and expenditure accounts.<sup>1</sup> An example is the portion of the Outer Continental Shelf mineral leasing receipts deposited into the Land and Water Conservation Fund. Money in special fund receipt accounts must be appropriated before it can be obligated and spent. The majority of special fund collections are derived from the Government’s power to impose taxes or fines, or otherwise compel payment, as in the case of the Crime Victims 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

<sup>1</sup> There are two types of budget accounts: expenditure (or appropriation) accounts and receipt accounts. Expenditure accounts are used to record outlays and receipt accounts are used to record governmental receipts and offsetting receipts.

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.”<sup>2</sup> There are two classes of revolving funds in the Federal funds group. Public enterprise funds, such as the Postal Service Fund, conduct business-like operations mainly with the public. Intragovernmental funds, such as the Federal Buildings Fund, conduct business-like operations mainly within and between Government agencies.

### The Trust Funds Group

The trust funds group consists of funds that are designated by law as trust funds. Like special funds and revolving funds, trust funds receive collections that are dedicated by law for specific purposes. Many of the larger trust funds are used to budget for social insurance programs, such as Social Security, Medicare, and unemployment compensation. Other large trust funds are used to budget for military and Federal civilian employees’ retirement benefits, highway and transit construction and maintenance, and airport and airway development and maintenance. There are a few trust revolving funds that are credited with collections earmarked by law to carry out a cycle of business-type operations. There are also a few small trust funds that have been established to carry out the terms of a conditional gift or bequest.

There is no substantive difference between special funds in the Federal funds group and trust funds, or between revolving funds in the Federal funds group and trust revolving funds. Whether a particular fund is designated in law as a trust fund is, in many cases, arbitrary. For example, the National Service Life Insurance Fund is a trust fund, but the Servicemen’s Group Life Insurance Fund is a Federal fund, even though both receive dedicated collections from veterans and both provide life insurance payments to veterans’ beneficiaries.<sup>3</sup>

The Federal Government uses the term “trust fund” differently than the way in which it is commonly used. In

<sup>2</sup> See Chapter 13 in this volume for more information on offsetting collections and offsetting receipts.

<sup>3</sup> Another example is the Violent Crime Reduction Trust Fund, which expired in 2000. Despite the presence of the words “Trust Fund” in its official name, the Fund was classified as a Federal fund because it was not required by law to be classified as a trust fund. In addition, the Fund was substantively a means of accounting for general fund appropriations and did not contain any dedicated receipts. Programs formerly funded through the Fund are now funded through general appropriations.

common usage, the term is used to refer to a private fund that has a beneficiary who owns the trust's income and may also own the trust's assets. A custodian or trustee manages the assets on behalf of the beneficiary according to the terms of the trust agreement, as established by a trustor. Neither the trustee nor the beneficiary can change the terms of the trust agreement; only the trustor can change the terms of the agreement. In contrast, the Federal Government owns and manages the assets and the earnings of most Federal trust funds and can unilaterally change the law to raise or lower future trust fund collections and payments or change the purpose for which the collections are used. Only a few small Federal trust funds are managed pursuant to a trust agreement whereby the Government acts as the trustee; even then the Government generally owns the funds and has some

ability to alter the amount deposited into or paid out of the funds.

Deposit funds, which are funds held by the Government as a custodian on behalf of individuals or a non-Federal entity, are similar to private-sector trust funds. The Government makes no decisions about the amount of money placed in deposit funds or about how the proceeds are spent. For this reason, these funds are not classified as Federal trust funds, but are instead considered to be non-budgetary and excluded from the Federal budget.<sup>4</sup>

The income of a Federal Government trust fund must be used for the purposes specified in law. The income of some trust funds, such as the Federal Employees Health Benefits fund, is spent almost as quickly as it is collected.

<sup>4</sup> Deposit funds are discussed briefly in Chapter 10 of this volume, "Coverage of the Budget."

**Table 26–1. RECEIPTS, OUTLAYS AND SURPLUS OR DEFICIT BY FUND GROUP**  
(In billions of dollars)

	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
<b>Receipts:</b>							
<b>Federal funds cash income:</b>							
From the public .....	2,244.6	2,359.1	2,582.9	2,748.0	2,915.3	3,079.7	3,224.3
From trust funds .....	1.9	1.7	1.5	1.4	1.3	1.4	1.3
Total, Federal funds cash income .....	2,246.5	2,360.8	2,584.3	2,749.3	2,916.6	3,081.1	3,225.6
<b>Trust funds cash income:</b>							
From the public .....	1,152.4	1,232.4	1,275.6	1,356.6	1,444.7	1,517.3	1,582.6
<b>From Federal funds:</b>							
Interest .....	156.7	158.0	152.9	150.9	150.4	151.8	157.3
Other .....	508.6	510.4	543.0	559.6	576.5	601.6	604.5
Total, Trust funds cash income .....	1,817.6	1,900.9	1,971.5	2,067.1	2,171.6	2,270.6	2,344.4
<b>Offsetting collections from the public and offsetting receipts:</b>							
Federal funds .....	-479.1	-441.7	-368.2	-375.8	-369.2	-378.1	-384.0
Trust funds .....	-809.9	-818.3	-850.2	-872.7	-908.2	-943.8	-959.9
Total, offsetting collections from the public and offsetting receipts .....	-1,289.0	-1,260.0	-1,218.4	-1,248.5	-1,277.4	-1,321.9	-1,343.9
Total, unified budget receipts .....	2,775.1	2,712.0	3,033.6	3,331.7	3,561.5	3,760.5	3,974.0
Federal funds .....	1,767.4	1,699.0	1,939.3	2,182.0	2,335.1	2,474.1	2,624.6
Trust funds .....	1,007.7	1,013.1	1,094.4	1,149.7	1,226.4	1,286.4	1,349.4
<b>Outlays:</b>							
Federal funds cash outgo .....	3,012.4	3,104.4	3,253.3	3,371.0	3,490.6	3,619.5	3,781.9
Trust funds cash outgo .....	1,731.2	1,806.1	1,866.1	1,976.6	2,055.5	2,145.5	2,290.8
<b>Offsetting collections from the public and offsetting receipts:</b>							
Federal funds .....	-479.1	-441.7	-368.2	-375.8	-369.2	-378.1	-384.0
Trust funds .....	-809.9	-818.3	-850.2	-872.7	-908.2	-943.8	-959.9
Total, offsetting collections from the public and offsetting receipts .....	-1,289.0	-1,260.0	-1,218.4	-1,248.5	-1,277.4	-1,321.9	-1,343.9
Total, unified budget outlays .....	3,454.6	3,650.5	3,901.0	4,099.1	4,268.6	4,443.1	4,728.8
Federal funds .....	2,533.3	2,662.7	2,885.1	2,995.2	3,121.4	3,241.4	3,397.9
Trust funds .....	921.3	987.8	1,015.9	1,103.9	1,147.2	1,201.7	1,330.9
<b>Surplus or deficit(-):</b>							
Federal funds .....	-765.9	-743.7	-668.9	-621.6	-573.9	-538.4	-556.3
Trust funds .....	86.4	94.8	105.4	90.5	116.1	125.1	53.6
Total, unified surplus/deficit(-) .....	-679.5	-648.8	-563.6	-531.1	-457.8	-413.3	-502.7

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).

In other cases, such as the Social Security and Federal civilian employees' retirement trust funds, the trust fund income is not spent as quickly as it is collected. Currently, these funds do not use all of their annual income (which includes intragovernmental interest income). This surplus of income over outgo adds to the trust fund's balance, which is available for future expenditures. The balances are generally required by law to be invested in Federal securities issued by the Department of the Treasury.<sup>5</sup> The National Railroad Retirement Investment Trust is a rare example of a Government trust fund authorized to invest balances in equity markets.

A trust fund normally consists of one or more receipt accounts (to record income) and an expenditure account (to record outgo). However, a few trust funds, such as the Veterans Special Life Insurance fund, are established by law as trust revolving funds. Such a fund is similar to a revolving fund in the Federal funds group in that it may consist of a single account to record both income and outgo. Trust revolving funds are used to conduct a cycle of business-type operations; offsetting collections are credited to the funds (which are also expenditure accounts) and the funds' outlays are displayed net of the offsetting collections.

### Income and Outgo by Fund Group

Table 26–1 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 includes offsetting receipts, which include proprietary receipts (derived from business-like transactions with the public), interfund collections (derived from payments from a fund in one fund group to a fund in the other fund group), and gifts. Outgo consists of payments made to the public or to a fund in the other fund group.

Two types of transactions are treated specially in the table. First, income and outgo for each fund group exclude all transactions that occur between funds within the same fund group.<sup>6</sup> These intrafund transactions constitute outgo and income for the individual funds that make and collect the payments, but they are offsetting within the fund group as a whole. The totals for each fund group measure only the group's transactions with the public and the other fund group. Second, outgo is calculated net of the collections from Federal sources that are credited to expenditure accounts (which, as noted above, are referred

<sup>5</sup> Securities held by trust funds (and by other Government accounts), debt held by the public, and gross Federal debt are discussed in Chapter 4 of this volume, "Federal Borrowing and Debt."

<sup>6</sup> For example, the railroad retirement trust funds pay the equivalent of Social Security benefits to railroad retirees in addition to the regular railroad pension. These benefits are financed by a payment from the Federal Old-Age and Survivors Insurance trust fund to the railroad retirement trust funds. The payment and collection are not included in Table 26–1 so that the total trust fund income and outgo shown in the table reflect disbursements to the public and to Federal funds.

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.<sup>7</sup> 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 26–1 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 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 2 percentage point reduction in the Social Security payroll tax rate for calendar years 2011 and 2012 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 substituted for the payroll tax revenue lost by the payroll tax reduction, so that the balances of the Social Security trust funds were 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 the Treasury, some funds in the Federal funds group and most trust funds are authorized to borrow from the general fund of the Treasury.<sup>8</sup> Similar to the treatment of funds invested with the 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

<sup>7</sup> 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 26–1 includes Postage stamp fees and the Fund's outgo is gross disbursements, including disbursements financed by those fees.

<sup>8</sup> 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 26–2. COMPARISON OF TOTAL FEDERAL FUND AND TRUST FUND RECEIPTS TO UNIFIED BUDGET RECEIPTS, FISCAL YEAR 2013**

(In billions of dollars)

Gross Trust fund receipts .....	1,804.7
Gross Federal fund receipts .....	2,041.6
Total, gross receipts.....	3,846.3
<b>Deduct intrafund receipts (from funds within same fund group):</b>	
Trust fund intrafund receipts .....	-6.1
Federal fund intrafund receipts .....	-31.4
Subtotal, intrafund receipts .....	-37.5
Total Trust funds and Federal Funds cash income .....	3,808.8
<b>Deduct other offsetting receipts:</b>	
<b>Trust fund receipts from Federal funds:</b>	
Interest in receipt accounts .....	-156.7
General fund payments to Medicare Parts B and D .....	-227.2
Employing agencies' payments for pensions, Social Security, and Medicare .....	-72.8
General fund payments for unfunded liabilities of Federal employees' retirement funds .....	-101.2
Transfer of taxation of Social Security and RRB benefits to OASDI, HI, and RRB .....	-39.1
Other receipts from Federal funds .....	-68.3
Subtotal, Trust fund receipts from Federal funds .....	-665.2
Federal fund receipts from Trust funds .....	-1.9
Proprietary receipts .....	-357.7
Offsetting governmental receipts .....	-8.8
Subtotal, offsetting receipts .....	-1,033.7
Unified budget receipts .....	2,775.1

Note: Offsetting receipts are included in cash income for each fund group, but are deducted from outlays in the unified budget.

general fund in repayment of the borrowing. The repayment is not recorded as an outlay of the fund or included in fund outgo. This treatment is consistent with the broad principle that borrowing and debt redemption are not budgetary transactions but rather a means of financing deficits or disposing of surpluses.<sup>9</sup>

Some income in both Federal funds and trust funds consists of offsetting receipts.<sup>10</sup> Offsetting receipts are not considered governmental receipts (such as taxes), but they are instead recorded on the outlay side of the budget. Expenditures resulting from offsetting receipts are recorded as gross outlays and the collections of offsetting receipts are then subtracted from gross outlays to derive net outlays. Net outlays reflect the government's net transactions with the public.

As shown in Table 26-1, 36 percent of all governmental receipts were deposited in trust funds in 2013 and the remaining 64 percent of receipts were deposited in Federal funds, which, as noted above, include the general fund. Although accounting for over one-third of all receipts, the trust funds accounted for a much smaller share, only 27 percent, of outlays. The significance of this difference be-

<sup>9</sup> Borrowing and debt repayment are discussed in Chapter 4 of this volume, "Federal Borrowing and Debt," and Chapter 9 of this volume, "Budget Concepts."

<sup>10</sup> Interest on borrowed funds is an example of an intragovernmental offsetting receipt and Medicare Part B's premiums are an example of offsetting receipts from the public.

tween 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 26–1 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 26–1 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 26–2 reconciles, for fiscal year 2013, the gross total of all trust fund and Federal fund receipts with the receipt total of the unified budget.

### Income, Outgo, and Balances of Trust Funds

Table 26–3 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. 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 26–1 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 26–1. 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 \$48 billion in 2013. Table 26–3, 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.<sup>11</sup> 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 \$4.5 trillion in 2013. The current balances are estimated to increase by approximately 13 percent by the year 2019, rising to \$5.1 trillion. Almost all of these balances are invested in Treasury securities and

<sup>11</sup> Because of the economic downturn and the increase in beneficiaries, Social Security trust fund collections from the public (payroll taxes) fell below Social Security benefit payments in 2010 through 2013 and are projected to continue to do so in the future; however, because of interest earnings on trust fund investments, Social Security trust fund balances continued to grow through 2013 and are projected to peak in 2016.

**Table 26-3. INCOME, OUTGO, AND BALANCES OF TRUST FUNDS GROUP**  
(In billions of dollars)

	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
Balance, start of year .....	4,388.8	4,474.9	4,569.8	4,675.4	4,765.9	4,882.0	5,007.1
Adjustments .....	-0.1	0.0	.....	.....	.....	.....	.....
Total balance, start of year .....	4,388.7	4,474.9	4,569.8	4,675.4	4,765.9	4,882.0	5,007.1
<b>Income:</b>							
Governmental receipts .....	1,007.7	1,082.7	1,121.3	1,194.4	1,263.3	1,326.8	1,384.6
Offsetting governmental receipts .....	0.0	0.7	3.6	3.1	10.0	6.2	2.1
Proprietary receipts .....	144.7	149.1	150.7	159.1	171.4	184.2	195.9
<b>Receipts from Federal funds:</b>							
Interest .....	157.6	159.8	154.2	152.2	152.0	153.8	160.1
Other .....	556.2	556.9	591.1	611.1	630.4	658.0	663.6
Subtotal, income .....	1,866.1	1,949.1	2,020.9	2,119.9	2,227.1	2,329.1	2,406.4
<b>Outgo (-):</b>							
To the public .....	-1,778.8	-1,853.3	-1,914.6	-2,028.4	-2,109.9	-2,202.8	-2,351.7
To Federal funds .....	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.1
Subtotal, outgo .....	-1,779.8	-1,854.2	-1,915.6	-2,029.4	-2,111.0	-2,204.0	-2,352.7
<b>Change in fund balance:</b>							
<b>Surplus or deficit (-):</b>							
Excluding interest .....	-71.2	-64.9	-48.9	-61.7	-35.9	-28.7	-106.5
Interest from Federal funds .....	157.6	159.8	154.2	152.2	152.0	153.8	160.1
Subtotal, surplus or deficit (-) .....	86.4	94.8	105.4	90.5	116.1	125.1	53.6
Borrowing/Transfers/lapses (net) .....	-0.3	0.1	0.2	.....	.....	.....	.....
Subtotal, change in fund balance .....	86.1	95.0	105.6	90.5	116.1	125.1	53.6
Balance, end of year .....	4,474.9	4,569.8	4,675.4	4,765.9	4,882.0	5,007.1	5,060.8

NOTE: In contrast to table 26-1, income also includes income that is offset within expenditure accounts as offsetting collections from Federal sources, instead of being deposited in receipt accounts.

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 agency appropriations) 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 26–4 shows estimates of income, outgo, and balances for 2013 through 2019 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 26–3 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, transfers from States toward Part D benefits, and transfers from the general fund of the Treasury for the portion of Part B and Part D costs not covered by premiums or transfers from States. In addition, like other trust funds, these two trust funds receive interest earnings on their 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 2013 the Unemployment Trust Fund borrowed \$7.7 billion from the general fund. This borrowed amount is repayable with interest and allowed the trust fund to meet its legal obligations to pay benefits and make repayable advances to States.
- **Civilian and military retirement trust funds:** The Civil Service Retirement and Disability Fund is funded by employee and agency payments, general fund transfers for the unfunded portion of retirement costs, and interest earnings on trust fund balances. The Military Retirement Fund is funded by payments from the Department of Defense, general fund transfers for unfunded retirement costs, and interest earnings on trust fund balances.

As noted, trust funds are funded by a combination of payments from the public and payments from Federal funds, including payments directly from the general fund and payments from agency appropriations. Just as the funding sources for trust funds are specified in law, the uses for trust fund balances are specified in law.

Table 26–5 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 26-4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS**  
(In billions of dollars)

	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
<b>Airport and Airway Trust Fund</b>							
Balance, start of year .....	11.6	13.2	13.5	12.9	13.1	13.7	14.9
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	11.6	13.2	13.5	12.9	13.1	13.7	14.9
<b>Income:</b>							
Governmental receipts .....	12.9	13.3	14.8	15.4	16.0	16.5	17.0
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	0.1	*	*	*	*	*	*
<b>Receipts from Federal funds:</b>							
Interest .....	0.2	0.2	0.3	0.3	0.3	0.4	0.5
Other .....	0.1	*	*	*	*	*	*
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	13.2	13.6	15.1	15.7	16.3	17.0	17.6
<b>Outgo (-):</b>							
To the public .....	-11.6	-13.3	-15.7	-15.5	-15.7	-15.7	-16.1
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-11.6	-13.3	-15.7	-15.5	-15.7	-15.7	-16.1
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	1.3	0.1	-0.9	-0.1	0.3	0.8	1.0
Interest .....	0.2	0.2	0.3	0.3	0.3	0.4	0.5
Subtotal, surplus or deficit(-) .....	1.6	0.3	-0.6	0.2	0.6	1.2	1.5
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	1.6	0.3	-0.6	0.2	0.6	1.2	1.5
Balance, end of year .....	13.2	13.5	12.9	13.1	13.7	14.9	16.4
<b>Civil Service Retirement and Disability Fund</b>							
Balance, start of year .....	826.6	842.7	855.7	869.2	882.8	894.4	904.9
Adjustments .....	_*	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	826.6	842.7	855.7	869.2	882.8	894.4	904.9
<b>Income:</b>							
Governmental receipts .....	3.5	3.7	3.8	4.0	4.4	4.7	5.1
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	.....	.....	.....	.....	.....	.....	.....
<b>Receipts from Federal funds:</b>							
Interest .....	32.1	31.1	29.5	28.4	27.8	28.2	29.0
Other .....	57.8	60.4	65.2	66.9	68.3	70.0	71.5
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	93.4	95.3	98.5	99.3	100.5	103.0	105.6
<b>Outgo (-):</b>							
To the public .....	-77.4	-82.3	-85.0	-85.6	-89.0	-92.4	-95.9
Payments to other funds .....	_*	_*	_*	_*	_*	_*	_*
Subtotal, outgo .....	-77.4	-82.3	-85.0	-85.6	-89.0	-92.4	-95.9
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	-16.0	-18.1	-15.9	-14.8	-16.3	-17.6	-19.2
Interest .....	32.1	31.1	29.5	28.4	27.8	28.2	29.0
Subtotal, surplus or deficit(-) .....	16.1	13.0	13.6	13.6	11.5	10.6	9.7
Borrowing/Transfers/lapses (net) .....	_*	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	16.1	13.0	13.6	13.6	11.5	10.6	9.7
Balance, end of year .....	842.7	855.7	869.2	882.8	894.4	904.9	914.7



**Table 26-4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
<b>Federal Employees Health Benefits Fund</b>							
Balance, start of year .....	21.2	23.4	24.7	25.8	26.8	28.0	29.4
Adjustments .....							
Total balance, start of year .....	21.2	23.4	24.7	25.8	26.8	28.0	29.4
<b>Income:</b>							
Governmental receipts .....							
Offsetting governmental receipts .....							
Proprietary receipts .....	13.4	13.8	14.3	15.1	16.0	16.9	18.0
<b>Receipts from Federal funds:</b>							
Interest .....	0.3	0.3	0.3	0.3	0.5	0.7	0.9
Other .....	32.4	33.1	34.2	35.9	37.9	40.2	42.6
Receipts from Trust funds .....							
Subtotal, income .....	46.0	47.2	48.9	51.3	54.3	57.8	61.5
<b>Outgo (-):</b>							
To the public .....	-43.9	-46.0	-47.7	-50.3	-53.2	-56.4	-60.4
Payments to other funds .....							
Subtotal, outgo .....	-43.9	-46.0	-47.7	-50.3	-53.2	-56.4	-60.4
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	1.9	1.0	0.8	0.7	0.7	0.7	0.2
Interest .....	0.3	0.3	0.3	0.3	0.5	0.7	0.9
Subtotal, surplus or deficit(-) .....	2.2	1.3	1.1	1.0	1.2	1.4	1.1
Borrowing/Transfers/lapses (net) .....	-*						
Total, change in fund balance .....	2.2	1.3	1.1	1.0	1.2	1.4	1.1
Balance, end of year .....	23.4	24.7	25.8	26.8	28.0	29.4	30.5
<b>Foreign Military Sales Trust Fund</b>							
Balance, start of year .....	18.9	19.1	21.9	24.3	25.2	25.4	25.3
Adjustments .....							
Total balance, start of year .....	18.9	19.1	21.9	24.3	25.2	25.4	25.3
<b>Income:</b>							
Governmental receipts .....							
Offsetting governmental receipts .....							
Proprietary receipts .....	26.7	31.6	30.5	28.8	27.6	26.1	23.6
<b>Receipts from Federal funds:</b>							
Interest .....							
Other .....							
Receipts from Trust funds .....							
Subtotal, income .....	26.7	31.6	30.5	28.8	27.6	26.1	23.6
<b>Outgo (-):</b>							
To the public .....	-26.4	-28.8	-28.2	-27.9	-27.4	-26.2	-23.7
Payments to other funds .....							
Subtotal, outgo .....	-26.4	-28.8	-28.2	-27.9	-27.4	-26.2	-23.7
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	0.2	2.8	2.3	0.9	0.2	-0.2	-0.1
Interest .....							
Subtotal, surplus or deficit(-) .....	0.2	2.8	2.3	0.9	0.2	-0.2	-0.1
Borrowing/Transfers/lapses (net) .....	*						
Total, change in fund balance .....	0.2	2.8	2.3	0.9	0.2	-0.2	-0.1
Balance, end of year .....	19.1	21.9	24.3	25.2	25.4	25.3	25.2

**Table 26-4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
<b>Medicare: Hospital Insurance (HI) Trust Fund</b>							
Balance, start of year .....	229.3	206.3	189.3	188.5	191.3	204.4	222.6
Adjustments .....	*	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	229.3	206.3	189.3	188.5	191.3	204.4	222.6
<b>Income:</b>							
Governmental receipts .....	210.6	220.6	232.9	250.3	263.9	279.5	294.3
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	14.7	13.3	13.5	14.0	14.5	15.0	15.6
<b>Receipts from Federal funds:</b>							
Interest .....	9.9	8.9	8.4	8.5	8.6	8.9	9.5
Other .....	19.4	24.8	27.5	29.9	32.5	35.3	38.2
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	254.6	267.5	282.3	302.6	319.4	338.7	357.5
<b>Outgo (-):</b>							
To the public .....	-277.6	-284.6	-283.0	-299.8	-306.3	-320.5	-345.9
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-277.6	-284.6	-283.0	-299.8	-306.3	-320.5	-345.9
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	-32.9	-25.9	-9.1	-5.7	4.5	9.3	2.1
Interest .....	9.9	8.9	8.4	8.5	8.6	8.9	9.5
Subtotal, surplus or deficit(-) .....	-23.0	-17.1	-0.8	2.8	13.1	18.2	11.6
Borrowing/Transfers/lapses (net) .....	*	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	-23.0	-17.1	-0.8	2.8	13.1	18.2	11.6
Balance, end of year .....	206.3	189.3	188.5	191.3	204.4	222.6	234.2
<b>Medicare: Supplementary Medical Insurance (SMI) Trust Fund</b>							
Balance, start of year .....	71.7	69.8	75.3	75.3	60.5	52.4	58.4
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	71.7	69.8	75.3	75.3	60.5	52.4	58.4
<b>Income:</b>							
Governmental receipts .....	3.2	3.0	3.0	3.0	3.9	4.1	2.9
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	79.2	82.3	85.0	93.5	105.6	118.5	131.1
<b>Receipts from Federal funds:</b>							
Interest .....	2.5	2.8	3.0	3.2	3.4	3.5	3.7
Other .....	230.4	247.5	256.9	268.0	274.3	287.8	316.2
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	315.3	335.4	347.8	367.6	387.2	413.9	453.9
<b>Outgo (-):</b>							
To the public .....	-317.2	-330.0	-347.8	-382.5	-395.2	-408.0	-454.8
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-317.2	-330.0	-347.8	-382.5	-395.2	-408.0	-454.8
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	-4.4	2.7	-2.9	-18.1	-11.4	2.4	-4.7
Interest .....	2.5	2.8	3.0	3.2	3.4	3.5	3.7
Subtotal, surplus or deficit(-) .....	-1.9	5.5	*	-14.9	-8.0	5.9	-0.9
Borrowing/Transfers/lapses (net) .....	-*	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	-1.9	5.5	*	-14.9	-8.0	5.9	-0.9
Balance, end of year .....	69.8	75.3	75.3	60.5	52.4	58.4	57.4

**Table 26-4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
<b>Military Retirement Fund</b>							
Balance, start of year .....	375.7	420.6	477.3	532.2	585.4	643.9	709.0
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	375.7	420.6	477.3	532.2	585.4	643.9	709.0
<b>Income:</b>							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	.....	.....	.....	.....	.....	.....	.....
<b>Receipts from Federal funds:</b>							
Interest .....	4.1	12.3	12.9	14.6	14.8	15.4	19.0
Other .....	95.1	99.8	98.8	101.2	103.6	106.3	109.3
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	99.2	112.1	111.8	115.7	118.4	121.6	128.3
<b>Outgo:</b>							
To the public .....	-54.3	-55.5	-56.8	-62.6	-59.9	-56.6	-62.7
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-54.3	-55.5	-56.8	-62.6	-59.9	-56.6	-62.7
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	40.8	44.3	42.0	38.6	43.7	49.7	46.6
Interest .....	4.1	12.3	12.9	14.6	14.8	15.4	19.0
Subtotal, surplus or deficit(-) .....	44.9	56.6	55.0	53.2	58.5	65.1	65.6
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	44.9	56.6	55.0	53.2	58.5	65.1	65.6
Balance, end of year .....	420.6	477.3	532.2	585.4	643.9	709.0	774.6
<b>Railroad Retirement Trust Funds</b>							
Balance, start of year .....	21.4	22.2	21.9	20.8	19.7	18.4	17.3
Adjustments .....	—*	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	21.3	22.2	21.9	20.8	19.7	18.4	17.3
<b>Income:</b>							
Governmental receipts .....	4.9	5.1	5.4	5.5	5.7	5.9	6.1
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	3.2	1.6	0.8	0.9	0.9	0.9	0.9
<b>Receipts from Federal funds:</b>							
Interest .....	*	*	*	*	*	*	*
Other .....	0.7	0.8	0.8	0.8	0.9	0.9	0.9
Receipts from Trust funds .....	4.5	4.6	4.7	4.8	4.5	5.0	5.1
Subtotal, income .....	13.2	12.1	11.6	12.0	12.0	12.7	13.0
<b>Outgo:</b>							
To the public .....	-11.9	-12.3	-12.6	-12.9	-13.2	-13.6	-13.8
Payments to other funds .....	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
Subtotal, outgo .....	-12.0	-12.4	-12.7	-13.1	-13.4	-13.7	-14.0
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	1.2	-0.3	-1.1	-1.1	-1.4	-1.0	-1.0
Interest .....	*	*	*	*	*	*	*
Subtotal, surplus or deficit(-) .....	1.2	-0.3	-1.1	-1.1	-1.4	-1.0	-1.0
Borrowing/Transfers/lapses (net) .....	-0.4	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	0.9	-0.3	-1.1	-1.1	-1.4	-1.0	-1.0
Balance, end of year .....	22.2	21.9	20.8	19.7	18.4	17.3	16.3

**Table 26–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
<b>Social Security:</b>							
<b>Old-Age, Survivors and Disability Insurance (OASDI) Trust Funds</b>							
Balance, start of year .....	2,718.1	2,755.6	2,772.9	2,772.4	2,776.8	2,766.7	2,748.7
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	2,718.1	2,755.6	2,772.9	2,772.4	2,776.8	2,766.7	2,748.7
<b>Income:</b>							
Governmental receipts .....	673.3	732.3	757.9	811.5	849.8	897.8	945.1
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Receipts from Federal funds:</b>							
Interest .....	105.6	100.2	96.2	93.0	92.0	91.6	91.2
Other .....	83.2	53.8	60.6	66.3	70.8	75.2	80.0
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	862.3	886.4	914.8	970.8	1,012.7	1,064.7	1,116.4
<b>Outgo:</b>							
To the public .....	-819.4	-863.8	-910.0	-960.8	-1,017.4	-1,076.7	-1,140.3
Payments to other funds .....	-5.3	-5.4	-5.6	-5.6	-5.4	-5.9	-6.0
Subtotal, outgo .....	-824.8	-869.3	-915.5	-966.4	-1,022.8	-1,082.6	-1,146.3
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	-68.1	-83.1	-96.9	-88.6	-102.1	-109.5	-121.1
Interest .....	105.6	100.2	96.2	93.0	92.0	91.6	91.2
Subtotal, surplus or deficit(-) .....	37.6	17.2	-0.7	4.4	-10.1	-18.0	-29.9
Borrowing/Transfers/lapses (net) .....	-*	0.1	0.2	.....	.....	.....	.....
Total, change in fund balance .....	37.5	17.3	-0.5	4.4	-10.1	-18.0	-29.9
Balance, end of year .....	2,755.6	2,772.9	2,772.4	2,776.8	2,766.7	2,748.7	2,718.8
<b>Transportation Trust Fund</b>							
Balance, start of year .....	14.9	6.3	2.8	19.5	29.7	36.1	40.1
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	14.9	6.3	2.8	19.5	29.7	36.1	40.1
<b>Income:</b>							
Governmental receipts .....	36.5	37.9	38.2	38.7	39.2	39.6	40.0
Offsetting governmental receipts .....	*	*	*	*	*	*	*
Proprietary receipts .....	*	.....	.....	.....	.....	.....	.....
<b>Receipts from Federal funds:</b>							
Interest .....	*	*	*	*	*	*	.....
Other .....	6.0	12.2	38.0	38.0	38.0	38.0	0.5
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	42.5	50.1	76.2	76.7	77.2	77.6	40.6
<b>Outgo:</b>							
To the public .....	-51.2	-53.6	-59.6	-66.4	-70.8	-73.6	-72.5
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-51.2	-53.6	-59.6	-66.4	-70.8	-73.6	-72.5
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	-8.7	-3.5	16.6	10.3	6.4	4.0	-31.9
Interest .....	*	*	*	*	*	*	.....
Subtotal, surplus or deficit(-) .....	-8.7	-3.5	16.6	10.3	6.4	4.0	-31.9
Borrowing/Transfers/lapses (net) .....	*	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	-8.7	-3.5	16.6	10.3	6.4	4.0	-31.9
Balance, end of year .....	6.3	2.8	19.5	29.7	36.1	40.1	8.2



**Table 26–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
<b>Unemployment Trust Fund</b>							
Balance, start of year .....	-12.6	0.2	17.6	30.8	44.4	71.5	95.4
Adjustments .....	—*	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	-12.6	0.2	17.6	30.8	44.4	71.5	95.4
<b>Income:</b>							
Governmental receipts .....	56.8	60.4	56.9	57.1	71.2	69.0	64.5
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	0.7	*	—*	0.1	0.1	*	*
<b>Receipts from Federal funds:</b>							
Interest .....	0.6	0.8	1.0	1.1	1.4	1.8	2.2
Other .....	27.5	21.4	5.7	1.0	0.9	0.9	0.9
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	85.6	82.6	63.6	59.4	73.6	71.7	67.6
<b>Outgo:</b>							
To the public .....	-72.8	-65.2	-50.5	-45.8	-46.6	-47.7	-49.2
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-72.8	-65.2	-50.5	-45.8	-46.6	-47.7	-49.2
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	12.2	16.6	12.2	12.5	25.6	22.2	16.2
Interest .....	0.6	0.8	1.0	1.1	1.4	1.8	2.2
Subtotal, surplus or deficit(-) .....	12.8	17.4	13.2	13.6	27.0	24.0	18.4
Borrowing/Transfers/lapses (net) .....	*	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	12.8	17.4	13.2	13.6	27.0	24.0	18.4
Balance, end of year .....	0.2	17.6	30.8	44.4	71.5	95.4	113.8
<b>Veterans Life Insurance Funds</b>							
Balance, start of year .....	8.9	8.2	7.3	6.4	5.5	4.7	4.0
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	8.9	8.2	7.3	6.4	5.5	4.7	4.0
<b>Income:</b>							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	0.2	0.1	0.1	0.1	0.1	0.1	0.1
<b>Receipts from Federal funds:</b>							
Interest .....	0.4	0.4	0.3	0.3	0.2	0.2	0.2
Other .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	0.6	0.5	0.4	0.3	0.3	0.3	0.2
<b>Outgo:</b>							
To the public .....	-1.3	-1.4	-1.3	-1.2	-1.1	-1.0	-0.9
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-1.3	-1.4	-1.3	-1.2	-1.1	-1.0	-0.9
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	-1.1	-1.3	-1.2	-1.1	-1.0	-1.0	-0.9
Interest .....	0.4	0.4	0.3	0.3	0.2	0.2	0.2
Subtotal, surplus or deficit(-) .....	-0.7	-0.9	-0.9	-0.8	-0.8	-0.8	-0.7
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	-0.7	-0.9	-0.9	-0.8	-0.8	-0.8	-0.7
Balance, end of year .....	8.2	7.3	6.4	5.5	4.7	4.0	3.3

**Table 26–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
<b>Other Trust Funds</b>							
Balance, start of year .....	83.1	87.2	89.7	97.4	104.7	122.5	137.1
Adjustments .....	—*	*	.....	.....	.....	.....	.....
Total balance, start of year .....	83.1	87.2	89.7	97.4	104.7	122.5	137.1
<b>Income:</b>							
Governmental receipts .....	6.0	6.2	8.4	8.9	9.2	9.8	9.6
Offsetting governmental receipts .....	*	0.7	3.6	3.1	10.0	6.2	2.1
Proprietary receipts .....	6.6	6.3	6.4	6.4	6.5	6.5	6.5
<b>Receipts from Federal funds:</b>							
Interest .....	1.7	2.7	2.4	2.6	2.9	3.2	3.9
Other .....	3.7	3.2	3.3	3.3	3.3	3.4	3.4
Receipts from Trust funds .....	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Subtotal, income .....	18.0	19.2	24.2	24.5	32.1	29.2	25.8
<b>Outgo:</b>							
To the public .....	-13.9	-16.6	-16.4	-17.1	-14.2	-14.4	-15.3
Payments to other funds .....	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1
Subtotal, outgo .....	-14.0	-16.7	-16.5	-17.2	-14.4	-14.6	-15.4
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	2.3	-0.2	5.2	4.7	14.9	11.4	6.5
Interest .....	1.7	2.7	2.4	2.6	2.9	3.2	3.9
Subtotal, surplus or deficit(-) .....	4.1	2.5	7.7	7.3	17.8	14.6	10.4
Borrowing/Transfers/lapses (net) .....	0.2	0.2	0.2	.....	.....	.....	.....
Other adjustments .....	-0.2	-0.2	-0.2	.....	.....	.....	.....
Total, change in fund balance .....	4.1	2.5	7.7	7.3	17.8	14.6	10.4
Balance, end of year .....	87.2	89.7	97.4	104.7	122.5	137.1	147.5

\* \$500 million or less.

**Table 26–5. INCOME, OUTGO, AND BALANCE OF MAJOR FEDERAL FUNDS**  
(In billions of dollars)

	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
<b>Abandoned Mine Reclamation Fund</b>							
Balance, start of year .....	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	2.8	2.8	2.8	2.8	2.8	2.8	2.8
<b>Income:</b>							
Governmental receipts .....	0.2	0.2	0.3	0.2	0.3	0.3	0.3
Proprietary receipts .....	.....	.....	.....	.....	.....	.....	.....
<b>Receipts from Federal funds:</b>							
Interest .....	*	*	*	*	0.1	0.1	0.1
Other .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	0.3	0.2	0.3	0.3	0.3	0.3	0.4
<b>Outgo (-):</b>							
To the public .....	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	-*	-*	*	-*	-*	-0.1	-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	2.8	2.8	2.8	2.8
<b>Credit Union Share Insurance Fund</b>							
Balance, start of year .....	10.3	10.6	11.1	11.5	12.0	12.6	13.3
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	10.3	10.6	11.1	11.5	12.0	12.6	13.3
<b>Income:</b>							
Governmental receipts .....	0.5	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	0.1	0.5	0.5	0.5	0.5	0.5	0.6
<b>Receipts from Federal funds:</b>							
Interest .....	0.2	0.2	0.3	0.4	0.5	0.5	0.6
Other .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Trust funds .....	*	.....	.....	.....	.....	.....	.....
Subtotal, income .....	0.9	0.8	0.7	0.8	1.0	1.1	1.2
<b>Outgo (-):</b>							
To the public .....	-0.5	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-0.5	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	0.2	0.2	0.1	0.1	0.1	0.1	0.2
Interest .....	0.2	0.2	0.3	0.4	0.5	0.5	0.6
Subtotal, surplus or deficit(-) .....	0.4	0.5	0.4	0.5	0.6	0.7	0.8
Borrowing/Transfers/lapses (net) .....	-0.1	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	0.3	0.5	0.4	0.5	0.6	0.7	0.8
Balance, end of year .....	10.6	11.1	11.5	12.0	12.6	13.3	14.0

**Table 26–5. INCOME, OUTGO, AND BALANCE OF MAJOR FEDERAL FUNDS—Continued**  
(In billions of dollars)

	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
<b>Department of Defense Medicare-Eligible Retiree Health Care Fund</b>							
Balance, start of year .....	175.9	188.5	198.4	208.1	218.4	228.9	239.6
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	175.9	188.5	198.4	208.1	218.4	228.9	239.6
<b>Income:</b>							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	.....	.....	.....	.....	.....	.....	.....
<b>Receipts from Federal funds:</b>							
Interest .....	6.1	8.2	9.7	10.4	10.9	11.3	11.8
Other .....	14.7	11.9	9.8	10.2	10.6	11.0	11.5
Receipts from Trust funds .....	0.1	.....	.....	.....	.....	.....	.....
Subtotal, income .....	20.9	20.1	19.5	20.7	21.5	22.3	23.3
<b>Outgo (-):</b>							
To the public .....	-8.3	-10.1	-9.8	-10.4	-11.0	-11.6	-12.3
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-8.3	-10.1	-9.8	-10.4	-11.0	-11.6	-12.3
<b>Change in fund balance:</b>							
Surplus or deficit(-): .....	.....	.....	.....	.....	.....	.....	.....
Excluding interest .....	6.5	1.8	.....	-0.2	-0.4	-0.6	-0.8
Interest .....	6.1	8.2	9.7	10.4	10.9	11.3	11.8
Subtotal, surplus or deficit(-) .....	12.6	9.9	9.7	10.3	10.5	10.7	11.0
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	12.6	9.9	9.7	10.3	10.5	10.7	11.0
Balance, end of year .....	188.5	198.4	208.1	218.4	228.9	239.6	250.6
<b>Overseas Private Investment Corporation Noncredit Account</b>							
Balance, start of year .....	5.2	5.4	5.4	5.5	5.6	5.7	5.8
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	5.2	5.4	5.4	5.5	5.6	5.7	5.8
<b>Income:</b>							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	*	*	*	*	*	*	*
<b>Receipts from Federal funds:</b>							
Interest .....	0.2	0.1	0.1	0.1	0.1	0.1	0.2
Other .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Trust funds .....	*	*	*	*	*	*	*
Subtotal, income .....	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<b>Outgo (-):</b>							
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
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	*	*	*	_*	_*	_*	_*
Interest .....	0.2	0.1	0.1	0.1	0.1	0.1	0.2
Subtotal, surplus or deficit(-) .....	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Borrowing/Transfers/lapses (net) .....	_*	-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 .....	5.4	5.4	5.5	5.6	5.7	5.8	6.0



**Table 26–5. INCOME, OUTGO, AND BALANCE OF MAJOR FEDERAL FUNDS—Continued**  
(In billions of dollars)

	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
<b>Pension Benefit Guaranty Corporation Fund</b>							
Balance, start of year .....	15.8	17.4	17.3	17.9	18.5	20.1	21.5
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	15.8	17.4	17.3	17.9	18.5	20.1	21.5
<b>Income:</b>							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	6.4	5.7	7.2	8.1	10.2	11.1	12.0
<b>Receipts from Federal funds:</b>							
Interest .....	1.0	0.6	0.6	0.7	0.7	0.7	0.8
Other .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	7.5	6.3	7.9	8.8	10.9	11.8	12.8
<b>Outgo (-):</b>							
To the public .....	-5.9	-6.4	-7.3	-8.2	-9.3	-10.5	-11.8
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-5.9	-6.4	-7.3	-8.2	-9.3	-10.5	-11.8
<b>Change in fund balance:</b>							
<b>Surplus or deficit(-):</b>							
Excluding interest .....	0.5	-0.7	-*	-0.1	0.9	0.6	0.2
Interest .....	1.0	0.6	0.6	0.7	0.7	0.7	0.8
Subtotal, surplus or deficit(-) .....	1.6	-0.1	0.6	0.6	1.6	1.3	1.0
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	1.6	-0.1	0.6	0.6	1.6	1.3	1.0
Balance, end of year .....	17.4	17.3	17.9	18.5	20.1	21.5	22.4

\* \$500 million or less.

## 27. 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. This chapter meets that requirement by comparing the actual receipts, outlays, and deficit for 2013 with the current services estimates shown in the 2013 Budget, published in February 2012.<sup>1</sup> It 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 2013 previously published by the Department of the Treasury.

<sup>1</sup> The current services concept is discussed in Chapter 25, “Current Services Estimates.” For mandatory programs and receipts, the February 2012 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 discretionary spending limits enacted in the Budget Control Act of 2011 (BCA). Spending for Overseas Contingency Operations, was estimated based on 2012 enacted appropriations, increased for inflation. The current services estimates also reflected the effects of discretionary and mandatory sequestration as required by the BCA following failure of the Joint Select Committee on Deficit Reduction to meet its deficit reduction target. The current services estimates published in the 2013 Budget re-classified a large number of surface transportation programs as mandatory. The published estimates for nondefense discretionary outlays and mandatory outlays were \$545 billion and \$2,195 billion, respectively. 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 2013 estimate, see “Current Services Estimates,” Chapter 27 in *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2013*.

### Receipts

Actual receipts for 2013 were \$2,775 billion, \$107 billion less than the \$2,882 billion current services estimate in the 2013 Budget. As shown in Table 27–1, 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 2012 current services estimate of 2013 receipts reflected permanent extension of estate, gift, and generation-skipping transfer taxes at parameters in effect for calendar year 2012 (a top rate of 35 percent and an exemption amount of \$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 the tax reductions enacted in 2001 and 2003 (as amended by subsequent legislation) that were scheduled to expire on December 31, 2012. Those provisions were estimated to reduce 2013 receipts by a net \$244 billion relative to then-current law. Several laws were enacted after February 2012 that reduced 2013 receipts by a net \$303 billion, \$59 billion more than the net tax reductions reflected in the current services estimate. The bulk of the legislated tax reductions enacted after February 2012 that affected 2013 receipts were provided in the Middle Class Tax Relief and Job Creation Act of 2012 and the American Taxpayer Relief Act of 2012, which reduced 2013 receipts by an estimated \$28 billion and \$278 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 before January 1, 2013; permanently extended the 2001 and 2003 tax cuts

**Table 27–1. COMPARISON OF ACTUAL 2013 RECEIPTS WITH THE INITIAL CURRENT SERVICES ESTIMATES**

(In billions of dollars)

	Estimate (February 2012)	Changes			Total changes	Actual
		Policy	Economic	Technical		
Individual income taxes .....	1,294	1	-51	73	23	1,316
Corporation income taxes .....	365	-35	-41	-16	-91	274
Social insurance and retirement receipts .....	990	-26	-19	2	-42	948
Excise taxes .....	87	-2	-4	3	-3	84
Estate and gift taxes .....	12	2	*	5	7	19
Customs duties .....	34	*	-2	*	-2	32
Miscellaneous receipts .....	101	.....	3	-2	1	103
Total receipts .....	2,882	-59	-115	66	-107	2,775

\* \$500 million or less.

for most Americans; temporarily extended key tax relief provided to middle-income taxpayers in the American Recovery and Reinvestment Act of 2009 (ARRA); and extended a number of other provisions that had expired or were scheduled to expire. Other legislation enacted after February 2012, which included the Moving Ahead for Progress in the 21st Century (MAP-21) Act and the FAA Modernization and Reform Act of 2012, increased 2013 receipts by a net \$3 billion.

*Economic differences.* Differences between the economic assumptions upon which the current services estimates were based and actual economic performance reduced 2013 receipts by a net \$115 billion below the February 2012 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 \$51 billion, \$41 billion, and \$19 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 2012. Corporations were less profitable than initially projected, which reduced collections of corporation income taxes below the February 2012 estimate. 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. Different economic factors than those assumed in February 2012 reduced other sources of receipts by a net \$3 billion.

*Technical factors.* Technical factors increased receipts by a net \$66 billion relative to the February 2012 current services estimate. These factors had the greatest effect on individual income taxes, increasing collections by \$73 billion. The models used to prepare the February 2012 estimates of individual income taxes were based on historical economic data and then-current tax and collec-

tions 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 2012 estimates were prepared; (2) for most sources of income subject to individual 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 increases in individual income taxes were partially offset by net reductions in other sources of receipts of \$6 billion.

### Outlays

Outlays for 2013 were \$3,455 billion, \$200 billion less than the \$3,655 billion current services estimate in the 2013 Budget. Table 27–2 distributes the \$200 billion net decrease in outlays among discretionary and mandatory programs and net interest.<sup>2</sup> The table also shows rough estimates according to three reasons for the changes: policy; economic conditions; and technical estimating differences, a residual.

*Policy 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 be in response to changed economic conditions. For 2013, policy changes increased outlays by \$50 billion relative to the

<sup>2</sup> Discretionary programs are controlled by annual appropriations, while mandatory programs are generally controlled by authorizing legislation. Mandatory programs are primarily formula benefit or entitlement programs with permanent spending authority that depends on eligibility criteria, benefit levels, and other factors.

**Table 27–2. COMPARISON OF ACTUAL 2013 OUTLAYS WITH THE INITIAL CURRENT SERVICES ESTIMATES**  
(In billions of dollars)

	Estimate (February 2012)	Changes			Total changes	Actual
		Policy	Economic	Technical		
<b>Discretionary:</b>						
Defense .....	667	4	.....	-45	-41	626
Nondefense <sup>1</sup> .....	600	21	.....	-45	-24	576
Subtotal, discretionary .....	1,267	25	.....	-90	-65	1,202
<b>Mandatory:</b>						
Social Security .....	820	-*	-1	-11	-12	808
Medicare and Medicaid .....	811	-*	-12	-42	-54	757
Other programs <sup>1</sup> .....	509	25	-23	-45	-43	467
Subtotal, mandatory .....	2,140	25	-36	-97	-108	2,032
Disaster costs <sup>2</sup> .....	2	.....	.....	-2	-2	.....
Net interest .....	246	*	-36	11	-25	221
Total outlays .....	3,655	50	-72	-178	-200	3,455

\* \$500 million or less.

<sup>1</sup> The current services estimates published in the 2013 Budget re-classified a large number of surface transportation programs as mandatory. The estimate for nondefense discretionary spending was \$545 billion and \$2,195 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.

<sup>2</sup> These amounts were included in the 2013 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.

initial current services estimates, which included the impacts of sequestration as part of the Budget Control Act of 2011. Final 2012 discretionary appropriations were not enacted at the time of the 2013 Budget, so the February 2012 estimate of discretionary outlays was based on an annualized continuing resolution rate that was lower than the final bill. The combined policy changes from final 2012 and 2013 appropriations, including Overseas Contingency Operations, increased discretionary outlays by \$25 billion.

Policy changes increased mandatory outlays by a net \$25 billion above current law. Much of this increase was the result of changes in unemployment compensation and student loan programs enacted in 2012 and 2013 that increased 2013 outlays by \$12 billion and \$10 billion, respectively. Debt service costs associated with all policy changes increased outlays by less than \$1 billion.

*Economic differences.* There was a net decrease in outlays of \$72 billion as a result of differences between actual economic conditions and those forecast in February 2012. The greatest change was in net interest, where lower-than-anticipated inflation and other changes in economic factors decreased outlays by \$36 billion. Unemployment compensation and Medicaid spending were both \$11 billion lower than the current services estimate due to economic factors; spending on food and nutrition assistance was \$7 billion lower.

*Technical factors.* Technical estimating factors resulted in a net decrease in outlays of \$178 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 \$90 billion, as agencies spent resources more slowly than assumed in February 2012, particularly during an extended period of uncertainty about final appropriations levels and following implementation of sequestration for discretionary programs. Outlays for mandatory programs decreased a net \$97 billion. The largest change was a \$58 billion decrease in mortgage credit spending: net outlays resulting from Treasury's Preferred Stock Purchase Agreements with Fannie Mae and Freddie Mac were \$87 billion lower than estimated in the 2013 Budget due to improved financial performance of the companies and a \$51 billion increase in the valuation of Fannie Mae's deferred tax asset. This decrease was partially offset by a \$28 billion increase in net outlays resulting from techni-

cal reestimates of Federal Housing Administration (FHA) credit programs pursuant to the Federal Credit Reform Act. There was also a \$35 billion decrease in Medicare spending driven in part by lower than projected utilization, including for inpatient hospital services. Outlays for higher education were \$18 billion lower than anticipated in the 2013 Budget largely due to a \$15 billion downward reestimate of the cost of the outstanding student loan portfolio, and a downward reestimate of the costs of the TARP program further decreased outlays by \$13 billion. This was partially offset by a \$21 billion increase in spending on deposit insurance programs primarily due to lower-than-anticipated assessment collections, and unanticipated outlays associated with the conclusion of the Federal Deposit Insurance Corporation's assessment prepayment program in 2013. Net interest outlays increased by \$11 billion due to technical factors.

### Deficit

The preceding two sections discussed the differences between the initial current services estimates and the actual amounts of Federal government receipts and outlays for 2013. This section combines these effects to show the net deficit impact of these differences.

As shown in Table 27-3, the 2013 current services deficit was initially estimated to be \$772 billion. The actual deficit was \$680 billion, which was a \$93 billion decrease from the initial estimates. Receipts and outlays were \$107 billion and \$200 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 \$109 billion. Economic conditions that differed from the initial assumptions in February 2012 increased the deficit by \$42 billion. Technical factors decreased the deficit by an estimated \$244 billion.

### Comparison of the Actual and Estimated Outlays for Mandatory and Related Programs for 2013

This section compares the original 2013 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

**Table 27-3. COMPARISON OF THE ACTUAL 2013 DEFICIT WITH THE INITIAL CURRENT SERVICES ESTIMATE**

(In billions of dollars)

	Estimate (February 2012)	Changes			Total changes	Actual
		Policy	Economic	Technical		
Receipts .....	2,882	-59	-115	66	-107	2,775
Outlays .....	3,655	50	-72	-178	-200	3,455
Deficit .....	772	109	42	-244	-93	680

\* \$500 million or less.

Note: Deficit changes are outlays minus receipts. For these changes, a positive number indicates an increase in the deficit.



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 27–4 shows the differences between the actual outlays for these programs in 2013 and the current services estimates included in the 2013 Budget.<sup>3</sup> Actual outlays for mandatory spending and net interest in 2013 were \$2,253 billion, which was \$133 billion less than the current services estimate of \$2,386 billion in February 2012.

As Table 27–4 shows, actual outlays for mandatory human resources programs were \$2,139 billion, \$80 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 Medicare decreased by \$36 billion due to economic and technical factors and Medicaid spending was \$17 billion lower than anticipated for the reasons outlined above. Outlays for programs in other functions were \$31 billion less than originally estimated, largely due to a \$58 billion decrease in mortgage credit spending and the \$13 billion downward reestimate of TARP mentioned above; this was partially offset by the increase in deposit insurance outlays.

Outlays for net interest were \$221 billion, or \$25 billion less than the original estimate. As shown on Table 27–4, interest payments on Treasury debt securities decreased by \$55 billion, offset by reduced interest earnings.

### **Reconciliation of Differences with Amounts Published by the Treasury for 2013**

Table 27–5 provides a reconciliation of the receipts, outlays, and deficit totals for 2013 published by the Department of the Treasury in the September 2013 Monthly Treasury Statement (MTS) and those published in this Budget. The Department of the Treasury made adjustments to the estimates for the Combined Statement of Receipts, Outlays, and Balances, which increased receipts by \$33 million and decreased outlays by \$10 million. Additional adjustments for the 2015 Budget increased receipts by \$1,092 million and increased outlays by \$362 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 2012 through August 2013. The Budget has been adjusted to reflect transactions that occurred during the actual fiscal year, which begins October 1. 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 Standard Setting Body, the Public Company Accounting Oversight Board, the Affordable Housing Program, the Securities Investor Protection Corporation, the Electric Reliability Organization, the United Mine Workers of America benefit funds, and the Federal Retirement Thrift Investment Board program expenses. The Budget also reflects agency adjustments to 2013 outlays reported to Treasury after preparation of the Treasury Combined Statement.

<sup>3</sup> See footnote 1 for an explanation of the current services concept.

**Table 27-4. COMPARISON OF ACTUAL AND ESTIMATED OUTLAYS FOR MANDATORY AND RELATED PROGRAMS UNDER CURRENT LAW**

(In billions of dollars)

	2013		
	Estimate	Actual	Change
Mandatory outlays: <sup>1</sup>			
Human resources programs:			
Education, training, employment, and social services:			
Higher education .....	-9	-22	-13
Other .....	8	7	-1
Total, education, training, employment, and social services .....	-1	-15	-14
Health:			
Medicaid .....	283	265	-17
Other .....	43	36	-7
Total, health .....	325	301	-24
Medicare .....	528	492	-36
Income security:			
Retirement and disability .....	139	138	-*
Unemployment compensation .....	55	67	12
Food and nutrition assistance .....	103	103	-1
Other .....	169	165	-5
Total, income security .....	466	473	6
Social Security .....	820	808	-12
Veterans benefits and services:			
Income security for veterans .....	66	66	*
Other .....	14	14	*
Total, veterans benefits and services .....	79	80	1
Total, mandatory human resources programs .....	2,219	2,139	-80
Other functions:			
Agriculture .....	19	24	5
International .....	2	-1	-3
Mortgage credit .....	-11	-69	-58
Deposit insurance .....	-17	4	21
Other advancement of commerce (includes the Troubled Asset Relief Program) .....	12	-2	-15
Other functions .....	12	30	18
Total, other functions .....	17	-14	-31
Undistributed offsetting receipts:			
Employer share, employee retirement .....	-82	-81	1
Rents and royalties on the Outer Continental Shelf .....	-7	-9	-2
Other undistributed offsetting receipts .....	-6	-3	3
Total, undistributed offsetting receipts .....	-95	-93	2
Total, mandatory .....	2,140	2,032	-108
Net interest:			
Interest on Treasury debt securities (gross) .....	471	416	-55
Interest received by trust funds .....	-173	-157	17
Other interest .....	-52	-38	14
Total, net interest .....	246	221	-25
Total, outlays for mandatory and net interest .....	2,386	2,253	-133

\* \$500 million or less.

<sup>1</sup> The current services estimates published in the 2013 Budget re-classified a large number of surface transportation programs as mandatory. This proposal was not subsequently enacted, so the applicable costs are removed from mandatory outlays in this table for comparability.

**Table 27-5. RECONCILIATION OF FINAL AMOUNTS FOR 2013**  
(In millions of dollars)

	Receipts	Outlays	Deficit
Totals published by Treasury (September MTS) .....	2,773,978	3,454,253	680,276
Miscellaneous Treasury adjustments .....	33	-10	-44
Totals published by Treasury in Combined Statement .....	2,774,011	3,454,243	680,232
National Railroad Retirement Investment Trust .....	.....	-364	-364
Standard Setting Body .....	26	26	.....
Public Company Accounting Oversight Board .....	234	230	-4
Affordable Housing Program .....	287	287	.....
Securities Investor Protection Corporation .....	411	96	-315
Electric Reliability Organization .....	100	100	.....
United Mine Workers of America benefit funds .....	33	4	-29
Federal Retirement Thrift Investment Board program expenses .....	.....	-17	-17
Other .....	1	.....	-1
Total adjustments, net .....	1,092	362	-730
Totals in the Budget .....	2,775,103	3,454,605	679,502
<b>MEMORANDUM:</b>			
Total change since year-end statement .....	1,125	352	-774





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