

FISCAL YEAR 2016

# ANALYTICAL PERSPECTIVES

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OF THE U.S. GOVERNMENT

OFFICE OF MANAGEMENT AND BUDGET  
BUDGET GOALS



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# THE BUDGET DOCUMENTS

**Budget of the United States Government, Fiscal Year 2016** contains the Budget Message of the President, information on the President's priorities, and summary tables.

**Analytical Perspectives, Budget of the United States Government, Fiscal Year 2016** 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) and on the Budget CD-ROM.

**Historical Tables, Budget of the United States Government, Fiscal Year 2016** 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 2016 or 2020. To the extent feasible, the data have been adjusted to provide consistency with the 2016 Budget and to provide comparability over time.

The text and tables comprising the *Historical Tables* are available on the internet at [www.budget.gov/budget/Historicals](http://www.budget.gov/budget/Historicals) and on the Budget CD-ROM.

**Appendix, Budget of the United States Government, Fiscal Year 2016** 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.

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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 printed budget documents in fully indexed PDF format along with the software required for viewing the documents. The CD-ROM also includes many of the budget tables in spreadsheet format, supplemental materials that were previously included in the printed *Analytical Perspectives* volume, and materials comprising the *Historical Tables*.

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

## GENERAL NOTES

1. All years referenced for budget data are fiscal years unless otherwise noted. All years referenced for economic data are calendar years unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.
3. At the time the President's 2016 Budget request was developed, the 2015 Department of Homeland Security Appropriations bill was not enacted; therefore, the discretionary programs and activities normally provided for in the full-year appropriations bill were operating under a continuing resolution (Public Law 113-235, Division L). For those programs and activities, full-year appropriations data included in the current year column (2015) in the budget *Appendix*, and in tables that show details on discretionary spending amounts in the *Analytical Perspectives* volume, reflect the annualized level provided by the continuing resolution. In the main *Budget* volume and the online *Historical Tables* volume, current year totals by agency and for the total Government match the President's 2015 Budget request.

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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 President's 2016 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, 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 2016 Budget is based with the assumptions for last year's Budget and those of other forecasters; 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 under policies currently in effect and under the Budget's proposals as well as progress towards fiscal sustainability since 2010. It focuses on 25-year projections of Federal deficits, debt, and the fiscal gap. It also provides budget projections for a 75-year period, and shows how alternative long-term budget assumptions would produce different results and discusses the actuarial status of the Social Security and Medicare programs.

*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 offers a numerical picture of the United

States and illustrates how this picture has changed over time. Included are economic, demographic and civic, socio-economic and health statistics. There are also indicators covering security and safety, 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 taxpayers' investment. It explains why this approach was chosen, progress made, and future plans. It also discusses implementation of the Government Performance and Results Modernization Act.

*Building Evidence with Administrative Data.* This chapter explains the importance of improving access to administrative data, describes some of the key barriers, and outlines the Administration's agenda, including both Budget proposals and ongoing work. The chapter also explains the strong framework of privacy, confidentiality, and data security protections that governs current uses of administrative data for research purposes, and it explains how these protections would extend to the Budget's new proposals.

*Strengthening 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 Federal workforce challenges; 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 in the Budget. Detailed tables, including “Table 15–2, Federal Grants to State and Local Governments—Budget Authority and Outlays” and tables showing State-by-State spending for major grant programs, are available at the Internet address cited above and on the Budget CD-ROM.

**Strengthening Federal Statistics.** This chapter discusses 2016 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 Administration initiatives to improve the management of Federal data and IT by integrating modern technology solutions to enhance mission and service

delivery and security. To achieve this, the Administration prioritizes three core objectives across the Federal IT portfolio discussed in the chapter: unlocking enterprise value and opportunities; delivering world-class digital services, including opening Government data to fuel entrepreneurship and innovation; and protecting Federal IT assets and information.

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

**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 cross-cutting analyses of the roles, risks, and performance of Federal credit and insurance programs and Government-sponsored enterprises (GSEs). 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). Five additional tables address transactions including direct loans, guaranteed loans, and government-sponsored enterprises. These tables are available at the Internet address cited above and on the Budget CD-ROM.

**Budgetary Effects of the Troubled Asset Relief Program.** The chapter provides special analyses of the Troubled Asset Relief Program (TARP) as described in Section 202(a) of the Emergency Economic Stabilization Act of 2008, including information on the costs of TARP activity and its effects on the deficit and debt.

**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.

**Federal Budget Exposure to Climate Risk.** This chapter discusses climate change-related risks for the Federal budget, including the potential for rising direct and indirect costs and lost revenue. The chapter presents estimates of costs incurred as a result of the types of extreme weather projected to grow in frequency and intensity as the climate changes, and discusses additional areas of vulnerability across the Federal budget.

## 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 of 1985 (BBEDCA). Two detailed tables addressing factors that affect the baseline and provide

details of the baseline budget authority and outlays 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 2014 with the estimates for that year published in the President’s 2014 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 2016 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. However, sequestration cuts that took effect in March 2013 reduced Gross Domestic Product (GDP) and employment growth by 0.6 percentage points and 750,000 jobs, respectively, in calendar year 2013 according to estimates from the Congressional Budget Office (CBO). The government shutdown and debt limit standoff in October 2013 also took a toll on the economy. The Bureau of Economic Analysis estimated that the reduction in hours worked by federal employees during the October 2013 shutdown reduced real GDP growth in the fourth quarter of 2013 by 0.3 percentage points.

Over the past 14 months, the Administration and Congress have come together to enact bipartisan legislation mitigating the harmful austerity imposed by sequestration and providing greater certainty. In December 2013, the President signed into law the Bipartisan Budget Act (BBA), undoing a portion of sequestration for 2014 and 2015. Congress followed this action with the enactment of full year appropriations for 2014 in January of last year and full year appropriations for 2015 for almost all departments and agencies in December. In December

2013, the Council of Economic Advisers estimated that the relaxation of sequestration achieved through the BBA would add about 350,000 jobs (cumulative) over the two-year period ending in 2015.

Over the past 21 quarters, through the third quarter of 2014, real GDP has grown at an average annual rate of 2.3 percent, and since February 2010, 11.2 million jobs have been added in the private sector. Job growth accelerated during 2014, with the most jobs created in any calendar year since 1999. Meanwhile, the unemployment rate has fallen fairly steadily from its October 2009 peak of 10.0 percent to 5.6 percent in December.

The economy is projected to grow at a three percent pace in 2015 and in 2016 and at 2.7 percent in 2017. With healthy economic growth, the unemployment rate is expected to reach the level consistent with full employment by the end of 2015 and continue to decline to 4.8 percent by the end of 2017. The unemployment rate then stabilizes at 5.2 percent by 2020.

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 assumptions with other forecasts and with 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 past forecast errors for growth, inflation, and interest rates and how these forecast errors compare with those for forecasts made by the Congressional Budget Office (CBO) and the private-sector Blue Chip Consensus.
- The sixth 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.

<sup>1</sup>Economic performance is discussed in terms of calendar years. Budget figures are discussed in terms of fiscal years. Economic growth figures are in real (inflation-adjusted) terms unless otherwise noted.

<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.

## Recent Economic Performance

The accumulated stresses from falling house prices and shrinking homebuilding 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 more severe. By the time 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 2.3 percent since that point, including 2.7 percent for the most recent four quarters, ending 2014-Q3. While the recovery strengthened over the past year, the unemployment rate is still elevated and the long-term unemployment rate remains particularly high. The Administration's proposals will help to accelerate the return to full employment while also contributing to stronger growth in wages.

**Accelerating Progress in the Labor Market.**—The unemployment rate peaked in 2009 at 10 percent, but has since declined to 5.6 percent. Private employment has grown for the past 58 straight months and December marked the eleventh consecutive month of job growth above 200,000. Moreover, the pace of job creation has jumped from about 195,000 per month in 2012-13 to 235,000 in 2014. However, the unemployment rate remains somewhat above the level consistent with stable inflation, estimated at about 5.2 percent. The rate of long-term unemployment (those out of work for more than 6 months) remains higher than normal for this stage of a recovery, although it has declined 0.7 percentage points over the past year.

**Domestic Energy Boom and Decline in Oil Prices**—In the last five years, there has been a dramatic increase in domestic energy production. The United States is now the world's largest producer of oil and gas. Over the past year, domestic production of crude oil exceeded imports of oil 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 multinational firms in energy-intensive industries.

The increase in U.S. production, combined with a decline in worldwide oil consumption due to slow growth abroad, increased energy efficiency, and alternative fuel production, led to a dramatic decline in oil prices over the last few months of 2014. The price of West Texas Intermediate crude declined from \$107 per barrel in late June to less than \$60 per barrel in December. Retail gasoline prices tumbled from \$3.78 per gallon to less than \$2.50/gallon in December. Although the lower prices may reduce domestic oil production somewhat in the near-term, the net effect on the economy is positive since the United States is still a net oil importer, and consumers and nonoil businesses will benefit from the price drop.

**Housing Markets Show Further Strength.**—The housing market, a major cause of the financial crisis and recession, has shown clear signs of recovery. 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 rate of real GDP growth by an average of 1 percentage point per year. Housing prices started to rise again in 2012 with a cumulative gain of 16 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 rose at an annual rate of about 14% in 2012 with smaller net increases in 2013 and 2014.

In April 2009, housing starts fell to an annual rate of just 478,000 units, the lowest level on record for this series, which dates from 1959. Housing starts rose modestly over the next two years and increased to about one million units per year during 2014. 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. 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.

**Consumption Steady**—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 rebound is accounted for by the rise in equity prices. The turnaround in housing prices has raised residential wealth, although it remains well below its previous peak.<sup>4</sup>

In recent quarters, real consumption spending has increased at about a 2-1/2 to 3 percent rate, at or slightly above the long-run growth of the economy. The dramatic fall in oil prices in late 2014 will reduce nominal spending on gasoline and other petroleum products, boost real disposable income, and enable an increase in real spending on other consumer goods and services.

**Rebound in Business Investment.**—Business fixed investment fell sharply during the 2008-2009 contraction. It rose rapidly in 2010 through 2014 and real investment at the end of 2013 exceeded its pre-recession levels for the first time. Real nonresidential fixed investment increased by almost 9 percent in the four quarters ending 2014-Q3 and should remain strong during the next stage of the recovery. The cost of capital is low and American corporations at the end of 2014 held substantial levels of cash reserves, which could provide funding for future investments as the economy continues to recover and

<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.

<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 2014:Q3.

consumption remains relatively strong. Nevertheless, the pace of future growth could prove to be uneven, as investment tends to be volatile.

**Fiscal Drag Has Peaked.**—Fiscal policy restraint substantially slowed the expansion in 2012-13, but was a much smaller factor in 2014 as the reduction in Federal Government expenditures slowed. In the four quarters ending 2014-Q3, real Federal spending fell by 0.6 percent and was offset by an increase in State and local spending of 0.9 percent. In the prior four quarters, Federal spending fell 7 percent while State and local outlays increased only 0.8 percent. In 2015 and going forward, real government purchases are expected to have a roughly neutral impact on economic growth.

### Economic Projections

The economic projections underlying the 2016 Budget estimates are summarized in Table 2-1. The assumptions are based on information available as of mid-November 2014. This section discusses the Administration's projections. 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. As discussed below, the Administration's economic forecast, as always, is based on the assumption that the Budget proposals are enacted in full.

**Real GDP.**—Real GDP grew 2.7 percent during the four quarters ending 2014-Q3. The Administration projects the economic recovery that began in mid-2009 will continue with real GDP growing at an average annual rate of 2.8 percent over the next four years. Real GDP growth is projected to ease to 2.3 percent by 2019 and to remain at that rate for the final years of the forecast. The slower growth in the last few years is due to the exhaustion of the cyclical factors that are still present in the near term. Demographic factors also lower the labor force participation rate as the baby boom generation retires.

Recent recoveries have been somewhat weaker than average, but the last two expansions that began in 1991 and 2001 were preceded by mild recessions, leaving relatively little pent-up demand after 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 impediments 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 substantially since the recession trough and further progress in the labor market is expected in 2015-16. Monetary policy likely will continue to support growth as inflation remains below the Federal Reserve's target. However, some European and Asian markets have been troubled by weak economic growth. The drag from a slowdown in foreign countries 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 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 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. As discussed below, these projections do not include the labor force effects of immigration reform, which has the potential to boost labor force growth.

**Unemployment.**—In December 2014, the overall unemployment rate was 5.6 percent. In line with the increased growth in the economy projected after 2014, the unemployment rate is expected to decline to 4.8 percent by the end of 2017 and rebound modestly to 5.2 percent during the period of trend growth during the last few years of the forecast. The temporary reduction in the unemployment rate compared with the so-called 'natural rate' is a consequence of inflation running below the Federal Reserve target rate of 2 percent as measured by the price index for personal consumption expenditures; this leaves room for a further drop in unemployment without inflation exceeding the Federal Reserve target.

**Inflation.**—The Consumer Price Index for all urban consumers (CPI-U) rose by 0.8 percent for the 12 months ending in December 2014, somewhat lower than in 2013. Excluding food and energy, "core" CPI inflation in 2014 was 1.6%, the same as in 2013. The lower rate of overall inflation as compared to the core index was due almost entirely to lower energy price inflation. By year's end gasoline prices had fallen to a multi-year low.

Weak demand, including from abroad, continues to hold down prices for many goods and services and continued elevated 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. 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 observed before the financial crisis. During 2014, the 10-year rate fell by over 50 basis points to 2-1/4 percent, reversing most of the rise that occurred in 2013 after a temporary rise following the Federal Reserve's announcement of a phased reduction in its program of quantitative easing. In the Administration's projections, interest rates are expected to rise, but only

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

	Actual 2013	Projections											
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Gross Domestic Product (GDP):</b>													
Levels, dollar amounts in billions:													
Current dollars .....	16,768	17,394	18,188	19,039	19,933	20,847	21,770	22,717	23,705	24,736	25,812	26,934	28,106
Real, chained (2009) dollars .....	15,710	16,058	16,552	17,049	17,528	17,979	18,406	18,830	19,263	19,706	20,159	20,623	21,097
Chained price index (2009 = 100), annual average ...	106.7	108.4	109.9	111.7	113.8	116.0	118.3	120.7	123.1	125.6	128.1	130.6	133.2
Percent change, fourth quarter over fourth quarter:													
Current dollars .....	4.6	3.5	4.6	4.8	4.6	4.5	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Real, chained (2009) dollars .....	3.1	2.1	3.0	3.0	2.7	2.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Chained price index (2009 = 100) .....	1.4	1.4	1.5	1.7	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Percent change, year over year:													
Current dollars .....	3.7	3.7	4.6	4.7	4.7	4.6	4.4	4.3	4.3	4.3	4.3	4.3	4.3
Real, chained (2009) dollars .....	2.2	2.2	3.1	3.0	2.8	2.6	2.4	2.3	2.3	2.3	2.3	2.3	2.3
Chained price index (2009 = 100) .....	1.5	1.5	1.4	1.6	1.8	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 .....	1,704	1,672	1,796	1,858	1,861	1,833	1,801	1,763	1,761	1,765	1,779	1,825	1,865
Employee Compensation .....	8,845	9,250	9,610	10,036	10,528	11,047	11,570	12,109	12,671	13,259	13,882	14,510	15,173
Wages and salaries .....	7,125	7,468	7,746	8,102	8,507	8,939	9,358	9,792	10,236	10,708	11,210	11,713	12,234
Other taxable income <sup>2</sup> .....	4,012	4,134	4,266	4,506	4,771	5,084	5,396	5,708	5,997	6,278	6,554	6,829	7,121
<b>Consumer Price Index (all urban):<sup>3</sup></b>													
Level (1982-84 = 100), annual average .....	233.0	236.9	240.3	244.8	250.1	255.7	261.5	267.4	273.5	279.6	286.0	292.4	299.1
Percent change, fourth quarter over fourth quarter ...	1.2	1.5	1.8	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 .....	1.5	1.7	1.4	1.9	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 .....	7.0	5.7	5.3	4.9	4.8	4.9	5.0	5.2	5.2	5.2	5.2	5.2	5.2
Annual average .....	7.4	6.2	5.4	5.1	4.9	4.9	5.0	5.1	5.2	5.2	5.2	5.2	5.2
<b>Federal pay raises, January, percent:</b>													
Military <sup>4</sup> .....	1.7	1.0	1.0	1.3	NA								
Civilian <sup>5</sup> .....	0.0	1.0	1.0	1.3	NA								
<b>Interest rates, percent:</b>													
91-day Treasury bills <sup>6</sup> .....	0.1	*	0.4	1.5	2.4	2.9	3.2	3.3	3.4	3.4	3.5	3.5	3.5
10-year Treasury notes .....	2.4	2.6	2.8	3.3	3.7	4.0	4.3	4.5	4.5	4.5	4.5	4.5	4.5

\* 0.05 percent or less.

NA = Not Available.

<sup>1</sup> Based on information available as of mid-November 2014.

<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 2016 have not yet been determined.

<sup>5</sup> Overall average increase, including locality pay adjustments. Percentages to be proposed for years after 2016 have not yet been determined.

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

gradually as financial concerns are alleviated and the economy continues to strengthen. The 91-day Treasury bill rate is projected to average about 0.4 percent in 2015, consistent with the Federal Reserve's announced intentions, and then to rise to 3.6 percent by 2023. The 10-year rate is expected to rise moderately in 2015 and reaches 4.5 percent by 2020. Consistent with the projections for GDP growth, the Administration forecast projects that interest rates will stabilize below their historical averages; both economic theory and historical data suggest that lower GDP growth is associated with lower interest rates.

**Income Shares.**— In the expansion that ended in 2007, hourly labor compensation tended to lag behind

the growth in productivity and that was also true for the surge in productivity growth in 2009-2010. Partly as a result, the share of labor compensation was extremely low by historical standards in 2014 at 53 percent of GDP. It is expected to stay near that level through 2018. As employment and wages increase, compensation is projected to rise slightly, reaching 54 percent of GDP in 2025. The share of wages and salaries is expected to rise from 43 percent of GDP in 2014 to 43-1/2 percent in 2025. The share of domestic corporate profits, presently near historic highs, is expected to decline gradually from almost 10 percent in 2014 to 6.6 percent in 2025.

**Table 2–2. COMPARISON OF ECONOMIC ASSUMPTIONS IN THE 2015 AND 2016 BUDGETS**  
(Calendar years; dollar amounts in billions)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Nominal GDP:</b>											
2015 Budget Assumptions <sup>1</sup>	17,560	18,470	19,449	20,478	21,478	22,465	23,475	24,506	25,573	26,687	27,850
2016 Budget Assumptions	17,394	18,188	19,039	19,933	20,847	21,770	22,717	23,705	24,736	25,812	26,934
<b>Real GDP (2009 dollars):</b>											
2015 Budget Assumptions <sup>1</sup>	16,208	16,753	17,312	17,872	18,377	18,843	19,303	19,754	20,208	20,673	21,148
2016 Budget Assumptions	16,058	16,552	17,049	17,528	17,979	18,406	18,830	19,263	19,706	20,159	20,623
<b>Real GDP (percent change):<sup>2</sup></b>											
2015 Budget Assumptions <sup>1</sup>	3.2	3.4	3.3	3.2	2.8	2.5	2.4	2.3	2.3	2.3	2.3
2016 Budget Assumptions	2.2	3.1	3.0	2.8	2.6	2.4	2.3	2.3	2.3	2.3	2.3
<b>GDP Price Index (percent change):<sup>2</sup></b>											
2015 Budget Assumptions <sup>1</sup>	1.6	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
2016 Budget Assumptions	1.5	1.4	1.6	1.8	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>											
2015 Budget Assumptions <sup>1</sup>	1.6	2.0	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
2016 Budget Assumptions	1.7	1.4	1.9	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>											
2015 Budget Assumptions <sup>1</sup>	6.9	6.4	6.0	5.6	5.4	5.4	5.4	5.4	5.4	5.4	5.4
2016 Budget Assumptions	6.2	5.4	5.1	4.9	4.9	5.0	5.1	5.2	5.2	5.2	5.2
<b>91-day Treasury bill rate (percent):<sup>3</sup></b>											
2015 Budget Assumptions <sup>1</sup>	0.1	0.3	1.2	2.3	3.2	3.6	3.7	3.7	3.7	3.7	3.7
2016 Budget Assumptions	*	0.4	1.5	2.4	2.9	3.2	3.3	3.4	3.4	3.5	3.5
<b>10-year Treasury note rate (percent):<sup>3</sup></b>											
2015 Budget Assumptions <sup>1</sup>	3.0	3.5	4.0	4.3	4.6	4.7	4.9	5.0	5.0	5.0	5.0
2016 Budget Assumptions	2.6	2.8	3.3	3.7	4.0	4.3	4.5	4.5	4.5	4.5	4.5

\* 0.05 percent or less.

<sup>1</sup> Adjusted for July 2014 NIPA revisions.

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

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

**Changes in Economic Assumptions from Last Year's Budget.**—The 2016 Budget forecast reflects economic developments over the past year, but many of the forecast values are similar to those of the 2015 Budget, especially in the long run (see Table 2–2). The current Budget anticipates less rapid growth in 2014–2018 than the prior Budget, but assumes the same 2.3 percent rate of potential GDP growth in the long run. The ultimate projection for the unemployment rate has been lowered by 0.2 percentage point, and dips below that rate in the near term. Projected short- and long-term maturity interest rates are slightly lower over the forecast in this year's Budget, reflecting lower levels of interest rates than expected in 2014 and continued analysis of the relationship between GDP growth and interest rates. Inflation is lower in the near-term, but is projected to return to its long-run average consistent with Federal Reserve policy, estimated 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 2016 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 and that interest rates will eventually rise to more normal levels, but below the historical average.

The Administration projections were completed in mid-November, meaning that they do not reflect new data, such as the revision in real GDP to 5.0 percent in the third quarter of 2014. The nearly three-month lag between that date and the Budget release is due to the long lead time required to complete the estimates for agency programs that are incorporated in the Budget. The Blue Chip Consensus for 2015–2025 in this table was the latest available, from early January for projections through 2016 and from October for long-term projections. The CBO forecast is from the August 2014 update, because the January 2015 Budget Outlook was not available as

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Nominal GDP:</b>												
2016 Budget .....	17,394	18,188	19,039	19,933	20,847	21,770	22,717	23,705	24,736	25,812	26,934	28,106
CBO .....	17,336	18,204	19,169	20,119	21,009	21,916	22,855	23,821	24,816	25,839	26,886	NA
Blue Chip .....	17,434	18,258	19,154	20,084	21,019	21,975	22,975	23,997	25,064	26,179	27,344	28,560
<b>Real GDP (year-over-year):</b>												
2016 Budget .....	2.2	3.1	3.0	2.8	2.6	2.4	2.3	2.3	2.3	2.3	2.3	2.3
CBO .....	1.5	3.2	3.5	3.0	2.4	2.3	2.3	2.2	2.2	2.1	2.0	NA
Blue Chip .....	2.4	3.2	2.9	2.7	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.3
<b>Real GDP (fourth-quarter-over-fourth-quarter):</b>												
2016 Budget .....	2.1	3.0	3.0	2.7	2.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3
CBO .....	1.5	3.4	3.4	2.7	2.3	2.3	2.2	2.2	2.1	2.1	2.0	NA
Blue Chip .....	2.5	2.9	2.8	2.7	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3
Federal Reserve Central Tendency <sup>3</sup> .....	2.3 to 2.4	2.6 to 3.0	2.5 to 3.0	2.3 to 3.5				2.0 to 2.3 longer run				
<b>GDP Price Index:<sup>1</sup></b>												
2016 Budget .....	1.5	1.4	1.6	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CBO .....	1.7	1.8	1.7	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	NA
Blue Chip .....	1.5	1.5	2.0	2.1	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>												
2016 Budget .....	1.7	1.4	1.9	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
CBO .....	2.0	2.2	2.0	2.1	2.2	2.3	2.4	2.4	2.4	2.4	2.4	NA
Blue Chip .....	1.6	0.8	2.2	2.3	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3
<b>Unemployment Rate:<sup>2</sup></b>												
2016 Budget .....	6.2	5.4	5.1	4.9	4.9	5.0	5.1	5.2	5.2	5.2	5.2	5.2
CBO .....	6.2	5.9	5.8	5.7	5.6	5.6	5.6	5.6	5.6	5.5	5.5	NA
Blue Chip .....	6.2	5.5	5.1	5.2	5.2	5.3	5.3	5.4	5.4	5.4	5.4	5.4
Federal Reserve Central Tendency <sup>3</sup> .....	5.8	5.2 to 5.3	5.0 to 5.2	4.9 to 5.3				5.2 to 5.5 longer run				
<b>Interest Rates:<sup>2</sup></b>												
<b>91-Day Treasury Bills (discount basis):</b>												
2016 Budget .....	*	0.4	1.5	2.4	2.9	3.2	3.3	3.4	3.4	3.5	3.5	3.5
CBO .....	0.1	0.3	1.1	2.1	3.1	3.5	3.5	3.5	3.5	3.5	3.5	NA
Blue Chip .....	*	0.4	1.7	2.9	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
<b>10-Year Treasury Notes:</b>												
2016 Budget .....	2.6	2.8	3.3	3.7	4.0	4.3	4.5	4.5	4.5	4.5	4.5	4.5
CBO .....	2.8	3.2	3.8	4.2	4.6	4.7	4.7	4.7	4.7	4.7	4.7	NA
Blue Chip .....	2.5	2.7	3.4	4.2	4.4	4.4	4.5	4.5	4.5	4.5	4.5	4.5

\* 0.05 percent or less.

NA = Not Available.

Sources: Administration; CBO, An Update to the Budget and Economic Outlook: Fiscal Years 2014 to 2024; October 2014 and January 2015 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.

this volume went to print. The FOMC members' central tendencies of their forecasts date from December 2014.

**Real GDP Growth.**—Between 2015 and 2018, the Administration expects slightly more growth than Blue Chip and CBO, partly because the forecast assumes that all of the Budget proposals will be enacted (see discussion below). In the out-years, the Administration projects the same growth as the Blue Chip consensus, but stronger GDP growth than CBO. The difference from the CBO

forecast principally reflects different assumptions about productivity.

The Administration projects that still-high levels of unemployment and low inflation imply a few years of higher-than-normal growth as employment increases, the unemployment rate falls temporarily below 5 percent, 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 is 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.

**Unemployment, Inflation, and Interest Rates.**—The Administration projects unemployment falling steadily over the next few years to a level of 4.8 percent at the end of 2017 and returning to 5.2 percent by the end of the forecast. The other forecasts are slightly less optimistic about employment in the long run.

The Administration, CBO, and the Blue Chip Consensus anticipate a subdued rate of inflation over the next two years. In the medium term, inflation is projected to return to a rate of around two percent per year, which is consistent with the Federal Reserve’s long-run policy goal. All forecasts have interest rates increasing substantially in the long run to similar levels.

**Effects of policy on growth.**—The Administration’s forecast assumes that the President’s Budget proposals will be enacted. The 50 or so private forecasters in the Blue Chip Consensus make differing policy assumptions, but it is safe to assume that they do not generally assume full enactment of the Administration’s budget proposals. CBO is required in making its projections to assume that current law will continue.

The Administration’s Budget proposals provide important support for growth. They include:

- A major investment in infrastructure through a six-year surface transportation reauthorization proposal, as well as additional investments in infrastructure, education and research.
- Business tax reform that will boost the economy by moving to a more neutral tax system and improving the allocation of investment.
- Policies to boost labor supply, particularly among female workers, such as expansion of child care subsidies and the Child and Dependent Care Tax Credit, support for State paid leave programs, and creation of a second earner tax credit, as well as an expansion of the Earned Income Tax Credit for workers without children and noncustodial parents.
- Comprehensive immigration reform. The Budget includes an allowance for immigration reform that takes into account its effects on population and the labor force. Therefore, the economic projections do not include the effects of immigration reform on population and employment, to avoid double counting. However, the allowance does not incorporate immi-

gration reform’s significant positive effects on total factor productivity.

- Deficit reduction. The Budget would reduce deficits to sustainable levels and put debt on a declining path as a share of GDP, with positive effects on private investment and growth.

### 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 real economic growth and inflation. At the same time, outlays for many Federal programs are directly linked to developments in the economy. For example, most retirement and other social insurance benefit payments are tied by law to consumer price indices. Medicare and Medicaid outlays are affected directly by the prices paid for 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.

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 employ-

ment 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 because cyclical changes tend to offset each other over the longer term. 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 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 recouping 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 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 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.

**Table 2–4. SENSITIVITY OF THE BUDGET TO ECONOMIC ASSUMPTIONS**  
(Fiscal years; in billions of dollars)

Budget effect	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total of Effects, 2015–2025
<b>Real Growth and Employment:</b>												
<b>Budgetary effects of 1 percent lower real GDP growth:</b>												
<b>(1) For calendar year 2015 only, with real GDP recovery in 2015–17:</b>												
Receipts .....	-18.9	-30.1	-13.6	-1.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2	-62.1
Outlays .....	5.6	14.3	8.1	2.8	2.9	3.2	3.3	3.4	3.6	3.7	3.8	54.7
Increase in deficit (+) .....	24.5	44.4	21.7	4.1	2.6	2.8	3.0	3.2	3.4	3.6	3.6	116.8
<b>(2) For calendar year 2015 only, with no subsequent recovery:</b>												
Receipts .....	-18.9	-40.2	-46.0	-48.4	-51.1	-53.9	-57.1	-60.4	-63.8	-67.2	-70.6	-577.7
Outlays .....	5.6	17.4	21.1	24.3	27.7	31.0	34.5	38.5	42.9	47.5	52.4	342.9
Increase in deficit (+) .....	24.5	57.6	67.1	72.8	78.8	84.9	91.6	98.9	106.7	114.7	123.0	920.6
<b>(3) Sustained during 2015–2025, with no change in unemployment:</b>												
Receipts .....	-19.1	-62.4	-116.5	-175.4	-239.6	-308.8	-384.7	-467.1	-556.6	-652.9	-753.9	-3,737.1
Outlays .....	-0.1	0.1	2.2	6.6	13.2	22.3	33.6	47.6	64.2	84.0	106.7	380.4
Increase in deficit (+) .....	19.0	62.5	118.7	182.0	252.8	331.1	418.3	514.7	620.8	736.9	860.6	4,117.6
<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 2015 only:</b>												
Receipts .....	26.6	55.7	54.7	51.5	54.4	57.3	60.6	63.9	67.2	70.8	74.0	636.6
Outlays .....	27.3	44.7	38.1	38.3	38.2	38.1	36.2	36.5	34.5	34.4	34.7	401.0
Decrease in deficit (-) .....	0.7	-11.0	-16.6	-13.2	-16.2	-19.3	-24.3	-27.4	-32.6	-36.4	-39.4	-235.6
<b>(5) Inflation and interest rates, sustained during 2015–2025:</b>												
Receipts .....	26.6	86.5	148.2	208.2	277.0	356.9	443.2	534.8	635.1	743.6	858.5	4,318.6
Outlays .....	25.3	75.1	119.9	162.5	207.2	252.8	297.5	346.9	390.0	432.1	484.8	2,794.1
Decrease in deficit (-) .....	-1.3	-11.4	-28.3	-45.7	-69.8	-104.1	-145.7	-187.8	-245.1	-311.6	-373.7	-1,524.5
<b>(6) Interest rates only, sustained during 2015–2025:</b>												
Receipts .....	7.4	24.2	33.0	34.9	39.2	48.1	54.8	59.0	63.0	66.3	69.1	499.0
Outlays .....	15.0	44.4	68.0	87.8	106.4	125.1	141.7	158.0	172.2	186.6	200.1	1,305.4
Increase in deficit (+) .....	7.6	20.2	35.0	52.9	67.2	77.0	86.8	99.0	109.3	120.3	131.0	806.4
<b>(7) Inflation only, sustained during 2015–2025:</b>												
Receipts .....	19.1	61.9	114.6	172.4	236.5	307.1	386.3	473.3	569.1	673.8	785.2	3,799.4
Outlays .....	10.3	31.1	52.9	76.6	104.1	132.9	163.4	199.7	232.4	264.7	309.6	1,577.8
Decrease in deficit (-) .....	-8.8	-30.9	-61.7	-95.8	-132.4	-174.3	-222.8	-273.6	-336.7	-409.0	-475.7	-2,221.7
<b>Interest Cost of Higher Federal Borrowing:</b>												
<b>(8) Outlay effect of \$100 billion increase in borrowing in 2015 ....</b>	0.1	1.1	2.3	3.0	3.5	3.9	4.2	4.4	4.6	4.8	4.9	36.7

<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.

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>

<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

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

REAL GDP ERRORS		Admin.	CBO	Blue Chip
<b>2-Year Average Annual Real GDP Growth .....</b>				
Mean Error .....	0.1	-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 .....	0.3	0.0	0.0	
Mean Absolute Error .....	0.9	0.9	0.9	
Root Mean Square Error .....	1.1	1.2	1.2	
INFLATION ERRORS				
<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	0.8	
<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	0.7	0.9	
Root Mean Square Error .....	0.8	0.9	1.0	
INTEREST RATE ERRORS				
<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	0.8	1.0	
Root Mean Square Error .....	1.2	1.1	1.2	
<b>6-Year Average 91-Day Treasury Bill Rate</b>				
Mean Error .....	0.6	1.1	1.3	
Mean Absolute Error .....	1.2	1.3	1.4	
Root Mean Square Error .....	1.5	1.6	1.7	

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. Over the two-year period, 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-quarter 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 average errors were somewhat less for the Administration than for CBO and the Blue Chip forecasts.

### 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 2-6 shows total deficit errors as a percentage of GDP for the current-year forecast in each year's budget as well as the errors

from the budgets released starting in February 1982 (1983 Budget) and through February 2012 (2013 Budget), so that the last year included in the projections is 2013. The six-year forecasts are constructed similarly, but the last forecast used is from February 2008 (2009 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 2-6. DIFFERENCES BETWEEN ESTIMATED AND ACTUAL SURPLUSES OR DEFICITS FOR FIVE-YEAR BUDGET ESTIMATES SINCE 1986**  
 (As a 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 <sup>1</sup> .....	0.6	-0.4	-1.3	-1.8	-2.2	-2.5
Average absolute difference <sup>2</sup> .....	0.9	1.4	2.2	2.8	3.2	3.5
Standard deviation .....	0.9	1.9	2.7	3.1	3.3	3.2
Root Mean Squared Error .....	1.1	1.9	3.0	3.6	4.0	4.1

<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.

for the budget year and four following years. As expected, the size of the average absolute errors increases the farther 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 2-1 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 2.5 percent of GDP in 2020, but has a 90 percent chance of being within a range of a surplus of 2.8 percent of GDP and a deficit of 7.7 percent of GDP.

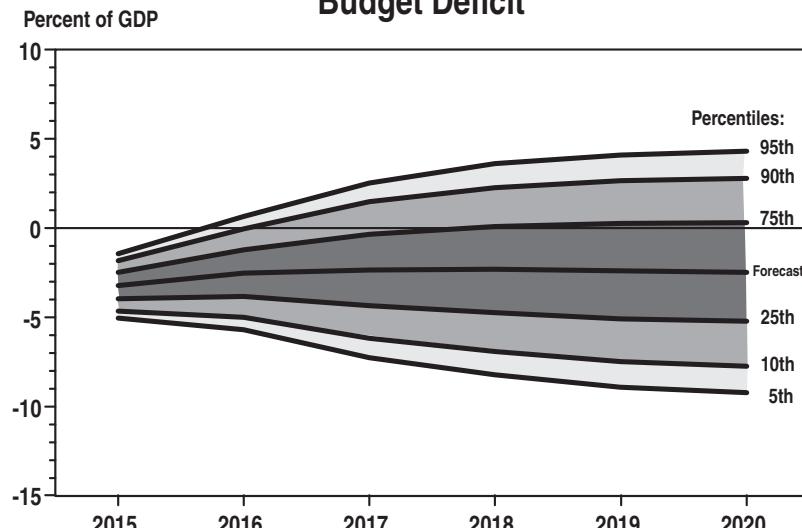
### Structural and Cyclical Deficits

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 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.

**Chart 2-1. Range of Uncertainty for the Budget Deficit**



**Table 2-7. THE STRUCTURAL BALANCE**  
(Fiscal years; in billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Unadjusted surplus (–) or deficit .....	680	485	583	474	463	479	518	554	600	626	635	639	687
Cyclical component .....	344	308	241	156	74	24	-6	-10	3	-1	0	0	0
Structural surplus (–) or deficit .....	335	176	342	318	389	455	523	564	598	627	634	639	687
(Fiscal years; percent of Gross Domestic Product)													
Unadjusted surplus (–) or deficit .....	4.1	2.8	3.2	2.5	2.3	2.3	2.4	2.5	2.6	2.6	2.5	2.4	2.5
Cyclical component .....	2.1	1.8	1.3	0.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural surplus (–) or deficit .....	2.0	1.0	1.9	1.7	2.0	2.2	2.4	2.5	2.5	2.6	2.5	2.4	2.5
<b>CHANGE IN STRUCTURAL DEFICIT (FISCAL DRAG) ..</b>		<b>-1.0</b>	<b>0.9</b>	<b>-0.2</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.1</b>

NOTE: The NAIRU is assumed to be 5.2%.

Estimates of the structural deficit, shown in Table 2-7, 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, which probably understates the cyclical contribution to changes in deficits.

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 unem-

ployment 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 and turns negative after unemployment falls below 5.2 percent, the level assumed to be consistent with stable inflation. During that period, the structural deficit exceeds the total deficit. The estimated cyclical component returns to zero in the out years as unemployment returns to 5.2 percent, leaving only the structural deficit.

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. In addition, 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 recovery. The structural deficit shrank by seven percentage points between 2009 and 2014, reflecting the relatively sharp fiscal tightening measures taken during that period. Between 2015 and 2018, the cyclical component of the deficit is projected to decline sharply and falls below zero as the economy recovers at an above-trend rate of GDP growth and the unemployment rate declines temporarily to 4.8 percent.

### **3. LONG-TERM BUDGET OUTLOOK**

When the current Administration took office, budget deficits and debt were rising sharply, primarily as a result of the Great Recession. Revenues as a share of Gross Domestic Product (GDP) were at their lowest level since 1950, and spending on countercyclical programs had also risen sharply.

As a result of both economic recovery and policy changes, deficits have since fallen rapidly. Last year's deficit (2.8 percent of GDP) was less than one third the size of the deficit the President inherited, reflecting the fastest sustained deficit reduction since just after World War II. Both the Administration and the Congressional Budget Office (CBO) now project that deficits over the next few years will remain around 3 percent of GDP (even without additional changes in policy), roughly the level consistent with a stable debt-to-GDP ratio.

In the wake of this progress in reducing near-term deficits, some observers have questioned whether there has been comparable progress in reducing medium- and, especially, long-term deficits. While the detailed estimates of receipts and outlays in the President's Budget extend only 10 years, this chapter reviews the longer-term budget outlook, both under a continuation of current policies and under the policies proposed in the Budget. The analysis finds:

- Legislation and other developments since 2010 have not only improved near-term projections, they have also substantially improved the medium- and long-term budget outlook.
- The most significant sources of progress are lower projected health spending (revised in light of the historically slow health care cost growth rates of the last several years), discretionary policy changes, and revenue increases enacted in the American Taxpayer Relief Act of 2012 (ATRA).
- Enacted policy changes, while significant, are insufficient to stabilize debt over the next 10 or 25 years. Additional changes of about 1.1 percent of GDP are needed to achieve fiscal sustainability over the 25-year horizon.
- The deficit reduction proposed in the President's Budget is sufficient to achieve fiscal sustainability. With the Budget's proposals for health, tax, and immigration reforms and other policy changes, debt as a share of GDP declines modestly over the next decade and stabilizes after that.

The projections discussed in this chapter are highly uncertain. As highlighted below, small changes in economic or other assumptions can make a large difference to the results. This is even more relevant for projections over longer horizons. For this reason, the chapter focuses pri-

marily on 25-year projections, although it also provides budget estimates for a 75-year period, as well as results under different economic assumptions and for different policy scenarios.

The chapter also discusses the status of the Social Security and Medicare Hospital Insurance trust funds, which are financed from dedicated revenue sources. The 2016 Budget would extend the life of both the Social Security and Medicare trust funds, through immigration reform and health savings proposals, respectively. Still, additional measures would be needed to achieve 75-year trust fund solvency.

#### **The Basis for the Long-Run Projections**

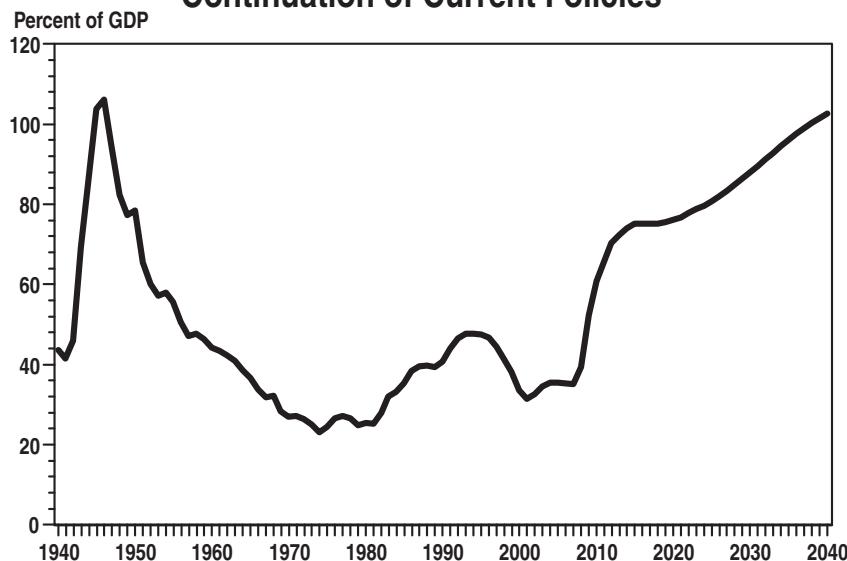
For the 10-year budget window, the Administration produces both baseline projections, which show how deficits and debt would evolve under current policies, and projections showing the impact of proposed policy changes. Like the budget baseline more generally, long-term projections should provide policymakers with information about the Nation's expected fiscal trajectory in the absence of spending and tax changes. For this reason, the baseline long-term projections in this chapter assume that current policy continues for Social Security, Medicare, Medicaid, other mandatory programs, and revenues.<sup>1</sup> (See the appendix for details.)

In the case of discretionary spending, it is less clear how to implement a continuation of current policy in the absence of statutory caps, both the Administration's and CBO's 10-year baselines assume that discretionary funding levels generally grow slightly above the rate of inflation (about 2.5 percent per year). Long-run projections sometimes assume that discretionary funding remains constant as a share of the economy, implying long-run growth of a little over 4 percent per year. Meanwhile, discretionary funding has failed to even keep pace with inflation, falling by 11 percent in real terms over the past four years.

The projections here adopt an intermediate approach, assuming that real per-person discretionary funding remains constant over the long run, which implies an annual growth rate of about 3 percent. For the many discretionary programs that provide services to individuals, it is reasonable to define current policy as maintain-

<sup>1</sup>The long-run baseline projections are consistent with the Budget's adjusted baseline concept, which departs from current law in two main respects: it assumes continuation of certain tax credits enacted in 2009 but scheduled to expire at the end of calendar year 2017, and it assumes that the Medicare Sustainable Growth Rate (SGR) physician payment reductions do not occur. If Congress continues to pay for SGR relief, as has occurred over the last few years, the projections would be modestly too pessimistic. The Budget's adjusted baseline concept is explained in more detail in Chapter 25, "Current Services Estimates," in this volume.

**Chart 3-1. Publicly Held Debt Under Continuation of Current Policies**



ing the same level of services for the same share of the population, which can be approximated by holding real per-person discretionary funding constant. In contrast, holding discretionary spending constant as a share of GDP effectively assumes large increases in per-person service levels over time, as well as large increases in real funding levels for national defense, research, infrastructure, and other public goods.

#### Long-Run Projections Under Continuation of Current Policies

Chart 3-1 shows the path of debt as a share of GDP under continuation of current policies, *without* the policy changes proposed in the President's Budget. Over the next 10 years, debt rises modestly from 74 percent of GDP last year to 81 percent of GDP in 2025. Beyond the 10-year horizon, debt increases more sharply, reaching 103 percent of GDP by 2040.

The key drivers of that increase are an aging population, health care cost growth, and insufficient revenues to keep pace with these trends.

**Aging population.** — Over the next 10 years, an aging population will put significant pressure on the budget. 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. By the end of the 10-year budget window, that ratio will fall to 2.4, and it will reach about 2.1 in the early 2030s, at which point most of the baby boomers will have retired.

With fewer active workers paying taxes and more retired workers eligible for Social Security, Medicare, and Medicaid (including long-term care), budgetary pressures will increase. Social Security program costs will grow from 4.9 percent of GDP today to 5.9 percent of GDP by 2040, with about two thirds of that growth occurring

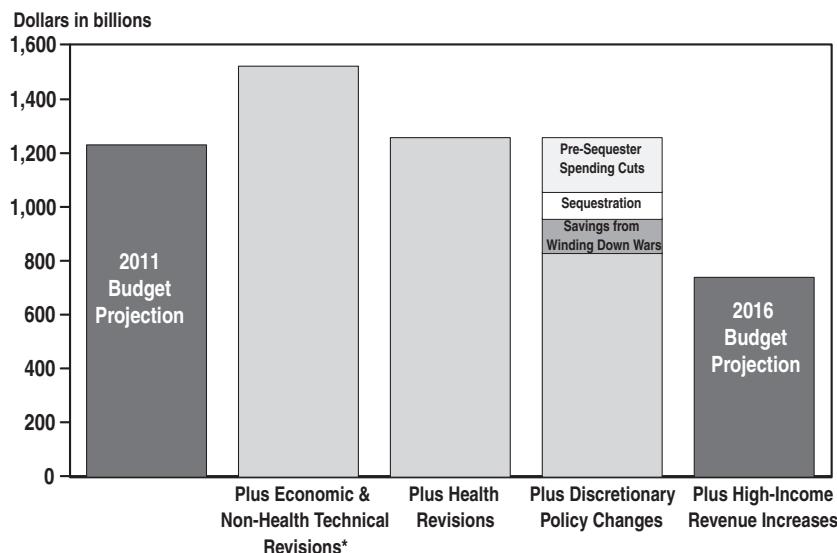
within the 10-year budget window. Likewise, even if per-beneficiary health care costs grew at the same rate as GDP per capita, Medicare and Medicaid costs would still increase substantially as a share of GDP, due solely to the aging population.

**Health costs.** — Health care costs per capita have risen much faster than per-capita GDP growth for decades, leading both public and private spending on health care to increase as a share of the economy. However, the last few years have seen a sharp departure from long-term trends, with per-capita health costs growing in line with per-capita GDP, and per-beneficiary costs for Medicare growing more slowly than per-capita GDP. While some of the slowdown reflects the Great Recession and its aftermath, there is strong evidence that a portion of it is the result of structural changes. For example, since Medicare beneficiaries are typically retired or disabled, Medicare costs tend to be less sensitive to economic conditions than overall health spending. But Medicare cost growth has slowed in line with the overall slowdown in health care costs, suggesting that the recession was not the primary driver of the recent slowdown, particularly in public programs.

Based on projections of Medicare enrollment and expenditures included in the 2014 Medicare Trustees Report, the projections here assume that Medicare per-beneficiary spending growth will accelerate over the next few years, with the growth rate averaging about 0.8 percentage points above the growth rate of per-capita GDP over the next 25 years.<sup>2</sup> (This average growth rate is still below the historical average for the last 25 years.) Under these assumptions, Medicare and Medicaid costs increase by a total of 2.6 percentage points as a share of GDP by 2040.

<sup>2</sup> For this year's report, the Trustees' changed their projections to reflect a projected baseline scenario, which assumes that the sharp physician payment reductions required under the current-law sustainable growth rate formula will be permanently overridden by lawmakers.

### Chart 3-2. Changes to Projected 2020 Deficit Under Continuation of Current Policies



**Revenues.** — Without any further changes in tax laws, revenues will grow slightly faster than GDP over the long run, but not fast enough to keep pace with the increase in social insurance costs that results from an aging population. The increase in revenues as a share of GDP occurs because individuals' real, inflation-adjusted incomes grow over time, and so a portion of their income falls into higher tax brackets. (Bracket thresholds are indexed for inflation but do not grow in real terms.)

**Other programs.** — Other mandatory programs are generally projected to decline relative to the size of the economy and to consume a smaller share of revenues over time. For example, spending on non-health safety net programs will decline as incomes grow. Likewise, pension benefits for Federal workers will shrink as a share of the economy as a result of reductions initiated in the 1980s. Overall, spending on mandatory programs outside of health care and Social Security equals 16.7 percent of revenues today, but is projected to equal 15.1 percent of revenues by 2040. Likewise, discretionary spending will consume a smaller share of revenues over time.

#### Fiscal Progress to Date

The deficit as a share of the economy began declining in 2010. Since then deficits have fallen rapidly, sharply improving the near-term budget outlook. Taking 2010 as the point of departure, Charts 3-2 and 3-3 show that this progress extends to reducing medium- and long-term deficits and debt.

As Chart 3-2 shows, in the 2011 Mid-Session Review, published in July 2010, the Administration projected a 2020 deficit of \$1230 billion, or 5.1 percent of GDP under continuation of current policies.<sup>3</sup> The 2016 Budget projects

a baseline deficit of \$739 billion, or 3.3 percent of GDP in 2020, a reduction of 1.9 percentage points or \$491 billion (40 percent). As shown in the chart, one major contributor to the improvement is lower than expected Federal health spending. Revisions to health spending forecasts based on the historically slow growth of the past several years (and based on the assumption that only a portion of the slowdown will continue) will save the Federal government \$262 billion in 2020, accounting for about half of the net improvement in the deficit. Another important factor is the high-income revenue increases enacted in ATRA (about a fifth of the net improvement). Discretionary spending restraint has also played a large role, although the impact of sequestration is much less than the impact of the pre-sequestration Budget Control Act cuts and less than the savings from winding down wars.<sup>4</sup>

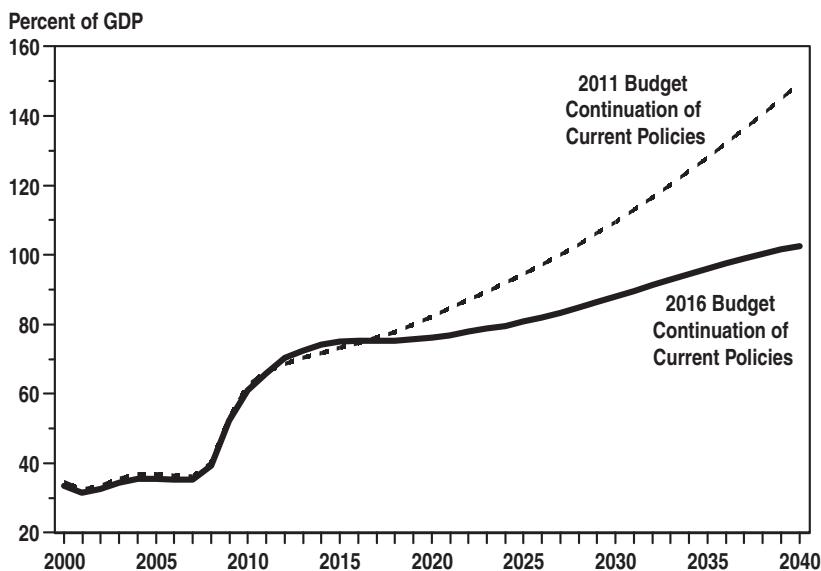
There has been a similar improvement in projected long-term deficits and debt. Chart 3-3 shows the projected path of debt as a share of GDP under current policies, as of the 2011 Budget (February 2010) projection of current policy, and as of today.<sup>5</sup> A few years ago, debt in 2040 was projected to reach 149 percent of GDP. Today, it is pro-

<sup>4</sup> To simplify the comparisons of projected health spending, these comparisons start from the 2011 Mid-Session Review, following the enactment of the Affordable Care Act. However, the ACA itself also reduced projected deficits. CBO estimated that the ACA would reduce the deficit by \$25 billion in 2020 and by over \$1 trillion in the decade starting in 2023. These direct, scored effects of the ACA are separate from any contributions to the broader health care cost growth slow-down, discussed below.

<sup>5</sup> The “2010 projections” are based on 2010 data and Trustees assumptions but - for comparability - use the Administration’s current methodology for long-term projections, in particular assuming that discretionary funding grows with inflation plus population growth. While the Administration did not produce a comparable long-term projection for the 2011 Mid-Session Review, the long-term projections from the 2011 Budget projection of current policy can be used to illustrate the fiscal improvements achieved since 2010; the comparison relative to the 2011 Mid-Session Review would be qualitatively similar.

<sup>3</sup> For comparability, all projections include continuation of the 2001 and 2003 tax cuts and Alternative Minimum Tax Relief and assume that the Medicare SGR reductions do not take effect.

### Chart 3-3. Comparison of Publicly Held Debt



jected to reach 103 percent of GDP. While it is difficult to precisely decompose the contributing factors over long periods, the major drivers behind the improvement are the same: lower projected health care costs, revenue increases from ATRA, and lower discretionary spending.

#### The Fiscal Gap

One way to quantify the size of the Nation's long-term fiscal challenges is the "fiscal gap." The fiscal gap is defined as the present value of the combined increase in taxes or reduction in non-interest spending needed to keep the debt-to-GDP ratio stable over a given period (more precisely, the present value adjustment required for the debt-to-GDP ratio at the end of the period to equal its level at the beginning of the period). 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 fiscal gap.

Table 3-1 shows the 25-year fiscal gap under the baseline projections, under the President's policies, and as of 2010. Under the base case current policy projections, the 25-year fiscal gap is 1.1 percent of GDP. This means that policy adjustments of about 1.1 percent of GDP would be needed each year to put the Nation on a sustainable fiscal course for the next two-and-a-half decades. For context, this is equivalent to about half the legislated deficit reduction since 2010. In contrast, as of 2010, adjustments of 2.4 percent of GDP would have been needed to achieve the goal of stabilizing debt over 25 years. While the two values are not strictly comparable (due to the different 25-year time periods), the difference underscores the significant improvement in the fiscal outlook over the last few years.

#### The Impact of 2016 Budget Policies on the Long-Term Fiscal Outlook

The President's 2016 Budget proposes non-interest spending reductions and revenue increases equal to about 1.4 percent of GDP when fully in effect, sufficient to put the Nation on a fiscally sustainable course over the next 25 years. As shown in Chart 3-4, over the 10-year budget window, the Budget brings down deficits to about 2.5 percent of GDP and modestly reduces the debt-to-GDP ratio. Over the subsequent decade and a half, the debt-to-GDP ratio remains stable at 73 percent of GDP. The Budget policies result in a small 25-year fiscal surplus of 0.1 percent of GDP.

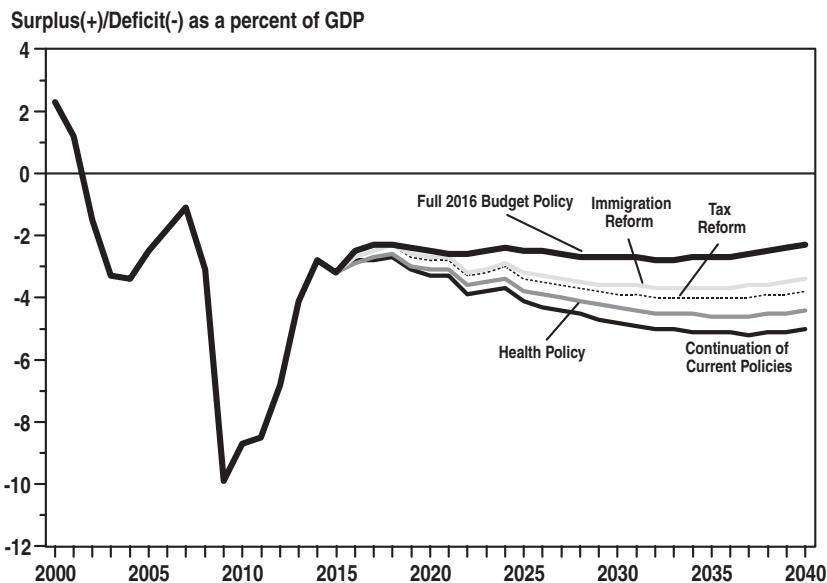
**Table 3-1. 25-YEAR FISCAL GAP (-)/SURPLUS (+)  
UNDER BUDGET POLICIES**  
(Percent of GDP)

2011 Budget Continuation of Current Policies .....	-2.4
2016 Budget Continuation of Current Policies .....	-1.1
2016 Budget Policy .....	0.1
<i>Breakdown of changes in 2016 Budget Policy:</i>	
Health reform .....	+0.3
Tax reform .....	+0.3
Immigration reform .....	+0.1
Other policies .....	+0.5

In addition to paying for all new investments, the 2016 Budget reduces deficits and debt through health, tax, and immigration reform.

**Additional health reforms building on the ACA.**— As discussed above, the last few years have seen historically slow growth in health care spending in both Medicare and the private market. While the slowdown reflects a variety of factors, there is evidence that the

### Chart 3-4. 2016 Budget Policies



reforms enacted in the Affordable Care Act are already contributing to this slowdown, as discussed below.

The 2016 Budget builds on the ACA with about \$400 billion of additional health savings that will strengthen the Medicare trust fund, create incentives for both providers and beneficiaries to choose more cost-effective methods of care, and improve health care quality. The Budget also backstops these savings with a proposal to strengthen the Independent Payment Advisory Board (IPAB) by lowering its target growth rate to 0.5 percentage points above per capita GDP growth.<sup>6</sup>

As shown in Chart 3-4 and Table 3-1, these reforms have a large effect on the long-run budget outlook, reducing the fiscal gap by 0.3 percent of GDP.

**Tax reform.**— The Budget's tax reform proposals increase revenues by about \$640 billion over the first 10 years by curbing inefficient tax benefits for high-income households, as discussed in Chapter 12, "Governmental Receipts," of this volume. These tax reforms reduce the fiscal gap by an additional 0.3 percent of GDP.

**Commonsense immigration reform.**— The 2016 Budget continues to propose commonsense, comprehensive immigration reform that would strengthen border security, modernize the legal immigration system, and provide a path to earned citizenship. By adding younger workers to the labor force, immigration reform would help balance an aging population as the baby boom generation retires. CBO estimates that the 2013 Senate-passed immigration bill would have reduced deficits by almost \$1

trillion over 20 years. It would also boost economic growth and strengthen Social Security.

The Budget's 10-year projections include an allowance for deficit reduction from immigration reform based on the CBO estimate. The long-run projections are based on CBO's "second-decade" estimate extended as a constant share of GDP from 2035 to 2040. As shown in Chart 3-4 and Table 3-1, higher immigration has a positive effect on the budget, reducing the fiscal gap by an additional 0.1 percentage points.

**Other 2016 Budget policies.**— The remaining policies in the 2016 Budget reduce the fiscal gap by 0.5

**Table 3-2. 25-YEAR FISCAL GAP (-)/SURPLUS (+)  
UNDER ALTERNATIVE BUDGET SCENARIOS**  
(Percent of GDP)

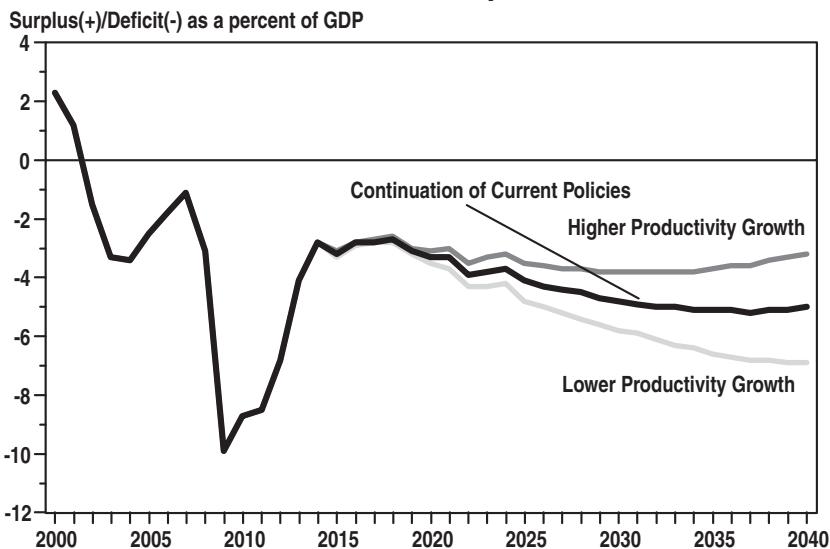
2016 Budget Continuation of Current Policies .....	-1.1
Health:	
Excess cost growth averages 1.5% .....	-1.8
Zero excess cost growth .....	-0.5
Discretionary Outlays:	
Grow with inflation .....	-1.0
Grow with GDP .....	-1.4
Revenues:	
Income tax brackets are regularly increased .....	-1.3
Productivity and Interest: <sup>1</sup>	
Productivity grows by 0.25 percentage point per year faster than the base case .....	-0.3
Productivity grows by 0.25 percentage point per year slower than the base case .....	-1.9

<sup>1</sup> Interest rates adjust commensurately with increases or decreases in productivity.

percentage points. The Budget obtains these additional savings from ending our combat mission in Afghanistan and from additional spending reductions and tax changes beyond those needed to pay for its investments in education, infrastructure, research, and other areas.

<sup>6</sup> The ACA established an Independent Payment Advisory Board (IPAB) that is required to propose changes in Medicare should Medicare per beneficiary cost growth 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.

### Chart 3-5. Alternative Productivity and Interest Assumptions



#### Uncertainty and Alternative Assumptions

Future budget outcomes depend on a host of unknowns: changing economic conditions, unforeseen international developments, unexpected demographic shifts, and unpredictable technological advances. These uncertainties make even short-run budget forecasting quite difficult. For example, a 90 percent confidence interval around the budget's five-year deficit projection extends from a deficit of 7.7 percent of GDP to a surplus of 2.8 percent of GDP.

The longer budget projections are extended, the more the uncertainties increase. Table 3-2 gives a sense of the degree of uncertainty in the 25-year projections under continuation of current policies. Under plausible alternative assumptions, the 25-year fiscal gap ranges from a gap of 1.9 percent of GDP to a gap of 0.3 percent of GDP. Alternative assumptions considered include:

**Productivity and interest rates.**—The rate of future productivity growth has a major effect on the long-run budget outlook (see Chart 3-5). Higher productivity growth improves the budget outlook, because it adds directly to the growth of the major tax bases while having a smaller effect on outlay growth. Meanwhile, productivity and interest rates tend to move together, but have opposite effects on the budget. Economic growth theory suggests that a 0.1 percentage point increase in productivity should be associated with a roughly equal increase in interest rates.

Productivity growth is also highly uncertain. For much of the last century, output per hour in nonfarm business grew at an average rate of around 2.2 percent per year, but there were long periods of sustained output growth at notably higher and lower rates than the long-term average. The base case long-run projections assume that real GDP per hour worked will grow at an average annual rate of 1.8 percent per year, slower than the historical average, and assumes interest rates on 10-year Treasury securi-

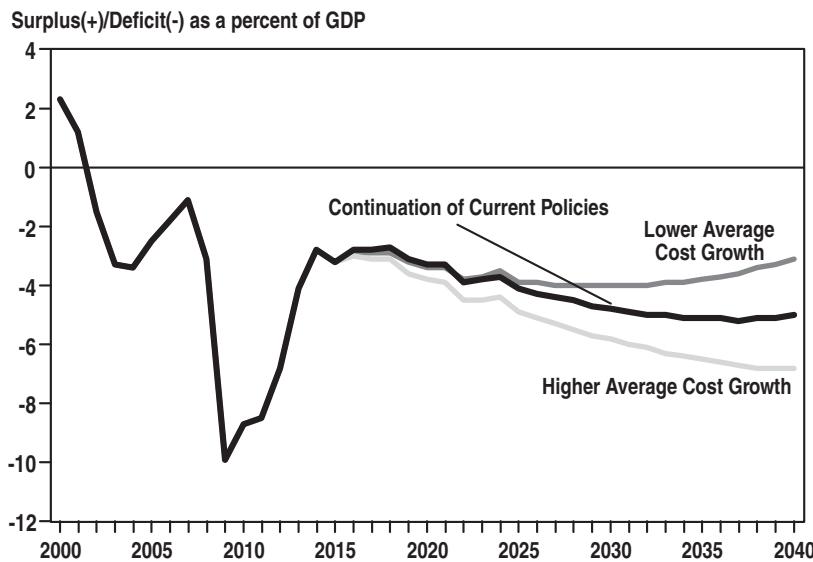
ties of 4.5 percent. The alternative scenarios highlight the effect of raising and lowering the projected productivity growth rate by 0.25 percentage point and changing interest rates commensurately. The 25-year fiscal gap ranges from a fiscal gap of 0.3 percent of GDP in the high productivity scenario to a gap of 1.1 percent of GDP in the base case and 1.9 percent of GDP in the low productivity scenario.

**Health spending.**—Health care cost growth represents another large source of uncertainty in the long-term budget projections (see Chart 3-6). As noted above, the baseline projections follow the Medicare Trustees in assuming that Medicare per-beneficiary costs grow an average of about 0.8 percentage points faster than per-capita GDP growth over the next 25 years. But historically, especially prior to 1990, health care costs grew even more rapidly. Conversely, over the last few years, per-capita health care costs have grown roughly in line with GDP per-capita and even more slowly in Medicare and Medicaid.

As noted above, there is evidence that a significant portion of the recent decline in health care cost growth is structural (rather than related to the recession), and that the ACA is playing a contributing role, for example through Medicare provider payment reforms and incentives for hospitals to reduce readmissions. The ACA also enacted an array of more fundamental delivery system reforms that encourage efficient, high-quality care, including incentives for the creation of accountable care organizations and the launch of a wide variety of payment reform demonstrations. Though in their early stages, these reforms have generated promising early results and could have major effects on health care quality and cost going forward.

Table 3-2 shows the large impact that either slower or faster health care cost growth would have on the budget. If health care cost growth averaged 1.5 percentage points, instead of roughly 0.8 percentage points, faster than per-

### Chart 3-6. Alternative Health Care Costs



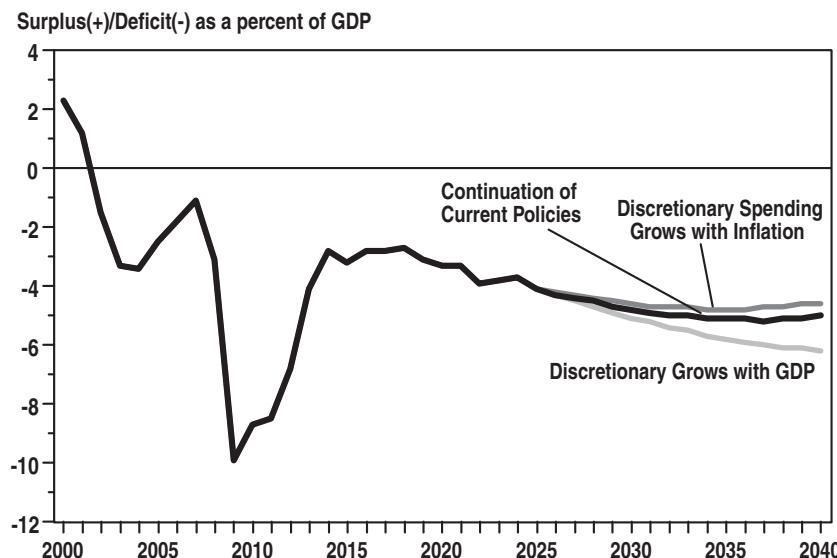
per capita GDP growth, the current policy 25-year fiscal gap would increase from 1.1 to 1.8 percent of GDP. If health care costs grew with GDP per capita, the 25-year fiscal gap would be 0.5 percent of GDP.

**Policy assumptions.**—As evident from the discussion of the 2016 Budget, policy choices will also have a large impact on long-term budget deficits and debt. The current base projection for discretionary spending assumes that after 2025, discretionary spending grows with inflation and population (see Chart 3-7). As discussed above, alternative assumptions are to grow discretionary spending with GDP or inflation. As shown in Table 3-2, the 25-year fiscal gap increases from 1.1 percent of GDP in the base case to 1.4 percent of GDP in the growth with GDP scenario, and falls to 1.0 percent of GDP in the growth with inflation scenario.

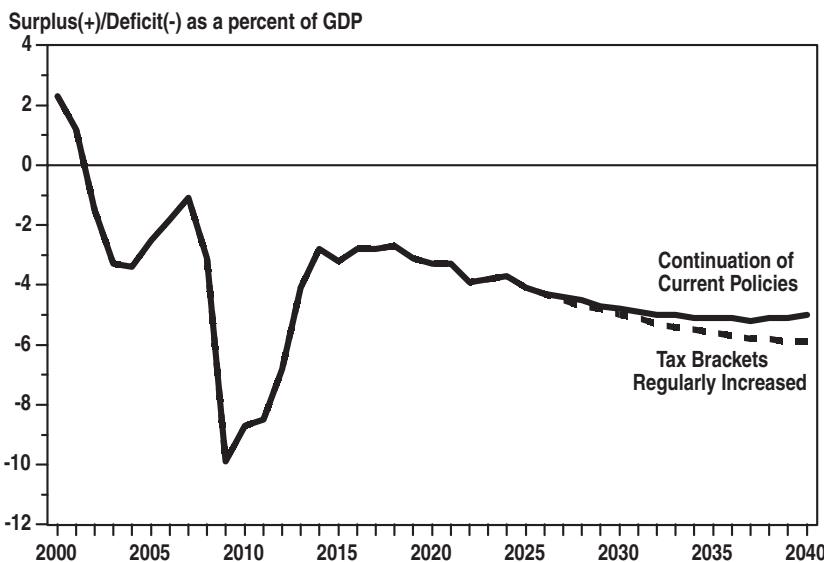
In the base case projection, tax receipts rise gradually relative to GDP as real incomes rise, consistent with what would occur under current law. Chart 3-8 shows alternative receipts assumptions. Assuming that Congress will act to cut taxes to avoid the revenue increases associated with rising incomes would bring about higher deficits and publicly held debt. The 25-year fiscal gap rises from 1.1 percent of GDP in the base case to 1.3 percent of GDP in the alternative case.

Finally, Chart 3-9 shows how uncertainties magnify over a 75-year forecast horizon. As the chart shows, under the baseline projections, without policy changes, debt exceeds 100 percent of GDP by 2038 before starting a slow decline in the very long run. Alternatively, assuming a combination of slower productivity growth and higher health care cost growth results in a debt explosion,

### Chart 3-7. Alternative Discretionary Projections



### Chart 3-8. Alternative Revenue Projections



with debt-to-GDP reaching 460 percent by the end of the window. Meanwhile, assuming a combination of higher productivity growth and slower health care cost growth results in the debt being completely paid off by 2061.

Despite the striking uncertainties, long-term projections are helpful in highlighting some of the known budget challenges on the horizon, especially the impact of an aging population. In addition, the projections highlight the need for policy awareness and potential action to address 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

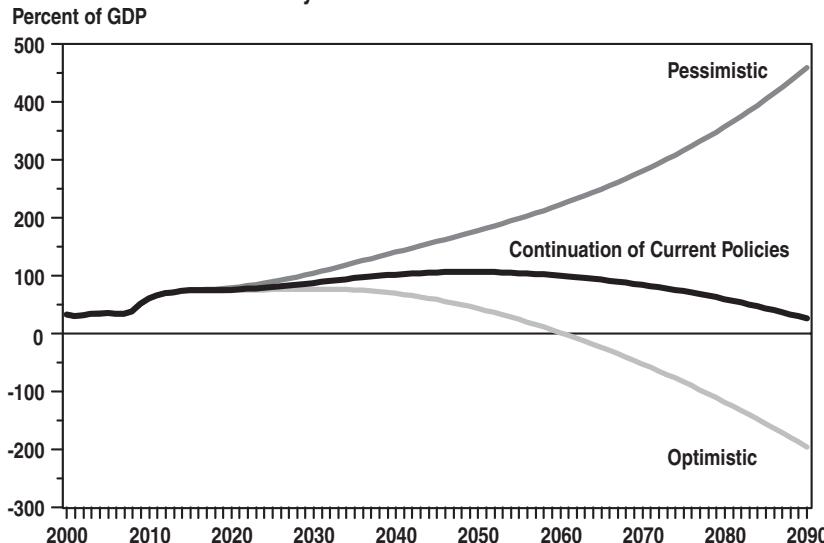
trust funds financed by dedicated payroll tax revenue. Projected trust fund revenues fall short of the levels necessary to finance projected benefits over the next 75 years.

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 specified time period. The estimates cover periods ranging in length from 25 to 75 years.

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 2012 and the 2013 reports are shown along with the latest data from

### Chart 3-9. Long-Term Uncertainties

Publicly Held Debt as a Percent of GDP



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

	2013	2020	2030	2040	2080
	Percent of Payroll				
<b>Medicare Hospital Insurance (HI)</b>					
<b>Income Rate</b>					
2012 Trustees' Report .....	3.3	3.5	3.6	3.8	4.3
2013 Trustees' Report .....	3.3	3.4	3.6	3.7	4.2
2014 Trustees' Report .....	3.3	3.4	3.6	3.7	4.2
<b>Cost Rate</b>					
2012 Trustees' Report .....	3.7	3.6	4.7	5.5	6.3
2013 Trustees' Report .....	3.6	3.5	4.4	5.2	5.9
2014 Trustees' Report .....	3.6	3.3	4.2	4.8	5.6
<b>Annual Balance</b>					
2012 Trustees' Report .....	-0.4	-0.2	-1.0	-1.8	-2.0
2013 Trustees' Report .....	-0.4	-0.1	-0.8	-1.4	-1.6
2014 Trustees' Report .....	-0.3	*	-0.6	-1.1	-1.4
Projection Interval: .....		25 years	50 years	75 years	
Actuarial Balance: 2012 Trustees' Report .....			-0.7	-1.2	-1.4
Actuarial Balance: 2013 Trustees' Report .....			-0.6	-1.0	-1.1
Actuarial Balance: 2014 Trustees' Report .....			-0.4	-0.8	-0.9
	Percent of Payroll				
<b>Old Age Survivors and Disability Insurance (OASDI)</b>					
<b>Income Rate</b>					
2012 Trustees' Report .....	12.8	13.1	13.2	13.3	13.3
2013 Trustees' Report .....	12.7	13.0	13.1	13.2	13.2
2014 Trustees' Report .....	12.8	13.0	13.2	13.2	13.3
<b>Cost Rate</b>					
2012 Trustees' Report .....	14.0	14.4	17.0	17.4	17.6
2013 Trustees' Report .....	14.0	14.3	16.5	17.0	17.8
2014 Trustees' Report .....	14.0	14.3	16.6	17.1	17.9
<b>Annual Balance</b>					
2012 Trustees' Report .....	-1.1	-1.3	-3.8	-4.1	-4.3
2013 Trustees' Report .....	-1.3	-1.3	-3.4	-3.8	-4.5
2014 Trustees' Report .....	-1.2	-1.4	-3.5	-3.9	-4.6
Projection Interval: .....		25 years	50 years	75 years	
Actuarial Balance: 2012 Trustees' Report .....			-1.2	-2.3	-2.7
Actuarial Balance: 2013 Trustees' Report .....			-1.3	-2.2	-2.7
Actuarial Balance: 2014 Trustees' Report .....			-1.5	-2.4	-2.9

\* 0.05 percent or less.

Note: Values from the 2014 Medicare Trustees' Report are not fully comparable to values for earlier years' reports, as 2014 Medicare Trustees Report numbers are based on a projected baseline rather than a current law baseline.

the 2014 reports. Following the passage of the ACA in 2010, there have been major improvements in trust fund solvency, although 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 2012 Trustees' report, Medicare HI trust fund costs as a percentage of Medicare covered payroll were projected to rise from 3.7 percent to 6.3 percent between 2013 and 2080 and the HI trust fund imbalance was projected to be -2.0 percent in 2080. In the 2013 report, costs rose from 3.6 percent of Medicare taxable payroll in 2013 to 5.9 percent in 2080 and the imbalance in the HI trust fund in 2080 was -1.6 percent. On average, the HI cost rate declined slightly in the 2014 report compared with 2013. In

the 2014 report, HI costs rise from 3.6 percent of Medicare taxable payroll in 2013 to 5.6 percent in 2080 and the imbalance in the HI trust fund in 2080 is -1.4 percent. The HI trust fund is now projected to become insolvent in 2030, versus 2017 in the last report before passage of the ACA and 2026 in the 2013 projections.

Under the Medicare Modernization Act (MMA) of 2003, the Medicare Trustees must issue a "warning" when two consecutive Trustees' reports 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. For the first time since 2007, the 2014 Trustees' Report did not include such a warning. The MMA requires that, if there is a Medicare funding warning, the President

submit proposed legislation responding to that warning, within 15 days of submitting the Budget. In accordance with the Recommendations Clause of the Constitution and as the Executive Branch has noted in prior years, the Executive Branch considers a requirement to propose specific legislation to be advisory.

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 2014 Social Security Trustees' report projects that the trust fund will not return to cash surplus, but the program will continue to experience an overall surplus for several more years because of the interest earnings. After that, 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 14.0 percent of Social Security covered payroll in 2013 to 14.3 percent of payroll in 2020, 16.6 percent of payroll in 2030 and 17.9 percent of payroll in 2080. Revenues excluding interest are projected to rise only slightly from 12.8 percent of payroll today to 13.3 percent in 2080. Thus the annual balance is projected to decline from -1.2 percent of

payroll in 2013 to -1.4 percent of payroll in 2020, -3.5 percent of payroll in 2030, and -4.6 percent of payroll in 2080. On a 75-year basis, the actuarial deficit is projected to be -2.9 percent of payroll. In the process, the Social Security trust fund, which was built up since 1983, would be drawn down and eventually be exhausted in 2033. These projections assume that benefits would continue to be paid in full despite the projected exhaustion of the trust fund to show the long-run implications of current benefit formulas. Under current law, not all scheduled benefits would be paid after the trust funds are exhausted. However, benefits could still be partially funded from current revenues. The 2014 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 2088.

The 2016 Budget would improve the condition of both trust funds. The health savings proposed in the Budget would extend the life of the HI trust fund by approximately five years, according to estimates by the Medicare Actuary. Meanwhile, the Social Security Actuary estimated the Senate-passed immigration bill would reduce the Social Security shortfall by 8 percent, extending the life of the trust fund by two years. Nonetheless, additional reforms will be needed to restore 75-year solvency in both programs.

## 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 2015-2025, the assumptions are drawn from the Administration's economic projections used for the 2016 Budget. 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 2014 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—1.8 percent per year.

CPI inflation holds stable at 2.3 percent per year, the unemployment rate is constant at 5.2 percent, the yield on 10-year Treasury notes is steady at 4.5 percent, and the 91-day Treasury bill rate is 3.5 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 75-year 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 makes it easier to interpret the comparisons of alternative policies and is a reasonable simplification given the large uncertainties surrounding the long-run outlook.

**Budget projections.**—For the period through 2025, receipts and outlays in the baseline and policy projections follow the 2016 Budget's adjusted baseline and policy estimates respectively. After 2025, total tax receipts rise gradually relative to GDP as real incomes also rise. Discretionary spending grows at the rate of growth in inflation plus population afterwards. 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 2014 Medicare Trustees' report projected baseline; for the policy projections, these assumptions are then also adjusted to account for the Budget's IPAB proposal. Medicaid outlays are based on the economic and demographic projections in the model, which assume excess cost growth of approximately 1.2 percentage points above growth in GDP per capita. 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 2014, the Government owed \$12,780 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 \$271 billion of interest on this debt. At the same time, the Government also held financial assets, net of financial liabilities other than debt, of \$1,324 billion. Therefore, debt net of financial assets was \$11,455 billion.

The \$12,780 billion debt held by the public at the end of 2014 represents an increase of \$797 billion over the level at the end of 2013. This increase is the result of the \$485 billion deficit in 2014 and other financing transactions totaling \$313 billion. Debt held by the public increased from 72.3 percent of Gross Domestic Product (GDP) at the end of 2013 to 74.1 percent of GDP at the end of 2014. Meanwhile, financial assets net of liabilities grew by \$268 billion in 2014, so that debt held by the public net of financial assets increased by \$529 billion during 2014. Debt net of financial assets increased from 65.9 percent of GDP at the end of 2013 to 66.4 percent of GDP at the end of 2014. The deficit is estimated to increase to \$583 billion, or 3.2 percent of GDP, in 2015, and to fall below 3 percent of GDP starting in 2016. With deficits declining after 2015 and continued GDP growth, debt held by the public is projected to reach 75.1 percent of GDP at the end of 2015 and then to decline gradually in subsequent years, falling to 73.3 percent at the end of 2025. Debt net of financial assets is expected to increase to 66.9 percent of GDP at the end of 2015, then similarly decline gradually in the following years, falling to 63.7 percent of GDP at the end of 2025.

### 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 2020. (It is supplemented for earlier years by Tables 7.1–7.3 in the Budget's historical tables, available as supplemental budget material.<sup>1</sup>) Federal debt peaked at 106.1 percent of GDP in 1946, just after the end of the war. From that point until the 1970s, Federal debt as a percentage of GDP decreased almost every year because of relatively small deficits, an expanding economy, and unanticipated inflation. With households borrowing large amounts to buy homes and consumer durables, and with businesses borrowing large amounts to buy plant and equipment, Federal debt also decreased almost every year as a percentage of total credit market debt outstanding. The cumulative effect was impressive. From 1950 to 1975, debt held by the public declined from

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 budget 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 17.6 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 the debt began to rise, both in nominal terms and as a percentage of GDP. There was a small temporary improvement in 2006 and 2007 as economic growth led to a short-lived revival of receipt growth.

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

<sup>1</sup> The historical tables are available at <http://www.budget.gov/budget/Historicals> and on the Budget CD-ROM.

take aggressive steps to restore the health of the Nation's economy and financial markets. The deficit fell somewhat in 2010, increased only slightly in 2011, and decreased in each of 2012, 2013, and 2014. Under the proposals in the Budget, the deficit is projected to increase in 2015 and then to fall to below 3 percent of GDP starting in 2016. Debt held by the public as a percent of GDP is estimated to be 75.1 percent at the end of 2015, after which it declines to 75.0 percent at the end of 2016 and continues to

decline gradually in subsequent years. Debt net of financial assets as a percent of GDP is estimated to grow to 66.9 percent at the end of 2015 and then fall to 66.5 percent at the end of 2016 and continue to decline thereafter.

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

The Federal Government issues debt securities for two main purposes. First, it borrows from the public

**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: GDP	Interest on the debt held by the public as a percent of: <sup>3</sup>	
	Current dollars	FY 2014 dollars <sup>1</sup>		Total outlays	GDP
1946 .....	241.9	2,383.8	106.1	N/A	7.4
1950 .....	219.0	1,746.4	78.5	53.3	11.4
1955 .....	226.6	1,588.0	55.7	43.2	7.6
1960 .....	236.8	1,470.5	44.3	33.7	8.5
1965 .....	260.8	1,516.5	36.7	26.9	8.1
1970 .....	283.2	1,372.2	27.0	20.8	7.9
1975 .....	394.7	1,409.5	24.5	18.4	7.5
1980 .....	711.9	1,769.3	25.5	18.6	10.6
1985 .....	1,507.3	2,859.0	35.3	22.3	16.2
1990 .....	2,411.6	3,933.0	40.8	22.6	16.2
1995 .....	3,604.4	5,187.5	47.5	26.5	15.8
2000 .....	3,409.8	4,523.8	33.6	19.1	13.0
2005 .....	4,592.2	5,435.5	35.6	17.3	7.7
2006 .....	4,829.0	5,536.0	35.3	16.7	8.9
2007 .....	5,035.1	5,619.5	35.2	16.1	9.2
2008 .....	5,803.1	6,345.2	39.3	17.5	8.7
2009 .....	7,544.7	8,154.4	52.3	21.9	5.7
2010 .....	9,018.9	9,663.0	60.9	25.5	6.6
2011 .....	10,128.2	10,635.5	65.9	27.9	7.4
2012 .....	11,281.1	11,634.8	70.4	29.8	6.6
2013 .....	11,982.7	12,165.4	72.3	30.5	7.5
2014 .....	12,779.9	12,779.9	74.1	31.3	7.7
2015 estimate .....	13,506.3	13,326.4	75.1	N/A	7.5
2016 estimate .....	14,108.5	13,702.9	75.0	N/A	8.5
2017 estimate .....	14,704.9	14,030.7	74.6	N/A	9.7
2018 estimate .....	15,315.0	14,335.7	74.3	N/A	10.7
2019 estimate .....	15,959.2	14,645.1	74.1	N/A	11.6
2020 estimate .....	16,634.7	14,965.4	74.0	N/A	12.4

N/A = Not available.

<sup>1</sup> Debt in current dollars deflated by the GDP chain-type price index with fiscal year 2014 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).

to finance the Federal deficit.<sup>2</sup> Second, it issues debt to Federal Government accounts, primarily trust funds, that 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 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 fu-

<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: [http://www.budget.gov/budget/Analytical\\_Perspectives](http://www.budget.gov/budget/Analytical_Perspectives) and on the Budget CD-ROM.)

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

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

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

Table 4–2 summarizes Federal borrowing and debt from 2014 through 2025.<sup>5</sup> In 2014 the Government bor-

<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.

<sup>5</sup> For projections of the debt beyond 2025, see Chapter 3, “Long-Term

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

	Actual 2014	Estimate									
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Financing:</b>											
Unified budget deficit .....	484.6	582.5	474.3	462.8	478.9	517.7	554.1	600.5	625.6	634.9	638.6
Other transactions affecting borrowing from the public:											
Changes in financial assets and liabilities: <sup>1</sup>											
Change in Treasury operating cash balance ....	69.9	41.7	.....	.....	.....	.....	.....	.....	.....	.....	.....
Net disbursements of credit financing accounts:											
Direct loan accounts .....	121.5	95.8	131.9	137.5	133.4	129.3	124.6	118.8	116.7	119.3	117.4
Guaranteed loan accounts .....	12.4	7.6	-2.8	-2.6	-0.9	-1.6	-2.0	-3.8	-5.4	-7.7	-8.3
Troubled Asset Relief Program equity purchase accounts .....	-5.7	-0.6	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Subtotal, net disbursements .....	128.2	102.8	129.0	134.8	132.3	127.6	122.5	114.9	111.2	111.6	109.0
Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust .....	0.9	-0.3	-0.9	-0.9	-0.8	-0.7	-0.7	-0.7	-0.7	-0.5	-0.5
Net change in other financial assets and liabilities <sup>2</sup> .....	113.8	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Subtotal, changes in financial assets and liabilities .....	312.8	144.2	128.2	133.9	131.5	126.9	121.7	114.2	110.5	111.1	108.5
Seigniorage on coins .....	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4
Total, other transactions affecting borrowing from the public .....	312.6	143.9	127.9	133.6	131.2	126.6	121.4	113.9	110.2	110.7	108.1
Total, requirement to borrow from the public (equals change in debt held by the public) .....	797.2	726.5	602.2	596.4	610.0	644.2	675.5	714.3	735.8	745.6	746.8
<b>Changes in Debt Subject to Statutory Limitation:</b>											
Change in debt held by the public .....	797.2	726.5	602.2	596.4	610.0	644.2	675.5	714.3	735.8	745.6	746.8
Change in debt held by Government accounts ....	277.9	106.6	104.1	164.8	165.2	125.7	97.3	85.7	4.3	16.1	32.7
Less: change in debt not subject to limit and other adjustments .....	6.7	0.8	2.2	2.0	2.4	2.8	1.8	2.5	1.7	1.8	1.5
Total, change in debt subject to statutory limitation .....	1,081.7	833.9	708.4	763.2	777.7	772.8	774.6	802.5	741.8	763.5	781.0
<b>Debt Subject to Statutory Limitation, End of Year:</b>											
Debt issued by Treasury .....	17,768.2	18,600.3	19,306.7	20,068.4	20,844.9	21,616.2	22,389.2	23,190.5	23,931.2	24,693.4	25,473.5
Less: Treasury debt not subject to limitation (-) <sup>3</sup> .....	-14.6	-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> .....	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
Total, debt subject to statutory limitation <sup>5</sup> .....	17,781.1	18,615.0	19,323.4	20,086.6	20,864.3	21,637.0	22,411.7	23,214.2	23,956.0	24,719.5	25,500.5
<b>Debt Outstanding, End of Year:</b>											
Gross Federal debt: <sup>6</sup>											
Debt issued by Treasury .....	17,768.2	18,600.3	19,306.7	20,068.4	20,844.9	21,616.2	22,389.2	23,190.5	23,931.2	24,693.4	25,473.5
Debt issued by other agencies .....	26.3	27.3	27.1	26.7	25.4	24.1	23.9	22.6	22.1	21.5	20.9
Total, gross Federal debt .....	17,794.5	18,627.6	19,333.8	20,095.1	20,870.4	21,640.3	22,413.1	23,213.2	23,953.3	24,715.0	25,494.5
Held by:											
Debt held by Government accounts .....	5,014.6	5,121.2	5,225.3	5,390.2	5,555.4	5,681.1	5,778.4	5,864.1	5,868.5	5,884.5	5,917.3
Debt held by the public <sup>7</sup> .....	12,779.9	13,506.3	14,108.5	14,704.9	15,315.0	15,959.2	16,634.7	17,349.0	18,084.8	18,830.4	19,577.2

\*\$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 2014, the Federal Reserve Banks held \$2,451.7 billion of Federal securities and the rest of the public held \$10,328.1 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

rowed \$797 billion, increasing the debt held by the public from \$11,983 billion at the end of 2013 to \$12,780 billion at the end of 2014. The debt held by Government accounts increased by \$278 billion, and gross Federal debt increased by \$1,075 billion to \$17,794 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 two 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 (where an increase in the need to borrow is represented by a positive sign, like the deficit).

In 2014 the deficit was \$485 billion while these other factors increased the need to borrow by \$313 billion, or 39 percent of total borrowing from the public. As a result, the Government borrowed \$797 billion from the public. The other factors are estimated to increase borrowing by \$144 billion (20 percent of total borrowing from the public) in 2015, and \$128 billion (21 percent) in 2016. In 2017–2025, these other factors are expected to increase borrowing by annual amounts ranging from \$107 billion to \$134 billion.

#### 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.”

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

**Change in Treasury operating cash balance.**—The cash balance increased by \$3 billion, to \$88 billion, in 2013 and increased by \$70 billion, to \$158 billion, in 2014. The operating cash balance is projected to increase by \$42 billion, to \$200 billion at the end of 2015. 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. 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

<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.”

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 \$128 billion in 2014. In 2015 credit financing accounts are projected to increase borrowing by \$103 billion. After 2015, the credit financing accounts are expected to increase borrowing by amounts ranging from \$108 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. In 2014, there was a net upward reestimate of \$0.4 billion. In 2015, there was a net upward reestimate of \$18.2 billion, with the largest net upward reestimate coming from direct student loans.

*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 as 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 transactions" and, with the opposite sign, in NRRIT's net outlays in the deficit, for no net impact on borrowing from the public. In 2014, net increases, including purchases and gains, were \$0.9 billion. A \$0.3 billion net decrease is projected for 2015 and net annual decreases ranging from \$0.4 billion to \$0.9 billion are projected for 2016 and subsequent years.<sup>9</sup>

*Net change in other financial assets and liabilities.*—In addition to the three factors discussed above, in 2013 and 2014, 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 temporary 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 in 2014, which returned 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. The \$120 billion TSP reinvestment was somewhat offset by other factors, resulting in total net other changes in financial assets and liabilities of \$114 billion in 2014.

**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 2014. Investment may differ from the surplus due to changes in the amount of cash assets not currently invested. In 2014, the total trust fund surplus was \$129 billion, and trust fund investment in Federal securities increased by \$241 billion. This \$113 billion difference was primarily due to the Civil Service Retirement and Disability Fund (CSRDF), which had a surplus of \$15 billion but invested \$138 billion, largely to restore the fund's investment balance following 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 the Treasury operating cash balance, that cash balance also represents an asset that is available to the Federal

<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 2014	Estimate										
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Debt Held by the Public:</b>												
Debt held by the public .....	12,779.9	13,506.3	14,108.5	14,704.9	15,315.0	15,959.2	16,634.7	17,349.0	18,084.8	18,830.4	19,577.2	20,371.3
As a percent of GDP .....	74.1%	75.1%	75.0%	74.6%	74.3%	74.1%	74.0%	74.0%	73.9%	73.7%	73.5%	73.3%
<b>Financial Assets Net of Liabilities:</b>												
Treasury operating cash balance .....	158.3	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Credit financing account balances:												
Direct loan accounts .....	1,065.2	1,161.1	1,292.9	1,430.4	1,563.8	1,693.1	1,817.7	1,936.5	2,053.2	2,172.5	2,290.0	2,406.1
Guaranteed loan accounts .....	2.0	9.6	6.8	4.2	3.3	1.7	-0.4	-4.2	-9.5	-17.2	-25.6	-33.6
Troubled Asset Relief Program equity purchase accounts .....	0.9	0.3	0.2	0.1	-*	-0.2	-0.3	-0.4	-0.5	-0.6	-0.7	-0.7
Subtotal, credit financing account balances .....	1,068.2	1,171.0	1,300.0	1,434.7	1,567.0	1,694.6	1,817.1	1,932.0	2,043.2	2,154.8	2,263.8	2,371.8
Government-sponsored enterprise preferred stock .....	95.8	95.8	95.8	95.8	95.8	95.8	95.8	95.8	95.8	95.8	95.8	95.8
Non-Federal securities held by NRRIT .....	25.1	24.9	24.0	23.1	22.3	21.5	20.8	20.1	19.3	18.9	18.3	17.9
Other assets net of liabilities .....	-22.9	-22.9	-22.9	-22.9	-22.9	-22.9	-22.9	-22.9	-22.9	-22.9	-22.9	-22.9
Total, financial assets net of liabilities .....	1,324.5	1,468.7	1,596.9	1,730.7	1,862.2	1,989.0	2,110.8	2,224.9	2,335.5	2,446.5	2,555.0	2,662.7
<b>Debt Held by the Public Net of Financial Assets and Liabilities:</b>												
Debt held by the public net of financial assets .....	11,455.4	12,037.6	12,511.6	12,974.2	13,452.8	13,970.1	14,523.9	15,124.1	15,749.3	16,383.9	17,022.2	17,708.6
As a percent of GDP .....	66.4%	66.9%	66.5%	65.8%	65.3%	64.9%	64.6%	64.5%	64.4%	64.2%	63.9%	63.7%

\*\$50 million or less.

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 \$268 billion, to \$1,324 billion, in 2014. At the end of 2014, debt held by the public was \$12,780 billion, or 74.1 percent of GDP. The Government held \$1,324 billion in net financial assets, including a cash balance of \$158 billion, net credit financing account balances of \$1,068 billion, and other assets and liabilities that aggregated to a net asset of \$98 billion. Therefore, debt net of financial assets was \$11,455 billion, or 66.4 percent of GDP. As shown in Table 4–3, the value of the Government's net financial assets is projected to increase to \$1,469 billion in 2015, 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 74.1 percent to 75.1 percent of GDP during 2015, net debt is expected to increase from 66.4 percent to 66.9 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, because it is very liquid, can be bought and sold on the secondary market at narrow bid-offer spreads. 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 68 months at the end of 2014.

Traditionally, Treasury has issued securities with a fixed interest rate. In 2014, Treasury began to issue floating rate securities, to complement its existing suite of

securities and to support its 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. 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, which enhances the demand for Treasuries at initial auction. The demand for 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 credit "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 2014, 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 other than Treasury, 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 remaining agencies are repaying past borrowing. Agency debt fell from \$27.7 billion at the end of 2013 to \$26.3 billion at the end of 2014. Agency debt is less than

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

<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.

<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.

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

	2014 Actual		2015 Estimate		2016 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	114	-7	107	-9	98
National Archives .....	-18	116	-20	97	-21	75
Tennessee Valley Authority:						
Bonds and notes .....	-1,199	23,617	1,225	24,842	36	24,878
Lease/leaseback obligations .....	-101	2,041	-109	1,932	-114	1,818
Prepayment obligations .....	-100	410	-100	310	-100	210
<b>Total, borrowing from the public .....</b>	<b>-1,425</b>	<b>26,316</b>	<b>990</b>	<b>27,306</b>	<b>-208</b>	<b>27,098</b>
<b>Borrowing from other funds:</b>						
Tennessee Valley Authority <sup>1</sup> .....	-2	3	.....	3	.....	3
<b>Total, borrowing from other funds .....</b>	<b>-2</b>	<b>3</b>	<b>.....</b>	<b>3</b>	<b>.....</b>	<b>3</b>
<b>Total, agency borrowing .....</b>	<b>-1,427</b>	<b>26,319</b>	<b>990</b>	<b>27,309</b>	<b>-208</b>	<b>27,101</b>
<b>Memorandum:</b>						
Tennessee Valley Authority bonds and notes, total .....	-1,201	23,620	1,225	24,845	36	24,881

\* \$500,000 or less.

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

one-quarter of one percent of Federal debt held by the public. Primarily as a result of TVA activity, agency debt is estimated to increase by \$1.0 billion in 2015 and to decrease by \$0.2 billion in 2016.

The predominant agency borrower is TVA, which had borrowings of \$26.1 billion from the public as of the end of 2014, or 99 percent of the total debt of all agencies other than Treasury. 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.

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 refi-

nancing 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 \$2.0 billion at the end of 2014 and are estimated to be \$1.9 billion at the end of 2015 and \$1.8 billion at the end of 2016. Obligations for prepayments were \$0.4 billion at the end of 2014 and are estimated to be \$0.3 billion at the end of 2015 and \$0.2 billion at the end of 2016.

Although the FHA generally makes direct disbursements to the public for default claims on FHA-insured mortgages, it may also pay claims by issuing debentures. Issuing debentures to pay the Government's bills is equivalent to selling securities to the public and then

<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.

<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.

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 Fiscal Service (Fiscal Service) or the Federal Financing Bank (FFB), both within the Department of the Treasury. Agency borrowing from the FFB or the Fiscal Service is not included in gross Federal debt. It would be double counting to add together (a) the agency borrowing

from the Fiscal Service or FFB and (b) the Treasury borrowing from the public that is needed to provide the Fiscal Service 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 increased by \$278 billion in 2014. Investment by Government accounts is estimated to be \$107 billion in 2015 and \$104 billion in 2016, as shown in Table 4-5. The holdings of Federal securities by Government accounts are estimated to increase to \$5,225 billion by the end of 2016, 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

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

Description	Investment or Disinvestment (-)			Holdings, End of 2016 Estimate
	2014 Actual	2015 Estimate	2016 Estimate	
<b>Investment in Treasury debt:</b>				
Energy:				
Nuclear waste disposal fund <sup>1</sup> .....	2,073	586	585	33,642
Uranium enrichment decontamination fund .....	-330	-100	175	3,419
Health and Human Services:				
Federal hospital insurance trust fund .....	-3,803	1,598	-2,587	201,218
Federal supplementary medical insurance trust fund .....	1,006	-9,158	-12,004	47,229
Vaccine injury compensation fund .....	116	68	102	3,530
Child enrollment contingency fund .....	3	4	.....	2,105
Homeland Security:				
Aquatic resources trust fund .....	20	-53	21	1,854
Oil spill liability trust fund .....	489	782	601	5,085
Housing and Urban Development:				
Federal Housing Administration mutual mortgage fund .....	6,379	6,804	7,187	20,370
Guarantees of mortgage-backed securities .....	-1,661	8,149	3,800	12,100
Interior:				
Abandoned mine reclamation fund .....	60	38	-7	2,842
Federal aid in wildlife restoration fund .....	-307	158	-197	1,075
Environmental improvement and restoration fund .....	28	6	14	1,375
Justice: Assets forfeiture fund .....	2,392	-1,875	-95	5,098
Labor:				
Unemployment trust fund .....	6,441	4,681	-8,721	31,879
Pension Benefit Guaranty Corporation <sup>1</sup> .....	-227	1,637	2,685	21,587
State: Foreign service retirement and disability trust fund .....	428	395	392	18,579
Transportation:				
Airport and airway trust fund .....	951	-1,756	-228	10,775
Transportation trust fund .....	8,739	-9,914	19,205	19,987
Aviation insurance revolving fund .....	200	13	50	2,200
Treasury:				
Exchange stabilization fund .....	-20	-2	17	22,664
Treasury forfeiture fund .....	-765	441	.....	2,500
Comptroller of the Currency assessment fund .....	-368	374	20	1,320

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

Description	Investment or Disinvestment (-)			Holdings, End of 2016 Estimate
	2014 Actual	2015 Estimate	2016 Estimate	
Veterans Affairs:				
National service life insurance trust fund .....	-627	-616	-680	4,333
Veterans special life insurance fund .....	-51	-114	-100	1,649
Corps of Engineers: Harbor maintenance trust fund .....	595	596	596	9,494
Other Defense-Civil:				
Military retirement trust fund .....	61,785	52,633	56,296	592,040
Medicare-eligible retiree health care fund .....	11,708	8,419	8,131	216,922
Education benefits fund .....	-210	-134	-92	1,343
Environmental Protection Agency: Hazardous substance trust fund .....	259	26	26	3,498
International Assistance Programs: Overseas Private Investment Corporation .....	135	-50	9	5,486
Office of Personnel Management:				
Civil service retirement and disability trust fund .....	137,712	13,855	12,598	883,622
Postal Service retiree health benefits fund .....	6,144	7,055	7,220	62,743
Employees life insurance fund .....	1,262	545	693	44,451
Employees health benefits fund .....	129	878	1,158	25,594
Social Security Administration:				
Federal old-age and survivors insurance trust fund <sup>2</sup> .....	57,207	43,384	-16,066	2,740,123
Federal disability insurance trust fund <sup>2</sup> .....	-30,678	-31,335	13,117	51,895
District of Columbia: Federal pension fund .....	492	5	-2	3,704
Farm Credit System Insurance Corporation: Farm Credit System Insurance fund .....	241	313	270	4,026
Federal Communications Commission: Universal service fund .....	506	*	.....	7,656
Federal Deposit Insurance Corporation: Deposit insurance fund .....	11,886	8,549	9,611	66,910
National Credit Union Administration: Share insurance fund .....	381	234	433	11,691
Postal Service funds <sup>2</sup> .....	2,590	*	.....	5,450
Railroad Retirement Board trust funds .....	214	58	.....	2,661
Securities Investor Protection Corporation <sup>3</sup> .....	305	270	270	2,625
United States Enrichment Corporation fund .....	4	4	4	1,620
Other Federal funds .....	-128	-403	-299	5,688
Other trust funds .....	-268	-406	-146	5,091
Unrealized discount <sup>1</sup> .....	-5,550	.....	.....	-7,443
<b>Total, investment in Treasury debt<sup>1</sup></b> .....	<b>277,886</b>	<b>106,641</b>	<b>104,063</b>	<b>5,225,305</b>
<b>Investment in agency debt:</b>				
Railroad Retirement Board:				
National Railroad Retirement Investment Trust .....	-2	.....	.....	3
<b>Total, investment in agency debt<sup>1</sup></b> .....	<b>-2</b>	<b>.....</b>	<b>.....</b>	<b>3</b>
<b>Total, investment in Federal debt<sup>1</sup></b> .....	<b>277,884</b>	<b>106,641</b>	<b>104,063</b>	<b>5,225,309</b>
<b>Memorandum:</b>				
Investment by Federal funds (on-budget) .....	39,498	40,254	39,862	520,048
Investment by Federal funds (off-budget) .....	2,590	*	.....	5,450
Investment by trust funds (on-budget) .....	214,818	54,337	67,150	1,915,235
Investment by trust funds (off-budget) .....	26,529	12,049	-2,949	2,792,018
Unrealized discount <sup>1</sup> .....	-5,550	.....	.....	-7,443

\* \$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 2014 the debt figures would be \$19.1 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.

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 two trust funds, the Military Retirement Fund and the Civil Service Retirement and Disability Fund, and two special funds, the uniformed services Medicare-Eligible Retiree Health Care Fund (MERHCF) and the Postal Service Retiree Health Benefits Fund (PSRHB). At the end of 2016, these Social Security, Medicare, and Federal employee retirement funds are estimated to own 92 percent of the total debt held by Government accounts. During 2014–2016, the Military Retirement Fund has a large surplus and is estimated to invest a total of \$171 billion, 35 percent of total net investment by Government accounts. CSRDF is projected to invest \$164 billion, 34 percent of the net total, due largely to the 2014 reinvestment following Treasury's use of extraordinary measures, discussed above. The Social Security OASI fund is projected to invest \$85 billion, 17 percent of the net total. Some Government accounts reduce their investments in Federal securities during 2014–2016. During these years, the Social Security DI fund disinvests \$49 billion, or 10 percent of the total net investment.

*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 are 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 \$19.2 billion at the end of 2014.

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 \$7.4 billion at the end of 2014.

### 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 \$2,452 billion (19 percent of debt held by the public) at the end of 2014, up from \$2,072 billion (17 percent of debt held by the public) at the end of 2013. 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 Budget's historical tables. The Budget does not project Federal Reserve holdings for future years.

### Limitations on Federal Debt

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

The third part of Table 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 were issued with maturity dates ranging from June 30, 2009, through June 30, 2019. On October 1, 2013, the 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 securities have the same interest rates and maturities as the Treasury securities for which they were exchanged. At the end of 2014, a total of \$14 billion of this FFB borrowing remained outstanding.

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 2014 and is projected to fall to \$34 million at the end of 2015 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 \$484 million at

<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.”

the end of 2014 and is projected to gradually decline over time.

The sole agency debt currently subject to the general limit, \$209,000 at the end of 2014, 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 \$27.5 billion at the end of 2014 compared with the total unamortized discount (less premium) of \$55.9 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 three most recent 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, from \$16,394 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. As mentioned above,

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 2014, the TSP G-Fund had an outstanding balance of \$191 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 PSRHB. The law requires that when any such actions are taken with the G-Fund, the CSRDF, or the PSRHB, 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 2014.

As the debt has neared 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. 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 em-

<sup>17</sup> At the end of 2014, 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 Table 7.3 of the Budget's historical tables, available at <http://www.budget.gov/budget/Historicals>.

<sup>19</sup> Both the CSRDF and the PSRHB 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 2014	Estimate									
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2025
<b>Change in Gross Federal Debt:</b>											
Federal funds deficit (+) .....	613.2	691.6	578.9	591.3	609.2	604.1	614.0	652.2	594.8	610.5	625.1
Other transactions affecting borrowing from the public—											
Federal funds <sup>1</sup> .....	311.6	144.2	128.7	134.5	132.0	127.3	122.1	114.6	110.9	111.2	108.7
Increase (+) or decrease (-) in Federal debt held by Federal funds .....	42.1	40.3	39.9	36.4	35.0	39.2	37.5	34.0	35.1	40.5	46.3
Adjustments for trust fund surplus/deficit not invested/disinvested in Federal securities <sup>2</sup> .....	113.7	-43.0	-41.2	-0.9	-0.8	-0.7	-0.7	-0.7	-0.7	-0.5	-0.4
Change in unrealized discount on Federal debt held by Government accounts .....	-5.6	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Total financing requirements</b> .....	1,075.0	833.1	706.2	761.3	775.3	769.9	772.8	800.0	740.1	761.7	779.5
<b>Change in Debt Subject to Limit:</b>											
Change in gross Federal debt .....	1,075.0	833.1	706.2	761.3	775.3	769.9	772.8	800.0	740.1	761.7	779.5
Less: increase (+) or decrease (-) in Federal debt not subject to limit .....	6.5	-0.8	-2.2	-2.0	-2.4	-2.8	-1.8	-2.5	-1.7	-1.8	-1.5
Less: change in adjustment for discount and premium <sup>3</sup> .....	-13.2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Total, change in debt subject to limit</b> .....	1,081.7	833.9	708.4	763.2	777.7	772.8	774.6	802.5	741.8	763.5	781.0
<b>Memorandum:</b>											
<b>Debt subject to statutory limit<sup>4</sup></b> .....	17,781.1	18,615.0	19,323.4	20,086.6	20,864.3	21,637.0	22,411.7	23,214.2	23,956.0	24,719.5	25,500.5
											26,268.5

<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.

ployee salaries, payments to vendors and contractors, and other obligations.

The debt subject to limit is estimated to increase to \$18,615 billion by the end of 2015 and to \$19,323 billion by the end of 2016.

**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 10 percent of the estimated total increase in debt subject to limit from 2015 through 2025.

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>

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

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

Table 4-6 derives the change in debt subject to limit. In 2014 the Federal funds deficit was \$613 billion, and other factors increased financing requirements by \$312 billion. The change in the Treasury operating cash balance increased financing requirements by \$70 billion, the net financing disbursements of credit financing accounts increased financing requirements by \$128 billion, and other factors increased financing requirements by \$114 billion. As discussed earlier in this chapter, this net \$114 billion

**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	5,476.1	48.5	1,152.9	564.0
2013 .....	11,982.7	5,652.8	47.2	701.6	176.7
2014 .....	12,779.9	6,066.4	47.5	797.2	413.6

<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.

in other factors was mainly due to the October 2013 reinvestment of the TSP G-Fund. In addition, special funds and revolving funds, which are part of the Federal funds group, invested a net of \$42 billion in Treasury securities. A \$114 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 restoration of the CSRDF following Treasury's use of extraordinary measures. As a net result of all these factors, \$1,075 billion in financing was required, increasing gross Federal debt by that amount. Since Federal debt not subject to limit increased by \$6 billion and the adjustment for discount and premium changed by \$13 billion, the debt subject to limit increased by \$1,082 billion, while debt held by the public increased by \$797 billion.

Debt subject to limit is estimated to increase by \$834 billion in 2015 and by \$708 billion in 2016. 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 \$7,591 billion from the end of 2014

through 2025, debt subject to limit increases by \$8,487 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 2014, foreign holdings of Treasury debt were \$6,066 billion, which was 47 percent of the total debt held by the public.<sup>21</sup> Foreign central banks and other foreign official institutions owned 68 percent of the foreign holdings of Federal debt; private investors owned nearly all the rest. At the end of 2014, the nations holding the

<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.

largest shares of U.S. Federal debt were China, which held 21 percent of all foreign holdings, and Japan, which held 20 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. As a percent of total Federal borrowing from the public, foreign holdings were 47 percent at the end of 2013 and 2014. The dollar increase in foreign holdings was about 52 percent of total Federal borrowing from the public in 2014 and 48 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.

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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 impacts of Government policies. 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 of the baseline on which future policies are set. Subsequent chapters in the Performance and Management section of this volume discuss approaches to 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 context both for prioritizing budgetary and policy-making resources and for evaluating how well existing approaches are working.

*Economic:* The 2008-2009 economic downturn produced the worst labor market since the Great Depression. 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 5.6 percent in December 2014 from a high of 10 percent in October 2009, and job growth accelerating in 2014. However, although employment has improved, there remains room for further recovery. For example, rates of marginally attached and underemployed workers are still well above pre-recession levels.

Over the entire period from 1960 to 2014, the primary pattern has been one of economic growth and rising living standards. Real GDP per person has nearly 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 \$54 trillion in 2013, more than four times the size of the capital stock in 1960, after accounting for inflation.

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. Since then, national saving has modestly increased to 1.7 percent in 2014. Meanwhile, the labor force participation rate, also critical for growth, has declined for more than a decade, in large part reflecting the beginning of a trend in which the baby boom generation retires.

The United States continues to be a leader in innovation. From 1970 to 2013, the rate of patents for invention by U.S. inventors increased from 231 to 423 per million population. National Research and Development (R&D) spending has hovered between 2.2 percent and 2.8 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, when it numbered 204 million, to 319 million in 2014. The foreign born population has increased rapidly since 1970, quadrupling from about 10 million in 1970 to 41 million in 2013. The U.S. population is getting older, due in part to the aging of the baby boomers, improvements in medical technology, and declining birth rates. From 1970 to 2013, the percent of the population over age 65 increased from 9.8 to 14.1, 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 2013, the number of births per 1,000 unmarried women age 15-17 fell from 30 to 12, the lowest level since at least 1970. Meanwhile, the fraction of single parent households stopped increasing in 1995, stabilizing at about 9 percent of all households.

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> The effects of the 2008-2009 recession are evident in the sharp drop in charitable giving from 2005 to 2010, but much of that decline was reversed in 2012. More Americans are

<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.

volunteering. In 1990, 20 percent of Americans volunteered at least once; in 2013, 25 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 entertainment and new kinds of media via the internet and electronic 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- to 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 a five percentage point gain over the past 33 years. But the percentage of 25- to 34-year olds who have graduated from college continues to rise, from only 11 percent in 1960 to 33 percent in 2013. Reading and mathematics achievement show little if any improvement for American 17-year olds over the period from 1970 to 2012. However, achievement in these areas has improved among 9- and 13-year olds, especially for mathematics and particularly 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 remained at 13 percent in 2013.

Although national prosperity has grown considerably over the past 50 years, these gains have not been shared equally. Real disposable income per capita more than tripled since 1960, 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 22 percent in 2012. In contrast, the income share of the bottom 50 percent of taxpayers declined from 18 percent in 1980 to 11 percent in 2012. 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. However, each of these measures has declined slightly in the last one or two years as the economic recovery has taken hold.

After increasing from 1990 to 2005, homeownership rates have fallen since the 2008 housing crisis. The share

of families with children and severe housing cost burdens more than doubled from 8 percent in 1980 to 18 percent in 2011, before falling to 16 percent in 2013.

*Health:* America has by far the most expensive health care system in the world, yet has historically had 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 2013. 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 that have experienced comparable health improvements. In recent years, however, health care spending as a share of GDP has leveled off, reflecting some combination of structural changes and economic conditions. Rates of uninsured, at 17 percent for non-elderly adults and 6 percent for children in 2014, appear to have declined substantially since the major coverage provisions of the Affordable Care Act took effect in 2014.<sup>2</sup> A number of surveys have found that the Affordable Care Act reduced the number of uninsured by about 10 million in 2014, and it is projected to further reduce the number of uninsured in the years ahead.<sup>3,4</sup>

Some key indicators of national health have improved since 1960. Life expectancy at birth increased by nine years, from 69.7 in 1960 to 78.8 in 2012. Infant mortality fell from 26 to approximately 6 per 1,000 live births, with a rapid decline occurring in the 1970s.

Improvement in health-related behaviors among Americans has been mixed. Although the percent of adults who smoke cigarettes in 2013 was less than half of what it was 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 2013.

*Security and Safety:* The last three decades have witnessed a remarkable decline in crime. From 1980 to 2013, the property crime rate dropped by 74 percent while the murder rate fell by half. Road transportation has also become safer. Safety belt use increased by 16 percentage points from 2000 to 2013, and the annual number of highway fatalities fell by 36 percent from 1970 to 2012 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 below the level in 2000, prior to the wars in Iraq and Afghanistan. The highest count of active duty military personnel was 3.07 million in 1970, reached

<sup>2</sup> Rates of uninsured in 2014 are based on preliminary January-June 2014 data from the National Health Interview Survey. <http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201412.pdf>

<sup>3</sup> <http://www.whitehouse.gov/blog/2014/12/18/2014-has-seen-largest-coverage-gains-four-decades-putting-uninsured-rate-or-near-his>

<sup>4</sup> Congressional Budget Office. 2014. "Updated Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act, April 2014." Washington, DC: Congressional Budget Office.

during the Vietnam War. The number of veterans has declined from 29 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 grow a clean energy economy. Substantial progress has been made on air quality in the United States, with the concentration of particulate matter falling 34 percent from 2000 to 2013.

Although 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 have contributed to a level of per capita consumption that has remained relatively constant over the last 40 years. The percent of U.S. electricity production from renewable sources grew from 8.8 percent in 2005 to 12.9 percent in 2013.

Moving forward, the greatest environmental challenge is reducing greenhouse gas emissions. In 2014, the President announced a target reduction in the range of 26-28 percent of 2005 net greenhouse gas emissions by 2025.<sup>5</sup> From 2005 to 2012, gross greenhouse gas emissions fell by 10 percent. Gross greenhouse gas emissions per capita and per unit of GDP fell by 15 and 17 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 2014 it was 42 percent above the pre-industrial level.

<sup>5</sup> <http://www.whitehouse.gov/the-press-office/2014/11/11/fact-sheet-us-china-joint-announcement-climate-change-and-clean-energy-c>

Table 5-1. SOCIAL INDICATORS

	Calendar Years		1960	1970	1980	1990	1995	2000	2005	2010	2011	2012	2013	2014		
<b>Economic</b>																
General Economic Conditions																
1	Real GDP per person (chained 2009 dollars) <sup>1</sup>	.....	17,199	23,024	28,326	35,795	38,166	44,474	48,089	47,724	48,137	48,908	49,642	50,244		
2	Real GDP per person change, 5-year annual average <sup>1</sup>	.....	0.8	2.5	2.7	2.5	1.3	3.3	1.6	-0.2	-0.3	-0.2	0.4	1.4		
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	N/A		
4	Private goods producing (%)	.....	N/A	N/A	N/A	N/A	N/A	24.9	23.9	22.3	22.8	22.8	22.8	N/A		
5	Private services producing (%)	.....	N/A	N/A	N/A	N/A	N/A	75.1	76.1	77.7	77.2	77.2	77.2	N/A		
Jobs and Unemployment																
6	Labor force participation rate (%)	.....	59.4	60.4	63.8	66.5	66.6	67.1	66.0	64.7	64.1	63.7	63.2	62.9		
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	146.3		
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	59.0		
9	Payroll employment change - December to December, SA (millions)	.....	-0.4	-0.5	0.3	0.3	2.2	1.9	2.5	1.1	2.1	2.2	2.3	3.0		
10	Payroll employment change - 5-year annual average, NSA (millions)	.....	0.7	2.0	2.7	2.4	1.6	2.9	0.4	-0.7	-0.9	-0.8	-0.2	1.5		
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	6.2		
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	12.0		
13	Receiving Social Security disabled-worker benefits (% of population) <sup>3</sup>	.....	0.9	2.0	2.8	2.5	3.3	3.7	4.5	5.5	5.7	5.9	5.9	5.9		
Infrastructure, Innovation, and Capital Investment																
14	Nonfarm business output per hour (average 5 year % change) <sup>4</sup>	...	1.8	2.1	1.2	1.6	1.6	2.8	3.2	2.0	1.8	1.7	1.7	N/A		
15	Corn for grain production (million bushels)	.....	3,907	4,152	6,639	7,934	7,400	9,915	11,112	12,447	12,358	10,780	13,925	14,475		
16	Real net stock of fixed assets and consumer durable goods (billions of 2012\$) <sup>5</sup>	.....	13,242	19,784	29,219	33,148	35,420	41,197	51,026	53,117	53,172	53,572	54,281	N/A		
17	Population served by secondary wastewater treatment or better (%) <sup>6</sup>	.....	N/A	41.6	56.4	63.7	61.1	71.4	74.3	72.0	N/A	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	12,837	N/A		
19	Patents for invention, U.S. origin (per million population) <sup>7</sup>	....	N/A	231	164	190	209	301	253	348	349	386	423	N/A		
20	Net national saving rate (% of GDP) <sup>1</sup>	.....	10.8	8.5	7.2	3.9	4.0	5.8	2.7	-0.9	-0.1	1.8	2.4	1.7		
21	R&D spending (% of GDP) <sup>8</sup>	.....	2.52	2.44	2.21	2.54	2.40	2.61	2.50	2.72	2.76	2.80	N/A	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	318.9		
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	41.3	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	23.1		
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	14.1	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	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	68.3		

Table 5-1. SOCIAL INDICATORS—Continued

	Calendar Years	1960	1970	1980	1990	1995	2000	2005	2010	2011	2012	2013	2014
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	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	13.7	11.9	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	8.9
	Civic and Cultural Engagement												
31	Average charitable contribution per itemized tax return (2012 dollars) <sup>13</sup> .....	2,172	2,155	2,486	3,125	3,322	4,409	4,514	3,843	3,847	4,372	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	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	25.4	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	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	58.2	N/A	N/A
	Socioeconomic												
	Education												
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	88.6	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	32.9	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	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	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	12.6	13.2	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	12.9	N/A	N/A
	Income, Savings, and Inequality												
42	Real median income: all households (2013 dollars) .....	N/A	46,759	47,668	51,735	51,719	56,800	55,278	52,646	51,842	51,759	51,939	N/A
43	Real disposable income per capita (chained 2009 dollars) <sup>1</sup> .....	11,877	16,643	20,159	25,555	27,180	31,524	34,424	35,688	36,314	37,156	36,815	N/A
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	21.9	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	11.1	N/A	N/A
46	Personal saving rate (% of disposable personal income) <sup>1</sup> .....	10.1	12.6	10.5	7.8	6.4	4.2	2.5	5.6	6.0	7.2	4.9	4.9
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	14.5	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	14.3	N/A
49	Supplemental Nutrition Assistance Program (% of population on SNAP) <sup>23</sup> .....	N/A	3.3	9.5	8.2	9.9	6.1	8.9	13.5	14.6	15.0	15.0	14.5
50	Median wealth of households, age 55–64 (in thousands of 2013 dollars) <sup>24</sup> .....	78	N/A	153	177	175	243	311	192	N/A	N/A	166	N/A
	Housing												
51	Homeownership among households with children (%) .....	N/A	N/A	N/A	63.6	65.1	67.5	68.4	65.5	63.3	62.9	62.5	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	17.0	15.7	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	5.2	5.0	N/A
	Health												
	Health Status												
54	Life expectancy at birth (years) .....	69.7	70.8	73.7	75.4	75.8	76.8	77.6	78.7	78.7	78.8	N/A	N/A
55	Infant mortality (per 1,000 live births) .....	26.0	20.0	12.6	9.2	7.6	6.9	6.9	6.2	6.1	6.0	N/A	N/A
56	Low birthweight [<2,500 gms] (% of babies) <sup>27</sup> .....	7.7	7.9	6.8	7.0	7.3	7.6	8.2	8.2	8.1	8.0	8.0	N/A
57	Activity limitation (% of age 5–17) <sup>28</sup> .....	N/A	N/A	N/A	N/A	N/A	7.0	8.0	9.2	9.3	9.4	9.2	N/A
58	Activity limitation (% of age 18 and over) <sup>29</sup> .....	N/A	N/A	N/A	N/A	N/A	27.9	29.1	29.9	29.8	28.4	29.5	N/A
59	Difficulties with activities of daily living (% of age 65 and over) <sup>30</sup> .....	N/A	N/A	N/A	N/A	N/A	6.3	6.2	6.8	7.3	6.5	7.3	N/A
	Health Behavior												
60	Engaged in regular physical activity (% of age 18 and older) <sup>31</sup> ...	N/A	N/A	N/A	N/A	N/A	15.0	16.6	20.7	21.0	20.8	21.0	N/A
61	Obesity (% of age 20–74 with BMI 30 or greater) <sup>32</sup> .....	13.4	N/A	15.0	23.2	N/A	30.9	35.1	36.1	35.3	N/A	N/A	N/A
62	Obesity (% of age 2–19) <sup>33</sup> .....	N/A	N/A	5.5	10.0	N/A	13.9	15.4	16.9	16.9	N/A	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	17.9	N/A
64	Excessive alcohol use (% of age 18 and older) <sup>34</sup> .....	N/A	N/A	N/A	N/A	N/A	8.7	8.9	10.1	9.4	9.6	9.5	N/A
	Access to Health Care												
65	Total national health expenditures (% of GDP) .....	5.0	7.0	8.9	12.1	13.4	13.4	15.5	17.4	17.4	17.4	17.4	N/A
66	Persons without health insurance (% of age 18–64) <sup>35</sup> .....	N/A	N/A	N/A	N/A	16.9	18.9	19.3	22.3	21.2	20.9	20.5	17.0
67	Persons without health insurance (% of age 17 and younger) <sup>35</sup> .....	N/A	N/A	N/A	N/A	13.0	12.6	9.3	7.8	7.0	6.6	6.6	6.1
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	70.4	N/A

Table 5-1. SOCIAL INDICATORS—Continued

Calendar Years		1960	1970	1980	1990	1995	2000	2005	2010	2011	2012	2013	2014
	<b>Security and Safety</b>												
	Crime												
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	13,144	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	2,317	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	4.5	N/A
	National Security												
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	1,338
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	N/A
	Transportation Safety												
74	Safety belt use (%) .....	N/A	N/A	N/A	N/A	N/A	71	82	85	84	86	87	N/A
75	Highway fatalities .....	36,399	52,627	51,091	44,599	41,817	41,945	43,510	32,999	32,479	33,561	N/A	N/A
	<b>Environment and Energy</b>												
	Air Quality and Greenhouse Gases												
76	Ground level ozone (ppm) based on 222 monitoring sites .....	N/A	N/A	0.101	0.090	0.090	0.082	0.080	0.073	0.074	0.076	0.068	N/A
77	Particulate matter 2.5 (ug/m <sup>3</sup> ) based on 537 monitoring sites ....	N/A	N/A	N/A	N/A	N/A	13.5	12.8	9.9	9.8	9.1	8.9	N/A
78	Annual mean atmospheric CO <sub>2</sub> concentration (Mauna Lao, 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	398.6
79	Gross greenhouse gas emissions (teragrams CO <sub>2</sub> equivalent) <sup>41</sup> ....	N/A	N/A	N/A	6,233	6,613	7,107	7,254	6,875	6,753	6,526	N/A	N/A
80	Net greenhouse gas emissions, including sinks (teragrams CO <sub>2</sub> equivalent) .....	N/A	N/A	N/A	5,402	5,809	6,415	6,223	5,907	5,773	5,546	N/A	N/A
81	Gross greenhouse gas emissions per capita (metric tons CO <sub>2</sub> equivalent) .....	N/A	N/A	N/A	24.6	24.5	24.8	24.2	21.9	21.4	20.5	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	0.697	0.654	0.566	0.510	0.465	0.449	0.422	N/A	N/A
	Energy												
83	Energy consumption per capita (million Btu) .....	250	331	344	338	342	350	339	317	313	303	309	N/A
84	Energy consumption per 2009\$ GDP (thousand Btu per 2009\$) ...	14.5	14.4	12.1	9.4	8.9	7.9	7.0	6.6	6.5	6.2	6.2	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	12.9	N/A

N/A=Number is not available.

<sup>1</sup> Data for 2014 are averages of the first 3 quarters.<sup>2</sup> Adjusted CPI-U. 2013=100.<sup>3</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>4</sup> Values for prior years have been revised from the prior version of this publication.<sup>5</sup> Data adjusted by OMB to real 2012 dollars.<sup>6</sup> Data correspond to years 1972, 1982, 1992, 1996, 2000, 2004, 2008.<sup>7</sup> Patent data adjusted by OMB to incorporate total population estimates from U.S. Census Bureau.<sup>8</sup> The R&D to GDP ratio is now revised to reflect the new methodology introduced in the 2013 comprehensive revision of the GDP and other National Income and Product accounts by the U.S. Bureau of Economic Analysis (BEA). In late July 2013, BEA reported GDP and related statistics that were revised back to 1929. The new GDP methodology treats R&D as investment in all sectors of the economy, among other methodological changes. The net effects of these changes are somewhat higher levels of GDP year to year and corresponding decreases in the R&D to GDP ratios reported annually by the National Science Foundation (NSF). For further details see NSF's InfoBrief "R&D Recognized as Investment in U.S. Gross Domestic Product Statistics: GDP Increase Lowers R&D-to-GDP Ratio" at ><http://www.nsf.gov/statistics/><.<sup>9</sup> Data source and values for 2010 to 2013 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, 2012, and 2013 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.

**Table 5–1. SOCIAL INDICATORS—Continued**

<sup>23</sup> 2014 reflects average monthly participation from January through June 2014 due to lags in data availability.

<sup>24</sup> Data values shown are 1962, 1983, 1989, 1995, 2001, 2004, 2010, and 2013. 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 2013 are preliminary.

<sup>28</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>29</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.

<sup>30</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>31</sup> Participation in leisure-time aerobic and muscle-strengthening activities that meet 2008 Federal physical activity guidelines.

<sup>32</sup> BMI refers to body mass index. The 1960, 1980, 1990, 2000, 2005, 2010, 2011 data correspond to survey years 1960–1962, 1976–1980, 1988–1994, 1999–2000, 2005–2006, 2009–2010 and 2011–2012, respectively.

<sup>33</sup> Percentage at or above the sex-and age-specific 95th percentile BMI cutoff points from the 2000 CDC growth charts. The 1980, 1990, 2000, 2005, 2010, 2011 data correspond to survey years 1976–1980, 1988–1994, 1999–2000, 2005–2006, 2009–2010, and 2011–2012, respectively.

<sup>34</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>35</sup> A person was defined as uninsured if he or she did not have any private health insurance, Medicare, Medicaid, CHIP (1999–2011), state-sponsored, other government-sponsored health plan (1997–2011), or military plan. A person was also defined as uninsured if he or she had only Indian Health Service coverage or had only a private plan that paid for one type of service such as accidents or dental care. In 1993–1996 Medicaid coverage is estimated through a survey question about having Medicaid in the past month and through participation in Aid to Families with Dependent Children (AFDC) or Supplemental Security Income (SSI) programs. In 1997 to 2013, Medicaid coverage is estimated through a question about current Medicaid coverage. Beginning in the third quarter of 2004, a Medicaid probe question was added to reduce potential errors in reporting Medicaid status. Persons under age 65 with no reported coverage were asked explicitly about Medicaid coverage.

<sup>36</sup> Recommended vaccine series changed over time. 1995 and 2000 data correspond with the 4:3:1:3:3 recommended series; 2005 data correspond with the 4:3:1:3:3:1 series; 2010, 2011, 2012, and 2013 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 Victimization 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 2014 is preliminary.

<sup>40</sup> Data for 2014 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 (million 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, October 2014, 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 (2010-2013) <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 for invention, U.S. origin (per million population) .....	U.S. Patent and Trademark Office, Patent Technology Monitoring Team, U.S. Patent Statistics Chart, Calendar Years 1963-2013. <a href="http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm">http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm</a> ; and, U.S. Census Bureau, Population Division.
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/natlpatterns/">http://www.nsf.gov/statistics/natlpatterns/</a>
<b>Demographic and Civic</b>	
Population	
22 Total population (millions) .....	U.S. Census Bureau, Population Division, Vintage 2014 Population Estimates (2014), Vintage 2013 Population Estimates (2010-2013), 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 2014 Population Estimates (2014), Vintage 2013 Population Estimates (2010-2013), 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 2014 Population Estimates (2014), Vintage 2013 Population Estimates (2010-2013), 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 2014 Population Estimates (2014), Vintage 2013 Population Estimates (2010-2013), 2000-2010 Intercensal Estimates (2000-2005), 1990-1999 Intercensal Estimates (1990-1995), 1980-1990 Intercensal Estimates (1980), 1970-1980 Intercensal Estimates (1970).
Household Composition	

**Table 5–2. SOURCES FOR SOCIAL INDICATORS—Continued**

Indicator	Source
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 2013: <a href="http://www.cdc.gov/nchs/data/nvsr/nvsr64/nvsr64_01.pdf">http://www.cdc.gov/nchs/data/nvsr/nvsr64/nvsr64_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 (2012 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-Returns-Publication-1304-(Complete-Report)">http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax-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/decenyear/">http://www.census.gov/prod/www/abs/decenyear/</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 (2013 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 (% of population on SNAP) .....	Food and Nutrition Service, USDA
50 Median wealth of households, age 55–64 (in thousands of 2013 dollars) ....	Board of Governors of the Federal Reserve System, Survey of Consumer Finances 2013 Estimates inflation-adjusted to 2013 dollars (Internal Data) <a href="http://www.federalreserve.gov/econresdata/scf/scfindex.htm">http://www.federalreserve.gov/econresdata/scf/scfindex.htm</a>
<b>Housing</b>	
51 Homeownership among households with children (%) .....	U.S. Census Bureau, American Housing Survey (Current Housing Report). Estimated by 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>
52 Families with children and severe housing cost burden (%) .....	U.S. Census Bureau, American Housing Survey. Tabulated by 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. Tabulated by 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>	
<b>Health Status</b>	
54 Life expectancy at birth (years) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System (mortality); Deaths: Final data for 2012: <a href="http://www.cdc.gov/nchs/data/nvsr/nvsr63/nvsr63_09.pdf">http://www.cdc.gov/nchs/data/nvsr/nvsr63/nvsr63_09.pdf</a> , Health, United States, 2014 forthcoming, Table 16.
55 Infant mortality (per 1,000 live births) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System (mortality); Deaths: Final data for 2012: <a href="http://www.cdc.gov/nchs/data/nvsr/nvsr63/nvsr63_09.pdf">http://www.cdc.gov/nchs/data/nvsr/nvsr63/nvsr63_09.pdf</a> , Health, United States, 2014 forthcoming, Table 12.

**Table 5–2. SOURCES FOR SOCIAL INDICATORS—Continued**

Indicator	Source
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: Final data for 2013: <a href="http://www.cdc.gov/nchs/data/nvsr/nvsr64/nvsr64_01.pdf">http://www.cdc.gov/nchs/data/nvsr/nvsr64/nvsr64_01.pdf</a> , Health, United States, 2014 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, 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> and unpublished data from National Health Interview Survey.
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, 2014 forthcoming, Table 47, 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> .
<b>Health Behavior</b>	
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, 2014 forthcoming, Table 63, 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 E-stat: <a href="http://www.cdc.gov/nchs/data/hestat/obesity_adult_11_12/obesity_adult_11_12.pdf">http://www.cdc.gov/nchs/data/hestat/obesity_adult_11_12/obesity_adult_11_12.pdf</a> .
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_11_12/obesity_child_11_12.pdf">http://www.cdc.gov/nchs/data/hestat/obesity_child_11_12/obesity_child_11_12.pdf</a> .
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, 2014 forthcoming, Table 52, 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, 2014 forthcoming, Table 58, age adjusted.
<b>Access to Health Care</b>	
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) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey.
67 Persons without health insurance (% of age 17 and younger) .....	Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey.
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/imz-managers/coverage/nis/child/index.html">http://www.cdc.gov/vaccines/imz-managers/coverage/nis/child/index.html</a> ; (for 2010, 2011, 2012 and 2013): Table 1 in <a href="http://www.cdc.gov/mmwr/pdf/wk/mm6334.pdf">http://www.cdc.gov/mmwr/pdf/wk/mm6334.pdf</a> .
<b>Security and Safety</b>	
<b>Crime</b>	
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;id=245">http://www.bjs.gov/index.cfm?ty=dcdetail&amp;id=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;id=245">http://www.bjs.gov/index.cfm?ty=dcdetail&amp;id=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">http://www.fbi.gov/about-us/cjis/ucr</a>
<b>National Security</b>	
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.
<b>Transportation Safety</b>	
74 Safety belt use (%) .....	National Highway Traffic Safety Administration, National Center for Statistics and Analysis. <a href="http://www-nrd.nhtsa.dot.gov/Pubs/811875.pdf">http://www-nrd.nhtsa.dot.gov/Pubs/811875.pdf</a>
75 Highway fatalities .....	National Highway Traffic Safety Administration, National Center for Statistics and Analysis. <a href="http://www-nrd.nhtsa.dot.gov/Pubs/812032.pdf">http://www-nrd.nhtsa.dot.gov/Pubs/812032.pdf</a>
<b>Environment and Energy</b>	
<b>Air Quality and Greenhouse Gases</b>	
76 Ground level ozone (ppm) based on 222 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/m <sup>3</sup> ) based on 537 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>

**Table 5–2. SOURCES FOR SOCIAL INDICATORS—Continued**

Indicator	Source
78 Annual mean atmospheric CO <sub>2</sub> concentration (Mauna Lao, 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: 1990-2012. <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: 1990-2012. <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: 1990-2012. <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: 1990-2012. <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, October 2014, 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 (2010-2013) <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 (October 2014), 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 (October 2014), 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, OMB 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 and managers to drive results.

Beginning in 2009, the Administration shifted the emphasis from the publication of performance information to a focus on increasing its use to inform decision-making and deliver greater impact. Importantly, in 2010 the Administration worked with the Congress to enact the Government Performance and Results (GPRA) Modernization Act which incorporated lessons learned and ensured these reforms continue into future administrations. The 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 Planning and Strategic Reviews
- Strengthening Agency Capabilities, Collaboration, and Learning
- Communicating Performance Results Effectively

The remainder of this chapter provides an update on progress for these practices.

### Engaging Leaders

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 Chief Operating Officer (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. Each COO also names a Performance Improvement Officer (PIO) who reports directly to the COO and is responsible for coordinating performance improvement efforts across the agency with program managers, 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 that are needed to deliver against the specified goals.

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

To accelerate progress, OMB and agency heads have identified a limited set of implementation-focused priorities that have the potential to advance the well-being of the American people, to stimulate economic growth and job creation, and to cut the costs of delivery. In February 2014, OMB established 15 Cross-Agency Priority (CAP) Goals, and each major Federal agency published a small number of Agency Priority Goals, totaling 91 across the Federal Government. Detailed information on these goals is available on *Performance.gov*.

### Cross-Agency Priority Goals

The Administration uses the CAP Goals to help break down organizational barriers and achieve better results than one agency can achieve on its own. For each of the CAP Goals, OMB identifies Goal Leaders, regularly tracks performance throughout the year, holds goal teams accountable for results, and publishes quarterly results on *Performance.gov*. OMB, the Performance Improvement Council (PIC), and agencies have worked to support progress on the CAP goals. Results have been promising.

For example, to achieve the *Job-Creating Investment* goal, agencies have committed to promoting investment tools, resources and interagency coordination to encourage foreign direct investment in the United States, spurring job growth. This work has leveraged more than 200 major events, such as industry trade shows, in 38 countries around the world to promote the United States to approximately 60,000 potential investors. To achieve the *Open Data* goal, agencies have provided publicly-accessible data intended to strengthen the Nation's democracy by empowering individuals and businesses to create jobs and new industries that improve Americans' quality of life. Since 2009, the Administration has released over 138,000 data sets to the public, while continuing to protect individual privacy, with over 67,000 of these data sets released in the last year alone. As a result of this goal, homeowners who are struggling to pay their mortgages now have access to prompt, clear responses because companies are competing based on open consumer financial product complaint data. Similarly, patients can now comparison-shop to see which hospitals have the best outcomes and best prices.

While results have been encouraging on CAP Goal priorities, delivery across agency boundaries remains a challenge. Often there is little capacity dedicated to identifying and solving interagency challenges, and in many

cases significant management improvements require investments that cut across agencies. To drive further progress, the Administration is taking two actions to institutionalize capacity to address cross-cutting challenges. First, the President's Budget proposes authority for agencies, with prior notification to the Congress from the Director of OMB, to transfer up to \$15 million from agency budgets to support these cross-cutting management initiatives. This proposal institutionalizes a capability to fund cross-agency efforts, rather than handling the challenges on a case-by-case basis, and would provide a powerful tool to turn management ideas into real and lasting results for the American people.

Second, to provide support for driving progress on the Cross-Agency Priority goals, the President announced the creation of a White House Leadership Development Program on December 9<sup>th</sup>. Through this program, emerging leaders and Senior Executive Service (SES) candidates will participate in full-time rotational assignments for one year, with these leaders responsible for driving progress on the Cross-Agency Priority Goals. This program is part of a continued commitment to developing and strengthening the next generation of Federal career leaders. These emerging leaders will play a key role in addressing the Government's critical management challenges, and participants will gain valuable experience to bring back as they take on leadership roles in their agency.

### **Agency Priority Goals**

Agencies establish Priority Goals with clearly-identified Goal Leaders every two years and use quarterly metrics and milestones to manage progress. COOs lead data-driven reviews at least quarterly to remove barriers and accelerate results. Progress on the goals is updated quarterly on *Performance.gov*. For example, agency leaders have set goals for improving access to capital to enhance job creation, reducing foodborne illness through targeted inspections, coordinating multiple agency services to reduce veteran homelessness, and reducing hospital acquired infections. Some illustrative results this year include:

- *Veteran Homelessness.* Since 2010, the Administration has reduced veteran homelessness by one-third or by nearly 25,000 people.
- *Protect Vulnerable People:* The Department of Justice is working with Federal, State, local, and tribal partners to protect vulnerable citizens. During the final quarter of 2014, 97 percent of children reported missing were recovered within 72 hours of an AMBER alert issuance.
- *Strategic Sourcing.* Although the General Services Administration fell short of its \$111 million savings goal, GSA saved its customer agencies \$97 million as part of its strategic sourcing priority goal.
- *Renewable Energy.* As part of efforts to expand the development of clean, domestic sources of energy, the Department of the Interior has greatly expanded permitting for renewable energy projects on Interi-

or-managed lands in recent years. Since 2009, the Department has approved over 14,100 megawatts of renewable energy capacity which if fully built, would help power approximately 4.8 million homes.

- *Climate Change.* The United States Agency for International Development and State Department have made progress on their climate change goal. 13 countries have planned, proposed, strengthened, or adopted strategies, plans, policies, processes, or activities to support Low Emission Development Strategies (LEDS). Moreover, 2,386 officials and practitioners have received relevant training or assistance.

In addition to the outcomes demonstrated, the focus on use of performance information to inform decision-making is beginning to have a broader, measurable impact. Using data from nationwide surveys<sup>1</sup> conducted over the last decade by GAO in the major 24 agencies, researchers have found evidence that mid- and upper-level Federal managers engaged in the implementation of the priority goals, and exposed to data-driven reviews, were significantly more likely to "use performance data to manage programs and employees, and identify and solve problems", suggesting "success...where prior [Federal] reforms have struggled".<sup>2</sup> Prior reforms tended to increase the passive collection and reporting of performance information but not its active use, which is more likely to lead to performance improvements. Turning this success into further improvements required expanding the scope of performance reviews beyond priority goals, as well as continual improvements in the quality of the performance reviews, as discussed in the following two sections.

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

To expand proven performance management practices more broadly across Federal agencies, and ensure agency leaders have effective processes to review objectives outlined in the agency plans as required by the GPRA Modernization Act,<sup>3</sup> the Administration established annual "strategic reviews." The strategic reviews provide a comprehensive framework at each agency to make improved strategic and budget decisions based on evidence. The annual assessments incorporate evaluation results, performance goals, indicators, challenges, risks, and external factors to inform the decision-making processes at the agency, as well as with OMB and the Congress.

Agencies published new strategic plans on *Performance.gov* and agency websites with the President's 2015 Budget

<sup>1</sup> Agencies' Trends in the Use of Performance Information to Make Decisions. GAO measured agency use of performance information by creating an index from manager survey data collected in 2007 and 2013. The index reflected the extent to which managers reported that their agencies used performance information for various management activities. September 2014. <http://www.gao.gov/products/GAO-14-747>

<sup>2</sup> Moynihan et al. Working Paper: Performance Management Routines that Work? An Early Assessment of the GPRA Modernization Act University of Wisconsin-Madison. May 2014 <https://www.lafollette.wisc.edu/images/publications/workingpapers/moynihan2014-005.pdf>

<sup>3</sup> GPRA Modernization Act 31 U.S.C. § 1116 (f)

in February 2014. These plans include strategic goals, objectives, and performance indicators that reflect the scope of the agency's mission—in total more than 350 strategic objectives from major agencies reflecting the breadth of Federal activities and outcomes.<sup>4</sup> Outcomes are advanced by strategic objectives, which are supported by specific performance goals and indicators. As an example, the Department of Commerce has a strategic objective shared by several bureaus that seeks to accelerate growth of innovation-intensive economic sectors by building public and private capacity to invent, improve, and commercialize new products and services.

Shortly after publication of strategic plans, Federal agencies finalized their approach to conducting the strategic reviews and began their initial baseline assessments. OMB conducted kickoff meetings with each agency prior to the first strategic review in 2014. The PIC also held working groups that engaged more than 100 participants from across the Government to share best practices. Agencies were provided flexibility to tailor their review approach to their unique agency missions and capabilities, and were encouraged to develop a multi-year maturity model, recognizing that effective reviews would take multiple years to establish. OMB has also encouraged agencies to use proven management principles for their implementation, such as leveraging existing business processes, engaging the right stakeholders, and balancing a focus on learning from the reviews with the traditional focus on accountability.

Agencies provided their initial results to OMB beginning in May 2014. Decisions based on input from the reviews were discussed during the summer and fall and were finalized with the President's Budget. A progress update is provided for each major agency's strategic objective on *Performance.gov*, and also in the 2014 Annual Performance Reports.

### ***Initial Results of the First Annual Strategic Reviews***

2014 was the first year agencies were required to conduct strategic reviews in accordance with OMB guidance and the GPRA Modernization Act. Of the 23 major Federal agencies required to conduct reviews in consultation with OMB, 17 completed their initial reviews of progress.<sup>5</sup> In most cases, the assessment considered performance goals and other indicators related to each strategic objective, as well as other challenges, risks, and external factors that

<sup>4</sup> Strategic objectives for the Department of Defense have not yet been finalized in accordance with OMB guidance and will be added in the future. The 350 objectives reviewed do not include all government corporations and independent establishments, rather consist of the 24 CFO Act Agencies excluding the Nuclear Regulatory Commission.

<sup>5</sup> Six major agencies did not complete their initial strategic review of objectives prior to the President's Budget release. The Department of Transportation and Department of Energy both released their strategic plans later in 2014 than other agencies, requiring them to delay their initial strategic reviews until 2015. The Department of Defense completed its Quadrennial Defense Review in 2014, and is currently in the process of developing its framework for strategic and performance review in the coming year. The Department of Agriculture, Department of State and USAID are working to finalize results of their strategic review and plan to release them later in 2015.

may affect outcomes. In some cases, program evaluation results were incorporated into the assessment, where available and relevant. Agencies reported a wide range of benefits from their initial reviews, including improved interagency collaboration, a chance to identify existing evidence gaps, and the opportunity to better inform resource allocation decisions using evidence.

For example:

- The Department of Homeland Security (DHS) conducted a strategic review involving over 250 individuals, over 500 pieces of evidence. The review assessed progress for the first time against the 16 cross-cutting strategic and management objectives in the agency strategic plan. The central DHS performance office created a common methodology, deliverable templates, and other tools, but let each team shape their approach to how they were going to review the evidence. This created an environment for teams to collaborate and also encouraged transparency within the agency's review process.
- At the Environmental Protection Agency (EPA), programmatic decision-making is primarily dispersed across six major program offices and 10 regional offices. Strategic objective leads were provided discretion to conduct reviews of the activities under their responsibility and engage in discussions across the Agency to identify areas making noteworthy progress or facing challenges. Senior managers appreciated the ability to consider a broader context than had occurred in previous performance discussions. The managers used the strategic reviews as an opportunity to increase the use of evidence and data in understanding progress. For example, comparing EPA's programs' with relevant data from other sources, such as comparing brownfields and census data, gave further insight to the direction of those programs. As for EPA's tribal program, consideration of agency-wide data during the review process enhanced understanding of the program's scope and long-term challenges. As a result, the program identified a number of follow up actions, such as pursuing flexibilities and developing comprehensive assessments of resource needs and environmental protection priorities in Indian Country.

To facilitate management decisions, agency assessments identified relative levels of performance across the agency's portfolio of strategic objectives. Agencies specifically identified a limited number of areas where the agency made noteworthy progress and a limited number as focus areas for improvement. Areas demonstrating noteworthy progress could be identified as a result of new innovations in strategy, program design, or operations that have led to notable improvements in outcomes or cost reductions. Focus areas for improvement could be the result of challenges during program execution, for example, or when a problem the strategic objective seeks to address is growing more quickly than current actions or resources can address it.

Across the strategic objectives analyzed, agencies identified approximately 14 percent as making noteworthy progress, and 12 percent as focus areas for improvement.<sup>6</sup> Because these results are from the initial baseline assessment, some caution must be used in interpreting the findings. The validity and implications of these findings will continue to be reviewed annually for refinement. Nonetheless, some trends seemed visible in the first year. For instance, areas of noteworthy progress often resulted from identifiable improvements in program policies or management procedures. For example, OPM developed a common definition and model of employee engagement, as it specifically relates to the Federal workforce that provides a practical approach to measuring and improving it. This noteworthy progress has informed the Administration's concerted effort to monitor and improve employee engagement across the Federal sector. A growing body of evidence in the public and private sector has shown a strong relationship between high levels of employee engagement and improved organizational results. Conversely, the identification of a focus area for improvement was more likely to be the result of perceived challenges in funding, human capital or legislative barriers. More information is available in the progress updates provided for each major agency's strategic objectives on *Performance.gov*, and also in the 2014 Annual Performance Reports. Agencies summarize proposed next steps in the 2016 Annual Performance Plans.

### **Preparing for Future Strategic Reviews**

Major Federal agencies will conduct a second round of strategic reviews in 2015, with expected improvements in quality and relevance for decision-makers as managers gain experience with the reviews, learn from other agencies, and have more data to analyze since the publication of the strategic plan. Agencies have come together to prepare for the upcoming reviews by analyzing lessons learned from the first round and sharing best practices. Collaboration across the Performance Improvement Council and OMB will continue to be a priority to promote learning and innovation in conducting strategic reviews in the coming years. As the strategic reviews mature, OMB anticipates that they will play an expanded role in informing budget development and operational decisions, and will facilitate a broader improvement in the use of evidence for decision-making by managers across the Federal Government.

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

The Performance Improvement Council (PIC) has played an important role in sharpening and broadening the application of performance management tools throughout the Federal Government by providing opportunities for Federal program managers and performance professionals to share practices and build their own capabilities. It does this in the context of surveys high-

lighting areas of strength and of need. In the 2014 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<sup>7</sup> 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 offers a number of ways for agencies to collaborate and build capabilities. A data-driven reviews monthly working group—active now since 2011—provides an opportunity for agencies to learn in-depth about effective practices, most recently focused on strategic review implementation. The PIC holds a speaker series on performance issues and larger-scale collaboration events for employees across government to work together to solve common challenges around the Government Performance and Results Modernization Act implementation. These collaboration opportunities have brought together hundreds of people across two dozen agencies and will continue.

The PIC has also established a training program around the core building blocks of performance management offered at no charge to Federal employees three-times per year, as well as a professional development program called the Performance Enthusiast and Ambassador Program. These programs permit employees to learn about performance topics and transfer that knowledge back to their agency. On to its fourth cohort, the Performance Enthusiast and Ambassadors Programs provide a part-time, three to six month learning and practice program with a mentoring component that delivers both contextual and applied capability building around performance management. 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 7th cohort, PMC Fellows explore opportunities to modernize government management to develop multi-agency project management skills.

### **Communicating Performance Results Effectively and Looking Ahead**

In support of the President's commitment to transparency and implementation of the GPRA Modernization Act, the Administration continues to develop *Performance.gov* to inform stakeholders on 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

<sup>6</sup> Results summarized in this chapter do not include the six major agencies that did not complete their initial strategic review for the 2016 President's Budget release. The latest results for each agency will continue to be available on *Performance.gov*.

<sup>7</sup> Office of Personnel Management's Federal Employee Viewpoint Survey (FEVS) is a tool that measures employees' perceptions of whether, and to what extent, conditions characterizing successful organizations are present in their agencies. 2014 <http://www.fedview.opm.gov/>

information on agency programs, goals, and regular progress updates.

Over the last year, the Performance Improvement Council also released two websites designed to share more information with interested stakeholders about the PIC's mission and work. *PIC.gov* provides news about the Federal performance management and improvement community. The Performance Learning Center, <https://LearnPerformance.gov/>, is a site for skills enhancement and career development related to the application of performance management and improvement techniques. The website provides users with a variety of learning activities, training course information from various sources, and is designed for multiple audiences, including performance and other analysts, program managers, and others con-

tributing to Government performance management and improvement. In the coming years, the PIC will continue its work to strengthen the performance framework, spark targeted improvements, and expand agency capabilities.

Moving forward, the Administration will continue to deliver more value for the taxpayer's dollar by building on its 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 continues to enhance its efforts to engage leadership, present clear goals, measure and analyze progress, and conduct reviews to further improve Government, help the American people in their daily lives, and deliver the greatest impact for every dollar spent.



## 7. BUILDING EVIDENCE WITH ADMINISTRATIVE DATA

### Introduction

*"We've got Democratic and Republican elected officials across the country who are ready to roll up their sleeves and get to work. And this should be a challenge that unites us all. I don't care whether the ideas are Democrat or Republican. I do care that they work. I do care that they are subject to evaluation..."*

-- President Obama, *"Remarks on Promise Zones,"* January 9, 2014

The Administration is committed to living up to this principle through a broad-based set of activities to better integrate evidence and rigorous evaluation in budget, management, and policy decisions, including through: (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.

Several Administration documents lay out this "evidence agenda," including previous versions of this chapter, the "Evaluation as a Tool for Improving Federal Programs" chapter of the Council of Economic Advisers' *2014 Economic Report of the President*, and the July 2013 memo, *"Next Steps in the Evidence and Innovation Agenda,"* 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. The 2016 Budget moves the agenda forward through a range of investments in evidence building, as well as by increasing investment in programs with strong evidence of effectiveness. These proposals are described in the main budget volume and accompanying documents.<sup>1</sup>

This chapter focuses on the Administration's efforts to address one especially important next step in the evidence agenda: making better use of "administrative data." Administrative data are data collected by government entities for program administration, regulatory, or law enforcement purposes. Federal and state administrative data include rich information on labor market outcomes, health care, criminal justice, housing, and other important topics, but they are often greatly underutilized in evaluating programs' effects, as well as in day-to-day performance measurement and for informing the public about how society and the economy are faring.

Administrative data have played a key role in some of the most important evidence agenda accomplishments to date. As described below, insights obtained from adminis-

trative data are already influencing education and health policy, among other areas. Access to administrative data has been pivotal in some of the most innovative Federal grant reforms and in increasing accountability and transparency across a range of programs; it has also played an important role in innovation and experimentation at the State and local levels. Meanwhile, as the evidence agenda matures, lack of access to appropriate data is increasingly a key obstacle to progress along a number of dimensions. Whether the objective is to facilitate more rapid, low-cost evaluations, to base more grant decisions on strong evidence, to adopt program structures that permit greater innovation and flexibility in exchange for greater accountability for results, or to provide more and better performance information to the public, administrative data are often a crucial untapped resource.

A significant focus in this year's Budget is improving access to administrative data for purposes of evaluation, accountability and transparency, performance management, and other research and analytic purposes. (While not discussed in this chapter, the Budget also includes separate proposals to improve the use of administrative data to protect program integrity, for example to combat identity theft.) The Budget proposes a number of specific access and infrastructure improvements across multiple programs and agencies, efforts that build on the long-standing use of Federal statistics to describe the condition of the economy and society and inform Federal policy decisions (see Chapter 5, "Social Indicators," and Chapter 16, "Strengthening Federal Statistics"). The Budget also embraces Representative Paul Ryan and Senator Patty Murray's proposal to create a commission that would make recommendations about how to fully realize the potential of administrative data to improve Federal programs. That proposal exemplifies the high-level and bipartisan momentum for doing more to tap this important resource.

This chapter explains the importance of improving access to administrative data, describes some of the key barriers, and outlines the Administration's agenda, including both Budget proposals and ongoing work. The chapter also explains the strong framework of privacy, confidentiality, and data security protections that governs current uses of administrative data for research purposes, and it explains how these protections would extend to the Budget's new proposals.

### Background

Administrative data are data collected by government entities for program administration, regulatory, or law enforcement purposes. Examples include: data on employment and earnings collected through the Unemployment Insurance (UI) program, data on medical conditions and

<sup>1</sup> See <http://www.whitehouse.gov/omb/evidence>.

payments collected through Medicare and Medicaid, data on local pollution levels collected to administer the Clean Air and Clean Water Acts, and criminal histories maintained as part of police records or arrests. Such data are usually collected on the universe of individuals, businesses, or communities affected by a particular program, in contrast to survey data that are collected for samples of broader populations, typically for research or other statistical purposes.

Administrative data are used for a wide range of purposes, such as reimbursing service providers, determining benefit eligibility, and ensuring compliance with safety or environmental regulations. Sometimes data collected to administer one program can also be useful for administering another. For example, employment and earnings data collected through the UI system could be used to determine eligibility for a means-tested program. Administrative data can also be useful for program integrity efforts to minimize waste, fraud, and abuse. Linking data across programs for administrative purposes can sometimes make government more efficient, but it is not the focus of this chapter.

This chapter is focused on reusing administrative data for “statistical” purposes: the use of data to better understand the characteristics, behavior, or needs of groups of individuals or communities. Statistical purposes *exclude* uses that affect the rights, benefits, or privileges of individuals: indeed, one of the defining characteristics of statistical use is that data about an individual are never made public, and are never used to make decisions about that individual. But statistical purposes *include* a wide range of analytic uses, where only aggregated and de-identified data are made public. For example, statistical use encompasses both traditional program evaluations and the newer “rapid-cycle” experimentation and other data analytics techniques increasingly employed by innovative private-sector firms. It also encompasses transparency and accountability efforts, such as scorecards, that provide Federal agencies, State and local governments, and the public with information on the relative performance of different hospitals, training programs, or other service providers. And it encompasses efforts to quantify how housing, health care, education, or other needs vary across communities, as well as other analysis of patterns and trends for groups of individuals.

Using administrative data for these purposes, alone or in combination with survey data (data gathered from a sample population gathered specifically for research or other statistical purposes), can have a number of advantages over survey data alone, which is typically the alternative. First, because administrative data are collected through the normal administration of programs, they can often be obtained at much lower cost than fielding a new survey. Second, administrative data are sometimes more accurate than survey self-reports, especially with respect to information directly used to administer the program (e.g. earnings in the case of UI or health care utilization in the case of Medicare records). Third, administrative data, especially when linked across multiple programs, are often available for long time periods, permitting study of

long-term impacts that would be prohibitively expensive with a survey. For example, recent studies have used administrative records to look at the effect of being assigned a smaller class size in elementary school on college-going and earnings and at the effect of losing one’s job on mortality over the subsequent 20 years.<sup>2</sup>

Perhaps most important, reusing administrative data often allows for much larger sample sizes than surveys. Surveying program participants requires tracking them down, getting each to agree to participate in a survey, and constructing and administering the survey itself. Since each of these activities is expensive, evaluations, performance measurement, and other research based on surveys typically draw on small samples. Sometimes, the sample sizes are so small that the resulting studies lack the statistical power to reliably detect policy-relevant effects of programs, even when these effects exist. For example, consider a randomized controlled trial of a job training program with 1,000 participants (and 1,000 non-participants in the control group), where a 2 percentage point increase in employment would be enough to justify the cost of the program. With samples that size, the trial would need at least a 4.4 percentage point increase in employment to be statistically significant (meaning statistically distinguishable from 0) and a 6.4 percentage point increase to have confidence that it was cost-effective.<sup>3</sup> In fact, even with a 2.4 percentage point reduction in employment, one could not rule out the possibility of cost-effectiveness, illustrating the lack of precision that results from small (or even medium-size) samples. Greater use of administrative data can reduce the costs of collecting data on large samples, helping reduce the number of underpowered studies that misdiagnose programs as “not working” when the problem is actually with the small-sample studies, not the programs. Meanwhile, large administrative datasets also allow for quasi-experimental studies that would be impossible in most survey datasets, particularly research designs that depend on detecting small differences in outcomes based on small but near-random variation in program participation.

That said, administrative data are no panacea. Since administrative data are collected to meet the needs of the relevant program - not the needs of the research design - they will sometimes lack information important for a given evaluation or other statistical use, such as demographic details needed to understand how policies and programs affect different groups within the population. Administrative data usually provide information only on participants and not on those eligible but not participating, who are sometimes the most relevant comparison group for a study. In addition, it may be costly to make administrative data usable for statistical purposes, especially if the original data are incomplete, inconsistent, or

<sup>2</sup> Chetty, Raj et al, “How Does Your Kindergarten Classroom Affect Your Earnings? Evidence from Project Star,” *The Quarterly Journal of Economics*, March 2011, 126(4), pp. 1593-1660. Sullivan, Daniel and Till von Wachter, “Job Displacement and Mortality: An Analysis using Administrative Data,” *The Quarterly Journal of Economics*, August 2009, 124(3), pp. 1265-1306.

<sup>3</sup> These calculations assume a standard 95 percent confidence threshold.

poorly documented. Neither administrative nor survey data are perfect, but together they can yield greater insight than either can alone.<sup>4</sup>

### **Examples of Successful Reuse of Administrative Data**

In certain areas, including education and health care, reusing administrative data is comparatively common and is already having a large impact on policy. In part as a result of No Child Left Behind and other Federal efforts to improve State education data, some individual States have developed high-quality longitudinal data systems for kindergarten through college (although others remain weak, and there is no national system letting researchers track or compare students across States). These State data and related school district administrative data have been used for important and influential research on topics ranging from teacher value-added to disparities in educational outcomes by family income to the effects of universal pre-kindergarten, charter schools, intensive tutoring programs, and community college remediation programs.<sup>5</sup> Research on student aid simplification - showing the feasibility and importance of simplifying the Free Application for Federal Student Aid (FAFSA) - also relied on administrative records.<sup>6</sup> This research has in-

<sup>4</sup> For a more extensive discussion of the advantages and disadvantages of administrative and survey data, see: Blank, Rebecca M., Kerwin Kofi Charles, and James M. Sallee, "A Cautionary Tale about the Use of Administrative Data: Evidence from Age of Marriage Laws," *American Economic Journal: Applied Economics*, 2009, 1(2): pp. 128-49; Prell et al., Working Paper: "Profiles in Success of Statistical Uses of Administrative Data," Federal Committee on Statistical Methodology, 2014; National Research Council, "Reengineering the Survey of Income and Program Participation," Panel on the Census Bureau's Reengineered Survey of Income and Program Participation, 2009; Cito, Constance F. and John Karl Scholz, editors, Committee on National Statistics, Division of Behavioral and Social Sciences and Education, Washington, DC: The National Academies Press; and Prewitt, Kenneth, "Science Starts Not after Measurement, but with Measurement," *The ANNALS of the American Academy of Political and Social Science*, September 2010, 631(1), pp. 7-16.

<sup>5</sup> See Rivkin, Steven G., Eric A. Hanushek, and John F. Kain, "Teachers, Schools, and Academic Achievement," *Econometrica*, March 2005, 73(2), pp. 417-458; Papay, John P., Richard J. Murnane, and John B. Willett, "Income-based Inequality in Educational Outcomes: Learning from State Longitudinal Data Systems," NBER Working Paper No. 20802, December 2014; Andrews, Rodney J., Jargowsky, Paul, and Kuhne, Kristin. "The Effects of Texas's Targeted Pre-Kindergarten Program on Academic Performance," NBER Working Paper No. 18598, December 2012; Abdulkadiroğlu, Atila, et al., "Accountability and Flexibility in Public Schools: Evidence from Boston's Charters and Pilots," *The Quarterly Journal of Economics*, 2011, 126(2) pp. 699-748; Fryer, Roland G., Jr., "Injecting Charter School Best Practices into Traditional Public Schools: Evidence from Field Experiments," *The Quarterly Journal of Economics*, April 2014, 129(3), pp. 1355-1407; and Calcagno, Juan C. and Bridget T. Long, "The Impact of Postsecondary Remediation Using a Regression Discontinuity Approach: Addressing Endogenous Sorting and Noncompliance," *The National Center for Postsecondary Education Working Paper*, April 2008.

<sup>6</sup> Dynarski, Susan M. and Judith E. Scott-Clayton, "College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid," Hamilton Project Discussion Paper, February 2007 utilized the National Postsecondary Student Aid Study, which combines administrative and survey records. Bettinger, Eric P., et al., "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment," *The Quarterly Journal of Economics*, April 2012, 127(3), pp. 1205-1242 utilized Federal administrative records to

fluenced steps the Administration has already taken to simplify the FAFSA and motivated both Administration and Congressional proposals to make further progress through legislation.

State education data systems have also contributed to the success of the Department of Education's Investing in Innovation ("i3") tiered evidence program, one of the Administration's most successful grant reform efforts. In a tiered evidence grant program, grantees can receive smaller grants under the "Development" (proof of concept) tier to begin testing new models that have high potential; larger grants under the "Validation" tier to further test interventions that have emerging evidence of effectiveness; or the highest level of funding under the "Scale-up" tier when they have strong evidence that their proposed approach delivers impact. Grants in each tier include funding for rigorous evaluations. To date, i3 has funded over 130 innovative Development and Validation studies, as well as six larger Scale-up projects, and it has helped uncover successful interventions in the areas of teacher and principal effectiveness, turning around low-performing schools, and implementing college- and career-ready standards and assessments. Nearly all of i3's Scale-up grantees have used administrative data for their evaluations, as have many of the Development and Validation grantees.

In the health arena, the Centers for Medicare and Medicaid Services (CMS) has a strong and longstanding infrastructure for making administrative data available for statistical uses, including by outside researchers, with strong privacy protections. Medicare claims data have been the basis for important and influential research on regional variation in health care utilization and costs, payment policies, and other topics.<sup>7</sup> The availability of these data is essential to ongoing Center for Medicare and Medicaid Innovation (CMMI) delivery system demonstrations that are testing innovative payment and service delivery models to reduce expenditures while preserving or improving quality. CMS and the Department of Housing and Urban Development (HUD) are also collaborating to match Medicare and Medicaid data with HUD tenant data to evaluate the impact of housing assistance on health care utilization and costs over time. Preliminary findings from 12 jurisdictions were released in 2014,<sup>8</sup> with results feeding into a new demonstration on the cost effectiveness of Federal housing and services interventions that assist seniors who wish to age in place, avoiding the costs of institutionalization.

CMS has also been a leader in using administrative data from Federal programs to provide the public with actionable information about different service providers. In 2014, the Administration for the first time released Medicare utilization and cost data summarized at the physician-level, letting Americans compare their own doctors' practice patterns with national norms. Likewise, the

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measure take-up of financial aid.

<sup>7</sup> See, for example, the Dartmouth Atlas of Health Care project.

<sup>8</sup> Department of Health and Human Services and the Lewin Group, "Picture of Housing and Health: Medicare and Medicaid Use Among Older Adults in HUD-Assisted Housing," March 2014.

CMS “Hospital Compare” feature provides information on how almost every U.S. hospital performs with respect to clinical quality metrics (such as whether patients receive appropriate care in a timely fashion) and hospital readmission rates.

### **Barriers to Effective Use of Administrative Data**

The examples above highlight the potential gains from making greater use of administrative data, including the gains from being able to link administrative data from one program to administrative data or survey data from another (for example, linking education to earnings data). A number of agencies, including those assisting businesses as well as social service programs, are exploring new ways to use and to link administrative data to study program impacts. Unfortunately, there are significant barriers to doing so, which generally fall into three categories.

- **Legislative barriers to access.** Some authorizing statutes explicitly prohibit Federal agencies from sharing data with one another, or even from routinely reusing their own data for statistical purposes. Sometimes, these legislative barriers are oversights, resulting from out-of-date statutes that have not been updated for modern technology and data analytic techniques. In other cases, they may reflect legitimate concerns about privacy and confidentiality that need to be fully addressed in any proposal to expand data access (and are discussed in detail below).
- **Policy and legal interpretations.** Even where data sharing is legally allowed, agencies may be unsure about the rules and may therefore default to the assumption that data cannot be shared. Meanwhile, many agencies do not have established policies and processes for receiving, reviewing, and approving requests for administrative data and for negotiating the agreements typically required before data are provided. As a result, it can take years for other agencies (or even offices within the same agency) to obtain access to needed data, a major barrier to providing timely information to inform policy debates. Anticipated difficulties with negotiating access to data can also discourage agencies from seeking access in the first place.
- **Resource and capacity constraints.** Even when access barriers are cleared, other challenges remain. As noted above, administrative data are often poorly documented, to the point where individuals not involved in administering the relevant program may have no way to know what key variables mean. Data can also be inconsistent and incomplete. Many agencies lack the technological infrastructure and appropriate personnel to make their data interpretable and usable by researchers outside the program, or to conduct their own analysis using administrative data. Moreover, it would be inefficient for every agency to build this technological infrastructure. Meanwhile, agencies that do have these capacities

(including Federal statistical agencies,<sup>9</sup> such as the Census Bureau) may lack the resources needed to negotiate agreements to obtain or share data, to address external researcher requests for access to data, and to assist other agencies in utilizing the data.

### **Ongoing Efforts and Initiatives**

Despite the legal and operational barriers discussed above, OMB and other Federal agencies are making notable progress to improve, expand access to, and better utilize administrative data for statistical purposes. Examples include:

- **OMB guidance on using administrative data for statistical purposes.** Earlier this year OMB issued path-breaking guidance to help both program and statistical agencies better leverage administrative data for statistical purposes. The memo builds on earlier guidance designed to increase the value of existing data and creates “a presumption in favor of openness to the extent permitted by law and subject to privacy, confidentiality, security, or other valid restrictions.”<sup>10</sup> The guidance encourages agencies to develop strong data stewardship and data management processes so that statistical use of administrative data is “designed in” from the start. It also assists agencies in overcoming barriers created by inertia and confusion by addressing a host of legal interpretation, policy, interagency agreement and data quality challenges. Since the guidance was issued last year, agencies have reported to OMB what datasets they would like to acquire and indicated both successes and barriers in acquiring them. OMB has been working with agencies on these priorities and continues to assess how to promote agency progress in using administrative data for statistical purposes.
- **Increased utilization of key administrative data resources and improvements in data quality.** Given the potential of administrative data to complement surveys as the foundation of the nation’s evidence base, Federal statistical agencies continue to pursue additional uses of these data for statistical purposes. For example, the Bureau of Justice Statistics (BJS) is using crime reports from local law enforcement agencies to develop the first-ever time-

<sup>9</sup> “Statistical agency” refers to “an agency or organizational unit of the executive branch whose activities are predominantly the collection, compilation, processing, or analysis of information for statistical purposes” [PL-107-347, Title V—CIPSEA, Section 502 (8)]. The statistical agencies within the executive branch of the Federal Government are: the Bureau of Economic Analysis; the Bureau of Justice Statistics; the Bureau of Labor Statistics; the Bureau of Transportation Statistics; the Census Bureau; the Economic Research Service; the Energy Information Administration; the National Agricultural Statistics Service; the National Center for Education Statistics; the National Center for Health Statistics; the National Center for Science and Engineering Statistics; the Office of Research, Evaluation, and Statistics at SSA; and Statistics of Income at IRS.

<sup>10</sup> See OMB Memorandum M-14-06, “*Guidance for Providing and Using Administrative Data for Statistical Purposes*,” February 2014.

ly, detailed, and accurate national measures of crime incidents, which will increase the Nation's ability to monitor, respond to, and prevent crime. BJS is also using corrections data to produce better longitudinal statistics on offender re-entry and re-integration patterns and costs. Likewise, the National Center for Education Statistics (NCES) is making greater use of student financial aid and enrollment records to increase what the nation knows about the costs of college attendance and student debt. And the National Center for Health Statistics (NCHS) is helping States improve the quality and timeliness of vital birth and death records to help track priority health initiatives in prevention, cancer control, and teenage pregnancy prevention. NCHS is also providing increased secure researcher access to linked survey and administrative data to examine the factors that influence disability, chronic disease, health care utilization, morbidity, and mortality.

- **Improving the use of data at the Department of Labor (DOL).** In FY 2014, DOL established a data analytics unit within the Office of the Chief Evaluation Officer. That office focuses on supporting agencies in their efforts to improve administrative data quality, access data, use data to conduct both simple and complex analysis to answer important program and policy questions, and improve program operations. Agencies within the Department, working independently and in conjunction with the DOL analytics unit, have greatly expanded their data analytics activities in the past year. For example, the Occupational Safety and Health Administration (OSHA) has made great strides in using administrative data from a variety of sources to better identify and target enforcement on severe violators of health and safety standards. The 2016 Budget would establish an OSHA-specific Data Analytics Unit that will support more in depth analysis of data on the effectiveness and impact of OSHA's enforcement, consultation, outreach, and whistleblower protection strategies and activities.

### Budget Proposals

While the Administration is already taking steps to realize administrative data's potential to contribute to evidence building, fully unlocking that potential will require legislative changes. The 2016 Budget includes a package of proposals that aim to overcome the statutory and operational barriers discussed above, making additional administrative data from Federal agencies and programs legally and practically available for policy development, program evaluation, performance measurement, and accountability and transparency efforts. The package reflects two guiding principles:

1. Consistent with the philosophy behind the Administration's "Open Data" Initiative,<sup>11</sup> Federally-funded data should be available to the public and for public purposes to the greatest extent consistent with strong privacy, confidentiality, and data security protections.
2. Federal statistical agencies should be equipped to facilitate reuse of administrative data, including by other Federal agencies and, where safe and appropriate, State and local governments and outside researchers, to answer policy-relevant questions.

As discussed below, the 2016 Budget includes proposals to: (1) improve access to specific administrative data sets; (2) invest in the infrastructure needed to support more effective use of Federal and State administrative data; and (3) lay the groundwork for further progress going forward.

### Expanding Access to Data

Employment and earnings data are among the most valuable Federal administrative data. Because many Federal (and State and local) programs are intended, in whole or in part, to increase employment and earnings, accurate employment and earnings data are needed to construct meaningful performance measures or conduct rigorous evaluations across a range of programs. These data can also shed light on local labor market dynamics and on how different groups are succeeding or failing in the labor market, informing program design.

As noted above, timely and reliable quarterly employment and earnings data are collected as part of administering the Unemployment Insurance (UI) program. While UI data are collected and held by individual States, the Federal government maintains two national databases of quarterly UI records compiled from State data: the Department of Health and Human Services' National Directory of New Hires (NDNH) and the Census Longitudinal Employer-Household Dynamics (LEHD) program. However, both databases are subject to stringent access restrictions, and, despite the fact that Federal government funds support UI data collection, neither is available for most Federal statistical uses. For example, even though the Department of Labor administers the UI system, neither database can generally be used to evaluate the impact of Federally-funded job training programs.

On top of these restrictions on data sharing, the Workforce Investment Act (WIA) has since 1998 prohibited the "development of a national database of personally identifiable information on individuals receiving [WIA] job training services."<sup>12</sup> The implication of the ban is that even if the Department of Labor obtained consent to collect personal identifiers for participants in Federal job training programs, and even if it could then obtain access to UI earnings records, it still could not take advantage of these data to create a national database that could be used to streamline and standardize performance report-

<sup>11</sup> See OMB Memorandum M-13-13, "The Open Data Policy - Managing Information as an Asset," May 2013.

<sup>12</sup> Workforce Innovation Act, Section 504b.

ing and transparency efforts for the workforce system or to evaluate which job training programs work best for what types of beneficiaries. This ban was reiterated in the 2014 reauthorization of WIA (the Workforce Innovation and Opportunity Act or WIOA), despite the fact that WIOA recognized that “[performance] reporting and evaluation requirements are important tools in measuring effectiveness, especially for the core [WIOA] programs.”<sup>13</sup>

The 2016 Budget includes three proposals that would facilitate greater use of employment and earnings data.

First, consistent with bipartisan Congressional proposals, the Budget would allow select Federal statistical and evaluation units to access the NDNH for statistical purposes, subject to strong privacy and confidentiality protections. The proposal would allow NDNH data to be used to evaluate Federal job training and other programs intended to increase employment and earnings, as well as to construct job training service provider “scorecards” based on participant employment and earnings outcomes, consistent with WIOA and the goals laid out as part of the Administration’s review of job-training programs.<sup>14</sup> The proposal would also permit the use of NDNH data to improve the completeness and efficiency of the Census LEHD program and the 2020 decennial census. Access to NDNH could help Census reduce the cost of the decennial census by \$1.2 billion or more by using administrative records to identify who resides in non-responding households. The NDNH access proposal would prohibit the Federal statistical and evaluation units from releasing personally identifiable information, and it includes strong criminal penalties for individuals if they willfully make an unauthorized disclosure. A version of this proposal passed the House of Representatives with bipartisan support in 2013 and the Senate Finance Committee in 2014.<sup>15</sup>

Second, the Budget proposes to eliminate the WIOA database ban. WIOA laid out a vision for a streamlined workforce system that improves outcomes through standardized performance requirements, integrated service delivery, and stronger evaluation requirements. However, it did not include provisions to allow DOL to further streamline, standardize, and more accurately capture the outcome information essential to these goals. Eliminating the WIOA database ban, in combination with granting DOL access to UI records, would greatly simplify ongoing efforts to evaluate job training programs while reducing State burden associated with WIOA performance reporting and transparency requirements. These authorities would also help improve the accuracy and completeness of performance and transparency efforts, by simplifying State efforts to capture outcomes for WIOA participants

<sup>13</sup> 160 Cong. Rec. S3982-3990, “Statement of the Managers to Accompany the Workforce Innovation and Opportunity Act,” daily ed. June 25, 2014.

<sup>14</sup> The White House, “Ready to Work: Job-Driven Training and American Opportunity,” July 2014.

<sup>15</sup> The Budget also proposes to allow NDNH data sharing for certain non-statistical (administrative) purposes that will help make programs more efficient and effective. For principles governing these other NDNH access proposals, see the Department of Health and Human Services’ Administration for Children and Families FY 2016 Justification of Estimates for Appropriations Committees.

who move to another state and making it easier to identify participants who take advantage of multiple WIOA programs.

Third, as part of a broader UI solvency and reform package, the Budget would require States that receive new Federal funding for UI modernization to allow broader statistical use of the UI earnings records they already provide to the Census Bureau for the LEHD. The UI reform package would also provide incentives for States to improve UI data quality and to take advantage of these data to provide UI recipients with better information on workforce opportunities.

Beyond wage data, the Budget includes a number of other proposals that would improve access to important administrative data resources. For example:

- **Expanding access to Medicare data to spur improvements in health care quality.** The Affordable Care Act allowed the Centers for Medicare and Medicaid Services to make certain Medicare claims data available to qualified healthcare research organizations for the purpose of performance evaluation. The Budget expands this authority to allow the data to be used for a broader array of purposes, such as fraud prevention activities and value-added analysis for physicians to enable better care coordination and practice improvement.
- **Providing targeted access to business tax data to improve economic statistics.** Current law authorizes access to business tax data by the Census Bureau, and these data are important for developing timely and accurate economic statistics. However, the Bureau of Labor Statistics (BLS) lacks access to business tax data, and the Bureau of Economic Analysis (BEA) has only limited access. These restrictions prevent sharing of business information for statistical purposes among these agencies, especially for the large and growing non-corporate sector. The Budget proposes to augment BEA’s current access to business tax data and permit BLS to receive Census Bureau data for businesses with limited tax information. This would allow the agencies to collaborate in producing and verifying business datasets, reducing costs and correcting errors that can degrade the quality of key economic statistics.

## Investing in Data Infrastructure

Almost all Federal agencies could make greater use of their own or other agencies’ administrative data to build evidence. In addition, many agencies have data that would be useful to other agencies, other levels of government, or outside researchers for these same purposes. At the same time, not all agencies have the technological infrastructure or the expertise needed to utilize, share, or link data themselves, nor does it make sense to fully duplicate these capacities at every agency.

Federal statistical agencies already play a leading role in bringing together data from multiple sources, protecting privacy and confidentiality and ensuring data security,

using data to create a wide variety of statistical products, and providing secure access to researchers inside and outside of government to conduct a broad array of policy- and program-relevant analyses. The Census Bureau in particular already has much of the infrastructure and capacity needed to serve as a leader for this often highly technical work.

The Budget requests \$10 million in additional funding for the Census Bureau to build on its existing strengths and start developing a more comprehensive infrastructure for linking, sharing, and analyzing key datasets. Specifically, the additional funds would allow the Census Bureau to:

- **Accelerate the process of acquiring and processing additional data sets.** Census has explicit legal authority to request data from any public or private entity, but it generally needs to negotiate access, often a time-consuming and resource-intensive process. Census is already in the process of acquiring Supplemental Nutrition Assistance Program (SNAP) data from States, and additional funding would allow it to accelerate the process of acquiring other Federal and Federally-sponsored program data.
  - **Expand and improve infrastructure for processing and linking data.** As discussed above, because they are collected for program administration rather than statistical purposes, administrative data are often poorly documented, inconsistently formatted, and otherwise difficult to work with. The proposed investment will provide the Census Bureau with resources to document, link, and anonymize additional data sources to make them usable for analysis.
  - **Improve the infrastructure for providing data to non-Census researchers.** Most Census data can be accessed through the Census Bureau's network of Research Data Centers (RDCs), which allow non-Census researchers, including both staff from other Federal agencies or levels of government and outside experts, to access these data. However, limited Census resources sometimes lead to long delays in reviewing and approving RDC project proposals. With additional funding, the Census Bureau would be able to improve and expedite the process of approving proposals to use RDC data. Census would also expand capacity in RDCs and, building on existing models, would offer other statistical and non-statistical agencies the opportunity to make their data available through the RDC network. Finally, the Census Bureau would explore the feasibility and desirability of creating secure virtual access to select datasets, as some other agencies have done.
- **Improve higher education data and increase the Department of Education's capacity to utilize these data to inform policy and management.** The Budget provides \$11.6 million for the second phase of the Department's Enterprise Data Warehouse project, which will allow for deeper analysis of the Federal student loan portfolio and borrower behavior. The Budget also provides increases at NCES for more frequent administration of the National Postsecondary Student Aid Study (NPSAS). The NPSAS, which integrates student aid administrative data with robust survey data on demographics and student experiences, is a leading example of using administrative and survey data together to provide greater insight than either can alone. The Budget proposal will make more timely data on educational costs, financial aid, enrollment, and student progress available to policymakers and the public.
  - **Help States improve their workforce and education data systems.** The Budget includes \$107 million through the Workforce Data Quality Initiative and the State Longitudinal Data Systems grant programs (at the Labor and Education Departments, respectively) to help states build and use integrated and longitudinal data systems across their workforce and education programs. The Budget also includes \$60 million to support state consortia as they modernize their UI tax and benefit systems, which will improve both the claimant experience and the quality of the UI data. Finally, to help address some of the policy and legal interpretations that states grapple with when trying to make better use of their own workforce and education data, the Budget includes funding for a joint DOL and Education team that will serve as the central point of contact and technical assistance for States, Federal programs, and researchers on issues related to accessing, collecting, and using workforce and education data.
  - **Support linking Bureau of Justice Statistics (BJS) data with the Department of Justice's grants management system data.** This proposal would enable the BJS to explore the feasibility of linking its statistical collections to the Department of Justice's grants management system data. Linking these data would shed light on the variation in funding across geographies and over time and on the effects of Federal justice system funding (both by amount and type) on recidivism and other outcomes.

### Setting the Stage for Future Progress

In November, 2014, Representative Paul Ryan and Senator Patty Murray jointly introduced legislation (H.R. 5754/S. 2952) that would create a Commission on Evidence-Based Policymaking. The Commission would be charged with reviewing "the inventory, infrastructure, and protocols related to data from Federal programs and

In addition to the major Census investment, the Budget also includes other investments in making administrative data usable and available for statistical purposes, including proposals that would:

tax expenditures while developing recommendations for increasing the availability and use of these data in support of rigorous program evaluation.”<sup>16</sup> In particular, the Commission would advise Congress on whether and how to create a “clearinghouse” for administrative and survey data that would facilitate accessing and linking data to evaluate program effectiveness and inform domestic policymaking.

The Budget embraces the Ryan/Murray approach, putting forward a similar proposal to create a commission that would make recommendations for how to better utilize administrative data for evidence building. Specifically, the commission would be tasked with recommending how to make additional administrative data available for evaluation and other statistical uses by Federal and outside researchers, what legislative changes are needed to facilitate such access, how to expand access while ensuring data security and fully protecting privacy and confidentiality, and how to improve data quality. As in the Ryan/Murray proposal, the commission would include executive and legislative branch appointees, selected based on their expertise in program evaluation, data analytics, data management, statistics, and privacy. The Budget proposes to fund the commission as part of the Census investment described above and to base the commission at Census to take advantage of the Census Bureau’s extensive expertise in utilizing, linking, and sharing sensitive data while protecting privacy.

### **Privacy, Confidentiality, and Data Security**

Proposals to expand access to data can raise concerns about privacy, confidentiality, and data security. In this context, the term “privacy” includes limiting the collection of personally identifiable information to only that which is required for specific purposes. “Confidentiality” refers to protecting information against unauthorized disclosure by limiting the access and use of personally identifiable information, and “data security” refers to protecting information systems from unauthorized access, use, disclosure, disruption, modification, or destruction. Privacy, confidentiality, and data security are all high priorities for the Administration, and the Administration would not support data access changes without strong technical, legal, and policy protections to mitigate risk and prevent unauthorized use and disclosure of the data. The Census Bureau and other Federal statistical agencies adhere to a robust framework of privacy, confidentiality, and security protections governing the use of personally identifiable information, and these agencies have a long-standing and successful history of collecting, protecting, and making available in secure environments some of the Nation’s most sensitive information (including data on personal health status, immigration status, income, and proprietary business data). Federal statistical agencies are required to follow strict rules and protocols based in Federal law (described below) that include rigorous access and usage protections and other requirements to safeguard personally identifiable information and ensure its appropriate use for statistical purposes. Their

track record shows that it is possible to make extensive use of sensitive data to inform and improve public policy, while also protecting privacy, confidentiality, and security. Notably, response rates observed for Federal surveys administered by the Census Bureau and other statistical agencies have far surpassed private sector surveys, one indicator of the public’s confidence that Federal statistical agencies are able to appropriately safeguard personally identifiable information.

The statistical agencies’ successful record reflects a strong data stewardship framework,<sup>17</sup> key features of which include:

- **Limiting access to authorized statistical use.** As explained above, statistical uses are those that, by definition, do not affect the rights, benefits, and privileges of individuals. Thus, they are inherently protective of individual privacy, since the goal is to learn about groups (e.g. participants in a given program or residents of a given community) and to release only aggregate information. Statistical agencies further limit data access to only those staff with a need to know and to authorized and approved projects.
- **Minimizing direct access to personally identifiable information.** Existing rules and protocols minimize access to directly personally identifiable information, with all users using datasets that have been anonymized to the greatest extent compatible with the intended use. For example, at the Census Bureau, a small specialized unit receives administrative data from other agencies, strips off directly personally identifiable information (e.g. names or Social Security Numbers) and replaces such information with a “protected identification key” before even other Census Bureau employees can use the file.
- **Disclosure review and severe penalties for inappropriate disclosure.** Statistical agencies require expert review of any results that will be made public to protect against inadvertent disclosure of individual information. Existing statutes also provide severe penalties for disclosure of personally identifiable information.
- **Data security standards.** Existing laws and regulations require strong technological and other safeguards for personally identifiable information. Statistical agencies implement stringent confidentiality laws and policies with a comprehensive set of physical and information technology data security practices that protect data throughout the entire chain of custody, including training for everyone who touches the data, even incidentally, firewalls within firewalls

<sup>17</sup> For additional discussion about privacy, confidentiality, and data security protections see the “OMB implementation guidance issued for Title V of the E-Government Act, Confidential Information Protection and Statistical Efficiency Act of 2002” and “OMB Statistical Policy Directive No. 1: Fundamental Responsibilities of Federal Statistical Agencies and Recognized Statistical Units.”

<sup>16</sup> See the Evidence-Based Policymaking Commission Act of 2014.

to protect against unauthorized access, and secure data enclaves to tightly control the process of authorized access. As cybersecurity challenges continue to affect Federal agencies, the protection of the Government's information and information systems has become more critical in safeguarding the confidentiality of personally identifiable information. To further strengthen technological and other safeguards to protect data, the Budget funds key investments to enhance the Federal Government's cybersecurity posture including the Continuous Diagnostics & Mitigation Program, the EINSTEIN intrusion detection and prevention system, government-wide testing and incident response training to mitigate the impact of evolving cyber threats, and investments in cyber research and development to strengthen our cybersecurity defenses.

The Budget would extend this same data stewardship framework to any newly available administrative data. In particular, to the extent data would be made available to or through agencies that are not part of the Federal statistical system, these agencies would be held to the same core standards and would have to demonstrate their ability to meet them. For example, in the case of NDNH, the Department of Health and Human Services (HHS) has robust procedures to ensure that any other agency accessing the data has the required privacy and data security protections in place and has never experienced a data breach

at the Federal level. In particular, HHS reviews the other agency's security posture and those of its contractors, including computer system controls, safeguarding and oversight procedures, and administrative structure.

The commission discussed above would also be charged with making recommendations regarding new privacy, confidentiality, or data security protocols and standards that should accompany further expansions in access to administrative data.

### **Conclusion**

The administrative data package outlined in this chapter fits into the Budget's broader emphasis on tackling challenging but important reforms that are integral to making government work better. Harnessing the full potential of administrative data can improve transparency and support efforts to hold programs and service providers accountable; allow Federal agencies to adopt private-sector best practices for using data analytics to improve performance and customer service; support ongoing innovation and experimentation, coupled with evaluations to learn what works; and permit a greater understanding of the different needs of different groups and communities. The proposals in this chapter represent a first step in this agenda and point the way to uncovering what more needs to be done.



## 8. STRENGTHENING THE FEDERAL WORKFORCE

When President Obama addressed the Senior Leadership corps on December 9, 2014, he described both the challenge and caliber of the Federal workforce:

*"Many of you do what you do at extraordinary sacrifice. You could work at a lot of places. You made a decision at some point in your life to serve your country — your country is stronger because you made that decision. You keep America running — our airports, our embassies, our financial system. You take care of our troops and their families. You do it without fanfare — in fact, doing your job right often means nobody hears about you. They only report when something goes wrong, or when there's a shutdown and suddenly somebody notices — oh, we need that and nobody is doing it."*

Historically, this sentiment has had bipartisan support. President George H.W. Bush stated, "There is nothing more fulfilling than to serve your country and your fellow citizens and do it well. And that is what our system of self-government depends on." The Federal Government is America's largest employer, with more than 2.1 million civilian workers and 1.3 million active duty military who serve in all 50 States and around the world. About 85 percent of Federal employees work outside of the Washington, D.C. metropolitan area, and the majority of Federal employees directly serve the public. Federal employees are our neighbors, civic leaders, and taxpayers, too. The Federal Government is the Nation's largest employer of doctors, and employs individuals responsible for protecting our forests, waterways and parks, and providing grants for research, housing, and education. Every day, Federal employees actively collaborate with the private and nonprofit sectors to advance our national priorities. During five years of delayed budgets, sequestration, pay freezes and award caps, Federal employees have come in every day to serve their country. In 2014 alone, Federal employees addressed a wide range of national priorities – from responding to the Ebola outbreak to working to end veterans' homelessness to implementing the Affordable Care Act that helped millions obtain affordable health care. Thanks in part to the efforts of Federal employees, the economy is recovering. The annual unemployment rate in 2014 fell 1.2 percentage points from the previous year, the largest annual decline in the last 30 years.

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 2016 Budget. Second, it outlines the shifts in composition of the Federal workforce over the past decades. Third, the chapter lays out some

of the challenges the Federal workforce has faced, such as recent pay freezes, sequester, furloughs, and government shutdown. Finally, it discusses the Administration's recent accomplishments and future plans to fully capitalize on the talents in the Federal workforce today, and recruit and develop the capabilities we need to serve the American people tomorrow.

The President is committed to supporting the development of the Federal workforce. One of the four pillars of the President's Management Agenda (PMA) is People & Culture, focused on unlocking the full potential of today's Federal workforce and building the workforce we need in the future. This Cross-Agency Priority (CAP) Goal will improve how we effectively hire, engage and lead our workforce. Focusing on removing frustrating barriers that can prevent Federal employees from accomplishing their mission will allow us to achieve the breakthroughs and daily operational success that the American public expects, and fixing broken administrative processes while focusing on mission outcome will allow agencies to properly allocate resources and concentrate on outcomes.

### Trends in Federal Workforce Size

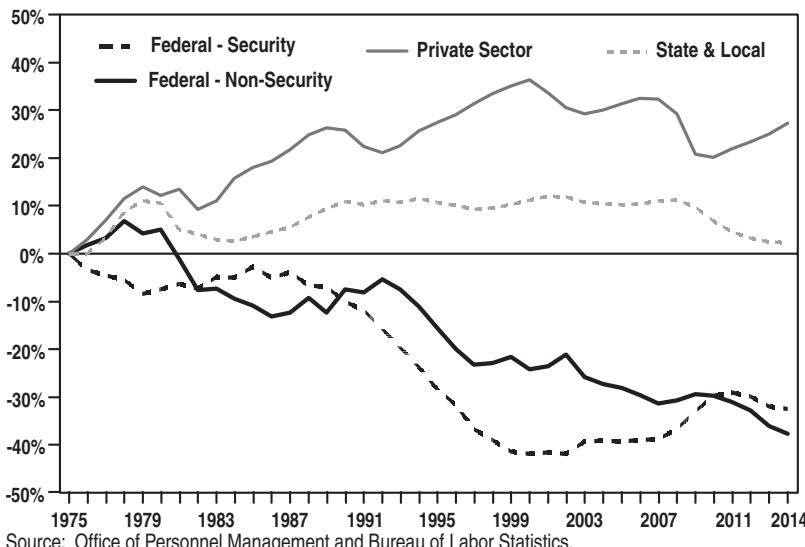
#### Long-Term Trends

The size of the Federal civilian workforce relative to the country's population has declined dramatically over the past several decades, with occasional upticks due, for example, to military conflicts and the administration of the Census. Since the 1960s, the U.S. population increased by 66 percent, the private sector workforce increased 131 percent, and State and local government workforces (excluding education workers) increased 127 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), compared to increases in the private sector and State and local governments (excluding education). Since 1975, the security and non-security parts of the Federal workforce have declined 33 and 38 percent, respectively, relative to the population, but the patterns in the declines differ. As could perhaps be expected, the Federal security workforce (63 percent of the current Federal civilian workforce) has largely tracked the history of U.S. engagement in conflict overseas – it fell at the end of the Vietnam War, increased in the early 1980s, and dropped significantly compared to the civilian population as the Cold War ended. That decline reversed itself after 9/11 and with the onset of the

<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



Notes: Federal excludes the military and Postal Service. Security agencies include the Department of Defense, the Department of Homeland Security, the Department of State, and the Department of Veterans Affairs. Non-security agencies include the remainder of the Executive Branch. State & Local excludes educational workers.

wars in Iraq and Afghanistan. After remaining mostly steady, the non-security workforce decreased drastically in the 1980s. While the 1990s reversed some of that decline, the non-security Federal workforce has declined by about 35 percentage points relative to the private sector since 1992.

The divergent trends in Chart 8-1 are striking. While the evolution of the Federal security workforce largely tracks major foreign policy developments, the reasons for the decline in the non-security Federal workforce are less clear, particularly given increasing responsibilities at many Federal agencies. The Government Accountability Office reports declines in the workforce between 2004 and 2012 in the Departments of Agriculture, Education, Housing and Urban Development, Interior, the Environmental Protection Agency, GSA, NASA, and the Social Security Administration. In the same period 94 percent of the Federal workforce growth occurred in the Departments of Defense, Veterans Affairs, and Homeland Security.<sup>2</sup>

Possible explanations for the relative decline of the non-security Federal workforce include: (1) relative increases in efficiency in the Federal sector; (2) an increase in the contract workforce (which likely also plays a role on the security side); and (3) shifting of some duties of the Federal government to State and local governments. Also noteworthy, both an increased reliance on a contract workforce and shifting responsibilities to State and local governments have required the Federal workforce to take on greater management roles over time. As discussed in greater detail below, this may help explain why the skill level of the Federal workforce (as measured by education-

al level attained) has increased faster than that of the private sector workforce. Still, it is unclear if these increases in education level have been fast enough to keep up with the increased demands on the Federal workforce.

### Short-Term Trends

Table 8-1 shows actual Federal civilian full-time equivalent (FTE) levels in the Executive Branch by agency for fiscal years 2013 and 2014, with estimates for 2015 and 2016. Estimated employment levels for 2016 result in an estimated 1.6 percent increase compared to 2015, or approximately 34,000 Federal jobs. This increase is primarily driven by growth at the Department of Veterans Affairs to strengthen the timeliness and quality of services to veterans and to implement the Veterans Choice Act; and restoring cuts made to the Department of the Treasury's Internal Revenue Service (IRS) to improve customer service, program integrity efforts, and tax enforcement.

In recent years, the Executive Branch has had made considerable progress hiring veterans, and the Federal government continues to benefit from retaining the dedication, leadership, and skills these veterans have honed. In November 2009, President Obama signed Executive Order 13518, establishing the Veterans Employment Initiative and establishing the Council on Veterans Employment. 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 government-wide, and 54 percent 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, or 29 percent of the workforce. By the end of FY 2013 (the most

<sup>2</sup> <http://www.gao.gov/assets/670/660449.pdf>.

**Table 8-1. 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: 2015 to 2016	
	2013	2014	2015	2016	FTE	Percent
<b>Cabinet agencies:</b>						
Agriculture .....	88.0	86.1	91.1	91.8	0.7	0.8%
Commerce .....	39.9	39.5	43.6	45.1	1.5	3.4%
Defense .....	738.3	723.9	744.5	741.6	-2.9	-0.4%
Education .....	4.1	4.0	4.0	4.3	0.3	7.5%
Energy .....	15.3	15.0	16.1	16.2	0.1	0.6%
Health and Human Services .....	70.1	69.9	72.8	75.4	2.6	3.6%
Homeland Security .....	183.7	183.2	185.7	189.5	3.8	2.0%
Housing and Urban Development .....	8.7	8.4	8.6	8.9	0.3	3.5%
Interior .....	67.3	64.4	66.9	68.3	1.4	2.1%
Justice .....	114.8	112.4	117.4	119.3	1.9	1.6%
Labor .....	17.2	16.7	17.1	17.9	0.8	4.7%
State .....	33.2	33.1	33.3	33.3	0.0	0.0%
Transportation .....	55.9	54.1	56.2	57.1	0.9	1.6%
Treasury .....	102.3	99.2	97.9	107.3	9.4	9.6%
Veterans Affairs .....	312.8	323.0	342.3	353.9	11.6	3.4%
<b>Other agencies—excluding Postal Service:</b>						
Broadcasting Board of Governors .....	1.8	1.7	1.9	1.9	0.0	0.0%
Corps of Engineers—Civil Works .....	22.4	21.8	22.5	22.5	0.0	0.0%
Environmental Protection Agency .....	15.8	15.3	15.5	15.5	0.0	0.0%
Equal Employment Opportunity Commission ..	2.1	2.1	2.3	2.4	0.1	4.3%
Federal Deposit Insurance Corporation .....	7.7	7.3	7.3	7.1	-0.2	-2.7%
General Services Administration .....	11.9	11.5	12.0	11.8	-0.2	-1.7%
International Assistance Programs .....	5.4	5.5	5.6	5.6	0.0	0.0%
National Aeronautics and Space Administration ..	17.9	17.7	17.6	17.4	-0.2	-1.1%
National Archives and Records Administration ...	3.0	2.9	3.0	3.0	0.0	0.0%
National Labor Relations Board .....	1.6	1.5	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 .....	3.7	3.8	3.8	3.8	0.0	0.0%
Office of Personnel Management .....	5.3	5.0	5.4	5.5	0.1	1.9%
Railroad Retirement Board .....	0.9	0.9	0.9	0.9	0.0	0.0%
Securities and Exchange Commission .....	4.0	4.2	4.4	4.9	0.5	11.4%
Small Business Administration .....	3.9	3.3	3.3	3.3	0.0	0.0%
Smithsonian Institution .....	5.1	4.9	5.3	5.5	0.2	3.8%
Social Security Administration .....	62.5	60.8	64.3	65.5	1.2	1.9%
Tennessee Valley Authority .....	12.6	11.3	11.7	11.6	-0.1	-0.9%
All other small agencies .....	17.4	17.6	18.5	19.2	0.7	3.8%
<b>Total, Executive Branch civilian employment*</b> ..	<b>2,058.0</b>	<b>2,033.4</b>	<b>2,105.8</b>	<b>2,140.3</b>	<b>34.5</b>	<b>1.6%</b>

\* Totals may not add due to rounding.

recent available data), the number of veterans had grown to over 607,000, or 30 percent of the Federal workforce, and represented 47 percent of the workforce at DOD. By comparison, veterans comprise approximately 6 percent of the private sector non-agricultural workforce.

### Attributes of the Federal Workforce

The previous section describes the long-term decline in the size of the Federal workforce relative to the U.S. 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, results in Federal jobs that have become increasingly complex and require 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 possessing such degrees is growing.

**Table 8-2. 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 .....	1.9%	0.6%
Engineers .....	4.0%	1.9%
Scientists and social scientists .....	4.9%	0.7%
Managers .....	11.7%	13.7%
Pilots, conductors, and related mechanics .....	2.0%	0.5%
Doctors, nurses, psychologists, etc. ....	8.0%	6.2%
Administrators, accountants, HR personnel .....	6.5%	2.7%
Miscellaneous professionals .....	15.2%	8.7%
Inspectors .....	1.4%	0.3%
<b>Total Percentage</b> .....	<b>55.6%</b>	<b>35.2%</b>
<b>Medium Paid Occupations Ranked by Private Sector Salary</b>		
Sales including real estate, insurance agents .....	1.1%	6.2%
Other miscellaneous occupations .....	3.2%	4.4%
Automobile and other mechanics .....	1.8%	3.0%
Law enforcement and related occupations .....	9.2%	0.8%
Office workers .....	2.5%	6.2%
Social workers .....	1.4%	0.6%
Drivers of trucks and taxis .....	0.7%	3.2%
Laborers and construction workers .....	4.0%	9.3%
Clerks and administrative assistants .....	13.5%	11.2%
Manufacturing .....	2.5%	7.5%
<b>Total Percentage</b> .....	<b>40.0%</b>	<b>52.3%</b>
<b>Lowest Paid Occupations Ranked by Private Sector Salary</b>		
Other miscellaneous service workers .....	2.2%	5.9%
Janitors and housekeepers .....	1.4%	2.4%
Cooks, bartenders, bakers, and wait staff .....	0.8%	4.1%
<b>Total Percentage</b> .....	<b>4.4%</b>	<b>12.4%</b>

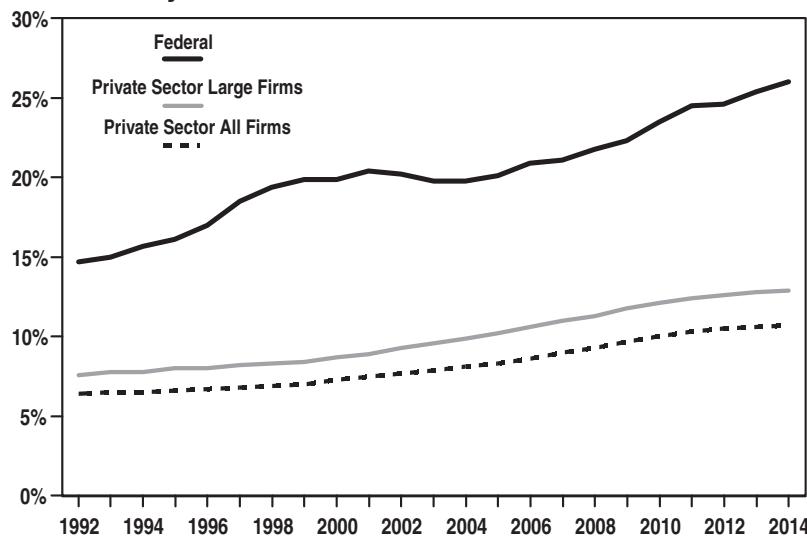
Source: 2010-2014 Current Population Survey, Integrated Public Use Microdata Series.

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.

**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 filing or data entry. Today their jobs are vastly different, requiring advanced skills to serve a knowledge-based economy. For example, the IRS previously required thousands of employees in warehouses to print and sort hard-copy tax returns, while thousands more manually adjudicated the returns. With the majority of tax returns now electronically filed, the IRS today requires more forensic accountants and analysts rather than warehouse clerks. 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 and the private sector.

Using data from the Bureau of Labor Statistics, of full-time, full-year workers, Table 8-2 breaks all Federal and private sector jobs into 22 occupation groups to demonstrate the differences in composition between the Federal and private workforces. 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 FY 2008 to FY 2012. More than half (56 percent) of Federal workers are employed 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 contrast, 12 percent of private sector workers are employed in the three lowest-paying occupation groups, as cooks, janitors, service workers, etc. Only about 4 percent of Federal workers are employed in those three lowest-paying occupation groups.

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



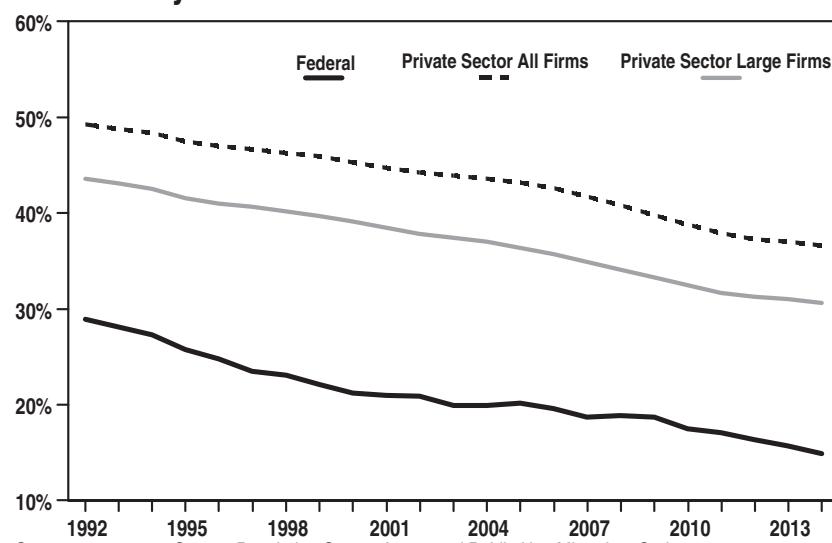
Source: 1992-2014 Current Population Survey, Integrated Public Use Microdata Series.

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 workers, i.e. those with at least 1,500 annual hours of work and presents five-year averages.

**Education level.** The complexity of much Federal work – whether that work is analyzing security or financial risk, forecasting weather, planning bridges to withstand extreme events, conducting research to advance human health or energy efficiency, or pursuing scientific advancements in a laboratory – 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); in 2014 there were 74 percent more highly educated Federal workers than less educated workers.

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



Source: 1992-2014 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 workers, i.e. those with at least 1,500 annual hours of work and presents five-year averages.

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 less than half that of the Federal sector and the rate of growth over the last decade is only about half as fast.

**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 – distributing benefit payments to over 66 million Social Security and Supplemental Security Income beneficiaries each year, providing medical care to 8.9 million veterans, or managing defense contracts costing billions of dollars. Data shows that workers from large firms (those with 1,000 or more employees) are paid about 15 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. 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 8-2 and 8-3).

**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 45.6 years old – up 2.8 years from 20 years ago and higher than the average age of 42.1 years old in the private sector (even in large firms). Chart 8-4 shows the trends in average age

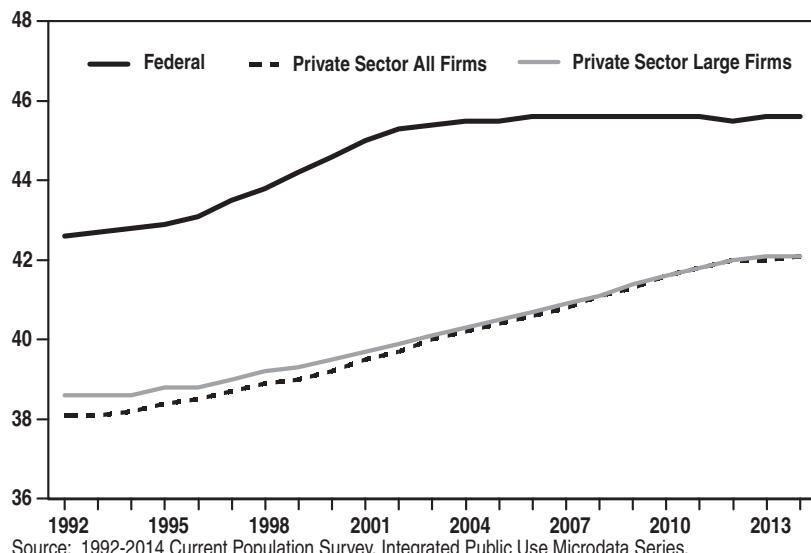
in both the Federal and private sectors over the past two decades.

### Federal Compensation Trends

Chart 8-5 shows how increases in the Federal pay scale have compared to increases in 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.

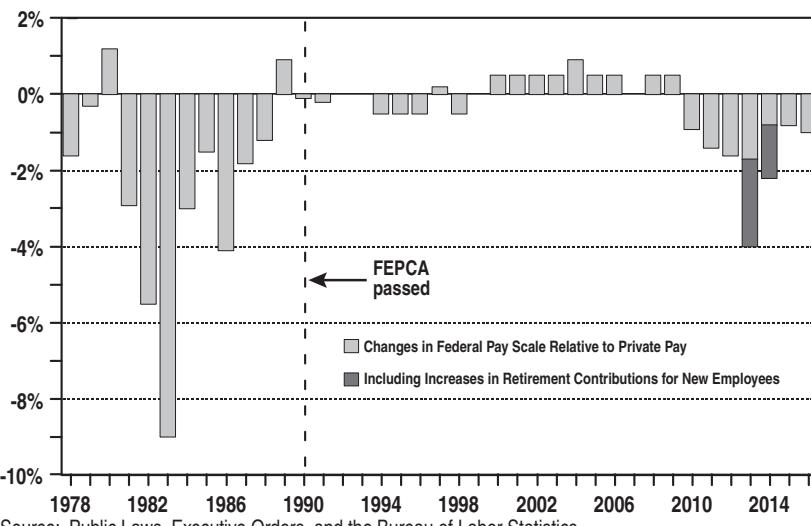
While increases in Federal and private sector pay remained fairly even during the early 1990s, private sector pay incrementally rose in comparison to the public sector in the mid-1990s. That trend reversed itself in the 2000s when the Federal pay scale rose relative to private sector wages. Over the last few years, however, Federal sector wages have fallen consistently and significantly relative to the private sector. This primarily reflects the recent Federal pay freezes, discussed in further detail below. Furthermore, newly hired Federal employees have been required to pay additional contributions towards retirement, effectively a pay reduction relative to their longer-employed colleagues. In 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 with less than

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



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 workers, i.e. those with at least 1,500 annual hours of work and presents five-year averages.

**Chart 8-5. Pay Raises for Federal vs.  
Private Workforce, 1978-2016**



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 Employment Cost Index wages and salaries, private industry workers series, lagged 15 months.

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. Taking into account both the recent pay freezes and the changes in retirement contributions, earnings for new Federal employees since these changes have fallen more than 10 percentage points relative to the private sector between 2009 and 2015.

The President ended the three-year pay freeze with a one percent pay increase for General Schedule employees in 2014 and 2015. The 2016 Budget assumes a 1.3 percent pay increase in 2016 to help the Federal Government remain competitive in attracting and retaining a high-caliber workforce.

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

Federal worker compensation receives a great deal of attention, particularly in comparison to that of private sector workers. Comparisons of the pay and benefits of Federal employees and private sector employees must 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, and should account for all types of compensation, including pay and bonuses, health benefits, retirement benefits, flexibility of work schedules, job security, training opportunities, and profit sharing.

A series of reports released 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 compara-

ble private sector pay. CBO reported that overall Federal sector compensation (including benefits) was on average substantially higher, but noted that its findings about comparative benefits 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 factors such as training opportunities and profit sharing that favor the private sector.

Perhaps more importantly, CBO 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 may not be the most efficient use of 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 found that Federal pay is (on average) roughly in line with private sector pay, the Federal Salary Council found that in 2014 Federal jobs paid 35 percent less than comparable non-Federal jobs.

There are 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 studies ask fundamentally different questions, so their different answers are not necessarily in conflict. It could be the case that Federal and private sector workers with similar characteristics are paid about the same, but that jobs in the Federal sector are underpaid relative to their private sector counterparts. That would imply that, at least in some jobs, the Federal government could have 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, an aging and retiring workforce, and the need to engage a future generation of Federal workers. If the Government loses top talent, experience, and institutional memory through retirements, but cannot recruit, retain, and train highly qualified workers, performance suffers. While the current Federal age distribution and potential for a large number of retiring workers poses a challenge, it also creates an opportunity to reshape the workforce and to infuse it with new workers excited about government service and equipped with strong management skills, problem-solving ability, technology skills, and fresh perspectives. A national climate of criticism of service in the Federal bureaucracy makes it difficult to recruit the needed workforce and convince them to commit their talents and develop into future leaders. President Obama, when welcoming employees back from the 2013 shutdown, explicitly made his pitch:

*"We have work to do, and the American people are counting on us to get it right. Those of us who have the privilege of serving this country may come from different parties, but we are Americans first. Each of us has specific responsibilities we are charged with carrying out on behalf of the American people, and we have an obligation to do it the best we can. I look forward to working with all of you to make sure we meet the high expectations of the citizens we serve."*

### **Outdated Personnel System**

In the past sixty years, the private sector has developed innovative and more flexible personnel management systems, but the Federal personnel system has not kept up. While recent hiring reform efforts are showing some progress in simplifying hiring, additional reforms are needed to update the hiring, pay, classification, benefits systems, and the performance management process, including how

to reward top performers and address low performers. 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 to reflect today's employee and family structures. The Administration is committed to developing an alternative, cost-effective system that will allow the Government to compete for and reward top talent, incentivize performance, and encourage adequate flexibility to family caregivers, among other requirements.

To that end, the Administration proposed to the Joint Select Committee on Deficit Reduction that the Congress establish a Commission on Federal Public Service Reform comprised of Members of Congress, representatives from the President's National Council on Federal Labor-Management Relations, members of the private sector, and academic experts. The 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.

One clear manifestation of the challenges of the GS system is the continued requests for additional flexibilities and authorities that the agencies need to effectively manage their workforce. The various pay authorities and flexibilities create differentiation among agencies, placing some at a competitive disadvantage to recruit similar talent. While a fragmented personnel system may indeed provide needed customization, today's personnel strategy and oversight are hampered by a legacy centralized rule-making structure and is largely ineffective. Quite simply, a 21<sup>st</sup> Century Government cannot continue to operate using 20<sup>th</sup> Century processes.

### **Aging Workforce**

The Federal workforce of 2014 is both older than Federal workforces of past decades and older than the private sector workforce. The number of Federal retirements has steadily increased, rising from 95,425 in 2009 to peak at 114,697 in 2013. The 101,568 Federal retirements in 2014 represent approximately five percent of the workforce, and increases in retirement are expected to continue. Twenty-five percent of respondents to the 2014 Employee Viewpoint Survey (EVS) expressed an intent to retire during the next five years, with four percent retiring in the next year alone. 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 EVS measures employee engagement, defined as employees' sense of purpose, evident in their display of dedication, persistence, and effort in their work or overall attachment to their organization and its mission. The 2014 EVS results demonstrated that Federal employees continue to be engaged in their work, with just a one percent decrease reported in the year after a lapse in appropriations caused Federal offices to temporarily close. However, while levels of employee engagement have remained relatively steady, the continued declines across approximately one-third of the EVS questions serves as an important warning about the long-term consequences of the pay freezes, sequestration, and budget uncertainty that have driven the government-wide declines in satisfaction over the past three years.

One well-documented challenge in any organization is managing a workforce so it is engaged, innovative, and committed to continuous improvement. Federal employees are extremely positive about the importance of their work and repeatedly express a willingness to put in extra effort to accomplish the goals of their agencies. Results from the 2014 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 budgetary constraints have impacted a variety of issues that are important to Federal agencies and employees. For example, the number of employees reporting that their training needs were met dropped by five percentage points between 2012 and 2014, evidence of the impact that budget reductions have on workforce development. There are also cultural and management issues that must be addressed as evidenced by only 55 percent of employees government-wide "feel encouraged to come up with new and better ways of doing things."

OPM has developed the EVS Employee Engagement Index, an important tool to measure the conditions likely to lead to employee engagement. The 2014 EVS results reflected a slight government-wide decline in two of the three subfactors (Leaders Lead, Supervisor/Employee Relationships, and Intrinsic Work Experiences) that comprise the index. While ratings of Leaders Lead and Intrinsic Work Experience had a slight decline, ratings for Supervisors rose to 71 percent. Engaging agency leaders and managers to make improvements in these areas is a top priority of the President's Management Agenda, as discussed below.

### **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. 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 ad-

ministratively 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 continuing. Looking forward, tight discretionary caps for 2016 and the possible resumption of sequester in 2016 will make it increasingly challenging for the Federal government to keep pace with the private sector, especially in hard to recruit fields, both in terms of pay and in areas such as training.

### **Addressing Federal Workforce Challenges**

The Administration is committed to further accelerating its employee performance and human capital management. These initiatives are a core component of the President's Management Agenda, as discussed in 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) hiring and performance appraisal systems, 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 Human Resources Statistics (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 components within agencies for which office-specific results are available. Whereas only 1,687 components received results in 2011, more than 21,000 offices received results in 2014. 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. The 2014 release of *UnlockTalent.Gov*, a new OPM dashboard that provides engagement and satisfaction indices, allows managers across the agency to review their own data in comparison to the rest of government and their agency. The Budget continues its investment in OPM's data analytics to increase the number of data sets available to Federal managers.

Elevating employee engagement is a top priority for the Administration. In December 2014, the Director and Deputy Director of OMB, Director of OPM and Deputy Director of the White House Presidential Personnel Office co-signed a memorandum to the Heads of all Agencies that outlined the linkage between strengthening employee engagement and organizational performance. Building on strong evidence from the private sector and case studies within the Federal Government, Senior Leaders will be held accountable for ensuring that employee engagement is a priority and becomes an integral part of the performance-management system.

Since 2012, Chief Human Capital Officer (CHCO) level agencies have utilized HRstat reviews. These quarterly data-driven reviews, which are led by the agency CHCOs in collaboration with the designated agency Performance Improvement Officer (PIO), focus on agency-specific human capital performance and key human resources management metrics. 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 completed the HRstat pilot, so that now all CHCO agencies are implementing the quarterly data-driven reviews. To further assist agencies in implementing and sustaining HRStat, OPM developed an "HRStat maturity model" and stood up a Community of Practice to work collaboratively across government on standards, guidance, tools, training and best practices. These products will be developed and rolled out in 2015, to ensure all agencies continue to mature their HR capabilities.

#### ***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>3</sup>, the Administration's focus on employee engagement and mission performance are

<sup>3</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

crucial ingredients to supporting a Culture of Excellence that can improve all Federal services, and is an important component of the Management Agenda. As the President said in his remarks to the SES on December 9, 2014: "One of the things that we know in the private sector about continuous improvement is you've got to have the folks right there on the front lines able to make suggestions and know that they're heard, and to not simply be rewarded for doing an outstanding job, but to see their ideas implemented in ways that really make a difference."

In 2014, OPM created an engagement dashboard based on EVS and other human resource data that serves as an accessible tool for Chief Operating Officers and supervisor alike. When coupled with agency mission performance data, this information provides 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, OPM launched GovConnect, which consists of a set of tools being piloted by several agencies 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. Consistent with recommendations from the President's Management Council, OPM will help agencies understand the authorities they have and how to use them effectively to spread best practices to deal with poor performers who fail to improve as needed or are ill suited to their current positions.

As capabilities are enhanced and credibility is built, these efforts will incorporate continuous improvement in learning and development opportunities and tools available to Federal managers and employees. 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 examined the SES hiring process to identify efficiencies and to ensure we have effective processes for hiring the best executive talent. We are building 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. 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. A half dozen agencies volunteered to pilot possible solutions, including new recruitment, application, and onboarding processes changes. The Budget also provides OPM with funding to develop and pilot new assessments that could reduce the time to hire while improving the quality of the selection.

The Administration launched two new programs to focus on specific senior leadership changes. The White House Advisory Group on SES Reform will play a key role in providing input on the core components of the Administration's efforts to improve the SES corps. Recommended by their agency leadership, these individuals are highly effective SES, Senior Level, and Senior Technical professionals and aspiring SES who will provide a broad set of advice on the current and future state of the senior career leadership. The group will play a key role in improving the way we recruit, hire, develop, and retain top senior career leaders. The White House Leadership Development Program for Future Senior Career Executives will provide top civil servants and SES candidates with rotational assignments with leaders responsible for driving progress on Cross-Agency Priority Goals. The program is a step towards fulfilling the vision of the Senior Executive Service and developing a cadre of senior civil servants with critical skill sets such as leading change, building coalitions, working across government to solve problems, and performance management. The first cohort will start in 2015.

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

The Administration is committed to working with labor groups, universities, nonprofits and the private sector 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. OPM is working individually with agencies Government-wide to "untie the knots" that previously hindered effective recruitment and hiring.

The Federal Government has also made progress towards pay equality. Based on recent studies, the gap between average male and female salaries in the Federal Government is about half the gap in the private sector.

#### ***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. While the Federal leave system has been enhanced over the years and is generally regarded as providing good benefits and flexibilities, there is room for further enhancements that would help the Federal Government in its efforts to recruit and retain a quality workforce.

On June 23, 2014, the President issued a broadly focused Presidential Memorandum (PM) on Enhancing Workplace Flexibilities and Work-Life Programs that directs agency heads to ensure that various workplace flexibilities are available 'to the maximum extent practicable,' including the advancement of leave for employee and family care situations. The June PM requires that agencies review and assess the efficacy of existing workplace flexibilities and work-life programs in meeting employee needs.

While Federal workers already have access to paid sick leave and vacation time, the government has fallen behind industry-leading companies and offers no paid time off specifically for family or parental leave. In order to recruit and retain the best possible workforce to provide outstanding service to American taxpayers, the President is proposing legislation that would provide federal employees with six weeks of paid administrative leave for the birth, adoption, or foster placement of a child. In addition, the proposal would allow parents to use sick days to care for a new child. In doing so, the proposals will strengthen Federal recruitment and retention, and make significant progress in bringing Federal parental leave policies in line with benefit programs already provided by many companies, while also encouraging wider adoption of such standards in the private sector. The costs of providing this benefit will be covered within agency budget requests for salaries and expenses.

The President also signed a Presidential Memorandum in January, 2015, directing agencies to allow for the advance of 30 days of paid sick leave for parents with a new child, employees caring for ill family members, and other sick leave-eligible uses. This will allow new mothers the opportunity to recuperate after child birth, even if they have not yet accrued enough sick leave. It will also allow spouses and partners to care for a new mother during her recuperation period and both parents to attend proceedings relating to the adoption of a new child. Finally, it directs agencies to consider a benefit some agencies already provide—help finding, and in some cases subsidizing, emergency backup child care (as well as backup care for seniors and adults with disabilities) that parents can use for a limited numbers of days per year when they need to go to work but their regular care is not available. Some agencies provide this benefit through their Employee Assistance Program and it can help parents with a temporary need for safe care for their children.

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 2014 EVS indicated that teleworkers are more likely to feel empowered (46 percent versus 40 percent), and more likely to be satisfied with their jobs (68 percent compared to 63 percent of non-teleworkers). Finally, employees who telework are more likely to want to stay with their agencies (67 percent compared to 63 percent of non-teleworkers) and to recommend their agencies to others (67 percent compared to 63 percent of non-teleworkers). As documented by OPM's 2013 report on the status of telework (the most recent available), 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. Equally important, the number of employees deemed eligible to telework increased by nearly 50 percent from 2011 to 2012. However, there is still more work to be done in breaking down barriers to the effective use of telework.

### **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 was launched in response to the President's 2012-2013 CAP Goal to close skills gaps, as well as GAO's designation of human capital as a Government-wide high risk area. 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: 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. In 2015, the workgroup is expanding its work to more broadly involve subject matter experts and examine more series.

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, by providing updated metrics that will be reported on Performance.gov.

OPM will continue to work with these occupations' leaders to close skill gaps. In Cybersecurity, OPM has completed a major initiative to populate the EHRI database with a Cybersecurity data code that designates which Federal positions work in the Cybersecurity func-

tion, and in which specialty area. In FY 2014, all agencies met their targets to add a Cybersecurity identifier to all relevant positions. In FY 2015, OPM is validating and analyzing the data to identify tools that can be applied to workforce planning for this occupation, which poses high risk to the Federal government if the positions are not filled. In the STEM functional area, a specific Pathways Program was developed for attracting STEM applicants for the Presidential Management Fellows opportunity. The PMF-STEM Pathways track was piloted during FY 2014. 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 roles. OPM is assisting the Auditor occupational area in studying what changes are needed to the classification and qualification requirements to increase 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 gap closure is particularly dependent on a strong HR workforce that 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 registered 77 percent of the human resources workforce onto HR University by September 30, 2014. In FY 2015, OPM will continue to engage with agencies to register additional HR specialists and to identify additional courses that can be added to the site.

## ***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 has implemented 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. Agencies are currently developing policies to fully implement Phased Retirement to maximize the benefits. 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. OPM continues to 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 called the New Inclusion Quotient (New IQ) that represents each work unit's inclusive intelligence 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 recognizes that increased availability of this data is not sufficient. Fostering inclusive work environments and realizing the full potential of our workforce's diversity requires agencies to employ effective management practices. OPM's change management tools 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 for diversity and inclusion in the workplace.

## ***Strengthening Labor-Management Relations***

In early FY 2015, OPM released a report on "Labor Management Relations in the Executive Branch," describing how labor-management relations are structured and how they operate in the Federal Government. This report detailed examples of the benefits that can result from strengthening labor-management relationships. Specifically, improving labor-management relations facilitates opportunities for agencies to improve their performance.

The Administration continues to fulfill the robust vision laid out in Executive Order 13522, Creating Labor-Management Forums to Improve Delivery of Government Services. Issued in 2009, this Executive Order created a National Council, which meets regularly to coordinate Government-wide efforts, and a multitude of labor-management 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.

At the Council's meetings, representatives from both management and labor regularly provide details about their efforts to improve performance and productivity at their agencies by working together. Recently, the Council heard from participants in the U.S. Department of Justice, Bureau of Prisons and the American Federation of Government Employees, Council of Prison Locals, C-33's labor-management forum. These presenters credited improvements in their labor-management relationship with the issuance of new policies developed in collaboration and which would enhance the safety of employees throughout the agency. The Council also heard from participants in the forum between the Department of Treasury, Bureau of Engraving and Printing, and its Joint Labor Council, which represents 15 different labor organizations. This group has engaged in pre-decisional involvement, consistent with Executive Order 13522, and has used it to foster employee engagement. As a result of these efforts, their agency's standing in the Partnership for Public Service's Best Places to Work in the Federal Government rankings improved from #219 in 2010 to #47 in 2013.

The Council will continue to seek ways to spread these and other labor-management successes to other agencies in 2015 and 2016. One method employed by the Council has been to develop training and guidance to assist forums with successfully engaging in pre-decisional involvement and with using metrics to track their activities. More work in these areas is anticipated for 2015 and 2016. The Council has also partnered with the Chief Human Capital Officers (CHCO) Council to explore the relationship between effective labor-management relations and employee engagement, and to assist agencies with enhancing both areas. 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.

### Honoring a World-Class Workforce

Federal Employees make a difference every single day in the lives of millions of people across the country and around the world. President Obama closed his December 2014 address to the Senior Leadership corps thanking them and stating:

*"Knowing that when you wake up every day, you have the chance to maybe make sure that somebody who didn't have a job last week has a job; to make sure that somebody who is driving to work gets there safely because the road is safe; to make*

*sure that somebody who didn't have health care now has it, and as a consequence, are able to catch that disease before it kills them; to make sure that some child somewhere that doesn't have much of a chance suddenly gets that chance, and their whole world, their whole life suddenly unfolds differently because of what you did. What an incredible privilege that is. What better way to spend your careers than what you do right now. I want you to wake up every day knowing that the President of the United States appreciates you for making that difference."*

**Table 8-3. TOTAL FEDERAL EMPLOYMENT**

(As measured by Full-Time Equivalents)

Description	2014 Actual	2015	2016	Change: 2015 to 2016	
		Estimate	Estimate	FTE	Percent
<b>Executive Branch Civilian:</b>					
All Agencies, Except Postal Service .....	2,033,394	2,105,847	2,140,290	34,443	1.6%
Postal Service <sup>1</sup> .....	569,513	569,201	559,740	-9,461	-1.7%
Subtotal, Executive Branch Civilian .....	2,602,907	2,675,048	2,700,030	24,982	0.9%
<b>Executive Branch Uniformed Military:</b>					
Department of Defense <sup>2</sup> .....	1,411,373	1,364,837	1,343,401	-21,436	-1.6%
Department of Homeland Security (USCG) .....	40,557	41,851	41,576	-275	-0.7%
Commissioned Corps (DOC, EPA, HHS) .....	7,128	7,236	7,231	-5	-0.1%
Subtotal, Uniformed Military .....	1,459,058	1,413,924	1,392,208	-21,716	-1.5%
Subtotal, Executive Branch .....	4,061,965	4,088,972	4,092,238	3,266	0.1%
Legislative Branch <sup>3</sup> .....	29,674	33,839	33,448	-391	-1.2%
Judicial Branch .....	32,072	33,158	33,313	155	0.5%
<b>Grand total</b> .....	<b>4,123,711</b>	<b>4,155,969</b>	<b>4,158,999</b>	<b>3,030</b>	<b>0.1%</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))

<sup>3</sup> FTE data not available for the Senate (positions filled were used).

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

Description	2014 Actual	2015 Estimate	2016 Estimate	Change: 2015 to 2016				
				Dollars	Percent			
<b>Civilian Personnel Costs:</b>								
<b>Executive Branch (excluding Postal Service):</b>								
Direct compensation .....	177,668	185,155	191,641	6,486	3.5%			
Personnel Benefits .....	75,355	81,318	84,350	3,032	3.7%			
Subtotal .....	253,023	266,473	275,991	9,518	3.6%			
<b>Postal Service:</b>								
Direct compensation .....	35,365	35,639	35,248	-391	-1.1%			
Personnel benefits .....	19,147	19,527	20,142	615	3.1%			
Subtotal .....	54,512	55,166	55,390	224	0.4%			
<b>Legislative Branch:<sup>1</sup></b>								
Direct compensation .....	2,004	2,089	2,147	58	2.8%			
Personnel benefits .....	619	658	679	21	3.2%			
Subtotal .....	2,623	2,747	2,826	79	2.9%			
<b>Judicial Branch:</b>								
Direct compensation .....	3,012	3,382	3,510	128	3.8%			
Personnel benefits .....	1,046	1,111	1,187	76	6.8%			
Subtotal .....	4,058	4,493	4,697	204	4.5%			
Total, Civilian Personnel Costs .....	314,216	328,879	338,904	10,025	3.0%			
<b>Military personnel costs:</b>								
<b>Department of Defense</b>								
Direct compensation .....	98,517	96,593	97,349	756	0.8%			
Personnel benefits .....	46,322	44,521	44,985	464	1.0%			
Subtotal .....	144,839	141,114	142,334	1,220	0.9%			
<b>All other executive branch, uniformed personnel:</b>								
Direct compensation .....	3,305	3,218	3,254	36	1.1%			
Personnel benefits .....	717	676	671	-5	-0.7%			
Subtotal .....	4,022	3,894	3,925	31	0.8%			
Total, Military Personnel Costs <sup>2</sup> .....	148,861	145,008	146,259	1,251	0.9%			
Grand total, personnel costs .....	463,077	473,887	485,163	11,276	2.4%			
<b>ADDENDUM</b>								
<b>Former Civilian Personnel:</b>								
<b>Retired pay for former personnel</b>								
Government payment for Annuitants: .....	81,606	83,432	85,772	2,340	2.8%			
Employee health benefits .....	11,359	11,958	12,659	701	5.9%			
Employee life insurance .....	45	48	50	2	4.2%			
<b>Former Military personnel:</b>								
Retired pay for former personnel .....	55,451	56,444	57,789	1,345	2.4%			
Military annuitants health benefits .....	9,294	9,618	9,983	365	3.8%			

<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.



## **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 2016. (Fiscal year 2016 will begin on October 1, 2015, and end on September 30, 2016.) 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 2015, 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 2014, 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.

### 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 (“discretionary” spending) that would breach or further breach an Appropriations subcommittee’s target. Similar procedural 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.

<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).

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

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

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

regular appropriations are enacted. Occasionally, a CR has funded a portion or all of the Government for the entire year.

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

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

The budget resolution often includes reconciliation directives, which require authorizing committees to recommend changes in 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

## 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

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.

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 Federal Government uses three primary enforcement mechanisms to control revenues, spending, and deficits. 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 Budget Control Act of 2011 (BCA), enacted on August 2, 2011, amended the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) by reinstating limits ("caps") on the amount of discretionary budget authority

that can be provided through the annual appropriations process. 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 and imposed automatic spending cuts to achieve \$1.2 trillion of deficit reduction over 9 years after the Joint Committee process failed to achieve its deficit reduction goal.

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

**Discretionary cap enforcement.** BBEDCA specifies spending limits ("caps") on discretionary budget authority for 2012 through 2021. Similar enforcement mechanisms were established by the Budget Enforcement Act of 1990 and were extended in 1993 and 1997, but expired at the end of 2002. 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 included 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. As part of the enforcement mechanisms triggered by the failure of the BCA's Joint Committee process, the security and nonsecurity categories were redefined and established for all years through 2021. The "revised security category" included discretionary budget authority in the defense budget function 050, which primarily consists of the Department of Defense. The "revised nonsecurity category" includes all discretionary budget authority not included in the defense budget function 050. The redefined categories are commonly referred to as the "defense" and "non-defense" categories, respectively, to distinguish them from the original categories. The American Taxpayer Relief Act of 2012 (ATRA) restored the caps for 2013 to the original security and nonsecurity definitions, but reduced the levels provided in the BCA by \$4 billion in 2013 (split equally between the security and nonsecurity categories) and \$8 billion in 2014 (split equally between the defense and non-defense categories). The Bipartisan Budget Act of 2013 (BBA) set new discretionary caps for 2014 at \$520.5 billion for the defense category and \$491.8 billion for the non-defense

category and for 2015 at \$521.3 billion for the defense category and \$492.4 billion for the non-defense category. In addition, the BBA reaffirmed the defense and non-defense category limits for 2016 through 2021, although these limits are still subject to Joint Committee reductions if those procedures remain in place.

BBEDCA requires OMB to adjust the caps each year for: changes in concepts and definitions; appropriations designated by the Congress and the President as emergency requirements; and appropriations designated by the Congress and the President for Overseas Contingency Operations/Global War on Terrorism. BBEDCA also specifies cap adjustments (which are limited to fixed 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.

BBEDCA requires OMB to provide cost estimates of each appropriations act in a report to the Congress within 7 business days after enactment of such act and to publish three discretionary 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 the Congress.

The preview report explains the adjustments that are required by law to the discretionary caps, including any changes in concepts and definitions, and publishes the revised caps. The preview report may also provide a summary of policy changes, if any, proposed by the President in the Budget to those 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 cap 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. 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. BBEDCA specifies special rules for reducing some programs and exempts some programs from sequestration entirely. For example, any sequestration of certain health and medical care accounts is limited to 2 percent. Also, if a continuing resolution is in effect when OMB issues its final sequestration report, the sequestration calculations will be based on the annualized amount provided by that continuing resolution. During the 1990s and so far under the BCA caps, 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, as discussed below.

Supplemental appropriations can also trigger spending reductions. From the end of a session of the Congress through the following June 30th, a within-session discretionary sequestration of current-year spending is imposed if appropriations for the current year cause a cap to be breached. In contrast, if supplemental appropriations enacted in the last quarter of a fiscal year (i.e., July 1 through September 30) cause the caps to be breached, the required reduction is instead achieved by reducing the applicable spending limit for the following fiscal year by the amount of the breach, because the size of the potential sequestration in relation to the unused funding remaining for the current year could severely disrupt agencies’ operations.

**Direct spending enforcement.** The Statutory Pay-As-You-Go Act of 2010 requires that new legislation changing mandatory spending or revenue must be enacted on a “pay-as-you-go” (PAYGO) basis; that is, that the cumulative effects of such legislation must 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 spending must be fully offset by revenue increases or cuts in mandatory spending.

This requirement of deficit neutrality is not enforced on a bill-by-bill basis, but is based on two cumulative scorecards that tally the cumulative budgetary effects of PAYGO legislation as averaged over rolling 5- and 10-year periods starting with the budget year. Any impacts of PAYGO legislation on the current year deficit are counted as budget year impacts when placed on the scorecard. Like the discretionary caps, PAYGO is enforced by sequestration. 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 the 5- or 10-year scorecard shows net costs in the budget year column, the President is required to issue a sequestration order implementing across-the-board cuts to nonexempt mandatory programs by an amount sufficient to offset those net costs. The PAYGO effects of legislation may be directed in legislation by reference to statements inserted into the *Congressional Record* by the chairmen of the House and Senate Budget Committees. Any such estimates are determined by the Budget Committees and are informed by, but not required to match, the cost estimates prepared by the Congressional Budget Office (CBO). If this procedure is not followed, then the PAYGO effects of the legislation are determined by OMB. During the first year of statutory PAYGO, nearly half the bills included Congressional estimates. In the subsequent three years, OMB estimates were used for all but one of the enacted bills due to the absence of a Congressional estimate. Provisions of mandatory spending or receipts legislation that are designated

in that legislation as an emergency requirement are not scored as PAYGO budgetary effects.

The PAYGO rules 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 as part of provisions 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 number of 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.

For the 114th Congress, House rules require the official cost estimates of major legislation that are used for enforcing the budget resolution and other House rules to incorporate the budgetary effects of changes in economic output, employment, capital stock and other macroeconomic variables. This is known as dynamic scoring and involves estimating the impact of policy changes on the overall economy as well as secondary "feedback" effects.

**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 discretionary and mandatory spending in fiscal years 2013 through 2021. The reductions are implemented through a combination of sequestration and reductions in the discretionary caps. These reductions have already taken place for 2013 through 2015, with some modifications as provided for in the ATRA and the BBA. Unless Congress acts, reductions for 2016 onward will be implemented by pro rata reductions to the discretionary caps, which are reflected in OMB's discretionary sequestration preview report for that year, and by a sequestration of non-exempt mandatory spending, which is ordered when the President's Budget is transmitted to Congress and takes effect beginning October 1 of the upcoming fiscal year.

OMB is required to calculate the amount of the deficit reduction required for 2016 onward as follows:

- The \$1.2 trillion savings target is reduced by 18 percent to account for debt service.

- The resulting net savings of \$984 billion is divided by nine to spread the reductions in equal amounts across the nine years, 2013 through 2021.
- The annual spending reduction of \$109.3 billion is divided equally between the defense and non-defense functions.
- The annual reduction of \$54.7 billion for each functional category of spending is divided proportionally between discretionary and direct spending programs, using as the base the discretionary cap, redefined as outlined in the discretionary cap enforcement section above, and the most recent baseline estimate of non-exempt mandatory outlays.
- The resulting reductions in defense and non-defense direct spending are implemented through a sequestration order released with the President's Budget and taking effect the following October 1st. The reductions in discretionary spending are applied as reductions in the discretionary caps, and are enforced through the discretionary cap enforcement procedures discussed earlier in this section.

Subsequent to the enactment of the BCA, the mandatory sequestration provisions were extended beyond 2021 by the BBA, which extended sequestration through 2023, and P.L. 113-82, commonly referred to as the Military Retired Pay Restoration Act, which extended sequestration through 2024.<sup>2</sup> Sequestration in these three years is to be applied using the same percentage reductions for defense and nondefense as calculated for 2021 under the procedures outlined above.

The Bipartisan Budget Act took an important first step in moving away from manufactured crises and austerity budgeting 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. However, the BBA did nothing to alleviate Joint Committee enforcement in 2016 and beyond.

The 2016 Budget builds on the BBA's progress by proposing increases to the discretionary caps that make room for a range of domestic and security investments that will accelerate growth and expand opportunity. These increases are offset by a balanced package of spending cuts, tax loophole closers, and program integrity measures. The President will work with the Congress to replace and repeal the Joint Committee reductions while putting the Nation on a sustainable fiscal path.

## Budget Execution

Government agencies may not spend or obligate more than the Congress has appropriated, and they may use

<sup>2</sup> Subsequent legislation 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, and in extending sequestration into 2024 the reduction in the Medicare program should be 4.0 percent for the first half of the sequestration period and zero for the second half of the period.

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 summary financial data in the budget *Appendix* and in some detailed tables.

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

**Table 9-1. TOTALS FOR THE BUDGET AND THE FEDERAL GOVERNMENT**  
(In billions of dollars)

	2014 Actual	Estimate	
		2015	2016
Budget authority			
Unified .....	3,619	3,798	4,066
On-budget .....	2,907	3,040	3,262
Off-budget .....	712	758	805
Receipts:			
Unified .....	3,021	3,176	3,525
On-budget .....	2,286	2,411	2,724
Off-budget .....	736	766	801
Outlays:			
Unified .....	3,506	3,759	3,999
On-budget .....	2,800	3,006	3,201
Off-budget .....	706	753	798
Deficit (-) / Surplus (+):			
Unified .....	-485	-583	-474
On-budget .....	-514	-595	-477
Off-budget .....	30	13	3

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).

- 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 the 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 9–1, “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 2015 appropriations act extends the availability of unobligated budget authority that expired at the end of 2014, new budget authority would be recorded for 2015. This scorekeeping is used because a reappropriation has exactly the same effect as allowing the earlier appropriation to expire at the end of 2014 and enacting a new appropriation for 2015.

For purposes of 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

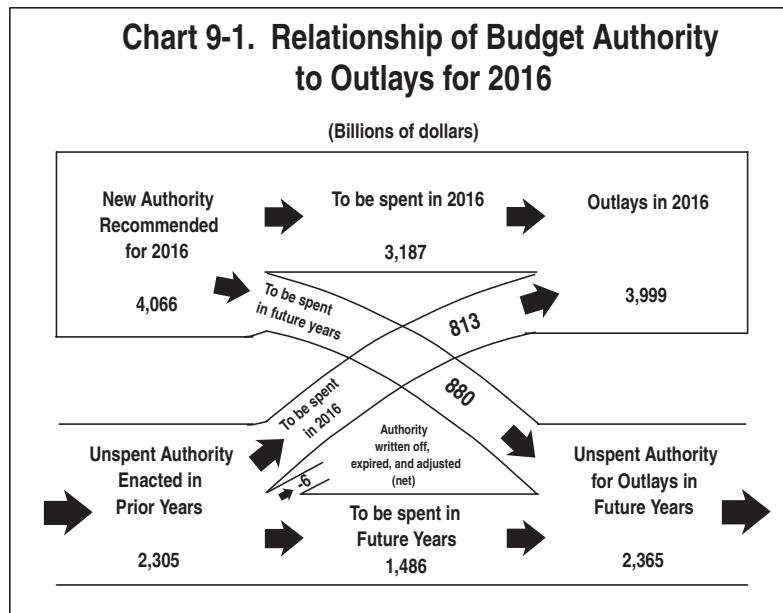
Following the enactment of budget authority and the completion of required apportionment action, Government agencies incur obligations to make payments (see earlier discussion under “Budget Execution”). Agencies must record obligations when they enter into binding agreements that will result in immediate 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 semi-annual payments of interest on the inflation-adjusted principal. As with fixed-rate securities, the budget records interest outlays as the interest accrues. The monthly adjustment to principal is recorded, simultaneously, as an increase in debt outstanding and an outlay of interest.

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

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

The budget records refunds of receipts that result from overpayments by the public (such as income taxes withheld in excess of tax liabilities) as reductions of receipts, rather than as outlays. However, the budget records payments to taxpayers for refundable tax credits (such as earned income tax credits) that exceed the taxpayer’s tax liability as outlays. Similarly, when the Government makes overpayments that are later returned to the Government, those refunds to the Government are re-

corded as offsetting collections or offsetting receipts, not as governmental receipts.

Not all of the new budget authority for 2016 will be obligated or spent in 2016. Outlays during a fiscal year may liquidate obligations incurred in the same year or in prior years. Obligations, in turn, may be incurred against budget authority provided in the same year or against unobligated balances of budget authority provided in prior years. Outlays, therefore, flow in part from budget authority provided for the year in which the money is spent and in part from budget authority provided for prior years. The ratio of a given year’s outlays resulting from budget authority enacted in that or a prior year to the original amount of that budget authority is referred to as the spendout rate for that year.

As shown in the accompanying chart, \$3,187 billion of outlays in 2016 (80 percent of the outlay total) will be made from that year’s \$4,066 billion total of proposed new budget authority (a first-year spendout rate of 78 percent). Thus, the remaining \$813 billion of outlays in 2016 (20 percent of the outlay total) will be made from budget authority enacted in previous years. At the same time, \$880 billion of the new budget authority proposed for 2016 (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 32 percent of total outlays in 2014 (\$1,121 billion) were discretionary and the remaining 68 percent (\$2,385 billion in 2014) were mandatory spending and net interest. Such a large portion of total spending is mandatory because authorizing rather than appropriations legislation determines net interest (\$229 billion in 2014) and the spending for a few programs with large amounts of spending each year, such as Social Security (\$845 billion in 2014) and Medicare (\$505 billion in 2014).

The bulk of mandatory outlays flow from budget authority recorded in the same fiscal year. This is not necessarily the case for discretionary budget authority and outlays. For most major construction and procurement projects and long-term contracts, for example, the budget authority covers the entire cost estimated when the projects are initiated even though the work will take place and

outlays will be made over a period extending beyond the year for which the budget authority is enacted. Similarly, discretionary budget authority for most education and job training activities is appropriated for school or program years that begin in the fourth quarter of the fiscal year. Most of these funds result in outlays in the year after the appropriation.

## FEDERAL CREDIT

Some Government programs provide assistance through direct loans or loan guarantees. A ***direct loan*** is a disbursement of funds by the Government to a non-Federal borrower under a contract that requires repayment of such funds with or without interest and includes economically equivalent transactions, such as the sale of Federal assets on credit terms. A ***loan guarantee*** is any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender. The Federal Credit Reform Act of 1990, as amended (FCRA), prescribes the budgetary treatment for Federal credit programs. Under this treatment, the budget records obligations and outlays up front, for the net cost to the Government (subsidy cost), rather than recording the cash flows year by year over the term of the loan. FCRA treatment allows the comparison of direct loans and loan guarantees to each other, and to other methods of delivering assistance, such as grants.

The cost of direct loans and loan guarantees, sometimes called the “subsidy cost,” is estimated as the present value of expected payments to and from the public over the term of the loan, discounted using appropriate Treasury interest rates.<sup>3</sup> Similar to most other kinds of programs, agencies can make loans or guarantee loans only if the Congress has appropriated funds sufficient to cover the subsidy costs, or provided a limitation in an appropriations act on the amount of direct loans or loan guarantees that can be made.

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

a few cases, the offsetting receipts of credit accounts are dedicated to a special fund established for the program and are available for appropriation for the program.

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

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

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

The FCRA grandfathered the budgetary treatment of direct loan obligations and loan guarantee commitments made prior to 1992. The budget records these on a cash basis in ***credit liquidating accounts***, the same as they

<sup>3</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.

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 quota increase proposed in 2016, but for the 2009 increase and the proposed 2016 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 2014, the Government borrowed \$797 billion from the public, bringing debt held by the public to \$12,780 billion. This borrowing financed the \$485 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 simultaneously 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 2016 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 2016 Budget includes the Administration’s proposal to implement IMF reforms agreed to by the IMF membership in 2010, which would reduce U.S. participation in the NAB, and increase the U.S. 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 quota and NAB 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 2016.

### **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, "Strengthening the Federal Workforce," provides employ-

ment 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 (2014) 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 re-

ports 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 (2015) 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 (2016) 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 (2017 through 2025) in order to reflect the effect of budget decisions on objectives and plans over a longer period.

## Allowances

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

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

## Baseline

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

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

The baseline serves several useful purposes:

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

A number of significant changes in policies are embedded in the baseline rules specified in BBEDCA. 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 extended as part of the American Taxpayer Relief Act of 2012 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 BBEDCA and the adjusted baseline used in this Budget.)

## PRINCIPAL BUDGET LAWS

The following basic laws govern the Federal budget process:

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

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

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

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

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

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

- **Congressional Budget Act of 1974**, as amended, which prescribes the congressional budget process; and
- **Impoundment Control Act of 1974**, which con-

trols 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 replac-

ing 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 outlaid.

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

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

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

**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 pro-

grams) 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 pay-

ments 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 adher-

ence 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 Federal budget is 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.

Federal Government activities can be characterized as either "budgetary" or "non-budgetary." Those Federal Government activities that involve direct and measurable allocation of Federal resources are characterized as budgetary. The payments to and from the public resulting from budgetary activities are included in the budget's accounting of receipts and expenditures. Federal activities that do not involve direct and measurable allocation of Federal resources are characterized as non-budgetary and are not included in the budget's accounting of receipts and expenditures.

The budget documents include information on some non-budgetary activities because they can be important instruments of Federal policy and 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 also includes information on cashflows that are a means of financing Federal activity. 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> This chapter provides details about the budgetary and non-budgetary activities of the Federal Government

### Budgetary Activities

The Federal Government has used the unified budget concept—which consolidates receipts and outlays from federal funds and trust funds, including the Social Security Trust Funds—since 1968, starting with the

1969 Budget. This change was based on 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. Thus, 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.<sup>3</sup>

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.

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 than other agencies and have limited exemptions from certain Federal personnel requirements to allow for flexibility.

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. 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

<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 2014 draft of the "Report to Congress on the Benefits and Costs of Federal Regulation and Unfunded Mandates on State, Local and Tribal Entities," see [http://www.whitehouse.gov/sites/default/files/omb/inforeg/2014\\_cb/draft\\_2014\\_cost\\_benefit\\_report-updated.pdf](http://www.whitehouse.gov/sites/default/files/omb/inforeg/2014_cb/draft_2014_cost_benefit_report-updated.pdf).

<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 .....	2,450.0	1,880.5	569.5	3,537.0	3,029.4	507.6	-1,087.0	-1,148.9	61.9
2013 .....	2,775.1	2,101.8	673.3	3,454.6	2,820.8	633.8	-679.5	-719.0	39.5
2014 .....	3,021.5	2,285.9	735.6	3,506.1	2,800.0	706.1	-484.6	-514.1	29.5
2015 estimate .....	3,176.1	2,410.5	765.6	3,758.6	3,006.0	752.6	-582.5	-595.5	13.0
2016 estimate .....	3,525.2	2,724.2	801.0	3,999.5	3,201.1	798.4	-474.3	-476.8	2.6
2017 estimate .....	3,755.0	2,911.0	844.0	4,217.8	3,364.6	853.2	-462.8	-453.6	-9.2
2018 estimate .....	3,944.4	3,059.3	885.1	4,423.3	3,512.5	910.8	-478.9	-453.2	-25.7
2019 estimate .....	4,135.0	3,209.0	926.0	4,652.6	3,683.8	968.8	-517.7	-474.8	-42.8
2020 estimate .....	4,332.2	3,367.8	964.4	4,886.4	3,851.5	1,034.8	-554.1	-483.7	-70.4

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

Federal payments to these entities are budgetary, the entities themselves are non-budgetary.

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 required weighing all relevant

factors regarding establishment, ownership, and control of an entity. Generally, entities that are primarily owned 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 has been presented as off-budget because of a legal requirement.<sup>5</sup> Such off-budget Federal activities are 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.

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 in historical budget data. Social Security is the largest single program in the unified budget and it is classified by law as off-budget; as a result, the off-budget accounts constitute a significant part of total Federal spending and receipts. 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.

### Non-Budgetary Activities

Some important Government activities are characterized as non-budgetary because they do not involve the direct allocation of resources by the Government.<sup>7</sup> These activities can 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-Fed-

<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.

<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> 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.

eral 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 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 for Federal employees who participate in the Government’s defined contribution retirement plan, the Thrift Savings Plan (which is similar to private-sector 401(k) plans). 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>8</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).**—Government-Sponsored Enterprises are privately owned and therefore distinct from government corporations. 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.”

<sup>8</sup> The administrative functions of the Federal Retirement Thrift Investment Board are carried out by Government employees and included in the budget totals.

In September 2008, in response to the financial market crisis, the director of the Federal Housing Finance Agency (FHFA)<sup>9</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.

While all of the GSEs' transactions with the public are reflected as non-budgetary 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; 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 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 these are incorporated as non-profit entities and some of which are incorporated as for-profit entities.<sup>10</sup>

<sup>9</sup> FHFA is the regulator of Fannie Mae, Freddie Mac, and the Federal Home Loans Banks.

<sup>10</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, includ-

FFRDCs are entities that conduct agency-specific research under contract or cooperative agreement. Some FFRDCs were created by and conduct research for the Department of Defense and are administered by colleges, universities, or other non-profit entities. Despite some being classified as non-budgetary, many FFRDC's do receive direct resource allocation from the Government and are included as budget lines in various agencies. Examples of FFRDCs include the Center for Naval Analysis and the Jet Propulsion Laboratory.<sup>11</sup> Even 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). Nearly all NAFIs are associated with the Departments of Defense, Homeland Security (Coast Guard), and Veterans Affairs. Most NAFIs are located on military bases and include the armed forces exchanges (which sell goods to military personnel and their families), recreational facilities, and child care centers. NAFIs are financed by proceeds from the sale of goods or services and do not receive direct appropriations. As a result they have been characterized as non-budgetary but any agency payments to the NAFIs are recorded as budget outlays.

A number of entities created by the Government receive a significant amount of non-Federal funding. Certain of these entities are significantly controlled by non-Federal individuals or organizations. These entities include Gallaudet University, Howard University, and the Universal Services Administrative Company, among others.<sup>12</sup> Most of these entities receive direct appropriations or other recurring payments from the Government. The appropriations or other payments are budgetary and included in Table 29-1. 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 to make expenditures for specified purposes that are intended to have public benefits, such as workplace safety and pollution control. Although the budget reflects the Government's cost of conducting regulatory activities, the costs imposed on the private sector as a result of regulation are treated as non-budgetary and not included in the budget. The Government's regulatory priorities and

ing the Red Cross, would be budgetary, the non-profits themselves are classified as non-budgetary. On March 14, 2013, the Subcommittee on Immigration and Border Security 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>11</sup> The National Science Foundation maintains a list of FFRDCs at [www.nsf.gov/statistics/ffrdc](http://www.nsf.gov/statistics/ffrdc).

<sup>12</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.

plans are described in the annual Regulatory Plan and the semi-annual Unified Agenda of Federal Regulatory and Deregulatory Actions.<sup>13</sup> The estimated costs and benefits of Federal regulation have been published annually by OMB since 1997.<sup>14</sup>

**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 economic 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. For the fiscal year ending September 2014, Treasury recorded \$99.2 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.

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<sup>13</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>14</sup> In the most recent report, OMB indicates that the estimated annual benefits of Federal regulations it reviewed from October 1, 2003, to September 30, 2013, range from \$217 billion to \$863 billion, while the estimated annual costs range from \$57 billion to \$84 billion.

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

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

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<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 remaining savings required for the Joint Select Committee on Deficit Reduction, repeals the Joint Committee reductions, and restores amounts that would be reduced by the 2016 mandatory sequestration order; various initiatives to reduce improper payments; funding requested for disaster relief; reforms to reduce the Federal Government's real property inventory; limits on advance appropriations; structural reforms for surface transportation programs; maximum Pell Grant award funding; Postal Service reforms; changes to the budgetary treatment of the International Monetary Fund quota; reclassification proposals; and providing a fast-track procedure for the Congress to consider certain rescission requests. Second, the chapter describes the system un-

der the Statutory Pay-As-You-Go Act of 2010 (PAYGO) of scoring 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>

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<sup>1</sup> Pursuant to section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), OMB issues a sequestration preview report covering discretionary spending each fiscal year. The OMB Sequestration Preview Report for FY 2016 is available on the OMB website.

### I. BUDGET REFORM PROPOSALS

#### Joint Committee Enforcement

In August 2011, as part of the 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 encourage 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. The BCA requires further automatic reductions to be made to the 2016 discretionary caps and a sequestration of mandatory spending, which is scheduled to take effect beginning on October 1 based on the order released with the 2016 Budget.

To date, legislation has been enacted to partially address the reductions required in two of these years. The American Taxpayer Relief Act of 2012 reduced the sequestration required of 2013 discretionary and mandatory spending by \$24 billion. The Bipartisan Budget Act of 2013 (BBA) (P.L. 113-67) 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 the Congressional Budget Office's (CBO) estimate of the post-reduction discretionary spending limits in that year. All of these revisions were paid for by enacting alternative deficit reduction.

In addition to the discretionary cap reductions and mandatory sequestration for 2016 noted above, damaging annual reductions of \$109 billion will continue to be required for each of fiscal years 2017 through 2021, unless the Congress enacts balanced deficit reduction legislation that replaces and repeals the Joint Committee reductions. Further, the BBA and P.L. 113-82, commonly referred to as the Military Retired Pay Restoration Act, extended the sequestration of mandatory spending through 2024

at the percentage reduction required for 2021.<sup>2</sup> 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 in each of fiscal years 2016 through 2024, which is triggered by the transmittal of the President's Budget for each year and takes effect on the first day of the fiscal year.

The Bipartisan Budget Act took an important first step in moving away from manufactured crises and austerity budgeting 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. However, the BBA did nothing to alleviate Joint Committee enforcement in 2016 and beyond. The 2016 Budget builds on the BBA's progress by proposing increases to the discretionary caps that make room for a range of domestic and security investments that will accelerate growth and expand opportunity. These increases are offset by a balanced package of spending cuts, tax loophole closers, and program integrity measures. The President will work with the Congress to replace and repeal the Joint Committee reductions while putting the Nation on a sustainable fiscal path.

### **Program Integrity Funding**

Critical programs such as Social Security, Medicare, and Medicaid, should be run efficiently and effectively. Nevertheless, the Government made an estimated \$125 billion in improper payments last year, which is an increase from the improper rate of 3.53 percent in 2013 to 4.02 percent in 2014. 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 administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment. The Social Security Administration (SSA) estimates that continuing disability reviews conducted in 2016 will yield net Federal program savings over the next 10 years of roughly \$9 on average per \$1 budgeted for dedicated program integrity funding, including the Old Age, Survivors, and Disability Insurance Program (OASDI), Supplemental Security Income (SSI), Medicare and Medicaid program effects. Similarly, for Health Care Fraud and Abuse Control (HCFAC) program integrity efforts, CMS actuaries conservatively estimate approximately \$2 is saved or payments averted for every additional \$1 spent. The Internal Revenue Service (IRS) enforcement activities recoup roughly \$6 for every \$1 spent.

**Enacted Adjustments Pursuant to BBEDCA.**—The Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) 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 provided for adjustments to the discretionary spending limits to allow for additional funding for specific program integrity activities 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 minimum, or 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.

The Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235) fully funded the adjustment to the discretionary spending limit for HCFAC for the first time and SSA for the second time since the cap adjustment was available in 2012. Tens of billions of dollars in deficit savings over the next 10 years from curtailing improper payments will be realized if the levels of administrative expenses for program integrity envisioned by BBEDCA continue to be provided. To ensure these important program integrity investments are made, the Budget is proposing to continue the discretionary cap adjustment for SSA in 2016 and for HCFAC through 2025. For SSA, starting in 2017, it also proposes to provide a dedicated dependable source of mandatory funding that will achieve the savings envisioned by the BCA in place of the BBEDCA discretionary cap adjustment. The Budget

<sup>2</sup> Subsequent legislation 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. In extending sequestration into 2024, the reduction in the Medicare program should be 4.0 percent for the first half of the sequestration period and zero for the second half of the period.

ensures 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.

Because the SSA adjustment was fully funded for 2015, the base SSA program integrity funding (\$273 million) and the SSA cap adjustment (\$1,166 million) are proposed to be funded through discretionary appropriations in 2016. However, once that transition year has passed, to maximize the potential savings, the Budget proposes only mandatory funding for SSA program integrity starting in 2017. For HCFAC for 2016, the Budget proposes continuation through 2025 of the base funding that was provided in 2015 (\$311 million for HHS and DOJ) through discretionary appropriations and cap adjustments aligned with those enacted in BBEDCA. The Budget also proposes that HCFAC funding support efforts at the Centers for Medicare & Medicaid Services (CMS) to monitor and prevent fraud, waste, and abuse in the private health insurance market including the Health Insurance Marketplace. As part of the Administration's overall program integrity proposals, the Budget proposes an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA beginning in 2017 to offset the cost of shifting the base SSA funding from discretionary to mandatory. These proposals, including the more stable mandatory program integrity funding for SSA, will produce new net deficit savings of almost \$37 billion over 10 years.

**Social Security Administration Continuing Disability Reviews and Redeterminations of Eligibility.**—For the Social Security Administration, the Budget's proposed \$1,439 million in discretionary funding in 2016 (\$273 million in base funding and \$1,116 million in cap adjustment funding) will allow SSA to conduct at least 908,000 Continuing Disability Reviews (CDRs) and at least 2.6 million 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 2016 and the increased mandatory funding requested in 2017 through 2025, SSA would recoup almost \$46 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 \$12.8 billion cost of the increased mandatory funding and the \$1.2 billion provided in the 2016 cap adjustment, this would produce new net deficit savings of \$32 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 2017 through 2025 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 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 2015, the base amounts, as well as an additional \$1,123 million discretionary cap adjustment pursuant to section 251(b)(2)(B) of BBEDCA were enacted in the annual appropriations bill. The mandatory savings from the base funding in every year and the enacted discretionary cap adjustment funding in 2015 are included in the BBEDCA baseline because the baseline assumes the continued funding of program integrity activities. The Budget shows the savings that would result from the increase in CDRs and redeterminations made possible by the discretionary funding requested in 2016 and the increased mandatory funding requested in 2017 through 2025. The mandatory funding should eliminate SSA's backlog of CDRs by the end of 2019 and prevent a new backlog from developing during the budget window.

As stated above, current estimates indicate that CDRs conducted in 2016 will yield a return on investment (ROI) of about \$9 on average in net Federal program savings over 10 years per \$1 budgeted for dedicated program integrity funding, including OASDI, SSI, Medicare and Medicaid program effects. Similarly, SSA estimates indicate that non-medical redeterminations conducted in 2016 will yield a ROI of about \$4 on average of net Federal program savings over 10 years per \$1 budgeted for dedicated program integrity funding, including SSI and Medicaid program effects. As in prior years, the ROI for CDRs is calculated based on the direct costs of processing CDRs. The Budget proposes funding only the direct costs of CDRs in 2016 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 2016 or increased mandatory funding in 2017 through 2025. 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 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, some SSI beneficiaries, who would otherwise lose Medicaid coverage due to a CDR or redetermination, would continue to be covered. In addition, some of the coverage costs for these individuals will be

**Table 11-1. ENACTED CAP ADJUSTMENTS AND PROPOSED MANDATORY FUNDING, INCLUDING MANDATORY SAVINGS**  
(Outlays in millions of dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016 - 2025 Total
<b>SSA Program Integrity</b>											
Discretionary Costs <sup>1</sup> .....	1,166	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,166
Mandatory Cost <sup>1</sup> .....	.....	1,532	1,455	1,403	1,309	1,302	1,358	1,415	1,474	1,535	12,783
Mandatory Savings <sup>2</sup> .....	-237	-2,090	-3,109	-4,025	-4,697	-5,271	-6,119	-6,386	-6,574	-7,409	-45,917
Net Savings .....	929	-558	-1,654	-2,622	-3,388	-3,969	-4,761	-4,971	-5,100	-5,874	-31,968
<b>Health Care Fraud and Abuse Control Program</b>											
Discretionary Costs .....	395	414	434	454	475	496	518	541	565	590	4,882
Mandatory Savings <sup>3</sup> .....	-749	-795	-844	-894	-947	-991	-1,036	-1,085	-1,135	-1,187	-9,663
Net Savings .....	-354	-381	-410	-440	-472	-495	-518	-544	-570	-597	-4,781

<sup>1</sup>The cost of shifting the current SSA base funding (\$273 million) from discretionary to mandatory is not reflected above in 2017 through 2025 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). For 2015 the base amounts was enacted in the annual appropriations bill and an additional \$1,123 million was provided as a discretionary cap adjustment pursuant to section 251(b)(2)(B) of BBEDCA. For 2016, the Budget continues to request the SSA base funding through discretionary appropriations, as well as the \$1,166 million enacted discretionary cap adjustment. The mandatory savings from the base funding in every year and the 2015 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.

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

eligible for the Medicaid ACA enhanced Federal matching rate, resulting in higher Federal Medicaid costs in those states.

**Health Care Fraud and Abuse Program.**—The 2016 Budget proposes base and cap adjustment funding levels over the next 10 years and continues the program integrity cap adjustment through 2025.

The discretionary base funding of \$311 million and cap adjustment of \$395 million for HCFAC activities in 2016 are designed to reduce the Medicare improper payment rate, support the Health Care Fraud Prevention & Enforcement Action Team (HEAT) initiative, reduce Medicaid improper payment rates, and monitor and prevent fraud, waste, and abuse in the private health insurance market including the Health Insurance Marketplace. The investment 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 Human Services Office of Inspector General, and DOJ. Over 2016 through 2025, as reflected in Table 11-1, this \$4.9 billion investment in HCFAC cap adjustment funding will generate approximately \$9.7 billion in savings to Medicare and Medicaid, for new net deficit reduction of \$4.8 billion 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 mandatory savings from base funding, assuming that amount is to continue in future years, are included in the BBEDCA baseline, as are the savings from the 2015 enacted the cap adjustment funding of \$361 million.

**Proposed Adjustments to BBEDCA Discretionary Spending Limits.**—The Administration also proposes to amend BBEDCA to enact adjustments to the disre-

tionary 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 \$61 billion in lower spending and additional tax revenue over the next 10 years, with further savings after the ten-year period. Both the base level of funding and the additional funding that would trigger cap adjustments are also listed in Table 11-2.

**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 \$667 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 \$57 billion in 2016 in direct enforcement revenue. The IRS estimates that the proposed new 2016 enforcement initiatives will yield an additional \$432 million in revenue from the work done in 2016. Further, once the new staff are trained and become fully operational in 2018, the extra revenue brought in by the work done in each year will rise to \$2.9 billion, or roughly \$6 in additional revenue for every \$1 in IRS expenses. New investments are also proposed beyond 2016, with cap adjustments in fiscal years 2017 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 2025 will generate \$60 billion in additional revenue over 10 years and will cost \$18.7 billion for an estimated net

savings of \$41 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 over \$3 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 initiative to conduct Reemployment and Eligibility Assessments and Reemployment Services (REA/RES).

The REA initiative was 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 funding for the REA/RES initiative to allow States to conduct robust reemployment services along with REAs. These 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 funding proposed in the Budget would allow States to provide REA/RES services to focus the top one-third of UI claimants identified as most likely to exhaust their UI benefits as well as all newly separated veterans claiming unemployment compensation for ex-service members. The proposed expansion to the base effort to \$151 million, if continued through 2025, would result in savings in UI benefit payments of an estimated \$4.2 billion. These benefit savings would allow States to reduce their UI taxes

**Table 11–2. PROPOSALS FOR DISCRETIONARY PROGRAM INTEGRITY BASE FUNDING AND CAP ADJUSTMENTS, INCLUDING MANDATORY AND RECEIPTS SAVINGS**

(Budget authority in millions of dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2025 Total
<b>IRS Tax Enforcement</b>											
<b>Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985:</b>											
Enforcement Base .....	9,572	9,783	10,009	10,242	10,479	10,721	10,970	11,223	13,865	14,186	111,050
Cap Adjustments:											
BA .....	667	1,039	1,403	1,781	2,170	2,232	2,276	2,329	2,382	2,437	18,716
Outlays .....	627	1,017	1,381	1,758	2,147	2,228	2,273	2,326	2,379	2,434	18,570
<b>Receipt Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:<sup>1</sup></b>											
Enforcement Base <sup>2</sup> .....	-57,000	-57,000	-57,000	-57,000	-57,000	-57,000	-57,000	-57,000	-57,000	-57,000	-570,000
Cap Adjustment <sup>3</sup> .....	-432	-1,451	-2,926	-4,476	-6,095	-7,481	-8,475	-9,077	-9,503	-9,819	-59,735
<b>Unemployment Insurance Improper Payments</b>											
<b>Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985:</b>											
Enforcement Base .....	151	151	151	151	151	151	151	151	151	151	1,510
Cap Adjustments:											
BA .....	30	35	40	45	50	55	60	65	70	75	525
Outlays .....	30	35	40	45	50	55	60	65	70	75	525
<b>Mandatory Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:<sup>4</sup></b>											
Enforcement Base .....	-164	-393	-408	-423	-433	-449	-458	-474	-491	-495	-4,188
Cap Adjustment .....	-34	-96	-114	-133	-151	-172	-192	-215	-240	-259	-1,606

<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 2016 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 more than \$41.1 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 reduction in State UI taxes from the enforcement base is \$970 million, net of the income tax offset. The reduction in State UI taxes from the cap adjustment is \$316 million, net of the offset.

by \$970 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 State UI programs. The proposed cap adjustments would begin at \$30 million in 2016 and total \$525 million through 2025, providing total deficit savings estimated at \$1.6 billion. These deficit savings from the cap adjustments would result in some States reducing their UI taxes, which would result in an estimated revenue loss of \$316 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 \$765 billion.

**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.

Pilot results so far 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 been able to quantify potential savings;
- 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; and

- ACF and States worked to explore and plan improved interoperability and integration in eligibility and enrollment, case management, and other related functions to help streamline administration processes and strengthen program integrity in federal assistance programs across health and human services information technology systems.

Pilots expected to yield early results in the next year include:

- The National Accuracy Clearinghouse pilot, in which FNS is working with States to test an interstate database of program information to support the Supplemental Nutrition Assistance Program (SNAP) and Disaster SNAP (D-SNAP) eligibility determinations by allowing States to determine whether an applicant is already receiving benefits in a different participating State.
- The Trusted On-Line Credentials pilot, in which Commerce is working with States to develop effective and secure identity verification solutions to support convenient customer access and program integrity across different services and agencies.
- The Identifying State Innovations for Improving Temporary Assistance for Needy Families (TANF) Program Administration pilot, in ACF is working with States to which to develop cost-effective approaches and best practices to maximize TANF block grants by reducing improper payments and directing cash assistance payments to eligible families not participating.
- The Supporting Permanent Placements of Foster Care Children through Electronic Records Exchange pilot, in which ACF and States are implementing real-time, on-line data exchange for States to share records and other information to support permanent placements of children and youth in foster care when they are placed in homes across state lines.

**Mandatory Program Integrity Initiatives.**—Table 11-3 presents the mandatory and receipt savings from other program integrity initiatives that are included in the 2016 Budget, beyond the expansion in resources resulting from the increases in administrative funding discussed above. These savings total almost \$11.5 billion over 10 years. 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

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	10-year total
<b>Department of Health and Human Services:</b>											
Cut Waste, Fraud, and Abuse in Medicare and Medicaid <sup>1</sup> .....	146	183	180	189	215	243	272	303	336	372	2,439
Cut Waste, Fraud, and Abuse in Medicare and Medicaid (non-PAYGO) <sup>1</sup> .....	-90	-156	-262	-407	-556	-652	-712	-762	-818	-883	-5,298
<b>Department of Labor:</b>											
Electronic Transmission of Unemployment Compensation Claims Information ....	-5	-10	-16	-17	-18	-19	-19	-20	-21	-22	-167
Electronic Transmission of Unemployment Compensation Claims Information (non-PAYGO receipt effect) .....	.....	.....	1	2	2	3	6	6	7	9	36
Cross-Match Prisoner Data to Reduce Improper Payments .....	-3	-7	-8	-8	-9	-10	-10	-10	-11	-11	-87
Cross-Match Prisoner Data to Reduce Improper Payments (non-PAYGO receipt effect) .....	.....	.....	.....	1	2	2	3	3	4	4	19
<b>Department of the Treasury:</b>											
Increase levy authority for payments to Medicare providers with delinquent tax debt (receipt effect) .....	-34	-50	-50	-51	-52	-54	-54	-56	-56	-57	-514
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>											
Windfall Elimination Provision/Government Pension Offset Enforcement Provision (non-PAYGO) .....	18	28	24	-352	-776	-1047	-1142	-1085	-1075	-1054	-6,461
Reconcile OPM/SSA retroactive disability payments .....	6	.....	.....	.....	.....	.....	.....	.....	.....	.....	6
Allow SSA to Use Commercial Databases to Verify Wages in SSI .....	.....	.....	.....	-71	-36	-24	-21	-19	-17	-18	-206
Expand Authority to Require Authorization to Verify Financial Information for Overpayment Waiver Requests <sup>1</sup> .....	-5	-16	-17	-18	-19	-20	-20	-21	-22	-22	-180
Hold Fraud Facilitators Liable for Overpayments <sup>1</sup> .....	.....	.....	-1	-1	-1	-1	-1	-1	-1	-1	-8
Government Wide Use of CBP Entry/Exit Data to Prevent Improper Payment <sup>1</sup> ....	.....	.....	-2	-7	-14	-22	-33	-40	-43	-52	-213
<b>Office of Personnel Management:</b>											
Reconcile OPM/SSA retroactive disability payments .....	.....	.....	-48	-48	-48	-48	-48	-48	-48	-48	-384
<b>Total, Mandatory and Receipt Savings</b> .....	<b>-14</b>	<b>-75</b>	<b>-246</b>	<b>-835</b>	<b>-1,357</b>	<b>-1,696</b>	<b>-1,826</b>	<b>-1,797</b>	<b>-1,812</b>	<b>-1,830</b>	<b>-11,488</b>
<b>PAYGO Savings</b> .....	<b>58</b>	<b>53</b>	<b>-9</b>	<b>-79</b>	<b>-29</b>	<b>-2</b>	<b>19</b>	<b>41</b>	<b>70</b>	<b>94</b>	<b>216</b>
<b>Non-PAYGO Savings</b> .....	<b>-72</b>	<b>-128</b>	<b>-237</b>	<b>-756</b>	<b>-1,328</b>	<b>-1,694</b>	<b>-1,845</b>	<b>-1,838</b>	<b>-1,882</b>	<b>-1,924</b>	<b>-11,704</b>

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

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 net approximately \$2.9 billion over 10 years in non-PAYGO savings.

**Unemployment Insurance Integrity.**—The Budget includes two proposals that would implement improved integrity in the Unemployment Insurance program and would result in \$254 million in PAYGO savings over 10 years and allow States to reduce their unemployment taxes by \$55 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 44 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 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 \$514 million over 10 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 \$221.4 million in garnished wages (as of December 31, 2014) on behalf of Federal agencies. This proposal would result in estimated savings of \$320 million over 10 years in commercial debts.

**Preventing Improper Payments in Social Security.**—Overall, the Budget proposes legislation that would avert more than \$7 billion in improper payments in Social Security over 10 years. While much of this savings is considered off-budget and would be non-PAYGO, about \$1 billion from various proposals would be PAYGO savings.

- **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 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 almost \$6.5 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 \$378 million over 10 years. SSA is provided \$6 million in 2015 to administer the coordination effort.
- ***Allow SSA to Use Commercial Databases to Verify Wages in SSI.***—The Budget will propose to allow SSA to use commercial databases to verify wages in SSI. This would allow SSA to automate its current process of manually accessing the information. Consent to allow SSA to access these databases would be a condition of benefit receipt for new beneficiaries. All other current due process and appeal rights would be preserved. This proposal would result in an estimated \$206 million in savings over 10 years.
- ***Expand Authority to Require Authorization to Verify Financial Information for Overpayment Waiver Requests.***—The Budget will require OASDI recipients seeking overpayment waivers to grant SSA authority to certify financial information. This new authority would extend the current practice of requiring SSI recipients to provide SSA authorization to access data from their financial institutions to determine their available resources. Currently, there is no verification of financial assets for overpayment waiver claims for OASDI. This proposal would result in an estimated \$180 million in savings over 10 years.
- ***Hold Fraud Facilitators Liable for Overpayments.***—The Budget proposes to hold fraud facilitators liable for overpayments by allowing SSA to recover the overpayment from a third party if the third party was responsible for making fraudulent statements providing false evidence that allowed the beneficiary to receive payments that should not

have been paid. This proposal would result in an estimated \$8 million in savings over 10 years.

- ***Government Wide Use of Custom and Border Patrol (CBP) Entry/Exit Data to Prevent Improper Payments.***—The Budget will provide for the use of CBP Entry/Exit data to prevent improper OASDI and SSI payments. An SSI beneficiary who is outside the United States for 30 consecutive days is not eligible for benefits for that month. Generally, U.S. citizens can receive benefits regardless of residence. Non-citizens may be subject to additional residence requirements depending on the country of residence and benefit type. This data has the potential to be useful across government to prevent improper payments. This proposal would result in an estimated \$213 million in savings over 10 years.

#### ***Other Program Integrity Initiatives.—***

***Data Analytics to Reduce Improper Payments.***—Under this Administration, the Federal Government has focused on increased use of technology to address improper payments. First, pursuant to Executive Order 13520 (issued November 20, 2009), 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, a “Do Not Pay” list was created by a Presidential memorandum issued June 18, 2010. The “Do Not Pay” list established a single portal through which agencies could check multiple eligibility databases before making an award or payment. The 2012 Budget requested (and the Consolidated Appropriations Act, 2012 appropriated) \$10 million to the Treasury Department to support expansion of the “Do Not Pay” list and to add forensic fraud detection capabilities to the basic “Do Not Pay” portal. Specifically, the funding helped to: (1) expand the number of databases and infrastructure of the “Do Not Pay” list; (2) procure the detection technology and hire staff to support an operations center to analyze fraud patterns utilizing public and private sector information; and (3) refer potential issues to agency management and the relevant agency Inspector General.

Third, in November 2010, OMB released a memorandum that encouraged agencies to share high-value data that can be used to support important Administration initiatives, including preventing improper payments.

The Improper Payments and Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. 112-248) reinforced the Administration’s “Do Not Pay” initiative already underway. OMB designated the Department of the Treasury to spearhead the Do Not Pay working system and to integrate the five databases of information specified by IPERIA. The Do Not Pay system provided as an online portal and single location for agencies to verify payment accuracy pre-award, pre-enrollment, and pre-payment. In addition, agencies reviewed their own processes for verifying payment accuracy to address both the cost of improper payments and the integrity of their

programs. Since 2013, agencies have been checking all payments and awards through a Do Not Pay working system as appropriate. The BBA expanded the Do Not Pay initiative to include additional information collected by the Social Security Administration's Prisoner Updates Processing System (PUPS) to prevent the improper payment of Federal funds to incarcerated individuals.

The effective use of data analytics provides insight into methods of reducing costs and improving performance and decision-making capabilities. The Do Not Pay initiative will expand and continue to incorporate other agency best practices and activities that further promote program integrity and benefits to the taxpayer. Current examples of agencies using data to improve payment accuracy include the Centers for Medicare & Medicaid Services' (CMS) Fraud Prevention System (FPS), a state-of-the-art predictive analytics technology used to identify and prevent fraud in the program; and the Department of Labor's Unemployment Insurance (UI) Integrity Center for Excellence, a Federal-State partnership which facilitates the development and implementation of UI integrity tools by the states and shares best practices in the detection and reduction of improper payments.

*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. OMB Memorandum M-13-20, “Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative”, updated guidance for Federal agencies and enabled Treasury to publish a System of Records Notification in accordance with the Privacy Act of 1974 for the Do Not Pay system.

The Budget proposes to improve payment accuracy further by sharing available death data across government agencies to prevent improper payments. This proposal provides the Do Not Pay system at Treasury access to the SSA full death data to prevent, identify, or recover improper payments to include information received from a State, or any other source, about the deceased; provides additional agencies authorities to share death notices directly with SSA for quality and completeness; and expands the use of the Do Not Pay system the legislative and the judicial branches of government as well as to states, to improve the integrity of federal benefit programs administered by the states.

*Social Security Workers' Compensation Enforcement Provision.*—The Budget reproposes the improvement of data collection 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.

*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 PAYGO. 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 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 10 years, excluding the highest and lowest years. The ceiling for each year's adjustment (as determined by the 10 year average) is then increased by the unused amount of the prior year's ceiling (exclud-

ing 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 2025.

As required by law, OMB included in its Sequestration Update Report for FY 2015 a preview estimate of the 2015 adjustment for disaster relief. The ceiling for the disaster relief adjustment in 2015 was calculated to be \$18,430 million. In the Continuing Appropriations Resolution, 2015 (P.L. 113-164, extended through February 27, 2015, by division L of the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235)), the Congress provided \$5,626 million designated for disaster relief in the Federal Emergency Management Agency's Disaster Relief Fund (DRF). Further, P.L. 113-235 provided an additional \$91 million in disaster relief funding for the Department of Agriculture's Emergency Forest Restoration Program, Emergency Conservation Program, and Watershed and Flood Prevention Operations accounts, for a total of \$5,717 million.

OMB must include in its Sequestration Update Report for FY 2016 a preview estimate of the ceiling on the adjustment for disaster relief funding for 2016. This estimate will contain an average funding calculation that incorporates six years (2006 through 2011) using the definition of disaster relief from OMB's September 1, 2011 report and four years using the funding the Congress designated in 2012 through 2015 for disaster relief pursuant to BBEDCA excluding the highest and lowest years. The amounts enacted as full-year or continuing appropriations for disaster relief in 2015 are \$12,713 million below the preview adjustment estimate of \$18,430 million. However, pursuant to section 251(b)(2)(D)(i)(II) of BBEDCA, any unused carryover from 2014 cannot carry forward into the calculation of the 2016 preview estimate. As a result, only \$6,196 million of this total underage will carry forward into the calculation of the 2016 preview adjustment in OMB's August 2015 Sequestration Update Report for Fiscal Year 2016 if no further appropriations are enacted in 2015 that are designated for disaster relief, and if the current continuing appropriation remains unchanged when final appropriations for the Department of Homeland Security are completed.

At this time, the Administration is requesting \$6,872 million in funding in two accounts to be designated for disaster relief by the Congress: more than \$6.7 billion in FEMA's DRF to cover the costs of Presidential 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 2016, and \$159 million in the Small Business Administration's Disaster Loans Program Account for administrative expenses. For these two programs, the Budget requests funding for both known needs based on expected costs of prior declared disasters and

the typical average expenditures in these programs. This is consistent with past practice of requesting and funding these as part of regular appropriations bills. Also consistent with past practice, the 2016 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 2015 supplemental appropriations (designated as either disaster relief or emergency requirements pursuant to BBEDCA) 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 would have amended section 251(b)(2) of BBEDCA to add an adjustment to the discretionary spending limits for wildfire suppression operations. The adjustment allowed 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 and the Senate Appropriations committee markup of the Department of the Interior, Environment, and Related Agencies Appropriations Act, 2015, which included similar language, 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 under-investing 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 2016 and will remain in effect through 2025. 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 \$1.5 billion in 2016 that increases slowly to \$2.7 billion by 2022 and remains at that level thereafter. At this time, the Administration is requesting to fund only \$1.1 billion through the wildfire suppression operations cap adjustment in 2016 (\$855 million in the Department of Agriculture and \$200 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

*Saving on Real Estate Costs.*—The Federal Government is the largest property owner in the United States. There are opportunities for savings by using Federal space more efficiently and disposing of unneeded space, and the President has made it a priority to shrink and reduce the cost of operating the Federal real estate inventory. Laying the groundwork for the Administration's long-term strategy on real property, in 2012 the Administration issued a Freeze the Footprint policy and directed agencies to freeze the growth in their office and warehouse real estate inventory. As a result, the government reduced its office and warehouse baseline by 10.2 million square feet, from 730.1 million to 719.9 million square feet in 2013. The Administration is implementing a five-year National Strategy to freeze growth in the federal real property portfolio, measure the cost and utilization of individual real property assets to support their more efficient use, and reduce the size of the portfolio through asset disposal. In addition, a companion real property policy will be issued in 2015, requiring agencies to set annual reduction targets for office and warehouse space and to implement annual disposal targets for all building types to reduce costs and improve the portfolio's efficiency.

In addition, the Budget includes \$57 million to implement the Civilian Property Realignment Act (CPRA). CPRA would create an independent board of private and public sector real estate experts that would perform Government-wide, independent portfolio analysis and make recommendations to the Congress on properties that should be disposed, consolidated, co-located, or re-configured. Enactment of CPRA would help consolidate government operations, streamline the disposal process, generate an estimated \$1.2 billion in sales proceeds, and provide funds for real property reinvestment.

Further, the enactment of CPRA, would fully support implementation of the Administration's National Strategy. CPRA has the same project objectives and planned outcomes as the National Strategy, and it implements the same level and type of real estate analysis to identify and prioritize real estate actions. CPRA would accelerate the identification and prioritization of disposal, consolidation renovation, and co-location projects through the Boards' independent portfolio analysis, and provide agencies with a clear set of priority real estate actions. Actions the Board recommends but does not prioritize for inclusion in the CPRA portfolio will be identified and implemented through collaboration and portfolio analysis among agencies and the General Services Administration.

## 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. 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 upfront a portion of the total budget authority limits under the discretionary caps in BBEDCA, in those years, congressional budget resolutions since 2001 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 \$28,835 million in advance appropriations for 2017 and freezes them at this level in subsequent years. In this way, the Budget does not employ this potential gimmick. Moreover, the Administration supports limiting advance appropriations to the proposed level for 2017, similar to the limits enacted as sections 112 and 115(c) of the BBA 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 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 (VA). This actuarial model projects the funding

requirement for over 80 types of health care services, including primary care, specialty care, and mental health. The remaining funding requirement is estimated based on other models and assumptions for services such as readjustment counseling and special activities. The Department of Veterans Affairs has included detailed information in its Congressional Budget Justifications about the overall 2017 VA medical care funding request. For the first time, the Administration is also requesting advance appropriations for the VA mandatory benefit accounts (Compensation and Pension; Readjustment Benefits; and Veterans Insurance and Indemnities), based on projections of anticipated benefit payments, in compliance with the new requirement under the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235).

The Administration also proposes to allow advance appropriations for the spending and collections of the payments in the General Services Administration (GSA) Federal Buildings Fund. This net zero proposal supports capital requirements as well as operating expenses. This would provide greater certainty to support capital projects and ensure that the funds that agencies pay to GSA are used promptly to construct, maintain, and operate GSA facilities.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2014 or for which the Budget requests advance appropriations for 2017 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 for transportation 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 2016 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 six-year surface transportation proposal beyond what the current funding mechanism can cover. Beyond the reauthorization window (2016-2021), the Budget assumes that spending returns to baseline levels based on what was enacted in 2015 – and accordingly the structural gap between baseline trust fund spending and baseline trust fund receipts returns. 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 both the gap between baseline receipts and baseline spending for the six-year period of the reauthorization and all of the outlays associated with programmatic increases during the six-year reauthorization. Policy-makers will need to work together to develop other fiscally responsible solutions beyond the six-year reauthorization period.

The Budget also includes a surface transportation reauthorization proposal that would broaden the scope of programs included under the Trust Fund umbrella: the HTF is renamed the Transportation Trust Fund (TTF), and supports additional highway safety and transit programs, as well as passenger rail programs and multimodal programs administered by the Department of Transportation. The mechanics of the 2016 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 continue to 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 reforms are essentially similar to the proposal presented in 2015 Budget. The 2015 Budget presented 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, while the 2016 Budget proposes a six-year \$478 billion proposal. 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, 2016-2021, totaling \$478 billion over six years. The contract authority is to be enacted by the reauthorization bill and, as under current law, will be classified as mandatory.

Under the budget, outlays flowing from that contract authority 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 the 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 2014 and 2015, 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 the current law surface transportation extension will expire May 31, 2015, 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 2015 estimate and create a new baseline of contract authority that is equal to the previous inflated discretionary baseline for obligation limitations.
  - Reclassify 2014 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; Technical Assistance and Training; Public Transportation Emergency Relief.

Amounts in these accounts total \$4.2 billion in discretionary budget authority for 2015. 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 2016. 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 2015, for 2022 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 2022 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 five FTA accounts currently financed by the General Fund: Capital Investment Grants; Transit Research; and Technical Assistance 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 2016 Budget fully pays for the 2016-2021 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 six-year surface transportation reauthorization proposal; and 2) shortfalls between revenue and spending that exist under current law for the same time period. As discussed above, the Budget proposes to make surface transportation spending subject to PAYGO rules, and specific savings are identified to cover the PAYGO costs.

Because the Budget retains the Trust Fund concept, fully-offset transfers from the General Fund to the TTF are reflected to maintain TTF solvency through the reauthorization period and to cover outlays generated from the six-year proposal but projected to occur beyond the reauthorization period. Offsets from business tax reform are only used to cover the structural deficit for six years and all new outlays associated with the reauthorization proposal for the 10-year window. Since the Administration’s proposed offset is finite, after the reauthorization period spending levels drop back to baseline levels calculated from 2015 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) to the Highway Trust Fund and offset transfers needed to maintain Trust Fund solvency during the six-year reauthorization and cover outlays from this reauthorization that are expected to occur after 2021 (line nine).
- Line 10 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 six years and new outlays associated with the reauthorization proposal; since the Administration’s proposed offset is finite, after the reauthorization period spending levels drop back to baseline levels calculated from 2015 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 \$347 billion over six years. If those outlays are reclassified, they should not be added to the PAYGO cost of any legislation by virtue of the fact that they are new to the mandatory side of the budget. Rather, the mandatory baseline should be adjusted to include those outlays that would occur under current law—as the 2016 Budget does—and calculate any changes from that baseline. Without this initial accommodation, scorekeeping rules would overstate the cost of legislation intended to reform the hybrid system.

Second, to reflect the true cost of fully funding the surface transportation program for the six-year reauthorization period, any offset should be required to cover: 1) the difference between current law revenues and baseline HTF outlays (\$85 billion, including a \$5 billion cash management cushion for the reauthorization period) to restore solvency to the existing HTF, 2) any reclassification of the inflated baseline activities currently financed by the General Fund (\$27 billion in the Administration’s

**Table 11–4. FUNDING, SPENDING, REVENUES, AND DEPOSITS ASSOCIATED WITH THE TRANSPORTATION TRUST FUND<sup>1</sup>**  
(Dollars in billions)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	6-year	10-year
1. Funding for the Transportation Trust Fund (Contract Authority) ....	77	78	79	80	81	82	63	64	65	67	478	737
2. Estimated outlays .....	60	68	73	75	77	79	77	72	70	69	433	720
3. Baseline funding (Contract Authority and Budget Authority) ....	56	57	58	59	60	62	63	64	65	67	352	610
4. Estimated baseline outlays <sup>2</sup> .....	55	56	58	58	59	60	61	63	64	65	347	599
5. Proposed funding increase .....	21	21	21	21	21	21	.....	.....	.....	.....	126	126
6. Estimated outlay increase .....	5	11	15	17	18	19	16	10	6	4	85	121
7. Deposits into the Transportation Trust Fund .....	79	79	80	80	80	80	40	40	40	40	477	637
8. Highway Trust Fund revenues (at current rates) .....	39	40	40	40	40	40	40	40	40	40	238	399
9. Corporate Tax Proposal Savings .....	40	40	40	40	40	40	.....	.....	.....	.....	238	238
10. Transportation Trust Fund annual cash flow (net) .....	19	11	7	4	2	1	(37)	(32)	(30)	(29)	44	(83)
11. Transportation Trust Fund end-of-year balances .....	19	30	37	41	43	44	7	(25)	(54)	(83)	214	60

<sup>1</sup>This table includes \$5 billion in outlays from the GROW AMERICA proposal that were erroneously omitted from the totals in other parts of this Budget.

<sup>2</sup>Note that the FY16 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. FY15 enacted levels for these accounts total \$4.2 billion.

proposal, of which \$21 billion outlays over the first six years), and 3) all program increases relative to the inflated baseline (\$126 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, 2022-2025, 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 including that Pell Grants are awarded to all applicants who meet income and other eligibility criteria. From the start of the Great Recession through 2011, when many Americans returned to school to improve their skills while their own job prospects were not strong, the number of students receiving Pell Grants increased by 3.8 million. This increase in participation, coupled with greater average financial need, resulted in a significant rise in Pell program costs. Since this peak, the number of Pell Grant recipients has slowly decreased, and program costs that were once growing have started to decline. This section provides some background on the unique nature of the Pell Grant program and explains how the Budget accommodates these changes in discretionary costs. A later section of this chapter discusses the treatment of Pell Grants in the adjusted baseline.

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

- The Pell Grant program acts like an entitlement program, such as the Supplemental Nutrition Assistance Program or Supplemental Security Income, in which everyone who meets specific eligibility requirements and applies for the program receives a benefit. As a result, 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). Under the CCRAA, the amount needed to index the Pell Grant for inflation is provided through the mandatory funds through the 2017-18 award year.
- 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, 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 than anticipated, the Pell Grant program will cost more than the appropriations provided. If the costs during one academic year are higher than provided for in that year's appropriation, 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 scorekeepers agreed to a special scorekeeping rule for Pell. Under this rule, the annual appropriations bill is charged with the full estimated cost of the Pell Grant program for the budget year, plus or minus any cumulative shortfalls or surpluses from prior years. This scorekeeping rule was adopted by the Congress as §406(b) of the Concurrent Resolution on the Budget for Fiscal Year 2006 (H. Con. Res. 95, 109th Congress).

Given the nature of the program, it is reasonable to consider Pell Grants an individual entitlement for purposes of budget analysis and enforcement, and in the 2010 and 2011 Budgets, the Administration requested that Pell Grants be converted into a mandatory program. The Congress has chosen to continue treating the portion funded in annual appropriations acts as discretionary, counting that budget authority for Pell Grants against the discretionary spending caps pursuant to section 251 of BBEDCA, and appropriations allocations established annually under §302 of the Congressional Budget Act. The 2016 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, because of changes in enrollment, college costs, and family resources. 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 as a practical matter by the regular discretionary appropriation. The 2016 Budget expects program costs to exceed the discretionary level in 2018, when those extra mandatory funds in large part run out. In prior years the Budget expected the temporary funding to run out before 2018. Pell program costs and student enrollment have both declined since a 2010 peak, however, and the funding has lasted longer than anticipated. The Budget now projects a 10 year funding shortfall of \$29.7 billion, \$13.9 billion less than the 10 year forecast from 2015 (see Table 11-5). These estimates have changed significantly from year to year, which illustrates remaining uncertainty about the amount of the Pell shortfall, and the year in which the shortfall will reemerge.

Administration policy is to ensure that students have access to the maximum Pell award, and that the Pell

grant keeps up with inflation. As in prior years, the Budget provides sufficient resources to fully fund Pell grants in the award years covered by the budget year, and the subsequent year. The Budget provides \$22.5 billion in discretionary budget authority in 2016, the same level of discretionary budget authority provided in 2015. Level-funding Pell in 2016 provides \$3.9 billion more than is needed to fully fund the program in the 2016-17 award year, because of the mandatory funding provided in prior legislation that remains available. Funding the Pell Grant program above the level needed to fund grants in 2016 is a first step in addressing the funding cliff in 2018. Cutting the budget authority in Pell to only the level needed to fund the program in 2016 would have a doubly detrimental impact on the 2018 cliff; it would reduce the budget authority carried forward from 2016, while simultaneously reducing the discretionary base funding level in the program.

Since 2013, the Pell maximum award has increased annually to account for inflation. Under current law, these adjustments are set to expire in 2017, and students will no longer benefit from annual aid increases designed to offset rises in student costs. The Budget proposes to provide mandatory funding to continue indexing Pell for inflation beyond 2017. It also proposes to expand and reform the Perkins loan program and to make legislative changes to the Pay As You Earn plan that would complement administrative actions announced last year that extend Pay As You Earn to all borrowers. The Budget would devote the savings from these proposals toward indexing Pell.

In addition, the Budget proposes to make several student aid reforms that impact Pell Grant program costs:

- First, it will strengthen academic progress requirements in the Pell Grant program to encourage students to complete their studies on time.
- Second, the Budget will limit the receipt of additional Pell disbursements by recipients who are not advancing academically.
- Third, it proposes to include other federal student aid programs, such as the Department of Defense Tuition Assistance and GI Bill Benefits, in the 90 percent portion of the 90/10 calculation. Currently, for institutions participating in federal student aid programs, no more than 90% of revenue can come from federal student loans and grants.
- Fourth, the Budget would move Iraq and Afghanistan Service Grants to the Pell Grant program to ensure our veterans' children receive the full, non-sequestered Pell award for which they are eligible.
- Fifth, the Administration also supports the simplification of the Free Application for Federal Student Aid (FAFSA). The Budget proposes eliminating questions related to assets, non-IRS untaxed income, non-IRS income exclusions, and other income adjustments, which have been shown to confuse students. To prevent resulting decreases in Pell Grant awards, the Budget also proposes a \$600 reduction in Expected Family Contributions.

<sup>3</sup> This ability to "borrow" from a subsequent appropriation is unique to the Pell Grant program. It comes about for two reasons. First, like many education programs, the Pell Grant program 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 the program 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 2016 appropriation, for instance, will support the 2016-2017 academic year beginning in July 2016 but will become available in October 2015 and can therefore help cover any shortages that may arise in funding for the 2015-2016 academic year.

**Table 11-5. EFFECT OF STUDENT AID PROPOSALS ON DISCRETIONARY PELL FUNDING NEEDS**  
(Dollars in billions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2025
Full Funding, Discretionary Pell .....		20.5	26.0	26.2	26.7	26.9	27.3	27.5	27.9	28.3	28.7	
Mandatory Funding Previously Provided .....			(1.6)	(1.4)	(1.4)	(1.4)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	
Discretionary Need .....	22.5	20.5	24.4	24.9	25.3	25.5	26.1	26.4	26.7	27.1	27.5	
Fund Pell at 2016 Full Funding Estimate .....	22.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	
Discretionary Funding Gap .....			(3.9)	(4.3)	(4.8)	(5.0)	(5.6)	(5.9)	(6.2)	(6.6)	(7.0)	(49.3)
Fund Pell at 2015 Enacted Level .....		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
Remaining Funding Gap .....		2.0	(1.9)	(2.4)	(2.8)	(3.0)	(3.6)	(3.9)	(4.3)	(4.6)	(5.0)	(29.7)
Carry Forward 2015 BA Request to Help Fund 2016 .....	(2.0)	2.0	.....	.....	.....	.....	.....	.....	.....	.....	.....	
Remaining Funding Gap .....		0.0	(2.4)	(2.8)	(3.0)	(3.6)	(3.9)	(4.3)	(4.6)	(5.0)	(29.7)	
<i>Student Aid Proposals</i>												
Require Satisfactory Academic Progress .....		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.1
Limit Pell Disbursements to Those Not Advancing Academically .....		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Include Vet & DoD Benefits in 90/10 Rule .....		.....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Move Iraq Afghanistan Service Grants to Pell .....	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Simplify the FAFSA .....	0.0	0.0	(0.0)	(0.0)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(1.1)
Net Changes to Reduce Pell Costs*	0.2	0.2	0.1	0.1	0.1	0.1	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	0.5
Remaining Funding Surplus or Gap .....	0.2	0.2	(2.2)	(2.7)	(3.0)	(3.6)	(3.9)	(4.3)	(4.7)	(5.1)	(29.1)	

\*Moving Iraq Afghanistan Service Grants and adjusting aid classifications for 90/10 rule compliance generates \$72 million in mandatory savings over 10 years. Most of these savings come in later years. These savings can be appropriated toward paying for the discretionary portion of Pell and is included in the calculated \$0.5 billion in discretionary savings over ten years.

Together, these student aid reforms reduce future discretionary Pell program costs by \$0.5 billion over 10 years (see Table 11-5).

### 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 legisla-

tion. This scorekeeping change would be accomplished by a provision contained within Postal reform legislation.

### Budgetary Treatment of IMF Quota

In 2010, G-20 Leaders and the International Monetary Fund (IMF) membership decided on a set of quota and governance reforms designed to strengthen the IMF's critical role in the international system. To implement the reforms, 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, which most accurately reflects the nature of U.S. participation in the IMF. The Administration would prefer to return to the pre-2009 budgetary treatment. However, recognizing the Congress' 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 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) 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 2016 proposal rolls back part of the 2009 appropriation, it is understandable that the scoring might entail estimating subsidy costs. However, the application

<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.

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

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 consists of 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 and gold holdings worth more than total credit outstanding. 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

<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. Funds held in the reserve tranche, which are denominated in SDRs, are part of the U.S. international reserves and 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.

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 2016 Budget, like 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.

### **Additional Reclassification Proposals**

*Contract Support Costs.*—The Budget proposes a reclassification of the Bureau of Indian Affairs' (BIA) and Indian Health Service's (IHS) Contract Support Costs from a discretionary to a mandatory appropriation. The Contract Support Costs proposal would reduce the discretionary spending limits in section 251(c) of BBEDCA beginning in 2017, to offset the cost of shifting the base funding from discretionary to mandatory. In addition, the mandatory appropriation includes a three-year program expansion to fully fund Contract Support Costs as well as a new investment to ensure program integrity. Through a reauthorization process, updated Contract Support Costs estimates will be provided to set funding levels.

*Consider Reclassifying HUD Negative Subsidies.*—For negative subsidy credit programs, the present value of fees, loan repayments, and other income to the Government exceed payments by the Government over the life of the loan and is recorded in the Budget as offsetting receipts. For HUD negative subsidy programs, the discretionary offsetting receipts reduce against the overall amount of budget authority that is scored against the discretionary caps. While it is reasonable to classify these negative subsidies as discretionary, significant volatility in the amounts and differences between OMB's estimates and CBO's estimates for HUD's negative subsidy programs introduces uncertainty in the appropriations process. Over the past 5 years, the budget year estimates for total HUD receipts have ranged from less than \$1 billion to more than \$14 billion, and differences between OMB's and CBO's estimates have ranged from -\$0.9 billion to over \$4 billion. Furthermore, the classification has changed more than once over the last 20 years. The Administration would like to work with the Congress to examine whether reclassifying HUD negative subsidies as mandatory would be more appropriate.

### **Expedited Rescission**

The Administration continues to support enactment of the President's proposal for expedited rescission, transmitted May 24, 2010. That legislation would create an important tool for reducing unneeded funding. In short, the bill would provide the President with additional authority to propose a package of rescissions that would then receive expedited consideration in the Congress and a guaranteed up-or-down vote. The proposal is crafted in a way that preserves the constitutional balance of power between the President and the Congress while providing the President with important, but limited, powers that would allow the President and the Congress to work together more effectively to eliminate unnecessary funding that could be deployed more effectively in other areas.

## **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 PAYGO provisions enacted as part of the 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>

The Act 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)). The Act 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, Congress has enacted laws affecting revenues or direct spending with a provision directing that the budgetary

<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.

effects of all or part of the law be held off of the PAYGO scorecards. In the most recent Congressional session, for example, five pieces of legislation were enacted with such provisions. For more information, see the 2014 Annual PAYGO Report on the OMB web site ([http://www.whitehouse.gov/omb/paygo\\_default](http://www.whitehouse.gov/omb/paygo_default)).

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 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, 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, and the sequestration currently required by the BCA as a result of the failure of the Joint Committee process.

<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.

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 five Congressional sessions since the PAYGO Act reinstated the statutory PAYGO requirement. For each of those sessions, OMB's annual PAYGO reports showed net savings in the budget year column of both the 5- and 10-year scorecards. For the second session of the 113<sup>th</sup> Congress, the most recent session, enacted legislation added net savings of \$626 million in each year of the 5-year scorecard and \$1,521 million in each year of the 10-year scorecard. Balances in 2015, the budget year column, of net savings from prior sessions of the Congress on each scorecard created total net savings of \$10,595 million on the 5-year scorecard and \$9,730 million on the 10-year scorecard, so no sequestration was required. As of the end of the most recent session, the 5-year scorecard showed net costs of \$440 million 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>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.

## 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, 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. However, the BBEDCA baseline does not accurately reflect a continuation of current policy. In each of its Budgets, this Administration has built its budget propos-

als 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.

**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 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. 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 or continuing appro-

priations that were designated by the Congress in 2015 as emergency requirements or 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 \$5.7 billion in BBEDCA-designated disaster relief in 2015, the Budget is specifically requesting \$6.9 billion in 2016 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 10 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 Retiree Health Benefit Prefunding.**—Under the Postal Accountability and Enhancement Act of 2006 (P.L. 109-435), the United States Postal Service (USPS) is required to make specified annual payments through 2016 to the Postal Service Retiree Health Benefits (RHB) Fund in the Office of Personnel Management. These payments are designed to prefund unfunded liabilities for health costs for future Postal retirees. Starting in 2017, the USPS's remaining unfunded liability is amortized over a 40-year period. Because of its current financial challenges, the USPS defaulted on four statutory RHB payments due in 2012, 2013, and 2014, totaling \$22.4 billion. While the BBEDCA baseline shows USPS making the payments due in 2015 and 2016 as required, the adjusted baseline assumes that these payments will not be made, given the likelihood of continued 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.**—On November 19, 2013, the U.S. Court of Appeals for the District of Columbia Circuit sustained a challenge to the Department's determination of the adequacy of the Nuclear Waste Fund fee, and directed the Department to transmit to the Congress a proposal to reduce the fee to zero. The Department complied and, after a congressional review period, its proposal became effective May 16, 2014. The 2016 Budget assumes no change in the estimates of receipts into the Nuclear Waste Fund from the estimates presented in the Mid-Session Review of the President's 2015 Budget. These amounts were a placeholder utilizing a probabilistic estimate that assumes that the fee will not remain uncollected indefinitely.

### 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 GSEs are discussed in more detail in Chapter 20, "Credit and Insurance."

### Fair Value for Credit Programs

In recent years, some analysts have argued that Federal direct loan and loan guarantee programs impose costs on taxpayers that are not reflected under the current budgeting rules, such as the risk that assets may not perform as expected, and propose to require that the Budget use "fair value" estimates for these credit programs. Under fair value, comparable market interest rates would be used to discount expected cash flows,

instead of the Federal Government's cost of borrowing. 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 raises serious conceptual and implementation problems. Most important, it would compromise the central objective of current budgeting rules for credit, which are designed to put credit program estimates on a comparable basis to other forms of Federal spending and improve the allocation of resources. In addition, many of the factors reflected in fair value pricing are irrelevant or less relevant to taxpayers than to private investors; including these factors in budgetary cost estimates would overstate the cost of credit assistance and introduce a bias relative to other forms of Federal assistance. On top of these and other conceptual issues, implementing fair value may prove extremely costly and introduce inconsistencies in how costs are estimated across programs, reducing the consistency and transparency of the Budget. For a detailed discussion of the conceptual and implementation issues raised by fair value estimates, see the "Credit and Insurance" chapter of the *Analytical Perspectives* volume of the 2015 Budget.

### **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 approxima-

tion 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

A simpler, fairer, and more efficient tax system is critical to achieving many of the President's fiscal and economic goals. At a time when middle-class and working parents remain anxious about how they will meet their families' needs, the tax system does not do enough to reward hard work, support working families, or create opportunity. After decades of rising income and wealth inequality, the tax system continues to favor unearned over earned income, and a porous capital gains tax system lets the wealthy shelter hundreds of billions of dollars from taxes each year. In a period where an aging population will put increasing pressure on the Federal budget, a wide range of inefficient tax breaks prevents the tax system from raising the level of revenue the Nation needs. And while commerce around the world is increasingly interconnected, an out-of-date, loophole-ridden business tax system puts U.S. companies at a disadvantage relative to their competitors, while also failing to encourage investment in the United States.

The tax reform proposals outlined in this chapter address each of these challenges. The Budget would reform and simplify tax incentives that help families afford child care, pay for college, and save for retirement, while expanding tax benefits that support and reward work. It would pay for these changes by reforming the system of capital gains taxation and by imposing a new fee on large, heavily-leveraged financial firms, and it would raise revenue for deficit reduction by curbing high-income tax benefits and closing loopholes. Finally, the Budget includes proposals to broaden the business tax base, strengthen incentives for research and clean energy, grow and create innovative small businesses, and reform the international tax system, while devoting the transition revenue from international tax reform to major investments in infrastructure.

Going forward, the President is committed to working with the Congress and other stakeholders to build on the foundation laid by the Budget to create a tax system that is fair, simple, and efficient, one that is right for the 21st century American economy.

### 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 \$3,176.1 billion in 2015, an increase of \$154.6 billion or 5.1 percent from 2014. The estimated increase in 2015 is attributable primarily 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. Receipts in 2015 are estimated to be 17.7 percent of Gross Domestic Product (GDP), which is higher than in 2014, when receipts were 17.5 percent of GDP.

**Table 12-1. RECEIPTS BY SOURCE—SUMMARY**  
(In billions of dollars)

	2014 Actual	Estimate										
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2025	
Individual income taxes .....	1,394.6	1,478.1	1,645.6	1,770.3	1,886.9	1,999.8	2,118.4	2,243.7	2,374.2	2,508.3	2,643.3	2,781.2
Corporation income taxes .....	320.7	341.7	473.3	499.8	503.0	507.2	512.5	493.3	489.7	504.6	518.8	530.4
Social insurance and retirement receipts .....	1,023.5	1,065.0	1,111.9	1,173.3	1,228.6	1,280.4	1,332.2	1,402.6	1,473.1	1,538.5	1,609.1	1,675.5
(On-budget) .....	(287.9)	(299.4)	(311.0)	(329.3)	(343.4)	(354.4)	(367.8)	(385.9)	(406.4)	(424.1)	(442.7)	(460.9)
(Off-budget) .....	(735.6)	(765.6)	(801.0)	(844.0)	(885.1)	(926.0)	(964.4)	(1,016.7)	(1,066.7)	(1,114.4)	(1,166.4)	(1,214.6)
Excise taxes .....	93.4	95.9	112.1	120.3	122.4	124.3	126.4	128.8	131.4	134.1	137.3	141.2
Estate and gift taxes .....	19.3	19.7	21.3	30.5	33.0	35.7	38.5	42.0	45.5	49.5	54.0	58.5
Customs duties .....	33.9	36.8	38.4	41.9	44.9	47.4	49.8	52.4	55.3	58.2	61.2	64.3
Miscellaneous receipts .....	136.1	138.9	120.5	106.9	97.7	101.1	109.4	115.6	121.9	128.7	135.5	140.4
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>3,021.5</b>	<b>3,176.1</b>	<b>3,525.2</b>	<b>3,755.0</b>	<b>3,944.4</b>	<b>4,135.0</b>	<b>4,332.2</b>	<b>4,525.2</b>	<b>4,746.0</b>	<b>4,986.0</b>	<b>5,236.2</b>	<b>5,478.5</b>
(On-budget) .....	(2,285.9)	(2,410.5)	(2,724.2)	(2,911.0)	(3,059.3)	(3,209.0)	(3,367.8)	(3,508.6)	(3,679.3)	(3,871.6)	(4,069.8)	(4,263.8)
(Off-budget) .....	(735.6)	(765.6)	(801.0)	(844.0)	(885.1)	(926.0)	(964.4)	(1,016.7)	(1,066.7)	(1,114.4)	(1,166.4)	(1,214.6)
Total receipts as a percentage of GDP .....	17.5	17.7	18.7	19.1	19.1	19.2	19.3	19.3	19.4	19.5	19.6	19.7

Receipts are estimated to rise to \$3,525.2 billion in 2016, an increase of \$349.1 billion or 11.0 percent relative to 2015. Receipts are projected to grow at an average annual rate of 5.3 percent between 2016 and 2020, rising to \$4,332.2 billion. Receipts are projected to rise to \$5,478.5 billion in 2025, growing at an average annual rate of 4.8 percent between 2020 and 2025. This growth is largely

due to assumed increases in incomes resulting from both real economic growth and inflation, as well as the effect of the Budget's receipt proposals.

As a share of GDP, receipts are projected to increase from 17.7 percent in 2015 to 18.7 percent in 2016, and to rise to 19.7 percent in 2025.

## LEGISLATION ENACTED IN 2014 THAT AFFECTS GOVERNMENTAL RECEIPTS

Several laws were enacted during 2014 that affect receipts. The major provisions of those laws that had a significant impact on receipts are described below.<sup>1</sup>

### HIGHWAY AND TRANSPORTATION FUNDING ACT OF 2014 (PUBLIC LAW 113-159)

This Act was signed into law by President Obama on August 8, 2014. The only major provision of this Act that affects receipts is described below.

**Modify interest rate corridors for single-employer pension funding rules.**—For purposes of applying the minimum funding rules that apply to single-employer defined benefit plans, the Internal Revenue Code generally specifies the interest rates that must be used. Since 2012, the interest rates have been adjusted to fit within a specified percentage of the 25-year average of those rates. This Act modifies the specified percentage so that the narrowest range around the 25-year average applies for plan years beginning before 2017, which has the effect of raising the applicable interest rates and thereby reducing the minimum required contributions for these plans.

### CONSOLIDATED AND FURTHER CONTINUING APPROPRIATIONS ACT, 2015 (PUBLIC LAW 113-235)

This Act was signed into law by President Obama on December 16, 2014. The provisions of this Act that affect receipts are described below.

**Modify treatment of expatriate health plans.**—The Affordable Care Act (ACA) imposes various requirements with respect to health plans, including market reform rules and an allocated fee assessed on certain insurers of U.S. health risks. As originally enacted, the ACA included no clear exclusion from these requirements for expatriate plans in which substantially all participants were non-resident persons temporarily working within the United States or U.S. citizens working abroad. This Act exempts expatriate plans from many provisions of the ACA, provided the plans meet certain criteria, including indicia of global operations, compliance with coverage thresholds, and substantial participation by qualified expatriates. In

addition, this Act provides that an individual enrolled in an expatriate health plan is not a U.S. health risk for purposes of the insurer allocated fee. As applied to expatriate plans, this Act generally is effective for plans issued or renewed on or after July 1, 2015, except that the insurer fee paid by an expatriate plan issuer for the years 2014 and 2015 is reduced by a ratio reflecting the percentage of premiums that are for expatriate health plans.

**Modify certain rules regarding multiemployer pension plans.**—This Act made a number of changes to the special rules for multiemployer plans in critical or endangered status. New provisions added by the Act permit the suspension of benefits for multiemployer plans that are in “critical and declining status” under certain circumstances. This Act also repealed the sunset of automatic approvals of certain changes in funding methods and certain extensions of amortizations periods.

**Extend the travel promotion surcharge.**—Under the Travel Promotion Act of 2009, a \$10 surcharge was added to the existing Electronic System for Travel Authorization user fee that travelers from visa waiver countries pay before arriving in the United States. This Act extended the authorization to collect the surcharge, which was scheduled to expire on September 31, 2015, through September 30, 2020.

### TO AMEND THE INTERNAL REVENUE CODE OF 1986 TO EXTEND CERTAIN EXPIRING PROVISIONS AND MAKE TECHNICAL CORRECTIONS, TO AMEND THE INTERNAL REVENUE CODE OF 1986 TO PROVIDE FOR THE TAX TREATMENT OF ABLE ACCOUNTS ESTABLISHED UNDER STATE PROGRAMS FOR THE CARE OF FAMILY MEMBERS WITH DISABILITIES, AND FOR OTHER PURPOSES (PUBLIC LAW 113-295)

This Act was signed into law by President Obama on December 19, 2014. The provisions of this Act that affect receipts are described below.

#### Individual Tax Extenders

**Extend the above-the-line deduction for qualified out-of-pocket classroom expenses.**—Certain teachers and other elementary and secondary school professionals are permitted to deduct up to \$250 in annual qualified out-of-pocket classroom expenses. This Act extended this above-the-line deduction for one year, effective for such

<sup>1</sup> In the discussions of enacted legislation, years referred to are calendar years, unless otherwise noted.

expenses incurred after December 31, 2013, and before January 1, 2015.

**Extend the ability to exclude discharges of indebtedness on principal residences from gross income.**—Up to \$2 million (or up to \$1 million per spouse for married taxpayers filing separate returns) of discharges of certain indebtedness on a principal residence may be excluded from gross income. This Act extended the exclusion for one year, to apply to indebtedness discharged after December 31, 2013, and before January 1, 2015.

**Extend parity for exclusion from income for employer-provided mass transit and parking benefits.**—Qualified transportation fringe benefits provided by an employer through transit passes and vanpooling can be excluded from an employee's income up to a statutory maximum of \$100 per month in combined transit pass and vanpool benefits and \$175 per month in qualified parking benefits. Both statutory limits are adjusted annually for inflation and, for 2014, were \$130 per month for combined transit pass and vanpool benefits and \$250 per month for qualified parking benefits. Prior law temporarily provided parity in these benefits by increasing the monthly exclusion for combined employer-provided transit pass and vanpool benefits to the same level as the exclusion for employer-provided parking benefits. This Act extended that parity for one year, effective for benefits provided after December 31, 2013, and before January 1, 2015. Under this provision, the monthly limit on the exclusion for combined transit pass and vanpool benefits increased from \$130 to \$250 for 2014.

**Extend deduction for mortgage insurance premiums.**—Certain premiums paid or accrued for qualified mortgage insurance by a taxpayer in connection with acquisition indebtedness on a qualified residence are deductible for income tax purposes. This Act extended the deduction for one year, to apply to amounts paid or accrued in 2014 that are not properly allocable to any period after December 31, 2014.

**Extend optional deduction for State and local general sales taxes.**—A taxpayer is allowed to elect to take an itemized deduction for State and local general sales taxes in lieu of the itemized deduction for State and local income taxes. This Act extended this deduction for one year, effective for taxable years beginning after December 31, 2013, and before January 1, 2015.

**Extend increased limits on contributions of partial interest in real property for conservation purposes.**—Special rules for the deductibility of qualified conservation contributions were temporarily enhanced, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2005, and before January 1, 2014. These enhancements: (1) increased the cap on deductions for qualified conservation contributions from 30 percent to 50 percent of the excess of the donor's contribution base over the amount of all other allowable charitable contributions; (2) increased the cap on deductions for qualified conservation contributions applicable to qualified ranchers and farmers to 100 percent of the excess of the donor's contribution base over the amount of all other allowable charitable contributions in

the case of individuals and to 100 percent of the excess of taxable income over the amount of all other allowable charitable contributions in the case of corporations; and (3) increased the number of years qualified conservation contributions in excess of the 50- and 100-percent caps may be carried forward from five to 15 years. This Act extended these enhanced special rules for one year, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2013, and before January 1, 2015.

**Extend deduction for qualified tuition and related expenses.**—An above-the-line deduction of up to \$4,000 is provided for qualified higher education expenses paid by a qualified taxpayer during the taxable year. For a given taxable year, the deduction may not be claimed: (1) if an education tax credit is claimed for the same student; (2) for amounts taken into account in determining the amount excludable from income due to a distribution from a Coverdell education savings account or the amount of interest excludable from income with respect to education savings bonds; and (3) for the amount of a distribution from a qualified tuition plan that is excludable from income, except that the deduction may be claimed for the amount not attributable to earnings. This Act extended the deduction for one year, to apply to expenses incurred in taxable years beginning after December 31, 2013, and before January 1, 2015.

**Extend tax-free distributions from Individual Retirement Accounts (IRAs) for charitable contributions.**—An exclusion from gross income is provided for otherwise taxable distributions from a traditional or a Roth IRA made directly to a qualified charitable organization. The exclusion for these qualified charitable distributions may not exceed \$100,000 per taxpayer per taxable year and is applicable only to distributions made on or after the date the IRA owner attains age 70 1/2. This Act extended the exclusion for one year, to apply to distributions made in taxable years beginning after December 31, 2013, and before January 1, 2015.

## Business Tax Extenders

**Extend 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 (ASC) of 14 percent is also provided. This Act extended these tax credits for one year, to apply to expenditures paid or incurred before January 1, 2015.

**Extend temporary minimum Low-Income Housing tax credit (LIHTC) rate for non-Federally subsidized new buildings.**—The LIHTC is provided to owners of qualified low-income rental units. The credit may be claimed over a 10-year period for a portion of the cost of rental housing occupied by tenants having incomes below specified levels. Under prior law, a temporary minimum credit percentage of nine percent was provided for newly constructed non-Federally subsidized buildings that received an allocation of a housing credit dollar amount before January 1, 2014. This Act extended the nine-

percent rate for one year, to apply to projects that have received an allocation before January 1, 2015.

**Extend treatment of basic housing allowances for the purpose of LIHTC income eligibility rules.**—In general, to be eligible for the LIHTC, a qualified low-income housing project must satisfy one of two tests at the election of the taxpayer: (1) 20 percent or more of the residential units in the project are both rent-restricted, and occupied by individuals whose income is 50 percent or less of area median gross income; or (2) 40 percent or more of the residential units in the project are both rent-restricted, and occupied by individuals whose income is 60 percent or less of area median gross income. These income requirements are adjusted for family size. Effective for income determinations made after July 30, 2008, and before January 1, 2014, for buildings that are located in certain counties, the basic housing allowance (payments provided under section 403 of title 37, United States Code) provided to military personnel was not included in income for the purpose of LIHTC income eligibility rules. This Act extended the disregard of basic housing allowances for purposes of LIHTC income eligibility rules for one year, effective for income determinations made before January 1, 2015.

**Extend tax incentives for employment on Indian reservations.**—This Act extended for one year, for taxable years beginning before January 1, 2015, the employment tax credit for qualified workers employed on an Indian reservation. The employment tax credit is not available for employees involved in certain gaming activities or who work in a building that houses certain gaming activities.

**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 at least seven years. This Act extended the NMTC, which expired at the end of 2013, for one year, to apply to 2014. Up to \$3.5 billion in qualifying investment is allowed for 2014.

**Extend railroad track maintenance credit.**—A 50-percent business tax credit is provided for qualified railroad track maintenance expenditures paid or incurred by an eligible taxpayer in taxable years beginning after December 31, 2004, and before January 1, 2014. The credit was limited to the product of \$3,500 times the number of miles of railroad track owned or leased by, or assigned to, an eligible taxpayer as of the close of the taxable year. This Act extended the credit for one year, to apply to qualified expenses incurred in taxable years beginning after December 31, 2013, and before January 1, 2015.

**Extend credit for mine rescue training.**—An eligible taxpayer may claim a general business tax credit with respect to each qualified mine rescue team employee equal to the lesser of: (1) 20 percent of the amount paid or incurred by the taxpayer during the taxable year with respect to the training program costs of the qualified mine rescue team employee; or (2) \$10,000. This Act extended the credit for one year, to apply to costs incurred in taxable years beginning after December 31, 2013, and before January 1, 2015.

**Extend employer wage credit for employees who are active duty members of the uniformed services.**—Some employers voluntarily pay their employees who are called to active duty in the armed forces of the United States the difference between the compensation that they would have paid the employee during the period of military service and the amount of pay received by the employee from the military. This payment by the employer is often referred to as “differential pay.” Eligible small business employers are provided a tax credit equal to 20 percent of up to \$20,000 in annual eligible differential wage payments made to each qualified employee. This Act extended the credit for one year, making it available for eligible differential wage payments made to a qualified employee after December 31, 2013, and before January 1, 2015.

**Extend the work opportunity tax credit (WOTC).**—The WOTC provides incentives to employers for hiring individuals from one or more of nine targeted groups. This Act extended the credit for one year, to apply to wages paid to qualified individuals who begin work for the employer after December 31, 2013, and before January 1, 2015.

**Extend the issuance of qualified zone academy bonds.**—This Act extended the qualified zone academy bond program for one year, authorizing the issuance of \$400 million in such bonds in calendar year 2014.

**Extend classification of certain race horses as three-year property.**—Under this Act, the three-year recovery period applicable to race horses placed in service after December 31, 2008, and before January 1, 2014, was extended for one year, to apply to race horses placed in service before January 1, 2015. This Act also extended the start date by one year whereby a three-year recovery period would apply to any race horse more than two years old at the time such horse is placed in service, effective for such horses placed in service after December 31, 2014.

**Extend modified recovery period for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property.**—This Act extended the 15-year recovery period for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property for one year, effective for such property placed in service after December 31, 2013, and before January 1, 2015.

**Extend seven-year recovery period for motorsports entertainment complexes.**—Under this Act, the seven-year recovery period applicable to motorsports entertainment complexes placed in service after October 22, 2004, and before January 1, 2014, was extended for one year, to apply to such facilities placed in service before January 1, 2015.

**Extend accelerated depreciation for business property on Indian reservations.**—This Act extended for one year, through December 31, 2014, the accelerated depreciation rules for qualified property used in the active conduct of a trade or business within an Indian reservation. Property used to conduct or house certain gaming

activities is not eligible for the accelerated depreciation rules.

**Extend 50-percent first-year depreciation deduction for certain property.**—This Act extended for one year the additional first-year depreciation deduction equal to 50 percent of the adjusted basis of the property, to apply to qualifying property acquired and placed in service in calendar year 2014. The placed-in-service deadline was extended through 2015 for certain longer-lived property, transportation property, and certain aircraft, with respect to the property's adjusted basis attributable to production activity occurring before 2015. Corporations are allowed to claim additional alternative minimum tax (AMT) credits in lieu of claiming the additional first-year depreciation. For purposes of determining the percentage of completion under the long-term contract rules, the cost of certain property is determined as if the additional first-year depreciation deduction had not been allowed. The Act extended this provision by one year, for qualified property placed in service before January 1, 2015.

**Extend the enhanced charitable deduction for contributions of food inventory.**—A taxpayer's deduction for charitable contributions of inventory generally is limited to the taxpayer's basis (typically cost) in the inventory or, if less, the fair market value of the inventory. For certain contributions of inventory, C corporations may claim an enhanced deduction equal to the lesser of: (1) basis plus one-half of the item's appreciation; or (2) two times basis. However, any taxpayer (not just a C corporation) engaged in a trade or business is eligible to claim the enhanced deduction for donations of food inventory. To qualify for the enhanced deduction, the donated food inventory must meet certain quality and labeling standards and cannot exceed 10 percent of the taxpayer's net income from the related trade or business. This Act extended the enhanced charitable deduction for contributions of food inventory for one year, to apply to contributions made after December 31, 2013, and before January 1, 2015.

**Extend increased expensing for small business.**—Business taxpayers are allowed to expense up to \$500,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning after 2009 and before 2014. The maximum amount that can be expensed is reduced by the amount by which the taxpayer's cost of qualifying property exceeds \$2,000,000. Effective for property placed in service after 2009 and before 2014, the definition of qualifying property is expanded to include certain real property, such as qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property; however, the maximum amount of such real property that can be expensed is \$250,000. This Act extended for one year, effective for qualifying property placed in service in taxable years beginning in 2014 (including off-the-shelf computer software and certain real property), the annual expensing and investment limits that were in effect in 2010 through 2013.

**Extend expensing of advanced mine safety equipment.**—Taxpayers are allowed to immediately expense 50 percent of the cost of underground mine safety equipment

that is above and beyond existing safety equipment requirements. This Act extended this provision for one year, to apply to property placed in service after December 31, 2013, and before January 1, 2015.

**Extend expensing for certain qualified film and television productions.**—Taxpayers could elect to deduct up to \$15 million (\$20 million for productions in certain areas) of the aggregate costs of any qualifying film and television production in the year in which the expenses were incurred, in lieu of capitalizing the cost and recovering it through depreciation allowances. This Act extended this provision for one year, to apply to qualified film and television productions commencing after December 31, 2013, and before January 1, 2015.

**Extend the domestic production activities deduction for activities in Puerto Rico.**—A deduction is provided for a portion of a taxpayer's qualified production activities income. Qualified production activities income generally is equal to domestic production gross receipts reduced by the sum of the costs of goods sold and other expenses, losses, or deductions that are properly allocable to those receipts. Domestic production gross receipts generally only include receipts from activities performed within the United States, and do not include receipts from activities performed in Puerto Rico. For taxable years beginning after May 17, 2006, the amount of the deduction for a taxable year is limited to 50 percent of the wages paid by the taxpayer and properly allocable to domestic production gross receipts during the calendar year that ends in such taxable year. Wages paid to bona fide residents of Puerto Rico generally are not included in the wage limitation amounts. However, effective for the first eight taxable years of a taxpayer beginning after December 31, 2005, and before January 1, 2014, a taxpayer with gross receipts from sources within the Commonwealth of Puerto Rico can treat production activities performed in Puerto Rico as performed in the United States for purposes of determining qualified production activities income, and can take into account wages paid to bona fide residents of Puerto Rico for services performed in Puerto Rico in computing the 50-percent wage limitation, provided all of the taxpayer's gross receipts are subject to the Federal income tax. This Act extended this provision for one year, to apply to the first nine taxable years of a taxpayer beginning after December 31, 2005, and before January 1, 2015.

**Extend special rule regarding tax treatment of certain payments to controlling exempt organizations.**—Interest, rents, royalties, and annuities generally are excluded from the tax on unrelated business income of tax-exempt organizations, unless such income is received from a taxable or tax-exempt subsidiary that is 50-percent controlled by the parent tax-exempt organization. However, such income received by a tax-exempt parent organization from a controlled subsidiary before January 1, 2014, is taxable only to the extent that it exceeds amounts that would have been received if such payments had been determined under the arm's length principles of section 482 of the Internal Revenue Code. This Act extended this

provision for one year, to apply to such income received before January 1, 2015.

**Extend special tax rules applicable to regulated investment companies (RICs).**—This Act extended for one year, through December 31, 2014, the following special tax rules applicable to RICs: (1) the exemption from U.S. withholding tax for certain interest-related dividends and short-term capital gain dividends paid by a RIC to a foreign shareholder; and (2) the treatment of RICs as “qualified investment entities” for purposes of the provisions regarding foreign investment in U.S. real property interests.

**Extend subpart F “active financing” and “look-through” exceptions.**—Under the rules contained in sections 951 and 964 of the Internal Revenue Code (subpart F), U.S. shareholders of a controlled foreign corporation (CFC) are subject to U.S. tax currently on certain income earned by the CFC, whether or not such income is distributed. Exceptions from subpart F are provided for: (1) certain income derived in the active conduct of a banking, financing, insurance, or similar business (active financing exception); and (2) dividends, interest, rents, and royalties received by one CFC from a related CFC to the extent attributable or properly allocable to income of the related CFC that is neither subpart F income nor income treated as effectively connected with the conduct of a trade or business in the United States (look-through exception). This Act extended both the subpart F active financing and look-through exceptions to apply to taxable years beginning after December 31, 2013, and before January 1, 2015.

**Extend exclusion of 100 percent of gain on certain small business stock.**—Capital gains realized on the sale of certain small business stock held by an individual for more than five years are excluded from tax, effective for stock issued after September 27, 2010, and before January 1, 2014. This Act extended the 100-percent exclusion for one year, to apply to qualified small business stock issued after December 31, 2013, and before January 1, 2015.

**Extend basis adjustment to stock of S corporations contributing appreciated property.**—Each shareholder of an S corporation must take into account his or her pro rata share of a charitable contribution by the S corporation in determining his or her income tax liability. For donations of property, this generally is the pro rata share of the property’s fair market value; the shareholder’s basis in the stock of the company is reduced by the amount of the charitable contribution that flows through to the shareholder. However, effective for charitable contributions made by an S corporation in taxable years beginning after December 31, 2005, and before January 1, 2014, shareholders are allowed to adjust their basis in the stock of the company by their pro rata share of the adjusted basis of the contributed property instead of by their pro rata share of the market value of the contributed property. This Act extended this provision for one year, to apply to charitable contributions made by an S corporation in taxable years beginning before January 1, 2015.

**Extend reduction in recognition period for S corporation built-in gains tax.**—A “small business corporation” may elect to be treated as an S corporation. Unlike C corporations, S corporations generally pay no corporate-level tax; instead, items of income and loss of an S corporation pass through to its shareholders. A corporate level tax, at the highest marginal tax rate applicable to corporations (currently 35 percent), is imposed on the net recognized built-in gain of an S corporation that arose prior to the conversion of a C corporation to the S corporation and that is recognized by the S corporation during the “recognition period.” The “recognition period” is the 10-year period beginning with the first day of the first taxable year for which the election to be treated as an S corporation is in effect; however, the “recognition period” was reduced to five years for dispositions of property in taxable years beginning in 2011, 2012, and 2013. This Act extended the five-year recognition period for one year, to apply to dispositions of property in taxable years beginning in 2014.

**Extend tax incentives for empowerment zones.**—This Act extended the tax incentives (including employment credits and low-cost loans) that are provided to businesses located in the 40 federally-designated empowerment zones (30 in urban areas and 10 in rural areas) for one year, through December 31, 2014.

**Extend temporary increase in limit on cover over of rum excise taxes to Puerto Rico and the Virgin Islands.**—A \$13.50-per-proof-gallon excise tax is imposed on distilled spirits produced in or imported into the United States. Under current law, \$10.50 per proof gallon of the tax imposed on rum imported into the United States is covered over (paid) to Puerto Rico and the Virgin Islands. A temporary increase in the amount covered over to Puerto Rico and the Virgin Islands to \$13.25 per proof gallon expired with respect to rum imported into the United States after December 31, 2013. This Act extended the \$13.25-per-proof-gallon cover over amount for one year, to apply to rum imported into the United States after December 31, 2013, and before January 1, 2015.

**Extend the economic development credit for American Samoa.**—Under prior law, a domestic corporation that was an existing possession tax credit claimant with respect to American Samoa and elected the application of the tax credit for its last taxable year beginning before January 1, 2006, was allowed to claim a possession tax credit based on the economic activity-based limitation rules for the first eight taxable years beginning after December 31, 2005, and before January 1, 2014. A domestic corporation that was an existing possession tax credit claimant and did not elect the application of the tax credit for its last taxable year beginning before January 1, 2006, was allowed to claim a possession tax credit based on the economic activity-based limitation rules for the first two taxable years beginning after December 31, 2011, and before January 1, 2014. This Act extended the ability of domestic corporations to claim a possession tax credit based on the economic activity-based limitation rules for one year, to apply to taxable years beginning after December 31, 2013, and before January 1, 2015.

## Energy Tax Extenders

**Extend credit for nonbusiness energy property.**—A tax credit is provided for the purchase of qualified energy efficient improvements to existing homes located in the United States and owned and used by the taxpayer as the taxpayer's principal residence. This Act extended the credit for one year, to apply to property purchased and placed in service after December 31, 2013, and before January 1, 2015.

**Extend second generation biofuel producer credit.**—An income tax credit (generally equal to \$1.01 per gallon) is provided to producers of second generation biofuel. This Act extended the credit for one year, to apply to fuel produced after December 31, 2013, and before January 1, 2015.

**Extend credits for renewable diesel and biodiesel fuels.**—An excise tax credit (or a payment) of \$1.00 is provided for each gallon of biodiesel and agri-biodiesel used by a taxpayer in producing a biodiesel mixture for sale or use in a trade or business. An income tax credit for biodiesel fuels (the biodiesel fuels credit) is also provided. The biodiesel fuels income tax credit is the sum of three credits: (1) the biodiesel mixture credit, which is \$1.00 for each gallon of biodiesel and agri-diesel used by the taxpayer in the production of a qualified biodiesel mixture; (2) the biodiesel credit, which is \$1.00 for each gallon of biodiesel and agri-diesel that is not in a mixture with diesel when used as a fuel or sold at retail; and (3) the small agri-biodiesel producer credit, which is a 10-cents-per-gallon credit for up to 15 million gallons of agri-biodiesel produced by small producers. Renewable diesel is eligible for the excise tax credit (or payment) and the income tax credit provided to biodiesel fuels at a rate of \$1.00 per gallon. This Act extended for one year, through December 31, 2014, these credits and payments for biodiesel and renewable diesel fuels.

**Extend credit for the production of Indian coal.**—This Act extended for one year, through December 31, 2014, the credit for the production of coal from reserves owned by Indian tribes at facilities placed in service before January 1, 2009.

**Extend tax credit with respect to facilities producing energy from certain renewable sources.**—Taxpayers are allowed a tax credit for electricity produced from wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower, and marine and hydrokinetic renewable energy at qualified facilities (the renewable electricity production credit). To qualify for the credit, electricity generally must be sold by the taxpayer to an unrelated person and must be produced at a qualified facility. For the production of electricity from solar energy and small irrigation power, a facility is qualified if it was placed in service before January 1, 2006, and October 3, 2008, respectively. For the production of electricity from wind, closed-loop biomass, open-loop biomass, geothermal energy, municipal solid waste, qualified hydropower, geothermal energy, and marine and hydrokinetic renewable energy, a facility is qualified if

construction began before January 1, 2014. This Act extended for one year, through December 31, 2014, the date on which construction must commence for a facility that produces electricity from wind, closed-loop biomass, open-loop biomass, geothermal energy, municipal solid waste, qualified hydropower, and marine and hydrokinetic renewable energy to be a qualified facility. This Act also extended for one year, through December 31, 2014, the election to treat qualified facilities as energy property eligible for the 30-percent energy production credit, in lieu of the renewable electricity production credit.

**Extend credit for the construction of energy-efficient new homes.**—An eligible contractor is provided a tax credit for each qualified new energy-efficient home that is constructed and acquired from the contractor by a person for use as a residence. This Act extended the credit for one year, to apply to homes purchased after December 31, 2013, and before January 1, 2015.

**Extend special allowance for second generation biofuel plant property.**—This Act extended the additional first-year depreciation deduction, equal to 50 percent of the adjusted basis of qualified second generation biofuel plant property, for one year, to apply to such property placed in service before January 1, 2015.

**Extend deduction for energy-efficient commercial building property.**—A deduction is provided for the cost of energy-efficient commercial building property placed in service before January 1, 2014. This Act extended the deduction for one year, to apply to such property placed in service after December 31, 2013, and before January 1, 2015.

**Extend special rules for sales or dispositions to implement Federal Energy Regulatory Commission (FERC) or State electric restructuring rules for qualified electric utilities.**—Under a special provision of prior law, taxpayers were allowed to elect to recognize gain from the sale or disposition of qualifying electric transmission property ratably over an eight-year period beginning in the year of sale if the amount realized from such sale was used to purchase exempt utility property (reinvestment property) within the applicable period. Any gain realized in excess of the amount used to purchase the reinvestment property was recognized as income in the year of the qualifying electric transmission transaction. This Act extended this special rule for one year, to apply to the sale or disposition of qualifying electric transmission property after December 31, 2013, and before January 1, 2015.

**Extend alternative fuels excise tax credits.**—Two per-gallon excise tax credits are available for the production of alternative fuel: the alternative fuel credit and the alternative fuel mixture credit. Alternative fuel means liquefied petroleum gas, P Series fuels, compressed or liquefied natural gas, liquefied hydrogen, liquid fuel derived from coal through the Fischer-Tropsch process, compressed or liquefied gas derived from biomass, or liquefied fuel derived from biomass. The alternative fuel credit is 50 cents per gallon of alternative fuel or gasoline gallon equivalents of nonliquid alternative fuel sold by the taxpayer for use as a motor fuel in a motor vehicle or

motorboat, sold for use in aviation or so used by the taxpayer. The alternative fuel mixture credit is 50 cents per gallon of alternative fuel used in producing an alternative fuel mixture for sale or use in a trade or business of the taxpayer. A taxpayer is also allowed to file a claim for payment equal to the amount of the alternative fuel credit or the alternative fuel mixture credit. Under prior law, the credits and payments for non-hydrogen fuels expired with respect to fuel used or sold after December 31, 2013; the credits and payments with respect to liquefied hydrogen expired with respect to fuel used or sold after September 30, 2014. This Act extended the alternative fuel credit, the alternative fuel mixture credit, and related payments for non-hydrogen fuels for one year, to apply to fuel sold or used before January 1, 2015.

**Extend credit for alternative fuel vehicle refueling property.**—A tax credit is provided for the cost of qualified clean-fuel vehicle refueling property to be used in a trade or business of the taxpayer or installed at the principal residence of the taxpayer. Under prior law, the credit is available for hydrogen refueling property placed in service before January 1, 2015, and for non-hydrogen refueling property placed in service before January 1, 2014. This Act extended the credit for non-hydrogen refueling property for one year, to apply to property placed in service after December 31, 2013, and before January 1, 2015.

#### Achieving a Better Life Experience (ABLE) Accounts

**Create ABLE accounts.**—This Act allowed each State to establish and operate an ABLE program under which a tax-favored ABLE account may be set up for the benefit of any eligible State resident diagnosed before age 26 as blind or disabled, effective for taxable years beginning after December 31, 2014. Contributions to an ABLE account can be made by anyone, regardless of their relationship to the designated beneficiary of the account. Contributions are not tax deductible, but earnings on an ABLE account and distributions from the account (including portions attributable to investment earnings) to a designated beneficiary for qualified expenses (expenses related to the beneficiary's disability) generally are not included in the taxable income of the contributor to the account or the designated beneficiary. Distributions from the account for non-qualified expenses are subject to both income tax and a 10-percent penalty on the portion of such distributions attributable to earnings from the account. Designated beneficiaries are limited to one ABLE account, total annual contributions by all individuals to such an account are limited to the annual gift tax exclusion (\$14,000 in 2015, adjusted annually for inflation), and aggregate contributions are subject to the State limit for section 529 education savings accounts. Assets in the account and distributions from the account for qualified disability expenses are disregarded when determining the designated beneficiary's eligibility for most Federal means-tested benefits.

#### Offsets

**Increase excise tax on fuel used on certain waterways.**—This Act increased the excise tax imposed on fuel used to power certain vessels transporting commercial cargo on listed inland and intra-coastal waterways, from 20 cents per gallon to 29 cents per gallon. The increase is effective for fuel used after March 31, 2015.

**Authorize certification of professional employer organization (PEOs) by the Internal Revenue Service (IRS) for the withholding and remittance of taxes with respect to the customer's employees.**—If a business contracts with a PEO to administer its payroll functions, the business customer remains responsible for the withholding and remittance of taxes with respect to its employees, and compliance with related reporting requirements. This Act authorizes the IRS to certify qualifying PEOs to become solely responsible for the withholding and remittance of taxes with respect to the customer's employees, as well as compliance with related reporting requirements. To be certified by the IRS, the PEO must satisfy various requirements, including posting a bond in case it fails to satisfy its tax withholding and remittance obligations. The PEO would also be subject to an annual certification fee not to exceed \$1,000. The IRS is required to establish the PEO certification program by July 1, 2015, and the provision is generally effective for wages paid by a certified PEO for services performed by a customer's employees after 2015.

**Exclude dividends from CFCs from the definition of personal holding company income for purposes of the personal holding company rules.**—In addition to the regular corporation income tax, a corporation that is a personal holding company (a company that is majority-owned by five or fewer individuals and more than 60 percent of its income consists of certain types of passive income) must pay an additional 20-percent tax on undistributed personal holding company income above a threshold amount. Personal holding company income includes dividends, interest, certain rents, and other generally passive investment income, including dividends derived from an active trade or business of a foreign subsidiary. Under this Act, dividends received by a 10-percent U.S. shareholder from a CFC are excluded from the definition of personal holding company income for purposes of the personal holding company tax, effective for taxable years ending on or after the date of enactment.

**Index certain penalties under the Internal Revenue Code for inflation.**—Generally, the amount of a tax penalty that is a set dollar amount is established when the penalty is added to the Internal Revenue Code. Often significant time passes and the penalty amount is too low to continue serving as an effective deterrent. Under current practice, most penalties can only be increased by amendment to the Internal Revenue Code. Effective for returns required to be filed after December 31, 2014, this Act indexes annually for inflation (subject to specified rounding rules) select fixed-dollar civil tax penalties for: (1) the failure to file a tax return but only with respect to the \$135 amount applicable in the case of

a failure to file the return within 60 days of the date prescribed for filing (determined with regard to extensions); (2) the failure by exempt organizations and certain trusts to file certain returns; (3) the failure of a paid preparer to meet certain obligations; (4) the failure of a partnership or an S corporation to timely file a correct return; and (5) the failure to timely file correct information returns and payee statements.

***Increase levy authority for payments to Medicare providers with delinquent tax debt.***—Through the Federal Payment Levy Program (FPLP), the Department of the 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. Under prior law, the Department of the Treasury is authorized to continuously levy up to 15 percent of a payment to a Medicare provider to collect delinquent tax debt. This Act allows the Department of the Treasury to levy up to 30 percent of a payment to a Medicare provider to collect delinquent tax debt, effective for payments made more than 180 days after the date of enactment.

## 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 prevent the BBEDCA baseline from serving as an appropriate benchmark for judging the effect of new legislation. In particular, the American Taxpayer Relief Act of 2012 (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 the American Recovery and Reinvestment Act of 2009 (ARRA) only through taxable year 2017. This tax relief includes 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 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 tax 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)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-20	2016-25
<b>BBEDCA baseline receipts .....</b>	3,175.1	3,429.6	3,577.4	3,743.5	3,915.8	4,099.6	4,312.7	4,534.5	4,756.9	4,985.2	5,209.5	18,765.9	42,564.8
<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	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.9
Extend EITC for larger families <sup>1</sup> .....	.....	.....	.....	.....	-*	-*	-*	-*	-*	-*	-*	-0.1	-0.3
Extend AOTC <sup>1</sup> .....	.....	.....	.....	-0.5	-5.3	-5.1	-4.8	-4.5	-4.3	-3.8	-3.6	-11.0	-32.0
<b>Total, adjustments to BBEDCA baseline .....</b>	.....	.....	.....	-0.6	-5.4	-5.3	-4.9	-4.7	-4.4	-4.0	-3.8	-11.3	-33.1
<b>Adjusted baseline receipts .....</b>	<b>3,175.1</b>	<b>3,429.6</b>	<b>3,577.4</b>	<b>3,743.0</b>	<b>3,910.4</b>	<b>4,094.3</b>	<b>4,307.8</b>	<b>4,529.8</b>	<b>4,752.5</b>	<b>4,981.2</b>	<b>5,205.7</b>	<b>18,754.6</b>	<b>42,531.6</b>

\*\$50 million or less.

<sup>1</sup> This provision affects both receipts and outlays for refundable tax credits. Only the receipt effect is shown above. The outlay effects are listed below:

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Extend increased refundability of the child tax credit .....	.....	.....	.....	0.5	10.9	11.0	11.1	11.1	11.1	11.3	11.3	22.5	78.3
Extend EITC marriage penalty relief .....	.....	.....	.....	0.1	1.3	1.3	1.4	1.4	1.4	1.4	1.4	2.7	9.6
Extend EITC for larger families .....	.....	.....	.....	0.1	2.0	2.0	2.1	2.1	2.1	2.2	2.2	4.1	14.7
Extend AOTC .....	.....	.....	.....	.....	2.1	4.6	4.7	4.7	4.7	4.8	4.8	6.7	30.5
<b>Total, outlay effects of adjustments to BBEDCA baseline .....</b>	.....	.....	.....	0.7	16.3	18.9	19.2	19.3	19.3	19.6	19.7	36.0	133.1

## RESERVE FOR BUSINESS TAX REFORM THAT IS REVENUE NEUTRAL IN THE LONG RUN

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 the Budget, the President is calling on the Congress to immediately begin work on business tax reform that achieves the following five goals: (1) cut the corporate tax rate and pay for it by making structural reforms and eliminating loopholes and subsidies; (2) strengthen American manufacturing and innovation; (3) strengthen the international tax system; (4) simplify and cut taxes for small businesses; and (5) avoid adding to deficits in the short-term or the long-term.

Consistent with these goals, the Budget includes a detailed set of business proposals that close loopholes and provide incentives for growth in a fiscally responsible manner.

The Administration proposes that these policies 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 generally not counted toward meeting the Administration's deficit reduction goals. However, as part of transitioning

to a reformed international tax system, the President's plan would impose a one-time transition toll charge of 14 percent on the \$1 to \$2 trillion of untaxed foreign earnings that U.S. companies have accumulated overseas. The Budget proposes to use the one-time savings from this toll charge to pay for investment in transportation infrastructure.

### Reform the U.S. International Tax System

**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 interest expense deduction of an entity that is a member of a group that prepares consolidated financial statements if the member's net interest expense for financial statement purposes exceeds the member's proportionate share of the group's financial statement net interest expense (excess financial statement net interest expense). The member's share of the groups' financial statement net interest expense would be determined based on the member's proportionate share of the group's reported earnings. If a member has excess financial statement net interest expense, a member will have excess net interest expense

for tax purposes for which a deduction is disallowed in the same proportion that the member's net interest expense for financial statement purposes is excess financial statement net interest expense. Alternatively, 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 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, 2015.

**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.

**Repeal delay in the implementation of worldwide interest allocation.**—The rules for allocating and apportioning interest expense between U.S. and foreign source income are based on the theory that money is fungible and, therefore, interest expense is properly attributable to all investments of a taxpayer. Under current law, however, interest expense of the domestic members of a worldwide group of companies is allocated by treating only the domestic members as a single corporation. Consequently, U.S. members are required to allocate their U.S. interest expense to their U.S. and foreign investments without taking into account any third party interest expense incurred by foreign members of the group. Under current law, an election is available for taxable years beginning after December 31, 2020, to allow members of an affiliated group of U.S. corporations to allocate interest on a worldwide group basis under which interest expense incurred in the United States would be allocated against foreign-source income only to the extent that the debt-to-asset ratio is higher for U.S. than for foreign investments. Under the Administration's proposal, this election would be permitted for taxable years beginning after December 31, 2015.

**Extend the exception under subpart F for active financing income.**—Under subpart F, U.S. shareholders of a CFC are subject to U.S. tax currently on certain passive and other highly mobile income (subpart F income) earned by the CFC, whether or not such income is distributed to the shareholders. For taxable years beginning before January 1, 2015, the active financing exception excludes certain income derived in the active conduct of a banking, financing, insurance or similar business from subpart F income. Under the Administration's proposal, this exception would be permanently extended.

**Extend the look-through treatment of payments between related CFCs.**—For taxable years beginning before January 1, 2015, the look-through exception excludes from subpart F income interest, dividends, rents, and royalties received or accrued from a related CFC to the extent attributable or properly allocable to income of the CFC that is neither subpart F income nor income treated as effectively connected with the conduct of a trade or business in the United States. Under the Administration's proposal, this exception would be permanently extended.

**Impose a 19-percent minimum tax on foreign income.**—Subject to certain limited exceptions under subpart F, U.S. companies are able to defer paying U.S. tax on the profits earned by their CFCs until the profits are repatriated. This ability to defer U.S. tax creates an incentive for U.S. multinationals to locate production overseas and shift profits abroad, eroding the U.S. tax base. In addition, the current system discourages these companies from bringing low-taxed foreign earnings back to the United States. To address these problems, the Administration proposes to supplement the existing subpart F regime with a per-country minimum tax on foreign earnings.

Under the Administration's proposal, foreign earnings, other than subpart F income, would be subject to current U.S. taxation at a rate of 19 percent less 85 percent of the per-country foreign effective tax rate. The tentative minimum tax base for each country would be the total earnings of all business units that are tax resident in that country under foreign law, net of dividends received. The tentative minimum tax base would be reduced by an allowance for corporate equity that would provide a risk-free return on equity invested in active assets. The minimum tax would be imposed on foreign earnings regardless of whether they are repatriated to the United States, and all foreign earnings of a CFC could be repatriated without further U.S. tax. Thus under the proposal, all CFC earnings would be subject to U.S. tax either immediately or not at all.

Foreign source royalty and interest payments paid to U.S. persons would be taxed at the U.S. statutory rate, but certain income attributable to a foreign branch or to the performance of services abroad would be eligible for taxation at the minimum tax rate. Interest expense allocated and apportioned to earnings for which the minimum tax is paid would be deductible at the U.S. minimum tax rate on those earnings. No deduction would be permitted for interest expense allocated and apportioned to foreign earnings for which no U.S. income tax is paid. While sub-

part F generally would continue in effect as under current law, the rules regarding CFC investments in U.S. property and previously taxed earnings would be repealed, and the subpart F high-tax exception would be made mandatory. The proposal would be effective for taxable years beginning after December 31, 2015.

***Impose a 14-percent one-time tax on previously untaxed foreign income.***—Under current law, U.S. multinational companies do not pay U.S. tax on the profits earned by their CFCs until those profits are repatriated, subject to a limited exception under subpart F for passive and other highly mobile income. Under the Administration's proposal for companies to pay a minimum tax on foreign income, no U.S. tax would be imposed on a CFC's payment of a dividend to a U.S. shareholder. Therefore, the Administration proposes to impose a one-time 14-percent tax on the accumulated earnings of CFCs that were not previously subject to U.S. tax. A credit would be allowed for the amount of foreign income taxes associated with such earnings, multiplied by the ratio of the one-time tax rate to the otherwise applicable U.S. corporate tax rate. The earnings subject to the one-time tax could then be repatriated without any further U.S. tax. The proposal pays for outlays associated with: (1) the Administration's surface transportation reauthorization proposal; and (2) shortfalls between surface transportation revenue and spending that exist under current law for the proposal period.

***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, 2015.

***Disallow the deduction for excess non-taxed reinsurance premiums paid to affiliates.***—U.S. affiliates of foreign insurance companies can avoid U.S. taxation of their profits from their U.S. insurance business by reinsuring that business with affiliated foreign insurance companies. 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 income exclusion for return premiums, ceding commissions, reinsurance recovered, or other amounts received from such affiliates. A foreign corporation that is paid premiums that would be affected by this

provision could instead elect to treat those premiums and the associated investment income as income effectively connected with the conduct of a trade or business in the United States and attributable to a permanent establishment for tax treaty purposes. For foreign tax credit purposes, such effectively connected income would be treated as foreign source income and would be placed into a separate category for purposes of applying the credit limitation rules. The proposal would be effective for policies issued in taxable years beginning after December 31, 2015.

***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, 2015.

***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, 2015.

***Modify sections 338(h)(16) and 902 to limit credits when non-double taxation exists.***—The Administration proposes to modify the foreign tax credit rules to reduce the availability of foreign tax credits in circumstances where no double taxation would otherwise exist. Under section 338 of the Internal Revenue Code, taxpayers can elect to treat certain acquisitions of the stock of a corporation 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 these rules to other similar transactions that are treated as asset acquisitions for U.S. tax purposes but as acquisitions of an equity interest in an entity for foreign tax purposes. In addition, 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 proposals would be effective for transactions occurring after December 31, 2015.

***Close loopholes under subpart F.***—Certain rules under subpart F rely on technical distinctions that may be manipulated or circumvented contrary to subpart F's policy of requiring current U.S. taxation of passive and other highly mobile income earned by CFCs. In order to close these loopholes, the Administration proposes to: (1) 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; (2) 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 contract; (3) amend the ownership attribution rules of section 958(b) of the Internal Revenue Code so that certain stock directly owned by a foreign person is attributed to a related U.S. person for purposes of determining whether a foreign corporation is a CFC or a U.S. person is a U.S. shareholder; and (4) eliminate the requirement that a foreign corporation must be a CFC for an uninterrupted period of at least 30 days in order for a U.S. shareholder to have a subpart F income inclusion with respect to the corporation. The proposal would be effective for taxable years beginning after December 31, 2015.

***Restrict the use of hybrid arrangements that create stateless income.***—Taxpayers currently use a variety of cross-border hybrid arrangements to claim deductions without corresponding inclusions in any jurisdiction or 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. Additionally, sections 954(c)(3) and 954(c)(6) of the Internal Revenue Code would not apply to payments made to a foreign reverse hybrid held directly by a U.S. owner when such amounts are treated as deductible payments by a foreign related person. 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 deny all or a portion of the 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, 2015.

***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 by eliminating 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 fair market value of the stock of the U.S. corporation is greater than the fair market value of the stock of the foreign acquiring corporation, and the affiliated group is primarily managed and controlled in the United States and does not conduct substantial business activities in the relevant foreign country. In addition, the proposal would provide the IRS with authority to share with authorized employees of other Federal agencies, upon request, information collected with respect to the identity of companies that are the subject of an inversion transaction. The proposal generally would be effective for transactions that are completed after December 31, 2015, except that, effective January 1, 2016, the proposal would provide the IRS with the authority to share with other Federal agencies the specified information without regard to when the inversion transaction occurred.

### Simplification and Tax Relief for Small Business

***Expand and permanently 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 2014. 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, 2014. For qualifying property placed in service in taxable years beginning after December 31, 2015, the maximum amount that can be expensed would be increased to \$1,000,000. The limits would be indexed for inflation in taxable years beginning after 2016. Qualifying property would permanently include off-the-shelf computer software, but would not include certain real property.

**Expand simplified accounting for small business and establish a uniform definition of small business for accounting methods.**—Current law contains several small business exceptions from various accounting requirements based on a taxpayer's average annual gross receipts. Exception thresholds vary between \$1 million and \$25 million of gross receipts, depending on the specific accounting rule, and the legal status and business activity of the taxpayer. The Administration proposes to create a uniform small business threshold at \$25 million in average annual gross receipts for allowing exceptions from certain accounting rules, effective for taxable years beginning after December 31, 2015. This threshold would be indexed for inflation with respect to taxable years beginning after December 31, 2016. Satisfaction of the gross receipts test would allow an entity to elect one or more of the following items: (1) use of the cash method of accounting in lieu of an accrual method (regardless of whether the entity holds inventories); (2) the non-application of the uniform capitalization (UNICAP) rules; and (3) the use of an inventory method of accounting that either conforms to the taxpayer's financial accounting method or is otherwise properly reflective of income. These rules would supersede the special cash method exceptions that apply to farm corporations, but current exceptions allowing the cash method by personal service corporations and by business entities that are not C corporations (other than partnerships with a C corporation partner) would continue. The exceptions from UNICAP not based on a gross receipts test would also continue.

**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, 2015, 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 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 no longer treat the excluded gain as a preference that is subject to tax under the AMT. 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, 2014.

**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 an 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 a 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. To lower the tax cost of investigating new business opportunities and investing in new business activities, as well as tax administration and business compliance costs, 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 taxable years beginning after December 31, 2015. That amount would be reduced (but not below zero) by the amount by which the combined new business expenditures exceed \$120,000. Start-up and organizational expenditures that are not deducted under these provisions would continue to be amortized over a 180-month period, beginning with the month in which the active trade or business begins.

**Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance.**—The ACA 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. 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. 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. 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 average premium in the rating area. The proposal would be effective for taxable years beginning after December 31, 2014.

### **Incentives for Manufacturing, Research, and Clean Energy**

**Enhance and make permanent research incentives.**—The R&E tax credit calculated according to the “traditional” method is 20 percent of qualified research and experimentation expenditures above an historic base amount. An alternative simplified credit (ASC) of 14 percent is also provided. These R&E tax credits expired with respect to expenditures paid or incurred after December 31, 2014. The Administration proposes to permanently extend the R&E tax credit for expenditures paid or incurred after December 31, 2014, with the exception of the traditional method, which would not apply for expenditures paid or incurred after December 31, 2015. In addition, for expenditures paid or incurred after December 31, 2015, the following changes would apply: (1) the rate of the ASC would be increased to 18 percent; (2) the reduced ASC rate of 6 percent for businesses without qualified research expenses in the prior three years would be eliminated; (3) the credit would be allowed to offset AMT liability; (4) contract research expenses would include 75 percent of payments to qualified non-profit organizations (such as educational institutions) for qualified research; and (5) the special rule for owners of a pass-through entity, which limits the amount of credit to the amount of tax attributable to that portion of a person’s taxable income that is allocable or apportionable to the person’s interest in such trade, business or entity would be repealed.

In addition, the proposal would repeal the requirement that research and experimentation costs be amortized over 10 years when calculating individual AMT. This would apply to expenditures paid or incurred after December 31, 2015.

**Extend and modify certain employment tax credits, including incentives for hiring veterans.**—The WOTC provides incentives to employers for hiring individuals from one or more of nine targeted groups and the Indian employment tax credit provides incentives to employers for hiring individuals who are members of an Indian tribe. The Indian employment tax credit applies to increases in qualified wages and health insurance costs over qualified wages and health insurance costs incurred

in calendar year 1993 (the base year). The Administration proposes to permanently extend both credits, which include the Returning Heroes and Wounded Warrior credits enacted in 2011. In addition, beginning in 2016, 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 and investment tax credit.**—Current law provides production tax credits for renewable energy facilities, the construction of which began before the end of 2014. 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 renewable energy property. The investment tax credit is 30 percent of eligible basis for solar, fuel cell, and small wind property placed in service by December 31, 2016, and 10 percent for microturbine, combined heat and power system property, and geothermal property. For solar and non-heat pump geothermal property placed in service after 2016, a 10-percent credit is available. The Administration proposes to extend the current law production tax credit for facilities on which construction begins before the end of 2015. For facilities on which construction begins after December 31, 2015, the proposal would permanently extend the production tax credit and make it refundable. The 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 production tax credit would also be available to individuals who install qualified energy property associated with a dwelling unit. In addition, the proposal would permanently extend the investment tax credit under the terms available in 2016. Specifically, the proposal would permanently extend the 30-percent investment tax credit for solar, fuel cell, and small wind property and the 10-percent credit for geothermal, microturbine, and combined heat and power property. The proposal would also make permanent the election to claim the investment tax credit in lieu of the production tax credit for qualified facilities eligible for the 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 2015, 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.

**Provide a carbon dioxide investment and sequestration tax credit.**—The Administration proposes to authorize \$2 billion in refundable investment tax credits for property installed at a new or retrofitted electric generating unit that captures and permanently “sequesters” carbon dioxide. New plants must capture greater than 75 percent of their carbon dioxide emissions. Eligible investment for retrofitted units must capture greater than 75 percent of the carbon dioxide emissions. Retrofits must apply to existing plant units that have capacities greater than 250 megawatts and that capture and store more than 1 million metric tons of carbon dioxide annually. No more than 60 percent of the total credits may flow to either class of project. In addition, no more than 40 percent of the total credits may flow to any one of the following technology categories: (1) liquid solvents, (2) solid sorbents, (3) gas-separation membranes, (4) warm gas clean-up, (5) oxygen fired combustion systems, and (6) hybrid systems. A minimum of 70 percent of the credits must flow to projects fueled by greater than 75 percent coal. The Administration also proposes to provide a 20-year, refundable sequestration tax credit for facilities qualifying for the investment credit at a rate of \$50 per metric ton for carbon dioxide permanently sequestered and not beneficially reused and \$10 per metric ton for carbon dioxide that is permanently sequestered and beneficially reused or is associated with an industrial non-power source. Both credit rates would be indexed for inflation.

**Provide additional tax credits for investment in qualified property used in a qualifying advanced energy manufacturing project.**—A 30-percent credit for investment in eligible property used in a qualifying advanced energy manufacturing project was provided under ARRA. 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.

**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, 2016 through 2018.

**Extend the tax credit for second generation bio-fuel production.**—The Administration proposes to retroactively extend the tax credit for blending cellulosic fuel, which expired on December 31, 2014, 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.

## 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 2014. The Administration proposes to permanently extend the NMTC. Up to \$5 billion in qualifying investment would be allowed in each year beginning in 2015. The proposal would also permit the NMTC to permanently offset AMT liability.

**Reform and expand the Low-Income Housing tax credit (LIHTC).**—The LIHTC provides a tax incentive for affordable rental housing developments. The Administration proposes to make 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. 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. This proposal would provide States greater flexibility to address their affordable housing priorities, and would reduce transaction and financing costs. These changes would be effective for new volume cap received by States for calendar years beginning after the date of enactment, or for volume cap that is allocated to a building after that date.

Second, to provide incentives for creating mixed-income housing, projects would be allowed to comply with an income-average rule for LIHTC eligibility. Under this new rule, the average income for at least 40 percent of the units in a project could not exceed 60 percent of area median income (AMI). None of these units could be occupied by households with income greater than 80 percent of AMI. Buildings must meet this new average income

threshold calculated both: (1) with all low-income units weighted equally; and (2) with each low-income unit weighted according to imputed LIHTC occupancy rules. For rehabilitation projects containing units that receive ongoing subsidies administered by the Department of Housing and Urban Development or the Department of Agriculture (e.g., rental assistance, operating subsidies, or interest subsidies), a special rule would permit certain non-income qualified tenants to remain in residence without impairing the LIHTCs earned by the project. This provision adds to the two income criteria currently available for LIHTC developments, and would apply to LIHTC elections that are made after the date of enactment.

Third, the formulas that produce the rates for the credits that are subject to the LIHTC allocation cap would be changed. The revised formulas would produce annual credit rates that are higher than those produced under current law, and would result in a more consistent benefit over the interest rate spectrum. This change would apply to allocations made on or after the date of enactment.

Fourth, preservation of federally-assisted affordable housing would be added to the selection criteria for LIHTC allocation. This factor would join the ten criteria that State housing agencies must include in the qualified action plans that they consider when awarding LIHTCs. This change would apply to allocations made in calendar years beginning after the date of enactment.

Fifth, the Administration proposes to allow the Department of Housing and Urban Development (HUD) to designate as a qualified census tract (QCT) any census tract that meets certain criteria for the prevalence of poverty or low-income households. A building in a QCT earns 30 percent more LIHTCs than it would in another location. The proposal would remove a current limit under which the aggregate population in census tracts designated as QCTs cannot exceed 20 percent of the metropolitan area's population. As a result of this limit, some census tracts with qualifying levels of poverty or low-income households may currently fail to be designated as QCTs because neighboring tracts also qualify. This change would apply to allocations made after the date of enactment.

Sixth, the proposal adds protection for victims of domestic violence as a mandatory provision of the long-term-use agreement required by the Internal Revenue Code between each LIHTC taxpayer and the State. To make the protection meaningful, victims of domestic violence would be given a right to enforce the agreement in State courts.

### **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 expand the eligible uses for America Fast Forward Bonds beyond those for the Build America Bond program to include 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, financing for section 501(c)(3) non-profit entities, and financing for the types of projects and programs that can be financed with qualified private activity bonds subject to applicable State bond volume caps for the qualified private activity bond category. Further, eligible uses would include projects that can be financed with a new category of qualified private activity bond, known as “Qualified Public Infrastructure bonds,” under a separate budget proposal described below. The proposal, which would be effective for bonds issued beginning in 2016, recommends exempting direct payments to State and local government issuers under the American Fast Forward Bond program from sequestration under BBEDCA.

**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 refundings (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 with the elimination of this category of bond and conversion to qualified public infrastructure bonds once these funds are allocated.

***Provide a new category of qualified private activity bonds for infrastructure projects referred to as “qualified public infrastructure bonds” (QPIBs).***—Under the proposal, QPIBs, a new category of tax-exempt private activity bonds, would be available for the financing of newly constructed or substantially rehabilitated infrastructure facilities owned by governmental entities and available for general public use. Infrastructure facilities eligible for QPIB financing would include airports, docks and wharves, mass commuting facilities, facilities for the furnishing of water, sewage facilities, solid waste disposal facilities, and qualified highway or surface freight transfer facilities. Existing overlapping categories of qualified private activity bonds that can be financed with QPIBs generally would be eliminated. The existing category for qualified highway or surface freight transfer facilities would continue to be available for the existing \$15 billion

bond volume authorization and the proposed additional \$4 billion authorization under the preceding Budget proposal. QPIBs would not be subject to volume cap and the interest would not be a preference that is subject to tax under the AMT. The proposal also expands the safe harbor rule for ownership by a governmental unit where such facilities are leased or subject to concession agreements or management contracts to QPIBs, which would open up use of tax-exempt financing for public-private partnerships. The proposal would be effective for bonds issued beginning in 2016.

***Modify qualified private activity bonds for public education facilities.***—Current law permits tax-exempt private activity bond financing for different specified types of eligible exempt facilities and programs, including, among others, “qualified public educational facilities” that are part of public elementary or secondary schools. The current eligibility rules require that a private “corporation” own the public school facilities under a public-private partnership agreement with a public State or local educational agency and that the private corporation transfer the ownership of the school facilities to the public agency at the end of the term of the bonds for no additional consideration. The proposal would eliminate the private corporation ownership requirement and instead would allow any private person, including private entities organized in ways other than as corporations, either to own the public school facilities or to operate those school facilities through lease, concession, or other operating arrangements. Further, since private ownership would no longer be an eligibility condition, the proposal would remove the requirement to transfer the school facilities to a public agency at the end of the term of the bonds for no additional consideration. In addition, the proposal would remove the separate volume cap for qualified public educational facilities and instead would include these facilities under the unified annual State bond volume cap. The proposal would be effective for bonds issued after the date of enactment.

***Modify treatment of banks investing in tax-exempt bonds.***—Under current law, financial institutions’ interest deductions are generally reduced by 100 percent of the interest expense allocable to assets that produce tax-exempt interest income. Financial institutions, however, can generally deduct 80 percent of interest expense allocated to qualified small issuer bonds. Qualified small issuer bonds are certain tax-exempt bonds issued by States and localities that annually issue no more than \$10 million of such bonds. The proposal would increase the size limit for the qualified small issuer bond exception from \$10 million to \$30 million. Moreover, under current law, if a bank has made the election to be taxed under subchapter S or if the bank is a qualified subchapter S subsidiary, the bank is exempt even from the 20-percent disallowance of interest expense allocable to qualified small issuer bonds. The proposal would make these banks subject to the 20-percent disallowance and thus would equalize the treatment of financial institutions. Finally, the proposal also would allow financial institutions to deduct up to 80 percent of interest expense allocable to any tax-exempt obligations

(whether or not a qualified small issuer bond) subject to a cap that would limit the benefit of this rule to interest expense allocable to bonds representing no more than two percent of the basis of the institution's assets. This two-percent cap, however, would not apply to the qualified small issuer bond exception. The proposal would apply to bonds issued in calendar years beginning on or after January 1, 2016.

**Repeal tax-exempt bond financing of professional sports facilities.**—Current law permits the use of tax-exempt governmental bond proceeds for private activities unless both of the following apply: (1) more than 10 percent of the payment of the debt service is from a private business source, and (2) more than 10 percent of the use of the facility is for a private business use. Thus, even if use by a professional sports team of a bond-financed stadium exceeds 10 percent of the total use of the facility, the financing will be tax-exempt if the debt service is paid from sources other than sports facility revenues or other private payments. The proposal would eliminate the private payment test for professional sports facilities such that bonds to finance professional sports facilities would be taxable private activity bonds if more than 10 percent of the use of the facility is for a private business purpose. By removing the private payment test, tax-exempt governmental bond financing of sports facilities for professional sports teams would be eliminated. The proposal would be effective for bonds issued after December 31, 2015.

**Allow more flexible research arrangements for purposes of private business use limits.**—Under current law, the IRS provides safe harbors that allow certain basic research arrangements with private businesses at tax-exempt bond financed research facilities. The existing safe harbors impose certain constraints on setting the terms of use of patents or other products resulting from the research, based on specific legislative history. In particular, the terms of use of resulting products for both research sponsors and other users alike must be set only after the products become available for use even though research arrangements typically are made prior to discoveries. The Administration proposes to provide additional flexibility for bona fide arm's length arrangements relating to basic research that would allow setting the terms of use of resulting products in advance of when the products become available for use. The proposal would be effective for research arrangements entered into after the date of enactment.

**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.

**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 after December 31, 2015.

## Eliminate Fossil Fuel Tax 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 inefficient 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 2016: (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 2016: (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. In addition, under the proposal, publicly traded partnerships with qualifying income and gains from activities relating to fossil fuels would be taxed as C corporations beginning in 2021.

### **Reform the Treatment of Financial and Insurance Industry 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, 2015.

**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 this "transfer-for-value" rule applies. Among the exceptions are transfers to the insured, to a partner of the insured, to a partnership in which the in-

sured is a partner, or to a corporation in which the insured is a shareholder or officer. The Administration proposes to replace these excepted transfers with exceptions for transfers to the insured, or to a partnership or a corporation of which the insured owns at least 20 percent of the partnership or corporation. Furthermore, 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 would apply to sales or assignments of interests in life insurance policies and payments of death benefits for taxable years beginning after December 31, 2015.

**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. However, the complexity of this proration regime has generated significant controversy between life insurance companies and the IRS. The Administration proposes to replace the current regime with one that is simpler and less controversial. Under the proposal, a company's share would be calculated for a life insurance company's general account and individually for each of its separate accounts. The company's share would equal one less the ratio of an account's mean reserves to its mean assets. The company's share would determine the portion of the non-affiliated corporate dividends received by the company that would be eligible for a dividends-received deduction. It would also determine the portion of interest earned on State and local bonds and the portion of increases for the taxable year in certain policy cash values of life insurance and annuity policies that would be exempt from tax. The proposal would be effective for taxable years beginning after December 31, 2015.

**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 paid or accrued 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 the inside buildup of insurance and annuity contracts that is either tax-deferred or not taxed at all. An exception to this rule applies under current law to contracts covering the lives of officers, directors, employees, and 20-percent owners of the taxpayer. 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, 2015, in taxable years ending after that date.

**Conform net operating loss (NOL) rules of life insurance companies to those of other corporations.**—Current law generally allows businesses to carry back an NOL up to two taxable years preceding the taxable year of loss (loss year) and to carry forward an NOL up to 20 taxable years following the loss year. Life insurance companies, however, may carry a “loss from operations” (a life insurance company’s NOL equivalent) back three taxable years preceding the loss year and forward 15 taxable years following the loss year. The proposal would establish operating loss conformity for life insurance companies by allowing a loss from operations to be carried back up to two taxable years prior to the loss year, and carried forward 20 taxable years following the loss year. The proposal would be effective for taxable years beginning after December 31, 2015.

### Other Revenue Changes and Loophole Closers

**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, 2015. 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, 2015. Taxpayers would recognize any income resulting from the change in accounting method ratably over four years.

**Modify like-kind exchange rules for real property and collectibles.**—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. In addition, art and collectibles would no longer be eligible for like-kind exchanges. The proposal would be effective for like-kind exchanges completed after December 31, 2015.

**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, 2015.

**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 basis 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 non-deductible expenditures reduces the partner’s basis in its partnership interest, such items are not subject to the basis limitation and the partner may deduct or credit them currently even if the partner’s basis in its partnership interest is zero. The Administration proposes to allow a partner’s distributive share of expenditures not deductible in computing the partnership’s taxable income and not properly chargeable to capital account only to the extent of the partner’s adjusted basis in its partnership interest at the end of the partnership year in which such

expenditure occurred. 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.

***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, 2015.

***Tax corporate distributions as dividends.***—The Administration proposes to amend the Internal Revenue Code to ensure that a transfer of property by a corporation to its shareholder better reflects the corporation's dividend paying capacity. First, the Administration proposes to tax non-dividend "leveraged distributions" from a distributing corporation as a dividend distribution made by a related corporation directly to the distributing corporation's shareholder to the extent the related corporation funded the distribution with a principal purpose of not treating the distribution from the distributing corporation to its shareholder as a dividend. Second, the Administration proposes to repeal the "boot-within-gain" limitation under section 356(a) of the Internal Revenue Code in reorganization transactions in which the shareholder's exchange has the effect of the distribution of a dividend. For this purpose, the Administration also proposes to align the available pool of earnings and profits for such distributions with that for ordinary distributions. Third, the Administration proposes amending section 312(a)(3) of the Internal Revenue Code so that earnings and profits are reduced only by the distributing corporation's basis in any 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. Fourth, the Administration proposes disregarding a subsidiary's purchase of "hook stock" issued by a controlling corporation in exchange for property so that the property used to purchase the hook stock gives rise to a deemed distribution from the purchasing subsidiary (through any intervening entities) to the issuing corporation. The hook stock would be treated as being contributed by the issuer (through any intervening entities) to the subsidiary. The proposal would grant the Secretary of the Treasury authority to prescribe regulations necessary to achieve the purposes of this proposal, including regulations to: (1) treat transactions as leveraged distributions; (2) treat purchases of interests in shareholder entities other than corporations as hook stock and provide rules related to hook stock within a consolidated group; and (3) treat a transaction as undertaken with a view to create and distribute high-basis stock of any corporation. The first, second and fourth proposals would be effective for transactions occurring after December 31, 2015. The third proposal would be effective upon enactment.

***Repeal Federal Insurance Contribution Act (FICA) tip credit.***—Certain employers in food and beverage service industries may receive an income tax credit for FICA taxes they pay on employee tip income. The credit applies to Social Security and Medicare taxes paid on the portion of an employee's tip income that, when added to the employee's non-tip wages, exceeds \$5.15 per hour. The Administration proposes to repeal the income tax credit for the FICA taxes an employer pays on tips, effective for taxable years beginning after December 31, 2015.

***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, 2015.

**Table 12-3. RESERVE FOR BUSINESS TAX REFORM THAT IS REVENUE NEUTRAL IN THE LONG RUN**  
 (In millions of dollars)

**Table 12-3. RESERVE FOR BUSINESS TAX REFORM THAT IS REVENUE NEUTRAL IN THE LONG RUN—Continued**  
(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Enhance and make permanent research incentives .....	-3,552	-7,529	-9,290	-10,356	-11,389	-12,396	-13,387	-14,370	-15,352	-16,336	-17,327	-50,960	-127,732
Extend and modify certain employment tax credits, including incentives for hiring veterans .....	-403	-796	-885	-950	-997	-1,033	-1,074	-1,121	-1,167	-1,210	-1,255	-4,661	-10,488
Modify and permanently extend renewable electricity production tax credit and investment tax credit <sup>2</sup> .....	.....	596	-869	-2,323	-2,775	-3,283	-3,695	-4,075	-4,524	-4,991	-5,513	-8,654	-31,452
Modify and permanently extend the deduction for energy-efficient commercial building property .....	.....	-170	-256	-294	-302	-298	-290	-280	-270	-260	-252	-1,320	-2,672
Provide a carbon dioxide investment and sequestration tax credit <sup>2</sup> .....	.....	.....	-174	-1,094	-1,149	-600	-466	-495	-521	-541	-2,417	-5,040	
Provide additional tax credits for investment in qualified property used in a qualifying advanced energy manufacturing project .....	.....	.....	-73	-192	-1,111	-772	-94	14	48	40	37	-2,148	-2,103
Provide new Manufacturing Communities tax credit .....	.....	-87	-256	-457	-600	-683	-745	-784	-689	-447	-145	-2,083	-4,893
Extend the tax credit for second generation biofuel production .....	-35	-80	-119	-149	-163	-175	-183	-158	-113	-65	-18	-686	-1,223
Total, incentives for manufacturing, research, and clean energy .....	-3,990	-8,066	-11,748	-14,895	-18,431	-19,789	-20,068	-21,240	-22,562	-23,790	-25,014	-72,929	-185,603
<b>Incentives to promote regional growth:</b>													
Modify and permanently extend the NMTC ...	-18	-119	-289	-491	-720	-968	-1,226	-1,470	-1,605	-1,620	-1,586	-2,587	-10,094
Reform and expand the LIHTC .....	.....	-9	-42	-130	-233	-345	-441	-541	-641	-751	-860	-759	-3,993
Total, incentives to promote regional growth .....	-18	-128	-331	-621	-953	-1,313	-1,667	-2,011	-2,246	-2,371	-2,446	-3,346	-14,087
<b>Incentives for investment in infrastructure:</b>													
Provide America Fast Forward Bonds and expand eligible uses <sup>2</sup> .....	.....	-1	-5	-11	-14	-22	-28	-35	-41	-48	-53	-53	-258
Allow current refundings of State and local governmental bonds .....	.....	-1	-5	-5	-5	-5	-5	-5	-5	-5	-5	-21	-46
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 .....	-6	-28	-60	-93	-125	-153	-167	-163	-136	-96	-55	-459	-1,076
Provide a new category of qualified private activity bonds for infrastructure projects referred to as QPIBs .....	.....	-25	-117	-251	-386	-524	-638	-695	-714	-733	-751	-1,303	-4,834
Modify qualified private activity bonds for public education facilities .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Modify treatment of banks investing in tax-exempt bonds .....	.....	-5	-38	-131	-225	-317	-405	-493	-574	-630	-616	-716	-3,434
Repeal tax-exempt bond financing of professional sports facilities .....	.....	3	11	23	35	47	60	72	85	97	109	119	542
Allow more flexible research arrangements for purposes of private business use limits .....	.....	.....	.....	.....	-1	-1	-1	-3	-3	-3	-4	-2	-16
Modify tax-exempt bonds for ITGs .....	.....	-4	-12	-12	-12	-12	-12	-12	-12	-12	-12	-52	-112
Exempt foreign pension funds from the application of FIRPTA .....	.....	-120	-206	-216	-227	-238	-250	-263	-276	-290	-304	-1,007	-2,390
Total, incentives for investment in infrastructure .....	-6	-181	-433	-699	-965	-1,232	-1,455	-1,608	-1,689	-1,736	-1,708	-3,510	-11,706
<b>Eliminate fossil fuel tax preferences:</b>													
Treat publicly-traded partnerships for fossil fuels as C corporations .....	.....	.....	.....	.....	.....	.....	303	322	341	358	375	.....	1,699
Eliminate oil and natural gas preferences:													
Repeal enhanced oil recovery credit <sup>3</sup> .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Repeal credit for oil and natural gas produced from marginal wells <sup>3</sup> .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Repeal expensing of intangible drilling costs .....	.....	2,267	3,182	2,351	1,867	1,566	1,243	848	695	723	753	11,233	15,495

**Table 12-3. RESERVE FOR BUSINESS TAX REFORM THAT IS REVENUE NEUTRAL IN THE LONG RUN—Continued**  
(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Repeal deduction for tertiary injectants ...	.....	7	10	10	10	10	10	10	10	10	10	47	97
Repeal exception to passive loss limitations for working interests in oil and natural gas properties .....	.....	9	17	19	20	20	20	20	20	20	20	85	185
Repeal percentage depletion for oil and natural gas wells .....	.....	1,118	1,790	1,669	1,585	1,498	1,375	1,246	1,122	994	856	7,660	13,253
Repeal domestic manufacturing deduction for oil and natural gas production .....	.....	647	1,115	1,139	1,173	1,208	1,242	1,280	1,321	1,366	1,413	5,282	11,904
Increase geological and geophysical amortization period for independent producers to seven years .....	.....	91	341	537	532	440	337	226	147	125	100	1,941	2,876
Subtotal, eliminate oil and natural gas preferences .....	.....	4,139	6,455	5,725	5,187	4,742	4,227	3,630	3,315	3,238	3,152	26,248	43,810
Eliminate coal preferences:													
Repeal expensing of exploration and development costs .....	.....	40	68	70	74	77	77	75	73	71	69	329	694
Repeal percentage depletion for hard mineral fossil fuels .....	.....	183	299	288	278	266	254	241	228	214	199	1,314	2,450
Repeal capital gains treatment for royalties .....	.....	27	54	53	54	55	58	61	61	62	62	243	547
Repeal domestic manufacturing deduction for the production of coal and other hard mineral fossil fuels ...	.....	45	48	50	53	54	57	59	62	65	68	250	561
Subtotal, eliminate coal preferences ...	.....	295	469	461	459	452	446	436	424	412	398	2,136	4,252
Total, eliminate fossil fuel tax preferences .....	.....	4,434	6,924	6,186	5,646	5,194	4,976	4,388	4,080	4,008	3,925	28,384	49,761
<b>Reform the treatment of financial and insurance industry products:</b>													
Require that derivative contracts be marked to market with resulting gain or loss treated as ordinary .....	.....	2,926	4,769	4,138	2,731	1,733	1,186	731	531	535	516	16,297	19,796
Modify rules that apply to sales of life insurance contracts .....	.....	23	43	46	48	50	54	56	58	61	63	210	502
Modify proration rules for life insurance company general and separate accounts ....	.....	385	676	722	762	792	816	836	843	849	862	3,337	7,543
Expand pro rata interest expense disallowance for corporate-owned life insurance .....	.....	65	159	252	364	492	641	809	980	1,160	1,357	1,332	6,279
Conform NOL rules of life insurance companies to those of other corporations .....	.....	15	27	29	30	32	34	36	37	39	40	133	319
Total, reform the treatment of financial and insurance industry products .....	.....	3,414	5,674	5,187	3,935	3,099	2,731	2,468	2,449	2,644	2,838	21,309	34,439
<b>Other revenue changes and loophole closers:</b>													
Repeal LIFO method of accounting for inventories .....	.....	5,505	7,866	7,812	8,012	7,908	8,070	7,752	7,644	7,931	7,592	37,103	76,092
Repeal lower-of-cost-or-market inventory accounting method .....	.....	743	1,491	1,501	1,511	889	266	278	291	304	317	6,135	7,591
Modify like-kind exchange rules for real property and collectibles .....	.....	659	2,005	2,026	2,048	2,070	2,094	2,119	2,145	2,174	2,202	8,808	19,542
Modify depreciation rules for purchases of general aviation passenger aircraft .....	.....	108	338	499	531	596	593	395	198	139	141	2,072	3,538
Expand the definition of substantial built-in loss for purposes of partnership loss transfers .....	.....	6	7	7	7	7	8	8	10	10	10	34	80
Extend partnership basis limitation rules to nondeductible expenditures .....	.....	69	97	102	105	108	110	112	114	116	118	481	1,051
Limit the importation of losses under related party loss limitation rules .....	.....	63	87	92	95	97	99	100	102	104	106	434	945
Deny deduction for punitive damages .....	.....	30	43	44	45	46	47	48	49	51	52	208	455
Conform corporate ownership standards ....	.....	1	17	32	33	34	35	36	38	40	42	117	308
Tax corporate distributions as dividends .....	.....	48	82	86	90	94	98	103	108	113	118	400	940

**Table 12–3. RESERVE FOR BUSINESS TAX REFORM THAT IS REVENUE NEUTRAL IN THE LONG RUN—Continued**  
(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Repeal FICA tip credit .....	.....	480	993	1,062	1,137	1,216	1,301	1,389	1,483	1,581	1,687	4,888	12,329
Repeal the excise tax credit for distilled spirits with flavor and wine additives <sup>4</sup> .....	.....	85	112	112	112	112	112	112	112	112	112	533	1,093
Total, other revenue changes and loophole closers .....	.....	7,797	13,138	13,375	13,726	13,177	12,833	12,452	12,294	12,675	12,497	61,213	123,964
<b>Total, reserve for business tax reform that is revenue neutral in the long run <sup>5</sup></b> .....	<b>-11,238</b>	<b>1,249</b>	<b>18,851</b>	<b>18,969</b>	<b>16,114</b>	<b>14,138</b>	<b>15,226</b>	<b>14,426</b>	<b>13,748</b>	<b>14,215</b>	<b>14,529</b>	<b>69,321</b>	<b>141,465</b>

<sup>1</sup>The Administration believes that this proposal should be enacted in the context of comprehensive business tax reform that is revenue neutral in the long run. However, the proposal generates one-time transition revenue in the short run, which the Budget proposes to dedicate to surface transportation reauthorization. Therefore, the effect of the proposal on receipts, shown below, is also included in the Budget estimates presented in Table 12–4 and is counted in the Budget's receipt and deficit totals.

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Impose a 14-percent one-time tax on previously untaxed foreign income .....	.....	34,559	56,407	54,420	52,434	50,448	19,861	.....	.....	.....	.....	248,268	268,129

<sup>2</sup>This proposal affects both receipts and outlays for refundable tax credits. Both effects are shown above. The outlay effects included in these estimates are listed below:

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance .....	6	76	68	32	23	21	11	10	8	8	4	220	261
Modify and permanently extend renewable electricity production tax credit and investment tax credit .....	.....	.....	20	47	63	71	78	83	90	95	101	201	648
Provide a carbon dioxide investment and sequestration tax credit .....	.....	.....	.....	.....	729	728	170	28	48	65	76	1,457	1,844
Provide America Fast Forward Bonds and expand eligible uses .....	.....	306	1,397	3,006	4,689	6,438	8,244	10,101	11,994	13,911	15,845	15,836	75,931
Total, outlay effects of reserve for business tax reform that is revenue neutral in the long run .....	6	382	1,485	3,085	5,504	7,258	8,503	10,222	12,140	14,079	16,026	17,714	78,684

<sup>3</sup>This provision is estimated to have zero receipt effect under the Administration's current economic projections.

<sup>4</sup>Net of income offsets.

<sup>5</sup>These amounts are not counted in the Budget's receipt and outlay totals and are not counted toward meeting the Administration's deficit reduction goals. The Administration believes that these proposals should be enacted in the context of comprehensive business tax reform.

## OTHER BUDGET PROPOSALS

The Administration's receipt proposals begin the process of comprehensively reforming the Internal Revenue Code to help address the challenges that working families face. These proposals help make work pay by expanding the EITC for workers without qualifying children and creating a new second earner credit, reform and simplify tax incentives that help families save for retirement and pay for college and child care, and reform capital gains taxation to eliminate a loophole that lets substantial capital gains income escape tax. They also reduce the deficit and make the tax system fairer by eliminating a number of tax loopholes and reducing tax benefits for higher-income taxpayers. The Administration's proposals that affect receipts are described below.

### Tax Reform for Families and Individuals

**Reform child care tax incentives.**—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 phasedown and the credit are not indexed for inflation. The proposal would repeal dependent care flexible spending accounts, increase the start of income phasedown of the child and dependent care credit from \$15,000 to \$120,000, and create a larger credit for taxpayers with children under age five. Taxpayers with young children could claim a child care credit of up to 50 percent of up to \$6,000 (\$12,000 for two children) of eligible expenses. The credit rate for the young child credit would phase down at a rate of one percentage point for every \$2,000 (or part thereof) of AGI over \$120,000 until the rate reaches 20 percent for taxpayers with incomes above \$178,000. The expense limits and incomes at which the credit rates begin to phase down would be indexed for inflation for both young children and other dependents. The proposal would be effective for taxable years beginning after December 31, 2015.

**Simplify and better target tax benefits for education.**—Because there are multiple tax benefits for the same higher education expenses, incomplete information reporting, and a lack of coordination between Federal grant and tax benefits, many middle- and lower-income families do not claim all the education-related tax benefits to which they are entitled. To simplify and better target

these benefits, the Administration proposes to consolidate the lifetime learning credits into an expanded permanent AOTC, which would be available for five years instead of four. As under current law, the AOTC for students attending school at least half time would be 100 percent of the first \$2,000 of expenses and 25 percent of the next \$2,000 of expenses for a maximum annual credit of \$2,500. In addition, less than half-time undergraduate students would be eligible for a part-time AOTC equal to 50 percent of the first \$2,000 of eligible expenses plus 12.5 percent of the next \$2,000 of eligible expenses for a maximum credit of \$1,250. The Administration also proposes to increase the refundable portion of the AOTC from 40 percent of the otherwise allowable credit to the first \$1,500 of AOTC (first \$750 for students enrolled less than half time). The expense limits and the amount that is refundable would be indexed for inflation.

To further simplify education benefits for low-income students, the proposal would exclude all Pell grants from gross income and allow low-income students to claim an AOTC without reducing eligible expenses for claiming the AOTC by the amount of their Pell grant. In addition, the Administration proposes to require institutions of higher education to report amounts paid, not billed, on Form 1098-T and require any entity issuing a scholarship or grant in excess of \$500 (indexed for inflation) that is not processed or administered by an institution of higher education to report the scholarship or grant on Form 1098-T.

In addition, the Administration proposes to repeal the deduction for student loan interest for new students. Not only would new students be able to reduce their borrowing due to the expanded AOTC, but all new borrowers would have access to Pay-As-You-Earn, a generous income-driven repayment option that limits payments to affordable levels and forgives remaining balances after a limited repayment period. The Administration further proposes to exclude the forgiven portion of the student loan from gross income and to exclude from gross income debt forgiven and certain scholarship amounts for participants in the Indian Health Service Health Professions Programs. The Administration would also allow the Department of Education to obtain from the IRS the addresses of borrowers who are delinquent in repaying their loans (in addition to allowing access to addresses of defaulted borrowers as under current law).

To help pay for the expanded benefits for low-income students and reduce tax benefits disproportionately claimed by high-income families, the Administration proposes to repeal Coverdell education savings accounts (ESAs) and reduce the Federal tax benefits allowed to qualified tuition programs, also known as section 529 ESAs. No new contributions would be allowed to Coverdell ESAs. Qualifying distributions of earnings on contributions to Coverdell and section 529 ESAs made prior to the date of enactment would continue to be excludable from gross income. Distributions of earnings on contributions to section 529 ESAs made after the date of enactment would no longer be excludable from gross income but would still

benefit from being includable only in the gross income of the student beneficiary, not the gross income of the account holder.

The proposal would generally be effective for taxable years beginning after December 31, 2015.

**Provide for automatic enrollment in IRAs, including a small employer tax credit, increase the tax credit for small employer plan start-up costs, and provide an additional tax credit for small employer plans newly offering auto-enrollment.**—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. 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 \$1,000 per year for three years. 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 and any employer contributions. 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 tripling this tax credit to a maximum of \$1,500 per year for three years 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. In addition, small employers would be allowed a credit of \$500 per year for up to three years, for new or existing defined contribution plans that add auto-enrollment. The proposal would be effective for taxable years beginning after December 31, 2016.

**Expand penalty-free withdrawals for long-term unemployed.**—Under current law, a 10-percent addition-

al tax applies to early withdrawals from a tax-qualified retirement plan or IRA, unless an exception applies. IRA account holders who have been unemployed for 12 weeks can withdraw funds during a two-year period to pay for health insurance without paying the 10-percent additional tax, but the unemployment exception does not extend to withdrawals used for any other purpose. There is no exception to the 10-percent additional tax for early withdrawals from a qualified plan due to unemployment. The Administration proposes to expand the exception from the 10-percent additional tax to withdrawals by long-term unemployed individuals from IRAs, 401(k) plans, or other tax-qualified defined contribution plans for any use. For this purpose, long-term unemployed individuals would be individuals who have been unemployed for at least 27 weeks (or, if less, the maximum period of unemployment benefits available under applicable state law). Under the proposal, the exception would not apply to IRA distributions that exceed 50 percent of the fair market value of all the individual's IRAs or a distribution from a retirement plan that exceeds 50 percent of the individual's vested accrued benefit in all tax-qualified retirement plans, and would be subject to an aggregate annual maximum of \$50,000. The first \$10,000 of distributions would not be subject to the 50-percent of the IRA or plan limitation. The proposal would be effective for distributions occurring after December 31, 2015.

**Require retirement plans to allow long-term part-time workers to participate.**—Under current law, a qualified retirement plan sponsor generally is not required to extend eligibility for coverage to employees who are credited with fewer than 1,000 hours in a year (about half time). Similar to the 1,000-hour threshold for coverage eligibility, employees also are not required to be credited with a year of service for purposes of vesting in employer contributions unless they earn 1,000 hours of service in a year. To increase coverage and vesting for long-term part-time employees, the Administration proposes to require that employees be permitted to make contributions in lieu of salary if they have had at least 500 hours of service per year with the employer for at least three consecutive years. These plans would also be required to credit, for each year in which employees have at least 500 hours of service, a year of service for purposes of vesting in any employer contributions. With respect to employees newly covered under the proposed change, employers would receive nondiscrimination testing relief (similar to current-law relief for plans covering otherwise excludable employees), including permission to exclude these employees from top-heavy benefit requirements. The proposal would be effective for plan years beginning after December 31, 2015.

**Facilitate annuity portability.**—Under current law, 401(k) and other defined contribution retirement plans may not permit distributions absent a distributable event. Distributable events for 401(k) plans include severance from employment and attainment of age 59½. Sponsors of defined contribution plans that want to offer annuities (for example, qualified longevity annuity contracts (QLACs) and deferred annuities inside target date

funds) may be discouraged from doing so if the sponsor has no clear way to allow employees to continue existing annuities if the annuity product is no longer supported by the plan at some point in the future (for example, because of a change in trustee or recordkeeper or a reassessment of the value of an annuity option in light of take-up or because the annuity product is no longer available on favorable terms). To facilitate the offering of annuities, the Administration proposes to allow defined contribution plans to let participants take a distribution – through a direct rollover to an IRA or other retirement plan – of an annuity in the event the annuity is no longer authorized to be held as an investment under the plan, without regard to whether a distributable event (such as severance from employment) has occurred. The proposal would be effective for plan years beginning after December 31, 2015.

**Simplify minimum required distribution (MRD) rules.**—The MRD rules generally require that owners of IRAs and participants in tax-favored retirement plans 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, 2015.

**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, 2016.

**Expand the 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 phasein rate and the phaseout 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 2016. The income at which the credit would begin to phase out would be increased to \$11,500 (\$17,090 for joint filers) in 2016 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 taxable years beginning after December 31, 2015.

**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 taxable years beginning after December 31, 2015.

**Provide a second-earner tax credit.**—Married couples generally file jointly on their Federal individual income tax returns and cannot choose single or head of

household filing status. Because tax rates rise with taxable income under a progressive tax system, the lower earner in a married couple may be discouraged to work when these second earners make their labor supply decisions conditional on the primary earners' decisions, effectively treating their earnings as taxed at the couples' highest marginal rates. In addition, low- and moderate-income married couples can face a high marginal tax rate due to the phaseout of tax credits and other benefits. To provide tax relief for working families and promote employment among secondary earners, the Administration proposes a second-earner tax credit. Two-earner married couples who file a joint Federal income tax return would be eligible for a nonrefundable tax credit equal to a percentage of the lower earner's earned income up to \$10,000. The credit rate would be 5 percent and would phase down at a rate of one-half of one percentage point for every \$10,000 of AGI over \$120,000. Therefore, the credit would be fully phased out at AGI above \$210,000. The maximum creditable earned income (\$10,000) and the AGI at which the credit rate starts to phase down (\$120,000) would be indexed for inflation. The proposal would be effective for taxable years beginning after December 31, 2015.

**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. This provision expired on December 31, 2014. The exclusion would be extended for three years, to apply to amounts that are discharged after December 31, 2014, and before January 1, 2018, or that are discharged pursuant to an arrangement entered into before January 1, 2018.

### Reforms to Capital Gains Taxation, Upper-Income Tax Benefits, and the Taxation of Financial Institutions

**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 increased to reflect the additional tax paid. The limit would be effective for taxable years beginning after December 31, 2015.

**Reform the taxation of capital income.**—Capital gains are taxable only upon the sale or other disposition of an appreciated asset. Under current law, most capital gains are taxed at graduated rates, with 20 percent gen-

erally being the highest rate. In addition, higher-income taxpayers are subject to a tax of 3.8 percent of the lesser of net investment income, including capital gains, or modified AGI in excess of a threshold. When a donor gives an appreciated asset to a donee during life, the donee takes the donor's basis in the asset and there is no recognition of capital gains until the donee later disposes of that asset. When an appreciated asset is held by a decedent at death, the decedent's heir receives a basis in that asset equal to its fair market value at the date of decedent's death. As a result, the appreciation accruing during the decedent's life on assets that are still held by the decedent at death is never subjected to the capital gains tax.

Under this proposal, the 20-percent capital gains tax rate would be increased to 24.2 percent (for a total of 28 percent for gains also subject to the net investment income tax). This would also increase the tax rate on qualified dividends, which would be taxed at the same rate as capital gains. In addition, transfers at death or by gift would result in recognition of gain. In the case of a gift, the gain would be taxable on the donor's income tax return for the year in which the gift was made. In the case of death, the tax would be reported either on the decedent's final income tax return or on a new income tax return created for this purpose. The proposal would exempt gain on household furnishings and personal effects (excluding collectibles) and allow a \$100,000 exclusion of other gains recognized at death (which would be indexed for inflation and would be portable to a surviving spouse resulting in a \$200,000 per couple exclusion). In addition, the current law (\$250,000 per person) exclusion of capital gains from a principal residence would apply to all residences at death. If any share of a personal residence is bequeathed to a spouse, the spouse would be allowed the use of the first spouse's exclusion of gain (that is, the \$250,000 personal residence exclusion would be portable). The unlimited use of capital losses and carryforwards would be allowed against ordinary income on the decedent's final income tax return, and the capital gains tax imposed at death would be deductible on the decedent's estate tax return. Appreciated property given to charity would be exempt from the capital gains tax. Gifts or bequests to a spouse would carry the basis of the donor or decedent, and capital gain would not be realized until the spouse disposes of the asset or dies. The proposal would provide for the deferral of tax payment (with interest) on the appreciation of certain small family-owned businesses, until the business is sold or transferred to owners outside the family. The proposal would further allow a 15-year fixed-rate payment plan for the capital gains tax on assets other than liquid assets such as publicly traded financial assets transferred at death. This proposal would be effective for gifts, deaths, qualified dividends received, and other capital gains realizations in taxable years beginning after December 31, 2015.

**Implement the Buffett Rule by imposing a new "Fair Share Tax".**—The Administration proposes a new minimum tax, called the Fair Share Tax (FST), for high-income taxpayers. The tentative FST equals 30 percent of AGI less a charitable credit. The charitable credit

equals 28 percent of itemized charitable contributions allowed after the overall limitation on itemized deductions (Pease). The final FST is the excess, if any, of the tentative FST over 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 2016. The proposal would be effective for taxable years beginning after December 31, 2015.

**Impose a financial fee.**—The Administration proposes to impose a fee on banks, both U.S. and foreign, and would also apply to bank holding companies and "nonbanks," such as insurance companies, savings and loan holding companies, exchanges, asset managers, broker-dealers, specialty finance corporations, and financial affiliates with assets in excess of \$50 billion. Firms with worldwide consolidated assets of less than \$50 billion would not be subject to the fee for the period when their assets are below this threshold. U.S. subsidiaries of international firms that fall into these categories with assets in excess of \$50 billion would also be covered. The fee base is assets less equity (also known as liabilities) for banks and nonbanks based on audited financial statements with a deduction for separate account (primarily for insurance companies). The fee rate would be seven basis points and would be effective on January 1, 2016. The fee is intended to discourage excessive risk-taking by financial firms, who were key contributors to the recent financial crisis. The fee would also satisfy the statutory requirement for the President to propose a means to recoup the net costs of assistance provided through the Troubled Asset Relief Program.

### Loophole Closers

**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, recognition of market discount is generally deferred under current law 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, 2015.

**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, 2015.

**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 taxable years ending after December 31, 2015.

**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, 2015.

***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, 2015.

***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, 2015.

***Limit Roth conversions to pre-tax dollars.***—Subject to certain restrictions, taxpayers can convert traditional IRA/401(k) balances to Roth IRA/Roth 401(k) balances by paying tax at ordinary rates on the amount of the conversion in excess of basis. No tax is paid on the portion of the conversion that is a return of basis. The limits on after-tax contributions to plans and nondeductible contributions to IRAs (which generate basis) are weaker than those on pre-tax and Roth contributions. Taxpayers may

exploit those weaker limits by performing a Roth conversion immediately after making such a contribution and thereby obtain—at no additional cost—the full benefits of Roth treatment on a less-advantaged after-tax or nondeductible contribution. The proposal would limit Roth conversions to pre-tax dollars, which would reduce the scope for strategies of this nature by precluding Roth conversions of after tax or nondeductible contributions. The proposal would be effective for taxable years beginning after December 31, 2015.

***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.

***Repeal exclusion of net unrealized appreciation (NUA) in employer securities.***—In general, distributions from retirement plans are taxed as ordinary income. However, for employer securities received as part of a lump-sum distribution, more favorable tax treatment generally is available under which the excess of the market value of the employer stock at the time of the distribution over the cost or other basis of that stock to the plan (the net unrealized appreciation) is excluded from gross income at the time of distribution. The net unrealized appreciation generally is taxed as a capital gain at the time the employer stock is sold by the recipient. The Administration proposes to repeal this special exclusion for employer stock for retirement plan participants who have not attained age 50 on or before December 31, 2015. The proposal would be effective for distributions occurring after December 31, 2015.

***Disallow the deduction for charitable contributions that are a prerequisite for purchasing tickets to college sporting events.***—Under current law, donors who receive benefits in exchange for a charitable contribution must reduce the value of their charitable contribution deduction by the fair market value of the benefits they receive. Many colleges and universities give exclusive or priority purchasing privileges for sports ticket sales to donors, with the priority often dependent on the size of the gift. In contrast to the general rule for valuing donations in exchange for benefits, donors to colleges and universi-

ties who receive the right to purchase tickets for seating at an athletic event may deduct 80 percent of the contribution even when the value of the ability to purchase the tickets is far in excess of 20 percent of the contributed amount. The proposal would deny the deduction for contributions that entitle donors to a right to purchase tickets to sporting events. The proposal would be effective for contributions made in taxable years beginning after December 31, 2015.

### **Incentives for Job Creation, Clean Energy, and Manufacturing**

**Designate Promise Zones.**—The Administration proposes to designate 20 Promise Zones (14 in urban areas and six in rural areas), inclusive of the five zones that have already been chosen. Zone designations would become effective with regard to tax incentives in 2016 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 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, 2015, and before January 1, 2023. The credit would be limited to 75 percent of the otherwise allowable amount for vehicles placed in service in 2020, to 50 percent of such amount for vehicles placed in service in 2021, and to 25 percent of such amount for vehicles placed in service in 2022. 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, 2015, and before January 1, 2022. For vehicles placed in service in calendar year 2021, 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 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, 2014, would be extended through December 31, 2015. The Administration proposes replacing this credit with a two-tier credit starting in 2016. The first tier 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 second tier would provide a \$4,000 tax credit for the construction of each qualified Department of Energy (DOE) Zero Energy Ready Home certified to meet substantially higher standards for energy savings and construction set by the DOE. To ensure that a new home meets the ENERGY STAR or DOE Zero Energy Ready 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, 2015, and before January 1, 2026.

**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, 2015.

**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 enhanced, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2005, and before January 1, 2015. These enhancements,

originally enacted in 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, adjusted gross income computed without regard to the net operating loss carryback) and allowing 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, these donors could deduct any remaining value of the donated easement over the succeeding 15 years.

The Administration proposes the following enhancements and modifications to the conservation easement deduction, effective for contributions made after the date of enactment, unless otherwise stated. First, the Administration proposes to make permanent the temporary enhanced incentives for conservation easement contributions that expired on December 31, 2014. In addition, to address concerns regarding abusive uses of this deduction and to promote effective, high-value conservation efforts, the Administration proposes to strengthen standards for organizations to qualify to receive deductible contributions of conservation easements; modify the definition of eligible conservation purpose and require that, prior to taking a deduction, donors of conservation easements establish that the easement furthers a clearly delineated Federal conservation policy or an authorized State or tribal government policy and will yield a significant public benefit; require that organizations receiving deductible contributions of easements certify the Federal conservation purposes served and public benefits yielded by the easement and attest that the fair market value of the easement reported by the donor to the IRS is accurate; penalize organizations that attest to values that they know (or should know) are substantially overstated or for receiving contributions that do not serve a conservation purpose; and require additional reporting by organizations receiving deductible contributions of conservation easements, including information about the contributed easements and their fair market values.

Second, the Administration proposes to pilot a non-refundable credit for conservation easement contributions as an alternative to the current deduction. The credits of \$100 million per year would be allocated by a Federal board to qualified charitable organizations and governmental entities that hold and enforce conservation easements. These conservation organizations would in turn allocate the credits to donors of conservation easements. Donors would receive up to a maximum of 50 percent of the fair market value of the contributed easement in credits and could use the credits to offset up to 100 percent of their income tax liability. Any unused credit amounts could be carried forward for up to 15 years. Under the proposal, donors would have enhanced incentives to contribute because the value of the credits is not limited to the donor's tax rate, and there would be fewer regulatory require-

ments and restrictions on taking the credit. Qualified conservation organizations would have flexibility to direct the credits toward easements with greatest conservation value and to utilize their credit allocation to maximize the conservation achieved in exchange for the tax benefits. Finally, the costs of tax administration could be reduced because conservation organizations, rather than donors, would determine the value of easements and be responsible for allocating the tax benefits to donors of valuable easements, eliminating much of the need for IRS enforcement activity to challenge overvalued easements deductions. Verification of donor compliance would be simplified as well, as regulatory requirements on donors necessary to support significant IRS examination activity of deductions would no longer be needed for the credit. The proposal also calls for a report to the Congress from the Department of the Treasury in collaboration with the Department of Agriculture and the Department of the Interior on the relative merits of the conservation credit and the deduction for conservation contributions, including an assessment of the conservation benefits and costs of conservation of both tax benefits.

Third, contributions of easements on golf courses have raised concerns that the deduction amounts claimed for such easements are excessive and 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.

Fourth, 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. The Administration also proposes to require contributions of conservation easements on all historic buildings, including those listed in the National Register of Historic Places, to comply with a 2006 amendment that requires contributions of historic preservation easements on buildings in registered historic districts to comply with special rules relating to the preservation of the entire exterior of the building and the documentation of the easement contribution.

## 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, 2015, 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.) Elsewhere in this Budget the Administration proposes to tax accrued capital gains (that is, fair market value in excess of the basis) when assets are transferred by death or gift. Although generally the same standards apply to determine the value subject to estate or gift tax as apply to computing basis under current law or to computing gain under the Administration's proposal, 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 fair market value used for computing the recipient's basis or for computing capital gain generally must equal (but in no event may exceed) the value of the property as determined for estate or gift tax purposes, and a reporting requirement would be imposed on the decedent's executor or the donor to provide the necessary information to both the recipient and the IRS. The proposal also would grant regulatory authority for the development of rules to govern situations in which this general rule would not be appropriate. The proposal would be effective for transfers after the year of enactment.

**Modify transfer tax rules for grantor retained annuity trusts (GRATs) and other grantor trusts.**—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 add the following requirements for GRATs: (1) the GRAT must have a minimum term of 10 years and a maximum term of 10 years more than the annuitant's life expectancy, (2) the remainder interest must have a minimum value at the creation of the GRAT equal to the greater of 25 percent of the value of the property contributed to the GRAT or \$500,000 (but not more than the value of the assets

contributed), (3) no decrease in the annuity during the GRAT term is permitted, and (4) no tax-free exchange of any GRAT asset with the grantor is permitted.

This proposal also would address the sale of an asset to a grantor trust, specifically, a trust of which the seller is the deemed owner for income tax purposes. A grantor trust is ignored for income tax purposes, even though the trust may be irrevocable and the deemed owner may have no beneficial interest in the trust or its assets. The lack of coordination between the income tax and transfer tax rules applicable to a grantor trust creates opportunities to structure transactions between the trust and its deemed owner that are ignored for income tax purposes and can result in the transfer of significant wealth by the deemed owner without transfer tax consequences. The proposal would provide that 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 GRATs created after the date of enactment, and to other grantor trusts that engage in a described transaction on or after the date of enactment.

**Limit duration of GST tax exemption.**—Current law provides that each person has a lifetime GST tax exemption (\$5,430,000 in 2015) 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 \$5,430,000 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.

**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 10-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 after the due date of the return (or nearly 15 years after the date of death). 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 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 (indexed for inflation) 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 limitations, 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 (whether arising before, upon, or after death), 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.

## Other Revenue Raisers

**Increase and modify Oil Spill Liability Trust Fund financing.**—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 some types of 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, 2015, 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 States, or used or exported as described above after December 31, 2015. Finally, the proposal would place a prohibition on the drawback of the tax. The prohibition would be effective for periods after December 31, 2015.

**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 taxable years (income tax) beginning after 2015, with expiration for periods and taxable years after 2025. 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 raise tobacco taxes and increase parity in tax rates among similar tobacco products. Cigarettes and small cigars would be taxed at \$97.50 per 1,000 units, or about \$1.95 per pack of cigarettes. Large cigars would be taxed at an approximately equivalent rate (using five per-unit rates that vary according to the cigar's weight). Pipe tobacco, and roll-your-own tobacco would be taxed at \$44.23 per pound, also roughly equivalent to the implied per-pound tax for cigarettes and cigars. Snuff and chewing tobacco would both be taxed at \$10.00 per pound. 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 new tax rates would be effective for articles held for sale or removed after December 31, 2015, and indexed for inflation after 2016.

**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, 2016.

**Expand Federal Unemployment Tax Act (FUTA) base.**—Many States' UI systems are chronically underfunded and required Federal borrowing to cover benefits during the most recent downturn. The Administration proposes to improve system solvency by helping States rebuild their trust fund balances to repay their loans, cover current benefits, and create reserves so they are better prepared for the next downturn. Under this proposal, the FUTA taxable wage base would increase in 2017 to \$40,000 (approximately average insured wages) and would be indexed thereafter. This wage base increase would be accompanied by a decrease in the tax rate to avoid a Federal tax increase in the first year.

**Reform the UI extended benefits program.**—The UI program is a key stabilizer during economic downturns. The Administration proposes reforms to strengthen UI's economic stabilization function by creating a new permanent federally funded extended benefits program that would respond quickly when State unemployment rates rise and provide more robust Federal assistance. This new program would provide up to 52 weeks of additional federally funded benefits, with the greatest number of weeks in States with higher unemployment rates. The proposal would provide up to 13 weeks of additional benefits each time States hit certain unemployment rate triggers—6.5 percent, 7.5 percent, 8.5 percent, and 9.5 percent. Under the proposal, these threshold rates can be lower in States where unemployment is increasing especially rapidly. States that offer fewer than 26 weeks of regular benefits would only be reimbursed for 50 percent of extended benefits, requiring them to raise additional revenue to cover the benefit costs.

**Modernize the UI program.**—The Administration proposes to modernize the UI system by improving its connection to jobs and making sure benefits are available to more workers who need them. To do this, the Budget includes a UI modernization fund that will provide incentive payments to States that adopt measures to expand both program eligibility and work-based learning opportunities and training for unemployed workers. A State can receive incentive payments if it adopts two measures that expand eligibility and two measures that improve connections to training and employment. States that maintain these changes for at least four years will also receive a bonus payment. States will need to raise additional revenue to cover the proposed benefit expansions.

**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, 2016, and the receipts would be distributed through a set allocation between Federal and non-Federal lands. Funds would be used to restore the most hazardous hardrock AML sites, on both public and private lands. The receipts allocated to restoration of non-Federal lands would be distributed to States and Tribes based on need, with each State and Tribe selecting its own priority projects within certain national criteria.

***Return fees on the production of coal to pre-2006 levels to restore abandoned mines.***—Since October 1, 1977, the Department of the Interior has collected fees on every ton of coal produced in the United States to finance the reclamation of abandoned coal mines. The fees levied on mine operators were originally \$0.35 per ton for surfaced mined coal and \$0.15 per ton for underground mined coal. The 2006 amendments to the Surface Mining Control and Reclamation Act instituted a phased reduction in these fees beginning in 2006. However, nearly \$4 billion worth of abandoned coal mine hazards remain today. The Administration proposes to restore the fees to their original level, effective for coal mined after September 30, 2015, to provide additional resources to continue addressing the legacy of abandoned coal mines.

## **Reduce the Tax Gap and Make Reforms**

### ***Expand Information Reporting***

***Improve information reporting for certain businesses and contractors.***—The Administration proposes to require a contractor receiving payments of \$600 or more in a calendar year from a particular business to furnish to the business (on Form W-9) the contractor's certified taxpayer identification number (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. If a contractor failed to furnish an accurate certified TIN, the business would be required to withhold a flat-rate percentage of gross payments. 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, with the flat-rate percentage of 15, 25, 30, or 35 percent being selected by the contractor.

In addition, the Administration proposes to require life insurance companies to report to the IRS, for each contract whose cash value is partially or wholly invested in a private separate account for any portion of the taxable year and represents at least 10 percent of the value of the account, the policyholder's TIN, the policy number, the amount of accumulated untaxed income, the total contract account value, and the portion of that value that was in-

vested in one or more private separate accounts. For this purpose, a private separate account would be defined as any account with respect to which a related group of persons owns policies whose cash values, in the aggregate, represent at least 10 percent of the value of the separate account. Whether a related group of persons owns policies whose cash values represent at least 10 percent of the value of the account would be determined quarterly, based on information reasonably within the issuer's possession.

The proposal would be effective for payments made to contractors after December 31, 2015, or private separate accounts maintained on or after December 31, 2015.

***Provide an exception to the limitation on disclosing tax return information to expand TIN matching beyond forms where payments are subject to backup withholding.***—The IRS is prohibited from disclosing Federal tax returns and return information (FTI). There are certain very narrow exceptions. Even where disclosure is permitted, recipients of FTI must safeguard the information and cannot redisclose it unless permitted. The Secretary of the Treasury is required to notify information return filers in certain circumstances where backup withholding is required if the recipient's TIN is not correct. Filers are required to keep this information confidential and are prohibited from using the information for purposes other than backup withholding. The IRS has broad regulatory authority to implement backup withholding. Under this authority, the IRS has established a TIN matching program that allows the IRS to verify the TINs of payees submitted by filers in the case of payments subject to backup withholding. The proposal would provide an exception to the limitation on disclosing FTI to permit the IRS to do TIN matching even in cases where the filer is not making a payment that is subject to backup withholding. The proposal would be effective on the date of enactment.

***Provide for reciprocal reporting of information in connection with the implementation of the Foreign Account Tax Compliance Act (FATCA).***—In many cases, foreign law would prevent foreign financial institutions from complying with the FATCA provisions of the Hiring Incentives to Restore Employment Act of 2010 by reporting to the IRS information about U.S. accounts. Such legal impediments can be addressed through intergovernmental agreements under which the foreign government agrees to provide the information required by FATCA to the IRS. Requiring U.S. financial institutions to report similar information to the IRS with respect to 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 also require that this information, as well as information reported by foreign financial institutions to the IRS, be furnished to the account holders in order to encourage voluntary tax compliance. The proposal would be effective for returns required to be filed after December 31, 2016.

**Improve mortgage interest deduction reporting.**—Under current law, if any person in a trade or business receives in any calendar year from any individual more than \$600 of interest on a loan primarily secured by real property, that person is required to file an information return with the IRS and provide a copy to the borrower. The information contained in Form 1098 does not provide the IRS with all of the information that is needed to verify all of the requirements for claiming the mortgage interest deduction. To enhance IRS administration of the mortgage interest deduction and to improve administration of the deduction for real estate taxes, the Administration proposes requiring the information returns on mortgage interest to include the outstanding principal balance of the mortgage as of the beginning of the calendar year; the address of the property securing the mortgage; information on whether the mortgage is a refinancing of an existing mortgage during the calendar year; property taxes, if any, paid from escrow; and the loan origination date. Having this information reported also has the potential to improve taxpayer compliance. The proposal would be effective for calendar years beginning after December 31, 2015.

**Require Form W-2 reporting for employer contributions to defined contribution plans.**—Employers are currently required to report on Form W-2 an employee's elective deferrals under a cash or deferred arrangement, such as a 401(k) plan. Employers, however, are not required to report amounts that they contribute to an employee's retirement plan accounts. The proposal would require employer contributions to a defined contribution plan to be reported on Form W-2, thus providing employees with a convenient annual statement of the amounts that are contributed on their behalf by their employers under defined contribution plans and facilitating compliance with overall contribution limits.

#### ***Improve Compliance by Businesses***

**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 (customs officials) whose job responsibilities include tax administration. The proposal would be effective upon enactment.

**Provide authority to readily share information about beneficial ownership information of U.S. companies with law enforcement.**—Illicit actors may abuse legal entities to commit financial crimes, including laundering criminal proceeds and financing terrorism through the international banking system. Knowledge of beneficial owners of an entity can help law enforcement officials identify and investigate criminals engaged in these activities.

For anti-money laundering and counter-terrorism financing (AML/CTF) purposes, the beneficial owner of a foreign private banking account is currently defined in Treasury regulations under Title 31 of the U.S. Code to mean an individual who has a level of control over, or entitlement to, the funds or assets in the account that, as a practical matter, enables the individual(s), directly or indirectly, to control, manage, or direct the account. For Federal tax purposes, most U.S. entities are required to obtain an employer identification number (EIN). A company applying for an EIN must provide the IRS with the name of a responsible party who will be the IRS contact for the company. Generally, for a company that is not publicly traded, the responsible party is the person who has a level of control over, or entitlement to, the funds or assets in the entity that, as a practical matter, enables the individual to directly or indirectly control, manage, or

direct the entity and the disposition of its funds or assets. Because this definition is similar to the AML/CTF definition of beneficial owner, the responsible party of an entity for Federal tax purposes will generally be considered a beneficial owner of an account nominally owned by the entity for AML/CTF purposes. Although this responsible party information may be useful to law enforcement when investigating financial crimes, under current law it 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 responsible party 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 and ensure that responsible party information is provided for every U.S. entity. Further, the proposal would provide the Secretary of the Treasury with the authority to impose AML/CTF obligations on persons in the business of forming companies. Finally, the proposal would establish standards that States would be encouraged to adopt to improve their regulation and oversight of the incorporation process.

### ***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. Under current law, the Department of the Treasury is authorized to continuously levy up to 30 percent of a payment to a Medicare provider to col-

lect delinquent tax debt. The proposal would allow the Department of the 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 2016 cap adjustment for the IRS and TTB will fund \$667 million in enforcement and compliance initiatives and investments above current levels of enforcement and compliance activity. Beyond 2016, the Administration proposes further increases in additional new tax enforcement initiatives each year from 2017 through 2020 and to sustain all of the new initiatives plus inflationary costs via adjustments through 2025. The total cost of starting and sustaining the new initiatives above current levels of enforcement and compliance activity would be \$18.7 billion over the 10-year budget window, and is estimated to generate an additional \$59.7 billion in revenue over that same period for a net savings of \$41.0 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 2016 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 (TEFRA). 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 mandate new simplified partnership procedures for certain partnerships, including any partnership that has at least one partner that is another partnership, estate, trust, S corporation, nominee, or similar person (“pass-through partner”) at any time during the taxable year. Direct partners that are pass-through partners are responsible for paying the tax on behalf of those owners. Pass-through partners would have 180 days to challenge the assessment. 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 of-

fer-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 requirement 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, 2015.

**Facilitate tax compliance with local jurisdictions.**—Although Federal tax returns and return information (FTI) generally are confidential, the IRS and Department of the Treasury may share FTI with States as well as certain local government entities that are treated as States for this purpose. IRS and Department of the Treasury compliance activity, especially with respect to alcohol, tobacco, and fuel excise taxes, may necessitate information sharing with Indian Tribal Governments (ITGs). The Administration's proposal would specify that ITGs that impose alcohol, tobacco, or fuel excise taxes, or income or wage taxes, would be treated as States for purposes of information sharing to the extent necessary for ITG tax administration. The ITG that receives FTI would be required to safeguard it according to prescribed proto-

cols. The proposal would be effective for disclosures made after enactment.

**Extend statute of limitations for assessment for overstated basis and State adjustments.**—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. The general three-year assessment period is increased to six years if the taxpayer omits an amount of gross income that is more than 25 percent of the gross income stated on the return and the omission is not disclosed. An overstatement of the adjusted basis of property, which results in an understatement of gain reported on a return, is not treated as an omission of gross income for purposes of determining whether there is a more than 25 percent omission of gross income stated on the return, even though the need for more time is the same regardless of whether there is an omission of gross income or an understatement of gain. The Administration therefore proposes to amend the rules for determining gross income for purposes of the six-year assessment period to provide that an understatement of gain is treated as an omission from gross income.

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, 2015.

**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.

**Allow the IRS to absorb credit and debit card processing fees for certain tax payments.**—Taxpayers may make credit or debit card payments by phone through IRS-designated third-party service providers, who charge taxpayers a convenience fee for processing the payment over and above the taxes due. Under current law, if the IRS were to accept credit or debit card payments directly from taxpayers, the IRS would be prohibited from absorbing credit and debit card processing fees. The Administration recognizes that it is inefficient for both the IRS and taxpayers to require credit and debit card payments to be made through a third-party service provider, and that charging an additional convenience fee increases taxpayers’ costs. The proposal would permit the IRS to accept credit and debit card payments directly from taxpayers and to absorb the credit and debit card processing fees, but only in situations authorized by regulations. 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.

**Enhance electronic filing of returns.**—Generally, regulations may require businesses and tax-exempt organizations that file at least 250 returns and information returns during the calendar year to file electronically (e-File). Partnerships with more than 100 partners are required to e-File, regardless of how many returns they file. A tax return preparer that expects to file more than 10 individual income tax returns (Forms 1040 and 1041) is generally required to e-File these tax returns. Certain pension plans are required to electronically file certain information with the Department of Labor, which shares the information with the IRS. However, certain tax-only information is not required to be e-filed to the IRS. The proposal would strengthen the requirements for entities to e-File, expand the preparer e-File mandate for individual returns to apply to entity returns, require scannable codes on paper returns prepared using software, expand regulatory authority related to information returns, and add a specific penalty for failure to e-File when required to do so. Regulatory authority would be expanded to allow reduction of the 250-return threshold for certain other information returns. The proposal would generally be effective for taxable years beginning after the date of enactment, with transition relief available for certain taxpayers.

**Improve the whistleblower program.**—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 IRS 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 whistleblower rules to explicitly protect whistleblowers from retaliatory actions, consistent with the protections currently available to whistleblowers under the False Claims Act. In addition, 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 civil tax 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. While recent amendments to the Internal Revenue Code index select penalty provisions to inflation and resolve these issues for those few penalties, a more comprehensive approach is needed to achieve increased effectiveness and efficiency of tax penalties. The proposal would be effective upon enactment.

***Extend IRS authority to require truncated Social Security numbers (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.

***Combat tax-related identity theft.***—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. The Administration also proposes to impose a \$5,000 civil penalty (indexed) in tax identity theft cases. The proposal 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.

***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 Social Security Administration (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, 2015: (1) the returns of partnerships (Forms 1065 and Schedules K-1) would be due by March 15 or the 15th day of the 3rd month following the close of the taxable year in the case of fiscal year filers; (2) the returns of corporations other than S corporations would be due by April 15 or the 15th day of the 4th month following the close of the taxable year in the case of fiscal year filers; and (3) the date for filing certain information returns with the IRS or SSA would be accelerated to January 31 in most cases. The due date for the return of S corporations would remain the same. The proposal would be effective for returns required to be filed after December 31, 2015.

***Increase oversight and due diligence of tax return preparers.***—The proposal would explicitly provide that the Secretary of the Treasury has the authority to regulate all paid tax return preparers. This proposal would be effective on or after the date of enactment. The proposal would also increase the penalty rate on paid tax return preparers 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. In addition, the proposal would extend due diligence requirements similar to those for the EITC to the child tax credit. The existing checklist would be expanded and adapted to reflect the differences in requirements between the EITC and the child tax credit, while ensuring that the additional burden to preparers and filers is minimized. The increased return preparer penalty and the extension of the due diligence requirements would be effective for returns required to be filed after December 31, 2015.

***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, 2015.

**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, with resulting effects on the receipt of UI payroll taxes.

### Simplify the Tax System

**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 taxable years beginning after December 31, 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, 2015.

**Repeal preferential dividend rule for publicly traded and publicly offered REITs.**—REITs and RICs may claim a deduction for dividends paid. Historically, however, a dividends paid deduction was not available for a “preferential dividend.” A dividend is “preferential” unless it is distributed pro rata to shareholders, with no preference to any share of stock as compared with other shares of the same class, and with no preference to one class compared with another except to the extent the class is entitled to such preference. There are no exceptions for *de minimis* or accidental violations. The 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 issuer 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.

**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, 2015.

**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, 2015.

**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, 2015.

**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 taxable years beginning after December 31, 2015.

**Consolidate contribution limitations for charitable deductions and extend the carryforward period for excess charitable contribution deduction amounts.**—The income tax system limits the amount of charitable contribution deductions a donor may claim to a share of the donor’s contribution base (the taxpayer’s adjusted gross income computed without regard to any net

operating loss carryback for the taxable year). A taxpayer may generally deduct up to 50 percent of his contribution base for contributions of cash to public charities, and up to 30 percent for cash contributions to most private foundations. A taxpayer may generally deduct up to 30 percent of his contribution base for contributions of appreciated capital gain property to public charities, and up to 20 percent to most private foundations. Finally, a taxpayer may deduct up to 20 percent of his contribution base for contributions of capital gain property for the use of a charitable organization. Charitable contributions made to an organization exceeding these limits may generally be carried forward to be deducted in the subsequent five years. The proposal would simplify this complicated set of rules regarding deductions of charitable contributions. Under the proposal, the contribution base limits would remain at 50 percent for contributions of cash to public charities. For all other contributions, a single deduction limit of 30 percent of the taxpayer’s contribution base would apply, irrespective of the type of property donated, the type of organization receiving the donation, and whether the contribution is to or for the use of the organization. In addition, the proposal would extend the carry-forward period for contributions in excess of these limitations from 5 to 15 years. The proposal would be effective for contributions made in taxable years beginning after December 31, 2015.

**Exclude from gross income subsidies from public utilities for purchase of water runoff management.**—Under current law, subsidies for water conservation and stormwater management must be included by individuals in reported income. The Administration proposes to exclude from gross income for individuals the value of any subsidy provided by a public utility for the purchase of any water conservation measure or stormwater management measure. The term “water conservation measure” means any installation, modification, or water-use evaluation primarily designed to reduce consumption of water or to improve the management of water demand with respect to a dwelling unit. The term “stormwater management measure” means any installation or modification of property to offset or safely manage the amounts of stormwater runoff associated with a dwelling unit. The term “public utility” means an entity engaged in the sale of water to customers and includes the Federal government or a state or local government.

**Provide relief for certain accidental dual citizens.**—Individuals who became at birth both a citizen of the United States and a citizen of another country may not have learned until recently that they are U.S. citizens subject to U.S. Federal income tax on their worldwide income, even though they may have had minimal contacts with the United States. Some of these individuals would like to relinquish their U.S. citizenship (i.e., “expatriate”), but doing so would require them to pay significant U.S. tax under current law. The Administration’s proposal would provide relief from these U.S. tax obligations for certain individuals who relinquish their U.S. citizenship within two years after the later of January 1, 2016, the

effective date of the proposal, or the date on which the individual learns that he or she is a U.S. citizen.

### User Fees

**Reform inland waterways funding.**—The Administration proposes 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 on diesel fuel used in inland waterways commerce, which was recently increased to 29 cents per gallon, will not produce the revenue needed to cover the required 50 percent of these costs.

**Reauthorize special assessment on domestic nuclear utilities.**—The Administration proposes to reauthorize the special assessment on domestic nuclear utilities, for deposit in the Uranium Enrichment Decontamination and Decommissioning Fund. Established in 1992, the Fund pays, subject to appropriations, the decontamination and decommissioning costs of the Department of Energy's gaseous diffusion plants in Tennessee, Ohio, and Kentucky. Additional resources from the proposed special assessment are required due to higher-than-expected cleanup costs.

### Trade Initiatives

**Extend Generalized System of Preferences (GSP).**—The GSP 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, 2016.

**Extend African Growth and Opportunity Act (AGOA).**—Through AGOA, the United States provides duty-free treatment to eligible textile and apparel products made in qualifying sub-Saharan African countries; thereby increasing exports, creating jobs, and increasing opportunities for Africans and Americans alike. The Administration proposes to extend AGOA, which is scheduled to expire on September 30, 2015, through September 30, 2030.

### Other Initiatives

**Extend the Children's Health Insurance Program (CHIP) through 2019.**—The Administration proposes to extend CHIP funding for four years, through fiscal year 2019. As a result, more children will be enrolled in

CHIP and fewer children will be enrolled in a qualified Marketplace health plan. This will increase tax revenues and reduce outlays associated with the premium tax credit.

**Create State option to provide 12-month continuous Medicaid eligibility for adults.**—The Administration proposes to create a new continuous eligibility State plan option that would allow all adult Medicaid beneficiaries, or at State option, only those who qualify on the basis of modified adjusted gross income (MAGI), to maintain Medicaid eligibility during a 12-month continuous coverage period, regardless of changes to income or other eligibility criteria. The expanded Medicaid eligibility will result in fewer individuals being enrolled in a qualified Marketplace health plan, which will increase tax revenues and reduce outlays associated with the premium tax credit. The proposal would be effective January 1, 2016.

**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) of the Internal Revenue Code regarding information on joint filers, and annually report on the IRS's compliance with requirements that IRS employees 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, 2015.

***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 any indexed tax parameters from decreasing from the previous year's levels if the underlying price index falls. Subsequent inflation-related increases in the price index relevant for adjusting the particular tax parameter would be taken into account only to the extent that the index exceeds its highest previous level. The proposal would be effective as of the date of enactment.

***Extend reserve depletion date for Social Security's Disability Insurance program.***—The Social Security Administration's (SSA's) Disability Insurance (SSDI) Trust Fund provides modest benefits to 8.9 million workers with disabilities, providing a critical lifeline that helps workers and their families. The Social Security Trustees project that under current law SSDI will be unable to pay full benefits during 2016 and in subsequent years. The Administration proposes a temporary five-year reallocation of payroll taxes from the Old-Age and Survivors Insurance (OASI) Trust Fund to SSDI, effective for calendar years 2016 through 2020.

## 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 in 2013 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 nearly \$1 trillion over 20 years. The 2016 Budget includes an allowance for the budget effects of immigration reform based on the CBO cost estimate for this bill.

**Table 12-4. OTHER BUDGET PROPOSALS**  
(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25	
<b>Tax reform for families and individuals:</b>														
Reform child care tax incentives <sup>1</sup> .....	.....	-4,024	-4,191	-4,429	-4,639	-4,841	-5,052	-5,292	-5,532	-5,615	-6,257	-22,124	-49,872	
Simplify and better target tax benefits for education <sup>1</sup> .....	.....	-5	-1,861	-4,753	-4,660	-5,027	-5,242	-5,730	-5,878	-6,337	-6,205	-16,306	-45,698	
Provide for automatic enrollment in IRAs, including a small employer tax credit, increase the tax credit for small employer plan start-up costs, and provide an additional tax credit for small employer plans newly offering auto-enrollment <sup>1</sup> .....	.....	.....	-993	-1,589	-1,700	-1,754	-1,831	-2,005	-2,176	-2,410	-2,661	-6,036	-17,119	
Expand penalty-free withdrawals for long-term unemployed .....	.....	-162	-235	-240	-245	-250	-255	-260	-265	-270	-276	-1,132	-2,458	
Require retirement plans to allow long-term part-time workers to participate .....	.....	-39	-55	-54	-53	-52	-50	-47	-44	-40	-34	-253	-468	
Facilitate annuity portability .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	
Simplify MRD rules .....	.....	-5	-5	-3	4	14	30	51	74	105	142	5	407	
Allow all inherited plan and IRA balances to be rolled over within 60 days .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	
Expand the EITC for workers without qualifying children <sup>1</sup> .....	.....	-460	-6,256	-6,297	-6,350	-6,481	-6,612	-6,716	-6,804	-6,921	-7,047	-25,844	-59,944	
Simplify the rules for claiming the EITC for workers without qualifying children <sup>1</sup> .....	.....	-44	-593	-599	-588	-605	-620	-631	-642	-653	-678	-2,429	-5,653	
Provide a second-earner tax credit <sup>1</sup> .....	.....	-2,067	-9,007	-9,104	-9,383	-9,502	-9,727	-9,872	-9,936	-10,127	-10,306	-39,063	-89,031	
Extend exclusion from income for cancellation of certain home mortgage debt .....	.....	-2,542	-3,265	-2,978	-724	.....	.....	.....	.....	.....	.....	-6,967	-6,967	
Total, tax reform for families and individuals .....	.....	-2,542	-10,071	-26,174	-27,792	-27,614	-28,498	-29,359	-30,502	-31,203	-32,268	-33,322	-120,149	-276,803
<b>Reforms to capital gains taxation, upper-income tax benefits, and the taxation of financial institutions:</b>														
Reduce the value of certain tax expenditures .....	.....	28,028	46,032	50,592	54,995	59,478	63,843	68,379	72,914	77,231	81,734	239,125	603,226	
Reform the taxation of capital income .....	3,634	9,048	20,705	18,041	21,448	21,892	21,538	22,276	23,178	24,292	25,466	91,134	207,884	
Implement the Buffett Rule by imposing a new "Fair Share Tax" .....	.....	6,671	-93	1,178	2,810	3,695	3,872	4,008	4,177	4,351	4,507	14,261	35,176	
Impose a financial fee .....	.....	5,644	11,084	10,978	11,208	11,470	11,734	12,003	12,280	12,562	12,851	50,384	111,814	
Total, reforms to capital gains taxation, upper-income tax benefits, and the taxation of financial institutions .....	3,634	49,391	77,728	80,789	90,461	96,535	100,987	106,666	112,549	118,436	124,558	394,904	958,100	
<b>Loophole closers:</b>														
Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt .....	.....	4	12	20	27	34	41	49	58	68	78	97	391	
Require that the cost basis of stock that is a covered security must be determined using an average cost basis method .....	.....	.....	69	209	353	507	597	620	645	673	702	1,138	4,375	
Tax carried (profits) interests as ordinary income .....	.....	1,294	2,417	2,421	2,316	2,204	2,094	1,692	1,271	1,036	953	10,652	17,698	
Require non-spouse beneficiaries of deceased IRA owners and retirement plan participants to take inherited distributions over no more than five years .....	.....	87	237	400	567	737	786	748	694	640	583	2,028	5,479	
Limit the total accrual of tax-favored retirement benefits .....	.....	1,418	1,987	2,213	2,287	2,438	2,634	2,785	3,183	3,396	3,702	10,343	26,043	
Conform SECA taxes for professional service businesses .....	.....	4,465	6,268	6,622	6,977	7,372	7,837	8,371	8,837	9,248	8,554	31,704	74,551	
Limit Roth conversions to pre-tax dollars .....	.....	.....	14	23	24	38	49	50	51	67	79	99	395	
Eliminate deduction for dividends on stock of publicly-traded corporations held in ESOPs .....	.....	589	830	851	865	879	892	907	922	936	951	4,014	8,622	
Repeal exclusion of NUA in employer securities .....	.....	145	245	249	254	260	265	270	275	281	287	1,153	2,531	

**Table 12-4. OTHER BUDGET PROPOSALS—Continued**  
(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Disallow the deduction for charitable contributions that are a prerequisite for purchasing tickets to college sporting events .....	.....	126	201	218	233	249	266	283	302	323	345	1,027	2,546
Total, loophole closers .....	.....	8,128	12,280	13,226	13,903	14,718	15,461	15,775	16,238	16,668	16,234	62,255	142,631
<b>Incentives for job creation, clean energy, and manufacturing:</b>													
Designate Promise Zones <sup>1</sup> .....	.....	-604	-1,130	-1,010	-938	-890	-852	-813	-791	-792	-807	-4,572	-8,627
Provide a tax credit for the production of advanced technology vehicles .....	.....	-581	-475	-512	-567	-507	-418	-299	6	197	209	-2,642	-2,947
Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles .....	.....	-46	-76	-77	-80	-61	-26	-5	.....	.....	.....	-340	-371
Modify and extend the tax credit for the construction of energy-efficient new homes .....	-60	-132	-164	-195	-227	-252	-270	-286	-302	-329	-341	-970	-2,498
Reduce excise taxes on LNG to bring into parity with diesel <sup>2</sup> .....	.....	-4	-5	-6	-6	-6	-7	-7	-9	-9	-10	-27	-69
Enhance and modify the conservation easement deduction:													
Permanently enhance incentives and reform the deduction for donations of conservation easements .....	-59	-153	-102	-20	3	3	2	3	3	3	4	-269	-254
Pilot an allocable credit for conservation contributions .....	-5	-19	-25	-25	-25	-25	-25	-25	-25	-25	-25	-119	-244
Eliminate the deduction for contributions of conservation easements on golf courses .....	5	21	38	50	56	60	62	66	69	73	76	225	571
Restrict deductions and harmonize the rules for contributions of conservation easements for historic preservation .....	2	7	13	17	20	21	22	23	24	25	27	78	199
Subtotal, enhance and modify the conservation easement deduction .....	-57	-144	-76	22	54	59	61	67	71	76	82	-85	272
Total, incentives for job creation, clean energy, and manufacturing .....	-117	-1,511	-1,926	-1,778	-1,764	-1,657	-1,512	-1,343	-1,025	-857	-867	-8,636	-14,240
<b>Modify estate and gift tax provisions:</b>													
Restore the estate, gift, and GST tax parameters in effect in 2009 .....	.....	14,611	15,938	17,310	18,723	20,444	22,230	24,261	26,612	29,182	66,582	189,311	
Require consistency in value for transfer and income tax purposes .....	.....	267	279	303	337	356	383	407	438	467	1,186	3,237	
Modify transfer tax rules for GRATs and other grantor trusts .....	.....	1,054	1,198	1,359	1,574	1,892	2,294	2,637	3,073	3,273	5,185	18,354	
Limit duration of GST tax exemption .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	
Extend the lien on estate tax deferrals where estate consists largely of interest in closely held business .....	.....	23	23	24	25	27	29	31	32	34	95	248	
Modify GST tax treatment of HEETs .....	.....	-32	-31	-29	-28	-25	-24	-22	-21	-19	-120	-231	
Simplify gift tax exclusion for annual gifts .....	.....	78	155	217	320	389	428	517	618	724	770	3,446	
Expand applicability of definition of executor .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	
Total, modify estate and gift tax provisions .....	.....	.....	16,001	17,562	19,184	20,951	23,083	25,340	27,831	30,752	33,661	73,698	214,365
<b>Other revenue raisers:</b>													
Increase and modify Oil Spill Liability Trust Fund financing <sup>2</sup> .....	.....	105	150	155	160	165	168	176	177	181	191	735	1,628
Reinstate Superfund taxes <sup>2</sup> .....	.....	1,585	2,048	2,080	2,110	2,126	2,160	2,205	2,259	2,307	2,363	9,949	21,243
Increase tobacco taxes and index for inflation <sup>2</sup> .....	.....	8,434	10,826	10,663	10,633	10,301	9,860	9,403	8,850	8,342	7,830	50,857	95,142
Make UI surtax permanent <sup>2</sup> .....	.....	1,108	1,527	1,552	1,575	1,596	1,620	1,643	1,669	1,695	1,701	7,358	15,686
Expand FUTA base <sup>2</sup> .....	.....	3,634	3,618	3,457	3,600	3,901	6,485	6,313	6,647	7,100	14,309	44,755	
Reform the UI extended benefits program <sup>2</sup> .....	.....	52	201	208	268	364	443	483	449	462	483	1,093	3,413
Modernize the UI program <sup>2</sup> .....	.....	.....	200	120	41	41	.....	.....	.....	.....	361	402	
Levy a fee on the production of hardrock minerals to restore abandoned mines .....	.....	.....	200	200	200	200	200	200	200	200	200	800	1,800

**Table 12–4. OTHER BUDGET PROPOSALS—Continued**  
 (In millions of dollars)

**Table 12-4. OTHER BUDGET PROPOSALS—Continued**  
(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Combat tax-related identity theft .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
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 .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Rationalize tax return filing due dates so they are staggered <sup>1</sup> .....	.....	-180	173	181	190	196	199	207	215	221	228	560	1,630
Increase oversight and due diligence of tax return preparers:													
Extend paid preparer EITC due diligence requirements to the child tax credit .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Explicitly provide that the Department of the Treasury and IRS have authority to regulate all paid return preparers <sup>1</sup> .....	.....	14	32	34	38	41	45	49	53	58	63	159	427
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
Subtotal, increase oversight and due diligence of tax return preparers .....	.....	14	32	35	39	42	46	50	54	59	64	162	435
Enhance administrability of the appraiser penalty .....	.....	.....	.....	-5	-17	-31	-52	-69	-88	-117	-133	-53	-512
Enhance UI program integrity <sup>2</sup> .....	.....	966	2,487	3,989	5,637	7,282	8,695	9,729	10,380	10,840	11,208	20,361	71,213
<b>Simplify the tax system:</b>													
Modify adoption credit to allow tribal determination of special needs .....	.....	1,175	3,116	5,058	6,909	8,652	10,171	11,314	12,085	12,668	13,165	24,910	84,313
Repeal non-qualified preferred stock designation .....	.....	26	44	43	41	38	35	30	26	23	20	192	326
Repeal preferential dividend rule for publicly offered REITs .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Reform excise tax based on investment income of private foundations .....	.....	.....	-6	-5	-5	-6	-6	-6	-6	-6	-7	-22	-53
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	-58	-344
Simplify single-family housing mortgage bond targeting requirements .....	.....	.....	-1	-3	-5	-7	-10	-12	-17	-20	-22	-16	-97
Streamline private business limits on governmental bonds .....	.....	.....	-1	-3	-5	-7	-9	-11	-13	-15	-17	-16	-81
Repeal technical terminations of partnerships .....	.....	10	16	18	20	22	24	26	28	29	31	86	224
Repeal anti-churning rules of section 197 .....	.....	-24	-99	-198	-281	-338	-370	-378	-378	-378	-378	-940	-2,822
Repeal special estimated tax payment provision for certain insurance companies .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Repeal the telephone excise tax <sup>2</sup> .....	.....	-296	-349	-308	-266	-225	-208	-161	-128	-80	-31	-1,444	-2,052
Increase the standard mileage rate for automobile use by volunteers .....	.....	-15	-47	-48	-49	-50	-51	-52	-53	-55	-56	-209	-476
Consolidate contribution limitations for charitable organizations and extend the carryforward period for excess charitable contribution deduction amounts .....	.....	-88	-49	-5	-6	-6	-6	-482	-1,168	-1,801	-2,379	-154	-5,990
Exclude from gross income subsidies from public utilities for purchase of water runoff management .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Provide relief for certain accidental dual citizens .....	.....	-60	-103	-55	-23	-24	-25	-26	-28	-29	-30	-265	-403
Total, simplify the tax system .....	.....	-447	-597	-574	-597	-631	-665	-1,119	-1,796	-2,401	-2,946	-2,846	-11,773

**Table 12-4. OTHER BUDGET PROPOSALS—Continued**  
(In millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
<b>User fees:</b>													
Reform inland waterways funding <sup>2</sup> .....	.....	113	113	113	113	113	113	113	113	113	113	565	1,130
Reauthorize special assessment on domestic nuclear utilities .....	.....	204	208	213	218	223	228	233	238	244	249	1,066	2,258
Total, user fees .....	.....	317	321	326	331	336	341	346	351	357	362	1,631	3,388
<b>Trade initiatives:</b>													
Extend GSP <sup>2</sup> .....	.....	-381	-164	.....	.....	.....	.....	.....	.....	.....	.....	-545	-545
Extend AGOA <sup>2</sup> .....	.....	-88	-120	-133	-147	-162	-178	-195	-215	-235	-256	-650	-1,729
Total, trade initiatives .....	.....	-469	-284	-133	-147	-162	-178	-195	-215	-235	-256	-1,195	-2,274
<b>Other initiatives:</b>													
Extend CHIP through 2019 <sup>1</sup> .....	.....	320	3,901	4,882	5,341	975	.....	.....	.....	.....	.....	15,419	15,419
Create State option to provide 12-month continuous Medicaid eligibility for adults <sup>1</sup> .....	.....	301	962	1,977	2,390	2,522	2,645	2,781	2,926	3,163	3,320	8,152	22,987
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 .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Extend reserve depletion date for Social Security's Disability Insurance program .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total, other initiatives .....	.....	621	4,863	6,859	7,731	3,497	2,645	2,781	2,926	3,163	3,320	23,571	38,406
<b>Impose a 14-percent one-time tax on previously untaxed foreign income .....</b>	.....	34,559	56,407	54,420	52,434	50,448	19,861	.....	.....	.....	.....	248,268	268,129
<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, other budget proposals</b> .....	<b>975</b>	<b>95,026</b>	<b>172,371</b>	<b>194,690</b>	<b>218,406</b>	<b>227,634</b>	<b>206,280</b>	<b>204,658</b>	<b>221,658</b>	<b>243,117</b>	<b>260,777</b>	<b>908,127</b>	<b>2,044,617</b>

<sup>1</sup>This proposal affects both receipts and outlays for refundable tax credits. Both effects are shown above. The outlay effects included in these estimates are listed below:

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–20	2016–25
Reform child care tax incentives .....	.....	932	969	1,014	1,066	1,107	1,139	1,190	1,231	1,227	1,265	5,088	11,140
Simplify and better target tax benefits for education .....	.....	.....	1,862	4,822	4,774	4,829	5,177	5,471	5,785	6,075	6,135	16,287	44,930
Provide for automatic enrollment in IRAs, including a small employer tax credit, increase the tax credit for small employer plan start-up costs, and provide an additional tax credit for small employer plans newly offering auto-enrollment .....	.....	.....	127	195	200	209	212	215	220	225	229	731	1,832
Expand the EITC for workers without qualifying children .....	.....	276	5,519	5,553	5,600	5,709	5,825	5,914	5,997	6,090	6,198	22,657	52,681
Simplify the rules for claiming the EITC for workers without qualifying children .....	.....	26	522	527	517	532	545	555	565	574	596	2,124	4,959
Provide a second-earner tax credit .....	.....	732	729	750	740	761	768	770	762	767	767	2,951	6,779
Designate Promise Zones .....	.....	12	28	29	31	32	34	35	37	38	41	132	317
Provide the IRS with greater flexibility to address correctable errors .....	.....	-26	-53	-54	-55	-55	-56	-57	-59	-60	-62	-243	-537
Rationalize tax return filing due dates so they are staggered .....	.....	-22	-22	-22	-23	-23	-23	-24	-24	-25	-25	-112	-233
Explicitly provide that the Department of the Treasury and IRS have authority to regulate all paid return preparers .....	.....	-2	-14	-15	-17	-18	-20	-21	-23	-25	-27	-66	-182
Extend CHIP through 2019 .....	.....	-296	-3,550	-4,132	-4,506	-460	.....	.....	.....	.....	.....	-12,944	-12,944
Create State option to provide 12-month continuous Medicaid eligibility for adults .....	.....	-301	-911	-1,874	-2,166	-2,319	-2,441	-2,569	-2,704	-2,934	-3,079	-7,571	-21,298
Total, outlay effects of other budget proposals .....	.....	599	5,209	6,772	6,171	10,283	11,153	11,477	11,795	11,947	12,038	29,034	87,444

<sup>2</sup>Net of income offsets.

**Table 12–5. RECEIPTS BY SOURCE**  
 (In millions of dollars)

Source	2014 Actual	Estimate									
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Individual income taxes:</b>											
Federal funds .....	1,394,568	1,477,065	1,609,593	1,706,799	1,814,329	1,914,748	2,026,067	2,145,922	2,271,203	2,399,606	2,529,148
Legislative proposal, not subject to PAYGO .....	.....	.....	432	1,451	2,926	4,477	6,096	7,483	8,479	9,081	9,508
Legislative proposal, subject to PAYGO .....	.....	1,011	35,603	62,097	69,629	80,575	86,243	90,245	94,486	99,650	104,646
Total, Individual income taxes .....	1,394,568	1,478,076	1,645,628	1,770,347	1,886,884	1,999,800	2,118,406	2,243,650	2,374,168	2,508,337	2,643,302
<b>Corporation income taxes:</b>											
<b>Federal funds:</b>											
Federal funds .....	320,731	341,724	433,462	434,249	441,385	447,831	454,806	465,704	481,447	495,803	509,731
Legislative proposal, subject to PAYGO .....	.....	-36	38,846	64,257	60,360	58,070	56,414	26,218	6,827	7,366	7,642
Total, Federal funds .....	320,731	341,688	472,308	498,506	501,745	505,901	511,220	491,922	488,274	503,169	517,373
<b>Trust funds:</b>											
Legislative proposal, subject to PAYGO .....	.....	.....	996	1,257	1,282	1,305	1,315	1,341	1,379	1,426	1,468
Total, Corporation income taxes .....	320,731	341,688	473,304	499,763	503,027	507,206	512,535	493,263	489,653	504,595	518,841
<b>Social insurance and retirement receipts (trust funds):</b>											
<b>Employment and general retirement:</b>											
Old-age survivors insurance (off- budget) .....	628,792	654,447	681,559	717,408	752,137	786,669	819,278	863,593	906,191	946,514	990,597
Legislative proposal, not subject to PAYGO .....	.....	.....	-42,626	-60,929	-63,874	-66,804	-69,572	-19,713	7	9	10
Legislative proposal, subject to PAYGO .....	.....	.....	3,138	4,058	4,517	4,888	5,126	5,488	5,644	6,124	6,485
Disability insurance (off-budget) ...	106,773	111,123	115,736	121,824	127,721	133,585	139,123	146,648	153,882	160,729	168,215
Legislative proposal, not subject to PAYGO .....	.....	.....	42,626	60,929	63,875	66,806	69,576	19,719	1	1	2
Legislative proposal, subject to PAYGO .....	.....	.....	532	688	766	829	869	930	957	1,039	1,099
Hospital Insurance .....	224,107	233,858	244,145	256,963	270,463	283,594	295,374	311,091	326,351	340,957	356,847
Legislative proposal, not subject to PAYGO .....	.....	.....	.....	.....	.....	.....	1	1	2	2	3
Legislative proposal, subject to PAYGO .....	.....	.....	1,103	1,911	2,649	2,960	3,113	3,304	3,444	3,683	3,891
<b>Railroad retirement:</b>											
Social security equivalent account .....	2,325	2,379	2,431	2,507	2,588	2,662	2,737	2,811	2,890	2,969	3,044
Rail pension & supplemental annuity .....	3,032	3,194	3,268	3,364	3,470	3,572	3,672	3,769	3,869	3,975	4,074
Total, Employment and general retirement .....	965,029	1,005,001	1,051,912	1,108,723	1,164,312	1,218,761	1,269,297	1,337,641	1,403,238	1,466,002	1,534,266
On-budget .....	(229,464)	(239,431)	(250,947)	(264,745)	(279,170)	(292,788)	(304,897)	(320,976)	(336,556)	(351,586)	(367,858)
Off-budget .....	(735,565)	(765,570)	(800,965)	(843,978)	(885,142)	(925,973)	(964,400)	(1,016,665)	(1,066,682)	(1,114,416)	(1,166,408)
<b>Unemployment insurance:</b>											
Deposits by States 1 .....	46,450	47,786	46,482	45,683	44,356	44,029	44,696	45,751	46,990	49,362	50,721
Legislative proposal, not subject to PAYGO .....	.....	.....	.....	.....	-6	-18	-30	-50	-67	-81	-98
Legislative proposal, subject to PAYGO .....	.....	.....	72	5,025	5,663	4,798	4,722	4,915	7,846	7,283	7,390
Federal unemployment receipts 1 ...	8,471	8,490	8,192	7,794	8,274	5,911	5,994	6,080	6,172	6,271	6,367
Legislative proposal, subject to PAYGO .....	.....	.....	1,385	1,712	1,373	2,049	2,347	2,655	2,980	3,311	3,656
Railroad unemployment receipts 1 ...	36	75	129	148	141	117	110	125	137	139	134
Total, Unemployment insurance ....	54,957	56,351	56,260	60,362	59,801	56,886	57,839	59,476	64,058	66,285	68,170
<b>Other retirement:</b>											
Federal employees retirement- employee share .....	3,446	3,635	3,731	4,181	4,440	4,729	5,055	5,418	5,815	6,240	6,693

**Table 12-5. RECEIPTS BY SOURCE—Continued**  
 (In millions of dollars)

**Table 12-5. RECEIPTS BY SOURCE—Continued**  
(In millions of dollars)

Source	2014 Actual	Estimate										
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2025	
Federal funds .....	32,337	35,071	37,254	40,424	43,226	45,733	48,113	50,681	53,481	56,372	59,373	62,474
Legislative proposal, subject to PAYGO .....	.....	.....	-626,000	-378,000	-178	-197	-216	-238	-261	-287	-313	-341
Total, Federal funds .....	32,337	35,071	36,628	40,046	43,048	45,536	47,897	50,443	53,220	56,085	59,060	62,133
Trust funds:												
Trust funds .....	1,589	1,691	1,746	1,814	1,866	1,899	1,933	1,979	2,033	2,087	2,143	2,199
<b>Total, Customs duties and fees .....</b>	<b>33,926</b>	<b>36,762</b>	<b>38,374</b>	<b>41,860</b>	<b>44,914</b>	<b>47,435</b>	<b>49,830</b>	<b>52,422</b>	<b>55,253</b>	<b>58,172</b>	<b>61,203</b>	<b>64,332</b>
Miscellaneous receipts:												
Federal funds:												
Miscellaneous taxes .....	584	504	506	507	508	510	511	512	513	514	516	517
Deposit of earnings, Federal Reserve System .....	99,235	94,015	77,420	47,521	38,860	40,860	46,182	51,557	56,136	61,162	65,251	67,935
Transfers from the Federal Reserve .....	534	582	606	632	653	672	686	701	716	731	746	762
Fees for permits and regulatory and judicial services .....	14,609	27,207	27,520	27,423	24,848	26,364	27,319	26,804	27,105	27,312	28,343	28,818
Legislative proposal, subject to PAYGO .....	.....	.....	253	458	464	470	475	480	433	438	444	449
Fines, penalties, and forfeitures ...	19,488	14,636	12,526	28,206	30,047	29,974	31,957	33,533	35,111	36,639	38,221	39,905
Legislative proposal, subject to PAYGO .....	.....	.....	-1	-9	-18	-10	-2	4	3	3	3	3
Refunds and recoveries .....	.....	.....	-42	-42	-42	-42	-42	-42	-42	-42	-42	-42
Total, Federal funds .....	134,413	136,902	118,788	104,696	95,320	98,798	107,086	113,549	119,975	126,757	133,482	138,347
Trust funds:												
United Mine Workers of America, combined benefit fund .....	21	23	24	22	21	18	17	13	12	11	9	8
Defense cooperation .....	102	303	126	544	521	590	569	307	127	129	130	132
Inland waterways (Legislative proposal, subject to PAYGO) ....	.....	.....	110	110	110	110	110	110	110	110	110	110
Fines, penalties, and forfeitures ...	1,600	1,670	1,475	1,576	1,683	1,540	1,580	1,621	1,663	1,703	1,744	1,784
Total, Trust funds .....	1,723	1,996	1,735	2,252	2,335	2,258	2,276	2,051	1,912	1,953	1,993	2,034
<b>Total, Miscellaneous receipts .....</b>	<b>136,136</b>	<b>138,898</b>	<b>120,523</b>	<b>106,948</b>	<b>97,655</b>	<b>101,056</b>	<b>109,362</b>	<b>115,600</b>	<b>121,887</b>	<b>128,710</b>	<b>135,475</b>	<b>140,381</b>
Allowance for immigration reform ....	.....	.....	2,000	12,000	28,000	39,000	45,000	47,000	55,000	64,000	77,000	87,000
<b>Total, budget receipts .....</b>	<b>3,021,487</b>	<b>3,176,072</b>	<b>3,525,179</b>	<b>3,754,980</b>	<b>3,944,415</b>	<b>4,134,973</b>	<b>4,332,242</b>	<b>4,525,243</b>	<b>4,745,972</b>	<b>4,985,975</b>	<b>5,236,226</b>	<b>5,478,487</b>
On-budget .....	(2,285,922)	(2,410,502)	(2,724,214)	(2,911,002)	(3,059,273)	(3,209,000)	(3,367,842)	(3,508,578)	(3,679,290)	(3,871,559)	(4,069,818)	(4,263,848)
Off-budget .....	(735,565)	(765,570)	(800,965)	(843,978)	(885,142)	(925,973)	(964,400)	(1,016,665)	(1,066,682)	(1,114,416)	(1,166,408)	(1,214,639)

<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 usually used to finance Government activities. The spending associated with these activities is included in total or “gross outlays.” For 2014, gross outlays to the public were \$4,076 billion,<sup>1</sup> or 23.6 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 2014, net outlays were \$3,506 billion or 20.3 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 2014, governmental receipts were \$3,021 billion, or 17.5 percent of GDP, and the deficit was \$485 billion, or 2.8 percent of GDP.

There are two sources of offsetting receipts and offsetting collections: from the public and from other budget accounts. In 2014, offsetting receipts and offsetting collections from the public were \$570.2 billion, while intragovernmental offsetting receipts and offsetting collections were \$1,010 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 made by these accounts, with no net impact on the deficit or surplus.<sup>2</sup>

<sup>1</sup> Gross outlays to the public are derived by subtracting intragovernmental outlays from gross outlays. For 2014, gross outlays were \$5,087 billion. Intragovernmental outlays are payments from one Government account to another Government account. For 2014, intragovernmental outlays totaled \$1,010 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 and (net) outlays 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 (\$5.1 billion in 2014) 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. 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.<sup>4</sup>

A third source of offsetting collections and offsetting receipts is intragovernmental transfers. Examples of intragovernmental transfers include interest payments to funds that hold Government securities (such as the Social

<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> This category of receipts is known as “offsetting 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 2014	Estimate	
		2015	2016
<b>Offsetting collections (credited to expenditure accounts):</b>			
<b>User charges:</b>			
Postal Service stamps and other USPS fees (off-budget) .....	72.1	68.5	70.3
Defense Commissary Agency .....	5.7	6.1	6.0
Employee contributions for employees and retired employees health benefits funds .....	13.6	14.3	15.4
Sale of energy:			
Tennessee Valley Authority .....	47.6	48.4	48.0
Bonneville Power Administration .....	3.5	3.8	4.0
All other user charges .....	65.7	72.2	80.6
Subtotal, user charges .....	208.3	213.4	224.4
<b>Other collections credited to expenditure accounts:</b>			
Commodity Credit Corporation fund .....	3.9	7.4	8.0
Supplemental Security Income (collections from the States) .....	3.2	2.7	2.8
Other collections .....	21.1	8.0	8.8
Subtotal, other collections .....	28.1	18.1	19.6
Subtotal, offsetting collections .....	236.4	231.5	244.0
<b>Offsetting receipts (deposited in receipt accounts):</b>			
<b>User charges:</b>			
Medicare premiums .....	64.9	67.3	72.1
Outer Continental Shelf rents, bonuses, and royalties .....	6.4	5.4	6.4
All other user charges .....	39.2	84.1	50.0
Subtotal, user charges deposited in receipt accounts .....	110.5	156.8	128.5
<b>Other collections deposited in receipt accounts:</b>			
Military assistance program sales .....	29.3	29.7	27.1
Interest received from credit financing accounts .....	36.5	54.4	59.1
Proceeds, GSE equity related transactions .....	72.5	23.4	19.8
All other collections deposited in receipt accounts .....	85.1	52.3	46.4
Subtotal, other collections deposited in receipt accounts .....	223.3	159.8	152.4
Subtotal, offsetting receipts .....	333.8	316.6	280.9
<b>Total, offsetting collections and offsetting receipts from the public</b> .....	<b>570.2</b>	<b>548.1</b>	<b>524.9</b>
Total, offsetting collections and offsetting receipts excluding off-budget .....	497.9	479.5	454.5
<b>ADDENDUM:</b>			
User charges that are offsetting collections and offsetting receipts <sup>1</sup> .....	318.8	370.2	352.9
Other offsetting collections and offsetting receipts from the public .....	251.4	177.9	172.0

<sup>1</sup> Excludes user charges that are classified on the receipts side of the budget. For total user charges, see Table 13-3.

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 demonstrates 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.

Like governmental receipts, offsetting receipts are credited to receipt accounts, and any spending of the receipts is recorded in separate expenditure accounts. As

**Table 13-2. OFFSETTING RECEIPTS BY TYPE SUMMARY**  
(In millions of dollars)

Receipt Type	2014 Actual	Estimate					
		2015	2016	2017	2018	2019	2020
Intragovernmental .....	694,571	686,898	770,741	792,361	813,474	862,795	907,127
Receipts from non-Federal sources:							
Proprietary .....	323,036	270,369	259,216	262,996	278,554	290,459	304,142
Offsetting governmental .....	10,731	46,260	21,703	23,536	15,577	14,198	14,493
Total, receipts from non-Federal sources .....	333,767	316,629	280,919	286,532	294,131	304,657	318,635
Total Offsetting receipts .....	1,028,338	1,003,527	1,051,660	1,078,893	1,107,605	1,167,452	1,225,762

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 2016, the table shows that total offsetting collections and offsetting receipts from the public are estimated to be \$524.9 billion or 3.0 percent of GDP. Of these, an estimated \$244.0 billion are offsetting collections and an estimated \$280.9 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 \$1,051.7 billion in 2016; \$770.7 billion are from intragovernmental transactions and \$280.9 billion are from the public. The offsetting receipts from the public consist of proprietary receipts (\$259.2 billion) and those classified as offsetting receipts by law or long-standing practice (\$21.7 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 2016, only an estimated 1.3 percent of user charges are classified as governmental receipts. As summarized in Table 13-3, total user charges for 2016 are estimated to be \$357.6 billion with \$352.9 billion being offsetting collections or offsetting receipts, and accounting for more than half of all offsetting collections and offsetting receipts from the public.

**Definition.** In this chapter, user charges refer to fees, charges, and assessments levied on individuals or organizations directly benefiting from or subject to regulation by a Government program or activity, where the payers do

<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.

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>

**What is the purpose of user charges?** User charges are intended to improve the efficiency and equity of fi-

nancing certain Government activities. Charging users for activities that benefit a relatively limited number of people reduces the burden on the general taxpayer, as does charging regulated parties for regulatory activities in a particular sector.

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 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

<sup>6</sup> Beneficiary- and liability-based taxes are terms taken from the Congressional Budget Office, The Growth of Federal User Charges, August 1993, and updated in October 1995. Gasoline taxes are an example of beneficiary-based taxes. An example of a liability-based tax is the excise tax that formerly helped fund the hazardous substance superfund in the Environmental Protection Agency. This tax was paid by industry groups to finance environmental cleanup activities related to the industry activity but not necessarily caused by the payer of the fee.

**Table 13-3. GROSS OUTLAYS, USER CHARGES, OTHER OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC, AND NET OUTLAYS**  
(In billions of dollars)

	Actual 2014	Estimate	
		2015	2016
Gross outlays to the public .....	4,076.3	4,306.7	4,524.4
Offsetting collections and offsetting receipts from the public:			
User charges <sup>1</sup> .....	318.8	370.2	352.9
Other .....	251.4	177.9	172.0
Subtotal, offsetting collections and offsetting receipts from the public .....	570.2	548.1	524.9
Net outlays .....	3,506.1	3,758.6	3,999.5

<sup>1</sup> \$5.1 billion of the total user charges for 2014 were classified as governmental receipts, and the remainder were classified as offsetting collections and offsetting receipts. \$4.3 billion and \$4.7 billion of the total user charges for 2015 and 2016 are classified as governmental receipts, respectively.

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 \$4.7 billion in 2016 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 \$352.9 billion in 2016, 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 \$244.0 billion of user charges for 2016 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 \$280.9 billion of user charges for 2016 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 \$1.8 billion in 2016 and an average of \$14.6 billion per year from 2017-25. 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, 2016, 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 \$2.50 per head month for cattle and its equivalent for other livestock, which would be collected along with current grazing fees. The fee would allow the Forest Service to more expeditiously address pending applications for grazing permit renewals and perform other necessary grazing activities.

###### Department of 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 in-

cludes 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.

*FDA: Export certification user fee cap increase.* Firms exporting products from the United States are often asked by foreign customers or foreign governments to supply a "certificate" for products regulated by the FDA to document the product's regulatory or marketing status. The proposal increases the maximum user fee cap from \$175 per export certification to \$600 to meet FDA's true cost of issuing export certificates and to ensure better and faster service for American companies that request the service.

*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.

*Centers for Medicare and Medicaid Services (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

*Transportation Security Administration (TSA): Aviation passenger security fee increase.* Since 2001 the aviation passenger security fee had 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 was 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 2016 Budget proposes to increase the \$5.60 fee established by the BBA to \$6.00 for 2016 and by an additional 50 cents annually from 2017 to 2019, resulting in a fee of \$7.50 in 2019 that will capture 52 percent of

the costs of aviation security in 2019 and 70 percent by 2025. Under this proposal, all additional collections in 2016 will be deposited in the general fund for deficit reduction. Starting in 2017, additional collections would be allocated between general fund deposits and discretionary offsetting collections. In total, this proposal will increase receipts by an estimated \$11.5 billion from 2016 through 2025. Of that amount, \$6.1 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 for deficit reduction.

*TSA: Aviation security infrastructure fee.* The aviation security infrastructure fee was authorized in 2001 by the Aviation and Transportation Security Act, requiring air carriers to pay a fee reflecting the aviation industry's share of the costs for screening passengers and property as well as providing other aviation security services. The BBA repealed the Aviation Security Infrastructure Fee, effective October 1, 2014, causing offsetting collections to decrease by \$4.2 billion over ten years. The 2016 Budget proposes that TSA continue to collect the aviation security infrastructure fee, starting in 2017. The Budget also proposes to reinstate 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. This proposal increases collections by an estimated \$3.8 billion from 2017 through 2025.

## 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 (DOI)

*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 2016, 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 2016, 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 2016, thereby re-

quiring 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 \$2.50 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 2017, and it is estimated that in 2017 HSR fees would total \$340 million (\$170 million for each of Federal Trade Commission and DOJ Antitrust Division), an increase of \$128 million per year (\$64 million for each of Federal Trade Commission and DOJ Antitrust Division).

## 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, 2016. 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 2016 as a result of this change.

## Commodity Futures Trading Commission (CFTC)

*CFTC fee.* The Budget proposes an amendment to the Commodity Exchange Act, effective in 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 2017, 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 Trade Commission

*Increase Hart-Scott-Rodino fees.* See description under Department of Justice.

## 2. Offsetting receipts

### Department of Transportation

*Pipeline and Hazardous Materials Safety Administration (PHMSA): Pipeline design review fees.* The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 (P.L. 112–90) established a new fee for companies engaged in the design, permitting, and construction of new pipeline projects. 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 and the Consolidated and Further Continuing Appropriations Act of 2015 provided the authority to retain fees collected in 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 Generating Renewal, Opportunity, and Work with Accelerated Mobility, Efficiency, and Rebuilding of Infrastructure and Communities throughout America (GROW AMERICA) Act proposal includes language 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 provide a discretionary offset and fund some of PHMSA's costs associated with 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.

*Rural Housing Service: Guaranteed Underwriting System (GUS) fee.* The 2016 Budget includes a proposal that would allow up to 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. Estimates assume the collections will begin in 2018 with a charge of \$25 per loan generating \$4 million per year for the GUS system.

#### Department of Labor (DOL)

*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 \$19 billion over the next decade.

*Foreign Labor Certification fees.* The Budget proposes legislation to allow DOL to charge fees for new applications filed under the Permanent and H-2B foreign labor certification programs, to improve the speed and quality of certification processing. The Budget also proposes legislation to allow DOL to retain fees for certified applications filed under the H-2A temporary labor certification program and modify the fee to cover full program costs.

The fees would partially offset Federal costs for administering these programs and, once fully implemented, would eliminate the need for appropriations for this purpose.

#### Environmental Protection Agency (EPA)

*Confidential business information (CBI) management fee.* EPA receives filings under the Toxic Substances Control Act that may contain information claimed as CBI. The Budget proposes to expand EPA's existing authority to collect fees to recover approximately 40 percent annually of the costs of reviewing and maintaining the CBI. These costs relate to the management and maintenance of headquarters and regional CBI repositories, a stand-alone secure CBI database and communications system, physical security, and CBI reviews and sanitizations.

### 2. Offsetting receipts

#### Department of Agriculture

*Food Safety and Inspection Service: 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 2016.

*Grain Inspection, Packers, and Stockyards Administration: 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 \$30 million in 2016.

*Animal and Plant Health Inspection Service (APHIS): Inspection and licensing charges.* The Administration proposes to establish charges for: (1) animal welfare inspections for animal research facilities, carriers, and in-transit handlers of animals, (2) licenses for individuals or companies who seek to market a veterinary biologic, and (3) reviews and inspections that may allow APHIS to issue permits that acknowledge that regulated entities are providing sufficient safeguards in the testing of biotechnologically derived products.

*Natural Resources Conservation Service (NRCS): Conservation user fee:* The BBA provided NRCS with the authority to establish a modest fee to partially offset the agency's cost to develop conservation plans. While this authority included provisions that would exempt beginning, limited resource, and socially disadvantaged farmers, it did not provide NRCS with the authority to retain and spend any fees collected. To more closely associate the fee with the service being provided, the Budget includes language that would allow NRCS to retain and spend any fees collected for the development of conservation plans.

#### Department of Health and Human 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 2019, 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 2019 who purchase Medigap policies with particularly low cost-sharing requirements. The surcharge would be equal to approximately 15 percent of the average Medigap premium or 30 percent of the Part B premium.

*CMS: Medicare Provider Enrollment Application Fee.* The Budget proposes an enrollment application fee for all individuals and groups enrolling as Medicare providers, to be adjusted by inflation annually. Providers may request hardship exemptions where applicable. Amounts collected would cover the costs of conducting required provider screening and related program integrity efforts.

*CMS: Medicare Billing Agent Enrollment Application Fee.* The Budget proposes to establish an enrollment and registration process for clearinghouses and billing agents who act on behalf of Medicare providers and suppliers, introducing an application fee to be consistent with program integrity safeguards in place for institutional and individual providers.

*CMS: Medicare Provider Fee for Ordering Services or Supplies without Proper Documentation.* Improperly documented items and services account for the majority of Medicare fee-for-service improper payments. The Budget proposes a fee for physicians and practitioners when items or services ordered are not supported by sufficient documentation. Amounts collected would cover the costs of conducting medical claim reviews.

*CMS: Refundable Filing Fee for Medicare Parts A & B Appeals.* The Budget proposes a refundable filing fee on providers, suppliers, and State Medicaid Agencies to pay a per claim filing fee beginning at the first level of appeals. The fee will be assessed at each level of appeal and reflect 30 percent of the applicable administrative costs associated with adjudicating claims. If an appellant's appeal receives a favorable determination, the fee will be refunded. The fee will not apply to beneficiary appeals and will be phased in over a three-year period.

## Department of Homeland Security

*Customs and Border Protection (CBP): COBRA and Express Consignment Courier Facilities fees.* The Budget proposes 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 900 new CBP officers.

*CBP: Increase immigration inspection user fee (IUF) and lift IUF fee limitation.* The Budget proposes 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 commercial vessel passengers whose trips originate in Canada, Mexico, 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 U.S. Specifically, the fees collected support immigration inspections, personnel, the maintenance and updating of systems to track criminal and illegal aliens in areas with high apprehensions, asylum hearings, and the repair and maintenance of equipment. 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 proposes 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 currently 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 1,400 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.

**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 2016–2019. The fee would be \$7.50 per one-way trip beginning in 2019 and would generate \$5.4 billion in mandatory receipts over the 10-year budget window, which would be deposited in the general fund for deficit reduction.

### Department of the Interior

**Federal oil and gas management reforms.** The Budget includes a package of legislative reforms to bolster and backstop administrative actions being taken to reform the management of DOI's onshore and offshore oil and gas programs, with a key focus on improving the return to taxpayers from the sale of these Federal resources. Proposed statutory and administrative changes fall into three general categories: (1) advancing royalty reforms, (2) encouraging diligent development of oil and gas leases, and (3) improving revenue collection processes. Royalty reforms include: establishing minimum royalty rates for oil, gas, and similar products; increasing the standard onshore oil and gas royalty rate; piloting a price-based sliding scale royalty rate; and repealing legislatively-mandated royalty relief for “deep gas” wells. Diligent development requirements include shorter primary lease terms, stricter enforcement of lease terms, and monetary incentives to move leases into production (e.g., a new statutory per-acre fee on nonproducing leases). Revenue collection improvements include simplification of the royalty valuation process, elimination of interest accruals on company overpayments of royalties, and permanent repeal of DOI's authority to accept in-kind royalty payments. Collectively, these reforms will generate roughly \$2.5 billion in net 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.

### Executive Office of the President (EOP)

**Spectrum Relocation Fund flexibility.** The Spectrum Relocation Fund (SRF) was created by the Commercial Spectrum Enhancement Act of 2004 (CSEA) to compensate Federal agencies for the costs of relocating operations from spectrum bands repurposed for commercial use via auction. The Office of Management and Budget in consultation with the Department of Commerce's National Telecommunications and Information Administration administers the SRF and determines the appropriate payment to agencies. The Middle Class Tax Relief and Job Creation Act of 2012 amended the CSEA to enable the SRF to make payments for additional types of expenses, such as those associated with pre-auction costs and spectrum sharing arrangements, as long as those payments could enhance the value of future spectrum auctions and met other criteria spelled out in the CSEA. The Administration proposes expanding eligible uses of the SRF by amending or eliminating certain existing restrictions to facilitate more efficient spectrum usage and telecommunications investment by Federal agencies, as well as make more Federal spectrum available for commercial applications such as mobile broadband. The proposal is expected to enable productive use of an additional \$500 million in balances from prior auctions in the SRF for high return-on-investment activities that are conservatively expected to increase the value of future auctions or sharing arrangements of Federal spectrum by \$1.5 billion. In addition to generating \$1 billion in net deficit reduction for taxpayers, the proposal will also support the President's goal of making available an additional 500 megahertz of spectrum for commercial use by 2020.

### 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 FCC would be authorized to set charges for unauctioned spectrum licenses based on spectrum-management principles. Fees would be phased in over time as part of an ongoing rulemaking process to determine the appropriate application and level for fees.

**Auction domestic satellite service spectrum licenses.** The FCC would be allowed to assign licenses for certain satellite services that are predominantly domestic through competitive bidding, as had been done before a 2005 court decision called the practice into question on technical grounds. The proposal is expected to raise \$50 million

from 2016–2025. These receipts would be deposited in the general fund for deficit reduction.

*Auction or assign via fee 1675-1680 megahertz.* The Budget proposes that the FCC 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 2016. Before 2016, 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.

##### Corps of Engineers—Civil Works

*Reform inland waterways funding.* The Administration proposes 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 on diesel fuel used in inland waterways commerce, which the Congress recently increased to 29 cents per gallon, will not produce the revenue needed to cover the required 50 percent of these costs.

**Table 13–4. USER CHARGE PROPOSALS IN THE 2016 BUDGET<sup>1</sup>**  
 (Estimated collections in millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
<b>OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS</b>													
<b>DISCRETIONARY:</b>													
<i>Offsetting collections</i>													
<b>Department of Agriculture</b>													
Forest Service: Grazing administrative processing fee .....	15	15	15	15	15	.....	.....	.....	.....	.....	.....	60	60
<b>Department of Commerce</b>													
National Oceanic and Atmospheric Administration permitting fee ....	*	*	*	*	*	*	*	*	*	*	*	*	1
<b>Department of Health and Human Services</b>													
Food and Drug Administration (FDA): Food facilities registration, inspection, and import fees .....	163	166	169	171	173	177	180	184	187	191	842	1,761	
FDA: International courier fees .....	6	6	6	6	6	6	7	7	7	7	30	64	
FDA: Cosmetic facility registration fees .....	20	20	21	21	21	22	22	23	23	23	103	216	
FDA: Food contact substances notification fee .....	5	5	5	5	5	5	6	6	6	6	25	54	
FDA: Export certification user fee cap increase .....	4	4	4	4	4	4	4	5	5	5	20	43	
Health Resources and Services Administration: 340B Pharmacy Affairs fee .....	8	8	8	8	8	8	8	8	8	8	40	80	
Centers for Medicare and Medicaid Services: Survey and certification revisit fee .....	*	5	10	10	20	25	25	25	25	25	45	170	
<b>Department of Homeland Security</b>													
Transportation Security Administration (TSA): Aviation passenger security fee increase .....	395	595	708	709	711	713	735	754	773	2,407	6,093		
TSA: Aviation security infrastructure fee .....	420	420	420	420	420	420	420	420	420	420	1,680	3,780	
<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 .....	17	17	17	.....	.....	.....	.....	.....	.....	.....	51	51	
Fish and Wildlife Service: Non-toxic shot review and approval fees ....	*	*	*	*	*	*	*	*	*	*	*	*	
<b>Department of Justice</b>													
Antitrust Division: Increase Hart-Scott-Rodino fees .....	64	65	67	68	69	71	72	73	75	264	624		
<b>Department of State</b>													
Western Hemisphere Travel Initiative surcharge extension .....	316	.....	.....	.....	.....	.....	.....	.....	.....	316	316		
Border Crossing Card fee increase .....	17	17	17	17	17	17	17	17	17	17	85	170	
<b>Commodity Futures Trading Commission (CFTC)</b>													
CFTC fee .....	328	335	338	341	348	355	362	369	377	1,342	3,153		
<b>Consumer Product Safety Commission</b>													
Import surveillance user fee .....	19	36	36	36	36	36	36	36	36	36	127	307	
<b>Federal Trade Commission</b>													
Increase Hart-Scott-Rodino fees .....	64	65	67	68	69	71	72	73	75	264	624		
<i>Offsetting receipts</i>													
<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 .....	663	1,645	1,880	1,985	1,988	2,011	2,029	2,066	2,097	2,132	8,161	18,496	
<b>MANDATORY:</b>													
<i>Offsetting collections</i>													
<b>Department of Agriculture</b>													
Biobased labeling fee .....	1	1	1	1	1	1	1	1	1	1	5	10	
Rural Housing Service: Guaranteed Underwriting System fee .....	.....	.....	4	4	4	4	4	4	4	4	12	32	

**Table 13-4. USER CHARGE PROPOSALS IN THE 2016 BUDGET<sup>1</sup>—Continued**  
 (Estimated collections in millions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
<b>Department of Labor</b>													
Pension Benefit Guaranty Corporation: Premium increases .....	.....	-179	-179	1,194	1,460	1,823	2,139	2,589	3,025	3,402	3,731	4,119	19,005
Foreign Labor Certification fees .....	.....	38	78	81	85	88	92	96	100	104	109	370	871
<b>Environmental Protection Agency</b>													
Confidential Business Information management fee .....	.....	.....	2	4	4	4	4	4	4	4	4	14	34
<i>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 .....	.....	30	30	30	30	30	30	30	30	30	30	150	300
Animal and Plant Health Inspection Service: Inspection and licensing charges .....	.....	20	27	27	28	29	30	31	32	33	34	131	291
Natural Resource Conservation Service user fee .....	.....	4	4	4	4	4	4	4	4	4	4	16	36
<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 .....	.....	.....	.....	2,090	5,790	7,870	9,450	11,350	13,600	16,260	7,880	66,410	
CMS: Medicare Part B premium surcharge .....	.....	.....	.....	90	220	370	530	710	910	1,140	310	310	3,970
CMS: Allow collection of application fees from individual providers .....	.....	9	9	9	9	10	10	10	10	10	10	46	96
CMS: Establish registration process for clearinghouses and billing agents .....	.....	14	15	16	17	18	19	20	21	22	23	80	186
CMS: Medicare provider fee for ordering services or supplies without proper documentation .....	.....	*	*	*	*	*	*	*	*	*	*	*	*
CMS: Medicare appeals refundable filing fee .....	.....	9	86	131	131	131	136	141	146	146	151	488	1,208
<b>Department of Homeland Security</b>													
Customs and Border Protection: COBRA fee .....	.....	130	180	187	193	198	203	207	212	216	.....	888	1,726
CBP: Express Consignment Courier Facilities fee .....	.....	8	11	12	12	12	13	13	13	14	.....	55	108
CBP: Increase immigration inspection user fee (IUF) and lift IUF limitation .....	.....	214	296	307	314	322	329	337	345	353	361	1,453	3,178
TSA: Aviation passenger security fee increase .....	.....	195	200	350	600	625	650	675	680	690	700	1,970	5,365
<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 .....	.....	5	6	10	12	3	.....	.....	.....	.....	.....	36	36
<b>Environmental Protection Agency</b>													
Pre-manufacture notice fee .....	.....	4	8	8	8	8	8	8	8	8	8	36	76
<b>Executive Office of the President</b>													
Spectrum Relocation Fund flexibility .....	.....	.....	125	175	200	250	250	250	200	50	.....	750	1,500
<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 .....	.....	150	150	.....	.....	.....	.....	.....	.....	.....	.....	300	300
Subtotal, mandatory user charge proposals .....	.....	777	1,504	3,268	6,020	10,327	12,938	15,191	17,706	20,428	23,420	21,896	111,579
Subtotal, user charge proposals that are offsetting collections and offsetting receipts .....	.....	1,440	3,149	5,148	8,005	12,315	14,949	17,220	19,772	22,525	25,552	30,057	130,075
<b>GOVERNMENTAL RECEIPTS</b>													
<b>Department of Energy</b>													
Reauthorize special assessment on domestic nuclear facilities .....	.....	204	208	213	218	223	228	233	238	244	249	1,066	2,258
<b>Corps of Engineers - Civil Works</b>													
Reform inland waterways funding .....	.....	113	113	113	113	113	113	113	113	113	113	565	1,130
Subtotal, governmental receipts user charge proposals .....	.....	317	321	326	331	336	341	346	351	357	362	1,631	3,388
<b>Total, user charge proposals</b> .....	.....	1,757	3,470	5,474	8,336	12,651	15,290	17,566	20,123	22,882	25,914	31,688	133,463

\* \$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 document 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 document 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 2014–2024 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 1992.

### TAX EXPENDITURES IN THE INCOME TAX

#### Tax Expenditure Estimates

All tax expenditure estimates presented here are based upon current tax law enacted as of July 1, 2014. In some cases, expired or repealed provisions are listed if their revenue effects occur in fiscal year 2014 or later. The estimates do not include the effects of the Tax Increase Prevention Act of 2014 which was enacted in December 2014. The estimates are based on the economic assumptions from the Mid-Session Review of the 2015 Budget.

The total revenue effects for tax expenditures for fiscal years 2014–2024 are displayed according to the Budget’s functional categories in Table 1. Descriptions of the specific tax expenditure provisions follow the discussion of general features of the tax expenditure concept.

Two baseline concepts—the normal tax baseline and the reference tax law baseline—are used to identify and estimate tax expenditures.<sup>1</sup> For the most part, the two concepts coincide. However, items treated as tax expenditures under the normal tax baseline, but not the reference tax law baseline, are indicated by the designation “normal tax method” in the tables. The revenue effects for these items are zero using the reference tax rules. The alternative baseline concepts are discussed in detail below.

Tables 2A and 2B report separately the respective portions of the total revenue effects that arise under the individual and corporate income taxes. 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 3 ranks the major tax expenditures by the size of their 2015–2024 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 1, 2A, and 2B, as well as to the descriptions below.

#### Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 1 through 3 do not necessarily equal the increase in Federal revenues (or the change in the budget balance) that would result from repealing these special provisions, for the following reasons.

First, eliminating a tax expenditure may have incentive effects that alter economic behavior. These incentives can affect the resulting magnitudes of the activity or of other tax provisions or Government programs. For example, if capital gains were taxed at ordinary rates, capital gain realizations would be expected to decline, resulting in lower tax receipts. Such behavioral effects are not reflected in the estimates.

<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.

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 1 are the totals of individual and corporate income tax revenue effects reported in Tables 2A and 2B, and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 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 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 over time, 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 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 2014 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2014 would cause a deferral of tax payments on wages in 2014 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2014 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.

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.
- Tax rates on noncorporate business income vary by level of income.
- Individual tax rates, including brackets, standard deduction, and personal exemptions, are allowed to vary with marital status.
- Values of assets and debt are not generally adjusted for inflation. A comprehensive income tax would adjust the cost basis of capital assets and debt for changes in the general price level. Thus, under a comprehensive income tax baseline, the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure (i.e., a tax penalty), and failure to take account of inflation in measuring

interest costs would be regarded as a positive tax expenditure (i.e., a tax subsidy).

Although the reference law and normal tax baselines are generally similar, areas of difference include:

**Tax rates.** The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The normal tax baseline is similar, except that, by convention, it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first \$10 million of corporate income are thus regarded as a tax expenditure under the normal tax. By convention, the Alternative Minimum Tax is treated as part of the baseline rate structure under both the reference and normal tax methods.

**Income subject to the tax.** Income subject to tax is defined as gross income less the costs of earning that income. Under the reference tax rules, gross income does not include gifts defined as receipts of money or property that are not consideration in an exchange nor does gross income include most transfer payments from the Government.<sup>2</sup> The normal tax baseline also excludes gifts between individuals from gross income. Under the normal tax baseline, however, all cash transfer payments from the Government to private individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining taxable income under both the reference and normal tax baselines.<sup>3</sup>

**Capital recovery.** Under the reference tax law baseline no tax expenditures arise from accelerated depreciation. Under the normal tax baseline, the depreciation allowance for property is computed using estimates of economic depreciation.

**Treatment of foreign income.** Both the normal and reference tax baselines allow a tax credit for foreign income taxes paid (up to the amount of U.S. income taxes that would otherwise be due), which prevents double taxation of income earned abroad. Under the normal tax method, however, controlled foreign corporations (CFCs) are not regarded as entities separate from their controlling U.S. shareholders. Thus, the deferral of tax on income received by CFCs is regarded as a tax expenditure under this method. In contrast, except for tax haven activities, the reference law baseline follows current law in treating CFCs as separate taxable entities whose income is not subject to U.S. tax until distributed to U.S. taxpayers.

<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.

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 document follow. These descriptions relate to current law as of July 1, 2014.

### National Defense

**1. Exclusion of 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. Exclusion of income earned abroad by U.S. citizens.**—Under the baseline tax system, all compensation received by U.S. citizens and residents 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 and residents 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 (\$99,200 in 2014), in foreign earned income from U.S. taxes. In addition, if these taxpayers are provided housing by their employers, then they may also exclude the cost of such housing from their income to the extent that it exceeds 16 percent of the earned income exclusion limit. This housing exclusion is capped at 30 percent of the earned income exclusion limit, with geographical adjustments. 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 and residents 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.

**Table 14-1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024**  
 (In millions of dollars; based on assumptions from the Mid-Session Review of the 2015 Budget)

	Total from corporations and individuals											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–24
<b>National Defense:</b>												
1 Exclusion of benefits and allowances to armed forces personnel .....	12,960	13,570	14,110	13,060	13,190	13,640	14,200	14,820	15,480	16,190	16,950	145,210
<b>International affairs:</b>												
2 Exclusion of income earned abroad by U.S. citizens .....	5,700	5,990	6,280	6,600	6,930	7,280	7,640	8,020	8,420	8,840	9,290	75,290
3 Exclusion of certain allowances for Federal employees abroad .....	1,180	1,240	1,300	1,370	1,430	1,510	1,580	1,660	1,740	1,830	1,920	15,580
4 Inventory property sales source rules exception .....	3,650	3,960	4,290	4,660	5,050	5,470	5,930	6,430	6,960	7,550	8,180	58,480
5 Deferral of income from controlled foreign corporations (normal tax method) .....	61,710	64,560	67,780	71,170	74,730	78,470	82,390	86,510	90,840	95,380	100,150	811,980
6 Deferred taxes for financial firms on certain income earned overseas .....	4,250	0	0	0	0	0	0	0	0	0	0	0
<b>General science, space, and technology:</b>												
7 Expensing of research and experimentation expenditures (normal tax method) .....	7,060	7,110	7,040	7,320	7,360	7,420	7,510	7,610	7,800	8,040	8,340	75,550
8 Credit for increasing research activities ....	6,020	3,620	3,090	2,630	2,230	1,880	1,580	1,330	1,110	920	770	19,160
<b>Energy:</b>												
9 Expensing of exploration and development costs, fuels .....	240	290	450	510	530	610	690	720	760	810	850	6,220
10 Excess of percentage over cost depletion, fuels .....	660	790	910	1,050	1,200	1,350	1,450	1,510	1,640	1,790	1,940	13,630
11 Alternative fuel production credit .....	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	10	10	10	10	10	10	10	10	10	10	100
13 Capital gains treatment of royalties on coal .....	100	110	120	130	130	140	140	150	150	160	170	1,400
14 Exclusion of interest on energy facility bonds .....	20	20	30	30	30	30	30	40	40	40	40	330
15 Energy production credit <sup>1</sup> .....	2,240	2,570	2,540	2,380	2,250	2,140	1,920	1,610	1,300	950	490	18,150
16 Energy investment credit <sup>1</sup> .....	1,870	1,490	1,320	1,040	290	-20	-60	-10	30	50	50	4,180
17 Alcohol fuel credits <sup>2</sup> .....	0	0	0	0	0	0	0	0	0	0	0	0
18 Bio-Diesel and small agri-biodiesel producer tax credits <sup>3</sup> .....	80	30	20	10	0	0	0	0	0	0	0	60
19 Tax credits for clean-fuel burning vehicles and refueling property .....	430	580	740	720	810	790	470	240	170	170	180	4,870
20 Exclusion of utility conservation subsidies..	410	430	450	470	490	520	540	570	590	620	650	5,330
21 Credit for holding clean renewable energy bonds <sup>4</sup> .....	70	70	70	70	70	70	70	70	70	70	70	700
22 Deferral of gain from dispositions of transmission property to implement FERC restructuring policy .....	-70	-230	-210	-180	-150	-130	-90	-30	0	0	0	-1,020
23 Credit for investment in clean coal facilities .....	200	180	110	100	190	190	90	0	-20	-10	-10	820
24 Temporary 50% expensing for equipment used in the refining of liquid fuels .....	-880	-1,600	-1,320	-1,100	-910	-740	-590	-450	-290	-140	170	-6,970
25 Natural gas distribution pipelines treated as 15-year property .....	170	170	170	180	190	190	180	130	40	-70	-200	980
26 Amortize all geological and geophysical expenditures over 2 years .....	80	100	120	120	120	120	110	110	110	110	110	1,130
27 Allowance of deduction for certain energy efficient commercial building property ..	50	20	0	0	-20	-20	-20	-20	-20	-20	-20	-120
28 Credit for construction of new energy efficient homes .....	140	60	20	0	0	0	0	0	0	0	0	80
29 Credit for energy efficiency improvements to existing homes .....	380	0	0	0	0	0	0	0	0	0	0	0
30 Credit for energy efficient appliances .....	150	120	110	40	0	0	0	0	0	0	0	270
31 Credit for residential energy efficient property .....	1,040	1,140	1,120	650	250	50	0	0	0	0	0	3,210

**Table 14-1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars; based on assumptions from the Mid-Session Review of the 2015 Budget)

	Total from corporations and individuals											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–24
32 Qualified energy conservation bonds <sup>5</sup> .....	30	30	30	30	30	30	30	30	30	30	30	300
33 Advanced energy property credit .....	100	60	0	-30	-30	-20	-10	0	0	0	0	-30
34 Advanced nuclear power production credit	0	80	220	440	630	690	690	690	610	470	5,210	
<b>Natural resources and environment:</b>												
35 Expensing of exploration and development costs, nonfuel minerals .....	80	80	80	80	80	80	80	80	90	90	90	830
36 Excess of percentage over cost depletion, nonfuel minerals .....	590	610	620	640	650	650	670	680	690	700	710	6,620
37 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	460	490	560	620	680	740	790	840	920	980	1,050	7,670
38 Capital gains treatment of certain timber income .....	100	110	120	130	130	140	140	150	150	160	170	1,400
39 Expensing of multiperiod timber growing costs .....	320	350	360	380	400	400	430	440	440	440	450	4,090
40 Tax incentives for preservation of historic structures .....	580	600	610	620	630	640	660	680	690	700	710	6,540
41 Industrial CO <sub>2</sub> capture and sequestration tax credit .....	80	80	110	150	100	20	0	0	0	0	0	460
42 Deduction for endangered species recovery expenditures .....	20	20	30	30	30	30	40	50	50	50	50	380
<b>Agriculture:</b>												
43 Expensing of certain capital outlays .....	230	220	210	230	240	250	270	280	290	310	330	2,630
44 Expensing of certain multiperiod production costs .....	350	350	370	390	410	440	460	490	520	550	590	4,570
45 Treatment of loans forgiven for solvent farmers .....	40	40	40	40	40	40	40	40	40	40	40	400
46 Capital gains treatment of certain income..	1,020	1,140	1,250	1,310	1,330	1,360	1,410	1,460	1,520	1,590	1,660	14,030
47 Income averaging for farmers .....	130	130	140	140	140	140	140	140	140	140	140	1,390
48 Deferral of gain on sale of farm refiners ....	20	20	20	20	20	20	30	30	30	30	30	250
49 Expensing of reforestation expenditures ...	70	80	90	90	100	100	100	110	120	120	130	1,040
<b>Commerce and housing:</b>												
Financial institutions and insurance:												
50 Exemption of credit union income .....	1,580	1,760	2,170	2,240	2,320	2,430	2,520	2,780	2,930	2,970	3,270	25,390
51 Exclusion of interest on life insurance savings .....	13,370	13,100	17,730	22,430	26,910	30,760	34,450	38,460	42,000	44,730	46,850	317,420
52 Special alternative tax on small property and casualty insurance companies .....	10	10	10	20	20	20	20	20	20	20	20	180
53 Tax exemption of certain insurance companies owned by tax-exempt organizations .....	660	690	730	750	790	820	880	910	940	960	990	8,460
54 Small life insurance company deduction ....	30	30	40	40	40	40	40	50	50	50	50	430
55 Exclusion of interest spread of financial institutions .....	1,710	2,540	2,720	2,920	3,120	3,310	3,500	3,700	3,900	4,090	4,260	34,060
Housing:												
56 Exclusion of interest on owner- occupied mortgage subsidy bonds .....	1,260	1,340	1,530	1,720	1,850	2,020	2,150	2,300	2,510	2,700	2,870	20,990
57 Exclusion of interest on rental housing bonds .....	1,030	1,100	1,240	1,400	1,510	1,640	1,750	1,880	2,040	2,200	2,330	17,090
58 Mortgage interest expense on owner- occupied residences .....	66,910	69,480	75,260	83,100	92,170	101,730	111,190	120,440	129,540	138,390	147,610	1,068,910
59 Deduction for property taxes on real property .....	31,590	33,120	35,520	38,190	40,980	43,830	46,730	49,550	52,400	55,340	58,450	454,110
60 Deferral of income from installment sales ..	1,530	1,660	1,770	1,850	1,890	1,940	2,010	2,090	2,170	2,260	2,360	20,000
61 Capital gains exclusion on home sales .....	35,540	36,930	39,560	42,380	45,390	48,630	52,090	55,800	59,770	64,030	68,580	513,160
62 Exclusion of net imputed rental income .....	75,240	78,810	82,420	86,800	90,570	93,610	96,220	100,340	104,630	109,120	113,800	956,320
63 Exception from passive loss rules for \$25,000 of rental loss .....	7,220	8,330	8,820	9,340	9,860	10,370	10,840	11,260	11,650	12,050	12,500	105,020
64 Credit for low-income housing investments .....	8,120	7,980	7,890	8,190	8,460	8,710	8,920	9,110	9,320	9,580	9,860	88,020
65 Accelerated depreciation on rental housing (normal tax method) .....	1,050	1,080	1,330	1,770	2,230	2,760	3,330	3,990	4,690	5,290	5,880	32,350

**Table 14–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars; based on assumptions from the Mid-Session Review of the 2015 Budget)

**Table 14–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars; based on assumptions from the Mid-Session Review of the 2015 Budget)

**Table 14-1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars; based on assumptions from the Mid-Session Review of the 2015 Budget)

		Total from corporations and individuals											
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–24
139	Distributions from retirement plans for premiums for health and long-term care insurance .....	360	400	440	460	480	500	520	540	560	580	600	5,080
<b>Income security:</b>													
140	Exclusion of railroad retirement system benefits .....	320	320	320	320	320	320	320	310	310	310	310	3,160
141	Exclusion of workers' compensation benefits .....	9,890	9,990	10,090	10,190	10,290	10,390	10,490	10,600	10,710	10,810	10,920	104,480
142	Exclusion of public assistance benefits (normal tax method) .....	610	640	660	710	760	750	760	790	810	860	830	7,570
143	Exclusion of special benefits for disabled coal miners .....	30	30	30	20	20	20	10	10	10	10	10	170
144	Exclusion of military disability pensions .....	140	140	140	140	150	150	150	150	160	160	160	1,500
Net exclusion of pension contributions and earnings:													
145	Defined benefit employer plans .....	42,780	44,640	46,260	48,040	49,100	50,780	55,840	66,620	77,960	86,490	95,320	621,050
146	Defined contribution employer plans .....	62,530	68,040	73,910	74,670	79,380	81,190	92,750	101,870	108,470	114,770	122,340	917,390
147	Individual Retirement Accounts .....	16,580	17,240	18,270	19,230	20,240	21,200	21,930	23,320	25,100	26,210	27,010	219,750
148	Low and moderate income savers credit .....	1,230	1,240	1,290	1,270	1,280	1,290	1,310	1,320	1,320	1,350	1,340	13,010
149	Self-Employed plans .....	23,240	25,480	28,020	30,780	33,740	37,000	40,450	43,990	47,850	52,040	56,600	395,950
Exclusion of other employee benefits:													
150	Premiums on group term life insurance .....	2,200	2,320	2,420	2,520	2,630	2,740	2,840	2,960	3,070	3,190	3,310	28,000
151	Premiums on accident and disability insurance .....	310	310	320	320	330	330	330	340	340	340	350	3,310
152	Income of trusts to finance supplementary unemployment benefits .....	20	30	40	40	50	60	60	70	80	80	90	600
153	Special ESOP rules .....	1,730	1,810	1,910	2,000	2,090	2,200	2,300	2,420	2,540	2,660	2,780	22,710
154	Additional deduction for the blind .....	30	30	30	40	40	40	40	50	50	50	50	420
155	Additional deduction for the elderly .....	2,520	2,730	2,930	3,210	3,450	3,700	3,980	4,160	4,430	4,770	5,080	38,440
156	Tax credit for the elderly and disabled .....	10	10	10	10	10	10	10	0	0	0	0	60
157	Deductibility of casualty losses .....	330	340	360	380	390	410	430	440	460	470	480	4,160
158	Earned income tax credit <sup>16</sup> .....	3,660	5,030	5,090	4,300	3,110	1,830	1,910	2,030	2,120	2,220	2,330	29,970
<b>Social Security:</b>													
Exclusion of social security benefits:													
159	Social Security benefits for retired workers..	26,200	27,080	28,300	29,850	31,110	32,390	33,640	34,490	35,330	36,090	36,580	324,860
160	Social Security benefits for disabled workers .....	8,050	8,310	8,580	8,660	8,620	8,660	8,780	8,940	9,160	9,390	9,690	88,790
161	Social Security benefits for spouses, dependents and survivors .....	4,330	4,390	4,530	4,710	4,840	5,020	5,200	5,360	5,530	5,700	5,850	51,130
<b>Veterans benefits and services:</b>													
162	Exclusion of veterans death benefits and disability compensation .....	5,720	6,380	6,860	7,200	7,530	7,830	8,160	8,490	8,830	9,170	9,510	79,960
163	Exclusion of veterans pensions .....	420	460	480	510	530	550	570	590	610	630	650	5,580
164	Exclusion of GI bill benefits .....	1,460	1,580	1,700	1,840	1,980	2,130	2,280	2,450	2,620	2,810	3,010	22,400
165	Exclusion of interest on veterans housing bonds .....	10	10	10	10	10	20	10	10	30	30	30	170
<b>General purpose fiscal assistance:</b>													
166	Exclusion of interest on public purpose State and local bonds .....	29,090	31,070	35,190	39,690	42,820	46,810	49,710	53,270	57,990	62,390	66,170	485,110
167	Build America Bonds <sup>17</sup> .....	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 .....	45,720	47,490	51,180	55,300	59,490	63,620	67,910	72,140	76,540	81,120	85,490	660,280
<b>Interest:</b>													
169	Deferral of interest on U.S. savings bonds ..	1,030	1,020	1,010	1,000	990	980	970	960	950	940	930	9,750

**Table 14-1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars; based on assumptions from the Mid-Session Review of the 2015 Budget)

	Total from corporations and individuals											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–24
<b>Addendum: Aid to State and local governments:</b>												
Deductibility of:												
Property taxes on owner-occupied homes ..	31,590	33,120	35,520	38,190	40,980	43,830	46,730	49,550	52,400	55,340	58,450	454,110
Nonbusiness State and local taxes other than on owner-occupied homes .....	45,720	47,490	51,180	55,300	59,490	63,620	67,910	72,140	76,540	81,120	85,490	660,280
Exclusion of interest on State and local bonds for:												
Public purposes .....	29,090	31,070	35,190	39,690	42,820	46,810	49,710	53,270	57,990	62,390	66,170	485,110
Energy facilities .....	20	20	30	30	30	30	30	40	40	40	40	330
Water, sewage, and hazardous waste disposal facilities .....	460	490	560	620	680	740	790	840	920	980	1,050	7,670
Small-issues .....	170	180	210	230	250	270	290	310	340	370	390	2,840
Owner-occupied mortgage subsidies .....	1,260	1,340	1,530	1,720	1,850	2,020	2,150	2,300	2,510	2,700	2,870	20,990
Rental housing .....	1,030	1,100	1,240	1,400	1,510	1,640	1,750	1,880	2,040	2,200	2,330	17,090
Airports, docks, and similar facilities .....	760	820	920	1,030	1,120	1,220	1,300	1,390	1,520	1,630	1,730	12,680
Student loans .....	510	550	620	700	750	830	880	950	1,030	1,100	1,170	8,580
Private nonprofit educational facilities .....	2,300	2,450	2,780	3,130	3,380	3,700	3,930	4,200	4,580	4,920	5,230	38,300
Hospital construction .....	3,500	3,730	4,230	4,770	5,150	5,630	5,980	6,410	6,970	7,500	7,960	58,330
Veterans' housing .....	10	10	10	10	10	20	10	10	30	30	30	170

<sup>1</sup> Firms can take 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: 2014 \$3,164; 2015 \$2,218; 2016 \$1,210; 2017 \$605.

<sup>2</sup> The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2014 \$370.

<sup>3</sup> In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2014 \$1,830.

<sup>4</sup> In addition, the provision has outlay effects of (in millions of dollars): 2014 \$30; 2015 \$30; 2016 \$30; 2017 \$30; 2018 \$30; 2019 \$30; 2020 \$30; 2021 \$30; 2022 \$30; 2023 \$30; 2024 \$30.

<sup>5</sup> In addition, the provision has outlay effects of (in millions of dollars): 2014 \$30; 2015 \$30; 2016 \$30; 2017 \$30; 2018 \$30; 2019 \$30; 2020 \$30; 2021 \$30; 2022 \$30; 2023 \$30; 2024 \$30.

<sup>6</sup> In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2014 \$210; 2015 \$220; 2016 \$220; 2017 \$220; 2018 \$220; 2019 \$220; 2020 \$220; 2021 \$220; 2022 \$220; 2023 \$220; 2024 \$220.

<sup>7</sup> In addition, the provision has outlay effects of (in millions of dollars): 2014 \$4,310; 2015 \$5,990; 2016 \$6,010; 2017 \$5,870; 2018 \$5,740; 2019 \$3,000.

<sup>8</sup> In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2014 \$50; 2015 \$50; 2016 \$50; 2017 \$50; 2018 \$50; 2019 \$50; 2020 \$50; 2021 \$50; 2022 \$50; 2023 \$50; 2024 \$50.

<sup>9</sup> In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2014 \$690; 2015 \$740; 2016 \$740; 2017 \$740; 2018 \$740; 2019 \$740; 2020 \$740; 2021 \$740; 2022 \$740; 2023 \$740; 2024 \$740.

<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: 2014 \$60; 2015 \$30.

<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: 2014 \$22,570; 2015 \$22,600; 2016 \$22,230; 2017 \$21,900; 2018 \$21,770; 2019 \$15,670; 2020 \$15,720; 2021 \$15,620; 2022 \$15,730; 2023 \$15,740; 2024 \$15,750.

<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: 2014 \$121,600; 2015 \$127,590; 2016 \$131,580; 2017 \$136,520; 2018 \$141,580; 2019 \$148,830; 2020 \$157,850; 2021 \$167,070; 2022 \$175,960; 2023 \$185,030; 2024 \$194,390.

<sup>13</sup> In addition, under the assumptions from the Mid-Session Review of the 2015 Budget, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 \$11,980; 2015 \$31,510; 2016 \$45,750; 2017 \$62,150; 2018 \$86,420; 2019 \$103,460; 2020 \$111,240; 2021 \$117,380; 2022 \$123,440; 2023 \$129,750; 2024 \$134,500.

The Budget Appendix includes estimates of the revenue and outlay impacts of premiums assistance under the assumptions of the FY 2016 Budget.

<sup>14</sup> In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2014 \$90; 2015 \$80; 2016 \$80; 2017 \$70; 2018 \$70; 2019 \$50; 2020 \$50; 2021 \$30; 2022 \$30; 2023 \$20; 2024 \$20.

<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: 2014 \$30; 2015 \$10; 2016 \$10.

<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: 2014 \$60,810; 2015 \$58,050; 2016 \$58,710; 2017 \$60,400; 2018 \$62,220; 2019 \$61,530; 2020 \$62,770; 2021 \$64,050; 2022 \$65,520; 2023 \$66,990; 2024 \$68,530.

<sup>17</sup> In addition, Build America Bonds have outlay effects of (in millions of dollars): 2014 \$3,710; 2015 \$3,800; 2016 \$3,800; 2017 \$3,800; 2018 \$3,800; 2019 \$3,800; 2020 \$3,800; 2021 \$3,800; 2022 \$3,800; 2023 \$3,800; 2024 \$3,800.

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. In general, provisions with estimates that rounded to zero in each year are not included in the table.

**Table 14-2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

**Table 14-2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

**Table 14-2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

**Table 14-2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

	Total from corporations											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–24
90 Exemption of certain mutuals' and cooperatives' income .....	120	120	120	130	130	130	140	140	140	140	150	1,340
91 Empowerment zones .....	40	20	10	10	10	10	10	0	0	0	0	70
92 New markets tax credit .....	990	1,020	1,030	940	730	510	360	200	40	-70	-130	4,630
93 Expensing of environmental remediation costs .....	-160	-150	-140	-130	-130	-130	-120	-120	-110	-110	-110	-1,250
94 Credit to holders of Gulf Tax Credit Bonds .....	60	70	90	110	110	110	110	110	120	130	140	1,100
95 Recovery Zone Bonds .....	30	40	50	60	60	60	60	60	60	70	70	590
96 Tribal Economic Development Bonds ....	10	10	20	20	20	20	20	20	20	20	20	190
<b>Education, training, employment, and social services:</b>												
Education:												
97 Exclusion of scholarship and fellowship income (normal tax method) .....	0	0	0	0	0	0	0	0	0	0	0	0
98 HOPE tax credit .....	0	0	0	0	0	0	0	0	0	0	0	0
99 Lifetime Learning tax credit .....	0	0	0	0	0	0	0	0	0	0	0	0
100 American Opportunity Tax Credit .....	0	0	0	0	0	0	0	0	0	0	0	0
101 Education Individual Retirement Accounts .....	0	0	0	0	0	0	0	0	0	0	0	0
102 Deductibility of student-loan interest .....	0	0	0	0	0	0	0	0	0	0	0	0
103 Deduction for higher education expenses .....	0	0	0	0	0	0	0	0	0	0	0	0
104 Qualified tuition programs .....	0	0	0	0	0	0	0	0	0	0	0	0
105 Exclusion of interest on student-loan bonds .....	140	160	200	240	240	250	240	250	270	290	310	2,450
106 Exclusion of interest on bonds for private nonprofit educational facilities .....	640	710	910	1,070	1,090	1,130	1,080	1,090	1,210	1,310	1,380	10,980
107 Credit for holders of zone academy bonds .....	180	160	130	120	110	100	100	90	90	80	80	1,060
108 Exclusion of interest on savings bonds redeemed to finance educational expenses .....	0	0	0	0	0	0	0	0	0	0	0	0
109 Parental personal exemption for students age 19 or over .....	0	0	0	0	0	0	0	0	0	0	0	0
110 Deductibility of charitable contributions (education) .....	760	810	860	900	940	980	1,030	1,070	1,120	1,170	1,220	10,100
111 Exclusion of employer-provided educational assistance .....	0	0	0	0	0	0	0	0	0	0	0	0
112 Special deduction for teacher expenses .....	0	0	0	0	0	0	0	0	0	0	0	0
113 Discharge of student loan indebtedness .....	0	0	0	0	0	0	0	0	0	0	0	0
114 Qualified school construction bonds .....	0	0	160	160	160	160	160	160	160	160	160	1,440
Training, employment, and social services:												
115 Work opportunity tax credit .....	660	330	170	130	100	70	50	40	30	20	20	960
116 Employer provided child care exclusion..	0	0	0	0	0	0	0	0	0	0	0	0
117 Employer-provided child care credit .....	10	10	10	10	10	10	10	10	10	10	10	100
118 Assistance for adopted foster children ...	0	0	0	0	0	0	0	0	0	0	0	0
119 Adoption credit and exclusion .....	0	0	0	0	0	0	0	0	0	0	0	0
120 Exclusion of employee meals and lodging (other than military) .....	0	0	0	0	0	0	0	0	0	0	0	0
121 Child credit .....	0	0	0	0	0	0	0	0	0	0	0	0
122 Credit for child and dependent care expenses .....	0	0	0	0	0	0	0	0	0	0	0	0
123 Credit for disabled access expenditures .....	10	10	10	10	20	20	20	20	20	20	20	170
124 Deductibility of charitable contributions, other than education and health .....	1,630	1,710	1,800	1,890	1,970	2,060	2,150	2,250	2,340	2,450	2,550	21,170

**Table 14-2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

**Table 14-2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

	Total from corporations											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–24
<b>Social Security:</b>												
159 Exclusion of social security benefits: Social Security benefits for retired workers .....	0	0	0	0	0	0	0	0	0	0	0	0
160 Social Security benefits for disabled workers .....	0	0	0	0	0	0	0	0	0	0	0	0
161 Social Security benefits for spouses, dependents and survivors .....	0	0	0	0	0	0	0	0	0	0	0	0
<b>Veterans benefits and services:</b>												
162 Exclusion of veterans death benefits and disability compensation .....	0	0	0	0	0	0	0	0	0	0	0	0
163 Exclusion of veterans pensions .....	0	0	0	0	0	0	0	0	0	0	0	0
164 Exclusion of GI bill benefits .....	0	0	0	0	0	0	0	0	0	0	0	0
165 Exclusion of interest on veterans housing bonds .....	0	0	0	0	0	10	0	0	10	10	10	40
<b>General purpose fiscal assistance:</b>												
166 Exclusion of interest on public purpose State and local bonds .....	8,130	9,000	11,470	13,570	13,830	14,330	13,690	13,850	15,300	16,640	17,490	139,170
167 Build America Bonds .....	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 .....	0	0	0	0	0	0	0	0	0	0	0	0
<b>Interest:</b>												
169 Deferral of interest on U.S. savings bonds .....	0	0	0	0	0	0	0	0	0	0	0	0
<b>Addendum: Aid to State and local governments:</b>												
Deductibility of:												
Property taxes on owner-occupied homes .....	0	0	0	0	0	0	0	0	0	0	0	0
Nonbusiness State and local taxes other than on owner-occupied homes .....	0	0	0	0	0	0	0	0	0	0	0	0
Exclusion of interest on State and local bonds for:												
Public purposes .....	8,130	9,000	11,470	13,570	13,830	14,330	13,690	13,850	15,300	16,640	17,490	139,170
Energy facilities .....	10	10	10	10	10	10	10	10	10	10	10	100
Water, sewage, and hazardous waste disposal facilities .....	130	140	180	210	220	230	220	220	240	260	280	2,200
Small-issues .....	50	50	70	80	80	80	80	80	90	100	100	810
Owner-occupied mortgage subsidies ....	350	390	500	590	600	620	590	600	660	720	760	6,030
Rental housing .....	290	320	400	480	490	500	480	490	540	590	620	4,910
Airports, docks, and similar facilities ....	210	240	300	350	360	370	360	360	400	430	460	3,630
Student loans .....	140	160	200	240	240	250	240	250	270	290	310	2,450
Private nonprofit educational facilities ...	640	710	910	1,070	1,090	1,130	1,080	1,090	1,210	1,310	1,380	10,980
Hospital construction .....	980	1,080	1,380	1,630	1,660	1,720	1,650	1,670	1,840	2,000	2,100	16,730
Veterans' housing .....	0	0	0	0	0	10	0	0	10	10	10	40

See Table 1 footnotes for specific table information

**Table 14-2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

**Table 14–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

	Total from individuals											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–24
31 Credit for residential energy efficient property .....	1,040	1,140	1,120	650	250	50	0	0	0	0	0	3,210
32 Qualified energy conservation bonds .....	20	20	20	20	20	20	20	20	20	20	20	200
33 Advanced energy property credit .....	10	10	0	0	0	0	0	0	0	0	0	10
34 Advanced nuclear power production credit .....	0	0	0	0	0	0	0	0	0	0	0	0
35 Expensing of exploration and development costs, nonfuel minerals .....	70	70	70	70	70	70	70	70	80	80	80	730
36 Excess of percentage over cost depletion, nonfuel minerals .....	40	40	40	40	40	40	50	50	50	50	50	450
37 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities .....	330	350	380	410	460	510	570	620	680	720	770	5,470
38 Capital gains treatment of certain timber income .....	100	110	120	130	130	140	140	150	150	160	170	1,400
39 Expensing of multiperiod timber growing costs .....	130	130	130	140	150	150	160	160	160	160	160	1,500
40 Tax incentives for preservation of historic structures .....	80	90	90	90	90	90	100	100	100	100	100	950
41 Industrial CO <sub>2</sub> capture and sequestration tax credit .....	0	0	0	0	0	0	0	0	0	0	0	0
42 Deduction for endangered species recovery expenditures .....	10	10	20	20	20	20	20	30	30	30	30	230
43 Expensing of certain capital outlays ....	220	210	200	210	220	230	250	260	270	290	300	2,440
44 Expensing of certain multiperiod production costs .....	330	330	350	360	380	410	430	450	480	510	540	4,240
45 Treatment of loans forgiven for solvent farmers .....	40	40	40	40	40	40	40	40	40	40	40	400
46 Capital gains treatment of certain income .....	1,020	1,140	1,250	1,310	1,330	1,360	1,410	1,460	1,520	1,590	1,660	14,030
47 Income averaging for farmers .....	130	130	140	140	140	140	140	140	140	140	140	1,390
48 Deferral of gain on sale of farm refiners .....	0	0	0	0	0	0	0	0	0	0	0	0
49 Expensing of reforestation expenditures .....	50	60	60	60	70	70	70	80	80	80	90	720
Financial institutions and insurance:												
50 Exemption of credit union income ....	0	0	0	0	0	0	0	0	0	0	0	0
51 Exclusion of interest on life insurance savings .....	10,350	8,940	12,490	16,120	19,610	22,770	25,710	28,930	31,790	34,000	35,690	236,050
52 Special alternative tax on small property and casualty insurance companies .....	0	0	0	0	0	0	0	0	0	0	0	0
53 Tax exemption of certain insurance companies owned by tax-exempt organizations .....	0	0	0	0	0	0	0	0	0	0	0	0
54 Small life insurance company deduction .....	0	0	0	0	0	0	0	0	0	0	0	0
55 Exclusion of interest spread of financial institutions .....	1,710	2,540	2,720	2,920	3,120	3,310	3,500	3,700	3,900	4,090	4,260	34,060
Housing:												
56 Exclusion of interest on owner-occupied mortgage subsidy bonds .....	910	950	1,030	1,130	1,250	1,400	1,560	1,700	1,850	1,980	2,110	14,960
57 Exclusion of interest on rental housing bonds .....	740	780	840	920	1,020	1,140	1,270	1,390	1,500	1,610	1,710	12,180
58 Mortgage interest expense on owner-occupied residences .....	66,910	69,480	75,260	83,100	92,170	101,730	111,190	120,440	129,540	138,390	147,610	1,068,910
59 Deduction for property taxes on real property .....	31,590	33,120	35,520	38,190	40,980	43,830	46,730	49,550	52,400	55,340	58,450	454,110
60 Deferral of income from installment sales .....	1,530	1,660	1,770	1,850	1,890	1,940	2,010	2,090	2,170	2,260	2,360	20,000
61 Capital gains exclusion on home sales .....	35,540	36,930	39,560	42,380	45,390	48,630	52,090	55,800	59,770	64,030	68,580	513,160

**Table 14–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

	Total from individuals											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–24
62	Exclusion of net imputed rental income .....	75,240	78,810	82,420	86,800	90,570	93,610	96,220	100,340	104,630	109,120	113,800
63	Exception from passive loss rules for \$25,000 of rental loss .....	7,220	8,330	8,820	9,340	9,860	10,370	10,840	11,260	11,650	12,050	12,500
64	Credit for low-income housing investments .....	410	400	390	410	420	440	450	460	470	480	490
65	Accelerated depreciation on rental housing (normal tax method) .....	880	890	1,100	1,450	1,840	2,280	2,730	3,280	3,860	4,370	4,860
66	Discharge of mortgage indebtedness .....	3,100	0	0	0	0	0	0	0	0	0	0
	Housing:											
67	Discharge of business indebtedness .....	-80	-110	-80	-40	-30	-20	-10	20	40	50	-130
68	Exceptions from imputed interest rules .....	40	40	50	60	60	60	70	70	70	70	620
69	Treatment of qualified dividends .....	26,920	26,320	26,810	27,770	28,940	30,170	31,510	32,920	34,410	35,950	37,590
70	Capital gains (except agriculture, timber, iron ore, and coal) .....	76,140	85,360	93,030	97,560	99,340	101,750	105,060	109,090	113,640	118,560	123,750
71	Capital gains exclusion of small corporation stock .....	140	220	380	530	680	780	720	600	520	460	400
72	Step-up basis of capital gains at death .....	60,370	63,440	66,670	70,070	73,630	77,380	81,320	85,460	89,810	94,380	99,180
73	Carryover basis of capital gains on gifts .....	7,360	7,750	7,420	6,810	6,290	5,840	5,480	5,180	4,960	4,810	4,740
74	Ordinary income treatment of loss from small business corporation stock sale .....	50	50	50	50	50	50	50	50	50	50	500
75	Accelerated depreciation of buildings other than rental housing (normal tax method) .....	-4,770	-4,700	-4,670	-4,790	-4,970	-5,240	-5,570	-5,900	-6,230	-6,560	-6,960
76	Accelerated depreciation of machinery and equipment (normal tax method) .....	-1,250	-1,840	3,700	7,520	10,320	12,460	14,030	15,160	15,930	16,650	18,060
77	Expensing of certain small investments (normal tax method) .....	-850	-1,630	-570	120	590	880	1,080	1,290	1,480	1,640	1,760
78	Graduated corporation income tax rate (normal tax method) .....	0	0	0	0	0	0	0	0	0	0	0
79	Exclusion of interest on small issue bonds .....	120	130	140	150	170	190	210	230	250	270	290
80	Deduction for US production activities .....	2,980	3,110	3,280	3,440	3,600	3,760	3,930	4,110	4,280	4,470	4,670
81	Special rules for certain film and TV production .....	30	20	10	10	0	0	0	0	0	0	40
82	Tonnage tax .....	0	0	0	0	0	0	0	0	0	0	0
83	Deferral of tax on shipping companies .....	0	0	0	0	0	0	0	0	0	0	0
84	Exclusion of reimbursed employee parking expenses .....	2,690	2,800	2,910	3,040	3,140	3,220	3,330	3,450	3,540	3,680	3,800
85	Exclusion for employer-provided transit passes .....	710	720	770	820	870	910	970	1,020	1,080	1,150	1,220
86	Tax credit for certain expenditures for maintaining railroad tracks .....	20	0	0	0	0	0	0	0	0	0	0
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities .....	170	170	160	150	140	130	130	120	120	110	110
88	Investment credit for rehabilitation of structures (other than historic) .....	20	20	20	20	20	20	20	20	20	20	200
89	Exclusion of interest for airport, dock, and similar bonds .....	550	580	620	680	760	850	940	1,030	1,120	1,200	1,270
90	Exemption of certain mutuals' and cooperatives' income .....	0	0	0	0	0	0	0	0	0	0	0
91	Empowerment zones .....	50	20	20	10	10	20	10	10	10	10	130
92	New markets tax credit .....	20	20	20	20	20	10	10	10	0	0	110
93	Expensing of environmental remediation costs .....	-30	-30	-30	-30	-30	-30	-20	-20	-20	-20	-250

**Table 14–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

		Total from individuals											
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–24
94	Credit to holders of Gulf Tax Credit Bonds .....	160	170	180	200	230	250	280	310	330	360	380	2,690
95	Recovery Zone Bonds .....	90	90	100	110	120	140	150	170	180	190	210	1,460
96	Tribal Economic Development Bonds .....	30	30	30	30	40	40	50	50	60	60	60	450
Education:													
97	Exclusion of scholarship and fellowship income (normal tax method) .....	2,980	3,090	3,200	3,310	3,420	3,550	3,670	3,800	3,940	4,080	4,230	36,290
98	HOPE tax credit .....	0	0	0	0	780	7,860	8,270	8,350	8,450	8,770	8,810	51,290
99	Lifetime Learning tax credit .....	2,240	2,430	2,460	2,480	2,730	4,660	4,740	4,790	4,840	4,850	4,870	38,850
100	American Opportunity Tax Credit .....	15,710	15,660	15,690	15,760	14,100	0	0	0	0	0	0	61,210
101	Education Individual Retirement Accounts .....	60	60	70	70	80	80	90	100	110	110	120	890
102	Deductibility of student-loan interest..	1,730	1,770	1,760	1,760	1,750	1,790	1,790	1,780	1,810	1,810	1,790	17,810
103	Deduction for higher education expenses .....	400	0	0	0	0	0	0	0	0	0	0	0
104	Qualified tuition programs .....	1,820	1,950	2,100	2,270	2,430	2,620	2,820	3,040	3,280	3,540	3,820	27,870
105	Exclusion of interest on student-loan bonds .....	370	390	420	460	510	580	640	700	760	810	860	6,130
106	Exclusion of interest on bonds for private nonprofit educational facilities .....	1,660	1,740	1,870	2,060	2,290	2,570	2,850	3,110	3,370	3,610	3,850	27,320
107	Credit for holders of zone academy bonds .....	0	0	0	0	0	0	0	0	0	0	0	0
108	Exclusion of interest on savings bonds redeemed to finance educational expenses .....	20	30	30	30	30	30	30	40	40	40	40	340
109	Parental personal exemption for students age 19 or over .....	4,390	4,460	4,540	4,640	4,690	4,770	4,860	4,990	5,110	5,210	5,360	48,630
110	Deductibility of charitable contributions (education) .....	4,080	4,310	4,620	4,990	5,390	5,780	6,140	6,500	6,850	7,190	7,530	59,300
111	Exclusion of employer-provided educational assistance .....	750	800	840	890	930	980	1,030	1,090	1,140	1,200	1,260	10,160
112	Special deduction for teacher expenses .....	130	0	0	0	0	0	0	0	0	0	0	0
113	Discharge of student loan indebtedness .....	90	90	90	100	100	100	100	100	110	110	110	1,010
114	Qualified school construction bonds ..	490	490	490	490	490	490	490	490	490	490	490	4,900
Training, employment, and social services:													
115	Work opportunity tax credit .....	290	180	100	70	50	40	30	20	20	10	10	530
116	Employer provided child care exclusion .....	890	940	1,000	1,060	1,130	1,210	1,280	1,340	1,420	1,500	1,620	12,500
117	Employer-provided child care credit ..	0	0	0	0	0	0	0	0	0	0	0	0
118	Assistance for adopted foster children .....	530	560	590	620	660	700	740	790	840	890	940	7,330
119	Adoption credit and exclusion .....	260	340	310	310	360	350	390	400	400	400	410	3,670
120	Exclusion of employee meals and lodging (other than military) .....	2,590	4,370	4,490	4,620	4,770	4,910	5,050	5,190	5,330	5,470	5,610	49,810
121	Child credit .....	23,800	23,900	24,070	24,160	24,230	24,300	24,010	23,670	23,210	22,780	22,050	236,380
122	Credit for child and dependent care expenses .....	4,420	4,510	4,590	4,690	4,780	4,840	4,950	5,070	5,180	5,280	5,400	49,290
123	Credit for disabled access expenditures .....	20	20	20	20	20	20	20	20	20	20	20	200
124	Deductibility of charitable contributions, other than education and health .....	40,280	42,570	45,580	49,280	53,250	57,040	60,660	64,180	67,640	71,010	74,370	585,580
125	Exclusion of certain foster care payments .....	380	390	380	370	370	360	350	350	340	330	320	3,560
126	Exclusion of parsonage allowances ..	700	740	780	820	860	910	960	1,010	1,060	1,120	1,180	9,440
127	Indian employment credit .....	20	20	20	10	10	10	10	10	10	0	0	100

**Table 14–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

	Total from individuals												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-24	
128	Exclusion of employer contributions for medical insurance premiums and medical care .....	195,050	206,430	216,080	226,860	236,640	250,420	267,950	285,890	305,610	327,230	350,670	2,673,780
129	Self-employed medical insurance premiums .....	6,380	6,660	6,970	7,270	7,600	7,930	8,270	8,650	9,150	9,650	9,380	81,530
130	Medical Savings Accounts / Health Savings Accounts .....	4,010	4,770	5,660	6,720	7,950	9,440	11,240	13,370	15,900	18,900	22,540	116,490
131	Deductibility of medical expenses ....	6,810	7,080	7,660	7,700	8,090	9,080	10,530	12,300	14,250	16,720	19,700	113,110
132	Exclusion of interest on hospital construction bonds .....	2,520	2,650	2,850	3,140	3,490	3,910	4,330	4,740	5,130	5,500	5,860	41,600
133	Refundable Premium Assistance Tax Credit .....	0	-1,780	-3,070	-3,920	-5,650	-7,920	-8,850	-9,410	-10,030	-10,310	-10,770	-71,710
134	Credit for employee health insurance expenses of small business .....	360	460	460	410	360	270	230	140	130	80	80	2,620
135	Deductibility of charitable contributions (health) .....	4,520	4,780	5,110	5,530	5,970	6,400	6,800	7,200	7,590	7,960	8,340	65,680
136	Tax credit for orphan drug research ..	0	0	0	0	0	0	0	0	0	0	0	0
137	Special Blue Cross/Blue Shield deduction .....	0	0	0	0	0	0	0	0	0	0	0	0
138	Tax credit for health insurance purchased by certain displaced and retired individuals .....	0	0	0	0	0	0	0	0	0	0	0	0
139	Distributions from retirement plans for premiums for health and long-term care insurance .....	360	400	440	460	480	500	520	540	560	580	600	5,080
<b>Income security:</b>													
140	Exclusion of railroad retirement system benefits .....	320	320	320	320	320	320	320	310	310	310	310	3,160
141	Exclusion of workers' compensation benefits .....	9,890	9,990	10,090	10,190	10,290	10,390	10,490	10,600	10,710	10,810	10,920	104,480
142	Exclusion of public assistance benefits (normal tax method) .....	610	640	660	710	760	750	760	790	810	860	830	7,570
143	Exclusion of special benefits for disabled coal miners .....	30	30	30	20	20	20	10	10	10	10	10	170
144	Exclusion of military disability pensions .....	140	140	140	140	150	150	150	150	160	160	160	1,500
	Net exclusion of pension contributions and earnings:												
145	Defined benefit employer plans .....	42,780	44,640	46,260	48,040	49,100	50,780	55,840	66,620	77,960	86,490	95,320	621,050
146	Defined contribution employer plans..	62,530	68,040	73,910	74,670	79,380	81,190	92,750	101,870	108,470	114,770	122,340	917,390
147	Individual Retirement Accounts .....	16,580	17,240	18,270	19,230	20,240	21,200	21,930	23,320	25,100	26,210	27,010	219,750
148	Low and moderate income savers credit .....	1,230	1,240	1,290	1,270	1,280	1,290	1,310	1,320	1,320	1,350	1,340	13,010
149	Self-Employed plans .....	23,240	25,480	28,020	30,780	33,740	37,000	40,450	43,990	47,850	52,040	56,600	395,950
<b>Exclusion of other employee benefits:</b>													
150	Premiums on group term life insurance .....	2,200	2,320	2,420	2,520	2,630	2,740	2,840	2,960	3,070	3,190	3,310	28,000
151	Premiums on accident and disability insurance .....	310	310	320	320	330	330	330	340	340	340	350	3,310
152	Income of trusts to finance supplementary unemployment benefits .....	20	30	40	40	50	60	60	70	80	80	90	600
153	Special ESOP rules .....	100	100	110	110	110	120	120	130	130	130	130	1,190
154	Additional deduction for the blind .....	30	30	30	40	40	40	40	50	50	50	50	420
155	Additional deduction for the elderly ...	2,520	2,730	2,930	3,210	3,450	3,700	3,980	4,160	4,430	4,770	5,080	38,440
156	Tax credit for the elderly and disabled .....	10	10	10	10	10	10	10	0	0	0	0	60
157	Deductibility of casualty losses .....	330	340	360	380	390	410	430	440	460	470	480	4,160
158	Earned income tax credit .....	3,660	5,030	5,090	4,300	3,110	1,830	1,910	2,030	2,120	2,220	2,330	29,970
<b>Exclusion of social security benefits:</b>													
159	Social Security benefits for retired workers .....	26,200	27,080	28,300	29,850	31,110	32,390	33,640	34,490	35,330	36,090	36,580	324,860

**Table 14–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2014–2024—Continued**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

		Total from individuals											
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–24
160	Social Security benefits for disabled workers .....	8,050	8,310	8,580	8,660	8,620	8,660	8,780	8,940	9,160	9,390	9,690	88,790
161	Social Security benefits for spouses, dependents and survivors .....	4,330	4,390	4,530	4,710	4,840	5,020	5,200	5,360	5,530	5,700	5,850	51,130
162	Exclusion of veterans death benefits and disability compensation .....	5,720	6,380	6,860	7,200	7,530	7,830	8,160	8,490	8,830	9,170	9,510	79,960
163	Exclusion of veterans pensions .....	420	460	480	510	530	550	570	590	610	630	650	5,580
164	Exclusion of GI bill benefits .....	1,460	1,580	1,700	1,840	1,980	2,130	2,280	2,450	2,620	2,810	3,010	22,400
165	Exclusion of interest on veterans housing bonds .....	10	10	10	10	10	10	10	10	20	20	20	130
166	Exclusion of interest on public purpose State and local bonds ....	20,960	22,070	23,720	26,120	28,990	32,480	36,020	39,420	42,690	45,750	48,680	345,940
167	Build America Bonds .....	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 .....	45,720	47,490	51,180	55,300	59,490	63,620	67,910	72,140	76,540	81,120	85,490	660,280
<b>Interest:</b>													
169	Deferral of interest on U.S. savings bonds .....	1,030	1,020	1,010	1,000	990	980	970	960	950	940	930	9,750
Deductibility of:													
Property taxes on owner-occupied homes .....													
		31,590	33,120	35,520	38,190	40,980	43,830	46,730	49,550	52,400	55,340	58,450	454,110
Nonbusiness State and local taxes other than on owner-occupied homes .....													
		45,720	47,490	51,180	55,300	59,490	63,620	67,910	72,140	76,540	81,120	85,490	660,280
Exclusion of interest on State and local bonds for:													
Public purposes .....													
		20,960	22,070	23,720	26,120	28,990	32,480	36,020	39,420	42,690	45,750	48,680	345,940
Energy facilities .....													
		10	10	20	20	20	20	20	30	30	30	30	230
Water, sewage, and hazardous waste disposal facilities .....													
		330	350	380	410	460	510	570	620	680	720	770	5,470
Small-issues .....													
		120	130	140	150	170	190	210	230	250	270	290	2,030
Owner-occupied mortgage subsidies .....													
		910	950	1,030	1,130	1,250	1,400	1,560	1,700	1,850	1,980	2,110	14,960
Rental housing .....													
		740	780	840	920	1,020	1,140	1,270	1,390	1,500	1,610	1,710	12,180
Airports, docks, and similar facilities .....													
		550	580	620	680	760	850	940	1,030	1,120	1,200	1,270	9,050
Student loans .....													
		370	390	420	460	510	580	640	700	760	810	860	6,130
Private nonprofit educational facilities .....													
		1,660	1,740	1,870	2,060	2,290	2,570	2,850	3,110	3,370	3,610	3,850	27,320
Hospital construction .....													
		2,520	2,650	2,850	3,140	3,490	3,910	4,330	4,740	5,130	5,500	5,860	41,600
Veterans' housing .....													
		10	10	10	10	10	10	10	10	20	20	20	130

See Table 1 footnotes for specific table information

**Table 14–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2015–2024 PROJECTED REVENUE EFFECT**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

	Provision	2015	2016	2015–24
128	Exclusion of employer contributions for medical insurance premiums and medical care .....	206,430	216,080	2,673,780
58	Mortgage interest expense on owner-occupied residences .....	69,480	75,260	1,068,910
70	Capital gains (except agriculture, timber, iron ore, and coal) .....	85,360	93,030	1,047,140
62	Exclusion of net imputed rental income .....	78,810	82,420	956,320
146	Defined contribution employer plans .....	68,040	73,910	917,390
5	Deferral of income from controlled foreign corporations (normal tax method) .....	64,560	67,780	811,980
72	Step-up basis of capital gains at death .....	63,440	66,670	801,340
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes .....	47,490	51,180	660,280
145	Defined benefit employer plans .....	44,640	46,260	621,050
124	Deductibility of charitable contributions, other than education and health .....	44,280	47,380	606,750
61	Capital gains exclusion on home sales .....	36,930	39,560	513,160
166	Exclusion of interest on public purpose State and local bonds .....	31,070	35,190	485,110
59	Deduction for property taxes on real property .....	33,120	35,520	454,110
51	Exclusion of interest on life insurance savings .....	13,100	17,730	317,420
149	Self-Employed plans .....	25,480	28,020	395,950
159	Social Security benefits for retired workers .....	27,080	28,300	324,860
69	Treatment of qualified dividends .....	26,320	26,810	312,390
76	Accelerated depreciation of machinery and equipment (normal tax method) .....	-12,260	4,770	306,810
121	Child credit .....	23,900	24,070	236,380
147	Individual Retirement Accounts .....	17,240	18,270	219,750
80	Deduction for US production activities .....	14,500	15,230	178,740
1	Exclusion of benefits and allowances to armed forces personnel .....	13,570	14,110	145,210
130	Medical Savings Accounts / Health Savings Accounts .....	4,770	5,660	116,490
131	Deductibility of medical expenses .....	7,080	7,660	113,110
63	Exception from passive loss rules for \$25,000 of rental loss .....	8,330	8,820	105,020
141	Exclusion of workers' compensation benefits .....	9,990	10,090	104,480
160	Social Security benefits for disabled workers .....	8,310	8,580	88,790
64	Credit for low-income housing investments .....	7,980	7,890	88,020
129	Self-employed medical insurance premiums .....	6,660	6,970	81,530
162	Exclusion of veterans death benefits and disability compensation .....	6,380	6,860	79,960
7	Expensing of research and experimentation expenditures (normal tax method) .....	7,110	7,040	75,550
2	Exclusion of income earned abroad by U.S. citizens .....	5,990	6,280	75,290
110	Deductibility of charitable contributions (education) .....	5,120	5,480	69,400
135	Deductibility of charitable contributions (health) .....	5,010	5,350	68,530
100	Lifetime Learning tax credit .....	15,660	15,690	61,210
73	Carryover basis of capital gains on gifts .....	7,750	7,420	59,280
4	Inventory property sales source rules exception .....	3,960	4,290	58,480
132	Exclusion of interest on hospital construction bonds .....	3,730	4,230	58,330
98	HOPE tax credit .....	0	0	51,290
161	Social Security benefits for spouses, dependents and survivors .....	4,390	4,530	51,130
120	Exclusion of employee meals and lodging (other than military) .....	4,370	4,490	49,810
122	Credit for child and dependent care expenses .....	4,510	4,590	49,290
109	Parental personal exemption for students age 19 or over .....	4,460	4,540	48,630
136	Tax credit for orphan drug research .....	1,450	1,750	38,870
99	Lifetime Learning tax credit .....	2,430	2,460	38,850
155	Additional deduction for the elderly .....	2,730	2,930	38,440
78	Graduated corporation income tax rate (normal tax method) .....	3,890	3,860	38,300
106	Exclusion of interest on bonds for private nonprofit educational facilities .....	2,450	2,780	38,300
97	Exclusion of scholarship and fellowship income (normal tax method) .....	3,090	3,200	36,290
55	Exclusion of interest spread of financial institutions .....	2,540	2,720	34,060
65	Accelerated depreciation on rental housing (normal tax method) .....	1,080	1,330	32,350
158	Earned income tax credit .....	5,030	5,090	29,970
150	Premiums on group term life insurance .....	2,320	2,420	28,000
104	Qualified Tuition Programs .....	1,950	2,100	27,870
50	Exemption of credit union income .....	1,760	2,170	25,390
153	Special ESOP rules .....	1,810	1,910	22,710
164	Exclusion of GI bill benefits .....	1,580	1,700	22,400

**Table 14-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2015–2024 PROJECTED REVENUE EFFECT—Continued**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

	Provision	2015	2016	2015–24
56	Exclusion of interest on owner-occupied mortgage subsidy bonds .....	1,340	1,530	20,990
60	Deferral of income from installment sales .....	1,660	1,770	20,000
8	Credit for increasing research activities .....	3,620	3,090	19,160
15	New technology credit .....	2,570	2,540	18,150
102	Deductibility of student-loan interest .....	1,770	1,760	17,810
57	Exclusion of interest on rental housing bonds .....	1,100	1,240	17,090
3	Exclusion of certain allowances for Federal employees abroad .....	1,240	1,300	15,580
84	Exclusion of reimbursed employee parking expenses .....	2,800	2,910	32,910
46	Capital gains treatment of certain income .....	1,140	1,250	14,030
10	Excess of percentage over cost depletion, fuels .....	790	910	13,630
148	Low and moderate income savers credit .....	1,240	1,290	13,010
89	Exclusion of interest for airport, dock, and similar bonds .....	820	920	12,680
116	Employer provided child care exclusion .....	940	1,000	12,500
111	Exclusion of employer-provided educational assistance .....	800	840	10,160
169	Deferral of interest on U.S. savings bonds .....	1,020	1,010	9,750
85	Exclusion for employer-provided transit passes .....	720	770	9,530
126	Exclusion of parsonage allowances .....	740	780	9,440
105	Exclusion of interest on student-loan bonds .....	550	620	8,580
53	Tax exemption of certain insurance companies owned by tax-exempt organizations .....	690	730	8,460
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities .....	490	560	7,670
142	Exclusion of public assistance benefits (normal tax method) .....	640	660	7,570
118	Assistance for adopted foster children .....	560	590	7,330
77	Expensing of certain small investments (normal tax method) .....	-1,980	-740	7,280
36	Excess of percentage over cost depletion, nonfuel minerals .....	610	620	6,620
40	Tax incentives for preservation of historic structures .....	600	610	6,540
114	Qualified school construction bonds .....	490	650	6,340
9	Expensing of exploration and development costs, fuels .....	290	450	6,220
163	Exclusion of veterans pensions .....	460	480	5,580
20	Exclusion of utility conservation subsidies .....	430	450	5,330
71	Capital gains exclusion of small corporation stock .....	220	380	5,290
34	Advanced nuclear power production credit .....	80	220	5,210
139	Distributions from retirement plans for premiums for health and long-term care insurance .....	400	440	5,080
19	Tax credits for clean-fuel burning vehicles .....	580	740	4,870
92	New markets tax credit .....	1,040	1,050	4,740
44	Expensing of certain multiperiod production costs .....	350	370	4,570
16	Energy investment credit .....	1,490	1,320	4,180
157	Deductibility of casualty losses .....	340	360	4,160
39	Expensing of multiperiod timber growing costs .....	350	360	4,090
94	Credit to holders of Gulf Tax Credit Bonds .....	240	270	3,790
134	Credit for employee health insurance expenses of small business .....	630	630	3,700
119	Adoption credit and exclusion .....	340	310	3,670
125	Exclusion of certain foster care payments .....	390	380	3,560
137	Special Blue Cross/Blue Shield deduction .....	280	380	3,550
151	Premiums on accident and disability insurance .....	310	320	3,310
31	30% credit for residential purchases/installations of solar and fuel cells .....	1,140	1,120	3,210
140	Exclusion of railroad retirement system benefits .....	320	320	3,160
79	Exclusion of interest on small issue bonds .....	180	210	2,840
43	Expensing of certain capital outlays .....	220	210	2,630
95	Recovery Zone Bonds .....	130	150	2,050
87	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities .....	220	210	1,760
144	Exclusion of military disability pensions .....	140	140	1,500
115	Work opportunity tax credit .....	510	270	1,490
38	Capital gains treatment of certain timber income .....	110	120	1,400
13	Capital gains treatment of royalties on coal .....	110	120	1,400
47	Income averaging for farmers .....	130	140	1,390
90	Exemption of certain mutuals' and cooperatives' income .....	120	120	1,340
26	Amortize all geological and geophysical expenditures over 2 years .....	100	120	1,130

**Table 14-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2015–2024 PROJECTED REVENUE EFFECT—Continued**  
 (In millions of dollars, based on assumptions from the Mid-Session Review of the 2015 Budget.)

	Provision	2015	2016	2015–24
107	Credit for holders of zone academy bonds .....	160	130	1,060
49	Expensing of reforestation expenditures .....	80	90	1,040
113	Discharge of student loan indebtedness .....	90	90	1,010
25	Natural gas distribution pipelines treated as 15-year property .....	170	170	980
101	Education Individual Retirement Accounts .....	60	70	890
82	Tonnage tax .....	70	70	880
35	Expensing of exploration and development costs, nonfuel minerals .....	80	80	830
23	Credit for investment in clean coal facilities .....	180	110	820
21	Credit for holding clean renewable energy bonds .....	70	70	700
96	Tribal Economic Development Bonds .....	40	50	640
68	Exceptions from imputed interest rules .....	40	50	620
152	Income of trusts to finance supplementary unemployment benefits .....	30	40	600
74	Ordinary income treatment of loss from small business corporation stock sale .....	50	50	500
41	Industrial CO <sub>2</sub> capture and sequestration tax credit .....	80	110	460
54	Small life insurance company deduction .....	30	40	430
154	Additional deduction for the blind .....	30	30	420
45	Treatment of loans forgiven for solvent farmers .....	40	40	400
42	Deduction for endangered species recovery expenditures .....	20	30	380
123	Credit for disabled access expenditures .....	30	30	370
108	Exclusion of interest on savings bonds redeemed to finance educational expenses .....	30	30	340
14	Exclusion of interest on energy facility bonds .....	20	30	330
88	Investment credit for rehabilitation of structures (other than historic) .....	30	30	300
32	Qualified energy conservation bonds .....	30	30	300
30	Credit for energy efficient appliances .....	120	110	270
48	Deferral of gain on sale of farm refiners .....	20	20	250
91	Empowerment zones .....	40	30	200
81	Special rules for certain film and TV production .....	100	60	200
52	Special alternative tax on small property and casualty insurance companies .....	10	10	180
165	Exclusion of interest on veterans housing bonds .....	10	10	170
143	Exclusion of special benefits for disabled coal miners .....	30	30	170
127	Indian employment credit .....	30	30	130
12	Exception from passive loss limitation for working interests in oil and gas properties .....	10	10	100
117	Employer-provided child care credit .....	10	10	100
28	Credit for construction of new energy efficient homes .....	60	20	80
156	Tax credit for the elderly and disabled .....	10	10	60
18	Bio-Diesel and small agri-biodiesel producer tax credits .....	30	20	60
83	Deferral of tax on shipping companies .....	0	0	0
17	Alcohol fuel credits .....	0	0	0
167	Build America Bonds .....	0	0	0
138	Tax credit for health insurance purchased by certain displaced and retired individuals .....	0	0	0
112	Special deduction for teacher expenses .....	0	0	0
103	Deduction for higher education expenses .....	0	0	0
86	Tax credit for certain expenditures for maintaining railroad tracks .....	0	0	0
66	Discharge of mortgage indebtedness .....	0	0	0
29	Credit for energy efficiency improvements to existing homes .....	0	0	0
11	Alternative fuel production credit .....	0	0	0
6	Deferred taxes for financial firms on certain income earned overseas .....	0	0	0
33	Advanced Energy Property Credit .....	60	0	-30
27	Allowance of deduction for certain energy efficient commercial building property .....	20	0	-120
67	Discharge of business indebtedness .....	-110	-80	-130
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy .....	-230	-210	-1,020
93	Expensing of environmental remediation costs .....	-180	-170	-1,500
24	Temporary 50% expensing for equipment used in the refining of liquid fuels .....	-1,600	-1,320	-6,970
133	Refundable Premium Assistance Tax Credit .....	-1,780	-3,070	-71,710
75	Accelerated depreciation of buildings other than rental housing (normal tax method) .....	-8,480	-8,530	-102,110

**Table 14-4. PRESENT VALUE OF SELECTED TAX EXPENDITURES  
FOR ACTIVITY IN CALENDAR YEAR 2014**  
(In millions of dollars)

	Provision	2014 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method) .....	42,510
7	Expensing of research and experimentation expenditures (normal tax method) .....	2,680
9	Expensing of exploration and development costs - fuels .....	290
21	Credit for holding clean renewable energy bonds .....	0
35	Expensing of exploration and development costs - nonfuels .....	90
39	Expensing of multiperiod timber growing costs .....	100
44	Expensing of certain multiperiod production costs - agriculture .....	-40
43	Expensing of certain capital outlays - agriculture .....	-30
49	Expensing of reforestation expenditures .....	30
51	Deferral of income on life insurance and annuity contracts <sup>1</sup> .....	16,850
65	Accelerated depreciation on rental housing .....	12,720
75	Accelerated depreciation of buildings other than rental .....	-11,380
76	Accelerated depreciation of machinery and equipment .....	12,090
77	Expensing of certain small investments (normal tax method) .....	320
107	Credit for holders of zone academy bonds .....	0
64	Credit for low-income housing investments .....	5,380
104	Deferral for state prepaid tuition plans .....	3,320
145	Defined benefit employer plans .....	22,250
146	Defined contribution employer plans .....	68,990
147	Exclusion of IRA contributions and earnings .....	1,510
147	Exclusion of Roth earnings and distributions .....	4,060
147	Exclusion of non-deductible IRA earnings .....	330
149	Exclusion of contributions and earnings for Self-Employed plans .....	4,200
166	Exclusion of interest on public-purpose bonds .....	12,890
	Exclusion of interest on non-public purpose bonds .....	4,260
169	Deferral of interest on U.S. savings bonds .....	240

<sup>1</sup> The estimate represents only the impact of taxing income earned with respect to annuities.

**4. Inventory property sales source rules exception.**—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 to foreign sources than would be the case if the allocation of earnings was based on actual economic activity.

**5. Deferral of income from controlled foreign corporations (normal tax method).**—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. Deferred taxes for financial firms on certain income earned overseas.**—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, the Tax Code allowed financial firms to defer taxes on income earned overseas in an active business. This provision expired at the end of 2013.

#### General Science, Space, and Technology

**7. Expensing of research and experimentation expenditures (normal tax method).**—The baseline tax system allows a deduction for the cost of producing income. It requires taxpayers to capitalize the costs associated with investments over time to better match the streams of income and associated costs. Research and experimentation (R&E) projects can be viewed as investments because, if successful, their benefits accrue for several

years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Because of this ambiguity, the reference law baseline tax system would allow 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. Credit for increasing research activities.**—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 allowed an R&E credit of up to 20 percent of qualified research expenditures in excess of a base amount. The base amount of the credit was 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 was the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers could elect the alternative simplified credit regime, which equaled 14 percent of qualified research expenses that exceeded 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. Expensing of 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. Non-integrated oil companies may expense all such costs. 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. Excess of percentage over cost 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 economic 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 provided 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 have been placed in service by December 31, 2009.

**12. Exception from passive loss limitation for working interests in oil and gas properties.**—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 2014, 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. Exclusion of interest on 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 ex-

empt 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. Qualified facilities must have begun construction before January 1, 2014. In addition to the electricity production credit, an income tax credit is allowed for the production of refined coal for facilities placed in service before January 1, 2012. The Tax Code also provided an income tax credit for Indian coal facilities placed in service before January 1, 2009. The Indian coal facilities credit expired on December 31, 2013.

**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. A temporary credit of up to 30 percent is available for qualified property placed in service before January 1, 2017. A permanent 10 percent credit is available for qualified solar and geothermal property placed in service after this date. 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 provided an income tax credit for qualified cellulosic biofuel production which was renamed the Second generation biofuel producer credit. This provision expired on December 31, 2013.

**18. Bio-Diesel and small agri-biodiesel producer tax 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. However, the Tax Code allowed an income tax credit for bio-diesel and for bio-diesel derived from virgin sources. In lieu of the bio-diesel credit, the taxpayer could claim a refundable excise tax credit. In addition, small agri-biodiesel producers were eligible for a separate income tax credit for biodiesel production and a separate credit was 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 hydrogen vehicle refueling property, fuel cell vehicles, and plug-in electric-drive motor vehicles. Credits for two- and three-wheeled plug-in electric vehicles and non-hydrogen alternative fuel vehicle refueling property expired on December 31, 2013.

**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 for holding 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 allowed electric utilities to defer gains from the sale of their transmission assets to a FERC-approved independent transmission company. The sale of property must have been made prior to January 1, 2014.

**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. 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 provided 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. Qualified refinery property must have been placed in service before January 1, 2014.

**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 its economic life. 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, a span of time that is generally shorter than the economic life of the assets.

**27. Allowance of deduction for certain energy efficient commercial building property.**—The baseline tax system would not allow deductions in addition to normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allowed a deduction, per square foot, for certain energy efficient commercial buildings. This provision expired on December 31, 2013.

**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 allowed contractors a tax credit of \$2,000 for the construction of a qualified new energy-efficient home that had an annual level of heating and cooling energy consumption at least 50 percent below the annual consumption under the 2006 International Energy Conservation Code. The credit equaled \$1,000 in the case of a new manufactured home that met a 30 percent standard or requirements for EPA's Energy Star homes. 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 provided an investment tax credit for expenditures made on insulation, exterior windows, and doors that improved the energy efficiency of homes and met certain standards. The Tax Code also provided 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 provided tax credits for the manufacture of efficient dishwashers, clothes washers, and refrigerators. The size of the credit depended 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 partic-

ular 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 megawatts of capacity. The Treasury Department may allocate up to 6,000 megawatts of credit-eligible capacity.

## Natural Resources and Environment

**35. Expensing of 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. Excess of percentage over cost 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) 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. Exclusion of interest on bonds for water, sewage, and hazardous waste facilities.**—The baseline tax system generally would tax all income under the regu-

lar 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 2014, 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 of 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. Tax incentives for preservation of historic structures.**—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 used 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 would not allow deductions in addition to normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, 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 of 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, for soil and water conservation measures and certain other capital improvements under current law.

**44. Expensing of certain multiperiod 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. Treatment of loans forgiven for solvent farmers.**—Because loan forgiveness increases a debtors net worth 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 if the taxpayer is not insolvent. 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. Qualified farm debt that is forgiven, however, is excluded from income even when the taxpayer is solvent.

**46. Capital gains treatment of certain income.**—For individuals in 2014, 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. Exemption of credit union income.**—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. 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. Exclusion of interest on life insurance savings.**—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. Special alternative tax on small property and casualty insurance companies.**—Under the baseline tax system, corporations pay taxes on their profits 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. 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. Tax exemption of certain insurance companies owned by tax-exempt organizations.**—Under the baseline tax system, corporations pay taxes on their profits 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. 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. The baseline tax system 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. Exclusion of interest on owner-occupied mortgage subsidy 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 from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

**57. Exclusion of interest on 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 multifamily rental housing projects to be tax-exempt.

**58. Mortgage interest expense on owner-occupied residences.**—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. Deduction for property taxes on real property.**—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 real property.

**60. Deferral of income from installment sales.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates, or deferral of tax, to apply to certain types or sources of income. Dealers in real and personal property (i.e., sellers who regularly hold property for sale or resale) cannot defer taxable income from installment sales until the receipt of the loan repayment. Nondealers (i.e., sellers of real property used in their business) are required to pay interest on deferred taxes attributable to their total installment obligations in excess of \$5 million. Only properties with sales prices exceeding \$150,000 are includable in the total. The payment of a market rate of interest eliminates the benefit of the tax deferral. The tax exemption for nondealers with total installment obligations of less than \$5 million is, therefore, a tax expenditure.

**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. Exclusion of net imputed rental income.**—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. Exception from passive loss rules for \$25,000 of rental loss.**—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. Credit for low-income housing investments.**—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 on rental housing.**—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. Current law allows depreciation that is accelerated relative to economic depreciation. 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, in contrast, 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 allowed 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 applied 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 dis-

charge of 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. Exceptions from 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 received. 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, any debt associated with the sale of property worth less than \$250,000 is exempted from the general interest accounting rules. This general \$250,000 exception is not a tax expenditure under reference law but is under normal law. Current law also includes exceptions for certain property worth more than \$250,000. These are tax expenditure under reference law and normal law. These exceptions include, sales of personal residences worth more than \$250,000, and 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 2014, 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 (except agriculture, timber, iron ore, 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 2014, 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 of small corporation 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 provided an exclusion of 50 percent, applied to ordinary rates with a maximum of 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 basis of capital gains at death.**—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death. 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 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 carry-over of the donor's basis allows a continued deferral of unrealized capital gains.

**74. Ordinary income treatment of loss from small business corporation stock sale.**—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. Accelerated depreciation of buildings other than rental housing.**—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. Current law allows depreciation deductions that are accelerated relative to economic depreciation. 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, in contrast, 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. Current law allows depreciation deductions that are accelerated relative to economic depreciation. 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, in contrast 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.**—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. Exclusion of interest on small issue 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, the Tax Code allowed taxpayers to deduct up to \$15 million per production (\$20 million in certain distressed areas) in non-capital expenditures incurred during the year. This provision expired 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 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 (e.g., primarily construction, modernization and major repairs to ships, and repayment of loans to finance these investments).

**84. Exclusion of reimbursed 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 2014, the maximum amount of the parking exclusion is \$250 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities.

**85. Exclusion for employer-provided transit passes.**—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, but it 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, the Tax Code allowed eligible taxpayers to 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 expired at the end of 2013.

**87. Exclusion of interest on bonds for 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. Investment credit for 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. Exclusion of interest for airport, dock, and similar 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 certain mutuals' and cooperatives' income.**—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 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, tax credits, and write-offs faster than economic depreciation. In contrast, the Tax Code allowed qualifying businesses in designated economically depressed areas to receive tax benefits such as an employment credit, increased expensing of investment in equipment, special tax-exempt financing, and certain capital gains incentives. A taxpayer's ability to accrue new tax benefits for empowerment zones expired on December 31, 2013.

**92. New markets tax credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code allowed taxpayers who made qualified equity investments in a community development entity (CDE), which then made qualified investments in low-income communities, to be eligible for a tax credit that is received over 7 years. The total equity investment available for the credit across all CDEs was \$3.5 billion for 2013, the last year for which credit allocations could 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 useful life of the building. This insures that the net income from the buildings is measured appropriately each year. However, the Tax Code allowed taxpayers who cleaned up certain hazardous substances at a qualified site to expense the clean-up costs, even though the expenses would generally increase the value of the property significantly or appreciably prolong the life of the property. This provision expired on December 31, 2011.

**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 \$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 cer-

tain 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 on such bonds.

### Education, Training, Employment, and Social Services

**97. Exclusion of 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 (2014 levels, indexed). The credit only covers tuition and fees paid during the first two years of a student's post-secondary education. In 2014, the credit is phased out ratably for taxpayers with modified AGI between \$108,000 and \$128,000 if married filing jointly (\$54,000 and \$64,000 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 2014, the credit is phased out ratably for taxpayers with modified AGI between \$108,000 and \$128,000 if married filing jointly (\$54,000 and \$64,000 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 2014, 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 2014 is \$2,000 per beneficiary. In 2014, 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. Deductibility of 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 2014, the maximum deduction is phased down ratably for taxpayers with modified AGI between \$130,000 and \$160,000 if married filing jointly (\$65,000 and \$80,000 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 provided 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) could 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. Exclusion of interest on 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. Exclusion of interest on bonds for private nonprofit educational 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, 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, 2014.

**108. Exclusion of interest on savings bonds redeemed to finance educational expenses.**—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 \$113,950 and \$143,950 if married filing jointly (\$76,000 and \$91,000 for other taxpayers) in 2014.

**109. Parental personal exemption for students age 19 or over.**—Under the baseline tax system, a personal exemption would be allowed for the taxpayer, as well as for the taxpayer's spouse and dependents who do not claim a personal exemption on their own tax returns. To be considered a dependent, a child would have to be under age 19. In contrast, the Tax Code allows taxpayers to claim personal exemptions for children aged 19 to 23, as long as the children are full-time students and reside with the taxpayer for over half the year (with exceptions for temporary absences from home, such as for school attendance).

**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 that are similar to personal expenditures. 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. Exclusion of 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, the Tax Code allowed educators in both public and private elementary and secondary schools, who worked at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, to subtract up to \$250 of qualified expenses when determining 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 volume limit is \$22.4 billion over 2009 and 2010. As of March 2010, issuers of such bonds could opt to receive direct payment with the yield becoming fully taxable.

**115. Work opportunity tax credit (WOTC).**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who began 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. 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. In contrast, current law provides a credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. Employer deductions for such expenses are reduced by the amount of the credit. The maximum total credit is limited to \$150,000 per taxable year.

**118. Assistance for adopted foster children.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Taxpayers who adopt eligible children from the public foster care system can receive monthly payments for the children's significant and varied needs and a reimbursement of up to \$2,000 for nonrecurring adoption expenses; special needs adoptions receive the maximum benefit even if that amount is 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. In contrast, taxpayers can receive a tax credit for qualified adoption expenses under current law. 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. Exclusion of employee 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 2001, rather than from \$3,000 (unindexed); taxpayers with three or more children may continue to use the alternative calculation.

**122. Credit for 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. 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 up to \$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. Credit for disabled access expenditures.**—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. Deductibility of charitable contributions, other than education and health.**—The baseline tax system would not allow a deduction for personal expenditures including charitable contributions. 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. Exclusion of certain 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. Under current law, compensation received for this service is excluded from the gross incomes of foster parents; the expenses they incur are nondeductible.

**126. Exclusion of 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 provided employers

with a tax credit for qualified wages paid to employees who were enrolled members of Indian tribes. The amount of the credit that could be claimed was 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 could not exceed \$20,000. Employees had to live on or near the reservation where he or she worked to be eligible for the credit. Employers had to 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. Exclusion of employer contributions for medical insurance premiums and medical care.**—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 not included in employee gross income even though they are deducted as a business expense by the employee.

**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 Savings Accounts / 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 and generally would tax investment earnings. 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 2014, \$3,300 for taxpayers with individual coverage and \$6,550 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

**131. Deductibility of medical 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. Beginning in 2017, the 10-percent threshold will apply to all taxpayers, including those over 65.

**132. Exclusion of interest on 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 (1) the actual premiums paid by the taxpayer for such coverage or (2) 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 years beginning in 2010, 2011, 2012, and 2013, the maximum credit is 35 percent of premiums paid by qualified taxable em-

ployers and 25 percent of premiums paid by qualified tax-exempt organizations. For taxable years beginning in 2014 and later years, the maximum tax credit increases to 50 percent of premiums paid by qualified taxable employers and 35 percent of premiums paid by qualified tax-exempt organizations.

**135. Deductibility of charitable contributions to health institutions.**—The baseline tax system would not allow a deduction for personal expenditures including charitable contributions. 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. Tax credit for orphan drug research.**—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. Special Blue Cross/Blue Shield deduction.**—The baseline tax system generally would tax all profits under the regular tax rate schedule using broadly applicable measures of baseline income. 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 Tax Code provided a refundable tax credit of 72.5 percent for the purchase of health insurance coverage by individuals eligible for Trade Adjustment Assistance and certain Pension Benefit Guaranty Corporation pension recipients. This provision expired on December 31, 2013.

**139. Distributions from retirement plans 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. Exclusion of railroad retirement system benefits.**—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, the Social

Security Equivalent Benefit paid to railroad retirees is not generally subject to the income tax unless the recipient's gross income reaches a certain threshold under current law. See provision number 159, Social Security benefits for retired workers, for discussion of the threshold.

**141. *Exclusion of 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. *Exclusion of 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. *Exclusion of 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. *Exclusion of 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 disability pension income received by current disabled military retirees 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 addition, investment income would be taxed as earned. In contrast, under current law certain contributions to defined benefit pension plans are excluded from an employee's gross income even though employers can deduct their contributions. In addition, the tax on the investment income earned by defined benefit pension plans is deferred until the money is withdrawn.

**146. *Defined contribution employer plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. 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 2014, 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 \$52,000 in 2014 (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 addition, investment income would be taxed as earned. 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 2014 (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 includable 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 \$60,000 for joint filers, \$45,000 for head of household filers, and \$30,000 for other filers in 2014.

**149. *Self-Employed plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. 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 \$52,000 in 2014. 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. *Premiums on group term life insurance.***—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. *Premiums on accident and disability insurance.***—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 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. *Income of trusts to finance supplementary unemployment benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In addition, investment income would be taxed as earned.

Under current law, 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. Special ESOP rules.**—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 addition, investment income would be taxed as earned. 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; (4) dividends paid to ESOP-held stock are deductible by the employer; and (5) earnings are not taxed as they accrue.

**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 \$1,550 standard deduction if single, or \$1,200 if married in 2014.

**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 \$1,550 standard deduction if single, or \$1,200 if married in 2014.

**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 non-refundable 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. Deductibility of casualty losses.**—Under the baseline tax system, neither the purchase of property nor insurance premiums to protect the property's 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 \$9,720 of earned income in 2014. The credit is 40 percent of the first \$13,650 of income for a family with two qualifying children, and it is 45 percent of the first \$13,650 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 \$6,480 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 2014, the phasedown for married filers begins at incomes \$5,430 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.**—The baseline tax system would tax Social Security benefits to the extent that contributions to Social Security were not previously taxed. Thus, the portion of Social Security benefits that is attributable to employer contributions and earnings on employer and employee contributions (and not attributable to employee contributions) would be subject to tax. In contrast, the Tax Code may not tax all of the Social Security benefits that exceed the beneficiary's contributions from previously taxed income. Actuarially, previously taxed contributions generally do not exceed 15 percent of benefits, even for retirees receiving the highest levels of benefits. Up to 85 percent of recipients' Social Security and Railroad Social Security Equivalent 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 Railroad Social Security Equivalent 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. See also provision number 140, Railroad retirement benefits.

**160. Social Security benefits for disabled workers.**—Under the baseline tax system, insurance benefits

would be taxed to the extent that premiums were paid out of pre-tax income. 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 in excess of any exclusion justified by contributions made from pre-tax income.

**161. Social Security benefits for spouses, dependents and survivors.**—Under the baseline tax system, Social Security benefits would be taxed to the extent they exceed contributions out of after-tax income. Under current law, however, benefit payments from the Social Security Trust Fund for spouses, dependents and survivors are fully or partially excluded from a beneficiary's gross income.

### Veterans Benefits and Services

**162. Exclusion of 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. Exclusion of veterans pensions.**—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. Exclusion of GI 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. Exclusion of interest on veterans 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, 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.

## 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

## General Government

**166. Exclusion of interest on 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 nonbusiness State and local taxes other than on owner-occupied homes.**—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 applied 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. Deferral of interest on 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.

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. Because there is an existing public administrative and private compliance structure for the tax system, income-based programs that require little oversight might be efficiently run through the tax system. In addition, some tax expenditures actually simplify the operation of the tax system (for example, the exclusion for up to \$500,000 of capital gains on home sales). Tax expenditures also implicitly subsidize certain activities in a manner similar to direct expenditures. For example, exempting employer-sponsored health insurance from income taxation is equivalent to a direct spending subsidy equal to the forgone tax obligations for this type of compensation. Spending, regulatory or tax-disincentive policies can also modify behavior, but may have different economic effects. Finally, a variety of tax expenditure tools can be used, e.g., deductions; credits; exemptions; deferrals; floors; ceilings; phase-ins; phase-outs; and these can be dependent on income, expenses, or demographic characteristics (age, number of family members, etc.). This wide range of policy instruments means that tax expenditures can be flexible and can have very different economic effects.

Tax expenditures also have limitations. In many cases they add to the complexity of the tax system, which raises both administrative and compliance costs. For example, personal exemptions, deductions, credits, and phase-outs can complicate filing and decision-making. The income tax system may have little or no contact with persons who have no or very low incomes, and does not require information on certain characteristics of individuals used in some spending programs, such as wealth or duration of employment. These features may reduce the effectiveness of tax expenditures for addressing socioeconomic disparities. Tax expenditures also generally do not enable the same degree of agency discretion as an outlay program. For example, grant or direct Federal service delivery programs can prioritize activities to be addressed with specific resources in a way that is difficult to emulate with tax expenditures.

Outlay programs have advantages where the direct provision of government services is particularly warranted, such as equipping and maintaining the armed forces or administering the system of justice. Outlay programs may also be specifically designed to meet the needs of low-income families who would not otherwise be subject to income taxes or need to file a tax return. Outlay programs may also receive more year-to-year oversight and fine tuning through the legislative and executive budget process. In addition, many different types of spending programs include direct Government provision; credit programs; and payments to State and local governments, the private sector, or individuals in the form of grants or contracts provide flexibility for policy design. On the other hand, certain outlay programs may rely less directly on economic incentives and private-market provision than tax incentives, thereby reducing the relative efficiency

of spending programs for some goals. Finally, spending programs, particularly on the discretionary side, may respond less rapidly to changing activity levels and economic conditions than tax expenditures.

Regulations may have more direct and immediate effects than outlay and tax-expenditure programs because regulations apply directly and immediately to the regulated party (i.e., the intended actor), generally in the private sector. Regulations can also be fine-tuned more quickly than tax expenditures because they can often be changed as needed by the Executive Branch without legislation. Like tax expenditures, regulations often rely largely on voluntary compliance, rather than detailed inspections and policing. As such, the public administrative costs tend to be modest relative to the private resource costs associated with modifying activities. Historically, regulations have tended to rely on prescriptive 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, direct-

ly 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 effects on the cost of capital (the return which investments must yield to cover their costs) and effective tax rates. The impact of these provisions on the amounts of corresponding forms of investment (e.g., research spending, exploration activity, equipment) might also be estimated. In some cases, such as research, there is evidence that the investment can provide significant positive externalities—that is, economic benefits that are not reflected in the market transactions between private parties. It could be useful to quantify these externalities and compare them with the size of tax expenditures. Measures could also indicate the effects on production from these investments such as numbers or values of patents, energy production and reserves, and industrial production. Issues to be considered include the extent to which the preferences increase production (as opposed to benefiting existing output) and their cost-effectiveness relative to other policies. Analysis could also consider objectives that are more difficult to measure but still are ultimate goals, such as promoting the Nation's technological base, energy security, environmental quality, or economic growth. Such an assessment is likely to involve

tax analysis as well as consideration of non-tax matters such as market structure, scientific, and other information (such as the effects of increased domestic fuel production on imports from various regions, or the effects of various energy sources on the environment).

The tax proposals subject to these analyses include items that indirectly affect the estimated value of tax expenditures (such as changes in income tax rates), proposals that make reforms to improve tax compliance and administration, as well as proposals which would change, add, or delete tax expenditures.

*Barriers to Evaluation.* Developing a framework that is sufficiently comprehensive, accurate, and flexible is a significant challenge. Evaluations are constrained by the availability of appropriate data and challenges in economic modeling:

- **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.
- **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.
- **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 includes many proposals that would change existing tax expenditures to raise revenue, elimi-

nate ineffective or counterproductive tax expenditures, and enhance effective tax expenditures. The tax expenditure proposals in the budget further the Administration's goals of 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, 2015. 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, while also simplifying it by creating a single formula for calculating the credit. For similar reasons, the Budget also proposes to permanently extend and enhance the production tax credit for renewable energy property.

*Consolidate and simplify education tax benefits.*

A significant portion of federal spending on higher education occurs through the tax code, but current higher education tax benefits are complicated and do not provide enough help for low and middle income families that struggle to afford college. Building on bipartisan Congressional proposals, the Budget proposes to simplify, consolidate, and better target higher education tax benefits. It would repeal or let expire duplicative and less effective provisions, including the Lifetime Learning Credit, the tuition and fees deduction, the student loan interest deduction (for new borrowers), Coverdell accounts (for new contributions), and certain subsidies for 529 savings plans (for new contributions). Meanwhile, it would make the \$2,500 American Opportunity Tax Credit permanent, index the maximum credit for inflation, make the credit available for a fifth year, provide a partial credit to part-time students, and increase the amount of the credit available to low-income students without income tax liability.

*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. In accordance with the President's agreement at the G-20 Summit in Pittsburgh to phase out inefficient 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.

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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 and highlights some of the Administration initiatives included in the 2016 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 the various types of grants as each striking "a different balance between the interests of the Federal grant-making agency that funds be used efficiently and effectively to meet national 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>

While most State spending comes from general fund revenues, Federal funds are also a significant part of States' overall budgets. In State fiscal year 2013, 40.9 percent of total State spending came from general funds,<sup>3</sup> whereas Federal funds accounted for 29.8 percent, other State funds 27.3 percent, and bonds 2.1 percent.<sup>4</sup> The Federal funds share decreased between 2011 and 2013 due to increasing general fund revenues over those years and the end of temporary measures enacted in the Recovery Act and its extensions.<sup>5</sup> However, in its most recent *State Expenditure Report*, the National Association of State Budget Officers estimates that Federal funds will increase as a percentage of total State spending in State fiscal year 2014 to 30.3 percent due to increases in Medicaid funding enacted in the Affordable Care Act.<sup>6</sup>

<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 2012-2014 State Spending." National Association of State Budget Officers (2014). 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> "State Expenditure Report, Examining Fiscal 2012-2014 State Spending." National Association of State Budget Officers (2014). p. 5

General funds are estimated to be 40.5 percent, other State funds 27.1 percent, and bonds 2.1 percent of total State spending.<sup>7</sup>

Total State spending is estimated to have grown by 5.7 percent in State fiscal year 2014 due to increases in State funds and Federal funds.<sup>8</sup> The components of total State spending for 2014 are estimated to be: Medicaid, 25.8 percent; elementary and secondary education, 19.5 percent; higher education, 10.1 percent; transportation, 7.7 percent; corrections, 3.1 percent; public assistance, 1.4 percent; and all other expenditures, 32.4 percent.<sup>9</sup>

The Fiscal Survey of States looks at enacted State budgets to make projections for the coming year. According to the most recent report, 2015 State budgets show that “fiscal conditions are moderately improving in fiscal 2015” with general fund spending expected to increase by 3.1 percent in State fiscal year 2015.<sup>10</sup>

As a share of the total Federal budget, outlays for Federal grants-in-aid accounted for 16.5 percent of total outlays in 2014 and totaled \$577.0 billion. This was an increase of \$30.8 billion over 2013, 5.6 percent. Federal grant spending in 2015 is estimated to be \$628.2 billion, an increase of 8.9 percent from 2014. The Budget provides \$651.7 billion in outlays for aid to State and local governments in 2016, an increase of 3.8 percent from 2015.

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 2016 among functions remains similar to recent years. Of total proposed grant spending in 2016, 57.4 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, 17.2 percent of Federal aid is estimated to go to income security programs; 10.5 percent to transportation; 9.5 percent to education, training, and social services; 2.1 percent to community and regional development; and 3.4 for all other functions. Section A of Table 15-1, Trends in Federal Grants to State and Local Governments, shows actual spending at the start of each decade since 1960, ac-

<sup>7</sup> “The Fiscal Survey of States.” National Association of State Budget Officers. Fall 2014. p. 1.

<sup>8</sup> “State Expenditure Report, Examining Fiscal 2012-2014 State Spending.” National Association of State Budget Officers (2014). p. 1.

<sup>9</sup> “The Fiscal Survey of States.” National Association of State Budget Officers. Fall 2014. p. 1.

<sup>10</sup> Ibid. p. vii.

tual spending for 2014, and estimates for 2015 and 2016 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>11</sup> Section B of Table 15-1 shows the distribution of grants between mandatory and discretionary spending.

Outlays for mandatory grant programs were \$442.9 billion in 2014 and are estimated to increase by 9.0 percent in 2015 to \$482.8. In 2016, outlays for mandatory grant programs are estimated to be \$512.2 billion, a 6.1 percent increase over 2015.<sup>12</sup> The three largest mandatory grant programs in 2016 are estimated to be Medicaid, with outlays of \$351.0 billion; Federal-aid Highways with outlays of \$44.6 billion; and Child Nutrition programs, which include the School Breakfast Program, the National School Lunch Program and others, \$21.5 billion.<sup>13</sup>

Outlays for discretionary grant programs were \$134.1 billion in 2014 and are estimated to increase by 8.4 percent to \$145.3 billion in 2015. In 2016, grants-in-aid with discretionary funding are estimated to have outlays of \$139.6 billion, a decrease of 4.0 percent from 2015. The three largest discretionary programs in 2016 are estimated to be Tenant Based Rental Assistance, with outlays of \$20.9 billion; Education for the Disadvantaged, \$15.6 billion; and Special Education, \$12.3 billion.<sup>14</sup>

The funding level for grants in every budget account can be found in Table 15-2, organized by functional category, and by Federal agency. Table 15-2, Federal Grants to State and Local Governments, Budget Authority and Outlays, 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.

<sup>11</sup> For more information on these categories, see Chapter 9, “Budget Concepts,” in this volume.

<sup>12</sup> The Budget proposes to reclassify surface transportation grant spending as mandatory. To provide a comparable series for surface transportation outlays, these outlays are shown as mandatory in the Budget estimates starting in 2014.

<sup>13</sup> Obligation data by State for programs in each of these budget accounts may be found in the State-by-State tables included with other budget materials on the OMB web site and Budget CD-ROM.

<sup>14</sup> Obligation data by State for programs in each of these budget accounts may be found in the State-by-State tables included with other budget materials on the OMB web site and Budget CD-ROM.

## HIGHLIGHTS OF FEDERAL AID PROPOSALS

### Physical Resources

*Coastal Resilience.* The Budget includes funding for two new coastal resilience programs—one at the National Oceanic and Atmospheric Administration (NOAA) and one at the Department of the Interior (DOI)—that will help reduce the risks that a changing climate poses to

ecosystems and communities. Funding at NOAA will help regions plan for and implement activities related to extreme weather, changing ocean conditions and uses, and climate hazards, while the DOI funds will focus on increasing the return on investment from Federal land protection and restoration through projects on adjacent

**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	2014	2015	2016
A. Distribution of grants by function:										
Natural resources and environment .....	0.1	0.4	5.4	3.7	4.6	5.9	9.1	6.7	6.7	6.8
Agriculture .....	0.2	0.6	0.6	1.3	0.7	0.9	0.8	0.7	1.0	1.0
Transportation .....	3.0	4.6	13.0	19.2	32.2	43.4	61.0	62.3	64.5	68.3
Community and regional development .....	0.1	1.8	6.5	5.0	8.7	20.2	18.8	13.2	16.7	13.4
Education, training, employment, and social services .....	0.5	6.4	21.9	21.8	36.7	57.2	97.6	60.5	65.2	61.9
Health .....	0.2	3.8	15.8	43.9	124.8	197.8	290.2	320.0	354.0	373.8
Income security .....	2.6	5.8	18.5	36.8	68.7	90.9	115.2	100.9	105.1	112.1
Administration of justice .....	.....	0.0	0.5	0.6	5.3	4.8	5.1	4.3	6.3	5.4
General government .....	0.2	0.5	8.6	2.3	2.1	4.4	5.2	4.1	4.1	3.9
Other .....	0.0	0.1	0.7	0.8	2.1	2.6	5.4	4.3	4.4	5.0
<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>577.0</b>	<b>628.2</b>	<b>651.7</b>
B. Distribution of grants by BEA category:										
Discretionary <sup>1</sup> .....	N/A	10.2	53.3	63.3	116.7	181.7	207.7	134.1	145.3	139.6
Mandatory <sup>1</sup> .....	N/A	13.9	38.1	72.0	169.2	246.3	400.7	442.9	482.8	512.2
<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>577.0</b>	<b>628.2</b>	<b>651.7</b>
C. Composition:										
Current dollars:										
Payments for individuals <sup>2</sup> .....	2.5	8.7	32.6	77.3	182.6	273.9	384.5	412.5	450.4	479.9
Physical capital <sup>2</sup> .....	3.3	7.1	22.6	27.2	48.7	60.8	93.3	78.9	82.0	84.6
Other grants .....	1.2	8.3	36.2	30.9	54.6	93.3	130.6	85.6	95.7	87.2
<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>577.0</b>	<b>628.2</b>	<b>651.7</b>
Percentage of total grants:										
Payments for individuals <sup>2</sup> .....	35.3%	36.2%	35.7%	57.1%	63.9%	64.0%	63.2%	71.5%	71.7%	73.6%
Physical capital <sup>2</sup> .....	47.3%	29.3%	24.7%	20.1%	17.0%	14.2%	15.3%	13.7%	13.1%	13.0%
Other grants .....	17.4%	34.5%	39.6%	22.8%	19.1%	21.8%	21.5%	14.8%	15.2%	13.4%
<b>Total</b> .....	<b>100.0%</b>									
Constant (FY 2009) dollars:										
Payments for individuals <sup>2</sup> .....	14.2	39.8	75.8	115.9	221.2	304.1	385.3	378.5	408.0	426.5
Physical capital <sup>2</sup> .....	23.8	38.2	54.7	45.7	68.6	74.2	93.7	72.9	74.2	74.5
Other grants .....	14.4	64.7	134.1	62.8	77.1	101.8	123.9	78.5	86.1	76.3
<b>Total</b> .....	<b>52.4</b>	<b>142.7</b>	<b>264.7</b>	<b>224.3</b>	<b>366.9</b>	<b>480.1</b>	<b>602.9</b>	<b>529.9</b>	<b>568.2</b>	<b>577.3</b>
D. Total grants as a percent of:										
Federal outlays:										
Total .....	7.6%	12.3%	15.5%	10.8%	16.0%	17.3%	17.6%	16.5%	16.7%	16.3%
Domestic programs <sup>3</sup> .....	18.0%	23.2%	22.2%	17.1%	22.0%	23.5%	23.4%	21.2%	20.8%	20.6%
State and local expenditures .....	14.3%	19.6%	27.3%	18.7%	21.8%	23.5%	26.4%	23.6%	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%
E. As a share of total State and local gross investments:										
Federal capital grants .....	24.6%	25.4%	35.4%	21.9%	22.0%	22.0%	27.5%	23.7%	N/A	N/A
State and local own-source financing .....	75.4%	74.6%	64.6%	78.1%	78.0%	78.0%	72.5%	76.3%	N/A	N/A
<b>Total</b> .....	<b>100.0%</b>									

N/A: Not available at publishing.

<sup>1</sup> Estimates for 2014 through 2016 reflect the Administration's proposed reclassification of surface transportation outlays from discretionary to mandatory. For more information, see Chapter 25, "Current Service Estimates," in this volume.

<sup>2</sup> Grants that are both payments for individuals and capital investment are shown under capital investment.

<sup>3</sup> Excludes national defense, international affairs, net interest, and undistributed offsetting receipts.

non-Federal lands that restore ecosystems and boost resilience in coordination with non-Federal partners. The NOAA Regional Coastal Resilience Grants, funded at \$50 million, will provide competitive grants to State, local, tribal, private, and non-governmental organization

partners to support activities such as vulnerability assessments, regional ocean partnerships, and development and implementation of adaptation strategies. The new program at DOI, also funded at \$50 million, will be modeled after the agency's Hurricane Sandy Competitive

Grant Program and will expand the footprint of healthy ecosystems to deliver valuable ecosystem services, including flood attenuation and storm risk reduction, to nearby communities.

*FEMA Pre-disaster Mitigation Grant Program.* The Budget provides \$200 million for the Federal Emergency Management Agency's Pre-Disaster Mitigation Grant Program, an increase of \$175 million over current funding levels. This funding will predominantly support mitigation planning, facilities hardening, and nonstructural risk reduction measures, such as buyouts and elevation of structures. Studies on mitigation activities conclude that Americans save \$3-4 for every dollar invested in pre-disaster mitigation.

*Grants for the Sites and Stories of the Civil Rights Movement.* \$32.5 million in new funding from the Historic Preservation Fund would provide competitive grants to State or local governments, and grants-in-aid to Historically Black Colleges and Universities to document, interpret, and preserve the stories and sites associated with the Civil Rights Movement and the African-American experience. Grants would also support development of place-based interpretive and educational materials associated with the survey and documentation of historic properties associated with that era, as well as bricks and mortar projects for rehabilitation and preservation.

*Investments in America's Transportation Infrastructure.* To spur economic growth and allow States and localities to initiate sound multi-year investments, the Budget includes a six-year, \$478 billion surface transportation reauthorization proposal. By reinvesting the transition revenue from pro-growth business tax reform, the President's plan will ensure the health of the Highway Trust Fund for another six years—two years beyond the 2015 Budget proposal—and invest in a range of activities to spur and sustain long-term growth. The President's plan will increase spending to repair and modernize our highways and bridges, while also making new investments to modernize existing transit and intercity passenger rail systems. The President's plan also increases investments to expand new transit projects, link regional economies by funding the development of high-performance rail, and support American exports by improving movement within the Nation's freight rail networks. To help spur innovation and economic mobility, the reauthorization proposal will permanently authorize the competitive TIGER grant program to support projects that bring job opportunities to communities across the United States. The proposal will also advance the President's Climate Action Plan by building more resilient infrastructure and reducing transportation emissions by responding to the greater demand and travel growth in public transit.

*Rural Initiatives.* According to a 2014 report by the United States Department of Agriculture (USDA) Economic Research Service, rural childhood poverty rates are at their highest point since 1986—one in four rural children live in poverty and deep poverty among children is more prevalent in rural areas (12.2 percent) than in urban areas (9.2 percent). To help alleviate this growing disparity the Budget provides \$20 million for demonstra-

tion projects to fight childhood poverty in economically distressed rural areas through targeted technical assistance investments in housing, community facilities, small business, and infrastructure. The Budget also includes \$50 million to expand the community facility grant program to address ongoing needs and emerging priorities such as Promise Zones, Energy Sector Transition, or Strike Force Communities. These funds will allow USDA to be responsive to new needs in communities across rural America and target them in a flexible way.

*Promise Zone Initiative.* The Administration's Promise Zone initiative targets communities of concentrated poverty and establishes partnerships between the Federal government, local communities, and businesses to create jobs, increase economic security, expand educational opportunities, increase access to quality, affordable housing, and improve public safety. Communities are chosen through a competitive process and put forward a plan on how they will partner with local business and community leaders to make investments that reward hard work and expand opportunity. In exchange, the Federal government partners with these communities to help them secure the resources and flexibility they need to achieve their goals. The President announced the first five Promise Zone communities in 2014 and will create an additional 15 Zones by the end of calendar year 2016.

## Human Resources

*Preschool for All.* The Budget maintains support for the President's landmark Preschool for All proposal to ensure four-year-olds across the Nation have access to high-quality preschool programs. The proposal establishes a Federal-State partnership to provide all low- and moderate-income four-year-olds with high-quality preschool, while providing States with incentives to expand these programs to reach additional children from middle class families, and put in place full-day kindergarten policies. The proposal is paid for through an increase in tobacco taxes that will help reduce youth smoking and save lives. To lay the groundwork for this proposal, the Budget provides \$750 million, a substantial increase of \$500 million over 2015, for Preschool Development Grants, the Department of Education's program that helps States develop and expand high-quality preschool systems. The Budget also provides \$907 million for early intervention and preschool for children with disabilities, an increase of \$115 million over 2015. This proposal includes \$15 million for a pay-for-success initiative for early identification of and intervention for learning and developmental problems, with a potential focus on autism, intended to help identify, develop and scale-up evidence-based practices.

*Investments in Head Start.* The Budget makes historic investments in Head Start by providing over \$1.5 billion in additional funding over 2015 enacted level which includes \$650 million to expand access to high-quality early learning settings for tens of thousands of additional children through Early Head Start-Child Care Partnerships. The increased Head Start funding will also ensure that children are served in programs that operate for a full school day and a full school year, which recent research shows

promotes better outcomes for young children. In addition, the Budget invests \$15 billion over the next 10 years to extend and expand evidence-based, voluntary home visiting programs, which enable nurses, social workers, and other professionals to work with current and expecting parents to help families track their children's development, identify any health and development issues and connect them to services to address them, and utilize good parenting practices that foster healthy development and early learning. The program builds on research showing that home visiting programs can significantly improve maternal and child health, child development, learning, and success.

*Title I Education Grants.* The Budget proposes a \$1 billion increase from the 2015 enacted level for Title I, the Department's largest K-12 grant program and the cornerstone of its commitment to providing low-income schools and high-need students with access to an excellent education. In addition, the Budget proposes \$100 million to support districts that are using their Federal formula funds for evidence-based interventions, and includes a pilot opportunity for districts that distribute funds to schools more equitably to receive relief from Federal reporting and fiscal requirements. The Budget also supports increases for programs that help other students who face academic hurdles meet rigorous academic standards, including \$11.7 billion for special education, an increase of \$175 million over 2015, and \$773 million for English learners, an increase of \$36 million over 2015 funding.

*Support for Teachers.* The Budget also invests \$3 billion to provide broad support for educators at every phase of their careers, from ensuring they have strong preparation before entering the classroom, to equipping them with tools and training they need to implement college- and career-ready standards. Recognizing the importance of integrating technology into the classroom, this investment also includes \$200 million for an improved Education Technology State Grants program focused on providing educators with training and support to maximize the impact of expanded access to technology to provide high-quality instruction to students. The Budget also supports a companion initiative funded at \$1 billion annually for five years that will support State and local efforts to attract the best and brightest to the teaching profession and prepare them for the demands of the classroom, while also creating a culture of excellence and professional growth for teachers throughout their careers.

*Improving our Nation's High Schools.* The Budget seeks to improve America's high schools by creating a new \$125 million program to help ensure schools integrate deeper learning and student-centered instruction, with particular focus on science, technology, engineering, and math (STEM) themed high schools that expand opportunities for girls and other groups underrepresented in STEM fields. The Budget also invests \$556 million, a \$50 million increase over 2015, in School Improvement Grants, a program that helps districts turn around their lowest performing schools, including high schools with unacceptably low graduation rates.

*Building Evidence and Fostering Innovation.* The Budget funds the Investing in Innovation program at \$300 million, a \$180 million increase over 2015 funding, to develop and test effective practices and provide better information to States and districts on what works in key areas, such as implementing college- and career-ready standards, using data to inform instruction and personalize learning, and improving low-performing schools. Across every dimension, the Budget continues the Administration's efforts to build a much stronger evidence base on what works in education.

*Expanding Access to Quality Child Care for Working Families.* Research shows that access to affordable, quality child care can increase parents' employment and earnings, while also promoting healthy child development. The Budget invests \$82 billion over 10 years to ensure that all low- and moderate-income working families with children ages three or younger have access to quality, affordable child care. The Budget also provides \$266 million in 2016 to help States implement the policies required by the new bipartisan child care law and designed to improve the safety and quality of care while giving parents the information they need to make good choices about their child care providers. To help build a supply of high-quality child care that meets the needs of today's working families, including those with non-traditional schedules, the Budget also provides \$100 million to States and local communities to develop, implement, and evaluate new, innovative models of providing care. These pilots will benefit low-income working families by focusing on what they need most—high-quality care that is available in their community and during the hours they work.

*Encouraging State Paid Leave Initiatives.* A handful of States have enacted policies to offer paid leave, and the Federal government can encourage more States to follow their lead. The Budget includes \$2 billion for the Paid Leave Partnership Initiative to assist up to five States that wish to launch paid leave programs, following the example of California, New Jersey, and Rhode Island. States that participate in the Paid Leave Partnership Initiative would be eligible to receive funds for the initial setup and benefits for three years. The Budget also includes a \$35 million State Paid Leave Fund to provide technical assistance and support to States that are still building the infrastructure they need to launch paid leave programs in the future.

*Creating Pathways to High-Growth Jobs.* The Budget provides a \$500 million increase over the 2015 enacted level to allow States to support additional in-person employment services for unemployed workers. For workers who need job training to get back on their feet, the Budget provides \$16 billion over 10 years to double the number of workers receiving training through the State and locally run workforce development system. The Budget also looks to the successful "learn-and-earn" approaches of our European counterparts, investing \$2 billion to achieve the goal of doubling Registered Apprenticeships across the country over the next five years. The Budget also provides \$3 billion for localities to expand summer and

year-round job opportunities and educational and work-force pathways for disconnected youth.

*The Upward Mobility Project.* The Budget proposes an Upward Mobility Project which will allow up to 10 communities, States, or consortia of States and communities more flexibility to use funding from up to four Federal programs for efforts designed to promote self-sufficiency, improve educational and other outcomes for children, and enhance communities' ability to provide opportunities for families. To qualify, projects will be required to rely on evidence-based programs or be designed to test new ideas, and will have a significant evaluation component in which projects will be judged based on whether they meet a set of robust outcomes. The funding streams that States and communities can utilize in these projects are currently block grants, including the Department of Health and Human Services' Social Services Block Grant and Community Service Block Grant, and the Department of Housing and Urban Development's (HUD's) Community Development Block Grant and HOME Investment Partnerships Program, that share a common goal of promoting opportunity and reducing poverty. Participating communities will be eligible to receive a total of \$1.5 billion in new funding, in addition to flexibility with currently provided resources.

*Ending Homelessness.* In 2010, the President set ambitious goals to end homelessness across the Nation, and since then we have made significant progress. Major cities have hit important milestones toward the goals, including New Orleans, Louisiana, which has ended veteran homelessness, and Salt Lake City, Utah and Phoenix, Arizona, which have ended chronic homelessness among veterans. Over 300 mayors, governors, and county executives have committed to ending veteran homelessness in their communities through the Mayors Challenge to End Veteran Homelessness. The overall number of veterans experiencing homelessness has declined by 33 percent—nearly 25,000 veterans—since 2010, and with continued focus from Federal, State and local partners, the Administration is fighting to end veteran homelessness by the end of 2015. The Budget continues to make investments to end chronic homelessness in 2017 and to make significant progress in ending homelessness across all other populations. In addition to targeted increases in HUD's Homeless Assistance Grants, the Budget provides 67,000 new Housing Choice Vouchers to support low-income households, including families experiencing homelessness, survivors of domestic and dating violence, families with children in foster care, youth aging out of foster care, and homeless veterans, regardless of their discharge status.

*Medicaid and the Children's Health Insurance Program.* State Medicaid and Children's Health Insurance

Programs (CHIP) provide health coverage to more than 70 million low income Americans. The Budget strengthens Medicaid and CHIP by giving States options to streamline eligibility determination and help people get and maintain coverage, expanding targeted benefits for adults and children, and improving care delivery for individuals eligible for both Medicare and Medicaid. The Budget proposes to extend funding for CHIP, which ends in 2015, through 2019, ensuring continued, comprehensive, affordable coverage for children. The Budget expands access to Medicaid home and community-based services, and tests a new approach to delivering long-term care services and supports. In addition, the Budget provides tools to States, Territories, and the Federal government to fight fraud, waste, and abuse, and includes other initiatives aimed at improving program efficiency and effectiveness.

### Other Programs

*Community Policing Initiative.* The President's new Community Policing Initiative aims to build and sustain trust between law enforcement and the people they serve. The Budget provides \$97 million to expand training and oversight for local law enforcement, increase the use of body-worn cameras, provide additional opportunities for police department reform, and facilitate community and law enforcement engagement in 10 pilot sites, with additional technical assistance and training for dozens of communities and police departments across the nation. In addition, through State and local assistance programs, the Budget nearly doubles the investment in the Second Chance Act Grant program to reduce recidivism and help those exiting the justice system to rejoin their communities and lead productive lives.

*Combating Violent Extremism.* The Department of Justice's (DOJ) Countering Violent Extremism (CVE) initiative supports the United Nation's efforts to address foreign terrorist fighters. Administration officials, the DOJ, and others have collaborated to develop a strategy to address recent domestic terror incidents and the emergence of groups attempting to recruit Americans to take part in ongoing conflicts in foreign countries. Additional resources are provided in the Budget to support community-led efforts, such as \$4 million to conduct research targeted toward developing a better understanding of violent extremism and advancing evidence-based strategies for effective prevention and intervention; \$6 million to support flexible, locally-developed CVE models; \$2 million to develop training and provide technical assistance; and \$3 million for demonstration projects that enhance the ability of law enforcement agencies nationwide to partner with local residents, business owners, community groups, and other stakeholders to counter violent extremism.

## GRANTS MANAGEMENT REFORMS

In 2014, the Office of Management and Budget, working with 28 Federal agencies and public stakeholders, implemented new Uniform Guidance at 2 CFR 200—policy reforms which will multiply the return on the investments described above by overhauling the regula-

tory framework that governs grants to improve efficiency and strengthen accountability. This was the culmination of a three-year collaborative effort across Federal agencies led by the cross-agency Council on Financial Assistance Reform (COFAR), and developed in partner-

ship with State and local governments, Indian tribes, universities, nonprofit organizations, and auditors. The interim final rule implementing the policy was published on December 19, 2014 and became effective December 26, 2014. It reduces the total volume of financial management regulations for Federal grants and other assistance by 75 percent, co-locates the streamlined regulations in Title 2 of the Code of Federal Regulations part 200, and reduces administrative burdens and risk of waste, fraud, and abuse for all of the Federal grant dollars expended annually.

Taken as a whole, this historic reform will transform the landscape for Federal aid to States and local governments, as well as grants to universities and non-profit organizations. Key policy reforms in the Uniform Guidance will:

- Allow local governments to work in partnership with universities and non-profits to design the programs that best meet their communities' needs and obtain flexibility and enhanced coordination from the Federal government;
- Allow universities to hire staff to do the administrative work that directly benefits grants so that scientists can focus on science;

- Allow nonprofits and other organizations that have never been reimbursed for indirect costs to use a standard minimum rate that supports the fundamental operations of the organization, removing a key barrier to entry and opening up competition for Federal awards;
- Emphasize the long-standing requirement for non-Federal entities to have strong internal controls that are appropriate to the organization, while relaxing overly prescriptive and obsolete procedural requirements;
- Publish Single Audit reports online, eliminating a burdensome paper-chase for reporting and providing the public with key information to strengthen oversight of Federal tax dollars; and
- Raise the threshold for required audits from \$500,000 to \$750,000 in Federal awards expended per year to maintaining oversight for 99 percent of dollars audited now, while focusing the oversight resources to reduce risk of waste, fraud, and abuse.

Since publication of the rule, the COFAR has begun work with Federal agencies and non-Federal stakeholders to evaluate the impact of this guidance based on key metrics. More information and resources for the public are available at [cfo.gov/COFAR](http://cfo.gov/COFAR).

## OTHER SOURCES OF INFORMATION ON FEDERAL GRANTS-IN-AID

A number of other sources provide State-by-State spending data and other information on Federal grants, but use a slightly difference concept of grants.

The website *Grants.gov* is a primary source of information for communities wishing to apply for grants and other domestic assistance. *Grants.gov* hosts all open notices of opportunities to apply for Federal grants.

The *Catalog of Federal Domestic Assistance* hosted by the General Services Administration contains detailed listings of grant and other assistance programs; discussions of eligibility criteria, application procedures, and estimated obligations; and related information. The *Catalog* is available on the Internet at [www.cfda.gov](http://www.cfda.gov).

Current and updated grant receipt information by State and local governments and other non-Federal entities can be found on *USA Spending.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 *USA Spending.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](http://harvester.census.gov/sac)) that provides access to summary information about audits conducted under OMB Circular A-133, "Audits to States, Local Governments, and Non-Profit Organizations." Information is available for each audited entity, including the amount of Federal money expended by program and whether there were audit findings.

The Bureau of Economic Analysis, also in the Department of Commerce, 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](http://bea.gov/national), include data on Federal grants to State and local governments.

## APPENDIX: SELECTED GRANT DATA BY STATE

The Appendix includes two tables that summarize State-by-State spending for select grant programs to State and local governments. 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 across all programs for each State. The programs selected here cover more than 90 percent of total grant spending.

Individual program tables with State-by-State obligation data may be found 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. 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 2014 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 2015 from balances of previous budget authority and obligations in 2015 from new budget authority distributed by State.
- Estimates of 2016 obligations by State, which are based on the 2016 Budget request, unless otherwise noted.
- The percentage share of 2016 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 2014 (actual)	Estimated FY2015 obligations from:			FY 2016 (estimated)
		Previous authority	New authority	Total	
<b>Department of Agriculture, Food and Nutrition Service</b>					
School Breakfast Program (10.553) .....	3,716	20	3,960	3,980	4,230
National School Lunch Program (10.555) .....	11,290	213	11,727	11,939	12,362
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557) .....	6,902	732	6,468	7,200	7,056
Child and Adult Care Food Program (10.558) .....	3,112	.....	3,132	3,132	3,241
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Food Stamps) (10.561) ..	4,480	49	4,928	4,977	5,106
<b>Department of Education, Office of Elementary and Secondary Education</b>					
Title I College-And-Career-Ready Students (Formerly Title I Grants to Local Educational Agencies) (84.010) .	14,385	.....	14,410	14,410	15,410
Improving Teacher Quality State Grants (84.367) .....	2,350	.....	2,350	2,350	2,350
<b>Department of Education, Office of Special Education and Rehabilitative Services</b>					
Special Education-Grants to States (84.027) .....	11,473	.....	11,498	11,498	11,673
Vocational Rehabilitation Grants (84.126) .....	3,064	.....	3,092	3,092	3,392
<b>Department of Health and Human Services, Centers for Medicare and Medicaid Services</b>					
Affordable Insurance Exchange Grants (93.525) .....	740	.....	448	448	.....
Children's Health Insurance Program (93.767) .....	9,718	.....	9,756	9,756	14,569
Grants to States for Medicaid (93.778) .....	329,019	.....	344,587	344,587	364,290
<b>Department of Health and Human Services, Administration for Children and Families</b>					
Temporary Assistance for Needy Families (TANF)-Family Assistance Grants (93.558) .....	16,721	.....	16,737	16,737	16,739
Child Support Enforcement-Federal Share of State and Local Administrative Costs and Incentives (93.563) ...	4,281	.....	4,210	4,210	4,372
Low Income Home Energy Assistance Program (93.568) .....	3,390	.....	3,390	3,390	3,390
Child Care and Development Block Grant (93.575) .....	2,358	.....	2,435	2,435	2,805
Child Care and Development Fund-Mandatory (93.596A) .....	1,237	.....	1,236	1,236	1,323
Child Care and Development Fund-Matching (93.596B) .....	1,678	.....	1,681	1,681	5,259
Head Start (93.600) .....	8,598	.....	8,598	8,598	10,118
Foster Care-Title IV-E (93.658) .....	4,749	.....	4,584	4,584	5,205
Adoption Assistance (93.659) .....	2,450	.....	2,510	2,510	2,563
Social Services Block Grant (93.667) .....	1,578	.....	1,576	1,576	2,000
<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) .....	1,269	.....	1,315	1,315	1,315
<b>Department of Homeland Security</b>					
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (97.044) .....	6,872	.....	.....	.....	.....
FEMA State and Local Programs (97.067 et al.) .....	2,295	.....	.....	.....	.....
<b>Department of Housing and Urban Development, Public and Indian Housing Programs</b>					
Public Housing Operating Fund (14.850) .....	4,397	.....	4,439	4,439	4,582
Section 8 Housing Choice Vouchers (14.871) .....	19,180	228	19,564	19,791	21,186
Public Housing Capital Fund (14.872) .....	1,862	99	1,875	1,974	1,970
<b>Department of Housing and Urban Development, Community Planning and Development</b>					
Community Development Block Grant (14.218; 14.225; 14.228; 14.862) .....	3,216	536	2,480	3,016	2,919
Community Development Block Grant - Disaster Recovery (14.218; 14.228; 14.269) .....	1,600	3,278	.....	3,278	4,528
<b>Department of Labor, Employment and Training Administration</b>					
Unemployment Insurance (17.225) .....	2,882	2	2,758	2,760	2,815
<b>Department of Transportation, Federal Transit Administration</b>					
Transit Formula Grants Programs (20.507) .....	11,130	6,333	3,352	9,685	11,038
<b>Department of Transportation, Federal Aviation Administration</b>					
Airport Improvement Program (20.106) .....	3,298	.....	3,193	3,193	2,747
<b>Department of Transportation, Federal Highway Administration</b>					
Highway Planning and Construction (20.205) .....	39,522	.....	41,309	41,309	51,575
<b>Environmental Protection Agency, Office of Water</b>					
Capitalization Grants for Clean Water State Revolving Fund (66.458) .....	2,022	87	1,362	1,449	1,116
Capitalization Grants for Drinking Water State Revolving Fund (66.468) .....	987	82	825	907	1,186
<b>Federal Communications Commission</b>					
Universal Service Fund E-Rate .....	1,848	.....	1,993	1,993	2,578
<b>Total</b> .....	549,668	11,658	547,778	559,436	607,008

**Table 15-4. SUMMARY OF PROGRAMS BY STATE**  
(Obligations in millions of dollars)

State or Territory	All programs FY 2014 (actual)	Programs distributed in all years			FY 2016 Percentage of distributed total	
		Estimated FY 2015 obligations from:		Total		
		Previous authority	New Authority			
Alabama .....	6,969	108	6,581	6,690	7,419 1.30	
Alaska .....	2,297	12	2,080	2,093	2,297 0.40	
Arizona .....	10,246	145	11,089	11,234	11,934 2.10	
Arkansas .....	5,855	22	6,454	6,476	6,950 1.22	
California .....	65,949	1,694	74,443	76,137	82,755 14.53	
Colorado .....	6,606	114	6,530	6,650	7,748 1.36	
Connecticut .....	6,830	312	6,361	6,673	6,867 1.21	
Delaware .....	1,756	41	1,560	1,601	1,722 0.30	
District of Columbia .....	3,140	280	2,725	3,005	3,167 0.56	
Florida .....	21,964	511	21,300	21,812	21,949 3.85	
Georgia .....	12,807	207	12,054	12,261	13,266 2.33	
Hawaii .....	2,130	34	2,047	2,080	2,266 0.40	
Idaho .....	2,184	26	2,260	2,286	2,394 0.42	
Illinois .....	18,414	156	17,846	18,001	19,573 3.44	
Indiana .....	10,312	69	10,497	10,566	12,279 2.16	
Iowa .....	4,483	31	4,445	4,476	4,901 0.86	
Kansas .....	3,222	31	3,206	3,237	3,463 0.61	
Kentucky .....	9,075	40	9,669	9,709	10,231 1.80	
Louisiana .....	8,733	155	7,816	7,970	8,511 1.49	
Maine .....	2,475	25	2,354	2,380	2,465 0.43	
Maryland .....	9,176	149	8,655	8,804	9,752 1.71	
Massachusetts .....	12,779	308	12,954	13,261	13,607 2.39	
Michigan .....	15,877	131	17,180	17,311	18,425 3.24	
Minnesota .....	8,831	83	9,384	9,467	10,193 1.79	
Mississippi .....	6,024	47	5,843	5,891	6,262 1.10	
Missouri .....	9,497	116	9,295	9,411	9,925 1.74	
Montana .....	1,704	13	1,737	1,750	1,970 0.35	
Nebraska .....	2,276	35	2,122	2,157	2,254 0.40	
Nevada .....	3,123	44	3,450	3,494	3,690 0.65	
New Hampshire .....	1,442	19	1,747	1,766	1,890 0.33	
New Jersey .....	15,314	1,028	14,138	15,166	16,833 2.96	
New Mexico .....	4,936	33	5,191	5,224	5,927 1.04	
New York .....	51,733	3,541	49,036	52,577	55,640 9.77	
North Carolina .....	13,611	145	12,868	13,013	14,033 2.46	
North Dakota .....	982	15	1,368	1,384	1,464 0.26	
Ohio .....	20,920	124	20,718	20,843	22,451 3.94	
Oklahoma .....	5,708	80	5,463	5,542	6,160 1.08	
Oregon .....	7,747	48	8,715	8,763	9,538 1.67	
Pennsylvania .....	21,433	302	22,331	22,634	24,936 4.38	
Rhode Island .....	2,575	43	2,597	2,640	2,853 0.50	
South Carolina .....	6,604	60	6,349	6,409	6,876 1.21	
South Dakota .....	1,264	10	1,094	1,104	1,218 0.21	
Tennessee .....	10,085	74	9,968	10,041	10,982 1.93	
Texas .....	35,381	459	33,899	34,357	35,141 6.17	
Utah .....	3,027	45	2,865	2,909	3,209 0.56	
Vermont .....	1,636	9	1,531	1,540	1,672 0.29	
Virginia .....	8,203	141	7,835	7,976	8,697 1.53	
Washington .....	8,674	116	11,622	11,738	12,482 2.19	
West Virginia .....	3,987	31	3,951	3,982	4,223 0.74	
Wisconsin .....	8,028	39	7,466	7,506	8,289 1.46	
Wyoming .....	871	8	817	825	905 0.16	
American Samoa .....	106	1	80	82	97 0.02	
Guam .....	202	5	191	196	200 0.04	
Northern Mariana Islands .....	71	2	64	66	69 0.01	
Puerto Rico .....	3,809	167	3,930	4,098	4,020 0.71	
Freely Associated States .....	40	4	27	31	28 *	
Virgin Islands .....	198	4	190	194	182 0.03	
Indian Tribes .....	996	21	1,040	1,061	1,210 0.21	
<b>Total, programs distributed by State in all years .....</b>	<b>513,577</b>	<b>11,512</b>	<b>518,598</b>	<b>530,109</b>	<b>569,462 100.00</b>	

**MEMORANDUM:**

Not distributed by State <sup>1</sup> .....	35,351	146	28,733	28,879	37,546 N/A
Total, including undistributed .....	548,928	11,658	547,331	558,988	607,008 N/A

<sup>1</sup> 0.005 percent or less.<sup>1</sup> The sum of program obligations not distributed by State in all years.

## 16. STRENGTHENING FEDERAL STATISTICS

The ability of governments, businesses, and the general public to make informed choices about budgets, employment, investments, taxes, and a host of other important matters depends critically on the ready and equitable availability of relevant, accurate, timely, and objective Federal statistics. Taken together, the data produced by the decentralized Federal statistical system form a robust evidence base to support both public and private decision-making.

Federal statistical programs have been a cornerstone of this evidence base for many decades, producing fundamental 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. These statistics are used in part to describe and increase understanding of the basic condition and performance of our economy and society, as discussed in Chapter 5, “Social Indicators.”

The share of budget resources devoted to 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. This funding is leveraged to inform crucial decisions in a wide variety of spheres. The Administration is committed to continuing cost-effective investment in Federal statistical programs in order to build and support agencies’ capacity to incorporate evidence and evaluation analyses into budget, management, and policy decisions. For example, the Administration has supported Federal statistical agencies in strengthening the utility and reliability of their products by expanding the use of administrative data for research and statistical purposes, as described in Chapter 7, “Building Evidence with Administrative Data.”

The Federal statistical community has leveraged a number of other opportunities to improve these measures of our Nation’s performance. For example, during 2014 and 2015, Federal statistical agencies:

- restructured the International Transactions Accounts in their first major update since 1976 by adding detail and bringing the accounts into closer alignment with international accounting standards (*Bureau of Economic Analysis*);
  - continued the redesign and modernization of the National Crime Victimization Survey to produce more reliable, valid, and relevant national and sub-national estimates of the Nation’s crime victimization incidents (*Bureau of Justice Statistics*);
  - released more than six years of research data that were produced by merging publicly available administrative data from the Internal Revenue Service with data from the Quarterly Census of Employ-
- ment and Wages business universe providing multiple insights into the scope, structure, wage trends, and employment dynamics of the nonprofit sector (*Bureau of Labor Statistics*);
- completed the fifth quinquennial Commodity Flow Survey, which measures approximately three-fourths of the tonnage of freight movement to, from, and within the U.S., and supports analyses of the need for freight transportation facilities and the relationships between freight movement and the economy (*Bureau of Transportation Statistics*);
  - conducted analyses of the 2013 Census Test to examine the operational feasibility of using administrative records to reduce nonresponse follow-up workload and adaptive contact strategies to increase data collection productivity, which will be critical in informing the major design decision for the 2020 Census (*Census Bureau*);
  - began the regular release of quarterly Gross Domestic Product by Industry data, providing businesses and policy-makers with a more precise and timely view of economic activity at the industry level (*Bureau of Economic Analysis*);
  - analyzed data from the National Food Acquisition and Purchase Survey, which collects detailed information about foods purchased for consumption at home and away from home as well as foods acquired through both public and private food and nutrition assistance programs, to provide a unique and comprehensive view of household food choice behavioral patterns (*Economic Research Service*);
  - expanded the State Heating Oil and Propane Program to collect weekly residential heating oil and propane price data, adding 14 States to the 24 already participating and developed a Winter Heating Fuels webpage that displays weekly price data on heating oil and propane along with natural gas and electricity prices (*Energy Information Administration*);
  - redesigned the Chemical Use program of surveys estimating chemical use by producers of fruits, vegetables, field crops, livestock, and other animals and crops to improve USDA’s agricultural chemical use database about on-farm and post-harvest fertilizer and pesticide use and pest management practices to enable more informed, science-based decisions (*National Agricultural Statistics Service*);
  - adopted technology to make test administration, collection, scoring, and processing of educational data in large-scale assessments significantly more

efficient and developed an electronic system of accommodations to support the inclusion of a broader range of students in educational progress assessments (*National Center for Education Statistics*);

- released preliminary 2013 birth data in the record time of five months after the end of the calendar year and, similarly, published final 2013 death data only 12 months after the end of the calendar year to enable prompt public health monitoring, and fostered the development of a vital statistics infrastructure capable of supporting near real-time surveillance, starting with Pneumonia and Influenza mortality surveillance in 2014-2015 (*National Center for Health Statistics*);
- addressed data gaps in estimates for research and development by initiating a national R&D survey of nonprofit organizations and launched a survey to produce national statistics on the early careers of doctorate recipients to better understand their labor markets and work experiences (*National Center for Science and Engineering Statistics*);
- released, for the first time, datasets in XML format to meet the growing demand for information in open data formats (*Statistics of Income Division, Internal Revenue Service*);
- sponsored multidisciplinary Retirement and Disability Research Consortia responsible for research, evaluation, and dissemination of information on Social Security retirement and disability issues relevant to policymakers, researchers, and the general public that also provide a training ground for scholars and practitioners in research areas relevant to Social Security retirement and disability issues (*Office of Research, Evaluation, and Statistics (ORES), Social Security Administration*); and
- released new estimates of consumer spending by State for 1997-2012 to provide insight into household spending patterns across the country and inform understanding of regional economies (*Bureau of Economic Analysis*).

In order for Federal statistical products to be beneficial to their wide range of users, the underlying data systems that produce them 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. To reinforce the fundamental responsibilities that Federal statistical agencies have related to the collection, analysis, and dissemination of data, the Office of Management and Budget (OMB) has recently affirmed and codified them by issuing OMB Statistical Policy Directive No. 1, *Fundamental Responsibilities of Federal Statistical Agencies and Recognized Statistical Units*.<sup>1</sup> As the collectors and providers of these basic statistics, the responsible Federal

statistical 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 and to foster long-term global competitiveness 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' 2016 budget proposals.

### **Highlights of 2016 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 115 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 2016*, 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 an Energy Satellite account that will provide insight into the changing structure of energy supply and consumption and the related impact on economic growth and inflation in the United States; and (2) expand measurement of growth in trade in high-value services – such as intellectual property and information and communication technology – that will help policymakers identify target areas for future growth in service exports and related high-value employment.

**Bureau of Justice Statistics (BJS), Department of Justice:** Funding is requested to provide support for ongoing BJS programs and to: (1) continue to 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) increase the use of administrative records data in police and correctional agencies to provide new statistics in these areas, including recidivism information, arrests, and offenses known to the police; (3) expand

<sup>1</sup> OMB Statistical Policy Directive No. 1: *Fundamental Responsibilities of Federal Statistical Agencies and Recognized Statistical Units*. <http://www.gpo.gov/fdsys/pkg/FR-2014-12-02/pdf/2014-28326.pdf>.

the surveys of inmates of prisons and jails to inform the process of re-entry; (4) improve the availability of justice statistics for Indian country; and (5) continue to support the enhancement of criminal justice statistics available through State statistical analysis centers.

**Bureau of Labor Statistics (BLS), Department of Labor:** Funding is requested to provide support for ongoing BLS programs and to: (1) add an annual supplement to the Current Population Survey (CPS) to capture data on contingent work and alternative work arrangements in odd years, and on other topics in even years; (2) expand the Job Openings and Labor Turnover Survey (JOLTS) sample and enhance the relevance, timeliness, and depth of JOLTS data; (3) support the development of a supplemental statistical poverty measure using Consumer Expenditure (CE) Survey data; and (4) maintain funding for the International Price Program (IPP) export price indexes.

**Bureau of Transportation Statistics (BTS), Department of Transportation:** Funding is requested to support ongoing BTS programs and to: (1) initiate a travel data program to measure long distance travel by all modes of transportation; (2) estimate the inventory and use of motor vehicles; and (3) improve methods and data for calculating the value of transportation infrastructure and services.

**Census Bureau, Department of Commerce:** Funding is requested to support ongoing Census Bureau programs and to: (1) complete all research and testing and begin operational design, development, and system testing for the 2020 Decennial Census; (2) complete data releases for the 2012 Economic Census and begin planning for the 2017 Economic Census; (3) enhance Geographic Systems to take full advantage of technology and partner-supplied data in support of a reengineered address-canvassing operation; (4) support a Census Enterprise Data Collection and Processing Initiative to create an integrated and standardized “system of systems” to replace unique, survey-specific systems with an enterprise solution; and (5) expand access to administrative records for research and program evaluation through the creation of an Administrative Records Clearinghouse.

**Economic Research Service (ERS), Department of Agriculture:** Funding is requested to provide support for ongoing ERS programs, and to: (1) conduct research to build a strong evidence base on public and private drivers of farm-level water use and responses to drought risk through analysis of shifting water supplies, farming practices, and food production using enhanced agricultural-environmental models and integrated data from survey and administrative sources; (2) analyze barriers to entry for new farmers and ranchers, and the extent to which U.S. Department of Agriculture programs and other government policies may help address them; (3) apply behavioral economics methodologies to support the development of new strategies to encourage low-income consumers to buy healthier foods in grocery stores; and (4) separate the effects of various Supplemental Nutrition Assistance Program (SNAP) policy changes on program participation by linking survey and administrative data.

**Energy Information Administration (EIA), Department of Energy:** Funding is requested to provide support for ongoing EIA programs and to: (1) expand mid-term energy analysis capabilities, including infrastructure and logistical issues such as changing product trade flows, growing oil exports, and changes to refining infrastructure; and (2) address critical energy data gaps, including information to better understand the determinants of personal vehicle miles of travel, movements of crude oil by rail, monthly estimates of electricity generation by distributed renewable energy sources (such as solar photovoltaics), and the use of energy to treat and pump water for agricultural uses, move potable water, and transport water to and from treatment facilities.

**National Agricultural Statistics Service (NASS), Department of Agriculture:** Funding is requested to provide support for ongoing NASS programs and to: (1) augment the established honey survey by collecting additional information regarding honeybee management and loss in support of the President’s initiative to gain more knowledge related to Colony Collapse Disorder; (2) enhance the Cattle on Feed, and Hogs & Pigs surveys and conduct a new Poultry survey to increase data on the Antimicrobial Resistance initiative; (3) expand geospatial research to augment current satellite-based agriculture statistics monitoring, extend current monitoring capabilities of CropScape and VegScape, and enrich the evaluation of climate change effects at the local level on crop production; (4) continue preparations for the 2017 Census of Agriculture; (5) maintain the annual Census of Agriculture Current Agriculture Industrial Reports; and (6) conduct the Local Foods Special Study in response to the new USDA policy, Know Your Farmer, Know Your Food initiative (KYF2).

**National Center for Education Statistics (NCES), Department of Education:** Funding is requested to provide support for NCES ongoing activities and to: (1) initiate a new round of the Early Childhood Longitudinal Study, Birth Cohort to provide high-quality data in the area of early childhood development; (2) collect selected National Postsecondary Student Aid Survey data every two years instead of every four years to provide more timely data on educational costs, financial aid, enrollment, and student progress and much-needed information on student loan borrower behavior and choices through a new study on college loan performance; (3) begin transitioning the National Assessment of Educational Progress from paper-and-pencil tests to technology-based assessments and expand the Trial Urban District Assessment to include 10 more districts; and (4) support new awards to States under the Statewide Longitudinal Data Systems program to advance their use of data to improve education and inform policy, and enhance data coordination, quality, and use at the national, State, and local levels.

**National Center for Health Statistics (NCHS), Department of Health and Human Services:** Funding is requested to provide support for ongoing NCHS programs and to: (1) expand electronic death reporting to provide faster access to data on prescription drug overdose deaths and other deaths significant for public health;

(2) further reduce the turn-around time associated with researcher access to NCHS compiled birth and death data, including for tracking priority health initiatives in prevention, cancer control, and teenage pregnancy; (3) enhance the quality and usability of health data through improved access and presentation methods; (4) test and implement modules to the National Health and Nutrition Examination Survey to address the growing need for information on infectious diseases and chronic health conditions; (5) investigate innovative ways to incorporate administrative data and electronic health record information into the family of health care provider surveys; and (6) launch a new, more efficient sample for the National Health Interview Survey that incorporates information on changing population demographics from the Decennial Census, and provides a more nimble platform for responding to changes in funding.

**National Center for Science and Engineering Statistics (NCSES), National Science Foundation:** Funding is requested to provide support for ongoing NCSES programs and to: (1) develop enhanced data access tools, techniques, and visualizations including a new, integrated interface to the Scientists and Engineers Statistical Data System (SESTAT) and the Integrated Science and Engineering Resource Data System (WebCASPAR, Computer-Aided Science Policy and Research) databases, (2) expand the scope of administrative data sources and standardized tagging efforts to measure Research & Development, and (3) conduct redesign and survey improvement efforts to address data gaps related to educational and career pathways of scientists and engineers and to the understanding of the relationship between Federal support for graduate education and student outcomes, such as employment, and to improve measures of innovation.

**Office of Research, Evaluation, and Statistics (ORES), Social Security Administration:** Funding

is requested to provide support for ongoing ORES programs and to continue to: (1) support outside surveys through linkage with, and incorporation of, SSA administrative data; (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 place special emphasis on program integrity, addressing improper payments, and safeguarding the solvency of the Social Security retirement program 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), Internal Revenue Service, Department of the Treasury:**

Funding is requested to provide support for ongoing SOI programs and to: (1) provide opportunities to study tax administration and economic issues across sectors resulting from changes in tax laws by further integrating existing administrative data with edited data to allow for improved data linkages, while lessening the costs associated with data processing by reducing the number of fields to be transcribed; (2) develop richer datasets on complex corporations and collect new data provided in compliance with the Foreign Account Tax Compliance Act and the Affordable Care Act; (3) support innovative research with the potential to improve tax administration by working with experts within and outside Government; (4) upgrade SOI's information technology infrastructure and deploy virtualization throughout the agency to improve security and reduce costs; and (5) continue to modernize data dissemination practices, developing more web-based products designed for wider audiences to increase the public's understanding of the tax system.

**Table 16–1. 2014–2016 BUDGET AUTHORITY FOR PRINCIPAL STATISTICAL AGENCIES<sup>1</sup>**  
 (In millions of dollars)

	Actual 2014	Estimate	
		2015	2016
Bureau of Economic Analysis .....	99	100	114
Bureau of Justice Statistics <sup>2</sup> .....	57	53	81
Bureau of Labor Statistics .....	592	592	633
Bureau of Transportation Statistics .....	26	26	29
Census Bureau <sup>3</sup> .....	974	1116	1529
Salaries and Expenses/Current Surveys and Programs <sup>3</sup> .....	282	278	308
Periodic Censuses and Programs .....	692	838	1221
Economic Research Service .....	78	85	86
Energy Information Administration .....	117	117	131
National Agricultural Statistics Service <sup>4</sup> .....	161	172	180
National Center for Education Statistics <sup>5</sup> .....	258	257	300
Statistics <sup>5</sup> .....	118	120	142
Assessment .....	132	129	150
National Assessment Governing Board .....	8	8	8
National Center for Health Statistics .....	155 <sup>6</sup>	155 <sup>7</sup>	160 <sup>7</sup>
National Center for Science and Engineering Statistics, NSF <sup>8</sup> .....	47	58	62
Office of Research, Evaluation, and Statistics, SSA .....	27	30	27
Statistics of Income Division, IRS .....	35	36	38

<sup>1</sup>Reflects any rescissions and sequestration.

<sup>2</sup>Includes directly appropriated funds as well as funds transferred to BJS for research and statistical services, and funds for management and administrative (M&A) costs of \$3.5 in 2014, and estimated M&A costs of \$3.2 million in FY 2015 and \$4.8 million in FY 2016.

<sup>3</sup>Salaries and Expenses/Current Surveys and Programs funds include discretionary and mandatory funds.

<sup>4</sup>Includes funds for the periodic Census of Agriculture of \$45, \$47, and \$46 million in 2014, 2015, and 2016, respectively.

<sup>5</sup>Includes funds for salaries and expenses of \$15, \$17, and \$17 million in 2014, 2015, and 2016, 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 \$35 million, \$35 million, and \$70 million in 2014, 2015, and 2016, respectively, and the EDFacts Initiative which is funded at \$11 million in 2014, 2015, and 2016.

<sup>6</sup>Funds from the Public Health Service Evaluation Fund and Budget Authority. Amount includes approximately \$15.4 million to implement the CDC Working Capital Fund.

<sup>7</sup>All funds from Budget Authority. Amounts include funds to implement the CDC Working Capital Fund.

<sup>8</sup>Includes funds for salaries and expenses of \$7.4, \$7.6, and \$7.7 million in 2014, 2015, and 2016, respectively.



## 17. INFORMATION TECHNOLOGY

*With the radical evolution of technology, the Federal Government has an unprecedented opportunity to accelerate the quality and timeliness of services delivered to the American people. Over the past year, agency adoption of emerging technologies has had a dramatic impact. For example, the successful re-launch of HealthCare.gov in its second year, as well as the successful turnaround of the U.S. Department of Agriculture's Conservation Delivery Streamlining Initiative (CDSI), an online system that will provide American farmers and ranchers with real-time digital access to applying for financial assistance and conservation data on an easy and fast platform. To build on these successes, the Administration will continue to integrate modern technology solutions to enhance mission and service delivery by prioritizing three core objectives across the Federal information technology (IT) portfolio: (1) driving value in Federal IT investments, (2) delivering world-class digital services, to include opening Government data to fuel innovation, and (3) protecting Federal IT assets and information. Highlights of activities and initiatives undertaken to advance these objectives are provided in the Government of the Future chapter in the Budget volume, and in additional detail below.*

### DRIVING VALUE IN FEDERAL IT INVESTMENTS

**Federal Spending on IT**—Through a combination of policy guidance and oversight, this Administration has optimized IT spending to save taxpayers money by driving value and cost savings in Federal IT investments, and by delivering better services to American citizens. As shown in Table 17-1, the Budget's total planned spending on IT in 2016 is estimated to be \$86.4 billion.<sup>1</sup> Chart 17-1 depicts how 7.1 percent annual growth in IT spending over 2001-2009 has been slowed to 1.5 percent annually for 2009-2016, due in part to the Administration's achievements in improving the efficiency of how funds are spent on IT.

**Table 17-1. FEDERAL IT SPENDING**  
(Millions of dollars)

	2014	2015	2016
Department of Defense .....	37,415	36,267	37,314
Non-Defense .....	44,396	47,910	49,115
Total .....	81,810	84,177	86,429

Note: Defense IT spending includes estimates for IT investments for which details are classified and not reflected on the IT Dashboard. All spending estimates reflect data available as of January 12, 2015.

**Focusing Agency IT Oversight on Comprehensive IT Portfolio Reviews**—In 2015 and 2016, the Administration will continue to manage Federal IT strategically by implementing an expanded and more rigorous application of PortfolioStat—data driven reviews of agency IT portfolios led by the Office of Management and Budget (OMB). In addition to helping agencies achieve financial savings through reform efforts, PortfolioStat analyzes agency progress using a variety of performance metrics designed to measure whether agencies are delivering their IT investments on budget and on schedule, driving innovation to meet customer needs, and adequately protecting Federal data and systems. As part of its ongoing commitment to transparency, the Administration will make PortfolioStat and other technology reform savings and performance metrics available to the public on the IT Dashboard beginning in 2015.

In addition to PortfolioStat, key IT metrics were included in the first round of benchmarking meetings, held as part of the Benchmark and Improve Mission-Support Operations Cross-Agency Priority (CAP) goal.<sup>2</sup> The purpose of this CAP goal is to improve administrative efficiency and increase the adoption of effective management practices by establishing cost and quality benchmarks in five key areas that support agency mission operations: IT, human capital, financial management, acquisitions, and real property. As a result of the benchmarking effort, each of the 24 CFO Act agencies now has unprecedented access to Government-wide data, as well as visibility into the performance and cost of their IT and other mission support operations relative to other agencies. Armed with this knowledge, agency decision-makers are better equipped to set priorities, allocate resources, and improve processes within their agencies.

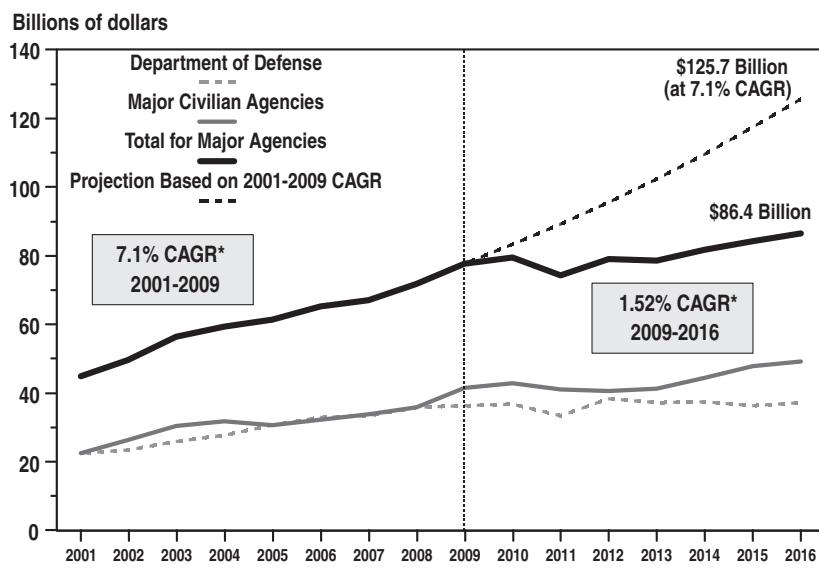
OMB requires that agency Chief Information Officers (CIOs) rate on a continuous basis all major IT investments reflected on the IT Dashboard and assess how well the risks for major development efforts are being addressed and mitigated. The IT Dashboard shows continued improvements in the general health of IT investments across government, as denoted by the increased proportion of CIO-rated “Green” investments on the IT Dashboard, which comprised 74 percent of all rated investments in January 2014, compared to 69 percent in 2012 (assessments based on total life cycle of investments).

**Government-Wide Successes**—The Administration's continued focus on driving value in Federal IT investments has led to key successes across the Federal IT portfolio. Specific examples include:

<sup>1</sup> Based on agencies represented on the IT Dashboard, located at <http://itdashboard.gov>.

<sup>2</sup> For more information on CAP goals, see <http://www.performance.gov>.

## Chart 17-1. Trends in Federal IT Spending



\*Compound Annual Growth Rate.

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. Chart reflects data available as of January 12, 2015.

- Government-wide cost savings—Since 2012, the Federal Government has saved at least \$2.7 billion<sup>3</sup> as a result of the Administration’s IT reform efforts, including initiatives such as PortfolioStat, the Federal Cloud Computing Strategy,<sup>4</sup> commodity IT consolidation, migration to shared services, and the Federal Data Center Consolidation Initiative (FDCCI).<sup>5</sup>
- Increased use of modern, agile development practices<sup>6</sup>—Agencies have increased their use of agile development practices and are delivering value 21 days (11 percent) faster since May 2013. Evidence in the IT portfolio shows that these agile projects have been nearly twice as likely to deliver on time as those using “waterfall” development techniques,<sup>7</sup> and have been

40 percent more likely to deliver planned capabilities on budget.<sup>8</sup> Using agile development ultimately increases the ability to deliver a better product to citizens faster. For example, the Department of State, a leader in adopting agile development, has improved its average project delivery time from 235 days in May 2013 to 111 days today, thereby delivering projects 53 percent faster than they were just months ago.

- Shifting to more efficient computing services—the Federal Government now spends approximately 8.5 percent of its IT budget on provisioned services such as cloud, on par with leading private sector companies. For example, the National Science Foundation has made exemplary strides in cloud usage. Since 2014, the agency has prioritized moving its data to the cloud, and has already migrated several key services including email, financial systems, and backups of critical information. The agency has already saved \$450,000 through its cloud initiatives, and it is aiming for complete migration by 2016.

- Data Center Consolidation—As part of FDCCI, agencies have closed 1,136 data centers as of August 2014, reversing the previous unsustainable data center growth trends, reducing energy consumption and the Federal real estate footprint, and enhancing the Federal IT security posture. The General Ser-

<sup>3</sup> As reported by agencies. Savings described in this chapter 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> [http://www.whitehouse.gov/sites/default/files/omb/assets/egov\\_docs/federal-cloud-computing-strategy.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/egov_docs/federal-cloud-computing-strategy.pdf)

<sup>5</sup> [http://www.whitehouse.gov/sites/default/files/omb/assets/egov\\_docs/fdcci-update-memo-07202011.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/egov_docs/fdcci-update-memo-07202011.pdf)

<sup>6</sup> Agile development is an incremental, fast-paced style of software development to reduce the risk of failure by getting working software into users’ hands quickly by releasing bundles of features in frequent sprints based on evolving user needs. For additional information on the benefits of agile development, see <http://www.whitehouse.gov/sites/default/files/omb/procurement/guidance/modular-approaches-for-information-technology.pdf>.

<sup>7</sup> Waterfall development typically proceeds in sequential phases of consistent, fixed duration to produce a complete system. Such full sys-

tem development efforts can take several years, potentially resulting in a product that is either outdated by the time it is released or contains features that are not aligned with user needs.

<sup>8</sup> Projects which are “on time” and “on budget” have schedule and cost variance of less than 10 percent and are depicted as “green” on the IT Dashboard.

vices Administration (GSA) leads the Government in data center closures, having closed 46 out of 125 total data centers. In addition, the Administration expanded FDCCI to better capture the effectiveness of data centers by establishing optimization metrics measuring energy, facility, labor, storage and virtualization of agency core data centers.

## DELIVERING WORLD CLASS DIGITAL SERVICES

**Smarter IT Delivery**—In 2014, the Administration established the Smarter IT Delivery CAP goal,<sup>10</sup> making an aggressive commitment to world class customer satisfaction with the Government's highest-impact customer-facing digital services. The Administration has invested in a portfolio of Government-wide efforts to ensure that all agencies have access to the best partners, people, and digital practices. These efforts have included central resources positioned to support digital services teams and CIO organizations at all agencies, including: the new U.S. Digital Service (USDS) at OMB; GSA's 18F, a digital service delivery unit to help with projects throughout government; numerous tools and services offered by GSA's Office of Citizen Services and Innovative Technologies (OCSIT);<sup>11</sup> and ongoing policy leadership from the U.S. Chief Information Officer and U.S. Chief Technology Officer. To ensure the best partners are working with agencies in reaching our Smarter IT Delivery goal, the Administration is working to strengthen vendor relationships and bring innovative companies into the marketplace. The Administration has already piloted feedback systems in which vendors can rate their experience in dealing with Federal acquisitions, and has also made it simpler for agencies to view and analyze vendor performance information. These efforts will be expanded in 2015 and 2016. The 2016 Budget includes legislative proposals to make it easier for small startup and other innovative companies to break into the Federal marketplace and to make it easier and less bureaucratic for agencies to purchase goods and services. The Administration has also made a number of major investments to bring the best people and best digital practices into the Federal Government, as described below.

**Scaling the U.S. Digital Service**—In 2014, the Administration piloted the U.S. Digital Service (USDS)<sup>12</sup> by recruiting a group of select public and private sector innovators, entrepreneurs, and engineers to Government service. Since standing up, this team of America's best digital experts has worked in collaboration with Federal agencies to implement cutting edge digital and technology practices on the nation's highest impact programs,

The Administration will build on these successes by strengthening Federal IT through its implementation of the Federal Information Technology Acquisition Reform Act (FITARA), which seeks to maximize the return on investment for IT services and supplies.<sup>9</sup>

<sup>9</sup> See <http://www.gpo.gov/fdsys/pkg/CPRT-113HPRT91496/pdf/CPRT-113HPRT91496.pdf>, page 355.

including the successful re-launch of *HealthCare.gov* in its second year, the Veterans Benefits Management System, and an improved process for online visa applications, among others. In 2015 and 2016, the Administration will strengthen and expand USDS's engagement with agencies to institutionalize modern digital services principles and practices across the Federal Government. Specifically, the Budget includes \$105 million to incubate digital service teams within 25 major agencies across Government. These teams will be dedicated to driving the quality, effectiveness, and cost savings of each agency's highest-impact digital services. In 2015 and 2016, the core team of digital service experts at USDS will support these agency teams through shared recruiting, coordination, and Government-wide platforms for digital service tools. Some agencies took the initiative to begin to build such teams in 2014 and are already seeing results: a team of three in-house digital service experts at the Department of Veterans Affairs (VA) spent three months building the Veterans Employment Center, which delivered the functionality of three different planned IT systems one year early and allowed the VA to cancel a planned \$2.4 million procurement, eliminate another ongoing \$9 million per year contract, and save \$3.3 million per year on a separate ongoing contract. To fully support the launch and ongoing operations of the agency teams, the 2016 Budget also includes enhanced funding for core OMB USDS operations.

**Digital Services Playbook and TechFAR Handbook**—To guide agency engagements and to provide all Federal IT projects with a common set of best practices for effective digital service delivery, USDS published the Digital Services Playbook and TechFAR Handbook.<sup>13</sup> The Playbook outlines key "plays," drawn from private and public-sector best practices, which will help Federal agencies deliver services that work well for users and require less time and money to develop and operate. The TechFAR Handbook explains how agencies can execute key plays in the Playbook in ways consistent with the Federal Acquisition Regulation (FAR), which governs how the Government must buy goods and services from the private sector. Federal agencies are already seeing the benefit of these plays: today, planned Federal IT projects are three times more likely to use agile methodologies like those described in the playbook, rather than outdated monolithic waterfall methodologies. Federal projects which use agile techniques are much more likely to be on track to deliver value on time and on budget, compared to projects using waterfall approaches. In 2015, the

<sup>10</sup> The mission of the Smarter IT CAP goal is to improve outcomes and customer satisfaction with Federal services through smarter IT delivery and stronger agency accountability for success. For more information on CAP goals, see <http://www.performance.gov>.

<sup>11</sup> OCSIT is responsible for providing the public access to data, information, and services offered by the Federal Government and assists agencies in identifying and applying new technologies to effective government operation. For more information, see <http://www.gsa.gov/portal/category/25729>.

<sup>12</sup> See <http://www.whitehouse.gov/usds/>

<sup>13</sup> The Digital Services Playbook and TechFAR Handbook are available at <https://playbook.cio.gov/>.

Administration will work to develop IT acquisitions training for the Federal IT acquisitions workforce based on the principles and techniques provided in the Playbook and TechFAR. In 2016, the Administration will begin broad implementation of these training sessions for agency personnel, resulting in agencies throughout Government having personnel on hand trained in innovative acquisition practices. The Playbook and TechFAR will also serve as the backbone and guiding principles for the operations of the agency digital services teams.

**Information as an Asset—Government Open Data**—The Administration has placed a high priority on transparency and, in particular, on opening Government data as fuel for private sector innovation and public use. The Administration has released over 75,000 data sets to the public since 2009, of which over 67,000 data sets were released in the last year alone. The use of these data sets has had a wide impact: from job creation through innovative start-up companies, to increasing the transparency of retirement plans, to assisting citizens in making informed housing decisions. In fact, a recent study<sup>14</sup> estimated more than \$1 trillion dollars of annual potential economic benefit stemming from the opening of U.S. data. The Administration's open data agenda includes a number of initiatives and Open Data Policy directives, including:

- Executive Order 13642<sup>15</sup> and OMB Memorandum 13-13,<sup>16</sup> which have made “open and machine-readable” the new default for Government information.
- The continuing evolution of *Data.gov*, the U.S. Gov-

ernment’s catalog for open data, tools, and resources, which currently contains tens of thousands of datasets and hundreds of Federal application programming interfaces (APIs).<sup>17</sup>

- The Open Data CAP goal,<sup>18</sup> which sets forth action plans, milestones, and targets for agencies to make Federal data open and machine-readable by default, and to fuel economic growth and innovation with open data.
- Project Open Data,<sup>19</sup> a central repository of free, open source tools, case studies, and best practices. Project Open Data includes a public dashboard<sup>20</sup> showing how Federal agencies are performing on the Open Data Policy and CAP goal.
- Workshops and summits with companies, data owners, and other innovators to foster community engagement, highlight open data successes and share best practices.

The 2016 Budget provides \$16 million for E-Government initiatives in the General Service Administration’s Federal Citizen Services Fund, supporting important IT investments including open data and digital government initiatives. While emphasizing the opening of Federal data, safeguarding the privacy, confidentiality, and security of sensitive information is of the utmost importance, and agencies are required to do thorough reviews of their data prior to publication to ensure no sensitive information is released.

<sup>14</sup> [http://www.mckinsey.com/insights/business\\_technology/open\\_data\\_unlocking\\_innovation\\_and\\_performance\\_with\\_liquid\\_information](http://www.mckinsey.com/insights/business_technology/open_data_unlocking_innovation_and_performance_with_liquid_information)

<sup>15</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>16</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>.

<sup>17</sup> <http://www.data.gov>

<sup>18</sup> The mission of the Open Data CAP goal is to fuel entrepreneurship and innovation and improve Government efficiency and effectiveness by unlocking the value of government data and adopting management approaches that promote interoperability and openness of these data. For more information on CAP goals, see <http://www.performance.gov>.

<sup>19</sup> <https://project-open-data.cio.gov/>

<sup>20</sup> <http://labs.data.gov/dashboard/>

## CYBERSECURITY: PROTECTING FEDERAL IT ASSETS AND INFORMATION

As the Government continues to increase the accessibility of Federal resources and information available to the public online, governmental systems and data are increasingly exposed to the growing and evolving threat posed by cyber-based attacks. To ensure the safety and security of Government information, the Administration has adopted a multifaceted approach to protect Federal resources while maintaining individual privacy and civil liberties. Some key cybersecurity focus areas for the Federal Government in 2015 and 2016 include:

**Managing Information Security Risk on a Continuous Basis**—Building on previously granted authorities,<sup>21</sup> the Department of Homeland Security (DHS) has continued to develop its Continuous Diagnostics and Mitigation (CDM) program. CDM enables agen-

cies to invest in a centralized continuous monitoring program that will allow them to quickly and efficiently identify cybersecurity vulnerabilities and mitigate risk. CDM moves the Government toward real-time monitoring in order to combat cyber threats in the civilian and national security networks. CDM tools and services provide Government agencies at all levels with the ability to enhance and automate their existing continuous network monitoring capabilities, analyze critical security-related information, and enhance risk-based decision making. The Administration will begin deploying CDM capabilities to certain agencies in 2015, and in 2016 will expand the features of CDM’s state of the art tools and services and scale them across Government. In addition to CDM, OMB recently enacted a new policy that will require regular and proactive scans of public facing segments of Federal civilian agency networks. OMB directed DHS to

<sup>21</sup> OMB Memorandum M-14-03 “Enhancing the Security of Federal Information and Information Systems”: <http://www.whitehouse.gov/sites/default/files/omb/memoranda/2014/m-14-03.pdf>

perform these scans and provided DHS and Federal agencies with guidance as to their responsibilities.<sup>22</sup>

#### **Improved Oversight through CyberStat Process—**

In 2015 and 2016, the Administration, including OMB and National Security Council staff, will coordinate with DHS to continue working with agencies to identify and remediate weaknesses in cybersecurity programs while ensuring agency progress towards the Cybersecurity CAP goal<sup>23</sup> through CyberStat reviews. These reviews provide the opportunity for agencies to identify the cybersecurity areas where they may be facing implementation and organizational challenges.

#### **Coordinating Agency Responses to Cyber**

**Events**—Vulnerability to cyber incidents transcends agency boundaries, making strong coordination across the Federal environment essential in order to rapidly respond to threats as they emerge. Cybersecurity events such as Heartbleed<sup>24</sup> and the Bash<sup>25</sup> vulnerability have illustrated the need for the Administration, through OMB and the National Security Council, to play a central coordinating role to ensure agencies are taking appropriate actions to effectively respond to cyber events and address any deficiencies in their cybersecurity programs to reduce overall risk, and prevent future events from occurring. In both instances, the Administration effectively managed the Federal response activities of relevant stakeholders and ensured that agencies implemented appropriate mitigation measures as quickly as practicable.

#### **Implementing and Supporting Enhancements to Legislation—The Federal Information Security**

<sup>22</sup> OMB Memorandum M-15-01 “Fiscal Year 2014-2015 Guidance on Improving Federal Information Security and Privacy Management Practices”: <http://www.whitehouse.gov/sites/default/files/omb/memoranda/2015/m-15-01.pdf>

<sup>23</sup> The mission of the Cybersecurity CAP goal is to improve cybersecurity performance through ongoing awareness of information security, vulnerabilities, and threats impacting the operating information environment, ensuring that only authorized users have access to resources and information; and the implementation of technologies and processes that reduce the risk of malware. For more information on CAP goals, see <http://www.performance.gov>.

<sup>24</sup> See [https://www.us-cert.gov/sites/default/files/publications/Heartbleed\\_percent20OpenSSL\\_percent20Vulnerability\\_0.pdf](https://www.us-cert.gov/sites/default/files/publications/Heartbleed_percent20OpenSSL_percent20Vulnerability_0.pdf).

<sup>25</sup> See <https://www.us-cert.gov/ncas/alerts/TA14-268A>.

Modernization Act of 2014 (FISMA Modernization) was signed into law in December 2014, and it enhances the security of Federal networks placing new requirements on Federal agencies to improve the transparency and performance of their cybersecurity programs, among other things. In 2015, the Administration will be working to ensure FISMA Modernization is implemented effectively throughout Government. Although FISMA Modernization addresses many challenges, additional legislative action is required to improve the overall cybersecurity of the Nation. In January 2015, the Administration proposed legislative changes through a Cybersecurity Legislative Proposal.<sup>26</sup> This proposal covers three critical areas:

- Enabling Cybersecurity Information Sharing: Increased information sharing is a key element in improving our cybersecurity posture and the proposal promotes better information sharing between the private sector and Government.
- Data breach standards: The Administration’s updated proposal on security breach reporting helps business and consumers by simplifying and standardizing the existing patchwork of 46 State laws (plus the District of Columbia and several territories) that contain data breach reporting requirements into one Federal statute, and it puts in place a single, clear requirement to ensure that companies notify their employees and customers about security breaches on a timely basis.
- Criminal penalties: The Administration’s proposal contains provisions that would allow for the prosecution of the sale of botnets; would criminalize the overseas sale of stolen U.S. financial information like credit card and bank account numbers; would expand Federal law enforcement authority to deter the sale of spyware used to stalk or commit ID theft; and would give courts the authority to shut down botnets engaged in distributed denial of service attacks and other criminal activity.

<sup>26</sup> See <http://www.whitehouse.gov/the-press-office/2011/05/12/fact-sheet-cybersecurity-legislative-proposal>

## **CONCLUSION**

Ensuring the efficiency, effectiveness, and security of Federal IT has never been more central to how Americans are served by their Government. Over the past six years, this Administration has focused on driving efficiencies in the way the government buys, builds, and delivers IT solutions to provide improved services to citizens, and these efforts will be strengthened in 2015 and further scaled across Government in 2016. The 21<sup>st</sup> Century digital service delivery standards being set by this Administration

represent an important commitment to future generations. The 2016 Budget includes funding that will launch the Nation on a path to hire the leading digital experts, institutionalize modern digital delivery practices, and establish more effective partnerships both within Government and with the private sector that will ensure our citizens are provided services at a historically unprecedented level of quality and timeliness.



## 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 Budget’s historical tables).<sup>1</sup> 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.

<sup>1</sup> The historical tables are available at <http://www.budget.gov/budget/Historicals> and on the Budget CD-ROM.

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 \$464.3 billion in 2014. They are estimated to increase to \$520.9 billion in 2015 and decrease to \$490.6 billion in 2016. The major factors contributing to these changes are described below.

Major Federal investment outlays will comprise an estimated 12.3 percent of total Federal outlays in 2016 and 2.6 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 \$233.5 billion in 2014 and are estimated slightly increase to \$235.3 billion in 2016. Physical investment outlays are for construction and rehabilitation, the purchase of major equipment, and the

**Table 18–1. COMPOSITION OF FEDERAL INVESTMENT OUTLAYS**  
(In billions of dollars)

Federal Investment	Actual 2014	Estimate	
		2015	2016
<b>Major public physical capital investment:</b>			
Direct Federal:			
National defense .....	117.1	115.2	110.9
Nondefense .....	37.5	43.2	39.8
Subtotal, direct major public physical capital investment .....	154.6	158.4	150.7
Grants to State and local governments .....	78.9	82.0	84.6
Subtotal, major public physical capital investment .....	233.5	240.4	235.3
<b>Conduct of research and development:</b>			
National defense .....	70.6	72.6	76.9
Nondefense .....	60.7	61.6	63.1
Subtotal, conduct of research and development .....	131.3	134.2	140.1
<b>Conduct of education and training:</b>			
Grants to State and local governments .....	56.6	61.0	58.1
Direct Federal .....	42.8	85.3	57.1
Subtotal, conduct of education and training .....	99.5	146.2	115.2
<b>Total, major Federal investment outlays .....</b>	<b>464.3</b>	<b>520.9</b>	<b>490.6</b>
<b>MEMORANDUM</b>			
<b>Major Federal investment outlays:</b>			
National defense .....	187.6	187.8	187.8
Nondefense .....	276.7	333.0	302.8
Total, major Federal investment outlays .....	464.3	520.9	490.6
<b>Miscellaneous physical investment:</b>			
Commodity inventories .....	-0.5	-0.1	-0.1
Other physical investment (direct) .....	2.0	2.4	2.5
Total, miscellaneous physical investment .....	1.5	2.3	2.4
<b>Total, Federal investment outlays, including miscellaneous physical investment .....</b>	<b>465.8</b>	<b>523.2</b>	<b>493.0</b>

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 \$110.9 billion in 2016. Approximately 92 percent of defense physical investment outlays, or an estimated \$102.1 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 \$117.1 billion in 2014 to \$110.9 billion in 2016, primarily due to reduced spending for 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 \$39.8 billion in 2016. Outlays for 2016 include \$21.0 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, the Power Marketing Administrations within the Department of Energy, 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; construction for the administration of justice programs (largely in Customs and Border Protection within the Department of Homeland Security); construction of office buildings by the General Services Administration; and construction for embassy security. Outlays for the acquisition of major equipment are estimated to be \$18.6 billion in 2016. The largest amounts are for information systems in the Department of Veterans Affairs, facilities and equipment; airport and airway trust fund in the Department of Transportation and procurement, acquisition and construction in the Department of Commerce.

Grants to State and local governments for physical investment are estimated to be \$84.6 billion in 2016, up from \$81.9 billion in 2015. Over 78 percent of these outlays, or \$66.6 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 2015 to 2016. 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 \$140.1 billion in 2016. 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 \$76.9 billion, are for national defense. Physical investment for research and development facilities and equipment is included in the physical investment category.

Non-Defense outlays for the conduct of research and development are estimated to be \$63.1 billion in 2016. 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 \$99.5 billion in 2014 and are estimated to rise to \$115.2 billion in 2016. 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 \$58.1 billion in 2016, roughly 50 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. Outlays in grants for education and training decrease from \$60.9 billion in 2015 to \$58.1 billion in 2016, largely due to completed outlays of American Reinvestment and Recovery Act funding in 2015. Direct Federal education and training outlays are estimated to be \$57.1 billion in 2016, up from \$42.8 billion in 2014 but down from \$85.3 billion in 2015. Programs in this category primarily consist of aid for higher education through student financial assistance, loan subsidies, and veterans' education, training, and rehabilitation. The year-to-year pattern of outlays in this category is partially due to updated estimates recorded in 2014 and 2015 of the subsidy costs of past student loan cohorts due to legislative, programmatic, and technical changes.

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 \$111 million in 2016.

Outlays for other miscellaneous physical investment are estimated to be \$2.5 billion in 2016. 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		
	2014 Actual	2015 Estimate	2016 Estimate	2014 Actual	2015 Estimate	2016 Estimate
<b>GRANTS TO STATE AND LOCAL GOVERNMENTS</b>						
Major public physical investment:						
Construction and rehabilitation:						
Transportation:						
Highways .....	39,352	39,198	49,336	42,952	43,269	45,266
Mass transportation .....	11,869	12,044	19,639	12,135	12,622	13,040
Rail transportation .....	1,385	1,394	2,438	2,498	3,293	4,335
Air and other transportation .....	3,908	3,678	3,977	3,505	4,045	3,928
Subtotal, transportation .....	56,514	56,314	75,390	61,090	63,229	66,569
Other construction and rehabilitation:						
Pollution control and abatement .....	2,929	2,936	2,982	3,179	3,031	3,061
Community and regional development .....	4,178	3,965	3,855	7,927	9,074	8,216
Housing assistance .....	3,624	3,499	3,878	4,314	3,827	3,834
Other .....	669	588	737	565	773	705
Subtotal, other construction and rehabilitation .....	11,400	10,988	11,452	15,985	16,705	15,816
Subtotal, construction and rehabilitation .....	67,914	67,302	86,842	77,075	79,934	82,385
Other physical assets .....	1,840	1,904	4,196	1,863	2,060	2,260
Subtotal, major public physical investment .....	69,754	69,206	91,038	78,938	81,994	84,645
Conduct of research and development:						
Agriculture .....	334	339	350	240	356	301
Other .....	203	198	237	173	174	163
Subtotal, conduct of research and development .....	537	537	587	413	530	464
Conduct of education and training:						
Elementary, secondary, and vocational education .....	37,181	36,853	42,230	38,906	41,359	37,480
Higher education .....	471	330	280	402	477	368
Research and general education aids .....	736	738	823	797	850	790
Training and employment .....	3,545	3,081	3,526	3,270	3,590	3,795
Social services .....	11,737	11,768	13,587	10,540	11,791	12,091
Agriculture .....	416	416	420	406	595	639
Other .....	2,188	2,215	2,264	2,319	2,307	2,924
Subtotal, conduct of education and training .....	56,274	55,401	63,130	56,640	60,969	58,087
Subtotal, grants for investment .....	126,565	125,144	154,755	135,991	143,493	143,196
<b>DIRECT FEDERAL PROGRAMS</b>						
Major public physical investment:						
Construction and rehabilitation:						
National defense:						
Military construction and family housing .....	7,742	5,156	6,930	9,239	8,704	8,614
Atomic energy defense activities and other .....	28	138	145	27	147	167
Subtotal, national defense .....	7,770	5,294	7,075	9,266	8,851	8,781
Non-Defense:						
International affairs .....	1,994	1,649	1,612	1,106	1,173	1,367
General science, space, and technology .....	1,304	1,172	1,291	1,175	1,338	1,314
Water resources projects .....	2,905	2,694	2,167	3,240	3,959	3,794
Other natural resources and environment .....	1,093	1,102	1,487	1,047	1,133	1,294
Energy .....	6,585	6,069	5,163	6,718	6,192	4,804
Postal service .....	315	414	402	376	541	458
Transportation .....	59	294	300	78	229	390
Veterans hospitals and other health facilities .....	2,910	3,441	3,951	2,826	3,749	3,166

**Table 18-2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued**  
(In millions of dollars)

Description	Budget Authority			Outlays		
	2014 Actual	2015 Estimate	2016 Estimate	2014 Actual	2015 Estimate	2016 Estimate
Administration of justice .....	2,089	1,983	1,385	1,727	1,152	1,461
GSA real property activities .....	1,668	1,328	2,505	896	1,480	1,244
Other construction .....	1,746	3,314	12,002	2,095	3,962	1,715
Subtotal, nondefense .....	22,668	23,460	32,265	21,284	24,908	21,007
Subtotal, construction and rehabilitation .....	30,438	28,754	39,340	30,550	33,759	29,788
Acquisition of major equipment:						
National defense:						
Department of Defense .....	99,931	102,091	111,827	107,457	106,000	101,757
Atomic energy defense activities .....	512	416	507	382	372	380
Subtotal, national defense .....	100,443	102,507	112,334	107,839	106,372	102,137
Non-Defense:						
General science and basic research .....	351	383	418	367	370	399
Postal service .....	580	1,809	1,795	374	1,457	1,873
Air transportation .....	3,329	3,325	3,474	3,456	3,511	3,487
Water transportation (Coast Guard) .....	1,196	992	780	1,437	1,192	1,284
Other transportation (railroads) .....	.....	.....	10	.....	.....	1
Hospital and medical care for veterans .....	1,352	999	1,020	1,472	1,386	1,394
Federal law enforcement activities .....	1,825	1,909	1,910	1,664	1,747	1,962
Department of the Treasury (fiscal operations) .....	315	292	389	234	264	300
National Oceanic and Atmospheric Administration .....	2,032	2,105	2,401	1,976	2,232	2,289
Other .....	4,486	4,631	4,976	4,791	5,483	5,602
Subtotal, nondefense .....	15,466	16,445	17,173	15,771	17,642	18,591
Subtotal, acquisition of major equipment .....	115,909	118,952	129,507	123,610	124,014	120,728
Purchase or sale of land and structures:						
National defense .....	-41	-37	-41	-38	-27	-35
Natural resources and environment .....	265	242	539	227	242	393
General government .....	109	.....	.....	124	28	.....
Other .....	-45	-48	-165	90	387	-190
Subtotal, purchase or sale of land and structures .....	288	157	333	403	630	168
Subtotal, major public physical investment .....	146,635	147,863	169,180	154,563	158,403	150,684
Conduct of research and development:						
National defense:						
Defense military .....	65,762	67,433	71,956	66,534	67,985	72,102
Atomic energy and other .....	4,845	4,548	4,531	4,042	4,633	4,844
Subtotal, national defense .....	70,607	71,981	76,487	70,576	72,618	76,946
Non-Defense:						
International affairs .....	411	411	497	391	411	419
General science, space, and technology:						
NASA .....	11,257	11,565	11,601	10,776	10,617	10,617
National Science Foundation .....	5,430	5,562	5,864	5,198	5,271	5,558
Department of Energy .....	4,079	4,043	4,161	4,108	4,055	4,161
Subtotal, general science, space, and technology .....	20,766	21,170	21,626	20,082	19,943	20,336
Energy .....	2,386	2,323	2,963	2,363	2,341	2,771
Transportation:						
Department of Transportation .....	699	738	914	672	676	752
NASA .....	476	516	500	481	555	555
Other transportation .....	19	19	18	24	28	22
Subtotal, transportation .....	1,194	1,273	1,432	1,177	1,259	1,329
Health:						
National Institutes of Health .....	29,131	28,892	29,500	28,429	28,636	29,008
Other health .....	1,629	1,875	1,913	1,196	1,715	1,522
Subtotal, health .....	30,760	30,767	31,413	29,625	30,351	30,530
Agriculture .....	1,633	1,652	1,905	1,583	2,048	1,899
Natural resources and environment .....	2,134	2,159	2,372	1,916	2,010	2,130

**Table 18-2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued**  
 (In millions of dollars)

Description	Budget Authority			Outlays		
	2014 Actual	2015 Estimate	2016 Estimate	2014 Actual	2015 Estimate	2016 Estimate
National Institute of Standards and Technology .....	575	594	804	529	346	679
Hospital and medical care for veterans .....	1,101	1,059	1,114	1,142	1,041	1,082
All other research and development .....	1,614	1,564	1,650	1,509	1,339	1,503
Subtotal, nondefense .....	62,574	62,972	65,776	60,317	61,089	62,678
Subtotal, conduct of research and development .....	133,181	134,953	142,263	130,893	133,707	139,624
Conduct of education and training:						
Elementary, secondary, and vocational education .....	1,388	1,623	1,888	1,186	1,292	1,451
Higher education .....	16,864	59,476	30,267	19,986	60,563	30,360
Research and general education aids .....	2,128	2,131	2,324	2,077	2,125	2,222
Training and employment .....	2,210	2,141	2,340	2,032	2,315	2,312
Health .....	1,501	1,556	2,093	1,597	1,684	1,766
Veterans education, training, and rehabilitation .....	13,533	15,327	15,629	13,729	14,702	16,323
General science and basic research .....	908	871	902	833	786	919
International affairs .....	593	602	639	623	699	820
Other .....	874	903	823	786	1,090	917
Subtotal, conduct of education and training .....	39,999	84,630	56,905	42,849	85,256	57,090
Subtotal, direct Federal investment .....	319,815	367,446	368,348	328,305	377,366	347,398
Total, Federal investment .....	446,380	492,590	523,103	464,296	520,859	490,594

## 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. The Nation depends on science, technology, and innovation to promote sustainable economic growth and job creation, maintain a safe and sufficient food supply, improve the health of all Americans, move us toward a clean energy future, address global climate change, manage competing demands on environmental resources, and ensure the security of the Nation. 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 2016 Budget provides \$146 billion for Federal research and development (R&D), including the

conduct of R&D and investments in R&D facilities and equipment. Detailed definitions and discussion of the reporting process are available in Section II below. The Administration continues to champion R&D, providing a 5.5 percent funding increase over 2015 enacted levels<sup>1</sup> for R&D. In conjunction with this investment, the 2016 Budget proposes to expand, simplify, and make permanent the Research and Experimentation tax credit, providing certainty and spurring private investment in R&D.

Finally, the 2016 Budget continues to strengthen U.S. international leadership by investing in the high-tech knowledge-based economy and innovation-fueled growth industries. 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> R&D spending figures for FY 2015 are preliminary and may change as agency operating plans are finalized.

### I. PRIORITIES FOR FEDERAL RESEARCH AND DEVELOPMENT

The Budget 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. Federal government funding for R&D is essential to address societal needs in areas in which the private sector does not have sufficient economic incentive to make the required investments. Key among these is the fundamental, curiosity-driven inquiry that has been a hallmark of the American research enterprise and a powerful driver of unexpected, new technology. The Budget provides \$67 billion for basic and applied research because such research is a reliable source of new knowledge, which in turn drives job creation and lasting economic growth.

The 2016 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 \$13.8 billion in 2016 for these three agencies, an increase of \$0.7 billion over the 2015 enacted level.

#### Promoting Advanced Manufacturing and Industries of the Future

The Administration is committed to revitalizing America's manufacturing sector, which will require in-

novation in the products that are manufactured and the manufacturing systems themselves. 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 2016 Budget provides \$2.4 billion for Federal R&D directly supporting advanced manufacturing at NSF, the Department of Defense (DOD), DOE, DOC, and other agencies, consistent with the goals and recommendations of the Strategic Plan. The Budget funds a national network of 45 manufacturing innovation institutes that will position the United States as a global leader in advanced manufacturing technology. Specifically, the Budget builds on the nine institutes already funded through 2015 with more than \$350 million in additional discretionary funds to support seven new manufacturing innovation institutes in DOC, DOD, DOE, and the Department of Agriculture (USDA) which will solicit proposals on a wide-range of focus areas across the manufacturing sector. The Budget also includes a mandatory spending proposal of \$1.9 billion to fund the remaining 29 institutes in the network.

In addition, as part of the broader effort, the Budget continues to invest in the National Robotics Initiative 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 compo-

ment 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.

### 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, advanced 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 \$7.4 billion for clean energy technology programs government-wide to accelerate the transition to a clean energy economy and position the United States as the world leader in the energy industries of the 21st Century. DOE, DOD, USDA, and NSF are the largest investors in clean energy technology programs, with DOE providing about 75 percent of the total government-wide funding.

In DOE, the 2016 Budget provides about \$5.6 billion in discretionary funding for clean energy technology programs. Specifically, it provides \$2.7 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 32 percent above 2015 enacted levels for sustainable vehicle and fuel technologies, by 60 percent for energy efficiency and advanced manufacturing activities, and by 41 percent for innovative renewable power projects. The USDA pursues complementary biofuel efforts to support development of next-generation biofuels. The Budget supports clean energy R&D through the Office of Nuclear Energy and Office of Fossil Energy, including funding for advanced reactors R&D, quantification and mitigation of methane emissions from natural gas infrastructure, and activities primarily dedicated to further lowering the costs of carbon capture and storage. The Budget 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.

### Observing our Planet

Earth-observation data are necessary for government services that protect human life, property, the economy, and national security, as well as advancing fundamental understanding of the Earth. The Budget supports investments in Earth observations, such as Earth-observing satellites and monitoring of water, air, wildlife, invasive species, and ecosystems, consistent with the 2014 National Plan for Civil Earth Observations. Within the National Aeronautics and Space Administration (NASA), the Budget provides \$1.9 billion to sustain progress toward satellite missions and research that will improve our understanding of Earth, its atmosphere, and oceans. The Budget provides \$2.2 billion for the National Oceanic and Atmospheric Administration's satellite programs, including the next generation of polar-orbiting and geostationary satellite systems that are critical to weather forecasting. Satellite observations contribute directly to the National Weather Service's ability to issue public warnings to protect life and property. The Budget also proposes funding for the Sustainable Land Imaging program, jointly managed by NASA and the Department of Interior's U.S. Geological Survey, to continue the 42-year unbroken record of global land-imaging measurements made by the Landsat series of satellites. Consistent with the Administration's open data initiative, the Budget continues investments across multiple agencies in improving the accessibility and usability of Earth-observing data.

### Understanding and Responding to Global Climate Change and Its Impacts

The President's Climate Action Plan provides a blueprint for responsible national and international action to slow the effects of climate change. The year 2014 ranks as Earth's warmest since 1880, and 14 of the 15 warmest years on record have all fallen in the first 15 years of this century. One of the key activities supported in the Climate Action Plan is actionable climate science, which is critical in helping government officials, communities, and businesses better understand and manage the risks associated with climate change. In support of this goal, the Administration has continued, through the U.S. Global Change Research Program (USGCRP), to advance actionable climate science to improve our understanding of climate change and its impacts, requesting approximately \$2.7 billion for these programs. The 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 climate change and their related impacts and effects. Within coordinated USGCRP inter-agency investments, the 2016 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; 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 climate change impacts and vulnerabilities; and advancing communications and education to broaden public understanding of climate change. The 2016 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. The Budget also invests in science to understand our national and global carbon stocks and sinks in order to implement carbon mitigation strategies. In addition, the Budget makes significant investments in technology and tools to support the climate resilience and preparedness of the Federal government and its State, tribal, and local partners. This includes \$20 million to continue expanding and improving the recently-released online Climate Resilience Toolkit, which provides scientific tools and information to help tribes, communities, citizens, businesses, planners, and others manage their climate-related risks and opportunities, and improve their resilience to extreme events. Through this website, interested parties can access a variety of tools and data streams to help them understand how certain changes in environmental conditions—such as sea level rise and flooding, or droughts and wildfires—may impact their communities.

### **Informing 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 2016 Budget provides robust R&D funding to support resource decision making and environmental stewardship at the Department of the Interior, Environmental Protection Agency, National Oceanic and Atmospheric Administration, and USDA, particularly through user-driven information and tools. The Budget 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 report, "Agricultural Preparedness & the United States Agricultural Research Enterprise," the 2016 Budget invests \$450 million in USDA's Agriculture and Food Research Initiative, 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.

### **Improving Americans' Health through Innovation in Life Sciences, Biology, and Neuroscience**

The Administration is committed to funding Federal R&D investments in fundamental biological discovery research that could generate unexpected, high-impact scientific and technological advances in health. The 2016 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 combating antibiotic-resistant bacteria, neuroscience, and Precision Medicine – an innovative field that provides healthcare professionals with tools, knowledge, and treatments to tailor care to a person's unique characteristics such as their genetic makeup. These discoveries will help improve the prevention and treatment of diseases and support the bioeconomy of the future.

The 2016 Budget proposes \$31.3 billion for the National Institutes of Health (NIH) to support high-quality, innovative biomedical research both on-campus and at research institutions across the country. The Budget supports basic and translational research to increase understanding of the causes of disease and spur development of diagnostic tests, treatments, and cures. The Budget increases NIH investments in Alzheimer's disease research, and the multi-agency BRAIN initiative. The Budget includes \$200 million for NIH's contribution to a Precision Medicine Initiative that will launch a study of a million or more Americans, expand research to define cancer subtypes and identify new therapeutic targets. The Budget also includes over \$450 million for research at NIH on antibiotic-resistant bacteria. The NIH investment is part of a \$1.2 billion effort from many bureaus of the Department of Health and Human Services, as well as the Departments of Veterans Affairs, DOD and USDA, to combat antibiotic-resistant bacteria. These resources will be used to prevent, detect, and control illness and death related to infections caused by antibiotic-resistant bacteria and will also help support the advancement of therapeutics for the treatment of bacterial infections.

The Budget includes over \$506 million in mandatory R&D funding for the independent Patient-Centered Outcomes Research Institute to conduct clinical comparative effectiveness research, as authorized by the Affordable Care Act.

The Budget also proposes \$1.1 billion for medical and prosthetic research across the Department of Veterans Affairs.

### **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. DOD R&D investments in the 2016 Budget focus on areas deemed to have the greatest impact on our nation and future military requirements. To this end, the 2016 Budget provides \$71.3 billion for DOD R&D, an increase of 9% percent from the 2015 enacted level.

The 2016 Budget proposes \$12.3 billion for DOD's Science & Technology program, a subset of DOD R&D which consists of basic research, applied research and advanced technology development.

The 2016 Budget also maintains DOD's critical role in fostering breakthrough approaches for discovering promising technologies with \$3.0 billion for the Defense Advanced Research Projects Agency (DARPA), which promotes advanced research to create breakthrough technologies for tomorrow's military systems. This funding level represents an increase of \$101 million from the 2015 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 \$4.8 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, including \$559 million in funding for the Department of Homeland Security R&D programs that protect the Nation's people and critical infrastructure from chemical, biological, radiological, nuclear, and cyber attacks.

### **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 STEM learning in the United States. Over the past two years, the Administration has made considerable progress towards creating a more cohesive framework for delivering STEM education. Guided

by the Federal STEM Education Five-Year Strategic Plan and a significant reorganization of programs, agencies are increasing coordination, strengthening partnerships, and identifying ways to leverage existing resources to improve the reach of agency assets. The 2016 Budget builds on these efforts and continues to reduce fragmentation, ensuring that investments are aligned with the Strategic Plan and support effective programs with strategic approaches to evaluation. The Budget invests \$3.1 billion in STEM education programs, \$103 million above 2015 enacted, including \$202 million for K-12 education in the Department of Education's Math and Science Partnerships, and \$338 million for graduate fellowships, \$62 million for graduate traineeships, and \$135 million for improving undergraduate education at the NSF.

### **Expanding Our Capabilities in Space**

The Budget provides \$18.5 billion for NASA to support the President's vision for innovation and scientific discovery on Earth and beyond. NASA drives innovation in the aerospace sector and enhances the Nation's capabilities in space in areas such as communications, space-based observations, space transportation, scientific discovery, and national defense. The Budget provides \$1.2 billion for the Commercial Crew program, which will develop lower-cost means to transport astronauts to orbit and eliminate our reliance on Russia for crew transport to the International Space Station. The Budget also provides \$725 million for Space Technology and \$230 million for Advanced Exploration Systems to develop technologies that will reduce the cost and increase the capabilities of NASA, other government, and commercial space activities.

## **II. FEDERAL R&D DATA**

R&D is defined as 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.

### **Background on 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.

While the definitions for R&D activities have been stable for decades, interpretations of which programs are conducting R&D can vary with time. Government-wide efforts are underway to increase the accuracy and consistency of R&D budget. In the 2016 Budget, additional accounts within DOD have begun reporting \$1.5 to \$1.9

billion in R&D activities for the years covered in Table 19-1. At the Federal Aviation Administration, the application of the R&D definitions has been reanalyzed at the program level, leading to an increase in R&D reporting for this year versus previous Budgets.

### 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:** Federal IT R&D, which launched and fueled the digital revolution, continues to drive innovation in scientific research, national security, communication, and commerce to sustain U.S. technological leadership. The multi-agency Networking and Information Technology Research and Development (NITRD) Program provides strategic planning for and coordination of agency research efforts in big data, cyber-physical systems, cybersecurity, health IT high-confidence systems, high-end computing systems, human computer interaction, IT workforce development, large-scale networking, software design, wireless spectrum sharing, and other research relevant to advanced information technologies.

The 2016 Budget includes a focus on research to address the challenges and opportunities afforded by big data while providing appropriate privacy protections for personal data. The Budget continues to prioritize cybersecurity research to develop novel approaches and technologies that can protect U.S. systems from cyber-attacks, to emphasize research that advances cyber-physical systems and the efficient use of wireless spectrum, and to promote high-end computing. The 2016 Budget also provides \$242 million to support the National Strategic

Computing Initiative within the DOE to promote innovation in high-performance computing to support national security, scientific discovery, and economic competitiveness. Budget information for NITRD is available at [www.nitrd.gov](http://www.nitrd.gov).

**Nanotechnology R&D:** Working cooperatively through the National Nanotechnology Initiative (NNI), Federal agencies continue to support R&D aimed at creating a future in which the ability to understand and control matter at the nanoscale leads to a revolution in technology and industry that benefits society. Agencies participating in the NNI conduct R&D on 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. NNI agencies will also continue their strong support for R&D on the environmental, health, and safety aspects of nanotechnology needed to ensure responsible development. NNI agencies and the National Nanotechnology Coordination Office (NNCO) will work with the business community, state and local governments, and the private sector to explore new approaches and leverage existing programs to foster broader commercialization of nanotechnology-enabled products. In addition, NNI agencies and the NNCO will continue to expand stakeholder engagement to advance nanotechnology-based STEM education, training, and outreach. Budget information is available at [www.nano.gov](http://www.nano.gov).

### IV. R&D IS AN INVESTMENT IN AMERICA'S FUTURE

America's long-term economic competitiveness and growth -- including sustaining efforts to grow domestic manufacturing -- also depend on robust investments in research and development (R&D), which provide the foundation needed to further grow the economy. Federal funding for R&D has helped lead to new products, new capabilities, and new industries, resulting in sustainable economic growth and highly-skilled, high-wage jobs,

as well as the creation of an astounding array of products and services that benefit every American. Today, we look to engineering and science to address our biggest challenges: creating jobs; improving the health of all Americans; enhancing access to clean energy, water, and food; addressing global climate change; managing competing demands on environmental resources; and ensuring the security of the Nation.

**Table 19–1. FEDERAL RESEARCH AND DEVELOPMENT SPENDING**  
(Budget authority, dollar amounts in millions)

	2014 Actual	2015 Enacted	2016 Proposed	Dollar Change: 2015 to 2016	Percent Change: 2015 to 2016
<b>By Agency<sup>1</sup></b>					
Defense <sup>2</sup> .....	66,018	67,451	72,121	4,670	7%
Health and Human Services .....	30,685	30,475	31,040	565	2%
Energy .....	11,996	11,736	12,597	861	7%
NASA .....	11,906	12,145	12,238	93	1%
National Science Foundation .....	5,827	5,999	6,309	310	5%
Agriculture .....	2,380	2,446	2,884	438	18%
Commerce .....	1,556	1,526	2,127	601	39%
Veterans Affairs .....	1,101	1,090	1,147	57	5%
Transportation <sup>3</sup> .....	853	900	1,115	215	24%
Interior .....	840	904	985	81	9%
Patient-Centered Outcomes Research Trust Fund .....	297	506	578	72	14%
Homeland Security <sup>4</sup> .....	1,032	1,032	569	-463	-45%
Environmental Protection Agency .....	539	523	559	36	7%
Education .....	315	333	279	-54	-16%
Smithsonian Institution .....	227	245	261	16	7%
Other .....	763	758	885	127	17%
<b>TOTAL</b> .....	<b>136,335</b>	<b>138,069</b>	<b>145,694</b>	<b>7,625</b>	<b>6%</b>
<b>Basic Research</b>					
Defense .....	2,112	2,292	2,101	-191	-8%
Health and Human Services .....	15,862	15,482	15,966	484	3%
Energy .....	4,095	4,120	4,245	125	3%
NASA .....	3,371	3,198	3,198	0	0%
National Science Foundation .....	4,752	4,834	5,062	228	5%
Agriculture .....	992	1,004	1,114	110	11%
Commerce .....	205	210	239	29	14%
Veterans Affairs .....	451	429	450	21	5%
Transportation .....	.....	.....	.....	.....	.....
Interior .....	52	53	61	8	15%
Patient-Centered Outcomes Research Trust Fund .....	.....	.....	.....	.....	.....
Homeland Security <sup>4</sup> .....	41	41	41	0	0%
Environmental Protection Agency .....	.....	.....	.....	.....	.....
Education .....	27	6	7	1	17%
Smithsonian Institution .....	200	209	225	16	8%
Other .....	27	19	19	0	0%
<b>SUBTOTAL</b> .....	<b>32,187</b>	<b>31,897</b>	<b>32,728</b>	<b>831</b>	<b>3%</b>
<b>Applied Research</b>					
Defense .....	4,664	4,775	4,819	44	1%
Health and Human Services .....	14,621	14,791	14,864	73	0%
Energy .....	4,550	4,363	4,683	320	7%
NASA .....	2,358	2,402	2,480	78	3%
National Science Foundation .....	678	728	802	74	10%
Agriculture .....	1,090	1,105	1,251	146	13%
Commerce .....	1,053	919	1,086	167	18%
Veterans Affairs .....	583	564	597	33	6%
Transportation .....	635	673	766	93	14%
Interior .....	665	701	785	84	12%
Patient-Centered Outcomes Research Trust Fund .....	297	506	578	72	14%
Homeland Security <sup>4</sup> .....	210	210	176	-34	-16%
Environmental Protection Agency .....	456	442	474	32	7%
Education .....	179	199	159	-40	-20%
Smithsonian Institution .....	.....	.....	.....	.....	.....
Other .....	507	533	626	93	17%
<b>SUBTOTAL</b> .....	<b>32,546</b>	<b>32,911</b>	<b>34,146</b>	<b>1,235</b>	<b>4%</b>

**Table 19-1. FEDERAL RESEARCH AND DEVELOPMENT SPENDING—Continued**  
(Budget authority, dollar amounts in millions)

	2014 Actual	2015 Enacted	2016 Proposed	Dollar Change: 2015 to 2016	Percent Change: 2015 to 2016
<b>Development</b>					
Defense <sup>2</sup> .....	58,986	60,366	65,036	4,670	8%
Health and Human Services .....	30	30	30	0	0%
Energy .....	2,559	2,322	2,621	299	13%
NASA .....	6,004	6,481	6,423	-58	-1%
National Science Foundation .....	.....	.....	.....	.....	.....
Agriculture .....	179	177	181	4	2%
Commerce .....	85	164	400	236	144%
Veterans Affairs .....	67	66	67	1	2%
Transportation .....	198	199	304	105	53%
Interior .....	107	110	113	3	3%
Patient-Centered Outcomes Research Trust Fund .....	.....	.....	.....	.....	.....
Homeland Security <sup>4</sup> .....	348	348	344	-4	-1%
Environmental Protection Agency .....	78	76	80	4	5%
Education .....	109	128	113	-15	-12%
Smithsonian Institution .....	.....	.....	.....	.....	.....
Other .....	235	215	264	49	23%
<b>SUBTOTAL .....</b>	<b>68,985</b>	<b>70,682</b>	<b>75,976</b>	<b>5,294</b>	<b>7%</b>
<b>Facilities and Equipment</b>					
Defense .....	256	18	165	147	817%
Health and Human Services .....	172	172	180	8	5%
Energy .....	792	931	1,048	117	13%
NASA .....	173	64	137	73	114%
National Science Foundation .....	397	437	445	8	2%
Agriculture .....	119	160	338	178	111%
Commerce .....	213	233	402	169	73%
Veterans Affairs .....	.....	31	33	2	6%
Transportation .....	20	28	45	17	61%
Interior .....	13	39	2	-37	-95%
Patient-Centered Outcomes Research Trust Fund .....	.....	.....	.....	.....	.....
Homeland Security <sup>4</sup> .....	433	433	8	-425	-98%
Environmental Protection Agency .....	5	5	5	0	0%
Education .....	.....	.....	.....	.....	.....
Smithsonian Institution .....	27	36	36	0	0%
Other .....	-3	-8	.....	.....	.....
<b>SUBTOTAL .....</b>	<b>2,617</b>	<b>2,579</b>	<b>2,844</b>	<b>265</b>	<b>10%</b>

<sup>1</sup> Some numbers in the chapter text include non-R&D activities and thus will be different from the R&D numbers in this table.

<sup>2</sup> In this Budget, Department of Defense began reporting development activities from three additional accounts, adding \$1.9 billion in FY 2014, \$1.8 billion in FY 2015, and \$1.5 billion in FY 2016.

<sup>3</sup> Classification of R&D activities at the Federal Aviation Administration have been recently updated.

<sup>4</sup> As of the date the 2016 Budget was released, final 2015 appropriations for the Department of Homeland Security were not yet enacted. Therefore, the 2015 column of this table reflects amounts requested for the Department of Homeland Security in the 2015 Budget.



## 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.

This chapter discusses the roles of these diverse programs:

- The first section emphasizes the roles of Federal credit and insurance programs in addressing market imperfections that may prevent the private market from efficiently providing credit and insurance.
- The second section discusses individual credit programs and the GSEs. Credit programs are broadly classified into five categories: housing, education, small business and farming, energy and infrastructure, and international lending.
- The third section reviews Federal deposit insurance, pension guarantees, disaster insurance, and insurance against terrorism and other security-related risks.

### 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 credit assistance in serving these purposes should be carefully compared with that of more direct 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, re-pricing, and cancellation, Government regulation and supervision can be more effective in some cases, especially where covering a large portion of the target population is important. For a complex business like banking, close examination may be necessary to deter risk-taking. Without legal authority, close examination may be impractical. When it is difficult to prevent risk-taking, private insurers may turn down many applicants and often cancel policies, which is socially undesirable in some cases. To the extent possible, bank failures should be managed to reduce dis-

ruption 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 massive bank failures and some natural and man-made disasters that can threaten the solvency of private insurers. In addition, some lenders may have limited funding sources. Small local banks, for example, may have to rely largely on local deposits.

**Insufficient Competition.** Competition can be insufficient in some markets because of barriers to entry or economies of scale. Insufficient competition may result in unduly high prices of credit and insurance in those markets.

**Externalities.** Decisions at the individual level are not socially optimal when individuals do not capture the full benefit (positive externalities) or bear the full cost (negative externalities) of their activities. Education, for

example, generates positive externalities because the general public benefits from the high productivity and good citizenship of a well-educated person. Pollution, in contrast, is a negative externality, from which other people suffer. Without Government intervention, people may engage less than the socially optimal level in activities that generate positive externalities and more in activities that generate negative externalities.

**Financial Market Instability.** Another rationale for Federal intervention is to prevent instability in the financial market. Without deposit insurance, for example, the financial market would be much less stable. When an economic shock impairs the financial structure of many banks, depositors may find it difficult to distinguish between solvent banks and insolvent ones. In this situation, a large number of bank failures might prompt depositors to withdraw deposits from all banks (bank runs). Bank runs would make bank failures contagious and harm the entire economy. Deposit insurance is critical in preventing bank runs.

## II. CREDIT IN VARIOUS SECTORS

### Housing Credit Programs and GSEs

Through housing credit programs, the Federal Government promotes homeownership and housing among various target groups, including low- 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. Millions of families were foreclosed upon and millions more found themselves owing more on their homes than their homes were worth. Private capital all but disappeared from the market. Without the Federal support provided to the housing market since 2008, the situation would have been 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 with balloon payments that require 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 mortgages guaranteed by FHA, VA, and USDA) 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 remain stuck in high-interest mortgages and face higher risk of foreclosure given the economic challenges resulting from the crisis.

The return of conventional financing to the mortgage market—with appropriate safeguards for consumers and investors including prudent underwriting 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, 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 2014 to \$135 billion. In line with the volume decrease, the FHA's market share for home purchase loans declined to 18 percent by the beginning of calendar year 2014, 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**

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 for FHA, however, are concentrated in the minority of borrowers who default and whose lender files a claim, with the average per claim cost being 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 market bubbles burst and the effects 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 can 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 2014, over 75 percent of new FHA loans were financed with less than five percent down. The disadvantage to low down-payment mortgages is that they have little in the way of an equity cushion should house prices decline or events such as income loss or unexpected medical expenses make it difficult for households to remain current on their mortgage payment. When these occur, the net sales proceeds from home sales may not be sufficient to support exit strategies that allow borrowers to completely pay off the debt and relocate to more affordable housing.

According to its annual actuarial analysis, FHA has been below its target minimum capital reserve ratio of 2 percent since 2009. As the housing market recovers and FHA improves its risk management, the actuarial review has found that FHA's capital reserve increased by \$21 billion over the last two years and projects that the ratio will again exceed 2 percent within two years. 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. FHA accounts contain sufficient funds to pay anticipated claims and unlike pri-

vate 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 Promote Access to Credit***

During 2013, FHA took the following steps to bolster financial performance:

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. For HECM reverse mortgages, reduced initial loan disbursements and required financial assessments and, where appropriate, cash set-asides to increase compliance with property insurance and tax requirements.

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, who have the security of 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 reduced 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.

FHA increased insurance premiums to bolster its capital resources five times since 2008. For a typical borrower, the cumulative increases were 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 capital reserves have grown substantially.

Given the improvement in FHA's financial position, it makes sense to partially reverse part of these premium increases to promote access to housing credit. The Budget reflects that a 0.50 percentage point reduction of annual premiums, from 1.35 percent to .85 percent, was rolled out in January 2015. Even with this reduction, FHA will col-

lect premiums on new mortgages that are well above the estimated costs of guaranteeing those mortgages against default. As a result, FHA will continue on a strong trajectory towards restoring its capital reserve ratio. This reduction also provides pricing to new FHA borrowers more in line with the stronger underwriting requirements they have to meet in order to qualify and will make homeownership more likely for many borrowers, including those who have sufficient credit quality but would lack the income to support mortgage payments at the higher premium levels.

In addition to the single-family mortgage insurance provided through the MMI program, FHA's General Insurance and Special Risk Insurance (GISRI) loan 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. Reflective of FHA's countercyclical role in the market and low interest rates, annual loan volume for GI/SRI programs grew from less than \$5 billion in 2008 to more than \$24 billion in 2013. Driven by a sharp drop in refinancing activity, volume declined to \$15 billion in 2014, but is projected to increase modestly in 2015 and 2016 due to FHA's continued focus on lending to promote affordable rental housing through initiatives such as the Low-Income Housing Tax Credit (LIHTC) pilot and Federal Financing Bank (FFB) financing of multi-family risk-share loans.

### **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 172,167 zero down payment loans and 150,348 fee-exempt loans to veterans with service-connected disabilities in 2014. The number of loans VA guaranteed remained at a high level in 2014, 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 2014 allowed 163,011 Veteran borrowers to lower the interest rate on their home mortgages through refinancing. VA provided almost \$99 billion in guarantees to assist 432,199 borrowers in 2014, following \$135 billion and 600,023 borrowers in 2013.

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 2014.

### **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 2016 Budget continues USDA single family housing assistance programs through direct loans and loan guarantees. Within its \$24 billion guarantee loan level, the Budget expects RHS to provide over \$3.3 billion in loans for low-income rural borrowers, which will provide 30,300 new homeownership opportunities to that income group. Overall, the program could potentially provide almost 164,000 new homeownership opportunities to low- to moderate-income rural residents in 2016. This funding level includes the continuation of an annual and up-front fee structure. These fees 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, allowing approved lenders with a strong track record with the program to make the loans on behalf of the government and no longer requiring USDA to sign-off in conjunction with each loan. 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 2016 Budget provides a loan level of \$900 million, which is expected to allow 6,800 low to very-low income rural residents realize the dream of home ownership.

For USDA's multifamily housing portfolio, the Budget focuses primarily on portfolio management. Management includes the retention of its existing portfolio of affordable rental housing as well as the rehabilitation of that housing to continue to provide safe and decent housing for our residents. USDA is working with OMB and other Federal housing partners, as well as program participants, to develop solutions that will continue to provide rental subsidies for the low and very-low income residents in those properties with maturing mortgages at the lowest cost to the government. The Budget fully funds this rehabilitation effort by providing \$46.5 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 effec-

tively 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 \$1.172 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 \$200 million in guaranteed multifamily housing loans and \$15.1 million in budget authority for the Farm Labor Housing grants and loans program. The combined 2016 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 regulation of the housing GSEs and provided the Treasury Department with authorities to purchase GSE securities. 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 (FHFA), placed Fannie Mae and Freddie Mac under Federal conservatorship, and Treasury began to exercise its purchase authorities to provide support to 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. The FHLBs have generally shown positive monthly net interest income and net income during 2014, and some have benefitted from premium yields and the accretion to income of previously recognized losses on private-la-

bel mortgage-backed securities. Private-label mortgage backed securities constituted 2.2 percent of FHLB assets at the end of September 2014. Strict collateral requirements, superior lien priority, and joint debt issuances backed by the entire system have helped the FHLBs remain solvent, and have added significant retained earnings to produce growth in FHLB system-wide capital from just above the regulatory ratio of 4 percent in 2008 to 5.6 percent through September 2014.

In recent years, the FHLBs have experienced changes in membership composition and in advance demand that have created operational challenges. Partially in response to these challenges, the Boards of the FHLBs of Des Moines and Seattle have filed an application to merge. FHFA approved the application in December 2014, but the merger will not be finalized until the members of both Banks ratify the agreement.

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 rose to 55 percent in 2003. Subsequently, originations of subprime and non-traditional mortgages led to a surge of private-label mortgage-backed securities, 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 52 percent as of September 30, 2014.

### **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 nearly 40 percent of the U.S. mortgage market, and as of November 30, 2014, they totaled \$4.2 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, 2014, these retained mortgages, financed largely by GSE debt, totaled \$826 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 wind-down of the GSEs' retained mortgage portfolios, 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, 2014, 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, monitoring GSE compliance with those goals, and 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 significant 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 portfo-

lio purchase activity. The housing goals for 2012 through 2014, promulgated on November 13, 2012, establish revised benchmarks but maintain the structural changes implemented for 2010 and 2011. The revised goals for Fannie Mae and Freddie Mac comprise four goals and one subgoal for single-family, and one goal and one subgoal for multifamily housing. FHFA has determined that both Fannie Mae and Freddie Mac exceeded the 2012 benchmark levels on all of the single-family and multifamily goals. While FHFA's evaluation of the GSEs' performance in reaching the 2013 goals is underway, its preliminary determination indicates that Fannie Mae fell short on one goal, and that Freddie Mac fell short on three goals. On August 29, 2014, FHFA published a proposed rule that would establish new affordable housing goals for years 2015-2017.

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 under-capitalization or a number of other factors.

### **Conservatorship**

On September 6, 2008, FHFA placed Fannie Mae and Freddie Mac under Federal 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 put Fannie Mae and Freddie Mac in a sound and solvent condition and to preserve and conserve the assets of each firm. As conservator, FHFA has assumed by operation of law the powers of the Board and shareholders at Fannie Mae and Freddie Mac. FHFA has appointed Directors and CEOs who 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. In its 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, FHFA outlined three key goals for conservatorship: 1) maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets; 2) reduce taxpayer risk through increasing the role of private capital in the mortgage market; and 3) build a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future.

### **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 to purchase GSE securities. These purchase 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 positive net worth 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, 2014, \$187.5 billion has been invested in the GSEs, and the initial liquidation preference of the senior preferred stock held by Treasury has increased accordingly. The PSPAs 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, replaced 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, 2014, the GSEs have paid a total of \$225.4 billion in dividends payments to Treasury on the senior preferred stock. The Budget estimates additional dividend receipts of \$153.3 billion from January 1, 2015, through FY 2025. The cumulative budgetary impact of the PSPAs from the establishment of the PSPAs through FY 2025 is estimated to be a net return to taxpayers of \$191.2 billion. The Temporary Payroll Tax Cut Continuation Act of 2011 signed into law on December 23, 2011, required that the GSEs increase their fees on security guarantees issued through 2021 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 \$39.5 billion from FY 2012 through FY 2025.

### *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 guar-

antee 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 purchase authority that Treasury used for this program expired, and 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 used its purchase authorities under HERA to initiate two programs 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 backed by new HFA housing bond issuances. As of December 31 2014, NIBP balances had decreased to approximately \$8.4 billion. 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. In late 2012, Treasury granted three-year extensions to the TCLP agreements for six HFAs in order to give these HFAs additional time to reduce their TCLP balances. The revised agreements will expire by December 2015. As of December 31, 2014, the remaining balance of TCLP backed bonds had decreased to \$0.7 billion.

### *Recent GSE Role in Administration Initiatives to Relieve the Foreclosure Crisis and Support Access to Affordable Housing*

While under Federal conservatorship, Fannie Mae and Freddie Mac have continued to play a leading role in Government and private market initiatives to prevent homeowners who are having difficulty making 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, servicers, and borrowers re-

ceive 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 generally paid by the GSEs. As of November 30, 2014, nearly 2.3 million trial modifications have been initiated, resulting in more than 1.4 million homeowners entering permanent mortgage modifications. HAMP has also encouraged the mortgage industry to adopt similar programs that have helped millions more at no cost to the taxpayer. In May of 2014, the Administration announced an extension of MHA to at least December 31, 2016, to continue supporting homeowners who are facing foreclosure, those who are struggling with increasing interest rates on their modified mortgages, and those whose homes are underwater. For more information on HAMP and other TARP housing programs, see the Budgetary Effects of the Troubled Asset Relief Program chapter of this volume.

Fannie Mae and Freddie Mac also facilitate underwater refinancing through 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. With the introduction of HARP in 2009, eligible borrowers with LTVs up to 105 percent (later extended to 125 percent) could qualify. On October 24, 2011, FHFA announced that HARP 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. In April of 2013, FHFA announced a two year extension of HARP to December 31, 2015. From the inception of the program through October 2014, 3.2 million refinancings have been completed through HARP.

As the housing market strengthens, the Administration has worked to expand responsible lending to creditworthy borrowers and to increase access to affordable rental housing for families not ready or wanting to buy a home. Under the direction of FHFA, the GSEs continue to play a role in these efforts. In November 2014, Fannie Mae and Freddie Mac announced a revised framework that clarifies the circumstances under which lenders may be required to repurchase a loan when the GSEs determine that a loan purchase does not meet their underwriting guidelines. This step is expected to help alleviate lender uncertainty that has contributed to increased credit overlays that drive up lending costs and reduce access to credit.

In December 2014, the GSEs released guidelines that will enable creditworthy borrowers who can afford a mortgage, but lack the resources to pay a substantial down payment plus closing costs, to obtain a mortgage with a down payment of 3 to 5 percent. In addition, FHFA directed the GSEs to begin setting aside 4.2 basis points for each dollar of unpaid principal balance of new business purchases (such as mortgages purchased for securitization) in each year to fund several federal affordable housing programs created by HERA. These set-asides, initially authorized by HERA, were suspended by FHFA in November 2008 and were reinstated effective January 1, 2015, subject to terms and conditions as prescribed by FHFA.

### ***Future of the GSEs***

To finish addressing the weaknesses exposed by the financial crisis, the housing finance system must be reformed, and the GSEs should be wound down. The bipartisan progress in the Senate last year was a meaningful step towards securing a system that aligns with many of the Administration's principles for reform, including ensuring that private capital is at the center of the housing finance system so that taxpayer assistance is never again required, and that the new system supports broad access to credit and affordable rental housing through programs like the Housing Trust and Capital Magnet Funds. The Administration will continue to work with Congress to pass comprehensive reform centered on several core principles: require more private capital in the system; end the Fannie Mae/Freddie Mac duopoly business model in order to improve system stability and better protect taxpayers; ensure broad access for all creditworthy families to sustainable products like the 30-year fixed rate mortgage in good times and bad; and help ensure sustainable rental options are widely available.

In the absence of comprehensive housing finance reform legislation, the Administration continues to take actions that balance our desire to reduce taxpayer risk with the need to support the continued flow of mortgage credit in a recovering housing market. 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. The GSEs and FHFA also plan to continue building a new single-family securitization platform that can be adapted for use by the GSEs as well as non-GSE users in order to increase liquidity in the secondary mortgage market.

## Education Credit Programs

Historically, the Department of Education financed student loans through two 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) which ended the FFEL program. 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 and parents of students regardless of income, but the terms of the loans differ. There are three types of Direct Loans: Federal Direct Subsidized Stafford Loans, Federal Direct Unsubsidized Stafford Loans, and Federal Direct PLUS Loans. For Direct Subsidized Stafford loans which are available to undergraduate borrowers from low and moderate income families, the Federal Government provides other benefits, including not charging interest while the borrowers are in school and during certain deferment periods.

In 2013 President Obama signed the Bipartisan Student Loan Certainty Act which established interest rates for all types of new Direct Loans made on or after July 1, 2013. Interest rates on Direct Loans are set annually based on Treasury rates but once the rate is set, the rate is fixed for the life of the loan. Interest rates are 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 loan type with specific caps for each loan type. For Federal Direct Subsidized Stafford Loans and Federal Direct Unsubsidized Stafford Loans issued to undergraduate students, the rate is 2.05 percentage points above the Treasury 10-year note rate and capped at 8.25 percent. For Federal Direct Unsubsidized Stafford Loans issued to graduate and professional students, the rate is 3.6 percentage points above the Treasury rate and capped at 9.5 percent. For Federal Direct PLUS Loans issued to parents and graduate and professional students, the rate is 4.6 percentage points above the Treasury rate and capped at 10.5 percent.

The Direct Loan program offers a variety of flexible repayment plans including income-driven ones for all student borrowers, regardless of the type of loan they borrowed. In October 2011, the Administration announced a "Pay As You Earn" (PAYE) initiative for certain eligible student borrowers that set monthly loan payments at no more than 10 percent of the borrowers' discretionary incomes and with their remaining balances forgiven after 20 years. In the summer of 2014, the President announced his plan to extend similar benefits, by December 2015, to all student borrowers. The 2016 Budget proposes to reform the PAYE terms to ensure that the program's benefits are well-targeted.

In addition, the Federal Perkins Loan Program has provided low interest loans to help students finance the costs of postsecondary education. Students at approximately 1,700 participating postsecondary institutions could obtain Perkins loans from the school. However, the authority for schools to make Federal Perkins Loans ended on September 30, 2014, subject to an automatic one-year extension under section 422(a) of the General Education Provisions Act. Thus, absent Congressional action, the statutory authority for schools to make Federal Perkins loans to new borrowers ends on September 30, 2015. However, the 2016 Budget proposes to create an expanded, modernized Perkins Loan program providing \$8.5 billion in loan volume annually.

## 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 2014 SBA's outstanding balance of direct and guaranteed loans totaled approximately \$114 billion. Due to the improved economy and SBA improvements in lender documentation requirements, demand for SBA guaranteed loans has significantly increased in recent months. For this reason, the 2015 limitation on SBA's 7a loan guarantees was increased to \$18.75 billion, compared to its historical limit of \$17.5 billion, and the Budget increases it to \$21 billion to accommodate expected demand as the economy and opportunities for small businesses grow.

The 2016 Budget supports \$36 billion in financing for small businesses with no subsidy costs through the 7(a) General Business Loan program and the 504 Certified Development Company (CDC) program. As noted, the 7(a) program will support \$21 billion in guaranteed loans that will help small businesses operate and expand. 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 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 SBICs' venture

capital investments in small businesses. 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, \$159 million is provided through the Budget Control Act's disaster relief cap adjustment for costs related to Stafford Act (Presidentially-declared) disasters.

For the 2016 Budget, SBA recorded a net downward reestimate of \$1.6 billion in the expected costs of its outstanding loan portfolio, reflecting an improved loan performance forecast, which will decrease the 2015 budget deficit.

Due to continued improving economic conditions and better-than-anticipated performance of the outstanding loans, the 7(a) and 504 programs are projected to have zero subsidy cost for 2016. As a result, SBA's annual fees charged to lenders and borrowers are decreased from recent years in 2016. This has enabled SBA and the 2016 Budget to continue fee waivers on small dollar 7(a) loans as well as 7(a) loans to veteran-owned businesses.

The Budget also requests \$35 million in direct loans, and \$25 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.

The 2016 Budget also includes a mandatory proposal to create the Scale-Up Manufacturing Investment Funds (SUMIF) program within SBA that would support young, innovative manufacturing technologies by financing their scale-up from prototypes to commercial-scale facilities in the United States. The SUMIF is designed to generate \$10 billion in investment activity over five years, using \$5 billion in Federal financing and a matching amount of private funds to bridge a significant portion of the financing gap for small advanced manufacturing startups. The program would support private funds in a similar way to how SBA operates its SBIC debt guarantee program, but of a much larger fund and project size necessary to support the needs of manufacturing scale-up efforts. The estimated subsidy costs associated with each application for a Federal contribution to a fund would be determined on a fund-by-fund basis using actual fund financial information. For purposes of the 2016 Budget, a subsidy rate of 25 percent is assumed, which assumes conservative cash flow assumptions and an annual fee to offset some expected default costs.

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 has 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 have allowed States to create or improve various 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 translates into \$15 billion in new lending to small businesses at the 10-to-1 leverage ratio. As of September 30, 2014, SSBCI had approved funding for 47 states, 5 territories, 4 municipalities, and the District of Columbia for a total of nearly \$1.5 billion in obligations, of which \$1.1 billion had already been disbursed.

The Budget proposes a new authorization of \$1.5 billion for a second round of the State Small Business Credit Initiative to build on the momentum of the program's first round, strengthen the Federal government's relationship with state economic development agencies, and provide capital to America's diverse community of entrepreneurs. The proposal requires \$1 billion of the funding to be competitively awarded to States best able to target local market needs, promote inclusion, attract private capital for start-up and scale-up businesses, strengthen regional entrepreneurial ecosystems, and evaluate results. The remaining \$500 million will be allocated to States according to a need-based formula reflecting economic factors such as job losses and pace of economic recovery.

The second Treasury program created by the 2010 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 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 Budget estimates that SBLF will generate cumulative budgetary savings of \$10 million, calculated on a net present value basis as required by the Federal Credit Reform Act.

### **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 2014, FSA provided loans and loan guarantees to more than 37,000 family farmers totaling \$5.2 billion. Direct and guaranteed loan programs provided assistance totaling \$2.4 billion to beginning farmers during 2014. Loans for socially disadvantaged farmers totaled \$759 million, of which \$420 million was in the farm ownership program and \$339 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. The majority of assistance provided in the operating loan program during 2014 was to beginning farmers as well. 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. Low grain prices and uncertainty over interest rates are causing lenders to force their marginal borrowers to FSA for credit. 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 2016 Budget, FSA proposes to make \$6.4 billion in direct and guaranteed loans through discretionary programs, including guaranteed conservation loans. The overall loan level for conservation loans is unchanged from the 2015 requested level of \$150 million.

Lending to beginning farmers was strong during 2014. FSA provided direct or guaranteed loans to more than 20,000 beginning farmers. Loans provided under the Beginning Farmer Down Payment Loan Program represented 39 percent of total direct ownership loans made during the year, substantially higher than the previous year. Fifty seven percent of direct operating loans were made to beginning farmers, an increase of 17 percent in dollar volume over 2013. Overall, as a percentage of funds available, lending to beginning farmers was 2 percentage points above the 2013 level, comprised of a 6 percent increase in ownership loans and no change in the percentage of operating loans made to beginning farmers. Lending to minority and women farmers was a significant portion of overall assistance provided, with \$759 million in loans and loan guarantees provided to more than 8,500 farmers. This represents an increase of 21 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 simplifies application procedures for small loans, and implements more flexible eligibility and experience requirements. The demand for the micro-loan program continues to grow while delinquencies and defaults remain at or below that of the regular FSA operating loan program. 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. This transition is still in progress and is expected to be implemented in the near future.

### **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. In addition, they serve rural America by providing financing for rural residential real estate, rural communication, energy and water infrastructure, and agricultural exports.

The financial condition of the System's banks and associations remains fundamentally sound. Between September 30, 2013, and September 30, 2014, the ratio of capital to assets increased from 16.5 percent to 16.9 percent. Capital consisted of \$42.1 billion in unrestricted capital and \$3.7 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 2014, net income equaled \$3.6 billion compared with \$3.5 billion for the same period of the previous year. The increase in net income resulted primarily from an increase in net interest income and noninterest income.

Over the 12-month period ending September 30, 2014, nonperforming loans as a percentage of total loans outstanding decreased from 1.15 percent to 0.85 percent, primarily due to loan repayments in excess of loans being transferred into nonaccrual status. System assets moderately grew 7.3 percent during that period due to increases in real estate mortgage loans and agribusiness loans. Real estate mortgage loans increased due to strong demand for financing higher priced cropland. The increase in agribusiness loans was due to increased lending to food and agribusiness companies and an increase in advances on existing loans to processing and marketing agribusiness companies. The System's loans outstanding grew by \$13.8 billion, or 7.1 percent, while over the past five years they grew by \$50.8 billion, or 23.0 percent. As required

by law, borrowers are also stockholder-owners of System banks and associations. As of September 30, 2014, System institutions had 502,875 of these stockholders-owners.

The number of FCS institutions continues to decrease because of consolidation. As of September 30, 2014, the System consisted of four banks and 78 associations, compared with seven banks and 104 associations in September 2002. Of the 81 FCS banks and associations, 76 of them had one of the top two examination ratings (1 or 2 on a 1 to 5 scale) and accounted for 99 percent of System's assets. Four FCS institutions had a rating of 3, and one institution was rated a 4.

The dollar volume of new loans to young, beginning, and small farmers and ranchers fell in 2013 from 2012 along with the decline in the System's overall volume of new farm loans made. Loans to young, beginning, and small farmers and ranchers represented 11.0 percent, 14.6 percent, and 15.2 percent, respectively, of the total dollar volume of all new farm loans made in 2013. All three percentages were lower than those reported for 2012. The number of loans to young and beginning farmers increased from 2012 to 2013 by 2.3 percent and 5.0 percent, respectively. However, the number of loans to small farmers fell 0.5 percent. 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. Grain prices have fallen to near four-year lows as USDA is predicting record large harvests for the major grains, thanks to favorable weather during the planting and harvest season. As a result, stress to the protein, dairy and ethanol industries has subsided. The housing sector continues to slowly improve, and it is expected to translate into improved credit conditions for the housing related sectors such as timber and nurseries. Nonetheless, the agricultural sector remains subject to future risks such as a farmland price decline, a rise in interest rates, continued volatility in commodity prices, 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, 2014, the assets in the Insurance Fund totaled \$3.7 billion. As of September 30, 2014, the Insurance Fund as a percentage of adjusted insured debt was 1.97 percent. This was slightly below the statutory secure base level of 2 percent. During the first nine months of calendar year 2014, insured System obligations grew by 3.4 percent.

### **Federal Agricultural Mortgage Corporation (Farmer Mac)**

Farmer Mac was established in 1988 as a federally chartered instrumentality of the United States and an in-

stitution 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, 2014, Farmer Mac's total outstanding program volume (loans purchased and guaranteed, standby loan purchase commitments, and AgVantage bonds purchased and guaranteed) amounted to \$14.0 billion, which represents an increase of 1.6 percent from the level a year ago. Of total program activity, \$10.0 billion were on-balance sheet loans and guaranteed securities, and \$3.9 billion were off-balance-sheet obligations. Total assets were \$14.5 billion, with non-program investments (including cash and cash equivalents) accounting for \$4.2 billion of those assets. Farmer Mac's net income for the first three quarters of calendar year 2014 was \$32.6 million, a significant decrease from the same period in 2013 during which Farmer Mac reported net income of \$59.3 million. The decrease in net income is largely attributable to unusually high unrealized gains in the prior period and unrealized losses on financial derivatives in 2014 through September.

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 losses of \$12.5 million for the first three quarters of 2014, compared with unrealized gains of \$22.5 million for the same period in 2013 (both pre-tax). Although unrealized changes in fair-value of financial derivatives temporarily impact earnings and capital, those changes are not expected to have any permanent effect if the financial derivatives are held to maturity, as is expected.

### **Energy and Infrastructure Credit Programs**

This Administration is committed to constructing a new foundation for economic growth and job creation, and clean energy is a critical component of that. The general public, as well as individual consumers and owners, benefits from clean energy and well-developed infrastructure. Thus, the Federal Government promotes clean energy and infrastructure development through various credit programs.

#### **Credit Programs to Promote Clean and Efficient Energy**

The Department of Energy (DOE) administers two credit programs that serve to reduce emissions and enhance energy efficiency: a loan guarantee program to

support innovative energy technologies and a direct loan program to support advanced automotive technologies.

The DOE's Title 17 loan guarantee program is authorized to issue loan guarantees for projects that employ innovative technologies to reduce air pollutants or man-made greenhouse gases. The program was first provided \$4 billion in loan volume authority in 2007. The 2009 Consolidated Appropriations Act provided an additional \$47 billion in loan volume authority, allocated as follows: \$18.5 billion for nuclear power facilities, \$2 billion for "front-end" nuclear enrichment activities, \$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 2016 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 transmission/energy storage projects. Four projects withdrew prior to any disbursement of funds. In

2014, DOE closed on two loan guarantees totaling \$6.5 billion to support the construction of two new commercial nuclear power reactors.

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.

The Budget also provides \$9 million in credit subsidy for the Tribal Indian Energy Loan Guarantee Program. The program will support clean energy development on Indian land.

### **Electric and Telecommunications Loans**

Rural Utilities Service (RUS) programs of the United States Department of Agriculture (USDA) provide loans for rural electrification, telecommunications, distance learning, telemedicine, and broadband, and also provide grants for distance learning and telemedicine (DLT).

The Budget includes \$6 billion in direct loans for electricity distribution, construction of renewable energy facilities, transmission, and carbon capture projects on facilities to replace fossil fuels. The Budget also provides \$690 million in direct telecommunications loans, \$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 2016 President's Budget is \$1.65 billion. These funds are available to communities of 10,000 or fewer residents.

The Community Facility (CF) Program targets grants and direct loans to rural communities with fewer than 20,000 residents. The 2016 Budget includes \$50 million for the CF grants to expand the community facility grant program to address ongoing needs and emerging priorities such as Promise Zones, Energy Sector Transition, and Strike Force Communities. These funds will allow USDA to be responsive to new needs in communities across rural America and target them in a flexible way. In addition, the Budget includes a program level of \$2.2 billion for CF direct loans.

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 2016, USDA proposes to provide \$792 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 \$60 million in funding to support \$485 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 47 projects that have received TIFIA credit assistance represent almost \$72 billion of infrastructure investment in the United States. Government commitments in these partnerships constitute over \$19 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 2016, 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 in-

surance 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.

### Supporting our International Partners

The U.S. government, through USAID, can extend short-to-medium-term loan guarantees that cover potential losses that might be incurred by lenders if a country defaults on its borrowings; for example, the U.S. may guarantee another country's sovereign bond issuance. The purpose of this tool is to provide our sovereign international partners access to necessary, urgent, and relatively affordable financing during temporary periods of strain when they cannot access such financing on international financial markets, and to support critical

reforms that will enhance long term fiscal sustainability, often in concert with support from international financial institutions such as the International Monetary Fund. The long term goal of sovereign loan guarantees is to help lay the economic groundwork for our international partners to graduate to an unenhanced bond issuance on the international capital markets. For example, as part of the U.S. response to fiscal crises, the U.S. government has extended sovereign loan guarantees to Tunisia, Jordan, and Ukraine to enhance their access to capital markets, while promoting economic policy adjustment.

### 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 to budget for the cost associated with the risk of international lending. The cost of lending by these agencies is governed by proprietary U.S. Government ratings, which correspond to a set of default estimates over a given maturity. The methodology establishes assumptions about default risks in international lending using averages of international sovereign bond market data. The strength of this method is its link to the market and an annual update that adjusts the default estimates to reflect the most recent risks observed in the market.

## Promoting Economic Growth and Poverty Reduction through Debt Sustainability

The Enhanced Heavily Indebted Poor Countries (HIPC) Initiative reduces the debt of some of the poorest

countries with unsustainable debt burdens that are committed to economic reform and poverty reduction.

## III. INSURANCE PROGRAMS

### Deposit Insurance

Federal deposit insurance promotes stability in the U.S. financial system. Prior to the establishment of Federal deposit insurance, depository institution failures often caused depositors to lose confidence in the banking system and rush to withdraw deposits. Such sudden withdrawals caused serious disruption to the economy. In 1933, in the midst of the Great Depression, a system of Federal deposit insurance was established to protect depositors and to prevent bank failures from causing widespread disruption in financial markets.

Today, the Federal Deposit Insurance Corporation (FDIC) insures deposits in banks and savings associations (thrifts) using the resources available in its Deposit Insurance Fund (DIF). The National Credit Union Administration (NCUA) insures deposits (shares) in most credit unions through the National Credit Union Share Insurance Fund (SIF). (Some credit unions are privately insured.) As of September 30, 2014, the FDIC insured \$6.1 trillion of deposits at 6,589 commercial banks and thrifts, and the NCUA insured \$896 billion of shares at 6,350 credit unions.

### 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 immediate and longer-term integrity of the Federal deposit insurance system. The Helping Families Save Their Homes Act of 2009 (PL. 111-22) provided NCUA with tools to protect the Share Insurance Fund and the financial stability of the credit union system. Notably, the Helping Families Save Their Homes Act:

- Established the Temporary Corporate Credit Union Stabilization Fund (TCCUSF), allowing NCUA to segregate the losses of corporate credit unions and providing a mechanism for assessing those losses to federally insured credit unions over an extended period of time;
- Provided flexibility to the NCUA Board by permitting use of a restoration plan to spread insurance premium assessments over a period of up to eight years or longer in extraordinary circumstances, if the SIF equity ratio fell below 1.2 percent; and
- Permanently 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 requires the FDIC to achieve a 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 1.5 percent or higher, 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 2025) 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, 2014, the DIF fund balance stood at \$54.3 billion. The growth in the DIF balance is a result of fewer bank failures and higher assessment revenue. The reserve ratio on September 30, 2014 was 0.89 percent.

As of September 30, 2014, the number of insured institutions on the FDIC's "problem list" (institutions with the highest risk ratings) totaled 329, which represented a decrease of more than 62 percent from December 2010,

the peak year for bank failures during the recent crisis. Furthermore, the assets held by problem institutions decreased by nearly 74 percent.

The SIF ended September 2014 with assets of \$11.9 billion and an equity ratio of 1.30 percent. 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 2014, NCUA distributed SIF dividends of \$95 million to the TCCUSF. As of September 30, 2014, the TCCUSF had a \$2.6 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 1.4 percent in September 2014 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, 2014, the SIF had set aside \$167.3 million in reserves to cover potential losses, a reduction of over 31 percent from the \$244 million set-aside as of September 30, 2013.

### **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 higher resolution outlays in 2015 will slightly decrease the DIF reserve ratio to 0.83 percent at year-end. From 2016 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 normal operating level, NCUA continues to seek compensation from the parties that created

and sold troubled assets to the failed corporate credit unions. As of September 30, 2014, NCUA's gross recoveries from securities underwriters total more than \$1.75 billion, helping to minimize losses and future assessments on federally insured 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 -\$78.2 billion (i.e. net inflows into the fund) over the 10-year budget window. As a result of updated economic assumptions and technical improvements to OMB's forecasting model, the projected net inflows between 2015 and 2024 are lower than the 2015 Mid-Session Review (MSR) projection by approximately \$3.7 billion. The latest public data on the banking industry led to a slight upward revision to bank failure estimates, which are consistent with long-term, historical averages in terms of failed bank assets as a percentage of GDP. With the higher bank failure projection, the Budget projects slightly higher FDIC premiums necessary to reach the minimum Wall Street Reform Act DIF reserve ratio of 1.35 percent. However, these changes combined with other model updates led to a decrease in the projected savings of the Deposit Insurance Fund relative to MSR.

### **Pension Guarantees**

The Pension Benefit Guaranty Corporation (PBGC) insures the pension benefits of workers and retirees in covered defined-benefit pension plans. PBGC operates two legally distinct insurance programs: single-employer plans and multiemployer plans.

*Single-Employer Program.* Under the single-employer program, PBGC pays benefits, up to a guaranteed level, when a company's plan closes without enough assets to pay future benefits. PBGC's claims exposure is the amount by which qualified benefits exceed assets in insured plans. In the near term, the risk of loss stems from financially distressed firms with underfunded plans. In the longer term, loss exposure results from the possibility that well-funded plans become underfunded due to inadequate contributions, poor investment results, or increased liabilities, and that the healthy firms sponsoring those plans become distressed.

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, federal law does not allow PBGC to deny insurance coverage to a defined-benefit plan 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.

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. The future financial health of the PBGC will continue to depend largely on the termination of a limited number of very large plans.

Single employer plans generally provide benefits to the employees of one employer. When an underfunded single employer plan terminates, usually through the bankruptcy process, 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 2014, the maximum annual payment guaranteed under the single-employer program was \$59,318 for a retiree aged 65. This limit is indexed for inflation.

PBGC's single-employer program has incurred substantial losses over the past 15 years 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.* Multiemployer plans are collectively bargained pension plans maintained by one or more labor unions and more than one unrelated employer, usually within the same or related industries. 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 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 multiemployer plans with financial assistance in the form of loans sufficient to pay guaranteed benefits and administrative expenses. Since multiemployer plans do not receive PBGC assistance until their assets are fully depleted, financial assistance is almost never repaid. 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 and the rate at which benefits are accrued. In 2014, for example, for a participant with 30 years of service, PBGC guarantees 100 percent of the pension benefit up to a yearly amount of \$3,960. If the pension exceeds that amount, PBGC guarantees 75 percent of the rest of the pension benefit up to a total maximum guarantee of \$12,870 per year. This limit has been in place since 2011.

In recent years, many multiemployer pension plans have become severely underfunded as a result of investment market declines, employers withdrawing from

plans, and demographic challenges. In 2001, only 15 plans covering about 80,000 participants were under 40 percent funded using estimated market rates. By 2011, this had grown to almost 200 plans covering almost 1.5 million participants. While many plans have benefited from an improving economy and will recover, a small number of plans are severely underfunded and, absent any changes, projected to become insolvent within ten years.

As of September 30, 2014, the single-employer and multi-employer programs reported deficits of \$19.3 billion and \$42.4 billion, respectively. While both programs are projected to be unable to meet their long-term obligations under current law, the challenges facing the multiemployer program are more immediate. In its 2014 Annual Report, PBGC reported that it had just \$2 billion in accumulated assets from premium payments made by multiemployer plans, which it projected would be depleted by 2022. If the program runs out of cash, the only funds available to support benefits would be the premiums that continue to be paid by remaining plans; this could result in benefits being cut much more deeply, to a small fraction of current guarantee levels.

To address the problems facing the multiemployer program and the millions of Americans who rely on those plans for their retirement security, the Congress passed The Multiemployer Pension Reform Act, which was included in the Consolidated and Further Continuing Appropriations Act signed on December 16, 2014. The law includes significant reforms to the multiemployer pension plan system, including provisions that allow trustees of multiemployer plans facing insolvency to apply to the Department of Treasury to reduce benefits by temporarily or permanently suspending benefits. The law does not allow suspensions for individuals over age 80 or for those receiving a disability retirement benefit. A participant or beneficiary's monthly benefit cannot be reduced below 110 percent of the PBGC guarantee. It also increases PBGC premiums from the \$13 per person to \$26 beginning in 2015. While the legislation is an important first step, it will not be enough to improve PBGC's solvency for more than a very short period of time. PBGC now projects that it is likely to become insolvent by 2024, extending its previous projected insolvency date by only two years.

*Premiums.* Premium increases are needed to shore up solvency in both of PBGC's insurance programs. The Congress has raised premium rates in both the single employer and multiemployer program twice since 2012, but, as CBO and others have noted, rates still remain much lower than what a private financial institution would charge for insuring the same risk, and, more importantly, well below what is needed to ensure that PBGC can meet the goal of providing benefits to beneficiaries when plans fail. While 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, premiums can be responsibly raised to shore up PBGC's balance sheet.

The 2016 Budget proposes to give the PBGC Board the authority to adjust premiums in both programs to

better account for the risk that different sponsors pose. Consistent with previous Administration proposals, the Board would be required to consult with stakeholders, including beneficiaries and pension plan sponsors, prior to setting a new premium schedule and to establish a hardship waiver and other limitations on plan-specific premium increases. PBGC would be directed to try to make the premiums counter-cyclical and any increase would be phased in gradually. In determining the new premium rates, the Board would consider a number of factors, including a plan's risk of losses to PBGC, the burden on plan sponsors, and the amount of a plan's underfunding. This proposal is estimated to generate \$19 billion over the next decade, which would be split between the single-employer and multiemployer programs in accordance with the size of each program's deficit after making adjustments for the expected long-term effects of the recent law.

### **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 fiscal year 2014, the program had over 5.3 million policies in more than 22,200 communities with \$1.28 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 ensure property owners are 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.

**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	\$7,304,186,215	15.05%
2 Delphi	2009	6,387,164,573	13.16%
3 Bethlehem Steel	2003	3,702,771,656	7.63%
4 US Airways	2003, 2005	2,708,858,934	5.58%
5 LTV Steel*	2002, 2003, 2004	2,134,985,883	4.40%
6 Delta Air Lines	2006	1,720,156,505	3.54%
7 National Steel	2003	1,319,009,116	2.72%
8 Pan American Air	1991, 1992	841,082,434	1.73%
9 Trans World Airlines	2001	668,377,105	1.38%
10 Weirton Steel	2004	640,480,969	1.32%
Top 10 Total		\$27,427,073,390	56.50%
All Other Total		\$21,118,826,949	43.50%
TOTAL		\$48,545,900,339	100.00%

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.

\* Does not include 1986 termination of a Republic Steel plan sponsored by LTV.

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. Seeking opportunities to simplify and clarify NFIP processes and products to make it easier for agents to sell and for consumers to buy.

These strategies resulted in steady policy growth for many years, peaking in 2008 at 5.62 million policies. From 2009-2013, due to the severe downturn in the economy policy growth stagnated varying between 5.55 million and 5.61 million. However, in fiscal year 2014, when some of the largest premium increases were introduced in compliance with the Biggert-Waters legislation, policy counts dropped 4.3% to 5.3 million.

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 reduces the disproportionate drain these properties cause on the National Flood Insurance Fund, 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 the Congress to improve the program. On July 6, 2012, the Biggert Waters Flood Insurance Reform Act of 2012 (BW-12) was signed into law. In addition to reauthorizing the NFIP for 5 years, the bill also requires the NFIP generally to move to full risk-based premium rates and strengthens the NFIP financially and operationally. In 2013, the NFIP began phasing in risk-based premiums for certain properties, as required by the law. In March 2014, the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) was signed into law, further reforming the NFIP and revising many sections of BW-12. Notably, HFIAA repealed many of the largest premium increases introduced by BW-12 and required refunds, introduced a phase-in to higher full-risk premiums for structures newly mapped into the Special Flood Hazard Area, and created a Flood Insurance Advocate.

### Crop Insurance

Subsidized Federal crop insurance, administered by USDA's Risk Management Agency (RMA) on behalf of the Federal Crop Insurance Corporation (FCIC), assists farmers in managing yield and revenue shortfalls due to bad weather or other natural disasters, and is commonly known as "multi-peril crop insurance" (MPCI). The program is a cooperative partnership between the Federal Government and the private insurance industry. Private insurance companies sell and service crop insurance policies. The Federal Government, in turn, pays private companies a subsidy to cover expenses associated with selling and servicing these policies. For the 2016 Budget, the payments to the companies are projected to be \$2.4 billion in combined subsidies. The Federal Government also provides reinsurance on MPCI policies through the Standard Reinsurance Agreement (SRA). However, the private companies also rely on commercial reinsurance for premium retained after reinsurance provided by the SRA. Last, the Federal Government also subsidizes premiums for farmers as a way to encourage farmers to participate in the program and purchase higher levels of coverage.

The 2016 Budget includes two proposals that are designed to optimize the current crop insurance program so that it will continue to provide a quality safety net at a lower cost:

1. Reduce premium subsidy by 10 percentage points for revenue coverage that includes additional coverage for the price at harvest. This would simplify revenue insurance by reducing indemnity payments based on the higher of the market price right before planting or the harvest price. This would, in turn, reduce the potential for "windfall" profits from this additional coverage. Under this coverage, farmers pay an out-of-pocket premium which more closely matches the market price of the coverage purchased. As a result, the number farmers choosing the more expensive coverage for price hedging will decrease.

Over 10 years the government will save \$14.6 billion, of which 9 percent will be from subsidies that the government pays the insurance companies.

2. Reform the prevented planting program by: adjusting payment rates for prevented planting to reflect rates suggested in a recent USDA study, eliminating prevented planting optional +5 and +10 coverage, and requiring a 60 percent transitional yield be applied to the producer's Actual Production History (APH) who receives a prevented planting payment. This is expected to save \$1.4 billion over 10 years and improve the accuracy of the prevented planting coverage as well as promote additional food production.

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 portion of the premium for buy-up coverage is paid by FCIC on behalf of producers and varies by coverage level - generally, the higher the coverage level, the lower the percent of premium subsidized. The remaining (unsubsidized) premium amount is owed by the producer and represents an out-of-pocket expense.

For 2014, the 10 principal crops, (barley, corn, cotton, grain sorghum, peanuts, potatoes, rice, soybeans, tobacco, and wheat) accounted for over 83 percent of total liability, and approximately 86 percent of the total U.S. planted acres of the 10 crops were covered by crop insurance. Producers can purchase both yield and revenue-based insurance products which are underwritten on the basis of a producer's APH. Revenue insurance programs protect against loss of revenue resulting from low prices, low yields, or a combination of both. Revenue insurance has enhanced traditional yield insurance by adding price as an insurable component. In the current program, the farmer can opt to cover the projected or the harvest price. Traditional revenue insurance only protects against a projected price, where the farmer is guaranteed a price at the time of planting. Revenue coverage that protects the price at the time of harvest guarantees the price to the farmer for the higher of the projected price or the harvest price. The harvest price protection policies are more costly than traditional revenue coverage and therefore more heavily subsidized by the government. Almost all farmers choose the harvest price option because taxpayers pay such a large portion of the extra premium and in some cases this heavy subsidy results in windfall profits to the farmer.

In addition to price and revenue insurance, FCIC has made available other plans of insurance to provide protection for a variety of crops grown across the United States. For example, "area plans" of insurance offer protection based on a geographic area (most commonly, a county), and do not directly insure an individual farm. Often, the loss trigger is based on an index, such as a rainfall or vegetative index, which is established by a Government entity (for example, NOAA or USGS). One

such plan is the pilot Rainfall and Vegetation Index plan, which insures 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 2014, there were 20,356 Rainfall and Vegetation Index policies earning premium, covering about 53 million acres of pasture, rangeland and forage. As of December 2014, there was about \$1 billion in liability, with \$155 million in indemnities paid to livestock producers who purchased coverage.

A crop insurance policy also contains coverage compensating farmers when they are prevented from planting their crops due to weather and other perils. When an insured farmer can't plant the planned crop within the planting time period because of excessive drought or moisture, the farmer may file a prevented planting claim, which pays the farmer a portion of the full coverage level. It is optional for the farmer to plant a second crop on the acres. If the farmer does, the prevented planting claim on the first crop is reduced and the farmer's APH is recorded for that year. If the farmer does not plant a second crop, the farmer gets the full prevented planting claim, and the farmer's APH is held harmless for premium calculation purposes the following year. USDA recently conducted a study to determine if the prevented planting costs were accurately priced for all crops and have considered policy changes for prevented planting based on the study's findings.

RMA is continuously working to develop new products and to expand or improve existing products in order to cover more agricultural commodities. Under section 508(h) of the Federal Crop Insurance Act, 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. Numerous private products have been approved through the 508(h) authority, including Downed Rice Endorsement, Machine Harvested Cucumbers, APH Olive, Camelina, Pulse Crop Revenue, Fresh Market Beans, and Louisiana Sweet Potato.

Last, the Agricultural Act of 2014 (2014 Farm Bill) expanded FCIC's authority to approve products developed under the 508(h) process, authorized new plans, and mandated specific research and development priorities. For example, in 2015 RMA will offer the Supplemental Coverage Option for major crops and the Stacked Risk Income Protection for upland cotton. These "area" plans were mandated by the 2014 Farm Bill and supplement an underlying MPCP policy. In addition, FCIC recently approved a Peanut Revenue plan and a Whole Farm Revenue Protection plan as authorized by the 2014 Farm Bill. More recently, RMA announced the APH Yield Exclusion option available to producers in 2015. This option allows producers to exclude unusually low yields from their yield history. Research and Development priorities set forth in the 2014 Farm Bill include biomass and sweet sorghum energy insurance, catastrophic programs for swine and poultry, margin coverage for catfish, and insurance for organic crops. In any instances RMA contracts with qualified entities to develop feasibility studies or develop the products.

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 increasing the private sector's share of losses, reducing lines of insurance covered by the program, and adding a threshold event amount triggering Federal payments.

In 2007, Congress enacted a further seven-year extension of TRIP and expanded the program to include losses from domestic as well as foreign acts of terrorism (P.L. 110-318). For all seven extension years, TRIP maintained 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 required Treasury to recoup 133 percent of all Federal payments made under the program up to \$27.5 billion, and accelerated deadlines for recoupment of any Federal payments made before September 30, 2017.

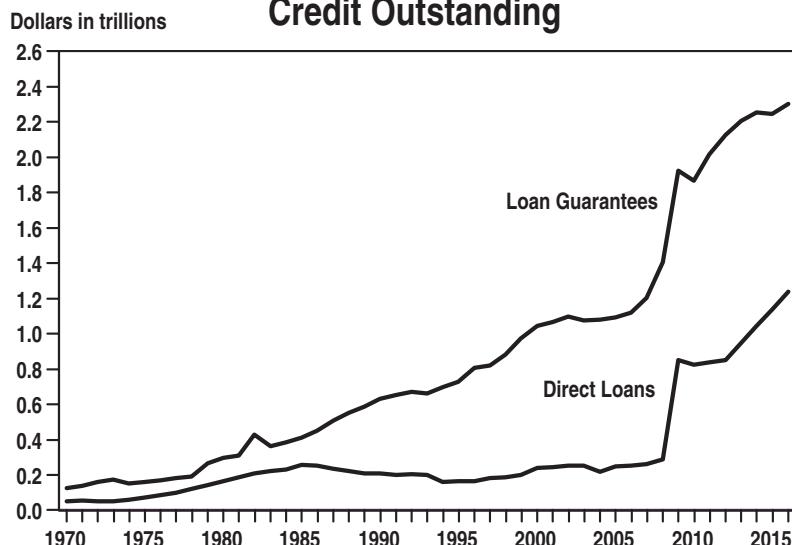
In January 2015, Congress passed the Terrorism Risk Insurance Extension Act of 2015 (P.L. 114-1), which extended TRIP for six more years, through December 31, 2020 and made several program changes to further reduce Federal liability. Over the first five extension years, the loss

threshold that triggers Federal assistance will be increased by \$20 million each year to \$200 million in 2019, and the Government's share of losses above the deductible will decrease from 85 to 80 percent over the same period. The 2015 extension also requires Treasury to recoup 140 percent of all Federal payments made under the program up to a mandatory recoupment amount which increases by \$2 billion each year until 2019 when the threshold will be set at \$37.5 billion. Effective January 1, 2020, the mandatory recoupment amount will be indexed to a running three-year average of the aggregate insurer deductible of 20 percent of direct-earned premiums. These programmatic reforms will facilitate, over the longer term, full transition of the program to the private sector. The Budget baseline includes the estimated Federal cost of providing terrorism risk insurance, reflecting the 2015 TRIA extension. 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 Budget includes estimates representing 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 \$1.3 billion over the 2016–2020 period and \$1.2 billion over the 2016–2025 period.

#### **Aviation War Risk Insurance**

In December 2014, Congress sunset the premium aviation war risk insurance program, thereby sending U.S. air carriers back to the commercial aviation insurance market for all of their war risk insurance coverage. The non-premium program is authorized through December 31, 2018. It provides aviation insurance coverage for aircraft used in connection with certain Government contract operations by a Department or Agency that agrees to indemnify the Secretary of Transportation for any losses covered by the insurance.

**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 2013	Estimated Future Costs of 2013 Outstanding <sup>1</sup>	Outstanding 2014	Estimated Future Costs of 2014 Outstanding <sup>1</sup>
<b>Direct Loans:<sup>2</sup></b>				
Federal Student Loans .....	623	-54	734	-37
Education Temporary Student Loan Purchase Authority .....	90	-13	84	-13
Farm Service Agency, Rural Development, Rural Housing .....	53	6	54	6
Rural Utilities Service and Rural Telephone Bank .....	54	2	56	2
Troubled Asset Relief Program (TARP) <sup>3</sup> .....	18	6	3	1
State Housing Finance Authority Direct Loans .....	9	1	9	1
Export-Import Bank .....	18	2	22	3
Advance Technology Vehicle Manufacturing, Title 17 Loans .....	14	2	15	2
Housing and Urban Development .....	11	7	14	8
Disaster Assistance .....	8	1	7	2
Transportation Infrastructure Finance and Innovation Act Loans .....	7	*	9	*
Small Business Lending Fund (SBLF) <sup>3</sup> .....	4	-*	3	*
Public Law 480 .....	4	2	4	2
Agency for International Development .....	3	1	3	1
Other direct loan programs <sup>3</sup> .....	30	10	30	9
Total direct loans .....	947	-27	1,046	-15
<b>Guaranteed Loans:<sup>2</sup></b>				
FHA Mutual Mortgage Insurance Fund .....	1,142	32	1,132	25
Department of Veterans Affairs (VA) Mortgages .....	349	8	398	9
Federal Student Loan Guarantees .....	264	*	242	*
FHA General and Special Risk Insurance Fund .....	148	9	153	9
Farm Service Agency, Rural Development, Rural Housing .....	112	5	124	5
Small Business Administration (SBA) Business Loan Guarantees <sup>4</sup> .....	93	3	99	2
Export-Import Bank .....	62	2	63	2
International Assistance .....	21	2	24	2
Commodity Credit Corporation Export Loan Guarantees .....	5	*	4	*
Title 17 Loan Guarantees .....	3	*	3	*
Government National Mortgage Association (GNMA) <sup>4</sup> .....	.....	*	.....	*
Other guaranteed loan programs <sup>3</sup> .....	9	1	11	1
Total guaranteed loans .....	2,207	62	2,253	55
<b>Total Federal credit .....</b>	<b>3,154</b>	<b>35</b>	<b>3,298</b>	<b>40</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 Tennessee Valley Authority loan guarantees. Defaulted guaranteed loans that result in loans receivable are included in direct loan amounts.

<sup>3</sup> As authorized by the 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, 2014–2016**  
(In millions of dollars)

Agency and Program	2014 Actual			2015 Enacted			2016 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
Agriculture:									
Agricultural Credit Insurance Fund Program Account .....	3.35	75	2,219	1.46	42	2,919	0.47	15	2,879
Farm Storage Facility Loans Program Account .....	-2.52	-4	154	-3.00	-10	320	-1.64	-5	320
Rural Electrification and Telecommunications Loans Program Account .....	-3.36	-98	2,905	-5.34	-169	3,163	-4.60	-307	6,690
Distance Learning, Telemedicine, and Broadband Program .....	.....	.....	.....	18.69	10	55	21.87	10	44
Rural Water and Waste Disposal Program Account .....	-0.87	-7	827	-0.61	-7	1,200	2.61	24	918
Rural Community Facilities Program Account .....	-13.21	-123	930	-12.41	-223	1,800	-8.04	-177	2,200
Multifamily Housing Revitalization Program Account .....	48.43	6	14	55.30	10	19	50.59	15	30
Rural Housing Insurance Fund Program Account .....	4.32	38	888	8.76	88	1,002	8.31	84	1,011
Rural Microenterprise Investment Program Account .....	6.26	1	18	12.81	2	10	11.33	4	32
Intermediary Relending Program Fund Account .....	21.61	4	19	30.80	6	19	27.62	3	10
Rural Economic Development Loans Program Account .....	8.45	7	86	12.77	5	41	13.39	12	93
Commerce:									
Fisheries Finance Program Account .....	-7.38	-7	91	-4.39	-6	124	-2.30	-4	154
Education:									
College Housing and Academic Facilities Loans Program Account .....	3.09	3	111	5.94	19	303	6.67	19	303
TEACH Grant Program Account .....	13.75	15	106	16.57	14	86	11.64	12	101
Federal Perkins Loan Program Account .....	.....	.....	.....	.....	.....	.....	-18.72	-877	4,684
Federal Direct Student Loan Program Account .....	-15.14	-22,509	148,659	-3.85	-5,502	142,932	-8.80	-13,208	150,015
Energy:									
Title 17 Innovative Technology Loan Guarantee Program ....	-4.20	-259	6,184	<sup>2</sup> 2.26	142	6,281	<sup>2</sup> 0.43	28	6,500
Advanced Technology Vehicles Manufacturing Loan Program Account .....	.....	.....	.....	<sup>2</sup> 15.64	156	1,000	<sup>2</sup> 5.00	75	1,500
Health and Human Services:									
Consumer Operated and Oriented Plan Program Contingency Fund .....	41.45	165	397	48.22	42	88	.....	.....	.....
Homeland Security:									
Disaster Assistance Direct Loan Program Account .....	.....	.....	.....	96.35	63	65	91.05	46	50
Housing and Urban Development:									
FHA-Mutual Mortgage Insurance Program Account .....	.....	.....	.....	0.00	.....	19	0.00	.....	5
FHA-General and Special Risk Program Account .....	.....	.....	1	-10.83	-87	803	-10.96	-66	600
State:									
Repatriation Loans Program Account .....	63.06	2	2	52.65	1	2	53.18	1	2
Transportation:									
Federal-aid Highways .....	6.05	447	7,391	7.32	943	12,883	7.71	943	12,231
Railroad Rehabilitation and Improvement Program .....	.....	.....	.....	0.00	.....	600	0.00	.....	600
Treasury:									
Community Development Financial Institutions Fund Program Account .....	-1.81	-3	217	<sup>2</sup> 0.40	3	775	<sup>2</sup> 0.30	3	1,025
Veterans Affairs:									
Veterans Housing Benefit Program Fund .....	-8.83	*	5	-20.66	-50	244	-25.42	-88	345
Native American Veteran Housing Loan Program Account ..	-12.51	-1	8	-13.02	-2	13	-13.98	-2	14
International Assistance Programs:									
Overseas Private Investment Corporation Program Account .....	-14.67	-55	378	-3.74	-22	600	-5.80	-41	700
Small Business Administration:									
Disaster Loans Program Account .....	8.50	26	302	12.43	137	1,100	12.10	133	1,100
Business Loans Program Account .....	18.64	5	26	10.12	3	25	8.87	3	35

**Table 20-3. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2014–2016—Continued**  
 (In millions of dollars)

Agency and Program	2014 Actual			2015 Enacted			2016 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
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account .....	-6.37	-124	1,948	-9.01	-272	3,020	-10.10	-103	1,020
National Infrastructure Bank:									
National Infrastructure Bank Program Account .....	.....	.....	.....	.....	.....	.....	<sup>2</sup> 11.57	116	1,000
<b>Total</b> .....	<b>N/A</b>	<b>-22,396</b>	<b>173,886</b>	<b>N/A</b>	<b>-4,664</b>	<b>181,511</b>	<b>N/A</b>	<b>-13,332</b>	<b>196,211</b>

N/A = Not applicable

\* \$500,000 or less.

<sup>1</sup> Additional information on credit subsidy rates is available in the Federal Credit Supplement.

<sup>2</sup> Rate reflects notional estimate. 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, 2014–2016**  
(In millions of dollars)

Agency and Program	2014 Actual			2015 Enacted			2016 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
Agriculture:									
Agricultural Credit Insurance Fund Program Account .....	0.30	9	3,013	0.34	13	3,546	0.31	11	3,543
Commodity Credit Corporation Export Loans Program Account..	-1.11	-23	2,041	-0.76	-41	5,500	-0.82	-45	5,500
Rural Water and Waste Disposal Program Account .....	0.71	*	7	0.59	*	15	0.55	*	16
Rural Community Facilities Program Account .....	4.97	6	127	4.78	6	135	2.36	2	64
Rural Housing Insurance Fund Program Account .....	-0.14	-27	19,187	-0.60	-146	24,150	-0.17	-42	24,200
Rural Business Program Account .....	6.99	76	1,084	5.15	59	1,144	4.06	45	1,106
Rural Business Investment Program Account .....	.....	.....	.....	10.19	*	*	9.71	4	41
Rural Energy for America Program .....	27.43	15	56	10.58	3	30	6.60	30	455
Biorefinery Assistance Program Account .....	26.64	43	161	40.32	77	191	<sup>2</sup> 22.42	50	225
Commerce:									
Economic Development Assistance Programs .....	.....	.....	.....	.....	.....	.....	7.06	5	70
Health and Human Services:									
Health Resources and Services .....	2.81	*	3	2.67	*	6	2.67	*	4
Housing and Urban Development:									
Indian Housing Loan Guarantee Fund Program Account .....	0.52	3	709	1.30	11	851	0.63	7	1,151
Native Hawaiian Housing Loan Guarantee Fund Program Account .....	0.53	*	11	0.62	*	25	0.51	*	25
Native American Housing Block Grant .....	12.10	1	12	11.21	3	27	11.46	3	27
Community Development Loan Guarantees Program Account..	2.56	2	86	1.50	3	200	0.00	.....	300
FHA-Mutual Mortgage Insurance Program Account .....	-6.62	-9,849	148,813	-5.92	-8,927	150,867	-3.45	-6,527	189,038
FHA-General and Special Risk Program Account .....	-3.84	-585	15,272	-4.18	-626	14,980	-3.71	-573	15,387
Interior:									
Indian Guaranteed Loan Program Account .....	5.76	6	98	6.65	7	100	5.88	7	113
Transportation:									
Minority Business Resource Center Program .....	1.76	*	4	2.27	*	15	2.50	*	18
Maritime Guaranteed Loan (Title XI) Program Account .....	9.33	30	325	9.25	42	454	.....	.....	.....
Veterans Affairs:									
Veterans Housing Benefit Program Fund .....	-0.02	-20	98,535	0.27	277	102,733	0.25	270	108,016
International Assistance Programs:									
Loan Guarantees to Israel Program Account .....	.....	.....	.....	.....	.....	3,814	.....	.....	.....
Loan Guarantees to Ukraine Program Account .....	19.38	194	1,000	44.00	440	1,000	26.07	261	1,000
MENA Loan Guarantee Program Account .....	8.61	237	2,750	.....	.....	.....	.....	.....	.....
Development Credit Authority Program Account .....	3.31	25	769	6.30	37	581	4.53	50	1,106
Overseas Private Investment Corporation Program Account....	-10.87	-313	2,868	-5.45	-135	2,480	-6.39	-178	2,780
Small Business Administration:									
Business Loans Program Account .....	0.24	74	30,002	0.11	45	42,250	0.00	.....	52,000
Business Loans Program (legislative proposal) .....	.....	.....	.....	.....	.....	.....	<sup>2</sup> 25.13	1,257	5,000
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account .....	-1.46	-269	18,520	-3.13	-734	23,468	-4.39	-1,178	26,863
National Infrastructure Bank:									
National Infrastructure Bank Program Account .....	.....	.....	.....	.....	.....	.....	<sup>2</sup> 8.85	18	200
<b>Total</b> .....	<b>N/A</b>	<b>-10,365</b>	<b>345,453</b>	<b>N/A</b>	<b>-9,586</b>	<b>378,562</b>	<b>N/A</b>	<b>-6,523</b>	<b>438,248</b>
<b>ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS</b>									
Government National Mortgage Association:									
Guarantees of Mortgage-backed Securities Loan									
Guarantee Program Account .....	-0.22	-665	302,149	-0.28	-832	297,000	-0.29	-958	330,200
Secondary Market Guarantee Program .....	0.00	.....	5,394	0.00	.....	12,000	0.00	.....	12,000
<b>Total, secondary guaranteed loan commitments</b> .....	<b>N/A</b>	<b>-665</b>	<b>307,543</b>	<b>N/A</b>	<b>-832</b>	<b>309,000</b>	<b>N/A</b>	<b>-958</b>	<b>342,200</b>

N/A = Not applicable.

\* \$500,000 or less.

<sup>1</sup> Additional information on credit subsidy rates is available in the Federal Credit Supplement.<sup>2</sup> Rate reflects notional estimate. Estimates will be determined at the time of execution, and will reflect the terms of the contracts and other characteristics.

**Table 20-5. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES<sup>1</sup>**  
 (In billions of dollars)

	Actual								Estimate	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Direct Loans:</b>										
Obligations .....	42.5	75.6	812.9	246.0	296.3	191.1	174.4	174.0	181.5	196.2
Disbursements .....	41.7	41.1	669.4	218.9	186.7	170.0	157.5	155.4	159.6	168.4
New subsidy budget authority <sup>2</sup> .....	1.4	3.7	140.1	-9.2	-15.7	-27.2	-29.8	-22.4	4.6	-13.4
Reestimated subsidy budget authority <sup>2,3</sup> .....	3.4	-0.8	-0.1	-125.1	-66.8	16.8	-19.7	-0.8	19.4	.....
<b>Total subsidy budget authority</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>-23.2</b>	<b>24.0</b>	<b>-13.4</b>
<b>Loan guarantees:</b>										
Commitments <sup>4</sup> .....	270.2	367.7	879.2	507.3	446.7	479.7	536.6	350.8	390.6	450.2
Lender disbursements <sup>4</sup> .....	251.2	354.6	841.5	494.8	384.1	444.3	491.3	335.6	341.1	375.3
New subsidy budget authority <sup>2</sup> .....	5.7	-1.4	-7.8	-4.9	-7.4	-6.9	-17.9	-13.7	-8.8	-5.6
Reestimated subsidy budget authority <sup>2,3</sup> .....	-6.8	3.6	0.5	7.6	-4.0	-4.9	20.8	1.2	-1.1	.....
<b>Total subsidy budget authority</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>-12.5</b>	<b>-9.9</b>	<b>-5.6</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. BUDGETARY EFFECTS OF THE TROUBLED ASSET RELIEF PROGRAM**

This chapter reports on 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, 2014, 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, 2014, is provided. 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 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 2016 Budget data presented in this report reflect revised subsidy costs for the TARP programs using actual performance and updated market information through November 30, 2014. Proceeds from sales of TARP-related financial assets occurring from November 30, 2014 to January 1, 2015 slightly 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 \$455.6 billion in cumulative obligations is \$37.4 billion (see Tables 21–1 and 21–6). 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.

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 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. The costs of equity purchases, loans, guarantees, and loss sharing 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>

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 require-

<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.

ment 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 in chapter 21 of the *Analytical Perspectives* volume of the *2015 Budget*, “Financial Stabilization Efforts and Their Budgetary Effects.”

The final subsidy cost of TARP is likely to be lower than the current estimate, because projected cashflows are discounted using a risk adjustment to the discount rate as required by EESA. This requirement adds a premium to current estimates of TARP costs on top of market and other risks already reflected in cash flows with the public. Over time, the risk premium 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.

**Table 21–1. CHANGE IN PROGRAMMATIC COSTS OF TROUBLED ASSET RELIEF ACTIONS**

(In billions of dollars)

TARP Actions	2015 Budget		2016 Budget		Change from 2015 Budget to 2016 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	6.1	336.0	5.7	-0.9	-0.4
Direct loans and asset-backed security purchases .....	76.2	16.6	76.2	16.3	.....	-0.2
Guarantees of troubled asset purchases <sup>2</sup> .....	5.0	-3.9	5.0	-3.9	.....	.....
TARP housing programs <sup>3</sup> .....	38.5	37.5	38.4	37.4	-0.1	-0.1
<b>Total programmatic costs<sup>4</sup></b> .....	<b>456.6</b>	<b>56.3</b>	<b>455.6</b>	<b>55.6</b>	<b>-0.9</b>	<b>-0.7</b>
<b>Memorandum:</b>						
<b>Deficit impact with interest on reestimates<sup>5</sup></b> .....			39.0		37.4	-1.6

\*\$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, 2014 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.

## 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 2015 Budget. The direct impact of TARP on the deficit is projected to be \$37.4 billion, down \$1.6 billion from the \$39.0 billion estimate in the 2015 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 \$55.6 billion, a figure that excludes interest on reestimates.<sup>3</sup>

<sup>2</sup> The analysis does not assume the effects on net TARP costs of a recoupment proposal required by Section 134 of EESA. However, the Budget includes a Financial Fee proposal that satisfies this requirement (see Chapter 12, “Governmental Receipts,” in this volume).

<sup>3</sup> With the exception of the Making Home Affordable and HFA Hard-Hit Fund programs, all the other TARP investments are reflected on

## 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>

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

**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	2025
<b>Financing Account Balances:</b>																	
Troubled Asset Relief Program Equity Purchase Financing Account .....	105.4	76.9	74.9	13.6	6.6	0.9	0.3	0.2	0.1	-*	-0.2	-0.3	-0.4	-0.5	-0.6	-0.7	-0.7
Troubled Asset Relief Program Direct Loan Financing Account ....	23.9	42.7	28.5	17.9	3.1	-0.2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
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>0.7</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>	<b>-*</b>	<b>-0.2</b>	<b>-0.3</b>	<b>-0.4</b>	<b>-0.5</b>	<b>-0.6</b>	<b>-0.7</b>	<b>-0.7</b>

\* \$50 million or less.

<sup>1</sup>Current value as reflected in the 2016 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 the end of each fiscal year through 2014, and projected balances for each subsequent year through 2025.<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 2014, total TARP net asset value decreased to \$0.7 billion, reflecting the realized value of TARP assets as repayments, primarily from large banks, and exceeding amounts TARP paid for financial assets. Estimates in 2015 and beyond reflect estimated TARP net asset values over time, 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.

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 were fully liquidated in January 2014. 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 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.

***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

Chapter 20, "Credit and Insurance," in this volume.

<sup>6</sup> Reestimates for TARP are calculated using actual data through November 30, 2014, and updated projections of future activity. Thus, the full impacts of TARP reestimates are reflected in the 2015 financing account balances.

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 21–3, direct activity under the TARP is expected to increase the 2015 deficit by \$3.8 billion. This reflects estimated TARP housing outlays of \$5.0 billion, offset by \$1.5 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 2015 is \$21.1 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 \$20.8 billion as of the end of 2015. This is \$3.5 billion lower than the projected 2015 debt held net of financial assets reflected in the 2015 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.

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, 2014, already reflect the effect of any incurred market risks to

**Table 21–3. 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	2025
<b>Deficit Effect:</b>																	
Programmatic and administrative expenses .....	151.3	-109.6	-37.3	24.6	-8.5	-3.6	3.8	5.4	4.5	2.9	2.4	1.4	1.4	1.2	0.5	*	*
Interest effects <sup>2,3</sup> .....	*	*	*	*	*	*	*	0.3	0.7	1.0	1.2	1.4	1.6	1.7	1.8	1.9	2.0
<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>-3.6</b>	<b>3.8</b>	<b>5.6</b>	<b>5.2</b>	<b>3.9</b>	<b>3.6</b>	<b>2.8</b>	<b>3.0</b>	<b>2.9</b>	<b>2.3</b>	<b>1.9</b>	<b>2.0</b>
<b>Debt held by the public:</b>																	
Deficit impact .....	151.3	-109.6	-37.3	24.7	-8.5	-3.6	3.8	5.6	5.2	3.9	3.6	2.8	3.0	2.9	2.3	1.9	2.0
Net disbursements of credit financing accounts .....	129.9	-7.9	-17.8	-71.9	-22.5	-9.0	-0.4	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-*
Total change in debt held by the public .....	281.2	-117.5	-55.1	-47.2	-31.0	-12.6	3.4	5.5	5.1	3.7	3.4	2.7	2.9	2.8	2.2	1.8	2.0
<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>17.6</b>	<b>21.1</b>	<b>26.6</b>	<b>31.7</b>	<b>35.4</b>	<b>38.8</b>	<b>41.6</b>	<b>44.4</b>	<b>47.2</b>	<b>49.4</b>	<b>51.2</b>	<b>53.3</b>
<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	17.6	21.1	26.6	31.7	35.4	38.8	41.6	44.4	47.2	49.4	51.2	53.3
Less financial assets net of liabilities .....	129.9	122.0	104.1	32.2	9.7	0.7	0.3	0.2	0.1	-*	-0.2	-0.3	-0.4	-0.5	-0.6	-0.7	-0.7
<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>17.0</b>	<b>20.8</b>	<b>26.4</b>	<b>31.6</b>	<b>35.5</b>	<b>39.0</b>	<b>41.8</b>	<b>44.8</b>	<b>47.6</b>	<b>50.0</b>	<b>51.9</b>	<b>54.0</b>

\* \$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.

that point, and therefore actual financing account interest transactions reflect the FCRA Treasury interest rates, with no additional risk adjustment.<sup>7</sup> Future cash flows reflect a risk adjusted discount rate and the corresponding financing account interest rate, consistent with the EESA requirement. For ongoing 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>8</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

<sup>7</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>8</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.

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 21–4, for comparison to those estimates in Table 21–3 reported above in which TARP transactions are calculated consistent with FCRA and Section 123 of EESA.

If TARP transactions were reported on a cash basis, the annual budgetary effect would include the full amount of government disbursements for activities such as equity purchases and direct loans, offset by cash inflows from dividend payments, redemptions, and loan repayments occurring in each year. For loan guarantees, the deficit would show fees, claim payouts, or other cash transactions associated with the guarantee as they occurred. Updates to estimates of future performance would affect the deficit in the year that they occur, and there would not be credit reestimates.

Under cash reporting, TARP would increase the deficit in 2015 by an estimated \$3.4 billion, so the 2015 deficit would be \$0.4 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

**Table 21–4. 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	2025
<b>Deficit Effect:</b>																	
Programmatic and administrative expenses .....	278.4	-122.3	-58.1	-48.9	-31.6	-12.8	3.4	5.2	4.4	2.7	2.2	1.3	1.3	1.1	0.5	-*	0.1
Debt service <sup>2</sup> .....	2.8	4.7	3.0	1.7	0.6	0.2	0.1	0.3	0.7	1.0	1.2	1.4	1.5	1.7	1.8	1.8	1.9
<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>-12.6</b>	<b>3.4</b>	<b>5.5</b>	<b>5.1</b>	<b>3.7</b>	<b>3.4</b>	<b>2.7</b>	<b>2.9</b>	<b>2.8</b>	<b>2.2</b>	<b>1.8</b>	<b>2.0</b>

\* \$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.

public would be recognized up front in a downward reestimate, in contrast to 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. Because debt held by the public, and debt net of financial assets are the same on a cash and present value basis, these data are not repeated in Table 21–4.

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

Table 21–3 shows the portion of the deficit attributable to TARP transactions. The specific effects in 2015 are as follows:

- TARP reestimates and interest on reestimates will decrease the deficit by \$1.5 billion in 2015, including \$0.6 billion in decreased subsidy costs for TARP programs, and \$0.9 billion in interest on reestimates.
- Outlays for the TARP Housing Programs are estimated at \$5.0 billion in 2015, which includes payments under the MHA program and Hardest Hit Fund. Outlays for the TARP Housing Program are estimated to decline gradually through 2023.
- Administrative outlays for TARP are estimated at \$282 million in 2015, and expected to decrease annually thereafter as TARP winds down through 2025. Costs for the Special Inspector General for TARP are estimated at \$48 million in 2016, and are expected to remain relatively stable through 2025.
- Interest transactions with credit financing accounts include interest paid to Treasury on borrowing by the financing accounts, offset by interest paid by Treasury on the financing accounts' uninvested balances. Although the financing accounts are non-budgetary, Treasury payments to these accounts and receipt of interest from them are budgetary transactions and therefore affect net outlays and the deficit. For TARP financing accounts, projected interest transactions are based on the market risk adjusted rates used to discount the cash flows. The projected net financing account interest paid to Treasury at market risk adjusted rates is \$10 million in 2015 and declines over time as the financing accounts re-

pay 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 \$60 million for 2015 and then expected to increase to \$1.9 billion by 2025, 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 2015 reflect TARP disbursements through November 30, 2014, 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 21–5.

The current reestimate of \$1.5 billion reflects a decrease in estimated TARP costs from the 2015 Budget. This decrease was due in large part to improved market conditions and significant progress winding down TARP investments over the past year.

#### **Differences Between Current and Previous OMB Estimates**

As shown in Table 21–6, the Budget reflects a total 2016 TARP deficit impact of \$37.4 billion. This is a decrease of \$1.6 billion from the 2015 Budget projection of \$39.0 billion.

The estimated 2016 TARP deficit impact reflected in Table 21–6 differs from the programmatic cost of \$55.6 billion in the Budget because the deficit impact includes \$18.1 billion in cumulative downward adjustments for interest on subsidy reestimates. See footnote 3 in Table 21–6.

#### **Differences Between OMB and CBO Estimates**

Table 21–7 compares the OMB estimate for TARP's deficit impact to the deficit impact estimated by the

**Table 21–5. 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 11/30/2014
<b>Equity Programs:</b>					
Automotive Industry Financing Program (Equity): .....					
2009 .....	54.52%	5.70%	-1.2	-5.0	12.5
2010 .....	30.25%	-16.81%	.....	-1.6	3.8
Capital Purchase Program:					
2009 .....	26.99%	-6.78%	-0.1	-65.7	204.6
2010 .....	5.77%	2.46%	-*	-*	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%	*	-3.7	5.5
Targeted Investment Program:					
2009 .....	48.85%	-8.47%	.....	-23.2	40.0
Community Development Capital Initiative:					
2010 .....	48.06%	21.33%	*	-0.1	0.6
<b>Subtotal equity program</b> .....			<b>-1.2</b>	<b>-138.2</b>	<b>335.8</b>
<b>Structured and Direct Loan Programs:</b>					
Automotive Industry Financing Program (AIFP): .....					
2009 .....	58.75%	21.43%	-0.3	-20.3	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%	-579.22%	-*	-0.4	0.1
<b>Subtotal direct loan program</b> .....			<b>-0.3</b>	<b>-19.3</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%	0.55%	-*	-*	0.1
2012 .....	4.00%	2.02%	-*	-*	0.2
2013 .....	2.48%	1.85%	-*	*	0.2
<b>Subtotal guarantee program</b> .....			-*	-1.4	301.5
<b>Total TARP</b> .....			<b>-1.5</b>	<b>-158.8</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.

Congressional Budget Office in its “Report on the Troubled Asset Relief Program—April 2014.”<sup>9</sup>

CBO estimates the total cost of TARP at \$27 billion, based on estimated lifetime TARP disbursements of \$438

billion. The Budget reflects the total deficit cost at \$37 billion, based on current estimates of \$456 billion in program obligations. 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

<sup>9</sup> Available at: <https://www.cbo.gov/sites/default/files/45260-TARP.pdf>

**Table 21–6. DETAILED TARP PROGRAM LEVELS AND COSTS**  
(In billions of dollars)

Program	2015 Budget		2016 Budget	
	TARP Obligations	Subsidy Costs	TARP Obligations	Subsidy Costs
<b>Equity Purchases:</b>				
Capital Purchase Program .....	204.9	-8.3	204.9	-8.4
AIG Investments .....	67.8	17.4	67.8	17.4
Targeted Investment Program .....	40.0	-3.6	40.0	-3.6
Automotive Industry Financing Program (AIFP) .....	16.3	3.0	16.3	2.7
Public-Private Investment Program - Equity .....	7.2	-2.5	6.4	-2.5
Community Development Capital Initiative. ....	0.6	0.1	0.6	0.1
Subtotal equity purchases .....	336.8	6.1	336.0	5.7
<b>Direct Loan Programs:</b>				
Automotive Industry Financing Program (AIFP) .....	63.4	17.0	63.4	16.7
Term Asset-Backed Securities Loan Facility (TALF) .....	0.1	-0.5	0.1	-0.5
Public-Private Investment Program - Debt .....	12.4	0.1	12.4	0.1
Small Business 7(a) Program .....	0.4	*	0.4	*
Subtotal direct loan programs .....	76.2	16.6	76.2	16.3
<b>Guarantee Programs under Section 102:</b>				
Asset Guarantee Program <sup>1</sup> .....	5.0	-3.9	5.0	-3.9
Subtotal asset guarantees .....	5.0	-3.9	5.0	-3.9
<b>TARP Housing Programs:</b>				
Making Home Affordable (MHA) Programs .....	29.9	29.9	29.8	29.8
Hardest Hit Fund .....	7.6	7.6	7.6	7.6
Subtotal non-credit programs .....	37.5	37.5	37.4	37.4
FHA Refinance Letter of Credit <sup>2</sup> .....	1.0	*	1.0	*
Subtotal TARP housing programs .....	38.5	37.5	38.4	37.4
<b>Totals</b> .....	<b>456.6</b>	<b>56.3</b>	<b>455.6</b>	<b>55.6</b>
Memorandum:				
Interest on reestimates <sup>3</sup> .....		-17.2		-18.1
<b>Deficit impact with interest on reestimates</b> .....		<b>39.0</b>		<b>37.4</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 \$17.2 billion in the 2015 Budget and \$18.1 billion in the 2016 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.

CBO projects \$26 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 \$2 billion apart due to different assumptions for the future performance of equity investments in the program.

#### **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 2014, Treasury sold all its remaining shares of Ally (the successor organization to GMAC), recouping a total of \$70.4 billion from the original investment. With this sale, the Automotive Industry Financing Program has been effectively wound-down. Treasury retains the right to receive proceeds from Chrysler and GM liquidation trusts, but expects no significant future cash flows. Sales of TARP assets occurring after November 30, 2014, are not included in the cost analysis provided in this report.

The Administration's housing programs implemented through the TARP have helped stabilize the housing market and kept millions of borrowers in their homes. As of November 30, 2014, more than 1.4 million borrowers have received permanent mortgage modifications through the Home Affordable Modification Program (HAMP), which amounts to an estimated \$30.8 billion in realized monthly mortgage payment savings for these homeowners. In

**Table 21-7. 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 .....	14	12
Term Asset-Backed Securities Loan Facility .....	-1	-1
Other Programs <sup>3</sup> .....	-3	-3
TARP Housing Programs .....	26	37
<b>Total .....</b>	<b>27</b>	<b>37</b>

\* Amounts round to less than \$1 billion.

<sup>1</sup> Totals include interest on reestimates.

<sup>2</sup> CBO estimates from April 2014, available online at <https://www.cbo.gov/sites/default/files/45260-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.

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 9 million mortgage modifications, which is nearly double the number of foreclosures completed in the same period. In late 2014, the Administration announced several enhancements to housing programs under Making Home Affordable designed to motivate borrowers to continue making their modified mortgage payments, strengthen the safety net for homeowners facing continuing financial hardships, and help homeowners in MHA programs build equity in their homes, an important factor in stabilizing neighborhoods. 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, 2014, Treasury had received approximately \$199.0 billion in principal repayments and \$27.0 billion in revenues from dividends, interest, warrants, gains/other interest and fees. CPP cash proceeds of \$226.0 billion now exceed Treasury's initial investment by \$21.1 billion. As of November 30, 2014, \$0.6 billion remained outstanding under the program.

**Community Development Capital Initiative (CDCI):** The CDCI program invested 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, 2014, Treasury has received \$147 million in cash back on its CDCI investments and \$462 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:**

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

AIG executed a recapitalization plan with FRBNY, Treasury, and the AIG Credit Facility Trust in mid-January 2011 that allowed for the acceleration of the Government's exit from AIG. Following the restructuring and AIG's ensuing public offering in May of 2011, the Treasury had a 77 percent ownership (or 1.45 billion shares) stake in AIG, which represented a 15 percentage point reduction from Treasury's 92 percent ownership stake in January 2011. Throughout 2012, Treasury completed public offerings to further reduce its AIG ownership stake. In December 2012, Treasury sold its remaining balance of AIG common 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 fully recovered all funds committed to stabilize AIG during the financial crisis.<sup>10</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 2014 Budget.) In total, 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

<sup>10</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.

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.

**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>11</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), TARP made emergency loans to Chrysler, Chrysler Financial, and General Motors (GM). Additionally, TARP bought equity in Ally Financial, formerly GMAC, and

<sup>11</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.

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>12</sup>

Over the last year, Treasury liquidated most of its remaining AIFP holdings. On December 9, 2013, TARP sold its last remaining shares in GM, recouping \$39.0 billion from TARP's \$49.5 billion investment in GM.<sup>13</sup> Then on January 16, 2014, Treasury announced that TARP sold 410,000 shares of Ally common equity for \$3 billion in a private placement offering. Treasury sold Ally common stock as part of Ally's initial public offering (IPO) on April 15, 2014, for \$2.4 billion in additional proceeds and \$181 million associated with the over-allotment option that was exercised in May 2014. TARP conducted two trading plans between August 14, 2014, and October 16, 2014, resulting in collections of \$464 million. On December 18, 2014, TARP sold its remaining 54.9 million shares of Ally common stock in an underwritten offering, completing the wind down of its remaining investments through the Auto Industry Financing Program and recovering \$1.3 billion. In total, Treasury recovered \$19.6 billion on its investment, roughly \$2.4 billion more than the original \$17.2 billion investment in 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. TARP's AIFP disbursements--including the GM, Chrysler, Ally (GMAC), Supplier, and Warranty Programs--totaled \$79.7 billion and, with all programs effectively wound down, AIFP yielded \$70.4 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

<sup>12</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.

<sup>13</sup> This excludes the \$884 million loan to GM that was converted to GMAC common stock.

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, 2014, Treasury had accumulated income of \$685 million from TALF.

**SBA 7(a):** In March 2009, Treasury and the Small Business Administration (SBA) announced a Treasury program to purchase SBA-guaranteed securities ("pooled certificates") to re-start the secondary market in these loans. Treasury subsequently developed a pilot program to purchase SBA-guaranteed securities, and purchased 31 securities with an aggregate face value of approximately \$368 million. Treasury reduced its commitment to the Small Business 7(a) program from \$1 billion to \$370 million, as demand for the program waned due to significantly improved secondary market conditions for these securities following the original announcement of the program. In January 2012, Treasury completed the final disposition of its SBA 7(a) securities portfolio. The SBA 7(a) program received total proceeds of \$376 million, representing a gain of approximately \$8 million to taxpayers.

**Public Private Investment Program (PPIP):** The Treasury announced the Legacy Securities Public-Private Investment Partnership (PPIP) on March 23, 2009, to help restart the market for legacy mortgage-backed securities, thereby helping financial institutions begin to remove these assets from their balance sheets and allowing for a general increase in credit availability to consumers and small businesses. Under the program, Public-Private Investment Funds (PPIFs) 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, 2014, after obligating \$18.7 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 2010 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>

*Making Home Affordable (MHA):* Programs under MHA include the Home Affordable Modification Program (HAMP), FHA-HAMP<sup>15</sup>, the Second Lien Modification Program (2MP), and Rural Development-HAMP.<sup>16</sup> MHA also includes the Home Affordable Foreclosure Alternatives Program, which provides short sale and deed-in-lieu of foreclosure opportunities to borrowers when a modification is not possible, as well as assistance to borrowers who are unemployed or underwater (owe more than their home is worth). Under MHA programs, the Treasury contracts with servicers to modify loans or provide other foreclosure alternatives in accordance with the program's guidelines, and to make incentive payments to the borrowers, servicers, and, in some programs, investors for those modifications or other foreclosure alternatives. On June 26, 2014, the Administration announced that the application deadline for HAMP and HAFA would be extended at least a year to December 31, 2016. In late 2014, the Administration also announced several enhancements to MHA programs to provide greater assistance to struggling borrowers. Among other things, the enhancements included an extension of the borrower pay-for-performance incentive under HAMP as well as an increase in the amount of assistance a borrower receives through HAFA to relocate after a short sale or Deed-in-Lieu. As of November 30, 2014, TARP has paid \$9.7 billion in MHA related incentive payments and an additional \$20.1 billion in TARP funds was obligated for future payments.<sup>17</sup>

*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 two years, the Administration has taken key actions to help communities turn the corner to recovery, including working with Michigan, Ohio, Indiana, Illinois, South Carolina, and Alabama to use \$372 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. \$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 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. In November 2014, the program was extended to December 31, 2016. Because of the timing of this announcement, TARP cost estimates for FHA Refinance Program presented in this report do not incorporate potential impacts of this change. As of November 30, 2014, TARP's remaining commitment to the FHA Refinance Program was \$1.0 billion.

<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 these particular FHA Refinance loans.

<sup>15</sup> FHA-HAMP is administered by HUD; Treasury provides incentives for servicers and borrowers who qualify for Treasury FHA-HAMP

<sup>16</sup> For additional information on MHA programs, visit: <http://www.makinghomeaffordable.gov/>.

<sup>17</sup> In 2014, Treasury deobligated \$71.6 million of Making Home Affordable obligations, further reducing TARP's deficit impact.



## **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.

### **Data Collection Methodology and Adjustments, Including for the Department of Defense**

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 is the case with Department of Defense (DOD) data this year (see next paragraph). 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.

DOD has undertaken an effort to refine its characterization of homeland security-related activities to more accurately report its spending for this purpose. This effort resulted in an approximately \$4.4 billion reduction in estimated homeland security funding at DOD relative to what was previously estimated for 2014. The majority of this reduction (approximately \$2.5 billion) is related to lower estimated Army National Guard and Reserve personnel costs due to a more accurate allocation methodology for estimating active or drilling assignments for National Guardsmen and Reservists. This composition has changed due to the troop withdrawal from Afghanistan and the associated reductions in manpower required for pre-deployment training and backfilling troops who were deployed. In addition, DOD had previously included some activities focused outside of the continental United States, which have been removed from current homeland security estimates. Examples include overseas activities by the Special Operations Command related to counterterrorism and Marine Corps activities related to countering improvised explosive devices. Over the coming months, DOD and OMB will continue efforts to refine this analysis. Once complete, a report will be sent to the appropriate congressional committees highlighting specific changes to estimated homeland security spending levels at DOD and a restatement of past estimates updated using the refined methodology.

### **Federal Expenditures**

Total funding for homeland security has grown significantly since the attacks of September 11, 2001. For 2016, the President's Budget includes \$69.8 billion of gross budget authority for homeland security activities, a \$1.3 billion (2 percent) decrease below the 2015 level, mainly attributable to the non-recurrence of 2014 and 2015 authority to build a nationwide interoperable public safety broadband network for first responders and related programs. Excluding mandatory spending, fees, and the Department of Defense's (DOD) homeland security budget, the 2016 Budget proposes a net, non-Defense, discretionary budget authority level of \$47.9 billion, which is an increase of \$4.7 billion (11 percent) above the 2015 level (see Table 22-1).

A total of 28 agency budgets include Federal homeland security funding in 2016. Six agencies—the Departments of Homeland Security (DHS), Defense (DOD), Health and Human Services (HHS), Justice (DOJ), State (DOS), and Energy (DOE)—account for approximately \$66.0 billion (95 percent) of total Government-wide homeland security gross budget authority in 2016.

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 2016, funding for intelligence-and-warning is distributed between DHS (48 percent), primarily in the Office of Intelligence and Analysis; and DOJ (50 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 front-line personnel can stay ahead of potential adversaries. The majority of funding for border and transportation security is in DHS (\$26.0 billion, or 86 percent, in 2016), 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 2016 request for border and transportation security activities would increase funding by \$1.5 billion (5 percent) above the 2015 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 2016, respectively.

### **Protect the American People, Our Critical Infrastructure, and Key Resources**

Critical infrastructure includes the assets, systems, and networks, whether physical or virtual, so vital to the United States that their destruction would have a debilitating effect on national economic or homeland security, public health or safety, or any combination thereof. Key resources are publicly or privately controlled resources essential to the minimal operations of the economy and government whose disruption or destruction could have significant consequences across multiple dimensions, including national monuments and icons.

Efforts to protect the American people include defending against catastrophic threats through research, development, and deployment of technologies, systems, and medical measures to detect and counter the threat of chemical, biological, radiological, and nuclear (CBRN) weapons. Funding encompasses activities to protect against, detect, deter, or mitigate the possible terrorist use of CBRN weapons through detection systems and procedures, improving decontamination techniques, and the development of medical countermeasures, such as vaccines, drugs and diagnostics to protect the public from the threat of a CBRN attack or other public health emergency. The agencies with the most significant resources to help develop and field technologies to counter CBRN threats are: HHS, largely for research at the National Institutes of Health (NIH) and for advanced development of medical countermeasures (\$3.2 billion, or 45 percent, of the 2016 total, including \$646 million for the BioShield Special Reserve Fund); DOD (\$2.4 billion, or 33 percent, of the 2016 total); and DHS (\$1.2 billion, or 16 percent, of the 2016 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. Securing 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 for protecting CI/KR for 2016 (\$9.8, or 50 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 \$5.2 billion (26 percent) of 2016 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 2016 request increases funding for activities to protect the Nation's people, critical infrastructure and key resources by \$2 billion, or 8 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. For this analysis, spending for response to specific natural disasters or other major incidents, including catastrophic natural events such as Hurricanes Sandy and Katrina, and chemical or oil spills, like Deepwater Horizon, do not directly fall within the definition of a homeland security activity, 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 Hurricanes Sandy and Katrina have been used to revise and strengthen catastrophic response planning. The agencies with the most significant participation in this effort are: DHS (\$2.4 billion, or 38 percent, of the 2016 total); HHS (\$2.0 billion, or 31 percent of the 2016 total,); and DOD (\$1.0 billion, or 15 percent of the 2016 total). Eighteen other agencies include emergency preparedness and response funding. The President's 2016 request reflects a decrease of \$4.8 billion (43 percent) below the 2015 level, primarily attributable to the non-recurrence of 2014 and 2015 authority to build a nationwide interoperable public safety broadband network for first responders and related programs.

### **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 for effective preparedness and mature 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 inter-governmental 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

<sup>1</sup> OMB does not collect detailed homeland security expenditure data 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."

**Table 22-1. HOMELAND SECURITY FUNDING BY AGENCY**  
(Budget Authority in millions of dollars)

	Agency	FY2014 Actual	FY2014 Supplemental	FY2015 Enacted	FY2015 Supplemental	FY2016 Request
1	Department of Agriculture .....	508.8	.....	528.6	.....	603.6
2	Department of Commerce*	2,103.7	.....	5,738.5	.....	795.6
3	Department of Defense—Military Programs** .....	11,907.6	291.7	11,965.0	143.6	13,177.6
4	Department of Education .....	37.1	.....	35.6	.....	39.3
5	Department of Energy .....	1,909.7	.....	1,946.3	.....	2,106.6
6	Department of Health and Human Services .....	4,783.9	.....	4,824.8	.....	5,520.4
7	Department of Homeland Security .....	35,763.2	117.3	35,955.1	111.0	37,277.5
8	Department of Housing and Urban Development .....	2.7	.....	.....	.....	.....
9	Department of the Interior .....	54.8	.....	56.5	.....	57.3
10	Department of Justice .....	4,018.1	.....	4,086.3	.....	4,174.0
11	Department of Labor .....	36.2	.....	32.2	.....	29.3
12	Department of State .....	3,028.9	.....	3,424.7	.....	3,784.1
13	Department of Transportation .....	206.5	.....	208.7	.....	225.6
14	Department of the Treasury .....	111.7	.....	118.7	3.3	118.7
15	Department of Veterans Affairs .....	311.5	.....	360.6	.....	337.8
16	Corps of Engineers—Civil Works .....	8.3	.....	8.8	.....	5.0
17	Environmental Protection Agency .....	93.8	.....	90.1	.....	90.4
18	Executive Office of the President .....	8.0	.....	9.1	.....	9.5
19	General Services Administration .....	225.2	.....	369.2	.....	283.0
20	National Aeronautics and Space Administration .....	226.0	.....	222.7	.....	248.4
21	National Science Foundation .....	442.7	.....	438.8	.....	441.4
22	Social Security Administration .....	206.6	.....	240.2	.....	253.7
23	District of Columbia .....	24.0	.....	13.0	.....	15.0
24	Federal Communications Commission .....	1.4	.....	2.0	.....	2.0
25	National Archives and Records Administration .....	27.4	.....	24.3	.....	24.4
26	Nuclear Regulatory Commission .....	75.8	.....	61.6	.....	63.1
27	Securities and Exchange Commission .....	8.0	.....	7.0	.....	8.0
28	Smithsonian Institution .....	101.0	.....	101.8	.....	113.7
29	United States Holocaust Memorial Museum .....	11.0	.....	11.0	.....	11.0
<b>Total, Homeland Security Budget Authority .....</b>		<b>66,243.5</b>	<b>409.0</b>	<b>70,871.3</b>	<b>257.9</b>	<b>69,815.9</b>
Less Department of Defense .....		-11,907.6	-291.7	-11,965.0	-143.6	-13,177.6
<b>Non-Defense Homeland Security BA .....</b>		<b>54,335.9</b>	<b>117.3</b>	<b>58,906.2</b>	<b>114.3</b>	<b>56,638.3</b>
Less Discretionary Fee-Funded Homeland Security Programs .....		-6,614.6	0.0	-7,493.7	0.0	-4,826.7
Less Mandatory Homeland Security Programs .....		-4,740.4	0.0	-8,332.5	0.0	-3,944.2
<b>Net Non-Defense Discretionary Homeland Security BA*** .....</b>		<b>42,980.9</b>	<b>117.3</b>	<b>43,080.0</b>	<b>114.3</b>	<b>47,867.4</b>

\* Funding increases in FY14 and 15 reflect authority to build a nationwide interoperable public safety broadband network for first responders and related programs.

\*\* DOD homeland security funding for all years in the 2016 Budget reflects a revised calculation methodology (see Data Collection Methodology and Adjustments, Including the Department of Defense).

\*\*\* Net Non-Defense Discretionary Homeland Security budget authority \$4.7 billion (11 percent) increase from FY2015 to FY2016 primarily due to the FY 2016 President's Budget shifts of Department of State Border Security Program fees previously recorded as offsetting collections in the Diplomatic and Consular Program (D&CP) into a newly created special fund for Consular and Border Security Programs. Given format of the new account structure, these fees are recorded as budgetary authority rather than offsetting collections, but the program will continue to be funded by fee revenue in FY 2016.

on the responses from 471 counties (15 percent) nationwide, out of 3,140 counties or equivalents.<sup>3</sup>

A March 2009 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 sur-

veyed 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,

[search/HomelandSecurity/upload/CDA\\_09\\_01.pdf](http://HomelandSecurity/upload/CDA_09_01.pdf). Figures cited in this report have not been independently verified by the Office of Management and Budget.

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>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).

**Table 22-2. PREVENT AND DISRUPT TERRORIST ATTACKS**  
(Budget Authority in millions of dollars)

Agency	FY2014 Actual	FY2014 Supplemental	FY2015 Enacted	FY2015 Supplemental	FY2016 Request
Department of Agriculture .....	301.9	.....	272.2	.....	269.0
Department of Commerce .....	4.5	.....	4.1	.....	4.1
Department of Energy .....	.....	.....	.....	.....	36.7
Department of Homeland Security .....	27,179.7	117.3	27,029.1	111.0	28,482.0
Department of the Interior .....	0.5	.....	0.5	.....	0.5
Department of Justice .....	3,475.0	.....	3,560.3	.....	3,628.1
Department of State .....	2,913.0	.....	3,299.1	.....	3,659.2
Department of Transportation .....	32.0	.....	33.6	.....	40.8
Department of the Treasury .....	59.9	.....	59.9	.....	60.0
General Services Administration .....	154.0	.....	315.0	.....	191.0
<b>Total, Prevent and Disrupt Terrorist Attacks .....</b>	<b>34,120.4</b>	<b>117.3</b>	<b>34,573.9</b>	<b>111.0</b>	<b>36,371.4</b>

the 2007 homeland security budgets for the jurisdictions examined (which include 26 States and the District of Columbia, 50 primary cities, and 35 primary counties) totaled \$37 billion, while the same entities received slightly more than \$2 billion in Federal homeland security grants.<sup>6</sup> The report further states that from 2000 - 2007, these States and localities spent \$220 billion on homeland security activities, which includes increases of three to six percent a year for law enforcement and fire services budgets, and received over \$10 billion in Federal grants. California, the most populous State, is also the largest recipient of Federal homeland security funds, having received almost \$1.5 billion 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, information technology, and healthcare. However, about one-third of the surveyed companies reported that they had not increased their security spending after September 11th.<sup>9</sup> Given the difficulty of obtaining survey results that are representative of the universe of States, localities, and businesses, it is likely that there will be a wide range of estimates of non-Federal security spending for critical infrastructure protection.

### Additional Tables

The tables in the Federal expenditures section of this chapter present data based on the President's policy for the 2016 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>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>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 22–3. PROTECT THE AMERICAN PEOPLE, OUR CRITICAL INFRASTRUCTURE, AND KEY RESOURCES**  
(Budget Authority in millions of dollars)

Agency	FY2014 Actual	FY2014 Supplemental	FY2015 Enacted	FY2015 Supplemental	FY2016 Request
Department of Agriculture .....	143.1	.....	190.9	.....	304.5
Department of Commerce .....	247.4	.....	272.0	.....	281.5
Department of Defense—Military Programs*	10,963.1	291.7	11,054.1	143.6	12,214.9
Department of Education .....	35.8	.....	34.4	.....	37.9
Department of Energy .....	1,688.4	.....	1,730.3	.....	1,839.3
Department of Health and Human Services .....	2,875.5	.....	2,923.5	.....	3,499.1
Department of Homeland Security .....	6,130.1	.....	6,470.9	.....	6,361.2
Department of the Interior .....	50.5	.....	51.8	.....	52.5
Department of Justice .....	527.4	.....	509.5	.....	524.4
Department of Labor .....	18.2	.....	13.5	.....	10.9
Department of State .....	92.7	.....	102.0	.....	101.0
Department of Transportation .....	147.7	.....	149.6	.....	157.2
Department of the Treasury .....	18.2	.....	24.5	3.3	24.3
Department of Veterans Affairs .....	250.5	.....	282.3	.....	264.3
Corps of Engineers—Civil Works .....	8.3	.....	8.8	.....	5.0
Environmental Protection Agency .....	44.4	.....	44.9	.....	47.3
Executive Office of the President .....	6.4	.....	7.4	.....	7.7
General Services Administration .....	68.2	.....	54.2	.....	92.0
National Aeronautics and Space Administration .....	226.0	.....	222.7	.....	248.4
National Science Foundation .....	442.7	.....	438.8	.....	441.4
Social Security Administration .....	203.2	.....	237.3	.....	250.8
National Archives and Records Administration .....	26.1	.....	23.0	.....	23.1
Nuclear Regulatory Commission .....	75.8	.....	61.6	.....	63.1
Securities and Exchange Commission .....	3.0	.....	2.0	.....	3.0
Smithsonian Institution .....	101.0	.....	101.8	.....	113.7
United States Holocaust Memorial Museum .....	11.0	.....	11.0	.....	11.0
<b>Total, Protect the American People, Our Critical Infrastructure, and Key Resources .....</b>	<b>24,404.6</b>	<b>291.7</b>	<b>25,022.7</b>	<b>146.9</b>	<b>26,979.5</b>

\* DOD homeland security funding for all years in the 2016 Budget reflects a revised calculation methodology (see Data Collection Methodology and Adjustments, Including the Department of Defense).

**Table 22–4. RESPOND AND RECOVER FROM INCIDENTS**  
(Budget Authority in millions of dollars)

Agency	FY2014 Actual	FY2014 Supplemental	FY2015 Enacted	FY2015 Supplemental	FY2016 Request
Department of Agriculture .....	63.7	.....	65.5	.....	30.0
Department of Commerce .....	1,851.7	.....	5,462.4	.....	510.0
Department of Defense—Military Programs*	944.4	.....	911.0	.....	962.7
Department of Education .....	1.3	.....	1.2	.....	1.4
Department of Energy .....	221.3	.....	216.0	.....	230.7
Department of Health and Human Services .....	1,908.4	.....	1,901.3	.....	2,021.3
Department of Homeland Security .....	2,453.4	.....	2,455.2	.....	2,434.3
Department of Housing and Urban Development .....	2.7	.....	.....	.....	.....
Department of the Interior .....	3.8	.....	4.2	.....	4.3
Department of Justice .....	15.8	.....	16.6	.....	21.4
Department of Labor .....	18.0	.....	18.7	.....	18.4
Department of State .....	23.3	.....	23.6	.....	24.0
Department of Transportation .....	26.9	.....	25.5	.....	27.6
Department of the Treasury .....	33.6	.....	34.2	.....	34.4
Department of Veterans Affairs .....	61.0	.....	68.3	.....	73.5
Environmental Protection Agency .....	49.4	.....	45.2	.....	43.1
Executive Office of the President .....	1.6	.....	1.7	.....	1.8
General Services Administration .....	3.0	.....	.....	.....	.....
Social Security Administration .....	3.5	.....	2.9	.....	2.9
District of Columbia .....	24.0	.....	13.0	.....	15.0
Federal Communications Commission .....	1.4	.....	2.0	.....	2.0
National Archives and Records Administration .....	1.3	.....	1.3	.....	1.3
Securities and Exchange Commission .....	5.0	.....	5.0	.....	5.0
<b>Total, Respond and Recover From Incidents .....</b>	<b>7,718.4</b>	.....	<b>11,274.7</b>	.....	<b>6,465.0</b>

\* DOD homeland security funding for all years in the 2016 Budget reflects a revised calculation methodology (see Data Collection Methodology and Adjustments, Including the Department of Defense).

**Table 22–5. DISCRETIONARY FEE-FUNDED HOMELAND SECURITY ACTIVITIES BY AGENCY**  
(Budget Authority in millions of dollars)

Agency	FY2014 Actual	FY2014 Supplemental	FY2015 Enacted	FY2015 Supplemental	FY2016 Request
Department of Commerce .....	20.5	.....	25.5	.....	25.3
Department of Defense—Military Programs* .....	215.8	.....	218.5	.....	221.2
Department of Energy .....	3.0	.....	2.9	.....	2.9
Department of Health and Human Services .....	11.8	.....	12.5	.....	12.5
Department of Homeland Security .....	3,290.3	.....	3,619.6	.....	3,832.5
Department of Labor .....	16.1	.....	16.2	.....	16.2
Department of State** .....	2,839.8	.....	3,205.9	.....	395.7
General Services Administration .....	217.0	.....	362.0	.....	278.0
Social Security Administration .....	206.6	.....	240.2	.....	253.7
Federal Communications Commission .....	1.4	.....	2.0	.....	2.0
Securities and Exchange Commission .....	8.0	.....	7.0	.....	8.0
<b>Total, Discretionary Homeland Security Fee-Funded Activities .....</b>	<b>6,830.4</b>	.....	<b>7,712.2</b>	.....	<b>5,047.9</b>

\* DOD homeland security funding for all years in the 2016 Budget reflects a revised calculation methodology (see Data Collection Methodology and Adjustments, Including the Department of Defense).

\*\* Department of State Border Security Program fees previously recorded as offsetting collections in the Diplomatic and Consular Program (D&CP) into a newly created special fund for Consular and Border Security Programs. Given format of the new account structure, these fees are recorded as budgetary authority rather than offsetting collections, but the program will continue to be funded by fee revenue in FY 2016.

**Table 22-6. MANDATORY HOMELAND SECURITY ACTIVITIES BY AGENCY**  
(Budget Authority in millions of dollars)

Agency	FY2014 Actual	FY2014 Supplemental	FY2015 Enacted	FY2015 Supplemental	FY2016 Request
Department of Agriculture .....	268.4	.....	238.0	.....	232.4
Department of Commerce .....	1,739.0	.....	5,347.0	.....	395.0
Department of Defense—Military Programs*	249.5	.....	240.9	.....	241.2
Department of Energy .....	5.0	.....	13.0	.....	11.0
Department of Homeland Security .....	2,726.0	.....	2,732.1	.....	3,303.6
Department of Labor .....	1.7	.....	2.4	.....	2.1
<b>Total, Homeland Security Mandatory Programs .....</b>	<b>4,989.6</b>	.....	<b>8,573.3</b>	.....	<b>4,185.3</b>

\* DOD homeland security funding for all years in the 2016 Budget reflects a revised calculation methodology (see Data Collection Methodology and Adjustments, Including the Department of Defense).

**Table 22-7. BASELINE ESTIMATES—TOTAL HOMELAND SECURITY FUNDING BY AGENCY**

Agency	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Department of Agriculture .....	532	532	564	575	589	601
Department of Commerce .....	5,739	795	410	421	431	443
Department of Defense—Military Programs*	12,108	12,300	12,538	12,771	13,017	13,280
Department of Education .....	36	37	37	38	39	39
Department of Energy .....	1,946	1,978	2,016	2,057	2,100	2,144
Department of Health and Human Services .....	4,825	4,908	5,001	5,099	5,206	5,314
Department of Homeland Security .....	36,060	37,349	38,391	39,408	40,460	41,609
Department of the Interior .....	57	58	59	61	64	65
Department of Justice .....	4,088	4,213	4,332	4,453	4,579	4,710
Department of Labor .....	29	29	30	30	30	32
Department of State .....	3,425	3,135	3,195	3,259	3,328	3,399
Department of Transportation .....	210	217	225	231	238	246
Department of the Treasury .....	122	124	127	131	136	138
Department of Veterans Affairs .....	351	359	366	377	384	393
Corps of Engineers—Civil Works .....	9	9	9	9	10	10
Environmental Protection Agency .....	90	91	94	95	100	102
Executive Office of the President .....	9	9	9	9	10	10
General Services Administration .....	369	374	381	389	398	405
National Aeronautics and Space Administration .....	223	226	230	235	239	244
National Science Foundation .....	439	446	454	462	471	481
Social Security Administration .....	240	254	259	263	269	274
District of Columbia .....	13	13	13	14	14	14
Federal Communications Commission .....	2	2	2	2	2	2
National Archives and Records Administration .....	24	24	25	25	26	26
Nuclear Regulatory Commission .....	62	64	66	68	69	72
Securities and Exchange Commission .....	7	7	7	7	8	8
Smithsonian Institution .....	102	106	109	113	116	120
United States Holocaust Memorial Museum .....	11	11	11	12	12	12
<b>Total, Homeland Security Budget Authority .....</b>	<b>71,128</b>	<b>67,670</b>	<b>68,960</b>	<b>70,614</b>	<b>72,345</b>	<b>74,193</b>
Less Department of Defense .....	-12,108	-12,300	-12,538	-12,771	-13,017	-13,280
<b>Non-Defense Homeland Security BA .....</b>	<b>59,020</b>	<b>55,370</b>	<b>56,422</b>	<b>57,843</b>	<b>59,328</b>	<b>60,913</b>
Less Discretionary Fee-Funded Homeland Security Programs .....	-7,495	-7,429	-7,566	-7,712	-7,851	-7,991
Less Mandatory Homeland Security Programs .....	-8,331	-3,590	-3,360	-3,451	-3,542	-3,704
<b>Net Non-Defense Discretionary Homeland Security BA .....</b>	<b>43,194</b>	<b>44,351</b>	<b>45,496</b>	<b>46,680</b>	<b>47,935</b>	<b>49,218</b>

\* DOD homeland security funding for all years in the 2016 Budget reflects a revised calculation methodology (see Data Collection Methodology and Adjustments, Including the Department of Defense).

**Table 22-8. TOTAL HOMELAND SECURITY FUNDING BY FUNCTION**  
(Budget Authority in millions of dollars)

Agency	FY2014 Actual	FY2015 Enacted	FY2016 Request
National Defense .....	17,500	17,251	18,536
International Affairs .....	3,026	3,424	3,784
General Science, Space, and Technology .....	752	752	789
Energy .....	169	150	210
Natural Resources and Environment .....	298	310	285
Agriculture .....	500	520	591
Commerce and Housing Credit .....	1,955	5,576	655
Transportation .....	10,883	10,043	10,801
Community and Regional Development .....	2,863	2,583	2,595
Education, Training, Employment, and Social Services .....	178	174	189
Health .....	4,776	4,813	5,505
Medicare .....	26	27	28
Income Security .....	4	1	1
Social Security .....	207	240	254
Veterans Benefits and Services .....	313	351	338
Administration of Justice .....	21,405	21,266	23,294
General Government .....	1,801	1,951	1,964
<b>Total, Homeland Security Budget Authority .....</b>	<b>66,656</b>	<b>69,432</b>	<b>69,819</b>
Less Department of Defense .....	-12,202	-12,108	-13,181
<b>Non-Defense Homeland Security BA .....</b>	<b>54,454</b>	<b>57,324</b>	<b>56,638</b>
Less Discretionary Fee-Funded Homeland Security Programs .....	-6,615	-7,495	-4,830
Less Mandatory Homeland Security Programs .....	-4,739	-8,331	-3,942
<b>Net Non-Defense Discretionary Homeland Security BA .....</b>	<b>43,100</b>	<b>41,498</b>	<b>47,866</b>

**Table 22-9. BASELINE ESTIMATES—TOTAL HOMELAND SECURITY FUNDING BY FUNCTION**  
(Budget Authority in millions of dollars)

Agency	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
National Defense .....	17,464	17,776	18,136	18,496	18,880	19,282
International Affairs .....	3,424	3,134	3,194	3,258	3,327	3,398
General Science, Space, and Technology .....	752	763	777	792	807	824
Energy .....	150	152	157	161	165	170
Natural Resources and Environment .....	310	316	325	332	346	354
Agriculture .....	520	520	552	562	576	587
Commerce and Housing Credit .....	5,576	628	237	244	248	255
Transportation .....	10,844	11,266	11,588	11,896	12,226	12,647
Community and Regional Development .....	2,865	2,914	2,967	3,025	3,086	3,151
Education, Training, Employment, and Social Services .....	174	179	183	189	193	198
Health .....	4,813	4,896	4,988	5,087	5,193	5,302
Medicare .....	27	27	28	28	29	30
Income Security .....	1	1	1	1	1	1
Social Security .....	240	254	259	263	269	274
Veterans Benefits and Services .....	351	359	366	377	384	393
Administration of Justice .....	21,666	22,427	23,103	23,763	24,444	25,131
General Government .....	1,951	2,058	2,099	2,140	2,171	2,196
<b>Total, Homeland Security Budget Authority .....</b>	<b>71,128</b>	<b>67,670</b>	<b>68,960</b>	<b>70,614</b>	<b>72,345</b>	<b>74,193</b>
Less Department of Defense .....	-12,108	-12,300	-12,538	-12,771	-13,017	-13,280
<b>Non-Defense Homeland Security BA .....</b>	<b>59,020</b>	<b>55,370</b>	<b>56,422</b>	<b>57,843</b>	<b>59,328</b>	<b>60,913</b>
Less Discretionary Fee-Funded Homeland Security Programs .....	-7,495	-7,429	-7,566	-7,712	-7,851	-7,991
Less Mandatory Homeland Security Programs .....	-8,331	-3,590	-3,360	-3,451	-3,542	-3,704
<b>Net Non-Defense Discretionary Homeland Security BA .....</b>	<b>43,194</b>	<b>44,351</b>	<b>45,496</b>	<b>46,680</b>	<b>47,935</b>	<b>49,218</b>



## 23. FEDERAL DRUG CONTROL FUNDING

In support of the *2015 National Drug Control Strategy* (*Strategy*), the President requests \$27.6 billion in Fiscal Year 2016 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.

**Table 23–1. FEDERAL DRUG CONTROL FUNDING, 2014–2016<sup>1</sup>**  
(Budget authority, in millions of dollars)

Department/Agency	2014 Actual	2015 Enacted	2016 President's Budget
<b>Department of Agriculture:</b>			
U.S. Forest Service .....	12.4	12.4	12.3
<b>Court Services and Offender Supervision Agency for D.C.:</b> .....	51.7	55.5	58.2
<b>Department of Defense:</b>			
Drug Interdiction and Counterdrug Activities (incl. OPTEMPO and OCO) .....	1,454.1	1,231.8	1,189.7
Defense Health Program .....	74.5	75.2	77.9
<b>Total DOD</b> .....	<b>1,528.6</b>	<b>1,307.0</b>	<b>1,267.6</b>
<b>Department of Education:</b>			
Office of Elementary and Secondary Education .....	51.5	50.2	67.9
<b>Federal Judiciary:</b> .....	1,227.0	1,274.7	1,324.3
<b>Department of Health and Human Services:</b>			
Administration for Children and Families .....	18.6	18.5	20.0
Centers for Medicare and Medicaid Services <sup>2</sup> .....	5,100.0	5,830.0	6,380.0
Health Resources and Services Administration .....	20.0	25.0	25.0
Indian Health Service .....	107.7	111.9	123.9
National Institute on Alcohol Abuse and Alcoholism .....	59.4	59.5	61.2
National Institute on Drug Abuse .....	1,018.0	1,015.7	1,047.4
Substance Abuse and Mental Health Services Administration <sup>3</sup> .....	2,472.2	2,478.2	2,496.2
<b>Total HHS</b> .....	<b>8,795.8</b>	<b>9,538.8</b>	<b>10,153.6</b>
<b>Department of Homeland Security<sup>4</sup>:</b>			
Customs and Border Protection .....	2,438.9	2,385.6	2,618.7
Federal Law Enforcement Training Center .....	46.2	43.6	48.5
Immigration and Customs Enforcement <sup>5</sup> .....	459.3	489.3	486.1
U.S. Coast Guard .....	1,248.8	1,205.0	1,091.6
<b>Total DHS</b> .....	<b>4,193.2</b>	<b>4,123.5</b>	<b>4,244.9</b>
<b>Department of Housing and Urban Development:</b>			
Office of Community Planning and Development .....	468.7	484.9	556.9
<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 .....	227.2	283.1	297.2
Bureau of Prisons .....	3,460.3	3,491.0	3,687.3
Criminal Division .....	40.8	40.0	44.2
Drug Enforcement Administration .....	2,353.5	2,373.1	2,463.1

**Table 23-1. FEDERAL DRUG CONTROL FUNDING, 2014–2016<sup>1</sup>—Continued**  
(Budget authority, in millions of dollars)

Department/Agency	2014 Actual	2015 Enacted	2016 President's Budget
Organized Crime Drug Enforcement Task Force .....	514.0	507.2	519.3
Office of Justice Programs .....	242.6	243.7	293.8
U.S. Attorneys .....	76.1	76.8	72.6
U.S. Marshals Service .....	244.1	246.0	253.1
Federal Prisoner Detention .....	539.0	498.0	511.4
<b>Total DOJ .....</b>	<b>7,697.5</b>	<b>7,759.0</b>	<b>8,142.1</b>
<b>Department of Labor:</b>			
Employment and Training Administration .....	5.2	5.2	5.2
<b>Office of National Drug Control Policy:</b>			
Operations .....	22.8	22.6	20.0
High Intensity Drug Trafficking Area Program .....	238.5	245.0	193.4
Other Federal Drug Control Programs .....	105.4	107.2	95.4
<b>Total ONDCP .....</b>	<b>366.7</b>	<b>374.8</b>	<b>308.9</b>
<b>Department of State<sup>6</sup>:</b>			
Bureau of International Narcotics and Law Enforcement Affairs .....	449.6	432.5	434.7
United States Agency for International Development .....	97.9	122.9	135.2
<b>Total DOS .....</b>	<b>547.6</b>	<b>555.3</b>	<b>569.8</b>
<b>Department of the Transportation:</b>			
Federal Aviation Administration .....	28.2	30.7	31.5
National Highway Traffic Safety Administration .....	2.7	2.2	2.2
<b>Total DOT .....</b>	<b>30.9</b>	<b>32.9</b>	<b>33.7</b>
<b>Department of the Treasury:</b>			
Internal Revenue Service .....	60.3	60.3	100.7
<b>Department of Veterans Affairs:</b>			
Veterans Health Administration <sup>7</sup> .....	670.2	684.0	708.0
<b>Total Federal Drug Budget .....</b>	<b>25,724.9</b>	<b>26,336.8</b>	<b>27,572.2</b>

<sup>1</sup> Detail may not add due to rounding.

<sup>2</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>3</sup> Includes budget authority and funding through evaluation set-aside authorized by Section 241 of the Public Health Service (PHS) Act.

<sup>4</sup> The FY 2015 funding level represents the FY 2015 President's Budget request.

<sup>5</sup> The FY 2016 column for ICE reflects a new methodology for calculating drug control funding amounts for the account.

<sup>6</sup> The FY 2015 funding level represents the FY 2015 President's Budget request.

<sup>7</sup> VA Medical Care receives advance appropriations; FY 2016 funding was provided in the FY 2015 Consolidated and Further Continuing Appropriations Act (Public Law 113-235).

## 24. FEDERAL BUDGET EXPOSURE TO CLIMATE RISK

No challenge poses a greater threat to future generations than climate change. This past year was the planet's warmest on record. To be sure, one year does not make a trend, but this does: the 14 warmest years on record have all fallen in the first 15 years of this century. Across the American landscape, the imprint of climate change is growlingly visible. Along our Eastern seaboard, a number of cities now flood regularly at high tide. The vast majority of the largest fires in modern U.S. history have occurred in just the last decade. In parts of the Midwest, higher temperatures will increase irrigation demand and exacerbate current stresses on agricultural productivity. And in the Mississippi and Missouri River Basins, numerous studies indicate increasing severity and frequency of flooding leading to disruptions to the Nation's inland water system. The imprint of climate change on the Federal Budget is also apparent—in the escalating costs of disaster relief, flood and crop insurance, wildland fire management, and host of other Federal programs that are exposed to the impacts of climate change. For this reason, understanding the Federal Government's exposure to climate risks is increasingly critical for policymakers charged with making sound investment decisions and stewarding the Federal budget over the long term.

In May 2014, the U.S. Global Change Research Program released the Third National Climate Assessment (NCA). The report was developed over four years by a team of more than 300 of the Nation's top climate scientists and technical experts, guided by a 60-member Federal Advisory Committee and extensively reviewed by the public and experts including the National Academy of Sciences. The NCA confirms that climate change is affecting every region of the country and key sectors of the U.S. economy. Key findings of the NCA include the following:

- Heavy downpours are increasing nationally and increases in extreme precipitation are projected for all U.S. regions.
- Regionally, floods and droughts are increasing and future changes are projected. Heat waves have become more frequent and intense.
- The intensity, frequency, and duration of North Atlantic hurricanes and the frequency of the strongest hurricanes all increased in the last few decades. Hurricane intensity and rainfall are projected to increase with further climate change.
- Winter storms increased in frequency and intensity since mid-20<sup>th</sup> Century.
- Global sea level has risen about 8 inches since reliable record keeping began and is projected to rise another 1 to 4 feet by 2100.

- Oceans are becoming more acidic as they absorb a quarter of the carbon dioxide emitted annually, putting marine ecosystems at risk.<sup>1</sup>

The Federal Government has broad exposure to escalating costs and lost revenue as a direct or indirect result of a changing climate. For example, the Federal Government plays a critical role in helping to ensure American families, businesses, and communities against the impacts of extreme weather. As economic damages from such catastrophic extreme weather events grow, so does the liability for the Federal budget. At the same time, the Federal Government is directly at risk from extreme weather impacts on Federal facilities nationwide and the growing incidence of fire on Federal lands.

While existing climate-related expenditures can be identified for a number of Federal programs, it is inherently difficult to isolate climate-related expenditures for many other programs across the Federal Government. Even in these cases, however, the directional impact on the Budget of expected climatic changes is clear.

### **Identifiable direct costs**

Over the last decade, the Federal Government has incurred over \$300 billion in direct costs due to extreme weather and fire alone, including for domestic disaster response and relief (\$176 billion), flood insurance (\$24 billion), crop insurance (\$61 billion), and wildland fire management (\$34 billion). While it is not possible to identify the portion of these costs incurred as a result of climate change, costs for each of these Federal programs have been increasing and can be expected to continue to increase as the impacts of climate change intensify.

### **Domestic Disaster Response and Relief**

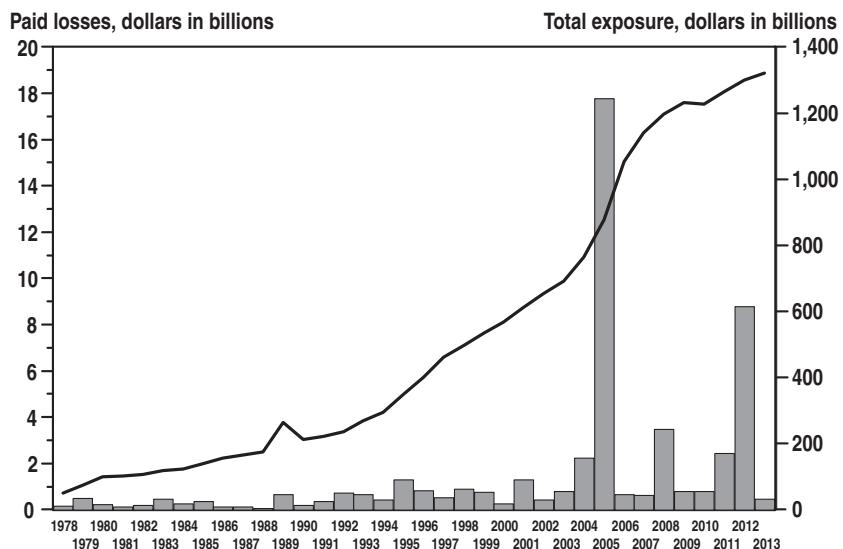
The Federal Emergency Management Agency (FEMA) has incurred \$84 billion in costs for domestic, extreme weather-related disaster response over the last decade. Over that time period, other Federal agencies incurred at least \$92 billion in domestic disaster relief costs. This figure is likely to underestimate the full extent of Federal costs incurred for extreme weather-related disaster relief.<sup>2</sup>

Climate models predict that climate-driven changes, such as higher sea levels and more intense hurricanes, are likely to magnify damages due to extreme weather

<sup>1</sup> Ibid.

<sup>2</sup> Estimate includes discretionary budget authority from 2005-2011 explicitly linked to Stafford Act declarations, as well as Hurricane Sandy disaster relief appropriations and 2012-2013 disaster relief costs aggregated by the Center for American Progress. Estimate does not include disaster relief costs in 2014 or those in the 2005-2011 period that were not explicitly linked to the Stafford Act, and is therefore likely to be an underestimate.

### Chart 24-1. National Flood Insurance Program Paid Losses & Total Exposure



and associated needs for disaster response and relief.<sup>3</sup> For example, a review by the Government Accountability Office of 20 scientific studies found a predicted increase of 14-47 percent in inflation-adjusted U.S. hurricane losses by 2100. This increase is solely attributable to the increasing severity of storms. By 2100, losses are projected to grow by 54 to 110 percent. Accounting for the combination of projected sea level rise and changes in hurricane activity, hurricane losses could more than quadruple by the year 2100.<sup>4</sup>

Historically, the cost of Federal action following a major disaster has averaged roughly a third of total economic losses.<sup>5</sup> If this share of total losses continues, Federal disaster response and relief costs can be expected to rise proportionately with projected increases in total economic losses. However, this type of linear extrapolation may underestimate the true exposure of the Federal budget given that a major event or series of major events could, for example, affect the solvency of an industry, municipality, or State.

#### Flood Insurance

In addition to its disaster response activities, FEMA manages the National Flood Insurance Program (NFIP), established in 1968. NFIP is designed to provide an insurance alternative to disaster assistance to meet the escalating costs of flood damage. While the program is designed to offset paid losses with premium collections,

<sup>3</sup> Kopp, Robert, and Solomon Hsiang, 2014: American Climate Prospectus. Economic Risks in the United States. Rhodium Group, LLC.

<sup>4</sup> U.S. Government Accountability Office, 2014. Climate Change: Better Management of Exposure to Potential Future Losses Is Needed for Federal Flood and Crop Insurance. GAO 15-28: Published October 29, 2014.

<sup>5</sup> Cummins, J. David, Michael Suher, and George Zanjani. 2010. Federal Financial Exposure to Natural Catastrophe Risk in Lucas, D. (ed.) Measuring and Managing Federal Financial Risk. National Bureau of Economic Research. University of Chicago Press.

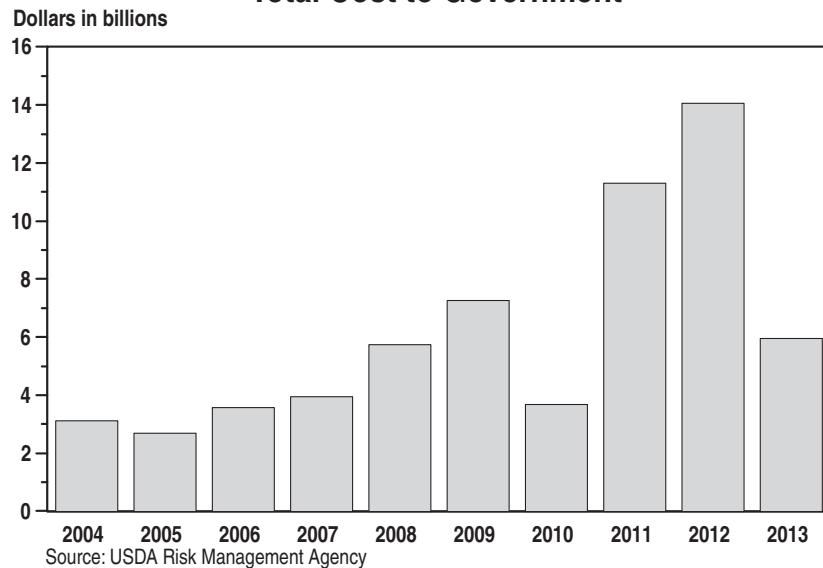
catastrophic events in any given year can have outsized impacts on NFIP. Due largely to Hurricane Katrina in 2005 and Hurricane Sandy in 2012, the program incurred substantial paid losses in excess of premiums collected, accruing approximately \$24 billion to the U.S. Treasury as of September, 2014. The figure above details the program's historical paid losses and total exposure—the total value of property insured by the program. NFIP's total exposure has quadrupled over the last two decades to \$1.3 trillion.

Nationwide, the Special Flood Hazard Area (SFHA)—the land area subject to a one percent or greater chance of flooding in any given year—is projected to increase by 40-45 percent by 2100 (with large regional variations), driven predominantly by the effects of climate change. In the coastal environment, this increase is a direct result of rising sea levels and increasing storm intensity and frequency. In the riverine environment, less than one-third of the increase in typical areas is attributable to population growth and associated impacts on stormwater runoff, while more than two-thirds is attributable to the influence of climate change. As a result, the average loss cost<sup>6</sup> per policy in today's dollars is estimated to increase approximately 50-90 percent by 2100, with a 10-15 percent increase as soon as 2020. These increases will be compounded by projected growth in the total number of policyholders participating in NFIP—approximately 80-100 percent through 2100 as a product of population growth but also the expansion of the flood hazard area. These projected increases in loss cost per policy are median estimates; catastrophic events in any given year could have much larger impacts on NFIP and the Federal budget.<sup>7</sup>

<sup>6</sup> Loss cost is a measure of expected loss payments per \$100 of insured building value.

<sup>7</sup> AECOM, 2013. The Impact of Climate Change and Population Growth on the National Flood Insurance Program through 2100.

**Chart 24-2. Crop Insurance  
Total Cost to Government**



### Crop Insurance

The United States Department of Agriculture's Risk Management Agency (RMA) provides crop insurance to American farmers and ranchers through the Federal Crop Insurance Corporation (FCIC). Federal crop insurance policies cover loss of crop yields from natural causes including drought, excessive moisture, freeze, disease, and hail. The Federal Government incurs costs for crop insurance in the form of subsidized premiums, losses associated with any claims paid in excess of collected premiums, and costs for program administration and operation—a total of \$61 billion between 2004 and 2013. Costs can increase sharply in years affected by extreme weather. For example, droughts caused the surge in costs in 2011 and 2012 shown above. The Federal Government's total exposure for crop insurance is currently about \$110 billion, up from \$67 billion in 2007.

### Wildland Fire Management

The U.S. Forest Service (USFS) and Department of the Interior (DOI) manage wildland fire to protect human life and property. Climate change is contributing to an increase in wildland fire frequency and intensity across the western United States and Alaska.<sup>8</sup> The vast majority of the largest fires in modern U.S. history have occurred in just the last decade. Firefighting budgets at USFS and DOI reached \$3.5 billion in 2015. On average, firefighting appropriations grew 25 percent per year over the last two decades, adjusted for inflation. At the USFS, appropriations for wildland fire management grew from 16 percent of the agency's total budget in 1995 to 42 percent in 2014. These budget increases are due to a number of factors, including

population growth in the wildland-urban interface, a legacy of aggressive fire suppression, and climatic factors. For example, in the Southwest, increased warming, drought, and insect outbreaks, all caused by or linked to climate change, have increased wildfires and impacts to people and ecosystems. Fire models project more wildfire and increased risks to communities across extensive areas.<sup>9</sup>

### Other direct and indirect costs

The Federal Government's climate risk exposure extends well beyond disaster response, flood and crop insurance, and wildland fire management. For example, the Federal Government will likely incur additional direct and indirect costs for health care, property management, and national security as a result of climate-driven changes across sectors of the economy. However, it is inherently difficult in these areas to identify current expenditures that are related to climatic factors such as extreme weather and rising temperatures.

### Health care

Climate change threatens the health and well-being of Americans in a number of ways, including increasing impacts from increased extreme weather events, wildland fire, decreased air quality, and illnesses transmitted by food, water, and disease carriers such as mosquitoes and ticks. While the economic literature on the current and projected health costs associated with climate change is limited, a number of studies have found substantial health costs due to climate-related events.<sup>10</sup> While the bulk of these costs are related to premature deaths and associated economic loss, these events also directly burden the health care system. The Federal Government is

Prepared for Federal Emergency Management Agency.

<sup>8</sup> Melillo, Jerry M., Terese (T.C.) Richmond, and Gary W. Yohe, Eds., 2014. Climate Change Impacts in the United States: The Third National Climate Assessment. U.S. Global Research Program, 841 pp. doi:10.7930/J0Z31WJ2.

<sup>9</sup> Melillo, Jerry M., Terese (T.C.) Richmond, and Gary W. Yohe, Eds., 2014. Climate Change Impacts in the United States: The Third National Climate Assessment. U.S. Global Research Program, 841 pp. doi:10.7930/J0Z31WJ2.

<sup>10</sup> Kopp, Robert, and Solomon Hsiang, 2014: American Climate Prospectus. Economic Risks in the United States. Rhodium Group, LLC.

the Nation's largest purchaser of health care services—spending \$815 billion in 2014 on Medicare, Medicaid, and the Children's Health Insurance Program. These programs provide health care for those most vulnerable to the health-related impacts of climate change: children, the elderly, and low-income individuals.

### **Federal Property Management**

Federal facilities are directly at risk from the kinds of extreme weather events associated with climate change. Extreme weather in recent years has provided several examples of such risk:

- The U.S. Army Corps of Engineers and the National Aeronautics and Space Administration (NASA) invested over \$50 million in shoreline stabilization to protect almost \$1 billion in Federal and State assets located on Virginia's eastern shore. The project's costs were higher than originally estimated after Hurricane Sandy removed about 700 feet of protective raised barrier and about 20 percent of the beach protecting Wallops Island, the location of NASA launch pads and support facilities as well as the U.S. Navy Surface Combat Systems Center.
- An Army installation in the Southwest incurred \$64 million in damages due to unusual torrential downpours. Within an 80 minute period, the installation experienced as much rain as typically falls over the course of a year. The flooding caused by the storm damaged 160 facilities, 8 roads, 1 bridge, and 11,000 linear feet of fencing.
- Several Air Force early warning and communication installations on the Alaskan coast are experiencing operational challenges due to rising seas, decreasing sea ice, and thawing permafrost. Coastal erosion has damaged roads, utility infrastructure, seawalls, and runways, limiting the size of aircraft that are able to land. The estimated cost of hardening the seawall and protecting the runway is \$25 million.<sup>11</sup>
- Record-breaking rainfall and severe flash flooding in 2010 overwhelmed man-made drainage systems at the Department of Energy's Pantex Plant—the Nation's only nuclear weapons assembly and disassembly facility. Since the incident, the facility has invested in improved drainage, response plans, and procedures to better prepare for flash flooding events.

Pursuant to Executive Order 13653, Federal agencies must continue to update comprehensive adaptation plans that describe how the agency will consider the need to improve climate adaptation and resilience with respect to agency suppliers, supply chain, real property investments, and capital equipment purchases. Such consideration could include updating agency policies for leasing, building upgrades, relocation of existing facilities and equipment, and construction of new facilities.

<sup>11</sup> Government Accountability Office, 2014. Climate Change Adaptation: DOD Can Improve Infrastructure Planning and Processes to Better Account for Potential Impacts. GAO-14-446.

### **National Security**

National security agencies expect that climate change will intensify the challenges of global instability, hunger, poverty, conflict, pandemic disease, disputes over refugees and resources, and destruction by natural disasters. The Department of Defense (DOD) refers to climate change as a "threat multiplier" because it can exacerbate many challenges, such as infectious disease and terrorism. Climate change will impact the Department's military readiness, stationing, environmental compliance and stewardship, and infrastructure planning and maintenance. It will change the frequency, scale, and complexity of future missions, and may cause the military to be called upon more frequently to support civil authorities. Changes in climate will also alter or constrain the way the military executes its missions, impact supply chains, and change critical equipment needs. As a result, climate change is not only a threat to national security, but also a risk for the Federal budget as costs increase for military and humanitarian operations.

### **Species Recovery**

Climate change is expected to fundamentally alter ecosystems in ways that are costly to those systems and the people who depend upon and value them. For example, a changing climate is expected to cause rapid shifts in habitat and species ranges and to exacerbate the traditional stressors that drive species populations down (e.g., habitat loss, overutilization, invasive species), which may lead to reductions in biodiversity through the endangerment or extinction of many species.

For example, climate change has already caused a mismatch between the life cycle of the Edith's checkerspot butterfly and the timing of the flowering plants it depends on, causing the butterfly's population to crash along its southern range. Similarly, warming and reduced stream flows due to declining snowmelt are affecting salmon species. A small increase in water temperature can cause coho salmon eggs to hatch weeks early, leading to a mismatch between the time the salmon reach the ocean and the abundance of their prey.<sup>12</sup>

Of all of the species—plant and animal—that have been the focus of climate change studies, the IPCC estimates that 20-30 percent face extinction risks under temperatures projected for the end of this century.<sup>13</sup> These and other ecosystem impacts are likely to pose significant costs, though it is difficult to quantify the precise value of lost species and ecosystems. In addition to costs to private citizens and industry, the expected decline in species may increase the costs of Federal species recovery efforts.

<sup>12</sup> National Fish, Wildlife and Plants Climate Adaptation Partnership. 2012. National Fish, Wildlife and Plants Climate Adaptation Strategy, Association of Fish and Wildlife Agencies, Council on Environmental Quality, Great Lakes Indian Fish and Wildlife Commission, National Oceanic and Atmospheric Administration, and U.S. Fish and Wildlife Service. Washington, DC.

<sup>13</sup> Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change. Parry, M.L., O.F. Canziani, J.P. Palutikof, P.J. van der Linden, and C.E. Hanson (eds.). Cambridge University Press, Cambridge, United Kingdom.

## Lost Revenue

Unabated climate change is projected to hamper economic production in the United States and across the globe. Economic loss in the United States means lost revenue for the Federal Government. Projections by the Intergovernmental Panel on Climate Change include a median warming estimate of four degrees Celsius over preindustrial levels by 2100 if recent global emissions growth rates are allowed to continue. While most economic assessments of climate change risks have focused on warming in the 2 to 3 degrees range, available assessments suggest that warming of 4 degrees would cause economic damages of more than four percent of global GDP each year by 2100.

There are a number of factors that may cause this estimate to be too low or too high. For example, available studies typically do not account for important factors that are inherently difficult to model, such as biodiversity, ocean acidification, political reactions, sea-level rise, changes in ocean circulation, catastrophic events, irreversibility, and tipping points. As a result, these estimates should be considered order-of-magnitude illustrations of possible economic impacts of climate change.

The uncertainty of these economic loss projections is compounded when attempting to estimate the associated potential for lost Federal revenue in the United States. For illustrative purposes only, if the underlying economic loss projection is accurate, lost revenue could be as high as 0.7 percent of U.S. GDP in 2100, or over \$120 billion in to-

day's dollars. This estimate also assumes that the United States incurs a share of global losses proportional to its current share of global GDP, and that Federal revenue as a share of U.S. GDP remains constant. The estimate also ignores the fact that a portion of the projected economic losses include non-market losses that may not directly translate into lost revenue.

## The Need for Action

The exposure of the Federal budget to climate risks provides yet another call to action for policymakers. How we respond to one of the most significant long-term challenges that our country and our planet faces speaks volumes about our values. It speaks to who we are as policymakers—if we embrace the challenge of developing pragmatic solutions. It speaks to who we are as Americans—if we seize this moment and lead. It speaks to who we are as parents—if we take responsibility and leave our children a safer planet.

The President has set the United States on an ambitious course to tackle our emissions and prepare our communities for the effects of climate change because he believes we have a moral obligation, but also because climate action is an economic and fiscal imperative. For this reason, the President's Budget invests in cutting carbon pollution and in preparedness and resilience — providing necessary tools, technical assistance, and on-the-ground partnership to communities that are dealing with the effects of climate change today.



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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 2014 through 2025.<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

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 (receipts and direct spending) 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. Taxes and other receipts are like direct spending 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 produce a more realistic deficit outlook. Exceptions in BBEDCA and in 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 2015 through 2025, the taxes affected by this exception are taxes deposited in the Airport and Airway Trust Fund, which expire on September 30, 2015; taxes deposited in the Highway Trust Fund, the Leaking Underground Storage Tank Trust Fund, and the Sport Fish Restoration and Boating Trust Fund, which expire on September 30, 2016; 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

<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.

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 Summer Food Service Program for children 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 21 percent on April 1, 2015, 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 subsequently defaulted on the \$5.6 billion payment due September 30, 2013 and the \$5.7

billion payment due September 30, 2014. 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 payments of \$5.7 billion in 2015 and \$5.8 billion in 2016 as required, the adjusted baseline assumes USPS would not have the resources to make those payments and would likely default absent legislative action. 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

<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. Consistent with this requirement, the discretionary baseline for the Department of Homeland Security was based on annualized estimates of the continuing resolution that was in effect for the agency at the time the Budget was prepared.

<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.

<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 Grants for Specified Energy Property in Lieu of Tax Credits enacted in the American Recovery and Reinvestment Act of 2009 are scheduled to expire in 2018 even though current year outlays are estimated to be over \$2 billion.. 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.

**Table 25-1. CATEGORY TOTALS FOR THE ADJUSTED BASELINE**  
(In billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Receipts .....	3,021	3,175	3,430	3,577	3,743	3,910	4,094	4,308	4,530	4,753	4,981	5,206
Outlays:												
Discretionary:												
Defense .....	596	589	598	613	615	621	634	645	697	728	749	769
Non-defense .....	525	558	541	535	534	540	549	560	594	617	634	649
Subtotal, discretionary .....	1,121	1,147	1,139	1,148	1,150	1,161	1,183	1,206	1,291	1,344	1,383	1,418
Mandatory:												
Social Security .....	845	891	938	991	1,051	1,116	1,184	1,253	1,325	1,402	1,483	1,569
Medicare .....	505	529	585	596	608	675	727	782	875	906	934	1,038
Medicaid and CHIP .....	311	339	358	369	387	409	429	452	478	506	537	573
Other mandatory .....	495	616	655	649	666	714	742	771	816	812	814	892
Subtotal, mandatory .....	2,156	2,375	2,537	2,605	2,712	2,914	3,081	3,258	3,495	3,627	3,768	4,072
Disaster costs <sup>1</sup> .....	.....	2	6	8	8	9	9	10	10	10	10	10
Net interest .....	229	229	283	364	429	493	560	619	681	744	801	857
Total, outlays .....	3,506	3,753	3,964	4,124	4,299	4,577	4,834	5,093	5,477	5,725	5,963	6,357
Unified deficit(+) /surplus(−) .....	485	578	535	547	556	666	739	785	947	973	981	1,151
(On-budget) .....	(514)	(590)	(532)	(535)	(527)	(617)	(662)	(692)	(833)	(829)	(809)	(943)
(Off-budget) .....	(-30)	(-12)	(3)	(12)	(30)	(49)	(78)	(93)	(114)	(144)	(173)	(208)
Memorandum: .....												
BBEDCA baseline deficit .....	485	565	544	594	617	711	785	835	945	953	956	1,093
Adjustments for current policy .....	.....	11	15	7	9	32	35	36	37	37	38	38
Set discretionary budget authority at cap levels <sup>2</sup> .....	.....	.....	28	34	36	36	35	33	32	33	33	34
Reflect Joint Committee enforcement .....	.....	.....	-56	-89	-103	-106	-107	-108	-55	-38	-33	-3
Remove non-recurring emergency costs .....	.....	.....	-3	-6	-9	-12	-12	-13	-13	-14	-14	-14
Add placeholder for future emergency costs .....	.....	2	6	8	8	9	9	10	10	10	10	10
Related debt service .....	.....	*	*	-*	-2	-4	-6	-8	-9	-9	-8	-6
Adjusted baseline deficit .....	485	578	535	547	556	666	739	785	947	973	981	1,151

\$500 million or less.

<sup>1</sup> These amounts represent the probability of major disasters requiring Federal assistance for relief and reconstruction. Such assistance might be provided in the form of discretionary or mandatory outlays or tax relief. These amounts are included as outlays for convenience.

<sup>2</sup> Includes cap adjustments for program integrity.

an entitlement, in which funding is provided to meet the specified award level for all eligible students.

- The adjusted baseline includes allowances to comply with the discretionary “caps” enacted in BBEDCA, which limit the amount of discretionary budget authority that can be provided 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 2015. While

the BBEDCA baseline projects forward the \$5.7 billion of enacted or continuing disaster relief funding for the Departments of Agriculture and Homeland Security in 2015, increased by the BBEDCA inflation rates, the adjusted baseline removes this extrapolation. This same treatment is given to the \$5.4 billion of enacted emergency funding provided to the Departments of Defense, Health and Human Services, and State for response and preparedness efforts to the outbreak of the Ebola virus in West Africa.

*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 trans-

<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 2016, and for Health Care Fraud and Abuse Control program integrity for 2016 onward.

portation and rail proposal, and allows accounting for the proposal under the PAYGO system of budget enforcement.

*Disaster funding.* — An allowance for the possible costs of major natural or man-made disasters during the remainder of 2015 and in subsequent years is 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 the effects of the across-the-board reductions (“sequestration”) already invoked by Joint Committee sequestration orders for 2013, 2014, and 2015, as well as the mandatory sequestration order for 2016 issued with the transmittal of the 2016 Budget.<sup>6</sup> Further Joint Committee enforcement—consisting of discretionary cap reductions for

<sup>6</sup> The effects of past sequestration reductions are reflected in the detailed schedules for the affected budget accounts, while the 2016 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.

2016 and mandatory sequestration and discretionary cap reductions for 2017 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 and P.L. 113-82, commonly referred to as the Military Retired Pay Restoration Act, the adjusted baseline also includes the extension of mandatory sequestration through 2024 at the rate required for 2021 by the BCA.<sup>7</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> Subsequent legislation 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, and in extending sequestration into 2024 the reduction in the Medicare program should be 4.0 percent for the first half of the sequestration period and zero for the second half of the period.

**Table 25-2. SUMMARY OF ECONOMIC ASSUMPTIONS**  
(Fiscal years; in billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross Domestic Product (GDP):												
Levels, in billions of dollars:												
Current dollars .....	17,244.0	17,985.0	18,818.6	19,708.6	20,616.8	21,539.9	22,476.4	23,454.0	24,474.1	25,538.6	26,649.3	27,808.3
Real, chained (2009) dollars .....	15,974.8	16,430.4	16,923.3	17,411.8	17,868.8	18,302.0	18,722.9	19,153.5	19,594.0	20,044.7	20,505.7	20,977.3
Percent change, year over year:												
Current dollars .....	4.0	4.3	4.6	4.7	4.6	4.5	4.3	4.3	4.3	4.3	4.3	4.3
Real, chained (2009) dollars .....	2.5	2.9	3.0	2.9	2.6	2.4	2.3	2.3	2.3	2.3	2.3	2.3
Inflation measures (percent change, year over year):												
GDP chained price index .....	1.5	1.4	1.6	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer price index (all urban) .....	1.5	1.3	1.9	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Unemployment rate, civilian (percent) .....	6.5	5.5	5.1	4.9	4.8	4.9	5.1	5.2	5.2	5.2	5.2	5.2
Interest rates (percent):												
91-day Treasury bills .....	0.0	0.2	1.2	2.3	2.8	3.1	3.3	3.4	3.4	3.5	3.5	3.5
10-year Treasury notes .....	2.7	2.6	3.2	3.6	3.9	4.2	4.4	4.5	4.5	4.5	4.5	4.5
MEMORANDUM:												
Related program assumptions:												
Automatic benefit increases (percent):												
Social security and veterans pensions .....	1.5	1.7	1.3	1.9	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Federal employee retirement .....	1.5	1.7	1.3	1.9	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Supplemental Nutrition Assistance Program <sup>1</sup> ....	0.7	2.8	1.3	1.9	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Insured unemployment rate .....	2.1	1.9	1.8	1.8	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8

<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.

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 earlier 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>8</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>9</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, which affect both payroll tax receipts for the program and the initial benefit levels for certain retirees.

*Outlays.*—Table 25-7 shows the growth from 2015 to 2016 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>8</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>9</sup> All discretionary programs with enacted non-emergency, non-disaster appropriations in the current year and the 2015 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 2014	Estimate									
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2025
Farmers receiving Federal payments .....	747	1,159	1,153	1,147	1,141	1,135	1,129	1,123	1,117	1,111	1,105
Federal direct student loans .....	10,207	10,109	10,445	10,733	11,035	11,389	11,738	12,118	12,521	12,943	13,385
Federal Pell Grants .....	8,173	8,237	8,411	8,566	8,705	8,877	8,998	9,119	9,232	9,367	9,503
Medicaid/Children's Health Insurance Program .....	70,306	74,674	78,788	78,638	79,404	80,060	81,063	81,595	82,143	82,674	83,172
Medicare-eligible military retiree health benefits .....	2,291	2,348	2,375	2,403	2,426	2,452	2,478	2,505	2,533	2,533	2,533
Medicare:											
Hospital insurance .....	53,155	55,000	56,687	58,312	60,031	61,818	63,650	65,507	67,390	69,286	71,158
Supplementary medical insurance:											
Part B .....	49,000	50,431	51,820	53,233	54,728	56,287	57,901	59,536	61,200	62,886	64,543
Part D .....	40,127	41,780	43,321	44,846	46,206	47,544	48,975	50,409	51,852	53,304	54,738
Prescription Drug Plans and Medicare Advantage:											
Prescription Drug Plans .....	37,321	39,570	41,579	43,492	45,113	46,616	48,065	49,472	50,888	52,314	53,721
Retiree Drug Subsidy .....	2,806	2,209	1,741	1,354	1,093	927	910	937	963	990	1,017
Managed Care Enrollment <sup>1</sup> .....	15,877	17,066	18,088	19,001	19,722	20,490	21,346	22,195	23,027	23,788	24,494
Railroad retirement .....	530	529	526	522	519	514	508	502	495	486	478
Federal civil service retirement .....	2,616	2,628	2,642	2,657	2,674	2,693	2,713	2,734	2,755	2,776	2,791
Military retirement .....	2,262	2,272	2,282	2,293	2,302	2,311	2,321	2,331	2,343	2,354	2,383
Unemployment insurance .....	7,366	7,041	7,224	7,251	7,324	7,423	7,512	7,614	7,596	7,608	7,625
Supplemental Nutrition Assistance Program (formerly Food Stamps) .....	46,543	46,314	45,716	44,557	43,215	41,689	39,069	37,231	35,959	35,053	33,945
Child nutrition .....	34,365	34,411	34,736	35,009	35,287	35,569	35,855	36,146	36,442	36,743	37,048
Foster care, Adoption Assistance and Guardianship Assistance .....	614	622	638	656	668	681	694	707	720	735	750
Supplemental security income (SSI):											
Aged .....	1,094	1,098	1,104	1,113	1,125	1,139	1,156	1,173	1,191	1,210	1,231
Blind/disabled .....	7,077	7,122	7,132	7,139	7,134	7,139	7,167	7,184	7,207	7,239	7,277
Total, SSI .....	8,171	8,220	8,236	8,252	8,259	8,278	8,323	8,357	8,398	8,449	8,508
Child care and development fund <sup>2</sup> .....	2,066	2,095	2,041	1,975	1,925	1,878	1,825	1,779	1,734	1,691	1,648
Social security (OASDI):											
Old age and survivors insurance .....	47,270	48,822	50,443	52,118	53,835	55,579	57,338	58,913	60,508	62,117	63,738
Disability insurance .....	10,969	11,020	11,068	11,128	11,189	11,257	11,330	11,460	11,601	11,725	11,820
Total, OASDI .....	58,239	59,842	61,511	63,246	65,024	66,836	68,668	70,373	72,109	73,842	75,558
Veterans compensation:											
Veterans .....	3,854	4,073	4,300	4,477	4,617	4,747	4,873	4,996	5,115	5,231	5,344
Survivors (non-veterans) .....	381	388	400	415	431	448	465	484	503	523	543
Total, Veterans compensation .....	4,235	4,461	4,700	4,892	5,048	5,195	5,338	5,480	5,618	5,754	5,887
Veterans pensions:											
Veterans .....	308	306	306	306	307	307	307	308	308	309	309
Survivors (non-veterans) .....	213	214	216	218	219	221	223	224	226	228	231
Total, Veterans pensions .....	521	520	522	524	526	528	530	532	534	536	540

<sup>1</sup> Enrollment figures include only beneficiaries who receive both Part A and Part B services through managed care.

<sup>2</sup> These levels include children served through CCDF (including TANF transfers) and through funds spent directly on child care in the Social Services Block Grant and TANF programs.

The Budget proposes to extend and expand the Child Care and Development Fund, which would increase the number of beneficiaries each year beginning in 2016, raising the total number of beneficiaries to more than 3 million in 2025.

**Table 25-5. RECEIPTS BY SOURCE IN THE PROJECTION OF ADJUSTED BASELINE**  
 (In billions of dollars)

**Table 25-6. EFFECT ON RECEIPTS OF CHANGES IN THE SOCIAL SECURITY TAXABLE EARNINGS BASE**  
 (In billions of dollars)

**Table 25-7. CHANGE IN OUTLAY ESTIMATES BY CATEGORY IN THE ADJUSTED BASELINE**  
(In billions of dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Change 2015 to 2016		Change 2015 to 2020		Change 2015 to 2025	
												Amount	Percent	Amount	Average annual rate	Amount	Average annual rate
<b>Outlays:</b>																	
Discretionary:																	
Defense .....	589	598	613	615	621	634	645	697	728	749	769	9	1.6%	45	1.5%	180	2.7%
Non-defense .....	558	541	535	534	540	549	560	594	617	634	649	-18	-3.1%	-9	-0.3%	91	1.5%
Subtotal, discretionary .....	1,147	1,139	1,148	1,150	1,161	1,183	1,206	1,291	1,344	1,383	1,418	-8	-0.7%	36	0.6%	271	2.1%
Mandatory:																	
Farm programs .....	15	17	21	19	15	14	16	16	16	16	16	2	14.3%	-1	-1.7%	1	0.5%
GSE support .....	-26	-23	-22	-22	-19	-18	-16	-14	-13	-13	-12	3	-11.8%	8	-7.2%	13	-7.2%
Medicaid .....	329	344	364	382	403	423	447	473	501	531	567	16	4.8%	95	5.2%	238	5.6%
Other health care .....	85	102	108	129	146	153	159	166	174	182	189	17	19.5%	68	12.5%	104	8.3%
Medicare .....	529	585	596	608	675	727	782	875	906	934	1,038	55	10.5%	198	6.6%	508	7.0%
Federal employee retirement and disability .....	138	146	146	145	154	159	164	174	174	174	184	8	5.8%	21	2.8%	46	2.9%
Unemployment compensation ....	38	35	36	37	38	40	42	44	45	47	49	-3	-7.1%	2	1.0%	11	2.5%
Other income security programs	278	284	284	282	291	293	298	309	308	308	319	6	2.0%	15	1.1%	41	1.4%
Social Security .....	891	938	991	1,051	1,116	1,184	1,253	1,325	1,402	1,483	1,569	48	5.3%	293	5.8%	678	5.8%
Veterans programs .....	97	112	108	103	117	123	130	146	145	143	162	15	15.7%	27	5.0%	65	5.3%
Other mandatory programs .....	135	96	78	77	78	86	88	89	79	77	109	-38	-28.4%	-49	-8.6%	-25	-2.1%
Undistributed offsetting receipts..	-133	-101	-104	-99	-100	-103	-106	-108	-111	-114	-118	33	-24.6%	30	-5.0%	16	-1.2%
Subtotal, mandatory .....	2,375	2,537	2,605	2,712	2,914	3,081	3,258	3,495	3,627	3,768	4,072	161	6.8%	706	5.3%	1,696	5.5%
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 .....	229	283	364	429	493	560	619	681	744	801	857	54	23.7%	330	19.5%	628	14.1%
Total, outlays .....	3,753	3,964	4,124	4,299	4,577	4,834	5,093	5,477	5,725	5,963	6,357	211	5.6%	1,080	5.2%	2,603	5.4%

<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	2014 Actual	Estimate									
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
National Defense:											
Department of Defense—Military .....	577.9	567.7	579.2	593.2	595.5	600.6	613.1	623.8	673.6	702.9	723.8
Other .....	25.6	29.9	28.8	29.2	28.7	29.3	29.8	30.4	32.6	33.8	34.6
Total, National Defense .....	603.5	597.6	608.0	622.4	624.2	629.9	642.9	654.1	706.2	736.7	758.4
International Affairs .....	46.7	55.0	54.4	56.7	56.9	57.8	59.0	60.1	61.3	62.0	62.7
General Science, Space, and Technology .....	28.6	29.8	30.7	31.9	31.3	31.9	32.4	33.1	34.2	34.8	35.4
Energy .....	5.3	9.9	5.9	4.8	2.7	2.8	4.8	2.7	3.5	3.6	3.8
Natural Resources and Environment .....	36.2	41.7	43.7	42.1	43.4	43.7	44.5	44.6	45.5	46.2	47.0
Agriculture .....	24.4	21.8	23.3	27.6	26.0	21.3	20.3	23.0	23.3	23.3	23.3
Commerce and Housing Credit .....	-94.9	-27.8	-21.2	-27.8	-25.2	-21.1	-17.5	-8.6	-8.3	-12.0	-13.8
On-Budget .....	(-92.3)	(-28.1)	(-21.6)	(-28.0)	(-25.5)	(-21.4)	(-17.8)	(-8.9)	(-8.6)	(-12.3)	(-14.1)
Off-Budget .....	(-2.5)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Transportation .....	91.9	93.5	96.7	96.5	95.7	95.5	96.6	97.1	99.0	101.5	105.1
Community and Regional Development .....	20.7	27.1	20.2	19.2	17.9	14.6	13.4	13.2	13.3	13.1	13.3
Education, Training, Employment, and Social Services .....	90.6	136.8	102.7	104.9	109.1	112.7	116.3	119.2	121.4	123.2	124.7
Health .....	409.4	473.6	506.8	534.3	573.8	613.3	641.3	671.8	706.9	743.9	784.4
Medicare .....	511.7	535.8	591.3	602.4	614.6	681.8	734.4	789.7	882.9	914.2	941.7
Income Security .....	513.6	521.8	532.6	532.3	532.0	553.3	563.5	576.7	600.5	603.1	605.5
Social Security .....	850.5	896.3	944.1	996.3	1,056.5	1,121.1	1,189.1	1,258.2	1,330.9	1,407.9	1,489.7
On-Budget .....	(25.9)	(31.1)	(36.0)	(39.4)	(42.7)	(46.5)	(50.4)	(54.4)	(58.6)	(63.1)	(68.0)
Off-Budget .....	(824.6)	(865.2)	(908.1)	(956.9)	(1,013.7)	(1,074.6)	(1,138.7)	(1,203.9)	(1,272.2)	(1,344.8)	(1,421.6)
Veterans Benefits and Services .....	149.6	161.4	180.9	179.6	176.6	191.8	200.6	209.5	228.0	229.2	229.0
Administration of Justice .....	50.5	59.0	65.7	64.5	61.3	61.4	64.7	64.7	66.4	68.1	69.9
General Government .....	26.9	22.6	22.7	22.9	23.1	24.5	25.3	25.9	26.6	27.6	28.4
Net Interest .....	229.0	229.1	283.4	363.6	429.5	492.9	559.5	619.4	680.9	744.2	801.2
On-Budget .....	(329.2)	(325.2)	(375.1)	(453.0)	(516.3)	(579.8)	(643.1)	(700.8)	(758.7)	(816.7)	(869.5)
Off-Budget .....	(-100.3)	(-96.0)	(-91.7)	(-89.4)	(-86.9)	(-86.9)	(-83.5)	(-81.4)	(-77.8)	(-72.5)	(-68.3)
Allowances .....	.....	1.9	-26.8	-46.2	-50.8	-52.7	-54.4	-56.2	-37.5	-34.2	-33.0
Undistributed Offsetting Receipts:											
Employer share, employee retirement (on-budget) .....	-63.6	-65.5	-67.5	-70.6	-72.0	-73.7	-75.5	-77.5	-79.5	-81.4	-83.6
Employer share, employee retirement (off-budget) .....	-15.7	-16.0	-16.4	-17.0	-17.6	-18.4	-19.2	-20.0	-20.9	-21.6	-22.3
Rents and royalties on the Outer Continental Shelf .....	-7.5	-6.4	-7.4	-7.6	-7.6	-7.9	-8.0	-7.8	-7.8	-7.9	-8.2
Sale of major assets .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Other undistributed offsetting receipts .....	-1.2	-45.5	-9.3	-8.8	-2.0	.....	-0.3	-0.3	-0.2	-0.1	.....
Total, Undistributed Offsetting Receipts .....	-88.0	-133.5	-100.6	-104.0	-99.2	-100.0	-103.0	-105.6	-108.3	-111.1	-114.1
On-Budget .....	(-72.3)	(-117.4)	(-84.2)	(-87.0)	(-81.6)	(-81.6)	(-83.8)	(-85.6)	(-87.4)	(-89.5)	(-91.8)
Off-Budget .....	(-15.7)	(-16.0)	(-16.4)	(-17.0)	(-17.6)	(-18.4)	(-19.2)	(-20.0)	(-20.9)	(-21.6)	(-23.3)
<b>Total .....</b>	<b>3,506.1</b>	<b>3,753.4</b>	<b>3,964.3</b>	<b>4,124.2</b>	<b>4,299.3</b>	<b>4,576.5</b>	<b>4,833.8</b>	<b>5,092.7</b>	<b>5,476.8</b>	<b>5,725.3</b>	<b>5,962.6</b>
(On-Budget) .....	(2,800.0)	(3,000.0)	(3,164.1)	(3,273.4)	(3,389.8)	(3,607.0)	(3,797.5)	(3,989.9)	(4,302.9)	(4,474.2)	(4,631.2)
(Off-Budget) .....	(706.1)	(753.4)	(800.3)	(850.8)	(909.5)	(969.5)	(1,036.3)	(1,102.8)	(1,173.8)	(1,251.0)	(1,416.2)

**Table 25-9. OUTLAYS BY AGENCY IN THE ADJUSTED BASELINE**  
(In billions of dollars)

Agency	2014 Actual	Estimate									
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2025
Legislative Branch .....	4.2	4.9	4.7	4.8	4.9	5.0	5.2	5.3	5.5	5.6	5.9
Judicial Branch .....	6.9	7.6	7.7	7.8	8.0	8.3	8.5	8.7	9.0	9.2	9.8
Agriculture .....	141.8	147.3	149.2	153.8	153.5	149.7	147.5	150.3	151.8	153.7	154.1
Commerce .....	7.9	10.0	9.9	8.2	10.5	11.4	11.6	11.9	11.2	10.8	11.3
Defense—Military Programs .....	577.9	567.7	585.8	602.0	605.0	611.0	624.1	635.5	652.9	669.5	686.4
Education .....	59.6	103.3	69.7	71.6	75.2	78.4	81.5	83.8	85.4	86.5	87.4
Energy .....	23.6	30.1	27.4	27.5	26.7	27.2	28.3	27.7	28.2	28.8	29.2
Health and Human Services .....	936.0	1,007.8	1,081.1	1,101.5	1,130.2	1,221.3	1,295.1	1,374.1	1,494.5	1,555.7	1,616.6
Homeland Security .....	43.3	46.5	45.0	45.6	45.4	43.7	44.6	45.3	46.5	47.7	50.5
Housing and Urban Development .....	38.5	42.4	41.8	40.8	40.1	39.5	38.6	38.5	38.4	38.1	38.2
Interior .....	11.3	13.0	13.5	13.4	13.9	14.0	14.3	14.6	14.9	15.0	15.2
Justice .....	28.6	36.1	40.6	39.0	35.1	34.7	37.2	36.4	37.4	38.3	39.1
Labor .....	56.8	52.8	47.5	48.0	49.0	51.1	53.9	56.8	59.0	61.5	63.8
State .....	27.5	30.5	29.7	30.9	31.0	31.4	31.9	32.4	32.8	33.5	34.2
Transportation .....	76.2	80.2	80.9	80.9	80.0	79.6	80.3	80.6	82.1	84.0	85.5
Treasury .....	446.9	506.4	578.9	671.6	757.3	844.9	922.5	997.7	1,068.5	1,138.6	1,202.9
Veterans Affairs .....	149.1	160.8	180.4	179.1	176.1	191.3	200.1	209.1	227.5	228.7	228.6
Corps of Engineers—Civil Works .....	6.5	7.5	8.0	7.6	7.5	7.3	7.3	6.9	7.0	7.1	6.8
Other Defense Civil Programs .....	57.4	59.7	63.8	61.5	59.8	66.2	67.6	69.2	77.7	74.1	70.8
Environmental Protection Agency .....	9.4	8.3	8.4	7.9	8.1	8.3	8.6	8.9	9.3	9.5	9.7
Executive Office of the President .....	0.4	0.4	0.4	0.7	0.6	0.5	0.5	0.5	0.6	0.6	0.5
General Services Administration .....	-0.8	-1.2	-1.4	-1.1	-1.4	-0.6	-0.7	-0.7	-0.8	-0.7	-0.7
International Assistance Programs .....	18.7	24.0	24.9	26.0	26.0	26.5	27.2	27.8	28.5	28.5	29.0
National Aeronautics and Space Administration..	17.1	18.1	18.6	18.8	19.1	19.5	20.0	20.4	20.9	21.2	21.7
National Science Foundation .....	7.1	7.1	7.4	8.5	7.5	7.6	7.6	7.7	8.2	8.4	8.8
Office of Personnel Management .....	87.9	90.8	93.1	96.4	99.7	103.6	107.5	111.5	116.1	120.5	125.4
Small Business Administration .....	0.2	-0.6	1.0	0.9	0.9	1.0	1.0	1.0	1.1	1.1	1.1
Social Security Administration .....	905.8	953.8	1,007.2	1,055.8	1,114.3	1,185.8	1,256.1	1,327.3	1,407.5	1,481.7	1,560.0
On-Budget .....	(81.2)	(88.6)	(99.1)	(98.9)	(100.5)	(111.2)	(117.4)	(123.5)	(135.2)	(136.9)	(138.3)
Off-Budget .....	(824.6)	(865.2)	(908.1)	(956.9)	(1,013.7)	(1,074.6)	(1,138.7)	(1,203.9)	(1,272.2)	(1,344.8)	(1,421.6)
Other Independent Agencies .....	6.6	20.5	19.8	19.1	19.0	20.9	24.1	31.1	32.5	29.9	29.0
On-Budget .....	(9.1)	(20.3)	(19.5)	(18.8)	(18.7)	(20.6)	(23.8)	(30.8)	(32.2)	(29.6)	(28.7)
Off-Budget .....	(-2.5)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Allowances .....	.....	1.9	-33.6	-55.3	-60.6	-63.5	-65.8	-68.4	-15.6	0.9	6.3
Undistributed Offsetting Receipts .....	-246.2	-284.4	-247.4	-249.2	-243.1	-249.0	-252.4	-259.2	-261.5	-262.9	-263.3
On-Budget .....	(-130.2)	(-172.3)	(-139.3)	(-142.8)	(-138.6)	(-143.6)	(-149.6)	(-157.8)	(-162.8)	(-168.8)	(-172.7)
Off-Budget .....	(-116.0)	(-112.0)	(-108.1)	(-106.4)	(-104.5)	(-105.4)	(-102.7)	(-101.4)	(-98.7)	(-94.1)	(-90.6)
<b>Total</b> .....	<b>3,506.1</b>	<b>3,753.4</b>	<b>3,964.3</b>	<b>4,124.2</b>	<b>4,299.3</b>	<b>4,576.5</b>	<b>4,833.8</b>	<b>5,092.7</b>	<b>5,476.8</b>	<b>5,725.3</b>	<b>5,962.6</b>
(On-Budget) .....	(2,800.0)	(3,000.0)	(3,164.1)	(3,273.4)	(3,389.8)	(3,607.0)	(3,797.5)	(3,989.9)	(4,302.9)	(4,474.2)	(4,631.2)
(Off-Budget) .....	(706.1)	(753.4)	(800.3)	(850.8)	(909.5)	(969.5)	(1,036.3)	(1,102.8)	(1,173.8)	(1,251.0)	(1,416.2)

Table 25-10. BUDGET AUTHORITY BY FUNCTION IN THE ADJUSTED BASELINE

Function	2014 Actual	(In billions of dollars)										
		Estimate										
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
National Defense:												
Department of Defense—Military .....	595.7	569.3	568.9	583.0	596.7	610.8	625.7	640.4	709.1	726.3	744.0	762.3
Other .....	26.6	27.8	27.9	28.4	28.9	29.5	30.0	30.6	33.8	34.4	35.1	35.7
Total, National Defense .....	622.3	597.1	596.8	611.4	625.7	640.2	655.7	671.1	742.9	760.7	779.1	798.0
International Affairs .....	57.5	62.7	46.6	48.9	50.9	53.8	56.5	59.2	61.5	63.5	65.3	67.1
General Science, Space, and Technology .....	29.4	29.8	30.4	31.0	31.6	32.3	33.0	33.7	34.4	35.2	35.9	36.7
Energy .....	5.4	7.7	6.7	5.6	3.8	3.8	5.9	3.6	4.3	4.4	4.6	5.2
Natural Resources and Environment .....	37.7	37.2	38.7	39.8	41.2	42.2	43.8	44.7	44.9	46.0	46.9	48.0
Agriculture .....	24.5	24.3	27.1	28.0	26.4	21.7	20.8	23.6	23.8	23.8	23.8	23.9
Commerce and Housing Credit .....	-67.7	-6.4	-3.2	-8.8	-4.3	-0.1	2.8	5.5	7.8	9.0	10.2	11.3
On-Budget .....	(-67.7)	(-6.7)	(-3.7)	(-9.1)	(-4.6)	(-0.4)	(2.5)	(5.2)	(7.5)	(8.7)	(9.9)	(11.0)
Off-Budget .....	(-*)	(0.3)	(0.5)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Transportation .....	87.0	85.9	87.9	89.7	91.6	93.7	95.9	97.9	100.2	102.4	106.3	108.8
Community and Regional Development .....	16.5	17.9	13.1	13.3	13.5	14.2	14.4	14.7	15.0	15.3	15.5	15.8
Education, Training, Employment, and Social Services .....	87.8	129.7	98.6	106.5	110.4	114.5	117.8	120.9	123.2	125.1	126.7	129.4
Health .....	416.6	483.7	507.7	538.8	573.6	613.2	652.4	673.2	708.8	745.5	785.7	827.6
Medicare .....	527.6	559.8	591.5	602.4	614.7	682.0	734.6	789.9	883.1	914.3	941.9	1,046.3
Income Security .....	526.0	519.8	531.4	536.7	543.3	560.7	571.9	585.1	602.9	611.5	620.7	639.6
Social Security .....	854.2	900.5	948.0	1,001.1	1,061.8	1,126.8	1,195.2	1,264.2	1,337.2	1,414.7	1,496.9	1,583.2
On-Budget .....	(25.8)	(31.0)	(36.0)	(39.4)	(42.7)	(46.5)	(50.4)	(54.4)	(58.6)	(63.1)	(68.0)	(73.2)
Off-Budget .....	(828.4)	(869.5)	(912.0)	(961.7)	(1,019.1)	(1,080.3)	(1,144.7)	(1,209.9)	(1,278.6)	(1,351.6)	(1,428.8)	(1,510.0)
Veterans Benefits and Services .....	166.2	160.6	166.0	177.3	185.7	194.5	203.4	212.6	222.5	232.7	243.2	254.8
Administration of Justice .....	55.7	55.9	71.1	60.6	60.2	61.9	63.5	65.2	66.9	68.7	70.5	75.7
General Government .....	31.2	22.9	24.2	24.2	24.8	25.5	26.1	26.8	27.5	28.3	28.9	29.6
Net Interest .....	229.0	229.1	283.4	363.6	429.5	492.9	559.5	619.4	680.9	744.2	801.2	857.0
On-Budget .....	(329.2)	(325.2)	(375.1)	(453.0)	(516.3)	(579.8)	(643.1)	(700.8)	(758.7)	(816.7)	(869.5)	(920.2)
Off-Budget .....	(-100.3)	(-96.0)	(-91.7)	(-89.4)	(-86.9)	(-86.9)	(-83.5)	(-81.4)	(-77.8)	(-72.5)	(-68.3)	(-63.2)
Allowances .....	.....	7.5	-41.4	-58.1	-53.1	-53.9	-55.7	-58.1	-25.6	-26.5	-27.4	-3.3
Undistributed Offsetting Receipts:												
Employer share, employee retirement (on-budget) .....	-63.6	-65.5	-67.5	-70.6	-72.0	-73.7	-75.5	-77.5	-79.5	-81.4	-83.6	-85.8
Employer share, employee retirement (off-budget) .....	-15.7	-16.0	-16.4	-17.0	-17.6	-18.4	-19.2	-20.0	-20.9	-21.6	-22.3	-23.3
Rents and royalties on the Outer Continental Shelf .....	-7.5	-6.4	-7.4	-7.6	-7.6	-7.9	-8.0	-7.8	-7.8	-7.9	-8.2	-8.7
Sale of major assets .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Other undistributed offsetting receipts .....	-1.2	-45.5	-9.3	-8.8	-2.0	.....	-0.3	-0.3	-0.2	-0.1	.....	.....
Total, Undistributed Offsetting Receipts .....	-88.0	-133.5	-100.6	-104.0	-99.2	-100.0	-103.0	-105.6	-108.3	-111.1	-114.1	-117.8
On-Budget .....	(-72.3)	(-117.4)	(-84.2)	(-87.0)	(-81.6)	(-81.6)	(-83.8)	(-85.6)	(-87.4)	(-89.5)	(-91.8)	(-94.5)
Off-Budget .....	(-15.7)	(-16.0)	(-17.0)	(-17.6)	(-18.4)	(-19.2)	(-20.0)	(-20.9)	(-21.6)	(-22.3)	(-23.3)	(-23.3)
<b>Total .....</b>	<b>3,619.0</b>	<b>3,792.3</b>	<b>3,924.1</b>	<b>4,108.0</b>	<b>4,332.1</b>	<b>4,619.7</b>	<b>4,894.5</b>	<b>5,147.6</b>	<b>5,553.9</b>	<b>5,807.8</b>	<b>6,061.6</b>	<b>6,436.9</b>
On-Budget .....	(2,906.6)	(3,034.6)	(3,119.6)	(3,252.4)	(3,417.2)	(3,644.4)	(3,852.2)	(4,038.8)	(4,373.7)	(4,550.1)	(4,723.1)	(5,013.1)
Off-Budget .....	(712.4)	(757.7)	(804.5)	(855.6)	(914.9)	(975.2)	(1,042.3)	(1,108.7)	(1,180.2)	(1,257.8)	(1,338.6)	(1,423.8)
<b>MEMORANDUM</b>												
Discretionary Budget Authority:												
National Defense .....	606.2	586.2	588.6	602.8	617.1	631.5	647.0	662.5	733.7	751.5	769.8	788.5
International Affairs .....	50.9	53.4	54.5	55.6	56.8	58.0	59.2	60.5	61.8	63.1	64.5	65.9
Domestic .....	472.4	475.9	445.7	454.2	465.2	478.0	489.8	501.6	549.0	562.7	576.8	591.2
Total, Discretionary .....	1,129.5	1,115.5	1,088.8	1,112.6	1,139.1	1,167.5	1,196.0	1,224.5	1,344.6	1,377.4	1,411.1	1,445.7

\*\$50 million or less.

**Table 25–11. BUDGET AUTHORITY BY AGENCY IN THE ADJUSTED BASELINE**  
(In billions of dollars)

Agency	2014 Actual	Estimate									
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2025
Legislative Branch .....	4.5	4.5	4.6	4.8	4.9	5.1	5.2	5.3	5.5	5.7	6.0
Judicial Branch .....	7.3	7.5	7.7	7.9	8.1	8.4	8.7	8.9	9.2	9.4	10.0
Agriculture .....	157.5	151.3	156.9	159.3	158.7	155.0	153.4	157.1	157.5	159.6	160.0
Commerce .....	10.1	14.2	9.7	7.7	9.7	9.9	10.2	10.4	10.7	10.9	11.5
Defense—Military Programs .....	595.7	569.3	579.6	593.1	607.0	622.0	637.3	652.8	668.7	685.3	702.4
Education .....	55.2	97.5	65.9	73.2	76.5	79.9	82.6	85.1	86.8	88.0	89.0
Energy .....	22.2	25.7	27.1	27.5	27.4	27.8	29.3	28.3	28.9	29.4	30.7
Health and Human Services .....	961.0	1,043.0	1,081.1	1,104.7	1,128.4	1,220.7	1,305.3	1,374.7	1,495.8	1,556.6	1,617.5
Homeland Security .....	44.1	45.2	41.7	42.6	43.7	45.2	46.5	47.6	48.9	50.2	53.1
Housing and Urban Development .....	42.7	43.8	44.8	45.8	46.9	48.0	49.5	50.7	51.8	52.8	53.9
Interior .....	11.9	12.3	12.5	12.6	13.3	13.6	14.2	14.3	14.7	15.0	15.4
Justice .....	32.8	31.8	45.2	35.1	34.0	34.8	35.7	36.6	37.5	38.4	39.3
Labor .....	55.8	50.2	49.9	50.4	51.7	53.5	55.7	58.1	59.7	61.8	63.9
State .....	28.6	29.2	29.8	30.4	31.1	31.8	32.5	33.2	34.0	34.8	35.5
Transportation .....	71.3	72.1	73.6	75.0	76.4	78.0	79.6	81.3	83.0	84.7	86.5
Treasury .....	443.0	501.0	574.6	668.1	755.5	844.0	922.2	997.5	1,068.5	1,139.1	1,203.5
Veterans Affairs .....	165.7	160.2	165.5	176.8	185.3	194.0	203.0	212.1	222.0	232.2	242.7
Corps of Engineers—Civil Works .....	5.6	5.3	5.5	5.6	5.7	5.9	6.0	6.2	6.3	6.5	6.8
Other Defense Civil Programs .....	57.5	58.9	59.7	61.6	64.5	66.4	67.9	69.4	72.3	74.2	76.9
Environmental Protection Agency .....	9.1	8.0	8.2	8.4	8.6	8.8	9.1	9.3	9.5	9.8	10.0
Executive Office of the President .....	0.4	0.8	0.8	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.5
General Services Administration .....	1.9	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
International Assistance Programs .....	28.0	32.9	16.7	18.2	19.6	21.7	23.7	25.7	27.1	28.3	29.3
National Aeronautics and Space Administration..	17.6	18.0	18.4	18.7	19.2	19.6	20.0	20.5	21.0	21.4	22.4
National Science Foundation .....	7.3	7.4	7.6	7.7	7.9	8.0	8.2	8.3	8.5	8.7	9.0
Office of Personnel Management .....	89.7	92.2	95.2	98.9	102.7	106.9	111.0	115.2	119.7	124.3	128.9
Small Business Administration .....	0.1	-0.7	0.9	0.9	1.0	1.0	1.0	1.0	1.1	1.1	1.1
Social Security Administration .....	912.2	958.8	1,010.8	1,060.6	1,119.9	1,191.5	1,262.2	1,333.4	1,413.6	1,488.4	1,567.4
On-Budget .....	(83.7)	(89.3)	(98.8)	(98.9)	(100.8)	(111.2)	(117.4)	(123.5)	(135.0)	(136.9)	(138.6)
Off-Budget .....	(828.4)	(869.5)	(912.0)	(961.7)	(1,019.1)	(1,080.3)	(1,144.7)	(1,209.9)	(1,278.6)	(1,351.6)	(1,428.8)
Other Independent Agencies .....	26.4	29.3	30.5	30.2	31.3	32.5	34.8	34.7	36.4	37.3	38.4
On-Budget .....	(26.4)	(29.0)	(29.9)	(29.9)	(31.0)	(32.2)	(34.5)	(34.4)	(36.1)	(37.0)	(38.1)
Off-Budget .....	(-*)	(0.3)	(0.5)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Allowances .....			7.5	-52.4	-68.6	-63.8	-65.5	-67.7	-70.9	16.8	16.6
Undistributed Offsetting Receipts .....	-246.2	-284.4	-247.4	-249.2	-243.1	-249.0	-252.4	-259.2	-261.5	-262.9	-263.3
On-Budget .....	(-130.2)	(-172.3)	(-139.3)	(-142.8)	(-138.6)	(-143.6)	(-149.6)	(-157.8)	(-162.8)	(-168.8)	(-172.7)
Off-Budget .....	(-116.0)	(-112.0)	(-108.1)	(-106.4)	(-104.5)	(-105.4)	(-102.7)	(-101.4)	(-98.7)	(-94.1)	(-90.6)
<b>Total .....</b>	<b>3,619.0</b>	<b>3,792.3</b>	<b>3,924.1</b>	<b>4,108.0</b>	<b>4,332.1</b>	<b>4,619.7</b>	<b>4,894.5</b>	<b>5,147.6</b>	<b>5,553.9</b>	<b>5,807.8</b>	<b>6,061.6</b>
(On-Budget) .....	(2,906.6)	(3,034.6)	(3,119.6)	(3,252.4)	(3,417.2)	(3,644.4)	(3,852.2)	(4,038.8)	(4,373.7)	(4,550.1)	(4,723.1)
(Off-Budget) .....	(712.4)	(757.7)	(804.5)	(855.6)	(914.9)	(975.2)	(1,042.3)	(1,108.7)	(1,180.2)	(1,257.8)	(1,423.8)

\*\$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 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>

<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.

<sup>1</sup> There are two types of budget accounts: expenditure (or appropriation) accounts and receipt accounts. Expenditure accounts are used to record outlays and receipt accounts are used to record governmental receipts and offsetting receipts.

The Federal Government uses the term “trust fund” differently than the way in which it is commonly used. In common usage, the term is used to refer to a private fund that has a beneficiary who owns the trust’s income and may also own the trust’s assets. A custodian or trustee manages the assets on behalf of the beneficiary according to the terms of the trust agreement, as established by a trustor. Neither the trustee nor the beneficiary can change the terms of the trust agreement; only the trustor can change the terms of the agreement. In contrast, the Federal Government owns and manages the assets and the earnings of most Federal trust funds and can unilaterally change the law to raise or lower future trust fund collections and payments or change the purpose for which the collections are used. Only a few small Federal trust funds are managed pursuant to a trust agreement whereby the Government acts as the trustee; even then the Government generally owns the funds and has some ability to alter the amount deposited into or paid out of the funds.

Deposit funds, which are funds held by the Government as a custodian on behalf of individuals or a non-Federal entity, are similar to private-sector trust funds. The Government makes no decisions about the amount of money placed in deposit funds or about how the proceeds are spent. For this reason, these funds are not classified as Federal trust funds, but are instead considered to be non-budgetary and excluded from the Federal budget.<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. 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 sur-

<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)

	2014 Actual	Estimate					
		2015	2016	2017	2018	2019	2020
Receipts:							
Federal funds cash income:							
From the public .....	2,357.5	2,413.0	2,710.5	2,872.5	3,012.3	3,159.3	3,315.2
From trust funds .....	1.7	1.4	1.5	1.5	1.5	1.4	1.4
Total, Federal funds cash income .....	2,359.2	2,414.4	2,712.0	2,874.0	3,013.8	3,160.7	3,316.7
Trust funds cash income:							
From the public .....	1,234.2	1,311.1	1,339.6	1,418.0	1,480.8	1,542.3	1,607.7
From Federal funds:							
Interest .....	158.1	150.9	146.9	145.5	144.4	150.0	151.1
Other .....	501.5	500.1	587.6	605.7	626.4	667.3	708.4
Total, Trust funds cash income .....	1,893.8	1,962.1	2,074.1	2,169.3	2,251.6	2,359.7	2,467.1
Offsetting collections from the public and offsetting receipts:							
Federal funds .....	-423.6	-365.2	-364.0	-360.7	-367.4	-374.5	-385.7
Trust funds .....	-807.9	-835.3	-897.0	-927.6	-953.6	-1,010.9	-1,065.9
Total, offsetting collections from the public and offsetting receipts .....	-1,231.5	-1,200.5	-1,260.9	-1,288.3	-1,321.1	-1,385.4	-1,451.5
Total, unified budget receipts .....							
Federal funds .....	3,021.5	3,176.1	3,525.2	3,755.0	3,944.4	4,135.0	4,332.2
Trust funds .....	1,935.6	2,049.2	2,348.0	2,513.3	2,646.4	2,786.2	2,931.0
Total, unified budget receipts .....	1,085.9	1,126.8	1,177.1	1,241.7	1,298.0	1,348.8	1,401.3
Outlays:							
Federal funds cash outgo .....	2,972.3	3,106.0	3,290.9	3,465.3	3,623.0	3,764.8	3,930.6
Trust funds cash outgo .....	1,765.3	1,853.0	1,969.5	2,040.8	2,121.4	2,273.2	2,407.3
Offsetting collections from the public and offsetting receipts:							
Federal funds .....	-423.6	-365.2	-364.0	-360.7	-367.4	-374.5	-385.7
Trust funds .....	-807.9	-835.3	-897.0	-927.6	-953.6	-1,010.9	-1,065.9
Total, offsetting collections from the public and receipts .....	-1,231.5	-1,200.5	-1,260.9	-1,288.3	-1,321.1	-1,385.4	-1,451.5
Total, unified budget outlays .....							
Federal funds .....	3,506.1	3,758.6	3,999.5	4,217.8	4,423.3	4,652.6	4,886.4
Trust funds .....	2,548.7	2,740.8	2,926.9	3,104.6	3,255.6	3,390.3	3,545.0
Total, unified budget outlays .....	957.4	1,017.7	1,072.6	1,113.2	1,167.7	1,262.3	1,341.4
Surplus or deficit(–):							
Federal funds .....	-613.2	-691.6	-578.9	-591.3	-609.2	-604.1	-614.0
Trust funds .....	128.5	109.1	104.6	128.5	130.3	86.5	59.9
Total, unified surplus/deficit(–) .....	-484.6	-582.5	-474.3	-462.8	-478.9	-517.7	-554.1

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).

plus 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 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

<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.

<sup>7</sup> Collections from non-Federal sources are shown as income and

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 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 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

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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 \$2.7 billion from the general fund in 2014 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.

<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.

**Table 26-2. COMPARISON OF TOTAL FEDERAL FUND AND TRUST FUND RECEIPTS TO UNIFIED BUDGET RECEIPTS, FISCAL YEAR 2014**  
(In billions of dollars)

Gross Trust fund receipts .....	1,882.2
Gross Federal fund receipts .....	2,167.6
Total, gross receipts .....	4,049.8
Deduct intrafund receipts (from funds within same fund group):	
Trust fund intrafund receipts .....	-7.2
Federal fund intrafund receipts .....	-26.0
Subtotal, intrafund receipts.....	-33.3
Total Trust funds and Federal Funds cash income .....	4,016.5
Deduct other offsetting receipts:	
Trust fund receipts from Federal funds:	
Interest in receipt accounts .....	-158.1
General fund payments to Medicare Parts B and D .....	-244.4
Employing agencies' payments for pensions, Social Security, and Medicare .....	-71.7
General fund payments for unfunded liabilities of Federal employees' retirement funds .....	-108.3
Transfer of taxation of Social Security and RRB benefits to OASDI, HI, and RRB .....	-44.4
Other receipts from Federal funds .....	-32.7
Subtotal, Trust fund receipts from Federal funds .....	-659.6
Federal fund receipts from Trust funds .....	-1.7
Proprietary receipts .....	-323.0
Offsetting governmental receipts .....	-10.7
Subtotal, offsetting receipts .....	-995.1
Unified budget receipts .....	3,021.5

Note: Offsetting receipts are included in cash income for each fund group, but are deducted from outlays in the unified budget.

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 2014 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 between the trust fund share of receipts and the trust fund share of outlays is discussed in the next section.

Because the income for Federal funds and trust funds recorded in Table 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 2014, 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 \$46 billion in 2014. Table 26-3, therefore, provides a more complete summary of trust fund income and outgo.

The trust funds group ran a surplus of \$129 billion in 2014, and is expected to run surpluses of similar size over the next several years. The resulting growth in trust fund balances continues a trend that has persisted over the past several decades. The size of these balances is unprecedented and is mainly the consequence of 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 \$4.6 trillion in 2014. The current balances are estimated to increase by approximately 13 percent by the year 2020, rising to \$5.2 trillion. Almost all of these balances are invested in Treasury securities and earn interest. The balances represent the value, in current dollars, of the unspent portion of (1) taxes and fees received by the Government and dedicated to trust funds and (2) intragovernmental payments (from the general fund and from 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

**Table 26–3. INCOME, OUTGO, AND BALANCES OF TRUST FUNDS GROUP**  
(In billions of dollars)

	2014 Actual	Estimate					
		2015	2016	2017	2018	2019	2020
Balance, start of year .....	4,474.9	4,603.3	4,692.0	4,796.8	4,925.3	5,055.6	5,142.1
Adjustments to balances .....	*	-0.1	.....	.....	.....	.....	.....
Total balance, start of year .....	4,474.9	4,603.2	4,692.0	4,796.8	4,925.3	5,055.6	5,142.1
Income:							
Governmental receipts .....	1,085.9	1,126.8	1,177.1	1,241.7	1,298.0	1,348.8	1,401.3
Offsetting governmental .....	1.2	35.0	8.3	9.8	2.0	*	*
Proprietary .....	144.1	148.0	153.3	165.6	179.8	192.6	205.5
From Federal funds:							
Interest .....	162.2	153.3	148.8	147.8	147.1	153.2	154.7
Other .....	546.7	547.5	638.0	659.6	682.5	725.9	769.5
Total income during the year .....	1,940.1	2,010.6	2,125.5	2,224.5	2,309.5	2,420.5	2,530.9
Outgo (-) .....	-1,811.6	-1,901.5	-2,020.9	-2,096.0	-2,179.2	-2,334.0	-2,471.1
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-33.7	-44.2	-44.2	-19.3	-16.9	-66.7	-94.8
Interest .....	162.2	153.3	148.8	147.8	147.1	153.2	154.7
Subtotal, surplus or deficit (-) .....	128.5	109.1	104.6	128.5	130.3	86.5	59.9
Borrowing, transfers, lapses, & other adjustments ....	-0.2	-20.3	0.2	.....	.....	.....	.....
Total change in fund balance .....	128.3	88.8	104.8	128.5	130.3	86.5	59.9
Balance, end of year .....	4,603.2	4,692.0	4,796.8	4,925.3	5,055.6	5,142.1	5,201.9

\* \$500 million or less.

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.

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 past taxes, fees, and other income that the trust fund has received in excess of past spending. 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 2014 through 2020 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.

As noted above, 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. 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 consist of the Old Age and Survivors Insurance (OASI) trust fund and the Disability Insurance (DI) trust fund. The 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. The Social Security Trustees project that on a standalone basis, the DI trust fund will be unable to pay full benefits under current law starting in 2016. The Budget proposes to temporarily reallocate payroll taxes from the OASI trust fund to the DI trust fund in calendar years 2016 through 2020 to extend the ability of the DI trust fund to pay full 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 2014 the Unemployment Trust Fund borrowed \$2.7 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 likewise is funded by payments from the Department of Defense, general fund transfers for unfunded retirement costs, and interest earnings on trust fund balances.

Table 26–5 shows income, outgo, and balances of two Federal funds that are designated as special funds. These 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 revolving funds and special funds.

**Table 26-4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS**  
(In billions of dollars)

	2014 Actual	Estimate					
		2015	2016	2017	2018	2019	2020
<b>Airport and Airway Trust Fund</b>							
Balance, start of year .....	13.2	14.2	12.2	11.9	12.2	13.0	14.5
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	13.2	14.2	12.2	11.9	12.2	13.0	14.5
Income:							
Governmental receipts .....	13.5	13.1	14.7	15.4	16.0	16.4	17.0
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	*	*	*	*	*	*	*
Intrabudgetary:							
Intrafund .....	.....	.....	.....	.....	.....	.....	.....
Interest .....	0.2	0.3	0.2	0.3	0.3	0.4	0.5
Other intrabudgetary .....	*	*	*	*	*	*	*
Total income during the year .....	13.8	13.5	15.0	15.7	16.4	16.9	17.5
Outgo (-) .....	-12.9	-15.4	-15.4	-15.4	-15.6	-15.4	-15.5
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	0.8	-2.2	-0.6	0.1	0.5	1.1	1.5
Interest .....	0.2	0.3	0.2	0.3	0.3	0.4	0.5
Subtotal, surplus or deficit (-) .....	1.0	-2.0	-0.4	0.3	0.8	1.5	2.0
Borrowing, transfers, lapses, & other adjustments .....	-*	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	1.0	-2.0	-0.4	0.3	0.8	1.5	2.0
Balance, end of year .....	14.2	12.2	11.9	12.2	13.0	14.5	16.5
<b>Civil Service Retirement and Disability Fund</b>							
Balance, start of year .....	842.7	857.2	870.3	882.2	894.1	905.5	916.5
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	842.7	857.2	870.3	882.2	894.1	905.5	916.5
Income:							
Governmental receipts .....	3.4	3.6	3.7	4.2	4.4	4.7	5.0
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	.....	.....	.....	.....	.....	.....	.....
Intrabudgetary:							
Intrafund .....	.....	.....	.....	.....	.....	.....	.....
Interest .....	31.0	28.5	27.4	27.5	28.0	28.9	30.0
Other intrabudgetary .....	59.7	63.0	65.3	66.5	68.1	69.4	70.6
Total income during the year .....	94.2	95.2	96.4	98.1	100.5	103.0	105.6
Outgo (-) .....	-79.6	-82.1	-84.5	-86.2	-89.0	-92.0	-95.0
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-16.5	-15.5	-15.4	-15.6	-16.5	-17.9	-19.4
Interest .....	31.0	28.5	27.4	27.5	28.0	28.9	30.0
Subtotal, surplus or deficit (-) .....	14.5	13.1	12.0	11.8	11.4	11.0	10.6
Borrowing, transfers, lapses, & other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	14.5	13.1	12.0	11.8	11.4	11.0	10.6
Balance, end of year .....	857.2	870.3	882.2	894.1	905.5	916.5	927.1

**Table 26-4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2014 Actual	Estimate					
		2015	2016	2017	2018	2019	2020
<b>Employees and Retired Employees Health Benefits Funds</b>							
Balance, start of year .....	23.4	23.6	24.2	25.3	26.7	28.3	29.5
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	23.4	23.6	24.2	25.3	26.7	28.3	29.5
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	13.6	14.3	15.4	16.1	16.9	18.0	19.1
Intrabudgetary:							
Intrafund .....	.....	.....	.....	.....	.....	.....	.....
Interest .....	-0.2	0.3	0.3	0.5	0.6	0.7	0.7
Other intrabudgetary .....	32.9	34.0	36.1	37.7	39.8	42.2	44.8
Total income during the year .....	46.3	48.6	51.9	54.2	57.3	60.8	64.6
Outgo (-) .....	-46.1	-48.0	-50.7	-52.9	-55.7	-59.5	-63.2
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	0.4	0.4	0.8	0.9	1.0	0.6	0.6
Interest .....	-0.2	0.3	0.3	0.5	0.6	0.7	0.7
Subtotal, surplus or deficit (-) .....	0.2	0.6	1.1	1.3	1.6	1.3	1.3
Borrowing, transfers, lapses, & other adjustments .....	*	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	0.2	0.6	1.1	1.3	1.6	1.3	1.3
Balance, end of year .....	23.6	24.2	25.3	26.7	28.3	29.5	30.9
<b>Foreign Military Sales Trust Fund</b>							
Balance, start of year .....	19.1	21.7	21.8	21.3	21.4	21.4	21.0
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	19.1	21.7	21.8	21.3	21.4	21.4	21.0
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	29.3	29.7	27.1	26.3	25.5	23.9	22.5
Intrabudgetary:							
Intrafund .....	.....	.....	.....	.....	.....	.....	.....
Interest .....	.....	.....	.....	.....	.....	.....	.....
Other intrabudgetary .....	.....	.....	.....	.....	.....	.....	.....
Total income during the year .....	29.3	29.7	27.1	26.3	25.5	23.9	22.5
Outgo (-) .....	-26.6	-29.6	-27.7	-26.2	-25.5	-24.3	-23.6
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	2.6	0.1	-0.5	0.1	-*	-0.4	-1.1
Interest .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, surplus or deficit (-) .....	2.6	0.1	-0.5	0.1	-*	-0.4	-1.1
Borrowing, transfers, lapses, & other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	2.6	0.1	-0.5	0.1	-*	-0.4	-1.1
Balance, end of year .....	21.7	21.8	21.3	21.4	21.4	21.0	19.8

**Table 26-4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2014 Actual	Estimate					
		2015	2016	2017	2018	2019	2020
<b>Medicare: Hospital Insurance (HI) Trust Fund</b>							
Balance, start of year .....	206.3	202.4	203.9	205.9	219.3	240.9	255.0
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	206.3	202.4	203.9	205.9	219.3	240.9	255.0
Income:							
Governmental receipts .....	224.9	234.9	246.4	260.1	274.4	287.9	299.9
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	12.0	12.6	12.7	12.9	13.2	13.4	13.7
Intrabudgetary:							
Intrafund .....	.....	.....	.....	.....	.....	.....	.....
Interest .....	9.0	8.8	9.0	8.9	9.1	9.5	9.8
Other intrabudgetary .....	25.3	26.5	30.3	32.7	35.4	38.4	41.6
Total income during the year .....	271.2	282.9	298.4	314.7	332.1	349.2	365.0
Outgo (-) .....	-275.2	-281.4	-296.4	-301.3	-310.5	-335.1	-354.3
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-12.9	-7.3	-6.9	4.5	12.6	4.6	0.8
Interest .....	9.0	8.8	9.0	8.9	9.1	9.5	9.8
Subtotal, surplus or deficit (-) .....	-4.0	1.5	2.0	13.3	21.6	14.1	10.6
Borrowing, transfers, lapses, & other adjustments .....	-*	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	-4.0	1.5	2.0	13.3	21.6	14.1	10.6
Balance, end of year .....	202.4	203.9	205.9	219.3	240.9	255.0	265.6
<b>Medicare: Supplementary Insurance (SMI) Trust Fund</b>							
Balance, start of year .....	69.8	71.3	66.7	56.5	60.1	80.6	93.5
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	69.8	71.3	66.7	56.5	60.1	80.6	93.5
Income:							
Governmental receipts .....	3.2	2.9	3.0	4.0	4.1	2.8	2.8
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	82.5	85.0	91.4	103.5	117.4	130.5	143.3
Intrabudgetary:							
Intrafund .....	.....	.....	.....	.....	.....	.....	.....
Interest .....	2.5	2.5	2.5	2.6	2.8	3.1	3.4
Other intrabudgetary .....	244.4	257.6	290.4	299.2	308.7	337.5	366.0
Total income during the year .....	332.5	348.1	387.2	409.3	433.0	473.9	515.5
Outgo (-) .....	-331.0	-352.6	-397.5	-405.8	-412.4	-461.0	-499.5
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-1.0	-7.1	-12.7	1.0	17.7	9.8	12.6
Interest .....	2.5	2.5	2.5	2.6	2.8	3.1	3.4
Subtotal, surplus or deficit (-) .....	1.5	-4.6	-10.2	3.6	20.6	12.9	16.0
Borrowing, transfers, lapses, & other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	1.5	-4.6	-10.2	3.6	20.6	12.9	16.0
Balance, end of year .....	71.3	66.7	56.5	60.1	80.6	93.5	109.6

**Table 26-4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2014 Actual	Estimate					
		2015	2016	2017	2018	2019	2020
<b>Military Retirement Fund</b>							
Balance, start of year .....	420.6	478.1	535.7	592.3	653.9	721.5	789.3
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	420.6	478.1	535.7	592.3	653.9	721.5	789.3
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	.....	.....	.....	.....	.....	.....	.....
Intrabudgetary:							
Intrafund .....	.....	.....	.....	.....	.....	.....	.....
Interest .....	13.0	12.2	13.3	13.7	13.8	17.2	19.2
Other intrabudgetary .....	99.8	101.7	105.3	107.0	109.9	113.1	116.6
Total income during the year .....	112.8	113.9	118.6	120.8	123.7	130.3	135.8
Outgo (-) .....	-55.4	-56.2	-62.0	-59.2	-56.1	-62.4	-64.3
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	44.4	45.5	43.3	47.8	53.8	50.7	52.2
Interest .....	13.0	12.2	13.3	13.7	13.8	17.2	19.2
Subtotal, surplus or deficit (-) .....	57.4	57.7	56.6	61.5	67.6	67.8	71.5
Borrowing, transfers, lapses, & other adjustments .....	-*	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	57.4	57.7	56.6	61.5	67.6	67.8	71.5
Balance, end of year .....	478.1	535.7	592.3	653.9	721.5	789.3	860.8
<b>Railroad Retirement Trust Funds</b>							
Balance, start of year .....	22.2	23.2	22.5	21.9	21.3	21.1	20.8
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	22.2	23.2	22.5	21.9	21.3	21.1	20.8
Income:							
Governmental receipts .....	5.4	5.6	5.7	5.9	6.1	6.2	6.4
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	*	.....	.....	.....	.....	.....	.....
Intrabudgetary:							
Intrafund .....	4.7	4.6	4.7	4.5	4.9	5.0	4.9
Interest .....	2.6	1.0	0.8	0.9	0.9	0.9	1.0
Other intrabudgetary .....	0.8	0.9	0.8	0.9	0.9	0.9	1.0
Total income during the year .....	13.4	12.1	12.0	12.1	12.8	13.1	13.3
Outgo (-) .....	-12.3	-12.8	-12.7	-12.7	-13.0	-13.4	-13.7
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-1.5	-1.8	-1.4	-1.4	-1.2	-1.2	-1.4
Interest .....	2.6	1.0	0.8	0.9	0.9	0.9	1.0
Subtotal, surplus or deficit (-) .....	1.1	-0.7	-0.6	-0.5	-0.2	-0.3	-0.4
Borrowing, transfers, lapses, & other adjustments .....	-0.1	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	1.0	-0.7	-0.6	-0.5	-0.2	-0.3	-0.4
Balance, end of year .....	23.2	22.5	21.9	21.3	21.1	20.8	20.3

**Table 26-4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2014 Actual	Estimate					
		2015	2016	2017	2018	2019	2020
<b>Social Security: Old Age, Survivors, and Disability Insurance (OASDI) Trust Funds</b>							
Balance, start of year .....	2,755.6	2,782.6	2,795.1	2,796.2	2,789.0	2,764.6	2,722.1
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	2,755.6	2,782.6	2,795.1	2,796.2	2,789.0	2,764.6	2,722.1
Income:							
Governmental receipts .....	735.6	765.6	801.0	844.0	885.1	926.0	964.4
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Intrabudgetary:							
Intrafund .....	.....	.....	.....	.....	.....	.....	.....
Interest .....	100.3	96.0	91.7	89.4	86.9	86.9	83.5
Other intrabudgetary .....	53.1	59.2	65.4	71.3	75.4	80.0	84.8
Total income during the year .....	889.0	920.9	958.1	1,004.8	1,047.5	1,093.0	1,132.8
Outgo (-) .....	-862.1	-908.5	-957.2	-1,012.1	-1,071.9	-1,135.6	-1,203.0
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-73.3	-83.6	-90.7	-96.7	-111.2	-129.5	-153.7
Interest .....	100.3	96.0	91.7	89.4	86.9	86.9	83.5
Subtotal, surplus or deficit (-) .....	27.0	12.4	1.0	-7.3	-24.4	-42.5	-70.1
Borrowing, transfers, lapses, & other adjustments .....	-*	0.1	0.2	.....	.....	.....	.....
Total change in fund balance .....	27.0	12.5	1.2	-7.3	-24.4	-42.5	-70.1
Balance, end of year .....	2,782.6	2,795.1	2,796.2	2,789.0	2,764.6	2,722.1	2,651.9
<b>Transportation Trust Fund</b>							
Balance, start of year .....	6.3	14.8	0.8	20.0	31.4	38.0	42.3
Adjustments to balances .....	*	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	6.3	14.8	0.8	20.0	31.4	38.0	42.3
Income:							
Governmental receipts .....	39.0	39.3	39.6	39.8	39.9	39.9	40.0
Offsetting governmental .....	*	*	*	*	*	*	*
Proprietary .....	0.1	.....	.....	.....	.....	.....	.....
Intrabudgetary:							
Intrafund .....	1.0	.....	.....	.....	.....	.....	.....
Interest .....	*	.....	.....	.....	.....	.....	.....
Other intrabudgetary .....	21.5	0.4	40.1	40.1	40.1	40.1	40.1
Total income during the year .....	61.7	39.6	79.7	79.9	80.0	80.0	80.1
Outgo (-) .....	-53.1	-53.7	-60.5	-68.5	-73.4	-75.8	-77.7
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	8.6	-14.1	19.2	11.5	6.6	4.2	2.4
Interest .....	*	.....	.....	.....	.....	.....	.....
Subtotal, surplus or deficit (-) .....	8.6	-14.1	19.2	11.5	6.6	4.2	2.4
Borrowing, transfers, lapses, & other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	8.6	-14.1	19.2	11.5	6.6	4.2	2.4
Balance, end of year .....	14.8	0.8	20.0	31.4	38.0	42.3	44.6

**Table 26-4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2014 Actual	Estimate					
		2015	2016	2017	2018	2019	2020
<b>Unemployment Trust Fund</b>							
Balance, start of year .....	0.2	15.2	30.8	44.0	61.8	78.7	90.2
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	0.2	15.2	30.8	44.0	61.8	78.7	90.2
Income:							
Governmental receipts .....	55.0	56.4	56.3	60.4	59.8	56.9	57.8
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	*	*	*	*	*	*	*
Intrabudgetary:							
Intrafund .....	.....	.....	.....	.....	.....	.....	.....
Interest .....	1.2	1.2	1.3	1.6	1.9	2.2	2.8
Other intrabudgetary .....	6.0	0.8	0.8	0.8	0.8	0.8	0.8
Total income during the year .....	62.1	58.5	58.4	62.7	62.5	59.9	61.4
Outgo (-) .....	-47.2	-42.8	-45.3	-44.9	-45.5	-48.4	-51.2
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	13.8	14.4	11.8	16.3	15.0	9.2	7.5
Interest .....	1.2	1.2	1.3	1.6	1.9	2.2	2.8
Subtotal, surplus or deficit (-) .....	14.9	15.7	13.1	17.8	16.9	11.5	10.3
Borrowing, transfers, lapses, & other adjustments .....	*	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	14.9	15.7	13.1	17.8	16.9	11.5	10.3
Balance, end of year .....	15.2	30.8	44.0	61.8	78.7	90.2	100.4
<b>Veterans Life Insurance Funds</b>							
Balance, start of year .....	8.2	7.5	6.6	5.9	5.1	4.4	3.7
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	8.2	7.5	6.6	5.9	5.1	4.4	3.7
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Intrabudgetary:							
Intrafund .....	.....	.....	.....	.....	.....	.....	.....
Interest .....	0.4	0.3	0.3	0.2	0.2	0.2	0.1
Other intrabudgetary .....	.....	.....	.....	.....	.....	.....	.....
Total income during the year .....	0.6	0.6	0.4	0.4	0.3	0.3	0.2
Outgo (-) .....	-1.3	-1.4	-1.2	-1.1	-1.0	-0.9	-0.9
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-1.1	-1.2	-1.0	-1.0	-0.9	-0.8	-0.8
Interest .....	0.4	0.3	0.3	0.2	0.2	0.2	0.1
Subtotal, surplus or deficit (-) .....	-0.7	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6
Borrowing, transfers, lapses, & other adjustments .....	*	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	-0.7	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6
Balance, end of year .....	7.5	6.6	5.9	5.1	4.4	3.7	3.1

**Table 26-4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2014 Actual	Estimate					
		2015	2016	2017	2018	2019	2020
<b>All Other Trust Funds</b>							
Balance, start of year .....	87.3	91.6	101.4	113.5	129.2	137.6	143.7
Adjustments to balances .....	*	-0.1	.....	.....	.....	.....	.....
Total balance, start of year .....	87.3	91.5	101.4	113.5	129.2	137.6	143.7
Income:							
Governmental receipts .....	5.9	5.5	6.9	8.0	8.2	8.0	8.0
Offsetting governmental .....	1.2	35.0	8.3	9.8	2.0	*	*
Proprietary .....	6.1	5.9	6.3	6.4	6.5	6.5	6.6
Intrabudgetary:							
Intrafund .....	0.1	0.1	0.1	0.1	0.1	0.2	*
Interest .....	2.3	2.1	2.0	2.4	2.7	3.1	3.6
Other intrabudgetary .....	3.2	3.2	3.4	3.4	3.4	3.5	3.4
Total income during the year .....	18.9	51.9	27.0	30.1	23.0	21.3	21.5
Outgo (-) .....	-14.6	-21.6	-14.9	-14.4	-14.6	-15.2	-14.1
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	2.0	28.2	10.0	13.3	5.8	2.9	3.9
Interest .....	2.3	2.1	2.0	2.4	2.7	3.1	3.6
Subtotal, surplus or deficit (-) .....	4.3	30.3	12.1	15.7	8.5	6.0	7.5
Borrowing, transfers, lapses, & other adjustments .....	-0.1	-20.4	*	.....	.....	.....	.....
Total change in fund balance .....	4.2	9.9	12.1	15.7	8.5	6.0	7.5
Balance, end of year .....	91.5	101.4	113.5	129.2	137.6	143.7	151.1

\* \$500 million or less.

**Table 26-5. INCOME, OUTGO, AND BALANCE OF SELECTED SPECIAL FUNDS**  
(In billions of dollars)

	2014 Actual	Estimate					
		2015	2016	2017	2018	2019	2020
<b>Abandoned Mine Reclamation Fund</b>							
Balance, start of year .....	2.8	2.8	2.8	2.8	2.7	2.6	2.4
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	2.8	2.8	2.8	2.8	2.7	2.6	2.4
Income:							
Governmental receipts .....	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	.....	.....	.....	.....	.....	.....	.....
Intrabudgetary:							
Intrafund .....	.....	.....	.....	.....	.....	.....	.....
Interest .....	*	*	0.1	*	*	*	*
Other intrabudgetary .....	.....	.....	.....	.....	.....	.....	.....
Total income during the year .....	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Outgo (-) .....	-0.2	-0.2	-0.3	-0.4	-0.4	-0.5	-0.5
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	*	-*	-0.1	-0.1	-0.2	-0.2	-0.2
Interest .....	*	*	0.1	*	*	*	*
Subtotal, surplus or deficit (-) .....	0.1	-*	-*	-0.1	-0.1	-0.2	-0.2
Borrowing, transfers, lapses, & other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	0.1	-*	-*	-0.1	-0.1	-0.2	-0.2
Balance, end of year .....	2.8	2.8	2.8	2.7	2.6	2.4	2.2
<b>Department of Defense Medicare-Eligible Retiree Health Care Fund</b>							
Balance, start of year .....	188.5	198.9	207.2	214.8	222.4	229.0	236.3
Adjustments to balances .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	188.5	198.9	207.2	214.8	222.4	229.0	236.3
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Offsetting governmental .....	.....	.....	.....	.....	.....	.....	.....
Proprietary .....	.....	.....	.....	.....	.....	.....	.....
Intrabudgetary:							
Intrafund .....	11.9	11.2	9.1	9.5	9.9	10.4	10.9
Interest .....	7.7	7.6	8.5	8.6	7.8	8.3	9.4
Other intrabudgetary .....	.....	.....	.....	.....	.....	.....	.....
Total income during the year .....	19.6	18.8	17.6	18.1	17.7	18.7	20.3
Outgo (-) .....	-9.3	-10.6	-10.0	-10.5	-11.0	-11.4	-12.0
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	2.6	0.7	-0.9	-1.0	-1.2	-1.1	-1.1
Interest .....	7.7	7.6	8.5	8.6	7.8	8.3	9.4
Subtotal, surplus or deficit (-) .....	10.4	8.3	7.7	7.6	6.6	7.2	8.3
Borrowing, transfers, lapses, & other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total change in fund balance .....	10.4	8.3	7.7	7.6	6.6	7.2	8.3
Balance, end of year .....	198.9	207.2	214.8	222.4	229.0	236.3	244.5

\* \$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 2014 with the current services estimates shown in the 2014 Budget, published in April 2013.<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 2014 previously published by the Department of the Treasury.

### Receipts

Actual receipts for 2014 were \$3,021 billion, \$21 billion more than the \$3,000 billion current services estimate in the 2014 Budget. As shown in Table 27–1, this increase

<sup>1</sup> The current services concept is discussed in Chapter 25, “Current Services Estimates.” For mandatory programs and receipts, the April 2013 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 annualizing the amounts provided in the 2013 continuing resolution (P.L. 112-175) and increasing 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. For a detailed explanation of the 2014 estimate, see “Current Services Estimates,” Chapter 26 in *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2014*.

was primarily the net effect of 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 April 2013 current services estimate of 2014 receipts reflected current law, including the provisions of the American Taxpayer Relief Act of 2012 (ATRA), which was signed into law by President Obama on January 2, 2013. Legislation enacted after that date did not have a significant effect on 2014 receipts.

*Economic differences.* Differences between the economic assumptions upon which the current services estimates were based and actual economic performance reduced 2014 receipts by a net \$83 billion below the April 2013 estimate. These differences had the greatest effect on individual income taxes and social insurance and retirement receipts, reducing those sources of receipts by \$67 billion and \$20 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 April 2013. 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 April 2013 had a much smaller effect on corporation income taxes and other sources of receipts, increasing collections by a net \$4 billion.

*Technical factors.* Technical factors increased receipts by a net \$104 billion relative to the April 2013 current services estimate. These factors had the greatest effect on individual income taxes, increasing collections by \$103 billion. The models used to prepare the April 2013 estimates of individual income taxes were based on historical economic data and then-current tax and collections data that were all subsequently revised. These revisions indicated that: (1) sources of income that are not part of the

**Table 27–1. COMPARISON OF ACTUAL 2014 RECEIPTS WITH THE INITIAL CURRENT SERVICES ESTIMATES**  
(In billions of dollars)

	Estimate (April 2013)	Changes			Total Changes	Actual
		Policy	Economic	Technical		
Individual income taxes .....	1,358	*	-67	103	36	1,395
Corporation income taxes .....	335	*	5	-19	-14	321
Social insurance and retirement receipts .....	1,032	*	-20	12	-8	1,023
Excise taxes .....	93	.....	1	-*	*	93
Estate and gift taxes .....	13	.....	-*	6	6	19
Customs duties .....	39	.....	-2	-3	-5	34
Miscellaneous receipts .....	130	.....	.....	6	6	136
Total receipts .....	3,000	*	-83	104	21	3,021

\* \$500 million or less.

economic forecast, but subject to tax, such as capital gains and pensions, differed from what was expected at the time the April 2013 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. Net increases in other sources of receipts accounted for the remaining \$1 billion increase in receipts attributable to technical factors.

### Outlays

Outlays for 2014 were \$3,506 billion, \$121 billion less than the \$3,627 billion current services estimate in the 2014 Budget. Table 27-2 distributes the \$121 billion net decrease in outlays among discretionary and mandatory programs and net interest.<sup>2</sup> The table also shows rough estimates attributable to each of 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 2014, policy changes increased outlays by \$51 billion relative to the initial current services estimates, which included the impacts of sequestration and discretionary cap reductions as part of the Joint Committee enforcement provisions of the Budget Control Act of 2011. Final 2013 discretionary appropriations were not enacted at the time of the

2014 Budget, so the April 2013 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 2013 and 2014 appropriations, including Overseas Contingency Operations, increased discretionary outlays by \$32 billion. Policy changes increased mandatory outlays by a net \$19 billion above current law. Much of this increase was the result of changes in student loan programs enacted in 2013 and 2014 that increased 2014 outlays by \$9 billion. Debt service costs associated with all policy changes increased outlays by less than \$1 billion.

*Economic and technical factors.* Technical estimating factors resulted in a net decrease in outlays of \$139 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. Increases in discretionary outlays due to legislation, as discussed above, were partially offset by a \$19 billion decrease in net outlays resulting from technical changes. Outlays for mandatory programs decreased a net \$121 billion. The largest change was a \$42 billion decrease in mortgage credit spending: net outlays resulting from Treasury's Preferred Stock Purchase Agreements with Fannie Mae and Freddie Mac were \$43 billion lower than estimated in the 2014 Budget due to improved financial performance of the companies and a \$24 billion increase in the valuation of Freddie Mac's deferred tax asset. Outlays for Social Security were \$11 billion lower than anticipated in the 2014 Budget largely due to lower-than-estimated number of beneficiaries. Other advancement of commerce programs outlays decreased by \$11 billion mainly due to an \$8 billion downward reestimate of the costs of the TARP program.

There was a net decrease in outlays of \$33 billion as a result of differences between actual economic conditions and those forecast in April 2013. Unemployment compensation was \$6 billion lower than the current services

**Table 27-2. COMPARISON OF ACTUAL 2014 OUTLAYS WITH THE INITIAL CURRENT SERVICES ESTIMATES**  
(In billions of dollars)

	Estimate (April 2013)	Changes			Total Changes	Actual
		Policy	Economic	Technical		
Discretionary:						
Defense .....	574	10	.....	12	22	596
Nondefense .....	592	22	.....	-31	-10	582
Subtotal, discretionary .....	1,166	32	.....	-19	13	1,179
Mandatory:						
Social Security .....	860	.....	-4	-11	-15	845
Mortgage Credit .....	-31	.....	.....	-42	-42	-74
Other programs .....	1,407	19	-30	-68	-79	1,327
Subtotal, mandatory .....	2,235	19	-34	-121	-137	2,099
Allowance for disaster costs <sup>1</sup> .....	5	.....	.....	-5	-5	.....
Net interest .....	222	*	1	6	7	229
Total outlays .....	3,627	51	-33	-139	-121	3,506

\* \$500 million or less.

<sup>1</sup>These amounts were included in the 2014 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.

estimate and lower than projected cost-of-living adjustments decreased Social Security payments by \$4 billion. Remaining changes were in other health and assistance programs.

### 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 2014. This section combines these effects to show the net deficit impact of these differences.

As shown in Table 27–3, the 2014 current services deficit was initially estimated to be \$627 billion. The actual deficit was \$485 billion, which was a \$142 billion decrease from the initial estimate. Receipts were \$21 billion higher and outlays were \$121 billion lower than the initial estimate. 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 \$51 billion. Economic conditions that differed from the initial assumptions in April 2013 increased the deficit by \$50 billion. Technical factors decreased the deficit by an estimated \$243 billion.

### Comparison of the Actual and Estimated Outlays for Mandatory and Related Programs for 2014

This section compares the original 2014 outlay estimates for mandatory and related programs in the current services estimates of the Budget with the actual outlays. Major examples of these programs include Social Security and Medicare benefits, Medicaid and unemployment compensation payments, and deposit insurance for banks and thrift institutions. This category also includes net interest outlays and undistributed offsetting receipts.

A number of factors may cause differences between the amounts estimated in the Budget and the actual mandatory outlays. For example, legislation may change benefit rates or coverage, the actual number of beneficiaries may differ from the number estimated, or economic conditions (such as inflation or interest rates) may differ from what was assumed in making the original estimates.

Table 27–4 shows the differences between the actual outlays for these programs in 2014 and the current services estimates included in the 2014 Budget.<sup>3</sup> Actual outlays for mandatory spending and net interest in 2014 were \$2,327 billion, which was \$129 billion less than the current services estimate of \$2,457 billion in April 2013.

As Table 27–4 shows, actual outlays for mandatory human resources programs were \$2,238 billion, \$62 bil-

lion 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, Medicaid, and other health programs decreased by \$41 billion due to economic, legislative and technical factors. Mandatory outlays for programs in functions outside human resources were \$76 billion less than originally estimated, largely due to a \$42 billion decrease in mortgage credit spending.

Outlays for net interest were \$229 billion, or \$7 billion more than the original estimate. As shown on Table 27–4, interest payments on Treasury debt securities increased by \$12 billion, offset by increased interest earnings by trust funds.

### Reconciliation of Differences with Amounts Published by the Treasury for 2014

Table 27–5 provides a reconciliation of the receipts, outlays, and deficit totals for 2014 published by the Department of the Treasury in the September 2014 Monthly Treasury Statement (MTS) and those published in this Budget. The Department of the Treasury made adjustments to the estimates for the Combined Statement of Receipts, Outlays, and Balances, which decreased receipts by \$39 million and decreased outlays by \$54 million. Additional adjustments for the 2016 Budget increased receipts by \$678 million and increased outlays by \$1,944 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 2013 through August 2014. 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 2014 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 27–3. COMPARISON OF THE ACTUAL 2014 DEFICIT WITH THE INITIAL CURRENT SERVICES ESTIMATE**  
(In billions of dollars)

	Estimate (April 2013)	Changes			Total Changes	Actual
		Policy	Economic	Technical		
Receipts .....	3,000	*	-83	104	21	3,021
Outlays .....	3,627	51	-33	-139	-121	3,506
Deficit .....	627	51	50	-243	-142	485

\*\$500 million or less.

Note: Deficit changes are outlays minus receipts. For these changes, a positive number indicates an increase in the deficit.

**Table 27-4. COMPARISON OF ACTUAL AND ESTIMATED OUTLAYS FOR MANDATORY AND RELATED PROGRAMS UNDER CURRENT LAW**  
(In billions of dollars)

	2014		
	Estimate	Actual	Change
Mandatory outlays:			
Human resources programs:			
Education, training, employment, and social services:			
Higher education .....	-18	-8	10
Other .....	8	7	-1
Total, education, training, employment, and social services .....	-10	-1	9
Health:			
Medicaid .....	304	301	-2
Other .....	78	52	-25
Total, health .....	381	354	-28
Medicare .....	519	505	-14
Income security:			
Retirement and disability .....	143	143	-*
Unemployment compensation .....	54	43	-11
Food and nutrition assistance .....	96	96	1
Other .....	172	168	-4
Total, income security .....	465	449	-15
Social security .....	860	845	-15
Veterans benefits and services:			
Income security for veterans .....	72	71	-1
Other .....	14	16	2
Total, veterans benefits and services .....	86	86	1
Total, mandatory human resources programs .....	2,301	2,238	-62
Other functions:			
Agriculture .....	16	19	3
International .....	-1	-3	-2
Mortgage credit .....	-31	-74	-42
Deposit insurance .....	-6	-14	-8
Other advancement of commerce (includes the Troubled Asset Relief Program) .....	13	2	-11
Other functions .....	33	17	-15
Total, other functions .....	24	-52	-76
Undistributed offsetting receipts:			
Employer share, employee retirement .....	-82	-79	3
Rents and royalties on the outer continental shelf .....	-7	-7	-*
Other undistributed offsetting receipts .....	0	-1	-1
Total, undistributed offsetting receipts .....	-89	-88	1
Total, mandatory .....	2,235	2,099	-136
Net interest:			
Interest on Treasury debt securities (gross) .....	418	430	12
Interest received by trust funds .....	-150	-158	-8
Other interest .....	-46	-42	3
Total, net interest .....	222	229	7
Total, outlays for mandatory and net interest .....	2,457	2,327	-129

\* \$500 million or less.

**Table 27-5. RECONCILIATION OF FINAL AMOUNTS FOR 2014**  
(In millions of dollars)

	Receipts	Outlays	Deficit
Totals published by Treasury (September MTS) .....	3,020,848	3,504,199	483,351
Miscellaneous Treasury adjustments .....	-39	-54	-15
Totals published by Treasury in Combined Statement .....	3,020,809	3,504,145	483,336
National Railroad Retirement Investment Trust .....	.....	1,504	1,504
Standard Setting Body .....	39	39	.....
Public Company Accounting Oversight Board .....	252	258	6
Affordable Housing Program .....	288	288	.....
Securities Investor Protection Corporation .....	416	122	-294
Electric Reliability Organization .....	100	93	-7
United Mine Workers of America benefit funds .....	21	95	74
Federal Retirement Thrift Investment Board program expenses .....	.....	-34	-34
Unemployment Trust Fund receipt reclassification .....	-439	-439	.....
Other .....	1	18	17
Total adjustments, net .....	678	1,944	1,266
Totals in the Budget .....	3,021,487	3,506,089	484,602
MEMORANDUM:			
Total change since year-end statement .....	639	1,890	1,251





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