FISCAL YEAR 2012

ANALYTICAL PERSPECTIVES

BUDGET OF THE U.S. GOVERNMENT

OFFICE OF MANAGEMENT AND BUDGET

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THE BUDGET DOCUMENTS

Budget of the United States Government, Fiscal Year 2012 contains the Budget Message of the President, information on the President's priorities, budget overviews organized by agency, and summary tables.

Analytical Perspectives, Budget of the United States Government, Fiscal Year 2012 contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective. This volume includes economic and accounting analyses; information on Federal receipts and collections; analyses of Federal spending; information on Federal borrowing and debt; baseline or current services estimates; and other technical presentations.

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

Historical Tables, Budget of the United States Government, Fiscal Year 2012 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 2012 or 2016.

To the extent feasible, the data have been adjusted to provide consistency with the 2012 Budget and to provide comparability over time.

Appendix, Budget of the United States Government, Fiscal Year 2012 contains detailed information on the various appropriations and funds that constitute the budget and is designed primarily for the use of the Appropriations Committees. The *Appendix* contains more detailed financial information on individual programs and appropriation accounts than any of the other budget documents. It includes for each agency: the proposed text of appropriations language; budget schedules for each account; legislative proposals; explanations of the work to be performed and the funds needed; and proposed general provisions applicable to the appropriations of entire agencies or group of agencies. Information is also provided on certain activities whose transactions are not part of the budget totals.

AUTOMATED SOURCES OF BUDGET INFORMATION

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

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

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

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

GENERAL NOTES

1. All years referenced for budget data are fiscal years unless otherwise noted. All years referenced for economic data are calendar years unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.
3. At the time of this writing, none of the full-year appropriations bills for 2011 was enacted; therefore, the programs and activities normally provided for in the full-year appropriations bills were operating under a continuing resolution (P.L. 111–242, as amended). For those programs and activities, data for the current year column (2011) 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, the *Historical Tables* volume, and in tables that include total discretionary spending in the *Analytical Perspectives* volume, current year totals by agency and for the total Government will match the President's 2011 Budget request.

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INTRODUCTION

1. INTRODUCTION

PURPOSE OF THIS VOLUME

The *Analytical Perspectives* volume presents analyses that highlight specific subject areas or provide other significant data that place the Budget in context. This volume presents crosscutting analyses of Government programs and activities from several perspectives.

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

As in previous years, several large tables are included at *www.whitehouse.gov/omb/budget/fy2012/spec.html* and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume. A list of these items is in the Table of Contents.

Overview of the Chapters

Introduction

Introduction. This chapter briefly discusses each of the subsequent chapters presented in this year's *Analytical Perspectives* volume.

Economic and Budget Analyses

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

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

Financial Stabilization Efforts and Their Budgetary Effects. This chapter focuses on Federal efforts to stabilize the economy and promote financial recovery, including the Troubled Asset Relief Program (TARP), reform of financial regulation, and other measures. The chapter also includes special analyses of the TARP as described in Section 203(a) of the Emergency Economic Stabilization Act of 2008.

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

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

Performance and Management

Delivering High-Performance Government. This chapter describes this Administration's approach to performance management, the Federal Government's use of performance goals and measurement to drive significant performance gains. As part of the 2011 Budget process, leaders of the 16 Cabinet departments and 8 other large Federal agencies identified a small number of ambitious, outcome-focused, near-term High Priority Performance Goals (Priority Goals) that could be achieved within existing resources and legislation, and hinged on strong execution to accomplish. The Administration also identified specific government-wide management goals to cut waste and modernize the systems that power government operations – in information, finance, acquisition, and human resource management. This chapter provides an update on progress in these areas. In addition, the chapter explains how the Administration expects agencies to use outcome-focused performance information to lead and learn to improve outcomes; candidly communicate the priorities, problems, and progress implementing Government programs; and tap into problem-solving networks to improve outcomes.

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

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

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

Social Indicators. This chapter presents a selection of statistics that offer a numerical picture of the United States. Included are economic statistics such as real GDP per capita, household income, and measures of income equality. There are also environmental and energy indicators. A second table shows health, education, and other social indicators. The following materials are available at the Internet address cited above for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

Improving the Federal Workforce. Strengthening the Federal workforce is essential to building a high-performing Government. This chapter presents summary data on Federal employment, compensation, and benefits; examines the challenges posed by aging employees and technological change; and discusses plans for improving the Federal workforce.

Budget Concepts and Budget Process

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

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

Budget Process. This chapter includes a description of the Administration's proposals to make the budget process more responsible and to make budgets more transparent, accurate, and comprehensive.

Federal Receipts

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

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

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

Special Topics

Aid to State and Local Governments. This chapter presents crosscutting information on Federal grants to State and local governments, including current actions to provide fiscal relief, highlights of Administration proposals, and historical trends and data. An Appendix to this chapter includes State-by-State spending estimates of major grant programs.

Strengthening Federal Statistics. This chapter discusses 2012 Budget proposals for the Government's principal statistical programs.

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

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

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

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

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

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

California-Federal Bay-Delta Budget Crosscut (CALFED). This chapter presents information on Federal and State funding for the CALFED program, in fulfillment of the reporting requirements for this program. Additional detailed tables on CALFED funding and project descriptions are available at the Internet address cited above for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

Technical Budget Analyses

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

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

National Income and Product Accounts. This chapter discusses how Federal receipts and outlays fit into the framework of the National Income and Product Accounts (NIPAs) prepared by the Department of Commerce. The NIPA measures are the basis for reporting Federal transactions in the gross domestic product (GDP) and for analyzing the effect of the Budget on aggregate economic activity.

Comparison of Actual to Estimated Totals. This chapter compares the actual receipts, outlays, and deficit for 2010 with the estimates for that year published in the 2010 Budget. It also includes a historical comparison of the differences between receipts, outlays, and the deficit as originally proposed with final outcomes.

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

Detailed Functional Table

Detailed Functional Table. Table 32–1. "Budget Authority and Outlays by Function, Category, and Program."

Federal Programs by Agency and Account

Federal Programs by Agency and Account. Table 33–1. "Federal Programs by Agency and Account."

ECONOMIC AND BUDGET ANALYSES

2. ECONOMIC ASSUMPTIONS

This chapter presents the economic forecast on which the 2012 Budget projections are based. Because of the long lead times required to produce the Budget estimates, the forecast was completed in mid-November. Usually, the economic outlook does not change significantly between the time the forecast is developed and the release of the Budget, but there are times when important developments occur after the forecast is completed but before the Budget is released. This year is one of those times. In December, the President reached an agreement with the Congress lowering taxes and extending unemployment insurance benefits that improved the outlook for 2011.[1] The incoming data since November have also been stronger than anticipated. Together these factors have caused most private forecasters to increase their near-term projections for real economic growth substantially and to reduce their unemployment projections compared with their expectations in November. The Administration would probably make similar changes were it possible to reopen the forecast. Nevertheless, the impact on the 10-year projections discussed in detail below would not be great, and would mainly affect the speed with which the economy is expected to return to its long-run potential. The estimates for receipts and outlays would not be greatly affected beyond the current year.

When the President took office in January 2009, the economy was in the midst of an economic crisis. The first order of business for the new Administration was to arrest the rapid decline in economic activity. The President and Congress took unprecedented actions to restore demand, stabilize financial markets, and put people back to work. These steps included passage of the American Recovery and Reinvestment Act (ARRA), signed by the President just 28 days after taking office. They also included the Financial Stability Plan, announced in February 2009, which encompassed wide-ranging measures to strengthen the banking system, increase consumer and business lending, and stem foreclosures and support the housing market. These and a host of other actions walked the economy back from the brink.

Production bottomed out during the spring of 2009, and the National Bureau of Economic Research has dated the end of the recession as June 2009. American businesses were still shedding jobs, however, through the end of 2009. The unemployment rate reached 10.1 percent in October 2009, and payroll employment continued to fall until December. The year just past has seen the economy gradually begin to recover. Over the past six quarters, through the fourth quarter of 2010, real Gross Domestic Product (GDP) has grown at an average rate of 3.0 percent. Employment also began to increase in 2010, but slowly. Since December 2009, 1.3 million payroll jobs have been added in the private sector, and the unemployment rate has fallen to 9.4 percent (as of December 2010).

The recovery that began in 2009 and continued in 2010 is projected to gain momentum in 2011 and to strengthen further in 2012. Unfortunately, even with healthy economic growth, unemployment is expected to be higher than normal for several more years. The Administration is projecting a normal recovery from the recession of 2008-2009, but one that is somewhat drawn out because of the lingering effects of the financial crisis. A similar pattern of robust growth is expected by the Federal Reserve (see the discussion below on forecast comparisons).

Recent Economic Performance

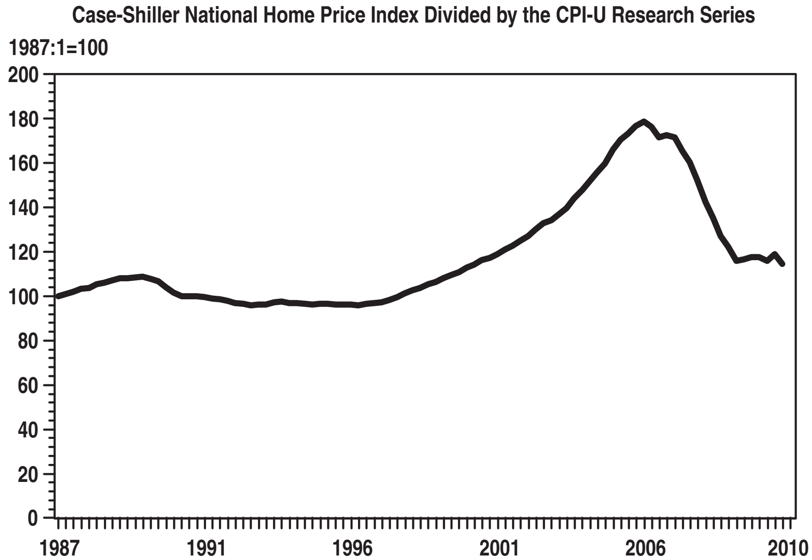
The accumulated stresses from a contracting housing market and the resulting strains on financial markets brought the 2001-2007 expansion to an end in December 2007. In its early stages, the 2008-2009 recession was relatively mild, but financial conditions worsened sharply in the fall of 2008, and from that point forward the recession became much more severe. Before it ended, real GDP had fallen further and the downturn had lasted longer than during any previous post World War II recession. Looking ahead, the likely strength of the recovery is one of the key issues for the forecast, and the aftermath of the housing and financial crises has an important bearing on the expected strength of the recovery.

Housing Markets.—The economy's contraction had its origin in the housing market. In hindsight, it is clear that by the early years of the previous decade housing prices had become caught up in a speculative bubble that finally burst. In 2006-2007, housing prices peaked, and from 2007 through 2008, housing prices fell sharply according to most measures.[2] Since 2009 the housing market has shown signs of stabilizing. The relative price of housing has been relatively flat since early 2009 (see chart below), as house prices have kept up with the slow rise in consumer prices nationally, but so far relative housing prices have not increased, which has limited the recovery in household wealth. During the downturn, as prices fell, investment in housing plummeted, reducing the rate of real GDP growth by an average of 1 percentage point per quarter. With the stabilization of house prices in 2009, housing investment has also begun to stabilize, neither adding nor subtracting from real GDP growth on average since 2009:Q2. However, housing investment has

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

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

Chart 2-1. Relative House Prices



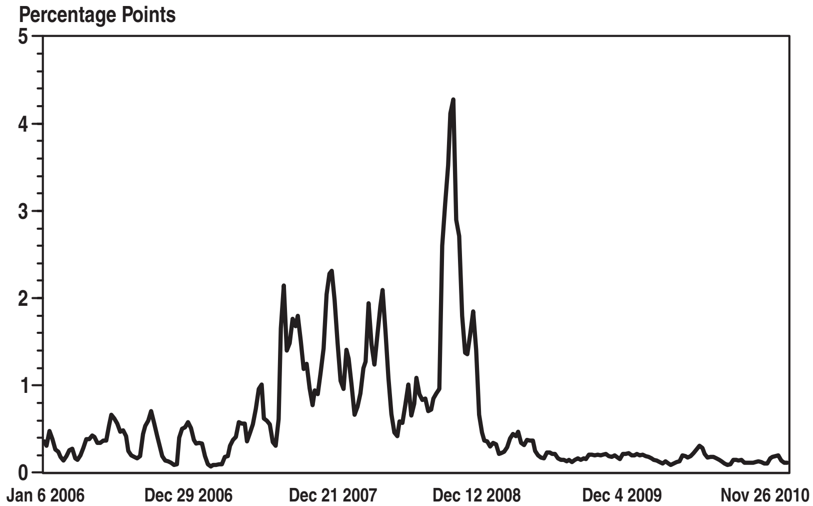
not yet begun to make a positive contribution to growth on a sustained basis as it has done in past expansions.

In April 2009, monthly housing starts fell to an annual rate of just 477,000 units, the lowest level ever recorded for this series, which dates from 1959. Housing starts have fluctuated since then, responding to new tax incentives for home purchase and their expiration. The monthly data show housing starts of 529,000 in December 2010. In normal times, at least 1.5 million starts a year are needed to accommodate the needs of an expanding population and to replace older units indicating that there is potential for a substantial housing rebound. A large overhang of vacant homes must be reduced before a robust housing recovery can become established. The foreclosure rate in the third quarter of 2010 was 1.3 percent, which is one of the highest since records have been kept. With new foreclosures continuing to add to the stock of vacant homes, housing prices and new investment are likely to remain subdued for some time. The Administration forecast assumes a gradual recovery in housing activity that adds moderately to real GDP growth beginning this year.

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

One especially telling differential is the spread between the yield on short-term U.S. Treasury securities, and the London interbank lending rate (LIBOR) which banks trading in the London money market charge one another for short-term lending in dollars. Historically, this differential has been 30 or 40 basis points. In August 2007, it shot up to over 200 basis points, and it spiked again, most dramatically, in September 2008 following the bankruptcy of Lehman Brothers (see chart). The policy response following the Lehman Brothers bankruptcy was crucial in restoring confidence and limiting the financial panic. Over the course of the following three months, the Federal Reserve lowered its short-term interest rate target to near zero, while creating new programs to provide credit to markets where banks were no longer lending. The Troubled Asset Relief Program (TARP) provided the Treasury with the financial resources to bolster banks' capital position and to remove troubled assets from banks' balance sheets. In the spring of 2009, the Treasury and bank regulators conducted the Supervisory Capital Assessment Program, a stress test to determine the health of the nineteen largest U.S. banks. The test provided more transparency for banks' financial positions, which reassured investors. Consequently, the banks have been able to raise private capital, providing further evidence that the credit crisis has eased. As these actions were taken, the LIBOR spread narrowed sharply, and other measures of credit risk also declined. During 2009, the spreads between Treasury yields and other interest rates generally regained pre-crisis levels, and they held these levels through 2010. This is the clearest evidence that the financial crisis has abated. Although

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



financial institutions have easier access to funds, many still remain reluctant to lend.

Negative Wealth Effects and Consumption.— Between the third quarter of 2007 and the first quarter of 2009, the real net worth of American households declined by 28 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 wealth has risen, but the increase through the third quarter of 2010 was only 9 percent. House prices nationally have shown signs of stabilizing, and the stock market has partially recovered, but real net worth remains 21 percent below its 2007 peak level.[3]

Americans have reacted to this massive loss of wealth by saving more. The personal saving rate had been declining since the 1980s, and it reached a low point of 1.2 percent in the second quarter of 2005. It remained low, averaging only 2 percent through the end of 2007, but since then, as wealth has declined, the saving rate has increased sharply. It rose to a temporary high point of 7.2 percent in the second quarter of 2009, following a distribution of special $250 payments to Social Security recipients and the implementation of other Recovery Act provisions. Since then, the saving rate has averaged 5.7 percent. In the long-run, increased saving is essential for raising future living standards. However, a sudden increase in the desire to save implies a corresponding reduction in consumer demand, and that fall-off in consumption had

[3] Real wealth is computed by deflating household net worth from the Flow-of-Funds Accounts by the CPI-U. Data are available through 2010:Q3.

Chart 2-3. Personal Saving Rate

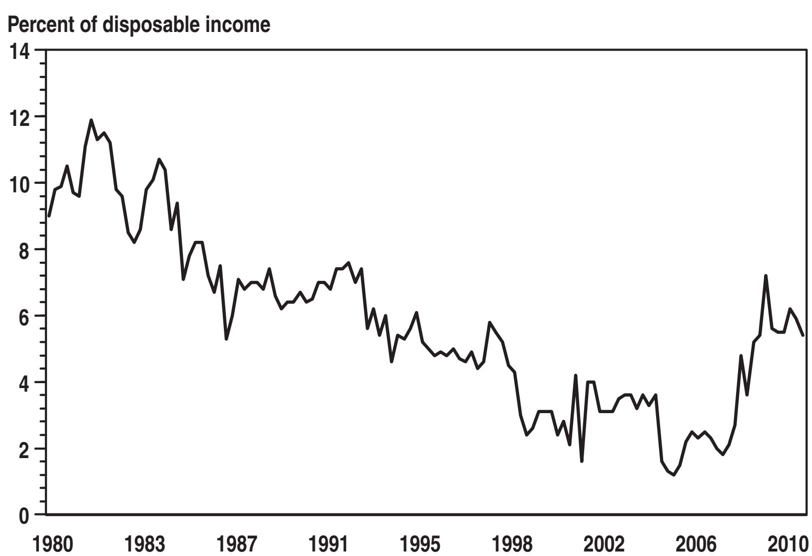
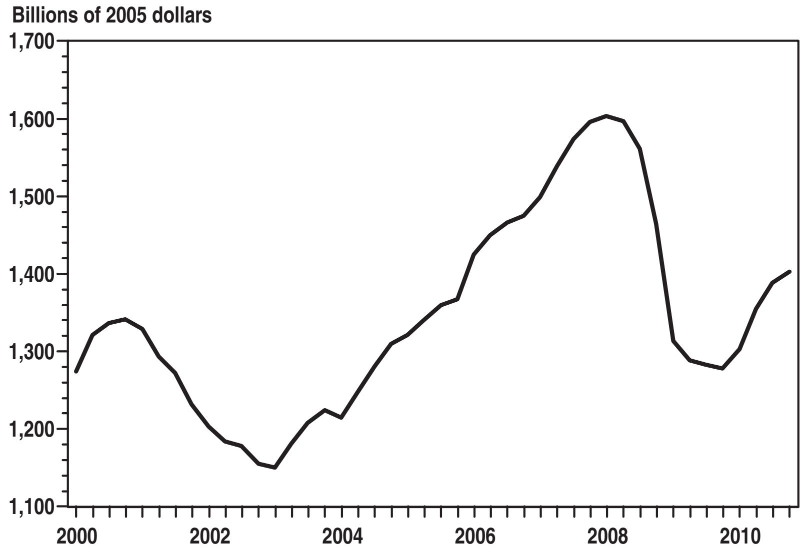


Chart 2-4. Real Business Fixed Investment

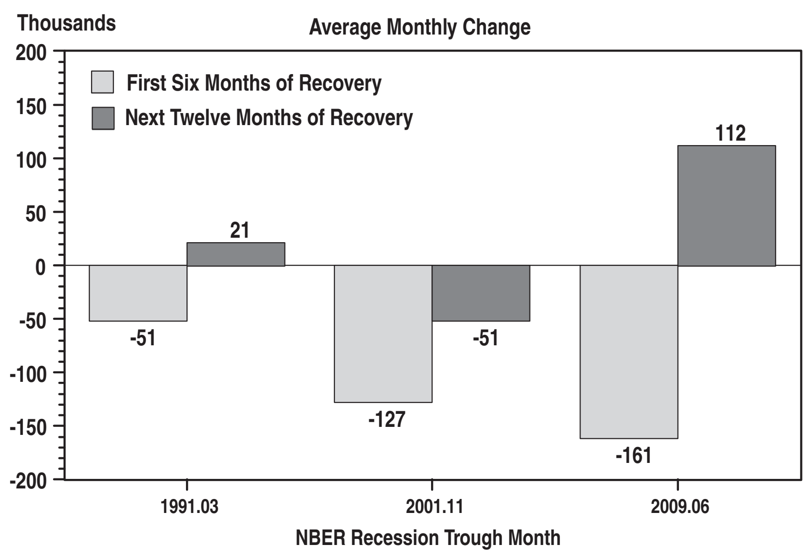


a negative effect on the economy in the second half of 2008 and early 2009. During that period, real consumer spending fell at an annual rate of 1.6 percent, but since then, real consumer spending has recovered, exceeding its peak level at the end of 2007 by the last quarter of 2010. Continued growth in consumption is essential to a healthy recovery, and, if income grows, increased consumption is compatible with a higher but stable saving rate.

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

Net Exports.— Over the last decade, the U.S. trade deficit expanded as foreign investors increased investment in the United States. The inflow of foreign capital helped fuel the housing bubble. The financial crisis and the

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



resulting economic downturn sharply curtailed the flow of trade and foreign investment. In the third quarter of 2008, before the worst of the financial crisis, net exports, as measured in the National Income Accounts, were -$764 billion, measured at an annual rate. Over the next three quarters, the deficit in net exports was more than cut in half, falling to -$335 billion in the second quarter of 2009. Since then, as the U.S. economy has recovered, U.S. imports have grown and at a faster pace than U.S. exports. Consequently, the net export balance has declined to -$492 billion. It is unhealthy for the world economy to be too dependent on U.S. consumption spending, so further reductions in the U.S. trade deficit would be desirable. The Administration's National Export Initiative is intended to increase U.S. exports sufficiently to reduce worldwide trade imbalances.

The Labor Market.—The unemployment rate peaked in the second half of 2009, and has declined only slightly in 2010. The high rate of unemployment has had devastating effects on American families, and the recovery will not be real for most Americans until the job market also turns around. Historically, when the economy grows so does employment, and there are signs that this pattern is repeating itself in the current recovery, albeit slowly. In the last 20 years, there have been three recessions in the United States. The most recent was the deepest and longest, but the other two also produced weak labor markets, where labor market weakness continued for several months after the economy began to grow. Many have feared that the current recovery would repeat that pattern, and in the first six months following the end of the recession in June 2009, it appeared to be doing so. But 2010 has shown a different pattern. Private employment has grown for 12 straight months, albeit at a relatively modest rate. The positive job growth has exceeded the job gains following the previous two recessions.

Policy Background

Over the last 24 months, the Administration and the Federal Reserve have taken a series of fiscal and monetary policy actions to bring the recession to an end and expedite the recovery. On the fiscal policy side, the passage of ARRA was a crucial step early in the Administration. Meanwhile, the Federal Reserve has kept its target interest rate near zero, and it has pursued other novel measures to unfreeze the Nation's credit markets and bolster economic growth. Several policy actions have been taken to help stabilize the Nation's financial and housing markets.

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

ARRA was intended to provide a significant boost to demand in both 2009 and 2010. So far the stimulus has proceeded as intended. Job losses would have been much greater without ARRA. In the first three months of 2009, private payroll employment was falling at an average rate of 752,000 jobs per month. By the last three months, the rate of job loss had declined to 90,000 per month. The private sector added jobs every month of 2010, and by the fourth quarter the economy was adding an average of 128,000 jobs per month. It is not possible to judge the effectiveness of a macroeconomic policy without some idea of the alternative. Critics of ARRA have tended to argue that the poor job market is evidence of its ineffectiveness. However, the only way to know that is through a macroeconomic model that can be used to project the employment outcome under an alternative policy. In fact, results from a range of models imply that employment was increased by ARRA. The Council of Economic Advisers' (CEA) latest assessment estimates that ARRA increased employment by between 2.7 million and 3.7 million jobs through the third quarter of 2010, an estimate that is in line with private forecasters.[4]

In 2010, the Administration continued to pursue policies to reduce unemployment and create jobs. The President launched the National Export Initiative, to support new jobs in American export industries. In March 2010, the President signed the Hiring Incentives to Restore Employment (HIRE) Act, which provided subsidies for firms that hired unemployed workers and provided other incentives. In September, the President signed the Small Business Jobs Act, which provided tax relief and better access to credit to small businesses. In December, the President reached agreement with Congress to extend several expiring tax provisions and avoid a large tax increase in 2011. The agreement also included expanded tax incentives for business investment, a temporary reduction in payroll taxes, and extended long-term unemployment insurance benefits. These measures will help support an increase in economic growth over the course of 2011.

The economic recovery efforts have increased the Federal budget deficit. The increase in the deficit was the necessary response to the crisis the Administration inherited, and it is expected to be temporary. The 2012 Budget provides a path to lower medium-term deficits. Over the long term, deficits tend to have some combination of two macroeconomic effects. First, they

[4] The CEA "multipliers" used for these estimates are similar to those used by the Congressional Budget Office (CBO) and private forecasters such as Macroeconomic Advisers LLC. See Council of Economic Advisers, "The Economic Impact of the American Recovery and Reinvestment Act of 2009: Fifth Quarterly Report," November 2010.

can raise interest rates and decrease investment, as the Federal Government competes with private investors for limited capital in the credit markets. Second, deficits can increase the amount that the United States borrows from abroad, as foreigners step in to finance U.S. consumption. Either way, persistently large deficits reduce future standards of living. Rising interest rates and falling investment result in less productive American workers and reduced incomes. If the United States borrows more from abroad as a result of budget deficits, more of future incomes will be mortgaged to pay back foreign creditors. Persistent large deficits would also limit the Government's maneuvering room to handle future crises. For these reasons, it is important to control the budget deficit and maintain fiscal discipline in the long run.

Monetary Policy.—The Federal Reserve is responsible for monetary policy. Traditionally, it has relied on a relatively narrow range of instruments to achieve its policy goals, but in the recent crisis the Fed has been forced to consider a broader approach. The short-term interest rate, the traditional tool of monetary policy, has been close to zero since the end of 2008. Further cuts in short-term rates are not possible, yet with unemployment high and inflation trending down the Federal Reserve has needed to act in novel ways to achieve its dual mandate of stable prices and healthy economic growth. Consequently, the Federal Reserve has created new facilities to provide credit directly to the financial markets and has also bought longer-term securities for its portfolio. The Federal Reserve's actions helped ease the credit crisis as evidenced by a decline in the interest rate spread between U.S. Treasuries and other securities (see Chart 2-2).

The combination of aggressive monetary and fiscal policies helped reverse the economic downturn in 2009 and set the stage for an economic recovery in the summer of 2009. However, following an initial burst of growth in late 2009, the economy slowed down somewhat in 2010. To help counter the slowdown, the Federal Reserve has announced its plans to expand its balance sheet even further in another round of purchases of long-term Treasury securities. Because much of the increase in Federal Reserve liabilities has gone into idle reserves of banks, and because of the considerable slack in the economy, current inflation risks remain low. However, the Federal Reserve is prepared to reduce the assets on its balance sheet promptly when the recovery gains strength and the unemployment rate falls as expected in these projections.

Financial Stabilization Policies.—Over the course of the last twenty-four months, the U.S. financial system has been pulled back from the brink of a catastrophic collapse. The very real danger that the system would disintegrate in a cascade of failing institutions and collapsing asset prices has been averted. The Administration's Financial Stability Plan played a key role in cleaning up and strengthening the nation's banking system. This plan began with a forward-looking capital assessment exercise for the 19 U.S. banking institutions with assets in excess of $100 billion. This was the so-called "stress test" aimed at determining whether these institutions had sufficient capital to withstand stressful deterioration in economic conditions. The resulting transparency and resolution of uncertainty about banks' potential losses boosted confidence and allowed banks to raise substantial funds in private markets and repay tens of billions of dollars in taxpayer investments. The second component of the Financial Stability Plan was aimed at establishing a market for the troubled real-estate assets that were at the center of the crisis. The plan included provisions for the Federal Government to join private investors in buying mortgage-backed securities. Removing these assets from the banks' balance sheets is a key step to restoring the financial system to normal functioning.

The Financial Stability Plan also aimed to unfreeze secondary markets for loans to consumers and businesses. The Administration has undertaken the Making Home

Chart 2-6. Real GDP Growth Following a Recession: Five-Year Averages

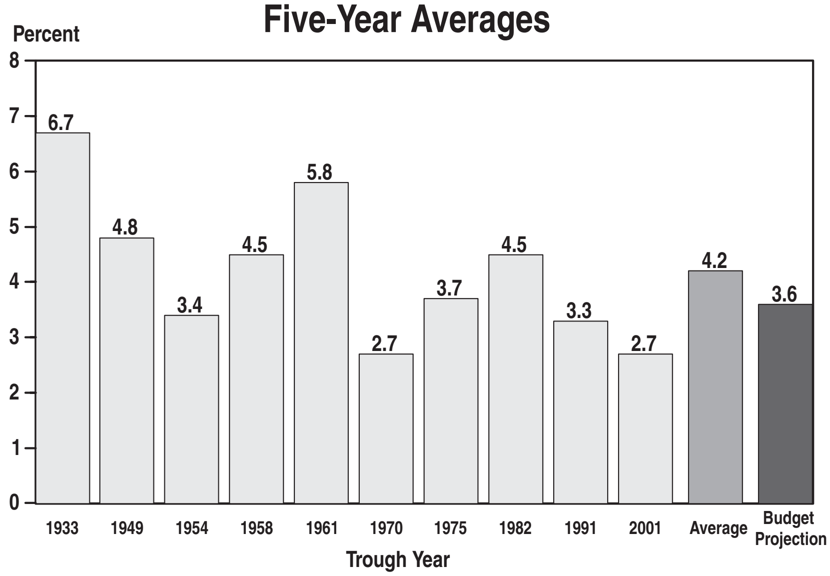


Table 2–1. ECONOMIC ASSUMPTIONS[1]

(Calendar years; dollar amounts in billions)

	2009 Actual	Projections											
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Gross Domestic Product (GDP):													
Levels, dollar amounts in billions:													
Current dollars	14,119	14,651	15,240	16,032	17,006	18,043	19,052	20,037	20,986	21,910	22,866	23,860	24,896
Real, chained (2005) dollars	12,881	13,234	13,595	14,090	14,707	15,346	15,927	16,461	16,930	17,366	17,800	18,245	18,701
Chained price index (2005 = 100), annual average	109.6	110.7	112.1	113.8	115.6	117.6	119.6	121.7	123.9	126.1	128.4	130.8	133.1
Percent change, fourth quarter over fourth quarter:													
Current dollars	0.6	4.0	4.3	5.7	6.2	6.0	5.4	5.1	4.5	4.3	4.4	4.3	4.3
Real, chained (2005) dollars	0.2	2.5	3.1	4.0	4.5	4.2	3.6	3.2	2.7	2.5	2.5	2.5	2.5
Chained price index (2005 = 100)	0.5	1.5	1.2	1.6	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Percent change, year over year:													
Current dollars	–1.7	3.8	4.0	5.2	6.1	6.1	5.6	5.2	4.7	4.4	4.4	4.3	4.3
Real, chained (2005) dollars	–2.6	2.7	2.7	3.6	4.4	4.3	3.8	3.3	2.9	2.6	2.5	2.5	2.5
Chained price index (2005 = 100)	0.9	1.0	1.3	1.5	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Incomes, billions of current dollars:													
Domestic Corporate Profits	906	1,249	1,355	1,396	1,477	1,532	1,558	1,565	1,535	1,424	1,365	1,370	1,393
Employee Compensation	7,812	7,950	8,275	8,743	9,290	9,886	10,489	11,095	11,687	12,278	12,896	13,477	14,063
Wages and salaries	6,274	6,366	6,630	7,014	7,474	7,965	8,457	8,955	9,456	9,948	10,459	10,932	11,400
Other taxable income[2]	3,206	3,263	3,370	3,519	3,699	3,911	4,110	4,326	4,535	4,714	4,924	5,161	5,392
Consumer Price Index (all urban):[3]													
Level (1982–84 = 100), annual average	214.5	218.0	220.8	224.8	229.1	233.6	238.4	243.3	248.5	253.7	259.0	264.5	270.0
Percent change, fourth quarter over fourth quarter	1.5	1.0	1.4	1.9	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Percent change, year over year	–0.3	1.6	1.3	1.8	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Unemployment rate, civilian, percent:													
Fourth quarter level	10.0	9.6	9.1	8.2	7.2	6.3	5.7	5.4	5.3	5.3	5.3	5.3	5.3
Annual average	9.3	9.6	9.3	8.6	7.5	6.6	5.9	5.5	5.3	5.3	5.3	5.3	5.3
Federal pay raises, January, percent:													
Military[4]	3.9	3.4	1.4	1.6	NA	NA	NA	NA	NA	NA	NA	NA	NA
Civilian[5]	3.9	2.0	–	–	NA	NA	NA	NA	NA	NA	NA	NA	NA
Interest rates, percent:													
91-day Treasury bills[6]	0.2	0.1	0.2	1.0	2.6	3.7	4.0	4.1	4.1	4.1	4.1	4.1	4.1
10-year Treasury notes	3.3	3.2	3.0	3.6	4.2	4.6	5.0	5.2	5.3	5.3	5.3	5.3	5.3

NA = Not Available
[1] Based on information available as of mid-November 2010.
[2] Rent, interest, dividend, and proprietors' income components of personal income.
[3] Seasonally adjusted CPI for all urban consumers.
[4] Percentages apply to basic pay only; percentages to be proposed for years after 2012 have not yet been determined.
[5] Overall average increase, including locality pay adjustments. Percentages to be proposed for years after 2012 have not yet been determined.
[6] Average rate, secondary market (bank discount basis).

Affordable plan to help distressed homeowners avoid foreclosure and stabilize the housing market. Today, thanks in large part to this and related programs, more than seven million homeowners have refinanced their mortgages to more affordable levels, and more than one million homeowners have participated in the Administration's mortgage modification program.

Another crucial response to the financial crisis was the implementation of the Troubled Assets Relief Program (TARP), which was established in the fall of 2008. TARP provided the Treasury with the financial resources to bolster banks' capital positions and to remove troubled assets from banks' balance sheets. Under the Obama Administration, the focus of TARP was shifted from large financial institutions to households, small banks, and small businesses. Since the Administration took office, the projected cost of TARP has decreased dramatically and programs are being successfully wound down. On October 3, 2010, authority to make new investments under TARP expired. Today, the Federal Government maintains TARP programs only where it has existing contracts and commitments. TARP is now projected to be only a fraction of its original projected cost. In the summer of 2009 it was estimated to cost $341 billion. Last summer, in the Mid-

Session Review of the 2011 Budget, TARP was projected to cost $114 billion. Now, the cost of the program is estimated to be only $48 billion.

Economic Projections

The economic projections underlying the 2012 Budget estimates are summarized in Table 2–1. The assumptions are based on information available as of mid-November 2010. This section discusses the Administration's projections and the next section compares these projections with those of the Congressional Budget Office (CBO) and the Blue Chip Consensus of outside forecasters.

Real GDP.—The Administration projects the economic recovery will continue in 2011 with real GDP growing at an annual rate of 3.1 percent (fourth quarter over fourth quarter). In 2012-2014, growth is projected to increase to around 4-¼ percent annually as the job market improves and residential investment recovers. Real GDP is projected to return to its long-run "potential" level by the end of 2017, and to grow at a steady 2.5 percent rate for the remaining years of the forecast.

As shown in Chart 2-6, the Administration's projections for real GDP growth over the first five years of the expected recovery imply an average growth rate below the historical average. Recent recoveries have been somewhat weaker, but the last two expansions were preceded by mild recessions with relatively little pent-up demand when conditions improved. Because of the depth of the recent recession, there is much more room for a rebound in spending and production than was true either in 1991 or 2001. On the other hand, lingering effects from the credit crisis may limit the pace of the recovery. Thus, the Administration is forecasting a recovery that is slightly below the historical average. Some international economic organizations have argued that a financial recession permanently scars an economy, and this view is also shared by some American forecasters. The statistical evidence for permanent scarring comes mostly from the experiences of developing countries and its relevance to the current situation in the United States is debatable. So far in this recovery, the forecasts based on this view have proven to be too pessimistic.

The U.S. economy has enormous room for growth in 2011, although there are factors that could limit that growth. On the positive side, real GDP grew 3.2 percent in the fourth quarter, and 2011 should get off to a solid start. Net exports subtracted from growth in 2010, but they are expected to contribute to growth in 2011. The emerging world and many key trading partners are growing at a solid rate, though much of the advanced world is growing more slowly, and Europe has been troubled by concerns about the sustainability of fiscal policy in some countries. The Federal Reserve's $600 billion program for purchasing Treasury notes announced in November is likely to have a favorable impact on GDP growth this year. Stock-market wealth, which slowed growth in mid-2010, moved to at least neutral in the fall. The budget agreement struck in December 2010 prevented a potentially damaging tax increase while creating new incentives for business investment. It also included a temporary reduction in payroll taxes and an extension of long-term unemployment insurance benefits, which should help foster growth in 2011. These positive factors should counterbalance the phasing out of the Recovery Act.

Longer-Term Growth.—The Administration forecast does not attempt to project cyclical developments beyond the next few years. The long-run projection for real economic growth and unemployment assumes that they will maintain trend values in the years following the return to full employment. In the nonfarm business sector, productivity is assumed to grow at 2.3 percent per year in the long run, while nonfarm labor supply grows at a rate of 0.7 percent per year, so nonfarm business output grows approximately 3.0 percent per year. Real GDP growth, reflecting the slower measured growth in activity outside the nonfarm business sector, proceeds at a rate of 2.5 percent. That is markedly slower than the average growth rate of real GDP since 1947—3.2 percent per year. In the 21st century, real GDP growth in the United States is likely to be permanently slower than it was in earlier eras because of the slowdown in labor force growth that has begun with the retirement of the post-World War II "baby boom" generation.

Unemployment.—In December 2010, the overall unemployment rate was 9.4 percent. It has shown little movement since the middle of 2010. The broadest measure of underutilized labor published by the Bureau of Labor Statistics is the U-6 measure, which includes discouraged workers and those working part-time for economic reasons. It was 16.7 percent in December 2010, down only slightly from its peak of 17.4 percent in October 2009. The overall unemployment rate is projected to decline over the course of 2011-2014, as the growth rate accelerates, but unemployment is not projected to drop below 6 percent until 2015.

Inflation.— Over the four quarters ending in 2010:4, the price index for Gross Domestic Product rose only 1.3 percent, significantly higher than the 0.5 percent increase over the previous four quarters, but well below the 2.5 percent average inflation rate over the preceding decade. The Consumer Price Index for all urban consumers (CPI-U) has been more volatile. For the twelve months ending in December 2010, the overall CPI-U rose by 1.4 percent. Over the previous twelve months it had risen by 2.8 percent, but over the 12 months before that, it was unchanged. The exaggerated movements in the CPI have been mainly due to sharp movements in food and energy prices. The so-called "core" CPI, excluding both food and energy, was up only 0.6 percent through the twelve months ending in December compared with 1.8 percent during the previous twelve months.

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

Interest Rates.—Interest rates on Treasury securities fell sharply in late 2008, as both short-term and long-term rates declined to their lowest levels in decades. Investors sought the security of Treasury debt during the heightened financial uncertainty of the last few years, which has reduced yields. Treasury interest rates remained low in 2010. In the Administration projections, interest rates are expected to rise, but only gradually as financial concerns are alleviated and the economy recovers from recession. The 91-day Treasury bill rate is projected to reach 4.1 percent and the 10-year rate 5.3 percent by 2017. These forecast rates are historically low, reflecting lower inflation in the forecast than for most of the post World War II period. After adjusting for inflation, the projected real interest rates are close to their historical averages.

Income Shares.—The share of labor compensation in GDP was extremely low by historical standards in 2010. It is expected to rise over the forecast period from 54.3 percent in 2010 to 56.5 percent in 2020. In the expansion that ended in 2007, labor compensation tended to lag behind the growth in productivity, and that has also been true for the recent surge in productivity growth. The share of taxable wages is also expected to rise from 43.4 percent of GDP in 2010 to 45.8 percent in 2020. Health reform should eventually limit the rise in employer-sponsored health insurance costs and allow for an increase in take-home pay. The share of domestic corporate profits was 10.1 percent of GDP in 2006, which was near an all-time high. Profits dropped sharply in 2008-2009, but have recovered somewhat in 2010 reflecting the success of Administration efforts to spark a recovery. In the forecast, the ratio of domestic corporate profits to GDP falls to about 6 percent by the end of the 10-year projection period as the share of employee compensation slowly recovers.

Comparison with Other Forecasts

Table 2–2 compares the economic assumptions for the 2012 Budget with projections by CBO, the Blue Chip Consensus -- an average of about 50 private-sector economic forecasts -- and, for some variables, the Federal Reserve Open Market Committee. These other forecasts differ from the Administration's projections, but the forecast differences are relatively small when compared with the margin of error in all economic forecasts. Like the Administration, the other forecasts project that real GDP will continue to grow as the economy recovers. The forecasts also agree that inflation will be low while outright deflation is avoided, and that the unemployment rate will decline while interest rates rise

There are some conceptual differences between the Administration forecast and the other economic forecasts. The Administration forecast assumes that the President's Budget proposals will be enacted. The 50 or so private forecasters make differing policy assumptions, but none would necessarily assume that the Budget is adopted in full. CBO is required to assume that current law will continue in making its projections. This implies, for example, that for CBO's current forecast, the 2001 and 2003 tax cuts are assumed to expire at the end of 2012, reflecting current law.

In addition, the forecasts in the table were made at different times. The Administration projections were completed in mid-November. The three-month lag between that date and the Budget release date occurs because the budget process requires a lengthy lead time to complete the estimates for agency programs that are incorporated in the Budget. Forecasts made at different dates will differ if there is economic news between the two dates that alters the economic outlook, as has occurred this year. The CBO forecast is more up to date since it was published in January 2011. The Blue Chip consensus for 2011-2012 displayed in this table was the latest available at the time the Budget went to print—and was completed in early January, about six weeks after the Administration forecast was finalized; the Blue Chip projections for 2013 to 2021, however, date to last October, as the Blue Chip extends its forecast beyond a two-year horizon only twice a year. The Federal Reserve forecast shown in Table 2-3 is from early November 2010.

Real GDP Growth.— For 2011, the Administration's real GDP projections are lower than those of the Blue Chip consensus but identical with CBO's current forecast. The Administration forecast for 2011 is at the lower end of the range of growth rates reflecting the central tendency of the Federal Reserve forecast.

The most important difference among these forecasts is the expected rate of real GDP growth in the medium term. The Administration projects that real GDP will recover much of the loss from the 2008-2009 recession. This implies a few years of higher than normal growth as real GDP makes up the lost ground. The Blue Chip average shows only a very limited recovery in this sense. In the Blue Chip projections, real GDP growth exceeds its long-run average only briefly throughout the 11-year forecast period, and much of the loss of real GDP experienced during the recession is permanent. Although somewhat greater than Blue Chip, CBO, anticipates only a partial recovery that would not return real GDP to the same level as in the Administration forecast. The Federal Reserve projections for real GDP growth bracket the Administration forecast, while exceeding the Blue Chip and CBO averages in 2012-2013.

In the long run, the real growth rates projected by the forecasters are similar. CBO projects a long-run growth rate of 2.4 percent per year, while the Blue Chip consensus anticipates the same long-run growth rate as the Administration – 2.5 percent per year. Most of the difference between the Administration and CBO's long-run growth projection comes from a difference in the expected rate of growth of the labor force. Both forecasts assume that the labor force will grow more slowly than in the past because of population aging, but the Administration

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Nominal GDP:												
2012 Budget	14,651	15,240	16,032	17,006	18,043	19,052	20,037	20,986	21,910	22,866	23,860	24,896
CBO	14,649	15,184	15,858	16,609	17,483	18,441	19,362	20,258	21,162	22,093	23,062	24,064
Blue Chip	14,669	15,353	16,108	16,909	17,747	18,628	19,533	20,462	21,435	22,454	23,522	24652
Real GDP (year-over-year):												
2012 Budget	2.7	2.7	3.6	4.4	4.3	3.8	3.3	2.9	2.6	2.5	2.5	2.5
CBO	2.8	2.7	3.1	3.1	3.5	3.8	3.0	2.5	2.4	2.4	2.4	2.3
Blue Chip	2.9	3.1	3.3	3.0	2.8	2.7	2.6	2.5	2.5	2.5	2.5	2.4
Real GDP (fourth-quarter-over-fourth-quarter):												
2012 Budget	2.5	3.1	4.0	4.5	4.2	3.6	3.2	2.7	2.5	2.5	2.5	2.5
CBO	2.5	3.1	2.8	3.5	NA	NA	NA	NA	NA	NA	NA	NA
Blue Chip	2.8	3.3	3.2	NA	NA	NA	NA	NA	NA	NA	NA	NA
Federal Reserve Central Tendency	2.4 - 2.5	3.0 - 3.6	3.6 - 4.5	3.5 - 4.6	NA	NA	NA	NA	NA	NA	NA	NA
GDP Price Index:[1]												
2012 Budget	1.0	1.3	1.5	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8
CBO	0.9	0.9	1.3	1.6	1.7	1.7	1.9	2.1	2.0	2.0	2.0	2
Blue Chip	1.0	1.5	1.6	1.9	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Consumer Price Index (CPI-U):[1]												
2012 Budget	1.6	1.3	1.8	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1
CBO	1.7	1.6	1.3	1.6	1.8	2.0	2.2	2.4	2.3	2.3	2.3	2.3
Blue Chip	1.6	1.7	1.9	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.3
Unemployment Rate:[2]												
2012 Budget	9.6	9.3	8.6	7.5	6.6	5.9	5.5	5.3	5.3	5.3	5.3	5.3
CBO	9.6	9.4	8.4	7.6	6.8	5.9	5.3	5.3	5.2	5.2	5.2	5.2
Blue Chip	9.6	9.4	8.4	7.7	7.1	6.6	6.2	-- average 5.9 --				
Federal Reserve Central Tendency[3]	9.6 - 9.7	9.2 - 9.4	8.3 - 8.7	7.3 –7.8	NA	NA	NA	NA	NA	NA	NA	NA
Interest Rates:[2]												
91-Day Treasury Bills (discount basis):												
2012 Budget	0.1	0.2	1.0	2.6	3.7	4.0	4.1	4.1	4.1	4.1	4.1	4.1
CBO	0.1	0.3	1.1	2.5	3.5	4.0	4.3	4.4	4.4	4.4	4.4	4.4
Blue Chip	0.1	0.3	1.2	3.2	3.6	3.7	3.8	3.9	3.9	3.9	3.9	3.9
10-Year Treasury Notes:												
2012 Budget	3.2	3.0	3.6	4.2	4.6	5.0	5.2	5.3	5.3	5.3	5.3	5.3
CBO	3.2	3.4	3.8	4.2	4.6	5.0	5.3	5.4	5.4	5.4	5.4	5.4
Blue Chip	3.1	3.5	4.2	4.7	4.9	5.0	5.1	5.2	5.2	5.2	5.2	5.2

Sources: Administration; CBO, The Budget and Economic Outlook: January 2011; October 2010 and January 2011 Blue Chip Economic Indicators, Aspen Publishers, Inc Federal Reserve Open Market Committee Minutes, November 2-3, 2010.

[1] Year-over-year percent change.

[2] Annual averages, percent.

[3] Avreage of 4th quarter values.

bases its population projections on the Census Bureau's projections, which tend to run about 0.1 percentage point higher than the CBO projections.

All economic forecasts are subject to error, and the forecast errors are usually much larger than the forecast differences discussed above. As discussed in chapter 3, past forecast errors among the Administration, CBO, and the Blue Chip have been roughly similar.

Unemployment, Inflation, and Interest Rates.— The Administration forecasts an unemployment rate of 9.3 percent in 2011 and 8.6 percent in 2012. The Blue Chip consensus and CBO projections are close to the Administration forecast in both years. The Federal Reserve forecast range for unemployment brackets the Administration, CBO, and Blue Chip projections in 2011-2013. In the long run, perhaps reflecting the slower average growth projections, the Blue Chip unemployment projection remains above the Administration and CBO projections. The Administration projects a return over time to the average unemployment rate that prevailed in the 1990s and 2000s.

Table 2–3. COMPARISON OF ECONOMIC ASSUMPTIONS IN THE 2011 AND 2012 BUDGETS
(Calendar years; dollar amounts in billions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Nominal GDP:											
2011 Budget Assumptions[1]	14,605	15,343	16,262	17,241	18,243	19,219	20,183	21,137	22,083	23,055	24,055
2012 Budget Assumptions	14,651	15,240	16,032	17,006	18,043	19,052	20,037	20,986	21,910	22,866	23,860
Real GDP (2005 dollars):											
2011 Budget Assumptions[1]	13,188	13,689	14,275	14,881	15,481	16,036	16,551	17,023	17,472	17,915	18,363
2012 Budget Assumptions	13,234	13,595	14,090	14,707	15,346	15,927	16,461	16,930	17,366	17,800	18,245
Real GDP (percent change):[2]											
2011 Budget Assumptions[1]	2.5	3.8	4.3	4.2	4.0	3.6	3.2	2.8	2.6	2.5	2.5
2012 Budget Assumptions	2.7	2.7	3.6	4.4	4.3	3.8	3.3	2.9	2.6	2.5	2.5
GDP Price Index (percent change):[2]											
2011 Budget Assumptions[1]	0.9	1.2	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8
2012 Budget Assumptions	1.0	1.3	1.5	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.8
Consumer Price Index (all-urban; percent change):[2]											
2011 Budget Assumptions[1]	1.9	1.5	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1
2012 Budget Assumptions	1.6	1.3	1.8	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1
Civilian Unemployment Rate (percent):[3]											
2011 Budget Assumptions[1]	10.0	9.2	8.2	7.3	6.5	5.9	5.5	5.3	5.2	5.2	5.2
2012 Budget Assumptions	9.6	9.3	8.6	7.5	6.6	5.9	5.5	5.3	5.3	5.3	5.3
91-day Treasury bill rate (percent):[3]											
2011 Budget Assumptions[1]	0.4	1.6	3.0	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1
2012 Budget Assumptions	0.1	0.2	1.0	2.6	3.7	4.0	4.1	4.1	4.1	4.1	4.1
10-year Treasury note rate (percent):[3]											
2011 Budget Assumptions[1]	3.9	4.5	5.0	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
2012 Budget Assumptions	3.2	3.0	3.6	4.2	4.6	5.0	5.2	5.3	5.3	5.3	5.3

[1] Adjusted for July 2010 NIPA revisions.
[2] Year-over-year.
[3] Calendar year average.

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

The forecasts are also similar in their projections for the path of interest rates. Short-term rates are expected to be near zero in 2011, but then to increase in 2012 and 2013. The Administration projects a somewhat slower rise in short-term rates than the Blue Chip or CBO. The Administration projections are closer to market expectations as of late 2010. The interest rate on 10-year Treasury notes is projected to rise to 5.3 percent in the Administration projections. This is close to the CBO and Blue Chip projections.

Changes in Economic Assumptions

Some of the economic assumptions underlying this Budget have changed compared with those used for the 2011 Budget, but many of the forecast values are similar, especially in the long run (see Table 2–3). The previous Budget anticipated more rapid growth in 2011-2012 than the current Budget. The recovery began as anticipated in 2009, but the pace of growth through mid-2010 was somewhat slower than expected. The Administration continues to believe that the economy will regain most of the ground lost in 2008-2009 and that this will imply rapid growth beginning in 2011 and continuing for the next few years. That growth will help return unemployment to its long-run average. As in last year's projections, inflation is also projected to return to its long-run averages, while interest rates, measured in real terms, also return to their historical averages.

3. INTERACTIONS BETWEEN THE ECONOMY AND THE BUDGET

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

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

The first section of the chapter provides rules of thumb that describe how changes in economic variables result in changes in receipts, outlays, and the deficit. The second section presents information on gross domestic product (GDP) forecast errors in past budgets and how these forecast errors compare to those in forecasts made by the Congressional Budget Office (CBO) and the Blue Chip consensus. The third section provides specific alternatives to the current Administration forecast—both more optimistic and less optimistic—and describes the resulting effects on the deficit. The fourth section shows a probabilistic range of budget outcomes based on past errors in projecting the deficit. The last section discusses the relationship between structural and cyclical deficits, showing how much of the actual deficit is related to the economic cycle (e.g., the recent recession) and how much would persist even if the economy were at full employment.

Sensitivity of the Budget to Economic Assumptions

Both receipts and outlays are affected by changes in economic conditions. Budget receipts vary with individual and corporate incomes, which respond both to real economic growth and inflation. At the same time, outlays for many Federal programs are directly linked to developments in the economy. For example, most retirement and other social insurance benefit payments are tied by law to cost-of-living indices. Medicare and Medicaid outlays are affected directly by the price of medical services. Interest on the debt is linked to market interest rates and the size of the budget surplus or deficit, both of which in turn are influenced by economic conditions. Outlays for certain benefits such as unemployment compensation and food stamps vary with the unemployment rate and are thereby linked to the state of the economy.

This sensitivity complicates budget planning because errors in economic assumptions lead to errors in the budget projections. It is therefore useful to examine the implications of possible changes in economic assumptions. Many of the budgetary effects of such changes are fairly predictable, and a set of 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 ignore a long list of secondary effects that are not captured in the estimates.

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, for two reasons, a prediction of how receipts or outlays would actually turn out if the economic changes actually came to pass. First, the rules of thumb are based on a fixed budget policy that is not always a good predictor of what might actually happen to the budget should the economic outlook change substantially. For example, unexpected downturns in real economic growth, and attendant job losses, usually give rise to legislative actions to expand unemployment benefits, stimulate the economy with additional Federal investment spending, and the like. Second, economic rules of thumb do not capture certain "technical" changes that may in fact relate to economic changes, but do not have a clear relationship to specific economic variables. For example, the rules of thumb for receipts changes reflect how Treasury's receipts estimates would shift with certain economic changes, but they do not capture the effect of large changes in taxes on capital gains realizations that often occur when the economic outlook changes. 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 turmoil in the economy.

Economic variables that affect the budget do not usually change independently of one another. Output and employment tend to move together in the short run: a high rate of real GDP growth is generally associated with a declining rate of unemployment, while slow or negative growth is usually accompanied by rising unemployment, a relationship known as Okun's Law. In the long run, however, changes in the average rate of growth of real GDP are mainly due to changes in the rates of growth of

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

productivity and the labor force, and are not necessarily associated with changes in the average rate of unemployment. Inflation and interest rates are also closely interrelated: a higher expected rate of inflation increases nominal interest rates, while lower expected inflation reduces nominal interest rates.

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 one-time changes can have permanent effects if they permanently raise the level of the tax base or the level of Government spending. Moreover, temporary economic changes can change the level of the debt, affecting future interest payments on the debt. Highlights of the budgetary effects of these rules of thumb are shown in Table 3–1.

For real growth and employment:

- The first block shows the effect of a temporary reduction in real GDP growth by one percentage point sustained for one year, followed by a recovery of GDP to the base-case level (the Budget assumptions) over the ensuing two years. In this case, the unemployment rate is assumed to rise by one-half percentage point relative to the Budget assumptions by the end of the first year, then return to the base case rate over the ensuing two years. After real GDP and the unemployment rate have returned to their base case levels, most budget effects vanish except for persistent out-year interest costs associated with larger near-term deficits.
- The second block shows the effect of a reduction in real GDP growth by one percentage point sustained for one year, with no subsequent "catch up," accompanying a permanent increase in the natural rate of unemployment (and of the actual unemployment rate) of one-half percentage point relative to the Budget assumptions. In this scenario, the level of GDP and taxable incomes are permanently lowered by the reduced growth rate in the first year. For that reason and because unemployment is permanently higher, the budget effects (including growing interest costs associated with larger deficits) continue to grow in each successive year.
- The budgetary effects are much larger if the growth rate of real GDP is permanently reduced by one percentage point even leaving the unemployment rate unchanged, as might result from a shock to productivity growth. These effects are shown in the third block. In this example, the cumulative increase in the budget deficit is many times larger than the effects in the first and second blocks.

For inflation and interest rates:

- The fourth block shows the effect of a one percentage point higher rate of inflation and one percentage point higher nominal interest rates maintained for the first year only. In subsequent years, the price level and nominal GDP would both be one percentage point higher than in the base case, but interest rates and future inflation rates are assumed to return to their base case levels. Receipts increase by somewhat more than outlays. This is partly due to the fact that outlays for annually appropriated spending are assumed to remain constant when projected inflation changes. Despite the apparent implication of these estimates, inflation cannot be relied upon to lower the budget deficit, mainly because Congress is not likely to allow inflation to erode the real value of spending permanently.
- 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.
- The effects of a one percentage point increase in interest rates alone are shown in the sixth block. The outlay effect mainly reflects higher interest costs for Federal debt. The receipts portion of this rule-of-thumb is due to the Federal Reserve's deposit of earnings on its securities portfolio and the effect of interest rate changes on both individuals' income (and taxes) and financial corporations' profits (and taxes).
- The seventh block shows that a sustained one percentage point increase in CPI and GDP price index inflation decreases cumulative deficits substantially. The separate effects of higher inflation and higher interest rates shown in the sixth and seventh blocks do not sum to the effects for simultaneous changes in both shown in the fifth block. This is because the gains in budget receipts due to higher inflation result in higher debt service savings when interest rates are also assumed to be higher in the fifth block than when interest rates are assumed to be unchanged in the seventh block.
- The last entry in the table shows rules of thumb for the added interest cost associated with changes in the budget deficit, holding interest rates and other economic assumptions constant.

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

GDP Forecast Errors

As can be seen in Table 3-1, one of the most important variables that affects the accuracy of the budget projections is the forecast of the growth rate of real GDP through-

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

(Fiscal years; in billions of dollars)

Budget effect	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total of Effects, 2011–2021
Real Growth and Employment												
Budgetary effects of 1 percent lower real GDP growth:												
(1) For calendar year 2011 only, with real GDP recovery in 2012–13:[1]												
Receipts	–14.9	–24.0	–10.1	–1.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	–48.6
Outlays	3.7	8.7	5.9	3.0	2.9	3.1	3.3	3.4	3.5	3.7	3.8	44.9
Increase in deficit (+)	18.5	32.8	16.0	4.1	2.6	2.9	3.1	3.2	3.3	3.4	3.6	93.5
(2) For calendar year 2011 only, with no subsequent recovery:[1]												
Receipts	–14.9	–32.2	–33.6	–37.4	–40.1	–42.2	–44.2	–46.2	–48.5	–50.9	–53.6	–443.8
Outlays	3.7	10.5	14.0	19.3	24.0	28.9	33.3	37.5	42.0	46.8	51.8	311.7
Increase in deficit (+)	18.5	42.7	47.6	56.6	64.1	71.1	77.5	83.8	90.5	97.7	105.3	755.5
(3) Sustained during 2011 - 2021, with no change in unemployment:												
Receipts	–15.0	–49.5	–83.2	–131.9	–184.1	–239.4	–298.0	–360.9	–428.6	–500.8	–578.9	–2,870.3
Outlays	–0.5	–0.9	1.0	5.9	12.8	21.2	31.2	43.7	59.3	77.2	97.9	348.9
Increase in deficit (+)	14.5	48.6	84.1	137.8	197.0	260.6	329.2	404.6	487.9	578.0	676.7	3,219.1
Inflation and Interest Rates												
Budgetary effects of 1 percentage point higher rate of:												
(4) Inflation and interest rates during calendar year 2011 only:												
Receipts	20.5	42.3	37.0	36.8	39.9	42.5	44.6	46.9	49.3	51.7	54.2	465.6
Outlays	25.6	42.3	32.2	32.5	32.8	32.4	30.6	30.3	29.1	29.9	30.1	347.7
Decrease in deficit (–)	5.1	–*	–4.8	–4.3	–7.1	–10.0	–14.1	–16.7	–20.2	–21.7	–24.1	–117.9
(5) Inflation and interest rates, sustained during 2011 - 2021:												
Receipts	20.6	66.2	103.5	154.0	209.1	266.5	327.3	392.7	464.0	541.8	626.3	3,172.0
Outlays	23.4	71.4	111.9	153.6	194.0	234.7	274.8	315.9	361.3	410.4	461.8	2,613.2
Decrease in deficit (–)	2.9	5.1	8.4	–0.4	–15.1	–31.8	–52.5	–76.9	–102.7	–131.4	–164.5	–558.8
(6) Interest rates only, sustained during 2011 - 2021:												
Receipts	5.6	17.1	22.6	26.4	30.8	33.7	36.2	38.4	40.7	43.5	45.7	340.6
Outlays	16.1	48.2	70.2	90.2	108.4	124.9	140.9	156.2	170.4	186.5	202.4	1,314.4
Increase in deficit (+)	10.6	31.1	47.6	63.8	77.6	91.2	104.7	117.8	129.7	143.0	156.7	973.8
(7) Inflation only, sustained during 2011 - 2021:												
Receipts	15.0	49.1	80.7	127.2	177.8	232.1	290.2	353.3	422.1	496.8	579.0	2,823.3
Outlays	7.3	23.4	42.3	64.7	87.9	113.3	139.0	167.0	200.9	237.0	276.3	1,359.0
Decrease in deficit (–)	–7.6	–25.7	–38.4	–62.5	–90.0	–118.9	–151.2	–186.3	–221.2	–259.9	–302.7	–1,464.2
Interest Cost of Higher Federal Borrowing												
(8) Outlay effect of $100 billion increase in borrowing in 2011	0.1	0.5	2.1	3.7	4.4	4.8	5.1	5.4	5.6	5.9	6.1	43.8

* $50 million or less.

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

out the projection period. Table 3-2 shows errors in short- and long-term projections for past Administrations, and compares these errors to those of CBO and the Blue Chip Consensus of private forecasters.[2] Over both a two-year and six-year horizon, the average annual GDP growth rate was very slightly underestimated by all three forecasters in the annual forecasts made since 1982. The differences between the three forecasters were minor. The mean absolute error in the growth rate was 1.1 percent per year for all forecasters for two-year projections, and was about one-third smaller for all three for the six-year projections. The greater accuracy in the six-year projections could reflect a tendency of real GDP to revert at least partly to trend, though the overall evidence on whether GDP is mean reverting is mixed. Another way to interpret the result is that it is hard to predict GDP around turning points in the business cycle, but somewhat easier to project the long-term growth rate based on assumptions about the labor force, productivity, and other factors that affect GDP.

[2] Two-year errors are the average error in percentage points for year-over-year growth rates for the current year and budget year. Administration forecasts are from the budgets released starting in February 1982 (1983 Budget) and through February 2008 (2009 Budget), so that the last year included in the projections is 2009. The six-year forecasts are constructed similarly, but the last forecast used is from February 2004 (2005 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 3–2. GDP FORECAST ERRORS, JANUARY 1982–PRESENT

2-Year Real GDP	Admin.	CBO	Blue Chip
Mean Error	–0.0	–0.2	–0.3
Mean Absolute Error	1.1	1.1	1.1
Root Mean Square Error	1.5	1.4	1.4
6-Year Real GDP			
Mean Error	–0.0	–0.3	–0.3
Mean Absolute Error	0.8	0.7	0.7
Root Mean Square Error	0.9	0.9	0.9

Alternative Scenarios

The rules-of-thumb described above can be used in combination to show the approximate effect on the budget of alternative economic scenarios. Modeling explicit alternative scenarios can also be useful in gauging some of the risks to the current budget projections. For example, the severity of the recent recession along with the associated financial crisis makes the strength of the recovery over the next few years highly uncertain. Those possibilities are explored in the two alternative scenarios presented in this section.

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

The second alternative scenario assumes that real GDP growth beginning in 2010:Q4 follows the projections in the January Blue Chip forecast through the end of 2011 and that growth in 2012-2021 follows the path laid out in the October 2010 extension of the Blue Chip forecast. In this case, after 2011, the level of GDP remains lower than the Administration's forecast throughout the projection. This alternative does not allow for a real recovery from the loss of output during the 2008-2009 downturn. Growth returns to normal, but without a catchup to make up for previous losses. In effect, this alternative assumes there was a permanent loss of output resulting from the shocks experienced during the downturn.

Table 3-3 shows the budget effects of these alternative scenarios compared to the Administration's economic forecast. Under the first alternative, budget deficits are modestly lower in each year compared to the Administration's forecast. In the second alternative, the deficit becomes progressively larger than the Administration's projection through 2018.

Many other scenarios are possible, of course, but the point is that the most important influences on the budget

Chart 3-1. Forecast Alternatives: Real GDP

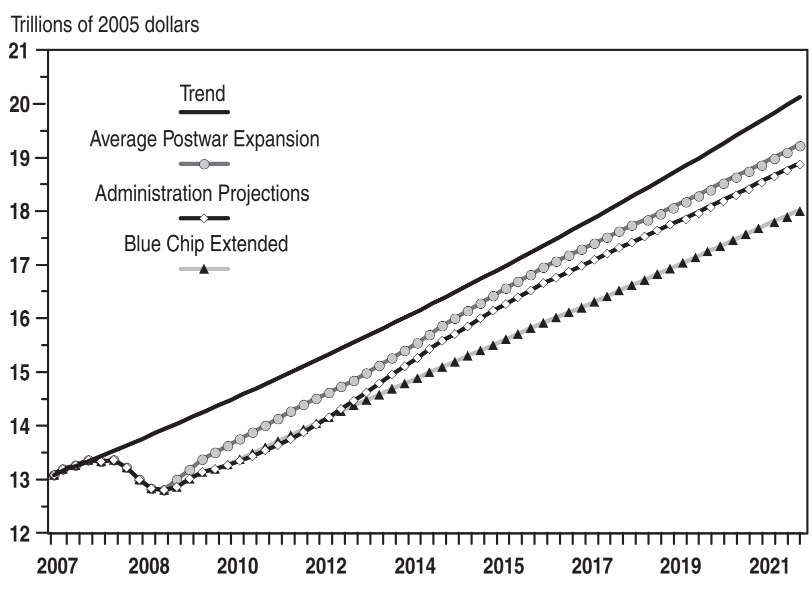


Table 3–3. BUDGET EFFECTS OF ALTERNATIVE SCENARIOS
(Fiscal years; in billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Alternative Budget Deficit Projections:											
Administration Economic Assumptions	1,645	1,101	768	645	607	649	627	619	681	735	774
percent of GDP	10.9%	7.0%	4.6%	3.6%	3.2%	3.3%	3.0%	2.9%	3.0%	3.1%	3.1%
Alternative Scenario 1	1,478	922	625	512	468	491	448	419	457	486	497
percent of GDP	9.4%	5.6%	3.6%	2.8%	2.4%	2.4%	2.1%	1.9%	2.0%	2.0%	2.0%
Alternative Scenario 2	1,634	1,107	827	763	776	855	854	858	920	974	1,022
percent of GDP	10.8%	7.0%	5.0%	4.4%	4.2%	4.4%	4.2%	4.0%	4.1%	4.2%	4.2%

projections beyond the next year or two are the rate at which output and employment recover from the recession and the extent to which potential GDP returns to its pre-recession trend.

Uncertainty and the Deficit Projections

The accuracy of budget projections depends not only on the accuracy of economic projections, but also on technical factors and the differences between proposed policy and enacted legislation. Chapter 30 provides detailed information on these factors for the budget year projections (Table 30-6), and also shows how the deficit projections compared to actual outcomes, on average, over a five-year window using historical data from 1982 to 2010 (Table 30-7). The error measures can be used to show a probabilistic range of uncertainty of what the range of deficit outcomes may be over the next five years relative to the Administration's deficit projection. Chart 3-2 shows this cone of uncertainty, which is constructed under the assumption that future forecast errors would be governed by the normal distribution with a mean of zero and standard error equal to the root mean squared error, as a percent of GDP, of past forecasts. The deficit is projected to be 3.3 percent of GDP in 2016, but has a 90 percent chance of being within a range of a surplus of 3.2 percent of GDP and a deficit of 9.8 percent of GDP.

Structural and Cyclical Deficits

The budget deficit is highly sensitive to the business cycle. When the economy is operating below its potential and the unemployment rate exceeds the level consistent with price stability, receipts are lower, outlays for programs such as unemployment compensation 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 from looking at the unadjusted budget deficit.

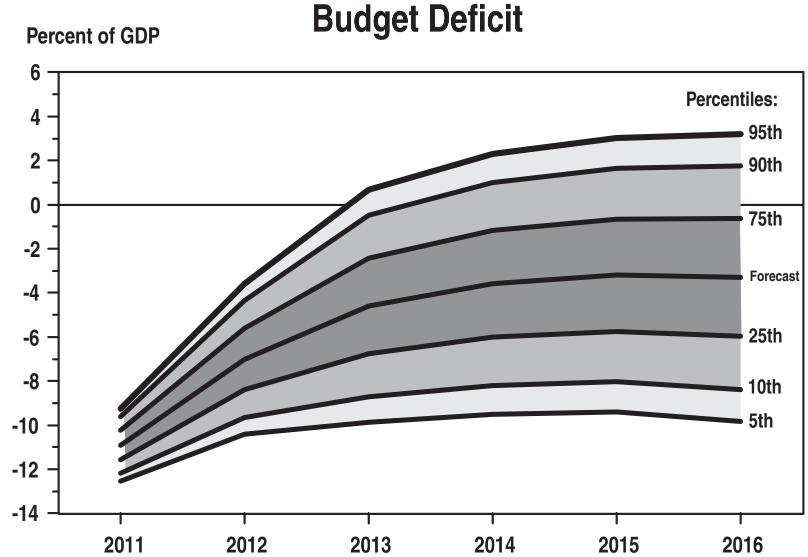
An alternative measure of the budget deficit is called the structural deficit. This measure provides a more useful perspective on the stance of fiscal policy than does the unadjusted unified budget deficit. The portion of the deficit traceable to the automatic effects of the business cycle is called the cyclical component. The remaining portion of the deficit is called the structural deficit. The structural deficit is a better gauge of the underlying stance of fiscal policy than the unadjusted unified deficit because it removes most of the effects of the business cycle.

Estimates of the structural deficit, shown in Table 3-4, are based on the historical relationship between changes in the unemployment rate and real GDP growth, known as Okun's Law, 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 recent decline in the stock market pulled down capital gains-related receipts and increased the deficit. Some of this decline is cyclical in nature, but economists have not pinned down the cyclical component of the stock market with any exactitude, and for that reason, all of the stock market's contribution to receipts is counted in the structural deficit.

Another factor that can affect the deficit and is related to the business cycle is labor force participation. Since the official unemployment rate does not include workers who have left the labor force, the conventional measures of potential GDP, incomes, and Government receipts understate the extent to which potential work hours are under-utilized because of a decline in labor force participation. The key unresolved question here is to what extent changes in labor force participation are cyclical and to what extent they are structural. By convention, in estimating the structural budget deficit, all changes in labor force participation are treated as structural.

There are also lags in the collection of tax revenue that can delay the impact of cyclical effects beyond the year in which they occur. The result is that even after the unemployment rate has fallen, receipts may remain cyclically depressed for some time until these lagged effects have dissipated. The recent recession has added substantially to the estimated cyclical component of the deficit, but for all the reasons stated above, the cyclical component is probably an understatement. As the economy recovers, the cyclical deficit is projected to decline and after unemployment reaches 5.3 percent, the level assumed to be consistent with stable inflation, the estimated cyclical component vanishes, leaving only the structural deficit, although some lagged cyclical effects would arguably still be present.

Chart 3-2. Range of Uncertainty for the Budget 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 is a large increase in the cyclical component because of the rise in unemployment. That is what would be expected considering the severity of the recent recession. Finally, there is a large increase in the structural deficit because of the policy measures taken to combat the recession. This reflects the Government's decision to make an active use of fiscal policy to lessen the severity of the recession and to hasten economic recovery. In 2011–2017, the cyclical component declines sharply as the economy recovers. The structural deficit shrinks during 2011–2013 as the temporary spending and tax measures in the Recovery Act end.

Table 3–4. THE STRUCTURAL BALANCE

(Fiscal years; in billions of dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Unadjusted surplus (–) or deficit	160.7	458.6	1,412.7	1,293.5	1,645.1	1,101.2	767.5	644.6	606.7	648.7	626.7	618.9	681.5
Cyclical component	–94.3	–12.9	353.6	477.0	505.7	527.2	422.6	280.3	153.3	64.5	15.6	0.4	0.0
Structural surplus (–) or deficit	255.0	471.4	1,059.1	816.5	1,139.4	574.0	345.0	364.2	453.5	584.2	611.2	618.5	681.5
(Fiscal years; percent of Gross Domestic Product)													
Unadjusted surplus (–) or deficit	1.2%	3.2%	10.0%	8.9%	10.9%	7.0%	4.6%	3.6%	3.2%	3.3%	3.0%	2.9%	3.0%
Cyclical component	–0.7%	–0.1%	2.5%	3.3%	3.4%	3.3%	2.5%	1.6%	0.8%	0.3%	0.1%	0.0%	0.0%
Structural surplus (–) or deficit	1.8%	3.3%	7.5%	5.6%	7.6%	3.6%	2.1%	2.0%	2.4%	3.0%	2.9%	2.9%	3.0%

NOTE: The NAIRU is assumed to be 5.3%.

4. FINANCIAL STABILIZATION EFFORTS AND THEIR BUDGETARY EFFECTS

Over the past three years, the U.S. Government has taken unprecedented action to mitigate the damage to the U.S. economy from the largest financial crisis in a generation. The Department of the Treasury, the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Securities and Exchange Commission, and the Commodity Futures Trading Commission have acted independently and in concert to scale up existing programs and make them more effective, and to launch new programs that are designed to: expand access to credit; strengthen financial institutions; restore confidence in the financial market; and stabilize the housing sector. In 2010, the Administration also achieved the objective of enacting comprehensive reform of U.S. financial regulation to ensure that the Government has the tools and authority to prevent another crisis of this magnitude before it hits and to resolve significant financial failures more effectively.

This chapter provides a summary of key Government programs, followed by a report analyzing the cost and budgetary effects of the Treasury's Troubled Asset Relief Program (TARP), consistent with Sections 202 and 203 of the Emergency Economic Stabilization Act (EESA) of 2008 (P.L. 110–343), as amended. This report analyzes transactions as of November 30, 2010, unless otherwise noted, and expected transactions as reflected in the Budget. The TARP costs discussed in the report and included in the Budget are the estimated present value of the TARP investments, netting and discounting the expected dividends, interest, and principal redemptions the Government receives against its investments; this credit reform treatment of TARP transactions is authorized by Section 123 of EESA.

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

The Administration's current estimate of TARP's deficit cost for $474.8 billion in obligations is $48.3 billion (see Tables 4–1 and 4–7). This estimated direct impact of TARP on the deficit has been cut by 58 percent (or over $66 billion) from the Mid-Session Review of the 2011 Budget (2011 MSR), due to lower overall TARP obligations and higher returns on TARP investments. The Treasury has received higher-than-expected repayments and redemptions from TARP recipients. As of December 31, 2010, the Treasury had received actual repayments of $235 billion. One hundred banks alone returned over $208 billion in TARP investments over 2009 and 2010. The 2011 MSR estimated a $114.5 billion deficit cost of purchases and guarantees associated with an estimated $494.4 billion in obligations. Section 123 of EESA requires TARP cost 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 at the market-risk adjusted discount rate, but that cost will not be fully known until all TARP investments have been extinguished. (See Table 4–9 for an estimate of TARP subsidy costs stripped of the market-risk adjustment.)

Enactment of Comprehensive Financial Reform Legislation

On July 21, 2010, thirteen months after the Administration delivered its financial reform proposal to Congress, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act[1] (the "Dodd-Frank Act" or the "Act"). The Act met the critical objectives of the Administration's proposal: to help prevent future financial crises in part by filling gaps in the U.S. regulatory regime; to better protect consumers; to prevent financial firms from taking risks that threaten the economy; and to provide the Government more effective tools to manage financial crises. The Dodd-Frank Act changes to the U.S. financial regulatory regime are numerous and comprehensive, including:

Ends "Too-Big-to-Fail" : The Dodd-Frank Act makes clear that no financial firm will be considered "too big to fail" in the future. Instead, the Federal Deposit Insurance Corporation (FDIC) now has the ability to unwind failing systemically-significant non-bank financial institutions in an orderly manner to prevent widespread disruptions to U.S. financial stability. The Budget includes a probabilistically estimated cost to the Government of this enhanced orderly liquidation authority of $19.5 billion over 2011-2021. While total costs of any liquidation are, by law, to be recovered in full, there is a net cost from this authority over the budget period due to the fact that cost recovery occurs in the years following liquidation. The Act also helps monitor and constrain risks in the financial system by creating a new Financial Services Oversight Council (FSOC) chaired by the Secretary of the Treasury that brings together the expertise of the Federal financial regulators, an insurance expert appointed by the President, and state regulators. The Act authorizes the FSOC to designate non-bank financial firms for heightened supervision if material financial distress at such a firm, or the nature, scope, size, scale, concentration, interconnectedness,

[1] P.L. 111-203.

or mix of the activities of the firm, could pose a threat to the financial stability of the United States. The FSOC is supported by a new Office of Financial Research (OFR) within the Treasury Department established to improve the quality of financial data available to policymakers and to facilitate more robust and sophisticated analysis of the financial system. As specified in the Act, the Budget reflects funding for the FSOC and OFR through transfers from the Federal Reserve for 2011 and 2012. Thereafter, both entities will be fee-funded; there will be no net taxpayer cost for these activities.

Enhances Consumer Protection: The Act creates a single independent regulator—the Consumer Financial Protection Bureau (CFPB)—whose sole mission is to look out for consumers in the increasingly complex financial marketplace. Consolidation of authorities in an agency with a mission focused on consumer protection will increase accountability for providing and consistently enforcing clear rules of the road for firms offering consumer financial services. The Act provides for a transition period during which the Treasury Department is responsible for standing up the new CFPB. The Secretary of the Treasury designated July 21, 2011 as the date upon which the consumer financial protection functions of certain existing Federal regulators will transfer to the CFPB and the stand-up period ends. The Budget reflects funding for the CFPB through authorized transfers from the Federal Reserve, estimated at $329 million in 2012.

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

Increases Transparency in Financial Markets: The Act creates for the first time comprehensive oversight of swaps markets. It requires central clearing and transparent trading of standardized swaps and reporting of all derivatives transactions, as well as capital, margin, and business conduct requirements for swaps dealers and major swaps participants. The Act also expands the authority of the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) to register and regulate hedge funds and private equity funds. These changes are critical to ensuring that investors and regulators can more accurately assess the financial strength and risks of market participants.

The Budget reflects changes made by the Act to the SEC's fee structure. Beginning in 2012, a portion of the fees the SEC currently collects will be classified as mandatory offsetting receipts and deposited directly into the General Fund of the Treasury; the remainder of the fees will continue to be classified as discretionary offsetting collections and available to offset the cost of SEC operations once the annual limit on these costs has been set through appropriations acts. Additionally, the Act has created a Reserve Fund into which the SEC may deposit up to the first $50 million in mandatory fee collections per year, to be kept in reserve if needed for agency operations.

The Dodd-Frank Act includes numerous other reform measures, including strengthening important payment, clearing, and settlement systems, enhancing disclosure and accountability of credit rating agencies, increasing investor rights and protections, and creating a new office in the Treasury Department to monitor the insurance industry.

International Financial Reform. The financial crisis was an international event not limited to U.S. markets, corporations, and consumers. In addition to its demonstrated commitment to achieving meaningful financial reform at home, the Administration continues to ensure coordination of financial reform principles across the globe. At the G–20 Summit in Pittsburgh in September 2009, President Obama and other G-20 leaders established the G-20 as the premier forum for international economic cooperation. Over the course of Summits held in London (April 2009), Pittsburgh (September 2009), Toronto (June 2010), and Seoul (November 2010), the Administration and G-20 leaders have committed to an ambitious agenda for financial regulatory reform. Their reform commitments have extended the scope of regulation, will improve transparency and disclosure, and will strengthen banks through increased and higher quality capital and introduction of a leverage ratio that will limit the amount banks may lend relative to their capital reserves. Together, the U.S. and its global allies are building effective resolution regimes, including cross-border resolution frameworks, and are developing higher prudential standards for systemically important financial institutions to reflect the greater risk those institutions pose to financial system stability. Treasury Secretary Geithner and others in the Administration have worked actively to make sure that these commitments are fully consistent with our domestic financial reform agenda.

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

Federal Reserve Programs

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

The second set of tools involved the provision of liquidity directly to borrowers and investors in key credit markets. The Commercial Paper Funding Facility (CPFF), Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), Money Market Investor Funding Facility (MMIFF), and the Term Asset-Backed Securities Loan Facility (TALF) fall into this category. As a third set of instruments, the Federal Reserve expanded its traditional tool of open market operations to support the functioning of credit markets through the purchase of longer-term securities for the Federal Reserve's System Open Market Account portfolio. In light of improved functioning of financial markets, many of the new programs have expired or been closed including the MMIFF (October 30, 2009), AMLF (February 1, 2010), and CPFF (February 1, 2010).

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

To support mortgage lending and housing markets, the Federal Reserve began purchasing up to $175 billion of Government-Sponsored Enterprise (GSE) debt and up to $1.25 trillion of GSE mortgage-backed securities (MBS) beginning in December 2008. The Federal Reserve completed its purchase of $1.25 trillion in GSE MBS in March 2010, and has purchased $172 billion of GSE debt as of December 2010. Purchasing GSE debt and MBS has provided liquidity to the mortgage market, which facilitated the issuance of new mortgage loans to homebuyers at affordable interest rates. The Federal Reserve also purchased $300 billion in longer-term Treasury securities in 2009 to improve interest rate conditions in mortgage and other private credit markets.

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

Earnings resulting from the expansion of the Federal Reserve's balance sheet through the purchase of GSE debt, GSE MBS, and long-term Treasury securities have increased the profits the Federal Reserve remits to the Treasury, reducing the budget deficit. In 2010, Treasury received $75.8 billion from the Federal Reserve, which represents a 120 percent increase over 2009 deposits. The Budget projects Treasury will receive $79.5 billion and $65.8 billion from the Federal Reserve in 2011 and 2012, respectively.

Federal Deposit Insurance Corporation (FDIC) Programs

Using its existing authority, the FDIC created the Temporary Liquidity Guarantee Program (TLGP) in October 2008, to help restore confidence in the banking sector and prevent large scale deposit flight. There are two components to the TLGP: the Debt Guarantee Program and the Transaction Account Guarantee. For the first time ever, the Debt Guarantee Program (DGP) allowed participating institutions (banks and their holding companies and affiliates) to issue FDIC-guaranteed senior secured debt. Therefore, if a participating institution defaulted on its debt, the FDIC would make required principal and interest payments to unsecured senior debt holders. The FDIC charged additional fees and surcharges for any participating institutions that voluntarily opted into this program. Originally, the guarantee was limited to unsecured debt issued between October 14, 2008, and June 30, 2009, and the FDIC guarantee coverage extended through June 30, 2012. On March 17, 2009, the FDIC extended coverage to debt issued through October 31, 2009, and extended the guarantee through December 31, 2012. The FDIC also levied a surcharge on debt issued between April 1, 2009, and October 31, 2009, which was transferred to the Deposit

Insurance Fund. On October 20, 2009, the FDIC adopted a final rule reaffirming that the FDIC will not guarantee any debt issued after October 31, 2009. The rule also established a limited, six-month emergency guarantee facility upon expiration of the program; however, this facility was never utilized. As of September 30, 2010, there was $268.8 billion of debt outstanding in the senior unsecured debt guarantee program.

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

The Dodd-Frank Act modified authorities for these programs and authorized the FDIC to provide two years of unlimited insurance coverage, through the Deposit Insurance Fund, for non-interest bearing transaction account deposits starting on December 31, 2010 (excluding NOW accounts and IOLTAs). However, the Permanent Federal Deposit Insurance Coverage for Interest on Lawyers Trust Accounts Act (P.L. 111-343) enacted on December 29, 2010 extended the two years of unlimited coverage to IOTLAs as well, though not the NOW accounts. The coverage extended through the Dodd-Frank Act is provided to all insured institutions and there are no separate fees associated with this coverage. Due to the passage of the Dodd-Frank Act, the FDIC Board adopted a final rule in October 2010, stating that the TAG would not be extended beyond its December 31, 2010 expiration date. The Budget reflects TAG account transactions for the first quarter of fiscal year 2011, after which losses on non-interest bearing transaction accounts are reflected in the FDIC's Deposit Insurance Fund.

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

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

National Credit Union Administration (NCUA) Programs

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

On October 16, 2008, the NCUA announced the Temporary Corporate Credit Union Liquidity Guarantee Program. Under this program, the NCUA guaranteed certain unsecured debt of participating corporate credit unions issued from October 16, 2008, through June 30, 2009. In May 2009, NCUA revised and extended the program to cover certain newly-issued unsecured debt obligations issued through June 30, 2010. In September 2010, the program was revised and extended again, to apply to certain newly-issued unsecured debt issued through September 30, 2011. The program ensured parity with deposit institutions covered by a similar FDIC guarantee program, and maintained market confidence in corporate credit union unsecured debt offerings.

The NCUA has utilized the authorities of its Central Liquidity Facility (CLF) to provide liquidity to the credit union system. In 2009 and 2010, the CLF granted liquidity advances of $20 billion, including $10 billion originating in March 2009 to the National Credit Union Share Insurance Fund, in order to provide funding stabilization to the first two corporate credit unions placed in conservatorship. All of the advances were repaid by December 31, 2010. Late in 2008, the CLF also established the Credit Union Homeowners Affordability Relief Program (HARP) and the System Investment Program (SIP) to add liquidity to the credit union system; a total of $8.4 billion was advanced with these two programs. The HARP program provided incentives for credit unions to assist member homeowners in danger of defaulting on their mortgages. The CLF made one-year secured credit advances to qualifying credit unions that in turn were required to invest in a special corporate credit union note used by the corporate credit union to pay down external secured borrowings. The qualifying credit union can earn an extra coupon payment on the HARP note for demonstrated mortgage relief to eligible members. Total HARP advances of $164 million were made and the program was terminated when the last outstanding advance was repaid on December 31, 2010.

Under the SIP, the CLF made one-year secured credit advances to credit unions, that in turn were required to invest those funds in guaranteed corporate credit union notes, to provide a stable and affordable source of liquidity for corporate credit unions. Total SIP advances of $8.2 billion were made and the program was terminated when the last outstanding advance was fully repaid on March 2010.

NCUA's systemic support via guarantees of unsecured debt and share deposits and liquidity advances has stabilized the corporate credit union system, which is vital for the day-to-day operations and function of the approximately 7,400 credit unions nationwide. In addition to stabilizing liquidity and confidence in the system, NCUA adopted a stronger regulatory and supervisory framework to govern credit unions, address identified weaknesses, and ensure such distress is not repeated in the future. NCUA also comprehensively revised Part 704 of its Rules and Regulations to enhance capital standards, investment authorities and limitations, and corporate governance.

The Helping Families Save Their Home Act of 2009 (P.L. 111-22) created the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) to cover expenses associated with stabilizing the corporate credit union system. The TCCUSF accrues the losses of the corporate credit union system and issues assessments on all corporate credit unions to recover the losses. With the Share Insurance Fund, the TCCUSF has $6 billion in borrowing authority. In September 2010, the TCCUSF was extended until June 30, 2021, coinciding with NCUA's adoption of the Corporate Resolution Plan aimed at removing long-term threats to the corporate system. Through 2010, TCCUSF has borrowed $1.8 billion, including $810 million for liquidity loans into the corporate credit union system that have been fully repaid. Additionally, TCCUSF assessed credit unions $1.3 billion since inception and has used these funds to repay all outstanding borrowings required to fund resolutions.

Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC) Programs

To advance the Administration's efforts to prevent future financial crises, the SEC and CFTC worked throughout 2010 to address many of the root causes of the crisis, to adapt their organizations to more effectively monitor regulated industries and activities, and to implement enforcement strategies designed to both punish noncompliant actors and deter noncompliance system-wide. Following a review of its enforcement protocol in 2009, the SEC has restructured its Division of Enforcement and has reorganized its inspection unit. These changes will allow the SEC to more aggressively root out securities law violations, and to more effectively prosecute those who commit them. In 2010, the SEC returned approximately $2.2 billion to harmed investors as a result of its enforcement efforts in the field of mortgage-backed securities and related financial products, and larger such returns are expected over the coming year

The SEC began implementation of a long-term information technology improvement plan in 2010. The first effort under that plan was design and delivery of a system capable of tracking, compiling, and comparing tips, complaints, and referrals received by the agency. Offices throughout the SEC now have access to this centralized repository, which will increase the agency's ability to match, route, and track tips, complaints, and referrals about a single market participant that might not have been flagged or traced by earlier systems.

The CFTC experienced a significant expansion of its regulatory authorities in 2010 with enactment of the Dodd-Frank Act. In addition to its longstanding responsibility to ensure fair, open, and efficient future markets, the CFTC is now authorized to regulate the swaps marketplace through oversight of derivatives dealers and open trading and clearing of standardized derivatives on regulated platforms. To adapt its mission to include these new responsibilities, the CFTC established 30 teams in 2010 to formulate and draft the numerous rules required to implement the Dodd-Frank Act. The CFTC has actively consulted with other Federal financial regulators, as well as international counterparts, to ensure harmonization of proposed rules. Additionally, the CFTC has demonstrated a commitment to public transparency in its adoption of Dodd-Frank Act implementing regulations, requesting and incorporating input from the public during the earliest stages of rule development, publishing a wide variety of materials and disclosures on its website, and conducting all Commission reviews of proposed rules in open forums.

While devoting significant resources to timely and thorough implementation of new Dodd-Frank Act authorities, the CFTC has continued its market surveillance and enforcement activities. In 2010, the CFTC filed 57 enforcement actions, 7 more than in 2009. Additionally, the number of enforcement investigations opened by the CFTC increased dramatically in 2010 to 419, up from 251 in 2009. One-hundred percent of enforcement actions closed in 2010 resulted in monetary penalties, up from 98 percent in 2009. This translates to collections of $174 thousand in restitution and disgorgement penalties (i.e., collections of ill-gotten gains), and $75 million in civil money penalties in 2010, up from $154 thousand and $18 million respectively in 2009.

The President's Budget provides significant increases for the SEC and CFTC in 2012 in support of base regulatory work as well as Dodd-Frank Act implementation. For SEC, a program level of $1,427 million is proposed, an increase of $316 million or 28 percent over 2010. For CFTC, $308 million is provided, an increase of $139 million or 82 percent over 2010. The rapid expansion in CFTC's authorities and oversight has required unprecedented growth in the agency's resources. In order to ensure that the agency can effectively absorb the increased resources necessary to fund operations at post-Dodd-Frank Act levels, the Budget proposes phasing in total resource growth over 2012 and 2013, with funding in 2012 available for a period of two years. Additionally, the Budget proposes funding CFTC's non-enforcement activities through fees assessed on the regulated community, consistent with every other Federal financial regulator. In 2012, the Budget estimates CFTC user fee collections at $117 million.

Housing Market Programs under the Housing and Economic Recovery Act

To avoid a possible collapse of the housing finance market and further risks to the broader financial market, the Federal Housing Finance Authority (FHFA) placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) into conservatorship on September 6, 2008. On the following day, the U.S. Treasury launched three new programs to provide temporary financial support to these housing Government-Sponsored Entities (GSEs) and to stabilize the housing market under the broad authority provided in the Housing and Economic Recovery Act (HERA) of 2008 (P.L. 110–289). First, the Treasury Department provided capital to the GSEs through Senior Preferred Stock Purchase Agreements (PSPAs) to ensure that the GSEs maintain a positive net position (i.e., assets are greater than or equal to liabilities). On December 24, 2009, Treasury announced that the funding commitments in the purchase agreements would be modified to the greater of $200 billion or $200 billion plus cumulative net worth deficits experienced during 2010-2012, less any surplus remaining as of December 31, 2012. Second, the Treasury established a line of credit for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks to ensure they have adequate funding on a short-term, as-needed basis. This line of credit was never used. The Treasury also initiated purchases of GSE guaranteed mortgage-backed securities (MBS) in the open market (separate from the Federal Reserve's MBS purchase program discussed above), with the goal of increasing liquidity in the secondary mortgage market. In December 2009, the Treasury initiated two additional purchase programs under HERA authority to support housing assistance provided through new and existing State and local Housing Financing Agencies (HFAs) revenue bonds. Treasury's authority to enter new obligations under the GSE PSPA agreement, MBS purchase, and HFA support programs expired on December 31, 2009. However, Treasury's existing commitments continue to support any needed capital infusions through PSPAs, new and existing HFA housing bond issuances, and Treasury will continue to collect principal and interest payments on the securities that it owns.

The Budget assumes that Treasury will make cumulative investments in Fannie Mae and Freddie Mac of $224 billion from 2009 through 2012, and receive dividends of $55 billion over the same period. These estimates are consistent with the "baseline" case in the range of potential draws announced by FHFA in October 2010. Starting in 2013, the Budget forecasts that Fannie Mae and Freddie Mac will have sufficient earnings to pay part but not all of the scheduled dividend payments. The Budget assumes additional net dividend receipts of $97 billion from 2013-2021, for total net PSPA outlays of $73 billion from 2009 through 2021.

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

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

Treasury Programs

Small Business Lending Programs. To increase the availability and affordability of credit to help small businesses drive economic recovery and create jobs, the Small Business Jobs Act of 2010 (P.L. 111-240) created two new programs proposed by the Administration that are being administered by the Department of the Treasury: the State Small Business Credit Initiative (SSBCI), which provides capital through grants to state programs that support lending to small businesses, and the Small Business Lending Fund (SBLF), which can provide up to $30 billion in capital to qualified community banks and other targeted lenders with assets of less than $10 billion to encourage their lending to small businesses.

The SSBCI offers States (and in certain circumstances, municipalities) the opportunity to apply for Federal funds for programs that partner with private lenders to extend credit to small businesses to create jobs. All 50 States, the District of Columbia, and the five U.S. Territories are eligible to participate in the SSBCI. The Jobs Act provides $1.5 billion for SSBCI, including administrative expenses, which is estimated to create at least $15 billion in new lending to small businesses based on statutory requirements for State participants to demonstrate leveraging capacity. These funds must be obligated within two years and are allocated to States based on a statutory formula that takes into account each jurisdiction's unemployment rate and decline in employment relative to other jurisdictions.

Because institutions leverage their capital, the SBLF could help increase lending to small businesses in an amount significantly greater than the total capital provided to participating banks. In addition to expanding the lending capacity of banks, the SBLF creates a strong incentive for lenders to increase small business loans by tying the cost of SBLF funding to the volume growth of each lender's portfolio of small business loans.

For more information on SSBCI and SBLF, please see the Credit and Insurance chapter in this volume.

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

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

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

As a result of improved overall financial conditions and careful stewardship of the program, the 2012 Budget reflects an impact of TARP on the deficit that is approximately $66 billion less than previously estimated in the Mid-Session Review of the 2011 Budget. Furthermore, the Budget estimates total purchases under TARP authority to be approximately $475 billion, which is consistent with the statutory requirement prescribed in the Dodd-Frank Act. A more detailed analysis of specific TARP programs is provided below.

Description of Assets Purchased Through the Troubled Asset Relief Program (TARP), by Program

Capital Purchase Program (CPP). Pursuant to EESA, the Treasury created the CPP in October 2008 to restore confidence throughout the financial system by ensuring that the Nation's banking institutions have a sufficient capital cushion against potential future losses and to support lending to creditworthy borrowers. All eligible CPP recipients completed funding by December 31, 2009, and the program will not make new investments. The Budget reflects total TARP purchases of $204.9 billion in preferred stock under the program. As of December 31, 2010, Treasury received approximately $168 billion in redemptions of preferred stock (i.e., principal repayments) and over $25 billion in revenues from dividends, interest, warrants, and fees.

In December 2010, the Treasury Department sold its remaining shares of Citigroup common stock acquired as part of Citigroup's participation in the CPP. In aggregate, Treasury received approximately $32 billion from the sale of 7.7 billion shares of Citigroup common stock, which represents a positive return of nearly $7 billion on the Citigroup CPP investment. As a result of the Citigroup sale, and higher-than-expected repayments, the CPP investment is estimated to yield a net positive return of $5.9 billion to taxpayers, before administrative costs.

American International Group (AIG) Investments. The Federal Reserve Bank of New York (FRBNY) and the Treasury provided financial support to the American International Group 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 credit facility to AIG in September 2008 and received preferred shares that entitled it to 79.9% 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, the Treasury had purchased $40 billion in preferred shares from AIG. In April 2009, Treasury also extended a $29.8 billion capital facility, of which AIG has drawn $27.8 billion as of January 2011, in exchange for additional preferred stock.

After consulting with the FRBNY, Treasury, and the AIG Credit Facility Trust, AIG executed a recapitalization deal in mid-January 2011 that will significantly accelerate the Government's exit from AIG. As a result of the recapitalization, the Treasury has a 92 percent ownership stake in AIG, approximately 61 percent of which will be held within TARP. A summary of the deal terms is provided below:

- AIG retired the remaining $20 billion credit facility, which included accrued interest and fees, held by the FRBNY with $27.2 billion in cash proceeds raised from the initial public offering of the AIA Group Limited (AIA) and the sale of American Life Insurance Company (ALICO) to MetLife.

- AIG drew $20.3 billion from the remaining $22.3 billion TARP capital facility to buy-out the FRBNY's preferred interests in special purposes vehicles (SPV) holding AIA and ALICO. In exchange, Treasury received the preferred interests in the two SPV's, which are supported by interests in a number of AIG subsidiaries that are currently valued well over $22.3 billion, as well as Series F preferred stock. The recapitalization agreement allows AIG to draw $2.0 billion from the TARP capital facility for general corporate purposes. Although AIG has not utilized this borrowing authority, the Budget's cost estimates assume that AIG will draw the available $2.0 billion in 2011.

- Treasury exchanged its Series E and F preferred interest holdings for 1.09 billion shares in AIG common stock.

- As part of the aid package extended to AIG, the FRBNY received AIG Series C convertible preferred shares worth 79.8 percent of AIG common stock in January 2009, and transferred ownership to an independent Trust for the benefit of the Treasury. As part of the recapitalization plan, the Series C preferred interest held by the Trust were exchanged for 562.9 million shares of AIG common stock. Immediately after the exchange, the Trust distributed all of its AIG common stock to the Treasury, and was subsequently dissolved (note, the transfer of AIG common stock from the Trust to the Treasury is not a TARP purchase, and thus is not included in the TARP cost estimates).

The Budget reflects a total AIG cost estimate of $11.7 billion, which is approximately $38.2 billion lower than the 2011 MSR projection. The shares Treasury received from the independent Trust, which is separate from TARP, were valued at $20 billion at the end of November 2010. Therefore, when aggregating the AIG TARP investments with the transfer from the Trust, Treasury is projected to yield a positive return of nearly $8.5 billion on the total $69.8 billion in aid extended to AIG by the Treasury, based on the November 30, 2010 AIG share price of $41.29[2].

Targeted Investment Program (TIP). The goal of TIP was to stabilize the financial system by making investments in institutions that are critical to the functioning of the financial system. Investments made through the TIP sought to avoid significant market disruptions resulting from the deterioration of one financial institution that could threaten other financial institutions and impair broader financial markets, and thereby pose a threat to the overall economy. Under the TIP, the Treasury purchased $20 billion in preferred stock from Citigroup and $20 billion in preferred stock from Bank of America. The Treasury also received stock warrants from each company. Both Citigroup and Bank of America repaid their TIP investments in full in December 2009, including dividend payments of approximately $3.0 billion. In March 2010, Treasury sold Bank of America warrants for $1.2 billion. As of December 31, 2010, the Treasury still holds Citigroup warrants acquired through the TIP. The Budget reflects a positive return of $3.6 billion on TIP investments.

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

The Treasury, the Federal Reserve and the FDIC entered into a final agreement for a loss-sharing arrangement with Citigroup on January 15, 2009. Under the agreement, the Treasury guaranteed up to $5 billion of potential losses incurred on a $301 billion portfolio of financial assets held by Citigroup. The agreement was terminated, effective December 23, 2009. The U.S. Government parties did not pay any losses under the agreement, and have kept $5.2 billion of the $7 billion in trust preferred securities.[3] Treasury retained $2.2 billion of the trust preferred securities, as well as warrants for common shares that were issued by Citigroup as consideration for the guarantee. As of December 31, 2010, Treasury still holds these Citigroup warrants. Treasury is also entitled to receive up to $800 million in additional Citigroup trust preferred securities held by the FDIC (net of any losses suffered by the FDIC) under Citigroup's use of the Temporary Loan Guarantee Program.

Automotive Industry Financing Program (AIFP). In December 2008, the Treasury established the AIFP to prevent a disruption of the domestic automotive industry, in order to mitigate a systemic threat to the Nation's economy and a potential loss of thousands of jobs. Through TARP, the Treasury originally committed $84.8 billion through loans and equity investments to participating domestic automotive manufacturers, finance companies, and suppliers. In exchange for the assistance provided to automotive manufacturers, Treasury received:

- 60.8 percent of the common equity and $2.1 billion in preferred stock in "New GM" when the sale of valuable assets from the old GM to the new GM took place on July 10, 2009.[4] In April 2010, GM fully repaid its $7 billion loan, ahead of its publicly stated goal to repay the entire loan by June 2010. As part of GM's initial public offering (IPO) in November 2010, Treasury sold nearly 359 million shares of GM common stock at $33.00 per share and, subsequently, sold an additional 53.7 million shares in December 2010.[5] In total, Treasury raised $13.5 billion in net proceeds from the GM IPO and reduced its owner-

[2] In order to calculate the value of Treasury's AIG common stock, the November 30, 2010 share price of $41.29 was adjusted downward to $35.84 to reflect the value of 75 million warrants that AIG issued to existing shareholders as part of the recapitalization deal that closed in January 2011.

[3] 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.

[4] Pursuant to the sale of its major assets, intellectual property, and trademarks on July 10, 2009, General Motors was renamed Motors Liquidation Company (referred to as "Old GM" in the text). The purchasing company subsequently changed its name to General Motors Company LLC (referred to as "New GM" in the text).

[5] Pursuant to the underwriters' exercise of an option as part of the GM IPO, Treasury sold 53.7 million additional shares in GM in December 2010.

ship stake by nearly half to approximately 33 percent. GM also repurchased $2.1 billion in preferred stock from Treasury in December 2010. As of December 31, 2010, Treasury has recouped $23.1 billion of the $49.5 billion in aid extended to GM.

- Treasury also received a $7.1 billion debt security and a 9.9 percent share of the equity in the newly formed, post-bankruptcy Chrysler Group LLC (new Chrysler). As part of the bankruptcy proceedings, new Chrysler also assumed $500 million of debt from Treasury's original $4 billion loan to Chrysler Holding (old Chrysler). Therefore, Treasury held a $3.5 billion loan with old Chrysler in addition to investments in new Chrysler. In April 2010, Treasury received a $1.9 billion repayment of its investments in old Chrysler. This repayment, while less than the amount Treasury invested, was significantly more than the Administration had previously estimated to recover. As part of the repayment agreement, Treasury agreed to write off the $1.6 billion balance remaining under the $3.5 billion loan to old Chrysler.
- The Treasury has also purchased equity investments totaling $17.2 billion in Ally Financial (formerly GMAC). On December 30, 2010, Treasury converted $5.5 billion of its $11.4 mandatorily convertible preferred stock in Ally Financial into common stock, which will facilitate Treasury's ability to exit the company. As of December 31, 2010, Treasury holds $5.9 billion of mandatory convertible preferred shares and $2.7 billion of trust preferred securities in Ally Financial, as well as 74 percent of the common shares outstanding.

Since the publication of the 2011 President's Budget, both the Auto Supplier Support Program (ASSP) and the Auto Warranty Commitment Program (AWCP) have closed and, in aggregate, these investments did not result in losses. The Government originally committed $5 billion in loans to ASSP, ensuring the auto suppliers received compensation for products and services purchased by automakers. Through the AWCP, the Government extended support to protect consumer warranties on purchased GM and Chrysler vehicles while the companies worked through their restructuring plans.

The net cost of TARP auto company assistance through the AIFP is estimated to be $20.3 billion.

TARP Housing Programs. To mitigate foreclosures and preserve homeownership, the Administration in February 2009 established a comprehensive housing program utilizing up to $50 billion in funding through the TARP. The Government-Sponsored Entities (GSEs) Fannie Mae and Freddie Mac participate 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.[6] These housing programs focus 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. These programs fall into three initiatives:

1) Making Home Affordable (MHA);

2) Housing Finance Agency (HFA) Hardest-Hit Fund (HHF); and

3) Federal Housing Administration (FHA) Refinance Program[7].

The MHA initiative includes among its components the Home Affordable Modification Program (HAMP), FHA-HAMP, the Second Lien Program (2MP), and the second lien extinguishment portion of the FHA-Refinance Program.[8] Under MHA programs, the Treasury contracts with servicers to modify loans in accordance with the program's guidelines, and to make incentive payments to the borrowers, servicers, and investors for those modification or other foreclosure alternatives. As of December 31, 2010, 143 non-GSE mortgage servicers had signed up to participate in the HAMP, over 1.7 million trial modification offers had been extended to borrowers, and over 1.4 million trial modifications were initiated. Over one-half million permanent modifications were active at the end of December 2010. In addition to providing responsible homeowners with sustainable mortgages, the MHA initiative has also, for the first time, standardized the mortgage modification process across the servicing industry.

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

As part of its ongoing effort to continuously refine targeting of mortgage assistance, the Administration announced several programs in addition to the original first lien HAMP program that will give a greater number of responsible borrowers an opportunity to remain in their homes and reduce costly foreclosures. Major programs announced since December 31, 2009, include:

Unemployment Program (part of HAMP): Unemployed borrowers that meet eligibility criteria will have an opportunity to receive temporary mortgage payment assistance for a minimum of three months, while they look for a new job.

[6] For additional information on the program, visit: http://www.makinghomeaffordable.gov/.

[7] This program has also been referred to as the FHA Short Refinance Program or Option in other reporting.

[8] For more information on MHA programs please visit: www.makinghomeaffordable.gov.

Principal Reduction Alternative (part of HAMP): Servicers who have signed up for this program are required to consider an alternative mortgage modification that emphasizes principal relief for borrowers who owe more than their home is worth. Under the alternative approach, if the servicer makes the modification using this program, investors will receive incentive payments based on a percentage of each dollar of loan principal written off. Borrowers and investors will receive principal reduction and the incentives, respectively, through a pay-for-success structure.

HFA Hardest-Hit Fund: 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.

FHA Refinance Program: This program, which was initiated in September 2010, allows eligible borrowers who are current on their mortgage but owe more than their home is worth, to re-finance into a FHA-guaranteed loan if the lender writes off at least 10 percent of the existing loan. Nearly $3.0 billion in TARP funds will be available to provide incentive payments to extinguish second lien mortgages to facilitate refinancing, and an additional $8.1 billion is committed to cover a share of any losses on the loans and administrative expenses.

The Administration originally allocated $50 billion to the TARP Housing programs; however, following the enactment of the Dodd-Frank Act, Treasury reduced its commitments to the TARP Housing programs to $45.6 billion. For additional discussion of TARP Housing programs, see the Credit and Insurance chapter in this volume.

Consumer and Business Lending Initiative (CBLI). The CBLI is designed to facilitate lending that supports consumers and small businesses, through the Term Asset-Backed Securities Loan Facility (TALF), the Community Development Capital Initiative, and the Small Business Administration's guaranteed loan programs.

TALF: The TALF is a joint initiative with the Federal Reserve that provides financing (TALF loans) to private investors to help unfreeze secondary markets for various types of credit. The Treasury provides protection to the Federal Reserve through a loan to the TALF special purpose vehicle (SPV), which was originally available to purchase up to $20 billion in assets acquired through TALF loans in the event of default. The Treasury has disbursed $0.1 billion of this amount to the TALF SPV to implement the program, representing a notional amount used to establish the SPV. The Treasury's total TALF purchases will depend on actual TALF loan defaults. In July 2010, Treasury, in consultation with the Federal Reserve, reduced the maximum amount of assets Treasury will acquire to $4.3 billion, or 10 percent of the total $43 billion outstanding in the facility when the program was closed to new lending on June 30, 2010. The Budget reflects this change, as shown in Table 4–7.

Community Development Capital Initiative (CDCI): The CDCI program invests lower-cost capital in Community Development Financial Institutions (CDFIs), which operate in markets underserved by traditional financial institutions. In February 2010, Treasury released program terms for the new CDCI program, under which institutions received capital investments of up to 5 percent of risk-weighted assets and pay dividends to Treasury as low as 2 percent per annum. The dividend rate increases to 9 percent after eight years. CDFI credit unions were able to apply 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 to banks and thrifts. The Budget reflects $0.6 billion in TARP capital committed to this program.

SBA 7(a): In March 2009, Treasury and the Small Business Administration announced a Treasury program to purchase SBA-guaranteed securities ("pooled certificates") to re-start the secondary market in these loans. Treasury subsequently developed a pilot program to purchase SBA-guaranteed securities, and as of December 31, 2010, purchased 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 $0.4 billion, as demand for the program waned due to significantly improved secondary market conditions for these securities since the original announcement of the program. The Budget reflects this change, as shown in Table 4–7.

Public Private Investment Program (PPIP). The Treasury, in conjunction with the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve, introduced the PPIP on March 23, 2009, to address the volatile market cycle affecting troubled legacy assets clogging the balance sheets of private-sector financial institutions. The PPIP is designed to improve the financial position of financial institutions by facilitating the removal of legacy assets from their balance sheets. Legacy assets include both real estate loans held on banks' balance sheets (legacy loans) as well as securities backed by residential and commercial real estate loans (legacy securities). The Treasury implemented the legacy securities PPIP and initially announced that it would provide up to $100 billion. However, Treasury has subsequently reduced the PPIP commitment twice since the need for Government intervention in the legacy securities market has waned as market conditions have improved and investment of private capital have increased. PPIP closed for new funding on June 30, 2010. The Budget reflects $22.4 billion in PPIP commitments.

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

Method for Estimating the Cost of TARP Transactions

Exercising its authority under EESA, the Treasury has purchased financial instruments with varying terms and conditions. Consistent with the provisions of Section 123 of EESA, the costs of equity purchases, loans, guarantees, and loss sharing under the FHA Refinance program through the TARP are reflected on a net present value basis, as determined under the Federal Credit Reform Act (FCRA) of 1990 (2 U.S.C. 661 et seq.), with an adjustment to the discount rate for market risks. The budgetary cost of these transactions is reflected as the net present value of estimated cash flows to and from the Government, excluding administrative costs. Costs for the incentive payments under TARP Housing programs, other than loss sharing under the FHA Refinance program, involve financial instruments without any provision for income or other returns, and are recorded on a cash basis.[9]

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

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

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

In the case of the TALF, the New York Federal Reserve created an SPV to purchase and manage assets received in connection with any TALF loans. The Federal Reserve acquires assets either when a TALF participant defaults on the Federal Reserve financing or chooses to turn over the securing assets in lieu of the scheduled repayment at the end of the term. The SPV has committed, for a fee, to purchase all assets securing a TALF loan that are received by the New York Federal Reserve at a price equal to the TALF loan amount at the time of acquisition, plus accrued but unpaid interest. The Treasury made an initial allotment to the SPV of $0.1 billion to fund the SPV, and the Treasury will purchase subordinated debt issued by the SPV to finance up to $4.3 billion of asset purchases. The Treasury receives fees and interest income on the entire outstanding TALF facility, and amounts collected in the SPV. The Treasury projects cash flows to and from the Government based on estimated SPV performance, the estimated mix of assets funded through the TALF, the terms of the contracts, and other factors.

Guarantees. Cost estimates for guarantees reflect the net present value of estimated claim payments by the Government, net of income from fees, recoveries on defaults, or other sources. Under EESA, guarantees provided through TARP must have at most a zero-cost basis (i.e., fees and other income must completely offset estimated claim payments) at the time of commitment. In TARP guarantee transactions to date, guarantee fees were paid in the form of preferred stock and termination fees. The value of preferred stock is modeled using the same methodology discussed for other equity purchase programs be-

[9] 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 FHA Hardest Hit Fund involve the purchase of financial instruments which have no provision for repayment or other return on investment, and do not constitute 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.

low. Claim payments were modeled consistent with the terms of the guarantee contract. For the Citigroup guarantee, Citigroup would have covered the first loss, and the Treasury would have borne the second loss. Projected claim payments on the guaranteed portfolio of assets reflected historical performance data on similar assets and estimates of future economic conditions such as unemployment rates, gross domestic product, and home price appreciation. However, the Citigroup guarantee was terminated with no claim payments made by the Treasury. The Budget reflects actual collections, and estimated savings from preferred stock proceeds.

Equity Purchases. Preferred stock cash flow projections for programs such as the CPP reflect the risk of losses associated with adverse events, likely failure of an institution, or increases in market interest rates. The model estimates how cash flows vary depending on: 1) current interest rates, which affect the institution's decision to repay the preferred stock; and 2) the strength of a financial institution's assets. The model also estimates the values and projects the cash flows of warrants using an option-pricing approach based on the current stock price and its volatility. Common equity is valued at market prices as of a certain date, such as November 30, 2010, for the 2012 Budget. For the purposes of this calculation, common equity is assumed to be sold to the public as soon as is practicable and advisable.

FHA Refinancing Letter of Credit. Under this program, the cost estimates reflect the present value of estimated claim payments made from the letter of credit (LOC) provider to the lenders of FHA-guaranteed loans, adjusted for market risks. Treasury has signed a LOC with Citigroup, committing $8.1 billion of TARP funds to cover a certain portion of first losses on default claims of FHA Refinance mortgages plus administrative expenses. Through the LOC agreement, Treasury effectively makes claim payments to private lenders for defaulted debt obligations of non-Federal borrowers. Therefore, the program costs are estimated according to the principles of the Federal Credit Reform Act (FCRA), with a risk adjustment to the discount rate as prescribed by EESA. The model projects TARP claim payments based on projected FHA Refinance volumes and claim rates. The full $8 billion commitment was obligated at the point the LOC contract was signed, and outlays of subsidy are recorded as the underlying FHA Refinance loans are made. Payments from the LOC provider to lenders are reflected as a means of financing.

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

TARP Program Costs and Current Value of Assets

This section provides the special analysis described under Sections 202 and 203 of EESA, including estimates of the cost to taxpayers and the current value and budgetary effects of TARP transactions as reflected in the Budget.[10] The analysis includes explanations of the effects from subsidy cost reestimates and prior-year activity. It also includes what the budgetary effects would have been had all transactions been reflected on a cash basis. The infor-

[10] The analysis does not assume the effects of a recoupment proposal under Section 134 of the EESA.

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

TARP Actions	2011 MSR [1]		2012 Budget		Change from 2011 MSR to 2012 Budget	
	TARP Obligations	Estimated Cost (+) / Savings (–)	TARP Obligations	Estimated Cost (+) / Savings (–)	TARP Obligations	Estimated Cost (+) / Savings (–)
Equity purchases	339.3	55.9	339.1	5.9	–0.2	–50.0
Structured and direct loans and asset-backed security purchases	101.4	22.7	85.1	16.5	–16.3	–6.1
Guarantees of troubled assets [2]	5.0	–3.0	5.0	–3.7	....	–0.7
TARP housing programs	48.7	48.7	45.6	45.6	–3.1	–3.1
Total	**494.4**	**124.4**	**474.8**	**64.4**	**–19.6**	**–60.0**
Memorandum:						
Deficit impact before administrative costs and interest effects [3]		***114.5***		***48.3***		***–66.2***

[1] Total reflects estimated TARP obligations and costs, before enactment of the Dodd-Frank Act (P.L. 111–517) which limited TARP program levels to $475 billion.
[2] The face value of assets supported by the Asset Guarantee Program was $301 billion.
[3] The 2012 Budget total deficit impact of the TARP program includes net downward interest on reestimates of $16.2 billion.

mation below reflects the estimates of actual and anticipated use of TARP authority as of November 30, 2010, unless noted otherwise.

Table 4–1 summarizes TARP activity, and the estimated lifetime budgetary costs, comparing these amounts to estimates published in the 2011 MSR. The direct impact of TARP program costs on the deficit is now projected to be $48.3 billion, down from $114.5 billion as projected in the 2011 MSR. The subsidy cost represents the lifetime net present value cost of TARP obligations from the date TARP obligations originate. With the risk-adjustment to the discount rate required under EESA, the subsidy cost for TARP is now estimated to be $64.4 billion. The current subsidy cost of TARP is higher than the expected eventual subsidy cost because of the risk adjustment to the discount rate, which adds a premium to TARP costs. Because actual cash flows with the public already include the effects of market risks, if actual cash flows match projections, the premium added to TARP costs is returned in downward reestimates. While TARP's cost to taxpayers will likely be lower than current estimates, the final cost will not be fully known until all TARP investments are extinguished. Also, the subsidy cost is higher than the deficit effect of TARP because it excludes interest received on subsidy cost reestimates. Gross TARP obligations counting against the program purchase authority total $474.8 billion.

Current Value of Assets. Through its operations, TARP acquires financial instruments which in the aggregate are expected to provide future returns. The subsidy cost of TARP reflects the difference between what TARP pays for these instruments, and the value of assets acquired. Overall, TARP is currently expected to result in a cost because payments made by the TARP to purchase assets and cover liabilities are expected to exceed the value of assets acquired. At any given point in time, the current value of TARP assets reflects the estimated value of TARP investments that have not been repaid, sold, or written off, net of liabilities.

The value of future cash flows related to TARP transactions can 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 expected value of TARP transactions, because they equal the present value of future anticipated cash flows to and from the public related to outstanding loans or guarantees. So, the net debt or cash balances reflect the expected value of the asset or future liabilities. A direct loan financing account, for example, receives the subsidy cost from the program account (reflecting the net present value cost of the loan), and borrows the difference between the face value of the loan and the subsidy cost from the Treasury to disburse a loan to a borrower. Future collections from the public – such as proceeds from stock sales, or payments of principal and interest – are financial assets. As inflows from the public are received, the value is realized. These amounts are used to repay borrowing, and reduce the debt balance in the financing account. The larger the subsidy cost for a given loan disbursed or equity purchased, the lower the estimated value of the cash flows from the public and asset value to the Government.[11]

Table 4–2 shows the actual balances of TARP financing accounts as of the end of 2010, and projected balances for each subsequent year through 2021.[12] Actual net balances in financing accounts at the end of 2009 totaled $129.9 billion. In 2010, total financing account balances decreased to $122.0 billion, as repayments primarily from large banks exceeded disbursements of TARP assistance. Estimates in 2011 and beyond reflect reestimated activity for TARP outstanding as of September 30, 2010, and all other anticipated transactions. The value of TARP assets is expected to increase by the end of 2011 to $134.6 billion, indicating that—as of the end of 2011—the Government is expected to hold TARP-related assets with an expected present value of $134.6 billion in future cash flows, based on risk-adjusted discount rates. The expected increase over 2010 is primarily due to lower estimated costs for outstanding TARP investments, reflected in the downward reestimate to be executed

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

[12] Reestimates for TARP are calculated using actual data through September 30, 2010, and updated projections of future activity. Thus, the full impacts of TARP reestimates are reflected in the 2011 financing account balances.

Table 4–2. TROUBLED ASSET RELIEF PROGRAM CURRENT VALUE [1]

(In billions of dollars)

	Actual		Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Financing Account Balances:													
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	76.9	92.4	73.3	64.2	55.3	44.2	38.1	33.3	29.0	21.8	13.2	13.5
Troubled Asset Relief Program Direct Loan Financing Account	23.9	42.7	43.9	44.1	43.7	41.9	38.5	31.2	24.7	20.8	15.6	9.0	5.5
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	....	....	–2.6	–6.6	–7.3	–6.2	–4.8	–3.4	–2.2	–1.3	–0.6	–*	....
Total Financing Account Balances	**129.9**	**122.0**	**134.6**	**111.6**	**100.6**	**91.0**	**77.9**	**66.0**	**55.8**	**48.6**	**36.9**	**22.2**	**19.1**

* $50 million or less.

[1] Current value as reflected in the 2012 Budget. Amounts exclude the Making Home Affordable Program and the Hardest Hit Fund activities, which are reflected on a cash basis.

in 2011. It reflects the fact that actual performance exceeded expectations, market conditions improved, and the market risk adjustment to the discount rate was removed for actual transactions through the end of 2010. The 2011 value of TARP assets is also expected to increase due to draws on the AIG facility. The overall balance of the financing accounts is estimated to fall in 2012, and continue to decrease over time as the assets and loans acquired under the TARP program are repaid or sold, and liabilities funded.

TARP equity purchases are expected to reach a total value of $92.4 billion in 2011, declining thereafter as participants repurchase stock and assets are sold. The value of direct loans is expected to increase to $44.1 billion in 2012 as disbursements increase, predominantly due to the PPIP and TALF programs, which are expected to generate net positive returns overall. The value of TARP direct loans is expected to decline to $5.5 billion by 2021 as loans are repaid and warrants and other assets are sold. The $0.8 billion value under the Asset Guarantee Program (AGP) in 2011 reflects the warrants held by the Treasury and the expected receipt of trust preferred shares from the FDIC following termination of the guarantee on Citigroup assets. The value of the AGP is expected to decline, as preferred stock and warrants are sold. The FHA Refinance Letter of Credit reflects net cash balances, showing the reserves set aside to cover TARP's share of default claims for FHA Refinance mortgages over the 10-year letter of credit facility. These cash balances fall over the 10 year period as claims are paid.

Where Table 4–2 displays the value of TARP investments, guarantees, and loss share agreements, Table 4–3 shows the estimated face value of outstanding TARP investments at the end of each year through 2012. For equity investments, the par value of Treasury's remaining investment is reflected. The outstanding amount of equity investments increases slightly in 2011, as the expected AIG disbursements are greater than repurchases of other equity investments. Direct loans increase with planned disbursements under the AIFP and other programs, and fall in 2012 as loans are repaid. The face value of guarantees section in Table 4–3 reflects the full face value of the loan supported by TARP for programs that are reflected as loan guarantees for budget purposes. TARP's liability under the Asset Guarantee Program and the FHA Refinance mortgages through the letter of credit facility is only a fraction of the face value of the underlying loans (see Table 4–6). There were no outstanding guarantees in 2010, with the termination of the Citibank guarantee in 2009. The face value of loans reported in this section increases by $59.7 billion in 2011 and reaches $137.8 billion in 2012, reflecting the full face value of FHA refinance loans supported by the TARP letter of credit. The overall outstanding face value of TARP investments, loan guarantees, and mortgages supported by the FHA Refinance letter of credit is projected to reach $258.8 billion in 2012.

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

The estimates of the deficit and debt in the Budget reflect the impact of TARP as estimated under FCRA and Section 123 of EESA. The deficit estimates include the budgetary costs for each program under TARP, administrative expenses, certain indirect interest effects of credit programs, and debt service costs on Treasury borrowing to finance the program. The TARP is expected to reduce the 2011 deficit by $30.6 billion, capturing direct program costs, net downward reestimates of $41.6 billion (including interest on reestimates), administrative costs, Special Inspector General for TARP activities, and interest effects.

The estimates of debt due to TARP include borrowing to finance both the deficit impact of TARP activity, and the requirements of non-budgetary financing accounts. These estimates are shown in Table 4–4. Estimated debt due to TARP as of the end of 2011 is $145.6 billion, and declines in later years as TARP loans are repaid and TARP equity purchases are sold or redeemed.

Debt held by the public net of financial assets reflects 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, or equity held by the Government. While debt held by the public is a key measure for examining the impact of TARP, it provides incomplete information on the program's effect on the Government's financial condition. The U.S. Government holds financial assets as a result of TARP assistance, which must be offset against debt held by the

Table 4–3. TROUBLED ASSET RELIEF PROGRAM FACE VALUE OF TARP OUTSTANDING [1]

(In billions of dollars)

	Actual		Estimate	
	2009	2010	2011	2012
Troubled Asset Relief Program Equity Purchases	229.6	119.0	119.4	103.6
Troubled Asset Relief Program Direct Loans	60.5	15.7	22.7	17.4
Troubled Assets Insurance Financing Fund Guaranteed Assets	251.4	....	....	....
FHA Refinance Letter of Credit	....	....	59.7	137.8
Total Face Value of TARP Outstanding	**541.5**	**134.7**	**201.8**	**258.8**

[1] Table reflects face value of TARP outstanding direct loans, preferred stock equity purchases, guaranteed assets, and the face value of FHA Refinance mortgages supported by the TARP Letter of Credit as of September 30, 2010. Financial instrument purchases under the Making Home Affordable Program and Hardest Hit Fund are reflected in the budget on a cash basis, and are not included here.

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

(Dollars in billions)

	Actual		Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Deficit Effect:													
Programmatic and administrative expenses:													
Programmatic expenses:													
Equity purchases	115.3	8.4	3.3	....	....	....	....	....	....	....	....	....	....
Direct loans and purchases of asset-backed securities	36.9	–0.9	0.2	....	–*	–*	....	....	....	....	....	....	....
Guarantees of troubled asset purchases	–1.0	–1.4	....	....	....	....	....	....	....	....	....	....	....
TARP Housing Programs	*	0.5	9.8	13.2	9.4	5.1	4.1	2.1	1.1	0.2	*	*	....
Reestimates of credit subsidy costs	....	–116.5	–41.6	....	....	....	....	....	....	....	....	....	....
Subtotal, programmatic expenses	151.2	–109.9	–28.2	13.2	9.4	5.1	4.1	2.1	1.1	0.2	*	*	....
Administrative expenses	0.1	0.2	0.5	0.3	0.3	0.2	0.2	0.2	0.1	0.1	*	*	*
Special Inspector General for TARP	*	*	0.1	*	*	*	*	*	*	*	0.1	0.1	0.1
Subtotal, programmatic and administrative expenses	151.3	–109.6	–27.7	13.6	9.7	5.4	4.4	2.3	1.2	0.3	0.1	0.1	0.1
Interest effects:													
Interest transactions with credit financing accounts [2]	–2.8	–4.7	–15.4	–12.4	–11.9	–11.7	–11.1	–10.3	–9.2	–7.9	–6.3	–4.2	–2.6
Debt service [3]	2.8	4.7	12.5	10.2	10.3	10.7	10.6	10.1	9.4	8.5	7.2	5.5	4.5
Subtotal, interest effects	*	*	–2.9	–2.2	–1.6	–1.0	–0.5	–0.2	0.2	0.5	1.0	1.3	1.9
Total deficit impact	**151.3**	**–109.6**	**–30.6**	**11.4**	**8.1**	**4.4**	**3.8**	**2.1**	**1.4**	**0.9**	**1.1**	**1.4**	**2.0**
Other TARP transactions affecting borrowing from the public — net disbursements of credit financing accounts:													
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	–28.5	15.5	–19.1	–9.1	–8.9	–11.1	–6.1	–4.8	–4.3	–7.2	–8.6	0.3
Troubled Asset Relief Program Direct Loan Financing Account	23.9	18.8	1.2	0.1	–0.4	–1.8	–3.4	–7.2	–6.6	–3.9	–5.2	–6.6	–3.5
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	1.8	–1.5	*	–0.8	....	....	....	....	....	–*	....	....
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account	....	....	–2.6	–3.9	–0.7	1.1	1.4	1.4	1.2	0.9	0.7	0.6	....
Total, other transactions affecting borrowing from the public	129.9	–7.9	12.6	–22.9	–11.0	–9.6	–13.1	–11.9	–10.2	–7.2	–11.7	–14.7	–3.2
Change in debt held by the public	**281.2**	**–117.5**	**–18.0**	**–11.5**	**–2.9**	**–5.2**	**–9.2**	**–9.8**	**–8.8**	**–6.4**	**–10.6**	**–13.3**	**–1.2**
Debt held by the public	**281.2**	**163.6**	**145.6**	**134.1**	**131.2**	**126.0**	**116.8**	**107.0**	**98.2**	**91.8**	**81.2**	**67.9**	**66.7**
As a percent of GDP	2.0%	1.1%	1.0%	0.8%	0.8%	0.7%	0.6%	0.5%	0.5%	0.4%	0.4%	0.3%	0.3%
Debt held by the public net of financial assets:													
Debt held by the public	281.2	163.6	145.6	134.1	131.2	126.0	116.8	107.0	98.2	91.8	81.2	67.9	66.7
Less financial assets net of liabilities — credit financing account balances:													
Troubled Assets Relief Program Equity Purchase Financing Account	105.4	76.9	92.4	73.3	64.2	55.3	44.2	38.1	33.3	29.0	21.8	13.2	13.5
Troubled Asset Relief Program Direct Loan Financing Account	23.9	42.7	43.9	44.1	43.7	41.9	38.5	31.2	24.7	20.8	15.6	9.0	5.5
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	....	....	–2.6	–6.6	–7.3	–6.2	–4.8	–3.4	–2.2	–1.3	–0.6	–*	....
Total, financial assets net of liabilities	129.9	122.0	134.6	111.6	100.6	91.0	77.9	66.0	55.8	48.6	36.9	22.2	19.1
Debt held by the public net of financial assets	**151.3**	**41.6**	**11.1**	**22.5**	**30.6**	**35.0**	**38.9**	**41.0**	**42.4**	**43.2**	**44.3**	**45.7**	**47.7**
As a percent of GDP	1.1%	0.3%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%

* $50 million or less.

[1] Table reflects the deficit effect of budgetary costs, including interest effects.

[2] Projected Treasury interest transactions with credit financing accounts are based on the market-risk adjusted rates. Actual credit financing account interest transactions reflect the appropriate Treasury rates under the Federal Credit Reform Act.

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

Table 4–5. TROUBLED ASSET RELIEF PROGRAM EFFECTS ON THE DEFICIT AND DEBT CALCULATED ON A CASH BASIS [1]

(Dollars in billions)

	Actual		Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Deficit Effect:													
Programmatic and administrative expenses:													
Programmatic expenses:													
Equity purchases	217.6	–121.9	–25.6	–26.7	–16.0	–15.4	–17.0	–11.5	–9.6	–8.5	–10.4	–10.7	–1.2
Direct loans and purchases of asset-backed securities	61.1	–1.0	–10.4	–4.7	–5.3	–6.8	–8.3	–11.7	–10.5	–7.2	–7.9	–8.5	–4.5
Guarantees of troubled asset purchases	–0.5	–0.3	–2.2	*	–0.8	....	....	....	....	....	–*	....	....
TARP Housing Programs	*	0.5	7.2	9.3	8.6	6.0	5.2	3.1	1.8	0.8	0.4	0.3	....
Subtotal, programmatic expenses	278.3	–122.6	–31.0	–22.1	–13.5	–16.2	–20.1	–20.1	–18.3	–14.9	–18.0	–18.9	–5.7
Administrative expenses	0.1	0.2	0.5	0.3	0.3	0.2	0.2	0.2	0.1	0.1	*	*	*
Special Inspector General for TARP	*	*	0.1	*	*	*	*	*	*	*	0.1	0.1	0.1
Subtotal, programmatic & administrative expenses	278.4	–122.3	–30.4	–21.7	–13.2	–15.9	–19.8	–19.9	–18.2	–14.8	–17.9	–18.8	–5.6
Debt service [2]	2.8	4.7	12.5	10.2	10.3	10.7	10.6	10.1	9.4	8.5	7.2	5.5	4.5
Total deficit impact	**281.2**	**–117.5**	**–18.0**	**–11.5**	**–2.9**	**–5.2**	**–9.2**	**–9.8**	**–8.8**	**–6.4**	**–10.6**	**–13.3**	**–1.2**
Change in debt held by the public	**281.2**	**–117.5**	**–18.0**	**–11.5**	**–2.9**	**–5.2**	**–9.2**	**–9.8**	**–8.8**	**–6.4**	**–10.6**	**–13.3**	**–1.2**
Debt held by the public	**281.2**	**163.6**	**145.6**	**134.1**	**131.2**	**126.0**	**116.8**	**107.0**	**98.2**	**91.8**	**81.2**	**67.9**	**66.7**
As a percent of GDP	2.0%	1.1%	1.0%	0.8%	0.8%	0.7%	0.6%	0.5%	0.5%	0.4%	0.4%	0.3%	0.3%
Debt Held by the Public Net of Financial Assets:													
Debt held by the public	281.2	163.6	145.6	134.1	131.2	126.0	116.8	107.0	98.2	91.8	81.2	67.9	66.7
Less financial assets net of liabilities — credit financing account balances:													
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	76.9	92.4	73.3	64.2	55.3	44.2	38.1	33.3	29.0	21.8	13.2	13.5
Troubled Asset Relief Program Direct Loan Financing Account.	23.9	42.7	43.9	44.1	43.7	41.9	38.5	31.2	24.7	20.8	15.6	9.0	5.5
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.4	0.8	0.8	*	*	*	*	*	*	*	*	*
FHA Refinance Letter of Credit Financing Account	....	....	–2.6	–6.6	–7.3	–6.2	–4.8	–3.4	–2.2	–1.3	–0.6	0.0	0.0
Total, financial assets net of liabilities	129.9	122.0	134.6	111.6	100.6	91.0	77.9	66.0	55.8	48.6	36.9	22.2	19.1
Debt held by the public net of financial assets	**151.3**	**41.6**	**11.1**	**22.5**	**30.6**	**35.0**	**38.9**	**41.0**	**42.4**	**43.2**	**44.3**	**45.7**	**47.7**
As a percent of GDP	1.1%	0.3%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%

* $50 million or less.

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

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

public and other financial liabilities to achieve a more complete understanding of the Government's financial condition.

Accounting for the financial assets acquired through TARP, the impact of the program on debt net of financial assets is projected to be $11.1 billion as of the end of 2011. Amounts are lower than recent reports, due to both a reduction in the total amount of TARP investments and other support, and higher-than-anticipated TARP repayments in 2009 and 2010.

Under the FCRA, the financing account earns and pays interest 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 for market risks. This results in subsidy costs for TARP equity purchases, direct loans, and guarantees that are higher than the net present value cost using Treasury discount rates under FCRA. Actual cash flows as of September 30, 2010 already reflect the effect of any market risks to that point, and therefore actual credit transactions with financing accounts reflect Treasury interest rates under FCRA, with no adjustment.[13] Future cash flows reflect a risk-adjusted discount rate, consistent with the FCRA requirement that financing account interest be earned or paid at the same rate used to discount the cash flows. This aligns the financing account balances with the current subsidy cost reflected in the Budget. For example, over time, if actual transactions with the public were consistent with projections, the TARP subsidy costs would reflect downward reestimates to return the premium charged under the market risk-adjusted discount rate. Although TARP subsidy costs would be lower, the cumulative deficit effect including interest effects would not be reduced because Treasury net interest earnings on TARP financing account balances would

[13] 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 reflects discounting with Treasury rates.

be lower once those transactions were executed without the market-risk adjustment to the discount rate.

Estimate of the Current Value on a Cash Basis

The value of the assets acquired through TARP does not depend on whether the costs of acquiring or purchasing the assets are recorded in the budget on a cash basis, or a credit basis; their value would be the same either way. 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 the budgetary side, and the value of the assets is reflected in the financing accounts for equity purchases, direct loans and loan guarantees.[14] If these purchases were instead presented in the budget on a cash basis, the value of assets purchased would not be reflected in the budget. Rather, the budget would reflect outlays for each disbursement (whether a purchase, a loan disbursement, or a default claim payment), and offsetting collections as cash is received from the public, with no obvious indication of whether the outflows and inflows leave the Government in a better or worse financial position.

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

If TARP transactions were reported on a cash basis, the deficit 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. Differences between actual and estimated performance, and updated estimates of future performance, would impact the deficit in the year that they occur, and there would be no credit reestimates.

Table 4–5 shows that if TARP transactions were reported on a cash basis, TARP would reduce the deficit in 2011 by an estimated $18.0 billion, so the 2011 deficit would be $12.6 billion higher than the estimate in the Budget that reflects TARP on a FCRA basis. The deficit would be higher because outlays would be reported for TARP disbursements that are now included in non-budgetary financing accounts for TARP, and the portion of TARP downward reestimates attributable to better-than-expected future inflows from the public would not be recognized up front, rather, as offsetting receipts when they occur. Under this alternative approach, the impact of TARP on the debt, and on debt held net of financial assets, is the same as under FCRA with adjustments to the discount rate for market risks.

Portion of the Deficit Attributable to Any Action Taken by the Secretary, and the Extent to Which the Deficit Impact is Due to a Reestimate

Table 4–4 shows the portion of the deficit attributable to actions taken by the Treasury Secretary under the authorities of TARP. The largest effects are for reestimates of TARP activity outstanding as of September 30, 2010, and reductions in the total anticipated size of TARP from $494.4 billion in TARP obligations at MSR to $474.8 billion in the 2012 Budget. The specific effects are as follows:

- TARP reestimates and interest on reestimates will reduce the deficit by $41.6 billion in 2011, including $35.4 billion in reduced subsidy costs for TARP disbursements as of September 30, 2010, and $6.2 billion in interest on reestimates. Reestimate effects and changes to anticipated activity together are estimated to reduce total TARP program costs (excluding administrative expenses) by $48.3 billion from MSR.

- Program costs for purchases of troubled assets including costs associated with AIG disbursements, MHA incentive payments, FHA Refinance letter of credit loss sharing, and modifications of existing TARP activity (excluding reestimates) are estimated to increase the deficit by $13.4 billion in 2011.

- TARP equity purchases in 2011 are expected to increase outlays by $3.3 billion due to AIG's expected use of the capital facility, and PPIP purchases.

- Costs associated with new disbursements of direct loans under TARP, including funding under the AIFP program and the TALF, are estimated to result in $0.2 billion in net outlays in 2011 through 2014, based on estimated loan disbursements.

- Outlays for the TARP Housing Programs are estimated at $9.8 billion in 2011, which includes payments under the MHA program, Hardest Hit Fund, and subsidy costs for the FHA Refinance letter of credit facility. Outlays for TARP Housing are estimated to decline gradually through 2020.

- Administrative expenses for TARP are estimated at $0.5 billion in 2011, and expected to fall as TARP winds down through 2021.

- Costs for the Special Inspector General for TARP are estimated at $0.1 billion in 2011, and to remain relatively stable through 2021.

- 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 payment and receipt of interest are budgetary transactions and therefore affect

[14] For the Making Home Affordable programs and the Hardest Hit Fund, Treasury's purchase of financial instruments does not result in the acquisition of an asset with potential for future returns, and do not constitute the economic equivalent of a loan guarantee under FCRA.

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 $15.4 billion in 2011 and declines over time as the financing accounts repay borrowing from Treasury through proceeds and repayments on TARP equity purchases and direct loans.[15]

[15] Actual TARP financing account interest for 2011 will reflect Treasury rates with no risk adjustment, as the effects of market risks would already be realized on actual cash flows.

The full impact of TARP on the deficit includes the estimated cost of Treasury borrowing from the public—debt service—for the higher outlays listed above. Debt service is estimated at $12.5 billion for 2011 (as shown in Table 4–5), and then expected to fall gradually to $4.5 billion in 2021 as the program winds down.

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 reestimate) or by reducing subsidy costs (a downward reestimate). The reestimated dollar amounts reflect TARP disburse-

Table 4–6. TROUBLED ASSET RELIEF PROGRAM REESTIMATES

(Dollars in billions)

TARP Program and Cohort Year	Original subsidy rate	Current reestimate rate	Current reestimate amount	Net lifetime reestimate amount, excluding interest	TARP disbursements as of 9/30/2010
Equity Programs:					
Automotive Industry Financing Program (Equity)					
2009	54.52%	25.98%	–2.9	–5.1	12.5
2010	30.25%	7.93%	–0.9	–0.8	3.8
Capital Purchase Program					
2009	26.99%	–2.93%	–7.6	–62.3	204.6
2010	5.77%	18.28%	*	*	0.3
AIG Investments					
2009	82.78%	16.74%	–21.8	–27.9	47.5
Legacy Securities Public-Private Investment Program					
2009	34.62%	–1.68%	–0.4	–0.3	0.9
2010	22.97%	–0.80%	–1.7	–1.5	6.5
Targeted Investment Program					
2009	48.85%	–8.94%	0.3	–23.1	40.0
Community Development Capital Initiative					
2010	48.06%	50.05%	*	*	0.6
Subtotal equity program reestimates			–34.9	–121.1	316.7
Structured and Direct Loan Programs:					
Automotive Industry Financing Program (AIFP)					
2009	58.75%	25.66%	–7.5	–21.0	63.4
Legacy Securities Public Private Investment Program					
2009	–2.52%	5.52%	0.1	0.1	1.4
2010	–10.85%	–0.46%	1.4	1.4	7.8
Small Business Lending Initiative 7(a) purchases					
2010	0.48%	0.30%	–*	–*	0.2
Term-Asset Backed Securities Loan Facility [1]					
2009	–104.23%	–237.20%	*	–0.2	0.1
Subtotal direct loan program reestimates			–6.0	–19.7	73.0
Guarantee Programs:					
Asset Guarantee Program [2]					
2009	–0.25%	–1.21%	–0.7	–1.21	301.0
Total TARP Reestimates			**–41.6**	**–142.0**	**690.6**

* $50 million or less.

[1] The Term-Asset Backed Securities Loan Facility 2009 subsidy rate reflects the anticipated collections for Treasury's $20 billion commitment, as a percent of estimated lifetime disbursements of roughly $0.3 billion.

[2] 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.

ments through September 30, 2010, while subsidy rates reflect anticipated future disbursements. As noted above, the total decrease in the deficit attributable to TARP reestimates in 2011 is $41.6 billion, reflecting a $35.4 billion downward reestimate of the subsidy cost, plus $6.2 billion in interest on the reestimates. Detailed information on downward reestimates is reflected in Table 4–6.

The subsidy cost for outstanding TARP equity is estimated to be substantially lower than originally estimated. The majority of reduced subsidy costs reflects significant repayments of CPP and TIP investments by financial institutions and higher-than-anticipated income from dividends and the sale of preferred, common stock or warrants, resulting in a positive return and a lower subsidy rate for these 2009 investments. Costs for CPP investments in 2010 increased from the initial estimates, as many of the remaining CPP investments are in institutions that are not as strong as those that have repaid Treasury. However, the program as a whole is anticipated to result in net positive returns. Reduced subsidy costs for AIG investments and AIFP Equity are due to improved market conditions and performance expectations compared to original estimates. The $4.3 billion TALF facility is estimated to generate a return of $0.3 billion to the Treasury, primarily due to fees. The subsidy rate for TALF is based on disbursements, and the Treasury only expects to purchase a small amount of the total $4.3 billion commitment but will collect fees on the full TALF

Table 4–7. DETAILED TARP PROGRAM LEVELS AND COSTS

(In billions of dollars)

Program	2011 MSR [1]		2012 Budget	
	Estimated TARP Cumulative Obligations	Subsidy Costs	Estimated TARP Cumulative Obligations	Subsidy Costs
Equity Purchases				
Capital Purchase Plan	204.9	1.2	204.9	–5.9
AIG Investments	69.8	49.9	69.8	11.7
Targeted Investment Program	40.0	–3.7	40.0	–3.6
Automotive Industry Financing Program (AIFP)	16.3	6.3	16.3	3.5
Public-Private Investment Program - Equity	7.5	1.8	7.5	–0.1
Community Development Capital Initiative	0.8	0.4	0.6	0.3
Subtotal equity purchases	339.3	55.9	339.1	5.9
Direct Loan Programs				
Automotive Industry Financing Program (AIFP)	65.5	24.4	65.5	16.8
Term Asset-Backed Securities Loan Facility (TALF)	20.0	–0.5	4.3	–0.3
Public-Private Investment Program - Debt	14.9	–1.3	14.9	*
Small Business 7(a) Program	1	*	0.4	*
Other Section 101	*	*	*	*
Subtotal direct loan programs	101.4	22.7	85.1	16.5
Guarantee Programs under Section 102				
Asset Guarantee Program	5.0	–3.0	5.0	–3.7
Non-Add Asset Guarantee Program Face Value	301.0		301.0	
Subtotal asset guarantees	5.0	–3.0	5.0	–3.7
TARP Housing Programs [2,3]				
Making Home Affordable (MHA) Programs	N/A	N/A	29.9	29.9
Hardest Hit Fund	N/A	N/A	7.6	7.6
Subtotal non-credit programs	N/A	N/A	37.5	37.5
FHA Refinance Letter of Credit	N/A	N/A	8.1	8.1
Subtotal TARP housing programs	48.7	48.7	45.6	45.6
Total program costs	**494.4**	**124.4**	**474.8**	**64.4**
Memorandum:				
Interest on Reestimates [4]		–9.9		–16.2
Deficit impact before administrative costs and interest effects		114.5		48.3

* $50 million or less.

[1] Estimates do not include the effects of the Dodd-Frank Act (Public Law 111-203), which limited total TARP program levels to $475 billion.

[2] The 2011 MSR did not break out the TARP Housing costs as one line item. To increase transparency, the 2012 Budget disaggregates the TARP Housing costs.

[3] 2011 MSR obligations and subsidy costs account for a reduction included in the Helping Families Save Their Homes Act, as an offset for Special Inspector General for the Troubled Asset Relief Program (SIGTARP) administrative costs.

[4] Cumulative interest on reestimates is an adjustment for interest effects of changes in TARP subsidy costs from original subsidy estimates; such amounts are a component of the deficit impacts of TARP programs but are not a direct programmatic cost.

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

Program	Risk-Adjusted Subsidy Costs	
	CBO Subsidy Cost [1]	OMB Subsidy Cost [2]
Capital Purchase Program	–15	–6
Targeted Investment Program	–4	–4
AIG assistance	14	12
Automotive Industry Financing Program	19	20
Term Asset-Backed Securities Loan Facility	1	–*
Other programs [3]	–2	–3
TARP housing programs	12	46
Total	**25**	**64**

* $50 million or less.
[1] The CBO cost estimate published in January 2011.
[2] Lifetime subsidy costs as reflected in the 2012 Budget, excluding interest on reestimates.
[3] "Other Programs" reflects an aggregate cost for PPIP (debt and equity purchases), CDCI, AGP, and small business programs.

facility. The reestimated rate declined dramatically, as TALF anticipates fewer default purchases, and income is anticipated to remain strong. Estimated costs for the AIFP direct loan program are also lower than last year because GM fully repaid its $6.7 billion loan, with interest, and the financial condition of Chrysler, the only outstanding AIFP loan, has improved. The Asset Guarantee Program downward reestimate reflects an estimated increase in the value of preferred stock held by Treasury. No losses were paid through the program.

Differences Between Current and Previous OMB Estimates

As shown in Table 4–7, the Budget reflects a total TARP deficit impact of $48.3 billion, a reduction of $66.2 billion from the 2011 MSR projection of $114.5 billion or $292.7 billion from the 2010 MSR estimate of $340.9 billion. The deficit impact differs from the subsidy cost of $64.4 billion because the deficit impact reflects a $16.2 billion cumulative downward adjustment for interest on reestimates (for 2010 and 2011 reestimates). These adjustments account for the time between when the subsidy cost was originally estimated and the time when the reestimate is booked. The subsidy cost of $64.4 billion reflects the estimated present value cost of the program from the date TARP obligations originate.

There are two factors driving the significant reduction in total TARP costs: 1) lower subsidy costs on TARP obligations due to better-than-expected actual performance in some programs, and improved market conditions, and 2) prudent management of TARP programs. The financial and credit markets have progressively improved since the height of the economic crises, and as a result the stock markets are beginning to regain momentum. The vast majority of the $168.7 billion in outstanding TARP balances are affected by movements in the equity markets. Therefore, signals of appreciating share prices have improved the Government's outlook of TARP costs. In December 2010, Treasury sold the last tranche of its 7.7 billion shares in Citigroup common stock that was acquired through Citigroup's participation in CPP. In total, Treasury received $32 billion from the sale of Citigroup common stock at an average selling price of $4.14 per share, representing a per share premium of $0.89. Treasury's dual strategy of gradually selling Citigroup's shares to avoid flooding the markets and depressing the company's share price and opportunistically selling a slightly higher volume of common stock when share prices appreciated, yielded the taxpayers nearly a $7 billion return on the Citigroup CPP investment. This, coupled with higher-than-expected repayments, resulted in the estimated CPP cost falling by $7.1 billion.

Similarly, Treasury's management of TARP investments in AIG and GM, coupled with strong equity markets significantly reduced the projected TARP costs compared to the 2011 MSR. The AIG common stock and the preferred interest shares in the two Special Purchase Vehicles held by the Federal Reserve Bank of New York that Treasury will receive as part of the AIG recapitalization deal announced in September 2010, was the predominant driver reducing the TARP AIG cost estimate by $38.2 billion compared to the MSR projection of $49.9 billion. GM's strong initial public offering (IPO) in November of 2010, which was largest global IPO in history, and the improved prospects of the U.S. auto industry contributed to the $10.4 billion reduction in the TARP's auto investments relative to the 2011 MSR.

Differences Between OMB and CBO Estimates

Table 4–8 compares the subsidy cost for TARP reflected in the Budget against the costs estimated by the Congressional Budget Office in its January 2011 "Budget and Economic Outlook: Fiscal Years 2011 Through 2021" Report. [16]

CBO estimates the total cost of TARP at $25 billion, based on an estimated lifetime TARP activity level of $433 billion. The Budget reflects current estimates of roughly $475 billion in program level commitments, and $64 billion in programmatic costs. Differences in the estimated cost of the TARP Housing programs, which stem from divergent demand and participation rate assumptions, are the main difference between OMB and CBO cost estimates. The CBO projects $12 billion in total TARP Housing expenditures, while the Budget reflects a $46 billion estimate.

Differences Between EESA and FCRA Cost Estimates

EESA directs that for asset purchases and guarantees under the Troubled Asset Relief Program, the cost shall be determined pursuant to the Federal Credit Reform Act of 1990 (FCRA), except that the discount rate shall be adjusted for market risks. EESA's directive to adjust the FCRA discount rate for market risks effectively assumes a higher cost to finance these transactions than the FCRA, which requires that Treasury rates be used to discount cashflows. In implementing this requirement of EESA, the methodologies used by the Administration seek to capture the cost of the extra return that a private investor would seek in compensation for uncertainty surrounding risks of default and other losses reflected in the cashflows.[17]

Table 4–9 compares the subsidy costs and rates of TARP programs discounted at the Treasury rate adjusted for market risk and discounted at the unadjusted Treasury rate. The largest differences in the estimated subsidy rates reflect the most uncertainty regarding the probability of losses. For example, there is greater uncertainty regarding the value of Treasury's investments in CPP and PPIP than there is related to value of Treasury's investments in AIG, and so the difference between the market-risk adjusted cost versus the non-adjusted cost is greater for CPP and PPIP than for AIG. Removing the risk adjustment to the discount rate for Treasury's investment in CPP and PPIP decreases the subsidy cost by $4.4 billion and $2.1 billion, respectively, whereas it only decreases the AIG subsidy cost by $0.5 billion. For the TIP there is no difference in the subsidy cost because the TIP program has been fully repaid. With no further liabilities under AGP, the market risk adjustment is applied to the remaining Citigroup warrants and preferred shares that

[16] United States. Congressional Budget Office. Budget and Economic Outlook: Fiscal Years 2011 Through 2021. Washington: CBO, 2011. http://www.cbo.gov/doc.cfm?index=12039

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

Table 4–9. COMPARISON OF EESA AND FCRA TARP SUBSIDY COSTS USING 2012 BUDGET VALUATIONS

(In billions of dollars)

Program	TARP Obligation	Subsidy Cost	
		EESA	FCRA
Capital Purchase Plan	204.9	–5.9	–10.4
Targeted Investment Program	40.0	–3.6	–3.6
Asset Guarantee Program	5.0	–3.7	–3.7
Community Development Capital Initiative	0.6	0.3	0.1
Term Asset-Backed Securities Loan Facility (TALF)	4.3	–0.3	–0.4
Small Business 7(a) Program	0.4	*	–*
Public Private Investment Program [1]	22.4	–*	–2.1
AIG Investments	69.8	11.7	11.2
Automotive Industry Financing Program [1]	81.8	20.3	16.4
Subtotal TARP equity and direct loans	429.2	18.8	7.5
TARP Housing Programs:			
Making Home Affordable Programs [2]	29.9	29.9	29.9
Hardest Hit Fund [2]	7.6	7.6	7.6
Subtotal non-credit programs	37.5	37.5	37.5
FHA Refinance Letter of Credit	8.1	8.1	5.0
Subtotal TARP housing programs	45.6	45.6	42.5
Total [3]	**474.8**	**64.4**	**50.0**

* $50 million or less.

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

[2] TARP Making Home Affordable Programs and Hardest Hit Fund involve financial instruments without any provision for income or other returns, and are recorded on a cash basis. 100 percent is assumed for the subsidy cost.

[3] Total subsidy costs do not include interest effects.

Treasury received as a fee, and has negligible effects on the AGP cost. The non-credit TARP Housing programs are reflected on a cash basis and, therefore, costs are not discounted, which is why there is no difference in the subsidy cost estimate. Using November 30, 2010 valuations, TARP investments discounted at a risk-adjusted rate will cost an estimated $64.4 billion or a net subsidy rate of 14 percent. TARP investments discounted at Treasury's cost of borrowing will cost an estimated $50.2 billion or a net subsidy rate of 11 percent, a difference of 3 percentage points.

TARP OVERSIGHT AND ACCOUNTABILITY

Ensuring effective internal controls and monitoring of TARP programs and funds to protect taxpayer investments remains a top priority of TARP staff and those offices charged with TARP oversight and accountability. The Treasury has implemented a comprehensive set of assessments geared toward identifying risks, evaluating their potential impact, and prioritizing resource assignments to manage risks based on a combined top-down and bottom-up assessment of risk. The Internal Control Review organization within the Office of Financial Stability (OFS) utilizes the assessments to ensure appropriate coverage of high-impact areas. A Senior Assessment Team and the Internal Control Program Office guide OFS efforts to meet all applicable requirements for a sound system of internal controls, and to review and respond to all recommendations made by the four TARP oversight bodies—the Special Inspector General for TARP (SIGTARP), the Government Accountability Office (GAO), the Financial Stability Oversight Board, and the Congressional Oversight Panel. The soundness of Treasury's TARP compliance monitoring, internal control, and risk management policies and processes are reflected in the clean opinions issued by GAO after its audit of TARP financial statements for 2009 and 2010 and the associated internal control over financial reporting.

The Treasury has issued regulations governing executive compensation and conflicts of interest related to TARP program administration and participation. Compliance with these rules is monitored on an ongoing basis, and reviews of participant conduct and program administration are conducted as appropriate. In executing its responsibility for monitoring compliance with executive compensation requirements, the Treasury has also created an Office of the Special Master for TARP to review TARP participant compliance with applicable legal and regulatory authority, and to recommend action to the Secretary when compensation is found to be awarded in a manner or amount deemed contrary to the public interest.

Special Inspector General for TARP (SIGTARP)

Section 121 of EESA created the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) to prevent fraud, waste, and abuse in the administration of TARP programs through audits and investigations of the purchase, management, and sales of TARP assets. SIGTARP is required to submit quarterly reports to Congress, and has initiated 23 audits and over 130 investigations since its inception. Treasury's Office of Financial Stability has worked closely with SIGTARP staff in designing programs that incorporate strong and effective program safeguards against fraud, waste, and abuse. The Budget supports SIGTARP's continued oversight activities with a request for $47.4 million in 2012 administrative cost appropriations.

5. LONG TERM BUDGET OUTLOOK

The horizon for most numbers in this budget is 10 years. In particular, the account-level estimates in the 2012 Budget extend to 2021. This 10-year horizon reflects a balance between the importance of considering both the current and future implications of budget decisions made today and a practical limit on the construction of detailed budget projections for years in the future.

Nonetheless, many decisions made today will have important repercussions beyond the 10-year horizon. It is also important to anticipate what future budgetary requirements beyond the 10-year horizon might flow from current laws and policies despite the uncertainty surrounding the assumptions needed for such estimates. Long-run budget projections can be useful in drawing attention to potential problems. Imbalances that may be manageable in the 10-year time frame can become unmanageable if allowed to grow.

To this end, the budget projections in this chapter extend the 2012 Budget for approximately 75 years through 2085. Because of the uncertainties involved in making long-run projections, results are presented for a base case and for several alternative scenarios.

The passage of the Affordable Care Act (ACA) has a profound effect on these projections. The cost-reduction mechanisms in the ACA significantly reduce projected budget deficits in the long run, and the 2012 Budget also includes other initiatives that would help control future deficits if enacted. Nonetheless, the Administration recognizes that there is considerable uncertainty in its long-term projections and that future challenges will require policy responses that have yet to be formulated. The projections in this chapter reflect the fact that, until these reforms are enacted, simply extending current laws and policies leaves the country with a large and growing publicly held debt. Reforms are needed to make sure that overall budgetary resources are large enough to support future spending and that programs like Medicare Part A and Social Security, which are expected to be financed from dedicated revenue sources, remain self-sustaining. The Administration intends to work with the Congress to develop additional policies that will assure fiscal sustainability in the future.

The key drivers of the long-range deficit are the Government's major health and retirement programs: Medicare, Medicaid and Social Security.

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

Long-range projections for Social Security and Medicare have been prepared for decades, and the actuaries at the Centers for Medicare and Medicaid Services have indicated that they intend to begin producing such projections for Medicaid. This is useful information, but individual programs, even large ones such as Medicare, Medicaid, and Social Security, do not determine by themselves the Government's overall budgetary position, which is why the projections in this chapter offer a useful complement to the long-run projections for the individual programs.

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

The Long-Run Fiscal Challenge

The deficit is projected to fall from its recent peak levels as the economy recovers from the recession and the worldwide financial crisis eases. By the end of the 10-year budget window, the policies in this Budget stabilize the deficit at around 3 percent of GDP, and the debt held by the public is no longer rising as rapidly relative to

GDP. However, beyond 2021, the fiscal position deteriorates again mainly because of the aging of the population and the high continuing cost of the Government's health programs. The publicly-held debt rises unsustainably relative to GDP.

In the public sector as well as the private sector, health care costs have risen faster than inflation for decades. This rising cost trend has led to steady increases in the amounts spent on Medicare and Medicaid, while also making it more difficult for people to afford private health insurance. The ACA tackles both problems by extending health insurance coverage to millions of Americans who currently lack insurance, while slowing future growth in medical costs. When the law is fully implemented, the general rate at which Medicare spending per beneficiary has risen for more than four decades would be substantially reduced. However, health care costs would continue to rise as the population ages, threatening long-run fiscal sustainability. Population aging also poses a serious long-run budgetary challenge. Because of lower expected fertility and improved longevity, the Social Security actuaries project that the ratio of workers to Social Security beneficiaries will fall from around 3.3 currently to a little over 2 by the time most of the baby boomers have retired. From that point forward, the ratio of workers to beneficiaries is expected to continue to decline slowly. With fewer workers to pay the taxes needed to support the retired population, budgetary pressures will steadily mount and without reforms, trust fund exhaustion is projected by the Social Security Trustees to occur in 2037.

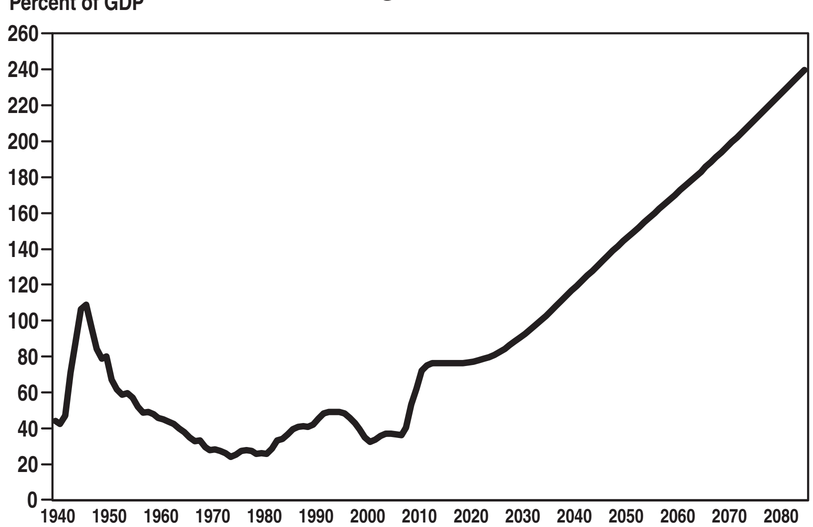
The Nation also faces the challenge of reforming the tax code to make it fairer and simpler and to provide sufficient revenue to meet long-run commitments. Resolving the long-run fiscal challenge will require a comprehensive approach, one that restrains spending growth but also addresses the sufficiency of our tax code. However, those necessary changes in tax policy have yet to be agreed upon.

Long-Run Budget Projections.—In 2010, the three major entitlement programs—Medicare, Medicaid, and Social Security—accounted for 44 percent of non-interest Federal spending, up from 30 percent in 1980. By 2035, when the surviving baby boomers will all be 70 or older, these three programs could account for more than 60 percent of non-interest Federal spending. Through the end of the projection period, in 2085, this figure would remain above 60 percent of non-interest spending. In other words without further reforms, nearly two-thirds of the budget, aside from interest, would go to these three programs alone. That would severely reduce the flexibility of the budget, and the Government's ability to respond to new challenges.

Because of these pressures, the overall budget may not be sustainable without either new cost-reducing measures or additional revenues. The budget projections shown in Table 5–1 illustrate that point. Without further adjustments to spending and revenue, the deficit will rise relative to the overall economy and the debt-to-GDP ratio will far exceed its previous peak level reached at the end of World War II. Reforms are needed to avoid such a development. The Administration aims to work with the Congress so that the ratio of debt to GDP stabilizes at an acceptable level once the economy has recovered.

Medicare and Medicaid.— In the long-run projections in this chapter, different assumptions about the growth rate of health care costs are made. In the base case, a continuation of current policy assumes that the provisions of the ACA are fully implemented, limiting health care costs in the long run compared with prior law. The long-run Medicare assumptions are essentially the same as those used in the latest Medicare Trustees' report (August 2010), which is consistent with how these long-term budget projections have generally been made in the past. The Trustees' projections imply that average long range annual growth in Medicare spending per enrollee is 0.3 percentage points per year above the growth

Chart 5-1. Publicly Held Debt Under 2012 Budget Extended



in GDP per capita. This growth rate is significantly smaller than their previous projections—a reduction they largely attribute to the ACA.[1] Along with the rules for Medicare, there are a number of reforms in the ACA that experts believe could produce significant savings relative to the historical trend and that would affect medical costs more broadly. One is an excise tax on the highest-cost insurance plans, which will encourage substitution of plans with lower costs, while raising take-home pay. There is also an array of delivery system reforms, including incentives for accountable care organizations and payment reform demonstrations that have the potential to re-orient the medical system toward providing higher quality care, not just more care, and thus reduce cost growth in the future.[2] Finally, the ACA established an independent payment advisory board that will be empowered to propose changes in Medicare should Medicare costs exceed the growth rate specified in law. The proposed changes in Medicare would take effect automatically, unless overridden by the Congress. Because of these broader reforms, Medicaid spending per beneficiary and private health spending per capita are also projected to slow, though not as much as Medicare.[3]

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

Revenues.—Projected revenues in these long-run budget projections start with the estimated receipts under the Administration's proposals in the 2012 Budget. There is some built-in momentum in the tax code that would tend to push up average tax rates over time. For example, the tax code is indexed for inflation, but not for increases in real income, so there is a tendency for individual income taxes to increase relative to incomes when real taxable incomes are rising, everything else equal. Beyond the 10-year budget window, the projections in this chapter assume that this feature of the current tax code will not be allowed to raise individual income taxes. The projections also assume that the Alternative Minimum Tax will be similarly indexed. While these assumptions tend to limit tax revenue, other assumptions work in the opposite direction. For example, the projections assume that the new revenue provisions in the ACA go into effect including the excise tax on high-premium health plans. On balance, the assumptions produce a gradual increase in the overall share of revenues relative to GDP. By 2050, the revenue share is 20.5 percent of GDP and by 2085 it is projected to be 21.2 percent of GDP. However, the projected revenues are insufficient to meet the Federal Government's projected future commitments as shown by the growing deficits in Table 5-1.

Discretionary Outlays.—Because discretionary spending is determined annually through the legislative process, there is no straightforward assumption for projecting its future path. The budget displays a path for discretionary spending over the next 10 years; beyond that time frame, however, there are several different plausible assumptions for the future path. One is to assume that discretionary spending will be held constant in inflation-ad-

[1] The ACA provisions limiting growth in non-physician payments and other changes in assumptions in the 2010 Trustees' report reduce long range average annual growth in Medicare spending by 0.7 percentage points.

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

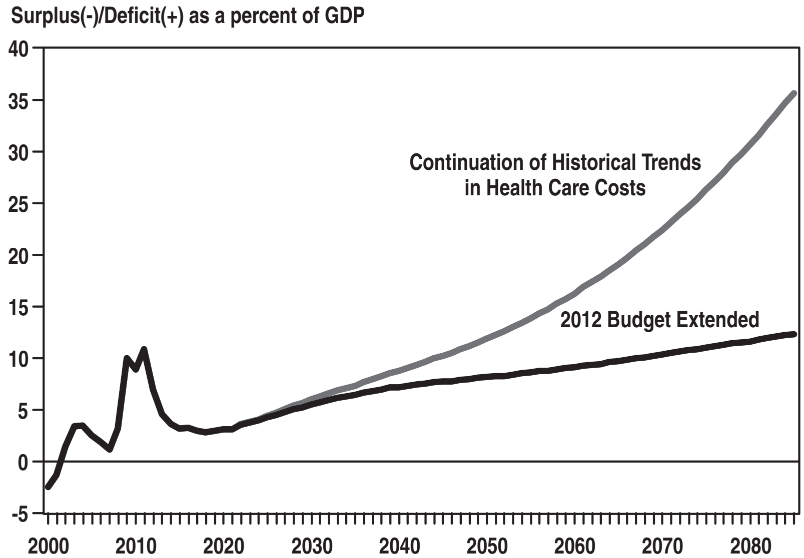
[3] The projections assume that growth in Medicaid spending per enrollee and private health spending per capita exceeds growth in GDP per capita by 0.65 percentage points.

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

	1980	1990	2000	2010	2020	2030	2040	2050	2060	2070	2080	2085
Receipts	19.0	18.0	20.6	14.9	19.9	19.8	20.1	20.5	20.7	20.9	21.1	21.2
Outlays:												
Discretionary	10.1	8.7	6.3	9.0	5.7	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Mandatory:												
Social security	4.3	4.3	4.1	4.8	5.1	5.7	5.7	5.6	5.6	5.7	5.9	5.9
Medicare	1.1	1.7	2.0	3.1	3.3	4.3	4.9	5.1	5.2	5.3	5.3	5.3
Medicaid	0.5	0.7	1.2	1.9	2.4	2.8	3.1	3.3	3.3	3.3	3.3	3.3
Other	3.7	3.2	2.4	3.7	3.2	3.0	2.8	2.7	2.6	2.6	2.5	2.6
Subtotal, Mandatory	9.6	9.9	9.7	13.5	13.9	15.8	16.6	16.7	16.7	16.9	17.0	17.1
Net interest	1.9	3.2	2.3	1.4	3.4	4.1	5.3	6.5	7.7	8.9	10.2	10.9
Total outlays	21.7	21.9	18.2	23.8	23.0	25.3	27.3	28.7	29.9	31.3	32.7	33.5
Surplus or Deficit (–)	–2.7	–3.9	2.4	–8.9	–3.1	–5.5	–7.2	–8.2	–9.2	–10.4	–11.6	–12.3
Primary Surplus/Deficit (–)	–0.8	–0.6	4.7	–7.6	0.2	–1.5	–1.9	–1.7	–1.4	–1.4	–1.4	–1.4
Federal Debt Held by the public, End of Period	26.1	42.1	34.7	62.2	76.7	90.4	116.7	144.3	170.0	196.7	225.2	239.9

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

Chart 5-2. Alternative Health Care Costs



justed terms, which would allow discretionary programs to increase with prices, but would not allow the programs to expand with population or real growth in the economy. However, extending this assumption over many decades is not realistic. When the population and economy grow, as assumed in these projections, the demand for public services is likely to expand as well. Therefore, the current base projection assumes that discretionary spending keeps pace with the growth in GDP in the long run, so that spending increases in inflation-adjusted terms whenever there is real economic growth. The chapter also uses alternative assumptions to show other possible paths. It is important to note that these paths are merely illustrative; they do not represent policy decisions by this Administration, or seek to project the policy decisions of future Administrations.

Table 5-1 shows how the budget would evolve without further changes in policy under the base assumptions described above. The key assumption is the full implementation of the ACA with its various provisions which control costs and alter incentives for medical practice. Under these assumptions, the future growth of Medicare and Medicaid slows sharply relative to GDP. Social Security benefits rise relative to the economy over the next 25 years, but increase more slowly after that as the age composition of the population begins to stabilize. Other mandatory programs do not increase relative to the size of the economy, and discretionary programs are held to a constant share of GDP by assumption. On the revenue side, once tax revenues recover from the economic downturn, revenues reach a ratio of 19.9 percent and then gradually grow to 21.2 percent by 2085. With total outlays increasing more rapidly than taxes, the deficit rises, and publicly held debt exceeds historical levels.

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

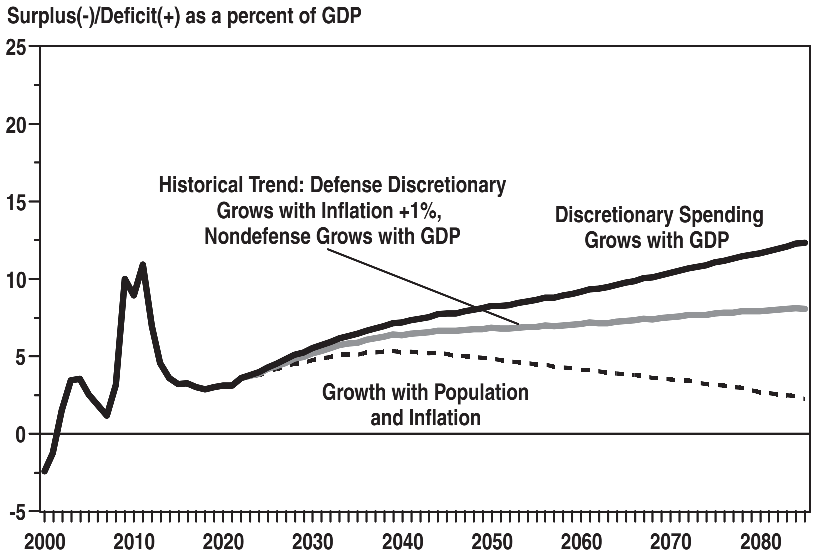
Alternative Policy, Economic, and Technical Assumptions

The quantitative results discussed above are sensitive to changes in underlying policy, economic, and technical assumptions. Some of the most important of these assumptions and their effects on the budget outlook are discussed below. Increasing deficits result for most plausible projections of the long run trends.

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

Discretionary Spending.— The current base projection for discretionary spending assumes that after 2021, discretionary spending keeps pace with the growth in GDP (see Chart 5-3). An alternative assumption would be to allow discretionary spending to increase for inflation and population growth only. In this case, discretionary spending would remain constant in inflation-adjusted per capita terms. Yet another possible assumption is to allow nondefense discretionary spending to grow with GDP while defense spending is adjusted only for inflation plus one percent real growth per year. This latter combination

Chart 5-3. Alternative Discretionary Projections



is somewhat closer to historical experience over the last sixty years.

Alternative Revenue Projections.—In the base projection, tax receipts rise gradually relative to GDP, so that, by 2085, the share of revenues in GDP is 21.2 percent. Chart 5-4 shows alternative receipts assumptions. Allowing receipts to rise by an additional 2.0 percentage points of GDP relative to the base projections would stabilize the long-run budget deficit. Reducing taxes by 2 percentage points of GDP relative to the base projections would bring the projected rise in the deficit and the publicly-held debt forward in time.

Productivity.—The rate of future productivity growth has a major effect on the long-run budget outlook (see Chart 5-5). It is also highly uncertain. Over the next few decades, an increase in productivity growth would reduce projected budget deficits. Higher productivity growth adds directly to the growth of the major tax bases, while it has a smaller immediate effect on outlay growth even assuming that discretionary spending rises with GDP. For much of the last century, output per hour in nonfarm business grew at an average rate of around 2-1/4 percent per year. Growth was not always steady. In the 25 years following 1948, labor productivity in the nonfarm business sector of the economy grew at an average rate of 2.7 percent per year, but this was followed by a period of much slower growth. From 1973 to 1995, output per hour in nonfarm business grew at an average annual rate of just 1.4 percent per year. In the latter half of the 1990s, however, the rate of productivity growth increased again and it has remained higher albeit with some fluctuations since then. Indeed, the average growth rate of productiv-

Chart 5-4. Alternative Revenue Projections

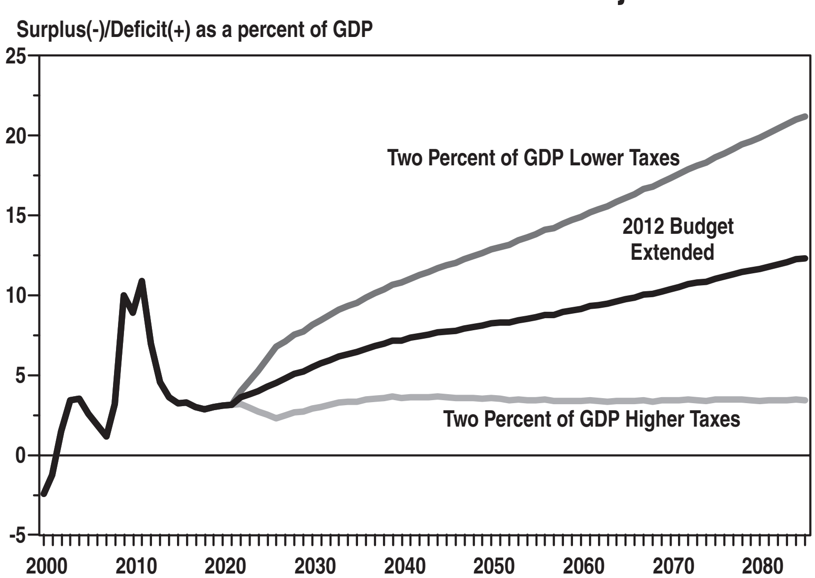
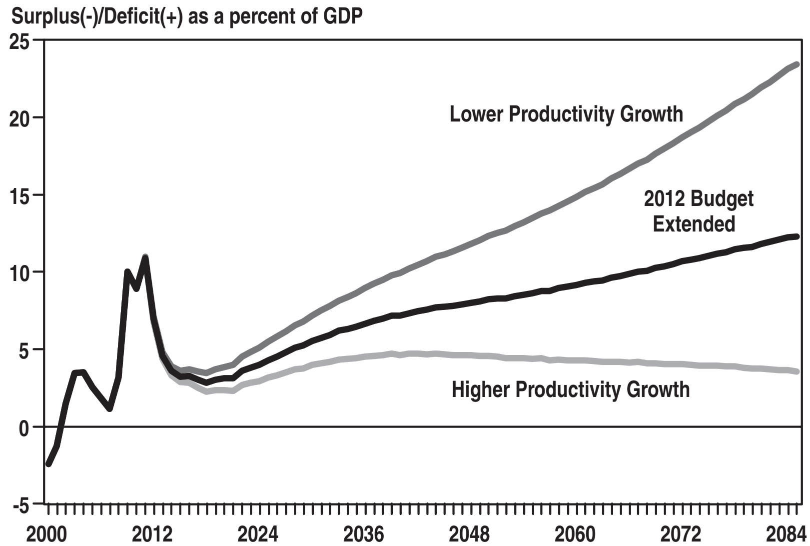


Chart 5-5. Alternative Productivity Assumptions



ity in nonfarm business has averaged 2.7 percent per year since the fourth quarter of 1995, the same as the average growth rate in the earlier postwar period.

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

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

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

Chart 5-6. Alternative Fertility Assumptions

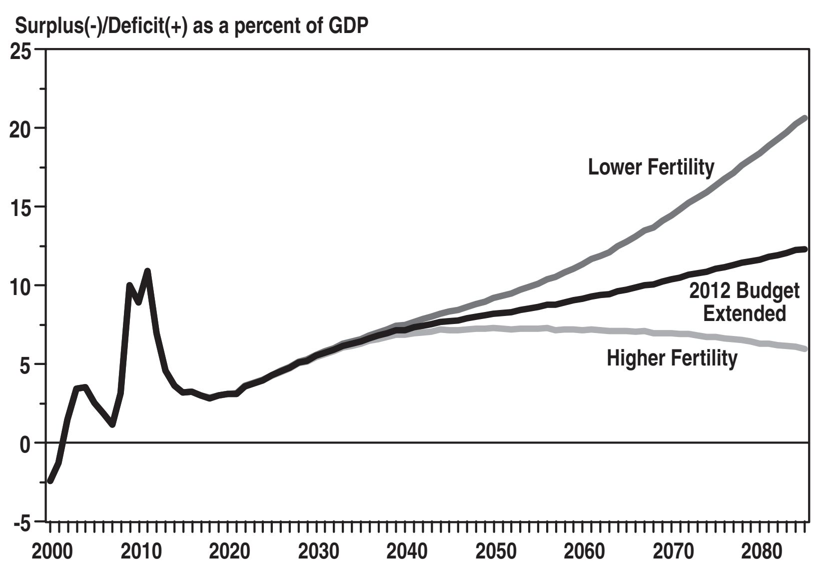
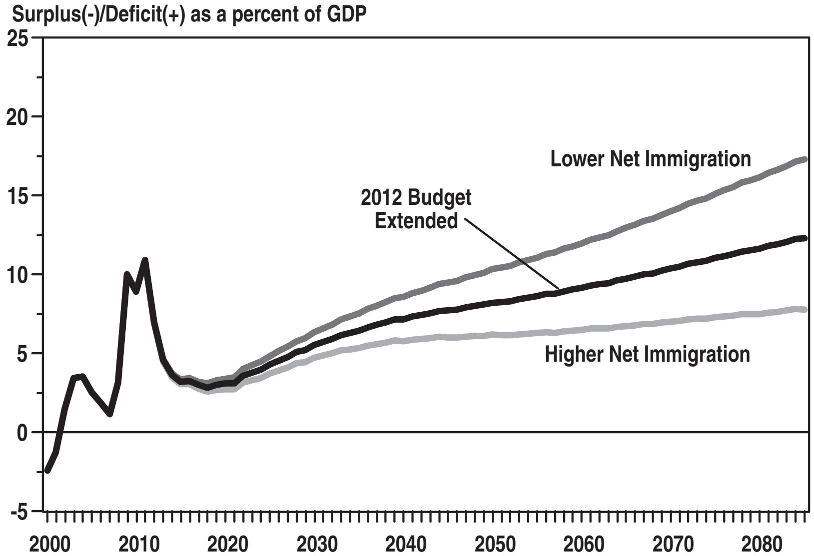


Chart 5-7. Alternative Immigration Assumptions

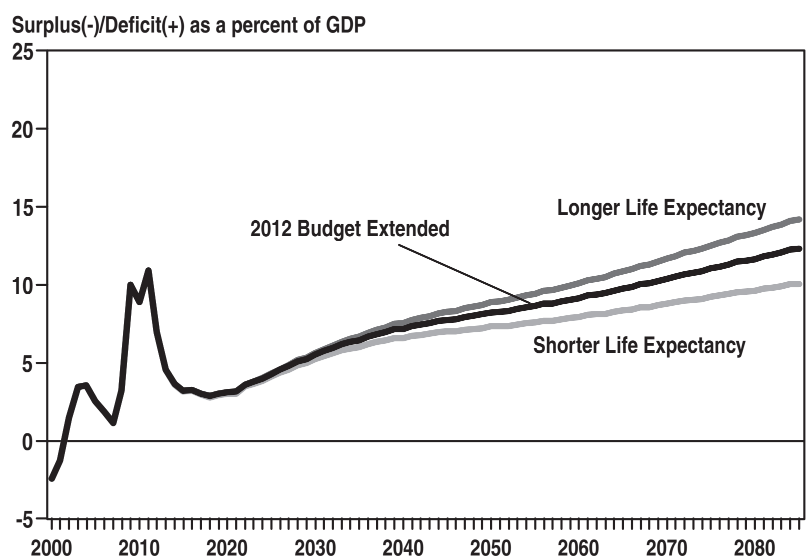


tion to expand throughout the projection period, although at a much slower rate than has prevailed historically. The alternatives are taken from the Social Security Trustees' Report (1.2 million total immigrants per year in the high alternative and 0.8 million in the low alternative).

- Mortality is projected to decline as people live longer in the future (see Chart 5-8). These assumptions parallel those in the latest Social Security Trustees' Report. The average period life expectancy for women is projected to rise from 80.3 years in 2009 to 86.7 years in 2085, and the average period life expectancy for men is expected to increase from 75.6 years in 2009 to 83.3 years in 2085. A technical panel advising the Social Security trustees has reported that the improvement in longevity might be even greater than assumed here. The variations show the high and low alternatives from the latest Trustees' report (average female and male life expectancy reaching 83.0 and 79.3 in the low cost alternative and 90.3 and 87.5 in the high cost alternative).

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

Chart 5-8. Alternative Mortality Assumptions



The Fiscal Gap

The fiscal gap is one measure of the size of the adjustment needed to preserve fiscal sustainability in the long run.[4] It is defined as the increase in taxes or reduction in non-interest expenditures required to keep the long-run ratio of Government debt-to-GDP at its current level if implemented immediately. The gap is usually measured as a percentage of GDP. The fiscal gap is calculated over a finite time period, and therefore it may understate the adjustment needed to achieve longer-run sustainability.

Table 5-2 shows fiscal gap calculations for the base case calculated over a 75-year horizon and for the various alternative scenarios described above. The fiscal gap in the base case is 1.8 percent of GDP, and it ranges in the alternative scenarios from 0.2 percent of GDP to 4.8 percent of GDP. This suggests both that additional reforms are needed to put the Budget on a sustainable course and also underscores the importance of successful implementation of the ACA.

[4] Alan J. Auerbach, "The U.S. Fiscal Problem: Where We Are, How We Got Here, and Where We're Going," NBER: Macroeconomics Annual 1994, pp 141 – 175.

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

Baseline	1.8
Health:	
Excess cost growth averages 2 percent	4.8
Discretionary Outlays:	
Grow with inflation plus population	0.2
Defense grows with inflation +1; nondefense grows with GDP	1.1
Revenues:	
Revenues exceed baseline by 2 percent of GDP	0.2
Revenues fall short of baseline by 2 percent of GDP	3.4
Productivity:	
Productivity grows by 0.25 percent per year faster than the baseline	0.3
Productivity grows by 0.25 percent per year slower than the baseline	3.4
Population:	
Fertility:	
2.3 births per woman	1.0
1.7 births per woman	2.7
Immigration:	
1.2 million immigrants per year	1.1
0.8 million immigrants per year	2.6
Mortality:	
Female life expectancy 83.0 years; male life expectancy 79.3 years in 2085	1.4
Female life expectancy 90.3 years; male life expectancy 87.5 years in 2085	2.1

Actuarial Projections for Social Security and Medicare

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

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

Table 5–3 shows the projected income rate, cost rate, and annual balance for the Medicare HI and OASDI Trust Funds at selected dates under the Trustees' intermediate assumptions. Data from both the 2009 and the 2010 reports are shown. As can be seen, there was a major improvement in the projections for Medicare's HI program between 2009 and 2010. This reflects passage of the ACA. Even with this major reform, however, there is still a long-run deficit in the HI program, albeit one that is much smaller than projected last year. These projections assume full implementation of the cost reductions under current law, over the entire long-run projection period. In the 2009 Trustees' report, Medicare HI trust fund costs as a percentage of Medicare covered payroll were projected to rise from 3.6 percent to 12.2 percent between 2010 and 2080 and the HI trust fund imbalance was projected to be -8.7 percent. In the 2010 report, costs rise from 3.7 percent of Medicare taxable payroll in 2010 to 4.9 percent in 2080 and the imbalance in the HI trust fund in 2080 is -0.7 percent. Demographic trends and continued high per-person costs combine to explain the continued small imbalance in the long-run projections.

As a result of reforms legislated in 1983, Social Security had been running a cash surplus with taxes exceeding costs up until 2010. This surplus in the Social Security trust fund helped to hold down the unified budget deficit. The cash surplus ended last year. The 2010 Social Security trustees report projects that the trust fund will return to cash surplus briefly as the economy improves, but that cash deficits will reappear in 2015, and, from that point forward, Social Security will no longer act to hold down the unified budget deficit. Social Security will eventually begin to draw on its trust fund balances. Over time, as the ratio of workers to retirees falls, costs are projected to rise further from 13.1 percent of Social Security covered payroll today to 14.2 percent of payroll in 2020, 16.4 percent of payroll in 2030 and 17.3 percent of payroll in 2080. Revenues excluding interest are projected to rise only slightly from 12.3 percent of payroll today to 13.3 percent in 2080. Thus the annual balance is projected to decline from -0.8 percent in 2010 to -1.1 percent of payroll in 2020, -3.2 percent of payroll in 2030, and -4.0 percent of payroll in 2080. On a 75-year basis, the actuarial deficit is projected to be 1.9 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 2037. These projections assume that benefits would continue to be paid despite the negative balance in the trust funds after 2037.

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

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

TECHNICAL NOTE: SOURCES OF DATA AND METHODS OF ESTIMATING

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

Demographic and Economic Assumptions.—For the years 2011–2021, the assumptions are drawn from the Administration's economic projections used for the 2012 Budget. These budget assumptions reflect the President's policy proposals. The economic assumptions are extended beyond this interval by holding inflation, interest rates, and the unemployment rate constant at the levels assumed in the final year of the budget forecast. Population growth and labor force growth are extended using the intermediate assumptions from the 2010 Social Security Trustees' report. The projected rate of growth for real GDP is built up from the labor force assumptions and an assumed rate of productivity growth. Productivity growth, measured as real GDP per hour, is assumed to equal its average rate of growth in the Budget's economic assumptions—1.9 percent per year.

CPI inflation holds stable at 2.1 percent per year, the unemployment rate is constant at 5.3 percent, and the yield on 10-year Treasury notes is steady at 5.3 percent. Consistent with the demographic assumptions in the Trustees' reports, U.S. population growth slows from around 1 percent per year to about two-thirds that rate by 2030, and slower rates of growth beyond that point. By the end of the projection period it is as low as 0.4 percent per year. Real GDP growth is less than its historical average of around 3.2 percent per year because the slowdown in population growth and the increase in the population over age 65 reduce labor supply growth. In these projections, average real GDP growth averages between 2.3 percent and 2.4 percent per year for the period following the end of the 10-year budget window in 2021.

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

Budget Projections.—For the period through 2021, receipts follow the 2012 Budget's policy projections. After 2021, total tax receipts rise gradually relative to GDP eventually reaching 21.2 percent in 2085. Discretionary spending follows the path in the Budget over the next 10 years and grows at the rate of growth in nominal GDP afterwards. Other spending also aligns with the Budget through the budget horizon. Long-run Social Security spending is projected by the Social Security actuaries using this chapter's long-range assumptions. Medicare benefits are projected based on a projection of beneficiary growth and excess health care cost growth from the 2010 Medicare Trustees' report, and the general inflation assumptions described above. Medicaid outlays are based on the economic and demographic projections in the model. Other entitlement programs are projected based on rules of thumb linking program spending to elements of the economic and demographic projections such as the poverty rate.

6. FEDERAL BORROWING AND DEBT

Debt is the largest legally and contractually binding obligation of the Federal Government. At the end of 2010, the Government owed $9,019 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 $228 billion of interest on this debt. In addition to the Government's debt obligation, at the end of 2010, the Government held financial

Table 6–1. TRENDS IN FEDERAL DEBT HELD BY THE PUBLIC

(Dollar amounts in billions)

Fiscal Year	Debt held by the public:		Debt held by the public as a percent of:		Interest on the debt held by the public as a percent of:[3]	
	Current dollars	FY 2010 dollars[1]	GDP	Credit market debt[2]	Total outlays	GDP
1946	241.9	2,276.4	108.7	N/A	7.4	1.8
1950	219.0	1,677.3	80.2	53.3	11.4	1.8
1955	226.6	1,525.0	57.2	43.2	7.6	1.3
1960	236.8	1,414.9	45.6	33.7	8.5	1.5
1965	260.8	1,456.9	37.9	26.9	8.1	1.4
1970	283.2	1,315.5	28.0	20.8	7.9	1.5
1975	394.7	1,349.2	25.3	18.4	7.5	1.6
1980	711.9	1,683.0	26.1	18.5	10.6	2.3
1985	1,507.3	2,716.2	36.4	22.3	16.2	3.7
1990	2,411.6	3,721.8	42.1	22.6	16.2	3.5
1995	3,604.4	4,900.7	49.1	26.7	15.8	3.3
2000	3,409.8	4,268.2	34.7	19.1	13.0	2.4
2001	3,319.6	4,059.4	32.5	17.5	11.6	2.1
2002	3,540.4	4,259.4	33.6	17.5	8.9	1.7
2003	3,913.4	4,612.0	35.6	17.8	7.5	1.5
2004	4,295.5	4,935.6	36.8	18.0	7.3	1.4
2005	4,592.2	5,109.8	36.9	17.6	7.7	1.5
2006	4,829.0	5,195.4	36.5	16.9	8.9	1.8
2007	5,035.1	5,258.5	36.2	16.2	9.2	1.8
2008	5,803.1	5,924.8	40.3	17.5	8.7	1.8
2009	7,544.7	7,601.8	53.5	21.9	5.7	1.4
2010	9,018.9	9,018.9	62.2	N/A	7.2	1.7
2011 estimate	10,856.5	10,713.8	72.0	N/A	7.7	1.9
2012 estimate	11,881.1	11,563.8	75.1	N/A	10.2	2.4
2013 estimate	12,784.0	12,243.9	76.3	N/A	12.8	2.9
2014 estimate	13,562.2	12,778.2	76.3	N/A	14.3	3.2
2015 estimate	14,301.1	13,243.5	76.1	N/A	15.2	3.4
2016 estimate	15,063.9	13,711.6	76.1	N/A	15.8	3.6

N/A = Not available.

[1] Debt in current dollars deflated by the GDP chain-type price index with fiscal year 2010 equal to 100.

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

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

assets, net of other liabilities, of $1,125 billion. Therefore, the Government's debt net of financial assets was $7,894 billion, or 54.4 percent of GDP.

The deficit was $1,293 billion in 2010. This $1,293 billion deficit and other financing transactions totaling $181 billion required the Government to increase its borrowing from the public by $1,474 billion last year. Meanwhile, assets net of liabilities rose by $226 billion in 2010. Debt held by the public net of financial assets increased from 47.1 percent of Gross Domestic Product (GDP) at the end of 2009 to 54.4 percent of GDP at the end of 2010. The deficit is estimated to increase to $1,645 billion in 2011, and then begin to fall. Declining deficits are estimated to significantly reduce growth in debt as a percentage of GDP; debt net of financial assets is projected to reach 63.0 percent of GDP at the end of 2011 and 66.9 percent at the end of 2012 and then to remain relatively stable in subsequent years.

Trends in Debt Since World War II

Table 6–1 depicts trends in Federal debt held by the public from World War II to the present and estimates from the present through 2016. (It is supplemented for earlier years by Tables 7.1–7.3 in *Historical Tables*, which is published as a separate volume of the Budget.) Federal debt peaked at 108.7 percent of GDP in 1946, just after the end of the war. From then until the 1970s, Federal debt as a percentage of GDP decreased almost every year because of relatively small deficits, an expanding economy, and inflation. With households borrowing large amounts to buy homes and consumer durables, and with businesses borrowing large amounts to buy plant and equipment, Federal debt also decreased almost every year as a percentage of total credit market debt outstanding. The cumulative effect was impressive. From 1950 to 1975, debt held by the public declined from 80.2 percent of GDP to 25.3 percent, and from 53.3 percent of credit market debt to 18.4 percent. Despite rising interest rates, interest outlays became a smaller share of the budget and were roughly stable as a percentage of GDP.

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

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

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

As a result of the most recent recession, which began in December 2007, and the massive financial and economic challenges it imposed on the Nation, the deficit began increasing rapidly in 2008. The deficit increased more substantially in 2009 as the Government continued to take aggressive steps to restore the health of the Nation's economy and financial markets. The deficit fell somewhat in 2010. The deficit is projected to increase in 2011 but then to recede thereafter. Debt net of financial assets as a percent of GDP is estimated to grow to 63.0 percent at the end of 2011 and 66.9 percent at the end of 2012 and then to remain relatively stable in later years.

Debt Held by the Public and Gross Federal Debt

The Federal Government issues debt securities for two principal purposes. First, it borrows from the public to finance the Federal deficit.[1] Second, it issues debt to Federal Government accounts, primarily trust funds, which accumulate surpluses. By law, trust fund surpluses must generally be invested in Federal securities. The gross Federal debt is defined to consist of both the debt held by the public and the debt held by Government accounts. Nearly all the Federal debt has been issued by the Treasury and is sometimes called "public debt," but a small portion has been issued by other Government agencies and is called "agency debt." [2]

Borrowing from the public, whether by the Treasury or by some other Federal agency, is important because it represents the Federal demand on credit markets.

[1] For the purposes of the Budget, "debt held by the public" is defined as debt held by investors outside of the Federal Government, both domestic and foreign, including U.S. State and local governments and foreign governments. It also includes debt held by the Federal Reserve.

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

Regardless of whether the proceeds are used for tangible or intangible investments or to finance current consumption, the Federal demand on credit markets has to be financed out of the saving of households and businesses, the State and local sector, or the rest of the world. Federal borrowing thereby competes with the borrowing of other sectors of the economy for financial resources in the credit market. Borrowing from the public thus affects the size and composition of assets held by the private sector and the amount of saving imported from abroad. It also increases the amount of future resources required to pay interest to the public on Federal debt. Borrowing from the public is therefore an important concern of Federal fiscal policy. [3] Borrowing from the public, however, is an incomplete measure of the Federal impact on credit markets. Different types of Federal activities can affect the credit markets in different ways. For example, with the Federal Government's recent extraordinary efforts to stabilize credit markets, the Government used the borrowed funds to acquire financial assets that would otherwise have required financing in the credit markets directly. (For more information on other ways in which Federal activities impact the credit market, see the discussion at the end of this chapter.)

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

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

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

This Budget uses a variety of information sources to analyze the condition of Social Security and Medicare, the Government's two largest social insurance programs. Chapter 5, "Long-Term Budget Outlook," projects Social Security and Medicare outlays to the year 2085 relative to GDP. The excess of future Social Security and Medicare benefits relative to their dedicated income is very different in concept and much larger in size than the amount of Treasury securities that these programs hold.

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

Government Deficits or Surpluses and the Change in Debt

Table 6–2 summarizes Federal borrowing and debt from 2010 through 2021.[5] In 2010 the Government borrowed $1,474 billion, increasing the debt held by the public from $7,545 billion at the end of 2009 to $9,019 billion at the end of 2010. The debt held by Government accounts increased $179 billion, and gross Federal debt increased by $1,653 billion to $13,529 billion.

Debt held by the public.—The Federal Government primarily finances deficits by borrowing from the public, and it primarily uses surpluses to repay debt held by the public. [6] Table 6–2 shows the relationship between the

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

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

[5] For projections of the debt beyond 2021, see Chapter 5, "Long-Term Budget Outlook."

[6] Treasury debt held by the public is measured as the sales price

Table 6–2. FEDERAL GOVERNMENT FINANCING AND DEBT

(In billions of dollars)

	Actual	Estimate										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Financing:												
Unified budget deficit	1,293.5	1,645.1	1,101.2	767.5	644.6	606.7	648.7	626.7	618.9	681.5	735.3	773.9
Other transactions affecting borrowing from the public:												
Changes in financial assets and liabilities:[1]												
Change in Treasury operating cash balance[2]	34.6	0.2	–235.0	....	....	....	....	....	....	....	....	....
Net disbursements of credit financing accounts:												
Direct loan accounts	178.7	167.9	182.8	147.7	140.9	138.8	116.1	107.3	105.8	103.4	100.9	105.5
Guaranteed loan accounts	2.5	10.3	–3.7	–1.8	3.1	5.8	6.2	3.5	–1.3	–4.7	–6.4	–14.6
Troubled Asset Relief Program equity purchase accounts	–28.5	15.5	–19.1	–9.1	–8.9	–11.1	–6.1	–4.8	–4.3	–7.2	–8.6	0.3
Subtotal, net disbursements	152.7	193.7	160.0	136.8	135.1	133.6	116.1	106.0	100.2	91.4	85.9	91.2
Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust	0.8	–1.2	–1.2	–1.1	–1.1	–1.1	–1.5	–1.0	–1.2	–1.3	–1.2	–1.2
Net change in other financial assets and liabilities[3]	–6.9	....	....	....	....	....	....	....	....	....	....	....
Subtotal, changes in financial assets and liabilities	181.1	192.7	–76.2	135.7	134.0	132.5	114.6	105.0	99.0	90.2	84.8	90.0
Seigniorage on coins	–0.4	–0.3	–0.3	–0.4	–0.3	–0.3	–0.5	–0.5	–0.5	–0.5	–0.5	–0.5
Total, other transactions affecting borrowing from the public	180.7	192.4	–76.6	135.3	133.7	132.2	114.1	104.5	98.5	89.7	84.3	89.5
Total, requirement to borrow from the public (equals change in debt held by the public)	1,474.2	1,837.5	1,024.7	902.8	778.2	738.9	762.8	731.2	717.4	771.2	819.6	863.4
Changes in Debt Subject to Statutory Limitation:												
Change in debt held by the public	1,474.2	1,837.5	1,024.7	902.8	778.2	738.9	762.8	731.2	717.4	771.2	819.6	863.4
Change in debt held by Government accounts	178.7	109.9	153.3	193.4	232.5	275.4	286.6	311.1	339.3	327.5	322.6	317.9
Less: change in debt not subject to limit and other adjustments	4.7	0.9	1.1	1.9	1.1	0.8	2.2	2.0	1.9	2.2	1.8	2.1
Total, change in debt subject to statutory limitation	1,657.7	1,948.4	1,179.2	1,098.1	1,011.8	1,015.2	1,051.7	1,044.3	1,058.6	1,100.9	1,144.0	1,183.4
Debt Subject to Statutory Limitation, End of Year:												
Debt issued by Treasury	13,502.7	15,449.2	16,627.1	17,723.8	18,734.3	19,748.5	20,798.9	21,842.5	22,900.5	24,000.8	25,144.8	26,328.2
Less: Treasury debt not subject to limitation (–)[4]	–11.2	–9.4	–8.1	–6.7	–5.3	–4.3	–3.1	–2.3	–1.8	–1.1	–1.2	–1.2
Agency debt subject to limitation	*	*	*	*	*	*	*	*	*	*	*	*
Adjustment for discount and premium[5]	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4
Total, debt subject to statutory limitation[6]	13,510.8	15,459.2	16,638.4	17,736.5	18,748.3	19,763.5	20,815.2	21,859.5	22,918.1	24,019.0	25,163.0	26,346.4
Debt Outstanding, End of Year:												
Gross Federal debt:[7]												
Debt issued by Treasury	13,502.7	15,449.2	16,627.1	17,723.8	18,734.3	19,748.5	20,798.9	21,842.5	22,900.5	24,000.8	25,144.8	26,328.2
Debt issued by other agencies	26.1	27.0	27.2	26.7	26.9	27.1	26.1	24.8	23.5	21.9	20.1	17.9
Total, gross Federal debt	13,528.8	15,476.2	16,654.3	17,750.5	18,761.2	19,775.5	20,825.0	21,867.3	22,924.0	24,022.7	25,164.9	26,346.2
Held by:												
Debt held by Government accounts	4,509.9	4,619.8	4,773.1	4,966.5	5,199.0	5,474.5	5,761.1	6,072.2	6,411.4	6,738.9	7,061.5	7,379.5
Debt held by the public[8]	9,018.9	10,856.5	11,881.1	12,784.0	13,562.2	14,301.1	15,063.9	15,795.1	16,512.6	17,283.7	18,103.3	18,966.7

*$50 million or less.

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

[2] Includes assumed Supplementary Financing Program balance of $200 billion on September 30, 2011, and zero on September 30, 2012, and beyond.

[3] Besides checks outstanding, includes 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.

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

[5] 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.

[6] The statutory debt limit is $14,294 billion, as enacted on February 12, 2010.

[7] 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).

[8] At the end of 2010, the Federal Reserve Banks held $811.7 billion of Federal securities and the rest of the public held $8,207.2 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

Federal deficit or surplus and the change in debt held by the public. The borrowing or debt repayment depends on the Federal Government's expenditure programs and tax laws, on the economic conditions that influence tax receipts and outlays, and on debt management policy. The sensitivity of the budget to economic conditions is analyzed in Chapter 3, "Interactions Between the Economy and the Budget," in this volume.

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

Over the long run, it is a good approximation to say that "the deficit is financed by borrowing from the public" or "the surplus is used to repay debt held by the public." However, the Government's need to borrow in any given year has always depended on several other factors besides the unified budget surplus or deficit, such as the change in the Treasury operating cash balance. These other factors—"other transactions affecting borrowing from the public"—can either increase or decrease the Government's need to borrow and can vary considerably in size from year to year. As a result of the Government's recent extraordinary efforts to stabilize the Nation's credit markets, these other factors have significantly increased borrowing from the public. The other transactions affecting borrowing from the public are presented in Table 6–2 (an increase in the need to borrow is represented by a positive sign, like the deficit).

In 2010 the deficit was $1,293 billion while these other factors—primarily the net disbursements of credit financing accounts—increased the need to borrow by $181 billion. As a result, the Government borrowed $1,474 billion from the public. The other factors are estimated to increase borrowing by $192 billion in 2011 and reduce borrowing by $77 billion in 2012. In 2013–2021, these other factors are expected to increase borrowing by annual amounts ranging from $84 billion to $135 billion.

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

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

Change in Treasury operating cash balance.—Since 2008, changes in the cash balance have been largely driven by fluctuations in the temporary Supplementary Financing Program (SFP). Under the SFP, Treasury issues short-term debt and deposits the cash proceeds with the Federal Reserve for use by the Federal Reserve in its actions to stabilize the financial markets. The cash balance increased by a record $296 billion in 2008, primarily as a result of the creation of the SFP. In 2009, the cash balance decreased by $96 billion, due to a $135 billion reduction in the SFP balance offset by a $38 billion increase in the non-SFP cash balance. In 2010, the cash balance increased by $35 billion, to $310 billion, due nearly entirely to an increase in the SFP balance. In the 10 years preceding 2008, changes in the cash balance had been much smaller, ranging from a decrease of $26 billion in 2003 to an increase of $23 billion in 2007. The operating cash balance is projected to be $310 billion at the end of 2011, including an assumed SFP balance of $200 billion and a non-SFP balance of $110 billion. In 2012, the cash balance is projected to decrease by $235 billion, to $75 billion, including an assumed SFP balance of zero. 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), budget outlays for direct loans and loan guarantees consist of the estimated subsidy cost of the loans or guarantees at the time when the direct loans are disbursed or the guaranteed loans are made. The cash flows to and from the public resulting from these loans and guarantees—the disbursement and repayment of loans, the default payments on loan guarantees, the collections of interest and fees, and so forth—are not costs (or offsets to costs) to the Government except for their subsidy costs (the present value of the estimated net losses), which are already included in budget outlays. Therefore, they are non-budgetary in nature and are recorded as transactions of the non-budgetary financing account for each credit program. [8]

The financing accounts also include several types of intragovernmental transactions. In particular, they receive payment from the credit program accounts for the costs

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

[7] For further explanation of the off-budget Federal entities, see Chapter 13, "Coverage of the Budget."

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

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

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

In some years, large net upward or downward reestimates in the cost of outstanding direct and guaranteed loans may cause large swings in the net financing disbursements. In 2010, due primarily to the Troubled Asset Relief Program (TARP), downward reestimates were significantly larger than upward reestimates, resulting in a net downward reestimate of $117 billion. In 2011, there is a net downward reestimate of $54 billion, largely as a result of downward reestimates in the TARP and student loan programs.

The impact of the net financing disbursements on borrowing increased significantly in 2009, largely as a result of Government actions to address the Nation's financial and economic challenges including through TARP, purchases of mortgage-backed securities issued or guaranteed by the Government-Sponsored Enterprises (GSEs), and the Temporary Student Loan Purchase Program. Net financing disbursements increased from $33 billion in 2008 to a record $406 billion in 2009. In 2010, borrowing due to financing accounts fell by more than half, to $153 billion, due in part to large repayments of TARP assistance. In 2011 borrowing due to financing accounts is estimated to increase to $194 billion. After 2011, the credit financing accounts are expected to increase borrowing by amounts ranging from $86 billion to $160 billion over the next 10 years.

Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust (NRRIT).—This trust fund was established by the Railroad Retirement and Survivors' Improvement Act of 2001. In 2003, most of the assets in the Railroad Retirement Board trust funds were transferred to the NRRIT trust fund, which invests its assets primarily in private stocks and bonds. The Act required special treatment of the purchase or sale of non-Federal assets by this trust fund, treating such purchases as a means of financing rather than an outlay. Therefore, the increased need to borrow from the public to finance the purchase of non-Federal assets is part of the "other transactions affecting borrowing from the public" rather than included as an increase in the deficit. While net purchases and redemptions affect borrowing from the public, unrealized gains and losses on NRRIT's portfolio are included in both the other factors and, with the opposite sign, in NRRIT's net outlays in the deficit, for no net impact on borrowing from the public. The increased borrowing associated with the initial transfer expanded publicly held debt by $20 billion in 2003. Net transactions in subsequent years have been much smaller. In 2010, net purchases, including gains, were $1 billion. Net reductions of roughly $1 billion annually are projected for 2011 through 2021. [9]

Debt held by Government accounts.—The amount of Federal debt issued to Government accounts depends largely on the surpluses of the trust funds, both on-budget and off-budget, which owned 92 percent of the total Federal debt held by Government accounts at the end of 2010. In 2010, the total trust fund surplus was $123 billion, and trust funds invested $143 billion in Federal securities. Investment may differ somewhat from the surplus due to changes in the amount of cash assets not currently invested. The remainder of debt issued to Government accounts is owned by a number of special funds and revolving funds. The debt held in major accounts and the annual investments are shown in Table 6–5.

Debt Held by the Public Net of Financial Assets and Liabilities

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

One transaction that can increase both borrowing and assets is an increase to the Treasury operating cash balance. When the Government borrows to increase the Treasury operating cash balance, that cash balance also represents an asset that is available to the Federal Government. Looking at both sides of this transaction—

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[9] The budget treatment of this fund is further discussed in Chapter 12, "Budget Concepts."

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

(Dollar amounts in billions)

	Actual 2010	Estimate										
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Debt Held by the Public:												
Debt held by the public	9,018.9	10,856.5	11,881.1	12,784.0	13,562.2	14,301.1	15,063.9	15,795.1	16,512.6	17,283.7	18,103.3	18,966.7
As a percent of GDP	62.2%	72.0%	75.1%	76.3%	76.3%	76.1%	76.1%	76.1%	76.2%	76.4%	76.7%	77.0%
Financial Assets Net of Liabilities:												
Treasury operating cash balance	309.8	310.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Credit financing account balances:												
Direct loan accounts	668.0	835.9	1,018.7	1,166.5	1,307.4	1,446.2	1,562.2	1,669.6	1,775.3	1,878.7	1,979.6	2,085.1
Guaranteed loan accounts	–32.5	–22.2	–25.9	–27.8	–24.7	–18.8	–12.6	–9.2	–10.4	–15.2	–21.6	–36.2
TARP equity purchase accounts	76.9	92.4	73.3	64.2	55.3	44.2	38.1	33.3	29.0	21.8	13.2	13.5
Subtotal, credit financing account balances	712.4	906.1	1,066.1	1,202.9	1,338.0	1,471.6	1,587.7	1,693.7	1,793.9	1,885.4	1,971.3	2,062.5
Government-sponsored enterprise preferred stock	109.2	143.3	163.8	172.0	172.0	172.0	172.0	172.0	172.0	172.0	172.0	172.0
Non-Federal securities held by NRRIT	22.8	21.6	20.4	19.2	18.1	17.1	15.5	14.5	13.3	12.0	10.9	9.6
Other assets net of liabilities	–29.3	–29.3	–29.3	–29.3	–29.3	–29.3	–29.3	–29.3	–29.3	–29.3	–29.3	–29.3
Total, financial assets net of liabilities	1,125.0	1,351.7	1,296.1	1,439.9	1,573.9	1,706.4	1,821.0	1,925.9	2,024.9	2,115.1	2,199.9	2,289.9
Debt Held by the Public Net of Financial Assets and Liabilities:												
Debt held by the public net of financial assets	7,894.0	9,504.7	10,585.1	11,344.1	11,988.3	12,594.7	13,242.9	13,869.2	14,487.6	15,168.6	15,903.4	16,676.8
As a percent of GDP	54.4%	63.0%	66.9%	67.7%	67.4%	67.0%	66.9%	66.8%	66.8%	67.0%	67.4%	67.7%

the borrowing to obtain the cash and the asset of the cash holdings—provides much more complete information about the Government's financial condition than looking at only the borrowing from the public. Another example of a transaction that simultaneously increases borrowing from the public and Federal assets is Government borrowing to issue direct loans to the public. When the direct loan is made, the Government is also acquiring an asset in the form of future payments of principal and interest, net of the Government's expected losses on the loans. Similarly, when the National Railroad Retirement Investment Trust increases its holdings of non-Federal securities, the borrowing to purchase those securities is offset by the value of the asset holdings.

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

The magnitude and the significance of the Government's financial assets has increased greatly since the later part of 2008, as a result of Government actions, such as implementation of TARP, to address the challenges facing the Nation's financial markets and economy.[10]

Table 6–3 presents debt held by the public net of the Government's financial assets and liabilities, or "net debt." Treasury debt is presented in the Budget at book value, with no adjustments for the change in economic value that results from fluctuations in interest rates. The balances of credit financing accounts are based on projections of future cash flows. For direct loan financing accounts, the balance generally represents the net present value of anticipated future inflows such as principal and interest payments from borrowers. For guaranteed loan financing accounts, the balance generally represents the net present value of anticipated future outflows, such as default claim payments net of recoveries. NRRIT's holdings of non-Federal securities are marked to market on a monthly basis. GSE preferred stock is measured at market value.

At the end of 2010, debt held by the public was $9,019 billion, or 62.2 percent of GDP. The Government held $1,125 billion in net financial assets, including a cash balance of $310 billion, net credit financing account balances of $712 billion,[11] and other assets and liabilities that aggregated to a net asset of $103 billion. Therefore, debt net of financial assets was $7,894 billion, or 54.4 percent of GDP. As shown in Table 6–3, the value of the Government's net financial assets is projected to increase to $1,352 billion in 2011, due largely to increases in the net balances of credit financing accounts. While debt held by the public is expected to increase from 62.2 percent to 72.0 percent of GDP during 2011, net debt is expected to increase from 54.4 percent to 63.0 percent of GDP.

[10] For more information on these activities, see Chapter 4, "Financial Stabilization Efforts and Their Budgetary Effects."

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

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

Treasury Debt

Nearly all Federal debt is issued by the Department of the Treasury. Treasury meets most of the Federal Government's financing needs by issuing marketable securities to the public. These financing needs include both the change in debt held by the public and the refinancing—or rollover—of any outstanding debt that matures during the year. Treasury marketable debt is sold at public auctions on a regular schedule and can be bought and sold on the secondary market. Treasury also sells to the public a relatively small amount of nonmarketable securities, such as savings bonds and State and Local Government Series securities (SLUGs).[12] Treasury nonmarketable debt cannot be bought or sold on the secondary market.

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

Treasury Bills—Treasury bills have maturities of one year or less from their issue date. In addition to the regular auction calendar of bill issuance, Treasury issues cash management bills on an as-needed basis for various reasons such as to offset the seasonal patterns of the Government's receipts and outlays. In addition, under the temporary Supplementary Financing Program, discussed above, Treasury issues cash management bills and deposits the proceeds with the Federal Reserve, for the Federal Reserve to use in its efforts to address the financial and economic challenges facing the Nation.

[12] Under the State and Local Government Series program, the Treasury offers special low-yield securities to State and local governments and other entities for temporary investment of proceeds of tax-exempt bonds.

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

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

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

Historically, the average maturity of outstanding debt issued by Treasury has been about five years. The average maturity of outstanding debt was 59 months at the end of 2010.

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

Treasury marketable securities are highly liquid and actively traded on the secondary market. The liquidity of Treasury securities is reflected in the ratio of bids received to bids accepted in Treasury auctions; the demand for the securities is substantially greater than the level of issuance. Because they are backed by the full faith and credit of the United States Government, Treasury marketable securities are considered to be "risk-free." Therefore, the Treasury yield curve is commonly used as a benchmark for a wide variety of purposes in the financial markets. (This view of Treasury securities as "risk-free" would be jeopardized in the event that Treasury was not able to meet its obligations as a consequence of failure to enact necessary increases to the debt limit; see the discussion under "Limitations on Federal Debt.")

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 2009 and 2010, there was net disinvestment in nonmarketables, necessitating additional marketable borrowing to finance the redemption of nonmarketable debt.[13]

Agency Debt

Some Federal agencies, shown in Table 6–4, sell or have sold debt securities to the public and, at times, to other Government accounts. At one time, several other agencies issued debt securities, but this activity has declined significantly over time. Currently, new debt is issued only by the Tennessee Valley Authority (TVA) and the Federal Housing Administration (FHA); the remaining agencies are repaying existing borrowing. Agency debt increased from $25.5 billion at the end of 2009 to $26.1 billion at the end of 2010, due to increases in debt issued by TVA, slightly offset by decreases in debt issued by other agencies. Agency debt is less than one-third of one percent of Federal debt held by the public. As a result of new borrowing by TVA, agency debt is estimated to increase by $0.8 billion in 2011 and by $0.2 billion in 2012.

The predominant agency borrower is the TVA, which had borrowed $25.8 billion from the public as of the end of 2010, or 99 percent of the total debt of all agencies. TVA sells debt primarily to finance capital expenditures.

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

The Office of Management and Budget determined that each of these alternative financing methods is a means of financing the acquisition of assets owned and used by the Government, or of refinancing debt previously incurred to finance such assets. They are equivalent in concept to other forms of borrowing from the public, although under different terms and conditions. The budget therefore records the upfront cash proceeds from these methods as borrowing from the public, not offsetting collections.[15]

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

[14] 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.

[15] This budgetary treatment differs from the treatment in the *Monthly Treasury Statement* Table 6 Schedule C, and the *Combined Statement of Receipts, Outlays, and Balances of the United States Government* Schedule 3, both published by the Department of the Treasury. These two schedules, which present debt issued by agencies other than Treasury, exclude the TVA alternative financing arrangements. This difference in treatment is one factor causing minor differences between debt figures reported in the Budget and debt figures reported by Treasury. The other factors are adjustments for the timing of the reporting of Federal debt held by the National Railroad Retirement Investment Trust and treatment of the Federal debt held by the Securities Investor Protection Corporation.

Table 6–4. AGENCY DEBT
(In millions of dollars)

	2010 Actual		2011 Estimate		2012 Estimate	
	Borrowing/ Repayment(–)	Debt, End-of-Year	Borrowing/ Repayment(–)	Debt, End-of-Year	Borrowing/ Repayment(–)	Debt, End-of-Year
Borrowing from the public:						
Housing and Urban Development:						
Federal Housing Administration	–4	29	*	29	....	29
Architect of the Capitol	–5	139	–6	133	–5	128
National Archives	–13	180	–14	166	–15	151
Tennessee Valley Authority:						
Bonds and notes	790	23,622	1,043	24,665	392	25,058
Lease/leaseback obligations	–52	1,352	–73	1,280	–78	1,202
Prepayment obligations	–105	822	–105	717	–105	612
Total, borrowing from the public	611	26,144	846	26,990	189	27,179
Borrowing from other funds:						
Tennessee Valley Authority	3	4	....	4	....	4
Total, borrowing from other funds	3	4	....	4	....	4
Total, agency borrowing	614	26,148	846	26,994	189	27,183

* $500,000 or less.

Table 6–5. DEBT HELD BY GOVERNMENT ACCOUNTS[1]
(In millions of dollars)

Description	Investment or Disinvestment (–) 2010 Actual	2011 Estimate	2012 Estimate	Holdings End of 2012 Estimate
Investment in Treasury debt:				
Defense: Host nation support fund for relocation	492	131	132	1,106
Energy:				
Nuclear waste disposal fund[1]	1,804	1,055	1,162	26,290
Uranium enrichment decontamination fund	*	–337	–528	3,896
Health and Human Services:				
Federal hospital insurance trust fund	–30,227	–39,781	–29,548	210,146
Federal supplementary medical insurance trust fund	9,218	–7,401	–13,020	50,561
Vaccine injury compensation fund	56	51	72	3,062
Child enrollment contingency fund	5	–101	–184	1,834
Homeland Security:				
Aquatic resources trust fund	–47	14	30	1,980
Oil spill liability trust fund	105	174	340	2,014
Housing and Urban Development:				
Federal Housing Administration mutual mortgage fund	–6,470	995	5,053	10,242
Guarantees of mortgage-backed securities	–5,696	–220	16	3,357
Interior:				
Abandoned mine reclamation fund	92	79	103	2,805
Bureau of Land Management permanent operating funds	–240	–205	–175	1,041
Environmental improvement and restoration fund	33	–16	6	1,189
Justice: Assets forfeiture fund	171	61	45	2,290
Labor:				
Unemployment trust fund	–925	–7,703	5,000	16,000
Pension Benefit Guaranty Corporation[1]	1,336	607	763	15,723
State: Foreign service retirement and disability trust fund	528	357	....	16,219
Transportation:				
Airport and airway trust fund	–784	–240	–1,104	5,701
Transportation trust fund	12,970	–7,170	6,145	23,430
Aviation insurance revolving fund	181	117	153	1,722
Treasury:				
Exchange stabilization fund	1,821	2,264	1,604	24,304
Treasury forfeiture fund	678	–383	–250	750
Comptroller of the Currency assessment fund	61	39	44	1,109
Veterans Affairs:				
National service life insurance trust fund	–573	–664	–685	6,812
Veterans special life insurance fund	–4	–33	–46	1,918
Corps of Engineers: Harbor maintenance trust fund	455	292	....	5,713
Other Defense-Civil:				
Military retirement trust fund	41,199	73,800	58,109	413,915
Medicare-eligible retiree health care fund	15,468	12,476	15,653	170,418
Education benefits fund	128	16	–27	2,015
Environmental Protection Agency:				
Leaking underground storage tank trust fund	98	164	182	3,774
Hazardous substance trust fund	339	372	410	4,433
International Assistance Programs: Overseas Private Investment Corporation	157	121	115	5,208
Office of Personnel Management:				
Civil service retirement and disability trust fund	26,121	22,998	20,323	823,686
Postal Service retiree health benefits fund	7,000	3,087	7,189	52,391
Employees life insurance fund	1,459	738	1,749	40,092
Employees health benefits fund	875	50	–258	16,036
Social Security Administration:				
Federal old-age and survivors insurance trust fund[2]	102,795	85,191	103,462	2,587,764
Federal disability insurance trust fund[2]	–20,710	–26,640	–26,664	133,918

Table 6–5. DEBT HELD BY GOVERNMENT ACCOUNTS [1]—Continued

(In millions of dollars)

Description	Investment or Disinvestment (–)			Holdings End of 2012 Estimate
	2010 Actual	2011 Estimate	2012 Estimate	
District of Columbia: Federal pension fund	34	49	54	3,769
Farm Credit System Insurance Corporation: Farm Credit System Insurance fund	204	176	158	3,420
Federal Communications Commission: Universal service fund	74	–*	....	6,081
Federal Deposit Insurance Corporation:				
Federal deposit insurance fund	21,365	–4,030	–4,628	28,783
Senior unsecured debt guarantee fund	–852	–559	186	5,785
FSLIC resolution fund	75	24	15	3,427
National Credit Union Administration:				
Share insurance fund	1,625	925	903	11,107
Central liquidity facility	137	99	104	2,174
Temporary corporate credit union stabilization fund	335	*	900	1,265
Postal Service funds [2]	–2,858	–1,391	....	....
Railroad Retirement Board trust funds	–288	–3	–11	2,235
Securities Investor Protection Corporation	31	207	181	1,511
United States Enrichment Corporation fund	–2	70	70	1,707
Other Federal funds	–1,395	–327	37	4,659
Other trust funds	46	334	–9	3,437
Unrealized discount [1]	223	....	....	–1,105
Total, investment in Treasury debt [1]	**178,720**	**109,926**	**153,330**	**4,773,119**
Investment in agency debt:				
Railroad Retirement Board:				
National Railroad Retirement Investment Trust	3	....	....	4
Total, investment in agency debt [1]	**3**	**........**	**........**	**4**
Total, investment in Federal debt [1]	**178,723**	**109,926**	**153,330**	**4,773,123**
MEMORANDUM				
Investment by Federal funds (on-budget)	37,969	16,232	28,704	397,149
Investment by Federal funds (off-budget)	–2,858	–1,391	....	....
Investment by trust funds (on-budget)	61,305	36,534	47,828	1,655,398
Investment by trust funds (off-budget)	82,085	58,552	76,798	2,721,682
Unrealized discount [1]	223	....	....	–1,105

* $500 thousand or less.

[1] Debt held by Government accounts is measured at face value except for the Treasury zero-coupon bonds held by the Nuclear waste disposal fund and the Pension Benefit Guaranty Corporation (PBGC), which are recorded at market or redemption price; and the unrealized discount on Government account series, which is not distributed by account. Changes are not estimated in the unrealized discount. If recorded at face value, at the end of 2010 the debt figures would be $23.5 billion higher for the Nuclear waste disposal fund and $0.5 billion higher for PBGC than recorded in this table.

[2] Off-budget Federal entity.

The budget presentation is consistent with the reporting of these obligations as liabilities on TVA's balance sheet under generally accepted accounting principles. Table 6–4 presents these alternative financing methods separately from TVA bonds and notes to distinguish between the types of borrowing. At the end of 2010, obligations were $1.4 billion for lease/leasebacks and $0.8 billion for prepayments. Obligations for these two types of alternative financing are estimated to continue to decline as TVA fulfills the terms of the contracts.

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

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

The amount of agency securities sold to the public has been reduced over time by borrowing from the Federal Financing Bank (FFB). The FFB is an entity within the

Treasury Department, one of whose purposes is to substitute Treasury borrowing for agency borrowing from the public. It has the authority to purchase agency debt and finance these purchases by borrowing from the Treasury. Agency borrowing from the FFB is not included in gross Federal debt. It would be double counting to add together (a) the agency borrowing from the FFB and (b) the Treasury borrowing from the public that is needed to provide the FFB with the funds to lend to the agencies. In addition, several agencies or programs are authorized to borrow from the Treasury Department's Bureau of the Public Debt (BPD). It would similarly be double-counting to add together the agency borrowing from BPD and the Treasury borrowing from the public that is needed to provide the funds to lend to the agencies.

Debt Held by Government Accounts

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

New investment by trust funds and other Government accounts was $179 billion in 2010. Investment by Government accounts is estimated to be $110 billion in 2011 and $153 billion in 2012, as shown in Table 6–5. The holdings of Federal securities by Government accounts are estimated to grow to $4,773 billion by the end of 2012, or 30 percent of the gross Federal debt. The percentage is estimated to remain relatively stable over the next 10 years.

The Government account holdings of Federal securities are concentrated among a few funds: the Social Security Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds; the Medicare Hospital Insurance and Supplementary Medical Insurance trust funds; and four Federal employee retirement funds. These Federal employee retirement funds include the military retirement trust fund, the special fund for uniformed services Medicare-eligible retiree health care, the Civil Service Retirement and Disability Fund (CSRDF), and a separate special fund for Postal Service retiree health benefits. At the end of 2012, these Social Security, Medicare, and Federal employee retirement funds are estimated to own 93 percent of the total debt held by Government accounts. During 2010–2012, the Social Security OASI fund has a large surplus and is estimated to invest a total of $291 billion, 66 percent of total net investment by Government accounts. Over this period, the military retirement trust fund is projected to invest $173 billion, another 39 percent of the total. Some Government accounts reduce their investments in Federal securities during 2010–2012. During these years, the Medicare Hospital Insurance trust fund disinvests $100 billion, or 23 percent of the total net investment, and the Social Security DI fund disinvests $74 billion, or 17 percent of the total.

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

First, Treasury issues zero-coupon bonds to a very few Government accounts. Because the purchase price is a small fraction of par value and the amounts are large, the holdings are recorded in Table 6–5 at par value less unamortized discount. The only two Government accounts that held zero-coupon bonds during the period of this table are the Nuclear Waste Disposal Fund in the Department of Energy and the Pension Benefit Guaranty Corporation (PBGC). The total unamortized discount on zero-coupon bonds was $24.0 billion at the end of 2010.

Second, Treasury subtracts the unrealized discount on other Government account series securities in calculating "net Federal securities held as investments of Government accounts." Unlike the discount recorded for zero-coupon bonds and debt held by the public, the unrealized discount is the discount at the time of issue and is not amortized over the term of the security. In Table 6–5 it is shown as a separate item at the end of the table and not distributed by account. The amount was $1.1 billion at the end of 2010.

Limitations on Federal Debt

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

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

A large portion of the Treasury debt not subject to the general statutory limit was issued by the Federal Financing Bank. The FFB is authorized to have outstanding up to $15 billion of publicly issued debt. It issued $14 billion of securities to the Civil Service Retirement and Disability Fund on November 15, 2004, in exchange for an equal amount of regular Treasury securities. The FFB securities have the same interest rates and maturities as the regular Treasury securities for which they were exchanged. The securities mature on dates from June 30, 2009, through June 30, 2019. At the end of 2010, $10 billion of these securities remained outstanding.

The Housing and Economic Recovery Act of 2008 created a new type of debt not subject to limit. This debt, termed "Hope Bonds," is issued by Treasury to the Federal Financing Bank for the HOPE for homeowners program. The outstanding balance of Hope Bonds was $0.5 billion at the end of 2010 and is projected to increase by small amounts annually in 2011 through 2021.

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 $488 million at the end of 2010 and is projected to gradually decline over time.

The sole agency debt currently subject to the general limit, $10 million at the end of 2010, is certain debentures issued by the Federal Housing Administration. [16]

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 $19.4 billion at the end of 2010 compared with the total unamortized discount (less premium) of $59.0 billion on all Treasury securities.

Changes in the debt limit.—The statutory debt limit has been changed many times. Since 1960, Congress has passed 78 separate acts to raise the limit, extend the duration of a temporary increase, or revise the definition. [17]

The most recent debt limit increase, which raised the debt limit by $1,900 billion to $14,294 billion, was enacted on February 12, 2010. The limit had previously been increased by $290 billion, from $12,104 billion to $12,394 billion, on December 28, 2009. The December increase, enacted shortly before the anticipated reaching of the previous limit, had been intended to cover only a short period.

Between July 2008 and February 2009, the debt limit was increased three times, in each case before the Government approached the limit. In these three instances, the increase was included in a larger piece of legislation aimed at stabilizing the financial markets and restoring economic growth. The increases provided room under the statutory debt ceiling for the activities authorized by each piece of legislation. On July 30, 2008, the debt limit was increased by $800 billion, to $10,615 billion, as part of the Housing and Economic Recovery Act of 2008. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 increased the debt limit by $700 billion, to $11,315 billion. On February 17, 2009, the American Recovery and Reinvestment Act of 2009 increased the statutory limit by $789 billion, to $12,104 billion. At the dates of enactment, the debt subject to limit was at least a few hundred billion dollars below the previous ceiling.

The debt reached or neared the ceiling prior to each of the five increases enacted between 2002 and 2007. The debt limit was increased to $6,400 billion on June 28, 2002, to $7,384 billion on May 27, 2003, to $8,184 billion on November 19, 2004, to $8,965 billion on March 20, 2006, and to $9,815 billion on September 29, 2007.

At many times in the past several decades, including 2002, 2003, 2004, and 2006, the Government has reached the statutory debt limit before an increase has been enacted. When this has occurred, it has been necessary for the Treasury Department to take administrative actions to meet the Government's obligation to pay its bills and invest its trust funds while remaining below the statutory limit. One such measure is the partial or full disinvestment of the Government Securities Investment Fund (G-fund). This fund is one component of the Thrift Savings Plan (TSP), a defined contribution pension plan for Federal employees. The Secretary has statutory authority to suspend investment of the G-fund in Treasury securities as needed to prevent the debt from exceeding the debt limit. Treasury determines each day the amount of investments that would allow the fund to be invested as fully as possible without exceeding the debt limit. At the end of 2010, the TSP G-fund had an outstanding balance of $124 billion. The Treasury Secretary is also authorized to declare a debt issuance suspension period, which allows him or her to redeem a limited amount of securities held by the Civil Service Retirement and Disability Fund and stop investing its receipts. The law requires that when any such actions are taken with the TSP G-fund or the CSRDF, the Secretary is required to make the fund whole after the debt limit has been raised by restoring the forgone interest and investing the fund fully. Another measure for staying below the debt limit is disinvestment of the Exchange Stabilization Fund. The outstanding balance in the Exchange Stabilization Fund was $20 billion at the end of 2010. As the debt nears the limit, Treasury has also suspended acceptance of subscriptions to the State and Local Government Series to reduce unanticipated fluctuations in the level of the debt.

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

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

[16] At the end of 2010, there were also $18 million of FHA debentures not subject to limit.

[17] The Acts and the statutory limits since 1940 are listed in *Historical Tables, Budget of the United States Government, Fiscal Year 2012*, Table 7.3.

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

(In billions of dollars)

Description	Actual 2010	Estimate										
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Change in Gross Federal Debt:												
Federal funds deficit (+)	1,416.8	1,691.2	1,226.6	913.4	833.6	835.0	888.0	886.8	901.3	946.8	991.9	1,036.3
Other transactions affecting borrowing from the public -- Federal funds[1]	179.9	193.6	–75.3	136.4	134.7	133.2	115.7	105.5	99.7	91.0	85.5	90.7
Increase (+) or decrease (–) in Federal debt held by Federal funds	35.1	14.8	28.7	47.6	43.5	47.1	47.3	51.1	56.9	62.1	66.0	55.5
Adjustments for trust fund surplus/deficit not invested/ disinvested in Federal securities[2]	20.9	47.8	–2.0	–1.1	–1.1	–1.1	–1.5	–1.0	–1.2	–1.3	–1.2	–1.2
Change in unrealized discount on Federal debt held by Government accounts	0.2	....	....	....	....	....	....	....	....	....	....	....
Total financing requirements	**1,653.0**	**1,947.4**	**1,178.0**	**1,096.2**	**1,010.7**	**1,014.4**	**1,049.5**	**1,042.3**	**1,056.7**	**1,098.6**	**1,142.2**	**1,181.3**
Change in Debt Subject to Limit:												
Change in gross Federal debt	1,653.0	1,947.4	1,178.0	1,096.2	1,010.7	1,014.4	1,049.5	1,042.3	1,056.7	1,098.6	1,142.2	1,181.3
Less: increase (+) or decrease (–) in Federal debt not subject to limit	–1.1	–0.9	–1.1	–1.9	–1.1	–0.8	–2.2	–2.0	–1.9	–2.2	–1.8	–2.1
Less: change in adjustment for discount and premium[3]	–3.7	....	....	....	....	....	....	....	....	....	....	....
Total, change in debt subject to limit	**1,657.7**	**1,948.4**	**1,179.2**	**1,098.1**	**1,011.8**	**1,015.2**	**1,051.7**	**1,044.3**	**1,058.6**	**1,100.9**	**1,144.0**	**1,183.4**
ADDENDUM												
Debt subject to statutory limit[4]	13,510.8	15,459.2	16,638.4	17,736.5	18,748.3	19,763.5	20,815.2	21,859.5	22,918.1	24,019.0	25,163.0	26,346.4

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

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

[3] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds).

[4] The statutory debt limit is $14,294 billion.

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

The debt subject to limit is estimated to increase to $15,459 billion by the end of 2011, above the current limit of $14,294 billion. On February 2, 2011, Treasury estimated that the current limit would be reached between April 5 and May 31, 2011. Therefore, the Congress is anticipated to take up an increase to the statutory debt ceiling in the spring.

In contrast to recent debt limit increases, which have been in amounts sufficient to last for less than two years, the debt limit was increased three times during the 1990s by amounts large enough to last for two years or more. All three of these increases were enacted as part of a deficit reduction package or a plan to balance the budget and were intended to last a relatively long time: the Omnibus Budget Reconciliation Act of 1990; the Omnibus Budget Reconciliation Act of 1993; and the Balanced Budget Act of 1997. The 1997 increase lasted until 2002.

Federal funds financing and the change in debt subject to limit.—The change in debt held by the public, as shown in Table 6–2, and the change in debt net of financial assets are determined primarily by the total Government deficit or surplus. The debt subject to limit, however, includes not only debt held by the public but also debt held by Government accounts. The change in debt subject to limit is therefore determined both by the factors that determine the total Government deficit or surplus and by the factors that determine the change in debt held by Government accounts. The effect of debt held by Government accounts on the total debt subject to limit can be seen in the second part of Table 6–2. The change in debt held by Government accounts results in 22 percent of the estimated total increase in debt subject to limit from 2011 through 2021.

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.[18]

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

[18] For further discussion of the trust funds and Federal funds groups, see Chapter 28, "Trust Funds and Federal Funds."

Table 6–7. FOREIGN HOLDINGS OF FEDERAL DEBT
(Dollar amounts in billions)

Fiscal Year	Debt held by the public			Change in debt held by the public	
	Total	Foreign [1]	Percentage foreign	Total [2]	Foreign [1]
1965	260.8	12.3	4.7	3.9	0.3
1970	283.2	14.0	5.0	5.1	3.8
1975	394.7	66.0	16.7	51.0	9.2
1980	711.9	121.7	17.1	71.6	1.4
1985	1,507.3	222.9	14.8	200.3	47.3
1990	2,411.6	463.8	19.2	220.8	72.0
1995	3,604.4	820.4	22.8	171.3	138.4
2000	3,409.8	1,038.8	30.5	–222.6	–242.6
2005	4,592.2	1,929.6	42.0	296.7	135.1
2006	4,829.0	2,025.3	41.9	236.8	95.7
2007	5,035.1	2,235.3	44.4	206.2	210.0
2008	5,803.1	2,799.5	48.2	767.9	564.2
2009	7,544.7	3,575.5	47.4	1,741.7	776.0
2010	9,018.9	4,261.2	47.2	1,474.2	685.7

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

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

primarily by the Federal funds deficit, which is equal to the difference between the total Government deficit or surplus and the trust fund surplus. Trust fund surpluses are almost entirely invested in securities subject to the debt limit, and trust funds hold most of the debt held by Government accounts. The trust fund surplus reduces the total budget deficit or increases the total budget surplus, decreasing the need to borrow from the public or increasing the ability to repay borrowing from the public. When the trust fund surplus is invested in Federal securities, the debt held by Government accounts increases, offsetting the decrease in debt held by the public by an equal amount. Thus, there is no net effect on gross Federal debt.

Table 6–6 derives the change in debt subject to limit. In 2010 the Federal funds deficit was $1,417 billion, and other factors increased financing requirements by $180 billion. The net financing disbursements of credit financing accounts increased financing requirements by $153 billion and the change in the Treasury operating cash balance increased financing requirements by $35 billion. Other factors reduced financing requirements by $6 billion. In addition, special funds and revolving funds, which are part of the Federal funds group, invested a net of $35 billion in Treasury securities. An adjustment is also made for the difference between the trust fund surplus or deficit and the trust funds' investment or disinvestment in Federal securities (including the changes in the National Railroad Retirement Investment Trust's investments in non-Federal securities). As a net result of all these factors, $1,653 billion in financing was required, increasing gross Federal debt by that amount. Since Federal debt not subject to limit decreased by $1 billion and the adjustment for discount and premium changed by $4 billion, the debt subject to limit increased by $1,658 billion, while debt held by the public increased by $1,474 billion.

Debt subject to limit is estimated to increase by $1,948 billion in 2011 and $1,179 billion in 2012. The projected increases in the debt subject to limit are caused by the continued Federal funds deficit, supplemented by the other factors shown in Table 6–6. While debt held by the public increases by $6,045 billion from the end of 2010 through 2016, debt subject to limit increases by $7,304 billion.

Foreign Holdings of Federal Debt

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

Foreign holdings of Federal debt are presented in Table 6–7. At the end of 2010, foreign holdings of Treasury debt were $4,261 billion, which was 47 percent of the total debt held by the public.[19] Foreign central banks and foreign official institutions owned 74 percent of the foreign holdings of Federal debt; private investors owned nearly all the rest. This 74 percent is a small decrease from the 76 percent held by foreign central banks at the end of 2009. 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. Foreign holdings were 47 percent at the end of 2009 and 2010. The increase in foreign holdings was about 47 percent of total Federal borrowing from the public in 2010 and 53 percent over the last five years. At the end of 2010, the nations holding the largest shares of U.S. Federal debt were China, which held 21 percent of all foreign holdings, Japan, which held 20 percent, and the United Kingdom, which held 11 percent.

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.

[19] The debt calculated by the Bureau of Economic Analysis, Department of Commerce, is different, though similar in size, because of a different method of valuing securities.

Federal, Federally Guaranteed, and Other Federally Assisted Borrowing

The Government's effects on the credit markets arise not only from its own borrowing but also from the direct loans that it makes to the public and the provision of assistance to certain borrowing by the public. The Government guarantees various types of borrowing by individuals, businesses, and other non-Federal entities, thereby providing assistance to private credit markets. The Government is also assisting borrowing by States through the Build America Bonds program, which subsidizes the interest that States pay on such borrowing. In addition, the Government has established private corporations—Government-Sponsored Enterprises—to provide financial intermediation for specified public purposes; it exempts the interest on most State and local government debt from income tax; it permits mortgage interest to be deducted in calculating taxable income; and it insures the deposits of banks and thrift institutions, which themselves make loans.

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

PERFORMANCE AND MANAGEMENT

7. DELIVERING HIGH-PERFORMANCE GOVERNMENT

When Government does not work as it should, it has a real effect on people's lives—on small business owners who need loans, on young people who want to go to college, on the men and women in our Armed Forces who need the best resources when in uniform and deserve the benefits they have earned after they have served. Whether protecting individuals and communities, modernizing infrastructure, investing in our children, or taking care of the most vulnerable, the American people deserve a highly effective government.

Building a government that works smarter, better, and more efficiently to deliver results for the American people is a cornerstone of the President's Accountable Government Initiative and a key focus of this Administration.

The Nation's current fiscal situation makes it imperative that every aspect of government deliver programs demonstrated to work, and, when effective programs have not yet been identified, to experiment to find them. Once effective government programs and practices have been identified, government agencies must figure out how and where to promote their adoption, confirm they work as expected, and continually innovate to increase productivity.

To accomplish this, Federal agencies must adopt an evidence-based culture in which decisions are made using information collected in a timely and consistent manner about the effectiveness of specific policies, practices, and programs. Strategies for developing evidence exist along a continuum from the basic collection of program and outcomes information, to more sophisticated performance measurement and formative evaluation methods, to rigorous evaluation techniques that measure program and practice impacts against a comparison group. Some of these strategies are discussed in the next chapter on evaluation, including a discussion of how the Administration will use a tiered evidence approach to foster innovation, encourage promising practices, and scale proven models. This chapter focuses on complementary strategies critical to evidence-based implementation—strategic and daily management using outcome-focused performance goals and measures.

Government works better when organizational leaders identify a limited number of clear, measurable, and ambitious goals and regularly review progress toward them. When leaders ask about performance on specific goals, it reinforces the message that a goal is important. When they monitor if progress is on or off track and request analyses to understand why, it illuminates a path to improvement.

In the coming year, to improve the performance of the Federal Government and implement the recently enacted, bi-partisan Government Performance and Results Act Modernization Act of 2010 which the President signed into law in January 2011, the Administration will use three mutually reinforcing performance management strategies first introduced in the President's 2011 budget:

1. **Use Performance Information to Lead and Learn to Improve Outcomes.** Agency leaders are using constructive data-based reviews to keep their organizations on track to deliver on the near-term High Priority Performance Goals (Priority Goals) listed in the 2011 Budget and the government-wide management priorities in the Accountable Government Initiative. Given the near-term nature of the goals, OMB did not ask agencies to update or revise their Priority Goals as part of the 2012 budget process, but did encourage agencies to review and increase specificity in longer-term priorities where appropriate in their strategic plans and 2012 annual performance plans that accompany agency budget proposals. The next round of Priority Goal setting will commence in early 2011.

2. **Communicate Performance Coherently and Concisely for Better Results and Transparency**. The Federal Government will candidly communicate to the public the priorities, problems, and progress of Government programs, explaining the reasons behind past trends, the impact of past actions, and future plans. In addition, agencies will strengthen their two-way communication capacity to identify and share lessons from experience and experiments.

3. **Strengthen Problem-Solving Networks.** The Federal Government will tap into and encourage practitioner communities, both inside and outside Government, to work together to improve outcomes and performance management practices.

In addition, the Administration has taken unprecedented steps to engage the Cabinet in reviewing the budget line-by-line to find low-priority, low-performing, or duplicative and outdated programs so that funding can be directed to higher priority, well-performing programs.

The remainder of this chapter elaborates on the way the three strategies are being used—why they are important, what was accomplished over the past year, and plans for the coming year.

Use Performance Information to Lead and Learn to Improve Outcomes

In 1961, when President John F. Kennedy called for the United States to put a man on the moon within a decade, he demonstrated the motivating power of an ambitious, outcome-focused goal. Kennedy motivated people in government to accomplish an incredible feat that still inspires. He did this, in part, by clearly stating a goal that specified who and how many would accomplish what, where, and by when. Leaders in other countries, States, local governments, and a growing number of Federal programs have similarly demonstrated the power of using specific challenging and more earthly goals, combined with frequent measurement, diagnostic analysis, and unrelenting follow-up, to improve performance and cut costs.

Building on these lessons, President Obama appointed the Nation's first ever Chief Performance Officer and directed Federal agency leaders to set specific agency goals reflecting Administration priorities, combined with frequent measurement and analysis-informed reviews to drive progress. To kick-start agency efforts to operate this way, the Administration asked leaders of the 16 Cabinet departments and 8 other large Federal agencies to identify a small number of ambitious, outcome-focused, near-term High Priority Performance Goals (Priority Goals). Agencies were asked to choose goals that did not require additional resources or legislative action to achieve within an 18 to 24-month time frame, but rather hinged on strong execution. The Administration also identified specific government-wide management goals to cut waste and streamline and modernize the systems that power government operations—in information, finance, acquisition, and human resource management.

Each agency has designated a senior accountable official, a "Goal Leader," responsible for driving progress on each priority and government-wide management goal. Goal Leaders develop action plans using quarterly targets for key measures and milestones, as appropriate, to mark the path to the goal. They update progress on their goals on *Performance.gov*, a new online management tool developed by the Administration to track the government's progress each quarter to support cross-agency coordination and learning and to inform OMB review.

Agency Deputy Secretaries and their equivalents at the 24 agencies with Priority Goals are starting to hold goal-focused, data-driven reviews at least every quarter. At the Department of the Treasury, for example, the Deputy Secretary holds structured quarterly performance and budget reviews with each of his bureaus to steer the department in a unified strategic direction and improve implementation. Attendance at these meetings cuts across hierarchies and bureaucracies, and agendas are carefully vetted. These meetings forgo "daily fire drills" in favor of longer-term strategic issues, and create an unprecedented forum for every major bureau to discuss priorities, not just crises, with senior agency leadership. Critically, every meeting ends with a set of clear deliverables, follow-up actions, and deadlines. Treasury has used these reviews to sharpen the mission and goals of its bureaus, replace low-value performance measures with more meaningful indicators of performance, and foster collaboration and resource-sharing across organizational lines.

This data-driven management discipline is spreading across the Federal Government—at the Department of Veterans Affairs (VA), the Department of Housing and Urban Development (HUD), and in all other agencies with Priority Goals. It is also starting to happen more frequently at the bureau level and in smaller agencies. The FBI and Customs and Border Patrol, for example, run regular data-driven reviews at all levels of the organization, and the U.S. Food and Drug Administration recently launched FDA-TRACK, an agency-wide performance management program that monitors all 114 FDA program offices' key performance measures and highlighted projects. The acronym FDA chose for this initiative succinctly captures key objectives of the Administration's performance management approach: Transparency, Results, Accountability, Credibility, and Knowledge-Sharing. The FDA-TRACK website allows the public to view FDA's performance data, learn about the agency's breadth of public health responsibilities, and track progress on over 100 important projects and over 800 monthly program measures, including important Agency-wide initiatives such as egg farm inspections, H1N1 vaccines, and medical countermeasures.

OMB, working with the Performance Improvement Council (PIC), has begun monitoring review processes at the 24 agencies with Priority Goals to identify best practices worth sharing and to make sure that agencies that have not yet launched these reviews initiate constructive data-driven reviews at least quarterly. In the coming year, OMB and the PIC will launch a community-of-practice to strengthen agency capacity to prepare for and run effective internal results reviews.

Complementing agency internal reviews, OMB is also holding regular, data-driven constructive performance reviews on Priority Goals, IT projects (TechStat), acquisition (AcqStat), and other government-wide management priorities, including regular reviews with OPM on agency progress on personnel management priorities. While these review processes vary somewhat, they employ a similar approach. Prior to quarterly constructive performance reviews on each Priority Goal, for example, OMB asks every agency Goal Leader to assess the likelihood of success on his or her goal and, if needed, identify ways OMB or others can support goal achievement. Based on each Goal Leader's analysis, OMB budget analysts' review of information on *Performance.gov*, and reviews by members or staff of Federal cross-agency Councils (e.g., Performance Improvement Council), OMB develops a list of prioritized follow-up actions. Some of these require inter-agency meetings, some broker expert assistance, and others establish new interim expectations, such as requiring process benchmarking with industry best practices.

Where efforts are off-track and a team is not making the necessary mid-course corrections, OMB notifies the agency's Deputy Secretary or equivalent about its concerns. Where OMB or Council members have expertise or know of it in other agencies, assistance is offered to help the agency get back on track. Where progress is being made and breakthroughs achieved, OMB and the Councils celebrate and share the successes. Where progress toward a goal shared by multiple agencies requires inter-agency coordination or where agencies face similar problems that would benefit from cross-agency attention, OMB facilitates cross-agency action.

Over the past year, many agencies have released updated strategic plans, using them to communicate long-term goals and the path an agency will follow to achieve them. OMB uses the goals agencies set in their strategic plans, as well as the near-term Priority Goals, to align budget resources with priorities. Agencies also use their strategic plans to guide decisions about information technology (IT) and other major investments, and their hiring and training needs.

The power of this type of goal-focused performance management system is that it uses performance measures to create a constructive dynamic that motivates continual improvement, not just compliance. This approach stands in contrast to the way most (although not all) Federal agencies previously used goals and measures—primarily to complete the plans and reports required by law, rather than as a tool to improve outcomes and increase productivity. This Administration is committed to creating a performance management approach that ignites continual improvement. Significant progress has been made on some Priority Goals, while weaknesses have been identified and are being addressed in others. HUD and the VA have greatly accelerated housing and services for veterans to reduce the number of homeless veterans in 2010, on the way toward achieving the Administration's long-term goal of eliminating veteran homelessness in five years. To date, the Department of Energy has weatherized 295,000 homes, and more than 300 schools have signed on to the Department of Agriculture's Healthier US Schools Challenge—an important component of the First Lady's *Let's Move!* initiative to raise a healthier generation of kids. These schools agree to meet criteria for better food quality, physical activity, physical education, and nutrition education.

In the coming year, OMB and the PIC will help Federal agencies strengthen their analytic skills to extract insights and actionable lessons from the data they gather and integrate root cause analyses and hypothesis testing into program operations. Programs will be encouraged to search for research about effective interventions relevant to their work, and expected to find organizations with which to benchmark processes and outcomes. One particular area of attention for OMB and the PIC will be Federal agencies that depend on State and local government, non-profit organizations, or other delivery partners to accomplish their objectives, and those with field operations working on similar issues from different locations. Agencies in these situations need to strengthen their capacity to learn from others' experience—scouring for research and analyzing data from the field to identify promising practices, testing promising practices to see if they can be replicated, and when successfully replicated, promoting their adoption when more effective and cost-effective than the alternatives.

Working with the PIC, OMB will develop guidance to help agencies with goal-setting, measurement, analysis, results reviews, delivery chain mapping, and the use of incentives. There will be an increased focus on ensuring agencies understand the suite of measures that complement mission-focused outcome and output measures—such as indicators of responsiveness, beneficial and unwanted side effects, and measurement manipulation—and enhance program operations. Attention will also be devoted to connecting the performance community with the budget, financial, IT, acquisition, and human capital community.

OMB will also begin immediate implementation of the newly enacted GPRA Modernization Act of 2010, a law that builds on the strengths of the Government Performance and Results Act of 1993 (GPRA) and addresses its weaknesses. The new law is closely aligned with the Administration's aggressive performance agenda. In addition to adding requirements for priority-setting and frequent performance reviews by senior agency leaders and OMB and shifting the emphasis from the production of annual performance reports for their own sake to the use of performance measurement to motivate and illuminate ways to improve, the new law also requires adoption of cross-cutting Federal government priority goals, display of agency and government-wide results on a public website, and increased consultation with Congress.

Communicate Performance Coherently and Concisely for Better Results and Transparency

Transparent, coherent performance information contributes to more effective, efficient, fair, inclusive, and responsive government. Communicating performance information can support public understanding of what government wants to accomplish and how it is trying to accomplish it. It can also support learning across government agencies, stimulate idea flow, enlist assistance, and motivate performance gain. In addition, transparency can strengthen public confidence in government, especially when government does more than simply herald its successes but also provides candid assessments of problems encountered, their likely causes, and actions that will be taken to address problems. And communicating spending information supports public understanding of how federal funds are being used.

Beginning with the Recovery Act, this Administration provided the public unprecedented transparency into contracts and grants issued by the Federal government. Building on this experience, the Administration has charged forward to provide even more transparency, publishing information on all types of Federal spending in line with implementation of the Federal Funding Accountability and Transparency Act while taking care to keep the recipient reporting burden as low as possible. In April 2010, the Administration issued guidance implementing the compensation and sub-award requirements of the Transparency Act, including new requirements for quality and completeness metrics for Federal spending data. Agencies began reporting and displaying sub-award information in October 2010, so Americans can now view how their tax dollars are spent and who received Federal funds on *USAspending.gov*.

The Administration is also tracking and reporting multiple dimensions of Federal spending to increase spending accuracy. In June 2010, the Administration launched *PaymentAccuracy.gov* to display information on agency efforts to prevent, reduce, and recapture improper payments. Specifically, *PaymentAccuracy.gov* includes information on spending accuracy performance government-wide (e.g., government-wide improper payment rate and reduction targets for future years), at the agency level (agency-specific improper payment amounts and the amount of improper payments recaptured), and for specific programs. And for specific high-error programs (e.g., Medicare, Medicaid, Unemployment Insurance), the site contains program specific information (e.g., names of agency accountable officials, annual improper payment rates and reduction targets, and supplemental measures related to improper payments). *PaymentAccuracy.gov* makes improper payment information transparent and easily accessible to the public and agency officials, and uses targets and metrics to keep agencies focused on reducing and recapturing improper payments.

In August, the Administration opened *Performance.gov* to all Federal employees to support communications across agencies and between agencies and OMB. *Performance.gov* provides the basis for OMB's quarterly Priority Goal Constructive Performance Reviews. Agencies update information in *Performance.gov* each quarter at a minimum, which provides a clear, concise picture of each agency's Priority Goals, action plans, strategies, and status on measures and milestones. Agencies also explain missed targets and milestones, and what they are doing about them. As experience using the site grows, OMB will work with the PIC to transition annual performance planning and reporting previously required by the Government Performance and Results Act of 1993, and now required by the GPRA Modernization Act of 2010, to *Performance.gov*. Reporting agency performance on *Performance.gov* will save taxpayers' dollars by diminishing the agencies' reporting burden, saving time and reams of paper. It will also increase the usefulness of what is reported. Agencies can already sort by theme on *Performance.gov* to find other agencies with Priority Goals in the same policy area with which they might want to coordinate. They can sort by project type to find organizations handling similar functions with which to benchmark process times and quality. As the site develops, tagging features will be enhanced to support cross-agency coordination on shared goals.

Performance.gov was designed as a Federal Government management tool, but the Administration will open portions of the site to provide a window for Congress, the public and others to show government priorities, candidly convey how goals are being accomplished, and explain what agencies are doing when a problem is encountered. In the interim, the list of near-term High Priority Performance Goals originally set in the 2011 budget can be found at *http://www.whitehouse.gov/omb/performance_default*. These goals represent a subset of the fuller suite of goals reflected in agencies' long-term strategic goals and annual performance plans, as well as individual performance plans of bureaus, and do not include goals dependent on new or recent legislation and additional funding.

Reporting to OMB via *Performance.gov* and opening the site up to the public to provide a window on the way the Federal government is managing bolsters the President's Accountable Government Initiative to make government more responsive to the American people and creates a healthy dynamic that keeps agencies focused on delivering on their priorities. This is a management technique that has proven effective in both the public and private sectors to improve performance on key goals. For example, the State of Maryland publishes StateStat materials and goal tracking online and was ranked number one in the country for online stimulus tracking material.

Performance.gov is only one piece of an effective Federal performance communication system, however. Over the next year, the Administration will increase attention to other aspects of the performance communication infrastructure—considering more carefully key audiences for performance information, what they need to know, and how, when, and where they need to access the information to help them contribute to better outcomes.

Many Federal programs depend on delivery partners such as state and local governments and non-profit organizations to accomplish their objectives. Over the next year, the Administration will encourage Federal agencies to strengthen their capacity to be learning leaders supporting Federal field operations and state, local, tribal, and not-for-profit delivery partners. This requires not just figuring out how to organize performance and other relevant information about peers in similar situations to reveal effective practices worth promoting for broader adoption and problems that would benefit from cross-jurisdiction attention, but also understanding how to communicate that information in ways that are helpful, actionable, and fair—encouraging continual improvement without adding to fear and frustration.

To improve the quality of government services, provide greater certainty about the time needed, and inform decisions about which service provider to use when, the Administration is also working to enhance the way it communicates transaction performance—whether to those receiving benefits, getting a loan, going through a process designed to enhance security, using Federal facilities such as a national park, or otherwise directly dealing with Federal officials.

The Administration is committed not just to communicating performance from the Federal government in more useful ways, but also to improving public and delivery partner communication to the Federal government. *Performance.gov* will make it easy for site visitors to provide feedback. In addition, OMB and 40 Federal agencies have worked together to make it easier and faster to solicit actionable, timely feedback for many types of qualitative customer information, including comment cards, focus groups, and user testing, by using a generic clearance process that agencies can submit to the Office of Information and Regulatory Affairs for a five-day review. To tap into electronic networks and gather ideas, the Administration is also testing a web-based tool, with a working name of ExpertNet, to find people with expertise relevant to an issue, ask structured questions, receive public answers, and use public reactions to the answers to "filter up" the best suggestions for Federal attention.

Strengthen Problem-Solving Networks

The third strategy the Administration will pursue to improve performance management involves the extensive use of existing and new practitioner networks. Federal agencies do not work in isolation to improve outcomes. Every Federal agency and employee depends on and is supported by others—other Federal offices, other levels of government, for-profit and not-for-profit organizations, and individuals with expertise or a passion about specific problems. New information technologies, such as the ExpertNet tool described in the preceding section, are transforming our ability to tap vast reservoirs of capacity beyond a Federal office. At the same time, low-technology networks such as professional associations and communities of practice are also able to solve problems, spur innovation, and diffuse knowledge.

The Administration is turning to existing networks, both inside and outside Government, to tap their intelligence, ingenuity, and commitment, as well as their dissemination and delivery capacity. The PIC, made up of Performance Improvement Officers from every Federal agency, functions as the hub of the performance management network. OMB worked closely with the PIC over the past year to design and implement *Performance.gov* and the quarterly Constructive Performance Review process. In the coming year, it will continue to work with the PIC to modernize the principles and practices of the current performance management framework and to figure out effective ways to help agencies accelerate their performance. Acceleration efforts will include the creation of a Practitioners' Corner on *Performance.gov* to share tips, tools, and templates; the identification of best practices and agency experts ready to assist counterparts in other agencies; and the establishment of functional working groups and communities of practice to share and co-invest in better practices they can share.

In 2010, several cross-agency teams began sharing experiences and developing common tools. Performance Improvement Officers from agencies responsible for benefits processing identified priority areas of shared interest for future group action, including reducing improper payments and improving the experience of customers—processing their benefits faster and improving customer relationship management. Federal employees who manage unwanted incidents—preventing bad things from happening and reducing their costs when they do—developed a common measurement framework they can all use. Agencies implementing new evidence-based grant programs began exchanging lessons on how to build a strong evidence focus into their grant review and selection processes and to require projects to be evaluated using rigorous evaluations designs. And, volunteers from across the government reviewed the content of *Performance.gov* to provide agencies feedback from multiple perspectives. Tapping a network of reviewers from other Federal agencies also spreads and strengthens Federal agency knowledge about outcome-focused performance management practice.

Problem-solving teams have been launched to conduct intensive reviews across a range of disciplines. In the Information Technology (IT) realm, OMB has gathered ideas from private sector leaders, top CEOs, contractors and agency CIOS to improve the Federal Government's management of IT projects. Additionally, the office of the U.S. Chief Information Officer launched TechStat sessions that bring together all of the government staff and private contractors joining forces on a given IT project to identify problems and come up with solutions to improve effectiveness and cut out waste. The Office of Federal Procurement Policy has reinstituted the Front Line Forum, comprising front line contracting officers from all the large agencies as well as many small ones, to get the front-line staff's unique perspective and recommendations on improving acquisition across the Federal government. In 2011, the Chief Acquisition Officers Council (CAOC) will focus on strengthening the acquisition workforce and improving communication between program and contracting officials. The CAOC has also initiated a cross-council group (CAOC, PIC, Chief Financial Officers Council, Chief Information Officers Council, and Chief Human Capital Officers), working with the Office of Personnel Management, to share hiring flexibilities and develop effective hiring strategies for agency hiring managers. And like the IT TechStat sessions, the Office of Federal Procurement Policy has launched AcqStat sessions to bring a broad swath of acquisition professionals together to discuss the challenges they face in delivering better results for less.

The Administration is also turning to existing external networks—including State and local government associations, schools of public policy and management, think tanks, and professional associations—to enlist their assistance on specific problems and in spreading effective performance management practices.

AGENCY HIGH PRIORITY PERFORMANCE GOALS

The list of near-term High Priority Performance Goals can be found at *http://www.whitehouse.gov/omb/performance_default* .

8. PROGRAM EVALUATION

The Administration believes that the Federal Government should use taxpayer dollars efficiently and effectively. Central to that is a culture where agencies constantly ask, and try to answer, questions that help them find, sustain, and spread effective programs and practices; find and fix or eliminate ineffective ones; test promising programs and practices to see if they can be replicated; and find lower-cost ways to achieve a positive impact. The Federal fiscal situation necessitates doing more with less, not only to reduce budget deficits, but to build confidence that Americans are receiving maximum value for their hard-earned tax dollars. It is therefore critical to apply an evidence-based approach to government management that utilizes rigorous methods appropriate to the situation, learns from experience, and is open to experimentation.

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

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

Evaluations do what performance measurement, alone, cannot. Evaluations determine whether programs produce outcomes superior to alternative policy choices, or not putting into place a policy at all. This is in contrast with performance measurement, which tracks progress toward intended program outcomes, but does not compare outcomes to alternative programs or the status quo. If a particular job training approach has a high job placement rate, is it because it is effective or because it attracts those easiest to place in jobs? An evaluation would compare the employment of participants in the job training program to comparable individuals who did not participate in the program in order to isolate the effects of the training from other factors. Evaluations can answer a wide-range of germane questions such as whether workers are safer in facilities that are inspected more frequently, whether one option for turning around a low-performing school is more effective than another, whether outcomes for families are substantially improved in neighborhoods that receive intensive services, and whether no-fee debit cards increase savings among the unbanked.

Evaluation is one component of the evidence infrastructure that plays a role in a wide range of decision-making. The best government programs embrace a culture where performance measurement and evaluation are regularly used and complement one another. Agencies use performance measurement to detect practices that hold the most promise for improving performance and those with the greatest problems. Descriptive evidence of program recipients helps managers better target their resources. Regression analyses of administrative data shed light on how to better match recipients with appropriate services. Rigorous evaluations using experimental or quasi-experimental methods identify the effects of programs in situations where doing so is difficult using other methods; and rigorous qualitative evidence complements what can be learned from empirical evidence and provides greater insight into the contexts where programs and practices are implemented more and less successfully.

Continuing its emphasis on rigorous program evaluations initiated in the President's 2011 Budget, the Administration is proposing new evaluation funding for 2012 for 19 evaluations that have the potential for strong study designs and that address important actionable questions or strengthen agency capacity to support such strong evaluations.

Agencies that submitted proposals were expected to demonstrate that their funding priorities are based upon credible empirical evidence—or that they have a plan to collect that evidence—and to identify impediments to rigorous program evaluation in their statutes or regulations so that these might be addressed going forward.

The evaluation initiative included an extensive review process, with proposals reviewed by program examiners and evaluation experts at the Office of Management and Budget (OMB) and the Council of Economic Advisers (CEA). In some cases agencies then had a series of meetings with OMB and the CEA to sharpen their proposals. Going forward, OMB and the CEA plan to continue to work with these agencies on implementing strong research designs that answer important questions.

While the evaluation proposals include a broad range of domestically and internationally focused agencies, each shares the characteristics of rigor and presenting an actionable choice based on results. The accompanying table presents the evaluation activities proposed for funding as part of the 2012 evaluation initiative. These activities include a series of evaluations assessing the effectiveness of different strategies for improving college enrollment, persistence, and completion, capacity-

Table 8–1. FUNDED PROGRAM EVALUATION INITIATIVE PROPOSALS

Agency	Description
Department of Education	Evaluation of providing high schools with financial aid submissions data
Department of Education	Evaluation of integrating FAFSA and tax form preparation
Department of Education	Evaluation of college "bridge programs" for adult learners
Department of Education	Evaluation of early college placement testing and counseling
Department of Education	Evaluation of call centers to increase community college retention
Department of Education	Evaluation of Promise Neighborhoods
Department of Health and Human Services	Impacts of Medicaid expansions in Affordable Care Act
Department of Health and Human Services	Evaluation of health homes for enrollees with chronic conditions
Department of Health and Human Services	Falls prevention demonstration and evaluation
Department of Health and Human Services	Enhancing quality in early childhood programs
Department of Labor	Evaluation of TAA Community College and Career Training Grants
Department of Labor	Capacity building
Millennium Challenge Corporation	Gender-specific impacts of MCA Benin Access to Land project
United States Agency for International Development	Evaluation of Rwanda Integrated Improved Livelihoods program
United States Agency for International Development	Evaluation of Haiti Integrated Watershed Management program
United States Agency for International Development	Capacity building for evaluation consultancies
Department of the Treasury	Research studies to explore new and improved uses of IRS data
National Aeronautics and Space Administration	Evaluation of Applied Sciences program
Office of Personnel Management	Evaluation of Federal Government telework and Results Only Work Environment pilot

building for the United States Agency for International Development (USAID) that should help make rigorous evaluation a more routine aspect of their international development assistance efforts, and an analysis of ways to make the Federal workforce more efficient.

The evaluations proposed in this initiative encompass only a fraction of the evaluations performed by the Federal Government. For example, the Recovery Act launched a number of evaluations across the Federal Government on such topics as the effects of different rent formulas on housing assistance recipients, the effects of smart grid meters on residential electricity usage, and the effects of extended unemployment insurance benefit programs on employment outcomes. In addition, the Administration is placing additional focus on agency evaluation budgets to ensure that those dollars are producing high quality evidence that informs key decisions.

New funding for rigorous evaluations is only part of the Administration's efforts to reinvigorate evaluation activities across the Federal Government. Additional effort is being placed on building agency capacity for doing good evaluations. Whether that is supporting an agency in standing up a central evaluation office, empowering existing evaluation offices, institutionalizing policies that lead to strong evaluations, or hiring evaluation experts into key administrative positions, this Administration strives to build a robust evaluation infrastructure.

In addition, an inter-agency working group is promoting stronger evaluation across the Federal Government by (a) helping build agency evaluation capacity and creating effective evaluation networks that draw on the best expertise inside and outside the Federal Government, (b) sharing best practices from agencies with strong, independent evaluation offices and making research expertise available to agencies that need assistance in selecting appropriate research designs in different contexts, (c) devising new and creative strategies for using data and evaluation to drive continuous improvement in program policy and practice, and (d) developing Government-wide guidance on program evaluation practices with sufficient flexibility for agencies to adopt practices suited to their specific needs.

OMB is working with agencies to make information readily available online about all Federal evaluations focused on program impacts that are planned or already underway. This effort, analogous to that of the Department of Health and Human Services (HHS) clinical trial registry and results data bank (ClinicalTrials.gov), will promote increased transparency and accountability, and allow experts inside and outside the Government to engage early in the development of program evaluations.

For several new grant-based initiatives, the Administration is using a three-tiered approach to evidence-based funding. First, money is proposed to promote the adoption of programs and practices that strong evidence suggests will lead to significant improvement in results. Second, for programs with some but not as much supportive evidence, additional resources are proposed with the condition that the programs will be rigorously evaluated going forward. Over time, the Administration anticipates that some second-tier programs will move to the first tier, but only if they prove more promising and cost-effective than other programs. Third, agencies are encouraged to innovate and test ideas with strong potential—ideas supported by preliminary research findings or reasonable hypotheses.

A good example of this approach—in which new or expanded programs have evaluation "baked into their

DNA"—is the Department of Education's Invest in Innovation Fund (i3). The i3 fund invests in high-impact, potentially transformative education interventions—ranging from new ideas with huge potential to those that have proven their effectiveness and are ready to be scaled up. Whether applicants to i3 are eligible for funding to develop, validate, or scale up their program, and therefore how much funding they are eligible to receive, will depend on the strength of the existing evidence of the program's effectiveness, the magnitude of the impact the evidence demonstrates the program is likely to have, and the program's readiness for scaling up.

This three-tiered structure will provide objective criteria to inform decisions about programs and practices in which to invest and create the right incentives for the future. Organizations will know that to be considered for significant funding, they must provide credible evaluation results that show promise, and, before that evidence is available, be ready to subject their models to analysis. As more models move into the top tier, it will create pressure on all the top-tier models to compete to improve their effectiveness to continue to receive support. For example, the Administration has chosen to invest in many of those areas, but has made a concerted effort to increase investments in early childhood education and home-visiting programs that are backed by strong evidence—because rigorous evidence suggests that investments in those areas have especially high returns.

Rigorous evaluation will be a central component of several cross-agency initiatives designed to identify more cost-effective approaches to achieving positive outcomes for disadvantaged populations. These populations are often eligible for multiple services and benefits administered by separate Federal and State agencies, which are poorly coordinated and governed by rules that stifle effective collaboration and innovation. In 2012, the Departments of Labor and Education will support joint pilots to test interventions and systemic reforms with the potential to improve education and employment outcomes at lower cost to taxpayers. The Social Security Administration and the Department of Education will launch a joint initiative to test interventions that improve outcomes for children with disabilities and their families, which may yield substantial long-term savings if these children leave the Supplemental Security Income program. OMB's Partnership Fund for Program Integrity Innovation will test promising solutions developed collaboratively by Federal and State agencies to improve payment accuracy, improve administrative efficiency, and enhance service delivery in overlapping benefit programs. Rigorous evaluation of these cross-agency pilots will help determine which strategies lead to better results at lower cost, allowing Federal and State governments to identify the most promising strategies that warrant expansion

The President has made it very clear that policy decisions should be driven by evidence—evidence about what works and what does not and evidence that identifies the greatest needs and challenges. By instilling a culture of learning into Federal programs, the Administration will build knowledge so that spending decisions are based not only on good intentions, but also on strong evidence that yield the highest social returns on carefully targeted investments.

9. BENEFIT-COST ANALYSIS

I. INTRODUCTION

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

A crucial tool used by the Federal Government to achieve these objectives is benefit-cost analysis, which provides a systematic accounting of the social benefits and costs of Government policies. As the President recently said in Executive Order 13514, "It is the policy of the United States that...agencies shall prioritize actions based on a full accounting of both economic and social benefits and costs and shall drive continuous improvement by annually evaluating performance, extending or expanding projects that have net benefits, and reassessing or discontinuing under-performing projects." The benefits and costs of a government policy are meant to offer a concrete description of the anticipated consequences of the policy. Such an accounting helps policymakers to design programs to be efficient and effective and to avoid unnecessary or unjustified costs and burdens. That accounting also allows the American people to see the expected consequences of programs and to hold policymakers accountable for their actions.

It is true that quantification and monetization produce significant challenges, but serious efforts have been made to meet those challenges. Those efforts are continuing. Importantly, there is a close relationship between public participation and benefit-cost analysis. Because analysis is often improved through transparency and public comments, participation and consideration of benefits and costs are tightly connected in practice. To strengthen the economic recovery and prepare the country to thrive in an increasingly competitive global economy, it is important to analyze both benefits and costs and to take steps to eliminate unnecessary burdens, which may have adverse effects on job creation and growth.

II. BENEFIT-COST ANALYSIS OF FEDERAL REGULATIONS

Overview of Benefit-Cost Analysis of Federal Regulation

For over three decades, benefit-cost analysis has played a critical role in the evaluation and design of significant Federal regulatory actions. While there are precursors in earlier administrations, the Reagan Administration was the first to establish a broad commitment to benefit-cost analysis in regulatory decision making through its Executive Order 12291. The Clinton Administration continued that commitment when it updated the principles and processes governing regulatory review in Executive Order 12866, which continues in effect today. Executive Order 12866 requires executive agencies to catalogue and assess the benefits and costs of planned significant regulatory actions. It also requires agencies (1) to undertake regulatory action only on the basis of a "reasoned determination" that the benefits justify the costs and (2) to choose the regulatory approach that maximizes net social benefits, that is, benefits minus costs (unless the law governing the agency's action requires another approach).

On January 18, 2011, President Obama issued Executive Order 13563, which emphasizes the importance of protecting "public health, safety and our environment while promoting economic growth, innovation, competitiveness, and job creation."[1] Executive Order 13563 points to the need for predictability and for certainty, and for use of the least burdensome tools for achieving regulatory ends. It states that agencies "must take into account benefits and costs, both quantitative and qualitative." Executive 13563 reaffirms the principles, structures, and definitions in Executive Order 12866. In particular, Executive Order 13563 directs:

"As stated in Executive Order 12866 and to the extent permitted by law, each agency must, among other things: (1) propose or adopt a regulation only upon a reasoned determination that its benefits justify its costs (recognizing that some benefits and costs are difficult to quantify); (2) tailor its regulations to impose the least burden on society, consistent with obtaining regulatory objectives, taking into account, among other things, and to the extent practicable, the costs of cumulative regulations; (3) select, in choosing among alternative regulatory approaches, those approaches that maximize net benefits (including potential economic, environmental, public health and safety,

[1] Available at www.whitehouse.gov/sites/default/files/omb/inforeg/eo12866/eo13563_01182011.pdf.

and other advantages; distributive impacts; and equity); (4) to the extent feasible, specify performance objectives, rather than specifying the behavior or manner of compliance that regulated entities must adopt; and (5) identify and assess available alternatives to direct regulation, including providing economic incentives to encourage the desired behavior, such as user fees or marketable permits, or providing information upon which choices can be made by the public."

In addition, Executive Order 13563 asks agencies "to use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible."

Executive Order 13563 elaborates five new principles to guide regulatory decision making. First, agencies are directed to promote public participation, in part through making relevant documents available on regulations.gov to promote transparency and comment. Second, agencies are directed to attempt to reduce "redundant, inconsistent, or overlapping requirements," in part by working with one another to simplify and harmonize rules. This important provision is designed to reduce confusion, redundancy, and excessive cost. One goal of simplification and harmonization is "to promote rather than to hamper innovation," which is a foundation of both growth and job creation. Third, agencies are directed to identify and consider flexible approaches to regulatory problems, including warnings and disclosure requirements. Such approaches may "reduce burdens and maintain flexibility and freedom of choice for the public." Fourth, agencies are directed to promote scientific integrity. Fifth, and finally, agencies are directed to produce plans to engage in retrospective analysis of existing significant regulations to determine whether they should be modified, streamlined, expanded, or repealed.

Operating under the broad framework established by Executive Order 12866 (and now with the additional guidance of Executive Order 13563), the Office of Management and Budget (OMB) requires careful analysis of the costs and benefits of significant rules; identification of the approach that maximizes net benefits; detailed exploration of reasonable alternatives, alongside assessments of their costs and benefits; cost-effectiveness; and attention to unquantifiable benefits and costs as well as to distributive impacts. These steps are taken to ensure that regulations will be effective in achieving their purposes and that they do not impose excessive costs.

Reviewing agencies' benefit-cost analyses and working with agencies to improve them, OMB provides a centralized repository of analytical expertise in its Office of Information and Regulatory Affairs (OIRA). OMB's guidance to agencies on how to do benefit-cost analysis for proposed regulations is contained in OMB's Circular A-4, Regulatory Analysis. Circular A-4 directs agencies to specify the goal of a planned regulatory intervention, to consider a range of regulatory approaches for achieving that goal, to select the least burdensome approach, and to estimate the benefits and costs of each alternative considered. To the extent feasible, agencies are required to monetize benefits and costs, so that they are expressed in comparable units of value. This process enables the agency to identify (and generally to choose) the approach that maximizes the total net benefits to society generated by the rule.

For example, consider a regulation that sets standards for how quickly a truck's brakes must be able to bring it to a stop.[2] A shorter stopping distance generates greater safety benefits, but also will impose larger compliance costs if more effective brakes are more expensive. The agency should attempt to quantify both the safety benefits of reduced stopping distance and the costs of regulatory requirements. It should consider a range of stopping distances to determine the optimal one that maximizes net benefits. At such an optimal standard, making the stopping distance even shorter would impose greater additional compliance costs than it would generate in additional safety benefits. At the same time, making the stopping distance longer than optimal results in a loss in safety benefits that is greater than the cost savings. Careful benefit-cost analysis enables the agency to determine the optimal standard. It helps to show that some approaches would be insufficient and that others would be excessive.

To be sure, quantification of the relevant variables, and monetization of those variables, can present serious challenges. OIRA and relevant agencies have developed a range of strategies for meeting those challenges; many of them are sketched in Circular A-4, and we take up one such strategy below. Efforts continue to be made to improve current analyses and to disclose and test their underlying assumptions. In some cases, analysis of costs and benefits will leave significant uncertainties. But much of the time, an understanding of costs and benefits will rule out some possible courses of action, and will show where, and why, reasonable people might differ. Such an understanding will also help to identify the most effective courses of action and to eliminate unjustified costs and burdens—in the process helping to promote competitiveness and economic growth.

The Benefits and Costs of Federal Regulation in 2009

Each year, OMB reports to Congress agencies' estimates of the benefits and costs of major regulations reviewed in the prior fiscal year. Table 9–1 presents the benefit and cost estimates for the 33 non-budgetary rules reviewed by OMB in 2009.[3] Of those, agencies were able to monetize both the benefits and costs for 16. (For some rules, agencies were able to monetize benefits but not costs. For example, the Department of Interior adopted three Migratory Bird Hunting regulations for which the agency estimated the benefits associated with increased consumer welfare of hunting allowances.) Most of the benefits

[2] The National Highway Traffic Safety Administration recently issued a new safety standard for air brake systems to improve the stopping distance performance of trucks. See 49 CFR § 571.

[3] 2009 is the most recent period for which such a summary is available. These estimates were reported in OMB, 2010 Report to Congress on the Benefits and Costs of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities. A detailed description of the assumptions and calculations underlying these estimates is provided in that Report.

and costs reported in Table 9–1 are expressed as ranges, and sometimes as wide ranges, because of uncertainty about the likely consequences of rules. Quantification and monetization raise difficult conceptual and empirical questions. Prospective benefit-cost analysis requires predictions about the future—both about what will happen if the regulatory action is taken and what will happen if it is not—and what the future holds is typically not known for certain. A standard goal of the agency's analysis is to produce both a central "best estimate," which reflects the expected value of the benefits and costs of the rule, as well as a description of the ranges of plausible values for benefits, costs, and net benefits. These estimates inform the decisionmakers and the public of the degree of uncertainty associated with the regulatory decision. The process of public scrutiny can sometimes reduce that uncertainty.

To illustrate some of the underlying issues, consider the EPA's recent National Ambient Air Quality Standard (NAAQS) for Lead. The benefits of the rule are estimated to be somewhere between $455 million to $5,203 billion—an expansive range. Almost all of these estimated benefits are due to reduced lead exposure leading to reductions in decrements in cognitive function in children and ancillary benefits of reduced mortality resulting from the reduction in particulate matter emissions caused by the rule. However, there is substantial uncertainty with respect to (a) the underlying shape of the dose-response relationship in evaluating effect of lead exposure on cognitive function in children, (b) the relationship between exposure to particulate matter and premature death and (c) the proper monetary valuation of avoiding a premature death. Similar uncertainties in both the science used to predict the consequences of rules and the monetary values of those consequences, contribute to the uncertainty represented in the ranges of benefits and costs for other rules in Table 9–1. Despite these uncertainties,

Table 9–1. ESTIMATES OF THE TOTAL ANNUAL BENEFITS AND COSTS OF MAJOR RULES REVIEWED BY OMB IN 2009

(In millions of 2001 dollars)

Rule	Agency	Benefits	Costs
Energy Efficiency Standards for Commercial Refrigeration Equipment	DOE/EE	186-224	69 - 81
Energy Efficiency Standards for General Service Fluorescent Lamps and Incandescent Lamps	DOE/EE	1,111-2,886	192 - 657
Patient Safety and Quality Improvement Act of 2005 Rules	HHS/AHRQ	69-136	87-121
Revisions to HIPAA Code Sets	HHS/CMS	77-261	44- 238
Surety Bond Requirement for Suppliers of Durable Medical Equipment, Prosthetics, Orthotics, and Supplies	HHS/CMS	Not estimated	86
Updates to Electronic Transactions (Version 5010)	HHS/CMS	1,114-3,194	661-1,449
Use of Ozone-Depleting Substances; Removal of Essential Use Designations [Epinephrine]	HHS/FDA	Not estimated	154-940
Prevention of Salmonella Enteritidis in Shell Eggs	HHS/FDA	206-8,583	48-106
Air Cargo Screening	DHS/TSA	Not estimated	191-273
Secure Flight Program	DHS/TSA	Not estimated	262-348
Importer Security Filing and Additional Carrier Requirements	DHS/USCBP	Not estimated	744-3,009
Documents and Receipts Acceptable for Employment Eligibility Verification	DHS/USCIS	Not estimated	118
Real Estate Settlement Procedures Act (RESPA); To Simplify and Improve the Process of Obtaining Mortgages and Reduce Consumer Costs (FR-5180)	HUD/OH	2303	884
Migratory Bird Hunting; 2008 to 2009 Migratory Game Bird Hunting Regulations	DOI/FWS	711-1,001	Not estimated
Migratory Bird Hunting; 2009 to 2010 Migratory Game Bird Hunting Regulations	DOI/FWS	234-309	Not estimated
Migratory Bird Hunting; 2009 to 2010 Migratory Game Bird Hunting Regulations	DOI/FWS	234-309	Not estimated
Abandoned Mine Land Program	DOI/OSMRE	Not estimated	Not estimated
Family and Medical Leave Act of 1993; Conform to the Supreme Court's Ragsdale Decision	DOL/ESA	Not estimated	224-226
Refuge Alternatives for Underground Coal Mines	DOL/MSHA	Not estimated	41-45
Part 121 Pilot Age Limit	DOT/FAA	30-35	4
Washington, DC, Metropolitan Area Special Flight Rules Area	DOT/FAA	10-839	89-382
Hours of Service of Drivers	DOT/FMCSA	0-1,760	0-105
New Entrant Safety Assurance Process	DOT/FMCSA	472-602	60-72
Passenger Car and Light Truck Corporate Average Fuel Economy Model Year 2011	DOT/NHTSA	857-1,905	650-1,910
Reduced Stopping Distance Requirements for Truck Tractors	DOT/NHTSA	1,250- 1,520	23- 164
Requirements for Temporary Vehicle Trade-In Program	DOT/NHTSA	Not estimated	46
Roof Crush Resistance	DOT/NHTSA	374-1,160	748- 1,189
Pipeline Safety: Standards for Increasing the Maximum Allowable Operating Pressure for Gas Transmission Pipelines	DOT/PHMSA	85-89	13-14
Prohibition on Funding of Unlawful Internet Gambling	Treas/DO	Not estimated	75
TARP Limits on Compensation	Treas/DO	Not estimated	Not estimated
Greenhouse Gas Mandatory Reporting Rule	EPA/AR	Not estimated	64-86
Review of the National Ambient Air Quality Standards for Lead	EPA/AR	455-5,203	113-2,241
FAR Case 2007-013, Employment Eligibility Verification	FAR	Not estimated	127-141

benefit-cost analysis often reduces the range of reasonable approaches—and simultaneously helps to inform the decision about which approach is most reasonable.

Quantification and Breakeven Analysis

In some cases, the effort to monetize certain benefits (such as protection of streams and wildlife) will run into serious obstacles; quantification may be possible but not monetization. In other cases, analysts will know the direction of an effect, and perhaps be able to specify a range, but precise quantification itself will not be possible. Recognizing these points, OMB has recommended that consistent with Executive Order 12866, the best practice is to accompany all significant regulations with (1) a tabular presentation, placed prominently and offering a clear statement of qualitative and quantitative benefits and costs of the proposed or planned action, together with (2) a presentation of uncertainties and (3) similar information for reasonable alternatives to the proposed or planned action. An advantage of this approach is transparency. If, for example, it is possible to quantify certain benefits (such as protection of water quality) but not to monetize them, then the public should be made aware of that fact. At the same time, qualitative discussion of nonquantifiable benefits should help the public, and relevant decisionmakers, to understand the goal of the regulation and how it might achieve that goal.

When quantification is not possible, many agencies have found it both useful and informative to engage in “breakeven analysis.” Under this approach, agencies specify how high the unquantified or unmonetized benefits would have to be in order for the benefits to justify the costs. Suppose, for example that regulation that protects water quality costs $105 million annually, and that it also has significant effects in reducing pollution in rivers and streams. It is clear that the regulation would be justified if and only if those effects could reasonably be valued at $105 million or more. Once the nature and extent of the water quality benefits are understood, it might well be easy to see whether or not the benefits plausibly justify the costs—and if the question is difficult, at least it would be clear why it is difficult. Breakeven analysis is an important tool, and it has analytical value when quantification is speculative or impossible.

Current Agency Practice for Values of Mortality Reduction

Since agencies often design health and safety regulation to reduce risks to life, evaluation of these benefits can be the key part of the analysis. When monetizing reduced mortality risks, agencies often use what is commonly described as a “Value of a Statistical Life,” or VSL. The term is misleading because it suggests, erroneously, that the goal of monetization is to place a “value” on individual lives. The goal is instead to value reductions in small risks of premature death (such as 1 in 100,000); it follows that “VSL” actually refers to the value of marginal risks. There is no effort to suggest that any individual’s life can be expressed in monetary terms.

Circular A-4 provides background on the theory and practice of calculating VSL. It states that a substantial majority of the studies of VSL indicate a value that varies “from roughly $1 million to $10 million per statistical life.” In practice, agencies have tended to use a value in the middle or upper range of this distribution. (Note that Circular A-4 was issued in 2003 and that because of national income growth, the figure increases over time.) OMB believes that it is important to consult the relevant literature, which contains a range of significant empirical findings and conceptual claims, in order to base analysis on the best available research.

Two agencies, the Environmental Protection Agency (EPA) and the Department of Transportation (DOT), have developed official guidance on VSL. In its 2009 update to its guidelines, DOT uses a value of $6.0 million (2009 dollars), and requires all the components of the Department to use this value in their Regulatory Impact Analyses (RIAs). EPA recently changed its VSL to $6.3 million (2000 dollars) and adjusts this value for real income growth to later years. For example, in its final rule setting a new primary standard for Nitrogen Dioxide, EPA adjusted VSL to account for a different currency year (2006 dollars) and to account for income growth to 2020, which yields a VSL of $8.9 million. EPA stated in this RIA, however, that it is continuing its efforts to update this guidance.

Although the Department of Homeland Security has no official policy on VSL, it recently sponsored a report through its U.S. Customs and Border Protection, and has used the recommendations of this report to inform VSL values for several recent rulemakings. This report recommends $6.3 million (2008 dollars) and also recommends that DHS adjust this value upward over time for real income growth (in a manner similar to EPA’s adjustment approach). Other regulatory agencies that have used a VSL in individual rulemakings include the Department of Labor’s (DOL’s) Occupational Safety and Health Administration (OSHA) and the Department of Health and Human Services’ (HHS’) Food and Drug Administration (FDA). In OSHA’s rulemaking setting a Permissible Exposure Limit for Hexavalent Chromium, OSHA specifically referred to EPA guidance to justify a VSL of $7.0 million (2003 dollars), as the types of air exposure risks regulated in this rulemaking were very similar to those in EPA rulemakings. The FDA has consistently used values of $5.0 million and $6.5 million (2002 dollars) in several of its rulemakings to monetize mortality risks, but also often uses a monetary value of the remaining life years saved by alternative policies. This is sometimes referred to as a “Value of a Statistical Life Year” or VSLY. As noted, OMB believes in the importance of consulting the growing empirical and conceptual work in this domain.

Cost-per-life-saved of Health and Safety Regulation in 2009

For regulations intended to reduce mortality risks, another analytic tool that can be used to assess regulations, and to help avoid unjustified burdens, is cost-effectiveness analysis. Some agencies develop estimates of the “net cost per life saved" for regulations intended to improve public health and safety. To calculate this figure, the costs of the rule minus any monetized benefits other than mortality reduction are placed in the numerator, and the expected reduction in mortality in terms of total number of lives saved is placed in the denominator. This measure avoids any assignment of monetary values to reductions in mortality risk. It still reflects, however, a concern for economic efficiency, insofar as choosing a regulatory option that reduces a given amount of mortality risk at a lower net cost to society would conserve scarce resources compared to choosing another regulatory option that would reduce the same amount of risk at greater net costs.

Table 9–2 presents the net cost per life saved for four recent health and safety rules for which calculation is possible. The net cost per life saved is calculated using a 3 percent discount rate and using agencies' best estimates for costs and expected mortality reduction where those were provided by the agency. There is substantial variation in the net cost per life saved by these rules, ranging from negative (that is, the non-mortality-related benefits outweigh the costs), to potentially as high as $11.0 million.

This table is designed to be illustrative rather than definitive, and continuing work must be done to ensure that estimates of this kind are complete and not misleading. For example, some mortality-reducing rules have a range of other benefits, including reductions in morbidity, and it is important to include these benefits in cost-effectiveness analysis. Other rules have benefits that are exceedingly difficult to quantify but nonetheless essential to consider; consider rules that improve water quality or have aesthetic benefits. Nonetheless, it is clear that some rules are far more cost-effective than others, and it is valuable to take steps to catalogue variations and to increase the likelihood that scarce resources will be used as effectively as possible.

Table 9–2. ESTIMATES OF THE NET COSTS PER LIFE SAVED OF SELECTED HEALTH AND SAFETY RULES REVIEWED BY OMB IN FISCAL YEAR 2009

(In millions of 2001 dollars)

Rule	Agency	Net Cost per Life Saved	Notes
Prevention of Salmonella Enteritidis in Shell Eggs	HHS/FDA	Negative	Morbidity benefits exceed costs.
New Entrant Safety Assurance Process	DOT/FMCSA	Negative	Property damage and morbidity benefits exceed costs.
Reduced Stopping Distance Requirements for Truck Tractors	DOT/NHTSA	Negative	Property damage benefits exceed costs.
Roof Crush Resistance	DOT/NHTSA	$6.4-11.0	The agency estimates that the rule will prevent 135 fatalities and 1,065 nonfatal injuries annually. These figures translate into 156 equivalent fatalities. The main estimates value equivalent fatalities prevented at $6.1 million. It follows that the value of nonfatal injuries prevented is $6.1 million*(156-135)=$128.1 million annually. Total costs associated with the rule range from $875 million to $1,400 million annually. If injury benefits are subtracted from costs, the range of net cost per life saved is thus $5.5 million to $9.4 million (2007 dollars). Adjusting to 2001 dollars yields $6.4 million to $11.0 million.

III. BENEFIT-COST ANALYSIS OF BUDGETARY PROGRAMS

As noted, Executive Orders 13563 and 12866 require agencies, to the extent permitted by law, to "propose or adopt a regulation only upon a reasoned determination that the benefits of the intended regulation justify its costs." OIRA works actively with agencies to promote compliance with this requirement.

Historically, benefit-cost analysis of Federal budgetary programs has been more limited than that of regulatory policy. Increasingly, though, the Federal Government explicitly employs benefit-cost analysis to ensure that projects and spending programs have benefits in excess of costs, maximize net benefits, and allocate Federal dollars most efficiently across potential projects.

In the 1936 Flood Control Act, for example, the Congress stated as a matter of policy that the Federal Government should undertake or participate in flood control projects if the benefits exceeded the costs, where the lives and social security of people are at stake. By the late 1970s, the Army Corps of Engineers had begun to use benefit-cost analysis to improve the return on investment at a given project site. The Corps did this by designing projects based on increments of work whose benefits exceeded their costs. More recently, the budget has used benefits and costs, along with other criteria, to develop an overall program for the Corps that yields the greatest bang for the buck.

Benefit-cost analysis can also be used to evaluate programs retrospectively to determine whether they should be either expanded or discontinued and how they can be improved. Chapter 8, "Program Evaluation", in this volume discusses current efforts to improve program evaluation. Evidence that an activity can yield substantial net benefits has motivated the creation and expansion of a substantial number of programs. For example, longitudinal studies have shown that each dollar spent on high quality pre-school programs serving disadvantaged children yields substantially more than a dollar (in present value) in higher wages, less crime, and less use of public services, motivating an expansion of funding for quality pre-kindergarten programs. Similar evidence has spurred the decision to expand funding for nurse-family partnerships, finding that each dollar spent in the program leads to more than a dollar of benefits mostly in reduced Government expenditures on health care, educational and social services, and criminal justice, and that the highest returns were present in serving the most disadvantaged families. Similarly, the Government Accountability Office (GAO) has concluded that the Women, Infants, and Children (WIC) program produces monetary benefits that exceed its costs by reducing the incidence of low birth weight and iron deficiency, which are linked to children's behavior and development.

OMB continually works with Executive agencies to improve their benefit-cost analyses, and to increase transparency. In its 2010 annual report to Congress on the benefits and costs of Federal regulations,[4] OMB made the following recommendations for improvement in agencies' benefit-cost analysis by promoting (1) clarity with respect to underlying assumptions and anticipated consequences, (2) prominent tabular presentations of costs and benefits, and (3) careful consideration of the comments offered by members of the public on proposed rules. Furthermore, OMB recommends that benefit-cost analysis should be seen and used as a central part of open government. By providing the public with information about proposed and final regulations, by revealing assumptions and subjecting them to public assessment, and by drawing attention to the consequences of alternative approaches, such analysis can promote public understanding, scrutiny, and improvement of rules. OMB continues to explore ways to ensure that benefit-cost analysis helps promote the commitment to open government.[5]

[4] OMB 2010 Report to Congress on the Benefits and Costs of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities.

[5] See Transparency and Open Government, Memorandum for the Heads of Executive Departments and Agencies, President Obama, Jan. 21, 2009.

IV. IMPROVING BENEFIT-COST ANALYSIS

In the Memorandum on Transparency and Open Government, issued on January 21, 2009, the President called for the establishment of "a system of transparency, public participation, and collaboration."[6] The memorandum elaborated the principles of such a system, designed to promote accountability and disclosure of information that "the public can readily find and use." The memorandum noted that "[k]nowledge is widely dispersed in society, and public officials benefit from having access to that dispersed knowledge." Implementing the President's memorandum, agencies have begun to take a series of concrete measures described in the Open Government Directive to put into practice the commitments to transparency, participation, and collaboration.[7]

The goals of this effort are to promote accountability, to ensure that regulations are informed by a careful analysis of the likely consequences, and to reduce the dual risks of excessive and insufficient regulation. A particular goal, in the current period, is to avoid unjustified or excessive burdens on business, State and local government, and individuals. The recent agency checklist for Regulatory Impact Analysis is designed to promote these various goals (see Appendix).

Participation and Collaboration in the Regulatory Process

Regulations are likely to be most sensibly designed when they are created through the open exchange of information and perspectives among public officials, experts in relevant disciplines, and the public as a whole. To promote that open exchange, the Administration has asked agencies to provide the public with timely access to regulatory analyses and supporting documents (to the extent permitted by law and subject to privacy, confidentiality, security, or other restrictions), to ensure a meaningful opportunity for public comment.

The Internet provides an ideal vehicle for making information public, and the Administration has committed to publish as much as possible online in a format that can be retrieved, downloaded, indexed, and searched by commonly-used web search applications. Importantly, this commitment promotes public accessibility of the analysis of benefits and costs, together with the supporting materials, in order to ensure that the analysis is subject to public scrutiny. That process of scrutiny can help to increase benefits, decrease costs, or both.

Agencies now publish a great deal of information relevant to rulemaking and benefit-cost analysis, including underlying data, online and in downloadable, as well as traditional, formats. The Administration has directed agencies to use regulations.gov as often as possible, in order to make the online record as complete as possible,[8] to take all necessary steps to make relevant material available to the public for comment, and to make sure that all information provided to the public conforms to stringent information quality guidelines.[9]

Executive Orders 13563 and 12866 require that the public should generally receive a comment period of not less than 60 days for proposed regulatory actions. Even where statutes necessitate shorter comment periods, agencies can seek public comment and respond in a timely fashion to suggestions about potential improvements in rules and underlying analyses.

Publicly Accessible Summaries and Tables with Key Information

In order to improve analysis of the effects of regulations, and simultaneously to improve accountability, OMB has called for a clear, salient, publicly accessible executive summary of both benefits and costs—written in a "plain language" manner designed to be understandable to the public. For all economically significant regulations, Executive Order 12866 requires agencies to provide a description of the need for the regulatory action and a clear summary of the analysis of costs and benefits, both quali-

[6] Available at: www.gpoaccess.gov/presdocs/2009/DCPD200900010.pdf

[7] Available at: www.openthegovernment.org/otg/OGD.pdf

[8] Available at: www.whitehouse.gov/omb/assets/inforeg/edocket_final_5-28-2010.pdf

[9] Available at www.whitehouse.gov/omb/fedreg_final_information_quality_guidelines/

tative and quantitative. The summary often includes an accounting of benefits and costs of alternative approaches, and where relevant, an analysis of distributional impacts on subpopulations (such as people with disabilities or those with low income).

As noted, some benefits and costs can be quantified and monetized, while some can be described only in qualitative terms. Agencies are now asked to list all costs and benefits of a regulation in a convenient summary, quantifying and monetizing as many of them as possible. A useful way to communicate effects that cannot be easily quantified or monetized is to present ranges of values (as agencies frequently now do).

Simple, Straightforward Justification of Preferred Option

Executive Order 12866 requires the executive summary to include "an explanation of why the planned regulatory action is preferable to the identified potential alternative," and demonstrate that the agency has selected the approach "that maximizes net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity) unless a statute requires another regulatory approach."

Under the Executive Order, agencies are required to provide a "reasoned determination that the benefits of the intended regulation justify its costs," to the extent permitted by law. In making those determinations, agencies should pay close attention to quantifiable and monetizable benefits and costs, but are permitted to consider values that are hard or impossible to quantify in light of existing knowledge, as well as distributional effects, fairness, and considerations of equity (including, where relevant, considerations of environmental justice). Executive Order 13563 endorses and amplifies these principles.

Where nonquantified or nonmonetized variables are important to the agency's determination, agencies often use "breakeven analysis," explaining how high the nonquantified or nonmonetized benefits would have to be in order for the benefits to justify the costs. In those situations, agencies make underlying assumptions transparent to the public and available through the rulemaking process. Where the agency has proceeded even though the benefits do not justify the costs, and where the agency has not selected the approach that maximizes net benefits, it should carefully explain its reasoning (as, for example, where a statute so requires).

Benefit-cost analysis is a useful and often indispensable method for evaluating programs and options. In some cases, it reveals that apparently attractive proposals are too expensive to be worthwhile. In other cases, it shows that costly proposals are well-justified, because the benefits are significantly higher than the costs. Often benefit-cost analysis helps to identify the range of reasonable options. It is true that conceptual and empirical challenges remain and that it is important to assess the evolving literature in order to meet those challenges. Especially in a period of serious economic difficulties, greater use and improvement of benefit-cost analysis are high priorities.

APPENDIX
AGENCY CHECKLIST: REGULATORY IMPACT ANALYSIS

With this document, the Office of Information and Regulatory Affairs is providing a checklist to assist agencies in producing regulatory impact analyses (RIAs), as required for economically significant rules by Executive Order 12866 and OMB Circular A-4.

Nothing herein alters, adds to, or reformulates existing requirements in any way. Moreover, this checklist is limited to the requirements of Executive Order 12866 (available at: http://www.reginfo.gov/public/jsp/Utilities/EO_12866.pdf) and Circular A-4 (available at: www.whitehouse.gov/OMB/circulars/a004/a-4.pdf); it does not address requirements imposed by other authorities, such as the National Environmental Policy Act, the Regulatory Flexibility Act, the Unfunded Mandates Reform Act, the Paperwork Reduction Act, and various Executive Orders that require analysis. Executive Order 12866 and Circular A-4, as well as those other authorities, should be consulted for further information.

Checklist for Regulatory Impact Analysis:[10]

Does the RIA include a reasonably detailed description of the need for the regulatory action?

Does the RIA include an explanation of how the regulatory action will meet that need?

Does the RIA use an appropriate baseline (i.e., best assessment of how the world would look in the absence of the proposed action)?

Is the information in the RIA based on the best reasonably obtainable scientific, technical, and economic information and is it presented in an accurate, clear, complete, and unbiased manner?

Are the data, sources, and methods used in the RIA provided to the public on the Internet so that a qualified person can reproduce the analysis?

To the extent feasible, does the RIA quantify and monetize the anticipated benefits from the regulatory action?

To the extent feasible, does the RIA quantify and monetize the anticipated costs?

Does the RIA explain and support a reasoned determination that the benefits of the intended regulation justify its costs (recognizing that some benefits and costs are difficult to quantify)?

Does the RIA assess the potentially effective and reasonably feasible alternatives?

Does the RIA assess the benefits and costs of different regulatory provisions separately if the rule includes a number of distinct provisions?

Does the RIA assess at least one alternative that is less stringent and at least one alternative that is more stringent?

[10] www.whitehouse.gov/sites/default/files/omb/inforeg/regpol/RIA_Checklist.pdf. The checklist provides the complete cross-reference to the Executive Order 12866 and the Circular A-4.

Does the RIA consider setting different requirements for large and small firms?

Does the preferred option have the highest net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity), unless a statute requires a different approach?

Does the RIA include an explanation of why the planned regulatory action is preferable to the identified potential alternatives?

Does the RIA use appropriate discount rates for benefits and costs that are expected to occur in the future?

Does the RIA include, if and where relevant, an appropriate uncertainty analysis?

Does the RIA include, if and where relevant, a separate description of distributive impacts and equity?

Does the RIA provide a description/accounting of transfer payments?

Does the RIA analyze relevant effects on disadvantaged or vulnerable populations (e.g., disabled or poor)?

Does the analysis include a clear, plain-language executive summary, including an accounting statement that summarizes the benefit and cost estimates for the regulatory action under consideration, including the qualitative and non-monetized benefits and costs?

Does the analysis include a clear and transparent table presenting (to the extent feasible) anticipated benefits and costs (quantitative and qualitative)?

10. SOCIAL INDICATORS

The social indicators presented in this chapter illustrate in broad terms how the Nation is faring in selected areas where the Federal Government has significant responsibilities, including the economy, energy, the environment, health, and education, among others.

The indicators shown in the tables in this chapter are only a subset drawn from the vast array of available data on conditions in the United States. In choosing indicators for this table, priority was given to measures that were consistently available over an extended period. Such indicators make it easier to draw comparisons and establish trends.

The individual measures in these tables are influenced to varying degrees by many Government policies and programs, as well as by external factors beyond the Government's control. They do not measure the outcomes of Government policies, because they do not show the direct results of Government activities, but they do provide a quantitative measure of the progress or lack of progress toward some of the ultimate ends that Government policy is intended to promote. The "Program Evaluation "and "Benefit-Cost Analysis" chapters of this volume discuss approaches toward assessing directly the impacts of particular Government programs.

The President has made it clear that policy decisions should be based upon evidence—evidence about what the Nation's greatest needs and challenges are and evidence about what strategies are working. The social indicators in this chapter provide useful information both for prioritizing budgetary and policymaking resources and for evaluating how well existing approaches are working.

Economic Conditions: The 2008-2009 economic downturn has produced the worst labor market in more than a generation. Unemployment is double its rate at the most recent business cycle peak. The employment-to-population ratio has fallen below 60 percent for the first time in 25 years.

Over the full 1960 to 2010 period shown in the tables, the primary pattern has been one of rising living standards. Real disposable income per capita has more than tripled over the past five decades as technological progress and the accumulation of human and physical capital have increased the Nation's productive capacity. Average household net worth has more than doubled. But the median family has not shared fully in this prosperity—median income is up only about 24 percent (since 1967) and was lower in 2009 than in 1998, because income gains have been concentrated among higher-income families and individuals. Household composition has also affected the median income as the numbers of two-earner households and single-parent households have increased. Similarly the median wealth of households in the decade before retirement has risen, but not nearly as rapidly as mean wealth.

The rise in the share of national income received by those at the top of the income distribution can be seen in the two inequality measures in Table 10-1. The share of income accruing to the lower 60 percent of households has fallen from 32.9 percent in 1968 to 26.6 percent in 2009 - the most recent year for which we have data. The income share of the top one percent of taxpayers has risen from around eight percent in the two decades between 1960 and 1980 to 18 percent in 2008. The poverty rate, which fell dramatically between 1960 and 1970, as the economy prospered and as Social Security and other safety-net programs expanded, is at about the same level as in 1967—despite the large increase in per capita income, and 15 percent of American households are food-insecure. Changes in family structure among low-income households and stagnating wages for low-skill workers are a large part of the story for why rising aggregate income has not had more impact on the most economically vulnerable Americans.

Setting the Stage for Future Prosperity: The Nation's future economic prosperity depends on having a highly skilled workforce, an expanding stock of physical capital including advanced infrastructure, and a business environment that encourages innovation. National saving is a key determinant of future prosperity because it supports capital accumulation. Table 10-1 shows that net national saving, which was already low by international standards when it averaged around 10 percent in the 1960s and 1970s, fell from 6.2 percent in 2000 to 1.8 percent in 2007 as Federal budget surpluses turned to deficits. During the recent economic downturn, personal saving has rebounded to around 6 percent, but net national saving, which includes the Government's dissaving, has fallen to -1 percent of GDP. Despite the current low saving rate, past saving has resulted in a large accumulation of physical capital. The stock of physical capital including consumer durable goods like cars and appliances amounted to $49 trillion in 2009, more than four times the size of the capital stock in 1960, after accounting for inflation.

National Research and Development (R&D) spending has hovered between 2.5 percent and 2.8 percent of GDP for most of the past 50 years. The President has set a target to increase this number to 3.0 percent. Patents encourage innovation by awarding an inventor the right to exclude others from the use of an invention unless compensated. The patent system also assures publication of patented ideas distributing knowledge that might otherwise be kept confidential. Patents by U.S. inventors have more than doubled since 1960.

The Nation's future well-being and prosperity depends also on stewardship of our natural resources and environment and on our ability to bring about a clean energy economy. The country has made major strides in improving air quality since the passage of the Clean Air Act in 1970. Concentrations of the main criteria pollutants tracked by the Environmental Protection Agency have declined significantly since 1970. The largest decline was for lead, which was removed from gasoline, but there have also been large declines in the emissions of carbon monoxide, nitrogen oxides, and sulfur dioxide. The air has become markedly cleaner in the United States as a result of this progress. Progress on improving water quality has also been noticeable as an increasing proportion of the population is served by improved water treatment facilities.

Moving forward, the greatest environmental challenge is reducing greenhouse gas emissions. In 2008, emissions were 6016 teragrams. The President announced a target reduction of 17 percent in greenhouse gas emissions between 2005 and 2020, with an ultimate reduction of 83 percent between 2005 and 2050. While technological advances and a shift in production patterns mean that Americans now use about half as much energy per real dollar of GDP as they did 40 years ago, rising income levels mean that per capita consumption has remained roughly constant. And today only eight percent of U.S. energy production is from renewable sources.

Health, Education, and Civic Engagement: Table 10-2 focuses on additional national priorities.

The first three groups of indicators in this table show measures related to the Nation's health. The United States devotes a large fraction of its income to health care, and that share has increased more than threefold since 1960. In the latest data, the share of GDP accounted for by health expenditures was 17.6 percent of GDP in 2009, and the share is projected to have remained near that level in 2010. This is the largest it has ever been and well above what other nations spend on health. Despite the large expenditures on health care, many Americans were unable to obtain health insurance. In 2009, about 17 percent of the U.S. population was uninsured. In 2010, the President signed into law the Affordable Care Act, which is projected to reduce the number of uninsured Americans significantly. The United States has seen progress over the last 50 years in some important indicators of health status. Infant mortality has fallen from 26 deaths per 1,000 live births in 1960 to less than 7 deaths in 2000, although there has been relatively slow progress since 2000. Life expectancy at birth has increased substantially in the United States, rising by more than eight years since 1960, although it lags behind that in many other developed countries, and registered a small decline in 2008.

Americans' behaviors contribute to some of our health problems. Cigarette smoking has declined dramatically since the 1970s, but 21 percent of the adult population still smokes with the attendant health risks that brings. Obesity is a growing problem for the United States as more and more Americans fall into this category. About 27 percent of the population is classified as obese according to criteria established by the Centers for Disease Control and Prevention, up from 15 percent fifteen years ago.

The Administration is committed to returning America to being number one in the world in high school and college graduation rates and academic achievement, which is critical to long-term competitiveness and growth. Between 1960 and 1980, the percentage of 18-24 year olds with a high school diploma increased from 60 percent to 81 percent, a gain of about ten percentage points per decade. Progress has slowed since then with only a four percentage point gain over the past 30 years. The most thorough measurement of education achievement is the National Assessment of Educational Progress (NAEP). These measures have been taken since the 1980s. They show only very gradual improvement in mathematics and no discernible progress in reading for American 17-year olds. College enrollment rates have continued to rise. In 1980 only a quarter of 18-24 year olds were enrolled in college. Today that number is almost 40 percent.

Americans are generally well housed, but some of the population faces housing problems. In 2007, about five percent of households with children lived in inadequate housing as defined by the Census Bureau. These problems usually consisted of poor plumbing, inadequate heating, or other physical maintenance problems. About six percent of these households were experiencing overcrowding. Both measures were down from levels reported in the 1980s. However, many families have experienced increased housing costs relative to income. In 2007, 37 percent of families with children were spending more than 30 percent of reported income on housing and utilities, up from 17 percent in 1980.

Since 1980, there has been a remarkable decline in violent crime. The two crime measures shown in Table 10-2 are based on different types of record keeping. The murder rate is based on reported homicides compiled by the Federal Bureau of Investigation from local law enforcement agencies, while the violent crime statistic is based on surveys of victims. The violent crime rate has declined to about one-third of its 1980 level. The murder rate has been cut in half.

Measures of family instability increased significantly up until around 1995. Since 1995, births to unmarried adolescents age 15 to 17 have dropped from around 30 per 1,000 women to about 21 per 1,000. After rising for more than three decades, the percentage of children living only with their mother has stabilized at around 24 percent of all children. Americans increased their charitable contributions at an average real rate of slightly less than two percent per year between 1960 and 2008; real GDP per capita grew by slightly more than two percent per year over that interval. Charitable giving measured in real terms dropped slightly in 2008 and again in 2009, as the recession and capital losses cut into family resources, but the level of giving was still higher than in any year before 2007. Another measure of American's willingness to participate in civic activity, the voting rate for President, was at 64 percent in 1960, but averaged about 55 percent from 1972 through 2000 before rising to 60 percent in 2004 and 62 percent in 2008.

Other Compilations of Economic and Social Indicators: There are many other sources of data on trends in American social and economic conditions, including the *Statistical Abstract* published annually by the Census Bureau. Some examples are described below. Cutting across a range of social and economic domains, the Interagency Forum on Child and Family Statistics annually assembles *American's Children: Key National Indicators of Well-Being* (*http://www.childstats.gov*). The Interagency Forum on Aging-Related Statistics publishes *Older Americans: Key Indicators of Well-Being* every other year (*http://www.agingstats.gov/agingstatsdotnet/main_site/default.aspx*).

There are also topic-specific indicators, which highlight performance in specific areas. *Science and Engineering Indicators*, published by the National Science Board, provides a broad base of quantitative information on the U.S. and international science and engineering enterprise: (*http://www.nsf.gov/statistics/indicators*). The Science Resources Statistics Division at the National Science Foundation is doing developmental work on measuring innovation, an important component of the scientific enterprise not currently included in our measures. *Healthy People 2020* within the Department of Health and Human Services offers a statement of national health objectives that identifies the most significant preventable threats to health and establishes national goals to reduce these threats. The National Center for Health Statistics annually publishes *Health, United States* (*http://www.cdc.gov/nchs/hus.htm*), a comprehensive compilation of health indicators. The National Center for Education Statistics within the Department of Education publishes the *Condition of Education* (*http://nces.ed.gov/programs/coe*). The website includes a set of indicators and also special analyses and a user's guide.

Table 10–1. ECONOMIC AND SOCIAL INDICATORS

	Calendar Years	1960	1970	1980	1990	1995	2000	2005	2006	2007	2008	2009	2010
	Economic Conditions:												
	Living Standards:												
1	Real GDP per person (2005 dollars) [1]	15,729	20,933	25,697	32,184	34,151	39,784	42,733	43,458	43,865	43,462	41,955	42,723
	average annual percent change (5-year trend)	0.8	2.3	2.6	2.3	1.2	3.1	1.4	1.8	1.8	1.3	0.1	–0.0
2	Real disposable income per capita average (2005 dollars) [2]	10,865	15,158	18,863	23,568	24,951	28,899	31,318	32,271	32,693	32,946	32,847	33,019
	average annual percent change (5-year trend)	1.2	3.2	2.0	1.8	1.1	3.0	1.6	2.0	1.8	1.6	1.0	1.1
3	Real median income: all households (2009 dollars)	N/A	43,055	43,892	47,637	47,622	52,301	50,899	51,278	51,965	50,112	49,777	N/A
	average annual percent change (5-year trend)	N/A	N/A	0.5	1.2	–0.0	1.9	–0.5	0.0	0.5	–0.2	–0.2	N/A
4	Poverty rate (%) [2]	22.2	12.6	13.0	13.5	13.8	11.3	12.6	12.3	12.5	13.2	14.3	N/A
5	Food-insecure households (percent of all households) [3]	N/A	N/A	N/A	N/A	N/A	10.5	11.0	10.9	11.1	14.6	14.7	N/A
	Jobs and Unemployment:												
6	Civilian unemployment rate (%)	5.5	4.9	7.1	5.5	5.6	4.0	5.1	4.6	4.6	5.8	9.9	9.6
7	Unemployment plus marginally attached and underemployed (%)	N/A	N/A	N/A	N/A	10.0	7.0	8.9	8.2	8.3	10.6	16.3	16.8
8	Employment-population ratio % [4]	56.1	57.4	59.2	62.8	62.9	64.4	62.7	63.1	63.0	62.2	59.3	58.5
9	Payroll employment change - December to December (millions)	–0.4	–0.5	0.3	0.3	2.2	2.0	2.5	2.1	1.1	–3.6	–4.7	1.1
10	Payroll employment change - 5-year annual average (millions)	0.2	1.7	2.6	2.1	1.8	2.9	0.5	1.2	1.6	0.8	–0.5	–0.8
	Economic Inequality:												
11	Income share of lower 60% of all households	N/A	32.3	31.2	29.3	28.0	27.3	26.6	26.5	26.9	26.7	26.6	N/A
12	Income share of top 1% of all taxpayers	8.4	7.8	8.2	13.0	13.5	16.5	17.4	18.0	18.3	17.7	N/A	N/A
	Wealth Creation:												
13	Net national saving rate (% of GDP) [5]	10.4	8.1	7.1	3.9	4.7	6.2	2.9	3.8	1.8	–0.4	–2.3	–1.2
14	Personal Saving Rate (% of Disposable Personal Income) [5]	7.2	9.4	9.8	6.5	5.2	2.9	1.4	2.4	2.1	4.1	5.9	5.8
15	Average household net worth (thousands 2010 dollars) [5]	227	272	298	357	401	509	586	607	582	447	467	476
16	Median wealth of households aged 55–64 (thous. 2007 $) [6]	N/A	N/A	N/A	160	156	199	269	262	254	N/A	N/A	N/A
	Innovation:												
17	R&D spending (% of GDP)	2.6	2.5	2.3	2.6	2.5	2.7	2.5	2.6	2.6	2.8	N/A	N/A
18	Patents issued to U.S. residents (thousands)	42.3	50.6	41.7	56.1	68.2	103.6	88.5	112.5	105.1	105.0	107.0	N/A
19	Multifactor productivity (average 5 year percent change)	1.0	0.9	0.8	0.6	0.5	1.3	1.8	1.8	1.4	0.9	N/A	N/A
20	Nonfarm output per hour (average 5 year percent change)	1.8	2.1	1.1	1.5	1.5	2.7	3.1	2.7	2.1	1.6	1.7	2.1
	Capital and Infrastructure:												
21	Bridges that are structurally deficient or functionally obsolete (%) [7]	N/A	N/A	N/A	N/A	31.8	28.6	26.3	25.8	25.4	25.2	24.8	N/A
22	Real net stock of fixed assets and consumer durable goods ($09 bils)	11,209	16,360	22,543	29,818	33,174	38,952	44,821	46,097	47,247	48,103	48,500	N/A
	Energy and Environment:												
	Air Quality - Mean Pollution Concentration levels [8]:												
23	Carbon Monoxide (ppm) based on 124 monitoring sites	N/A	N/A	8.951	6.130	4.797	3.461	2.296	2.195	2.021	1.874	N/A	N/A
24	Ground Level Ozone (ppm) based on 258 monitoring sites	N/A	N/A	0.100	0.089	0.090	0.081	0.080	0.078	0.079	0.075	N/A	N/A
25	Lead (ug/m3) based on 19 monitoring sites	N/A	N/A	1.263	0.357	0.090	0.079	0.078	0.066	0.102	0.101	N/A	N/A
26	Nitrogen Dioxide (ppm) based on 75 monitoring sites	N/A	N/A	0.028	0.024	0.023	0.021	0.017	0.016	0.016	0.015	N/A	N/A
	Particulate Matter (ug/m3):												
27	PM10 based on 325 monitoring sites	N/A	N/A	N/A	80.769	67.718	62.601	57.194	56.388	58.360	55.929	N/A	N/A
28	PM 2.5 based on 728 monitoring sites	N/A	N/A	N/A	N/A	N/A	13.470	12.831	11.535	11.887	10.899	N/A	N/A
29	Sulfur Dioxide (ppm) based on 141 monitoring sites	N/A	N/A	0.012	0.009	0.006	0.005	0.004	0.004	0.004	0.003	N/A	N/A
	Water Quality:												
30	Population served by secondary treatment or better (millions) [6]	53.4	85.9	117.9	154.4	163.3	189.1	205.2	205.4	205.5	205.7	208.0	210.2
	Climate Change:												
31	Net greenhouse gas emissions (teragrams CO2 equivalent) [9]	N/A	N/A	N/A	5,217	5,646	6,380	6,183	6,101	6,213	6,016	N/A	N/A
32	Per capita greenhouse gas emissions (megagrams CO2 equivalent)	N/A	N/A	N/A	20.9	21.2	22.6	20.9	20.4	20.6	19.8	N/A	N/A
33	Per 2005$ of GDP greenhouse emissions (kilograms CO2 equivalent)	N/A	N/A	N/A	0.649	0.621	0.568	0.489	0.470	0.470	0.455	N/A	N/A
	Energy:												
34	Energy consumption per capita (millions of BTUs)	250	331	344	339	342	351	340	334	337	327	308	N/A
35	Energy consumption per real dollar of GDP (thousands of BTUs)	15.9	15.9	13.4	10.5	10.0	8.8	8.0	7.7	7.7	7.5	7.3	N/A
36	Energy production from renewable sources (% of total)	N/A	N/A	N/A	N/A	N/A	N/A	6.4	6.8	6.7	7.4	7.7	N/A

[1] Values for 2010 based on preliminary data for 2010.Q4.

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

[3] These households were uncertain of having, or unable to acquire, enough food to meet the needs of all their members because they had insufficient money or other resources for food at some time during the year.

[4] Civilian employment as a percent of the civilian noninstitutional population age 16 and above.

[5] 2010 through 2010.Q3 only.

[6] Data interpolated for some years.

[7] Bridges are structurally deficient if they have been restricted to light vehicles, require immediate rehabilitation, or are closed. They are functionally obsolete if they have deck geometry, load carrying capacity, clearance or approach roadway alignment that no longer meet the criteria for the system of which the bridge is carrying a part.

[8] ppm -- parts per million; ug/m3 -- micrograms per cubic meter

[9] This is a net measure reflecting both sources and sinks of greenhouse gases.

Table 10–2. ECONOMIC AND SOCIAL INDICATORS

	Calendar Years	1960	1970	1980	1990	1995	2000	2005	2006	2007	2008	2009	2010
	Access to Health Care:												
37	Total national health expenditures (percent of GDP)[1]	5.2	7.2	9.2	12.5	13.9	13.8	16.0	16.1	16.2	16.6	17.6	17.8
38	Percentage of population without health insurance	N/A	N/A	N/A	12.9	14.4	13.7	15.3	15.8	15.3	15.4	16.7	N/A
39	% of children age 19–35 months with recommended immunizations[2]	N/A	N/A	N/A	N/A	N/A	72.8	80.8	80.5	80.1	78.2	75.7	N/A
	Health Status:												
40	Infant mortality (per 1000 live births)[3]	26.0	20.0	12.6	9.2	7.6	6.9	6.9	6.7	6.8	6.6	N/A	N/A
41	Low birthweight [<2,500 gms] percentage of babies	7.7	7.9	6.8	7.0	7.3	7.6	8.2	8.3	8.2	8.2	N/A	N/A
42	Life expectancy at birth (years)[3]	69.7	70.8	73.7	75.4	75.8	76.8	77.4	77.7	77.9	77.8	N/A	N/A
	Health Risks:												
43	Cigarette smokers (% population 18 and older)	N/A	37.4	33.2	25.5	24.7	N/A	20.9	20.8	19.8	20.6	20.6	N/A
44	Obesity (% of population with BMI over 30)[4]	N/A	N/A	N/A	N/A	15.3	19.8	23.9	N/A	25.6	N/A	26.7	N/A
45	Alcohol (% high school students engaged in heavy drinking)[5]	N/A	N/A	N/A	N/A	32.6	30.7	25.5	25.8	26.0	N/A	24.2	N/A
46	Physical activity: % of adults engaged in regular physical activity[6]	N/A	N/A	N/A	N/A	N/A	N/A	48.7	N/A	49.2	N/A	50.6	N/A
	Education:												
47	High school graduates (% of population 25 and older)	44.6	55.2	68.6	77.6	81.7	84.1	85.2	85.5	85.7	86.6	86.7	N/A
48	Percentage of 18–24 year olds with a high school diploma	59.9	78.8	80.9	81.7	80.8	81.9	82.9	82.6	83.9	84.9	N/A	N/A
49	Percentage of 18–24 year olds enrolled in college	N/A	25.7	25.6	32.0	34.3	35.5	38.9	37.3	38.8	39.6	N/A	N/A
50	College graduates (% of population 25 and older)	8.4	11.0	17.0	21.3	23.0	25.6	27.6	28.0	28.7	29.4	29.5	N/A
	National Assessment of Educational Progress[7]												
51	Reading 17-year olds	N/A	N/A	283	288	286	285	284	285	285	286	N/A	N/A
52	Mathematics 17-year olds	N/A	N/A	297	303	305	306	305	306	306	306	N/A	N/A
	Housing:												
53	Percentage of families with children with inadequate housing[8]	N/A	N/A	9	9	7	7	5	5	5	N/A	N/A	N/A
54	Percentage of families with children with crowded housing	N/A	N/A	9	7	7	7	6	6	6	N/A	N/A	N/A
55	Percentage of families with children with costly housing[9]	N/A	N/A	17	25	28	28	34	36	37	N/A	N/A	N/A
	Crime:												
56	Violent crime rate (per 100,000 population 12 and older)[10]	N/A	N/A	4,940	4,410	4,610	2,740	2,100	N/A	2,040	1,900	1,690	N/A
57	Murder rate (per 100,000 population)[11]	5.1	7.8	10.2	9.4	8.2	5.5	5.6	5.8	5.7	5.4	5.0	N/A
	Families:												
58	Births to unmarried women age 15–17 (per 1,000)	N/A	N/A	20.6	29.6	30.1	23.9	19.7	20.4	20.8	20.6	N/A	N/A
59	Children living with mother only (% of all children)	9.2	11.6	18.6	21.6	24.0	22.3	23.4	24.0	24.1	23.9	24.4	N/A
	Civic Engagement:												
60	Individual Charitable Giving per Capita (2008 dollars)	306	438	467	533	504	771	823	795	786	748	741	N/A
61	Percentage of Americans volunteering[12]	N/A	N/A	N/A	20.4	N/A	N/A	27.0	26.7	26.2	26.4	26.8	N/A
		(1960)	(1968)	(1972)	(1976)	(1980)	(1984)	(1988)	(1992)	(1996)	(2000)	(2004)	(2008)
62	Voting for President by election year (% eligible population)[13]	63.8	61.5	56.2	54.8	54.2	55.2	52.8	58.1	51.7	54.2	60.1	61.7

1 The 2010 values is projected, the last actual data are for 2009.

2 The 4:3:1:3:3 series consisting of 4 doses (or more) of diphtheria, tetanus toxoids, and pertussis (DTP) vaccines, diphtheria and tetanus toxoids (DT), or diphtheria, tetanus toxoids, and any acellular pertussis (DTaP) vaccines; 3 doses (or more) of poliovirus vaccines; 1 dose (or more) of any measles-containing vaccine; 3 doses (or more) of Haemophilus influenzae type b (Hib) vaccines; and 3 doses (or more) of hepatitis B vaccines.

3 Data for 2008 are preliminary

4 BMI refers to body mass index. A BMI over 30 is the criterion for obesity used by the Centers for Disease Control and Prevention.

5 Data are interpolated. Percentage of high school students who had five or more drinks within a couple of hours at least once within the 30 days prior to the survey.

6 Adults with 30+ minutes of moderate physical activity five or more days per week, or vigorous physical activity for 20+ minutes three or more days per week

7 Data are interpolated. Actual survey years were 1973, 1978, 1982, 1986, 1990, 1992, 1994, 1996, 1999, 2004, and 2008.

8 Inadequate housing has moderate to severe physical problems, usually poor plumbing or heating or upkeep problems. Some data intepolated.

9 Expenditures for housing and utilities exceed 30 percent of reported income. Some data intepolated.

10 Includes crimes both reported and not reported to law enforcement. Offenses include homicide, rape, robbery, aggravated assault and simple assault.

11 Based on reported crimes. Not all crimes are reported, and the fraction that go unreported may have varied over time, preliminary data for 2008.

12 Data from 1974, 1989, and since 2005 are drawn from the Current Population Survey.

13 As computed by Professor Michael McDonald, George Mason University, after adjusting the population for those not eligible to vote in Presidential elections.

Table 10–3. SOURCES FOR ECONOMIC AND SOCIAL INDICATORS

Indicator:	Source:
Economic, Environmental, and Energy Indicators (Table 10-1):	
Real GDP per person	U.S. Department of Commerce, Bureau of Economic Analysis, National Economic Accounts Data.
Real disposable income per capita	U.S. Department of Commerce, Bureau of Economic Analysis, National Economic Accounts Data.
Real median income: all households	U.S. Census Bureau, Housing and Household Economic Statistics Division
Poverty rate	U.S. Census Bureau, Housing and Household Economic Statistics Division
Food-insecure households	U.S. Census Bureau, Current Population Survey Food Security Supplement; tabulated by U.S. Department of Agriculture, Economic Research Service
Civilian unemployment rate	U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey.
Unemployment plus marginally attached and underemployed	U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey.
Employment-population ratio	U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey.
Payroll employment	U.S. Department of Labor, Bureau of Labor Statistics, Current Employment Statistics program.
Income share of lower 60% of all households	U.S. Census Bureau, Housing and Household Economic Statistics Division
Income share of top 1% of all taxpayers	Thomas Piketty and Emanuel Saez, "Income Inequality in the United States, 1913-1998" *Quarterly Journal of Economics*, 118(1), 2003, 1-39 (tables and figures updated to 2008, July 2010)
Net national saving rate	U.S. Department of Commerce, Bureau of Economic Analysis, National Economic Accounts Data.
Personal Saving Rate	U.S. Department of Commerce, Bureau of Economic Analysis, National Economic Accounts Data.
Average household net worth	Board of Governors of the Federal Reserve System, Flow of Funds Accounts of the United States, and U.S. Census Bureau, Housing and Economic Statistics Division.
Median wealth of households aged 55-64	Board of Governors of the Federal Reserve System, 2007 Survey of Consumer Finances Chartbook.
R&D spending	National Science Foundation, Division of Science Resources Statistics, National Patterns of R&D Resources 2008, data update, NSF 10-314.
Patents issued to U.S. residents	U.S. Patent and Trademark Office, Electronic Information Products Division, Patent Technology Monitoring Team, submissions to the World Intellectual Property Organization.
Multifactor productivity	U.S. Department of Labor, Bureau of Labor Statistics, Major Sector Productivity Program.
Nonfarm output per hour	U.S. Department of Labor, Bureau of Labor Statistics, Major Sector Productivity Program.
Bridges that are structurally deficient or functionally obsolete	U.S. Federal Highway Administration, Office of Bridge Technology, "National Bridge Inventory."
Real net stock of fixed assets and consumer durable goods	U.S. Department of Commerce, Bureau of Economic Analysis, National Economic Accounts Data.
Carbon Monoxide	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
Ground Level Ozone	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
Lead	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
Nitrogen Dioxide	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
PM10	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
PM 2.5	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
Sulfur Dioxide	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
Population served by secondary treatment or better	U.S. Environmental Protection Agency, Clean Watersheds Needs Survey 2008 Report to Congress, June 10, 2010 (includes a projection for 2028) EPA-832-R-10-002.
Net greenhouse gas emissions	U.S. Environmental Protection Agency, 2010 Inventory of Greenhouse Gases Emissions and Sinks: 1990-2008.
Energy consumption per capita	U.S. Energy Information Administration, Annual Energy Review 2009, August 19, 2010 energy overview table 1.5.
Energy consumption from renewable sources	U.S. Energy Information Administration, Independent Statistics and Analysis, Renewable Energy Consumption by Energy Use Sector and Energy Source, Table 1.2, August 2010.
Health, Education, and Other Social Indicators (Table 10-2):	
Total national health expenditures	Centers for Medicare and Medicaid Services, National Health Expenditures Data, January 2011.
Percentage of population without health insurance	U.S. Census Bureau, Housing and Household Economic Statistics Division
% of children age 19-35 months with recommended immunizations	Centers for Disease Control and Prevention, National Center for Immunization and Respiratory Diseases and National Center for Health Statistics, National Immunization Survey.
Infant mortality	Centers for Disease Control and Prevention, National Vital Statistics Report, vol. 59, no. 2, December 9, 2010
Low birthweight percentage of babies	Centers for Disease Control and Prevention, National Vital Statistics Report, vol. 58, no. 16, April 6, 2010.
Life expectancy at birth	Centers for Disease Control and Prevention, National Vital Statistics Report, vol. 59, no. 2, December 9, 2010
Cigarette smokers (% population 18 and older)	Centers for Disease Control and Prevention, Data and Statistics, Trends in Current Cigarette Smoking Among High School Students and Adults, United States, 1965–2009
Obesity (% of population with BMI over 30) (d)	Centers for Disease Control and Prevention, Morbidity and Mortality Weekly Report, Vital Signs: State-Specific Obesity Prevalence Among Adults --- United States, 2009, August 3, 2010
% high school students engaged in heavy drinking	Centers for Disease Control and Prevention, Morbidity and Mortality Weekly Report, Vital Signs: Binge Drinking Among High School Students and Adults --- United States, 2009, October 8, 2010.
% of adults over 45 engaged in regular activity	Centers for Disease Control and Prevention,Prevalence and Trends Data Nationwide (States, DC, and Territories), Physical Activity

Table 10–3. SOURCES FOR ECONOMIC AND SOCIAL INDICATORS—Continued

Indicator:	Source:
High school graduates (% of population 25 and older)	U.S. Census Bureau, People and Households, Educational Attainment, Table A-2, Percent of People 25 Years and Over: Who Have Completed High School or College, Selected Years 1940-2009.
Percentage of 18-24 year olds with a high school diploma	U.S. Census Bureau, School Enrollment, Historical Table A-5a, The Population 14 to 24 Years Old by HS Graduate Status and College Enrollment.
Percentage of 18-24 year olds enrolled in college	U.S. Census Bureau, School Enrollment, Historical Table A-5a, The Population 14 to 24 Years Old by HS Graduate Status and College Enrollment.
College graduates (% of population 25 and older)	U.S. Census Bureau, Current Population Survey, 2008 Annual Social and Economic Supplement, Internet Release Data, April 2009.
NAEP: Reading 17-year olds	National Assessment of Educational Progress, National Center for Education Statistics, 2008 Long-Term Trend Top Stories.
NAEP: Mathematics 17-year olds	National Assessment of Educational Progress, National Center for Education Statistics, 2008 Long-Term Trend Top Stories.
Percentage of families with children with inadequate housing	U.S. Census Bureau, American Housing Survey. Tabulated by U.S. Department of Housing and Urban Development
Percentage of families with children with crowded housing	U.S. Census Bureau, American Housing Survey. Tabulated by U.S. Department of Housing and Urban Development
Percentage of families with children with costly housing	U.S. Census Bureau, American Housing Survey. Tabulated by U.S. Department of Housing and Urban Development
Violent crime rate (per 100,000 population 12 and older)	U.S. Department of Justice, Bureau of Justice Statistics, Violent Crime Trends
Murder rate (per 100,000 population)	U.S. Department of Justice, Federal Bureau of Investigation, Criminal Justice Information Services Division, 2008 Crime in the United States, Table 1.
Births to unmarried women age 15-17 (per 1,000)	Centers for Disease Control and Prevention, National Vital Statistics Report, Volume 59, Number 1, December, 2010.
Children living with mother only	Annual Social and Economic Supplement to the Current Population Survey, Detailed Poverty Tabulations various years
Individual Charitable Giving	Statistical Abstract 2010, Center on Philanthropy at Indiana University, *Giving USA*.
Percentage of Americans volunteering	Corporation for National and Community Service, “Volunteer Growth in America: A Review of Trends since 1974” based on the Current Population Survey.
Voting for President by election year (% eligible population)	The United States Elections Project, Dr. Michael McDonald, George Mason University, Fairfax, Virginia.

11. IMPROVING THE FEDERAL WORKFORCE

The United States has overcome great challenges throughout our history because Americans of every generation have stepped forward to aid their Nation through service, both in civilian Government and in the Uniformed Services. Today's Federal public servant carries forward that proud American tradition. Whether it is defending our homeland, restoring confidence in our financial system and administering an historic economic recovery effort, providing health care to our veterans, or searching for cures to the most vexing diseases, we are fortunate to be able to rely upon a skilled workforce committed to public service.

A high-performing Government depends on an engaged, well-prepared, and well-trained workforce with the right set of skills appropriate to the situation. As the mission of our government has changed over time, the Federal government has worked to ensure that it employs people with the skills needed to tackle new challenges. This chapter discusses trends in Federal employment, composition, and compensation, and presents the Administration's plans for achieving the talented Federal workforce needed to serve the American people efficiently and effectively.

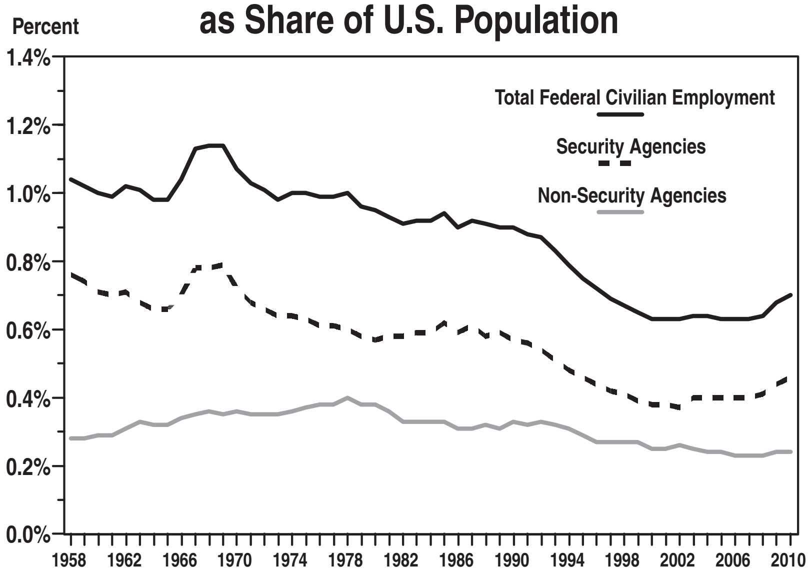
Trends in Federal Employment

The relative size of the Federal civilian workforce has declined dramatically over the last several decades. Notwithstanding occasional upticks due, for example, to military conflicts and the enumeration of the Census, the number of Federal workers as a percentage of population has fallen over time. In 1953, there was one Federal worker for every 78 residents. In 1989, there was one Federal employee for every 110 residents. By 2009, the ratio had dropped to one Federal employee for every 147 residents. The picture that emerges is one of a Federal workforce that has significantly shrunk compared to the overall U.S. population, as well as compared to the size of Federal expenditures and the work that the Federal Government is called upon to perform.

Chart 11-1 shows Federal civilian employment (excluding the U.S. Postal Service) as a share of the U.S. resident population from 1958 to 2010. The chart shows the overall decline noted above. Both security and non-security agencies have declined, although the greatest overall reductions have been in the security agencies.

This overall downward trend began to reverse itself in 2001, following the September 11 attack. Following that tragic event, the Federal workforce expanded to deal with national security and safety issues and to serve our veterans. Civilians working for the Army grew from 203,000 in 2001 to 260,000 in 2010, for example, while people working for the Veterans Health Administration increased from 189,000 in 2001 to 252,000 in 2010. Customs and Border Protection grew from 38,000 employees in Fiscal Year 2003

Chart 11-1. Federal Civilian Workforce as Share of U.S. Population



Source: Office of Personnel Management.

Notes: Security Agencies include the Department of Defense, the Department of Justice, the Department of State, Department of the Treasury, and the Department of Veterans Affairs. Non-Security Agencies include the remainder of the Executive Department agencies.

to 56,000 today. Overall, security agency employment grew by 22 percent from 2001 to 2010. During the same period, employment in non-security agencies as a percent of population fell by 4 percent.

The 2012 Budget continues these trends. Table 11-2 shows actual Federal civilian employment in the executive branch by agency in 2010, and estimates it for 2011 and 2012. The 2012 Budget estimates a 2012 workforce of 2.1 million, roughly the same level as proposed last year and a modest increase over 2010 actual levels. Consistent with the overall recent trends, personnel increases focus on providing greater security and economic opportunity for the American people. Seventy percent of the proposed increase in the size of the 2012 Federal workforce occurs in five agencies – the Department of Defense, the Department of Veterans Affairs, the Department of Homeland Security, the Department of Justice, and the Department of State. These organizations are all centrally involved in our security interests, including operations and activities in Afghanistan and Iraq, providing care for our returning veterans, protecting our country from the threat of terrorism, protecting our borders, and advancing our Nation's interests abroad. Other increases aim at implementing the recently enacted Affordable Care Act, assuring fair and thriving financial markets, and restoring some of the regulatory protections eliminated by the previous Administration in areas such as oversight of mortgage lenders and mine safety. Personnel figures at most non-security agencies remain essentially flat over the past two years, with some agencies, including Commerce (beyond the Census), the U.S. Army Corps of Engineers, Agriculture, Interior, the Nuclear Regulatory Commission, and the Small Business Administration proposing lower personnel levels due to increased efficiencies and hard choices about budget trade-offs.

Federal Workforce Pay Trends

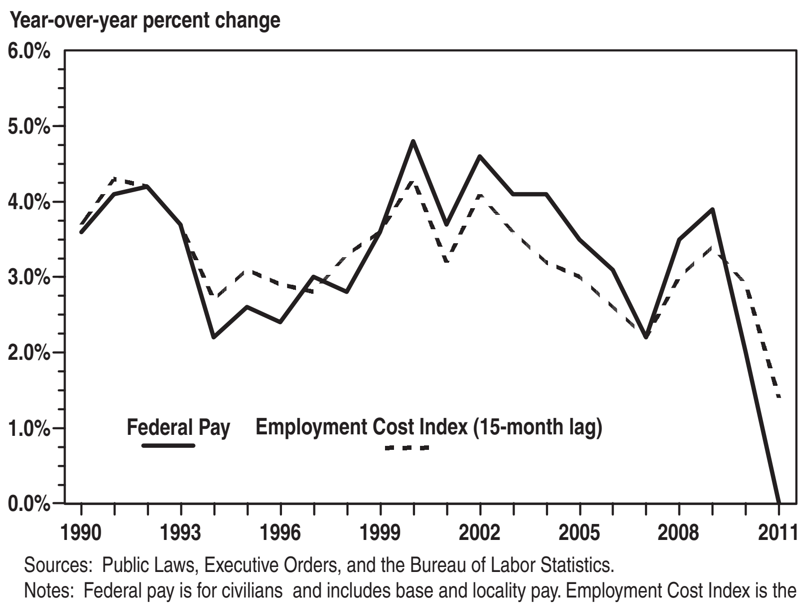
Federal and private sector pay raises have followed each other closely for the past two decades (as seen in chart 11-2). By law, as a default, Federal pay raises are pegged to changes in the 15-month-lagged Employment Cost Index (ECI) series of wage and salaries for private industry workers. The index measures private sector pay, holding constant industry and occupation composition. The law also gives the President the authority to propose alternative pay adjustments for both base and locality pay. Presidents have regularly proposed alternative pay plans.

In late 2010, the President proposed and Congress enacted a two-year freeze in the pay of civilian Federal employees as one of the steps needed to put the Nation on a sustainable fiscal path. This will save $2 billion for the remainder of 2011, $28 billion over the next five years, and more than $60 billion over the next 10 years.

Composition of Federal Workforce and Factors Affecting Federal Pay

In addition to changes in the relative size of the Federal workforce, the last half century has also seen significant shifts in its composition. Fifty years ago, most white collar Federal employees performed clerical tasks, such as posting Census figures in ledgers and retrieving taxpayer records from file rooms. Today their jobs are vastly different, requiring advanced skills to serve a knowledge-based economy. Professionals such as doctors, engineers, scientists, statisticians, and lawyers now make up a large portion of the Federal workforce. A large number of Federal employees must manage highly sensitive situations that require great skill, experience, and judgment. They increasingly need sophisticated management and negotiation skills to coordinate changes not just across Federal

Chart 11-2. Pay Raises for Federal vs. Private Workforce



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

Notes: Federal pay is for civilians and includes base and locality pay. Employment Cost Index is the wages and salaries, private industry workers series.

Table 11–1. OCCUPATIONS OF FEDERAL AND PRIVATE SECTOR WORKFORCES
(Grouped by Average Private Sector Salary)

Occupational Groups	Percent	
	Federal Workers	Private Sector Workers
Top Third Occupations Ranked by Private Sector Salary		
Lawyers and judges	1.8%	0.5%
Engineers	4.2%	1.9%
Scientists and social scientists	4.6%	0.6%
Managers	11.4%	13.1%
Doctors, nurses, psychologists, etc.	7.2%	4.9%
Miscellaneous professionals	15.1%	7.7%
Administrators, accountants, HR personnel	6.7%	2.6%
Pilots, conductors, and related mechanics	2.1%	0.8%
Inspectors	1.4%	0.3%
Total Percentage	**54.5%**	**32.4%**
Middle Third Occupations Ranked by Private Sector Salary		
Sales including real estate, insurance agents	1.0%	6.7%
Other miscellaneous occupations	3.2%	4.2%
Automobile and other mechanics	1.8%	3.0%
Social workers	1.4%	0.5%
Office workers	2.6%	6.3%
Drivers of trucks and taxis	0.6%	3.5%
Laborers and construction workers	4.2%	10.8%
Total Percentage	**14.8%**	**35.0%**
Bottom Third Occupations Ranked by Private Sector Salary		
Clerks	14.8%	11.6%
Manufacturing	2.6%	8.1%
Law enforcement and related occupations	8.4%	0.8%
Other miscellaneous service workers	2.5%	6.0%
Janitors and housekeepers	1.7%	2.3%
Cooks, bartenders, bakers, and wait staff	0.8%	4.0%
Total Percentage	**30.8%**	**32.8%**

Source: Current Population Survey, 2006-2010.

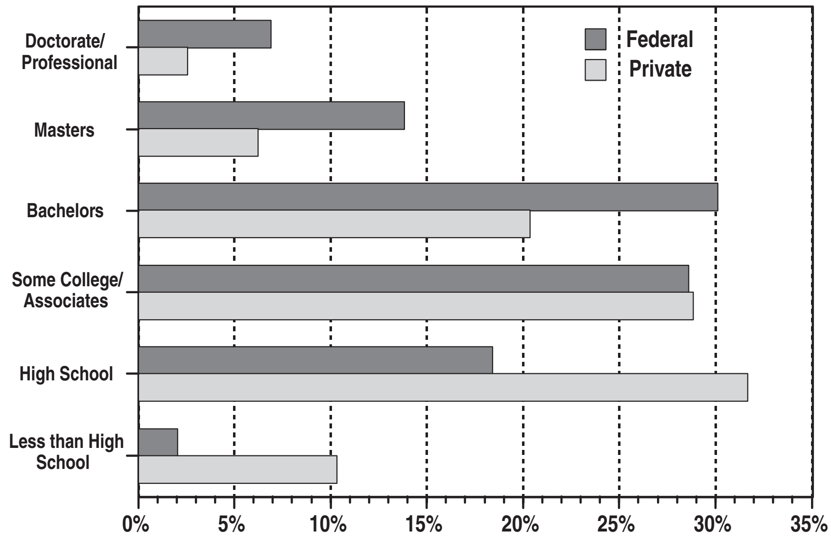
Notes: Federal workers exclude the military and Postal Service, but include all other Federal workers in the Executive, Legislative, and Judicial Branches. However, the vast majority of these employees are civil servants in the Executive Branch. Private sector workers exclude the self-employed. Neither category includes state and local government workers. This analysis is limited to full-time, full-year workers, i.e. those with at least 1500 annual hours of work.

Government organizations, but also with other levels of government, not-for-profit providers, and for-profit contractors.

Federal worker pay receives a great deal of public scrutiny, in particular in comparison to pay of private sector workers. Such comparisons are complicated by the fact that Federal and private sector workers do very different types of work. Using data from the Current Population Survey (CPS) of full-time, full-year workers, Table 11-1 breaks all Federal and private sector jobs into 23 occupation groups. That breakdown shows that more than half (54.5 percent) of Federal workers work in the nine highest-paying occupation groups – as judges, engineers, scientists, nuclear plant inspectors, etc. – compared to less than a third (32.4 percent) of private sector workers in those same nine highest paying occupation groups. In contrast, a fifth of private sector workers work in the four lowest-paying occupation groups (excluding law enforcement, which does not have a good private sector counterpart) as cooks, janitors, service workers, and manufacturing workers. Fewer than one in thirteen Federal workers work in those four lowest-paying occupation groups.

Raw comparisons of average pay between Federal and private sector employees mask important differences in the skill levels, complexity of work, scope of responsibility, size of organization, location, experience level, and special requirements, as well as exposure to personal danger.

Chart 11-3. Education Level Distribution in Federal vs. Private Workforce



Source: Current Population Survey, 2006-2010.

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 1500 annual hours of work.

Some of the factors to consider when comparing Federal and private workers' pay are:

- 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, in the private sector, there are more full-time workers under the age of 30 than between the ages of 50 and 59 (25 percent versus 19 percent). In the Federal workforce there are more than twice as many 50 to 59 year-olds as those under 30 years old (29 percent versus 14 percent).

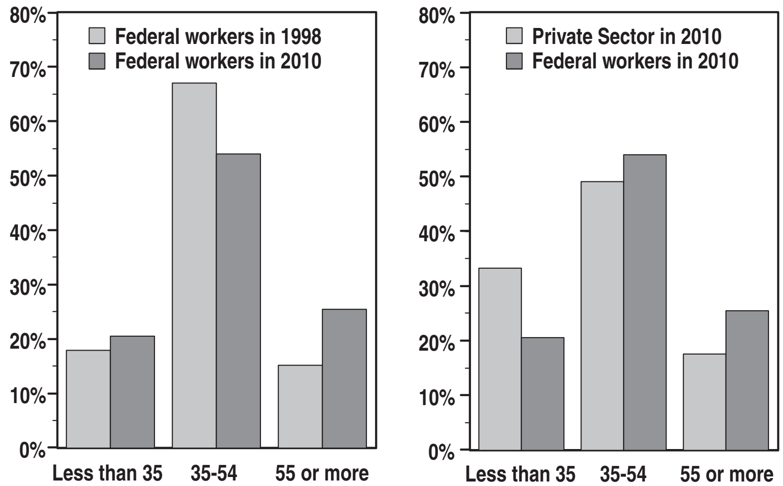
- Size of organization. Another important consideration is the size of the organization. Federal agencies are large and often face challenges of enormous scale, such as distributing Social Security checks and caring for the Nation's Veterans. In many situations, it is more appropriate to compare the Federal workforce to those at larger private firms. Workers from large firms (those with 1,000 or more employees) are paid about 15 percent more than workers from small firms (those with less than 100 employees), even after accounting for occupation, education, and other characteristics.

- Education level. The size and complexity of much Federal work necessitates a highly educated workforce – whether that work is analyzing security and financial risks, forecasting weather, planning bridges to withstand extreme weather events, conducting research to advance human health and energy efficiency, or advancing science to fuel future economic growth. Chart 11-3 examines the difference in the education level of the Federal civilian and private workforce. About 20 percent of Federal workers have a master's degree, professional degree, or doctorate versus only 13 percent in the private sector. A full 51 percent of Federal employees have at least a college degree compared to 35 percent in the private sector.

Challenges

The Federal Government faces specific challenges, including an aging and retiring workforce and an inadequate system for hiring, developing, deploying, and engaging personnel. If the Government loses top talent, experience, and institutional memory through retirements but cannot recruit, retain, and train highly qualified workers, government performance will suffer. If the Government does not adapt to technological change by updating the ways it develops, deploys, and engages its personnel, it will have difficulty meeting 21st century challenges. The large number of retiring workers poses a challenge, but also creates an opportunity for an infusion of new workers excited about Government service and equipped with strong technology skills, problem-solving ability, and fresh perspectives to tackle the problems that Government is expected to address. This section lays out some of the Federal workforce challenges. The following section describes some of the

Chart 11-4. Federal Age Distribution in 1998 and 2010 and Federal vs. Private Age Distribution in 2010



Sources: Current Population Survey, 2010 and FedScope.
Notes: Federal workers exclude the military and Postal Service, but include all other Federal workers in the Executive Branch. Private sector workers exclude the self-employed. Neither category includes SState and local government workers. This analysis is limited to full-time, full-year workers, i.e. those with at least 1500 annual hours of work.

actions this Administration is taking to address those challenges.

Aging workforce

The Federal workforce of 2010 is older than Federal workforces of past decades and older than the present private sector workforce. The left panel of Chart 11-4 shows how the Federal workforce aged between 1998 and 2010. The percentage of Federal workers age 55 or older increased from 15 to 25 percent over 12 years. At the same time, the percentage of workers under 35 also edged up, from 18 to 21 percent, between 1998 and 2010. The right panel of Chart 11-4 shows that the private sector experienced a more significant shift from older employees to younger workers than did the Federal government during this period.

The recent recession substantially slowed projected Federal retirements. Between 2005 and 2008, annual separations (retirements and other departures) from the Federal workforce ranged between 244,000 and 252,000. Separations fell to 212,000 in 2009. If the reduced retirement pattern continues, 230,000 separations are likely in 2011. If separation rates return to their 2007 levels instead, more than 300,000 separations could occur in 2011.

Given these demographics, the Federal government faces two immediate challenges: preparing for retirements to maximize knowledge transfer from one generation to the next, and hiring and developing the next generation of the government workforce in a manner that enables them to accomplish the varied and challenging missions the Federal government must deliver.

Need to Strengthen System for Developing, Deploying and Engaging Personnel

One well documented challenge in the public sector is creating personnel performance systems that encourage commitment and innovation. At the same time, the systems must deal with poor performers who fail to improve as appropriate to their situation. Federal employees have identified this as an area of weakness over the past 10 years. Employees rate “Results Oriented Performance Culture” as a weak spot in the Federal employee survey. In 2010, only 31 percent of employees sampled answered positively that “In my work unit, steps are taken to deal with a poor performer who cannot or will not improve.” In addition, only 41 percent agreed that “creativity and innovation are rewarded”.

In contrast, Federal employees are generally positive about the importance of their work and their willingness to put in extra effort to accomplish the goals of their agencies, with 92 percent of respondents answering positively to the statement “the work I do is important” and nearly 97 percent of respondents answering positively to the statement “when needed I am willing to put in the extra effort to get a job done.”

Personnel Performance Agenda

To serve the American people and address these challenges, the Federal Government needs to improve management of the Federal workforce. The Office of Personnel Management (OPM) Strategic Plan has four overarching goals that match the career cycle of a Federal employee. The "Hire the Best" strategic goal concentrates on improving the Federal hiring process. The "Respect the Workforce" strategic goal focuses on employee retention through training, labor relations, and work-life balance initiatives. The "Expect the Best" strategic goal aims to provide the necessary tools and resources for employees to engage and perform at the highest levels while holding them accountable. Finally, the "Honor Service" strategic goal acknowledges and recognizes the exemplary service of Federal employees. Combined, these strategic goals will help the government recruit and retain the talented and high performing employees required to tackle new and emerging challenges and deliver the services on which the American people depend efficiently and effectively.

Improving the Federal Hiring Process

The likelihood of large numbers of workers retiring could be a problem if not managed well, but it also creates an opportunity for Government to bring in new workers excited about Government service with strong technology and problem-solving skills along with fresh perspectives on the problems that Government is expected to address.

To manage these challenges well, the Administration launched the Hiring Reform Initiative, making it a priority for all Federal agencies to improve their hiring processes. On May 11, 2010, President Obama issued a Memorandum to agencies on Improving the Federal Recruitment and Hiring Process. This launched the first phase of the Administration's comprehensive initiative to address major, long-standing impediments to recruiting and hiring the best and brightest into the Federal civilian workforce. The reform effort's sweeping changes are already taking hold, but to spread to every part of government, will require a cultural shift over many years.

The President's Memorandum established three initial objectives for the first phase of hiring reform:

1. Make it easier for Americans to apply for Federal jobs by simplifying and shortening job descriptions and letting applicants apply using only a resume, as is done in the private sector;

2. Federal agency managers and supervisors assume a greater role planning, recruiting, and selecting employees, and human resource offices provide greater support to them; and

3. Improve hiring timeliness, as well as applicant and manager satisfaction with the hiring process and manager satisfaction with applicant quality.

Progress is being made:

- Lengthy job descriptions – some previously over 20 pages – have been reduced. By November 2010, 49 percent of job descriptions were shorter than five pages, improved from 24 percent in 2009.
- Agencies adopted aggressive new benchmarks for Veteran hiring in response to the President's Executive Order 13518 on Employment of Veterans in the Federal Government. More than 50,000 Veterans were hired in the first nine months, exceeding prior years' Veteran hiring levels.

On December 27, 2010, President Obama signed Executive Order 13562 "Recruiting and Hiring Students and Recent Graduates". The E.O. established a comprehensive structure that will help the Federal Government be more competitive in recruiting and hiring talented individuals who are in school or who have recently received a degree.

In addition, the Administration has made significant progress improving the timeliness and quality of security clearances. Security clearances are performed in two stages, investigation and adjudication. At OPM, which conducts the majority of non-intelligence community investigations, it took an average of only 39 days to complete 90 percent of initial investigations in 2010, whereas it took an average of 67 days to complete the fastest 80 percent of its initial investigations in 2007. Agencies handle their own adjudications and, as the Federal government's largest employer, the Department of Defense (DOD) adjudicates most of the Federal government's adjudications (used to determine whether potential employees are suitable for Federal employment after an investigation is completed.) In 2010, it took DOD an average of only 10 days to adjudicate 90% of those investigations for its employees, whereas it took an average of 28 days to adjudicate 80% of those investigations in 2007.

More changes are needed, however, to improve the Federal hiring system. In 2010, the Administration sent legislative language to Congress proposing changes to existing hiring laws to facilitate inter-agency cooperation in hiring and make it easier for the most experienced employees to enter into part-time retirement arrangements to provide expertise or mentor new and rising employees.

Developing and Using Personnel Analytics

The Federal Government has fallen behind its private sector counterparts in tapping data and analytic advances to improve personnel management. The Administration is committed to strengthening Federal agencies' capacity in this area to address workplace problems, improve productivity, and cut costs.

The Federal Government began annual administration of the Employee Viewpoint Survey in 2010 to make it more useful as a managerial tool to identify areas of personnel management strength and weakness. To enhance its value further, in 2011, the survey will be administered to more employees and done so in a way that allows findings to be linked to more organizational units. In 2012, OPM will begin to survey all civilian employees every other year. Each year, OMB and OPM will analyze survey findings to identify promising practices to promote more broadly for Government-wide improvement and to pinpoint problem areas needing attention.

A second analytic initiative proposed this year will improve management of health costs and quality. The Federal Employee Health Benefits (FEHB) program provides health insurance for 8 million Federal employees, retirees, their spouses and dependents. Data from insurance carriers involved in FEHB is currently used to detect fraud. It has not, however, been analyzed to improve the effectiveness or efficiency of the program or the health of FEHB members. This Budget proposes funding to build capacity to analyze FEHB program data for quality improvement, cost control, and fraud detection.

In addition, the Administration is developing a human resources dashboard to show agency progress on human resource management – providing the public a window on government-wide and agency-specific hiring times and satisfaction, employee engagement and retention, other aspects of employee viewpoints, diversity and disability data, and Veteran's hiring and employment.

Using Evaluation to Improve Personnel Management

The President's Budget includes funding for an evaluation of Federal telework practices. The Telework Enhancement Act of 2010 creates a framework through which agencies can improve their telework programs to assure continuity of operations, improve management and productivity, and accommodate the changing family caregiver needs of the workforce without compromising work quality. The Administration is committed to helping agencies implement best practices in these areas.

Engaging a Diverse Workforce

The American people are best served by a Federal employee workforce that reflects the rich diversity of the populace. An expected wave of retirements in the manager and senior executive corps presents both a challenge and an opportunity to improve the diversity of our leadership, which is disproportionately lacking in minority representation. As one part of that effort, the President issued Executive Order 13548 in July 2010 to increase the number of individuals with disabilities that agencies employ. The 2012 Budget includes funds to support the implementation and execution of the Executive Order, including funds for the use of technology to track and report agency progress in hiring those with disabilities. It also includes funds for continued recruitment of individuals with disabilities and to coordinate with agency-designated senior officials responsible for disability recruitment and retention.

The President firmly believes in the fundamental American principle of fairness and equality. Over the past two years, the President directed the heads of executive departments and agencies, in consultation with OPM, to conduct a thorough review of the benefits they provide, identify those benefits that could be extended to LGBT employees and their families, and based on recommendations provided by OPM in consultation with the Department of Justice, extend those discretionary benefits. However, legislative action is still necessary to provide full equality to LGBT Federal employees. Since many top private sector companies now offer domestic partner benefits, making these changes will strengthen our ability to recruit and retain highly qualified candidates from all segments of society.

Improving Labor-Management Relations

On December 9, 2009, the President issued Executive Order 13522 "Creating Labor-Management Forums to Improve the Delivery of Government Services". Cooperative labor-management forums are now being formed across the Federal government to resolve workplace issues and improve mission performance and service delivery to the American public. The Administration has developed guidelines to help each forum think about its objectives and how to measure the results of its efforts along three dimensions: mission accomplishment and high quality products and services; employee perceptions; and labor-management relations.

Strengthening Government Acquisition and the Acquisition Workforce

The Government uses both Federal employees and private sector contractors to deliver important services to citizens. Contractors provide a wide range of services to help federal employees carry out their agencies' missions and operations -- from scientific research and environmental protection, to information technology support and construction. While spending on federal contracts doubled between 2001 and 2008, the federal acquisition workforce, which negotiates and manages these contracts, remained relatively flat. This imbalance contributed to ineffective and wasteful contracting practices, such as awarding contracts without competition; bundling many buys into one large contract, which often makes it impossible for small businesses to compete; and agreeing to pay contractors on a per-hour basis, which reduces the incentives for contractors to be efficient. In his March 4, 2009, Memorandum on Government Contracting, the President called on agencies to address these concerns, and agencies are now doing that. Improvements include ending contracts that are ineffective, leveraging the government's purchasing power to negotiate better prices, and using competition and more effective pricing incentives to reduce cost overruns. These efforts have instilled a new sense of fiscal responsibility that has stopped the costly and unsustainable growth in spending on contracting and helped agencies reduce spending on contracts between 2009 and 2010 for the first time in more than 10 years. To sustain these improvements, this Budget includes resources focused on developing and retaining the acquisition workforce.

Table 11–2. FEDERAL CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH

(Civilian employment as measured by Full-Time Equivalents in thousands, excluding the Postal Service)

Agency	Actual	Estimate		Change: 2010 to 2012	
	2010	2011	2012	FTE	Percent
Cabinet agencies:					
Agriculture	96.3	98.4	94.7	–1.6	–1.7%
Commerce	123.3	42.8	42.0	–81.3	–65.9%
Defense	741.4	755.4	748.0	6.6	0.9%
Education	4.1	4.4	4.5	0.4	9.8%
Energy	16.1	16.9	16.5	0.4	2.5%
Health and Human Services	66.1	68.0	70.7	4.6	7.0%
Homeland Security	173.0	185.9	193.6	20.6	11.9%
Housing and Urban Development	9.5	9.7	9.9	0.4	4.2%
Interior	70.9	69.7	69.9	–1.0	–1.4%
Justice	113.4	119.3	123.0	9.6	8.5%
Labor	16.9	17.3	17.8	0.9	5.3%
State	31.6	31.8	32.0	0.4	1.3%
Transportation	57.2	58.1	58.9	1.7	3.0%
Treasury	111.9	111.5	116.6	4.7	4.2%
Veterans Affairs	284.8	294.5	295.4	10.6	3.7%
Other agencies—excluding Postal Service:					
Agency for International Development	3.1	3.3	3.5	0.4	12.9%
Broadcasting Board of Governors	1.9	2.0	2.1	0.2	10.5%
Corps of Engineers—Civil Works	23.6	23.2	22.4	–1.2	–5.1%
Environmental Protection Agency	17.2	17.4	17.2	0.0	0.0%
Equal Employment Opportunity Comm	2.4	2.5	2.6	0.2	8.3%
Federal Deposit Insurance Corporation	7.1	7.3	8.8	1.7	23.9%
General Services Administration	12.5	13.4	13.4	0.9	7.2%
National Aeronautics and Space Admin	18.4	18.8	18.4	0.0	0.0%
National Archives and Records Administration	3.2	3.4	3.4	0.2	6.3%
National Labor Relations Board	1.6	1.7	1.7	0.1	6.3%
National Science Foundation	1.4	1.4	1.5	0.1	7.1%
Nuclear Regulatory Commission	4.0	4.0	4.0	0.0	0.0%
Office of Personnel Management	4.8	5.4	5.4	0.6	12.5%
Peace Corps	1.1	1.2	1.2	0.1	9.1%
Railroad Retirement Board	1.0	0.9	0.9	–0.1	–10.0%
Securities and Exchange Commission	3.7	3.8	4.5	0.8	21.6%
Small Business Administration	3.4	3.5	3.4	0.0	0.0%
Smithsonian Institution	5.1	5.2	5.2	0.1	2.0%
Social Security Administration	67.3	68.0	70.5	3.2	4.8%
Tennessee Valley Authority	12.0	12.5	12.5	0.5	4.2%
All other small agencies	16.4	18.1	19.7	3.3	20.1%
Total, Executive Branch civilian employment *	**2,127.9**	**2,100.8**	**2,115.8**	**–12.1**	**–0.6%**
Subtotal, Defense	741.4	755.4	748.0	6.6	0.9%
Subtotal, Non-Defense	1,386.5	1,345.4	1,367.8	–18.7	–1.3%

* Totals may not add due to rounding.

Table 11–3. TOTAL FEDERAL EMPLOYMENT

(As measured by Full-Time Equivalents)

Description	2010 Actual	Estimate		Change: 2010 to 2012	
		2011	2012	FTE	Percent
Executive branch civilian personnel:					
All agencies except Postal Service and Defense	1,386,496	1,345,390	1,367,844	–18,652	–1.3%
Department of Defense	741,393	755,448	747,981	6,588	0.9%
Subtotal, excluding Postal Service	2,127,889	2,100,838	2,115,825	–12,064	–0.6%
Postal Service [1]	626,723	608,195	582,320	–44,403	–7.1%
Subtotal, Executive Branch civilian personnel	2,754,612	2,709,033	2,698,145	–56,467	–2.0%
Executive branch uniformed military personnel:					
Department of Defense [2]	1,552,041	1,541,182	1,500,668	–51,373	–3.3%
Department of Homeland Security (USCG)	43,080	44,273	44,011	931	2.2%
Commissioned Corps (DOC, EPA, HHS)	6,892	7,137	7,235	343	5.0%
Subtotal, uniformed military personnel	1,602,013	1,592,592	1,551,914	–50,099	–3.1%
Subtotal, Executive Branch	4,356,625	4,301,625	4,250,059	–106,566	–2.4%
Legislative Branch[3]	32,890	35,515	35,550	2,660	8.1%
Judicial Branch	34,862	35,672	36,206	1,344	3.9%
Grand total	**4,424,377**	**4,372,812**	**4,321,815**	**–102,562**	**–2.3%**

[1] Includes Postal Rate Commission.

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

[3] FTE data not available for the Senate (positions filled were used).

Table 11–4. PERSONNEL COMPENSATION AND BENEFITS
(In millions of dollars)

Description	2010 Actual	2011 Estimate	2012 Request	Change: 2010 to 2012 Dollars	Change: 2010 to 2012 Percent
Civilian personnel costs:					
Executive Branch (excluding Postal Service):					
Direct compensation:					
Department of Defense	53,743	57,324	57,253	3,510	6.5%
All other executive branch	114,182	115,312	119,616	5,434	4.8%
Subtotal, direct compensation	167,925	172,636	176,869	8,944	5.3%
Personnel benefits:					
Department of Defense	15,560	16,711	16,881	1,321	8.5%
All other executive branch	45,996	46,828	48,444	2,448	5.3%
Subtotal, personnel benefits	61,556	63,539	65,325	3,769	6.1%
Subtotal, Executive Branch	229,481	236,175	242,194	12,713	5.5%
Postal Service:					
Direct compensation	37,832	36,861	36,061	–1,771	–4.7%
Personnel benefits	20,384	16,089	18,153	–2,231	–10.9%
Subtotal	58,216	52,950	54,214	–4,002	–6.9%
Legislative Branch:[1]					
Direct compensation	2,181	2,177	2,226	45	2.1%
Personnel benefits	634	663	673	39	6.2%
Subtotal	2,815	2,840	2,899	84	3.0%
Judicial Branch:					
Direct compensation	3,160	3,227	3,345	185	5.9%
Personnel benefits	1,000	1,034	1,109	109	10.9%
Subtotal	4,160	4,261	4,454	294	7.1%
Total, civilian personnel costs	294,672	296,226	303,761	9,089	3.1%
Military personnel costs:					
Department of Defense					
Direct compensation	99,638	102,356	100,412	774	0.8%
Personnel benefits	50,891	49,206	52,826	1,935	3.8%
Subtotal	150,529	151,562	153,238	2,709	1.8%
All other executive branch, uniformed personnel:					
Direct compensation	3,088	3,203	3,305	217	7.0%
Personnel benefits	805	871	882	77	9.6%
Subtotal	3,893	4,074	4,187	294	7.6%
Total, military personnel costs[2]	154,422	155,636	157,425	3,003	1.9%
Grand total, personnel costs	**449,094**	**451,862**	**461,186**	**12,092**	**2.7%**
ADDENDUM					
Former Civilian Personnel:					
Retired pay for former personnel	70,996	73,865	76,793	5,797	8.2%
Government payment for Annuitants:					
Employee health benefits	9,642	10,185	10,817	1,175	12.2%
Employee life insurance	44	47	47	3	6.8%
Former Military personnel:					
Retired pay for former personnel[3]	51,095	55,475	48,455	–2,640	–5.2%
Military annuitants health benefits	8,623	9,457	9,917	1,294	15.0%

[1] Excludes members and officers of the Senate.
[2] Amounts in this table for military compensation reflect direct pay and benefits for all service members, including active duty, guard, and reserve members.
[3] Public Law 111-383 required changes in the payment date for most military retirees. No benefits were reduced, but approximately $3.6 billion in payments was shifted from 2012 to 2011.

BUDGET CONCEPTS AND BUDGET PROCESS

12. BUDGET CONCEPTS

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

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

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

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

THE BUDGET PROCESS

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

1. Formulation of the President's Budget;

2. Action by the Congress; and

3. Execution of enacted budget laws.

Formulation of the President's Budget

The Budget of the United States Government consists of several volumes that set forth the President's fiscal policy goals and priorities for the allocation of resources by the Government. The primary focus of the Budget is on the budget year—the next fiscal year for which the Congress needs to make appropriations, in this case 2012. (Fiscal year 2012 will begin on October 1, 2011, and end on September 30, 2012.) 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 2011, which normally allows the reader to compare the President's Budget proposals with the most recently enacted levels. However, this year many programs and activities are operating under a continuing resolution that will expire on March 4, 2011 (see "Basis for Budget Figures" later in this chapter). The Budget also includes data on the most recently completed fiscal year, in this case 2010, 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," provides more information on this subject.)

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

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

Congressional Action [1]

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

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

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

The Congress begins its work on its budget resolution shortly after it receives the President's budget. Under the procedures established by the Congressional Budget Act of 1974, the Congress decides on budget targets before commencing action on individual appropriations.

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

BUDGET CALENDAR

The following timetable highlights the scheduled dates for significant budget events during a normal budget year:

Between the 1st Monday in January and the 1st Monday in February	President transmits the budget
Six weeks later	Congressional committees report budget estimates to the 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 the House
July 15	President transmits Mid-Session Review of the Budget
October 1	Fiscal year begins

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.) Once the Congress resolves differences between the House and Senate and agrees on a budget resolution, the Appropriations Committees are required to divide their allocations of budget authority and outlays among their subcommittees. The Congress is not allowed to consider appropriations bills (so-called "discretionary" spending) that would breach or further breach an Appropriations subcommittee's target. The Congress is not allowed to consider legislation that would cause the overall spending target for any such committee to be breached or further breached. The Budget Committees' reports may discuss assumptions about the level of funding for major programs. While these assumptions do not bind the other committees and subcommittees, they may influence their decisions.

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

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

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

Since 1977, when the start of the fiscal year was established as October 1, there have been only three fiscal years (1989, 1995, and 1997) for which the Congress agreed to every 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 stopgap 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 activities—until the Congress passed a CR the President would approve. Shutdowns have lasted for periods of a day to several weeks.

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

Almost all taxes and most other receipts also result from authorizing laws. Article I, Section 7, of the Constitution provides that all bills for raising revenue shall originate in the House of Representatives. In the House, the Ways and Means Committee initiates tax bills; in the Senate, the Finance Committee has jurisdiction over tax laws.

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

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

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

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

Budget Enforcement

The Budget Enforcement Act (BEA), first enacted in 1990 and extended in 1993 and 1997, significantly amended the Balanced Budget and Emergency Deficit Control Act (BBEDCA) and other laws pertaining to the budget process. The BEA divided 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. The BEA applied a statutory pay-as-you-go (PAYGO) process to mandatory spending and revenue legislation and discretionary spending limits ("caps") to annual appropriations acts, but these enforcement provisions expired at the end of fiscal year 2002. Chapter 24, "Budget System and Concepts and Glossary," pages 460-461 in the *Analytical Perspectives* volume of the 2004 Budget, discusses the Budget Enforcement Act in more detail.

The Statutory Pay-As-You-Go Act of 2010, enacted on February 12, 2010, amended BBEDCA and reestablished a statutory procedure to enforce a rule of budget neutrality on new revenue and mandatory spending legislation. Unlike BBEDCA, the Statutory Pay-As-You-Go Act of 2010 applies to mandatory spending and revenue only and does not impose any enforcement regime on discretionary spending provided in appropriations acts. However, the allocations to the Appropriations Committees of discretionary amounts assumed in annual budget resolutions function as discretionary caps, which the Congressional Budget Act enforces by providing for points of order in the House of Representatives and the Senate.

The Statutory Pay-As-You-Go Act of 2010, which is a permanent law, requires that the cumulative effect of all new legislation changing governmental receipts or mandatory spending or collections must not increase projected on-budget deficits. PAYGO requires that bills reducing revenues must be fully offset by cuts in mandatory programs or by revenue increases. It also requires that any bills increasing mandatory expenditures must be fully offset by revenue increases or cuts in mandatory programs. This requirement is enforced by a process, known as "sequestration" which requires automatic across-the-board cuts in selected mandatory programs in the event that legislation taken as a whole does not meet the PAYGO standard established by the law. The law establishes special scorecards and scorekeeping rules. Under the 1990s PAYGO law, the threat of sequestration proved sufficient to ensure compliance. In that respect, sequestration can better be viewed as an incentive for compliance than a remedy for noncompliance.

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

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

The Statutory Pay-As-You-Go Act of 2010 exempts the costs of certain legislation from the PAYGO scorecard. Permanent extension of the middle-class provisions of the 2001 and 2003 tax cuts, as amended in 2009, do not have to be offset. In addition, extension through 2014 of the costs of providing relief from the scheduled deep reduction in Medicare physician reimbursement rates is also exempt from PAYGO, but only up to the reimbursement rates in effect in 2009. However any fixes to the scheduled reduction in reimbursement rates after December 31, 2014 are to be scored relative to current law. In three bills between June and December of 2010, the Congress enacted temporary relief to the Sustainable Growth Rate (SGR) provision of Medicare at payment rates 2.2 percent above those defined in the Statutory Pay-As-You-Go Act of 2010, so those incremental costs appear on the PAYGO scorecards. Congress chose to offset the entire costs of the relief, even though such offsets were not required.

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

The PAYGO rules also apply to the outlays resulting from changes in outyear budget authority for mandatory programs made in appropriations acts and to all revenue changes made in appropriations acts. Provisions with zero net outlay effects over the sum of the current year and the next five fiscal years are not considered PAYGO. The PAYGO rules do not apply to increases in mandatory spending or decreases in receipts that result automatically under existing law. For example, mandatory spending for benefit programs, such as unemployment insurance, rises when the population of eligible beneficiaries rises, and many benefit payments are automatically increased for inflation under existing laws. Additional information on the Statutory Pay-As-You-Go Act of 2010 can be found on OMB's website at: www.whitehouse.gov/omb/paygo_description.

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

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

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

Budget Execution

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.

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

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

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

COVERAGE OF THE BUDGET

Federal Government and Budget Totals

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

It is not always obvious whether a transaction or activity should be included in the budget; the dividing line between the Government and the private sector is sometimes murky. Where there is a question, OMB normally follows the recommendation of the 1967 President’s Commission on Budget Concepts to be comprehensive of the full range of Federal agencies, programs, and activities. In recent years, for example, the budget has included the transactions of the Universal Service Fund, the Public Company Accounting Oversight Board, the Securities Investor Protection Corporation, Guaranty Agencies Reserves, the National Railroad Retirement Investment Trust, the United Mine Workers Combined Benefits Fund, the Telecommunications Development Fund, the Federal Financial Institutions Examination Council, and the transactions of Electric Reliability Organizations (EROs) established pursuant to the Energy Policy Act of 2005. This year, the budget includes the transactions of the Corporation for Travel Promotion, which was created pursuant to the Travel Promotion Act of 2009.

The budget also classifies as governmental the collections and spending by the Affordable Housing Program (AHP) funds created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and includes them in the budget totals. FIRREA requires each of the 12 Federal Home Loan Banks (FHLBs) to contribute at least 10 percent of its previous year’s net earnings to an AHP fund to be used to subsidize owner-occupied and rental housing for low-income families and individuals and to provide assistance to certain first-time homebuyers. Since 1990, the FHLBs have contributed $3.7 billion to the AHP funds, of which $2.9 billion has been spent. The unspent funds represent 2010 contributions that will be committed in 2011 and the undisbursed portion of funds already committed to specific projects. Although the funds remain in the possession of the FHLBs, the deposit of specific amounts into the AHP funds is compulsory, and the expenditures are to meet specific governmental purposes.

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

	2010 Actual	Estimate	
		2011	2012
Budget authority			
Unified	3,485	3,651	3,685
On-budget	2,929	3,143	3,093
Off-budget	555	507	592
Receipts:			
Unified	2,163	2,174	2,627
On-budget	1,531	1,614	1,969
Off-budget	632	559	659
Outlays:			
Unified	3,456	3,819	3,729
On-budget	2,902	3,317	3,146
Off-budget	555	502	583
Deficit (-) / Surplus (+):			
Unified	–1,293	–1,645	–1,101
On-budget	–1,370	–1,703	–1,177
Off-budget	77	58	76

In contrast, the budget excludes tribal trust funds that are owned by Indian tribes and held and managed by the Government in a fiduciary capacity on the tribes’ behalf. These funds are not owned by the Government, the Government is not the source of their capital, and the Government’s control is limited to the exercise of fiduciary duties. Similarly, the transactions of Government-sponsored enterprises, such as the FHLBs, are not included in the on-budget or off-budget totals. Federal laws established these enterprises for public policy purposes, but they are privately owned and operated corporations. Nevertheless, because of their public charters, the budget discusses them and reports summary financial data in the budget *Appendix* and in some detailed tables.

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

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

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

Functional Classification

The functional classification is used to array budget authority, outlays, and other budget data according to the major purpose served—such as agriculture, transportation, income security, and national defense. There are 19 major functions, most of which are divided into subfunctions. For example, the Agriculture function comprises the subfunctions Farm Income Stabilization and Agricultural Research and Services. The functional array meets the Congressional Budget Act requirement for a presentation in the budget by national needs and agency missions and programs.

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

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

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

Agencies, Accounts, Programs, Projects, and Activities

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

Types of Funds

Agency activities are financed through Federal funds and trust funds.

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

Intragovernmental funds are revolving funds that conduct business-type operations primarily within and between Government agencies. The collections and the outlays of revolving funds are recorded in the same budget account. This year, the budget reclassifies as discretionary about 12 working capital and franchise funds that purchase goods and services for discretionary accounts. The majority of such funds were already classified as discretionary. As a result of this change, all of these funds will be classified in the same manner.

Trust funds account for the receipt and expenditure of monies by the Government for carrying out specific purposes and programs in accordance with the terms of a statute that designates the fund as a trust fund (such as the Highway Trust Fund) or for carrying out the stipulations of a trust where the Government itself is the beneficiary (such as any of several trust funds for gifts and donations for specific purposes). ***Trust revolving funds***

are trust funds credited with collections earmarked by law to carry out a cycle of business-type operations.

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

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

Budgeting for Full Costs

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

The budget includes all types of spending, including both current operating expenditures and capital investment, and to the extent possible, both are measured on the basis of full cost. Questions are often raised about the measure of capital investment. The present budget provides policymakers the necessary information regarding investment spending. It records investment on a cash basis, and it requires the Congress to provide budget authority before an agency can obligate the Government to make a cash outlay. By these means, it causes the total cost of capital investment to be compared up front in a rough and ready way with the total expected future net benefits. Since the budget measures only cost, the benefits with which these costs are compared, based on policy makers' judgment, must be presented in supplementary materials. Such a comparison of total costs with benefits is consistent with the formal method of cost-benefit analysis of capital projects in government, in which the full cost of a capital asset as the cash is paid out is compared with the full stream of future benefits (all in terms of present values). (Chapter 21 of this volume, "Federal Investment," provides more information on capital investment.)

RECEIPTS, OFFSETTING COLLECTIONS, AND OFFSETTING RECEIPTS

In General

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

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

Governmental Receipts

Governmental receipts are collections that result from the Government's exercise of its sovereign power to tax or otherwise compel payment. Sometimes they are called receipts, Federal receipts, or Federal revenues. They consist mostly of individual and corporation income taxes and social insurance taxes, but also include excise taxes, compulsory user charges, regulatory fees, customs duties, court fines, certain license fees, and deposits of earnings by the Federal Reserve System. Total receipts for the Federal Government include both on-budget and off-budget receipts (see Table 12–1, "Totals for the Budget and the Federal Government," which appears earlier in this chapter.) Chapter 15 of this volume, "Governmental Receipts," provides more information on receipts.

Offsetting Collections and Offsetting Receipts

Offsetting collections and offsetting receipts are recorded as offsets to (deductions from) spending, not as additions on the receipt side of the budget. As explained below, they are recorded as offsets to outlays so that the budget totals represent governmental rather than market activity and reflect the Government's net transactions with the public. They are recorded in one of two ways, based on interpretation of laws and longstanding budget concepts and practice. They are offsetting collections when the collections are authorized by law to be credited to expenditure accounts and are generally available for expenditure without further legislation. Otherwise, they are deposited in receipt accounts and called offsetting receipts.

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

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

- ***Intragovernmental transactions***—collections from other Federal Government accounts. The budget records collections by one Government account from another as *offsetting collections from Federal sources* (for offsetting collections) or as *intragovernmental receipts* (for offsetting receipts). For example, the General Services Administration rents office space to other Government agencies and records their rental payments as offsetting collections from Federal sources in the Federal Buildings Fund. These transactions are exactly offsetting and do not affect the surplus or deficit. However, they are an important accounting mechanism for allocating costs to the programs and activities that cause the Government to incur the costs. Intragovernmental offsetting collections and receipts are deducted from gross budget authority and outlays so that the budget totals measure the transactions of the Government with the public.

- ***Voluntary gifts and donations***—gifts and donations of money to the Government, which are treated as offsets to budget authority and outlays.

- ***Offsetting governmental transactions***—collections from the public that are governmental in nature (e.g., tax receipts, regulatory fees, compulsory user charges, custom duties, license fees) but required by law to be misclassified as offsetting. The budget records amounts from non-Federal sources that are governmental in nature as *offsetting governmental collections* (for offsetting collections) or as *offsetting governmental receipts* (for offsetting receipts).

Offsetting Collections

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

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

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

Offsetting Receipts

Collections that are offset against gross outlays but are not authorized to be credited to expenditure accounts are credited to receipt accounts and are called offsetting receipts. Offsetting receipts are deducted from budget authority and outlays in arriving at total budget authority and outlays. However, unlike offsetting collections credited to expenditure accounts, offsetting receipts do not offset budget authority and outlays at the account level. In most cases, they offset budget authority and outlays at the agency and subfunction levels.

Proprietary receipts from a few sources, however, are not offset against any specific agency or function and are classified as undistributed offsetting receipts. They are deducted from the Government-wide totals for budget authority and outlays. For example, the collections of rents and royalties from outer continental shelf lands are undistributed because the amounts are large and for the most part are not related to the spending of the agency that administers the transactions and the subfunction that records the administrative expenses.

Similarly, two kinds of intragovernmental transactions—agencies' payments as employers into Federal employee retirement trust funds and interest received by trust funds—are classified as undistributed offsetting receipts. They appear instead as special deductions in computing total budget authority and outlays for the Government rather than as offsets at the agency level. This special treatment is necessary because the amounts are so large they would distort measures of the agency's activities if they were attributed to the agency.

User Charges

User charges are fees assessed on individuals or organizations for the provision of Government services and for the sale or use of Government goods or resources. The payers of the user charge must be limited in the authorizing legislation to those receiving special benefits from, or subject to regulation by, the program or activity beyond the benefits received by the general public or broad segments of the public (such as those who pay income taxes or customs duties). Policy regarding user charges is established in OMB Circular A–25, "User Charges" (July 8, 1993). The term encompasses proceeds from the sale or use of Government goods and services, including the sale of natural resources (such as timber, oil, and minerals) and proceeds from asset sales (such as property, plant, and equipment). User charges are not necessarily dedicated to the activity they finance and may be credited to the general fund of the Treasury.

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

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

BUDGET AUTHORITY, OBLIGATIONS, AND OUTLAYS

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

Budget Authority and Other Budgetary Resources

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

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

In deciding the amount of budget authority to request for a program, project, or activity, agency officials estimate the total amount of obligations they will need to incur to achieve desired goals and subtract the unobligated balances available for these purposes. The amount of budget authority requested is influenced by the nature of the programs, projects, or activities being financed. For current operating expenditures, the amount requested usually covers the needs for the fiscal year. For major procurement programs and construction projects, agencies generally must request sufficient budget authority in the first year to fully fund an economically useful segment of a procurement or project, even though it may be obligated over several years. This full funding policy is intended to ensure that the decision-makers take into account all costs and benefits fully at the time decisions are made to provide resources. It also avoids sinking money into a procurement or project without being certain if or when future funding will be available to complete the procurement or project.

Budget authority takes several forms:

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

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

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

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

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

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

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

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

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

Provisions of law that extend into a new fiscal year the availability of unobligated amounts that have expired or would otherwise expire are called reappropriations. Reappropriations of expired balances that are newly available for obligation in the current or budget year count as new budget authority in the fiscal year in which the balances become newly available. For example, if a 2011 appropriations act extends the availability of unobligated budget authority that expired at the end of

2010, new budget authority would be recorded for 2011. This scorekeeping is used because a reappropriation has exactly the same effect as allowing the earlier appropriation to expire at the end of 2010 and enacting a new appropriation for 2011.

For purposes of the Congressional Budget Act 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. 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

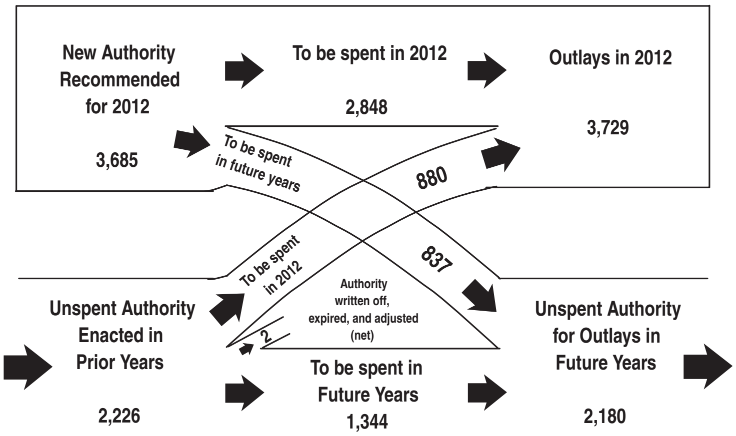
Outlays are the measure of Government spending. They are payments that liquidate obligations (other than most exchanges of financial instruments, of which the repayment of debt is the prime example). The budget records outlays when obligations are paid, in the amount that is paid.

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.

Chart 12-1. Relationship of Budget Authority to Outlays for 2012

(Billions of dollars)



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

Not all of the new budget authority for 2012 will be obligated or spent in 2012. Outlays during a fiscal year may liquidate obligations incurred in the same year or in prior years. Obligations, in turn, may be incurred against budget authority provided in the same year or against unobligated balances of budget authority provided in prior years. Outlays, therefore, flow in part from budget authority provided for the year in which the money is spent and in part from budget authority provided for prior years. The ratio of a given year's outlays resulting from budget authority enacted in that or a prior year to the original amount of that budget authority is referred to as the spendout rate for that year.

As shown in the accompanying chart, $2,848 billion of outlays in 2012 (76 percent of the outlay total) will be made from that year's $3,685 billion total of proposed new budget authority (a first-year spendout rate of 77 percent). Thus, the remaining $880 billion of outlays in 2012 (24 percent of the outlay total) will be made from budget authority enacted in previous years. At the same time, $837 billion of the new budget authority proposed for 2012 (23 percent of the total amount proposed) will not lead to outlays until future years.

As described earlier, the budget classifies budget authority and outlays as discretionary or mandatory. This classification of outlays measures the extent to which actual spending is controlled through the annual appropriations process. Almost 38 percent of total outlays in 2010 ($1,306 billion) are discretionary and the remaining 62 percent ($2,150 billion in 2010) are mandatory spending and net interest. Such a large portion of total spending is mandatory because authorizing rather than appropriations legislation determines net interest ($196 billion in 2010) and the spending for a few programs with large amounts of spending each year, such as Social Security ($701 billion in 2010) and Medicare ($446 billion in 2010).

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

FEDERAL CREDIT

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

The cost of direct loans and loan guarantees, sometimes called the "subsidy cost," is estimated as the present value of expected disbursements over the term of the loan less the present value of expected collections, using appropriate Treasury interest rates to discount the cash flows.[2] 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 on the amount of direct loans or loan guarantees that can be made in annual appropriations acts.

The budget records the estimated long-term 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 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 makes a payment 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 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. If the estimated cost decreases, the financing account makes a payment 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 an additional amount equal to the increased cost and outlays the amount to the financing account. As with the original cost, agencies may incur modification costs only if the Congress has appropriated funds to cover them. A modification may also reduce costs, in which case the amounts are generally returned to the general fund when the financing account makes a payment to the program's receipt account.

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

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

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

cation, as appropriate, and begins to account for the associated transactions as the FCRA prescribes for direct loan obligations and loan guarantee commitments made in 1992 or later.

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

BUDGET DEFICIT OR SURPLUS AND MEANS OF FINANCING

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

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

Borrowing and Debt Repayment

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

In 2010, the Government borrowed $1,474 billion from the public, bringing debt held by the public to $9,019 billion. This borrowing financed the $1,293 billion deficit in that year as well as the net effect of the other means of financing, such as changes in cash balances and other accounts discussed below.

In addition to selling debt to the public, the Treasury Department issues debt to Government accounts, primarily trust funds that are required by law to invest in Treasury securities. Issuing and redeeming this debt does not affect the means of financing, because these transactions occur between one Government account and another and thus do not raise or use any cash for the Government as a whole.

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

Exercise of Monetary Power

Seigniorage is the profit from coining money. It is the difference between the value of coins as money and their cost of production. Seigniorage reduces the Government's need to borrow. Unlike the payment of taxes or other 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, 2009, and equity purchases under the Small Business Lending Fund (SBLF) consistent with the Small Business Jobs

Act of 2010. Credit financing accounts are excluded from the budget because they are not allocations of resources by the Government (see "Federal Credit" earlier in this chapter). However, even though they do not affect the surplus or deficit, they can either increase or decrease the Government's need to borrow. Therefore, they are recorded as a means of financing.

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

Deposit Fund Account Balances

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

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

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

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

In 2009, Congress enacted an increase in the Supplemental Appropriations Act of 2009 (Public Law 111–2, Title XIV, International Monetary Programs) and directed that the increase be scored as credit under the Federal Credit Reform Act of 1990, with an adjustment to the discount rate for market risk. The 2012 Budget reflects obligations and outlays for the quota increase provided by the Supplemental Appropriations Act of 2009 under the terms of that Act. The cash transactions between the U.S. Treasury and the IMF are treated as a means of financing (see "Credit Financing Accounts" earlier in this chapter), which do not affect the deficit.

In contrast, for increases to the U.S. quota subscriptions made prior to the 2009 Supplemental Appropriations Act, the 2012 Budget records interest received from the IMF on U.S. deposits as an offsetting receipt in the general fund of the Treasury. Treasury records outlays in the prior year for financial transactions with the IMF to the extent there is an unrealized loss in dollar terms and offsetting receipts to the extent there is an unrealized gain in dollar terms on the value of the interest-bearing portion of the U.S. quota actually held at the IMF in SDRs. Changes in the value of the portion of the U.S. quota held at Treasury rather than in the U.S. reserve position held at the IMF are recorded as a change in obligations.

Investments of the National Railroad Retirement Investment Trust

Under longstanding rules, the budget has generally treated investments in non-Federal equities and debt 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 to be treated as a means of financing in the budget, rather than as an outlay.

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

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

FEDERAL EMPLOYMENT

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

BASIS FOR BUDGET FIGURES

Data for the Past Year

The past year column (2010) generally presents the actual transactions and balances as recorded in agency accounts and as summarized in the central financial reports prepared by the Treasury Department for the most recently completed fiscal year. Occasionally, the budget reports corrections to data reported erroneously to Treasury but not discovered in time to be reflected in Treasury's published data. In addition, in certain cases the Budget has a broader scope and includes financial transactions that are not reported to Treasury (see Chapter 30 of this volume, "Comparison of Actual to Estimated Totals," for a summary of these differences).

Data for the Current Year

The current year column (2011) includes estimates of transactions and balances based on the amounts of budgetary resources that were available when the budget was transmitted. In cases where the budget proposes policy changes effective in the current year, the data will also reflect the budgetary effect of those proposed changes. This year, many programs and activities are operating under a continuing resolution (P.L. 111-242, as amended), which will expire March 4, 2011, so information on the final appropriations amounts is not available. Data for the current year column 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, the *Historical Tables* volume, and in tables that include total discretionary spending in the *Analytical Perspectives* volume, current year totals by agency and for the total Government will match the President's 2011 Budget request.

Data for the Budget Year

The budget year column (2012) 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 (2013 through 2021) in order to reflect the effect of budget decisions on objectives and plans over a longer period.

Allowances

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

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

Baseline

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

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

The baseline serves several useful purposes:

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

As it happens, a number of significant changes in policies are embedded in current law. For example, the tax cuts enacted in 2001 and 2003 and extended in 2010 are assumed to expire at the end of 2012. Because the expiration of this law would create significant differences between the baseline as specified in the Budget Enforcement Act (BEA) of 1990 and policies in effect this year, the Administration also issues an adjusted baseline that, unlike the BEA baseline, assumes such scheduled changes in current law will not occur. (Chapter 27 of this volume, "Current Services Estimates," provides more information on the baseline, including the differences between the baseline as calculated under the rules of the BEA 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.

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

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

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

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

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

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

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

GLOSSARY OF BUDGET TERMS

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

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

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

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

Agency means a department or other establishment of the Government.

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

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

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

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

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

Budget Enforcement Act of 1990 (BEA) refers to legislation that altered the budget process, primarily by replacing the earlier fixed targets for annual deficits with a Pay-As-You-Go requirement for new tax or mandatory spending legislation, and with caps on annual discretionary funding. Most aspects of the BEA expired in 2002 but the Statutory Pay-As-You-Go Act of 2010 reinstates a statutory pay-as-you-go rule for revenues and mandatory spending legislation.

Budget resolution—see concurrent resolution on the budget.

Budget totals mean the totals included in the budget for budget authority, outlays, receipts, and the surplus or deficit. Some presentations in the budget distinguish on-budget totals from off-budget totals. On-budget totals reflect the transactions of all Federal Government entities except those excluded from the budget totals by law. The off-budget totals reflect the transactions of Government entities that are excluded from the on-budget totals by law. Under current law, the off-budget totals include the Social Security trust funds (Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds) and the Postal Service Fund. The budget combines the on- and off-budget totals to derive unified or consolidated totals for Federal activity.

Budgetary resources mean amounts available to incur obligations in a given year. The term comprises new budget authority and unobligated balances of budget authority provided in previous years.

Cap means the legal limits for each fiscal year under the Budget Enforcement Act on the budget authority and outlays provided by discretionary appropriations.

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.

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

Emergency requirement means an amount that the Congress has designated as an emergency requirement. Such amounts are not included in the estimated budgetary effects of PAYGO legislation under the requirements of the Statutory Pay-As-You-Go Act of 2010, if they are mandatory or receipts, or to congressional limits on discretionary spending under the terms of most recent budget resolutions, if they are discretionary.

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

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

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

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

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

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

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

Intragovernmental fund —see Revolving fund.

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

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

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

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

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

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

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

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

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

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

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

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

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 revolving fund.)

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

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

Sequestration means the cancellation of budgetary resources. The Statutory Pay-As-You-Go Act of 2010 requires such cancellations if revenue or direct spending legislation is enacted that, in total, increase projected deficits or reduces projected surpluses relative to the baseline. Under the law, selected mandatory programs would be subject to across-the-board cancellations.

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.)

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

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

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

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

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

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

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

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

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

13. COVERAGE OF THE BUDGET

The Federal Government's activities have far-reaching impacts, affecting the economy and society of the Nation and the world. One of the primary activities of the Government is to allocate resources in order to provide public goods and achieve public policy objectives. The budget is the Government's financial plan for proposing, deciding, and controlling the allocation of resources. Those financial activities that constitute the direct allocation of resources are included in the budget's measures of receipts and expenditures, and are therefore characterized as "budgetary."

Federal Government activities that do not involve the direct allocation of resources in a measurable way are characterized as "non-budgetary" and classified outside of the budget. For example, the budget does not include funds that are privately owned but held and managed by the Government in a fiduciary capacity, such as the deposit funds owned by Native American Indians. In addition, the budget does not include costs that are borne by the private sector even when those costs result from Federal regulatory activity. Also, although the budget includes the subsidy costs[1] of Federal credit programs, it does not include the cash flows of these programs that do not involve a direct allocation of resources by the Government and that are a means of financing these programs. Non-budgetary activities can be important instruments of Federal policy and are discussed briefly in this chapter and in more detail in other parts of the budget documents.

The term "off-budget" may appear to be synonymous with non-budgetary. However, it has a meaning distinct from non-budgetary and, as discussed below, refers to Federal Government activities that are required by law to be excluded from the budget totals. The term is also used colloquially to refer to emergency funding or supplemental appropriations for war costs because these items have often been passed by the Congress without regard to the normal budget enforcement procedures. Despite the colloquial usage of the term off-budget, emergency aid and war costs are budgetary and specifically "on-budget," as that term is defined below; budgetary outlays and receipts reflect the costs of these provisions.

Budgetary Activities

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

All accounts in Table 33-1, "Federal Programs by Agency and Account," in the Supplemental Materials to this volume, are budgetary.[3] The vast majority of budgetary accounts are associated with the departments and other entities that are clearly Federal agencies. Some budgetary accounts reflect Government payments to non-budgetary entities, such as the Corporation for Public Broadcasting and the Legal Services Corporation. Other budgetary accounts reflect Government activity at entities that have both budgetary and non-budgetary components, such as the Smithsonian Institution. As noted below, some entities are classified as non-budgetary because they receive the majority of their funding from non-Federal sources and because they are not controlled entirely by the Government. The President's 1967 Commission on Budget Concepts recommended that the budget be comprehensive, but it also recognized that proper budgetary classification would require weighing all relevant factors regarding ownership and control of an entity. Generally, entities that are primarily owned and controlled by the Government are classified as budgetary. The budgetary classification of entities is made jointly by the Office of Management and Budget (OMB), the Congressional Budget Office (CBO), and the Budget Committees of the Congress.[4]

Off-budget Federal entities.—Despite the 1967 Commission's recommendation that the budget be com-

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

[2] Government corporations are Government entities that are defined as corporations under 31 U.S.C. 9101. Many Government corporations engage in a cycle of business activity with the public, selling services to the public at prices that enable the entities to be self-sustaining. Examples of Government corporations include the Commodity Credit Corporation, the Federal Deposit Insurance Corporation, the Export-Import Bank of the United States, the Federal Crop Insurance Corporation, the Overseas Private Investment Corporation, the Pension Benefit Guaranty Corporation, the Tennessee Valley Authority, and the Millennium Challenge Corporation.

[3] Table 33-1 can be found at *www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/33_1.pdf*.

[4] Until the 2011 Budget, the Securities Investor Protection Corporation (SIPC) was classified as non-budgetary. In the fall of 2009, OMB, CBO, and the Budget Committees of the Congress reviewed the non-budgetary status of SIPC and decided to reclassify it as budgetary. The 2012 Budget includes as budgetary the Corporation for Travel Promotion created by the Travel Promotion Act of 2009, Public Law 111-145, enacted on March 4, 2010. The 2012 Budget also classifies as budgetary the State programs of reinsurance and risk adjustments mandated by the Patient Protection and Affordable Care Act, Public Law 111-148, enacted on March 23, 2010.

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

Fiscal Year	Receipts			Outlays			Surplus or deficit (–)		
	Total	On-budget	Off-budget	Total	On-budget	Off-budget	Total	On-budget	Off-budget
1980	517.1	403.9	113.2	590.9	477.0	113.9	–73.8	–73.1	–0.7
1981	599.3	469.1	130.2	678.2	543.0	135.3	–79.0	–73.9	–5.1
1982	617.8	474.3	143.5	745.7	594.9	150.9	–128.0	–120.6	–7.4
1983	600.6	453.2	147.3	808.4	660.9	147.4	–207.8	–207.7	–0.1
1984	666.4	500.4	166.1	851.8	685.6	166.2	–185.4	–185.3	–0.1
1985	734.0	547.9	186.2	946.3	769.4	176.9	–212.3	–221.5	9.2
1986	769.2	568.9	200.2	990.4	806.8	183.5	–221.2	–237.9	16.7
1987	854.3	640.9	213.4	1,004.0	809.2	194.8	–149.7	–168.4	18.6
1988	909.2	667.7	241.5	1,064.4	860.0	204.4	–155.2	–192.3	37.1
1989	991.1	727.4	263.7	1,143.7	932.8	210.9	–152.6	–205.4	52.8
1990	1,032.0	750.3	281.7	1,253.0	1,027.9	225.1	–221.0	–277.6	56.6
1991	1,055.0	761.1	293.9	1,324.2	1,082.5	241.7	–269.2	–321.4	52.2
1992	1,091.2	788.8	302.4	1,381.5	1,129.2	252.3	–290.3	–340.4	50.1
1993	1,154.3	842.4	311.9	1,409.4	1,142.8	266.6	–255.1	–300.4	45.3
1994	1,258.6	923.5	335.0	1,461.8	1,182.4	279.4	–203.2	–258.8	55.7
1995	1,351.8	1,000.7	351.1	1,515.7	1,227.1	288.7	–164.0	–226.4	62.4
1996	1,453.1	1,085.6	367.5	1,560.5	1,259.6	300.9	–107.4	–174.0	66.6
1997	1,579.2	1,187.2	392.0	1,601.1	1,290.5	310.6	–21.9	–103.2	81.4
1998	1,721.7	1,305.9	415.8	1,652.5	1,335.9	316.6	69.3	–29.9	99.2
1999	1,827.5	1,383.0	444.5	1,701.8	1,381.1	320.8	125.6	1.9	123.7
2000	2,025.2	1,544.6	480.6	1,789.0	1,458.2	330.8	236.2	86.4	149.8
2001	1,991.1	1,483.6	507.5	1,862.8	1,516.0	346.8	128.2	–32.4	160.7
2002	1,853.1	1,337.8	515.3	2,010.9	1,655.2	355.7	–157.8	–317.4	159.7
2003	1,782.3	1,258.5	523.8	2,159.9	1,796.9	363.0	–377.6	–538.4	160.8
2004	1,880.1	1,345.4	534.7	2,292.8	1,913.3	379.5	–412.7	–568.0	155.2
2005	2,153.6	1,576.1	577.5	2,472.0	2,069.7	402.2	–318.3	–493.6	175.3
2006	2,406.9	1,798.5	608.4	2,655.0	2,233.0	422.1	–248.2	–434.5	186.3
2007	2,568.0	1,932.9	635.1	2,728.7	2,275.0	453.6	–160.7	–342.2	181.5
2008	2,524.0	1,865.9	658.0	2,982.5	2,507.8	474.8	–458.6	–641.8	183.3
2009	2,105.0	1,451.0	654.0	3,517.7	3,000.7	517.0	–1,412.7	–1,549.7	137.0
2010	2,162.7	1,531.0	631.7	3,456.2	2,901.5	554.7	–1,293.5	–1,370.5	77.0
2011 estimate	2,173.7	1,614.3	559.4	3,818.8	3,317.3	501.5	–1,645.1	–1,703.0	57.9
2012 estimate	2,627.4	1,968.7	658.7	3,728.7	3,145.9	582.8	–1,101.2	–1,177.2	75.9
2013 estimate	3,003.3	2,273.3	730.0	3,770.9	3,121.5	649.4	–767.5	–848.2	80.6
2014 estimate	3,332.6	2,561.1	771.5	3,977.1	3,291.3	685.8	–644.6	–730.3	85.7
2015 estimate	3,583.0	2,768.1	814.9	4,189.8	3,465.0	724.7	–606.7	–696.9	90.2
2016 estimate	3,819.1	2,949.2	869.9	4,467.8	3,701.9	765.9	–648.7	–752.7	104.0

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

prehensive, every year since 1971, at least one Federal entity that would otherwise be included in the budget has been presented as off-budget because of a requirement in the law. Such off-budget Federal entities are federally owned and controlled, but their transactions are excluded, by law, from the rest of the budget totals, which are also known as "on-budget" totals. The budget reflects the legal distinction between on-budget entities and off-budget entities by showing outlays and receipts for both types of entities separately.

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

The off-budget Federal entities currently consist of the Postal Service Fund 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 Fund has been classified as off-budget since 1990.[5] Other entities that had been declared off-budget by law at different times before 1986 have been classified as on-budget by law since at least 1985.

Table 13–1 divides total Federal Government receipts, outlays, and the surplus or deficit between on-budget and off-budget amounts. Within this table, the Social Security and Postal Service transactions are classified as off-budget for all years in order to provide a consistent comparison over time. Entities that were off-budget at one time but are now on-budget are classified as on-budget for all years.

Because Social Security is the largest single program in the unified budget and is classified by law as off-budget, the off-budget accounts constitute a significant part of total Federal spending and receipts. In 2012, off-budget receipts are an estimated 25.1 percent of total receipts, and off-budget outlays are a smaller, but still significant, percentage of total outlays at 15.6 percent. The estimated unified budget deficit in 2011 is $1,645 billion—a $1,703 billion on-budget deficit partly offset by a $58 billion off-budget surplus. The off-budget surplus for 2010 and 2011 consists entirely of the Social Security surplus.[6] Social Security had small deficits or surpluses from its inception through the early 1980s and large and growing surpluses from the mid-1980s until 2008. Because of the economic downturn, the Social Security surplus has been declining for several years, but it is expected to begin growing again during the budget horizon. However, under present law, the surplus is eventually estimated to decline, turn into a deficit, and never reach balance again.

Non-Budgetary Activities

Some important Government activities are characterized as non-budgetary because they do not involve the direct allocation of resources by the Government.[7] Some of the Government's major non-budgetary activities are discussed below and, as noted below, some of these activities affect budget outlays or receipts even though they have components that are non-budgetary.

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

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

To illustrate the budgetary and non-budgetary components of a credit program, consider a portfolio of new direct loans made to a cohort of college students. To encourage higher education, the Government offers loans at a lower cost than private lenders. Students agree to repay the loans according to the terms of their promissory notes. The loan terms may include lower interest rates or longer repayment periods than would be available from private lenders. Some of the students are likely to become delinquent or default on their loans, leading to Government losses to the extent the Government is unable to recover the full amount owed by the students. Under credit reform, the subsidy cost equals the net estimated lifetime cash flows to and from the Government (excluding administrative costs) discounted to the point of the loan disbursement. If the repayments of principal and interest are not sufficient to offset the expected losses from delinquencies, defaults, or costs associated with favorable loan terms, the present value of the expected future cash flows will be less than the Government disburses in loans and the Government will incur a cost (known as the subsidy cost). In other words, the subsidy cost is the difference in present value between the amount disbursed by the Government and the estimated value of the loan assets the Government receives in return. Because the loan assets have value, the remainder of the transaction (beyond the amount recorded as a subsidy) is simply an exchange of financial assets of equal value and does not result in a cost to the Government

Since credit reform first took effect in 1992, the budget outlays for credit programs have reflected only the subsidy costs of Government credit and have shown the cost when the credit assistance was or is expected to be provided. Credit reform allows the budget to reflect more accurately the cost of credit decisions.[8] This enables the

[5] See 42 U.S.C. 911 and 39 U.S.C. 2009a.

[6] The 2010 off-budget surplus reflects an $81.7 billion surplus for Social Security and a $4.7 billion deficit for the Postal Service. The estimated 2011 off-budget surplus reflects a $59.4 billion surplus for Social Security and a $1.5 billion deficit for the Postal Service, and the projected 2012 off-budget surplus reflects a $75.6 billion surplus for Social Security and a $0.3 billion surplus for the Postal Service.

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

[8] Both credit reform accounting and the earlier cash accounting of Federal credit programs would ultimately show the same costs for credit transactions. For example, cash accounting for direct loans would show the full disbursement of the loan as an outlay when it was made, and then later show the repayments of principal and interest as an offset to outlays. Over the life of the loan, only the net cost of the loan would ultimately be reflected in the budget. Credit accounting shows that same net cost, but shows that cost at the time the loan is made (adjusting

budget to fulfill its purpose of serving as a financial plan for allocating resources among alternative uses by comparing the expected cost of credit programs with their benefits, comparing the cost of credit programs with the cost of other spending programs, and comparing the cost of one type of credit assistance with the cost of another type.[9] Credit programs are discussed in more detail in Chapter 23 of this volume, "Credit and Insurance."

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

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

In September 2008, in response to the financial market crisis, the director of the Federal Housing Finance Agency (FHFA)[11] placed Fannie Mae and Freddie Mac into conservatorship for the purpose of preserving the assets and restoring the solvency of these two GSEs. As conservator, FHFA has broad authority to direct the operations of these GSEs. However, these GSEs remain private companies with Boards of Directors and management responsible for their day-to-day operations.

This Budget continues to treat these two GSEs as non-budgetary private entities in conservatorship rather than as Government agencies. By contrast, the CBO treats these GSEs as budgetary Federal agencies. Both treatments include budgetary and non-budgetary amounts.

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

Overall, both the Budget's accounting and CBO's accounting present the GSEs' losses as Government outlays, which increase Government deficits. The two approaches, however, reflect the losses as budgetary costs at different times.[12]

Other Federally Created Non-Budgetary Entities.—In addition to chartering the GSEs, the Federal Government has created a number of other entities that are classified as non-budgetary. These include federally funded research and development centers (FFRDCs), non-appropriated fund instrumentalities (NAFIs), and

the cash flows for the time-value of money). Under cash accounting, the outlays recorded when a loan was made overstated the lifetime costs of the loan and the outlays recorded when a guarantee was made understated the lifetime cost of the guarantee. Credit reform makes it possible to consider the full cost of a credit program at the time the program decisions are made and in a way that enables the cost of credit programs to be compared to other forms of Government assistance, such as grants.

[9] For more explanation of the budget concepts for direct loans and loan guarantees, see the sections on Federal credit and credit financing accounts in Chapter 12 of this volume, "Budget Concepts." The structure of credit reform is further explained in Chapter VIII.A of the *Budget of the United States Government*, Fiscal Year 1992, Part Two, pp. 223–226. The implementation of credit reform through 1995 is reviewed in Chapter 8, "Underwriting Federal Credit and Insurance," *Analytical Perspectives, Budget of the United States Government*, Fiscal Year 1997, pp. 142–144. Refinements and simplifications enacted by the Balanced Budget Act of 1997 or provided by later OMB guidance are explained in Chapter 8, "Underwriting Federal Credit and Insurance," *Analytical Perspectives, Budget of the United States Government,* Fiscal Year 1999, p. 170.

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

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

[12] The two approaches would be the same over the long run under the assumption that the Government maintains its current relationship with the two GSEs indefinitely.

other entities, some of which are incorporated as non-profit entities.

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

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

A number of entities created by the Government receive a significant amount of non-Federal funding and are primarily or wholly controlled by non-Federal individuals or organizations. Although not exhaustive, this list of entities includes Amtrak, the Corporation for Public Broadcasting, Gallaudet University, Howard University, the Legal Services Corporation, the National Academy of Sciences, the Neighborhood Reinvestment Corporation, the Smithsonian Institution, the United States Enrichment Corporation, and the United States Institute of Peace. Most of these entities receive direct appropriations or other recurring payments from the Government, which are budgetary and included in Table 33-1, mentioned above. However, many of these entities are non-budgetary. Generally, entities that receive a significant portion of funding from non-Federal sources and that are not controlled by the Government are treated as non-budgetary. As noted above, classifications for budgetary and non-budgetary status are made jointly by OMB, CBO, and the Budget Committees of the Congress.[14]

Regulation.—Federal Government regulation often requires the private sector or other levels of government to make expenditures for specified purposes that are intended to have public benefits, such as safety and pollution control. Although the budget reflects the Government's cost of conducting regulatory activities, the costs imposed on the private sector as a result of regulation are treated as non-budgetary and not included in the budget. The Government's regulatory priorities and plans are described in the annual Regulatory Plan and the semi-annual Unified Agenda of Federal Regulatory and Deregulatory Actions.[15]

The estimated costs and benefits of Federal regulation have been published annually by OMB since 1997. The latest report was released in July 2010.[16] In this report, OMB indicates that the estimated annual benefits of Federal regulations it reviewed from October 1, 1999, to September 30, 2009, range from $128 billion to $616 billion, while the estimated annual costs range from $43 to $55 billion. In its report, OMB discusses the impact of Federal regulation on State, local, and tribal governments, and agency compliance with the Unfunded Mandates Reform Act of 1995. The costs and benefits of Federal regulation are also discussed in Chapter 9 of this volume, "Benefit-Cost Analysis."

Monetary policy.—As noted above, the budget is a financial plan for allocating resources by raising revenues and spending those revenues. As a fiscal policy tool, the budget is used by elected Government officials to promote economic growth and achieve other public policy objectives. Monetary policy is another tool that governments use to promote public policy objectives. In the United States, monetary policy is conducted by the Federal Reserve System, which is composed of a Board of Governors and 12 regional Federal Reserve Banks. The Federal Reserve Act provides that the goal of monetary policy is to "maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."[17] 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.[18]

By law, the Federal Reserve System is a self-financing entity that is independent of the Executive Branch and subject to only broad oversight by the Congress. Consistent with the recommendations of the 1967 President's Commission on Budget Concepts, the effects of monetary policy and the actions of the Federal Reserve

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

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

[15] The most recent Regulatory Plan and introduction to the Unified Agenda were issued by the General Services Administration's Regulatory Information Service Center and were printed in the Federal Register of April 26, 2010. Both the Regulatory Plan and Unified Agenda are available on-line at www.reginfo.gov and at www.gpoaccess.gov.

[16] Office of Information and Regulatory Affairs, OMB, 2010 Report to Congress on the Benefits and Costs of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities (July 2010). The Report is available at www.whitehouse.gov/omb/inforeg_regpol_reports_congress/.

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

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

System are, with two exceptions, non-budgetary. Although the relatively recent increase in the Federal Reserve's balance sheet in response to the financial crisis has had important macroeconomic consequences, it does not directly affect the Federal deficit.

The exceptions to the treatment of Federal Reserve transactions as non-budgetary involve excess earnings of the Federal Reserve System. The Federal Reserve System earns income from a variety of sources including interest on U.S. Government securities, foreign currency investments and loans to depository institutions, and fees for services (e.g., check clearing services) provided to depository institutions. After paying its expenses, the Federal Reserve System remits to the U.S. Treasury any excess income. This income, which is classified in the budget as a governmental receipt, was equal to $75.9 billion in 2010. The recent expansion of the Federal Reserve's balance sheet has increased its sources of income (and potential loss), which in turn has affected the Federal Reserve's excess income payment to the Treasury. In addition to remitting excess income to the Treasury, the Dodd-Frank Wall Street Reform and Consumer Protection Act requires the Federal Reserve to transfer a portion of its excess earnings to the Consumer Financial Protection Bureau, an independent bureau of the Federal Reserve, which was created by the Act.[19]

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

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

Financial Stabilization Activity

Since late 2007, the Federal Reserve System, Executive Branch agencies, and the GSEs Fannie Mae and Freddie Mac have been engaged in a variety of activities designed to stabilize the financial markets and restore economic growth. The actions taken by the Federal Reserve System[20] are non-budgetary for reasons discussed above in the section on "Monetary policy." However, as also noted above, Federal Reserve actions may affect the System's earnings, which ultimately affect governmental receipts. The placement of Fannie Mae and Freddie Mac into conservatorship, discussed above in the section on "Government-sponsored enterprises," is not treated as affecting their non-budgetary status, so the GSEs' transactions with the public are not included in the 2012 Budget. However, as with other transactions between non-budgetary entities and the Government, the transactions of the GSEs with the Government, including all cash payments from the Treasury to the GSEs, are included in the budget.

Executive Branch activities in support of financial market stabilization include actions taken by the Department of the Treasury, the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Federal Housing Finance Agency (FHFA). The Treasury activities include the Public-Private Investment Partnership program, the Term Asset-Backed Securities Loan Facility (administered jointly with the Federal Reserve), the Small Business Lending Fund, the State Small Business Credit Initiative, the Homeowner Affordability and Stability Plan, the GSE Credit Facility, and the GSE mortgage-backed securities purchases. Actions by the FDIC include the Temporary Liquidity Guarantee Program and actions by the NCUA include the Temporary Corporate Credit Union Liquidity Guarantee Program. Actions by the FHFA include the placement of the GSEs into conservatorship in 2008 and the subsequent and ongoing management of the GSEs. Chapter 4 of this volume, "Financial Stabilization Efforts and Their Budgetary Effects," discusses all Government efforts to stabilize the financial markets and restore economic growth.

As distinct from the activities of the Federal Reserve and the GSEs, the activities of the Department of the Treasury, the FDIC, and the NCUA are budgetary. Financial asset acquisitions, loans, and loan guarantees under the Troubled Asset Relief Program (TARP), are reported in the budget on a credit basis.[21] As discussed above in the section on "Federal credit programs," this

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

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

[21] The Emergency Economic Stabilization Act (EESA) (section 123(a)) provides the authority to record the costs of all troubled assets purchased (or guaranteed) under TARP in accordance with the Federal Credit Reform Act (FCRA). EESA further requires (in section 123(b)) that the discount rate used for recording these costs reflect market risk, which is in contrast to the risk-free discount rate required under FCRA for calculating the costs of loans and loan guarantees not authorized by EESA.

means that outlays equal to the net present value of all future cash flows with the public are recorded when the transaction occurs. The rationale for recording financial asset purchases under TARP on a credit basis rather than on a cash basis is the same as the rationale, discussed above, for loans and loan guarantees generally: the Government's cost of purchasing a financial asset that is intended to be sold at some point in the future is not equal to the cash used to acquire the asset at the time of acquisition. Rather, the cost is equal to the present value of the cash outflows for acquiring the asset less the present value of cash inflows from holding and ultimately selling the asset.

The total budget impact of all of the credit market stabilization efforts undertaken by the Treasury, other Executive Branch agencies, the GSEs, and the Federal Reserve may not be known with certainty for several years. Nevertheless, actual and estimated outlays and receipts are included in the 2012 Budget. In addition, the actual and estimated impacts of credit market stabilization efforts on the Federal debt held by the public are included in the 2012 Budget.

14. BUDGET PROCESS

Since taking office, the Administration has strived to present budget figures that accurately reflect the present and future course of the Nation's finances, and continues to strive to make improvements in budget process and enforcement. An honest and transparent accounting of our Nation's finances is critical to making decisions about key fiscal policies. This chapter begins with an overview of the Administration's significant accomplishments in promoting budget discipline and improved transparency, particularly the restoration of the statutory Pay-As-You-Go rule, which was a key component of balancing the budget in the late 1990s.

The chapter then describes two broad categories of budget reform proposals. First, the chapter describes proposals to strengthen budgeting and fiscal sustainability of individual programs as well as across Government, such as critical transportation and education programs, and a proposal for a fast-track procedure for Congress to consider certain rescission requests. Together these will help to impose greater discipline on revenue and spending policies.

Second, the chapter presents a revised baseline, which includes a projection of the costs of certain major tax and spending policies currently in effect, such as relief from the growing scope of the Alternative Minimum Tax, even though those policies are scheduled to expire within the budget window. In addition, the Budget includes an allowance for the costs of possible future natural disasters. This revised baseline better captures the likely future costs of operating the Federal Government.

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 we confront as a Nation.

I. CHANGES IN THE BUDGET PROCESS AND BUDGET DISPLAY

The Administration supports the following reforms that would supplement the budget process laid out in the Congressional Budget Act of 1974: 1) implementing the renewed statutory Pay-As-You-Go (PAYGO) rule, 2) conducting PAYGO reviews of potential administrative actions by Executive Branch agencies affecting mandatory programs, 3) treating spending from the proposed Transportation Trust Fund as mandatory, 4) offsetting some of the cost increases in the Pell Grant program with mandatory savings, 5) treating Postal Service reform on a unified budget basis for purposes of PAYGO enforcement, 6) proposing an option for the expedited consideration of certain rescission proposals, 7) proposing program integrity funding, including appropriations "allocation adjustments," to support the cost-efficient administration of mandatory programs and tax collection, 8) protecting appropriated funding in the Disaster Relief Fund for major disasters and emergencies, 9) limiting the use of advance appropriations for discretionary programs, 10) supporting a display of debt net of offsetting financial assets, and 11) continuing the current display of Fannie Mae and Freddie Mac while transitioning to a new housing finance system.

Statutory PAYGO

The Statutory Pay-As-You-Go Act of 2010 (PAYGO, or "the Act") is part of Public Law 111-139, enacted on February 12, 2010. A key priority for this Administration, the Act significantly strengthens the rules of budget discipline.

Drawing upon the version of the law enacted as part of the 1990 Budget Enforcement Act, the Act requires that all new legislation changing taxes or mandatory expenditures and collections, taken together, must not increase projected deficits. This requirement is enforced by an accompanying requirement of automatic across-the-board cuts in selected mandatory programs if legislation taken as a whole does not meet that standard. PAYGO also established special scorecards and scorekeeping rules.

The PAYGO Principle.—The principle underlying PAYGO is a rule of budget neutrality—that is, the government must not enact new laws that, when added together, would increase projected deficits. In general, adherence to PAYGO does not by itself reduce projected deficits, but during the 1990s, when the first statutory PAYGO law was in effect, adherence to the principle reinforced—and effectively locked into place—the substantive deficit-reduction measures enacted in 1990, 1993, and 1997, which contributed to the surpluses in the last four years of the Clinton Administration.

Moreover, adherence to PAYGO will reduce projected deficits relative to the Administration's adjusted baseline in two cases. Specifically, the adjusted baseline, discussed at the end of this chapter, assumes that AMT relief and estate tax relief will be continued after 2011 while PAYGO requires those two forms of tax relief to be offset. In this case, adherence to PAYGO will reduce baseline deficits by $1,718 billion through 2021, including interest.

Legislation Covered by PAYGO.—PAYGO applies to laws enacted after February 12, 2010, that would alter revenues or mandatory spending or collections. Mandatory spending encompasses any spending except that controlled by the annual appropriations process. [1]

PAYGO requires that bills reducing revenues must be fully offset by cuts in mandatory programs or by revenue increases. It also requires that any bills increasing mandatory expenditures must be fully offset by revenue increases or cuts in mandatory programs. The requirement applies to bills enacted during a congressional session, not to any individual bill. For purposes of PAYGO, there is no fundamental distinction between mandatory and tax legislation. Although the PAYGO principle is mostcommonly described as barring legislation that would increase projected deficits, the Act, which is permanent, would continue to apply even if the budget were in surplus.

Enforcement.—If Congress enacts PAYGO bills cutting taxes or increasing mandatory expenditures without fully offsetting the costs, the Act requires a process called "sequestration." If Congress adjourns at the end of a session with net costs—that is, more costs than savings—on the scorecard, the Office of Management and Budget (OMB) is required to calculate, and the President is required to issue, a sequestration order implementing, across-the-board cuts to a select group of mandatory programs in an amount sufficient to offset the net costs on the PAYGO scorecard.

Exemptions from a sequestration order include Social Security; most unemployment benefits; veterans' benefits; interest on the debt; Federal retirement; and the low-income entitlements such as Medicaid, the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), and Supplemental Security Income (SSI).[2] The major remaining mandatory programs, which are subject to sequestration, include most Medicare payments, farm price supports, vocational rehabilitation basic state grants, mineral leasing payments to States, the Social Services Block Grant, and many smaller programs.

If a sequestration is ordered, each non-exempt mandatory program is reduced for one year by the same percentage, with one exception: Medicare payments subject to sequestration cannot be reduced more than 4 percent.[3] Consequently, if an overall 4 percent sequestration would not suffice to offset net costs on the PAYGO scorecard, sequestrable Medicare payments would be cut 4 percent and all other non-exempt programs would be cut by a higher uniform percentage. In effect, if a large sequestration is needed, the bar to cutting sequestrable Medicare payments by more than 4 percent means that other non-exempt programs must make up the difference.

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

The PAYGO Scorecards.—Under PAYGO, OMB must maintain a 5-year and a 10-year scorecard that record the cost or savings of every PAYGO bill enacted in each session of Congress. The 5-year scorecard displays columns for the budget year and each of the next four years, while the 10-year scorecard displays columns for the budget year and each of the next nine years. OMB maintains running totals for all PAYGO bills. The total costs and savings are then averaged over 5 and 10 years, respectively, before being entered on the scorecards.[4] At the end of each session of Congress (usually in December), OMB looks to the scorecards to determine whether a sequestration is necessary. The key question for purposes of sequestration is whether the sum for the budget year on either the 5-year scorecard or the 10-year scorecard is positive—that is, costs exceed savings—when Congress adjourns at the end of a session. If either sum is positive, the sequestration described above will go into effect automatically to offset the net costs. If both the 5- and 10-year scorecards show net costs, the sequestration must offset the higher amount.

The first annual report under the PAYGO Act was issued on January 13, 2011, and is available at www.omb.gov. It shows that savings exceeded costs by $11.0 billion per year on the 5-year scorecard and by $6.4 billion per year in the 10-year scorecard. Since both amounts are negative, sequestration was not necessary.

When Congress starts a new session, the budget year will shift forward by one year and the two scorecards will each extend one year into the future. The net sum of all prior entries—the PAYGO balances from prior sessions of Congress—will remain on the scorecard and be part of the calculations. For example, the current session of Congress starts with a credit (a negative balance) of $11.0 billion on the five-year scorecard for each year 2012 through 2015,

[1] 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.

[2] 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.

[3] Medicare payments for services, devices, or insurance plans are subject to sequestration within the 4 percent limit described above; other payments—such as the low-income subsidy that is part of the prescription drug benefit—are not subject to sequestration.

[4] Costs or savings that occur in the current year are treated as though they occur in the budget year. The terms *budget year* and *current year* are defined with respect to a session of Congress; the budget year means the fiscal year that will start or has started on the October 1 that falls within that session of Congress, and the current year is the fiscal year before the budget year.

the result of the net PAYGO savings enacted by the prior Congress. However, the five-year scorecard rolls over by one year, and now covers the years through 2016, with no credits in the 2016 column of the five-year scorecard. Therefore, if Congress enacts legislation that costs $5 billion per year without paying for those costs, the existing balances on the five-year scorecard would more than cover those costs in each year through 2015, but the 2016 column of the scorecard would show a debit of $5 billion. If no other PAYGO legislation were subsequently enacted, no sequestration would occur until the end of calendar year 2015, but at that time a $5 billion sequestration would be ordered to eliminate the $5 billion debit for 2016, the fiscal year that would have just started.

Special Rules for Certain PAYGO Estimates.— There are a number of special rules that affect whether all estimated budgetary effects of PAYGO bills are entered on the scorecard.

- Off-budget costs or savings are excluded. The Social Security trust funds and the Postal Service fund are the only two Federal programs designated as off-budget by law. If legislation affects Social Security, for example, those effects, though shown in the unified budget, will not be entered on the PAYGO scorecards. As described later in this chapter, the Administration proposes that the unified budget effects of Postal Service reform legislation be recorded on the PAYGO scorecards.
- Emergency costs are excluded. If Congress statutorily designates specified costs as emergency requirements under the Act, the costs are not entered on the PAYGO scorecard but instead are shown separately. As noted in the first annual PAYGO report, the prior Congress enacted a net of $529 billion in emergency costs over the ten-year period through 2020. Those costs, all of which are temporary, are listed on the scorecards but excluded from the official totals.
- Certain timing shifts are excluded. Congress cannot use timing shifts to avoid violating PAYGO on the 10-year scorecard. If a PAYGO bill contains provisions that would move costs from year ten of the scorecard to year 11, or would move savings from year 11 onto the last year of the scorecard, the effects of those timing shifts are ignored.
- CLASS Act savings of almost $79 billion over ten years are excluded. The CLASS Act, enacted as part of health care reform, established a voluntary, fully prefunded long-term care benefit, with the value of the benefit linked directly to the value of the advance funding. Because it is fully prefunded, the program reduces deficits in the early years but has a long-term present value of zero. A special provision of the PAYGO Act provides that the up-front savings from the CLASS Act are not entered on the PAYGO scorecards.
- Current-policy scorekeeping adjustments can reduce scored costs. PAYGO is described as requiring that legislation not increase projected deficits, relative to current law (baseline). This raises the question of how existing tax and mandatory laws are projected. In most cases, baseline projections are assumed to reflect scheduled changes built into those existing laws. For example, future benefits under the SSI program are indexed to inflation under current law, as are tax brackets. This indexing is assumed to occur on schedule, so a PAYGO law is viewed as changing future deficits only if it changes some aspect of law that is already scheduled to occur.

  However, under the Act there are five exceptions to this general rule. Each exception exists because the scheduled future changes in the law are considered so unlikely, based on past history, that they do not provide a reasonable benchmark for judging the effect of new legislation.

  1. Some longstanding programs require periodic reauthorization, such as farm price supports, SNAP, the Children's Health Insurance Program (CHIP), and Temporary Assistance to Needy Families (TANF). These programs are treated as though they are ongoing, which has been the rule since baselines were first developed in the 1970s.[5]

  2. At the time PAYGO was enacted, a temporary increase in the exemption from the Alternative Minimum Tax (AMT) had not yet been enacted for tax year 2010. In the past, Congress had consistently granted "temporary" relief from the scheduled AMT change. Anticipating a continuation of this practice, PAYGO provided that the cost of AMT relief, relative to scheduled law, would be adjusted downward, but not below zero, by an amount equal to the costs of granting relief equivalent to that in effect in 2008. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended AMT relief through tax year 2011, the period of the downward current policy adjustment provided for in the Act.

  3. Reimbursement rates for Medicare physicians are scheduled to decrease dramatically under the "Sustainable Growth Rate" (SGR) provision of Medicare. Since 2003, Congress has granted "temporary" relief from the SGR cuts. In this case, the Act does not change the baseline, which continues to reflect scheduled SGR law. Rather, it provides that legislation extending relief from the scheduled

[5] One consequence of this rule is that a five-year reauthorization of SNAP that, for example, increases benefits is scored as though it increases benefits permanently, since the underlying program is treated as permanent. Therefore, that increase would be scored as producing costs in all ten columns of the ten-year scorecard, and so would require ten years of offsets.

SGR cuts is not scored as producing PAYGO costs except to the extent that the relief is more generous than the relief in effect in 2009. More precisely, if a SGR provision is enacted, the cost of that provision, relative to scheduled law, is adjusted downward, but not below zero, by an amount equal to the costs of granting relief equivalent to that in effect in 2009. The maximum current policy adjustment is equal to the costs of relief up to the 2009 payment levels, through December 31, 2014. Any fixes that extend past that point are scored relative to current law. Finally, SGR relief that is less generous than the relief in effect in 2009 would be available to offset costs of SGR relief after 2014, but only for that purpose; such savings could not offset other PAYGO costs. In three bills between June and December of 2010, Congress enacted temporary SGR relief through December 2011 at payment rates 2.2 percent above those defined in the PAYGO Act, so those incremental costs appear on the PAYGO scorecards.[6]

4. At the time PAYGO was enacted, the phased reduction and ultimate repeal of the estate tax was scheduled to sunset at the end of 2010, at which point the 2001 version of the estate tax would spring back to life. The PAYGO Act provided for a current policy adjustment for granting estate tax relief based on 2009 parameters, but only through tax year 2011. In December 2010, Congress enacted a more expensive version of estate tax relief through 2012 as part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, so a portion of those costs were excluded from the PAYGO scorecards through a downward adjustment. (The remaining costs were declared an emergency.)

5. A wide variety of cuts to the individual income tax were enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), and some of those tax cuts have been amended. At the time PAYGO was enacted, all of these tax cuts were scheduled to expire on December 31, 2010. The PAYGO Act set the benchmark for the current policy adjustment equal to the relevant provisions of the tax code as in effect for 2010 and allowed the relief from the scheduled expiration of those tax cuts to be permanent. Note that this relief does not apply to all the provisions of EGTRRA and JGTRRA—only those referred to as the "middle-class" tax cuts. Under the PAYGO Act, permanent current policy adjustments are allowed for the following provisions of EGTRRA and JGTRRA:

   - The 10-percent income tax bracket;
   - The child tax credit;
   - Tax benefits for married couples;
   - The adoption tax credit;
   - The dependent care tax credit;
   - The employer-provided child care tax credit;
   - The education tax benefits;
   - The 25-percent and 28-percent tax brackets;
   - The 33-percent tax bracket, but only for taxpayers with Adjusted Gross Income (AGI) of $200,000 or less for single filers or $250,000 or less for married filers;
   - The tax rates on capital gains and dividends, but only for taxpayers with AGI of $200,000 or less for single filers or $250,000 or less for married filers;
   - The phase-out of personal exemptions (PEP) and the limitation on itemized deductions (Pease), but only for taxpayers with AGI of $200,000 or less for single filers or $250,000 or less for married filers; and
   - The increased limits on "expensing" small business assets under §179(b) of the internal revenue code.

   In December 2010, as part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Congress extended all of EGTRRA and JGTRRA through 2012. The extension of the middle-class provisions described above generated an offsetting downward adjustment on the PAYGO scorecard, while the extension of the upper-income portions of EGTRRA and JGTRRA was declared an emergency.

As described in items two through five above, current policy adjustments allow the enactment without offsets of relief from certain scheduled changes in laws. Whether the relief is allowed through 2011 (AMT, estate tax), through 2014 (Medicare physician reimbursement rates), or permanently (middle-class tax cuts), the legislation providing that relief must be enacted by December 31, 2011, to be eligible for the current policy adjustments. The previous session of Congress enacted legislation generating offsetting downward adjustments to the PAYGO scorecard of almost $434 billion through 2020.

Responsibility for PAYGO Estimates.—The Act specifies two mechanisms for providing PAYGO cost estimates. The first uses an estimate included in the Congressional Record by the Chairmen of the Budget

[6] Congress chose to offset the entire cost of the relief, even though the PAYGO Act did not require such offsets.

Committees. The second relies on OMB to produce the PAYGO estimate.

Under the first mechanism, Congress can determine the costs or savings of PAYGO bills by enacting those estimates into law. Under the Act, Congress includes within the text of a PAYGO bill a cross-reference to an estimate that will have been included in the Congressional Record by the Chairmen of the Budget Committees. That estimate must be submitted to the Record before the House of Representatives or the Senate has voted on final passage of that PAYGO bill but after they have voted on the last amendment (if any) to that bill. Under this mechanism, OMB's role is limited to entering the congressionally determined estimates on the 5-year and 10-year PAYGO scorecards, averaging and cumulating the entries, and calculating any sequestration that might be needed.

If Congress does not determine the costs or savings of PAYGO legislation as described above, the Act requires OMB to estimate the budgetary effects for the scorecards using the economic and technical assumptions underlying the President's Budget. Cost and savings estimates are entered on the scorecard after PAYGO bills are enacted. Entries on the scorecard are not later changed, even if new estimates could be developed based on more recent information.

If Congress determines the costs of legislation, as the PAYGO Act envisions, it is significant that on January 5, 2011, the House of Representatives agreed to a special order that permits the Budget Committee Chairman to certify that the costs of certain types of legislation are zero when PAYGO estimates are introduced into the Congressional Record:

- Repeal of the Affordable Care Act.
- Extension of EGTRRA and JGTRRA. (This would have the effect of expanding the current adjustment in PAYGO to include the upper-income provisions of EGTRRA and JGTRRA.)
- Extension of AMT relief and estate tax repeal. (This provision would have the effect of making the PAYGO adjustments, which are available only through 2011, permanent. Moreover, this provision would increase the size of the adjustment for the estate tax, allowing its complete repeal without offsets, whereas the PAYGO Act allowed the estate tax to be scaled back without offsets from the $1 million exemption and maximum 55 percent rate under 2001 law only to a $3.5 million exemption and maximum 45 percent rate).
- Creation of a 20 percent deduction in income to small businesses.
- Enactment of legislation implementing trade agreements.

Legislation described in the first three bullets would add approximately $2.9 trillion in ten-year costs to the PAYGO scorecards under the definitions and current policy adjustments in that Act, but would add no costs, and therefore would not have to be offset, under the terms of the House's new special order. For example, CBO estimates that repealing the Affordable Care Act would cost $230 billion over the next decade. Under the House's new special order, however, this cost would not have to be offset. Thus, after counting interest, the new House rules could have the effect of increasing deficits over the 10-year scorecard window by $3.4 trillion.

Administrative PAYGO

The Administration will continue 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.

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[7] 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, the framework no longer functions as it was intended, because collections are no longer adequate to support current law spending levels. Absent that central part of the bargain—enough revenue to support spending—the system does not give policy-makers appropriate incentives to make fiscally sound choices and bring revenue and spending in line.

The National Commission on Fiscal Responsibility and Reform (the "Fiscal Commission") recognized this problem and recommended changing the scorekeeping treatment of surface transportation programs:

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

[7] Contract authority is a form of budget authority that permits obligations to be incurred in advance of liquidating appropriations.

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

The 2012 Budget reflects the recommendation of the Fiscal Commission. The 2012 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 a new National Infrastructure Bank. The mechanics of how the 2012 Budget conforms to the Fiscal Commission recommendation 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).

The Budget also assumes bipartisan agreement on new revenues sufficient to keep the Transportation Trust Fund solvent in every year, not only for the six-year reauthorization period (2012-2017) but for the ten-year Budget window. The estimates in the Budget fill projected Highway Trust Fund shortfalls that exist under current law and cover proposed spending with dedicated trust fund resources, thus requiring no transfers from the General Fund. These estimates are a placeholder and do not assume an increase in gas taxes or any specific proposal to offset surface transportation spending. Rather, they are intended to initiate a discussion about how the Administration and Congress could work together on a bipartisan basis to pass a surface transportation reauthorization that is both financially sustainable and meets critical national needs.

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 would remain legally binding. In addition, the Appropriations Committees would liquidate contract authority. As under current law, multi-year authorizing bills would set initial expectations for spending. The new scorekeeping regime would recognize that fact by fully reflecting the cost of that legislation in terms of both budget authority and outlays.

While the Administration envisions both types of committees playing important roles, the central innovation of the proposed scorekeeping regime is that it would require all stakeholders to reconcile revenue and spending during the authorization process. That is the chief concern highlighted by the Fiscal Commission. By taking action to make all surface transportation programs subject to PAYGO, the Administration and the Congress would create a framework whereby any policy option must be fiscally sustainable. The Administration believes that current spending must be increased to keep the Nation competitive. We also recognize that 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. Further delay in addressing our inadequate surface transportation infrastructure, and our inadequate system for financing that infrastructure, is not an acceptable outcome for the American people.

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

Account-by-Account Budgetary Treatment.—As under current law, the Budget proposes the enactment of no-year contract authority for the Transportation Trust Fund for each year, 2012-2017, totaling $551 billion over six years. The contract authority is to be enacted by the reauthorization bill and, as under current law, will be classified as mandatory.

Under the budget, outlays flowing from that contract authority—which is already mandatory—will be treated as mandatory. The same treatment is applied to outlays flowing from prior obligations of the Highway Trust Fund, which will now be attributed to the Transportation Trust Fund. This is a departure from current law; as discussed earlier, this mandatory treatment of both contract authority and outlays follows the recommendation of the Fiscal Commission. As is the case for all other programs, this aligns outlays with budget authority, and by placing trust fund revenue and outlays on the PAYGO scorecard, it gives scoring effect to the linkage between dedicated receipts in a trust fund and the spending of those receipts for trust fund purposes.

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

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

- For accounts that are presently classified as generating discretionary budget authority and outlays, but that the Administration proposes to incorporate into the TTF (for example the Federal Transit Administration's Capital Investment Grants account), the Budget includes separate schedules that:
  - Show baseline budget authority and outlays as discretionary, consistent with current classifications.
  - Reclassify baseline budget authority and outlays as mandatory in all years, including 2010 and 2011, for comparability purposes (i.e., to enable a comparison of funding levels across years in an account).
  - Show mandatory changes (subject to PAYGO) to the baseline level of budget authority and outlays that are requested in the Budget.
- For accounts that are presently funded from the HTF and that the Administration proposes to incorporate into the TTF (for example, Federal-Aid Highways), the Budget includes separate schedules that:
  - Show baseline levels of mandatory contract authority and discretionary outlays resulting from obligation limitations contained in appropriations acts. Since SAFETEA-LU is only currently extended through March 4, 2011, the contract authority is frozen in all years subsequent to that extension, consistent with current scorekeeping conventions.
  - Reclassify discretionary outlays from obligation limitations as mandatory outlays from mandatory contract authority for the 2011 estimate and create a new baseline of contract authority that is equal to the previous inflated discretionary baseline for obligation limitations.
  - Reclassify 2010 enacted budget authority and outlays as mandatory for comparability purposes (i.e., to enable a comparison of funding levels across years in an account).
  - Show proposed mandatory spending above or below the baseline as PAYGO costs or savings.
- For proposed new accounts supported by the TTF (for example, the Federal Railroad Administration's Network Development account), the Budget includes a schedule that includes new mandatory contract authority and outlays requested to support those programs.

Table 14–1. FUNDING, SPENDING, AND REVENUES ASSOCIATED WITH THE TRANSPORTATION TRUST FUND

(Dollars in billions)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	6-year	10-year
1. Funding for the Transportation Trust Fund (Contract Authority)	107	77	82	89	95	101	97	98	99	100	551	944
2. Estimated outlays	60	69	75	78	83	91	97	101	102	103	457	861
3. Baseline funding (Contract Authority and Budget Authority)	59	60	61	62	63	65	66	67	68	69	371	641
4. Estimated baseline outlays	53	50	59	60	61	64	67	69	70	71	348	624
5. Proposed funding increase	48	16	21	26	31	36	31	31	31	31	179	303
6. Estimated outlay increase	7	19	16	18	22	27	31	32	32	32	110	237
7. Dedicated revenues of the Transportation Trust Fund	64	76	80	82	85	87	90	92	94	97	475	848
8. Highway Trust Fund revenues (at current rates)	38	39	41	41	42	42	42	42	42	43	244	413
9. Placeholder revenue increase	26	37	39	41	43	45	48	50	52	54	231	435
10. Transportation Trust Fund annual cash flow	4	7	4	4	1	–4	–7	–8	–8	–7	17	–13
11. Transportation Trust Fund end-of-year balances	26	34	38	42	43	39	32	23	15	9		
Effect of proposal on overall budget:												
12. Estimated outlay increase (above)	7	19	16	18	22	27	31	32	32	32	110	237
13. Revenue increase, *net of assumed 25 percent offset*	20	28	29	31	32	34	36	38	39	41	174	328
14. Reduction in baseline deficits	13	9	13	13	10	7	5	6	7	9	64	91

Note: Amounts may not add due to rounding. This table includes $1.9 billion in BA and $1.5 billion in outlays in years 2013-2021 that were inadvertently omitted from account-level data in the Budget.

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

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

Amounts in these accounts currently total $7.1 billion. Note that in a number of cases, activities captured in these accounts are requested under a new account in the Administration's reauthorization proposal. For example, activities under the two existing Amtrak accounts are requested as part of the Federal Railroad Administration's new System Preservation account. In those instances, the PAYGO impact of the Administration's reauthorization proposal must be calculated at the aggregate level rather than the individual account level (i.e., the change between the reclassified baseline amounts in the existing General Fund accounts and the proposed levels in the successor account).

Outyear Assumptions.—Beyond the reauthorization proposal, the Budget assumes that contract authority will increase at one percent per year after 2017, although the requested legislation will only extend through 2017. As an exception, funding for the National Infrastructure Bank is assumed to end after 2017; resources of the Infrastructure Bank are assumed to support activity beyond the six-year time frame of the reauthorization proposal, and their level can be revisited when appropriate.

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

- The Highway Account subsumes the highway and highway safety activities currently in the Highway Trust Fund plus the NHTSA Operations and Research account, currently a General Fund account.
- The Mass Transit Account subsumes the transit activities currently in the Highway Trust Fund plus four FTA accounts currently financed by the General Fund: Capital Investment Grants; Research and University Research Centers; Grants for Energy Efficiency and Greenhouse Gas Reductions; and Administrative Expenses.
- The Rail Account focuses on developing high-speed rail and also subsumes activities currently financed from the General Fund: Capital Assistance for High-Speed Rail Corridors; Capital and Debt service grants to AMTRAK; and Operating Grants to AMTRAK.
- The final account covers the Infrastructure Bank (I-Bank) included in the Administration's reauthorization proposal.

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

Financing.—The President is committed to working with Congress on a bipartisan basis to bring solvency to the Transportation Trust Fund and to ensure that funding increases for surface transportation do not increase the deficit. As a placeholder, the Budget assumes bipartisan agreement on new revenues sufficient to ensure the solvency of the Transportation Trust Fund through 2021. The placeholder does not make any specific assumptions about the composition of these new revenues, including whether they are composed of modifications to charges under current law, like the existing charges to motor fuels or truck tires, or new revenues. The Budget assumes that these revenues would be dedicated to the Transportation Trust Fund, as would all gross proceeds from existing excise taxes dedicated to the Highway Trust Fund and any unexpended balances of the Highway Trust Fund available at the beginning of 2012. In no year do the unexpended balances of the Transportation Trust Fund fall below $8 billion; these resources are estimated to cover all the Trust Fund's outlays through 2021 with a cushion of $8 billion or more in each year.

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, I-Bank activities, or other activities. Rather, under the Administration's proposal, the new revenues would eliminate the projected shortfall in the Highway and Mass Transit accounts, cover increased funding for highways and mass transit, and finance passenger rail and Infrastructure Bank activities.

The Administration intends to work with Congress on a bipartisan basis to develop the specific revenues to be included in the reauthorization and the date on which they would become effective. The revenue stream displayed in the Budget is a placeholder that assumes that additional revenues become effective on January 1, 2012. This approach is intended to preclude the need for transfers from the General Fund to the Transportation Trust Fund. Note, however, that if the new revenues are not effective until some year after 2012, transfers from the General Fund may still be necessary in 2012 and perhaps subsequent years. If that is the case, Administration policy is that the new revenues be sufficient to fully repay the General Fund by 2021 for any further transfers. A later effective date for the new revenues would therefore imply initially lower but ultimately higher annual revenues than shown in the Budget. Repaying the General Fund for any new transfers is also consistent with a budgetary treatment in which transfers from the General Fund to the Transportation Trust fund are treated as costs. Note that under Statutory PAYGO, such up-front costs are permissible if they are fully offset over the PAYGO window. Because the Administration's proposal does not require any future General Fund transfers, however, such a budgetary treatment of transfers is not a necessary component of the proposal.

Because some sources of revenue generate partially offsetting revenue reductions, the Budget makes the most conservative assumption, which is that a bipartisan agreement on financing produces new revenues that have the general characteristics of an excise tax, for which net proceeds are 75 percent of gross proceeds. This assumption is a conservative placeholder and is not intended to limit the choice of revenue type. The gross proceeds of the new revenues are to be deposited into the Transportation Trust Fund.

Explanation of the Administration's Proposal and PAYGO Treatment.—Table 14-1 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. Note that the Administration proposes to front-load the reauthorization proposal to accelerate its economic impact. Line two illustrates outlay estimates associated with that contract authority, as well as prior-year outlays from the HTF.
- Line three illustrates the baseline level of budgetary resources for all activities proposed under the TTF. For comparability, those budgetary resources that were previously classified as discretionary are here displayed as mandatory. Line four illustrates the outlay estimates associated with those budgetary resources, including prior year outlays from the HTF.
- Lines five and six calculate the mandatory budget authority and outlay changes—the increases over the baseline levels. Line six is the amount that would be subject to PAYGO.
- Line seven indicates the assumed income of the Transportation Trust Fund available 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 the placeholder revenue stream needed to maintain Trust Fund solvency (line nine). Note that the placeholder revenue stream is not intended to match solvency needs year by year; rather, it is a smoothed estimate of revenue required to keep the TTF solvent over the ten-year window. The smoothed estimate, however, produces somewhat more than the minimum needed amount of revenues in the earlier years.
- Line ten illustrates the net cash flow to the TTF assumed in each year (revenues minus outlays).
- Line eleven illustrates the notional cash balances of the TTF over the ten-year period. As mentioned above, in each year the balances exceed the $8 billion minimally needed to ensure solvency.
- Lines twelve through fourteen illustrate the net impact of the proposal on the Budget.

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 $348 billion over six years and $624 billion over ten 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 2012 Budget does—and calculate any changes from that baseline. Without this initial accommodation, the same archaic scorekeeping rules that frustrate budget discipline would prevent implementation of the Fiscal Commission's recommendation by overstating the cost of legislation intended to reform the hybrid system.

Second, to adhere to the Fiscal Commission's recommendation that the Transportation Trust Fund be fully financed by its own resources, additional revenue would be needed. Illustratively, over six years it would have to cover: 1) the difference between current law revenues and baseline HTF outlays ($66.2 billion) to restore solvency to the existing HTF, 2) any reclassification of baseline activities currently financed by the General Fund ($23.7 billion in the Administration's proposal), and 3) all program increases relative to the baseline ($109.7 billion, shown in Table 14-1). The Administration suggests that, for revenue increases that fill the gap between current law spending (under a BEA baseline) and current law revenue, that

Table 14–2. EFFECT OF STUDENT AID PROPOSALS ON DISCRETIONARY PELL FUNDING NEEDS

(Dollars in billions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	11-year
Current law (discretionary) before administrative actions	17.5	23.2	44.2	35.7	36.3	36.8	37.3	37.8	38.4	38.9	39.4	40.0	
IRS Verification (Administrative action)			–0.3	–0.3	–0.3	–0.4	–0.4	–0.4	–0.4	–0.4	–0.4	–0.4	–3.7
Current law (discretionary)	17.5	23.2	43.9	35.4	36.0	36.4	36.9	37.5	38.0	38.5	39.0	39.6	
Pell reforms (discretionary): end year-round Pell, reform FAFSA			–7.6	–4.3	–4.4	–4.5	–4.6	–4.7	–4.8	–4.9	–4.9	–5.0	–49.6
Proposed total discretionary funding before mandatory legislation	17.5	23.2	36.3	31.1	31.6	31.9	32.4	32.8	33.2	33.6	34.1	34.6	
Mandatory savings (non-add):													
Student loan acquisition/debt consolidation			–2.1										–2.1
Sudent loan subsidies			–1.0	–3.2	–3.0	–3.0	–3.0	–3.0	–3.1	–3.2	–3.3	–3.3	–29.3
Savings in mandatory Pell		–0.5	–0.6	–0.7	–0.8	–1.0	–1.1	–1.3	–1.3	–1.4	–1.4	–1.4	–11.4
Other mandatory savings			–0.4	–1.1	–0.7	–0.5	–0.3	–0.6	–0.6	–0.6	–0.6	–0.5	–5.7
Total mandatory savings (non-add)		–0.5	–4.0	–5.0	–4.5	–4.4	–4.4	–4.9	–5.0	–5.2	–5.3	–5.3	–48.6
Mandatory funding for discretionary Pell			–7.7	–2.8	–3.3	–3.7	–4.1	–4.5	–5.0	–5.4	–5.9	–6.4	–48.6
Total reduction in Pell discretionary funding			–15.6	–7.4	–8.0	–8.5	–9.0	–9.6	–10.1	–10.6	–11.2	–11.8	–101.8
Remaining needed discretionary funding	17.5	23.2	28.6	28.3	28.3	28.3	28.3	28.3	28.3	28.3	28.3	28.3	

Note: Amounts may not add due to rounding

increment of revenue not be recorded as a credit to the PAYGO scorecard. That "excess" revenue should be reserved for filling that gap, whereas under current PAYGO rules it could be used to offset other direct spending.[8]

Finally, the transportation initiative includes $5.350 billion of one-time, 2012 budget authority increases for TIGER grants and aviation, proposed as direct spending, that are not part of the TTF and so are not included in the table. These amounts are separate from the calculation of the amount of "excess revenue" that is kept off the PAYGO scorecard.

Pell Grants

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

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

- The costs of each Pell grant are funded with both mandatory budget authority provided by the College Cost Reduction and Access Act (CCRAA) as amended, and discretionary budget authority provided in annual appropriations acts. There is no programmatic difference between the mandatory and discretionary funding.
- The Pell program acts like an entitlement program, such as the Supplemental Nutrition Assistance Program or Supplemental Security Income, where the size of the individual award and the number of eligible applicants together determine the cost in any given year. Specifically, Pell Grant costs depend on the maximum award set in statute, the number of eligible applicants, and the award for which those applicants are eligible based on their needs and costs of attendance. The current maximum Pell award for an academic year is $5,550, of which $4,860 is established in appropriations acts and the remaining $690 is provided automatically by the CCRAA as amended.
- If valid applicants are more numerous than expected, or if these applicants are eligible for higher awards, the Pell program will cost more than the appropriations provided, and vice versa. If the costs during one academic year are higher than expected, the Department of Education funds the extra costs with the subsequent year's appropriation. The Department can do this because the annual appropriations act both sets the maximum Pell award and provides funding for the subsequent academic year. The 2012 appropriation, for instance, will support the 2012-2013 academic year beginning in July 2012.[9]
- To prevent deliberate underfunding of Pell costs, in 2006 the congressional and Executive Branch scorekeepers agreed to a special scorekeeping rule for

[8] As explained above, the new revenues used to fill the existing shortfall in the HTF constitute deficit reduction, as do the new revenues used to cover the baseline amount of programs that are currently general fund programs but would become part of the TTF and so need dedicated financing. These two sources of deficit reduction are described in the text. However, they are partially offset by the fact that gross revenues increases having the general characteristics of excise taxes – as the placeholder revenues in this Budget are assumed to have – produce net revenues for the Budget as a whole that are 25 percent smaller. This 25 percent offset also reduces the amount by which the notional revenue increase exceeds the estimated increase in outlays.

[9] This ability to "borrow" from a subsequent appropriation is unique to the Pell program. It comes about for two reasons. First, like many education programs, Pell is "forward-funded"—the budget authority enacted in the fall of one year is intended for the subsequent academic year, which begins in the following July. Second, even though the amount of funding is predicated on the expected cost of Pell during one academic year, the money is made legally available for the full 24-month period covering the current fiscal year and the subsequent fiscal year. This means that, if the funding for an academic year proves inadequate, the following year's appropriation will legally be available to cover the funding shortage for the first academic year. The 2012 appropriation, for instance, will support the 2012-2013 academic year beginning in July 2012 but will become available in October 2011 and can therefore help cover any shortages that may arise in funding for the 2011-2012 academic year.

Pell. Under this rule, the annual appropriations bill would be charged with the full estimated cost of the Pell program for the budget year, plus or minus any cumulative shortfalls or surpluses from prior years. This scorekeeping rule was adopted by Congress as §406(b) of the Concurrent Resolution on the Budget for Fiscal Year 2006 (H. Con. Res. 95, 109th Congress).

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

The total cost of Pell Grants can fluctuate from year to year, even with no change in the maximum Pell Grant award. One drawback of treating Pell Grants as discretionary is that aggregate targets for discretionary funding may be set with reference to some previous year's funding level without accounting for substantial fluctuations in Pell Grant funding. This problem has grown as the Pell program has grown. In this Budget, for example, the 2012 current-law funding level for the discretionary portion of Pell would be $44 billion—$21 billion higher than the 2011 level and almost $27 billion higher than the 2010 level.

This Budget reflects an Administration policy to maintain the current $5,550 maximum award. In order to fund the base of the program with discretionary appropriations, and in order to fit Pell funding within an aggregate budget authority target for 2012 that does not exceed the 2010 funding level, the Budget takes three basic steps, shown in Table 14-2. The Administration proposes to implement these steps as a package of changes to the Higher Education Act in the Pell Grant Protection Act.

- First, the Budget makes the Pell program less expensive through three policies:
  - Verifying income data between the Treasury and the Department of Education to reduce net overpayments, which can be done administratively and without the need for new legislation;
  - Immediately repealing the new year-round Pell program, which has cost much more than anticipated, beginning in the 2011-2012 school year; and
  - Simplifying the Free Application for Federal Student Aid (FAFSA).

These three policies are discussed at greater length in the *Appendix* to the 2012 President's Budget. Note especially that the repeal of year-round Pell will save money for the current year, 2011, and for the budget year, therefore requiring congressional action before July 1, 2011. Because Pell shortfalls are rolled forward, the 2011 savings will decrease the sizable shortfall otherwise rolled forward into 2012. This is shown in Table 14-2.

The administrative savings from income verification total $3.7 billion over ten years, and are built into the baseline shown above. The two legislative proposals together reduce the costs of the discretionary portion of Pell by another $49.6 billion in budget authority and reduce the costs of the mandatory portion of Pell by $11.4 billion in budget authority, both through 2021.

- Second, the Budget includes new student aid reforms that realize mandatory savings, which the Budget dedicates to Pell Grants. The additional reforms in mandatory education programs are discussed in the *Appendix* to the 2012 President's Budget. The total mandatory savings amount to a $48.6 billion, ten-year reduction in mandatory budget authority. That $48.6 billion in saved budget authority is then appropriated, as part of the authorizing reform legislation, toward paying for the discretionary portion of Pell. This is analogous to SAFRA's one-time $13.5 billion appropriation for discretionary Pell enacted last spring, which was financed by mandatory savings in student loan programs. This current proposal spreads the $48.6 billion in new funding over ten years in a way designed to make the needed amount of discretionary Pell constant in each year after 2012. The $300 million decrease in the discretionary appropriation between 2012 and 2013 means that the Budget can accommodate up to $3 billion over 10 years in additional needs, whether created by increased Pell costs or decreased mandatory savings, without requiring discretionary funding increases after 2012. This can be seen in the last three rows of Table 14-2.
- Finally, the Budget provides $28.6 billion in discretionary budget authority in 2012. This is $5.4 billion more than the $23.2 billion provided in 2011, but $15.3 billion less than the $44.2 billion that would be needed to maintain the current maximum award without the policies outlined above. Even with these policies, the growth in Pell has prompted difficult choices in other discretionary programs.

These important student aid reforms will address the growing costs of the Pell Grant program while still ensuring that aid is available to the neediest college students. However, even with these reforms, it remains likely that future Pell costs will vary significantly from current estimates. Cost increases could reflect the success of the Pell Grant program in helping more low-income students pay for college, and helping more workers return to school to upgrade their skills. While the Budget shows the Administration's commitment to controlling these costs and making the Federal student aid programs more efficient, it would be unwise for the budgetary treatment of Pell Grants to force continual cuts in need-based postsecondary education aid that would undermine the Nation's long-term success. For this reason, the Administration will work with Congress to consider other scorekeeping or enforcement approaches for the Pell Grant program.

Budgetary Treatment of the Postal Service Fund

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

Expedited Rescission

Since taking office, the Administration has made a priority of identifying and cutting unnecessary spending, proposing approximately $20 billion of terminations, reductions, and savings in the last two Budgets, increasing to more than $30 billion in the 2012 Budget. While recent administrations have seen between 15 and 20 percent of their proposed discretionary cuts approved by Congress, this Administration succeeded in enacting 60 percent of proposed discretionary cuts for 2010.

While significant progress has been made on cutting unnecessary funding, more can be done. The Administration requests that Congress enact the President's proposal for expedited rescission, transmitted last May 24. That legislation would create an important tool for reducing such funding. In short, the bill would provide the President with additional authority to propose a package of rescissions that would then receive expedited consideration in Congress and a guaranteed up-or-down vote.

The proposal includes several components:

- *Scope.*—Under this new authority, the President can propose fast-track consideration of rescissions of discretionary and non-entitlement mandatory spending.[10] The President is limited to proposing changes that reduce funding levels and cannot use this authority to propose other changes in law, including new transfer authority, supplemental funding, or changes in authorizing legislation. The fast-track process is thus limited only to simple funding reductions, for which a straight up-or-down vote is desirable.
- *Proposing a rescission package.*—After enactment of funding, the President has 45 days during which Congress is in session (excluding weekends and national holidays) to decide whether to submit a rescission package using this expedited procedure. The President is also limited to a single package of rescissions per bill under this procedure, and the requested rescissions must be limited to provisions in that bill.[11]
- *Congressional procedure.*—A rescission package submitted under this authority receives fast-track consideration in Congress. Debate is limited in both houses and the package is guaranteed an up-or-down vote without amendment. The package is first introduced and considered in the House and, if approved there, is taken up in the Senate. From the package's introduction to its final vote in the Senate, the process will take no more than 25 days. Note that, while Congress cannot amend the package, the proposal enables Congress to omit from the bill any proposed rescission that it believes goes beyond the scope allowed.
- *Withholding funding.*—Following submission of a rescission request using this expedited procedure, the President may withhold funding for up to 25 days, after which the funding must be released. This ensures that agencies do not obligate funds before Congress has had an opportunity to consider the rescission package.

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

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

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

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

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

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

Program Integrity Funding

With hundreds of billions of dollars being spent in programs such as Social Security, Medicare, and Medicaid, upon which so many Americans rely, it is important that they are run efficiently and effectively. Most notably, the Government made an estimated $125 billion in improper payments last year over all its programs. Although this amount actually reflects a decline in the payment error rate, this level of error and waste in Government programs is unaffordable, nor should such a figure be acceptable regardless of the size of the deficit. The Administration, therefore, will make significant investments in activities to ensure that taxpayer dollars be spent correctly, 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 on improper payments and debt collection. Many of these proposals will provide savings for the Government and taxpayers, and will support government-wide efforts to improve the management and oversight of Federal resources. If all of the legislative program integrity proposals are enacted, they are estimated to save at least $162.7 billion over 10 years.

The Administration supports initiatives to ensure that Federal agencies are responsible stewards of taxpayer resources, and will work with Congress to that end. Specifically, the Administration is focused on the reduction of improper payments while continuing to ensure access to important benefit programs. The Administration supports efforts to provide Federal agencies with the necessary resources and incentives to prevent, reduce, or recover improper payments, including fraudulent payments. With the enactment of the Improper Payments Elimination and Recovery Act of 2010 (Public Law 111-204), and the release of three Presidential directives on improper payments, agencies are well positioned to utilize these new tools and techniques to prevent, reduce, and recover improper payments, and the Administration will continue to identify areas where it can work with Congress to further improve agency efforts.

Discretionary Program Integrity Initiatives.—The Administration proposes significant increases in discretionary administrative program integrity activities at the Social Security Administration (SSA), the Department of Health and Human Services (HHS), the Department of Labor (DOL), and the Internal Revenue Service (IRS). The Administration proposes a multi-year strategy, which will permit the agencies to pay closer attention to the risk of improper payments, commensurate with the large and growing costs of the programs administered by these agencies, including Social Security, Medicare, Medicaid, and Unemployment Insurance (UI).

There is solid and rigorously evaluated evidence that these investments in administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment. For every $1 spent by SSA on a disability review, $10 is saved in erroneous payments. Similarly, for every additional $1 spent by HHS on program integrity efforts, approximately $1.50 is saved or averted, and the IRS enforcement activities recoup roughly $6 or $7 for every $1 spent. As shown in Table 14-3, the initial five-year investment of $18.9 billion for 2012 through 2016, if sustained in real terms thereafter, is estimated to result in more than $125 billion in lower spending and additional tax revenue over the next 10 years, with further savings after the 10-year period.

The Administration proposes to protect the dollars requested for these activities in the appropriations process through allocation adjustments, a mechanism that has been used by administrations and Congresses over the

Table 14–3. MANDATORY AND RECEIPT SAVINGS FROM DISCRETIONARY PROGRAM INTEGRITY BASE FUNDING AND ALLOCATION ADJUSTMENTS

(Budget authority in millions of dollars)

	2012–2016 Allocation Adjustments	Savings Achieved from Allocation Adjustments and Inflation Thereafter										10-Year Total
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
SSA Program Integrity [1]												
Enforcement Base	1,701	620	–86	–655	–1,069	–1,566	–1,886	–2,134	–2,625	–2,997	–3,358	–15,756
Allocation Adjustment	4,587	–379	–2,280	–3,549	–4,496	–5,651	–6,392	–7,034	–8,076	–8,865	–9,646	–56,368
IRS Tax Enforcement [2]												
Enforcement Base [3]	38,814	–50,000	–50,000	–50,000	–50,000	–50,000	–50,000	–50,000	–50,000	–50,000	–50,000	–500,000
Allocation Adjustment [4]	10,729	–276	–804	–1,970	–3,721	–5,646	–7,227	–8,184	–8,773	–9,274	–9,778	–55,653
Health Care Fraud and Abuse Control Program												
Allocation Adjustment [5]	3,208	–750	–890	–930	–990	–1,040	–1,070	–1,100	–1,130	–1,170	–1,200	–10,270
Unemployment Insurance Improper Payments [6]												
Enforcement Base	54	–35	–37	–39	–41	–41	–43	–45	–49	–49	–53	–432
Allocation Adjustment	350	–92	–213	–235	–258	–283	–301	–314	–326	–338	–352	–2,712

[1] This is based on SSA's Office of the Actuary estimates of savings. In the first year, the enforcement base shows a positive outlay. This is due to the fact that redeterminations of eligibility can uncover underpayment errors as well as overpayment errors. SSI recipients are more likely to initiate a redetermination if they believe there is an underpayment, and SSA completes these beneficiary-initiated redeterminations in the enforcement base. In addition, corrections for underpayments are realized more quickly than corrections for overpayment. The allocation adjustment does not show an outlay in the first year because SSA would target their allocation adjustment redetermination dollars to cases where an overpayment is suspected.

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

[3] No official estimate for FY 2012 enforcement revenue has been produced at the time of publishing, so this figure is an approximation and included only for illustrative purposes.

[4] The Internal Revenue Service (IRS) allocation 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 voluntarily paid each year. 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 allocation adjustment will yield almost $56 billion over 10 years. Aside from direct enforcement revenue, the deterrence impact of these activities suggests the potential for even greater savings.

[5] These savings are based on estimates from the HHS Office of the Actuary for return on investment (ROI) from program integrity activities. The ROI is based on the discretionary allocation amount less the administrative costs for implementing the legislative program integrity proposals included in the Budget.

[6] The maximum UI benefit period is typically 26 weeks. As a result, preventing an ineligible individual from collecting UI benefits would save at most a half year of benefits.The two years of savings reflect the fact that reemployment and eligibility assessments conducted late in the year affect individuals whose benefits would have continued into the subsequent fiscal year.

past two decades. Allocation adjustments are increases in the congressional allocation for annual appropriations, with these increases granted only if appropriations bills increase funding for the specified program integrity purposes above specified base levels. This budget mechanism will ensure that this funding will not supplant other Federal spending on these activities or be diverted to other purposes. The base level of funding assumed in each appropriations request and the allocation adjustment for each agency is listed in Table 14-4. The Administration's proposal assumes baseline inflation increases for the base level of funding for all ten years of the budget window and assumes funding for five years of allocation adjustments, with inflation adjustments for that funding after the fifth year.

For the Social Security Administration, the $623 million allocation adjustment (and base funding of $315 million) will allow SSA to conduct at least 592,000 Continuing Disability Reviews (CDRs) and at least 2.6 million Supplemental Security Income (SSI) redeterminations of eligibility in 2012. CDRs determine whether an individual continues to qualify for Disability Insurance or Supplemental Security Income. The funding provided for the Social Security Administration will enable the agency to work down a backlog of CDRs. As a result of increased funding provided by the allocation adjustment, SSA would recoup almost $56.4 billion in savings in the Disability Insurance and Supplemental Security Income programs, with additional savings after the ten-year period, according to estimates of SSA's Office of the Actuary.

SSA is required by law to conduct CDRs for all beneficiaries who are receiving Disability Insurance benefits, as well as all children under age 18 who are receiving Supplemental Security Income. SSI redeterminations are also required by law, but the frequency is not specified in statute. The baseline assumes the likely frequency of program integrity activities, given the baseline funding levels. The President's Budget shows the savings that would result from the increase in CDRs and redeterminations made possible by the program integrity allocation adjustment.

As stated above, the return on investment (ROI) for CDRs is approximately 10 to 1 in lifetime program savings. The ROI for redeterminations is approximately 7 to 1. The savings from one year of program integrity activities are realized over multiple years because some CDRs identify that beneficiaries have medically improved and are capable of working, which may mean that they

Table 14–4. DISCRETIONARY PROGRAM INTEGRITY BASE FUNDING AND ALLOCATION ADJUSTMENTS

(Budget authority in millions of dollars)

	2010 Actual	2011 CR	2012 Proposed	2013 Proposed	2014 Proposed	2015 Proposed	2016 Proposed
SSA Program Integrity:							
Enforcement Base[1]	273	273	315	327	340	353	366
Allocation Adjustments:							
BA	485	485	623	751	924	1,123	1,166
Outlays	485	485	623	751	924	1,123	1,166
IRS Tax Enforcement:							
Enforcement Base:	7,100	7,100	7,233	7,663	7,815	7,972	8,131
Enforcement Account	4,904	4,904	5,031	5,132	5,234	5,339	5,446
Operations Support Account	2,196	2,196	2,202	2,531	2,581	2,633	2,685
Allocation Adjustments:							
BA	890	890	1,257	1,674	2,105	2,568	3,125
Outlays	850	890	1,347	1,632	2,062	2,522	3,069
Health Care Fraud and Abuse Control Program:							
Enforcement Base (Mandatory)	1,173	1,398	1,272	1,267	1,291	1,306	1,331
Allocation Adjustments:							
BA	311	311	581	610	640	672	706
Outlays	311	311	581	610	640	672	706
Unemployment Insurance Improper Payments:							
Enforcement Base	10	10	10	11	11	11	11
Allocation Adjustments:							
BA	50	50	60	65	70	75	80
Outlays	49	50	59	64	69	74	79
Partnership Fund for Program Integrity Innovation:							
Allocation Adjustments:							
BA	38	38	20				
Outlays	1	20	26	10	1		
TOTAL:							
Enforcement Base	8,556	8,781	8,830	9,268	9,457	9,642	9,839
Allocation Adjustments:							
BA	1,774	1,774	2,541	3,100	3,739	4,438	5,077
Outlays	1,696	1,756	2,635	3,067	3,696	4,391	5,020

[1] For 2010 through 2016, numbers reflect spending on CDRs and SSI redeterminations. Limited funding in the 2010 allocation adjustment may also be available for asset verification processes, provided the activity is as cost-effective as SSI redeterminations.

are no longer eligible to receive Disability Insurance (DI) or Supplemental Security Income (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 allocation adjustment. This is because redeterminations of eligibility can uncover underpayment errors as well as overpayment errors. SSI recipients are more likely to initiate a redetermination of eligibility if they believe there are underpayments, and these recipient-initiated redeterminations are included in the base.

For the IRS, the $1,257 million allocation adjustment covers cost increases for the base IRS tax enforcement program plus new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS' overall tax enforcement program. As a result, the IRS will collect an estimated $50 to $60 billion in 2012 in direct enforcement revenue. The IRS estimates that the proposed new 2012 enforcement initiatives will yield an additional $650 million in revenue in 2012. Further, once the initiatives' new staff are trained and become fully operational in 2014, the extra revenue brought in each year will rise to at least $1.3 billion, or roughly $6 in additional revenue for every $1 in IRS expenses. Moreover, this ROI estimate is likely understated because a portion of the new investment is directed towards efforts to improve the performance of existing staff and resources (such as new computers and better research) which are not reflected in the IRS' ROI calculation. More importantly, the ROI is understated because it only includes amounts received; it does not reflect the effect enhanced enforcement has on deterring non-compliance. This indirect deterrence effect

Table 14–5. MANDATORY AND RECEIPT SAVINGS FROM OTHER PROGRAM INTEGRITY INITIATIVES
(Receipts and outlays in millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	10-year total
Department of Health and Human Services:											
Expand CMS Program Integrity Authority [1]	–655	–885	–1,155	–2,805	–3,560	–4,310	–4,475	–4,670	–4,815	–5,005	–32,335
Department of Labor:											
Implement Unemployment Insurance Integrity Legislation:											
Outlay impact:											
PAYGO	....	–4	18	22	26	28	29	28	26	27	200
Non-PAYGO	....	–84	–171	–174	–176	–182	–189	–197	–205	–213	–1,591
Receipt impact:											
PAYGO [2]	....	–20	–40	–40	–40	–41	–43	–45	–47	–49	–365
Non-PAYGO [2]	....	–34	–68	–30	628	–121	398	433	89	–95	1,200
Department of the Treasury:											
Increase levy authority for payments to Medicare providers with delinquent tax debt (receipt effect)	–64	–68	–71	–74	–76	–76	–78	–80	–80	–81	–748
Increase levy authority for vendor payments to Federal contractors with delinquent tax debt (receipt effect)	–59	–61	–64	–67	–69	–73	–76	–80	–83	–87	–719
Social Security Administration:											
Windfall Elimination Provision/Government Pension Offset Enforcement Provision (non-PAYGO)	13	20	18	–202	–439	–574	–609	–555	–522	–479	–3,329
Total, Mandatory and Receipt Savings	**–765**	**–1,136**	**–1,533**	**–3,370**	**–3,706**	**–5,349**	**–5,043**	**–5,166**	**–5,637**	**–5,982**	**–37,687**
PAYGO Savings	–778	–1,038	–1,312	–2,964	–3,719	–4,472	–4,643	–4,847	–4,999	–5,195	–33,967
Non-PAYGO Savings	13	–98	–221	–406	13	–877	–400	–319	–638	–787	–3,720

[1] Savings estimates may not include all interactions.
[2] Net of income offsets.

helps to ensure the continued payment of well over $2 trillion in taxes voluntarily paid each year. Though this indirect effect is not explicitly measured, research suggests it is at least three times as large as the direct effect on revenue, and possibly much greater.

The discretionary allocation adjustment of $581 million for Health Care Fraud and Abuse Control (HCFAC) activities is designed to support efforts to reduce the Medicare improper payment rate by 50 percent, expand the Health Care Fraud Prevention & Enforcement Action Team (HEAT) initiative, and provide resources to implement a robust set of legislative program integrity proposals. The increased funding will also allow the Centers for Medicare and Medicaid Services (CMS) to deploy innovative efforts that focus on improving the analysis and application of data, including state-of-the-art predictive modeling capabilities, in order to prevent potentially wasteful, abusive, or fraudulent payments before they occur. The funding is to be allocated among CMS, the Health and Human Services Office of Inspector General, the Federal Bureau of Investigation, and Department of Justice. This $581 million will generate approximately $750 million in savings in 2012, which reflect both prevention and recoupment of improper payments made to providers, as well as recoveries related to civil and criminal penalties.

The 2012 Budget proposes an allocation adjustment of $60 million 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 a $10 million Reemployment and Eligibility Assessment initiative, begun in 2005 to finance in-person interviews at One-Stop Career Centers, to assess UI beneficiaries' need for job finding services and their continued eligibility for benefits. The current $10 million effort results in a savings in UI benefit payments of an estimated $35 million. The request for additional funding for in-person reemployment and eligibility assessments of claimants of unemployment compensation builds upon the success of a number of States in reducing improper payments and speeding reemployment by using these assessments. Because most unemployment claims are now filed by telephone or online, in-person assessments conducted in the One-Stop Career Centers can help determine the continued eligibility for benefits and the adequacy of work search, verify the identity of beneficiaries where there is suspicion of possible identity theft, and provide a referral to reemployment assistance for those who need additional help. The maximum UI benefit period is typically 26 weeks, although it is currently longer in response to the elevated unemployment rate. As a result, preventing an ineligible individual from collecting UI benefits would generally save at most a half year of benefits. The two years of savings from the additional $60 million, totaling $202 million, reflect the fact that reemployment and eligibility assessments conducted late in the year affect individuals whose benefits would have continued into the subsequent fiscal year.

In addition to the initiatives described above, the 2012 Budget includes $20 million to continue piloting the pipeline of innovations generated through the Partnership Fund for Program Integrity Innovation (Partnership Fund) to improve service delivery, payment accuracy, and administrative efficiency across Federal assistance programs administered by States—while protecting qualified beneficiaries. The Partnership Fund allows Federal, State, and local agencies to pilot and evaluate new ideas that break down the silos among programs and levels of government, boosting efficiency and preventing improper payments. The results of these pilots will be a positive return on investment for taxpayers. In addition, the Partnership Fund allows for pilot projects that simulate the effects of more efficient, accurate methods of service delivery that might require changes to existing regulatory or statutory authorities. These simulations can inform both the Administration and the Congress about whether changes in authority may be warranted. As pilots are selected, funding is transferred to the applicable Federal agencies to administer the pilots in conjunction with States or localities. For example, a recently funded pilot simulation to reduce error in the Earned Income Tax Credit (EITC) program, if successful, offers potential annual savings of up to $100 million or more for a pilot investment of $2 million. This pilot, managed by the Department of the Treasury, will identify both current and new authorities required to take the pilot to scale. By law, Partnership Fund pilots must save at least as much as they cost, in aggregate. Based on projections in early pilots and pilots under development, the Partnership Fund will be able to use the additional funding of $20 million to prioritize new projects that, like the EITC pilot, promise a significant return on investment. The 2010 Consolidated Appropriations Act (P.L. 111-117) included $37.5 million authorized through 2012 for the Partnership Fund.

Mandatory Program Integrity Initiatives.—Table 14-5 lays out the mandatory and receipt savings from other program integrity initiatives that are included in the 2012 Budget, beyond the expansion in resources resulting from the increases in discretionary funding discussed above. These savings total more than $37.7 billion over ten years. More than 90 percent of these savings would be scored as PAYGO offsets because the legislation would authorize agencies to use new methods to crack down on overpayments and combat fraud. These mandatory proposals to reduce improper payments and ensure agencies recover debt owed to the Federal Government reflect the importance of these issues to the Administration. Through these and other initiatives outlined in the Budget, the Administration can improve management efforts across the Federal Government.

Expand CMS Program Integrity Authority.—The 2012 Budget includes new Medicare and Medicaid program integrity proposals to help prevent fraud and abuse before they occur; detect fraud and abuse as early as possible; more comprehensively enforce penalties and other sanctions when fraud and abuse occur; provide greater flexibility to the Secretary of Health and Human Services to implement program integrity activities that allow for efficient use of resources and achieve high returns-on-investment; and promote integrity in Federal-State financing. Examples for the Medicare program include a proposal to require enhanced recoupment of overpayments made to Medicare Advantage plans based on sample error rates, and a proposal to create a Medicare claims ordering system that would validate physician and practitioner orders before payments are made for certain high-risk services. In Medicaid, the Budget proposes limiting State financing practices that increase Federal Medicaid spending, as recommended by the National Commission on Fiscal Responsibility and Reform, and requiring States to monitor prescription drug patterns that could indicate fraud or abuse. Together, the CMS program integrity proposals are projected to save more than $32 billion over 10 years.

Unemployment Insurance Integrity Legislation—Since 2006, the President's Budget has included a multi-part proposal to give States additional tools and resources to recover and prevent UI improper payments. The current proposal would:

- Strengthen States' incentives to recover UI benefit overpayments and employer contributions by permitting States to use a portion of recovered funds for the reduction of fraud and errors and detection of nonpayment of required contributions;
- Impose a penalty for UI fraud;
- Charge employers when their actions lead to overpayments; and
- Require employers to provide information to the National Directory of New Hires on laid-off workers who have been rehired.

The combined revenue loss and the outlay savings associated with this proposal would reduce the deficit by $556 million over 10 years. Of the nearly $1.4 billion outlay impact, $200 million would be PAYGO savings. The net revenue reduction of $835 million represents $1.2 billion in non-PAYGO revenue losses as increased recoveries of improper payments permit States to reduce their UI taxes and $365 million in PAYGO savings from penalty collections by the States.

Improve Treasury Debt Collection by Increasing Levy Authority.—The 2012 Budget includes two proposals to increase receipts from debt collection activities:

- *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 $748 million over ten years.

- *Increase levy authority for payments to Federal contractors 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 Federal contractors. Through the Federal Payment Levy Program, the Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Pursuant to the American Jobs Creation Act of 2004, Treasury is authorized to continuously levy up to 100 percent of payments to a Federal vendor for goods or services sold or leased to the Federal government if the vendor has an unpaid tax liability. However, the language contains a technical imperfection that has the unintended effect of limiting the levy to 15 percent for vendor payments made for the sale or lease of real estate or other types of property. The Budget proposal will allow Treasury to levy up to 100 percent of any payment due to a Federal vendor with unpaid tax liabilities. This proposal would result in PAYGO savings of $719 million over ten years.

Social Security Windfall Elimination Provision/ Government Pension Offset Enforcement Provision.—The Budget re-proposes legislation that would improve reporting for non-covered pensions by including up to $50 million for administrative expenses to develop a mechanism so that the Social Security Administration could enforce the offsets for non-covered employment, Windfall Elimination Provision (WEP), and Government Pension Offset (GPO). The proposal would require State and local governments to provide information on their non-covered pension payments to SSA so that the agency can apply the WEP and GPO adjustments. Under current law, the WEP and GPO adjustments are dependent on self-reported pension data and cannot be independently verified. This proposal would result in savings in the Old-Age, Survivors, and Disability Insurance program of almost $3.4 billion over 10 years, which would be scored as non-PAYGO because the program is off-budget.

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

1. Increase transparency and public participation;

2. Intensify agency accountability and coordination; and

3. Use incentives to improve contractor and state and local efforts in eliminating payment errors.

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

"Do Not Pay" List and Fraud Detection Technology.—The Budget requests $10 million for the Department of the Treasury to support expansion of the "Do Not Pay" list—created by a Presidential memorandum issued June 18, 2010—and to add forensic fraud detection capabilities to the basic "Do Not Pay" portal. Specifically, the funding will help procure the detection technology and hire staff to support an operations center to analyze fraud patterns and refer potential issues to agency management and the relevant Inspector General. This operations center will link public and private-sector information, and enable trained analysts to review the results and help identify and prevent fraud and improper payments. In addition, funding will also help expand the number of databases linked to the "Do Not Pay" list and support the underlying platform. It is expected that supporting the operations center and the "Do Not Pay" list will have a significant return on investment and will help reduce the amount of improper payments that agencies annually report.

Expanding Data Matching Authority to Reduce Improper Payments.—Based on Federal agencies' 2010 improper payment reporting, approximately 35 percent (or $40 billion) of all payment errors were due to the inability to verify applicant information such as earnings, income, assets, or work status. This type of information is frequently available in data sources maintained by Federal agencies and third parties, but access to these sources is often limited due to legal, regulatory, or cost impediments. Recognizing the importance of data matching in reducing improper payments, Executive Order 13520 emphasized exploring solutions to improve data sharing between agencies. In addition, in June 2010, the President issued a memorandum that directed that a single portal, the "Do Not Pay" portal referred to above, be established through which agencies could check multiple eligibility databases before making an award or payment. In November 2010, OMB released a memorandum that encouraged agencies to share high-value data between agencies that can be used to support important Administration initiatives, including preventing improper payments. The Administration is continuing to pursue opportunities to improve information sharing by developing or enhancing policy and guidance and developing legislative proposals to leverage available information in determining benefit eligibility.

Social Security Workers' Compensation Enforcement Provision.—The Budget has a new proposal to improve the collection of data on the receipt of Workers' Compensation benefits. Similar to WEP/GPO (see description in the mandatory program integrity initiatives section above), this information is self-reported to SSA and is used to offset benefit amounts in the Social Security Disability Insurance and Supplemental Security Income programs. This proposal would develop a process to collect this information in a timely manner from States and private insurers to correctly offset Disability Insurance benefits and reduce SSI payments. The proposal includes $10 million to help fund States' systems implementation costs, with a savings estimate still under development.

Other Program Integrity Proposals.—The Budget also supports Treasury's legislative debt collection proposals highlighted earlier by including several administrative debt collection reforms that could help improve the Federal Government's collection of debts from individuals and businesses that are owed to Federal agencies. In addition, the Budget recognizes Administration efforts to improve program integrity by highlighting several administrative actions that could prevent and reduce agency improper payments if implemented. The administrative proposals would help reduce improper payments in programs like the Department of Education's Pell Grants program and the Department of Health and Human Services' Low Income Home Energy Assistance Program.

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

Disaster Relief Fund

The Administration requests discretionary budget authority of $1.8 billion for FEMA in 2012 to provide Federal assistance in response to presidentially declared major disasters and emergencies. The Budget uses the five-year historical obligations for non-catastrophic events (those less than $500 million in estimated obligations) minus the estimated annual recoveries to calculate this level. The rationale for this methodology is that large or catastrophic events are rare and would likely involve a supplemental or emergency appropriation. As a result of this assumption, obligations in response to large or catastrophic events are not included in the level of disaster relief. The Administration seeks to protect the Disaster Relief Fund (DRF) and prevent redirection of these funds for non-disaster purposes by proposing that the full DRF request be allocated to the Appropriations Committees in a separate category, available only for the specified purposes. Specifically, the Administration requests that the Budget Committees include in the 2012 budget resolution a provision that allows for an adjustment to their 302(a) allocations for the full DRF request. The terms of this adjustment would stipulate that the 302(a) allocations would not be increased unless the Appropriations bill provided for full funding for the DRF and the language included a provision preventing transfers.

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 funding allocations set under a congressional budget resolution. 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 $21.9 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, congressional budget resolutions since the 2001 resolution have set limits on the amount of advance appropriations. When the congressional limit equals the amount that had been advance appropriated in the most recent appropriations bill, there is no additional room to switch forward funding to advance appropriations, and so no room for this particular gimmick to operate in that year's budget.

The 2012 Budget includes $28,821 million in advance appropriations for 2013 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 through the congressional budget resolution for 2012, similar to the limits included as section 402 and 424 of S. Con. Res. 13, the concurrent resolution on the budget for 2010. Those limits applied only to the accounts explicitly specified in the joint explanatory statement of managers accompanying the budget resolution.

In order to account for the Administration's Elementary and Secondary Education Act reauthorization proposal, the 2012 Budget eliminates the $1,681 million advance appropriation that was previously in the School Improvement account (renamed the Education Improvement account) and replaces it with corresponding increases to advance appropriations in the accounts for Education for the Disadvantaged ($840 million, renamed Accelerating Achievement and Ensuring Equity) and Special Education ($841 million). Total advance appropriations in the Department of Education remain unchanged at $21,905 million.

In addition, the Administration would allow advance appropriations for the Corporation for Public Broadcasting, which is typically enacted two years in advance, and for Veterans Medical Care, as is now 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 Health Care and Enrollment Projection model of the Department of Veterans Affairs. This model covers approximately 80 percent of the total medical care funding requirement. The remaining funding requirement is estimated based on other models and assumptions for services such as long-term care. To aid the Government Accountability Office in meeting a requirement contained in P.L. 111-81 to develop a report on the adequacy of the Administration's advance appropriations request within 120 days of the release of the President's Budget, the Department of Veterans Affairs has included more detailed information in its Congressional Budget Justifications about the methodology used to determine the overall 2013 VA medical care funding requirement.

One new advance appropriation that the Administration is proposing to be considered outside of the limit on advance appropriations is for full funding of selected procurement programs at the Department of Defense. DOD has developed an innovative strategy for buying satellites, called Evolutionary Acquisition for Space Efficiency (EASE). EASE will reduce costs and improve the stability of the space industrial base. Advance appropriations of the relevant satellite programs in the Missile Procurement, Air Force account are requested to ensure transparency of costs and full funding, both of which are needed for this initiative to succeed. The first program to begin procurement under EASE in 2012 is the Advanced Extremely High Frequency (AEHF) satellite. A regular appropriation is requested for AEHF in 2012 and advance appropriations are requested for 2013 through 2017. Similarly, advance appropriations in the Missile Procurement, Air Force account are requested to enhance industrial base stability and ensure full funding of classified procurement activities. Additionally, advance appropriations will be requested to implement EASE for the Space-Based Infrared Systems (SBIRS). A regular appropriation will be requested for SBIRS in 2013 and advance appropriations will be requested for SBIRS in 2013 for 2014 through 2018 in the Missile Procurement, Air Force account.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2010 or for which the Budget requests advance appropriations for 2013 and beyond, please refer to the Advance Appropriation chapter that can be found in the Budget *Appendix*.

Debt Net of Financial Assets

In the Summary Tables included in the main *Budget* volume, Summary Tables S-1 and S-14 display both debt held by the public and debt held by the public net of financial assets. Borrowing from the public is normally a good approximation of the Federal demand on credit markets. However, it provides an incomplete picture of the financial condition of the Government and under some circumstances may misrepresent the net effect of federal activity on credit markets. Some transactions that increase the Federal debt also increase the financial assets held by the Government. For example, when the Government lends money to a private firm or individual, the Government acquires a financial asset that provides a stream of future payments of principal and interest. At the time the loan is made, debt held by the public reflects only Treasury's borrowing to finance the loan, failing to reflect the value of the loan asset acquired by the Government. In contrast, debt held by the public net of financial assets provides a more accurate measure of the Government's net financial position by including the value of loans and other financial assets held by the Government.

This measure is especially useful during times, like the present, when the Government has borrowed large sums of money to address difficulties faced by the economy and financial markets. As shown in Summary Table S-14, a large share of the Government's recent borrowing has financed the purchase of financial assets, so that the increase in debt held by the public net of financial assets is noticeably smaller than the overall increase in debt held by the public. Likewise, while Federal borrowing reduces the amount of private saving that is available through financial markets for private-sector investment, Federal acquisition of financial assets has the opposite effect—it injects cash into financial markets. Thus, the change in debt net of financial assets can better indicate the effect of the Federal Government on the financial markets.

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. The Budget begins the process of reducing the Government's role in the U.S. mortgage market and ending the conservatorship of Fannie Mae and Freddie Mac by allowing the temporary GSE and FHA loan limits to expire on October 1, 2011, and by reducing the GSEs' allowable investment portfolios by at least 10 percent a year. In addition, the Administration is transmitting to Congress a framework of principles for making the transition to a new housing finance system that will end the model of private gains and Federal taxpayer losses. The GSEs are discussed in more detail in Chapter 23, "Credit and Insurance," in this volume.

II. IMPROVED DEFINITION OF BASELINE

The Administration also suggests three 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 provisions, adjustments for disaster and other "emergency" costs, and adjustments to reflect the cost of fully funding the existing Pell Grant program. In addition, as explained above, the transition from a highway trust fund in which outlays are treated as discretionary to a transportation trust fund whose outlays are treated as mandatory involves adjusting presentations, including baselines, so that corresponding funding and spending levels will be displayed on a comparable basis during the transition.

For years the baseline used by Congress has followed the definition contained in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 as amended, often referred to as the Budget Enforcement Act (BEA) baseline. However, the BEA baseline does not accurately reflect a continuation of current policy. Both last year and this, the Administration has built its budget proposals starting from a baseline that adjusts the BEA baseline to better represent the thrust of current policy in certain major cases, and recommends that Congress, the Congressional Budget Office, and the public use such a baseline in their own analyses as well. The deficit impacts of the adjustments to the BEA baseline are summarized in Summary Table S-7 of the Budget. The adjustments are described below. Further detail about the adjusted baseline is provided in Chapter 27, "Current Services Estimates," in this volume.

While the adjusted baseline provides a more realistic basis for analyzing budgets in general and tax policy in particular, the adjusted baseline is not intended to replace the BEA 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 BEA baseline for purpose of entries on the PAYGO scorecards, discussed earlier in the chapter. In addition, the PAYGO Act requires that certain "current policy adjustments" be made to the entries on those scorecards.

Adjustments to Reflect Certain Tax Policies.—In recent years, Congress has repeatedly extended provisions of law that have a large deficit impact or signaled its intention that a provision be extended when it enacted it for a limited number of years. The Administration's adjusted baseline assumes permanent extension of these policies: continuing the 2001 and 2003 income tax cuts for the middle class (using the same definitions specified in the PAYGO Act), extending the estate and gift tax as in effect in 2009, and extending and indexing for inflation the 2011 parameters of the Alternative Minimum Tax.

Two points are especially noteworthy. First, the PAYGO Act provides current policy adjustments that are generally similar in effect to the baseline adjustments described above. However, the PAYGO Act provided adjustments for AMT and estate tax relief only through 2011. In addition, the PAYGO Act provides a current policy adjustment for relief from the scheduled cuts in Medicare physician

ACQUISITION OF FINANCIAL ASSETS

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

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

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

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

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

payment rates under the "Sustainable Growth Rate" formula. The Administration's adjusted baseline does not do so, in part because Congress has succeeded in offsetting the costs of such SGR relief (relative to the BEA baseline) each of the three most recent times it has enacted such legislation.

Second, the adjustment to the BEA baseline to assume continuation of middle class tax cuts, AMT relief, and estate tax relief are effective after the provisions of the recently enacted Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 expire. The adjusted baseline, like the BEA baseline, reflects that law as long as it remains in effect.

Adjustments for Disaster and Other "Emergency" Costs.—Because the BEA 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 or supplemental requirement. At times, the BEA baseline extends large one-time emergency appropriations for the next 10 years; at other times it extends very little. The Administration's baseline includes adjustments to account for these swings. Specifically, the Administration's adjusted baseline removes any extension of enacted appropriations for disaster costs and substitutes an allowance for disaster costs in the current and future fiscal years. This allowance reflects the fact that major natural or man-made disasters are likely to occur at some point during the remainder of 2011 and in subsequent years—major earthquakes, hurricanes, catastrophic floods, infrastructure collapses, and so on. 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.[12]

[12] If a major disaster occurs, Federal assistance is likely to be granted in the form of discretionary appropriations, automatic and legislated increases in mandatory programs, and in some cases tax relief. The summary tables show the allowance for disaster costs within the outlay totals for convenience.

Instead, they are placeholders that represent a meaningful down payment on potential future emergency needs. Consequently, the placeholder for major disaster costs is not included in the request for $1,243 billion in discretionary budget authority for 2012. The 2012 request does include amounts that can be reasonably budgeted to cover the ongoing and inevitable costs of programs that fund natural disasters.

Including a meaningful down payment for the costs of potential major disasters makes the budget totals more honest and realistic. Baselines likewise would be more meaningful if they did not project forward whatever disaster costs happen to have occurred in the current year. Rather, baselines should replace the projection of actual current-year costs—which might be unusually low or unusually high—with plausible estimates of future costs. That is, baselines should remove any projection of non-recurring or one-time emergency disaster costs, consistent with the inclusion of an allowance for such costs. In the 2011 appropriations enacted to date, Congress did not need to enact any non-recurring, emergency disaster funding, but that is no reason to believe the Nation will be as fortunate in all future years.

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 BEA 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 BEA 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 BEA baseline to follow the existing scorekeeping rule, reflecting the full cost of funding the discretionary portion of Pell while covering any prior shortfalls.

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

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

FEDERAL RECEIPTS

15. GOVERNMENTAL RECEIPTS

During his first two years in office, President Obama signed several major tax bills designed to jumpstart the economy and provide tax relief. These actions began within a month of taking office, when the President signed the American Recovery and Reinvestment Act of 2009 (ARRA). The tax provisions of ARRA provided immediate tax relief to small businesses and to 95 percent of working American families. It is estimated that as of the end of the third quarter of 2010, tax reductions (including refundable tax credits) provided in ARRA total $243 billion.[1]

Most recently, in the final days of the 111th Congress, the President negotiated a key compromise to prevent tax increases on middle-income families. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 includes a temporary extension of the 2001 and 2003 tax cuts that would have expired at the end of 2010, as well as relief from scheduled increases in the Alternative Minimum Tax (AMT), an extension of key temporary provisions of ARRA that provided tax relief to working American families, and a temporary reduction in payroll taxes paid by workers. In 2010, President Obama worked with the Congress to enact additional recovery measures that provided targeted tax relief, including the Hiring Incentives to Restore Employment (HIRE) Act and the Small Business Jobs Act of 2010. In addition, the President's efforts to expand health care coverage and reduce the cost of health care culminated with enactment of the Patient Protection and Affordable Care Act on March 23, 2010, as amended by the Health Care and Education Reconciliation Act of 2010 one week later (collectively referred to as the Affordable Care Act). In 2010, President Obama also signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was the most sweeping overhaul of U.S. financial regulations since the 1930s.

The Budget proposes to restore balance to the tax code by providing permanent tax relief to middle-income families, and asking certain businesses and high-income families to pay more. It does this by permanently extending the 2001 and 2003 tax cuts for middle-income families, permanently extending key tax relief provided to middle-income families in ARRA, returning top ordinary income tax rates to what they were during most of the 1990s for families making more than $250,000, and eliminating subsidies and loopholes that benefit only narrow and often well-funded interest groups, such as oil companies. Further, the Budget will impose a fee on the largest financial institutions to provide a deterrent against excessive leverage. The Budget will also reform the international tax laws by reducing incentives for U.S.-based multinational corporations to invest abroad rather than in the United States.

[1] As reported in *The Economic Impact of the American Recovery and Reinvestment Act of 2009, Fifth Quarterly Report, November 18, 2010,* Executive Office of the President, Council of Economic Advisers.

Table 15–1. RECEIPTS BY SOURCE—SUMMARY

(In billions of dollars)

	2010 Actual	Estimate										
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Individual income taxes	898.5	956.0	1,140.5	1,344.1	1,508.4	1,648.0	1,786.0	1,922.6	2,055.6	2,187.2	2,314.5	2,439.5
Corporation income taxes	191.4	198.4	329.3	405.4	439.6	455.1	466.7	478.5	479.2	482.4	495.4	512.3
Social insurance and retirement receipts	864.8	806.8	925.1	1,016.5	1,094.6	1,162.9	1,234.1	1,292.2	1,353.1	1,409.5	1,463.4	1,537.2
(On-budget)	(233.1)	(247.4)	(266.4)	(286.5)	(323.1)	(348.0)	(364.2)	(377.7)	(389.6)	(395.6)	(407.7)	(428.6)
(Off-budget)	(631.7)	(559.4)	(658.7)	(730.0)	(771.5)	(814.9)	(869.9)	(914.5)	(963.5)	(1,013.9)	(1,055.7)	(1,108.6)
Excise taxes	66.9	74.1	103.1	121.5	137.9	145.1	148.7	155.2	163.7	175.9	181.8	189.4
Estate and gift taxes	18.9	12.2	13.6	14.6	25.0	27.6	30.0	32.4	34.9	37.4	40.1	43.1
Customs duties	25.3	27.7	29.8	33.0	35.7	37.8	39.4	41.4	44.0	46.5	49.1	51.6
Miscellaneous receipts	96.8	98.4	86.1	68.2	91.4	106.6	114.2	119.8	126.6	134.0	142.1	149.7
Total, receipts	**2,162.7**	**2,173.7**	**2,627.4**	**3,003.3**	**3,332.6**	**3,583.0**	**3,819.1**	**4,042.2**	**4,257.0**	**4,473.0**	**4,686.5**	**4,922.8**
On-budget	1,531.0	1,614.3	1,968.7	2,273.3	2,561.1	2,768.1	2,949.2	3,127.6	3,293.5	3,459.1	3,630.7	3,814.1
Off-budget	631.7	559.4	658.7	730.0	771.5	814.9	869.9	914.5	963.5	1,013.9	1,055.7	1,108.6
Total receipts as a percentage of GDP	14.9	14.4	16.6	17.9	18.7	19.1	19.3	19.5	19.6	19.8	19.9	20.0

ESTIMATES OF GOVERNMENTAL RECEIPTS

Governmental receipts (on-budget and off-budget) are taxes and other collections from the public that result from the exercise of the Federal Government's sovereign or governmental powers. The difference between governmental receipts and outlays is the surplus or deficit.

The Federal Government also collects income from the public from market-oriented activities. Collections from these activities, which are subtracted from gross outlays, rather than added to taxes and other governmental receipts, are discussed in the next Chapter.

Total governmental receipts (hereafter referred to as "receipts") are estimated to be $2,173.7 billion in 2011, an increase of only $11.0 billion or 0.5 percent from 2010. This small increase is in large part attributable to the more than $400 billion in estimated tax reductions for 2011 provided in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Receipts in 2011 are estimated to be 14.4 percent of Gross Domestic Product (GDP), the lowest share since 1950, when receipts also were 14.4 percent of GDP.

Receipts are estimated to rise to $2,627.4 billion in 2012, an increase of $453.7 billion or 20.9 percent relative to 2011. This estimated increase is not due to government expansion, but is instead attributable in large part 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 are projected to grow at an average annual rate of 9.8 percent between 2012 and 2016, rising to $3,819.1 billion. Receipts are projected to rise to $4,922.8 billion in 2021, growing at an average annual rate of 5.2 percent between 2016 and 2021. This growth is largely due to assumed increases in incomes resulting from both real economic growth and inflation. The Administration's proposals to restore balance to the tax code, to close loopholes, and to eliminate subsides to special interests also contribute to the growth in receipts between 2012 and 2021.

As a share of GDP, receipts are projected to increase from 14.4 percent in 2011 to 16.6 percent in 2012, and to rise annually thereafter to 20.0 percent in 2021. However, as a share of GDP, receipts would still be lower than in 2000, when receipts reached 20.6 percent of GDP.

LEGISLATION ENACTED IN 2010 THAT AFFECTS GOVERNMENTAL RECEIPTS

With the 2010 enactment of the Affordable Care Act, Congress and the Administration expanded health insurance to millions of uninsured individuals and cut long-term health care costs for individuals and the Federal Government. In 2010 President Obama also signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was the most sweeping overhaul of U.S. financial regulations since the 1930s. He also signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, which temporarily extended the 2001 and 2003 tax cuts, key tax reductions provided to the middle class in ARRA, and other temporary tax provisions that had expired or were scheduled to expire under prior law, as well as temporarily reducing payroll taxes on working people. Other legislation enacted in 2010 included provisions that provided tax relief to small businesses, provided pension funding relief to employers, extended the authority to collect taxes that fund the Airport and Airway Trust Fund, extended the ban on imports from Burma, and modernized the tax rules for regulated investment companies.

The major provisions of legislation enacted in 2010 that affect receipts are described below.[2]

TO ACCELERATE THE INCOME TAX BENEFITS FOR CHARITABLE CASH CONTRIBUTIONS FOR THE RELIEF OF VICTIMS OF THE EARTHQUAKE IN HAITI (Public Law 111-126)

Under this Act, which was signed into law by President Obama on January 22, 2010, taxpayers who made certain charitable contributions in 2010 that would otherwise be deductible from their 2010 taxable income were provided the option to deduct those contributions from their 2009 taxable income. To qualify for this deduction, contributions otherwise eligible for deductibility had to be made in cash after January 11, 2010, and before March 1, 2010, to aid victims of the January 12, 2010, earthquake in Haiti. Individuals who opted to accelerate such deductions cannot deduct those same contributions from their 2010 taxable income.

TEMPORARY EXTENSION ACT OF 2010 (Public Law 111-144)

Under this Act, which was signed into law by President Obama on March 2, 2010, the initial eligibility period for emergency unemployment compensation and several other unemployment programs was extended from February 28, 2010, through April 5, 2010. This Act also extended eligibility for COBRA health insurance premium assistance to qualified individuals involuntarily terminated after February 28, 2010, and before April 1, 2010, and expanded eligibility to include certain employees who lost group health coverage due to a reduction in hours of employment and were subsequently involuntarily terminated.

HIRING INCENTIVES TO RESTORE EMPLOYMENT (HIRE) ACT (Public Law 111-147)

This Act, which was signed into law by President Obama on March 18, 2010, provided tax incentives for businesses hiring new workers, and extended higher expensing limits for small businesses making capital investments. This Act also expanded certain qualified tax credit bond programs for school and energy purposes to give State and local governmental issuers an option to receive Federal direct payments instead of investor tax

[2] In the discussions of enacted legislation, years referred to are calendar years, unless otherwise noted.

credits for borrowing cost subsidies similar to the Build America bond program. The cost of these incentives was offset with provisions requiring additional withholding and information reporting. The major provisions affecting receipts are described below.

Incentives for Hiring and Retaining Unemployed Workers

Provide payroll tax forgiveness to employers for hiring certain unemployed workers.—This Act provided qualified employers an exemption from the employer-share of Social Security payroll taxes (6.2 percent of the first $106,800 of taxable wages in 2010) levied on the taxable wages of qualified employees hired after February 3, 2010, and before January 1, 2011, who had been unemployed for at least 60 days. The payroll tax exemption only applies to wages paid to these employees after March 18, 2010, and before January 1, 2011. A qualified employer is any employer other than the United States, any State, any local government, or any instrumentality of such governments (excluding public institutions of higher education). A qualified employee is any individual who: (1) began work with a qualified employer after February 3, 2010, and before January 1, 2011; (2) certified that they were employed for a total of 40 hours or less during the 60-day period ending on the date such employment began; (3) was not employed to replace another employee of the employer unless such employee separated from employment voluntarily or for cause; and (4) was not a related party of the employer. The Social Security Trust Fund is held harmless and receives transfers from the General Fund of the Treasury equal to any reduction in payroll taxes attributable to the payroll tax forgiveness provided under this provision.

Provide business credit for retention of certain newly hired workers.—A credit equal to the lesser of $1,000 or 6.2 percent of wages paid was provided to qualified employers for each qualified individual eligible for the payroll tax forgiveness provision who was employed for a period of at least 52 consecutive weeks and received wages for such employment during the last 26 weeks of that period equal to at least 80 percent of wages received for the first 26 weeks of that period. To the extent the credit exceeds the employer's tax liability for the taxable year, the credit may be carried back one year (provided that this year did not begin prior to March 18, 2010) and carried forward 20 years.

Expensing for Small Businesses

Extend temporary increase in expensing for small businesses.—Under a temporary provision of prior law, business taxpayers were allowed to expense up to $250,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2008 and 2009. The maximum amount that could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded $800,000. This Act extended the $250,000 expensing and $800,000 annual investment limits for one year, through taxable years beginning in 2010.

Qualified Tax Credit Bonds

Provide payments in lieu of tax credits for certain qualified tax credit bonds.—Prior to this Act, existing law authorized State and local governments to issue various types of qualified tax credit bonds for school and energy purposes, which provided deep Federal subsidies for borrowing costs through tax credits to holders of the bonds in lieu of all or a major portion of the interest payments on the bonds. Types of qualified tax credit bonds included qualified school construction bonds, qualified zone academy bonds, qualified energy conservation bonds, and new clean renewable energy bonds. The Federal borrowing subsidy levels are estimated to cover 100 percent of the interest on the school bonds and 70 percent of the interest on the energy bonds. This Act expanded these qualified tax credit bonds programs to give State and local government issuers the option to elect to receive Federal direct payments for these borrowing subsidies in lieu of tax credits to investors. The Federal direct payments are based on the lower of actual interest rates or tax credit rates set by the Department of the Treasury. This direct payment option is effective for qualified tax credit bonds issued after March 18, 2010.

Offsets

Combat underreporting of income through the use of accounts and entities in offshore jurisdictions.—To reduce the ability of some Americans to evade their taxpaying responsibilities by hiding unreported income in a foreign financial account, trust, or corporation, this Act included a series of measures to strengthen the information reporting and withholding systems that support U.S. taxation of income earned or held through offshore accounts or entities. This Act also included a provision to prevent those who receive the benefit of U.S.-source dividend payments from avoiding U.S. withholding taxes.

Delay implementation of the world-wide interest allocation rules.—Subject to various limitations, U.S. taxpayers may credit foreign income taxes paid or accrued against U.S. tax on foreign-source income. The American Jobs Creation Act of 2004 made several changes to the foreign tax credit rules, including a modification to the interest expense allocation rules. One provision of that Act permitted taxpayers a one-time election to use an alternative method for allocating interest expenses of the domestic members of a worldwide affiliated group between U.S.-source and foreign-source income on a worldwide group basis ("worldwide affiliated group election"), effective for taxable years beginning after December 31, 2008. The Housing and Economic Recovery Act of 2008 delayed the effective date of the election for two years, so that it would apply to taxable years beginning after December

31, 2010, and provided a special phase-in rule for the first year the election is in effect. The Worker, Homeownership and Business Assistance Act of 2009 delayed the effective date of the election for an additional seven years, so that it would apply to taxable years beginning after December 31, 2017, and repealed the special phase-in rule for the first year the election is in effect. This Act delayed the effective date for an additional three years, so that it would apply to taxable years beginning after December 31, 2020.

Modify the timing of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are due on or before April 15, June 15, September 15 and December 15. If these dates fall on a holiday or weekend, payment is due on the next business day. This Act increased the estimated tax payments otherwise due in July through September by corporations with assets of at least $1 billion to 157.75 percent in 2014, 121.5 percent in 2015, and 106.5 percent in 2019. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

PATIENT PROTECTION AND AFFORDABLE CARE ACT AS AMENDED BY THE HEALTH CARE AND EDUCATION RECONCILIATION ACT OF 2010 (Public Laws 111-148 and 111-152)

The Administration's effort to find a way to expand health insurance to millions of uninsured individuals, to improve health care for millions more, and to cut long-term health care costs for individuals and the Federal government culminated with enactment of the Patient Protection and Affordable Care Act on March 23, 2010, as amended by the Health Care and Education Affordability Reconciliation Act of 2010 on March 30, 2010, and collectively referred to as the Affordable Care Act. The major provisions of these Acts that affect receipts are described below.

Health Insurance Reform

Provide a refundable tax credit for health insurance purchased through an exchange.—This Act provided a "premium assistance tax credit" to certain individuals who purchase health insurance through a Health Insurance Exchange, which is created to provide individuals private health insurance choices. The credit is refundable and payable in advance to the insurer. Eligibility for the advanced credit is based initially on the individual's household income and family size for the most recent taxable year; however, eligibility may be updated to reflect changes in circumstances, including changes in income, in marital or other household circumstances, and in employment status. The credit is available to individuals (single or joint filers) with household income between 100 and 400 percent of the Federal poverty level (FPL) for the relevant family size who are not eligible for certain other health care programs (e.g., Medicare, Medicaid, CHIP, or TRICARE) or health insurance through their employer or their spouse's employer (unless the cost to the taxpayer of such employer-provided health insurance coverage exceeds 9.5 percent of household income or the employer-provided coverage fails to meet a minimum value standard). Household income is the sum of the taxpayer's modified adjusted gross income (AGI) and the aggregate modified AGIs of all other individuals taken into account in determining the taxpayer's family size, but only if such individuals are required to file a tax return for the taxable year. Modified AGI is AGI increased by the amount of the exclusion from gross income (if any) for citizens or residents living abroad and any tax-exempt interest received or accrued during the tax year. To be eligible for the credit, taxpayers who are married must file a joint return; individuals who qualify as dependents are ineligible for the premium assistance credit. The amount of the credit equals the lesser of: (1) the actual premiums for the qualified health insurance purchased through a Health Insurance Exchange, or (2) the excess of the cost of a statutorily-identified benchmark plan ("second lowest-cost silver plan") over a required payment by the taxpayer that rises from two percent of income for those at 100 percent of FPL (for the relevant family size) to 9.5 percent of income for those at 400 percent of FPL (for the relevant family size). The applicable benchmark premium used to determine the credit with respect to a taxpayer is the second lowest-cost silver plan offered through an exchange in the rating area where the individual resides, that provides self-only coverage in the case of an individual who is covered by self-only coverage, or family coverage in the case of any other individual. If the plan in which the individual enrolls offers benefits in addition to essential health benefits, the premium that is allocable to those additional benefits is disregarded in determining the premium assistance credit amount, even if the State in which the individual resides requires such additional benefits (the State is required to defray the cost of any additional benefits it requires). Premium assistance credits may be used for any plan (bronze, silver, gold, platinum, or catastrophic) purchased through an exchange. Beginning in 2015, the specified percentages of income of the required payment by the taxpayer are indexed to the excess of premium growth over income growth for the preceding calendar year. Beginning in 2019, if the aggregate amount of premium assistance credits and cost-sharing reductions[3] exceeds 0.504 percent of GDP for that year, the percentage of income is also adjusted to reflect the excess (if any) of premium growth over the rate of growth in the consumer price index (CPI) for the preceding calendar year. If the premium assistance received through an advance payment exceeds the amount of the credit to which the taxpayer is entitled, the excess advance payment is treated as an increase in tax (which is limited for certain

[3] This legislation also provided a subsidy to individuals and households between 100 and 400 percent of FPL (for the relevant family size) that reduces annual out-of-pocket cost-sharing expenses. These subsidies affect outlays; they do not affect receipts.

taxpayers[4]). The credit is effective for taxable years ending after December 31, 2013.

Provide tax credit to qualified small business employers for non-elective contributions to employee health insurance.—This Act provided a tax credit to qualified small business employers who make non-elective contributions on behalf of each employee enrolled in a qualifying employer-provided health insurance plan. The credit is a general business credit that may be carried back for one year and carried forward for 20 years. For taxable years beginning in 2010 through 2013, the credit is available for health insurance coverage purchased from an insurance company licensed under State law. For taxable years beginning after 2013, the credit is only available for health insurance purchased through a Health Insurance Exchange and only for a maximum coverage period of two consecutive taxable years beginning with the first year in which the employer or any predecessor first offers one or more qualified plans to its employees through an exchange. A qualified small business employer for purposes of the credit generally has fewer than 25 full-time equivalent employees (FTEs) during the taxable year with annual full-time equivalent wages that average less than $50,000. However, the full amount of the credit is available only to employers with 10 or fewer FTEs during the taxable year with annual full-time equivalent wages that average $25,000 or less; the credit is reduced for all other qualified small business employers with fewer than 25 employees and annual full-time equivalent wages that average less than $50,000. These wage limits are indexed to the Consumer Price Index for Urban Consumers (CPI-U) for taxable years beginning in 2014. For taxable employers, the credit is equal to the applicable tax credit percentage (35 percent for taxable years beginning in 2010 through 2013 and 50 percent for taxable years beginning after 2013) multiplied by the lesser of the following two amounts: the amount of contributions the employer made on behalf of the employees during the taxable year for the qualifying health coverage and the amount of contributions that the employer would have made during the taxable year if each employee had enrolled in coverage with a small business benchmark premium. The benchmark premium is the average total premium cost in the small group market for employer-sponsored coverage in the rating area in which the employee enrolls for coverage (for tax years 2010 through 2013, the benchmark premium is equal to the average premium in the small group market in the State and varies based on the type of coverage being provided - single or family). Tax-exempt organizations (section 501(c) organizations) that would otherwise qualify for the credit are eligible to receive the credit; however, for such organizations the applicable tax credit percentage is 25 percent for taxable years beginning in 2010 through 2013 and 35 percent for taxable years beginning after 2013. The credit for tax-exempt employers for any taxable year cannot exceed the organization's liability as an employer for Medicare payroll taxes and the amount of income and Medicare payroll taxes withheld from its employees.

Require Americans to maintain minimum essential health coverage.—This Act imposed a penalty, beginning in 2014, on non-exempt U.S. citizens and legal residents who do not maintain minimum essential health insurance coverage for themselves, their spouse (if married filing jointly), and their dependents. Minimum essential coverage includes coverage under government sponsored programs, eligible employer-sponsored plans, plans in the individual market, grandfathered health plans and other coverage recognized by the Secretary of Health and Human Services in coordination with the Secretary of the Treasury. Individuals are exempt from the requirement if they are incarcerated, not legally present in the United States, or acquire a religious conscience exemption or hardship exemption. All members of Indian tribes and individuals with household income below their tax filing threshold are also exempt from the penalty. Individuals for whom the required contribution for employer-sponsored coverage or the lowest cost bronze plan in the local exchange (less the amount of the premium assistance tax credit allowable to the individual) exceeds eight percent (increased by the amount by which premium growth exceeds income growth beginning in 2015) of household income for the year are exempt from the penalty. No penalty is imposed on individuals who do not maintain health insurance for continuous periods of three months or less.

The penalty applies to each month beginning after 2013 that an individual fails to maintain minimum essential coverage (for the individual, the individual's spouse, and any dependent for whom the individual is liable). The total annual penalty is the lesser of: (1) the sum of the monthly penalty amounts, or (2) the national average bronze plan premium for the individual's family size. The monthly penalty amount is equal to one-twelfth of the greater of: (1) a specified percentage (1.0 percent in 2014, 2.0 percent in 2015, and 2.5 percent in each subsequent year) of the taxpayer's household income for the year in excess of the individual income tax filing threshold for that taxpayer ($9,500 for single taxpayers or married taxpayers filing separately and $19,000 for married taxpayers filing jointly in 2011), or (2) a specified amount per uninsured adult for whom the individual is liable ($95 in 2014, $325 in 2015, $695 in 2016, and indexed annually thereafter in accordance with the CPI-U, rounded to the next lowest $50). The specified amount for uninsured individuals under age 18 is one half of the adult amount and the specified amount for a household may not exceed 300 percent of the per-adult penalty.

Require certain employers to provide affordable health insurance coverage for employees.—Under this Act, beginning in 2014, an applicable large employer that does not offer coverage for its full-time employees (and their dependents) is required to pay a penalty if at least one full-time employee is certified as having enrolled in health insurance coverage purchased through a Health

[4] The Medicare and Medicaid Extenders Act of 2010 (Public Law 111-309) altered the limitation on the amount that must be repaid by certain taxpayers.

Insurance Exchange with respect to which a premium tax credit or cost-sharing reduction was allowed or paid. In addition, an applicable large employer that does offer coverage for its full-time employees is required to pay a penalty for each full-time employee who is certified as having enrolled in health insurance coverage purchased through a Health Insurance Exchange with respect to which a premium tax credit or cost-sharing reduction was allowed or paid. Employees who are offered minimum essential coverage by their employers are generally eligible for premium tax credits and cost-sharing reductions only if: (1) the minimum essential coverage is unaffordable, or (2) the minimum essential coverage consists of a plan under which the plan's share of the total allowed cost of benefits is less than 60 percent. The employer-sponsored minimum essential coverage is considered unaffordable if the employee's required contribution with respect to the plan exceeds 9.5 percent of the employee's household income. An employer generally is an applicable large employer during a taxable year if it employed an average of at least 50 full-time employees during the preceding calendar year. In determining whether an employer is an applicable large employer, a full-time employee is counted as one employee and all other employees are counted on a pro-rated basis. The monthly penalty for an applicable large employer that fails to offer its full-time employees and their dependents the opportunity to enroll in minimum essential coverage is equal to the number of full-time employees over a 30-employee threshold multiplied by one twelfth of $2,000. After 2014, this $2,000 amount is increased by the percentage, if any, by which the average per capita premium for health insurance coverage in the United States for the preceding calendar year exceeds the average per capita premium for 2013 rounded down to the nearest $10. The monthly penalty for an applicable large employer that offers minimum essential coverage that is unaffordable or consists of a plan under which the plan's share of the total allowed cost of benefits is less than 60 percent is equal to the number of full-time employees receiving a premium tax credit or cost-sharing subsidy through a Health Insurance Exchange times one-twelfth of $3,000. The monthly penalty for each offering employer is capped at an amount equal to the number of full-time employees in excess of 30, multiplied by one-twelfth of $2,000. After 2014, the $3,000 and $2,000 amounts are increased by the percentage, if any, by which the average per capita premium for health insurance coverage in the United States for the preceding calendar year exceeds the average per capita premium for 2013 rounded down to the nearest $10.

Establish a reinsurance and risk adjustment program in each State.—This Act required health insurance issuers and third party administrators on behalf of group plans to make payments to an applicable reinsurance entity during the three-year period beginning January 1, 2014. For any plan year, the amount contributed by each issuer is based on that issuer's relative market share and a specified aggregate contribution amount for all States equal to $12 billion for plan years beginning in 2014, $8 billion for plan years beginning in 2015, and $5 billion for plan years beginning in 2016. The contribution by each issuer can be increased to include an amount to fund the administrative expenses of the applicable reinsurance entity and any additional amounts that a State may choose to collect. Amounts collected are distributed to health insurance issuers that provide coverage to high-risk individuals in the individual market.

In addition, each State is required to assess a charge on health plans and health insurance issuers that provide coverage in the individual or small group market within the State if the actuarial risk of the enrollees of such plans or coverage for a year is less than the average actuarial risk of all enrollees in all plans or coverage in such State for such year that are not self-insured group health plans. Each State shall provide a payment to health plans and health insurance issuers if the actuarial risk of the enrollees of such plans or coverage for a year is greater than the average actuarial risk of all enrollees in all plans and coverage in such State for such year that are not self-insured group health plans.

Tax high-cost employer-sponsored health insurance coverage.—This Act imposed an excise tax on health insurance providers if the value of employer-sponsored health insurance coverage for an employee - including a former employee, a surviving spouse and any other primary insured individual - exceeds a specified threshold. The tax, which is effective for taxable years beginning after December 31, 2017, is equal to 40 percent of the aggregate value of coverage in excess of the threshold amount. For 2018, the threshold is $10,200 for self-only coverage and $27,500 for family coverage, subject to an adjustment if actual growth of health care costs between 2010 and 2018 exceeds projected growth in costs. The thresholds are indexed at CPI-U plus one percentage point for 2019 and by CPI-U for each succeeding year. The threshold amounts are increased for retired individuals age 55 and older and for employees engaged in specified high-risk professions. Employers with age and gender demographics that result in higher premiums are allowed an additional adjustment. Certain employer-sponsored coverage that is not subject to the portability, access and renewability requirements of the Health Insurance Portability and Accountability Act is excluded from the tax as are separate plans that provide benefits substantially all of which are for treatment of the mouth or eye..

Tax branded prescription pharmaceutical manufacturers and importers.—Effective for calendar years beginning after 2010, this Act imposed an excise tax on each covered manufacturer or importer of branded prescription drugs for sale to any specified government program or pursuant to coverage under any such program. The tax imposed on each covered manufacturer or importer during a calendar year is based on its relative market share of such branded prescription drug sales during the preceding calendar year and the following amounts, which are the aggregate annual excise taxes levied on all covered entities: $2.5 billion for calendar year 2011, $2.8

billion for calendar years 2012 and 2013, $3.0 billion for calendar years 2014 through 2016, $4.0 billion for calendar year 2017, $4.1 billion for calendar year 2018, and $2.8 billion for calendar year 2019 and each subsequent year. Amounts collected are deposited in the Supplementary Medical Insurance (SMI) Trust Fund.

Tax indoor tanning services.—This Act imposed an excise tax, equal to 10 percent of the amount paid, on indoor tanning services performed after June 30, 2010.

Tax manufacturers of medical devices.—This Act imposed an excise tax, equal to 2.3 percent of the sales price, on the sale of any taxable medical device by the manufacturer, producer, or importer of the device after December 31, 2012. A taxable medical device is any device defined in section 201(h) of the Federal Food, Drug, and Cosmetic Act, intended for humans. The tax does not apply to eyeglasses, contact lenses, hearing aids, and any other medical devices determined to be of a type that is generally purchased by the general public at retail for individual use.

Tax health insurance providers.—This Act imposed an excise tax on each covered entity engaged in the business of providing health insurance with respect to U.S. health risks, for each calendar year beginning after 2013. The aggregate amount of the tax on all covered entities is the following: $8.0 billion for calendar year 2014, $11.3 billion for calendar years 2015 and 2016, $13.9 billion for calendar year 2017, and $14.3 billion for calendar year 2018, indexed to the rate of premium growth for each subsequent year. The tax for each calendar year is allocated among the covered entities based on their relative market share of U.S. health insurance business during the preceding calendar year.

Tax insured and self-insured health plans to finance the Patient-Centered Outcomes Research Trust Fund.—This Act imposed an excise tax on each health insurance policy issued by an applicable insured or self-insured health plan. The tax is equal to one dollar for policy years ending during fiscal year 2013 and two dollars for policy years ending during fiscal year 2014, multiplied by the average number of lives covered under the plan. For policy years ending during fiscal year 2015 and later fiscal years, the tax is equal to the sum of: the dollar amount of the tax for policy years ending in the preceding fiscal year, plus the product of the dollar amount of the tax for policy years ending in the preceding fiscal year and the percentage increase in the projected per capital amount of National Health Expenditures, as most recently published before the beginning of the fiscal year. In the case of insured plans, the issuer of the policy is liable for payment of the tax; in the case of self-insured plans, the sponsor is liable for payment of the tax.

Increase the penalty on nonqualified distributions from health savings accounts (HSAs).—Individuals with a high deductible health plan may establish and make tax-deductible contributions to an HSA. Distributions that are used for qualified medical expenses or are made after the death, disability, or attainment of the age of Medicare eligibility are excluded from gross income for tax purposes. All other distributions are included in gross income and subject to an additional tax, which was ten percent of the disbursed amount under prior law. Effective for such distributions made in taxable years beginning after December 31, 2010, this Act increased the additional tax to 20 percent of the disbursed amount.

Limit qualified benefits under health flexible spending arrangements (health FSAs) under cafeteria plans.—In general, both the value of employer-provided health coverage and any reimbursements for medical care expenses provided under an accident or health plan are excluded from the gross income of the employee for income and payroll tax purposes. Health coverage may also be provided by an employer through health FSAs, which allow reimbursement for medical care expenses not reimbursed by a health insurance plan, up to a specified dollar amount. Health coverage provided in the form of one of these flexible spending arrangements is also excluded from gross income for income and payroll tax purposes. Under this Act, in order for the health coverage provided by a health FSA to be excluded from gross income for income and payroll tax purposes, the maximum amount of salary reduction by each employee in taxable year 2013 may not exceed $2,500. For taxable years beginning after December 31, 2013, this amount is indexed annually to the CPI-U, with any increase that is not a multiple of $50 rounded down to the next multiple of $50.

Eliminate deduction for prescription drug plan costs allocable to excludable subsidy payments.— Sponsors of qualified retiree prescription drug plans are eligible for subsidy payments with respect to a portion of each qualified covered retiree's gross covered prescription drug costs. Under current law, these prescription drug costs are deductible, even though the subsidy payments allocable to a portion of these expenses were excluded from the plan sponsor's gross income for purposes of the regular income tax and the AMT. Under this Act, effective for taxable years beginning after December 31, 2012, the amount otherwise allowable as a deduction for prescription drug expenses is reduced by the amount of the excludable subsidy payments received.

Modify the itemized deduction for medical expenses.—For purposes of the regular individual income tax, taxpayers are allowed an itemized deduction for unreimbursed medical expenses to the extent that such expenses exceed 7.5 percent of AGI. For purposes of the AMT, medical expenses are deductible only to the extent that they exceed 10 percent of AGI. Effective for taxable years beginning after December 31, 2012, this Act increased the threshold for the itemized deduction to 10 percent of AGI for regular income tax purposes. However, for taxable years 2013 through 2016, the threshold remains at 7.5 percent of AGI if either the taxpayer or the taxpayer's spouse turns 65 before the end of the taxable year. For purposes of the AMT, the 10-percent threshold of current law is unchanged.

Conform the definition of medical expenses to the definition used for the medical expense itemized deduction.—Employees generally are not taxed on the value of employer-provided health coverage under an accident or health plan, or on any reimbursements for medical care expenses provided under an accident or health plan, a health FSA, a health reimbursement arrangement, a health savings account, or an Archer medical savings account. Prior to this Act, the definition of medical care for purposes of the exclusion from income for such employer-provided health coverage and reimbursements included expenses for medicine available without a prescription (over-the-counter medicines). In contrast, any amount paid for medicine or drugs that is not reimbursed by insurance or otherwise is deductible as a medical expense only if the medicine or drug is a prescribed drug or insulin. Any uncompensated amount paid for over-the-counter medicine is not deductible. Under this Act, effective for expenses incurred after December 31, 2010, the cost of over-the-counter medicines reimbursed through a health FSA, a health reimbursement arrangement, a health savings account, or an Archer medical savings account is no longer excluded from taxable income. The provision does not apply to reimbursements for over-the-counter medicines prescribed by a physician.

Limit the deduction for compensation paid to certain employees by a covered health insurance provider.—An employer generally may deduct reasonable compensation for personal services as an ordinary and necessary business expense. However, the otherwise allowable deduction for compensation paid or accrued with respect to a covered employee of a publicly held corporation is limited to no more than $1 million per year. Under this Act, the deduction limit is reduced to $500,000 with respect to compensation for services performed for a "covered health insurance provider" by any officer, employee, director or other worker or service provider. In general, a health insurance provider is a covered health insurance provider if at least 25 percent of its gross premiums from health insurance is from minimum essential coverage. Simply maintaining a self-insured plan does not cause an employer to become a covered health insurance provider. The limitation is effective for compensation paid in taxable years beginning after December 31, 2012, with respect to services performed after December 31, 2009.

Non-Health-Related Offsets

Levy an additional payroll tax on the wages of high-income employees.—The Federal Insurance Contributions Act (FICA) and the Self-Employment Contributions Act (SECA) impose Medicare (HI) payroll taxes on the covered wages of employees and covered net earnings of self-employed individuals, respectively. Currently, the employee's share of HI payroll taxes is equal to 1.45 percent of covered wages and the HI payroll tax paid by self-employed individuals is equal to 2.9 percent of covered net earnings from self-employment. Effective for covered wages paid and covered net earnings from self-employment received in taxable years beginning after December 31, 2012, this Act levied an additional HI payroll tax of 0.9 percent on covered wages and covered net self-employment earnings in excess of the following threshold amounts: $250,000 for married taxpayers filing a joint return or a surviving spouse, $125,000 for married taxpayers filing a separate return, and $200,000 for all other returns. For married taxpayers filing a joint return the additional tax is on the combined wages of the employee and the employee's spouse. This Act did not index the income thresholds for inflation.

Levy an additional tax on the net investment income of certain individuals, estates and trusts.— Effective for taxable years beginning after December 31, 2012, this Act levied an additional tax on the net investment income of an individual, an estate, or a trust. In the case of an individual, the tax is 3.8 percent of the lesser of net investment income or the excess of modified AGI (AGI increased by the amount excluded from income as foreign earned income) over the following threshold amounts: $250,000 for married taxpayers filing a joint return or a surviving spouse, $125,000 for married taxpayers filing a separate return, and $200,000 for all other returns. In the case of estates and trusts, the tax is 3.8 percent of the lesser of undistributed net investment income or the excess of AGI (as defined in section 67(e) of the Internal Revenue Code) over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins. Investment income is the sum of: (1) gross income from interest, dividends, annuities, royalties, and rents (other than those derived from any trade or business to which the tax does not apply); (2) other gross income derived from any business to which the tax applies; and (3) net gain (to the extent taken into account in computing taxable income) attributable to the disposition of property other than property held in a trade or business to which the tax does not apply. Net investment income is investment income reduced by the deductions properly allocable to such income. This Act did not index the income thresholds for inflation.

Modify cellulosic biofuel producer credit.—An income tax credit is provided for cellulosic biofuel produced by the taxpayer. Under prior law, the credit was available (with certain exceptions for nonbusiness use) for all cellulosic biofuel sold or used by the producer. Cellulosic biofuel was defined as any liquid fuel that: (1) is produced from any lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis, and (2) meets the registration requirements for fuels and fuel additives established by the Environmental Protection Agency (EPA) under section 211 of the Clean Air Act (EPA registration requirements). Liquid byproducts derived from the kraft process for making paper or pulp (known as black liquor) are produced from lignocellulosic or hemicellulosic matter available on a renewable or recurring basis. Any such liquid byproducts that meet the EPA registration requirements would qualify as cellulosic biofuel under prior law and, to the extent so qualifying, result in substantial revenue losses and a windfall to the paper industry. This Act modified the cellulosic biofuel producer credit to exclude fuels with significant water, sediment, or ash content such as black liquor. Credits ceased to be available effective for such fuels sold or used on or after January 1, 2010.

Codify "economic substance" doctrine.—The economic substance doctrine is a judicial rather than statutory tax doctrine that has been used by the Internal Revenue Service (IRS) and applied by the courts for many years to disallow tax benefits from transactions that do not meaningfully change a taxpayer's economic position, even if the transactions technically comply with the Internal Revenue Code. This Act added a new provision to the Internal Revenue Code clarifying that a transaction must have both objective economic substance and a substantial nontax business purpose to satisfy the judicial economic substance doctrine. The new provision addresses what constitutes objective economic substance and a substantial nontax business purpose. This Act also imposed a 20-percent penalty on any understatement of tax resulting from a transaction lacking economic substance, even when the taxpayer has reasonable cause for the understatement. The penalty is increased to 40 percent if the taxpayer does not adequately disclose the relevant facts affecting the tax treatment in the return or in a statement attached to the return. These changes apply to transactions entered into after March 30, 2010.

Require information reporting on payments to corporations and payments for property.—Generally, under prior law, a taxpayer making payments to a recipient aggregating to $600 or more for services or determinable gains in the course of a trade or business in a calendar year was required to send an information return to the IRS setting forth the amount, as well as the name and address of the recipient of the payment (generally on Form 1099). This information reporting requirement did not apply to payments to corporations or payments for property. Effective for payments made after December 31, 2011, this Act expanded the information reporting requirement to include payments to a corporation (except a tax-exempt corporation) and payments for property.

Modify the timing of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are due on or before April 15, June 15, September 15 and December 15. If these dates fall on a holiday or weekend, payment is due on the next business day. This Act increased the estimated tax payments due in July through September of 2014 by corporations with assets of at least $1 billion by 15.75 percentage points to 173.5 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

Adoption Assistance

Extend and modify the adoption tax credit.— Under prior law, a nonrefundable tax credit was provided for the first $10,000 of qualified expenses paid or incurred in the adoption of a child before January 1, 2011. The $10,000 amount was indexed annually for inflation, effective for taxable years beginning after December 31, 2002. For a child with special needs, the maximum credit was provided regardless of whether qualified adoption expenses were incurred. The credit phased out ratably for taxpayers with modified AGI between $150,000 and $190,000. The start of the phase-out range was indexed annually for inflation effective for taxable years beginning after December 31, 2002, but the width of the phase-out range remained at $40,000. The adoption tax credit was allowed against the AMT. This Act increased the maximum credit, which was $12,170 per eligible child in 2010 under prior law, to $13,170 per eligible child in 2010, made the credit refundable, and extended the increased credit (adjusted for inflation) through December 31, 2011.

Extend and modify the exclusion for employer-provided adoption assistance.—Under prior law, up to $10,000 per child in qualified adoption expenses paid or reimbursed by an employer under an adoption assistance program was excluded from the gross income of an employee, effective for expenses incurred before January 1, 2011. The $10,000 amount was indexed annually for inflation, effective for taxable years beginning after December 31, 2002. For the adoption of a child with special needs, the exclusion was provided regardless of whether qualified adoption expenses were incurred. The exclusion phased out ratably for taxpayers with modified AGI between $150,000 and $190,000. The start of the phase-out range was indexed annually for inflation, effective for taxable years beginning after December 31, 2002, but the width of the phase-out range remained at $40,000. This Act increased the maximum exclusion amount, which was $12,170 per eligible child in 2010 under prior law, to $13,170 per eligible child in 2010, and extended the increased exclusion amount (adjusted for inflation) through December 31, 2011.

FEDERAL AVIATION ADMINISTRATION EXTENSION ACT OF 2010 (Public Law 111-153)

This Act, which was signed into law by President Obama on March 31, 2010, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through April 30, 2010. These taxes had been scheduled to expire after March 31, 2010, under prior law.

CONTINUING EXTENSION ACT OF 2010 (Public Law 111-157)

Under this Act, which was signed into law by President Obama on April 15, 2010, the initial eligibility period for emergency unemployment compensation and several other unemployment programs was extended from April 5, 2010, through June 2, 2010. This Act also extended eligibility for COBRA health insurance premium assistance to qualified individuals involuntarily terminated after March 31, 2010, and before June 1, 2010. Retroactive eligibility was provided for individuals who became eligible for COBRA assistance between April 1, 2010, and April 15, 2010.

AIRPORT AND AIRWAY EXTENSION ACT OF 2010 (Public Law 111-161)

This Act, which was signed into law by President Obama on April 30, 2010, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through July 3, 2010. These taxes had been scheduled to expire after April 30, 2010, under prior law.

HAITI ECONOMIC LIFT PROGRAM (HELP) ACT OF 2010 (Public Law 111-171)

This Act, which was signed into law by President Obama on May 24, 2010, extended both the Haitian Opportunity through Partnership Encouragement (HOPE) program and the Caribbean Basin Trade Partnership Act, under which Haiti receives unilateral preferences, through September 30, 2020. This Act also expanded duty-free access to the U.S. market for additional Haitian textile and apparel exports by increasing tariff preference levels for certain knit and woven apparel products. In addition, estimated tax payments due in July through September by corporations with assets of at least $1 billion were increased to 174.25 percent of the amount otherwise due in 2014 and to 122.25 percent of the amount otherwise due in 2015. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

PRESERVATION OF ACCESS TO CARE FOR MEDICARE BENEFICIARIES AND PENSION RELIEF ACT OF 2010 (Public Law 111-192)

This Act, which was signed into law by President Obama on June 25, 2010, reversed a 21.3 percent cut in Medicare physician reimbursements that took effect on June 1, 2010, provided a 2.2 percent update to physician payment rates through November 30, 2010, and provided pension funding relief to single-employer and multiemployer defined benefit pension plans. The pension funding relief measures, which affect governmental receipts, were intended to give plan sponsors additional time to amortize pension funding shortfalls. Under this Act, sponsors of single-employer plans were allowed to elect a “2 plus 7” payment schedule under which they make interest-only payments for two years and amortize the balance of any shortfall over the next seven years, or a 15-year amortization schedule. Employers that accept the funding relief provided in this Act are required to reduce that relief by amounts spent on excessive compensation and certain large dividends and stock repurchases. Multiemployer plans were allowed to elect an extended (up to 30-year) amortization period for certain losses incurred during the first two plan years ending after August 31, 2008, and the maximum smoothing period for determining plan asset values was extended from five years to ten years for the first two plan years ending after August 31, 2008.

AIRPORT AND AIRWAY EXTENSION ACT OF 2010, PART II (Public Law 111-197)

This Act, which was signed into law by President Obama on July 2, 2010, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through August 1, 2010. These taxes had been scheduled to expire after July 3, 2010, under prior law.

HOMEBUYER ASSISTANCE AND IMPROVEMENT ACT OF 2010 (Public Law 111-198)

This Act, which was signed into law by President Obama on July 2, 2010, extended the closing deadline for qualifying home purchases to be eligible for the homebuyer tax credit through September 30, 2010. Under prior law, to be eligible for the credit, homeowners were required to close on the purchase of qualifying property before July 1, 2010. This Act also expanded the prior law penalty for a bad check or money order in payment to the IRS to apply to electronic payments.

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT (Public Law 111-203)

This Act, the most sweeping overhaul of U.S. financial regulations since the 1930s, was signed into law by President Obama on July 21, 2010. In addition to promoting the financial stability of the United States by improving accountability and transparency in the financial sector and securities market, this Act established a new consumer protection bureau and increased oversight of derivatives markets. The major provisions of this Act that affect receipts are described below.

Establish and fund an Office of Financial Research.—This Act created a Financial Stability Oversight Council (FSOC), supported by an Office of Financial Research (OFR). The purpose of the FSOC is to identify risks to the financial stability of the United States, promote market discipline by eliminating expectations that the Government will shield companies from losses in the event of failure, and respond to emerging threats to the stability of the United States financial system. The purpose of the OFR is to support the FSOC in fulfilling its purposes and duties by collecting data, performing research, and developing tools for risk measurement and monitoring. Any expenses of the FSOC are treated as expenses of, and paid by, the OFR from amounts deposited in the Financial Research Fund. During the two-year period beginning July 22, 2010, the Federal Reserve System will provide funds sufficient to cover the expenses of the OFR. These deposits are recorded as governmental receipts transferred from the Federal Reserve, consistent with the existing treatment of deposits of excess earnings of the Federal Reserve System. At the end of that two-year period, the OFR will be funded by an assessment on bank holding companies with total consolidated assets of $50 billion or more and nonbank financial companies supervised by the Federal Reserve.

Establish and fund an orderly liquidation authority.—This Act established an orderly liquidation authority to mitigate serious adverse effects on financial stability in the United States. All costs associated with this authority, including those associated with the orderly liquidation of covered financial companies and the payment of administrative expenses, are borne first by shareholders and unsecured creditors, and then, if necessary, by risk-based assessments on bank holding companies with total consolidated assets of $50 billion or more and nonbank financial companies supervised by the Federal Reserve. The assessments, which are deposited in the Orderly Liquidation Fund, are imposed on a graduated basis, with financial companies having greater assets and risk being assessed at a higher rate.

Authorize the Federal Reserve to levy assessments on regulated entities to cover the costs of examinations.—This Act authorized the Federal Reserve to levy assessments on bank holding companies with total consolidated assets of $50 billion or more, savings and loan holding companies with total consolidated assets of $50,000 or more, and nonbank financial companies supervised by the Federal Reserve. The amount collected will equal the total amount estimated by the Federal Reserve to be necessary or appropriate to carry out its supervisory and regulatory responsibilities with respect to such companies.

Authorize the Securities and Exchange Commission (SEC) to levy fees on security sales sufficient to cover all costs.—This Act authorized the SEC to collect transaction fees on the dollar amount of security sales sufficient to recover the costs to the Federal Government of the annual appropriation to the SEC by Congress. These fees generally would be effective October 1, 2011.

Establish and fund the Bureau of Consumer Financial Protection.—This Act established the Bureau of Consumer Financial Protection in the Federal Reserve to regulate the offering and provision of consumer financial products or services under the Federal consumer financial laws. Each fiscal year the Federal Reserve is required to deposit in the Bureau of Consumer Financial Protection Fund an amount less than or equal to a specified fixed percentage of total operating expenses of the Federal Reserve, as reported in its 2009 annual report. Amounts transferred may not exceed the following percentages of total operating expenses: 10 percent in 2011, 11 percent in 2012, and 12 percent in 2013, indexed annually for inflation in each subsequent year. These amounts are recorded as governmental receipts transferred from the Federal Reserve, consistent with the existing treatment of deposits of excess earnings of the Federal Reserve System.

Establish and fund a Consumer Financial Civil Penalty Fund.—This Act established the Consumer Financial Civil Penalty Fund in the Federal Reserve to compensate victims of activities for which civil penalties have been imposed under the Federal consumer financial laws. Any civil penalty obtained by the Bureau of Consumer Financial Protection against any person in any judicial or administrative action under Federal consumer financial laws is deposited in the Fund.

Establish and fund a Securities and Exchange Commission Investor Protection Fund.—This Act enhanced whistleblower protections for securities and created the Securities and Exchange Commission Investor Protection Fund to provide financial awards to whistleblowers and to fund the activities of the Inspector General of the Commission. Any monetary sanctions collected by the Commission in any judicial or administrative action under the securities laws that is not added to a disgorgement or other fund or otherwise distributed to victims of a violation of the securities laws is deposited in the Fund, provided the balance of the Fund at the time the monetary judgment is collected does not exceed $300 million.

Exempt swaps and certain other derivative contracts from section 1256 of the Internal Revenue Code.—Under current law, taxpayers are generally required to mark their section 1256 contracts to market on the last day of their taxable year and to treat income and loss from such contracts as 60 percent long-term and 40 percent short-term, assuming that the contracts are capital assets. Over-the-counter derivatives, on the other hand, have not been governed by section 1256. Under this Act, many over-the-counter swap contracts are required to be cleared and settled on regulated clearinghouses and exchanges, creating uncertainty about whether these swap contracts become section 1256 contracts. Therefore, this Act exempted income on any interest rate swap, currency swap, basis swap, interest rate cap, interest rate floor, commodity swap, equity swap, equity index swap, credit default swap, or similar agreement from section 1256, thereby allowing non-section 1256 character and timing rules to apply.

RENEWAL OF IMPORT RESTRICTIONS UNDER BURMESE FREEDOM AND DEMOCRACY ACT OF 2003 (Public Law 111-210)

This Act, which was signed into law by President Obama on July 27, 2010, extended for one year, through July 28, 2011, the ban on all imports from Burma, including a ban on imports of certain gemstones originating from Burma and on jewelry containing such gemstones. In addition, estimated tax payments due in July through September by corporations with assets of at least $1 billion were increased to 122.5 percent of the amount otherwise due in 2015. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

AIRLINE SAFETY AND FEDERAL AVIATION ADMINISTRATION EXTENSION ACT OF 2010 (Public Law 111-216)

This Act, which was signed into law by President Obama on August 1, 2010, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through September 30, 2010. These taxes had been scheduled to expire after August 1, 2010, under prior law.

EDUCATION JOBS AND MEDICAID ASSISTANCE ACT (Public Law 111-226)

This Act, which was signed into law by President Obama on August 10, 2010, provided temporary increased funding to States for Medicaid and education programs. The cost of the increased funding was paid for by reductions in spending for other Federal programs, limitations on the use of foreign tax credits, and elimination of the advanced refundability of the earned income tax credit. The major provisions of the Act that affect receipts are described below.

Limit the Use of Foreign Tax Credits

Under current law, subject to certain limitations, a taxpayer may choose to claim a credit against its U.S. income tax liability for income, war profits, and excess profits taxes paid or accrued during the taxable year to any foreign country or any possession of the United States. The person considered to have paid the foreign taxes is the person on whom foreign law imposes legal liability for such taxes. The foreign tax credit generally is limited to a taxpayer's U.S. tax liability on foreign-source taxable income. If the total amount of foreign income taxes paid for the year exceeds the taxpayer's foreign tax credit limitation for the year, the excess foreign taxes may be carried back to the previous taxable year or carried forward ten years. The foreign tax credit limitation generally is applied separately for income in two different "baskets" (passive basket income and general basket income). Passive basket income generally includes investment income; general basket income is all income that is not in the passive basket. Credits for foreign taxes imposed on income in one basket cannot be used to offset U.S. taxes on income in the other basket. This Act included several provisions that limited the use of foreign tax credits, which include the following:

Provide rules to prevent splitting foreign tax credits from the income to which they relate.—Under this Act, foreign income taxes paid or accrued by a U.S. taxpayer will not be taken into account for Federal tax purposes before the taxable year in which the related income is taken into account by the taxpayer. The provision generally is effective with respect to foreign income taxes paid or accrued by U.S. taxpayers in taxable years beginning after December 31, 2010.

Deny foreign tax credit with respect to foreign income that is not subject to U.S. taxation by reason of covered asset acquisitions.—Under this Act, a foreign tax credit is denied for the portion of any foreign income tax paid or accrued on income that is not subject to U.S taxation by reason of a "covered asset acquisition." The provision generally is effective for covered asset acquisitions after December 31, 2010.

Provide other limitations on the use of foreign tax credits and address loopholes in certain international tax provisions.—Effective for taxable years beginning after December 31, 2010, this Act terminated the special rules for interest and dividends received from persons meeting the 80-percent foreign business requirements. In addition, this Act: (1) modified the affiliation rules for purposes of allocating the interest expense of an affiliated group of corporations (effective for taxable years beginning after August 10, 2010); (2) applied a separate foreign tax credit limitation for each item of income that is resourced under a U.S. income tax treaty (effective for taxable years beginning after August 10, 2010); (3) limited the amount of foreign taxes deemed paid with respect to any section 956 inclusion (effective for acquisitions of U.S. property after December 31, 2010); and (4) modified the special rule with respect to certain redemptions by foreign corporations (effective for acquisitions after August 10, 2010).

Earned Income Tax Credit (EITC)

Eliminate advanced EITC.—Under prior law, taxpayers eligible for the refundable EITC who had one or more qualifying children were allowed to elect to receive advanced payment of a portion of the credit through their employer. This Act repealed the advanced refundability option, effective for taxable years beginning after December 31, 2010. Taxpayers with positive tax liability can, however, continue to receive all or part of the nonrefundable portion of the EITC during the year by adjusting their withholding.

UNITED STATES MANUFACTURING ENHANCEMENT ACT OF 2010 (Public Law 111-227)

This Act, which was signed into law by President Obama on August 11, 2010, suspended tariffs on more than 600 items imported into the United States through December 31, 2012. These suspensions, many of which were retroactive to December 31, 2009, applied to various chemicals, textiles and consumer goods that are not produced in the United States and needed as inputs in the production process by U.S. manufacturers. This Act also increased the estimated tax payments due in July through September of 2015 by corporations with assets of at least $1 billion to 123.25 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

FIREARMS EXCISE TAX IMPROVEMENT ACT OF 2010 (Public Law 111-237)

This Act, which was signed into law by President Obama on August 16, 2010, modified the timing of the payment of Federal excise taxes imposed on firearms, shells, and cartridges and required that orders of restitution for victims of crime be assessed and collected in the same manner as delinquent taxes. This Act also increased the estimated tax payments due in July through September of 2015 by corporations with assets of at least $1 billion to 122.75 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

SMALL BUSINESS JOBS ACT OF 2010 (Public Law 111-240)

This Act, which was signed into law by President Obama on September 27, 2010, included a number of provisions that provide tax relief to small businesses and included revenue-raising provisions that reduce the tax gap, promote retirement preparation, and close unintended loopholes in the U.S. tax system. The major provisions of the Act that affect receipts are described below.

Provide Tax Relief to Small Businesses

Provide temporary increase in exclusion from tax for capital gains realizations on certain small business stock.—Current law provides a 50-percent exclusion from tax for capital gains realized on the sale of certain small business stock held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of $10 million or ten times the taxpayer's basis in the stock. The exclusion is limited to individual investments and not the investments of a corporation. Effective for stock issued after February 17, 2009, and before January 1, 2011, ARRA increased the exclusion to 75 percent. This Act increased the exclusion to 100 percent, effective for qualified small business stock issued after September 27, 2010 and before January 1, 2011, and held for more than five years.

Allow five-year carryback of the general business credit for eligible small businesses.—Under current law, the general business credit may be carried back one year and carried forward up to 20 years. This Act provided eligible small businesses the election to increase the carryback period for the general business credit to five years, effective for tax credits applicable to the first taxable year of the taxpayer beginning in 2010. This Act also allowed eligible small businesses to use the general business credit against AMT liability. Eligible small businesses include sole proprietorships, partnerships, and non-publicly traded corporations with $50 million or less in average annual gross receipts for the prior three years.

Provide a temporary reduction in the recognition period for the taxation of S corporation built-in gains.—Unlike C corporations, S corporations generally pay no corporation income tax. Instead, each shareholder takes into account their share of the income or loss of the S corporation on their individual income tax return. However, if a C corporation converts to an S corporation, corporation income taxes are levied on the gains that arose prior to the conversion to an S corporation if such gains are recognized during the 10-year recognition period, which begins the first day of the first taxable year for which the S corporation election is in effect. The recognition period is reduced to seven years if the seventh taxable year in the recognition period precedes taxable years 2009 or 2010. This Act temporarily reduced the recognition period to five years if the fifth year in the recognition period precedes taxable year 2011.

Expand and temporarily increase expensing for small business.—Under a temporary provision of prior law, business taxpayers were allowed to expense up to $250,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2008 and 2009. The maximum amount that could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded $800,000. Earlier in 2010, the HIRE Act extended the $250,000 annual expensing and $800,000 annual investment limits for one year, through taxable years beginning in 2010. In 2011, the annual expensing and investment limits were scheduled to decline to $25,000 and $200,000, respectively. This Act increased the annual expensing and investment limits to $500,000 and $2,000,000, respectively, effective for taxable years beginning in 2010 and 2011. In addition, this Act expanded the definition of qualifying property to include certain real property, such as qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property for taxable years beginning in 2010 and 2011. However, the maximum amount of such real property that may be expensed is $250,000.

Extend temporary bonus depreciation for certain property.—Under temporary provisions of prior laws, an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of the property was provided for qualifying property acquired and placed in service in calendar years 2008 and 2009. The placed-in-service deadline was extended through 2010 for certain longer-lived and transportation property, but only basis attributable to manufacture, construction, or production before January 1, 2010 qualified for the additional allowance. Corporations otherwise eligible for additional first-year depreciation were allowed to elect to claim additional research or AMT tax credits in lieu of the additional first-year depreciation deduction for qualified property. This Act extended the bonus depreciation provision for one year, but did not extend the election to claim additional research or AMT tax credits in lieu of the additional first-year depreciation. The provision applies to qualifying property acquired and placed in service in calendar year 2010 (with an extension of the placed-in-service deadline through 2011 for certain longer-lived and transportation property).

Disregard bonus depreciation for the purpose of computing percentage completion.—In general, the taxable income from a long-term contract is determined each year by recognizing the portion of contract revenue that corresponds with the percentage of a contract that has been completed under the percentage-of-completion method. Under such method, the percentage of completion is determined by comparing costs (including depreciation) allocated to the contract and incurred before the end of the taxable year, with the estimated total cost of the contract. Under this Act, solely for purposes of determining the percentage of completion, the cost of qualified property is taken into account as if bonus depreciation had not been enacted. Qualified property is property otherwise eligible for bonus depreciation that has a Modified Accelerated Cost Recovery System (MACRS) recovery period of 7 years or less and that is placed in service after December 31, 2009, and before January 1, 2011 (before January 1, 2012, in the case of certain long-lived and transportation property).

Provide temporary increase in the deduction for start-up expenditures.—A taxpayer generally is allowed to elect to deduct up to $5,000 of start-up expenditures (amounts otherwise deductible as an expense had they not been paid or incurred before business begins) in the taxable year in which the active trade or business begins. The $5,000 amount is reduced (but not below zero), by the amount by which the cumulative cost of start-up expenditures exceeds $50,000. Effective for taxable years beginning in 2010, this Act increased the amount of start-up expenditures a taxpayer may elect to deduct to $10,000; that amount is reduced (but not below zero) by the amount by which the cumulative cost of start-up expenditures exceeds $60,000.

Modify the penalty for failure to disclose certain information with regard to "reportable transactions."—Taxpayers are required to disclose on their tax return certain information with respect to each reportable transaction (a transaction identified by the IRS as having the potential for tax avoidance or evasion) in which they participate. There are five categories of reportable transactions: listed transactions, confidential transactions, transactions with contractual protection, certain loss transactions, and transactions of interest. Under prior law, the maximum penalty for failure to comply with the reporting requirements for listed transactions was $100,000 for natural persons and $200,000 for all other taxpayers. For all other reportable transactions, the maximum penalty was $10,000 for natural persons and $50,000 for all other taxpayers. Effective for all such penalties assessed after December 31, 2006, this Act changed the penalty to equal 75 percent of the reduction in tax reported as a result of participation in the transaction, or that would result if the transaction were respected for Federal tax purposes, subject to the prior law maximum penalty amounts and the following minimum penalty amounts: $5,000 for natural persons and $10,000 for all other taxpayers.

Allow self-employed taxpayers to temporarily deduct the cost of health insurance for purposes of calculating net self-employment income subject to Social Security and Medicare payroll taxes.—Self-employed taxpayers are not allowed to deduct the cost of health insurance for themselves and their family for purposes of determining net self-employment income subject to Social Security and Medicare payroll taxes. This Act allowed self-employed taxpayers to deduct these costs for purposes of calculating net self-employment income subject to such taxes, effective for taxable year 2010.

Remove cell phones and similar telecommunications equipment from the definition of listed property.—Taxpayers generally are allowed a deduction for ordinary and necessary expenses paid or incurred in carrying on a trade or business. However, with respect to "listed property," the deduction may be limited or disallowed. Prior to passage of this Act, cellular telephones and similar telecommunications equipment were included in listed property. Deductions are disallowed for listed property unless the taxpayer substantiates: (1) the amount of such expense or other item; (2) the use of the listed property; (3) the business purpose of the expense or other item; and (4) the business relationship to the taxpayer of persons using the listed property. If the listed property is not used predominantly for business purposes (or if not properly substantiated), annual depreciation deductions (and any small business expensing deduction) are limited. Under this Act, cell phones and similar telecommunications equipment are no longer defined as listed property, effective for taxable years ending after December 31, 2009, and the strict substantiation of use and limitation on depreciation deductions applicable to listed property no longer apply to such equipment.

Reduce the Tax Gap

Require information reporting for rental property expense payments.—Under this Act, recipients of rental income making payments of $600 or more to a service provider, such as a plumber, painter or accountant in the course of earning rental income, are required to send an information return to the IRS and to the service provider, effective for payments made after December 31, 2010. Exceptions to the reporting requirement are made for taxpayers (including members of the military or employees of the intelligence community) who rent their principal residence on a temporary basis, for those who receive only small amounts of rental income per year, or for those for whom the requirements would cause hardship, as determined by the Secretary of the Treasury in accordance with regulations.

Increase information return penalties.—Present law imposes information reporting requirements on participants in certain transactions. Any person who is required to file a correct information return but fails to do so on or before the prescribed filing date is subject to a penalty that varies based on when, if at all, the correct information return is filed. Penalties are also imposed on taxpayers for failure to furnish a correct statement to a payee. This Act increased the penalties for failure to file an information return and for failure to provide a correct statement to a payee, effective for such statements required to be filed after December 31, 2010. The increased penalty amounts are adjusted to account for inflation every five years.

Levy payments to Federal contractors with delinquent tax debt.—Under the Federal Payment Levy Program, the IRS is allowed to continuously levy up to 15 percent of government payments to Federal contractors who are delinquent on their Federal tax obligations. The IRS is required to provide the delinquent taxpayer with a notice of intention to levy and a notice of the right to an administrative hearing (referred to as a collections due process notice, or CDP notice), 30 days before the levy is scheduled to begin. Under prior law, if the taxpayer did not respond within 30 days, the IRS could begin the levy process. However, if the taxpayer requested a CDP, the IRS could not proceed with the levy until the CDP hearing and any subsequent judicial review were completed. Under this Act, the IRS is allowed to levy payments to Federal contractors identified under the Federal Payment Levy Program prior to the CDP hearing, effective for levies issued after September 27, 2010.

Promote Retirement Preparation

Allow participants in certain governmental retirement plans to treat elective deferrals as Roth contributions.—A qualified Roth contribution program is a program under which a participant may elect to make designated Roth contributions in lieu of all or a portion of the elective deferrals that the participant otherwise would be eligible to make under the applicable retirement plan. To qualify as a qualified Roth contribution program a plan must: (1) establish a separate designated Roth account for the designated Roth contributions of each participant; (2) maintain separate records for each account; and (3) refrain from allocating to the designated Roth account amounts from non-designated Roth accounts. If an "applicable retirement plan" includes a qualified Roth contribution program, any contribution that a participant makes under the program is treated as an "elective deferral," but is not excludable from gross income. This Act expanded the definition of "applicable retirement plan" to include eligible deferred compensation plans as defined under section 457(b) of the Internal Revenue Code maintained by a State, a political subdivision of a State, an agency or instrumentality of a State, or an agency or instrumentality of a political subdivision of a State. The provision is effective for taxable years beginning after December 31, 2010.

Allow rollovers from elective deferral plans to Roth designated accounts.—Distributions from a designated Roth contribution program (except for qualified distributions) are included in the recipient's gross income to the extent allocable to income; qualified distributions are tax free. Rollover distributions from a designated Roth contribution program to another designated Roth contribution program or to a Roth IRA are also tax free. Rollover distributions from a non-designated Roth account to another non-designated Roth account are tax free. Rollover distributions from a non-designated Roth account to a Roth IRA generally are included in the gross income of the recipient in the taxable year in which the distribution occurs, except to the extent the distribution represents previously taxed contributions. However, for such distributions made in taxable year 2010, the distribution may be included in gross income in equal amounts in taxable year 2011 and 2012. Under prior law, distributions from a non-designated Roth account to a designated Roth account were not allowed. Under this Act, distributions from a non-designated Roth account to a designated Roth account are permitted, effective for distributions made after September 27, 2010, and such distributions are included in the gross income of the recipient in the same manner as if the distribution were rolled over into a Roth IRA. However, a plan that does not otherwise have a designated Roth program is not permitted to establish a designated Roth account solely to accept the rollover contribution.

Permit partial annuitization of a nonqualified annuity contract.—In general, the earnings and gains on a deferred annuity contract are not subject to tax during the deferral period. When payout commences, the tax treatment of amounts distributed depends on whether the amount is received as an annuity (a periodic payment under specified contract terms) or not as an annuity. For amounts received as an annuity, an exclusion ratio (the ratio of the taxpayer's investment in the contract to the total payments expected to be received under the contract) is provided for determining the taxable portion of each payment. The portion of each payment that is attributable to recovery of the taxpayer's investment in the contract is not taxed; the taxable portion of each payment is taxed as ordinary income. Once the taxpayer has recovered his or her investment in the contract, all further payments are taxed as ordinary income. If the taxpayer dies before the full investment in the contract is recovered, a deduction is allowed on the final return for the remaining investment in the contract. Amounts not received as an annuity generally are included in ordinary income to the extent they exceed the investment in the contract. This Act modified the taxation of payouts from certain annuity, endowment, or life insurance contracts effective for payouts made in taxable years beginning after December 31, 2010. Holders apply an exclusion ratio to amounts received as an annuity under a portion of such a contract for a period of 10 years or more, or during one or more lives. The investment in the contract is allocated on a pro rata basis between each portion of the contract from which amounts are received (the portion of the contract received as an annuity and the portion of the contract not received as an annuity).

Close Unintended Loopholes

Modify cellulosic biofuel producer credit.—An income tax credit is provided for cellulosic biofuel produced by the taxpayer. Under prior law the credit was available (with certain exceptions for nonbusiness use) for all cellulosic biofuel sold or used by the producer. Cellulosic biofuel was defined as any liquid fuel that: (1) is produced from any lignocellulosic or hemicellulosic matter (except for fuels with significant water, sediment, or ash content such as black liquor) that is available on a renewable or recurring basis, and (2) meets the registration requirements for fuels and fuel additives established by the EPA under section 211 of the Clean Air Act (EPA registration requirements). This Act modified the cellulosic biofuel producer credit to exclude fuels with an acid number greater than 25, effective for such fuels sold or used on or after January 1, 2010. As a result, crude tall oil, which is generated by reacting acid with black liquor soap and has a normal acid number of between 100 and 175, is no longer eligible for the credit.

Amend the source rules for income on guarantees.—In a recent court case the U.S. Tax Court held that the source of guarantee fees should be determined by reference to the residence of the foreign parent-guarantor. As a result, the payments were treated as foreign source income. Under this Act, amounts received, either directly or indirectly, from a non-corporate resident of the U.S. or a domestic corporation for the provision of a guarantee of indebtedness of such resident or corporation is income from sources within the United States. The provision is effective for guarantees issued after September 27, 2010, and no inference is intended with respect to the source of income received with respect to guarantees issued before the date of enactment.

Modify the Timing of Estimated Tax Payments by Corporations

Modify the timing of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are due on or before April 15, June 15, September 15 and December 15. If these dates fall on a holiday or weekend, payment is due on the next business day. This Act increased the estimated tax payments otherwise due in July through September by corporations with assets of at least $1 billion to 159.25 percent in 2015. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

AIRPORT AND AIRWAY EXTENSION ACT OF 2010, PART III (Public Law 111-249)

This Act, which was signed into law by President Obama on September 30, 2010, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through December 31, 2010. These taxes had been scheduled to expire after September 30, 2010, under prior law.

TAX RELIEF, UNEMPLOYMENT INSURANCE REAUTHORIZATION, AND JOB CREATION ACT OF 2010 (Public Law 111-312)

In order to ensure that taxes did not rise for middle-income households on January 1, 2011, this Act was signed into law by President Obama on December 17, 2010. In addition to temporarily extending the 2001 and 2003 tax cuts through 2012, this Act temporarily extended key tax relief provided to middle-income taxpayers in ARRA, provided a two percentage point reduction in employee Social Security payroll taxes for 2011, and temporarily extended a number of provisions that had expired or were scheduled to expire under prior law. The major provisions of this Act that affect receipts are described below.

Temporary Extension of 2001, 2003 and 2009 Tax Relief

Continue the 2001 and 2003 income tax cuts.— Most of the tax reductions enacted in 2001 and 2003 (as amended by subsequent legislation) [5] were scheduled to expire on December 31, 2010. This includes reductions in marginal individual income tax rates; the repeal of limitations on itemized deductions and personal exemptions;

[5] Among other changes, this includes three amendments made to these tax cuts in ARRA, which expand child tax credit refundability, expand the earned income tax credit for married couples, and expand the earned income tax credit for taxpayers with three or more qualifying children.

provisions for married taxpayers; expansions in the child tax credit, earned income tax credit, adoption credit, child and dependent care credit, and employer-provided child care credit; preferential rates for capital gains and dividends; small business expensing; and certain tax incentives for education. The education tax incentives include certain tax-exempt bond incentives, an exclusion of up to $5,250 in employer-provided education assistance, an increase in the deductibility of student loan interest, and an exclusion of awards received under certain health professional programs. This Act temporarily extended these provisions for two years, through December 31, 2012.

Extend American opportunity tax credit (AOTC).—ARRA created the AOTC, which replaced the Hope Scholarship Credit for taxable years 2009 and 2010. The AOTC provides taxpayers a credit of up to $2,500 per eligible student per year for qualified tuition and related expenses (expanded to include course materials) paid for each of the first four years of the student's post-secondary education in a degree or certification program. The student must be enrolled at least half-time to receive the credit. The credit is equal to 100 percent of the first $2,000 in qualified tuition and related expenses, and 25 percent of the next $2,000 of qualified tuition and related expenses. In addition, generally 40 percent of the otherwise allowable credit is refundable. The credit is phased out ratably for single taxpayers with modified AGI between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return). Unlike the Hope Scholarship Credit, the new tax credit is partially refundable. In addition, the AOTC has a higher maximum credit amount, is available for the first four years of postsecondary education, and has higher phase-out limits than the Hope Credit. This Act extended the AOTC for two years, effective for taxable years 2011 and 2012.

Temporary Extension of AMT Relief

Increase and extend the AMT exemption amounts.—A temporary provision of prior law increased the AMT exemption amounts, effective for taxable years beginning in 2009, to $46,700 for single taxpayers, $70,950 for married taxpayers filing a joint return and surviving spouses, and $35,475 for married taxpayers filing a separate return and for estates and trusts. This Act increased the AMT exemption amounts, effective for taxable years beginning in 2010, to $47,450 for single taxpayers, $72,450 for married taxpayers filing a joint return and surviving spouses, and $36,225 for married taxpayers filing a separate return and for estates and trusts. For taxable years beginning in 2011, the AMT exemption amounts are increased to $48,450 for single taxpayers, $74,450 for married taxpayers filing a joint return and surviving spouses, and $37,225 for married taxpayers filing a separate return and for estates and trusts.

Extend AMT relief for nonrefundable personal credits.—Under a temporary provision of prior law, taxpayers were permitted to offset both the regular tax and the AMT with nonrefundable personal tax credits, effective for taxable years beginning before January 1, 2010. This Act extended minimum tax relief for nonrefundable personal tax credits for two years, to apply to taxable years beginning in 2010 and 2011,

Temporary Estate Tax Relief

Modify and extend estate, gift and generation-skipping transfer taxes.—Under prior law, estate and generation-skipping transfer taxes were repealed for decedents dying after December 31, 2009, and before January 1, 2011, and the maximum gift tax rate on gifts made after December 31, 2009, and before January 1, 2011, was 35 percent on gifts in excess of a lifetime exclusion of $1 million. The basis of property (generally the taxpayer's investment in the property) passing from the estate of a decedent dying after December 31, 2009, and before January 1, 2011, was the lesser of the adjusted basis of the decedent or the fair market value of the property on the date of the decedent's death. However, each decedent's estate generally was permitted to increase the basis of assets transferred by up to a total of $1.3 million for assets passing to any heir (augmented by certain losses), plus an additional $3 million (for a total of $4.3 million) for property transferred to a surviving spouse. Estate and generation-skipping transfer taxes were reinstated, effective for decedents dying after December 31, 2010, and estates, gifts and generation-skipping transfers in excess of a lifetime exclusion of $1 million ($1.3 million for a qualified family-owned business) were taxed under a graduated tax rate schedule with a maximum tax rate of 55 percent (with an additional five-percent surtax to phase out the benefit of the graduated rates for very large estates). The basis of property passing from the estate of a decedent dying after December 31, 2010, generally was the fair market value of the property on the date of the decedent's death.

This Act reinstated and modified estate and generation skipping-transfer taxes, effective for decedents dying after December 31, 2009, and before January 1, 2013. Under this Act, the estates of decedents dying after December 31, 2009, and before January 1, 2013, are taxed at a maximum tax rate of 35 percent and are provided a life-time exclusion of $5 million (indexed for inflation after 2011). For decedents dying after December 31, 2009, and before January 1, 2013, generation-skipping transfers are provided a life-time exclusion of $5 million; such transfers are subject to a tax rate of zero percent for 2010 and 35 percent for 2011 and 2012. For gifts made after December 31, 2010, and before January 1, 2013, the life-time exclusion increases to $5 million and the maximum tax rate remains at 35 percent. The unused applicable exclusion amount of a predeceased spouse generally may be available for use by the surviving spouse, as an addition to such surviving spouse's applicable exclusion amount, subject to certain limitations and requirements. The basis of property passing from the estate of a decedent dying after December 31, 2009, generally is the fair market value of the property on the date of the decedent's death.

This Act generally allows the executor of the estate of a decedent who dies after December 31, 2009, and before January 1, 2011, the election instead to tax the estate under prior law, which means the estate would not be subject to the estate tax, but the basis of assets acquired would be determined under the modified carryover basis rules. The Secretary of the Treasury or his delegate shall determine the time and manner for making the election. In addition, the election can be made only once and is revocable only with the consent of the Secretary of the Treasury or his delegate, and has no effect on the applicability of the generation-skipping transfer tax. In the case of a decedent dying after December 31, 2009, and before December 17, 2010, the due date for filing applicable estate and generation-skipping transfer tax returns is no earlier than nine months after December 17, 2010.

Temporary Extension of Investment Incentives

Increase and extend temporary bonus depreciation for certain property.—Under temporary provisions of prior laws, an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of the property was provided for qualifying property acquired and placed in service in calendar years 2008, 2009, and 2010. The placed-in-service deadline was extended through 2011 for certain longer-lived and transportation property, but only basis attributable to manufacture, construction, or production before January 1, 2011, qualified for the additional allowance. Corporations otherwise eligible for additional first-year depreciation were allowed to elect to claim additional research or AMT tax credits in lieu of the additional first-year depreciation deduction for qualified property, the adjusted basis of which was attributable to manufacture, construction or production after March 31, 2008, and before January 1, 2010. This Act extended the additional first-year depreciation deduction (at 50 percent of the property's adjusted basis) through 2012 (with an extension of the placed-in-service deadline through 2013 for certain longer-lived and transportation property). It also extended the election to claim additional AMT tax credits for property whose basis was attributable to manufacture, construction, or production after December 31, 2010, and before January 1, 2013. In addition, this Act increased additional first-year depreciation to 100 percent of the adjusted basis of the property, effective for qualifying property acquired and placed in service after September 8, 2010, and before January 1, 2012 (with an extension of the placed-in-service deadline to January 1, 2013, for certain longer-lived and transportation property).

Expand and temporarily increase expensing for small business.—Under a temporary provision of prior law, business taxpayers were allowed to expense up to $250,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2008 and 2009. The maximum amount that could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded $800,000. Under legislation enacted earlier in 2010, the annual expensing and investment limits were increased to $500,000 and $2,000,0000, respectively, effective for taxable years beginning in 2010 and 2011. In addition, the definition of qualifying property was expanded to include certain real property, such as qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property for taxable years beginning in 2010 and 2011. However, the maximum amount of such real property that may be expensed is $250,000. In 2012, the annual expensing and investment limits were scheduled to decline to $25,000 and $200,000, respectively. This Act increased the annual expensing and investment limits to $125,000 and $500,000, respectively, as adjusted for inflation occurring after 2006, effective for qualifying property (including off-the-shelf computer software but excluding leasehold improvement, restaurant and retail property) placed in service in taxable years beginning in 2012.

Temporary Employee Payroll Tax Reduction

Provide a temporary reduction in the Social Security payroll tax rate for employees and self-employed individuals.—This Act reduced the employee Social Security payroll tax rate from 6.2 percent to 4.2 percent of the first $106,800 of taxable wages received after December 31, 2010 and before January 1, 2012. A similar reduction applies to the employee portion of Tier 1 Railroad Retirement payroll taxes. For self-employed individuals, the Social Security payroll tax rate was reduced from 12.4 percent to 10.4 percent of the first $106,800 of net taxable self-employment income for taxable years beginning in 2011. The Social Security Trust Fund is held harmless and receives transfers from the General Fund of the Treasury equal to any reduction in payroll taxes attributable to this reduction in the payroll tax rate.

Temporary Extension of Other Provisions—Individual Tax Relief

Extend the above-the-line deduction for qualified out-of-pocket classroom expenses.—Taxpayers who itemize deductions (do not use the standard deduction) and incur unreimbursed job-related expenses may deduct those expenses to the extent that when combined with other miscellaneous itemized deductions they exceed two percent of AGI. Under prior law, certain teachers and other elementary and secondary school professionals could deduct up to $250 in annual qualified out-of-pocket classroom expenses, effective for such expenses incurred after December 31, 2004, and before January 1, 2010. This Act extended this above-the-line deduction for two years, to apply to expenses incurred before January 1, 2012.

Extend optional deduction for State and local general sales taxes.—Under prior law, effective for taxable years beginning after December 31, 2003, and before January 1, 2010, a taxpayer was allowed to elect to take an itemized deduction for State and local general sales taxes in lieu of the itemized deduction for State and local income taxes. This Act extended this deduction for two years, effective for taxable years beginning before January 1, 2012.

Extend increased limits on contributions of partial interests in real property for conservation purposes.—In general, a deduction is permitted for charitable contributions, subject to certain limitations that depend on the type of taxpayer, the property contributed, and the donee organization. Exceptions to these general rules are provided for certain types of contributions, including qualified conservation contributions. The special rules for qualified conservation contributions were temporarily enhanced, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2005, and before January 1, 2010. 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 special rules for two years, applicable for qualified conservation contributions made in taxable years beginning before January 1, 2012.

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 if an education tax credit is claimed for the same student. In addition, the deduction may not be claimed 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. A taxpayer may not claim a deduction for the amount of a distribution from a qualified tuition plan that is excludable from income; however, the deduction may be claimed for the amount not attributable to earnings. This Act extended the deduction, which had expired with respect to expenses incurred in taxable years beginning after December 31, 2009, to apply to expenses incurred in taxable years beginning before January 1, 2012.

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 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 70½. This Act extended this exclusion, which had been effective with respect to distributions made in taxable years beginning after December 31, 2005, and before January 1, 2010, to apply to distributions made in taxable years beginning before January 1, 2012. The exclusion applies only if a charitable contribution deduction for the entire distribution would otherwise be allowable under current law, determined without regard to the percentage-of-AGI limitation. No charitable deduction is allowed with respect to any amount excludable from income under this provision.

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, provided the mortgage insurance contract was issued on or after January 1, 2007. The amount allowable as a deduction is phased out ratably for taxpayers with AGI in excess of specified income levels. This Act extended the deduction, which was scheduled to terminate with respect to any amount paid or accrued after December 31, 2010 (or properly allocable to any period after that date), for one year. The extension applies to amounts paid or accrued in 2011 that are not properly allocable to any period after December 31, 2011.

Provide other temporary individual income tax relief.—Other temporary individual income tax relief provisions: (1) extended for two years, the partial exclusion from U.S. estate and gift taxation for stock in a regulated investment company (RIC) owned by a nonresident who is not a citizen of the United States, to apply to estates of decedents dying before January 1, 2012; (2) extended parity for tax-free transit and parking benefits for an additional year, through December 31, 2011; and (3) allowed tax refunds (or advanced payments with respect to a refundable credit) to be disregarded for purposes of determining eligibility of an individual for benefits or assistance (or the amount or extent of benefits or assistance) under any Federal program or under any State or local program financed in whole or in part with Federal funds, effective for such refunds received after December 31, 2009 and before January 1, 2013.

Temporary Extension of Other Provisions - Business Tax Relief

Extend the research and experimentation (R&E) tax credit.—A tax credit of 20 percent is provided for qualified research and experimentation expenditures above a base amount. An alternative simplified credit of 14 percent is also provided. This Act extended these tax credits, which had expired with respect to expenditures paid or incurred in taxable years beginning after December 31, 2009, for two years, to apply to expenditures incurred in taxable years beginning before January 1, 2012.

Provide temporary increase in exclusion from tax for capital gains realizations on certain small business stock.—Current law provides a 50-percent exclusion from tax for capital gains realized on the sale of certain small business stock 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. The exclusion is limited to individual investments and not the investments of a corporation. Effective for stock issued after February 17, 2009, and before January 1, 2011, ARRA increased the exclusion to 75 percent. The exclusion was subsequently increased to 100 percent, effective for qualified small business stock issued after September 27, 2010, and before January 1, 2011, under the Small Business Jobs Act of 2010. This Act extended the 100 percent exclusion for one year, to apply to qualified small business stock issued after December 31, 2010, and before January 1, 2012.

Extend the new markets tax credit.—The new markets tax credit is provided for qualified equity investments made to acquire stock in a corporation or a capital interest in a partnership that is a qualified community development entity. A credit of five percent is provided to the investor for the first three years of investment. The credit increases to six percent for the next four years. The maximum amount of annual qualifying equity investment is capped at $2.0 billion for calendar years 2004 and 2005, $3.5 billion for calendar years 2006 and 2007, and $5.0 billion for 2008 and 2009. This Act extended the credit for two years, to apply to 2010 and 2011, permitting up to $3.5 million in qualifying investments for each year.

Extend tax incentives for employment and investment on Indian reservations.—This Act extended, for two years, through December 31, 2011, the employment tax credit for qualified workers employed on an Indian reservation and the accelerated depreciation rules for qualified property used in the active conduct of a trade or business within an Indian reservation. The employment tax credit is not available for employees involved in certain gaming activities or who work in a building that houses certain gaming activities. Similarly, property used to conduct or house certain gaming activities is not eligible for the accelerated depreciation rules.

Extend the work opportunity tax credit (WOTC).—The WOTC provides incentives to employers for hiring individuals from certain targeted groups. This Act extended the credit, which was scheduled to expire with respect to wages paid to qualified individuals who began work for the employer after August 31, 2011, for four months, to apply to workers who begin work for the employer after August 31, 2011, and before January 1, 2012.

Extend railroad track maintenance credit.—Under prior law, a 50-percent business tax credit is provided for qualified railroad track maintenance expenditures paid or incurred by an eligible taxpayer during taxable years beginning after December 31, 2004, and before January 1, 2010. The credit is limited to the product of $3,500 times the number of miles of railroad track owned or leased by an eligible taxpayer as of the close of the taxable year. This Act extended the credit for two years, to apply to qualified expenses incurred during taxable years beginning before January 1, 2012.

Extend credit for mine rescue training.—An eligible taxpayer may claim a general business 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, which expired with respect to costs incurred in taxable years beginning after December 31, 2009, to apply to costs incurred in taxable years that begin before January 1, 2012.

Extend expensing of advanced mine safety equipment.—Prior law allows taxpayers to immediately expense 50 percent of the cost of underground mine safety equipment that goes above and beyond current safety equipment requirements. This Act extended this provision, which had expired with respect to property placed in service after December 31, 2009, to apply to property placed in service before January 1, 2012.

Extend employer wage credit for activated military reservists.—Some employers voluntarily pay an employee who is called to active military service the difference between the compensation that would have been paid to the employee during the period of military service and the amount of pay received by the employee from the military. Such a payment is referred to as "differential pay." Under prior law, a tax credit is provided to eligible small businesses for differential wage payments made to qualified employees during the taxable year. The credit was available for payments made after June 17, 2008, and before January 1, 2010. The credit is equal to 20 percent of eligible differential wage payments made by the employer to qualified employees. The employer may not deduct that portion of compensation equal to the credit; in addition, the credit is not allowed against the employer's alternative minimum tax liability and is subject to the rules applicable to business credits. This Act extended the credit for two years, to apply to differential wage payments made before January 1, 2012.

Extend modified recovery period for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property.—A taxpayer generally must capitalize the cost of property used in a trade or business and recover such cost over time through annual deductions for depreciation or amortization. Tangible property generally is depreciated under MACRS. Under this system, depreciation is determined by applying specified recovery periods, placed-in-service conventions, and depreciation methods to the cost of various types of depreciable property. The cost of nonresidential real property is recovered using the straight line method and a recovery period of 39 years. Depreciation allowances for improvements made on leased property are determined under MACRS, even if the recovery period assigned to the property is longer than the term of the lease. If a leasehold improvement constitutes an addition or improvement to nonresidential real property already placed in service, the improvement generally is depreciated using the straight line method over a 39-year period. Under prior law, the recovery period for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property was temporarily reduced to 15 years, effective for such property placed in service before January 1, 2010. This Act extended the 15-year recovery period for two years, effective for such property placed in service before January 1, 2012.

Extend seven-year recovery period for motorsports entertainment complexes.—Under this Act, the seven-year recovery period applicable to motorsports entertainment complexes placed in service before January 1, 2010, is extended for two years, to apply to such facilities placed in service before January 1, 2012.

Extend expensing for certain qualified film and television production.—Taxpayers may elect to deduct up to $15 million ($20 million for productions in certain areas) of the aggregate cost of any qualifying film and television production commencing prior to January 1, 2010, in the year the expenses are incurred, in lieu of capitalizing the cost and recovering it through depreciation allowances. This Act extended the provision for two years, to apply to qualified film and television productions commencing prior to January 1, 2012.

Extend expensing of brownfields remediation costs.—Taxpayers are allowed to elect to treat certain environmental remediation expenditures that would otherwise be chargeable to a capital account as deductible in the year paid or incurred. This Act extended this provision, which expired with respect to expenditures paid or incurred after December 31, 2009, to apply to expenditures paid or incurred before January 1, 2012.

Extend the enhanced charitable deduction for contributions of food and book 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. However, for certain contributions of inventory, C corporations may claim an enhanced deduction equal to the lesser of: (1) basis plus one-half of the fair market value in excess of basis, or (2) two times basis. To be eligible for the enhanced deduction, the contributed property generally must be inventory of the taxpayer contributed to a charitable organization and the donee must: (1) use the property consistent with the donee's exempt purpose solely for the care of the ill, the needy, or infants; (2) not transfer the property in exchange for money, other property, or services; and (3) provide the taxpayer a written statement that the donee's use of the property will be consistent with such requirements. To use the enhanced deduction, the taxpayer must establish that the fair market value of the donated item exceeds basis. Under prior law, the enhanced charitable deduction was expanded to apply to contributions of food inventory by all taxpayers (not just C corporations) engaged in a trade or business and to contributions of book inventory to public schools by C corporations. The donated food must meet certain quality and labeling standards and the donated food inventory may not exceed 10 percent of the taxpayer's net income from the related trade or business. The donated books must be suitable for use and used by the public school in its education programs. This Act extended the enhanced charitable deduction for contributions of food and book inventory, which had expired with respect to donations made after December 31, 2009, for two years, to apply to contributions made before January 1, 2012.

Extend the deduction for corporate donations of computer equipment for educational purposes.—The charitable contribution deduction that may be claimed by corporations for donations of inventory property generally is limited to the lesser of fair market value or the corporation's basis in the property. However, corporations are provided an enhanced deduction, not subject to the general limitation, for contributions of computer technology and equipment for educational purposes. The enhanced deduction is equal to the lesser of: (1) basis plus one-half of the item's fair market value in excess of basis; or (2) two times basis. To qualify for the enhanced deduction, equipment contributed must be donated no later than three years after the date the taxpayer acquired the property or, in the case of property constructed or assembled by the taxpayer, the date construction or assembly is substantially completed. This Act extended this provision, which had expired with respect to donations made in taxable years beginning after December 31, 2009, to apply to donations made in taxable years beginning before January 1, 2012.

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, under a temporary provision of prior law, effective for charitable contributions made by an S corporation in taxable years beginning after December 31, 2005, and before January 1, 2010, shareholders are allowed to adjust their basis in the stock of the company by their pro rata share of the adjusted basis of the contributed property instead of by their pro rata share of the market value of the contributed property. This Act extended this provision for two years to apply to charitable contributions made by an S corporation in taxable years beginning before January 1, 2012.

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, under a temporary provision of prior law, a taxpayer with gross receipts from sources within the Commonwealth of Puerto Rico may treat production activities performed in Puerto Rico as performed in the United States for purposes of determining qualified production activities income and may 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 provision, which was effective for the first four taxable years of a taxpayer beginning after December 31, 2005, and before January 1, 2010, was extended for two years, to apply to the first six taxable years of a taxpayer beginning after December 31, 2005, and before January 1, 2012.

Extend economic development credit for American Samoa.—Certain domestic corporations with business operations in the U.S. possessions are eligible for the possession tax credit, which offsets the U.S. tax imposed on certain income related to operations in the U.S. possessions (including, among other places, American Samoa). The possession tax credit is available only to a corporation that qualifies as an existing credit claimant; the determination of whether a corporation is an existing credit claimant is made separately for each possession. The credit is computed separately for each possession with respect to which the corporation is an existing claimant and the credit is subject to either an economic activity-based limitation or an income-based limit. Under prior law, the possession tax credit was repealed for new claimants for taxable years beginning after December 31, 1995, and was phased out for existing credit claimants for taxable years beginning after December 1, 1995, and before December 31, 2006. However, prior law also extended and modified the credit with respect to American Samoa. Specifically, a domestic corporation that was an existing credit claimant with respect to American Samoa and that elected the application of the possession 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 four taxable years beginning after December 31, 2005, and before January 1, 2010. This Act extended the credit with respect to American Samoa for two years, to apply to the first six taxable years beginning after December 31, 2005, and before January 1, 2012.

Extend the issuance of qualified zone academy bonds.—State and local governments are allowed to issue taxable qualified tax credit bonds, called qualified zone academy bonds, which provide a Federal subsidy through tax credits to investors at a tax credit rate determined by the Department of the Treasury that is estimated to cover 100 percent of the interest on the bonds based on certain assumptions. A total of $400 million of such bonds was authorized to be issued annually in calendar years 1998 through 2008, and a total of $1.4 billion was authorized to be issued annually in calendar years 2009 and 2010. Unused portions of the annual authorizations may be carried forward for use in the next two succeeding years. At least 95 percent of the proceeds of such bonds are required to be used for public school renovations and repairs, equipment purchases, teacher and other personnel training, or curriculum development at a qualified zone academy. For bonds originally issued after March 18, 2010, the issuer may make an irrevocable election to receive a direct subsidy payment from the Federal government in an amount based on the lower of actual interest rates or tax credit rates set by the Department of the Treasury in lieu of providing a tax credit to the holder of the bonds. This Act extended the qualified zone academy bond program for one year and authorized the issuance of a total of $400 million in such bonds in calendar year 2011 (with a two-year carryforward for unused portions). The issuer election to receive a direct subsidy payment from the Federal government for interest on the bonds in lieu of providing a tax credit to the holder of the bond is not available for bonds issued under this $400 million limitation for 2011 or carryforwards of that amount (but remains available for carryforwards of 2009 and 2010 amounts).

Extend tax incentives for empowerment zones.—Prior law authorized the designation of 40 empowerment zones, 30 located in urban areas and 10 located in rural areas. Businesses in these empowerment zones are provided a number of tax incentives, generally available through December 31, 2009. This Act generally extended these tax incentives for two years, through December 31, 2011.

Extend tax incentives for the District of Columbia (DC).—The DC Enterprise Zone includes the DC Enterprise Community and DC census tracts with a poverty rate of at least 20 percent. Businesses in the zone are eligible for: (1) a wage credit equal to 20 percent of the first $15,000 in annual wages paid to qualified employees who reside within DC; (2) $35,000 in increased expensing for small businesses; and (3) in certain circumstances, tax-exempt bond financing. In addition, a capital gains exclusion is allowed for certain investments held more than five years and made within the DC Enterprise Zone, or within a DC census tract with a poverty rate of at least 10 percent. This Act extended the DC Enterprise Zone incentives for two years, through December 31, 2011.

A one-time nonrefundable $5,000 credit is available to purchasers of a principal residence in DC who have not owned a residence in DC during the year preceding the purchase. The credit phases out for taxpayers with modified AGI between $70,000 and $90,000 ($110,000 and $130,000 for joint returns). This Act extended the credit for two years, to apply to purchases after December 31, 2009, and before January 1, 2012.

Extend special rule regarding tax treatment of certain payments to controlling exempt organizations.—In general, organizations that are exempt from Federal income tax are subject to tax on unrelated business income derived from a trade or business that is not substantially related to the performance of the organization's tax-exempt functions. 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, under a temporary provision of prior law, interest, rents, royalties and annuities received by a tax-exempt parent organization from a controlled subsidiary before January 1, 2010, pursuant to a binding written contract in effect on August 17, 2006, are taxable only to the extent that they exceed 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 temporary provision of prior law to apply to income received before January 1, 2012.

Extend special tax rules applicable to regulated investment companies (RICs). —This Act extended for two years, through December 31, 2011, the following special tax rules applicable to RICs: (1) the exemption from U.S. withholding tax for certain interest-related dividends and short-term capital gain dividends paid by a RIC to a foreign shareholder; and (2) the treatment of RICs as "qualified investment entities."

Extend Subpart F "active financing" and "look-through" exceptions.—Under Subpart F, U.S. shareholders of a controlled foreign corporation (CFC) are subject to U.S. tax currently on certain income earned by the CFC, whether or not such income is distributed. The income subject to current inclusion under Subpart F includes, among other things, "foreign personal holding company income" and insurance income. Foreign personal holding company income generally includes dividends; interest; royalties; rents; annuities; net gains from the sale of certain property, including securities, commodities and foreign currency; and income from notional principal contracts and securities lending activities. Under prior law, for taxable years beginning before January 1, 2010, exceptions from Subpart F were 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 before January 1, 2012.

Temporary Extension of Other Provisions - Energy Tax Relief

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 per gallon 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 both the excise tax credit and the income tax credit provided to biodiesel fuels at a rate of $1.00 per gallon. This Act extended for two years, through December 31, 2011, the income tax credit and the excise tax credit and payment provided to biodiesel (including agri-biodiesel) and renewable diesel.

Extend suspension of net income limitation on percentage depletion for marginal oil and gas wells.—Taxpayers are allowed to recover their investment in oil and gas wells through depletion deductions. For certain properties, deductions may be determined using the percentage of depletion method; however, in any year the amount deducted generally may not exceed 100 percent of the net income from the property. Under prior law, for taxable years beginning after December 31, 1997, and before January 1, 2010, domestic oil and gas production from "marginal" properties was exempt from the 100-percent-of-net-income limitation. This Act extended the exemption for two years, to apply to taxable years beginning before January 1, 2012.

Extend election to receive a grant for specified energy property in lieu of tax credits.—A nonrefundable income tax credit is allowed for certain qualifying energy property placed in service by a taxpayer (the energy credit). Qualifying energy property includes solar property, certain fuel cell and microturbine property, geothermal power production property, geothermal heat pump property, small wind energy property, and combined heat and power system property. An income tax credit is also provided for the production of electricity from qualified energy resources at qualified facilities (the renewable energy production credit). Qualified energy resources include wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy. Qualified facilities are, generally, facilities that generate electricity using qualified energy resources. To be eligible for the credit, electricity produced from qualified energy resources at qualified facilities must be sold by the taxpayer to an unrelated person. Taxpayers are allowed to elect to receive an energy credit in lieu of the renewable electricity production credit or to receive a grant from the Department of the Treasury in lieu of the energy credit or the renewable electricity production credit. Grants are available for renewable power facilities placed in service in 2009 and 2010 and are also available if construction began during 2009 and 2010 for wind facilities placed in service before 2013 and other renewable power facilities placed in service before 2014. Grants are available for qualifying energy property other than renewable power facilities if the property is placed in service during 2009 or 2010, or if construction began during 2009 or 2010 and the property is placed in service before 2017. This Act extended the election to receive a grant in lieu of tax credits for one year, through 2011. Otherwise eligible property must be placed in service in 2009, 2010, or 2011, or its construction must begin during that period and it must be placed in service prior to 2013 in the case of wind facilities, prior to 2014 in the case of other renewable power facilities, and prior to 2017 in the case of qualifying energy property other than renewable power facilities.

Extend the tariff on imported ethyl alcohol.—This Act extended the 14.27-cents-per-liter (approximately 54-cents-per-gallon) tariff on imports of ethyl alcohol, and any mixture containing ethyl alcohol, if used as a fuel or in producing a mixture to be used as a fuel, to apply to such imports entering the United States before January 1, 2012. Under prior law, the tariff had been scheduled to expire with respect to such imports entering the United States after December 31, 2010.

Extend income tax credits for alcohol fuels.—An income tax credit, which is comprised of four components, is provided for the sale, use and production of alcohol fuel and alcohol fuel mixtures. The first component, the alcohol fuel mixture credit, is available for alcohol in an alcohol fuel mixture (a mixture of alcohol and gasoline or alcohol and a special fuel), and may be taken as an income tax credit, an excise tax credit, or a payment. The second component, the alcohol credit, is a nonrefundable income tax credit available for alcohol not in a mixture that is either used as a fuel in the taxpayer's trade or business or sold at retail and placed in the fuel tank of the retail buyer. The third component, the small ethanol producer credit, is a nonrefundable income tax credit available to ethanol producers who have an annual productive capacity of not more than 60 million gallons of any type of alcohol. The fourth component, the cellulosic biofuel producer credit, is a nonrefundable income tax credit available for qualified cellulosic biofuel production. This Act extended these income tax credits for alcohol fuels (other than the cellulosic biofuel producer credit, which expires on December 31, 2012 under prior law) and the excise tax credit and payment for alcohol fuel mixtures for one year, through December 31, 2011.

Extend excise tax credits for alternative fuels.—An excise tax credit is provided for alternative fuels sold for use or used as fuel in a motor vehicle or motorboat or in aviation (the alternative fuel credit) and for alternative fuel mixtures (a mixture of alternative fuel and a taxable fuel such as diesel fuel) sold for use or used as a fuel, whether or not in a motor vehicle or motorboat or in aviation (the alternative fuel mixture credit). A person with insufficient excise tax liability may file a claim for a payment equal to the credit. This Act extended the alternative fuel credit, the alternative fuel mixture credit, and related payment provisions for two years, to apply to alternative fuels (excluding fuel derived from the production of paper or pulp) produced before January 1, 2012.

Extend deferral of gains from sales of electric transmission property.— Generally, the gain on the sale of business assets is subject to current income tax unless a special rule provides for nonrecognition or deferral of the gain. One such special rule applies to qualifying electric transmission transactions. Under this rule, a taxpayer may elect to recognize the gain from a qualifying electric transmission transaction ratably over the eight-year period beginning with the year of the transaction. Deferral is allowed only with respect to proceeds that are used to purchase other gas or electric utility property during the four-year period beginning on the date of the transaction (the reinvestment period). A sale or other disposition of property is a qualifying electric transmission transaction if: (1) the property is used in the trade or business of providing electric transmission services or is an ownership interest in a entity whose principal trade or business is providing electric transmission services, and (2) the sale or other disposition is to an independent transmission company and occurs before January 1, 2010. In general, whether the purchaser qualifies as an independent transmission company depends on determinations by the Federal Energy Regulatory Commission (FERC) or, in the case of facilities subject to the jurisdiction of the Public Utility Commission of Texas, by that Commission. The special rule allowing the deferral of tax on the gain from the sale or disposition of electric transmission property was extended for two years, allowing taxpayers to elect deferral with respect to sales or dispositions before January 1, 2012.

Extend other temporary energy tax relief provisions—This Act also: (1) modified and extended for one year, to apply to property purchased and placed in service before January 1, 2012, the credit (at pre-2009 rates) for the purchase of qualified energy efficiency improvements (insulation, exterior windows and doors, roofs) and qualified energy property for existing homes located in the United States and owned and used by the taxpayer as the taxpayer's principal residence; (2) extended for two years, through December 31, 2011, the placed-in-service date for new qualified refined coal facilities (other than refined coal facilities that produce steel industry fuel) eligible to claim the refined coal production credit; (3) extended for two years the tax credit provided to eligible contractors for the construction of qualified energy-efficient new homes purchased for use as a residence, to apply to qualified homes purchased prior to January 1, 2012; (4) extended through December 31, 2011, the credit (at pre-2009 rates) for installing qualified alternative fuel vehicle refueling property (other than hydrogen refueling property, the credit for which continues through December 31, 2014, under current law); and (5) modified and extended through December 31, 2011, the credit for the production of energy-efficient appliances.

Temporary Extension of Other Provisions - Disaster Relief

Extend New York Liberty Zone tax-exempt bond financing.—This Act extended for two years, through December 31, 2011, the time for issuing New York Liberty Zone bonds for the financing of certain nonresidential real property, residential rental property and public utility property.

Extend certain tax relief for the Gulf Opportunity Zone (GO Zone).—This Act extended the increased rehabilitation credit for qualified rehabilitation expenditures for structures in the GO Zone for two years, to apply to expenditures paid or incurred before January 1, 2012. This Act also extended the following GO Zone tax relief provisions for one year, through December 31, 2011: (1) the placed-in-service deadline for buildings eligible for the GO Zone low-income housing credit; (2) authority to issue GO Zone Bonds; and (3) the date by which specified GO Zone extension property must be place in service to be eligible for the additional first-year depreciation deduction.

REGULATED INVESTMENT COMPANY MODERNIZATION ACT OF 2010 (Public Law 111-325)

This Act, which was signed into law by President Obama on December 22, 2010, modernized the tax rules for RICs concerning capital loss carryovers, dividends and other distributions, and applicable excise taxes. In general, RICs are domestic corporations that meet certain gross income and asset diversification requirements, elect to be treated as RICs for U.S. Federal income tax purposes, and are regulated under the Investment Company Act of 1940.

AIRPORT AND AIRWAY EXTENSION ACT OF 2010, PART IV (Public Law 111-329)

This Act, which was signed into law by President Obama on December 22, 2010, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through March 31, 2011. These taxes had been scheduled to expire after December 31, 2010, under prior law.

OMNIBUS TRADE ACT OF 2010 (Public Law 111-344)

This Act, which was signed into law by President Obama on December 29, 2010, extended the Andean Trade Preference Act for Colombia and Ecuador for six weeks, through February 12, 2011. This Act also extended for six weeks, through February 12, 2011, the 80 percent health care tax credit rate and COBRA continuation coverage for certain workers (and qualified family members) who have been displaced because of trade-related issues. In addition, this Act increased the estimated tax payments due in July through September of 2015 by corporations with assets of at least $1 billion to 163.75 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

JAMES ZADROGA 9/11 HEALTH AND COMPENSATION ACT OF 2010 (Public Law111-347)

This Act, which was signed into law by President Obama on January 2, 2011, established the World Trade Center Health Program and extended and expanded eligibility for compensation under the September 11th Victim Compensation Fund of 2001. To offset the costs of the legislation, this Act extended visa fees for visa-dependent employers and imposed an excise tax of two percent on certain foreign companies or manufacturers that receive a Federal procurement payment. The tax applies only to entities from countries that are not parties to the World Trade Organization's Government Procurement Agreement.

Table 15–2. ADJUSTMENTS TO THE BUDGET ENFORCEMENT ACT (BEA) BASELINE ESTIMATES OF GOVERNMENTAL RECEIPTS

(In billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
BEA baseline receipts	**2,175.5**	**2,644.4**	**3,137.9**	**3,549.5**	**3,753.1**	**3,968.4**	**4,255.7**	**4,496.9**	**4,750.5**	**4,975.8**	**5,240.9**	**17,053.3**	**40,773.1**
Adjustments to BEA baseline:													
Continue the 2001 and 2003 tax cuts for middle-income taxpayers:													
Dividends tax rate structure	....	....	–4.2	–9.0	–10.5	–11.8	–12.6	–12.9	–13.1	–13.3	–13.6	–35.5	–101.0
Capital gains tax rate structure	....	–0.8	–1.9	–2.8	–3.8	–5.2	–6.1	–6.4	–6.6	–6.8	–7.0	–14.5	–47.4
Expensing for small businesses	....	....	–5.6	–8.1	–6.4	–5.2	–4.4	–3.8	–3.6	–3.5	–3.6	–25.4	–44.3
Marginal individual income tax rate reductions	....	....	–44.6	–63.4	–64.2	–64.7	–65.7	–66.3	–66.9	–67.2	–67.4	–237.0	–570.5
Child tax credit [1]	....	....	–5.1	–20.6	–21.0	–21.3	–21.6	–21.8	–22.1	–22.3	–22.4	–68.1	–178.1
Provisions for married taxpayers [1]	....	....	–5.3	–7.5	–7.4	–7.2	–7.0	–6.8	–6.6	–6.4	–6.4	–27.4	–60.6
Education incentives	....	–*	–0.9	–1.8	–1.9	–2.0	–2.1	–2.1	–2.2	–2.3	–2.4	–6.6	–17.8
Other incentives for families and children	....	*	–0.1	–0.6	–0.6	–0.6	–0.6	–0.6	–0.5	–0.5	–0.5	–2.0	–4.7
Total, continue the 2001 and 2003 tax cuts for middle-income taxpayers	....	–0.8	–67.8	–114.0	–115.9	–118.1	–120.0	–120.7	–121.5	–122.4	–123.2	–416.5	–1,024.4
Extend estate, gift, and generation-skipping transfer taxes at 2009 parameters	–1.3	–1.9	–4.8	–24.0	–26.4	–29.2	–31.7	–34.5	–36.9	–39.2	–41.6	–86.3	–270.2
Index to inflation the 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 [2]	....	–33.3	–106.4	–106.5	–123.8	–142.4	–162.3	–183.1	–206.2	–230.5	–255.9	–512.3	–1,550.2
Total, adjustments to BEA baseline	**–1.3**	**–35.9**	**–179.1**	**–244.5**	**–266.1**	**–289.6**	**–313.9**	**–338.3**	**–364.6**	**–392.0**	**–420.7**	**–1,015.2**	**–2,844.8**
Adjusted baseline receipts	**2,174.3**	**2,608.5**	**2,958.9**	**3,305.0**	**3,487.0**	**3,678.7**	**3,941.8**	**4,158.5**	**4,386.0**	**4,583.8**	**4,820.1**	**16,038.1**	**37,928.3**

* $50 million or less.

[1] This provision affects both receipts and outlays. Only the receipt effect is shown here. The outlay effects are listed below:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Child tax credit	....	....	1.2	23.8	23.8	23.8	23.9	23.9	24.0	24.1	24.3	72.6	192.8
Provisions for married taxpayers	....	....	0.2	4.1	4.1	4.0	4.0	4.0	4.1	4.1	4.2	12.4	32.8
Total, outlay effects of adjustments to BEA baseline	**.........**	**.........**	**1.4**	**27.9**	**27.9**	**27.8**	**27.9**	**27.9**	**28.1**	**28.2**	**28.5**	**84.9**	**225.6**

[2] The Administration proposes to offset the first three years' cost of extending AMT relief with savings from the Administration's proposal to reduce the value of certain tax expenditures:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Index to inflation the 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010	....	–33.3	–106.4	–106.5	–96.9	26.9	....	....	....	....	....	–316.2	–316.2
Reduce the value of certain tax expenditures	....	6.0	19.0	26.4	29.8	32.7	35.7	38.6	41.5	44.4	47.2	113.9	321.3

ADJUSTMENTS TO THE BUDGET ENFORCEMENT ACT (BEA) BASELINE

An important step in addressing the nation's fiscal problems is to be upfront about them and to establish a baseline that measures where we are before new policies are enacted. This Budget does so by adjusting the BEA baseline to reflect the cost of extending certain major tax policies that are quite likely to be extended. The BEA baseline, which is commonly used in budgeting and is defined in statute, reflects, with some exceptions, the projected receipts level under current law.

But current law includes a number of scheduled changes that are unlikely to occur and that prevent it from serving as a realistic benchmark for judging the effect of new legislation. The Statutory Pay-As-You-Go (PAYGO) Act, enacted in February 2010, recognizes that the expiration of a number of tax provisions is unrealistic, and provides exceptions (current policy adjustments) to the general rule that the cost of legislation should be offset and not increase projected deficits. These current policy adjustments include permanent extension of most of the tax reductions enacted in 2001 and 2003 for middle-income taxpayers. They also include temporary extension of estate, gift, and generation-skipping transfer taxes at 2009 parameters, temporary relief from the AMT and, on the spending side of the budget, temporary relief from the reductions in the rates Medicare pays for physician services under the "Sustainable Growth Rate" (SGR) formula.

This Budget uses an adjusted baseline that permanently continues the 2001 and 2003 tax cuts for middle-income taxpayers, consistent with the PAYGO statute. The Administration's adjusted baseline also permanently continues estate, gift, and generation-skipping transfer taxes at 2009 parameters and reflects permanent extension of relief from the AMT. Congress has repeatedly taken action to extend AMT relief, sometimes after it has expired; however, the Administration proposes to offset the first three years' cost of extending AMT relief with savings from the Administration's proposal to reduce the value of certain tax expenditures (see the discussion of this proposal later in this Chapter).

Continue the 2001 and 2003 tax cuts for middle-income taxpayers.—Most of the tax reductions for middle-income taxpayers enacted in 2001 and 2003 were recently extended for two years and are now scheduled to expire on December 31, 2012. This includes reductions in marginal individual income tax rates; the repeal of limitations on itemized deductions and personal exemptions; provisions for married taxpayers; expansions in the child tax credit, earned income tax credit, adoption tax credit, and child and dependent care credit; certain tax incentives for education; increases in small business expensing; and preferential rates for capital gains and dividends. The Administration's adjusted baseline reflects a permanent extension of all of these expiring provisions for middle-income taxpayers (as amended by subsequent legislation).[6]

Extend estate, gift, and generation-skipping transfer taxes at 2009 parameters.—The Administration's adjusted baseline reflects permanent extension of estate, gift, and generation-skipping transfer taxes at parameters in effect for calendar year 2009, effective for decedents dying after December 31, 2012. Under those parameters, the estates and generation-skipping transfers of a decedent dying after December 31, 2012, are taxed at a maximum tax rate of 45 percent and provided a life-time exclusion of $3.5 million. Gifts made after December 31, 2012, are taxed at a maximum rate of 45 percent and provided a life-time exclusion of $1 million.

Index to inflation the 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.—The Administration's adjusted baseline reflects annual indexation of: (1) the AMT exemption amounts in effect for taxable year 2011 ($48,450 for single taxpayers, $74,450 for married taxpayers filing a joint return and surviving spouses, and $37,225 for married taxpayers filing a separate return and for estates and trusts); (2) the income thresholds for the 28-percent AMT rate ($87,500 for married taxpayers filing a separate return and $175,000 for all other taxpayers); and (3) the income thresholds for the phaseout of the exemption amounts ($112,500 for single taxpayers, $150,000 for married taxpayers filing a joint return and surviving spouses, and $75,000 for married taxpayers filing a separate return). The Administration's adjusted baseline also extends AMT relief for nonrefundable personal credits. The Administration proposes to offset the first three years' cost of extending AMT relief with savings from the Administration's proposal to reduce the value of certain tax expenditures (see the discussion of this proposal later in this Chapter).

[6] Consistent with treatment of the tax cuts in statutory PAYGO, the Budget adjusted baseline assumes continuation of the 2001 and 2003 tax cuts as amended through December 31, 2009, for middle-income taxpayers. Among other changes, this continues two amendments made to these tax cuts in ARRA. These two amendments expand child tax credit refundability and the earned income tax credit for married couples.

PROPOSALS

The Administration proposes to restore balance to the tax code by providing permanent tax cuts to working families, returning to the pre-2001 ordinary income tax rates for families making more than a quarter of a million dollars a year, closing loopholes, and eliminating subsidies to special interests. Extensions of certain expiring provisions, and initiatives to promote trade and program integrity are also proposed. The Administration's proposals that affect governmental receipts are described below.

Tax Cuts for Families and Individuals

Provide $250 refundable tax credit for Federal, State and local government retirees not eligible for social security benefits.—The Administration proposes to provide a $250 special payment to social security beneficiaries, disabled veterans, and retired railroad workers in 2011. The Administration also proposes to provide a $250 refundable tax credit to Federal, State and local government retirees who are not eligible for social security benefits and therefore will not receive the $250 special payment.

Extend EITC for larger families.—The EITC generally equals a specified percentage of earned income, up to a maximum dollar amount, that is reduced by the product of a specified phase-out rate and the amount of earned income or AGI, if greater, in excess of a specified income threshold. Three separate credit schedules apply, depending on whether the eligible taxpayer has no, one, or more than one qualifying child. Effective for taxable years 2009 through 2012, a fourth credit schedule was added for families with three or more qualifying children. Effective for taxable years beginning after December 31, 2012, the Administration proposes to permanently extend the 45-percent credit percentage for families with three or more qualifying children.

Expand child and dependent care tax credit.— Taxpayers with child or dependent care expenses who are working or looking for work are eligible for a nonrefundable tax credit that partially offsets these expenses. Married couples are only eligible if they file a joint return and either both spouses are working or looking for work, or if one spouse is working or looking for work and the other is attending school full-time. To qualify for this benefit, the child and dependent care expenses must be for either a child under age 13 when the care was provided or a disabled dependent of any age with the same place of abode as the taxpayer. Any allowable credit is reduced by the aggregate amount excluded from income under a dependent care assistance program. Eligible taxpayers may claim the credit for up to 35 percent of up to $3,000 in eligible expenses for one child or dependent and up to $6,000 in eligible expenses for more than one child or dependent. The percentage of expenses for which a credit may be taken decreases by one percentage point for every $2,000 of AGI over $15,000 until the percentage of expenses reaches 20 percent (at incomes above $43,000). There are no further income limits. The income phasedown and the credit are not indexed for inflation. The proposal would increase the beginning of the phasedown to $75,000 (and thus, the end of the phasedown range to $103,000). The proposal would be effective for tax years beginning after December 31, 2011.

Provide for automatic enrollment in IRAs, including employer tax credit, and double the tax credit for small employer plan startup costs.—The Administration proposes to encourage saving and increase participation in retirement savings arrangements by requiring employers that do not currently offer a retirement plan to offer their employees automatic enrollment in an IRA, effective for taxable years beginning after December 31, 2012. Small employers (those with ten or fewer employees) and employers in existence for less than two years would be exempt. An employee not providing a written participation election would be enrolled at a default rate of three percent of the employee's compensation in a Roth IRA. Employees would always have the option of opting out, opting for a lower or higher contribution within the IRA limits, or opting for a traditional IRA. Employers that offer an automatic IRA (including those that are not required to do so) would be entitled to a temporary business tax credit of $25 per participating employee up to a total of $250 per year for two years. 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).

Under current law, small employers (those with no more than 100 employees) that adopt a new qualified retirement or SIMPLE plan are entitled to a temporary business tax credit equal to 50 percent of the employer's expenses of establishing or administering the plan including expenses of retirement-related employee education with respect to the plan. The credit is limited to a maximum of $500 per year for three years. In conjunction with the automatic IRA proposal, to encourage employers not currently sponsoring a qualified retirement plan or SIMPLE to do so, the Administration proposes to double this tax credit to a maximum of $1,000 per year for three years, effective for taxable years beginning after December 31, 2012.

Extend American opportunity tax credit (AOTC).—ARRA created the AOTC, which replaced the Hope Scholarship Credit for taxable years 2009 and 2010. The credit was extended for two years, to apply to taxable years 2011 and 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The AOTC provides taxpayers a credit of up to $2,500 per eligible student per year for qualified tuition and related expenses (expanded to include course materials) paid for each of the first four years of the student's post-secondary education in a degree or certification program. The student must be enrolled at least half-time to receive the credit. The credit is equal to 100 percent of the first $2,000 in qualified tuition and related expenses, and 25 percent of the next $2,000 of qualified tuition and related expenses. The credit is phased out ratably for single taxpayers with modified AGI between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return). Unlike the Hope Scholarship Credit, the new tax credit is partially refundable. The AOTC also has a higher maximum credit amount, is available for the first four years of postsecondary education, and has higher phase-out limits than the Hope Credit.

The Administration proposes to permanently extend the AOTC and index the expense amounts and phase-out limits, effective for taxable years beginning after December 31, 2012.

Provide exclusion from income for student loan forgiveness.—The Federal Family Education Loan and Federal Direct Loan programs provide borrowers with two options for making payments that are related to their income levels after college (the income-contingent and the income-based repayment options). Under both of these options borrowers complete their repayment obligation when they have repaid the loan in full, with interest, or have made those payments that are required under the plan for 25 years (or for 10 years for borrowers working in qualified public service positions). For those who reach the 25-year (or 10-year) point, any remaining loan balance is forgiven. Under current law, any debt forgiven is considered gross income to the borrower and subject to individual income tax. The potential tax consequence may be making some student loan borrowers reluctant to avail themselves of either of these two loan repayment options. To address that problem, the Administration proposes to exclude from gross income amounts forgiven at the end of the repayment period for Federal student loans using these two methods of repayment. The provision would be effective for discharges of loans after December 31, 2011.

Tax qualified dividends and net long-term capital gains at a 20-percent rate for upper-income taxpayers.—Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), the maximum tax rate on net capital gains and qualified dividends received by an individual shareholder was temporarily reduced to 15 percent for taxpayers in individual income tax rate brackets above 15 percent and to 5 percent (zero beginning in 2008) for lower-income taxpayers. Under prior law, the maximum tax rate on capital gains was generally 20 percent (18 percent for assets held over five years) and dividends were taxed as ordinary income. The reduced rates provided under JGTRRA were extended for two years, through December 31, 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration proposes to tax net capital gains and qualified dividends at a 20-percent rate for married taxpayers filing a joint return with income over $250,000 (at 2009 levels) and for single taxpayers with income over $200,000. The 18-percent capital gain rate on assets held over five years would be repealed, but special rates on gains from the recapture of depreciation on certain real estate, collectibles, and small business stock would be retained. The proposal would be effective for taxable years beginning after December 31, 2012. All other taxpayers would be taxed at the rates in effect in 2012.

Tax Cuts for Businesses

Eliminate capital gains taxation on investments in small business stock.—Current law provides a 100-percent exclusion from tax for capital gains realized on the sale of qualified small business stock issued after December 31, 2010, and before January 1, 2012, and held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of $10 million or ten times the taxpayer's basis in the stock. The exclusion is limited to individual investments and not the investments of a corporation. A 50-percent exclusion applies under the law prior to ARRA. Effective for stock issued after February 17, 2009, and before January 1, 2011, ARRA increased the exclusion to 75 percent. Under the Small Business Jobs Act, the exclusion was increased to 100 percent, effective for stock issued after September 27, 2010, and before January 1, 2011. The Administration proposes to permanently extend the 100-percent exclusion, effective for qualified small business stock issued after December 31, 2011. Reporting requirements would be tightened to ensure compliance.

Enhance and make permanent the R&E tax credit.—A tax credit of 20 percent is provided for qualified research and experimentation expenditures above a base amount. An alternative simplified credit of 14 percent is also provided. These tax credits, which are scheduled to expire with respect to expenditures paid or incurred in taxable years beginning after December 31, 2011, are proposed to be permanently extended. The Administration also proposes to raise the rate of the alternative simplified credit to 17 percent.

Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project.—ARRA provided a 30-percent credit for investment in eligible property used in a qualified advanced energy manufacturing project. A qualified advanced energy manufacturing project re-equips, expands, or establishes a manufacturing facility for the production of: (1) property designed to be used to produce energy from the sun, wind, geothermal deposits, or other renewable resources; (2) fuel cells, microturbines, or an energy storage system for use with electric or hybrid-electric motor vehicles; (3) electric grids to support the transmission of intermittent sources of renewable energy, including the storage of such energy; (4) property designed to capture and sequester carbon dioxide; (5) property designed to refine or blend renewable fuels (excluding fossil fuels) or to produce energy conservation technologies; (6) new qualified plug-in electric drive motor vehicles or components that are designed specifically for use with such vehicles; or (7) other advanced energy property designed to reduce greenhouse gas emissions as may be determined by the Department of the Treasury. Eligible property must be depreciable (or amortizable) property used in a qualified advanced energy project and does not include property designed to manufacture equipment for use in the refining or blending of any transportation fuel other than renewable fuels. The credit is available only for projects certified by the Department of the Treasury (in consultation with the Department of Energy); the total amount of credits certified may not exceed $2.3 billion. The Administration proposes to provide an additional $5 billion in credits, thereby increasing the amount of credits certified by the Department of the Treasury to $7.3 billion.

Provide tax credit for energy-efficient commercial building property expenditures in place of existing tax deduction.—The proposal would replace the existing deduction for energy efficient commercial building property expenditures with a tax credit and also allow taxpayers to take an alternative credit for placing in service specified property that meets certain energy efficiency standards. If a real estate investment trust (REIT) becomes entitled to the credit, the REIT would be able to entitle its shareholders to the credit under regulations prescribed by the Secretary of the Treasury. The tax credit would be available for property placed in service during calendar year 2012.

Incentives to Promote Regional Growth

Extend and modify the New Markets tax credit (NMTC).—The NMTC is a 39 percent credit for qualified equity investments made in qualified community development entities that are held for a period of seven years. The NMTC provisions are scheduled to expire at the end of 2011. The Administration proposes to extend the NMTC through 2012, with an allocation amount of $5 billion for that year. The Administration also proposes that $250 million of this $5 billion be allocated to support financing healthy food options in distressed communities as part of the Healthy Food Financing Initiative. The proposal would also permit the NMTC to permanently offset AMT liability.

Reform and extend Build America bonds.—ARRA created the Build America bond program as an optional new lower cost borrowing incentive for State and local governments on taxable bonds issued in 2009 and 2010 to finance new investments in governmental capital projects. Under the original program applicable to Build America bonds issued in 2009 and 2010, the Department of the Treasury makes direct subsidy payments (called "refundable tax credits") to State and local governmental issuers in a subsidy amount equal to 35 percent of the coupon interest on the bonds. The Administration proposes to make the successful Build America bond program permanent at a reduced subsidy level designed to be approximately revenue neutral in comparison to the Federal tax losses from traditional tax-exempt bonds. The Administration also proposes to expand the Build America bond program beyond new investments in governmental capital projects to include certain additional program uses for which State and local governments may use tax-exempt bonds under existing law. The proposed modifications to the Build America bond program would be effective for bonds issued beginning upon the date of enactment.

Reform and expand the Low-Income Housing tax credit (LIHTC).—To serve households in greater need and to provide incentives for creating mixed-income housing, the Administration proposes to allow projects to comply with a rule under which the income limits for at least 40 percent of the units in a project could average to not greater than 60 percent of area median income (AMI). None of these units could be occupied by an individual with income greater than 80 percent of AMI, and any units with income limits less than 20 percent of AMI would be treated as being at 20 percent. The provision would apply to elections under section 42(g)(1) of the Internal Revenue Code that are made after the date of enactment.

The Administration also proposes to allow a 30-percent "basis boost" for LIHTCs for certain projects financed with tax-exempt bonds that are subject to private-activity-bond volume cap (volume cap). The projects receiving the boost would involve preservation, recapitalization, and rehabilitation of existing housing that was originally financed with Federal funds and is subject to a long-term use agreement limiting occupancy to low-income households. In each State, the boost for buildings financed in whole or in part by tax-exempt bonds issued during a calendar year would be limited to buildings whose financing is assisted with tax-exempt bonds whose aggregate issue price is not more than an amount equal to 0.4 percent of the State's volume cap for the calendar year in which the bonds are issued (regardless which year's volume cap is taken into account in issuing the bonds). The State housing finance agency would determine which preservation projects receive a boost. The proposal would be effective for projects that are financed by bonds issued after the date of enactment.

Designate Growth Zones.—The Administration proposes to designate 20 growth zones (14 in urban areas and 6 in rural areas). The zone designation and corresponding incentives would be in effect from January 1, 2012, through December 31, 2016. 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 growth zones. First, an employment credit would be provided to businesses that employ zone residents that would apply to the first $15,000 of qualifying wages annually. The credit rate would be 20 percent for zone residents who are employed within the zone and 10 percent for zone residents employed outside of the zone. Second, qualifying property placed in service within the zone would be eligible for additional first-year depreciation of 100 percent of the adjusted basis of the property. Qualifying property would generally consist of depreciable property with a recovery period of 20 years or less.

Restructure assistance to New York City, provide tax incentives for transportation infrastructure.—Some of the tax benefits that were provided to New York following the attacks of September 11, 2001, likely will not be usable in the form in which they were originally provided. State and local officials in New York have concluded that improvements to transportation infrastructure and connectivity in the Liberty Zone would have a greater impact on recovery and continued development than would some of the existing tax incentive provisions.

The Administration proposes to provide tax credits to New York State and New York City for expenditures relating to the construction or improvement of transportation infrastructure in or connecting to the New York Liberty Zone. New York State and New York City each would be eligible for a tax credit for expenditures relating to the construction or improvement of transportation infrastructure in or connecting to the New York Liberty Zone. The tax credit would be allowed in each year from 2012 to 2021, inclusive, subject to an annual limit of $200 million (for a total of $2 billion in tax credits), and would be divided evenly between the State and the City. Any unused credits below the annual limit would be added to the $200 million annual limit for the following year, including years after 2021. Similarly, any expenditures that exceeded the limit would be carried forward and subtracted from the annual limit in the following year. The credit would be allowed against any payments (other than payments of excise taxes and social security and Medicare payroll taxes) made by the City and State under any provision of the Internal Revenue Code, including income tax withholding.

Continue Certain Expiring Provisions Through Calendar Year 2012

A number of temporary tax provisions that have been routinely extended have expired or are scheduled to expire on or before December 31, 2011. The Administration proposes to extend a number of these provisions through December 31, 2012. For example, the optional deduction for State and local general sales taxes; the deduction for qualified out-of-pocket class room expenses; the deduction for qualified tuition and related expenses; Subpart F "active financing" and "look-through" exceptions; the modified recovery period for qualified leasehold, restaurant, and retail improvements; and several trade agreements would be extended through December 31, 2012. Temporary incentives provided for the production of fossil fuels would be allowed to expire as scheduled under current law.

Other Revenue Changes and Loophole Closers

Reform treatment of financial institutions and products.—The Administration proposes to impose a fee on large financial institutions and close tax loopholes in the taxation of financial institutions and products through a series of legislative reforms in tax laws as described below:

Impose a financial crisis responsibility fee.—The Administration proposes to impose a fee on U.S. based bank holding companies, thrift holding companies, certain broker-dealers, as well as companies that control insured depositories and certain broker-dealers, with assets in excess of $50 billion. U.S. subsidiaries of international firms that fall into these categories with assets in excess of $50 billion would also be covered. The fee would raise approximately $30 billion over ten years.

Require accrual of income on forward sale of corporate stock.—A corporation generally does not recognize gain or loss on the issuance or repurchase of its own stock. Thus, a corporation does not recognize gain or loss when it issues its stock in the future pursuant to a contract that entitles the corporation to receive a specified amount of consideration when the contract settles (typically referred to as a forward contract). A corporation does, however, recognize interest income upon the current sale of any stock (including its own) for a payment to be received in the future. The only difference between a corporate issuer's current sale of its stock for deferred payment and an issuer's forward sale of the same stock is the timing of the stock issuance. In a current sale, the stock is issued at the inception of the transaction, whereas in a forward sale the stock is issued at the time the deferred payment is received. In both cases, a portion of the deferred payment economically compensates the corporation for the time value of deferring the payment. It is inappropriate to treat these two transactions differently. The Administration proposes to require a corporation that enters into a forward contract to sell its own stock to treat a portion of the payment received when the stock is issued as a payment of interest.

Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities.—Under current law, certain dealers in securities, equity options, commodities, and commodities derivatives treat the income from section 1256 contracts entered into in their capacity as a dealer as generating 60 percent long-term capital gain (or loss) and 40 percent short-term capital gain (or loss). Dealers in other types of property uniformly treat the income generated by their dealer activities as ordinary income. There is no reason to treat dealers in different types of property differently. The Administration's proposal would therefore require dealers in securities, equity options, commodities, and commodities derivatives to treat the income (or loss) from their dealer activities as ordinary in character.

Modify the definition of "control" for purposes of section 249 of the Internal Revenue Code.—In general, if a corporation repurchases a debt instrument that is convertible into its stock, or into stock of a corporation in control of, or controlled by, the corporation, section 249 may disallow or limit the issuer's deduction for any premium paid to repurchase the debt instrument. For this purpose, "control" is determined by reference to section 368(c), which encompasses only direct relationships (e.g., a parent corporation and its wholly-owned, first tier subsidiary). The definition of "control" in section 249 is narrow and has allowed the limitation in section 249 to be too easily avoided. Indirect control relationships (e.g., a parent corporation and a second-tier subsidiary) present the same economic identity of interests as direct control relationships and should be treated in a similar manner. The Administration proposes to amend the definition of "control" in section 249(b)(2) by referencing the definition of a controlled group in section 1563(a)(1), which includes indirect control relationships.

Reinstate Superfund taxes.—The Administration proposes to reinstate the taxes that were deposited in the Hazardous Substance Superfund prior to their expiration on December 31, 1995. These taxes, which contributed to financing the cleanup of the nation's highest risk hazardous waste sites, are proposed to be reinstated for periods (excise taxes) or tax years (income tax) beginning after 2011, with expiration for periods and tax years after 2021. The proposed taxes include the following: (1) an excise tax of 9.7-cents-per-barrel on crude oil and imported petroleum products; (2) an excise tax on hazardous chemicals listed in 26 U.S.C. § 4661 at rates that vary from 22 cents to $4.87 per ton; (3) an excise tax on imported substances that use listed hazardous chemicals as a feedstock (in an amount equivalent to the tax that would have been imposed on domestic production of the chemicals); and (4) a corporate environmental income tax imposed at a rate of 0.12 percent on the amount by which the modified AMT income of a corporation exceeds $2 million.

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 U.S. to finance the reclamation of these abandoned coal mines. Historic mining of hardrock minerals, such as gold and copper, also left numerous abandoned mine lands (AML); however, there is no similar source of Federal funding to reclaim these sites. Just as the coal industry is held responsible for the actions of its predecessors, the Administration proposes to hold the hardrock mining industry responsible for abandoned hardrock mines. The proposed fee on the production of hardrock minerals would be charged per volume of material displaced after January 1, 2012, and the receipts would be distributed through a competitive grant program to restore the most hazardous hardrock AML sites, on both public and private lands.

Increase Oil Spill Liability Trust Fund financing rate by one cent.—An excise tax is imposed on: (1) crude oil received at a U.S. refinery; (2) imported petroleum products entered into the United States for consumption, use or warehousing; and (3) any domestically produced crude oil that is used (other than on the premises where produced for extracting oil or natural gas) in or exported from the United States if, before such use or exportation, no taxes were imposed on the crude oil. The tax is deposited in the Oil Spill Liability Trust Fund. Amounts in the trust fund are used for several purposes, including the payment of costs associated with responding to and removing oil spills. The tax imposed on crude oil and imported petroleum products is eight cents per barrel, effective for periods after December 31, 2008, and before January 1, 2017, and nine cents per barrel, effective for periods after December 31, 2016. The Administration proposes to increase these taxes by one cent per barrel, to nine cents per barrel beginning on January 1, 2012, and to 10 cents per barrel after December 31, 2016.

Make unemployment insurance (UI) surtax permanent.—The net Federal UI tax on employers is scheduled to drop from 0.8 percent to 0.6 percent with respect to wages paid after June 30, 2011. The Administration proposes to extend the 0.8 percent rate permanently.

Provide short-term tax relief to employers and expand Federal Unemployment Tax Act (FUTA) base.—The economic downturn has severely tested the adequacy of States' UI systems, forcing the majority of States to borrow to continue paying benefits. These debts are now being repaid through additional taxes on employers, which undermine much-needed job creation. To provide short-term relief to employers in these States, the Administration proposes a suspension of interest on State UI borrowing in 2011 and 2012 along with a suspension of the FUTA credit reduction, which is an automatic debt repayment mechanism. The Administration also proposes to increase the FUTA taxable wage base to $15,000 starting in 2014, to index it to inflation, and to reduce the FUTA tax rate. States with lower wage bases will need to adjust their UI tax structures. This will put State UI systems on a firmer financial footing for the future.

Expand Short-Time Compensation (STC) unemployment program.—The Budget will encourage States to expand use of the STC unemployment program, also known as work sharing, which promotes job retention and prevents workers from being laid off. Work sharing is a voluntary employer program designed to help employers maintain their staff by reducing the weekly hours of their employees, instead of temporarily laying off workers, when the employer is faced with a temporary slowdown in business. Workers with reduced hours under an approved STC plan receive a partial unemployment check to supplement the reduced paycheck. The Administration's proposal will provide temporary Federal financing of STC benefits for those States that have an STC law that meets certain guidelines. It will also create a temporary Federal program that will be available in other States and provide incentive funds for States to adopt the program and conduct outreach to employers. These incentives will make STC benefits available to more workers and allow States to reduce their unemployment taxes.

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, 2012. Assuming inventory costs rise over time, taxpayers required to change from the LIFO method under the proposal generally would experience a permanent reduction in their deductions for cost of goods sold and a corresponding increase in their annual taxable income as older, cheaper inventory is taken into account in computing taxable income. Taxpayers required to change from the LIFO method also would be required to report their beginning-of-year inventory at its first-in, first-out (FIFO) value in the year of change, causing a one-time increase in taxable income that would be recognized ratably over ten years.

Repeal gain limitation for dividends received in reorganization exchanges.—A limitation on recognition of gain for certain qualified corporate reorganizations (section 356(a)(1) of the Internal Revenue Code) can result in distributions of property with minimal U.S. tax consequences. The proposal would repeal this limitation in reorganization transactions in which the acquiring corporation is either domestic or foreign and the shareholder's exchange has the effect of the distribution of a dividend (within the meaning of section 356(a)(2)).

Reform U.S international tax system.—The Administration proposes to reduce incentives for U.S.-based multinational corporations to invest abroad rather than in the United States and also to target tax avoidance and evasion through a series of legislative reforms and enforcement measures, as described below:

Defer deduction of interest expense related to deferred income.—Under current law, a taxpayer that incurs interest expense properly allocable and apportioned to foreign-source income may be able to deduct that expense even if some or all of the foreign-source income is not subject to current U.S. taxation. To provide greater matching of the timing of interest expense deductions and recognition of associated income, the proposal would defer the deduction of interest expense properly allocable and apportioned to foreign-source income to the extent the U.S. taxation of such income is deferred.

Determine the foreign tax credit on a pooling basis.—Under the proposal, a taxpayer would be required to determine foreign tax credits from the receipt of a dividend from a foreign subsidiary on a consolidated basis for all its foreign subsidiaries. Foreign tax credits from the receipt of a dividend from a foreign subsidiary would be based on the consolidated earnings and profits and foreign taxes of all the taxpayer's foreign subsidiaries.

Tax currently excess returns associated with transfers of intangibles offshore.—The IRS has broad authority to allocate income among commonly controlled businesses under section 482 of the Internal Revenue Code. Notwithstanding the transfer pricing rules, there is evidence of income shifting offshore, including through transfers of intangible rights to subsidiaries that bear little or no foreign income tax. Under the proposal, if a U.S parent transfers an intangible to a controlled foreign corporation (CFC) in circumstances that demonstrate excessive income shifting from the U.S., then an amount equal to the excessive return would be treated as subpart F income.

Limit shifting of income through intangible property transfers.—The definition of intangible property for purposes of the special rules relating to transfers of intangibles by a U.S. person to a foreign corporation (section 367(d) of the Internal Revenue Code) and the allocation of income and deductions among taxpayers (section 482) would be clarified to prevent inappropriate shifting of income outside the United States.

Disallow the deduction for non-taxed reinsurance premiums paid to affiliates.—Under the proposal, a U.S. insurance company would be denied a deduction for certain non-taxed reinsurance premiums paid to affiliates, offset by an exclusion for any ceding commissions received, or reinsurance recovered, from affiliates.

Limit earnings stripping by expatriated entities.—Under the proposal, the rules that limit the deductibility of interest paid to related persons subject to low or no U.S. tax on that interest would be amended to prevent inverted companies from using foreign-related-party and certain guaranteed debt to reduce inappropriately the U.S. tax on income earned from their U.S. operations.

Modify tax rules for dual capacity taxpayers.—The 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) would be tightened.

Reform treatment of insurance companies and products.—The Administration proposes to reform the taxation of insurance companies and products through a series of legislative changes in domestic tax laws as described below:

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 for the contract. When death benefits are received under the contract, the buyer is taxed on the excess of those benefits over the amounts paid for the contract, unless an exception to a "transfer-for-value rule" applies. Information reporting may not always be required in circumstances involving the purchase of a life insurance contract. In response to the growth in the number and size of life settlement transactions, the proposal would expand information reporting on the sale of life insurance contracts and the payment of death benefits on contracts that were sold, and would modify the "transfer-for-value" exceptions to prevent purchasers of policies from avoiding tax on death benefits that are received. The proposal would apply to sales or assignment of interests in life insurance policies and payments of death benefits for taxable years beginning after December 31, 2011.

Modify dividends-received deduction (DRD) for life insurance company separate accounts.—Under current law, a life insurance company is required to "prorate" its net investment income between a company's share and a policyholder's share. The result of this proration is used to limit the funding of tax-deductible reserve increases with tax-preferred income, such as certain corporate dividends and tax-exempt interest. The complexity of this regime has generated significant controversy between life insurance companies and the IRS, particularly with regard to the dividends-received deduction for such companies' separate accounts. In some cases, the existing regime produces a company's share that exceeds the company's actual economic interest in the underlying income. The proposal would replace this regime with one that is much simpler. Under the proposal, the DRD with regard to general account dividends would be subject to the same flat proration percentage that applies to non-life companies under current law (15 percent); the DRD with regard to separate account dividends would be based on the proportion of reserves to total assets of the account. The proposal would be effective for taxable years beginning after December 31, 2011.

Expand pro rata interest expense disallowance for corporate-owned life insurance (COLI).—The interest deductions of a business other than an insurance company are reduced to the extent the interest is allocable to unborrowed policy cash values on life insurance and annuity contracts. The purpose of this pro rata disallowance is to prevent the deduction of interest expense that is allocable to inside buildup that is either tax-deferred or not taxed at all. A similar disallowance applies with regard to reserve deductions of an insurance company. A current-law exception to this rule applies to contracts covering the lives of officers, directors and employees. Under the proposal, the exception for officers, directors and employees would be repealed 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, 2011, in taxable years ending after that date.

Eliminate fossil fuel tax preferences.—Current law provides a number of credits and deductions that are targeted towards certain oil, gas and coal activities. In accordance with the President's agreement at the G-20 Summit in Pittsburgh to phase out subsidies for fossil fuels so that we can transition to a 21st century energy economy, the Administration proposes to repeal a number of tax preferences available for fossil fuels. The following tax preferences available for oil and gas activities are proposed to be repealed beginning in 2012: (1) the enhanced oil recovery credit for eligible costs attributable to a qualified enhanced oil recovery project; (2) the credit for oil and gas produced from marginal wells; (3) the expensing of intangible drilling costs; (4) the deduction for costs paid or incurred for any tertiary injectant used as part of a tertiary recovery method; (5) the exception to passive loss limitations provided to working interests in oil and natural gas properties; (6) the use of percentage depletion with respect to oil and gas wells; (7) the ability to claim the domestic manufacturing deduction against income derived from the production of oil and gas; and (8) two-year amortization of independent producers' geological and geophysical expenditures, instead allowing amortization over the same seven-year period as for integrated oil and gas producers. The following tax preferences available for coal activities are proposed to be repealed beginning in 2012: (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.

Tax carried (profits) interests as ordinary income.—A partnership does not pay income tax; instead, the income or loss and associated character flows through to the partners who must include such items on their individual income tax returns. Certain partners receive a partnership interest, typically an interest in future profits, in exchange for services (commonly referred to as a "carried interest"). Current law taxes the recipient of a carried interest on the value at the time granted, which may be based on the value the partner would receive if the partnership were liquidated immediately (for example, the value of an interest only in future profits would be zero). Because the partners, including partners who provide services, reflect their share of partnership items on their tax return in accordance with the character of the income at the partnership level, long-term capital gains and qualifying dividends attributable to carried interests may be taxed at a maximum 15-percent rate (the maximum tax rate on capital gains) rather than at ordinary income tax rates. The Administration proposes to designate a carried interest in an investment partnership as a "services partnership interest" (SPI) and to tax a partner's share of income from an SPI 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 SPI that is not attributable to invested capital would generally be taxed as ordinary income, not as capital gain. However, any allocation of income or gain attributable to invested capital on the part of the partner would be taxed as ordinary income or capital gain based on its character to the partnership and any gain realized on a sale of the interest attributable to such partner's invested capital would be treated as capital gain or ordinary income as provided under current law. The proposal would be effective for tax years beginning after December 31, 2011.

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, 2012.

Repeal lower-of-cost-or-market inventory accounting method.—The Administration proposes to prohibit the use of the lower-of-cost-or-market and subnormal goods methods of inventory accounting, which currently allow certain taxpayers to take cost-of-goods-sold deductions on certain merchandise before the merchandise is sold. The proposed prohibition would be effective for the first taxable year beginning after December 31, 2012, and any resulting income inclusion would be recognized over a four-year period.

Simplify the tax code—The Administration proposes to simplify the tax system, as described below:

Allow vehicle seller to claim qualified plug-in electric-drive motor vehicle credit.— Current law provides a credit for each qualified plug-in electric-drive motor vehicle placed in service. A qualified plug-in electric-drive motor vehicle is a motor vehicle that has at least four wheels, is manufactured for use on public roads, meets certain emissions standards, and is propelled to a significant extent by an electric motor drawing electricity from a battery that has at least four kilowatt-hours of capacity and is capable of being recharged from an external source of electricity. The credit does not apply to low-speed vehicles or vehicles weighing 14,000 pounds or more. The maximum credit for qualified vehicles is $7,500. The credit phases out for a manufacturer's vehicles over four calendar quarters beginning with the second calendar quarter following the quarter in which a total of 200,000 of the manufacturer's credit-eligible vehicles have been sold for use in the United States. In general, the vehicle owner, including the lessor of a vehicle subject to lease, is entitled to the credit. In the case of vehicles sold to a tax-exempt or governmental entity, however, the credit is allowed to the seller of the vehicle. The proposal would allow the seller of the vehicle, rather than the vehicle owner, to claim the credit in all cases. The seller's credit would be subject to the rules and limitations of the general business credit. The proposal would be effective for vehicles sold after December 31, 2011.

Eliminate minimum required distribution (MRD) requirements for IRA/plan balances of $50,000 or less.—The MRD rules generally require that participants in tax-favored retirement plans and owners of IRAs commence distributions shortly after attaining age 70-1/2 and that these retirement assets be distributed to them (or their spouses or other beneficiaries) over a period based on life expectancy. The penalty for failure to take a minimum required distribution by the applicable deadline is 50 percent of the amount not withdrawn. The Administration proposes to simplify tax compliance for retirees of modest means by exempting an individual from the MRD requirements if the aggregate value of the individual's IRA and tax-favored retirement plan accumulations does not exceed $50,000 on a measurement date. The MRD requirements would phase in for individuals with aggregate retirement balances between $50,000 and $60,000. 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.

Allow all inherited plan and IRA accounts to be rolled over within 60 days.—Generally, most amounts distributed from qualified plans or IRAs may be rolled over into another IRA or into an eligible retirement plan. However, the movement of assets from a plan or IRA account inherited by a non-spouse beneficiary cannot be accomplished by means of a 60-day rollover. This difference in treatment between plan and IRA accounts inherited by a non-spouse beneficiary and accounts of living participants serves little if any purpose, generates confusion among plan and IRA administrators, and creates a trap for unwary beneficiaries. Under the proposal, distributions to all designated beneficiaries of inherited IRA and plan accounts would be permitted to be rolled over, subject to inherited IRA treatment, under the same rules that apply to other IRA accounts, beginning January 1, 2012.

Clarify exception to recapture of unrecognized gain on sale of stock to an employee stock ownership plan (ESOP).—Section 1042 of the Internal Revenue Code allows a taxpayer to elect to defer the recognition of long-term capital gain on the sale of qualified securities to an ESOP if the proceeds are reinvested in replacement property within certain timeframes. The deferred gain is subject to recapture on disposition of the replacement property, with an exception for a disposition by gift. Section 1042 is unclear as to whether recapture applies on the nontaxable transfer of replacement property to a spouse, including pursuant to a divorce, under section 1041. Under this proposal the recapture rules of section 1042 would be amended to provide an exception for transfers under section 1041.

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.

Revise and simplify the "fractions rule".— Certain tax-exempt organizations (qualified organizations) may derive income from debt-financed real property without such income being subject to unrelated business income tax. When the real property is held by a partnership, the partnership may have to satisfy the "fractions rule" in order for the unrelated business income tax not to apply. The "fractions rule" generally requires that the share of overall partnership income allocated to a qualified organization partner in a particular year cannot be greater than the share of overall partnership loss allocated to such partner in the year for which such partner's loss share will be the smallest. The specific requirements of the rule are very complex to apply, however, in the context of many investment partnerships. The proposal would replace the fractions rule with a simpler rule that requires each partnership allocation to have substantial economic effect (as required by current law) and no allocation to have a principal purpose of tax avoidance.

Repeal preferential dividend rule for publicly traded 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. This proposal would repeal the preferential dividend rule for publicly traded REITs. The Department of the Treasury would also be given explicit authority to provide for cures of inadvertent violations of the preferential dividend rule where it continues in effect. 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 December 31, 2010.

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, called "rebate," requires repayment of arbitrage earnings to the Federal government at periodic intervals. The two types of arbitrage restrictions are duplicative and overlapping and they address the same tax policy goal to limit arbitrage profit incentives for excess use of tax-exempt bonds. The Administration proposes to simplify the arbitrage investment restrictions on tax-exempt bonds in several respects. First, the Administration proposes to unify the arbitrage restrictions to rely primarily on the rebate requirement and to repeal yield restriction in most circumstances. Second, recognizing that limited arbitrage potential exists if issuers spend bond proceeds fairly promptly, the Administration proposes a streamlined broad three-year prompt spending exception to the arbitrage rebate requirement on tax-exempt bonds. Finally, recognizing the particular compliance burdens for small issuers, the Administration proposes to increase the small issuer exception to the arbitrage rebate requirement from $5 million to $10 million, index the size limit for inflation, and remove the general taxing power constraint on small issuer eligibility.

Simplify single-family housing mortgage bond targeting requirements.— Current law allows use of tax-exempt private activity bonds to finance qualified mortgages for single-family housing residences, subject to a number of targeting requirements, including, among others: (1) a mortgagor income limitation (generally not more than 115 percent of applicable median family income, increased to 140 percent of such income for certain targeted areas, and also increased for certain high-cost areas); (2) a purchase price limitation (generally not more than 90 percent of average area purchase prices, increased to 110 percent in targeted areas); (3) a refinancing limitation (generally only new mortgages for first-time homebuyers are permitted); and (4) a targeted area availability requirement. The Administration proposes to simplify the targeting requirements for tax-exempt qualified mortgage bonds by repealing the purchase price limitation and the refinancing limitation.

Streamline private business limits on governmental bonds.— Tax-exempt bonds issued by State and local governments are treated as governmental bonds if the issuer limits private business use and other private involvement sufficiently to avoid treatment as "private activity bonds." Bonds generally are classified as private activity bonds under a two-part test if more than 10 percent of the bond proceeds are both: (1) used for private business use, and (2) payable or secured from property or payments derived from private business use. A subsidiary restriction further reduces the private business limits on governmental bonds to 5 percent in the case of private business use that is unrelated or disproportionate to governmental use. This unrelated or disproportionate use test introduces undue complexity associated with factual determinations of relatedness, a narrow disqualification trigger, and attendant compliance burdens for State and local governments. The general 10-percent private business limit represents a sufficient and workable boundary for private involvement for governmental bonds. The Administration proposes to streamline the private business limits on governmental bonds by repealing the 5 percent unrelated or disproportionate private business limit.

Reduce the tax gap and make reforms.—The tax gap generally is the difference between the amount owed under the tax law and the amount actually paid on time. The Administration proposes to help reduce the tax gap through a number of legislative proposals that would expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties. The Administration also proposes to make certain reforms in domestic tax laws to close loopholes in estate and gift taxation. The proposals to reduce the tax gap and make reforms are described below:

Expand information reporting.—The Administration proposes to expand information reporting, as described below:

Repeal and modify information reporting on payments to corporations and payments for property.—Generally a taxpayer making payments to a recipient aggregating to $600 or more for services or determinable gains in the course of a trade or business in a calendar year is required to send an information return to the IRS setting forth the amount, as well as the name and address of the recipient of the payment (generally on Form 1099). Under prior law this information reporting requirement did not apply to payments to corporations or payments for property. Effective for payments made after December 31, 2011, the Affordable Care Act expanded the information reporting requirement to include payments to a corporation (except a tax-exempt corporation) and payments for property. The Administration recognizes the burden that this expanded information reporting provision will put on small businesses and proposes to repeal the provision. Instead, the Administration proposes that a business be required to file an information return for payments for services or for determinable gains aggregating to $600 or more in a calendar year to a corporation (except a tax-exempt corporation); information returns would not be required for payments for property. This proposal would be effective for payments made after December 31, 2011.

Require information reporting for private separate accounts of life insurance companies.—Earnings from direct investments in assets generally result in taxable income to the holder, whereas investment in comparable assets through a separate account of a life insurance company generally gives rise to tax-free or tax-deferred income. This favorable tax treatment is unavailable if the policyholder has so much control over the investments in the account that the policyholder, rather than the company, should be treated as the owner of those investments. The proposal would require information reporting with regard to each life insurance or annuity contract whose investment in a separate account represents at least 10 percent of the value of the account. The proposal would be effective for taxable years beginning after December 31, 2011.

Require a certified Taxpayer Identification Number (TIN) from contractors and allow certain withholding.—Currently, withholding is not required or permitted for payments to contractors. Since contractors are not subject to withholding, they may be required to make quarterly payment of estimated income taxes and self-employment (SECA) taxes near the end of each calendar quarter. An optional withholding method for contractors would reduce the burdens of having to make quarterly payments, would help contractors automatically set aside funds for tax payments, and would help increase compliance. Under the Administration's proposal, a contractor receiving payments of $600 or more in a calendar year from a particular business would be required to furnish to the business the contractor's certified TIN. A business would be required to verify the contractor's TIN with the IRS, which would be authorized to disclose, solely for this purpose, whether the certified TIN-name combination matches IRS records. Contractors receiving payments of $600 or more in a calendar year from a particular business could require the business to withhold a flat rate percentage of their gross payments. This proposal would be effective for payments made to contractors after December 31, 2011.

Improve compliance by businesses.—The Administration proposes to improve compliance by businesses, as described below:

Require greater electronic filing of returns.—Generally, compliance increases when taxpayers are required to provide better information to the IRS in usable form. The Administration proposes that regulatory authority be granted to the Department of the Treasury to require that information returns be filed electronically. Also, corporations and partnerships with assets of $10 million or more that are required to file Schedule M-3 would be required to file their tax returns electronically. In the case of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations), the regulatory authority to require electronic filing would allow reduction of the current threshold of filing 250 or more returns during a calendar year.

Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports.— The annual report filing for tax-qualified employee benefit plans (as well as certain other types of plans) is a joint IRS and Department of Labor (DOL) filing requirement and is submitted electronically to both agencies on one form. This filing serves as the primary tool for gathering information and for targeting enforcement activity. (It also serves to satisfy certain requirements for filing with the Pension Benefit Guaranty Corporation.) The DOL mandates electronic filing of this form, but the IRS lacks general statutory authority to require electronic filing of returns unless the person subject to the filing requirement must file at least 250 returns during the year. As a result, information relevant only to tax code requirements (such as data on coverage needed to test compliance with nondiscrimination rules) and not to DOLs ERISA Title I jurisdiction cannot be requested on the joint form and currently is not collected. Collecting it would require a separate "IRS only" form that could be filed on paper, a process that would be neither simple nor efficient for taxpayers or for the IRS and DOL. Under this proposal, IRS would be provided authority to require the inclusion of information that is relevant only to employee benefit plan tax requirements in the electronically filed annual reports to the same extent that DOL can require such electronic reporting.

Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.— Under present law, there is often uncertainty whether an employee leasing company or its client is liable for unpaid Federal employment taxes arising with respect to wages paid to the client's workers. Providing standards for when an employee leasing company and its clients will be held liable for Federal employment taxes will facilitate the assessment, payment, and collection of those taxes and will preclude taxpayers who have control over withholding and payment of those taxes from denying liability when the taxes are not paid. Under the proposal, standards would be set forth for holding employee leasing companies jointly and severally liable with their clients for Federal employment taxes. The proposal would also provide standards for holding employee leasing companies solely liable for such taxes if they meet specified requirements.

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. The proposal would be effective upon enactment, but the prospective reclassification for those covered by the special provision would not be effective until the first calendar year beginning at least one year after the date of enactment.

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, 2011.

Eliminate special rules modifying the amount of estimated tax payments by corporations.— Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are generally due on or before April 15, June 15, September 15 and December 15 of the particular taxable year. The amount due each quarter is generally one-quarter (25 percent) of the amount due for the year. A number of acts have modified the standard rules as to the amount due by "large corporations" for a particular quarter. This proposal would repeal all legislative changes that affect the amount of corporate estimated payments due for any particular quarter.

Strengthen tax administration.—The Administration proposes to strengthen tax administration, as described below:

Revise offer-in-compromise application rules.—Current law provides that the IRS may compromise any civil or criminal case arising under the internal revenue laws prior to a referral to the Department of Justice for prosecution or defense. In 2006, a provision was enacted to require taxpayers to make certain nonrefundable payments with any initial offer-in-compromise of a tax case. Requiring nonrefundable payments with an offer-in-compromise may substantially reduce access to the offer-in-compromise program. Reducing access to the offer-in-compromise program makes it more difficult and costly for the IRS to obtain the collectable portion of existing tax liabilities. Accordingly, the Administration proposes eliminating the requirements that an initial offer-in-compromise include a nonrefundable payment of any portion of the taxpayer's offer.

Expand IRS access to information in the National Directory of New Hires (NDNH) for tax administration purposes.—Employment data are useful to the IRS in administering a wide range of tax provisions, including verifying taxpayer claims and identifying levy sources. Currently, the IRS may obtain employment and unemployment data on a State-by-State basis, which is a costly and time-consuming process. Under the Administration's proposals, the Social Security Act would be amended to expand IRS access to the NDNH data for general tax administration purposes, including data matching, verification of taxpayer claims during return processing, preparation of substitute returns for non-compliant taxpayers, and identification of levy sources. Data obtained by the IRS from the NDNH would be protected by existing taxpayer privacy law, including civil and criminal sanctions.

Make repeated willful failure to file a tax return a felony.—Current law provides that willful failure to file a tax return is a misdemeanor punishable by a term of imprisonment for not more than one year, a fine of not more than $25,000 ($100,000 in the case of a corporation), or both. The Administration would modify this rule such that any person who willfully fails to file tax returns in any three years within any five consecutive year period, if the aggregated tax liability for such period is at least $50,000, would be subject to a new aggravated failure to file criminal penalty. The proposal would classify such failure as a felony and, upon conviction, impose a fine of not more than $250,000 ($500,000 in the case of a corporation) or imprisonment for not more than five years, or both.

Facilitate tax compliance with local jurisdictions.—Although Federal tax returns and return information (FTI) generally are confidential, the IRS and Department of the Treasury may share FTI with States as well as certain local government entities that are treated as States for this purpose. IRS and Department of the Treasury compliance activity, especially with respect to alcohol, tobacco and fuel excise taxes, may necessitate information sharing with Indian Tribal Governments (ITGs). The Administration's proposal would specify that ITGs that impose alcohol, tobacco, or fuel excise taxes, or income or wage taxes, would be treated as States for purposes of information sharing to the extent necessary for ITG tax administration. The ITG that receives FTI would be required to safeguard it according to prescribed protocols.

Extend statute of limitations where State adjustment affects Federal tax liability.—In general, additional Federal tax liabilities in the form of tax, interest, penalties and additions to tax must be assessed by the IRS within three years after the date a return is filed. Pursuant to agreement, the IRS and State and local revenue agencies exchange reports of adjustments made through examination so that corresponding adjustments can be made by each taxing authority. The general statute of limitations for assessment of Federal tax liabilities serves as a barrier to the effective use by the IRS of State and local tax adjustment reports when the reports are provided by the State or local revenue agency to the IRS with little time remaining for assessments to be made at the federal level. The Administration therefore proposes an additional exception to the general three-year statute of limitations for assessment of Federal tax liability resulting from adjustments to State or local tax liability. The statute of limitations would be extended 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.

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. Under the Administration's proposal, the taxpayer privacy law would be clarified by stating that it does not prohibit Department of the Treasury and IRS officers and employees from identifying themselves, their organizational affiliation, and the nature and subject of an investigation, when contacting third parties in connection with a civil or criminal tax investigation.

Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a 2-D bar code.—Taxpayers can prepare their returns electronically (by meeting with a tax return preparer or using tax preparation software) but may file their return on paper by printing it out and mailing it to the IRS. Electronically filed tax returns are processed more efficiently and more accurately than paper tax returns. However, when tax returns are filed on paper—even if that paper return was prepared electronically—the IRS must manually enter the information contained on the return into the IRS's systems. The Administration proposes to require all taxpayers who prepare their tax returns electronically but print their returns and file them on paper to print their returns with a 2-D bar code that can be scanned by the IRS to convert the paper return into an electronic one.

Allow the IRS to collect information from the U.S. Bureau of Prisons to reduce fraudulent claims.—Currently, the IRS is unable to cross reference tax returns received with a list of prison inmates, decreasing the IRS's ability to determine whether inmates are claiming tax benefits to which they are not entitled. The IRS has become aware that some inmates are claiming tax benefits to which they may not be entitled (for example, creating false Forms W-2 showing that the inmate earned income from a legitimate business and taxes were withheld on that income). In some cases, inmates may claim the earned income tax credit, which they are not entitled to claim for any income received at any penal institution. The Administration proposes to require all prisons located in the United States to submit a list of names and validated Social Security numbers of all inmates serving sentences of one year or more by December 1 of each year to the IRS in order to allow the IRS to verify tax returns filed by prisoners.

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, only in situations authorized by regulations. The proposal would be effective for payments made after the date of enactment.

Expand penalties.—The Administration proposes to expand penalties, as described below:

Impose a penalty on failure to comply with electronic filing requirements.—Certain corporations and tax-exempt organizations (including certain charitable trusts and private foundations) are required to file their returns electronically. Although there are additions to tax for the failure to file returns, there is no specific penalty in the Internal Revenue Code for a failure to comply with a requirement to file electronically. Electronic filing increases efficiency of tax administration because the provision of tax return information in an electronic form enables the IRS to focus audit activities where they can have the greatest impact. This also assists taxpayers where the need for audit is reduced. The Administration is proposing an assessable penalty for a failure to comply with a requirement of electronic (or other machine-readable) format for a return that is filed. The amount of the penalty would be $25,000 for a corporation or $5,000 for a tax-exempt organization.

Increase penalty imposed on paid preparers who fail to comply with EITC due diligence requirements.—Current law imposes a $100 penalty on tax return preparers who fail to comply with the due diligence requirements imposed by regulations with respect to determining eligibility for, or the amount of, the EITC for each such failure. As many as a quarter of EITC claims contain errors, and approximately 68 percent of EITC claims are prepared by tax return preparers. Tax return preparers can have a substantial impact on reducing errors in EITC claims. The Administration proposes to increase the penalty from $100 to $500 to help ensure that preparers comply with the due diligence requirements.

Modify estate and gift tax valuation discounts and make other reforms.—The Administration proposes to close loopholes in estate and gift taxation, as described below:

Make permanent the portability of unused exemption between spouses.—Current law provides that any applicable exclusion amount for estate and gift tax purposes of a person who dies after December 31, 2010, and before January 1, 2013, that remains unused as of that person's death generally may be made available (by a timely election made by the executor of the deceased person) for use by the surviving spouse of such deceased person, as an addition to the surviving spouse's own applicable exclusion amount. If the surviving spouse is predeceased by more than one spouse, the surviving spouse's exemption may be increased only by the unused exemption of the last such predeceased spouse to survive. In no event, however, may the unused exemption of a predeceased spouse available to the surviving spouse exceed the surviving spouse's own exemption amount. A surviving spouse may use the predeceased spousal carryover amount in addition to such surviving spouse's own exclusion for taxable transfers made during life or at death. Notwithstanding the statute of limitations for assessing estate or gift tax with respect to a predeceased spouse, the return of a predeceased spouse may be examined (and adjusted) for purposes of determining the deceased spousal unused exclusion amount available for use by the surviving spouse. The Administration proposes to extend the applicability of this provision permanently, thus extending the portability of unused exemption between spouses to all decedents dying and gifts made after December 31, 2012.

Require consistency in value for transfer and income tax purposes.—Current law provides generally that the basis of property inherited from a decedent is the property's fair market value at the decedent's death, and of property received by gift is the donor's adjusted basis in the property, increased by the gift tax paid on the transfer. A special limitation based on fair market value at the time of the gift applies if the property subsequently is sold by the donee at a loss. Although generally the same standards apply to determine the value subject to estate or gift tax, there is no explicit consistency rule that would require the recipient of the property to use the value used for estate or gift tax purposes as the recipient's basis in that property when the basis is determined by reference to the fair market value on the date of death or gift. The Administration proposes to require that, for decedents dying and gifts made after enactment, the recipient's basis generally must equal (but in no event may exceed) the value of the property as determined for estate or gift tax purposes, and a reporting requirement would be imposed on the decedent's executor or the donee to provide the necessary information to both the recipient and the IRS. The proposal also would grant regulatory authority for the development of rules to govern situations in which this general rule would not be appropriate.

Modify rules on valuation discounts.—Current law provides that the fair market value for estate and gift tax purposes of certain interests transferred intrafamily is to be determined without taking into consideration certain "applicable restrictions" that would otherwise justify discounts for lack of marketability and control in the determination of that value. Judicial decisions and the enactment of new statutes in most states, in effect, have made these rules inapplicable in many situations that were intended to be subject to those rules. In addition, additional arrangements have been identified which purport to reduce the value of the taxable transfer for transfer tax purposes, without reducing the economic value to the recipient of the transferred interest. The Administration proposes to create an additional category of "disregarded restrictions" that also would be ignored in valuing certain transferred interests. Those interests would be valued instead by assuming the applicability of certain assumptions to be specified in regulations. Disregarded restrictions would include limitations on a holder's right to liquidate that holder's interest that are more restrictive than a standard to be identified in regulations, and any limitation on a transferee's ability to be admitted as a full partner or holder of an equity interest in the entity. The proposal would include additional rules to support the implementation of the proposal, and would include a grant of appropriate regulatory authority.

Require a minimum term for grantor retained annuity trusts (GRATs).—Current law provides that the value of the remainder interest in a GRAT for gift tax purposes is determined by deducting the present value of the annuity to be paid during the GRAT term from the fair market value of the property contributed to the GRAT. If the grantor of the GRAT dies during that term, the portion of the trust assets needed to produce the annuity is included in the grantor's gross estate for estate tax purposes. In practice, grantors commonly use brief GRAT terms (often of less than two years) and significant annuities to minimize both the risk of estate tax inclusion and the value of the remainder for gift tax purposes. The Administration proposes to require that, for all trusts created after the date of enactment, the GRAT must have a minimum term of ten years, the value of the remainder at the creation of the trust must be greater than zero, and the annuity must not decrease during the GRAT term.

Limit Duration of generation skipping transfer (GST) tax exemption.—Current law provides that each person has a lifetime GST tax exemption ($5 million in 2010) 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 have either 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 million and continuing (and growing) in perpetuity. The Administration proposes to limit the duration of the benefit of the GST tax exemption by imposing a bright-line test, more clearly administrable than the common law RAP, that, in effect, would terminate the GST tax exclusion on the 90th anniversary of the creation of the trust. An exception would be made for trusts that are distributed to another trust for the sole benefit of one individual if the distributee trust will be includable in the individual's gross estate for federal estate tax purposes to the extent it is not distributed to that individual during his or her life. This proposal would apply to trusts crated after enactment, and to the portion of a pre-existing trust attributable to additions (actual or constructive) to such a trust made after that date.

Upper-Income Tax Provision

Reduce the value of certain tax expenditures.—The Administration proposes to limit the tax rate at which high-income taxpayers can take itemized deductions to a maximum of 28 percent, affecting only married taxpayers filing a joint return with income over $250,000 (at 2009 levels) and single taxpayers with income over $200,000. The proposed limitation would be effective for taxable years beginning after December 31, 2011. As indicated in the discussion of adjustments to the BEA baseline earlier in this Chapter, the Administration proposes to offset the first three years' cost of extending AMT relief with savings from this proposal.

User Fees

Reform inland waterways funding.—The Administration will work with the Congress to reform the laws governing the Inland Waterways Trust Fund, including increasing the revenue paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this trust fund. 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 of the other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on diesel fuel used in inland waterways commerce does not produce the revenue needed to cover the required 50 percent of these costs.

Increase fees for Migratory Bird Hunting and Conservation Stamps.—Federal Migratory Bird Hunting and Conservation Stamps, commonly known as "Duck Stamps," were originally created in 1934 as the Federal licenses required for hunting migratory waterfowl. Today, ninety-eight percent of the receipts generated from the sale of these stamps ($15 per stamp per year) are used to acquire important migratory bird breeding areas, migration resting places, and wintering areas. The land and water interest located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 19 years. The Administration proposes to increase these fees to $25 per stamp per year, effective beginning in 2012.

Trade Initiatives

Promote trade.—The Obama Administration is committed to opening markets for American producers. As a part of this effort, the Administration is working with Members of Congress and stakeholders to address outstanding issues and move forward on pending trade agreements with Panama, Colombia, and South Korea. The Administration also looks forward to working with Congress in an effort to reform U.S. preference programs. Additionally, in 2009 the President announced his intention to establish Reconstruction Opportunity Zones (ROZs) in Afghanistan and the border regions of Pakistan as part of the Administration's broader counterterrorism strategy. The Administration will work closely with Congress and private sector stakeholders to implement these important trade initiatives.

Surface Transportation Reauthorization

Reauthorize surface transportation.—The Budget display assumes sufficient revenues to support the Administration's surface transportation reauthorization proposal, which would provide $554 billion of funding for selected transportation programs (highways, transit, highway safety, passenger rail, and a National Infrastructure Bank) over the next six years, 2012 through 2017, as well as increases in those programs in the outyears (note that the National Infrastructure Bank is not assumed to continue in the outyears; the amount requested in the first six years will be sufficient to cover the Bank's grant and loan activity over a ten-year period). The proposal would also expand the current Highway Trust Fund (HTF) to a Transportation Trust Fund, with accounts for the newly-incorporated activities, passenger rail and National Infrastructure Bank. Specifically, additional receipts of $435 billion would be sufficient to liquidate all outlays from the programs over a ten-year window. This display is intended to illustrate one notional path associated with a "paid for" bill (i.e., where receipts are sufficient to finance planned outlays), not to endorse or imply any specific revenue proposal. Under current law, the HTF faces a structural deficit: revenues are insufficient to cover existing spending, let alone program increases. The current framework for financing and allocating surface transportation investments is not financially sustainable, nor does it adequately or effectively allocate resources to meet our critical national needs. The Budget reflects the Administration's broader commitment to working with Congress to ensure that funding increases for surface transportation do not increase the deficit, and, consistent with the recommendation of the Fiscal Commission, make the Transportation Trust Fund fully solvent.

Other Initiatives

Allow offset of Federal income tax refunds to collect delinquent State income taxes for out-of-state-residents.—Under current law, federal tax refunds may be offset to collect delinquent State income tax obligations but only if the delinquent taxpayer resides in the State collecting the tax. The proposal would allow federal tax refunds to be offset to collect delinquent State tax obligations regardless of where the debtor resides.

Authorize the limited sharing of business tax return information to improve the accuracy of important measures of our economy.—Synchronization of business lists among 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. This proposal would give officers and employees of BEA and BLS access to certain FTI of corporate and non-corporate businesses. Additionally, for the purpose of synchronizing BLS and Census Bureau business lists, the proposal would permit employees of State agencies to receive certain business FTI from BLS. No BEA, BLS, or State agency contractor would have access to FTI. Additionally, the Census Bureau, BEA, BLS, and the State agencies would be subject to the confidentiality safeguard procedures in the Confidential Information Protection and Statistical Efficiency Act (CIPSEA), as well as taxpayer privacy law and related safeguards and penalties.

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 proposal would eliminate TIGTA's obligation to report information regarding any administrative or civil actions related to Fair Tax Collection Practices violations in one of TIGTA's Semiannual Reports, review and certify annually that the IRS is complying with the requirements of section 6103(e)(8) regarding information on joint filers, and annually report on the IRS's compliance with sections 7521(b)(2) and (c) requiring IRS employees to stop a taxpayer interview whenever a taxpayer requests to consult with a representative and to obtain their immediate supervisor's approval to contact the taxpayer instead of the representative if the representative has unreasonably delayed the completion of an examination or investigation. The proposal would revise the annual reporting requirement for all remaining provisions in the IRS Restructuring and Reform Act of 1998 to a biennial reporting requirement.

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. Under the proposal, inflation adjustment provisions would be modified to prevent the size of all indexed tax parameters from decreasing from the previous year's levels if the underlying price index falls. Subsequent inflation-related increases would be based on the highest previous level of the price index relevant for adjusting the particular tax parameter. The proposal would be effective as of the date of enactment.

PROGRAM INTEGRITY INITIATIVES

Enhance UI integrity.—The Administration has a multi-part legislative proposal to strengthen the financial integrity of the UI system and to encourage the early reemployment of UI beneficiaries. This proposal builds upon the enactment of two key components of last year's UI integrity proposal that expanded collection of delinquent UI overpayments and employer taxes through garnishment of Federal tax refunds and improved the accuracy of hiring data in the National Directory of New Hires. The Budget proposal will boost States' ability to recover benefit overpayments and deter tax evasion schemes by permitting them to use a portion of recovered funds to expand enforcement efforts in these areas, including identification of misclassified employees. In addition, the proposal would require States to impose a monetary penalty on UI benefit fraud, which would be used to reduce overpayments, and to prohibit the noncharging of benefits to employers' UI accounts if they are found to be at fault when their actions lead to overpayments. The proposal would also improve the utility and accuracy of hiring data in the National Directory of New Hires by requiring employers to report rehires of employees who have been laid off. These efforts to strengthen the financial integrity of the UI system and encourage early reemployment of UI beneficiaries will keep State UI taxes down and improve the solvency of the State trust funds.

Increase levy authority for payments to Federal contractors 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 Federal contractors. Through the Federal Payment Levy Program, the Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Pursuant to the American Jobs Creation Act of 2004, Treasury is authorized to continuously levy up to 100 percent of payments to a Federal vendor for goods or services sold or leased to the Federal government if the vendor has an unpaid tax liability. However, the language contains a technical imperfection that has the unintended effect of limiting the levy to 15 percent for vendor payments made for the sale or lease of real estate or other types of property. The Budget proposal will allow Treasury to levy up to 100 percent of any payment due to a Federal vendor with unpaid tax liabilities.

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.

Implement program integrity allocation adjustments – IRS.—The Administration proposes a program integrity allocation adjustment of $1,257 million in 2012 for IRS tax enforcement and compliance activities. Allocation adjustments have been used by past administrations and Congresses to help protect increases above a base level for certain activities that generate benefits that exceed programmatic costs. The 2012 allocation adjustment will fund an increase of roughly $240 million above current levels of enforcement and compliance activity, which is estimated to yield $1.3 billion in additional revenues annually once new hires reach full productivity in 2014. In addition, the Administration proposes to provide further annual increases of about $300 million in additional new tax enforcement initiatives each year from 2013 through 2016. The Budget proposes to sustain these initiative increases through 2021 at a total cost of roughly $13 billion over 10 years above the funding needed to maintain current levels of enforcement. Over this same time period this $13 billion investment will generate an estimated $56 billion in additional tax revenue.

These resources will help the IRS continue to increase the roughly $50-$60 billion in enforcement revenues generated each year and help close the tax gap, defined as the difference between taxes owed and those paid on time. Enforcement funds provided through the 2012 allocation adjustment will continue to target international tax compliance of high-net worth individuals and corporations, as well as implement information reporting authorities with a high-rate of return intended to make the IRS a more efficient and effective tax administrator.

Table 15–3. EFFECT OF PROPOSALS

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Tax cuts for families and individuals:													
Provide $250 refundable tax credit for Federal, State and local government retirees not eligible for social security benefits [1]	–216	–159	....	....	....	....	....	....	....	....	....	–159	–159
Extend EITC for larger families [1]	....	....	–81	–1,422	–1,442	–1,469	–1,509	–1,544	–1,579	–1,610	–1,657	–4,414	–12,313
Expand child and dependent care tax credit [1]	....	–283	–1,043	–1,045	–1,042	–1,039	–1,035	–1,036	–1,033	–1,028	–1,021	–4,452	–9,605
Provide for automatic enrollment in IRAs, including employer tax credit, and double the tax credit for small employer plan startup costs [1]	....	....	–638	–1,043	–1,100	–1,240	–1,448	–1,704	–2,015	–2,381	–2,809	–4,021	–14,378
Extend AOTC [1]	....	....	–650	–10,772	–10,832	–11,552	–11,533	–11,364	–12,111	–12,117	–12,665	–33,806	–93,596
Provide exclusion from income for student loan forgiveness	....	....	....	....	....	....	....	....	....	....	....	....	....
Tax qualified dividends and net long-term capital gains at a 20-percent rate for upper-income taxpayers	....	–7,868	–9,582	–5,405	–9,416	–12,964	–14,688	–15,119	–15,586	–16,158	–16,885	–45,235	–123,671
Total, tax cuts for families and individuals	–216	–8,310	–11,994	–19,687	–23,832	–28,264	–30,213	–30,767	–32,324	–33,294	–35,037	–92,087	–253,722
Tax cuts for businesses:													
Eliminate capital gains taxation on investments in small business stock	....	....	....	....	....	....	–183	–566	–1,055	–1,587	–2,026	....	–5,417
Enhance and make permanent the R&E tax credit	....	–4,610	–8,063	–8,884	–9,708	–10,520	–11,318	–12,103	–12,887	–13,686	–14,499	–41,785	–106,278
Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project	....	–284	–731	–1,089	–1,138	–578	–120	73	115	64	27	–3,820	–3,661
Provide tax credit for energy-efficient commercial building property expenditures in place of exisiting tax deduction	....	–450	–425	–100	–25	–25	....	....	....	....	....	–1,025	–1,025
Total, tax cuts for businesses	....	–5,344	–9,219	–10,073	–10,871	–11,123	–11,621	–12,596	–13,827	–15,209	–16,498	–46,630	–116,381
Incentives to promote regional growth:													
Extend and modify the NMTC	–41	–62	–116	–183	–234	–263	–272	–264	–243	–170	–63	–858	–1,870
Reform and extend Build America bonds [1]	–1	–2	–2	–2	–4	–3	–3	–3	–3	–3	–3	–13	–28
Reform and expand the LIHTC	–1	–5	–16	–32	–52	–71	–94	–116	–139	–162	–185	–176	–872
Designate Growth Zones [1]	....	–279	–863	–860	–839	–815	–186	383	374	329	273	–3,656	–2,483
Restructure assistance to New York City, provide tax incentives for transportation infrastructure	....	–200	–200	–200	–200	–200	–200	–200	–200	–200	–200	–1,000	–2,000
Total, incentives to promote regional growth	–43	–548	–1,197	–1,277	–1,329	–1,352	–755	–200	–211	–206	–178	–5,703	–7,253
Continue certain expiring provisions through calendar year 2012 [1, 2]	–866	–9,959	–10,459	–734	–372	–158	–61	–95	–122	–169	–192	–21,682	–22,321
Other revenue changes and loophole closers:													
Reform treatment of financial institutions and products:													
Impose a financial crisis responsibility fee	....	....	1,000	3,000	3,000	3,000	4,000	4,000	4,000	4,000	4,000	10,000	30,000
Require accrual of income on forward sale of corporate stock	1	6	12	19	26	33	36	38	40	42	44	96	296
Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities	35	144	226	240	254	270	286	303	321	341	361	1,134	2,746
Modify the definition of “control” for purposes of section 249 of the Internal Revenue Code	....	9	15	16	17	17	18	19	20	21	22	74	174
Subtotal, reform treatment of financial institutions and products	36	159	1,253	3,275	3,297	3,320	4,340	4,360	4,381	4,404	4,427	11,304	33,216
Reinstate Superfund taxes [2]	....	1,374	1,926	2,038	2,093	2,144	2,185	2,212	2,246	2,272	2,329	9,575	20,819
Levy a fee on the production of hardrock minerals to restore abandoned mines	....	....	200	200	200	200	200	200	200	200	200	800	1,800
Increase Oil Spill Liability Trust Fund financing rate by one cent [2]	....	35	46	46	46	46	46	46	47	46	47	219	451

Table 15–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Make UI surtax permanent [2]	....	1,375	1,413	1,449	1,477	1,503	1,526	1,543	1,558	1,577	1,594	7,217	15,015
Provide short-term tax relief to employers and expand FUTA base [2]	....	–1,714	–3,541	7,477	12,863	10,544	11,814	8,555	–34	–263	167	25,629	45,868
Expand STC unemployment program [2]	....	....	14	20	–51	–82	–82	–80	–80	–80	–80	–99	–501
Repeal LIFO method of accounting for inventories	....	....	2,598	5,649	6,484	6,457	6,435	6,387	6,337	6,293	6,240	21,188	52,880
Repeal gain limitation for dividends received in reorganization exchanges	....	47	79	81	84	86	89	92	94	97	100	377	849
Reform U.S. international tax system:													
Defer deduction of interest expense related to deferred income	....	2,986	5,138	5,396	5,636	5,861	6,080	3,114	1,103	1,149	1,202	25,017	37,665
Determine the foreign tax credit on a pooling basis	....	2,655	4,568	4,798	5,011	5,211	5,406	5,601	5,810	6,051	6,333	22,243	51,444
Tax currently excess returns associated with transfers of intangibles offshore	....	1,204	2,038	2,114	2,212	2,280	2,290	2,231	2,158	2,138	2,166	9,848	20,831
Limit shifting of income through intangible property transfers	....	29	63	90	118	148	178	209	242	276	315	448	1,668
Disallow the deduction for non-taxed reinsurance premiums paid to affiliates	....	129	223	237	250	264	277	289	302	315	328	1,103	2,614
Limit earnings stripping by expatriated entities	....	212	364	382	401	421	442	464	487	512	537	1,780	4,222
Modify tax rules for dual capacity taxpayers	....	532	918	974	1,031	1,085	1,138	1,190	1,242	1,296	1,352	4,540	10,758
Subtotal, reform U.S. international tax system	....	7,747	13,312	13,991	14,659	15,270	15,811	13,098	11,344	11,737	12,233	64,979	129,202
Reform treatment of insurance companies and products:													
Modify rules that apply to sales of life insurance contracts	....	8	42	82	97	115	134	154	177	203	231	344	1,243
Modify DRD for life insurance company separate accounts	....	172	465	547	579	605	607	585	555	528	503	2,368	5,146
Expand pro-rata interest expense disallowance for COLI	....	21	71	181	273	433	652	900	1,280	1,714	2,166	979	7,691
Subtotal, reform treatment of insurance companies and products	....	201	578	810	949	1,153	1,393	1,639	2,012	2,445	2,900	3,691	14,080
Eliminate fossil fuel tax preferences:													
Eliminate oil and gas preferences:													
Repeal enhanced oil recovery credit [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal credit for oil and gas produced from marginal wells [3]	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal expensing of intangible drilling costs	....	1,875	2,512	1,762	1,403	1,331	1,124	830	640	523	447	8,883	12,447
Repeal deduction for tertiary injectants	....	6	10	10	10	10	10	9	9	9	9	46	92
Repeal exception to passive loss limitations for working interests in oil and natural gas properties	....	23	27	24	22	21	19	18	17	16	16	117	203
Repeal percentage depletion for oil and natural gas wells	....	607	1,038	1,079	1,111	1,142	1,177	1,211	1,243	1,273	1,321	4,977	11,202
Repeal domestic manufacturing deduction for oil and natural gas companies	....	902	1,558	1,653	1,749	1,842	1,932	2,020	2,108	2,200	2,296	7,704	18,260
Increase geological and geophysical amortization period for independent producers to seven years	....	59	215	330	306	230	152	75	22	9	10	1,140	1,408
Subtotal, eliminate oil and gas preferences	....	3,472	5,360	4,858	4,601	4,576	4,414	4,163	4,039	4,030	4,099	22,867	43,612
Eliminate coal preferences:													
Repeal expensing of exploration and development costs	....	27	45	47	49	51	50	48	47	45	38	219	447
Repeal percentage depletion for hard mineral fossil fuels	....	78	129	129	130	135	139	145	149	154	165	601	1,353
Repeal capital gains treatment for royalties	6	11	13	22	31	38	43	47	51	55	58	115	369
Repeal domestic manufacturing deduction for coal and other hard mineral fossil fuels	....	20	35	38	39	41	44	45	48	49	51	173	410

Table 15–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Subtotal, eliminate coal preferences	6	136	222	236	249	265	276	285	295	303	312	1,108	2,579
Subtotal, eliminate fossil fuel tax preferences	6	3,608	5,582	5,094	4,850	4,841	4,690	4,448	4,334	4,333	4,411	23,975	46,191
Tax carried (profits) interests as ordinary income	318	2,274	2,123	2,154	1,927	1,608	1,322	1,089	908	762	640	10,086	14,807
Deny deduction for punitive damages	....	....	23	34	35	35	36	36	37	37	39	127	312
Repeal lower-of-cost-or-market inventory accounting method	....	....	188	1,435	2,334	1,532	1,358	309	323	337	352	5,489	8,168
Simplify the tax code:													
Allow vehicle seller to claim qualified plug-in electric-drive motor vehicle credit	....	–64	–30	–59	–53	135	166	–232	–103	–11	–18	–71	–269
Eliminate MRD requirements for IRA/plan balances of $50,000 or less	....	–2	–5	–7	–9	–12	–15	–19	–23	–28	–31	–35	–151
Allow all inherited plan and IRA accounts to be rolled over within 60 days	....	....	....	....	....	....	....	....	....	....	....	....	....
Clarify exception to recapture of unrecognized gain on sale of stock to an ESOP	....	....	....	....	....	....	....	....	....	....	....	....	....
Repeal non-qualified preferred stock designation	22	101	112	110	105	97	87	77	68	61	54	525	872
Revise and simplify the “fractions rule”	–5	–19	–22	–24	–23	–24	–24	–26	–26	–26	–28	–112	–242
Repeal preferential dividend rule for publicly traded REITs	....	....	....	....	....	....	....	....	....	....	....	....	....
Reform excise tax based on investment income of private foundations	–1	–4	–4	–5	–5	–5	–6	–6	–6	–7	–7	–23	–55
Simplify arbitrage investment restrictions	....	–4	–13	–21	–30	–40	–49	–59	–68	–76	–86	–108	–446
Simplify single-family housing mortgage bond targeting requirements	....	....	....	–1	–1	–1	–1	–3	–3	–3	–3	–3	–16
Streamline private business limits on governmental bonds	....	–1	–3	–5	–7	–9	–11	–13	–15	–17	–19	–25	–100
Subtotal, simplify the tax code	16	7	35	–12	–23	141	147	–281	–176	–107	–138	148	–407
Reduce the tax gap and make reforms:													
Expand information reporting:													
Repeal and modify information reporting on payments to corporations and payments for property	....	–475	–618	–756	–929	–961	–1,000	–1,047	–1,096	–1,147	–1,180	–3,739	–9,209
Require information reporting for private separate accounts of life insurance companies	....	....	1	2	3	3	4	5	6	7	8	9	39
Require a certified TIN from contractors and allow certain withholding	21	48	81	110	115	121	126	132	138	144	150	475	1,165
Improve compliance by businesses:													
Require greater electronic filing of returns	....	....	....	....	....	....	....	....	....	....	....	....	....
Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports	....	....	....	....	....	....	....	....	....	....	....	....	....
Implement standards clarifying when employee leasing companies can be held liable for their clients’ Federal employment taxes	....	4	5	6	6	6	7	7	7	8	8	27	64
Increase certainty with respect to worker classification	....	12	230	1,237	956	819	904	994	1,088	1,186	1,284	3,254	8,710
Repeal special estimated tax payment provision for certain insurance companies	....	....	....	....	....	....	....	....	....	....	....	....	....
Eliminate special rules modifying the amount of estimated tax payments by corporations	....	....	....	–53,610	4,320	49,290	....	....	–5,630	5,630	....	....	....
Strengthen tax administration:													
Revise the offer-in-compromise application rules	....	2	2	2	2	2	3	3	3	3	3	10	25
Expand IRS access to information in the NDNH for tax administration purposes	....	....	....	....	....	....	....	....	....	....	....	....	....

Table 15–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Make repeated willful failure to file a tax return a felony	....	....	....	....	1	1	1	1	2	2	2	2	10
Facilitate tax compliance with local jurisdictions	....	....	....	....	1	1	1	1	1	1	1	2	7
Extend statute of limitations where State adjustment affects Federal tax liability	....	....	....	....	2	4	4	4	4	4	5	6	27
Improve investigative disclosure statute	....	....	....	....	1	1	1	1	2	2	2	2	10
Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a 2-D bar code	....	....	....	....	....	....	....	....	....	....	....	....	....
Allow the IRS to collect information from the U.S. Bureau of Prisons to reduce fraudulent claims	....	10	15	16	16	17	18	18	18	19	19	74	166
Allow the IRS to absorb credit and debit card processing fees for certain tax payments	....	1	1	2	2	2	2	2	2	2	2	8	18
Expand penalties:													
Impose a penalty on failure to comply with electronic filing requirements	....	....	....	....	....	1	1	1	2	2	2	1	9
Increase penalty imposed on paid preparers who fail to comply with EITC due diligence requirements	....	13	27	31	32	34	35	35	36	37	38	137	318
Modify estate and gift tax valuation discounts and make other reforms:													
Make permanent the portability of unused exemption between spouses	....	....	....	–107	–217	–321	–421	–516	–609	–699	–791	–645	–3,681
Require consistency in value for transfer and income tax purposes	....	127	171	182	192	204	216	229	243	258	273	876	2,095
Modify rules on valuation discounts	....	806	860	1,558	1,687	1,823	1,966	2,116	2,277	2,444	2,629	6,734	18,166
Require a minimum term for GRATs	....	15	46	93	160	231	308	389	477	570	670	545	2,959
Limit duration of GST tax exemption	....	....	....	....	....	....	....	....	....	....	....	....	....
Subtotal, reduce the tax gap and make reforms	21	563	821	–51,234	6,350	51,278	2,176	2,375	–3,029	8,473	3,125	7,778	20,898
Total, other revenue changes and loophole closers	397	15,676	26,650	–7,493	57,574	100,076	53,486	46,028	30,502	42,563	38,586	192,483	403,648
Upper-income tax provision:													
Reduce the value of certain tax expenditures [4]	....	6,008	18,996	26,418	29,766	32,696	35,699	38,644	41,496	44,388	47,180	113,884	321,291
User fees:													
Reform inland waterways funding [2]	....	....	196	163	135	72	72	71	69	70	69	566	917
Increase fees for Migratory Bird Hunting and Conservation Stamps	....	14	14	14	14	14	14	14	14	14	14	70	140
Total, user fees	....	14	210	177	149	86	86	85	83	84	83	636	1,057
Trade initiatives:													
Promote trade [2]	....	–167	–371	–514	–636	–755	–837	–910	–982	–1,053	–1,127	–2,443	–7,352
Surface transportation reauthorization:													
Reauthorize surface transportation [2]	....	20,000	28,000	29,000	31,000	32,000	34,000	36,000	38,000	39,000	41,000	140,000	328,000
Other initiatives:													
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 our economy	....	....	....	....	....	....	....	....	....	....	....	....	....
Eliminate certain reviews conducted by the U.S. TIGTA	....	....	....	....	....	....	....	....	....	....	....	....	....
Modify indexing to prevent deflationary adjustments	....	....	....	....	....	....	....	....	....	....	....	....	....
Total, other initiatives	....	....	....	....	....	....	....	....	....	....	....	....	....
Total, effect of proposals	**–728**	**17,370**	**40,616**	**15,817**	**81,449**	**123,206**	**79,784**	**76,189**	**62,615**	**76,104**	**73,817**	**278,458**	**646,967**

Table 15–3. EFFECT OF PROPOSALS—Continued

(In millions of dollars)

[1] This proposal affects both receipts and outlays. Both effects are shown here. The outlays effects included in these estimates are listed below:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Provide $250 refundable tax credit for Federal, State and local government retirees not eligible for social security benefits	....	47	....	....	....	....	....	....	....	....	....	47	47
Expand EITC	....	....	69	1,372	1,384	1,404	1,436	1,463	1,490	1,512	1,551	4,229	11,681
Expand child and dependent care tax credit	....	....	337	347	354	363	372	386	398	410	420	1,401	3,387
Provide for automatic enrollment in IRAs, including employer tax credit, and double the tax credit for small employer plan startup costs	....	....	38	66	71	79	90	105	122	142	167	254	880
Extend AOTC	....	....	16	4,465	4,425	4,655	4,608	4,531	4,791	4,775	5,038	13,561	37,304
Reform and extend Build America bonds	105	599	1,580	2,793	4,048	5,314	6,575	7,830	9,080	10,324	11,561	14,334	59,704
Designate Growth Zones	....	14	34	43	43	40	10	–20	–20	–17	–14	174	113
Continue certain expiring provisions through calendar year 2012	32	502	789	437	384	121	....	....	....	....	....	2,233	2,233
Total, outlay effects of receipt proposals	137	1,162	2,863	9,523	10,709	11,976	13,091	14,295	15,861	17,146	18,723	36,233	115,349

[2] Net of income offsets.

[3] This provision is estimated to have zero receipt effect under the Adminstration's current projections for energy prices.

[4] The Administration proposes to offset the first three years' cost of extending AMT relief with savings from the Administration's proposal to reduce the value of certain tax expenditures:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–16	2012–21
Index to inflation the 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010	....	–33,292	–106,436	–106,467	–96,904	26,869	....	....	....	....	....	–316,230	–316,230
Reduce the value of certain tax expenditures	....	6,008	18,996	26,418	29,766	32,696	35,699	38,644	41,496	44,388	47,180	113,884	321,291

Table 15–4. EFFECT OF PROGRAM INTEGRITY INITIATIVES [1, 2]

(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-16	2012-21
Program integrity initiatives:													
Enhance UI integrity [3]	....	....	54	108	70	–588	162	–355	–388	–42	144	–356	–835
Increase levy authority for payments to Federal contractors with delinquent tax debt	5	59	61	64	67	69	73	76	80	83	87	320	719
Increase levy authority for payments to Medicare providers with delinquent tax debt	17	64	68	71	74	76	76	78	80	80	81	353	748
Implement program integrity allocation adjustments—IRS	....	276	804	1,970	3,721	5,646	7,227	8,184	8,773	9,274	9,778	12,417	55,653
Total, program integrity initiatives	22	399	987	2,213	3,932	5,203	7,538	7,983	8,545	9,395	10,090	12,734	56,285

[1] The receipt effect of a spending initiative.

[2] The sum of adjusted baseline receipts (Table 15-2), the receipt effect of the Administration's proposals (Table 15-3), and these program integrity initiatives equals the estimates of total receipts presented in Tables 15-1 and 15-5.

[3] Net of income offsets.

Table 15–5. RECEIPTS BY SOURCE

(In millions of dollars)

Source	2010	Estimate										
	Actual	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Individual income taxes:												
Federal funds	898,549	955,840	1,144,610	1,338,743	1,491,048	1,628,322	1,765,129	1,898,247	2,028,027	2,156,502	2,281,500	2,404,022
Legislative proposal, not subject to PAYGO	....	....	276	802	1,966	3,719	5,681	7,220	8,206	8,797	9,279	9,773
Legislative proposal, subject to PAYGO	....	193	–4,382	4,575	15,368	15,925	15,160	17,090	19,344	21,877	23,740	25,681
Total, Individual income taxes	898,549	956,033	1,140,504	1,344,120	1,508,382	1,647,966	1,785,970	1,922,557	2,055,577	2,187,176	2,314,519	2,439,476
Corporation income taxes:												
Federal funds:												
Federal funds	191,435	198,423	326,838	396,647	477,885	435,398	402,655	462,258	466,919	477,784	479,541	501,847
Legislative proposal, subject to PAYGO	....	8	1,700	7,591	–39,482	18,432	62,722	14,934	10,927	3,242	14,438	9,033
Total, Federal funds	191,435	198,431	328,538	404,238	438,403	453,830	465,377	477,192	477,846	481,026	493,979	510,880
Trust funds:												
Legislative proposal, subject to PAYGO	....	....	786	1,136	1,233	1,274	1,311	1,340	1,359	1,381	1,395	1,442
Total, Corporation income taxes	191,437	198,431	329,324	405,374	439,636	455,104	466,688	478,532	479,205	482,407	495,374	512,322
Social insurance and retirement receipts (trust funds):												
Employment and general retirement:												
Old-age survivors insurance (off-budget)	539,996	478,603	564,392	625,533	662,951	700,646	747,464	785,844	827,445	869,411	905,314	950,578
Legislative proposal, not subject to PAYGO	....	....	8	92	123	242	387	299	392	416	386	377
Legislative proposal, subject to PAYGO	....	6	–1,141	–1,593	–3,546	–4,256	–4,209	–4,372	–4,205	–3,072	–3,211	–3,269
Disability insurance (off-budget)	91,691	80,812	95,663	106,223	112,577	118,978	126,927	133,445	140,510	147,636	153,732	161,420
Legislative proposal, not subject to PAYGO	....	....	1	16	21	41	66	51	67	70	65	64
Legislative proposal, subject to PAYGO	....	1	–193	–270	–602	–722	–714	–742	–714	–520	–544	–555
Hospital Insurance	180,068	187,201	201,539	216,968	235,522	250,030	267,432	281,628	296,871	312,197	325,477	342,093
Legislative proposal, not subject to PAYGO	....	....	....	–1	–2	....	17	–3	11	12	2	–3
Legislative proposal, subject to PAYGO	....	2	–308	–5	–396	–22	324	362	477	883	882	955
Railroad retirement:												
Social security equivalent account	1,854	1,725	1,925	2,068	2,118	2,183	2,250	2,318	2,384	2,452	2,517	2,565
Rail pension & supplemental annuity	2,285	2,322	2,380	2,576	2,685	2,895	3,014	3,107	3,199	3,292	3,525	3,786
Total, Employment and general retirement	815,894	750,672	864,266	951,607	1,011,451	1,070,015	1,142,958	1,201,937	1,266,437	1,332,777	1,388,145	1,458,011
On-budget	(184,207)	(191,250)	(205,536)	(221,606)	(239,927)	(255,086)	(273,037)	(287,412)	(302,942)	(318,836)	(332,403)	(349,396)
Off-budget	(631,687)	(559,422)	(658,730)	(730,001)	(771,524)	(814,929)	(869,921)	(914,525)	(963,495)	(1,013,941)	(1,055,742)	(1,108,615)
Unemployment insurance:												
Deposits by States [1]	38,281	44,695	49,665	53,682	55,886	56,618	56,653	55,791	55,629	56,390	55,186	56,573
Legislative proposal, not subject to PAYGO	....	....	....	42	84	70	–60	151	–498	–541	–111	119
Legislative proposal, subject to PAYGO	....	....	1	153	14,032	15,614	14,586	14,111	12,009	7,403	6,056	7,519
Federal unemployment receipts [1]	6,444	6,944	7,297	9,836	12,247	14,791	16,758	14,079	15,329	15,341	14,845	16,412
Legislative proposal, not subject to PAYGO	....	....	....	....	....	–33	–725	....	....	....	....	....
Legislative proposal, subject to PAYGO	....	....	–424	–2,773	–2,820	2,305	437	2,531	588	–5,518	–4,431	–5,332
Railroad unemployment receipts [1]	98	171	226	151	64	60	104	149	140	104	100	128

Table 15–5. RECEIPTS BY SOURCE—Continued
(In millions of dollars)

Source	2010 Actual	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
		Estimate										
Total, Unemployment insurance	44,823	51,810	56,765	61,091	79,493	89,425	87,753	86,812	83,197	73,179	71,645	75,419
Other retirement:												
Federal employees retirement-employee share	4,062	4,293	4,027	3,789	3,622	3,421	3,388	3,452	3,471	3,521	3,607	3,728
Non-Federal employees retirement [2]	35	26	23	20	19	19	19	19	19	19	19	19
Total, Other retirement	4,097	4,319	4,050	3,809	3,641	3,440	3,407	3,471	3,490	3,540	3,626	3,747
Total, Social insurance and retirement receipts (trust funds)	864,814	806,801	925,081	1,016,507	1,094,585	1,162,880	1,234,118	1,292,220	1,353,124	1,409,496	1,463,416	1,537,177
On-budget	(233,127)	(247,379)	(266,351)	(286,506)	(323,061)	(347,951)	(364,197)	(377,695)	(389,629)	(395,555)	(407,674)	(428,562)
Off-budget	(631,687)	(559,422)	(658,730)	(730,001)	(771,524)	(814,929)	(869,921)	(914,525)	(963,495)	(1,013,941)	(1,055,742)	(1,108,615)
Excise taxes:												
Federal funds:												
Alcohol	9,229	9,237	9,408	9,468	9,523	9,720	9,973	10,242	10,514	10,791	11,073	11,366
Legislative proposal, subject to PAYGO	....	....	–80	–26	....	....	....	....	....	....	....	....
Tobacco	17,160	17,492	17,083	16,819	16,646	16,511	16,422	16,256	16,073	15,909	15,728	15,535
Transportation fuels	–11,030	–9,412	–4,869	–855	–869	–859	–869	–852	–836	–827	–819	–816
Legislative proposal, subject to PAYGO	....	....	–3,772	–4,051	....	....	....	....	....	....	....	....
Telephone and teletype services	993	751	599	522	464	408	350	289	227	164	119	116
High-cost health insurance coverage	....	....	....	....	....	....	....	....	4,057	13,966	16,036	19,383
Health insurance providers	....	....	....	....	7,600	11,135	11,300	13,770	14,280	15,052	15,941	16,868
Indoor tanning servies	....	345	348	352	357	361	364	368	371	375	378	381
Medical devices	....	....	....	2,012	2,807	2,986	3,176	3,348	3,527	3,711	3,901	4,102
Other Federal fund excise taxes	1904	2,655	2,818	2,862	2,940	3,027	3,128	3,228	3,325	3,427	3,530	3,644
Legislative proposal, subject to PAYGO	....	–1	76	22	–5	–4	–4	–5	–5	–5	–6	–6
Total, Federal funds	18,256	21,067	21,611	27,125	39,463	43,285	43,840	46,644	51,533	62,563	65,881	70,573
Trust funds:												
Transportation	34,992	37,499	38,420	39,411	40,500	41,368	41,841	42,059	42,011	42,090	42,380	42,859
Legislative proposal, subject to PAYGO	....	....	26,000	37,000	39,000	41,000	43,000	45,000	48,000	50,000	52,000	54,000
Airport and airway	10,612	10,127	10,250	10,622	11,170	11,654	12,172	12,584	13,005	13,479	13,941	14,297
Sport fish restoration and boating safety	580	588	599	608	619	630	640	650	661	671	682	692
Tobacco assessments	937	960	960	960	960	960	960	960	960	960	960	960
Black lung disability insurance	595	613	636	647	659	656	659	664	673	421	311	316
Inland waterways	74	85	87	88	90	90	91	91	92	94	94	95
Legislative proposal, subject to PAYGO	....	....	....	....	–45	–45	–91	–91	–92	–94	–94	–95
Hazardous substance superfund (Legislative proposal, subject to PAYGO)	....	....	783	1,053	1,073	1,092	1,111	1,127	1,138	1,152	1,169	1,183
Oil spill liability	476	483	488	489	489	490	492	539	552	552	555	555
Legislative proposal, subject to PAYGO	....	....	47	61	61	61	61	61	61	62	61	62
Vaccine injury compensation	218	228	237	247	256	267	276	284	292	301	310	319
Leaking under ground storage tank	169	179	181	183	187	190	191	192	190	190	190	192
Supplementary medical insurance	....	2,250	2,770	2,800	2,980	3,000	3,000	3,900	4,090	2,930	2,800	2,800
Patient-centered outcomes research	....	....	....	191	394	424	458	490	517	547	579	613

Table 15–5. RECEIPTS BY SOURCE—Continued
(In millions of dollars)

Source	2010 Actual	Estimate 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total, Trust funds	48,653	53,012	81,458	94,360	98,393	101,837	104,861	108,510	112,150	113,355	115,938	118,848
Total, Excise taxes	66,909	74,079	103,069	121,485	137,856	145,122	148,701	155,154	163,683	175,918	181,819	189,421
Estate and gift taxes:												
Federal funds	18,885	12,227	12,654	13,535	23,232	25,827	28,068	30,363	32,640	35,054	37,575	40,347
Legislative proposal, subject to PAYGO	....	....	946	1,072	1,725	1,822	1,937	2,069	2,218	2,388	2,573	2,781
Total, Estate and gift taxes	18,885	12,227	13,600	14,607	24,957	27,649	30,005	32,432	34,858	37,442	40,148	43,128
Customs duties and fees:												
Federal funds:												
Federal funds	24,010	27,004	29,572	32,158	34,573	36,660	38,428	40,447	42,938	45,480	48,004	50,448
Legislative proposal, subject to PAYGO	....	–778	–1,407	–860	–685	–848	–1,007	–1,116	–1,214	–1,312	–1,406	–1,503
Total, Federal funds	24,010	26,226	28,165	31,298	33,888	35,812	37,421	39,331	41,724	44,168	46,598	48,945
Trust funds:												
Trust funds	1,288	1,465	1,589	1,718	1,840	1,947	2,016	2,119	2,247	2,374	2,499	2,622
Total, Customs duties and fees	25,298	27,691	29,754	33,016	35,728	37,759	39,437	41,450	43,971	46,542	49,097	51,567
Miscellaneous receipts:												
Federal funds:												
Miscellaneous taxes	414	423	425	428	438	445	453	456	459	462	466	469
Deposit of earnings, Federal Reserve System	75,845	79,511	65,803	47,431	38,211	37,388	41,023	44,516	47,353	49,460	51,512	53,007
Transfers from the Federal Reserve	18	175	391	432	450	456	462	468	476	483	491	499
Fees for permits and regulatory and judicial services	11,861	12,016	12,865	13,266	29,218	35,096	36,645	35,634	37,096	40,207	43,889	47,531
Legislative proposal, subject to PAYGO	....	....	14	214	214	214	214	214	214	214	214	214
Fines, penalities, and forfeitures	7,328	5,610	5,880	5,475	21,879	31,949	34,394	37,534	39,970	42,175	44,482	46,908
Refunds and recoveries	–26	–106	–80	–51	–33	–32	–32	–32	–32	–32	–32	–32
Total, Federal funds	95,440	97,629	85,298	67,195	90,377	105,516	113,159	118,790	125,536	132,969	141,022	148,596
Trust funds:												
United Mine Workers of America, combined benefit fund	42	36	33	31	28	26	24	22	21	19	18	17
Defense cooperation	568	238	239	239	240	242	243	243	243	244	246	247
Inland waterways (Legislative proposal, subject to PAYGO)	....	....	....	196	196	168	140	140	140	140	140	140
Fines, penalities, and forfeitures	782	535	547	555	563	570	577	586	593	601	608	617
Legislative proposal, subject to PAYGO	....	....	....	20	40	41	41	42	44	46	48	50
Total, Trust funds	1,392	809	819	1,041	1,067	1,047	1,025	1,033	1,041	1,050	1,060	1,071
Total, Miscellaneous receipts	96,832	98,438	86,117	68,236	91,444	106,563	114,184	119,823	126,577	134,019	142,082	149,667
Total, budget receipts	2,162,724	2,173,700	2,627,449	3,003,345	3,332,588	3,583,043	3,819,103	4,042,168	4,256,995	4,473,000	4,686,455	4,922,758
On-budget	(1,531,037)	(1,614,278)	(1,968,719)	(2,273,344)	(2,561,064)	(2,768,114)	(2,949,182)	(3,127,643)	(3,293,500)	(3,459,059)	(3,630,713)	(3,814,143)
Off-budget	(631,687)	(559,422)	(658,730)	(730,001)	(771,524)	(814,929)	(869,921)	(914,525)	(963,495)	(1,013,941)	(1,055,742)	(1,108,615)

[1] Deposits by States cover the benefit part of the program. Federal unemployment receipts cover administrative costs at both the Federal and State levels. Railroad unemployment receipts cover both the benefits and administrative costs of the program for the railroads.

[2] Represents employer and employee contributions to the civil sevice retirement and disability fund for covered employees of Government-sponsored, privately owned enterprises and the District of Columbia municipal government.

16. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS

I. INTRODUCTION AND BACKGROUND

The Government records money collected in one of two ways. It is either recorded as a governmental receipt and included in the amount reported on the receipts side of the budget or it is recorded as an offsetting collection or offsetting receipt, which reduces (or "offsets") the amount reported on the outlay side of the budget. Regardless of how it is recorded, money collected has the same impact on the deficit or surplus; it reduces the deficit or increases the surplus. Governmental receipts are discussed in the previous chapter, "Governmental Receipts." The first section of this chapter broadly discusses offsetting collections and offsetting receipts. The second section discusses user charges, which consist of a subset of offsetting collections and offsetting receipts, and a small share of governmental receipts. The third and final section of this chapter describes the Administration's user charge proposals.

As discussed below, offsetting collections and offsetting receipts are cash inflows to a budget account that are used to finance Government activities, and the spending associated with these activities is included in total or "gross outlays." For 2010, gross outlays to the public were $4,057 billion,[1] or 28.0 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 2010, net outlays were $3,456 billion or 23.8 percent of GDP. Government-wide net outlays reflect the Government's net disbursements to the public and are subtracted from governmental receipts to derive the Government's surplus or deficit. For 2010, governmental receipts were $2,163 billion or 14.9 percent of GDP and the deficit was $1,293 billion, or 8.9 percent of GDP.

Some offsetting collections and offsetting receipts arise from business-like transactions with the public. Unlike governmental receipts, these offsetting collections and offsetting receipts are not derived from the Government's exercise of its sovereign power. Rather, they arise from voluntary payments from the public for goods or services provided by the Government. For this reason, it is appropriate to classify these offsetting collections and offsetting receipts as offsets to outlays rather than as governmental receipts on the receipts side of the budget.[2] Treating offsetting collections and offsetting receipts as offsets to outlays produces budget totals for receipts, (net) outlays, and budget authority that reflect the amount of resources allocated by the Government through collective political choice, rather than through the marketplace. Examples of business-like offsetting collections and offsetting receipts include charges for the sale of postage stamps and electricity sold by the Tennessee Valley Authority, proceeds from the sale of goods by defense commissaries, Medicare premiums, life insurance premiums for veterans, and recreation fees for parks. Other examples are proceeds from the sale of assets (e.g., property, plant, and equipment) and natural resources (e.g., timber, oil, and minerals).

A relatively small portion of offsetting collections and offsetting receipts are derived from the Government's exercise of its sovereign power. These collections are classified as offsetting rather than governmental receipts either because this classification has been specified in law or because these collections have traditionally been classified as offsets to outlays.[3] Most of the offsetting collections and offsetting receipts in this category derive from fees from Government regulatory services or Government licenses, and include, for example, charges for regulating the nuclear energy industry, bankruptcy filing fees, immigration fees, food inspection fees, passport fees, and patent and trademark fees.

The final two sources of offsetting collections and offsetting receipts are gifts and intragovernmental transfers. Gifts are voluntary contributions to the Government to support particular purposes or reduce the amount of Government debt held by the public. Examples of intragovernmental transfers include interest payments to funds that hold Government securities (such as the Social Security trust funds), general fund transfers to civilian and military retirement and health benefits funds, and agency payments to funds for employee benefits.

[1] Gross outlays to the public are derived by subtracting intragovernmental outlays from gross outlays. For 2010, gross outlays were $5,133 billion. Intragovernmental outlays are outlays associated with transfers from one Government account to another Government account. For 2010, intragovernmental outlays totaled $1,076 billion.

[2] Showing collections from business-type transactions as offsets on the spending side of the budget follows the concept recommended by the *Report of the President's Commission on Budget Concepts* in 1967 and is discussed in Chapter 11 of this volume: "Budget Concepts." Offsetting governmental receipts, which are a subset of offsetting receipts and were $7.3 billion in 2010, result from the Government's exercise of its sovereign power to tax, but by law are required to be subtracted from outlays rather than added to governmental receipts.

[3] Where a regulatory or licensing fee is closely linked to the provision of a service by a regulating or licensing agency, the fee could be viewed as payment for a particular service or for the right to engage in a particular type of business. Nevertheless, many budget experts believe such fees are more appropriately classified as governmental receipts because the fees are compulsory and not voluntary payments for goods or services. Any reclassification of such fees could require a change in law and would make fees currently classified as offsets to discretionary spending during the Congressional appropriations process no longer available for that purpose.

Although both offsetting collections and offsetting receipts are subtracted from gross outlays to derive net outlays, they are treated differently when it comes to accounting for specific programs and agencies. Offsetting collections are credited to expenditure accounts, which are accounts from which funds can be spent; offsetting collections credited to expenditure accounts reduce or offset spending at the account level. By contrast, offsetting receipts are credited to receipt accounts (even though they are not recorded as governmental receipts), and receipts accounts are used to record the collection, but not the expenditure, of funds. In some cases, offsetting receipts are reported in a particular agency and reduce or offset the outlays reported for that agency. In other cases, the offsetting receipts are "undistributed," which means they reduce total Government outlays, but not the outlays of any particular agency.

The distinction between offsetting collections and offsetting receipts is generally based on the form of Congressional authorization. Offsetting collections are usually authorized to be spent for the purposes of the expenditure account and are generally available for use when collected, without further action by the Congress. Offsetting receipts may or may not be designated for a specific purpose, depending on the legislation that authorizes their collection. If designated for a particular purpose, the offsetting receipts may, in some cases, be spent without further action by the Congress. When not designated for a particular purpose, offsetting receipts are credited to the general fund, which contains all funds not otherwise allocated and which is used to finance Government spending that is not financed out of dedicated funds.

Table 16–1 summarizes offsetting collections and offsetting receipts from the public. Note that this table focuses only on payments from the public and does not include intragovernmental transactions. The table shows the amount of the Government's financial transactions with the public that are not evident from the commonly

Table 16–1. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC

(In billions of dollars)

	Actual 2010	Estimate	
		2011	2012
Offsetting collections (credited to expenditure accounts):			
User charges:			
Postal Service stamps and other USPS fees (off-budget)	67.9	66.4	65.5
Defense Commissary Agency	5.9	6.4	6.3
Employee contributions for employees and retired employees health benefits funds	11.6	12.5	13.2
Sale of energy:			
Tennessee Valley Authority	29.2	30.4	32.0
Bonneville Power Administration	3.0	3.9	4.1
All other user charges	112.7	88.6	68.3
Subtotal, user charges	230.2	208.2	189.4
Other collections credited to expenditure accounts:			
Commodity Credit Corporation fund	7.9	7.1	7.9
Supplemental Security Income (collections from the States)	3.6	3.7	3.8
Other collections	17.7	15.3	10.1
Subtotal, other collections	29.1	26.0	21.9
Subtotal, offsetting collections	259.4	234.1	211.3
Offsetting receipts (deposited in receipt accounts):			
User charges:			
Medicare premiums	60.8	62.9	68.7
Outer Continental Shelf rents, bonuses, and royalties	4.9	5.2	7.3
All other user charges	22.1	23.2	28.0
Subtotal, user charges deposited in receipt accounts	87.8	91.4	104.0
Other collections deposited in receipt accounts:			
Military assistance program sales	24.0	28.0	27.7
Interest received from credit financing accounts	48.2	80.1	85.4
All other collections deposited in receipt accounts	181.2	123.5	59.4
Subtotal, other collections deposited in receipt accounts	253.4	231.6	172.5
Subtotal, offsetting receipts	341.3	323.0	276.5
Total, offsetting collections and offsetting receipts from the public	**600.6**	**557.1**	**487.8**
Total, offsetting collections and offsetting receipts excluding off-budget	**532.6**	**490.6**	**422.2**
ADDENDUM:			
User charges that are offsetting collections and offsetting receipts [1]	318.1	299.5	293.4
Other offsetting collections and offsetting receipts from the public	282.6	257.6	194.4
Total, offsetting collections and offsetting receipts from the public	**600.6**	**557.1**	**487.8**

[1] Excludes user charges that are classified on the receipts side of the budget. For total user charges, see Table 16-3.

cited budget measure of (net) outlays. For 2012, the table shows that total offsetting collections and offsetting receipts from the public are estimated to be $487.8 billion or 3.1 percent of GDP. Of these, an estimated $211.3 billion are offsetting collections and an estimated $276.5 billion are offsetting receipts. Table 16–1 also identifies those offsetting collections and offsetting receipts that are considered user charges, as defined and discussed below.

As shown in the table, major offsetting collections from the public include proceeds from Postal Service sales, electrical power sales, loan repayments to the Commodity Credit Corporation for loans made prior to enactment of the Federal Credit Reform Act, and Federal employee payments for health insurance. As also shown in the table, major offsetting receipts from the public include Medicare Part B premiums, proceeds from military assistance program sales, rents and royalties from Outer Continental Shelf oil extraction, and interest income.

Tables 16–2 (below) and 16-5 (which can be found at the end of this chapter) provide further detail about offsetting receipts, including both offsetting receipts from the public (as summarized in Table 16–1) and intragovernmental transactions.[4] In total, offsetting receipts are estimated to be $1,006.1 billion in 2012: $729.6 billion are from intragovernmental transactions and $276.5 billion are from the public. The offsetting receipts from the public consist of proprietary receipts ($265.1 billion) and those classified as offsetting receipts by law or long-standing practice ($11.4 billion) (shown as offsetting governmental receipts in the table). Proprietary receipts from the public result from business-like transactions with the public such as the sale of goods or services, or the rental or use of Government land. Offsetting governmental receipts are composed of fees from Government regulatory services or Government licenses and, absent a specification in law or a long-standing practice, would otherwise have been classified on the receipts side of the budget.

[4] A comparable table showing total offsetting collections from the public and from intragovernmental transactions is not presented here because the data are not currently reported in a way that would permit such a presentation.

Table 16–2. SUMMARY OF OFFSETTING RECEIPTS BY TYPE
(In millions of dollars)

Receipt Type	2010 Actual	Estimate					
		2011	2012	2013	2014	2015	2016
Intragovernmental Receipts[1]:							
Interfund	696,741	744,219	678,317	663,870	702,343	745,823	796,959
Intrafund	44,488	45,980	51,269	52,943	57,102	61,135	64,480
Total Intragovernmental	741,229	790,199	729,586	716,813	759,445	806,958	861,439
Receipts from Non-Federal Sources:							
Proprietary	333,942	315,587	265,152	279,426	280,875	288,426	287,522
Offsetting Governmental	7,323	7,406	11,385	14,555	16,163	14,547	10,675
Total Non-Federal Sources	341,265	322,993	276,537	293,981	297,038	302,973	298,197
Total Offsetting Receipts	1,082,494	1,113,192	1,006,123	1,010,794	1,056,483	1,109,931	1,159,636

[1] Interfund offsetting receipts refer to trust fund receipts from Federal funds and Federal fund receipts from trust funds. Intrafund offsetting receipts refer to trust fund receipts from other trust funds and Federal fund receipts from other Federal funds.

II. USER CHARGES

User charges or user fees[5] refer generally to those monies that the Government receives from the public for market-oriented activities and regulatory activities. Laws that authorize user charges, in combination with budget concepts, determine whether a user charge is classified as an offsetting collection, an offsetting receipt or a governmental receipt. Almost all user charges, as defined below, are classified as offsetting collections or offsetting receipts; less than 1.4 percent of user charges are classified as governmental receipts. As summarized in Table 16-3, total user charges for 2012 are estimated to be $297.5 billion with $293.4 billion being offsetting collections or offsetting receipts, accounting for more than half of all offsetting collections and offsetting receipts from the public.

Definition. In this chapter, user charges refer to fees, charges, and assessments levied on individuals or organizations directly benefiting from or subject to regulation by a Government program or activity, where the payers do not represent a broad segment of the public such as those who pay income taxes or customs duties.

Examples of business-type or market-oriented user charges, and regulatory and licensing user charges include those charges listed above for offsetting collections and offsetting receipts. User charges exclude certain offsetting collections and offsetting receipts from the public, such as repayments received from credit programs, interest and dividends, and also exclude payments from one part of the Federal Government to another. In addition, user charges do not include dedicated taxes (such as taxes

[5] In this chapter, the term "user charge" is generally used and has the same meaning as the term "user fee." The term "user charge" is the one used in OMB Circular No. A–11, "Preparation, Submission, and Execution of the Budget;" OMB Circular No. A–25, "User Charges;" and Chapter 11 of this volume, "Budget Concepts." In common usage, the terms "user charge" and "user fee" are often used interchangeably; and in *A Glossary of Terms Used in the Federal Budget Process*, GAO provides the same definition for both terms.

paid to social insurance programs or excise taxes on gasoline), or customs duties, fines, penalties, or forfeitures.

Alternative definitions. The definition 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 prices for user charges. Alternative definitions may be used for other purposes. Much of the discussion of user charges below—their purpose, when they should be levied, and how the amount should be set—applies to these alternative definitions as well.

The definition of user charges could be narrower than the one used in this chapter by being limited to proceeds from the sale of goods and services, excluding the proceeds from the sale of assets, and by being limited to proceeds that are dedicated to financing the goods and services being provided. This definition is similar to one the House of Representatives uses as a guide for purposes of committee jurisdiction. (See the *Congressional Record,* January 3, 1991, p. H31, item 8.) The definition of user charges could be even narrower by excluding regulatory fees and focusing solely on business-type transactions. Alternatively, the user charge definition could be broader than the one used in this chapter by including beneficiary- or liability-based excise taxes.[6]

What is the purpose of user charges? User charges are intended to improve the efficiency and equity of financing certain Government activities. Charging users for activities that benefit a relatively limited number of people and for regulatory activities reduces the burden on the general taxpayer.

User charges that are set to cover the costs of production of goods and services can result in more efficient resource allocation within the economy. When buyers are charged the cost of providing goods and services, they make better cost-benefit calculations regarding the size of their purchase, which in turn signals to the Government how much of the goods or services it should provide. Prices in private, competitive markets serve the same purposes. User charges for goods and services that do not have special social or distributional benefits may also improve equity or fairness by requiring those who benefit from an activity to pay for it and by not requiring those who do not benefit from an activity to pay for it.

When should the Government impose a charge? Discussions of whether to finance spending with a tax or a fee often focus on whether the benefits of the activity accrue to the public in general or to a limited group of people. In general, if the benefits of spending accrue broadly to the public or have special social or distributional benefits, then the program should be financed by taxes paid by the public. In contrast, if the benefits accrue to a limited number of private individuals or organizations and do not have special social or distributional benefits, then the program should be financed by charges paid by the private beneficiaries. For Federal programs where the benefits are entirely public or entirely private, applying this principle can be relatively easy. For example, according to this principle, the benefits from national defense accrue to the public in general, and should be and are financed by taxes. In contrast, the benefits of electricity sold by the Tennessee Valley Authority accrue exclusively to those using the electricity, and should be and are financed by user charges.

In many cases, however, an activity has benefits that accrue to both public and private groups, and it may be difficult to identify how much of the benefits accrue to each. Because of this, it can be difficult to know how much of the program should be financed by taxes and how much by fees. For example, the benefits from recreation areas are mixed. Fees for visitors to these areas are appropriate because the visitors benefit directly from their visit, but the public in general also benefits because these areas protect the Nation's natural and historic heritage now and for posterity. For this reason, visitor recreation fees do not generally cover the full cost to the Government of maintaining the recreation property. Where a fee may be appropriate to finance all or part of an activity, the extent to which a fee can be easily administered must be considered. For example, fees for

[6] 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 16–3. GROSS OUTLAYS, USER CHARGES, OTHER OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC, AND NET OUTLAYS

(In billions of dollars)

	Actual 2010	Estimate 2011	Estimate 2012
Gross outlays	4,056.8	4,375.9	4,216.5
Offsetting collections and offsetting receipts from the public:			
User charges [1]	318.1	299.5	293.4
Other	282.6	257.6	194.4
Subtotal, offsetting collections and offsetting receipts from the public	600.6	557.1	487.8
Net outlays	3,456.2	3,818.8	3,728.7

[1] $3.4 billion of the total user charges for 2010 were classified as governmental receipts, and the remainder were classified as offsetting collections and offsetting receipts. $3.6 billion and $4.1 billion of the total user charges for 2011 and 2012, respectively, are classified as governmental receipts.

entering or using Government-owned land require clear points of entry onto the land and attendants patrolling and monitoring the land's use.

What amount should be charged? When the Government is acting in its capacity as sovereign and where user charges are appropriate, current policies support 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.[7] If the Government is engaged in a purely business-type transaction and economic resources are allocated efficiently, then this market price should be equal to or greater than the Government's full cost of production.

Classification of user charges in the budget. As shown in the note to Table 16-3, most user charges are classified as offsets to outlays on the spending side of the budget, but a few are classified on the receipts side of the budget. An estimated $4.1 billion in 2012 of user charges are classified on the receipts side and are included in the governmental receipts totals described in the previous chapter, "Federal Receipts." They are classified as receipts because they are regulatory charges collected by the Federal Government by the exercise of its sovereign powers. Therefore, conceptually they should be classified as governmental receipts, and, unlike in a number of other cases, there is not a long-standing practice or specification in law to classify them as offsetting receipts. Examples include filing fees in the United States courts and agricultural quarantine inspection fees.

The remaining user charges, an estimated $293.4 billion in 2012, 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.

[7] Policies for setting user charges are promulgated in OMB Circular No. A–25: "User Charges" (July 8, 1993).

III. USER CHARGE PROPOSALS

As shown in Table 16–1 above, an estimated $189.4 billion of user charges for 2012 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 $104.0 billion of user charges for 2012 will be deposited in offsetting receipt accounts and will be available to be spent only according to the legislation that established the charges.

As shown in Table 16-4, the Administration is proposing new or increased user charges that would, in the aggregate, increase collections by an estimated $4.5 billion in 2012 and an average of $9.0 billion per year from 2013–21. These amounts are offsetting collections, offsetting receipts and governmental receipts only; they do not include related spending. Each proposal is classified as either discretionary or mandatory, as those terms are defined in the Budget Enforcement Act of 1990 as amended. "Discretionary" refers to user charges controlled through annual appropriations acts and generally under the jurisdiction of the appropriations committees in the Congress. "Mandatory" refers to user charges controlled by permanent laws and under the jurisdiction of the authorizing committees. These and other terms are discussed further in this volume in Chapter 11, "Budget Concepts."

A. Discretionary User Charge Proposals

1. Offsetting collections

Department of Commerce

U.S. Patent and Trademark Office (PTO): Interim fee increase. The Budget includes a proposal to increase statutory patent fees by 15 percent, which is expected to yield over $250 million in additional collections in 2012. The increase is intended to be an interim measure to provide additional resources to process patent applications while the Administration works with the Congress to enact patent reform legislation giving PTO the authority to set its own fees to better align fee rates to the cost of providing services.

Department of Health and Human Services

Food and Drug Administration (FDA): Generic drug review activities fees. Generic drugs play an important role in reducing the cost of and increasing access to pharmaceuticals. The Budget includes a proposal for a new user charge to generate additional resources in support of FDA's generic drug review activities. Similar to the purpose served by FDA's current prescription drug user charges, the proposed generic drug user charge would be used to improve review times and reduce the current backlog of applications.

Table 16–4. USER CHARGE PROPOSALS IN THE 2012 BUDGET [1]
(Estimated collections in millions of dollars)

	2011 [2]	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–2016	2012–2021
OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS													
DISCRETIONARY:													
1. Offsetting collections													
Department of Commerce													
U.S. Patent and Trademark Office: Interim fee increase		263	....	....	....	....	....	....	....	....	....	263	263
Department of Health and Human Services													
Food and Drug Administration (FDA): Generic drug review activities fees		40	43	45	48	51	55	58	62	66	71	228	540
FDA: Reinspection fee for medical products		14	15	16	17	18	19	20	22	23	25	80	189
FDA: Food facilities registration and inspection user fees		....	248	264	281	299	318	339	361	385	410	1,091	2,904
FDA: International courier user fees		5	6	7	7	8	8	9	9	10	11	33	80
Health Resources and Services Administration: 340B Pharmacy Affairs user fee		5	5	5	5	5	5	5	5	5	5	25	50
Department of Homeland Security													
Transportation Security Administration: Aviation passenger security fee increase		587	1,595	2,441	2,490	2,540	2,590	2,642	2,695	2,749	2,804	9,653	23,134
Department of the Interior													
Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE):													
Outer continental shelf oil and gas lease inspection fee		65	65	65	65	65	65	65	65	65	65	325	650
Bureau of Land Management (BLM): Public lands oil and gas lease inspection fee		38	38	38	38	38	38	38	38	38	38	190	380
Department of State													
Western Hemisphere Travel Initiative surcharge extension		366	....	....	....	....	....	....	....	....	....	366	366
Border Crossing Card fee increase		17	17	17	17	17	17	17	17	17	17	85	170
Department of Transportation													
Federal Railroad Administration: Railroad safety inspection fee		80	80	80	80	80	80	80	80	80	80	400	800
Commodity Futures Trading Commission (CFTC)													
CFTC fee		117	117	118	118	118	125	131	134	137	140	588	1,255
Environmental Protection Agency													
Energy Star product fees		....	5	5	5	5	5	5	5	5	5	20	45
2. Offsetting receipts													
Department of Energy													
Strategic Petroleum Reserve oil sale		500	....	....	....	....	....	....	....	....	....	500	500
Department of Homeland Security:													
Lift Consolidated Omnibus Budget Reconciliation Act of 1985 country exemptions		110	111	113	114	116	118	119	121	....	....	564	922
Department of Transportation:													
Pipeline and Hazardous Materials Safety Administration (PHMSA): Pipeline construction and special permits fees		5	6	6	6	6	6	6	6	6	6	29	59
PHMSA: Hazardous materials special permits and approvals fees		12	12	12	12	12	13	13	13	14	14	60	127
Subtotal, discretionary user charge proposals		2,224	2,362	3,232	3,303	3,378	3,463	3,548	3,634	3,600	3,689	14,499	32,433
MANDATORY:													
1. Offsetting collections													
Department of Agriculture													
Biobased labeling fee	....	1	1	1	1	1	1	1	1	1	1	5	10
Department of Labor													
Pension Benefit Guaranty Corporation: Premium increases	....	....	....	1,121	2,523	2,286	2,141	2,046	1,987	1,966	2,001	5,930	16,071
2. Offsetting receipts													
Department of Agriculture													
Food Safety and Inspection Service: User charges	....	11	12	12	12	13	13	13	13	13	13	60	125
Grain, Inspection, Packers, and Stockyards Administration: User charges	....	27	29	30	31	31	31	32	32	32	33	148	308

Table 16–4. USER CHARGE PROPOSALS IN THE 2012 BUDGET [1]—Continued
(Estimated collections in millions of dollars)

	2011 [2]	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–2016	2012–2021
Animal and Plant Health Inspection Service: User charges	....	20	27	27	28	29	30	31	32	33	34	131	291
Natural Resource Conservation Service: User charges	....	22	22	22	22	22	22	22	22	22	22	110	220
Department of the Interior													
BOEMRE and BLM: Fee on non-producing Federal oil and gas leases	....	25	39	59	75	90	98	109	116	125	138	288	874
BLM: Repeal of Energy Policy Act fee prohibition and mandatory permit funds	....	....	20	19	18	....	....	....	....	....	....	57	57
BLM: Reform of Hardrock Mineral Production on Federal Lands	....	....	7	5	6	6	7	10	15	19	25	24	100
Department of Labor													
Employment and Training Administration: Foreign labor certification fee	....	44	44	44	44	44	44	44	44	44	44	220	440
Environmental Protection Agency													
Pesticide user charges	....	45	73	80	87	89	93	96	99	102	106	374	870
Premanufacture notice user charges	....	4	8	8	8	8	8	8	8	8	8	36	76
Hazardous waste electronic manifest system	....	....	....	6	4	3	3	3	3	3	3	13	28
Federal Communications Commission													
Wireless Innovation and Infrastructure Initiative	....	1,900	6,020	8,240	6,430	2,460	400	1,300	1,050	....	....	25,050	27,800
Spectrum license fee authority	50	200	300	425	550	550	550	550	550	550	550	2,025	4,775
Subtotal, mandatory user charge proposals	50	2,299	6,602	10,099	9,839	5,632	3,441	4,265	3,972	2,918	2,978	34,471	52,045
Subtotal, user charge proposals that are offsetting collections and offsetting receipts	50	4,523	8,964	13,331	13,142	9,010	6,904	7,813	7,606	6,518	6,667	48,970	84,478
GOVERNMENTAL RECEIPTS													
Department of the Interior													
Migratory bird hunting and conservation stamp fees	....	14	14	14	14	14	14	14	14	14	14	70	140
Corps of Engineers - Civil Works													
Reform inland waterways funding	....	....	196	163	135	72	72	71	69	70	69	566	917
Subtotal, governmental receipts user charge proposals	....	....	196	163	135	72	72	71	69	70	69	566	917
Total, user charge proposals	**50**	**4,523**	**9,160**	**13,494**	**13,277**	**9,082**	**6,976**	**7,884**	**7,675**	**6,588**	**6,736**	**49,536**	**85,395**

[1] A positive sign indicates an increase in collections.

[2] The 2011 column would normally show the enacted fee level for discretionary fees (in order to illustrate the impact of a Budget proposal on existing fees). However, because full year appropriations for 2011 had not been enacted by the time the Budget went to print, the 2011 column has been left blank for discretionary fees. Consequently, the 2011 total reflects only mandatory and governmental receipt fee proposals.

FDA: Reinspection fee for medical products. FDA conducts post-market inspections of manufacturers of human drugs, biologics, animal drugs, and medical devices to assess their compliance with Good Manufacturing Practice and other regulatory requirements. The Budget includes a proposal to enable FDA to assess fees for follow-up reinspections that are required when violations are found during initial inspections.

FDA: Food facilities registration and inspection user fees. The Administration will work with Congress to enact additional food safety fees that will allow FDA to implement fully the FDA Food Safety Modernization Act, P.L. 111-353. The Budget reflects the collection of these fees beginning in 2013.

FDA: International courier user 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 user charge to international couriers.

Health Resources and Services Administration: 340B Pharmacy Affairs user fee. To improve the administration and oversight of the 340B Drug Discount Program, the Budget includes a new user charge to those entities participating in the program.

Department of Homeland Security

Transportation Security Administration (TSA): Aviation passenger security fee increase. Since its establishment in 2001, under the Aviation and Transportation Security Act, the aviation passenger security fee has been limited to $2.50 per passenger enplanement with a maximum fee of $5.00 per one-way trip. However, the cost of providing security has increased substantially since 2001. The Administration proposes to give TSA the ability to use its regulatory authority to review and adjust the fee as necessary. Under the proposal, TSA would increase the fee by $1.50 in 2012, an additional $0.50 in 2013, and an additional $1.00 in 2014 to a maximum of $5.50 per enplanement and $11.00 per one-way trip in 2014 and thereafter. This adjustment will fulfill the original intent of the Aviation and Transportation Security Act by better aligning the cost of aviation security services with the fee paid by those individuals who directly benefit from the service. With the proposed adjustments to the aviation passenger security fee, total aviation security fees (which include an air carrier fee) would generate revenue sufficient to fund 80 percent of the discretionary costs of the TSA's Aviation Security Program in 2014, compared to approximately 41 percent currently.

Department of the Interior

Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE): Outer Continental Shelf (OCS) oil and gas lease inspection fee. The Budget includes appropriations language to increase OCS inspection fees on oil and gas facilities that are subject to inspection by BOEMRE. The fees would be based on the frequency and complexity of certain categories of inspections and new fees would be charged for drilling rigs, which are now subject to enhanced oversight based on lessons learned in the aftermath of the BP Deepwater Horizon oil spill. The overall cost of maintaining and overseeing the OCS inspection program has increased due to the need for greater oversight of industry operations. In addition, inspection costs rise as companies extend oil and gas exploration and production efforts into deeper waters; additional miles must be flown, aircraft requirements increase, and the time for travel and inspection increases as facilities become increasingly complex. The proposed fees will generate approximately $65 million in 2012, up from $10 million in 2010, thereby requiring OCS energy developers, rather than taxpayers, to cover roughly the full cost of compliance inspections.

Bureau of Land Management (BLM): Public lands oil and gas lease inspection fee. The Budget includes appropriations language to charge inspection fees to oil and gas facilities that are subject to inspection by BLM. The fees would be based on the number of oil and gas wells per facility, providing for costs to be shared equitably across the industry. According to agency data, BLM currently spends more than $40 million on managing the compliance inspection program. Inspection costs include, among other things, the salaries and travel expenses of inspectors. The proposed fee will generate approximately $38 million in 2011, thereby requiring energy developers on Federal lands to fund the majority of compliance costs incurred by BLM.

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, 2012. 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 to be equal to one half the fee for adults by amending current law, which sets the fee at $13. Annual BCC fee collections are projected to increase by $17 million (from $4 million to $21 million) per year beginning in 2012 as a result of this change.

Department of Transportation

Federal Railroad Administration (FRA): Railroad safety inspection fee. The FRA establishes and enforces safety standards for U.S. railroads. FRA's rail safety inspectors work in the field and oversee railroads' operating and management practices. The Administration is proposing that, starting in 2012, the railroads cover the cost of FRA's field inspections because railroads benefit directly from Government efforts to maintain high safety standards. The proposed fee would be similar to existing user charges collected from other industries regulated by Federal safety programs.

Commodity Futures Trading Commission (CFTC)

CFTC fee: The Budget includes a proposal to partially fund the CFTC with fees from the entities it regulates beginning in 2012. This will make CFTC funding more consistent with the funding mechanisms in place for all of the other Federal financial regulators. Under the proposal, fee collections for non-enforcement agency activities are estimated to equal to $117 million in 2012.

Environmental Protection Agency (EPA)

Energy Star product fees. The Administration proposes to start collecting user fees from product manufacturers who seek to label their products under EPA's Energy Star program. Since 1992, the Energy Star label has served as an indicator of energy efficiency, helping consumers and businesses select qualifying products and, increasingly, Energy Star products have qualified for special rebates, tax exemptions or credits, and procurement preferences. Fee collection would start in 2013 after EPA undertakes a rulemaking process to determine products to be covered by fees and the level of fees, and to ensure that a fee system would not discourage manufacturers from participating in the program or result in a loss of environmental benefits.

2. Offsetting receipts

Department of Energy

Environmental cleanup fee. The Budget includes a proposal to reauthorize the special assessment on domestic utilities for deposit into the Uranium Enrichment Decontamination and Decommissioning Fund. This authorizing legislation would direct that receipts resulting from the reinstatement of the assessment be deposited into the Fund and available for expenditure only to the extent and in such amounts as provided in advance in appropriations acts. The necessary appropriations language to trigger the collection and spending of the receipts is not currently being proposed and will only be transmitted to the Congress upon enactment of the proposed authorizing legislation. The amount collected from industry for a fiscal year would total no more than $200 million in the first year and the $200 million cap would be adjusted annually by the Consumer Price Index for all-urban consumers. 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 cleanup fee, are required due to higher-than-expected cleanup costs.

Strategic Petroleum Reserve oil sale. The Budget includes a proposal to sell $500 million worth of oil from the Strategic Petroleum Reserve (SPR). The 727 million barrel (MB) SPR currently holds 726.6 MB. Sale of a small amount of oil will provide the Department of Energy (DOE) with operational flexibility in managing the Reserve.

Department of Homeland Security

Lift Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) country exemptions. Under COBRA, as amended, each air passenger arriving in the United States is charged a $5.50 fee if his or her flight originated from a place outside of the United States other than Canada, Mexico, or the Caribbean. The Budget includes a proposal to lift the exemption for passengers flying from these countries so that the fee will be applied to all international air passengers. Eliminating COBRA country exemptions will bring collections more into line with the cost of conducting air passenger inspections.

Department of Transportation

Pipeline and Hazardous Materials Safety Administration (PHMSA): Pipeline construction and special permits fees. The Administration proposes to collect new fees from companies engaged in the design, permitting, and construction of new pipeline projects, and from companies and individuals seeking waivers of pipeline safety regulations. The fees will offset some of the costs incurred by the PHMSA in the review of new construction projects and the processing of applications for special permits. Fee collection would start in 2012 after PHMSA undertakes a rulemaking to determine an appropriate and fair fee amount.

PHMSA: Hazardous materials special permits and approvals fees. The Administration proposes to collect new fees from companies and individuals involved in the transport of hazardous materials who seek waivers from the Hazardous Materials Regulations. The fees will offset some of the PHMSA's costs associated with the special permit and approvals processes.

B. Mandatory User Charge Proposals

1. Offsetting collections

Department of Agriculture

Biobased labeling fee. In 2011, USDA will begin authorizing the use of a label for biobased products that producers can use in advertising their products. To ensure the integrity of the label, the Budget provides USDA the flexibility to collect a $500 fee from producers who use the label. This fee, which will begin to be collected once authorizing legislation is enacted, has been given broad support by potential users who commented on the label's proposed rule, which was issued in May 2010.

Department of Labor

Pension Benefit Guaranty Corporation (PBGC): Premium increases. The Deficit Reduction Act of 2005 and the Pension Protection Act of 2006 made significant structural changes to the Nation's pension and pension insurance systems, but did not address fully the long-term financial challenges facing PBGC. Further reforms are needed to address the current $23 billion gap between PBGC's liabilities and assets. The Administration proposes to give PBGC's Board the authority to adjust the premiums companies pay and directs PBGC to account for the risk plans pose to PBGC. Better aligning risk with premium levels will encourage high-risk companies to fully fund their employees' promised pension benefits, while also improving the solvency of PBGC. In order to ensure that these reforms are phased in responsibly during challenging economic times, the Budget calls for giving the PBGC Board premium setting authority beginning in 2014.

2. Offsetting receipts

Department of Agriculture

Food Safety and Inspection Service (FSIS): Performance and licensing user charges. Through a variety of activities, including slaughter and processing plant inspections, FSIS ensures that meat, poultry and egg products are safe, wholesome, and correctly labeled and packaged. The Budget includes a proposal for two new user charges, a performance fee and a licensing fee. The performance fee would be charged to those facilities that have product recalls, are linked to an outbreak of food-borne illness, or require re-sampling and retesting because of positive samples. This fee would be charged each time one of these incidents occurs. The licensing fee is a flat fee for facility applications and renewal activities. This fee is graduated based on the size of the facility.

Grain Inspection, Packers, and Stockyards Administration (GIPSA): User charges. The Administration proposes to establish a fee to cover the cost associated with GIPSA's standardization activities and a licensing fee to cover the cost associated with administering meat packers and stockyards activities.

Animal and Plant Health Inspection Service (APHIS): Inspection and licensing user charges. The Administration proposes to establish user 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 Resource Conservation Service (NRCS): User charges. NRCS assists farmers and ranchers in developing and implementing plans to protect, conserve, and enhance natural resources (soil, water, air, plants, and wildlife habitat). The Budget includes a proposal to begin charging for general conservation planning services.

Department of the Interior

BOEMRE and BLM: Fee on non-producing Federal oil and gas leases. The Budget includes a proposal that is part of a broader Administration initiative to encourage energy development on lands already leased for development. A new $4 per acre fee on non-producing Federal leases on Federal lands and waters would provide a financial incentive for oil and gas companies to either get their leases into production or relinquish them so that the tracts can be re-leased to and developed by new parties. The proposed $4 per acre fee would apply to all new leases and would be indexed annually. In October 2008, the Government Accountability Office (GAO) issued a report critical of past efforts by the Department of the Interior to ensure that companies diligently develop their Federal leases. Although the GAO report focused on administrative actions that the Department could undertake, this proposal requires legislative action. This proposal is similar to other non-producing fee proposals considered by the Congress in the last several years.

BLM: Repeal of Energy Policy Act fee prohibition and mandatory permit funds. Beginning in 2013, the Administration proposes to repeal a provision of the Energy Policy Act that prohibits BLM from charging fees for its services. The Budget proposal would permit BLM to charge a fee for oil and gas permit processing, consistent with recent appropriations provisions, generating offsetting collections that would permit a corresponding reduction in BLM's discretionary funding. In 2012, the Administration proposes to continue the oil and gas permit processing fees imposed by appropriations language, which overrides the Energy Policy Act fee prohibition.

BLM: Reform of Hardrock Mineral Production on Federal Lands. The Administration proposes to institute a leasing process under the Mineral Leasing Act of 1920 for certain minerals (gold, silver, lead, zinc, copper, uranium, and molybdenum) currently covered by the General Mining Law of 1872. After enactment, mining for these metals on Federal lands would be governed by the new leasing process and subject to annual rental payments and a royalty of not less than 5 percent of gross proceeds. Half of the receipts would be distributed to the States in which the leases are located and the remaining half would be retained by the Treasury. Existing mining claims would be exempt from the change to the leasing system, but would be subject to increases in the annual maintenance fees under the General Mining Law of 1872.

Department of Labor (DOL)

Employment and Training Administration: Foreign labor certification fee. Under the Immigration and Nationality Act, employers seeking to hire foreign workers must certify that qualified U.S. workers are not available for the job being offered to a foreign worker and that such hiring would not affect adversely the wages or working conditions of similarly employed U.S. workers. DOL must approve the certification. The Administration proposes to establish a cost-based user fee to be paid by employers requesting permanent labor certifications and H–2B temporary visas for non-agricultural temporary workers. In addition, the Administration proposes to have the fees currently collected for H–2A temporary agricultural visas credited to a DOL account rather than to the general fund of the Treasury.

Environmental Protection Agency (EPA)

Pesticide user charges. All pesticides marketed in the United States must be registered with EPA. Presently, EPA collects fees from entities seeking to register their pesticides and from entities seeking to maintain their registrations. The Administration proposes to better cover the costs of EPA's pesticide registration services by increasing the amount charged for currently authorized pesticide user charges. Amendments to the Federal Insecticide, Fungicide, and Rodenticide Act require EPA to review all registered pesticides on a 15-year cycle to ensure that registrations reflect current science. The Administration's proposed increases to registration and maintenance fees are intended to cover the increased costs posed by these reviews and a greater portion of overall program costs. In addition, although the Federal Food, Drug, and Cosmetic Act requires EPA to collect fees for the establishment and reassessment of pesticide tolerances, the collection of these fees has been blocked through 2012 by statute. The Administration proposes to eliminate this prohibition and collect the tolerance fee beginning in 2012.

Premanufacture notice user charges. EPA presently collects fees from chemical manufacturers seeking to market new chemicals. These fees are authorized by the Toxic Substances Control Act and are subject to a statutory cap. The Administration proposes to lift the cap so that EPA can recover a greater portion of the program cost.

Hazardous waste electronic manifest system. The Resource Conservation and Recovery Act (RCRA) requires transporters of hazardous waste to document information on the waste's generator, destination, quantity, and route. Currently, the tracking system relies on paper copies that are not frequently digitized for data analysis or quality control. The Budget includes a proposal to collect fees from users of a new electronic manifesting system beginning in 2014. Use of electronic records will allow EPA to more efficiently monitor and analyze future waste shipments. Full implementation of the electronic system may reduce industry reporting costs under RCRA by $200 million to $400 million annually.

Federal Communications Commission (FCC)

Wireless Innovation and Infrastructure Initiative. The President's spectrum initiative proposes to reallocate up to 500 megahertz of Federal agency and commercial spectrum bands over the next 10 years in order to increase Americans' access to wireless broadband. To this end, the Administration proposes extending FCC auction authority and providing authority to hold incentive auctions, where current license holders may participate in an auction and receive a share of proceeds. Also, the Administration would provide enhanced flexibility, through the Spectrum Relocation Fund, to help agencies repurpose and relocate from spectrum. Finally, the initiative would allow spectrum licenses for predominantly domestic satellite services to be assigned via competitive bidding, as they had been prior to a 2005 court decision. In total, the initiative is expected to raise more than $27 billion by 2021.

Spectrum license fee authority. To promote efficient use of the electromagnetic spectrum, the Administration proposes to provide the FCC with new authority to use other economic mechanisms, such as fees, as a spectrum management tool. The Commission would be authorized to set user charges on unauctioned spectrum licenses based on spectrum-management principles. Fees would be phased in over time as part of an ongoing rulemaking process to determine the appropriate application and level for fees.

C. User Charge Proposals that are Governmental Receipts

Department of the Interior

Migratory bird hunting and conservation stamp fees. Federal Migratory Bird Hunting and Conservation Stamps, known as "duck stamps," are required for hunting migratory waterfowl. Proceeds from the sale of the stamps are available without further appropriation to acquire important migratory bird breeding areas, migration resting places, and wintering areas.[8] The land and water interests acquired with the duck stamp proceeds establish or supplement existing National Wildlife Refuges. If the price of the duck stamp had been indexed to inflation since 1991, when it was last increased, it would cost $23 today. The Budget includes a proposal to increase the duck stamp price to $25 in 2012.

Corps of Engineers—Civil Works

Reform inland waterways funding. The Administration will work with the Congress to reform the laws governing the Inland Waterways Trust Fund, including increasing the revenue paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this trust fund. 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 of the other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on diesel fuel used in inland waterways commerce does not produce the revenue needed to cover the required 50 percent of these costs.

[8] By law, duck stamp proceeds are available for use without further action by Congress, and, in this way, are similar to offsetting collections.

Table 16–5. OFFSETTING RECEIPTS BY TYPE

(In millions of dollars)

	Actual 2010	Estimate 2011	2012	2013	2014	2015	2016
I. INTRAGOVERNMENTAL RECEIPTS							
A. On Budget							
1. Interfund Receipts							
a. Federal Fund Payments to Trust Funds							
i. Distributed by Agency							
Contributions to social insurance and employee retirement programs							
Military retirement fund	58,619	61,404	63,708	66,096	68,574	71,146	73,813
Supplementary medical insurance	213,710	221,291	229,948	255,456	274,641	294,648	323,568
Proposed Legislation (Non-PAYGO)	....	....	–417	–472	–576	–693	–747
Hospital insurance	13,946	15,818	16,499	19,197	22,823	26,144	28,833
Railroad social security equivalent benefit fund	153	151	160	190	222	242	260
Civilian supplementary retirement contributions	33,567	34,162	33,878	34,611	35,414	36,020	37,027
Unemployment insurance	76,620	54,911	23,402	1,148	1,087	1,053	1,033
Other contributions	848	859	795	783	773	766	761
Rail industry pension fund	314	537	374	335	355	365	374
Subtotal, Contributions to insurance programs	397,777	389,133	368,347	377,344	403,313	429,691	464,922
Other miscellaneous transactions							
Miscellaneous payments	22,317	1,729	1,643	1,593	1,593	1,605	1,635
Other	90	130	150	150	150	150	150
Subtotal, Other miscellaneous transactions	22,407	1,859	1,793	1,743	1,743	1,755	1,785
Subtotal, Distributed by Agency	420,184	390,992	370,140	379,087	405,056	431,446	466,707
ii. Undistributed by Agency							
Employer share, employee retirement (on-budget)							
Civil service retirement and disablity insurance	18,894	18,739	19,161	19,263	19,555	20,158	20,911
Hospital insurance (contribution as employer)	3,292	3,387	3,361	3,436	3,543	3,692	3,879
Military retirement fund	24,893	25,965	27,503	26,794	27,519	27,879	28,072
Other Federal employee retirement	277	275	278	288	297	307	315
Postal Service contributions to Federal Health Benefits	750	646	626	644	673	706	740
Civil Service Retirement and Disability Insurance from Postal Service	2,899	3,707	3,800	3,867	3,987	4,183	4,369
Subtotal, Employer share, employee retirement (on-budget)	51,005	52,719	54,729	54,292	55,574	56,925	58,286
Other miscellaneous transactions							
Interest received by on-budget trust funds	67,268	64,407	67,266	70,140	73,887	82,184	88,396
Proposed Legislation (Non-PAYGO)	....	–66	–403	–1,176	–2,424	–3,998	–5,879
Subtotal, Other miscellaneous transactions	67,268	64,341	66,863	68,964	71,463	78,186	82,517
Subtotal, Undistributed by Agency	118,273	117,060	121,592	123,256	127,037	135,111	140,803
Subtotal, Federal Fund Payments to Trust Funds	538,457	508,052	491,732	502,343	532,093	566,557	607,510
b. Trust fund Payments to Federal Funds							
i. Distributed by Agency							
Personnel benefits							
Quinquennial adjustment of military service credits	....	116	....	....	....	....	....
Subtotal, Personnel benefits	....	116	....	....	....	....	....
Other miscellaneous transactions							
Other	2,003	2,715	2,993	3,211	3,446	3,616	3,618
Subtotal, Other miscellaneous transactions	2,003	2,715	2,993	3,211	3,446	3,616	3,618
Subtotal, Distributed by Agency	2,003	2,831	2,993	3,211	3,446	3,616	3,618
Subtotal, Trust fund Payments to Federal Funds	2,003	2,831	2,993	3,211	3,446	3,616	3,618
Subtotal, Interfund Receipts	540,460	510,883	494,725	505,554	535,539	570,173	611,128
2. Federal Intrafund Receipts							

Table 16–5. OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	Actual 2010	Estimate 2011	2012	2013	2014	2015	2016
a. Distributed by Agency							
General fund payments to retirement and health benefits funds							
DOD retiree health care fund	15,120	15,563	17,181	17,315	18,327	19,628	20,528
Proposed Legislation (Non-PAYGO)	....	....	....	–562	–583	–605	–628
Proposed Legislation (PAYGO)	....	....	....	–29	–78	–113	–169
Employees health benefits fund	5,500	5,500	5,600	5,600	5,700	5,700	5,800
Proposed Legislation (PAYGO)	....	–4,607	–444	–324	–277	–127	29
Miscellaneous Federal retirement funds	519	495	493	476	476	483	469
Subtotal, General fund payments to retirement and health benefits funds	21,139	16,951	22,830	22,476	23,565	24,966	26,029
Interest							
Interest on Government capital in enterprises	674	527	864	1,073	1,703	1,740	1,874
Interest from the Federal Financing Bank	990	1,237	2,479	3,231	4,094	5,153	5,335
Interest received by retirement and health benefits funds	47	100	110	121	131	142	151
Subtotal, Interest	1,711	1,864	3,453	4,425	5,928	7,035	7,360
Other miscellaneous transactions							
Other	4,161	6,338	4,258	4,872	5,436	6,026	6,907
Proposed Legislation (PAYGO)	....	....	–47	–186	–202	–220	–148
Subtotal, Other miscellaneous transactions	4,161	6,338	4,211	4,686	5,234	5,806	6,759
Subtotal, Distributed by Agency	27,011	25,153	30,494	31,587	34,727	37,807	40,148
b. Undistributed by Agency							
Employing agency contributions							
DOD retiree health care fund	11,095	11,316	11,033	12,188	12,927	13,638	14,272
Proposed Legislation (Non-PAYGO)	....	....	117	–759	–805	–850	–889
Employees health benefits	....	....	....	....	....	....	....
Proposed Legislation (PAYGO)	....	3,042	3,173	3,368	3,560	3,760	3,970
Subtotal, Employing agency contributions	11,095	14,358	14,323	14,797	15,682	16,548	17,353
Subtotal, Undistributed by Agency	11,095	14,358	14,323	14,797	15,682	16,548	17,353
Subtotal, Federal Intrafund Receipts	38,106	39,511	44,817	46,384	50,409	54,355	57,501
3. Trust Intrafund Receipts							
a. Distributed by Agency							
Personnel benefits							
Payment to railroad retirement (from off-budget)	6,381	6,468	6,451	6,506	6,585	6,663	6,851
Subtotal, Personnel benefits	6,381	6,468	6,451	6,506	6,585	6,663	6,851
Other miscellaneous transactions							
Other	1	1	1	53	108	117	128
Subtotal, Other miscellaneous transactions	1	1	1	53	108	117	128
Subtotal, Distributed by Agency	6,382	6,469	6,452	6,559	6,693	6,780	6,979
Subtotal, Trust Intrafund Receipts	6,382	6,469	6,452	6,559	6,693	6,780	6,979
Subtotal, On Budget	584,948	556,863	545,994	558,497	592,641	631,308	675,608
B. Off Budget							
1. Interfund Receipts							
a. Federal Fund Payments to Trust Funds							
i. Distributed by Agency							
Personnel benefits							
Old-age, survivors and disablitity, insurance	22,843	102,459	55,047	29,315	34,738	38,747	42,585
Subtotal, Personnel benefits	22,843	102,459	55,047	29,315	34,738	38,747	42,585
Subtotal, Distributed by Agency	22,843	102,459	55,047	29,315	34,738	38,747	42,585
ii. Undistributed by Agency							
Personnel benefits							
Employer share, employee retirement (off-budget)	14,936	15,138	15,205	15,821	16,518	17,389	18,447

Table 16–5. OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	Actual 2010	Estimate 2011	2012	2013	2014	2015	2016
Subtotal, Personnel benefits	14,936	15,138	15,205	15,821	16,518	17,389	18,447
Other miscellaneous transactions							
Interest received by off-budget trust funds	118,502	115,739	113,340	113,180	115,548	119,514	124,799
Subtotal, Other miscellaneous transactions	118,502	115,739	113,340	113,180	115,548	119,514	124,799
Subtotal, Undistributed by Agency	133,438	130,877	128,545	129,001	132,066	136,903	143,246
Subtotal, Federal Fund Payments to Trust Funds	156,281	233,336	183,592	158,316	166,804	175,650	185,831
Subtotal, Interfund Receipts	156,281	233,336	183,592	158,316	166,804	175,650	185,831
Subtotal, Off Budget	156,281	233,336	183,592	158,316	166,804	175,650	185,831
SUBTOTAL, INTRAGOVERNMENTAL RECEIPTS	**741,229**	**790,199**	**729,586**	**716,813**	**759,445**	**806,958**	**861,439**
II. RECEIPTS FROM NON-FEDERAL SOURCES							
A. On Budget							
1. Proprietary Receipts							
a. Federal Fund Receipts							
i. Distributed by Agency							
Fees and other charges for services and special benefits							
Nuclear waste displosal revenues	754	774	778	781	783	785	790
Other	4,402	4,451	4,690	4,945	4,944	4,932	5,006
Proposed Legislation (Non-PAYGO)	....	....	....	33	33	33	33
Proposed Legislation (PAYGO)	....	....	82	100	107	114	117
Subtotal, Fees and other charges for services and special benefits	5,156	5,225	5,550	5,859	5,867	5,864	5,946
Interest							
Interest on foreign loans and deferred foreign collections	23	23	23	23	23	23	23
Interest on deposits and loan accounts	....	....	163	637	1,048	1,165	1,189
Other interest	33,568	61,709	63,437	65,058	68,531	71,429	73,781
Dividends and other earnings	12,142	17,492	21,040	23,240	16,738	14,365	10,610
Subtotal, Interest	45,733	79,224	84,663	88,958	86,340	86,982	85,603
Realization upon loans and investments							
Negative subsidies and downward reestimates	161,849	101,086	23,284	20,458	15,219	11,085	7,678
Proposed Legislation (PAYGO)	....	....	3,955	4,764	4,194	3,915	3,727
Other	53	62	63	64	65	66	66
Subtotal, Realization upon loans and investments	161,902	101,148	27,302	25,286	19,478	15,066	11,471
Sale of Government property							
Sale of land and other real property	130	171	198	180	185	183	185
Proposed Legislation (PAYGO)	....	....	5	10	20	30	30
Other sales of Government property	71	118	98	49	21	8	1
Subtotal, Sale of Government property	201	289	301	239	226	221	216
Sale of products							
Sale of timber and other natural land products	216	170	169	169	172	173	176
Sale of minerals and mineral products	67	202	527	26	26	27	27
Proposed Legislation (PAYGO)	....	....	....	7	5	6	6
Sale of power and other utilities	764	623	671	763	758	686	649
Other	118	128	131	117	130	134	119
Subtotal, Sale of products	1,165	1,123	1,498	1,082	1,091	1,026	977
Other miscellaneous transactions							
Royalties and rents	3,799	4,059	4,451	4,607	4,768	4,886	4,899
Proposed Legislation (PAYGO)	....	....	–50	–43	–45	6	7
Recoveries and refunds	5,210	5,179	5,137	5,285	5,451	5,617	5,738
Proposed Legislation (PAYGO)	....	....	....	2	–37	–66	–76
Gifts and contributions	6	6	6	6	6	6	6
Miscellaneous receipt accounts	3,226	1,820	2,179	2,320	2,366	2,422	2,482

Table 16–5. OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

	Actual 2010	Estimate 2011	2012	2013	2014	2015	2016
Proposed Legislation (PAYGO)	....	....	22	22	22	22	22
Subtotal, Other miscellaneous transactions	12,241	11,064	11,745	12,199	12,531	12,893	13,078
Subtotal, Distributed by Agency	226,398	198,073	131,059	133,623	125,533	122,052	117,291
ii. Undistributed by Agency							
Outer Continental Shelf							
Outer Continental Shelf rents and bonuses	1,073	150	1,297	675	496	562	527
Proposed Legislation (PAYGO)	....	....	25	39	59	75	90
Outer Continental Shelf royalties	3,810	5,073	5,971	6,548	7,487	7,982	8,475
Proposed Legislation (PAYGO)	....	....	50	50	50	....	....
Subtotal, Outer Continental Shelf	4,883	5,223	7,343	7,312	8,092	8,619	9,092
Other miscellaneous transactions							
Sale of major assets	....	....	....	58	62	3,011	2,400
Other undistributed offsetting receipts	....	2,017	4,035	4,035	4,035	4,035	2,017
Subtotal, Other miscellaneous transactions	....	2,017	4,035	4,093	4,097	7,046	4,417
Subtotal, Undistributed by Agency	4,883	7,240	11,378	11,405	12,189	15,665	13,509
Subtotal, Federal Fund Reciepts	231,281	205,313	142,437	145,028	137,722	137,717	130,800
b. Trust Fund Receipts							
i. Distributed by Agency							
Fees and other charges for services and special benefits							
Medicare premiums and other charges	60,814	62,930	68,750	75,023	81,598	88,488	95,793
Proposed Legislation (PAYGO)	....	....	–60	–73	–80	–100	–140
Veterans life insurance (trust funds)	108	95	84	72	62	54	44
Other	5,415	7,703	14,692	18,844	20,678	22,534	23,174
Proposed Legislation (PAYGO)	....	....	–74	–74	–81	–88	–91
Subtotal, Fees and other charges for services and special benefits	66,337	70,728	83,392	93,792	102,177	110,888	118,780
Interest							
Other interest	449	1,695	2,292	2,480	2,620	2,688	2,609
Proposed Legislation (PAYGO)	....	–1,220	–1,830	–510	....	....	....
Dividends and other earnings	1,995	411	259	288	302	305	300
Subtotal, Interest	2,444	886	721	2,258	2,922	2,993	2,909
Realization upon loans and investments							
Negative subsidies and downward reestimates	5	15	....	....	....	....	....
Other	1	1	1	1	1	1	1
Subtotal, Realization upon loans and investments	6	16	1	1	1	1	1
Sale of Government property							
Military assistance program sales (trust funds)	24,011	28,023	27,743	27,188	26,644	25,312	23,413
Subtotal, Sale of Government property	24,011	28,023	27,743	27,188	26,644	25,312	23,413
Other miscellaneous transactions							
Recoveries and refunds	9,275	10,171	10,412	10,569	10,712	10,811	10,909
Proposed Legislation (Non-PAYGO)	....	....	....	84	171	174	176
Proposed Legislation (PAYGO)	....	....	....	51	78	75	71
Gifts and contributions	380	238	230	234	221	221	221
Miscellaneous receipt accounts	115	118	122	127	133	140	147
Subtotal, Other miscellaneous transactions	9,770	10,527	10,764	11,065	11,315	11,421	11,524
Subtotal, Distributed by Agency	102,568	110,180	122,621	134,304	143,059	150,615	156,627
Subtotal, Trust Fund Receipts	102,568	110,180	122,621	134,304	143,059	150,615	156,627
Subtotal, Proprietary Receipts	333,849	315,493	265,058	279,332	280,781	288,332	287,427
2. Offsetting Governmental Receipts							
a. Federal Fund Receipts							
i. Distributed by Agency							
Other miscellaneous transactions							

Table 16–5. OFFSETTING RECEIPTS BY TYPE—Continued
(In millions of dollars)

	Actual 2010	Estimate					
		2011	2012	2013	2014	2015	2016
Regulatory Fees	6,986	7,065	7,193	7,242	7,299	7,370	7,468
Proposed Legislation (PAYGO)	....	....	44	44	50	48	47
Other	137	134	141	142	142	142	143
Subtotal, Other miscellaneous transactions	7,123	7,199	7,378	7,428	7,491	7,560	7,658
Subtotal, Distributed by Agency	7,123	7,199	7,378	7,428	7,491	7,560	7,658
ii. Undistributed by Agency							
Other miscellaneous transactions							
Spectrum auction proceeds	197	150	5,050	800	....	....	....
Proposed Legislation (PAYGO)	....	50	–1,050	6,320	8,665	6,980	3,010
Subtotal, Other miscellaneous transactions	197	200	4,000	7,120	8,665	6,980	3,010
Subtotal, Undistributed by Agency	197	200	4,000	7,120	8,665	6,980	3,010
Subtotal, Federal Fund Receipts	7,320	7,399	11,378	14,548	16,156	14,540	10,668
b. Trust Fund Receipts							
i. Distributed by Agency							
Other miscellaneous transactions							
Regulatory Fees	3	7	7	7	7	7	7
Subtotal, Other miscellaneous transactions	3	7	7	7	7	7	7
Subtotal, Distributed by Agency	3	7	7	7	7	7	7
Subtotal, Trust Fund Receipts	3	7	7	7	7	7	7
Subtotal, Offsetting Governmental Receipts	7,323	7,406	11,385	14,555	16,163	14,547	10,675
Subtotal, On Budget	341,172	322,899	276,443	293,887	296,944	302,879	298,102
B. Off Budget							
1. Proprietary Receipts							
a. Trust Fund Receipts							
i. Distributed by Agency							
Fees and other charges for services and special benefits							
Other	30	31	31	31	31	31	32
Subtotal, Fees and other charges for services and special benefits	30	31	31	31	31	31	32
Other miscellaneous transactions							
Recoveries and refunds	63	63	63	63	63	63	63
Subtotal, Other miscellaneous transactions	63	63	63	63	63	63	63
Subtotal, Distributed by Agency	93	94	94	94	94	94	95
Subtotal, Trust Fund Receipts	93	94	94	94	94	94	95
Subtotal, Proprietary Receipts	93	94	94	94	94	94	95
Subtotal, Off Budget	93	94	94	94	94	94	95
SUBTOTAL, RECEIPTS FROM NON-FEDERAL SOURCES	**341,265**	**322,993**	**276,537**	**293,981**	**297,038**	**302,973**	**298,197**
GRAND TOTAL OFFSETTING RECEIPTS	**1,082,494**	**1,113,192**	**1,006,123**	**1,010,794**	**1,056,483**	**1,109,931**	**1,159,636**

17. TAX EXPENDITURES

The Congressional Budget Act of 1974 (Public Law 93-344) requires that a list of "tax expenditures" be included in the budget. Tax expenditures are defined in the law as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of liability." These exceptions may be viewed as alternatives to other policy instruments, such as spending or regulatory programs.

Identification and measurement of tax expenditures depends importantly on the baseline tax system against which the actual tax system is compared. The tax expenditure estimates presented in this chapter are patterned on a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time.

An important assumption underlying each tax expenditure estimate reported below is that other parts of the Tax Code remain unchanged. The estimates would be different if tax expenditures were changed simultaneously because of potential interactions among provisions. For that reason, this chapter does not present a grand total for the estimated tax expenditures.

Tax expenditures relating to the individual and corporate income taxes are estimated for fiscal years 2010–2016 using two methods of accounting: current revenue effects and present value effects. The present value approach provides estimates of the revenue effects for tax expenditures that generally involve deferrals of tax payments into the future.

A discussion of performance measures and economic effects related to the assessment of the effect of tax expenditures on the achievement of program performance goals is presented in Appendix A. This section is a complement to the Government-wide performance plan required by the Government Performance and Results Act of 1993.

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

All tax expenditure estimates presented here are based upon current tax law enacted as of September 30, 2010. The estimates reflect 2010 Budget Midsession Review economic assumptions. Legislation enacted in 2011 is not reflected in these estimates. On December 17, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 not only extended many tax expenditure provisions, but also changed income tax rates for the years 2011-12 affecting the estimates of many tax expenditures. Given the late passage of this legislation, revised estimates will be released in the spring of 2011 to reflect tax law enacted as of December 31, 2010.

The total revenue effects for tax expenditures for fiscal years 2010–2016 are displayed according to the Budget's functional categories in Table 17–1. Descriptions of the specific tax expenditure provisions follow the tables of estimates and the discussion of general features of the tax expenditure concept.

Two baseline concepts—the normal tax baseline and the reference tax law baseline—are used to identify and estimate tax expenditures.[1] For the most part, the two concepts coincide. However, items treated as tax expenditures under the normal tax baseline, but not the reference tax law baseline, are indicated by the designation "normal tax method" in the tables. The revenue effects for these items are zero using the reference tax rules. The alternative baseline concepts are discussed in detail following the tables.

Table 17–2 reports the respective portions of the total revenue effects that arise under the individual and corporate income taxes separately. The location of the 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 specific tax accounts through which the various provisions are cleared. The ultimate beneficiaries of corporate tax expenditures could be shareholders, employees, customers, or other providers of capital, depending on economic forces.

Table 17–3 ranks the major tax expenditures by the size of their 2012–2016 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 17–1 and 17–2, as well as to the descriptions below.

In the 2005 *Analytical Perspectives*, the treatment of capital gains was changed to exclude the portion of capital gains derived from corporate equity from the estimate of the tax expenditure for preferential tax rates on capital gains. In addition, the preferential rates on qualified dividend income that were enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003 were not identified as a tax expenditure. In this volume, the estimates reflect the pre-2005 methodology where no in-

[1] These baseline concepts are thoroughly discussed in Special Analysis G of the 1985 Budget, where the former is referred to as the pre-1983 method and the latter the post-1982 method.

teraction effects among the various taxes are taken into account. For example, preferences under the personal income tax are evaluated in isolation of additional taxes that may apply under the corporate tax, the payroll tax, the estate tax, and excise taxes. The preferential rate on qualified dividends is identified as a tax expenditure.

Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 17–1, 17–2, and 17–3 do not necessarily equal the increase in Federal revenues (or the change in the budget balance) that would result from repealing these special provisions, for the following reasons.

First, eliminating a tax expenditure may have incentive effects that alter economic behavior. These incentives can affect the resulting magnitudes of the activity or of other tax provisions or Government programs. For example, if capital gains were taxed at ordinary rates, capital gain realizations would be expected to decline, resulting in lower tax receipts. Such behavioral effects are not reflected in the estimates.

Second, tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the tax revenues associated with other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase the revenue costs from other deductions because some taxpayers would be moved into higher tax brackets. Alternatively, repeal of an itemized deduction could lower the revenue cost from other deductions if taxpayers are led to claim the standard deduction instead of itemizing. Similarly, if two provisions were repealed simultaneously, the increase in tax liability could be greater or less than the sum of the two separate tax expenditures, because each is estimated assuming that the other remains in force. In addition, the estimates reported in Table 17–1 are the totals of individual and corporate income tax revenue effects reported in Table 17–2 and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 17–1 should be regarded as approximations.

Present-Value Estimates

The annual value of tax expenditures for tax deferrals is reported on a cash basis in all tables except Table 17–4. Cash-based estimates reflect the difference between taxes deferred in the current year and incoming revenues that are received due to deferrals of taxes from prior years. Although such estimates are useful as a measure of cash flows into the Government, they do not accurately reflect the true economic cost of these provisions. For example, for a provision where activity levels have changed, so that incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be negative, despite the fact that in present-value terms current deferrals have a real cost to the Government. Alternatively, in the case of a newly enacted deferral provision, a cash-based estimate can overstate the real effect on receipts to the Government because the newly deferred taxes will ultimately be received.

Discounted present-value estimates of revenue effects are presented in Table 17–4 for certain provisions that involve tax deferrals or other long-term revenue effects. These estimates complement the cash-based tax expenditure estimates presented in the other tables.

The present-value estimates represent the revenue effects, net of future tax payments that follow from activities undertaken during calendar year 2010 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2010 would cause a deferral of tax payments on wages in 2010 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2010 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

Tax Expenditure Baselines

A tax expenditure is an exception to baseline provisions of the tax structure that usually results in a reduction in the amount of tax owed. The 1974 Congressional Budget Act, which mandated the tax expenditure budget, did not specify the baseline provisions of the tax law. As noted previously, deciding whether provisions are exceptions, therefore, is a matter of judgment. As in prior years, most of this year's tax expenditure estimates are presented using two baselines: the normal tax baseline and the reference tax law baseline. Tax expenditures may take the form of credits, deductions, special exceptions and allowances, and reduce tax liability below the level implied by the baseline tax system.

The normal tax baseline is patterned on a practical variant of a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time. The normal tax baseline allows personal exemptions, a standard deduction, and deduction of expenses incurred in earning income. It is not limited to a particular structure of tax rates, or by a specific definition of the taxpaying unit.

The reference tax law baseline is also patterned on a comprehensive income tax, but it is closer to existing law. Reference law tax expenditures are limited to special exceptions from a generally provided tax rule that serve programmatic functions in a way that is analogous to spending programs. Provisions under the reference law baseline are generally tax expenditures under the normal tax baseline, but the reverse is not always true.

Both the normal and reference tax baselines allow several major departures from a pure comprehensive income tax. For example, under the normal and reference tax baselines:

- Income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as a tax expenditure. Ac-

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016

(In millions of dollars)

		Total from corporations and individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16
National Defense									
1	Exclusion of benefits and allowances to armed forces personnel	12,740	13,290	13,710	12,200	12,680	13,190	13,720	65,500
International affairs:									
2	Exclusion of income earned abroad by U.S. citizens	6,800	5,550	5,400	5,800	6,140	6,430	6,730	30,500
3	Exclusion of certain allowances for Federal employees abroad	970	1,020	1,070	1,120	1,180	1,240	1,300	5,910
4	Inventory property sales source rules exception	2,680	2,910	3,160	3,430	3,730	4,050	4,400	18,770
5	Deferral of income from controlled foreign corporations (normal tax method)	38,130	41,410	42,000	41,810	41,770	43,020	44,240	212,840
6	Deferred taxes for financial firms on certain income earned overseas	2,330	0	0	0	0	0	0	0
General science, space, and technology:									
7	Expensing of research and experimentation expenditures (normal tax method)	3,560	4,610	5,770	6,730	6,970	7,760	7,850	35,080
8	Credit for increasing research activities	5,890	3,850	3,080	2,460	1,960	1,570	1,250	10,320
Energy:									
9	Expensing of exploration and development costs, fuels	400	520	700	540	400	340	320	2,300
10	Excess of percentage over cost depletion, fuels	980	1,070	1,120	1,150	1,170	1,180	1,200	5,820
11	Alternative fuel production credit	170	170	120	90	60	20	0	290
12	Exception from passive loss limitation for working interests in oil and gas properties	30	40	30	30	30	30	30	150
13	Capital gains treatment of royalties on coal	50	50	50	60	60	80	90	340
14	Exclusion of interest on energy facility bonds	20	30	30	30	30	40	40	170
15	Energy production credit [1]	1,540	1,620	1,740	1,900	1,950	1,890	1,770	9,250
16	Energy investment credit [1]	130	170	960	1,690	1,030	480	490	4,650
17	Alcohol fuel credits [2]	70	90	130	110	50	30	10	330
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	20	10	0	0	0	0	0	0
19	Tax credit and deduction for clean-fuel burning vehicles	250	260	140	170	230	390	660	1,590
20	Exclusion of utility conservation subsidies	220	220	220	220	210	210	210	1,070
21	Credit for holding clean renewable energy bonds [4]	70	70	70	70	70	70	70	350
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–50	–150	–150	–130	–110	–80	–50	–520
23	Credit for investment in clean coal facilities	240	400	460	450	360	300	200	1,770
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	760	620	520	420	–580	–1,110	–950	–1,700
25	Natural gas distribution pipelines treated as 15-year property	120	120	100	80	80	80	90	430
26	Amortize all geological and geophysical expenditures over 2 years	150	110	90	60	40	30	30	250
27	Allowance of deduction for certain energy efficient commercial building property	60	80	90	100	70	30	10	300
28	Credit for construction of new energy efficient homes	20	20	20	0	0	0	0	20
29	Credit for energy efficiency improvements to existing homes	3,190	5,530	2,270	0	0	0	0	2,270
30	Credit for energy efficient appliances	150	60	0	0	0	0	0	0
31	Credit for residential energy efficient property	220	220	220	230	230	230	240	1,150
32	Qualified energy conservation bonds [5]	0	10	20	30	30	30	30	140
33	Advanced Energy Property Credit	180	600	900	460	–10	–90	–80	1,180
Natural resources and environment:									
34	Expensing of exploration and development costs, nonfuel minerals	110	110	130	140	140	150	150	710
35	Excess of percentage over cost depletion, nonfuel minerals	770	790	770	740	750	770	780	3,810
36	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	460	460	550	650	710	750	790	3,450
37	Capital gains treatment of certain timber income	50	50	50	60	60	80	90	340
38	Expensing of multiperiod timber growing costs	230	290	290	300	310	330	310	1,540
39	Tax incentives for preservation of historic structures	390	390	400	410	420	430	430	2,090
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	70	60	40	30	10	0	0	80
41	Industrial CO2 capture and sequestration tax credit	20	30	30	40	80	130	170	450
42	Deduction for endangered species recovery expenditures	20	30	30	30	50	50	60	220
Agriculture:									
43	Expensing of certain capital outlays	70	80	100	110	130	130	140	610
44	Expensing of certain multiperiod production costs	140	150	150	170	180	180	180	860
45	Treatment of loans forgiven for solvent farmers	20	20	20	20	20	20	20	100
46	Capital gains treatment of certain income	490	500	520	580	630	780	930	3,440

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16
47	Income averaging for farmers	90	90	90	90	90	100	100	470
48	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100
49	Expensing of reforestation expenditures	50	70	80	80	80	90	90	420
	Commerce and housing:								
	Financial institutions and insurance:								
50	Exemption of credit union income	1,270	1,240	1,310	1,470	1,600	1,710	1,830	7,920
51	Exclusion of interest on life insurance savings	19,910	21,210	22,660	24,220	25,830	27,380	28,970	129,060
52	Special alternative tax on small property and casualty insurance companies	40	40	40	40	40	40	40	200
53	Tax exemption of certain insurance companies owned by tax-exempt organizations	200	200	210	210	210	220	220	1,070
54	Small life insurance company deduction	30	30	30	30	30	30	30	150
55	Exclusion of interest spread of financial institutions	–170	300	550	630	700	760	810	3,450
	Housing:								
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,230	1,260	1,490	1,760	1,920	2,010	2,120	9,300
57	Exclusion of interest on rental housing bonds	1,050	1,080	1,270	1,500	1,640	1,710	1,800	7,920
58	Deductibility of mortgage interest on owner-occupied homes	79,150	88,720	98,550	110,660	122,970	133,300	143,700	609,180
59	Deductibility of State and local property tax on owner-occupied homes	15,120	19,320	24,910	27,000	28,760	30,250	31,370	142,290
60	Deferral of income from installment sales	620	730	830	1,020	1,230	1,420	1,600	6,100
61	Capital gains exclusion on home sales	22,160	27,650	35,200	38,880	42,940	47,420	52,380	216,820
62	Exclusion of net imputed rental income	41,200	46,950	50,640	51,080	58,740	66,860	75,480	302,800
63	Exception from passive loss rules for $25,000 of rental loss	8,790	10,860	13,110	14,830	16,730	18,880	20,200	83,750
64	Credit for low-income housing investments	5,650	5,990	6,290	7,130	7,430	7,580	7,640	36,070
65	Accelerated depreciation on rental housing (normal tax method)	–1,490	–1,670	–1,580	–1,370	–1,100	–890	–700	–5,640
66	Discharge of mortgage indebtedness	1,480	1,390	1,100	250	0	0	0	1,350
67	Credit for homebuyer	13,680	10,410	–2,160	–1,450	–590	–520	–470	–5,190
	Commerce:								
68	Cancellation of indebtedness	750	430	130	–70	–180	–250	–230	–600
69	Exceptions from imputed interest rules	50	50	50	50	50	50	50	250
70	Treatment of qualified dividends	31,050	23,600	0	0	0	0	0	0
71	Capital gains (except agriculture, timber, iron ore, and coal)	36,300	37,560	38,490	43,260	46,880	58,110	69,540	256,280
72	Capital gains exclusion of small corporation stock	50	170	290	300	470	820	850	2,730
73	Step-up basis of capital gains at death	39,520	50,940	61,480	66,090	71,040	76,370	82,100	357,080
74	Carryover basis of capital gains on gifts	1,400	4,790	1,990	2,660	2,850	3,070	3,290	13,860
75	Ordinary income treatment of loss from small business corporation stock sale	60	60	60	60	60	60	60	300
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	–11,130	–13,010	–13,750	–14,380	–14,970	–15,530	–15,840	–74,470
77	Accelerated depreciation of machinery and equipment (normal tax method)	39,790	17,540	24,450	44,290	58,250	68,740	73,950	269,680
78	Expensing of certain small investments (normal tax method)	950	6,710	–710	–2,820	–840	150	930	–3,290
79	Graduated corporation income tax rate (normal tax method)	3,000	3,280	3,220	3,300	3,590	3,770	3,960	17,840
80	Exclusion of interest on small issue bonds	330	340	400	470	510	530	560	2,470
81	Deduction for US production activities	13,140	13,800	14,630	15,510	16,410	17,290	18,160	82,000
82	Special rules for certain film and TV production	50	30	30	10	0	0	0	40
	Transportation:								
83	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100
84	Exclusion of reimbursed employee parking expenses	2,970	3,050	3,180	3,320	3,470	3,620	3,760	17,350
85	Exclusion for employer-provided transit passes	580	510	520	560	590	640	680	2,990
86	Tax credit for certain expenditures for maintaining railroad tracks	50	30	30	10	0	0	0	40
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	240	250	240	230	210	200	190	1,070
	Community and regional development:								
88	Investment credit for rehabilitation of structures (other than historic)	20	20	20	20	20	20	20	100
89	Exclusion of interest for airport, dock, and similar bonds	840	870	1,020	1,210	1,310	1,380	1,450	6,370
90	Exemption of certain mutuals' and cooperatives' income	110	110	110	120	120	120	130	600
91	Empowerment zones and renewal communities	730	500	570	620	630	600	520	2,940
92	New markets tax credit	720	800	810	780	740	660	540	3,530
93	Expensing of environmental remediation costs	10	–130	–140	–140	–130	–120	–110	–640

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16
94	Credit to holders of Gulf Tax Credit Bonds.	80	80	70	50	50	50	50	270
95	Recovery Zone Bonds [6]								
96	Tribal Economic Development Bonds	10	30	30	30	20	20	10	110
	Education, training, employment, and social services:								
	Education:								
97	Exclusion of scholarship and fellowship income (normal tax method)	2,760	3,010	3,130	3,240	3,360	3,480	3,610	16,820
98	HOPE tax credit	0	540	5,410	5,510	5,830	5,770	5,760	28,280
99	Lifetime Learning tax credit	3,490	3,880	5,530	5,660	5,790	5,800	5,840	28,620
100	American Opportunity Tax Credit	15,110	14,400	0	0	0	0	0	0
101	Education Individual Retirement Accounts	60	70	80	80	90	100	100	450
102	Deductibility of student-loan interest	1,480	1,400	900	960	1,030	1,100	1,170	5,160
103	Deduction for higher education expenses	760	0	0	0	0	0	0	0
104	State prepaid tuition plans	1,390	1,580	1,750	1,860	1,950	2,050	2,150	9,760
105	Exclusion of interest on student-loan bonds	550	560	660	790	860	890	940	4,140
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,340	2,400	2,840	3,360	3,660	3,830	4,020	17,710
107	Credit for holders of zone academy bonds [7]	190	200	200	180	160	130	120	790
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	20	20	20	20	20	30	30	120
109	Parental personal exemption for students age 19 or over	2,960	2,990	3,400	3,210	2,950	2,690	2,440	14,690
110	Deductibility of charitable contributions (education)	3,930	4,520	4,900	5,290	5,660	6,040	6,410	28,300
111	Exclusion of employer-provided educational assistance	680	30	0	0	0	0	0	0
112	Special deduction for teacher expenses	160	0	0	0	0	0	0	0
113	Discharge of student loan indebtedness	20	20	20	20	20	20	20	100
114	Qualified school construction bonds [8]	80	210	400	580	650	650	650	2,930
	Training, employment, and social services:								
115	Work opportunity tax credit	1,110	1,020	680	340	160	70	30	1,280
116	Welfare-to-work tax credit	20	10	0	0	0	0	0	0
117	Employer provided child care exclusion	1,220	1,380	1,450	1,570	1,690	1,800	1,900	8,410
118	Employer-provided child care credit	10	0	0	0	0	0	0	0
119	Assistance for adopted foster children	460	500	530	560	600	650	690	3,030
120	Adoption credit and exclusion [9]	660	160	190	110	100	100	90	590
121	Exclusion of employee meals and lodging (other than military)	1,060	1,110	1,170	1,230	1,300	1,370	1,440	6,510
122	Child credit [10]	23,030	18,330	10,580	10,290	9,900	9,430	9,000	49,200
123	Credit for child and dependent care expenses	3,470	1,900	1,710	1,660	1,590	1,500	1,440	7,900
124	Credit for disabled access expenditures	20	20	20	20	20	20	20	100
125	Deductibility of charitable contributions, other than education and health	34,080	39,610	43,110	46,570	49,790	53,120	56,340	248,930
126	Exclusion of certain foster care payments	420	410	410	400	410	400	390	2,010
127	Exclusion of parsonage allowances	660	700	750	800	860	920	980	4,310
128	Employee retention credit for employers in certain federal disaster areas	70	30	10	0	0	0	0	10
129	Exclusion for benefits provided to volunteer EMS and firefighters	70	20	0	0	0	0	0	0
130	Making work pay tax credit [11]	38,850	23,460	0	0	0	0	0	0
	Health:								
131	Exclusion of employer contributions for medical insurance premiums and medical care [12]	160,110	173,750	184,460	196,220	211,470	230,080	248,980	1,071,210
132	Self-employed medical insurance premiums [13]	5,680	6,210	6,690	7,200	7,740	8,310	8,900	38,840
133	Medical Savings Accounts / Health Savings Accounts	1,790	1,880	1,980	2,070	2,210	2,350	2,510	11,120
134	Deductibility of medical expenses	9,090	10,030	10,010	9,930	11,240	13,390	15,450	60,020
135	Exclusion of interest on hospital construction bonds	3,530	3,630	4,290	5,080	5,520	5,790	6,080	26,760
136	Refundable Premium Assistance Tax Credit [14]	0	0	0	0	0	–1,010	–1,530	–2,540
137	Credit for employee health insurance expenses of small business [15]	2,300	2,420	3,440	3,810	4,460	4,740	4,190	20,640
138	Deductibility of charitable contributions (health)	3,850	4,470	4,870	5,250	5,630	6,000	6,360	28,110
139	Tax credit for orphan drug research	470	550	650	770	900	1,060	1,250	4,630
140	Special Blue Cross/Blue Shield deduction	750	715	680	590	530	610	710	3,120
141	Tax credit for health insurance purchased by certain displaced and retired individuals [16]	0	0	0	0	0	0	0	0
142	Distributions from retirement plans for premiums for health and long-term care insurance	260	300	330	360	400	440	490	2,020

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16
	Income security:								
143	Exclusion of railroad retirement system benefits	350	330	310	280	270	260	260	1,380
144	Exclusion of workers' compensation benefits	6,770	7,050	7,410	7,790	8,170	8,570	9,000	40,940
145	Exclusion of public assistance benefits (normal tax method)	640	670	710	750	770	800	830	3,860
146	Exclusion of special benefits for disabled coal miners	40	40	40	40	40	40	40	200
147	Exclusion of military disability pensions	110	110	110	110	110	110	110	550
	Net exclusion of pension contributions and earnings:								
148	Employer plans	39,580	42,200	45,230	46,460	49,460	51,620	53,200	245,970
149	401(k) plans	52,240	62,850	67,590	69,060	71,520	72,880	75,210	356,260
150	Individual Retirement Accounts	12,630	13,930	15,610	16,020	16,220	16,320	16,320	80,490
151	Low and moderate income savers credit	1,130	1,370	1,320	1,320	1,290	1,270	1,290	6,490
152	Keogh plans	13,820	15,030	17,070	19,580	20,940	22,450	23,840	103,880
	Exclusion of other employee benefits:								
153	Premiums on group term life insurance	1,950	1,980	2,080	2,120	2,150	2,190	2,250	10,790
154	Premiums on accident and disability insurance	330	340	350	360	360	370	370	1,810
155	Income of trusts to finance supplementary unemployment benefits	20	30	40	50	60	70	80	300
156	Special ESOP rules	1,400	1,500	1,600	1,700	1,700	1,800	1,900	8,700
157	Additional deduction for the blind	30	40	40	50	50	50	50	240
158	Additional deduction for the elderly	1,890	2,480	2,980	3,170	3,400	3,560	3,590	16,700
159	Tax credit for the elderly and disabled	10	10	10	10	10	0	0	30
160	Deductibility of casualty losses	260	300	320	330	360	380	410	1,800
161	Earned income tax credit [17]	4,910	7,510	8,500	8,730	9,020	9,260	9,550	45,060
162	Exclusion of unemployment insurance benefits	5,220	0	0	0	0	0	0	0
	Social Security:								
	Exclusion of social security benefits:								
163	Social Security benefits for retired workers	21,440	20,300	21,830	23,350	25,070	27,780	31,010	129,040
164	Social Security benefits for disabled workers	7,040	7,180	7,510	7,840	8,150	8,610	9,130	41,240
165	Social Security benefits for spouses, dependents and survivors	3,850	3,160	3,270	3,300	3,320	3,580	3,920	17,390
	Veterans benefits and services:								
166	Exclusion of veterans death benefits and disability compensation	4,130	4,510	5,010	5,520	6,110	6,750	7,460	30,850
167	Exclusion of veterans pensions	210	240	300	330	360	380	400	1,770
168	Exclusion of GI bill benefits	450	810	1,010	1,200	1,330	1,440	1,560	6,540
169	Exclusion of interest on veterans housing bonds	20	10	20	30	30	30	30	140
	General purpose fiscal assistance:								
170	Exclusion of interest on public purpose State and local bonds	30,440	31,260	36,960	43,720	47,570	49,840	52,350	230,440
171	Build America Bonds [18]	0	0	0	0	0	0	0	0
172	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	26,890	37,720	48,640	54,030	59,080	63,470	67,070	292,290
	Interest:								
173	Deferral of interest on U.S. savings bonds	1,180	1,220	1,300	1,320	1,330	1,340	1,360	6,650
	Addendum: Aid to State and local governments:								
	Deductibility of:								
	Property taxes on owner-occupied homes	15,120	19,320	24,910	27,000	28,760	30,250	31,370	142,290
	Nonbusiness State and local taxes other than on owner-occupied homes	26,890	37,720	48,640	54,030	59,080	63,470	67,070	292,290
	Exclusion of interest on State and local bonds for:								
	Public purposes	30,440	31,260	36,960	43,720	47,570	49,840	52,350	230,440
	Energy facilities	20	30	30	30	30	40	40	170
	Water, sewage, and hazardous waste disposal facilities	460	460	550	650	710	750	790	3,450
	Small-issues	330	340	400	470	510	530	560	2,470
	Owner-occupied mortgage subsidies	1,230	1,260	1,490	1,760	1,920	2,010	2,120	9,300
	Rental housing	1,050	1,080	1,270	1,500	1,640	1,710	1,800	7,920
	Airports, docks, and similar facilities	840	870	1,020	1,210	1,310	1,380	1,450	6,370
	Student loans	550	560	660	790	860	890	940	4,140

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

	Total from corporations and individuals							
	2010	2011	2012	2013	2014	2015	2016	2012-16
Private nonprofit educational facilities	2,340	2,400	2,840	3,360	3,660	3,830	4,020	17,710
Hospital construction	3,530	3,630	4,290	5,080	5,520	5,790	6,080	26,760
Veterans' housing	20	10	20	30	30	30	30	140
GO Zone and GO Zone mortgage	90	90	100	120	130	140	140	690
Credit for holders of zone academy bonds	190	200	200	180	160	130	120	790

[1] Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010.

The effect of the grant on outlays (in millions of dollars) is as follows: 2010 $4,210; 2011 $4,260; 2012 $3,350; 2013 $2,850; 2014 $2,140; 2015 $1,520; 2016 $620.

[2] In addition, the alcohol fuel credit results in a reduction in excise tax receipts (in millions of dollars) as follows:
2010 $5680; 2011 $2990; 2012 $0; 2013 $0; 2014 $0; 2015 $0; 2016 $0.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2010 $490 ; 2011 $0; 2012 $0; 2013 $0; 2014 $0; 2015 $0; 2016 $0.

[4] In addition, the provision has outlay effects of (in millions of dollars):
2010 $10 ; 2011 $20; 2012 $30; 2013 $30; 2014 $30; 2015 $30; 2016 $30.

[5] In addition, the provision has outlay effects of (in millions of dollars):
2010 $30 ; 2011 $50; 2012 $60; 2013 $60; 2014 $60; 2015 $60; 2016 $60.

[6] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows:
2010 $60, 2011 $120, 2012 $130, 2013 $130, 2014 $130, 2015 $130, 2016 $130.

[7] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars):
2010 $10 ; 2011 $20; 2012 $30; 2013 $30; 2014 $30; 2015 $30; 2016 $30.

[8] In addition, the provision has outlay effects of (in millions of dollars):
2010 $460 ; 2011 $850; 2012 $1020; 2013 $1020; 2014 $1020; 2015 $1020; 2016 $1020.

[9] 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: 2010 $940 and 2011 $410.

[10] 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: 2010 $24,470; 2011 $24,170; 2012 $1,470; 2013 $1,460; 2014 $1,440; 2015 $1,440; and 2016 $,1420.

[11] The figures in the table indicate the effect of the making work pay tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:
2010 $21,410 and 2011 $20,490.

[12] 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: 2010 $103,980; 2011 $107,770; 2012 $113,050; 2013 $118,250; 2014 $124,860; 2015 $133,130; and 2016 $141,330.

[13] In 2010 only, there is an additional exclusion of self-employed insurance premiums from payroll taxes. The effect on payroll tax receipts FY 2010 (in millions of dollars) is $1,570.

[14] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 $16,010; 2015 $32,900; and 2016 $43,840.

[15] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2011 $180; 2012 $260; 2013 $290; 2014 $340; 2015 $360; and 2016 $320.

[16] 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: 2010 $200; 2011 $150; 2012 $130; 2013 $130; 2014 $140; 2015 $150; and 2016 $150.

[17] 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: 2010 $54,740; 2011 $54,960; 2012 $43,980; 2013 $43,860; 2014 $44,130; 2015 $44,380; and 2016 $44,910.

[18] In addition, Build America Bonds have outlay effects of (in millions of dollars): 2010 $1,850; 2011 $2,590; 2012 $2,860; 2013 $2,760; 2014 $2,650; 2015 $2,550, and 2016 $2,450.

Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method.

All estimates have been rounded to the nearest $10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016

(In millions of dollars)

		Corporations								Individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
	National Defense																
1	Exclusion of benefits and allowances to armed forces personnel									12,740	13,290	13,710	12,200	12,680	13,190	13,720	65,500
	International affairs:																
2	Exclusion of income earned abroad by U.S. citizens									6,800	5,550	5,400	5,800	6,140	6,430	6,730	30,500
3	Exclusion of certain allowances for Federal employees abroad									970	1020	1070	1120	1180	1240	1300	5,910
4	Inventory property sales source rules exception	2,680	2,910	3,160	3,430	3,730	4,050	4,400	18,770								
5	Deferral of income from controlled foreign corporations (normal tax method)	38,130	41,410	42,000	41,810	41,770	43,020	44,240	212,840								
6	Deferred taxes for financial firms on certain income earned overseas	2,330	0	0	0	0	0	0	0								
	General science, space, and technology:																
7	Expensing of research and experimentation expenditures (normal tax method)	3220	4250	5390	6330	6550	7310	7380	32,960	340	360	380	400	420	450	470	2,120
8	Credit for increasing research activities	5770	3850	3080	2460	1960	1570	1250	10,320	120	0	0	0	0	0	0	0
	Energy:																
9	Expensing of exploration and development costs, fuels	350	460	610	470	350	300	280	2,010	50	60	90	70	50	40	40	290
10	Excess of percentage over cost depletion, fuels	830	910	950	970	990	1,000	1,020	4,930	150	160	170	180	180	180	180	890
11	Alternative fuel production credit	160	160	110	80	60	20	0	270	10	10	10	10	0	0	0	20
12	Exception from passive loss limitation for working interests in oil and gas properties									30	40	30	30	30	30	30	150
13	Capital gains treatment of royalties on coal									50	50	50	60	60	80	90	340
14	Exclusion of interest on energy facility bonds	10	10	10	10	10	10	10	50	10	20	20	20	20	30	30	120
15	Energy production credit [1]	1,370	1,430	1,510	1,620	1,640	1,580	1,460	7,810	170	190	230	280	310	310	310	1,440
16	Energy investment credit [1]	100	120	720	1260	790	390	400	3,560	30	50	240	430	240	90	90	1,090
17	Alcohol fuel credits [2]	60	70	110	80	40	20	10	260	10	20	20	30	10	10	0	70
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	20	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0
19	Tax credit and deduction for clean-fuel burning vehicles	70	40	20	10	20	50	70	170	180	220	120	160	210	340	590	1,420
20	Exclusion of utility conservation subsidies	10	10	10	10	10	10	10	50	210	210	210	210	200	200	200	1,020
21	Credit for holding clean renewable energy bonds [4]	20	20	20	20	20	20	20	100	50	50	50	50	50	50	50	250
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–50	–150	–150	–130	–110	–80	–50	–520								
23	Credit for investment in clean coal facilities	240	400	460	450	360	300	200	1,770								
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	760	620	520	420	–580	–1110	–950	–1,700								
25	Natural gas distribution pipelines treated as 15-year property	120	120	100	80	80	80	90	430								
26	Amortize all geological and geophysical expenditures over 2 years	120	90	70	50	30	20	20	190	30	20	20	10	10	10	10	60
27	Allowance of deduction for certain energy efficient commercial building property	50	60	70	80	50	20	10	230	10	20	20	20	20	10	0	70
28	Credit for construction of new energy efficient homes	10	10	10	0	0	0	0	10	10	10	10	0	0	0	0	10
29	Credit for energy efficiency improvements to existing homes	0	0	0	0	0	0	0	0	3,190	5,530	2,270	0	0	0	0	2,270
30	Credit for energy efficient appliances	150	60	0	0	0	0	0	0								
31	Credit for residential energy efficient property									220	220	220	230	230	230	240	1,150
32	Qualified energy conservation bonds [5]	0	0	10	10	10	10	10	50	0	10	10	20	20	20	20	90
33	Advanced Energy Property Credit	160	540	810	410	–10	–80	–70	1,060	20	60	90	50	0	–10	–10	120

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Corporations								Individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
	Natural resources and environment:																
34	Expensing of exploration and development costs, nonfuel minerals	110	110	120	130	130	140	140	660	0	0	10	10	10	10	10	50
35	Excess of percentage over cost depletion, nonfuel minerals	720	740	720	690	700	720	730	3,560	50	50	50	50	50	50	50	250
36	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	150	130	180	220	230	230	240	1,100	310	330	370	430	480	520	550	2,350
37	Capital gains treatment of certain timber income									50	50	50	60	60	80	90	340
38	Expensing of multiperiod timber growing costs	150	180	180	190	200	210	190	970	80	110	110	110	110	120	120	570
39	Tax incentives for preservation of historic structures	300	300	310	310	320	330	330	1,600	90	90	90	100	100	100	100	490
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	50	40	30	20	10	0	0	60	20	20	10	10	0	0	0	20
41	Industrial CO2 capture and sequestration tax credit	20	30	30	40	80	130	170	450								
42	Deduction for endangered species recovery expenditures	10	20	20	20	30	30	40	140	10	10	10	10	20	20	20	80
	Agriculture:																
43	Expensing of certain capital outlays	0	10	10	10	10	10	10	50	70	70	90	100	120	120	130	560
44	Expensing of certain multiperiod production costs	10	10	10	10	10	10	10	50	130	140	140	160	170	170	170	810
45	Treatment of loans forgiven for solvent farmers									20	20	20	20	20	20	20	100
46	Capital gains treatment of certain income									490	500	520	580	630	780	930	3,440
47	Income averaging for farmers									90	90	90	90	90	100	100	470
48	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100								
49	Expensing of reforestation expenditures	10	10	10	10	10	10	10	50	40	60	70	70	70	80	80	370
	Commerce and housing:																
	Financial institutions and insurance:																
50	Exemption of credit union income	1,270	1,240	1,310	1,470	1,600	1,710	1,830	7,920								
51	Exclusion of interest on life insurance savings	1,500	1,570	1,650	1,740	1,840	1,940	2,050	9,220	18,410	19,640	21,010	22,480	23,990	25,440	26,920	119,840
52	Special alternative tax on small property and casualty insurance companies	40	40	40	40	40	40	40	200								
53	Tax exemption of certain insurance companies owned by tax-exempt organizations	200	200	210	210	210	220	220	1,070								
54	Small life insurance company deduction	30	30	30	30	30	30	30	150								
55	Exclusion of interest spread of financial institutions									–170	300	550	630	700	760	810	3,450
	Housing:																
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	400	360	480	600	620	610	640	2,950	830	900	1,010	1,160	1,300	1,400	1,480	6,350
57	Exclusion of interest on rental housing bonds	340	310	410	510	530	520	540	2,510	710	770	860	990	1,110	1,190	1,260	5,410
58	Deductibility of mortgage interest on owner-occupied homes									79,150	88,720	98,550	110,660	122,970	133,300	143,700	609,180
59	Deductibility of State and local property tax on owner-occupied homes									15,120	19,320	24,910	27,000	28,760	30,250	31,370	142,290
60	Deferral of income from installment sales									620	730	830	1,020	1,230	1,420	1,600	6,100
61	Capital gains exclusion on home sales									22,160	27,650	35,200	38,880	42,940	47,420	52,380	216,820
62	Exclusion of net imputed rental income									41,200	46,950	50,640	51,080	58,740	66,860	75,480	302,800
63	Exception from passive loss rules for $25,000 of rental loss									8,790	10,860	13,110	14,830	16,730	18,880	20,200	83,750
64	Credit for low-income housing investments	5,370	5,690	5,980	6,770	7,060	7,200	7,260	34,270	280	300	310	360	370	380	380	1,800
65	Accelerated depreciation on rental housing (normal tax method)	–30	–30	–30	–30	–20	–20	–10	–110	–1,460	–1,640	–1,550	–1,340	–1,080	–870	–690	–5,530

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Corporations								Individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
66	Discharge of mortgage indebtedness	0	0	0	0	0	0	0	0	1,480	1,390	1,100	250	0	0	0	1,350
67	Credit for homebuyer									13,680	10,410	–2,160	–1,450	–590	–520	–470	–5,190
	Commerce:																
68	Cancellation of indebtedness									750	430	130	–70	–180	–250	–230	–600
69	Exceptions from imputed interest rules									50	50	50	50	50	50	50	250
70	Treatment of qualified dividends									31,050	23,600	0	0	0	0	0	0
71	Capital gains (except agriculture, timber, iron ore, and coal)									36,300	37,560	38,490	43,260	46,880	58,110	69,540	256,280
72	Capital gains exclusion of small corporation stock									50	170	290	300	470	820	850	2,730
73	Step-up basis of capital gains at death									39,520	50,940	61,480	66,090	71,040	76,370	82,100	357,080
74	Carryover basis of capital gains on gifts									1,400	4,790	1,990	2,660	2,850	3,070	3,290	13,860
75	Ordinary income treatment of loss from small business corporation stock sale									60	60	60	60	60	60	60	300
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	–2,440	–2,950	–2,980	–3,150	–3,300	–3,450	–3,310	–16,190	–8,690	–10,060	–10,770	–11,230	–11,670	–12,080	–12,530	–58,280
77	Accelerated depreciation of machinery and equipment (normal tax method)	17,140	5,400	5,300	15,730	24,470	30,950	32,990	109,440	22,650	12,140	19,150	28,560	33,780	37,790	40,960	160,240
78	Expensing of certain small investments (normal tax method)	170	960	–270	–620	–300	–130	10	–1,310	780	5,750	–440	–2,200	–540	280	920	–1,980
79	Graduated corporation income tax rate (normal tax method)	3,000	3,280	3,220	3,300	3,590	3,770	3,960	17,840								
80	Exclusion of interest on small issue bonds	110	100	130	160	160	160	170	780	220	240	270	310	350	370	390	1,690
81	Deduction for US production activities	10010	10510	11140	11810	12500	13170	13830	62,450	3,130	3,290	3,490	3,700	3,910	4,120	4,330	19,550
82	Special rules for certain film and TV production	40	20	20	10	0	0	0	30	10	10	10	0	0	0	0	10
	Transportation:																
83	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100	0	0	0	0	0	0	0	0
84	Exclusion of reimbursed employee parking expenses	0	0	0	0	0	0	0	0	2,970	3,050	3,180	3,320	3,470	3,620	3,760	17,350
85	Exclusion for employer-provided transit passes	0	0	0	0	0	0	0	0	580	510	520	560	590	640	680	2,990
86	Tax credit for certain expenditures for maintaining railroad tracks	40	20	20	10	0	0	0	30	10	10	10	0	0	0	0	10
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	60	60	60	60	50	50	50	270	180	190	180	170	160	150	140	800
	Community and regional development:																
88	Investment credit for rehabilitation of structures (other than historic)	10	10	10	10	10	10	10	50	10	10	10	10	10	10	10	50
89	Exclusion of interest for airport, dock, and similar bonds	270	250	330	410	420	420	440	2,020	570	620	690	800	890	960	1,010	4,350
90	Exemption of certain mutuals' and cooperatives' income	110	110	110	120	120	120	130	600								
91	Empowerment zones and renewal communities	150	100	120	130	130	120	100	600	580	400	450	490	500	480	420	2,340
92	New markets tax credit	650	720	730	700	660	590	480	3,160	70	80	80	80	80	70	60	370
93	Expensing of environmental remediation costs	10	–110	–120	–120	–110	–100	–90	–540	0	–20	–20	–20	–20	–20	–20	–100
94	Credit to holders of Gulf Tax Credit Bonds.	20	20	20	10	10	10	10	60	60	60	50	40	40	40	40	210
95	Recovery Zone Bonds [6]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
96	Tribal Economic Development Bonds	0	10	10	10	10	10	0	40	10	20	20	20	10	10	10	70
	Education, training, employment, and social services:																
	Education:																
97	Exclusion of scholarship and fellowship income (normal tax method)									2,760	3,010	3,130	3,240	3,360	3,480	3,610	16,820
98	HOPE tax credit									0	540	5,410	5,510	5,830	5,770	5,760	28,280
99	Lifetime Learning tax credit									3,490	3,880	5,530	5,660	5,790	5,800	5,840	28,620
100	American Opportunity Tax Credit									15,110	14,400	0	0	0	0	0	0

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Corporations								Individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
101	Education Individual Retirement Accounts									60	70	80	80	90	100	100	450
102	Deductibility of student-loan interest									1,480	1,400	900	960	1,030	1,100	1,170	5,160
103	Deduction for higher education expenses									760	0	0	0	0	0	0	0
104	State prepaid tuition plans									1,390	1,580	1,750	1,860	1,950	2,050	2,150	9,760
105	Exclusion of interest on student-loan bonds	180	160	210	270	280	270	280	1,310	370	400	450	520	580	620	660	2,830
106	Exclusion of interest on bonds for private nonprofit educational facilities	760	690	910	1,150	1,180	1,170	1,210	5,620	1580	1710	1930	2210	2480	2660	2810	12,090
107	Credit for holders of zone academy bonds [7]	190	200	200	180	160	130	120	790								
108	Exclusion of interest on savings bonds redeemed to finance educational expenses									20	20	20	20	20	30	30	120
109	Parental personal exemption for students age 19 or over									2,960	2,990	3,400	3,210	2,950	2,690	2,440	14,690
110	Deductibility of charitable contributions (education)	620	650	690	740	790	840	890	3,950	3,310	3,870	4,210	4,550	4,870	5,200	5,520	24,350
111	Exclusion of employer-provided educational assistance									680	30	0	0	0	0	0	0
112	Special deduction for teacher expenses									160	0	0	0	0	0	0	0
113	Discharge of student loan indebtedness									20	20	20	20	20	20	20	100
114	Qualified school construction bonds [8]	30	60	110	150	160	160	160	740	50	150	290	430	490	490	490	2,190
	Training, employment, and social services:																
115	Work opportunity tax credit	860	770	550	290	130	60	20	1,050	250	250	130	50	30	10	10	230
116	Welfare-to-work tax credit	10	10	0	0	0	0	0	0	10	0	0	0	0	0	0	0
117	Employer provided child care exclusion									1220	1380	1450	1570	1690	1800	1900	8,410
118	Employer-provided child care credit	10	0	0	0	0	0	0	0								0
119	Assistance for adopted foster children									460	500	530	560	600	650	690	3,030
120	Adoption credit and exclusion [9]									660	160	190	110	100	100	90	590
121	Exclusion of employee meals and lodging (other than military)									1,060	1,110	1,170	1,230	1,300	1,370	1,440	6,510
122	Child credit [10]									23,030	18,330	10,580	10,290	9,900	9,430	9,000	49,200
123	Credit for child and dependent care expenses									3,470	1,900	1,710	1,660	1,590	1,500	1,440	7,900
124	Credit for disabled access expenditures	10	10	10	10	10	10	10	50	10	10	10	10	10	10	10	50
125	Deductibility of charitable contributions, other than education and health	1,370	1,430	1,510	1,600	1,690	1,770	1860	8,430	32,710	38,180	41,600	44,970	48,100	51,350	54,480	240,500
126	Exclusion of certain foster care payments									420	410	410	400	410	400	390	2,010
127	Exclusion of parsonage allowances									660	700	750	800	860	920	980	4,310
128	Employee retention credit for employers in certain federal disaster areas	50	20	10	0	0	0	0	10	20	10	0	0	0	0	0	0
129	Exclusion for benefits provided to volunteer EMS and firefighters	0	0	0	0	0	0	0	0	70	20	0	0	0	0	0	0
130	Making work pay tax credit [11]									38,850	23,460	0	0	0	0	0	0
	Health:																
131	Exclusion of employer contributions for medical insurance premiums and medical care [12]									160,110	173,750	184,460	196,220	211,470	230,080	248,980	1,071,210
132	Self-employed medical insurance premiums [13]									5,680	6,210	6,690	7,200	7,740	8,310	8,900	38,840
133	Medical Savings Accounts / Health Savings Accounts									1,790	1,880	1,980	2,070	2,210	2,350	2,510	11,120
134	Deductibility of medical expenses									9,090	10,030	10,010	9,930	11,240	13,390	15,450	60,020
135	Exclusion of interest on hospital construction bonds	1,140	1,040	1,380	1,730	1,780	1,770	1,830	8,490	2,390	2,590	2,910	3,350	3,740	4,020	4,250	18,270
136	Refundable Premium Assistance Tax Credit [14]									0	0	0	0	0	–1,010	–1,530	–2,540
137	Credit for employee health insurance expenses of small business [15]									2,300	2,420	3,440	3,810	4,460	4,740	4,190	20,640
138	Deductibility of charitable contributions (health)	180	190	200	210	230	240	250	1,130	3,670	4,280	4,670	5,040	5,400	5,760	6,110	26,980
139	Tax credit for orphan drug research	470	550	650	770	900	1,060	1,250	4,630								
140	Special Blue Cross/Blue Shield deduction	750	715	680	590	530	610	710	3,120								
141	Tax credit for health insurance purchased by certain displaced and retired individuals [16]									0	0	0	0	0	0	0	0

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

	Corporations								Individuals							
	2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
142 Distributions from retirement plans for premiums for health and long-term care insurance									260	300	330	360	400	440	490	2,020
Income security:																
143 Exclusion of railroad retirement system benefits									350	330	310	280	270	260	260	1,380
144 Exclusion of workers' compensation benefits									6,770	7,050	7,410	7,790	8,170	8,570	9,000	40,940
145 Exclusion of public assistance benefits (normal tax method)									640	670	710	750	770	800	830	3,860
146 Exclusion of special benefits for disabled coal miners									40	40	40	40	40	40	40	200
147 Exclusion of military disability pensions									110	110	110	110	110	110	110	550
Net exclusion of pension contributions and earnings:																
148 Employer plans									39,580	42,200	45,230	46,460	49,460	51,620	53,200	245,970
149 401(k) plans									52,240	62,850	67,590	69,060	71,520	72,880	75,210	356,260
150 Individual Retirement Accounts									12,630	13,930	15,610	16,020	16,220	16,320	16,320	80,490
151 Low and moderate income savers credit									1,130	1,370	1,320	1,320	1,290	1,270	1,290	6,490
152 Keogh plans									13,820	15,030	17,070	19,580	20,940	22,450	23,840	103,880
Exclusion of other employee benefits:																
153 Premiums on group term life insurance									1,950	1,980	2,080	2,120	2,150	2,190	2,250	10,790
154 Premiums on accident and disability insurance									330	340	350	360	360	370	370	1,810
155 Income of trusts to finance supplementary unemployment benefits									20	30	40	50	60	70	80	300
156 Special ESOP rules	950	1,030	1,110	1,180	1,150	1,220	1,290	5,950	450	470	490	520	550	580	610	2,750
157 Additional deduction for the blind									30	40	40	50	50	50	50	240
158 Additional deduction for the elderly									1,890	2,480	2,980	3,170	3,400	3,560	3,590	16,700
159 Tax credit for the elderly and disabled									10	10	10	10	10	0	0	30
160 Deductibility of casualty losses									260	300	320	330	360	380	410	1,800
161 Earned income tax credit [17]									4,910	7,510	8,500	8,730	9,020	9,260	9,550	45,060
162 Exclusion of unemployment insurance benefits									5,220	0	0	0	0	0	0	0
Social Security:																
Exclusion of social security benefits:																
163 Social Security benefits for retired workers									21,440	20,300	21,830	23,350	25,070	27,780	31,010	129,040
164 Social Security benefits for disabled workers									7,040	7,180	7,510	7,840	8,150	8,610	9,130	41,240
165 Social Security benefits for spouses, dependents and survivors									3,850	3,160	3,270	3,300	3,320	3,580	3,920	17,390
Veterans benefits and services:																
166 Exclusion of veterans death benefits and disability compensation									4,130	4,510	5,010	5,520	6,110	6,750	7,460	30,850
167 Exclusion of veterans pensions									210	240	300	330	360	380	400	1,770
168 Exclusion of GI bill benefits									450	810	1,010	1,200	1,330	1,440	1,560	6,540
169 Exclusion of interest on veterans housing bonds	10	0	10	10	10	10	10	50	10	10	10	20	20	20	20	90
General purpose fiscal assistance:																
170 Exclusion of interest on public purpose State and local bonds	9,850	8,990	11,880	14,910	15,340	15,210	15,780	73,120	20,590	22,270	25,080	28,810	32,230	34,630	36,570	157,320
171 Build America Bonds [18]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
172 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes									26,890	37,720	48,640	54,030	59,080	63,470	67,070	292,290
Interest:																
173 Deferral of interest on U.S. savings bonds									1,180	1,220	1,300	1,320	1,330	1,340	1,360	6,650

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

	Corporations								Individuals							
	2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
Addendum: Aid to State and local governments:																
Deductibility of:																
Property taxes on owner-occupied homes									15,120	19,320	24,910	27,000	28,760	30,250	31,370	142,290
Nonbusiness State and local taxes other than on owner-occupied homes									26,890	37,720	48,640	54,030	59,080	63,470	67,070	292,290
Exclusion of interest on State and local bonds for:																
Public purposes	9,850	8,990	11,880	14,910	15,340	15,210	15,780	73,120	20,590	22,270	25,080	28,810	32,230	34,630	36,570	157,320
Energy facilities	10	10	10	10	10	10	10	50	10	20	20	20	20	30	30	120
Water, sewage, and hazardous waste disposal facilities	150	130	180	220	230	230	240	1,100	310	330	370	430	480	520	550	2,350
Small-issues	110	100	130	160	160	160	170	780	220	240	270	310	350	370	390	1,690
Owner-occupied mortgage subsidies	400	360	480	600	620	610	640	2,950	830	900	1,010	1,160	1,300	1,400	1,480	6,350
Rental housing	340	310	410	510	530	520	540	2,510	710	770	860	990	1,110	1,190	1,260	5,410
Airports, docks, and similar facilities	270	250	330	410	420	420	440	2,020	570	620	690	800	890	960	1,010	4,350
Student loans	180	160	210	270	280	270	280	1,310	370	400	450	520	580	620	660	2,830
Private nonprofit educational facilities	760	690	910	1,150	1,180	1,170	1,210	5,620	1,580	1,710	1,930	2,210	2,480	2,660	2,810	12,090
Hospital construction	1,140	1,040	1,380	1,730	1,780	1,770	1,830	8,490	2,390	2,590	2,910	3,350	3,740	4,020	4,250	18,270
Veterans' housing	10	0	10	10	10	10	10	50	10	10	10	20	20	20	20	90
GO Zone and GO Zone mortgage	30	30	30	40	40	40	40	250	60	60	70	80	90	100	100	440
Credit for holders of zone academy bonds	190	200	200	180	160	130	120	790								

[1] Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010. The effect of the grant on outlays (in millions of dollars) is as follows: 2010 $4,210; 2011 $4,260; 2012 $3,350; 2013 $2,850; 2014 $2,140; 2015 $1,520; 2016 $620.

[2] In addition, the alcohol fuel credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2010 $5680; 2011 $2990; 2012 $0; 2013 $0; 2014 $0; 2015 $0; 2016 $0.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2010 $490 ; 2011 $0; 2012 $0; 2013 $0; 2014 $0; 2015 $0; 2016 $0.

[4] In addition, the provision has outlay effects of (in millions of dollars): 2010 $10 ; 2011 $20; 2012 $30; 2013 $30; 2014 $30; 2015 $30; 2016 $30.

[5] In addition, the provision has outlay effects of (in millions of dollars): 2010 $30 ; 2011 $50; 2012 $60; 2013 $60; 2014 $60; 2015 $60; 2016 $60.

[6] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2010 $60, 2011 $120, 2012 $130, 2013 $130, 2014 $130, 2015 $130, 2016 $130.

[7] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2010 $10 ; 2011 $20; 2012 $30; 2013 $30; 2014 $30; 2015 $30; 2016 $30.

[8] In addition, the provision has outlay effects of (in millions of dollars): 2010 $460 ; 2011 $850; 2012 $1020; 2013 $1020; 2014 $1020; 2015 $1020; 2016 $1020.

[9] 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: 2010 $940 and 2011 $410.

[10] 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: 2010 $24,470; 2011 $24,170; 2012 $1,470; 2013 $1,460; 2014 $1,440; 2015 $1,440; and 2016 $,1420.

[11] The figures in the table indicate the effect of the making work pay tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $21,410 and 2011 $20,490.

[12] 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: 2010 $103,980; 2011 $107,770; 2012 $113,050; 2013 $118,250; 2014 $124,860; 2015 $133,130; and 2016 $141,330.

[13] In 2010 only, there is an additional exclusion of self-employed insurance premiums from payroll taxes. The effect on payroll tax receipts FY 2010 (in millions of dollars) is $1,570.

[14] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 $16,010; 2015 $32,900; and 2016 $43,840.

[15] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2011 $180; 2012 $260; 2013 $290; 2014 $340; 2015 $360; and 2016 $320.

[16] 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: 2010 $200; 2011 $150; 2012 $130; 2013 $130; 2014 $140; 2015 $150; and 2016 $150.

[17] 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: 2010 $54,740; 2011 $54,960; 2012 $43,980; 2013 $43,860; 2014 $44,130; 2015 $44,380; and 2016 $44,910.

[18] In addition, Build America Bonds have outlay effects of (in millions of dollars): 2010 $1,850; 2011 $2,590; 2012 $2,860; 2013 $2,760; 2014 $2,650; 2015 $2,550, and 2016 $2,450.

Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method.

All estimates have been rounded to the nearest $10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

Table 17–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2012–2016 PROJECTED REVENUE EFFECT

(In millions of dollars)

	Provision	2012	2012-16
131	Exclusion of employer contributions for medical insurance premiums and medical care	184,460	1,071,210
58	Deductibility of mortgage interest on owner-occupied homes	98,550	609,180
73	Step-up basis of capital gains at death	61,480	357,080
149	401(k) plans	67,590	356,260
62	Exclusion of net imputed rental income	50,640	302,800
172	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	48,640	292,290
77	Accelerated depreciation of machinery and equipment (normal tax method)	24,450	269,680
71	Capital gains (except agriculture, timber, iron ore, and coal)	38,490	256,280
125	Deductibility of charitable contributions, other than education and health	43,110	248,930
148	Employer plans	45,230	245,970
170	Exclusion of interest on public purpose State and local bonds	36,960	230,440
61	Capital gains exclusion on home sales	35,200	216,820
5	Deferral of income from controlled foreign corporations (normal tax method)	42,000	212,840
59	Deductibility of State and local property tax on owner-occupied homes	24,910	142,290
51	Exclusion of interest on life insurance savings	22,660	129,060
163	Social Security benefits for retired workers	21,830	129,040
152	Keogh plans	17,070	103,880
63	Exception from passive loss rules for $25,000 of rental loss	13,110	83,750
81	Deduction for US production activities	14,630	82,000
150	Individual Retirement Accounts	15,610	80,490
1	Exclusion of benefits and allowances to armed forces personnel	13,710	65,500
134	Deductibility of medical expenses	10,010	60,020
122	Child credit	10,580	49,200
161	Earned income tax credit	8,500	45,060
164	Social Security benefits for disabled workers	7,510	41,240
144	Exclusion of workers' compensation benefits	7,410	40,940
132	Self-employed medical insurance premiums	6,690	38,840
64	Credit for low-income housing investments	6,290	36,070
7	Expensing of research and experimentation expenditures (normal tax method)	5,770	35,080
166	Exclusion of veterans death benefits and disability compensation	5,010	30,850
2	Exclusion of income earned abroad by U.S. citizens	5,400	30,500
99	Lifetime Learning tax credit	5,530	28,620
110	Deductibility of charitable contributions (education)	4,900	28,300
98	HOPE tax credit	5,410	28,280
138	Deductibility of charitable contributions (health)	4,870	28,110
135	Exclusion of interest on hospital construction bonds	4,290	26,760
137	Credit for employee health insurance expenses of small business.	3,440	20,640
4	Inventory property sales source rules exception	3,160	18,770
79	Graduated corporation income tax rate (normal tax method)	3,220	17,840
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,840	17,710
165	Social Security benefits for spouses, dependents and survivors	3,270	17,390
84	Exclusion of reimbursed employee parking expenses	3,180	17,350
97	Exclusion of scholarship and fellowship income (normal tax method)	3,130	16,820
158	Additional deduction for the elderly	2,980	16,700
109	Parental personal exemption for students age 19 or over	3,400	14,690
74	Carryover basis of capital gains on gifts	1,990	13,860
133	Medical Savings Accounts / Health Savings Accounts	1,980	11,120
153	Premiums on group term life insurance	2,080	10,790
8	Credit for increasing research activities	3,080	10,320
104	State prepaid tuition plans	1,750	9,760
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,490	9,300
15	New technology credit	1,740	9,250
156	Special ESOP rules	1,600	8,700
117	Employer provided child care exclusion	1,450	8,410
50	Exemption of credit union income	1,310	7,920
57	Exclusion of interest on rental housing bonds	1,270	7,920

Table 17–3.—INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2012–2016 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2012	2012-16
123	Credit for child and dependent care expenses	1,710	7,900
173	Deferral of interest on U.S. savings bonds	1,300	6,650
168	Exclusion of GI bill benefits	1,010	6,540
121	Exclusion of employee meals and lodging (other than military)	1,170	6,510
151	Low and moderate income savers credit	1,320	6,490
89	Exclusion of interest for airport, dock, and similar bonds	1,020	6,370
60	Deferral of income from installment sales	830	6,100
3	Exclusion of certain allowances for Federal employees abroad	1,070	5,910
10	Excess of percentage over cost depletion, fuels	1,120	5,820
102	Deductibility of student-loan interest	900	5,160
16	Energy investment credit	960	4,650
139	Tax credit for orphan drug research	650	4,630
127	Exclusion of parsonage allowances	750	4,310
105	Exclusion of interest on student-loan bonds	660	4,140
145	Exclusion of public assistance benefits (normal tax method)	710	3,860
35	Excess of percentage over cost depletion, nonfuel minerals	770	3,810
92	New markets tax credit	810	3,530
55	Exclusion of interest spread of financial institutions	550	3,450
36	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	550	3,450
46	Capital gains treatment of certain income	520	3,440
140	Special Blue Cross/Blue Shield deduction	680	3,120
119	Assistance for adopted foster children	530	3,030
85	Exclusion for employer-provided transit passes	520	2,990
91	Empowerment zones, Enterprise communities, and Renewal communities	570	2,940
114	Qualified school construction bonds	400	2,930
72	Capital gains exclusion of small corporation stock	290	2,730
80	Exclusion of interest on small issue bonds	400	2,470
9	Expensing of exploration and development costs, fuels	700	2,300
29	Credit for energy efficiency improvements to existing homes	2,270	2,270
39	Tax incentives for preservation of historic structures	400	2,090
142	Distributions from retirement plans for premiums for health and long-term care insurance	330	2,020
126	Exclusion of certain foster care payments	410	2,010
154	Premiums on accident and disability insurance	350	1,810
160	Deductibility of casualty losses	320	1,800
23	Credit for investment in clean coal facilities	460	1,770
167	Exclusion of veterans pensions	300	1,770
19	Tax credit and deduction for clean-fuel burning vehicles	140	1,590
38	Expensing of multiperiod timber growing costs	290	1,540
143	Exclusion of railroad retirement system benefits	310	1,380
66	Discharge of mortgage indebtedness	1,100	1,350
115	Work opportunity tax credit	680	1,280
33	Advanced Energy Property Credit	900	1,180
31	30% credit for residential purchases/installations of solar and fuel cells	220	1,150
20	Exclusion of utility conservation subsidies	220	1,070
53	Tax exemption of certain insurance companies owned by tax-exempt organizations	210	1,070
87	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	240	1,070
44	Expensing of certain multiperiod production costs	150	860
107	Credit for holders of zone academy bonds	200	790
34	Expensing of exploration and development costs, nonfuel minerals	130	710
43	Expensing of certain capital outlays	100	610
90	Exemption of certain mutuals' and cooperatives' income	110	600
120	Adoption credit and exclusion	190	590
147	Exclusion of military disability pensions	110	550
47	Income averaging for farmers	90	470
41	Industrial CO2 capture and sequestration tax credit	30	450
101	Education Individual Retirement Accounts	80	450

Table 17–3.—INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2012–2016 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2012	2012-16
25	Natural gas distribution pipelines treated as 15-year property	100	430
49	Expensing of reforestation expenditures	80	420
21	Credit for holding clean renewable energy bonds	70	350
13	Capital gains treatment of royalties on coal	50	340
37	Capital gains treatment of certain timber income	50	340
17	Alcohol fuel credits	130	330
27	Allowance of deduction for certain energy efficient commercial building property	90	300
75	Ordinary income treatment of loss from small business corporation stock sale	60	300
155	Income of trusts to finance supplementary unemployment benefits	40	300
11	Alternative fuel production credit	120	290
94	Credit to holders of Gulf Tax Credit Bonds.	70	270
26	Amortize all geological and geophysical expenditures over 2 years	90	250
69	Exceptions from imputed interest rules	50	250
157	Additional deduction for the blind	40	240
42	Deduction for endangered species recovery expenditures	30	220
146	Exclusion of special benefits for disabled coal miners	40	200
52	Special alternative tax on small property and casualty insurance companies	40	200
14	Exclusion of interest on energy facility bonds	30	170
12	Exception from passive loss limitation for working interests in oil and gas properties	30	150
54	Small life insurance company deduction	30	150
32	Qualified energy conservation bonds	20	140
169	Exclusion of interest on veterans housing bonds	20	140
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	20	120
96	Tribal Economic Development Bonds	30	110
45	Treatment of loans forgiven for solvent farmers	20	100
48	Deferral of gain on sale of farm refiners	20	100
83	Deferral of tax on shipping companies	20	100
88	Investment credit for rehabilitation of structures (other than historic)	20	100
113	Discharge of student loan indebtedness	20	100
124	Credit for disabled access expenditures	20	100
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	40	80
82	Special rules for certain film and TV production	30	40
86	Tax credit for certain expenditures for maintaining railroad tracks	30	40
159	Tax credit for the elderly and disabled	10	30
28	Credit for construction of new energy efficient homes	20	20
128	Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma	10	10
6	Deferred taxes for financial firms on certain income earned overseas	0	0
18	Bio-Diesel and small agri-biodiesel producer tax credits	0	0
30	Credit for energy efficient appliances	0	0
70	Treatment of qualified dividends	0	0
95	Recovery Zone Bonds	0	0
100	Lifetime Learning tax credit	0	0
103	Deduction for higher education expenses	0	0
111	Exclusion of employer-provided educational assistance	0	0
112	Special deduction for teacher expenses	0	0
116	Welfare-to-work tax credit	0	0
118	Employer-provided child care credit	0	0
129	Exclusion for benefits provided to volunteer EMS and firefighters	0	0
130	Making work pay tax credit	0	0
141	Tax credit for health insurance purchased by certain displaced and retired individuals	0	0
162	Exclusion of unemployment insurance benefits	0	0
171	Build America Bonds	0	0
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–150	–520
68	Cancellation of indebtedness	130	–600
93	Expensing of environmental remediation costs	–140	–640
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	520	–1,700

Table 17–3.—INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2012–2016 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2012	2012-16
136	Refundable Premium Assistance Tax Credit	0	–2,540
78	Expensing of certain small investments (normal tax method)	–710	–3,290
67	Credit for homebuyer	–2,160	–5,190
65	Accelerated depreciation on rental housing (normal tax method)	–1,580	–5,640
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	–13,750	–74,470

crued income would be taxed under a comprehensive income tax.

- There is a separate corporate income tax. Under a comprehensive income tax, corporate income would be taxed only once – at the shareholder level, whether or not distributed in the form of dividends.
- Noncorporate tax rates vary by level of income.
- Individual tax rates, including brackets, standard deduction, and personal exemptions, are allowed to vary with marital status.
- Values of assets and debt are not generally adjusted for inflation. A comprehensive income tax would adjust the cost basis of capital assets and debt for changes in the general price level. Thus, under a comprehensive income tax baseline, the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure (i.e., a tax penalty), and failure to take account of inflation in measuring interest costs would be regarded as a positive tax expenditure (i.e., a tax subsidy).

Although the reference law and normal tax baselines are generally similar, areas of difference include:

Tax rates. The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The

Table 17–4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2010
(In millions of dollars)

	Provision	2010 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method)	23,260
7	Expensing of research and experimentation expenditures (normal tax method)	2,840
21	Credit for holding clean renewable energy bonds	320
9	Expensing of exploration and development costs - fuels	220
34	Expensing of exploration and development costs - nonfuels	40
38	Expensing of multiperiod timber growing costs	120
44	Expensing of certain multiperiod production costs - agriculture	220
43	Expensing of certain capital outlays - agriculture	150
49	Expensing of reforestation expenditures	20
51	Deferral of income on life insurance and annuity contracts	19,180
65	Accelerated depreciation on rental housing	6,570
76	Accelerated depreciation of buildings other than rental	–13,500
77	Accelerated depreciation of machinery and equipment	15,230
78	Expensing of certain small investments (normal tax method)	–40
107	Credit for holders of zone academy bonds	170
64	Credit for low-income housing investments	5,900
104	Deferral for state prepaid tuition plans	8,500
148	Exclusion of pension contributions - employer plans	73,830
149	Exclusion of 401(k) contributions	134,000
150	Exclusion of IRA contributions and earnings	3,800
150	Exclusion of Roth earnings and distributions	11,300
150	Exclusion of non-deductible IRA earnings	510
152	Exclusion of contributions and earnings for Keogh plans	5,710
170	Exclusion of interest on public-purpose bonds	19,600
	Exclusion of interest on non-public purpose bonds	6,690
173	Deferral of interest on U.S. savings bonds	260

normal tax baseline is similar, except that, by convention, it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first $10 million of corporate income are thus regarded as a tax expenditure under the normal tax. By convention, the Alternative Minimum Tax is treated as part of the baseline rate structure under both the reference and normal tax methods.

Income subject to the tax. Income subject to tax is defined as gross income less the costs of earning that income. Under the reference tax rules, gross income does not include gifts defined as receipts of money or property that are not consideration in an exchange nor does gross income include most transfer payments from the Government.[2] The normal tax baseline also excludes gifts between individuals from gross income. Under the normal tax baseline, however, all cash transfer payments from the Government to private individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining taxable income under both the reference and normal tax baselines.[3]

Capital recovery. Under the reference tax law baseline no tax expenditures arise from accelerated depreciation. Under the normal tax baseline, the depreciation allowance for property is computed using estimates of economic depreciation.

Treatment of foreign income. Both the normal and reference tax baselines allow a tax credit for foreign income taxes paid (up to the amount of U.S. income taxes that would otherwise be due), which prevents double taxation of income earned abroad. Under the normal tax method, however, controlled foreign corporations (CFCs) are not regarded as entities separate from their controlling U.S. shareholders. Thus, the deferral of tax on income received by CFCs is regarded as a tax expenditure under this method. In contrast, except for tax haven activities, the reference law baseline follows current law in treating CFCs as separate taxable entities whose income is not subject to U.S. tax until distributed to U.S. taxpayers. Under this baseline, deferral of tax on CFC income is not a tax expenditure because U.S. taxpayers generally are not taxed on accrued, but unrealized, income.

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this chapter follow. These descriptions relate to current law as of September 30, 2010, and do not reflect proposals made elsewhere in the Budget. Legislation enacted in 2010, such as the Haiti Charity, Hiring Incentives to Restore Employment Act, Temporary Extension Act of 2010, Continuing Extension Act of 2010, Homebuyer Assistance and Improvement Act of 2010, tax-related provisions of "The Patient Protection and Affordable Care Act" and the "Reconciliation Act of 2010", and the Small Business Jobs Act of 2010, introduced many changes which for the most part expanded the scope of existing provisions in the Tax Code.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the Act) in addition to ordinary tax rate reductions, introduced many temporary changes that affect tax expenditure estimates not reflected in the tables of this chapter. Businesses incentives include reduced taxes on capital investments by introducing lower capital gains and dividend tax rates, increased section 179 expensing and faster first year depreciation, tax credit for research and experimentation expenses, Indian employment tax credit, New Markets tax credit ($3.5 billion allocation for both 2010 and 2011), 50% tax credit for certain expenditures for maintaining railroad tracks, mine rescue team training credit, employer wage credit for activated military reservists, 15-year straight line cost recovery for qualified leasehold and restaurant improvements, 7-year recovery period for certain motorsports racing track facilities, accelerated depreciation for business property on Indian reservations, election to expense mine safety equipment, special expensing rules for certain film and television productions, expensing of "Brownfields" environmental remediation costs, deduction allowable with respect to income attributable to domestic production activities in Puerto Rico, exception under subpart F for active financing income, empowerment zone tax incentives, tax incentives for investment in the District of Columbia, economic development credit for American Samoa, work opportunity tax credit, alternative fuel vehicle refueling property (non-hydrogen refueling property), premiums for mortgage insurance deductible as interest that is qualified residence interest, extension and modification of section 25C nonbusiness energy property, credit for energy efficient appliances, and special rules applicable to qualified small business stock.

The Act provides tax relief for families and individuals including increased child credit, modified adoption credit, increased dependent care tax credit, and increases in earned income tax credit. Education incentives include extending employer provided educational assistance exclusion for undergraduate courses and graduate level courses, as well as expanding student loan interest deduction, above-the-line deduction of up to $250 for teacher classroom expenses, deduction for qualified tuition and related expenses, extension of American opportunity tax credit, elimination of tax on awards under the National Health Corps Scholarship program and F. Edward Herbert Armed Forces Health Professions Scholarship program, increase arbitrage rebate exception for governmental bonds used to finance qualified school construction from $10 million to $15 million, issuance of tax-exempt private

[2] Gross income does, however, include transfer payments associated with past employment, such as Social Security benefits.

[3] In the case of individuals who hold "passive" equity interests in businesses, the pro-rata shares of sales and expense deductions reportable in a year are limited. A passive business activity is defined generally to be one in which the holder of the interest, usually a partnership interest, does not actively perform managerial or other participatory functions. The taxpayer may generally report no larger deductions for a year than will reduce taxable income from such activities to zero. Deductions in excess of the limitation may be taken in subsequent years, or when the interest is liquidated. In addition, costs of earning income may be limited under the Alternative Minimum Tax.

activity bonds for qualified education facilities with annual State volume caps the greater of $10 per resident or $5 million, and qualified zone academy bonds ($400 million allocation).

The Act's incentives for charitable giving include enhanced charitable deduction for contributions of food inventory, enhanced charitable deduction for contributions of book inventories to public schools, enhanced charitable deduction for corporate contributions of computer inventory for educational purposes, contributions of capital gain real property made for qualified conservation purposes, tax-free distributions from IRAs to certain public charities, and basis adjustment to stock of S corporations making charitable contributions of property.

The Act also provides energy incentives, including incentives for biodiesel and renewable diesel, revised placed-in-service date for facilities eligible to claim the refined coal production credit, credit for construction of energy efficient new homes, incentives for alternative fuel and alternative fuel mixtures (modified to exclude black liquor), special rule to implement electric transmission restructuring, extension of suspension of 100 percent-of-net income limitation on percentage depletion for oil and natural gas from marginal properties, grants for specified energy property in lieu of tax credits, incentives for alcohol fuels, extension of income tax credit for alcohol used as fuel, extension of excise tax credit for alcohol used as fuel, and extension of payment for alcohol fuel mixture.

Other provisions of the Act include the temporary extension of disaster provisions related to New York Liberty Zone and GO Zone, deduction of State and local general sales taxes, parity for exclusion for employer-provided mass transit and parking benefits, among others.

National Defense

1. ***Benefits and allowances to Armed Forces personnel.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. As an example, a rental voucher of $100 is (approximately) equal in value to $100 of cash income. In contrast to this treatment, certain housing and meals, in addition to other benefits provided military personnel, either in cash or in kind, as well as certain amounts of pay related to combat service, are excluded from income subject to tax.

2. ***Income earned abroad.***—Under the baseline tax system, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as a housing allowance. In contrast to this treatment, U.S. tax law allows U.S. citizens who live abroad, work in the private sector, and satisfy a foreign residency requirement to exclude up to $80,000 in foreign earned income from U.S. taxes. In addition, if these taxpayers receive a specific allowance for foreign housing from their employers, then they may also exclude the value of that allowance. If they do not receive a specific allowance for housing expenses, they may exclude from taxable income that portion of such expenses that exceeds one-sixth the salary of a civil servant at grade GS–14, step 1 ($84,697 in 2010).

3. ***Exclusion of certain allowances for Federal employees abroad.***—In general, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as an allowance for the high cost of living abroad. In contrast to this treatment, U.S. Federal civilian employees and Peace Corps members who work outside the continental United States are allowed to exclude from U.S. taxable income certain special allowances they receive to compensate them for the relatively high costs associated with living overseas. The allowances supplement wage income and cover expenses such as rent, education, and the cost of travel to and from the United States.

4. ***Sales source rule exceptions.***—The United States generally taxes the worldwide income of U.S. persons, with taxpayers receiving a credit for foreign taxes paid, limited to the pre-credit U.S. tax on the foreign source income. In contrast, the sales source rules for inventory property allow U.S. exporters to use more foreign tax credits by allowing the exporters to attribute a larger portion of their earnings abroad than would be the case if the allocation of earnings was based on actual economic activity.

5. ***Income of U.S.-controlled foreign corporations.***—The United States generally taxes the worldwide income of U.S. persons and business entities. In contrast, certain active income of foreign corporations controlled by U.S. shareholders is not subject to U.S. taxation when it is earned. The income becomes taxable only when the controlling U.S. shareholders receive dividends or other distributions from their foreign stockholding. The reference law tax baseline reflects this tax treatment where only realized income is taxed. Under the normal tax method, however, the currently attributable foreign source pre-tax income from such a controlling interest is considered to be subject to U.S. taxation, whether or not distributed. Thus, the normal tax method considers the amount of controlled foreign corporation income not yet distributed to a U.S. shareholder as tax-deferred income.

6. ***Exceptions under subpart F for active financing income.***—The United States generally taxes the worldwide income of U.S. persons and business entities. It would not allow the deferral of tax or other relief targeted at particular industries or activities. In contrast, under current law, financial firms may defer taxes on income earned overseas in an active business.

General Science, Space, and Technology

7. ***Expensing R&E expenditures.***—Research and experimentation (R&E) projects can be viewed as investments because, if successful, their benefits accrue for several years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Because of this ambiguity, the reference law baseline tax system would allow of ex-

pensing of R&E expenditures. In contrast, under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years.

8. ***R&E credit.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows an R&E credit of 20 percent of qualified research expenditures in excess of a base amount.

The base amount is generally determined by multiplying a "fixed-base percentage" by the average amount of the company's gross receipts for the prior four years. The taxpayer's fixed base percentage generally is the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers can elect the alternative simplified credit regime, which is equal to 14 percent (12 percent prior to 2009) of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years. Prior to January 1, 2009, taxpayers could also elect an alternative incremental credit regime. Under the alternative incremental credit regime the taxpayer was assigned a three-tiered fixed base percentage that is lower than the fixed-base percentage that would otherwise apply, and the credit rate was reduced. The rates for the alternative incremental credit ranged from 3 percent to 5 percent. Under current law as of September 30, the research credit expired on December 31, 2009.

Energy

9. ***Exploration and development costs.***—Under the baseline tax system, the costs of exploring and developing oil and gas wells would be capitalized and then amortized (or depreciated) over an estimate of the economic life of the well. This insures that the net income from the well is measured appropriately each year.

In contrast to this treatment, current law allows intangible drilling costs for successful investments in domestic oil and gas wells (such as wages, the cost of using machinery for grading and drilling, and the cost of unsalvageable materials used in constructing wells) to be deducted immediately, i.e., expensed. Because it allows recovery of costs sooner, expensing is more generous for the taxpayer than would be amortization. Integrated oil companies may deduct only 70 percent of such costs and must amortize the remaining 30 percent over five years. The same rule applies to the exploration and development costs of surface stripping and the construction of shafts and tunnels for other fuel minerals.

10. ***Percentage depletion.***—The baseline tax system would allow recovery of the costs of developing certain oil and mineral properties using cost depletion. Cost depletion is similar in concept to depreciation, in that the costs of developing or acquiring the asset are capitalized and then gradually reduced over an estimate of the asset's productive life, as is appropriate for measuring net income.

In contrast, the Tax Code generally allows independent fuel and mineral producers and royalty owners to take percentage depletion deductions rather than cost depletion on limited quantities of output. Under percentage depletion, taxpayers deduct a percentage of gross income from mineral production. In certain cases the deduction is limited to a fraction of the asset's net income. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion offers more generous tax treatment than would cost depletion, which would limit deductions to an investment's cost.

11. ***Alternative fuel production credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit of $3 per oil-equivalent barrel of production (in 2004 dollars) for coke or coke gas during a four-year period for qualified facilities. Under current law as of September 30, these facilities must be placed in service before January 1, 2010.

12. ***Oil and gas exception to passive loss limitation.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income.

In contrast to the general restrictions on passive losses, the Tax Code exempts owners of working interests in oil and gas properties from "passive income" limitations, such that the working interest-holder who manages the development of wells and incurs all operating costs on behalf of himself and all other owners may aggregate negative taxable income (i.e., losses) from such interests with his other income. Thus, these taxpayers are able to fully deduct passive losses against nonpassive income, in contradiction to the general prohibition against such deductions.

13. ***Capital gains treatment of royalties on coal.***—For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains.

14. ***Energy facility bonds.***—The baseline tax system generally would tax all income under the regular tax rate

schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance construction of certain energy facilities to be exempt from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

15. ***Energy production credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit for certain electricity produced from wind energy, biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, or qualified hydropower and sold to an unrelated party. In addition to the electricity production credit, an income tax credit is allowed for the production of refined coal and Indian coal at qualified facilities.

16. ***Energy investment credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code provides credits for investments in solar and geothermal energy property, qualified fuel cell power plants, stationary microturbine power plants, geothermal heat pumps, small wind property and combined heat and power property. Owners of renewable power facilities that qualify for the energy production credit may instead elect to take an energy investment credit.

17. ***Alcohol fuel credits.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides an income tax credit for ethanol derived from renewable sources and used as fuel. In lieu of the alcohol mixture credit, the taxpayer may claim a refundable excise tax credit. In addition, small ethanol producers are eligible for a separate income tax credit for ethanol production and a separate income tax credit is available for qualified cellulosic biofuel production.

18. ***Bio-Diesel tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows an income tax credit for biodiesel used or sold and for bio-diesel derived from virgin sources. In lieu of the bio-diesel credit, the taxpayer may claim a refundable excise tax credit. In addition, small agri-biodiesel producers are eligible for a separate income tax credit for ethanol production and a separate credit is available for qualified renewable diesel fuel mixtures.

19. ***Credit for alternative motor vehicles and refueling property.***—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a number of credits for certain types of vehicles and property. These are available for alternative motor vehicles (including fuel cell, advanced lean burn technology, hybrid, and alternative fuel motor vehicles), alternative fuel vehicle refueling property, and plug-ins (including plug-in electric vehicles, plug-in electric drive motor vehicles, and plug-in conversion kits). Under current law as of September 30, the credit expired on December 31, 2010 for non-hydrogen refueling stations.

20. ***Exclusion of utility conservation subsidies.***—The baseline tax system generally takes a comprehensive view of taxable income that includes a wide variety of (measurable) accretions to wealth. In certain circumstances, public utilities offer rate subsidies to non-business customers who invest in energy conservation measures. These rate subsidies are equivalent to payments from the utility to its customer, and so represent accretions to wealth, income, that would be taxable to the customer under the baseline tax system. In contrast, the Tax Code exempts these subsidies from the non-business customer's gross income.

21. ***Credit to holders of clean renewable energy bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides for the issuance of Clean Renewable Energy Bonds which entitles the bond holder to a Federal income tax credit in lieu of interest. The limit on the volume issued in 2009-2010 is $2.4 billion. As of May 2010, issuers of such bonds may opt to receive direct payment with the yield becoming fully taxable.

22. ***Deferral of gain from dispositions of transmission property to implement FERC restructuring policy.***—The baseline tax system generally would tax gains from sale when realized. However, the Tax Code allows utilities to defer gains from the sale of their transmission assets to a FERC-approved independent transmission company.

23. ***Credit for investment in clean coal facilities.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides investment tax credits for clean coal facilities producing electricity and for industrial gasification combined cycle projects.

24. ***Temporary 50 percent expensing for equipment used in the refining of liquid fuels.***—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. However, the Tax Code provides for an accelerated recovery of the cost of certain investments in refineries by allowing partial expensing of the cost, thereby giving such investments a tax advantage.

25. ***Natural gas distribution pipelines treated as 15-year property.***—The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over time. However, the Tax Code allows depreciation of natural gas distribution pipelines (placed in service between 2005 and 2011) over a 15 year period.

These deductions are accelerated relative to deductions based on economic depreciation.

26. ***Amortize all geological and geophysical expenditures over two years.***—The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over time. However, the Tax Code allows geological and geophysical expenditures incurred in connection with oil and gas exploration in the United States to be amortized over two years for non-integrated oil companies.

27. ***Allowance of deduction for certain energy efficient commercial building property.***—The baseline tax system would not allow deductions in addition to normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a deduction, per square foot, for certain energy efficient commercial buildings.

28. ***Credit for construction of new energy efficient homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows contractors a tax credit of $2,000 for the construction of a qualified new energy-efficient home that has an annual level of heating and cooling energy consumption at least 50 percent below the annual consumption of a comparable dwelling unit. The credit equals $1,000 in the case of a new manufactured home that meets a 30 percent standard.

29. ***Credit for energy efficiency improvements to existing homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides an investment tax credit for expenditures made on insulation, exterior windows, and doors that improve the energy efficiency of homes and meet certain standards. The Tax Code also provides a credit for purchases of advanced main air circulating fans, natural gas, propane, or oil furnaces or hot water boilers, and other qualified energy efficient property.

30. ***Credit for energy efficient appliances.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides tax credits for the manufacture of efficient dishwashers, clothes washers, and refrigerators. The size of the credit depends on the efficiency of the appliance.

31. ***Credit for residential energy efficient property.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides a credit for the purchase of a qualified photovoltaic property and solar water heating property, as well as for fuel cell power plants, geothermal heat pumps and small wind property.

32. ***Credit for qualified energy conservation bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides for the issuance of energy conservation bonds which entitle the bond holder to a Federal income tax credit in lieu of interest. The limit on the volume issued in 2009-2010 is $3.2 billion. As of May 2010, issuers of such bonds may 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.

Natural Resources and Environment

34. ***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.

35. ***Percentage depletion.***—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. Under current law, however, most nonfuel mineral extractors may use percentage depletion (whereby the deduction is fixed as a percentage of revenue and can exceed total costs) rather than cost depletion, with percentage depletion rates ranging from 22 percent for sulfur to 5 percent for sand and gravel. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion offers more generous tax treatment than would cost depletion, which would limit deductions to an investment's cost.

36. ***Sewage, water, solid and hazardous waste facility bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance construction of sewage, water, or hazardous waste facilities to be exempt from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

37. ***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 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent.

38. ***Expensing multi-period timber growing costs.***—The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, most of the production costs of growing timber may be expensed under current law rather than capitalized and deducted when the timber is sold, thereby accelerating cost recovery.

39. ***Historic preservation.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, expenditures to preserve and restore certified historic structures qualify for an investment tax credit of 20 percent under current law for certified rehabilitation activities.

40. ***Exclusion of gain or loss on sale or exchange of certain brownfield sites.***—In general, a tax-exempt organization must pay taxes on income from activities unrelated to its nonprofit status. The Tax Code, however, provides a special exclusion from unrelated business taxable income of the gain or loss from the sale or exchange of certain qualifying brownfield properties.

41. ***Industrial CO_2 capture and sequestration tax credit***.—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows a credit of $20 per metric ton for qualified carbon dioxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit of $10 per metric ton of qualified carbon dioxide that is captured at a qualified facility and as a tertiary injectant in a qualified enhanced oil or natural gas recovery project.

42. ***Deduction for endangered species recovery expenditures.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, under current law farmers can deduct up to 25 percent of their gross income for expenses incurred as a result of site and habitat improvement activities that will benefit endangered species on their farm land, in accordance with site specific management actions included in species recovery plans approved pursuant to the Endangered Species Act of 1973.

Agriculture

43. ***Expensing certain capital outlays.***—The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, farmers may expense certain expenditures for feed and fertilizer as well as for soil and water conservation measures as well as other capital improvements under current law.

44. ***Expensing multi-period livestock and crop production costs.***—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. However, the production of livestock and crops with a production period greater than two years (e.g., establishing orchards or constructing barns) is exempt from the uniform cost capitalization rules, thereby accelerating cost recovery.

45. ***Loans forgiven solvent farmers.***—The baseline tax system requires debtors to include the amount of loan forgiveness as income or else reduce their recoverable basis in the property related to the loan. If the amount of forgiveness exceeds the basis, the excess forgiveness is taxable. However, for bankrupt debtors, the amount of loan forgiveness reduces carryover losses, unused credits, and then basis, with the remainder of the forgiven debt excluded from taxation.

46. ***Capital gains treatment of certain income.***—For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Certain agricultural income, such as unharvested crops, qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains.

47. ***Income averaging for farmers.***—The baseline tax system generally taxes all earned income each year at the rate determined by the income tax. However, taxpayers may average their taxable income from farming and fishing over the previous three years.

48. ***Deferral of gain on sales of farm refiners.***—The baseline tax system generally subjects capital gains to taxes the year that they are realized. However, the Tax Code allows a taxpayer who sells stock in a farm refiner to a farmers' cooperative to defer recognition of the gain if the proceeds are re-invested in a qualified replacement property.

49. ***Expensing of reforestation expenditures***.—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. In contrast, the Tax Code provides for the expensing of the first $10,000 in reforestation expenditures with 7-year amortization of the remaining expenses.

Commerce and Housing

This category includes a number of tax expenditure provisions that also affect economic activity in other functional categories. For example, provisions related to investment, such as accelerated depreciation, could be classified under the energy, natural resources and environment, agriculture, or transportation categories.

50. ***Credit union income exemption.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. However, in the Tax Code the earnings of credit unions not distributed to members as interest or dividends are exempt from the income tax.

51. ***Deferral of income on life insurance and annuity contracts.***—Under the baseline tax system, individuals and corporations pay taxes on their income when

it is (actually or constructively) received or accrued, depending on their method of accounting. Nevertheless, the Tax Code provides favorable tax treatment for investment income earned within qualified life insurance and annuity contracts. In general, investment income earned on qualified life insurance contracts held until death is permanently exempt from income tax. Investment income distributed prior to the death of the insured is generally tax-deferred. Investment income earned on annuities benefits from tax deferral.

52. ***Small property and casualty insurance companies.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, stock non-life insurance companies are generally exempt from tax if their gross receipts for the taxable year do not exceed $600,000 and more than 50 percent of such gross receipts consists of premiums. Mutual non-life insurance companies are generally tax-exempt if their annual gross receipts do not exceed $150,000 and more than 35 percent of gross receipts consist of premiums. Also, non-life insurance companies with no more than $1.2 million of annual net premiums may elect to pay tax only on their taxable investment income.

53. ***Insurance companies owned by exempt organizations.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Generally the income generated by life and property and casualty insurance companies is subject to tax, albeit by special rules. Insurance operations conducted by such exempt organizations as fraternal societies, voluntary employee benefit associations, and others, however, are exempt from tax.

54. ***Small life insurance company deduction.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. However, under current law small life insurance companies (with gross assets of less than $500 million) can deduct 60 percent of the first $3 million of otherwise taxable income. The deduction phases out for otherwise taxable income between $3 million and $15 million.

55. ***Exclusion of interest spread of financial institutions.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Consumers and nonprofit organizations pay for some deposit-linked services, such as check cashing, by accepting a below-market interest rate on their demand deposits. If they received a market rate of interest on those deposits and paid explicit fees for the associated services, they would pay taxes on the full market rate and (unlike businesses) could not deduct the fees. The Government thus foregoes tax on the difference between the risk-free market interest rate and below-market interest rates on demand deposits, which under competitive conditions should equal the value added of deposit services.

56. ***Mortgage housing bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance homes purchased by first-time, low-to-moderate-income buyers to be exempt. These bonds are generally subject to the State private-activity-bond annual volume cap.

57. ***Rental housing bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local government bonds used to finance multifamily rental housing projects to be tax-exempt.

58. ***Interest on owner-occupied homes.***—Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services but allows the owner-occupant to deduct mortgage interest paid on his or her primary and secondary residences as an itemized non-business deduction. In general, the mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence, and is also limited to interest on debt of no more than $1 million. Interest on up to $100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided the total debt does not exceed the fair market value of the residence. As an alternative to the deduction, holders of qualified Mortgage Credit Certificates issued by State or Local governmental units or agencies may claim a tax credit of up to 20 percent of the interest expense.

59. ***Taxes on owner-occupied homes.***—Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services but allows the owner-occupant to deduct property taxes paid on his or her primary and secondary residences.

60. ***Installment sales.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates, or deferral of tax, to apply to certain types or sources of income. Dealers in real and personal property (i.e., sellers who regularly hold property for sale or resale) cannot defer taxable income from installment sales until the receipt of the loan repayment. Nondealers (i.e., sellers of real property used in their business) are required to pay interest on deferred taxes attributable to their total installment obligations in excess of $5 million. Only properties with sales prices exceeding $150,000 are includ-

able in the total. The payment of a market rate of interest eliminates the benefit of the tax deferral. The tax exemption for nondealers with total installment obligations of less than $5 million is, therefore, a tax expenditure.

61. ***Capital gains exclusion on home sales.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast, under current law, a homeowner can exclude from tax up to $500,000 ($250,000 for singles) of the capital gains from the sale of a principal residence. The exclusion may not be used more than once every two years.

62. ***Imputed net rental income on owner-occupied housing.***—Under the baseline tax system, the taxable income of a taxpayer who is an owner-occupant would include the implicit value of gross rental income on housing services earned on the investment in owner-occupied housing and would allow a deduction for expenses, such as interest, depreciation, property taxes, and other costs, associated with earning such rental income. In contrast, the Tax Code allows an exclusion from taxable income for the implicit gross rental income on housing services, while in certain circumstances allows a deduction for some costs associated with such income, such as for mortgage interest and property taxes.

63. ***Passive loss real estate exemption.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income.

In contrast to the general restrictions on passive losses, the Tax Code exempts owners of rental real estate activities from "passive income" limitations. The exemption is limited to $25,000 in losses and phases out for taxpayers with income between $100,000 and $150,000.

64. ***Low-income housing credit.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, under current law taxpayers who invest in certain low-income housing are eligible for a tax credit. The credit rate is set so that the present value of the credit is equal to 70 percent for new construction and 30 percent for (1) housing receiving other Federal benefits (such as tax-exempt bond financing), or (2) substantially rehabilitated existing housing. The credit can exceed these levels in certain statutorily defined and State designated areas where project development costs are higher. The credit is allowed in equal amounts over 10 years and is generally subject to a volume cap.

65. ***Accelerated depreciation of residential rental property.***—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the rental property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

66. ***Discharge of mortgage indebtedness.***—Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge of indebtedness of up to $2 million from a qualified principal residence. The provision sunsets on December 31, 2012.

67. ***Credit for homebuyer.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a tax credit for home buyers on purchases before May 1, 2010.

68. ***Cancellation of indebtedness.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law individuals are not required to report the cancellation of certain indebtedness as current income. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled.

69. ***Imputed interest rules.***—Holders (issuers) of debt instruments are generally required to report interest earned (paid) in the period it accrues, not when paid. In addition, the amount of interest accrued is determined by the actual price paid, not by the stated principal and interest stipulated in the instrument. In general, any debt associated with the sale of property worth less than $250,000 is excepted from the general interest accounting rules. This general $250,000 exception is not a tax expenditure under reference law but is under normal law. Exceptions above $250,000 are a tax expenditure under reference law; these exceptions include the following: (1) sales of personal residences worth more than $250,000, and (2) sales of farms and small businesses worth between $250,000 and $1 million.

70. ***Treatment of qualified dividends.***—For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows qualified dividends to be taxed at a preferentially low rate that is no higher than 15 percent.

71. ***Capital gains (other than agriculture, timber, and coal).***—For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule.

It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains on assets held for more than one year to be taxed at a preferentially low rate that is no higher than 15 percent.

72. ***Capital gains exclusion for small business stock.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast, the Tax Code provides an exclusion of 50 percent (from a 28 percent tax rate) for capital gains from qualified small business stock held by individuals for more than 5 years; 75 percent for stock issued after February 17, 2009 and before September 28, 2010; and 100 percent for stock issued after September 27, 2010 and before January 1, 2011. A qualified small business is a corporation whose gross assets do not exceed $50 million as of the date of issuance of the stock.

73. ***Step-up in basis of capital gains at death.***—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death or by gift.. 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.

74. ***Carryover basis of capital gains on gifts.***—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death or by gift.. In contrast, when a gift of appreciated asset is made under current law, the donor's basis in the transferred property (the cost that was incurred when the transferred property was first acquired) carries over to the donee. The carryover of the donor's basis allows a continued deferral of unrealized capital gains.

75. ***Ordinary income treatment of losses from sale of small business corporate stock shares.***—The baseline tax system limits to $3,000 the write-off of losses from capital assets, with carryover of the excess to future years. In contrast, the Tax Code allows up to $100,000 in losses from the sale of small business corporate stock (capitalization less than $1 million) to be treated as ordinary losses and fully deducted.

76. ***Depreciation of non-rental-housing buildings.***—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

77. ***Accelerated depreciation of machinery and equipment.***—Under an economic income tax, the costs of acquiring machinery and equipment are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

78. ***Expensing of certain small investments.***—Under the reference law baseline, the costs of acquiring tangible property and computer software would be depreciated using the Tax Code's depreciation provisions. Under the normal tax baseline, depreciation allowances are estimates of economic depreciation. However, the Tax Code allows qualifying investments by small businesses in tangible property and certain computer software to be expensed rather than depreciated over time.

79. ***Graduated corporation income tax rate schedule.***—Because the corporate rate schedule is part of reference tax law, it is not considered a tax expenditure under the reference method. A flat corporation income tax rate is taken as the baseline under the normal tax method; therefore the lower rate is considered a tax expenditure under this concept.

80. ***Small issue industrial development bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on small issue industrial development bonds (IDBs) issued by State and local governments to finance manufacturing facilities to be tax exempt. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The annual volume of small issue IDBs is subject to the unified volume cap discussed in the mortgage housing bond section above.

81. ***Deduction for U.S. production activities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows for a deduction equal to a portion of taxable income attributable to domestic production.

82. ***Special rules for certain film and TV production.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law taxpayers may deduct up to $15 million per production ($20 million in certain distressed areas) in non-capital expenditures incurred during the year. Under current law as of September 30, the provision expired on December 31, 2009.

Transportation

83. ***Deferral of tax on U.S. shipping companies.***—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows certain companies that operate U.S. flag vessels to defer income taxes on that portion of their income used for shipping purposes, primarily construction, mod-

ernization and major repairs to ships, and repayment of loans to finance these investments.

84. ***Exclusion of employee parking expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income for employee parking expenses that are paid for by the employer or that are received by the employee in lieu of wages. In 2010, the maximum amount of the parking exclusion is \$230 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities.

85. ***Exclusion of employee transit pass expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for passes, tokens, fare cards, and vanpool expenses that are paid for by an employer or that are received by the employee in lieu of wages to defray an employee's commuting costs. The American Recovery and Reinvestment Act of 2009 ("ARRA," Pub. L. 111-5) included a provision that equalized the maximum exclusion amount for these expenses with the maximum exclusion amount for employee parking expenses. In 2010, the maximum amount of the exclusion is \$230 per month. Under current law as of September 30, this provision of the ARRA expired on December 31, 2010.

86. ***Tax credit for certain expenditures for maintaining railroad tracks.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law eligible taxpayers may claim a credit equal to the lesser of 50 percent of maintenance expenditures and the product of \$3,500 and the number of miles of track owned or leased. Under current law as of September 30, the credit expired on December 31, 2009.

87. ***Exclusion of interest on bonds for financing of highway projects and rail-truck transfer facilities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code provides for \$15 billion of tax-exempt bond authority to finance qualified highway or surface freight transfer facilities. The authority to issue these bonds expires on December 31, 2015.

Community and Regional Development

88. ***Rehabilitation of structures.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code allows a 10-percent investment tax credit for the rehabilitation of buildings that are used for business or productive activities and that were erected before 1936 for other than residential purposes. The taxpayer's recoverable basis must be reduced by the amount of the credit.

89. ***Airport, dock, and similar facility bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds issued to finance high-speed rail facilities and Government-owned airports, docks, wharves, and sport and convention facilities to be tax-exempt. These bonds are not subject to a volume cap.

90. ***Exemption of income of mutuals and cooperatives.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. In contrast, the Tax Code provides for the incomes of mutual and cooperative telephone and electric companies to be exempt from tax if at least 85 percent of their revenues are derived from patron service charges.

91. ***Empowerment zones and renewal communities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income, tax credits, and write-offs faster than economic depreciation. In contrast, under current law qualifying businesses in designated economically depressed areas can receive tax benefits such as an employer wage credit, increased expensing of investment in equipment, special tax-exempt financing, accelerated depreciation, and certain capital gains incentives.

92. ***New markets tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law taxpayers who make qualified equity investments in a community development entity (CDE), which then makes qualified investments in low-income communities, are eligible for a tax credit received over 7 years. The total equity investment available for the credit across all CDEs is \$5 billion in 2009. Under current law as of September 30, the credit expired on December 31, 2009.

93. ***Expensing of environmental remediation costs.***—Under the baseline tax system, the costs would be amortized (or depreciated) over an estimate of the economic life of the building. This insures that the net income from the buildings is measured appropriately each year. However, the Tax Code allows taxpayers who clean up certain hazardous substances at a qualified site to expense the clean-up costs, even though the expenses will generally increase the value of the property significantly or appreciably prolong the life of the property.

94. ***Credit to holders of Gulf and Midwest Tax Credit Bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, under current law taxpayers that own Gulf and Midwest Tax Credit bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income.

95. ***Recovery Zone Bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In addition, it would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows local governments to issue up $10 billion in taxable Recovery Zone Economic Development Bonds in 2009 and 2010 and receive a direct payment from Treasury equal to 45 percent of interest expenses. In addition, they would be allowed to allocate up to $15 billion in tax exempt Recovery Zone Facility Bonds. These bonds finance certain kinds of business development in areas of economic distress.

96. ***Tribal Economic Development Bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code was modified in 2009 to allow Indian tribal governments to issue tax exempt "tribal economic development bonds." There is a national bond limitation of $2 billion.

Education, Training, Employment, and Social Services

97. ***Scholarship and fellowship income.***—Scholarships and fellowships are excluded from taxable income to the extent they pay for tuition and course-related expenses of the grantee. Similarly, tuition reductions for employees of educational institutions and their families are not included in taxable income. From an economic point of view, scholarships and fellowships are either gifts not conditioned on the performance of services, or they are rebates of educational costs. Thus, under the baseline tax system of the reference law method, this exclusion is not a tax expenditure because this method does not include either gifts or price reductions in a taxpayer's gross income. The exclusion, however, is considered a tax expenditure under the normal tax method, which includes gift-like transfers of Government funds in gross income (many scholarships are derived directly or indirectly from Government funding).

98. ***HOPE tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable HOPE tax credit allows a credit for 100 percent of an eligible student's first $1,200 of tuition and fees and 50 percent of the next $1,200 of tuition and fees. The credit only covers tuition and fees paid during the first two years of a student's post-secondary education. In 2010, the credit is phased out ratably for taxpayers with modified AGI between $100,000 and $120,000 ($50,000 and $60,000 for singles), 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. The credit is phased out ratably for taxpayers with modified AGI between $100,000 and $120,000 ($50,000 and $60,000 for singles), 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. In contrast, the Tax Code was modified in 2009 to provide a tax credit in 2009 and 2010 of up to $2,500 per eligible student for qualified tuition and related expenses paid for 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).

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. Contributions to an education IRA are not tax-deductible. However, investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student's education expenses. The maximum contribution to an education IRA in 2010 is $2,000 per beneficiary. The maximum contribution is phased down ratably for taxpayers with modified AGI between $190,000 and $220,000 ($95,000 and $110,000 for singles).

102. ***Student-loan interest.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct non-business interest expenses. In contrast, taxpayers may claim an above-the-line deduction of up to $2,500 on interest paid on an education loan. Interest may only be deducted for the first five years in which interest payments are required. In 2010, the maximum deduction is phased down ratably for taxpayers with modified AGI between $120,000 and $150,000 ($60,000 and $75,000 for singles), indexed.

103. ***Deduction for higher education expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides a maximum annual deduction of $4,000 in 2010 for qualified higher education expenses for taxpayers with adjusted gross income up to $130,000 on a joint return ($65,000 for singles). Taxpayers with adjusted gross income up to $160,000 on a joint return ($80,000 for singles) may deduct up to $2,000.

104. ***State prepaid tuition plans.***—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 and prepaid room and board plans, which allow persons to pay in advance for college expenses for designated beneficiaries. Under current law, investment income, or the return on prepayments, is not taxed when earned, and is tax-exempt when withdrawn to pay for qualified expenses.

105. ***Student-loan bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero)

tax rates to apply to certain types or sources of income. In contrast, interest earned on State and local bonds issued to finance student loans is tax-exempt under current law. The volume of all such private activity bonds that each State may issue annually is limited.

106. ***Bonds for private nonprofit educational institutions.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local Government bonds issued to finance the construction of facilities used by private nonprofit educational institutions is not taxed.

107. ***Credit for holders of zone academy bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. Under current law as of September 30, the total amount of zone academy bonds that may be issued is limited to $1.4 billion in 2009 and 2010.

108. ***U.S. savings bonds for education.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, interest earned on U.S. savings bonds issued after December 31, 1989 is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses. The tax exemption is phased out for taxpayers with AGI between $105,100 and $135,100 ($70,100 and $85,100 for singles) in 2010.

109. ***Dependent students age 19 or older.***—Under the baseline tax system, a personal exemption for the taxpayer is allowed. However, additional exemptions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers to claim personal exemptions for dependent children who are over the age of 18 or under the age of 24 and who (1) reside with the taxpayer for over half the year (with exceptions for temporary absences from home, such as for school attendance), (2) are full-time students, and (3) do not claim a personal exemption on their own tax returns.

110. ***Charitable contributions to educational institutions.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers a deduction for contributions to nonprofit educational institutions. Moreover, taxpayers who donate capital assets to educational institutions can deduct the asset's current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

111. ***Employer-provided educational assistance.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, employer-provided educational assistance is excluded from an employee's gross income even though the employer's costs for this assistance are a deductible business expense.

112. ***Special deduction for teacher expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law educators in both public and private elementary and secondary schools, who work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, may subtract up to $250 of qualified expenses when figuring their adjusted gross income (AGI). This provision expired on December 31, 2009.

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 billion over 2009 and 2010. As of May 2010, issuers of such bonds may opt to receive direct payment with the yield becoming fully taxable.

115. ***Work opportunity tax credit (WOTC).***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who begin work on or before August 31, 2011 and who are certified as members of various targeted groups. The amount of the credit that can be claimed is 25 percent of qualified wages for employment less than 400 hours and 40 percent for employment of 400 hours or more. Generally, the maximum credit per employee is $2,400 and can only be claimed on the first year of wages an individual earns from an employer. However, the credit for long-term welfare recipients can be claimed on second year wages as well and has a $9,000 maximum. Employees must work at least 120 hours to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

116. ***Welfare-to-work tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, under current law an employer is eligible for a tax credit on the first $20,000 of eligible wages

paid to qualified long-term family assistance recipients during the first two years of employment. The welfare-to-work credit expired on December 31, 2006. After this date, long-term welfare recipients became a WOTC target group.

117. ***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.

118. ***Employer-provided child care credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, current law provides a credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. Employer deductions for such expenses are reduced by the amount of the credit. The maximum total credit is limited to $150,000 per taxable year.

119. ***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. These payments are excluded from gross income under current law.

120. ***Adoption credit and exclusion.***—The baseline tax system would not allow credits for particular activities. Instead, taxpayers can receive a refundable tax credit for qualified adoption expenses under current law. The maximum credit is $13,170 per child for 2010, and is phased-out ratably for taxpayers with modified AGI between $182,520 and $222,520. The credit amounts and the phase-out thresholds are indexed for inflation. Taxpayers may also exclude qualified adoption expenses 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.

121. ***Employer-provided meals and lodging.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law employer-provided meals and lodging are excluded from an employee's gross income even though the employer's costs for these items are a deductible business expense.

122. ***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. The maximum credit declines to $500 in 2011 and later years. The credit is phased out for taxpayers at the rate of $50 per $1,000 of modified AGI above $110,000 ($75,000 for singles).

123. ***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 married couples with child and dependent care expenses a tax credit when one spouse works full time and the other works at least part time or goes to school. The credit may also be claimed by single parents and by divorced or separated parents who have custody of children. In 2010, expenditures up to a maximum $3,000 for one dependent and $6,000 for two or more dependents are eligible for the credit. The credit is equal to 35 percent of qualified expenditures for taxpayers with incomes of $15,000. The credit is reduced to a minimum of 20 percent by one percentage point for each $2,000 of income in excess of $15,000.

124. ***Disabled access expenditure credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides small businesses (less than $1 million in gross receipts or fewer than 31 full-time employees) a 50-percent credit for expenditures in excess of $250 to remove access barriers for disabled persons. The credit is limited to $5,000.

125. ***Charitable contributions, other than education and health.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers a deduction for contributions to charitable, religious, and certain other nonprofit organizations. Taxpayers who donate capital assets to charitable organizations can deduct the assets' current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

126. ***Foster care payments.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Foster parents provide a home and care for children who are wards of the State, under contract with the State. However, compensation received for this service is excluded from the gross incomes of foster parents; the expenses they incur are nondeductible.

127. ***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.

128. ***Provide an employee retention credit to employers affected by hurricanes Katrina, Rita, Wilma, and Ike.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides tax credits against the wages paid to eligible employees in areas affected by nat-

ural disasters such as hurricanes Katrina, Rita, Wilma, and Ike.

129. ***Exclusion for benefits provided to volunteer EMS and firefighters.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income of certain rebates or reductions of state and local income and property taxes provided by states or localities if the taxpayer is a member of a volunteer emergency response organization. The Tax Code also allows an exclusion from taxable income of certain payments such as reimbursements for expenses or equipment allowances of up to $360 per year provided by states or localities on account of performance of services as a member of a volunteer emergency response organization.

130. ***Making work pay tax credit.***—The baseline tax system would not allow credits for particular activities. In contrast, the Tax Code was modified in 2009 to provide for a tax credit in 2009 and 2010 of the lesser of 6.2 percent of an individual's earned income or $400 ($800 for joint filers). It is phased out at a rate of 2 percent of modified AGI above $75,000 ($150,000 for joint filers).

Health

131. ***Employer-paid medical insurance and expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law, employer-paid health insurance premiums and other medical expenses (including long-term care) are deducted as a business expense by employers, but they are not included in employee gross income.

132. ***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.

133. ***Medical and health savings accounts.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Also, the baseline tax system would not allow a deduction for personal expenditures. In contrast, individual contributions to Archer Medical Savings Accounts (Archer MSAs) and Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether or not the individual itemizes deductions. Employer contributions to Archer MSAs and HSAs are excluded from income and employment taxes. Archer MSAs and HSAs require that the individual have coverage by a qualifying high deductible health plan. Earnings from the accounts are excluded from taxable income. Distributions from the accounts used for medical expenses are not taxable. The rules for HSAs are generally more flexible than for Archer MSAs and the deductible contribution amounts are greater (in 2010, $3050 for taxpayers with individual coverage and $6,150 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

134. ***Medical care expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible. For tax years beginning after 2012, only medical expenditures exceeding 10 percent of the taxpayer's adjusted gross income are deductible. However, for the years 2013, 2014, 2015 and 2016, if either the taxpayer or the taxpayer's spouse turns 65 before the end of the taxable year, the threshold remains at 7.5 percent of adjusted income.

135. ***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.

136. ***Refundable Premium Assistance Tax Credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, for taxable years ending after 2013, the Tax Code provides a premium assistance credit to any eligible taxpayer for any qualified health insurance purchased through a Health Insurance Exchange. In general, an eligible taxpayer is a taxpayer with annual household income between 100% and 400% of the federal poverty level for a family of the taxpayer's size and that does not have access to affordable minimum essential health care coverage. The amount of the credit equals the lesser of (i) the actual premiums paid by the taxpayer for such coverage or (ii) the difference between the cost of a statutorily-identified benchmark plan offered on the exchange and a required payment by the taxpayer that increases with income.

137. ***Credit for employee health insurance expenses of small business.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides a tax credit to qualified small employers that make a certain level of non-elective contributions towards the purchase of certain health insurance coverage for its employees. To receive a credit, an employer must have fewer than 25 full-time-equivalent employees whose average annual full-time-equivalent wages from the employer are less than $50,000 (indexed for taxable years after 2013). However, to receive a full credit, an employer must have no more than 10 full-time employees, and the average wage paid to these employees must be no more than $25,000 (indexed for taxable years after 2013). A qualifying employer may

claim the credit for any taxable year beginning in 2010, 2011, 2012, and 2013 and for up to two years for insurance purchased through a Health Insurance Exchange thereafter. For taxable beginning in 2010, 2011, 2012, and 2013, the maximum credit is 35 percent of premiums paid by qualified taxable employers and 25 percent of premiums paid by qualified tax-exempt organizations. For taxable years beginning in 2014 and later years, the maximum tax credit will increase to 50 percent of premiums paid by qualified taxable employers and 35 percent of premiums paid by qualified tax-exempt organizations.

138. ***Charitable contributions to health institutions.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides individuals and corporations a deduction for contributions to nonprofit health institutions. Tax expenditures resulting from the deductibility of contributions to other charitable institutions are listed under the education, training, employment, and social services function.

139. ***Orphan drugs.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, under current law drug firms can claim a tax credit of 50 percent of the costs for clinical testing required by the Food and Drug Administration for drugs that treat rare physical conditions or rare diseases.

140. ***Blue Cross and Blue Shield.***—The baseline tax system generally would tax all profits under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, Blue Cross and Blue Shield health insurance providers in existence on August 16, 1986 and certain other nonprofit health insurers are provided exceptions from otherwise applicable insurance company income tax accounting rules that substantially reduce their tax liabilities, provided that their percentage of total premium revenue expended on reimbursement for clinical services provided to enrollees is not less than 85 percent for the taxable year.

141. ***Tax credit for health insurance purchased by certain displaced and retired individuals.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Trade Act of 2002 provides a refundable tax credit of 65 percent for the purchase of health insurance coverage by individuals eligible for Trade Adjustment Assistance and certain Pension Benefit Guarantee Corporation pension recipients. The American Recovery and Reinvestment Act increased the credit to 80 percent in coverage months preceding January 1, 2011.

142. ***Distributions for premiums for health and long-term care insurance.***—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, the Tax Code provides for tax-free distributions of up to $3,000 from governmental retirement plans for premiums for health and long term care premiums of public safety officers.

Income Security

143. ***Railroad retirement benefits.***—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, railroad retirement benefits are not generally subject to the income tax unless the recipient's gross income reaches a certain threshold under current law. The threshold is discussed more fully under the Social Security function.

144. ***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, although income to the recipients, are not subject to the income tax under current law.

145. ***Public assistance benefits.***—Under the reference law baseline tax system, gifts and transfers are not treated as income to the recipients. In contrast, the normal tax method considers cash transfers from the Government as part of the recipients' income, and thus, treats the exclusion for public assistance benefits under current law as tax expenditure.

146. ***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.

147. ***Military disability pensions.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, most of the military pension income received by current disabled retired veterans is excluded from their income subject to tax.

148. ***Employer-provided pension contributions and earnings.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law certain employer contributions to pension plans are excluded from an employee's gross income even though the employer can deduct the contributions. In addition, the tax on the investment income earned by pension plans is deferred until the money is withdrawn.

149. ***401(k) plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers can make tax-preferred contributions to certain types of employer-provided 401(k) plans (and 401(k)-type plans like 403(b) plans and the Federal Government's Thrift Savings Plan). In 2010, an employee could exclude up to $16,500 (indexed) of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to $22,000 in contributions (indexed). The tax on contributions and the investment income earned by 401(k)-type plans is deferred until withdrawn.

150. ***Individual Retirement Accounts (IRAs).***—Under the baseline tax system, all compensation, includ-

ing deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers can take advantage of traditional and Roth IRAs to defer or otherwise reduce the tax on the return to their retirement savings. The IRA contribution limit is $5,000 in 2010 (indexed); taxpayers age 50 or over are allowed to make additional "catch-up" contributions of $1,000. Contributions to a traditional IRA are generally deductible but the deduction is phased out for workers with incomes above certain levels who, or whose spouses, are active participants in an employer-provided retirement plan. Contributions and account earnings are includible in income when withdrawn from traditional IRAs. Individuals who make nondeductible contributions to a traditional IRA can still benefit from deferral of tax on earnings. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation under certain conditions. Income limits also apply to Roth IRA contributions; however, taxpayers at any income level may roll account balances from traditional IRAs into Roth IRAs, after paying income tax on any deduction and accrued income.

151. ***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 $55,500 for joint filers and $27,750 for single filers.

152. ***Keogh plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law self-employed individuals can make deductible contributions to their own retirement (Keogh) plans equal to 25 percent of their income, up to a maximum of $49,000 in 2010. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by Keogh plans is deferred until withdrawn.

153. ***Employer-provided life insurance benefits.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law employer-provided life insurance benefits are excluded from an employee's gross income even though the employer's costs for the insurance are a deductible business expense, but only to the extent that the employer's share of the total costs does not exceed the cost of $50,000 of such insurance.

154. ***Employer-provided accident and disability benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, employer-provided accident and disability benefits are excluded from an employee's gross income even though the employer's costs for the benefits are a deductible business expense.

155. ***Employer-provided supplementary unemployment benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Employers may establish trusts to pay supplemental unemployment benefits to employees separated from employment. Investment income earned by such trusts is exempt from taxation.

156. ***Employer Stock Ownership Plan (ESOP) provisions.***—ESOPs are a special type of tax-exempt employee benefit plan. Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, employer-paid contributions (the value of stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes, however, until they are paid out as benefits. In addition, the following special income tax provisions for ESOPs are intended to increase ownership of corporations by their employees: (1) annual employer contributions are subject to less restrictive limitations than other qualified retirement plans; (2) ESOPs may borrow to purchase employer stock, guaranteed by their agreement with the employer that the debt will be serviced by his payment (deductible by him) of a portion of wages (excludable by the employees) to service the loan; (3) employees who sell appreciated company stock to the ESOP may defer any taxes due until they withdraw benefits; and (4) dividends paid to ESOP-held stock are deductible by the employer.

157. ***Additional deduction for the blind.***—Under the baseline tax system, the standard deduction is allowed. However, additional standard deductions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional $1,400 standard deduction if single, or $1,100 if married in 2010.

158. ***Additional deduction for the elderly.***—Under the baseline tax system, the standard deduction is allowed. However, additional standard deductions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years or older to claim an additional $1,400 standard deduction if single, or $1,100 if married in 2010.

159. ***Tax credit for the elderly and disabled.***—Under the baseline tax system, a credit targeted at a specific group within a given filing status or for particular activities would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years of age or older, or who are permanently disabled, to claim a tax credit equal to 15 percent of the sum of their earned and retirement income. The amount to which the 15 percent rate is applied is limited to no more than $5,000 for single individuals or married couples filing a joint return where only one spouse is 65 years of age or older, and up to $7,500 for joint returns where both spouses are 65 years of age or older. 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.

160. ***Casualty losses.***—Under the baseline tax system, neither the purchase of property nor insurance premiums to protect its value are deductible as costs of earning income. Therefore, reimbursement for insured loss of such property is not included as a part of gross income, and uninsured losses are not deductible. In contrast, the Tax Code provides a deduction for uninsured casualty and theft losses of more than $100 each, to the extent that total losses during the year exceed 10 percent of the taxpayer's adjusted gross income.

161. ***Earned income tax credit (EITC).***—The baseline tax system would not allow credits for particular activities or targeted at specific group. In contrast, the Tax Code provides an EITC to low-income workers at a maximum rate of 45 percent of income. For a family with one qualifying child, the credit is 34 percent of the first $8,970 of earned income in 2010. The credit is 40 percent of the first $12,590 of income for a family with two or more qualifying children. The credit is 45 percent of the first $12,590 of income for a family with three or more qualifying children. Low-income workers with no qualifying children are eligible for a 7.65 percent credit on the first $5,980 of earned income. The credit is phased out at income levels and rates which depend upon how many qualifying children are eligible and marital status. Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals.

162. ***Exclusion of unemployment benefits.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast the Tax Code was modified in 2009 to allow an exclusion of up to $2,400 of unemployment insurance benefits from gross income for taxable year 2009.

Social Security

163. ***Social Security benefits for retired workers.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Thus, the portion of Social Security benefits that is attributable to employer contributions and earnings on employer and employee contributions (and not attributable to employee contributions) would be subject to tax. In contrast, the Tax Code may not tax all of the Social Security benefits that exceed the beneficiary's contributions from previously taxed income. Actuarially, previously taxed contributions generally do not exceed 15 percent of benefits, even for retirees receiving the highest levels of benefits. Up to 85 percent of recipients' Social Security and tier 1 railroad retirement benefits are included in (phased into) the income tax base if the recipient's provisional income exceeds certain base amounts. (Provisional income is equal to other items included in adjusted gross income plus foreign or U.S. possession income, tax-exempt interest, and one half of Social Security and tier 1 railroad retirement benefits.) The untaxed portion of the benefits received by taxpayers who are below the income amounts at which 85 percent of the benefits are taxable is counted as a tax expenditure.

164. ***Social Security benefits for the disabled.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, benefit payments from the Social Security Trust Fund for disability are fully or partially excluded from a beneficiary's gross incomes. (See provision number 163, Social Security benefits for retired workers.)

165. ***Social Security benefits for dependents and survivors.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, benefit payments from the Social Security Trust Fund for dependents and survivors are fully or partially excluded from a beneficiary's gross income.

Veterans Benefits and Services

166. ***Veterans death benefits and disability compensation.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. In contrast, all compensation due to death or disability paid by the Veterans Administration is excluded from taxable income under current law.

167. ***Veterans pension payments.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, pension payments made by the Veterans Administration are excluded from gross income.

168. ***G.I. Bill benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, G.I. Bill benefits paid by the Veterans Administration are excluded from gross income.

169. ***Tax-exempt mortgage bonds for veterans.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law, interest earned on general obligation bonds issued by State and local governments to finance housing for veterans is excluded from taxable income.

General Government

170. ***Public purpose State and local bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially

low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government bonds issued to finance public-purpose construction (e.g., schools, roads, sewers), equipment acquisition, and other public purposes is tax-exempt. Interest on bonds issued by Indian tribal governments for essential governmental purposes is also tax-exempt.

171. ***Build America Bonds.***—The baseline tax system would not allow credits for particular activities or targeted at specific group. In contrast, the Tax Code in 2009 allowed State and local governments to issue taxable bonds and receive a direct payment from Treasury equal to 35 percent of interest expenses. Alternatively, State and local governments may issue taxable bonds and the private lenders receive the 35 percent credit which is included in taxable income.

172. ***Deductibility of certain nonbusiness State and local taxes.***—Under the baseline tax system, a deduction for personal consumption expenditures would not be allowed. In contrast, the Tax Code allows taxpayers who itemize their deductions to claim a deduction for State and local income taxes (or, at the taxpayer's election, state and local sales taxes) and property taxes, even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible.

Interest

173. ***U.S. savings bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow an exemption or deferral for particular activities, investments, or industries. In contrast, taxpayers may defer paying tax on interest earned on U.S. savings bonds until the bonds are redeemed.

APPENDIX

Performance Measures and the Economic Effects of Tax Expenditures

The Government Performance and Results Act of 1993 (GPRA) directs Federal agencies to develop annual and strategic plans for their programs and activities. These plans set out performance objectives to be achieved over a specific time period. Most of these objectives are achieved through direct expenditure programs. Tax expenditures – spending programs implemented through the tax code by reducing tax obligations for certain activities -- contribute to achieving these goals in a manner similar to direct expenditure programs.

Tax expenditures by definition work through the tax system and, particularly, the income tax. Thus, they may be relatively advantageous policy approaches when the benefit or incentive is related to income and is intended to be widely available.[4] Because there is an existing public administrative and private compliance structure for the tax system, income based programs that require little oversight might be efficiently run through the tax system. In addition, some tax expenditures actually simplify the operation of the tax system (for example, the exclusion for up to $500,000 of capital gains on home sales). Tax expenditures also implicitly subsidize certain activities in a manner similar to direct expenditures. For example, exempting employer-sponsored health insurance from income taxation is equivalent to a direct spending subsidy equal to the forgone tax obligations for this type of compensation. Spending, regulatory or tax-disincentive policies can also modify behavior, but may have different economic effects. Finally, a variety of tax expenditure tools can be used, e.g., deductions; credits; exemptions; deferrals; floors; ceilings; phase-ins; phase-outs; and these can be dependent on income, expenses, or demographic characteristics (age, number of family members, etc.). This wide range of policy instruments means that tax expenditures can be flexible and can have very different economic effects.

Tax expenditures also have limitations. In many cases they add to the complexity of the tax system, which raises both administrative and compliance costs. For example, personal exemptions, deductions, credits, and phase-outs can complicate filing and decision-making. The income tax system may have little or no contact with persons who have no or very low incomes, and does not require information on certain characteristics of individuals used in some spending programs, such as wealth or duration of employment. These features may reduce the effectiveness of tax expenditures for addressing socioeconomic disparities. Tax expenditures also generally do not enable the same degree of agency discretion as an outlay program. For example, grant or direct Federal service delivery programs can prioritize activities to be addressed with specific resources in a way that is difficult to emulate with tax expenditures.

Outlay programs have advantages where the direct provision of government services is particularly warranted, such as equipping and maintaining the armed forces or administering the system of justice. Outlay programs may also be specifically designed to meet the needs of low-income families who would not otherwise be subject to income taxes or need to file a tax return. Outlay programs may also receive more year-to-year oversight and fine tuning through the legislative and executive budget process. In addition, many different types of spending programs include direct Government provision; credit programs; and payments to State and local governments, the private sector, or individuals in the form of grants or contracts provide flexibility for policy design. On the other hand, certain outlay programs may rely less directly on economic incentives and private-market provision than tax incentives, thereby reducing the relative efficiency

[4] Although this chapter focuses upon tax expenditures under the income tax, tax expenditures also arise under the unified transfer, payroll, and excise tax systems. Such provisions can be useful when they relate to the base of those taxes, such as excise tax exemption for certain types of consumption deemed meritorious.

of spending programs for some goals. Finally, spending programs, particularly on the discretionary side, may respond less rapidly to changing activity levels and economic conditions than tax expenditures.

Regulations may have more direct and immediate effects than outlay and tax-expenditure programs because regulations apply directly and immediately to the regulated party (i.e., the intended actor), generally in the private sector. Regulations can also be fine-tuned more quickly than tax expenditures because they can often be changed as needed by the Executive Branch without legislation. Like tax expenditures, regulations often rely largely on voluntary compliance, rather than detailed inspections and policing. As such, the public administrative costs tend to be modest relative to the private resource costs associated with modifying activities. Historically, regulations have tended to rely on proscriptive measures, as opposed to economic incentives. This reliance can diminish their economic efficiency, although this feature can also promote full compliance where (as in certain safety-related cases) policymakers believe that trade-offs with economic considerations are not of paramount importance. Also, regulations generally do not directly affect Federal outlays or receipts. Thus, like tax expenditures, they may escape the degree of scrutiny that outlay programs receive. Some policy objectives are achieved using multiple approaches. For example, minimum wage legislation, the earned income tax credit, and the food stamp program (SNAP) are regulatory, tax expenditure, and direct outlay programs, respectively, all having the objective of improving the economic welfare of low-wage workers and families.

A Framework for Evaluating the Effectiveness of Tax Expenditures

Across all major budgetary categories – from housing and health to space, technology, agriculture, and national defense – tax expenditures make up a significant portion of Federal activity and affect every area of the economy. For these reasons, a comprehensive evaluation framework that examines incentives, direct results, and spillover effects will benefit the budgetary process by informing decisions on tax expenditure policy.

As described above, tax expenditures, like spending and regulatory programs, have a variety of objectives and economic effects. These include: encouraging certain types of activities (e.g., saving for retirement or investing in certain sectors); increasing certain types of after-tax income (e.g., favorable tax treatment of Social Security income); and reducing private compliance costs and Government administrative costs (e.g., the exclusion for up to $500,000 of capital gains on home sales). Some of these objectives are well suited to quantitative measurement and evaluation, while others are less well suited

Performance measurement is generally concerned with inputs, outputs, and outcomes. In the case of tax expenditures, the principal input is usually the revenue effect. Outputs are quantitative or qualitative measures of goods and services, or changes in income and investment, directly produced by these inputs. Outcomes, in turn, represent the changes in the economy, society, or environment that are the ultimate goals of programs. Evaluations assess whether programs are meeting intended goals, but may also encompass analyzing whether initiatives are superior to other policy alternatives.

The Administration is working towards examining the objectives and effects of the wide range of tax expenditures in our budget, despite challenges related to data availability, measurement, and analysis. Evaluations include an assessment of whether tax expenditures are achieving intended policy results in an efficient manner, with minimal burdens on individual taxpayers, consumers, and firms; and an examination of possible unintended effects and their consequences.

As an illustration of how evaluations can inform budgetary decisions, consider education and research and investment credits.

Education. There are millions of individuals taking advantage of tax credits designed to help pay for educational expenses. There are a number of different credits available as well as other important forms of Federal support for higher education such as subsidized loans and grants. An evaluation would explore the possible relationships between use of the credits and the use of loans and grants, seeking to answer, for examples, whether the use of credits reduce or increase the likelihood of the students applying for loans. Such an evaluation would allow stakeholders to determine the most effective program – whether it is a tax credit, a subsidized loan, or a grant.

Investment. A series of tax expenditures reduce the cost of investment, both in specific activities such as research and experimentation, extractive industries, and certain financial activities and more generally throughout the economy, through accelerated depreciation for plant and equipment. These provisions can be evaluated along a number of dimensions. For example, it is useful to consider the strength of the incentives by measuring their effects on the cost of capital (the return which investments must yield to cover their costs) and effective tax rates. The impact of these provisions on the amounts of corresponding forms of investment (e.g., research spending, exploration activity, equipment) might also be estimated. In some cases, such as research, there is evidence that the investment can provide significant positive externalities—that is, economic benefits that are not reflected in the market transactions between private parties. It could be useful to quantify these externalities and compare them with the size of tax expenditures. Measures could also indicate the effects on production from these investments such as numbers or values of patents, energy production and reserves, and industrial production. Issues to be considered include the extent to which the preferences increase production (as opposed to benefiting existing output) and their cost-effectiveness relative to other policies. Analysis could also consider objectives that are more difficult to measure but still are ultimate goals, such as promoting the Nation's technological base, energy security, environmental quality, or economic growth. Such an assessment is likely to involve tax analysis as well as consideration of non-tax matters such as market structure, scientific, and other information (such as the effects of increased domestic fuel production on imports from various regions, or the effects of various energy sources on the environment).

The tax proposals subject to these analyses include items that indirectly affect the estimated value of tax expenditures (such as changes in income tax rates), proposals that make reforms to improve tax compliance and administration, as well as proposals which would change, add, or delete tax expenditures.

Barriers to Evaluation. Developing a framework that is sufficiently comprehensive, accurate, and flexible is a significant challenge. Evaluations are constrained by the availability of appropriate data and challenges in economic modeling:

1. Data availability. Data may not exist, or may not exist in an analytically appropriate form, to conduct rigorous evaluations of certain types of expenditures. For example, measuring the effects of tax expenditures designed to achieve tax neutrality for individuals and firms earning income abroad, and foreign firms could require data from foreign governments or firms which are not readily available.

2. Analytical constraints. Evaluations of tax expenditures face analytical constraints even when data are available. For example, individuals might have access to several tax expenditures and programs aimed at improving the same outcome. Isolating the effect of a single tax credit is challenging absent a well-specified research design.

3. Resources. Tax expenditure analyses are seriously constrained by staffing considerations. Evaluations typically require expert analysts who are often engaged in other more competing areas of work related to the budget.

The Executive Branch is focused on addressing these challenges in order to lay the foundation for the analysis of tax expenditures comprehensively, alongside evaluations of the effectiveness of direct spending initiatives.

Current Administration Proposals on Tax Expenditures

The Administration considers performance measurement, evaluations, and the economic effects of tax expenditures each year in its deliberation for the Budget and proposals are informed by these analyses. The President's National Commission on Fiscal Responsibility and Reform recently submitted a report in which they said that the income tax system is unduly complicated and that the government should "sharply reduce rates, broaden the base, simplify the tax code, and reduce the many 'tax expenditures' —another name for spending through the tax code."

The current Budget and enacted Administration policies include several proposals that would change existing tax expenditures to raise revenue, eliminate ineffective or counterproductive tax expenditures, and enhance effective tax expenditures. The tax expenditure proposals in the budget further the Administration's goals of economic recovery and growth, clean and secure energy, and a world-class education for all Americans.

Limit itemized deductions. The Administration is proposing to limit the tax rate at which high-income taxpayers can take itemized deductions to a maximum of 28 percent, affecting married taxpayers with incomes over $250,000 and singles over $200,000. This will reduce the value of tax expenditures for such deductions, which include mortgage interest, state and local taxes, and charitable contributions. These are among the largest tax expenditures. This proposal would make the tax code more equitable because the value of the tax expenditure as a percentage of the deduction is proportional to one's tax bracket, so it is less valuable to those in lower brackets.

Reduce preferences for oil, gas, and coal. Current law provides a number of credits and deductions that are targeted towards certain oil, gas, and coal activities. These tax preferences run counter to our policies for reducing greenhouse gas emissions. In accordance with the President's agreement at the G-20 summit in 2009 to phase out subsidies for fossil fuels so that we can transition to a 21st century energy economy, the Administration proposes to repeal a number of tax preferences available for fossil fuels.

Enhance and make permanent the Research and Experimentation (R&E) credit. The extension of this credit every year creates uncertainty reducing firms' incentive to expand their research activities. For this reason, and more generally to achieve the President's R&D goals, the Budget proposes making the R&E credit permanent.

Make the American Opportunity Tax Credit (AOTC) Permanent. This tax credit provides a substantial benefit to students and families in defraying the cost of college, a key Administration priority. For this reason, the Budget proposes a permanent extension of this tax expenditure.

Modify the EITC (Earned Income Tax Credit). As a result of analyses showing both effective and ineffective components of the EITC (a tax credit for certain people who work and have low wages, designed to encourage and maintain employment), the Administration has proposed extending some portions of this tax credit, and eliminating others:

- *Extend the "third tier" component of the EITC.* Under the Recovery Act, the EITC was expanded to reduce the marriage penalty and to create a "third tier" of the EITC for families with three or more children. This means larger families receive more now than they would have under the old system. Evaluations of the distribution of EITC benefits showed that this extension would benefit working mothers, and families headed by single mothers specifically. The bipartisan tax agreement extends this credit.

- *Repeal the Advanced Earned Income Tax Credit (AEITC).* In 2009 and 2010, the Administration proposed repealing the AEITC, and this proposal was enacted in the Education/Jobs/Medicaid Assistance Act of 2010. The AEITC allows individuals to receive a portion of the Earned Income Tax Credit (EITC) in their paychecks, instead of receiving all of it when filing their year-end tax return. A Government Accountability Office (GAO) Report dated August 2007 found an extremely high error rate in the AEITC program; some 80 percent of AEITC recipients did not comply with at least one program requirement. Only a tiny number of EITC eligible taxpayers claim the AEITC (three percent, or 514,000 according to the GAO.) Further, the dollar amounts involved were consistently small: half of all AEITC recipients received less than $100.

Allow a range of tax expenditures to expire. The aforementioned bipartisan tax agreement extended many provisions of the tax code for up to two years, including many provisions identified as tax expenditures in this chapter. However, a number of provisions identified as tax expenditures were not extended. For instance, the sales tax deduction for new cars and trucks, the above-the-line deduction for property taxes up to $500 for taxpayers who to not itemize, and the exemption from taxes for the first $2,400 of unemployment benefits were allowed to expire.

SPECIAL TOPICS

18. AID TO STATE AND LOCAL GOVERNMENTS

State and local governments play 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 tax subsidies. Between 1999 and 2008, government spending at the State and local level increased 68 percent. In each year, Federal grants in aid financed one-fifth of State budgets on average. Due to the Federal Government's actions to stabilize State budgets during the recession that share increased to 22 percent in 2009 and 25 percent in 2010.[1] More than one third of State budgets are devoted to education, 20 percent to health care and income security programs, and 14 percent to programs related to public safety.[2] Federal grants help State and local governments finance programs covering most areas of domestic public spending, including income support, infrastructure, education, and social services.

The Federal Government provided additional support to States during the recent recession through the American Recovery and Reinvestment Act (Recovery Act), enacted in February 2009. The Recovery Act provided enhanced grant funding in the areas of education, Medicaid, energy, water, and other programs, and subsequent extensions of the education and Medicaid provisions in August 2010 are delivering additional support. Federal outlays for grants in aid to State and local governments increased from $538.0 billion in 2009 to $608.4 billion in 2010 and are estimated to be $625.2 billion in 2011.

The 2012 Budget provides $584.3 billion in outlays for aid to State and local governments in 2012. This is a decrease of seven percent from outlays for 2011 because by 2012 most funds provided under the Recovery Act, and its extensions, will have been spent. Excluding the one-time spending associated with the Recovery Act and extensions, the Budget provides an increase of seven percent in Federal grant outlays in 2012.

The distribution of grant spending in 2012 among functions remains similar to 2011. As shown in Table 18-1, 49 percent of this aid is for health programs, with most of the funding going to Medicaid, which makes health insurance accessible for low-income Americans. Medicaid was established by the Federal Government but is administered by the States with each setting its own guidelines on services and eligibility requirements. Beyond health programs, 19 percent of Federal aid will go to income security programs; 12 percent to transportation; and 12 percent to education, training, and social services.

The Federal Government also indirectly provides aid to States through the Federal tax code. State and local personal property and income taxes (or, at the taxpayer's election, sales taxes) are deductible from income for taxpayers who itemize deductions. This may help States and localities indirectly by allowing them to tax at higher rates than they otherwise would. Also, State and local governments can issue bonds that pay interest that is exempt from Federal income taxation, allowing the States and localities to pay a lower interest rate on their debt. These costs to the Federal Government are known as "tax expenditures." Chapter 17, "Tax Expenditures," in this volume, provides a detailed discussion of the subject and displays tax expenditures that particularly aid State and local governments at the end of Tables 17-1 and 17-2.

[1] Bureau of Economic Analysis, National Income and Product Accounts.

[2] Bureau of Economic Analysis, National Income and Product Accounts.

STATE AND LOCAL FISCAL RELIEF

When the economy enters recession, State and local governments, absent policy changes, take in less revenue than they otherwise would and also see spending increase on programs that benefit unemployed workers or low-income populations. This also happens to the Federal Government—an effect on the Federal budget that is detailed in Chapter 3, "Interactions Between the Economy and the Budget" in this volume.

Unlike the Federal Government, though, State governments are constrained in the amount that they can borrow to cover budget shortfalls. All states except Vermont have either constitutional or statutory requirements that each balance its respective budget; Vermont consistently produces a balanced budget without such requirement. While the definition of "balance" varies across the States, this constraint forces States to cut programs or increase taxes to offset the effects of the recession on their budgets.

The recent recession had a sharply negative effect on State and local finances. States experienced large decreases in revenue due to declines in sales tax, personal income tax, and corporate income tax collections. The Federal Government does not collect information on projected State budget gaps, but outside research groups have attempted to quantify the size of the State-level shortfalls due to the recent recession. According to *The Fiscal Survey of States* (June 2010), State revenue decreased by 11.8 percent from 2008 to 2010. States faced large budget shortfalls totalling in the range of $291 billion for State fiscal years 2009 and 2010. The National Council of State Legislatures in its "State Budget Update: November 2010," projects that States face a combined budget shortfall of around $111 billion in 2011 after already closing gaps in 2009 and 2010. Thirty-five States are also projecting budget shortfalls in 2012.

State governments responded to the fiscal crisis by cutting spending, raising taxes and reducing the government workforce. This policy response creates a drag on the national economy as State and local governments cut back on programs, government employees and contractors lose their jobs, companies lose business, and taxpayers are left with less disposable income due to tax increases.

In light of the extraordinary economic and fiscal circumstances facing State and local governments, and the negative ramifications for jobs and the economy, the Administration worked with Congress to enact temporary relief for State and local governments as part of the Recovery Act in 2009. Recovery Act programs and funding helped to bolster State budgets through the worst of the recession and avoid greater cuts to State services and tax increases.[3] States continue to face fiscal difficulties in the near term because State and local fiscal recovery usually lags behind other sectors. Additional Federal aid was provided in August 2010 in Public Law 111-226, an act providing education and Medicaid assistance to States.

Education Jobs Fund. Public Law 111-226 provided $10 billion for an education fund to support education jobs in the 2010-2011 school year. This money was distributed to States by a formula based on population figures. States were then able to distribute their funding to school districts based on their own primary funding formula or districts' relative share of Federal Title I funds. The act requires that allocated funds be used solely by local educational agencies in support of elementary and secondary education; and to recall or rehire former employees, and to hire new employees, in early childhood, elementary, or secondary schools.

State Fiscal Stabilization Fund. The State Fiscal Stabilization Fund was established under the Recovery Act; it delivered $53.5 billion in relief, most of which went to State and local education programs. Of this amount, $48.6 billion was split among the States based on a combination of a State's total population and its population aged 5-24. Of this, $39.8 billion, or more than 80 percent, was required to go toward the ongoing operations (such as to pay for teachers' salaries and school maintenance) of public schools, both K-12 schools and institutions of higher education, while the remainder is a flexible block grants to the States. In exchange for accepting these funds, States were required to maintain at least the same level of support for their public education systems as in 2006. Most of the remainder of the stabilization fund was used to fund innovative educational initiatives such as reforming teacher pay to, for instance, attract more highly qualified teachers into hard-to-staff schools and subjects.

Unemployment compensation. The Emergency Unemployment Compensation program was extended under the Emergency Unemployment Compensation Act of 2010 and again under the Middle Class Tax Relief Act of 2010. The Emergency Unemployment Compensation program, part of the State-administered unemployment compensation system, provides additional weeks of unemployment benefits to eligible workers based on State unemployment rates.

Medicaid Federal matching funds. The Recovery Act provided an estimated $84.5 billion in relief to States through a temporary increase through December 2010 in the Federal Government's share of State Medicaid costs of 6.2 percentage points as well as additional relief to States that suffered high increases in unemployment. P.L. 111-226 extended the increases through June 2011, at phased down levels, providing an estimated $13.5 billion in additional relief to States. Absent the Recovery Act provision and subsequent extension, the Federal Government's share of State medical assistance expenditures would be about 57 percent, on average.

[3] National Governors Association and National Association of State Budget Officers, June 2010. *The Fiscal Survey of States*.

HIGHLIGHTS OF FEDERAL AID TO STATES AND LOCALITIES

In light of the need to make tough choices about spending, the Administration is investing in areas that promote growth and spur competitiveness and innovation. At the same time, the Administration is looking for effective ways to improve programs. All areas are being asked to share in the sacrifice needed to put the Nation on a sustainable fiscal course. Grant proposals in the 2012 Budget are presented below. Table 18-1 displays funding for every Federal aid grant program. A section on the history of Federal grants follows, with Table 18-2 which illustrates trends over time. An Appendix to this chapter includes State-by-State obligations by major grant program.

Natural Resources and Environment

Grant outlays for natural resources and environment programs are estimated to be $7.8 billion in 2012.

The Budget includes $200 million for State Land and Water Conservation Fund grants, some of which will be competitively awarded to address priorities such as urban parks and public-private conservation projects. The Budget also proposes funding increases for key grant and technical assistance programs, such as State and Tribal Wildlife grants and North American Wetlands Conservation Act grants, which conserve fish and wildlife habitat. The Budget focuses resources on water conservation activities within the Department of the Interior, which include the Bureau of Reclamation's water reuse and recycling (Title XVI) and WaterSmart grant programs. The Administration's water policy goals include protecting and restoring the Nation's water resources to ensure clean and safe water supplies and healthy ecosystems. Federal agencies must work together and with State and local governments, tribes, industry, and the agriculture sector to achieve these goals.

The Administration proposes $1.2 billion for grants to support State and Tribal efforts to implement environmental programs. The Budget proposes $306 million in State grant funding from the Environmental Protection Agency (EPA) for air programs. This is well above historical levels due to additional responsibilities associated with achieving more stringent air quality standards. The Budget includes $115 million for grant programs specifically targeted at Tribes and tribal consortia, including a $71 million request for the Tribal General Assistance Program and a $20 million request to sustain tribal multimedia grants to help implement environmental programs on tribal lands.

The Budget provides the Brownfields program within the EPA with funding for technical assistance to local communities and grants for sustainable development. Brownfields are lightly contaminated sites, many in economically hard-hit areas, that pollution may keep from being used productively.

As part of the Administration's long-term strategy, EPA is implementing a Sustainable Water Infrastructure Policy that focuses on working with States and Communities to enhance technical, managerial, and financial capacity. Important to the technical capacity will be enhancing alternatives analysis to expand "green infrastructure" options and their multiple benefits. Future year budgets for the State Revolving Funds gradually adjust, taking into account repayments, through 2016 with the goal of providing, on average, about 5 percent of water infrastructure spending annually. When coupled with increasing repayments from loans made in past years by States the annual funding will allow the SRFs to finance a significant percentage in clean water and drinking water infrastructure. Federal dollars provided through the SRFs will act as a catalyst for efficient system-wide planning and ongoing management of sustainable water infrastructure. Overall, the Administration requests a combined $2.5 billion for the SRFs.

Agriculture

Grant outlays for agriculture programs are estimated to be $1.0 billion in 2012.

Formula grants to State land grant institutions and State agricultural extension agencies are estimated to be about $580 million in 2012. In addition, the Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) provides support for the surveillance, eradication and control of plant and animal infestations.

Commerce and Housing Credit

Grant outlays for commerce and housing credit programs are estimated to be $2.7 billion in 2012.

States and localities have faced enormous fiscal pressures as a result of the recent recession. The Budget includes two key programs designed to support States as they assist families and small businesses recover from the economic downturn.

As part of the Troubled Asset Relief Program (TARP), the Department of the Treasury initiated the Housing Finance Agency (HFA) Hardest Hit Fund (HHF) in February 2010 to prevent foreclosures and bring stability to local housing markets. The program provides state-sponsored HFAs with funding to design and implement innovative programs tailored to meet the specific needs and challenges of their State or local housing market. The Budget supports $7.6 billion in HFA funding for 19 States and jurisdictions hardest hit by unemployment and housing price declines. States eligible for HHF funding either had unemployment rates at or above the national average or witnessed home price declines above 20 percent from the onset of the housing market downturn.

The Small Business Jobs Act of 2010, enacted in September 2010, created the State Small Business Credit Initiative (SSBCI). Administered by Treasury, SSBCI is designed to assist State programs that support lending to small businesses and small manufacturers. SSBCI offers States (and in certain circumstances, municipalities) the opportunity to apply for Federal funds for programs that partner with private lenders to extend additional credit to small businesses to create jobs and increase employment.

Under SSBCI, both new and existing programs are eligible for Federal support that allows States to build on successful models for small business programs, including collateral support programs, capital access programs, and loan guarantee programs. SSBCI requires the eligible programs to show a minimum "bang for the buck" of $10 in new private lending for every $1 in Federal funding. All 50 States, the District of Columbia, and the five U.S. Territories are eligible to participate in SSBCI. Congress appropriated $1.5 billion for SSBCI, including administrative expenses, which will create up to $15 billion in new lending to small businesses based on statutory matching requirements. Of the total available funding, the allocation for each eligible recipient jurisdiction was determined by a statutory formula that takes into account that jurisdiction's unemployment rate and decline in employment relative to other jurisdictions. All SSBCI funds must be obligated within two years to speed jurisdictions' injection of this new capital into small businesses nationwide.

Transportation

Grant outlays in support of transportation programs are estimated to be $70.7 billion in 2012.

The Budget features a $556 billion, six-year surface transportation reauthorization proposal, including highways, transit, highway safety, passenger rail and a National Infrastructure Bank.

The six-year reauthorization plan dedicates nearly $32 billion for "Race to the Top"-style competitive grant programs designed to create incentives for State and local partners to adopt critical reforms in variety of areas, including safety, livability, and demand management. Federally inspired safety reforms such as seat belt and drunk-driving laws saved thousands of American lives and avoided billions in property losses. This initiative will seek to repeat the successes of the past across the complete spectrum of transportation policy priorities. The Department will work with States and localities to set ambitious goals in different areas (e.g. safety and livability) and to tie resources to goal-achievement.

Key elements of the nation's surface transportation infrastructure, our highways, bridges, and transit assets, fall short of a state of good repair. This can impact the capacity, performance, and safety of our transportation system. At the same time, States and localities have incentives to emphasize new investments over improving the condition of the existing infrastructure. The Administration's reauthorization proposal underscores the importance of preserving and improving existing assets, encouraging government and industry partners to make optimal use of current capacity, and minimizing life-cycle costs through sound asset management principles. Accountability is a key element of this system. States and localities will be required to publically report on highway condition and performance measures.

The reauthorization proposal consolidates over 60 duplicative, often-earmarked highway programs into five streamlined programs. This gives States and localities greater flexibility to direct resources to their highest priorities. In the interest of taxpayer value and accountability, that flexibility will come with additional requirements on States to establish and meet performance targets tied to national goals and to conduct rigorous cost-benefit analyses of major new projects before they are initiated.

In support of the President's call for spending restraint, the Budget lowers funding for the airport grants program to $2.4 billion, a reduction of $1.1 billion, by eliminating guaranteed funding for large and medium hub airports. The Budget focuses Federal grant support on smaller commercial and general aviation airports that do not have access to additional revenue or other outside sources of capital. At the same time, the Budget allows larger airports to increase non-Federal passenger facility charges. Therefore, rather than reducing the funding available to those larger airports, the Budget proposes greater flexibility to generate their own revenue.

Community and Regional Development

Grant outlays for community and regional development programs are estimated to be $14.8 billion in 2012.

The Budget continues support for the multi-agency Partnership for Sustainable Communities, one of the pillars of the Administration's place-based agenda. The Budget includes $150 million to create incentives for more communities to develop comprehensive housing and transportation plans that result in sustainable development, reduced greenhouse gases, and increased transit-accessible housing. This funding level will allow more communities to achieve these purposes, in addition to the already over 100 grants recently awarded across the country by the Department of Housing and Urban Development (HUD), Department of Transportation (DOT), and EPA. As a part of this effort, up to $5 million will be used to improve energy efficiency in HUD-assisted public and privately-owned housing through better energy use data collection and analysis. Combined with the DOT's funding for strengthening State and local infrastructure capacity and the EPA's technical assistance, the Partnership aims to lower the cost of living while improving the quality of life for families. This will work in concert with the Administration's proposal for surface transportation reauthorization (described above), a multi-pronged approach to improve and expand travel options.

The Administration made difficult choices in developing the proposed funding level for the Community Development Block Grant (CDBG) program. The Budget proposes to reduce funding for CDBG by 7.5 percent or $300 million relative to the 2011 Budget. This funding level balances the need to decrease the budget deficit with the tough fiscal conditions confronting State and local governments. These flexible funds will allow 1,200 State and local grantees to improve infrastructure, build and rehab affordable housing, and create and retain jobs.

Americans rely on the Nation's first responders to help them through a crisis, from natural disaster to terrorist attack. Accordingly, funding of $3.8 billion is provided for State and local programs to equip, train, exercise, and hire first responders. The Administration also supports disaster response and resilience efforts by funding the Disaster Relief Fund (DRF) at $1.8 billion. The DRF is used by the Federal Emergency Management Agency in the event of a presidentially declared disaster or emergency to assist State and local governments in the response, recovery, and mitigation against emergency and disaster events.

Education, Training, Employment, and Social Services

Grant outlays for education, training, employment, and social service programs are estimated to be $70.1 billion in 2012.

The Budget proposes three new education initiatives based on principles similar to those of Race to the Top: offering competitive funding; demanding significant reforms with deep support; requiring outcomes; and measuring success.

First, quality early education is an investment that pays off for years to come by preparing children for a lifetime of learning. The Budget includes $350 million to establish a new, competitive Early Learning Challenge Fund, administered by the Department of Education and the Department of Health and Human Services, for States that are ready to take dramatic steps to improve the quality of their early childhood programs. Second, the Budget proposes $900 million for a new K-12 RTT that will bring the "Race to the Top" reform approach to school districts, with a new focus on sustaining reforms in an era of tight budgets. Third, to help America restore its international leadership in the number of students graduating college, the Budget invests $150 million in a new initiative to increase college access and completion and improve education productivity. The proposal introduces into the Fund for Improvement of Postsecondary Education an evidence-based framework, enabling the Fund to become a postsecondary "Investing in Innovation" program to test, validate, and scale up effective approaches. In addition to these competitive grants, the Budget also provides $50 million in 2012 and a total of $1.3 billion over five years in performance-based funding to institutions that have demonstrable success in enrolling and graduating more high-need students and enabling them to enter successful employment.

Increasing the number of great teachers, especially in disadvantaged schools, will require major new efforts to recruit a greater number of talented individuals into teaching; better prepare and support individuals to be successful in the classroom; and recognize and reward excellence in the classroom. In addition to a $2.5 billion investment in an overhauled teacher quality formula grant, the Administration invests $500 million in the Teacher and Leader Innovation Fund, a competitive program for States and districts with smart approaches to strengthening the impact of school professionals, and $250 million in Teacher and Leader Pathways, a competitive program to invest in effective teacher and leader preparation programs. As a replacement of the existing TEACH Grants program, the Budget provides $185 million for a grant program for States that agree to measure the performance of their teaching institutions, supply scholarship aid to talented individuals attending the most successful programs, hold the least effective teacher education programs accountable for results, upgrade licensure and certification standards, and provide recognition and portable certification to effective classroom teachers. The Budget also includes $40 million for a new competitive grant to improve and expand teacher education programs at minority-serving institutions, a significant pipeline for preparing a diverse teaching force.

To support States and localities that come forward with promising ideas and make sure the workforce system continues to evolve, the Budget sets aside more than $500 million to establish a Workforce Innovation Fund, jointly administered by the Departments of Labor and Education in consultation with other agencies like the Department of Health and Human Services. The majority of funds will be dedicated to bold systemic reforms designed to produce better employment and education outcomes at a lower cost per outcome, and to evaluate the effectiveness of those reforms. The Department of Labor is also providing Workforce Data Quality grants to States to improve their systems that allow them to collect better data on education and employment outcomes.

The Family and Medical Leave Act allows workers to take job-protected time off with unpaid leave, but millions of families can't afford to use unpaid leave. A handful of States have enacted policies to offer paid family leave, but more States should have the chance. The Budget supports a $25 million State Paid Leave Fund within the Department of Labor that will provide competitive grants to help States that choose to launch paid-leave programs cover their start-up costs.

The Budget cuts funding by $350 million from the Community Services Block Grant, which provides funding for the important work of Community Action Agencies but does not hold these agencies accountable for outcomes, target funding to the most effective agencies, compete funding or provide adequate accountability and oversight. The Budget provides $350 million to fund the highest performing Community Action Agencies so that scarce taxpayer dollars are best used by targeting high-performing agencies that are most successful in meeting important community needs.

In support of tribal self-determination, the Budget increases funding to compensate tribes for the work they perform in managing Federal programs under self-determination contracts and self-governance compacts. The Administration continues to focus attention on combating crime in Indian Country through cooperative efforts by Federal, state and tribal entities. In July 2010, the President signed the Tribal Law and Order Act, which addresses many of the public safety challenges that confront tribal communities. In support of these efforts, the Administration proposes funding to operate six new detention centers that were constructed with Recovery Act funds. It also increases funds for additional law enforcement officers, coordinates community policy programs to reduce crime, and protects natural resources in Indian Country.

Health

Grant outlays for health related programs are estimated to be $288.8 billion in 2012.

The Budget includes a robust package of proposals to strengthen Medicaid and the Children's Health Insurance Program (CHIP) program integrity, and requests $581 million in discretionary program integrity funding to implement activities to detect and prevent health care fraud, waste, and abuse through investigations, audits, educational activities, and data analysis. The Budget extends Transitional Medical Assistance, which provides continued Medicaid eligibility for welfare recipients transitioning to work, and the Qualified Individuals program, which pays Medicare Part B premiums for qualified low-income seniors. In addition, the Affordable Care Act (ACA) expands coverage in Medicaid to non-elderly individuals under 133 percent of the Federal Poverty Level on January 1, 2014, and provides States the option to begin providing medical assistance to individuals eligible under this new group as of April 1, 2010. Under the ACA, for the first time since the Medicaid program was established, States will receive Federal support to provide coverage for the lowest income adults, without regard to disability, parental status or most other categorical limitations under their State Medicaid plans.

Starting in 2014, Health Insurance Exchanges ("Exchanges") will provide new competitive health insurance marketplaces that will allow millions of individuals, families, and small business owners to pool their buying power together to purchase affordable coverage. Exchanges will help consumers and small businesses easily compare qualified plans based on price, benefits and services, and quality. Exchange enrollees may be eligible for premium tax credits to help with the cost of insurance premiums and cost-sharing assistance to reduce their out-of-pockets costs. States have a major role in the creation and operation of the Exchanges, and HHS will award grants to States to support development and implementation activities that States will undertake through 2014, as authorized by the ACA.

The Budget expands access to HIV/AIDS prevention and treatment activities and supports the goals of the National HIV/AIDS Strategy: reducing HIV incidence, increasing access to care and optimizing health outcomes, and reducing HIV-related health disparities. The Budget prioritizes HIV/AIDS resources within the Department of Health of Human Services between high burden communities and among high-risk groups, including men who have sex with men, African Americans, and Hispanics, and realigns resources within Centers for Disease Control, Health Resources and Services Administration, Substance Abuse and Mental Health Services Administration, and the Office of the Secretary to support the National HIV/AIDS Federal Implementation Plan. The Administration also increases resources for the Ryan White program to expand access to life-saving HIV-related medications. The Budget also improves health outcomes by allowing CDC and States to transfer up to 5 percent across HIV/AIDS, tuberculosis, sexually transmitted diseases, and hepatitis programs to improve coordination and integration. The Budget includes $22 million for the Enhanced Comprehensive HIV Prevention program for metropolitan areas most affected by the HIV epidemic.

Income Security

Grant outlays for income security programs are estimated to be $110.9 billion in 2012.

The economic downturn has severely tested the adequacy of States' unemployment insurance (UI) systems, leaving the state UI trust fund in debt in 31 states at the end of 2010. These debts are now being repaid through additional taxes on employers, which undermine much-needed job creation as the economy recovers. To provide short-term relief in these States, the 2012 Budget provides a two-year suspension of State interest payments on their debt, followed by automatic increases in federal unemployment insurance taxes in future years. At the same time, the Budget encourages States to put their UI systems on firmer financial footing so they can better respond to future economic conditions by increasing the minimum level of wages subject to unemployment taxes to $15,000 starting in 2014, indexed for inflation after that. The taxable wage base then will be the same in real terms as it was in 1983, when President Reagan signed into law the last legislation increasing the wage base. Also in 2014, the Federal UI tax rate will be lowered to avoid a Federal tax increase.

The Budget for the Department of Housing and Urban Development (HUD) provides over $2.5 billion to make progress toward the goals of the Federal Strategic Plan to End Homelessness, which was released by the Administration in June 2010. This includes over $2.3 billion for Homeless Assistance Grants to maintain existing units and expand prevention, rapid-rehousing, and permanent supportive housing, and $145 million in new housing vouchers for over 19,000 homeless veterans and homeless persons who receive health care and other services through the Departments of Health and Human Services and Veterans Affairs. In addition, the Budget provides $50 million for new service coordinators and incentive fees, which will encourage housing authorities to serve more homeless persons. These funding increases will enable HUD to assist approximately 78,000 additional homeless individuals and families.

The President's Budget requests $19.2 billion for the Housing Choice Voucher program to help more than two million extremely low- to low-income families with rental assistance live in decent housing in neighborhoods of their choice. The Budget funds all existing mainstream vouchers and provides new vouchers targeted to homeless veterans, families, and the chronically homeless. The Administration remains committed to working with the Congress to improve the management and budgeting for the Housing Choice Voucher program, including reducing inefficiencies, and re-allocating Public Housing Authority reserves to high performers. The Budget also provides $9.4 billion for Project-Based Rental Assistance to preserve approximately 1.3 million affordable units through increased funding for contracts with private owners of multifamily properties. This critical investment will help extremely low- to low-income households to obtain or retain decent, safe, and sanitary housing.

The Budget provides a total of $953 million for the Housing for the Elderly and Housing for Persons with Disabilities Programs to preserve assistance in all existing units. This includes $498 million for new housing construction for these populations. The Administration is committed to working with the Congress to update and reform these programs so that project sponsors can maximize use of the funding for new construction by effectively leveraging and targeting investments based on need and by providing residents access to key services required to age in place or live independently.

The Budget provides $250 million for the Choice Neighborhoods initiative to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. The Budget will reach five to seven neighborhoods with grants that primarily fund the preservation, rehabilitation, and transformation of HUD-assisted public and privately owned multifamily housing, and will also engage local governments, nonprofits, and for-profit developers in partnerships to improve surrounding communities. This initiative is a central element of the Administration's inter-agency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The Budget reflects a strategy in which HUD, the Department of Justice, the Department of Education, the Department of Health and Human Services, and other agencies will work together, co-investing, and pooling their expertise as part of a focused Neighborhood Revitalization Initiative.

The Budget provides $700 million for the Native American Housing Block Grant program, which helps mitigate the severe housing needs many Native Americans continue to face. This program is the primary source of funding for housing on tribal lands, and provides over 550 Tribes with funding for vital housing activities, such as construction, rehabilitation, and operations.

Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
National Defense						
Discretionary:						
Department of Homeland Security:						
Federal Emergency Management Agency:						
State and Local Programs	110	112	50	90	57	80
Energy						
Discretionary:						
Department of Energy:						
Energy Programs:						
Energy Efficiency and Renewable Energy	271	385	594	2,199	5,161	2,154
Mandatory:						
Tennessee Valley Authority Fund	457	567	662	457	567	662
Total, Energy	**728**	**952**	**1,256**	**2,656**	**5,728**	**2,816**
Natural Resources and Environment						
Discretionary:						
Department of Agriculture:						
Farm Service Agency:						
Grassroots Source Water Protection Program	5	5	....	5	5	....
Natural Resources Conservation Service:						
Watershed Rehabilitation Program	15	7	....	15	17	....
Watershed and Flood Prevention Operations	9	9	....	58	58	45
Forest Service:						
State and Private Forestry	316	308	311	255	509	395
Management of National Forest Lands for Subsistence Uses	3	3	....	4	4	....
Forest Service Payments to Communities	....	....	328	....	....	....
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Operations, Research, and Facilities	165	121	164	105	77	102
Pacific Coastal Salmon Recovery	80	80	65	61	79	79
Department of the Interior:						
Office of Surface Mining Reclamation and Enforcement:						
Regulation and Technology	71	71	60	62	52	48
Abandoned Mine Reclamation Fund	3	3	....	48	20	22
United States Geological Survey:						
Surveys, Investigations, and Research	6	6	....	6	6	....
United States Fish and Wildlife Service:						
State and Tribal Wildlife Grants	90	90	95	71	98	103
Cooperative Endangered Species Conservation Fund	85	85	100	78	98	103
Landowner Incentive Program	....	....	....	17	21	18
National Park Service:						
National Recreation and Preservation	68	68	51	62	72	62
Land Acquisition and State Assistance	40	40	200	40	27	46
Historic Preservation Fund	80	80	61	79	94	102
Environmental Protection Agency:						
State and Tribal Assistance Grants	4,931	4,931	3,815	6,405	6,026	4,946
Hazardous Substance Superfund	28	28	26	322	280	226
Leaking Underground Storage Tank Trust Fund	88	97	97	156	157	117
Total, discretionary	**6,083**	**6,032**	**5,373**	**7,849**	**7,700**	**6,414**

Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
Mandatory:						
Department of the Interior:						
Bureau of Land Management:						
Miscellaneous Permanent Payment Accounts	100	90	44	101	90	48
Bureau of Ocean Energy Management, Regulation and Enforcement:						
National Forests Fund, Payment to States	18	7	8	18	7	8
States Share from Certain Gulf of Mexico Leases	3	1	....	3	1	....
Coastal Impact Assistance	250	....	....	119	135	....
Office of Surface Mining Reclamation and Enforcement:						
Payments to States in Lieu of Coal Fee Receipts	80	85	85	37	55	65
Abandoned Mine Reclamation Fund	142	150	228	89	133	120
Bureau of Reclamation:						
Bureau of Reclamation Loan Program Account	5	....	....	5	....	....
United States Fish and Wildlife Service:						
Federal Aid in Wildlife Restoration	501	412	403	379	419	420
Cooperative Endangered Species Conservation Fund	59	54	54	59	54	54
Coastal Impact Assistance	....	....	....	....	....	120
Sport Fish Restoration	477	450	461	437	490	505
National Park Service:						
Land Acquisition and State Assistance	1	....	....	1	3	5
Departmental Offices:						
Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes	25	2	2	25	2	2
Department of the Treasury:						
Financial Management Service:						
Payment to Terrestrial Wildlife Habitat Restoration Trust Fund	5	....	....	5	....	....
Corps of Engineers-Civil Works:						
South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund	5	4	4	5	4	4
Total, mandatory	**1,671**	**1,255**	**1,289**	**1,283**	**1,393**	**1,351**
Total, Natural Resources and Environment	**7,754**	**7,287**	**6,662**	**9,132**	**9,093**	**7,765**
Agriculture						
Discretionary:						
Department of Agriculture:						
Departmental Management:						
Departmental Administration	18	20	20	18	20	20
National Institute of Food and Agriculture:						
Extension Activities	408	409	394	353	514	509
Research and Education Activities	295	295	266	246	361	374
Agricultural Marketing Service:						
Payments to States and Possessions	2	3	3	2	2	3
Farm Service Agency:						
State Mediation Grants	4	4	4	5	5	5
Total, discretionary	**727**	**731**	**687**	**624**	**902**	**911**
Mandatory:						
Department of Agriculture:						
Agricultural Marketing Service:						
Payments to States and Possessions	55	55	55	16	38	51
Farm Service Agency:						
Commodity Credit Corporation Fund	203	25	....	203	25	....
Total, mandatory	**258**	**80**	**55**	**219**	**63**	**51**
Total, Agriculture	**985**	**811**	**742**	**843**	**965**	**962**

Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
Commerce and Housing Credit						
Mandatory:						
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Promote and Develop Fishery Products and Research Pertaining to American Fisheries	9	1	....	15	18	....
Department of the Treasury:						
Departmental Offices:						
State Small Business Credit Initiative	1,500	....	....	....	493	739
Financial Research Fund	....	41	82	....	37	78
Federal Communications Commission:						
Universal Service Fund	1,777	1,832	1,863	1,777	1,832	1,863
Total, mandatory	**3,286**	**1,874**	**1,945**	**1,792**	**2,380**	**2,680**
Total, Commerce and Housing Credit	**3,286**	**1,874**	**1,945**	**1,792**	**2,380**	**2,680**
Transportation						
Discretionary:						
Department of Transportation:						
Federal Aviation Administration:						
Grants-in-aid for Airports, Recovery Act	....	....	....	726	193	2
Grants-in-aid for Airports (Airport and Airway Trust Fund)	....	....	....	3,156	3,299	3,481
Federal Highway Administration:						
Emergency Relief Program	....	....	....	590	634	415
Highway Infrastructure Investment, Recovery Act	....	....	....	11,897	5,965	4,084
Highway Infrastructure Programs	650	650	....	88	149	415
Appalachian Development Highway System	....	....	....	27	44	38
Miscellaneous Appropriations	293	293	....	64	173	219
Miscellaneous Transportation Trust Funds	-7	....	....	41	42	38
Federal Railroad Administration:						
Emergency Railroad Rehabilitation and Repair	....	....	....	8	12	....
Intercity Passenger Rail Grant Program	....	....	....	10	18	60
Rail Line Relocation and Improvement Program	35	35	....	....	57	40
Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail Service[1]	....	....	....	15	922	1,002
Federal Transit Administration:						
Transit Capital Assistance, Recovery Act	....	....	....	2,516	2,460	1,244
Fixed Guideway Infrastructure Investment, Recovery Act	....	....	....	246	222	120
Job Access and Reverse Commute Grants	....	....	....	19	14	11
Interstate Transfer Grants-transit	1	....	....	....	1	1
Washington Metropolitan Area Transit Authority	150	150	150	....	166	210
Formula Grants[1]	....	....	....	429	420	253
Capital Investment Grants[1]	....	....	....	1,169	950	695
Pipeline and Hazardous Materials Safety Administration:						
Pipeline Safety	37	31	34	30	31	33
Total, discretionary	**1,159**	**1,159**	**184**	**21,031**	**15,772**	**12,361**
Mandatory:						
Department of Homeland Security:						
United States Coast Guard:						
Boat Safety	124	113	116	128	110	121
Department of Transportation:						
Federal Aviation Administration:						
Grants-in-aid for Airports	....	....	3,100	....	....	496
Grants-in-aid for Airports (Airport and Airway Trust Fund)	2,991	3,566	2,282	....	....	....

Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
Federal Highway Administration:						
Federal-aid Highways[1]	47,760	41,403	69,128	30,385	35,036	43,198
Miscellaneous Appropriations	55	19	100	55	19	20
Federal Motor Carrier Safety Administration:						
Motor Carrier Safety Grants[1]	305	310	330	274	448	314
National Highway Traffic Safety Administration:						
Highway Traffic Safety Grants[1]	568	587	538	547	686	657
Federal Railroad Administration:						
Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail Service[1]	2,470	2,470	....	1	22	110
Network Development	....	....	3,950	....	....	586
Federal Transit Administration:						
Grants for Energy Efficiency and Greenhouse Gas Reductions[1]	75	75	....	....	8	28
Capital Investment Grants[1]	1,998	1,998	....	1,197	1,337	1,342
Discretionary Grants (Transportation Trust Fund, Mass Transit Account)[1]	....	....	....	17	13	13
Transit Formula Grants[1]	9,772	8,343	7,692	7,346	7,644	9,481
Operations and Safety, Trust Fund	....	....	36	....	....	32
Transit Expansion and Livable Communities Programs, Trust Fund	....	....	3,469	....	....	347
Bus and Rail State of Good Repair, Trust Fund	....	....	10,707	....	....	1,606
Total, mandatory[2]	**66,118**	**58,884**	**101,448**	**39,950**	**45,323**	**58,351**
Total, Transportation	**67,277**	**60,043**	**101,632**	**60,981**	**61,095**	**70,712**
Community and Regional Development						
Discretionary:						
Department of Agriculture:						
Office of the Secretary:						
Healthy Foods, Healthy Neighborhoods Initiative	....	....	35	....	....	35
Rural Utilities Service:						
Distance Learning, Telemedicine, and Broadband Program	88	98	43	59	692	596
Rural Water and Waste Disposal Program Account	498	526	430	563	1,073	954
Rural Housing Service:						
Rural Community Facilities Program Account	77	73	33	128	154	84
Rural Business_Cooperative Service:						
Rural Business Program Account	139	187	79	233	208	88
Department of Commerce:						
Economic Development Administration:						
Economic Development Assistance Programs	307	255	284	317	529	501
Department of Homeland Security:						
Federal Emergency Management Agency:						
State and Local Programs	3,934	3,932	3,795	3,247	1,992	2,339
United States Fire Administration and Training	4	4	3	5	5	5
Disaster Relief	3,277	796	1,204	5,141	3,934	1,156
Department of Housing and Urban Development:						
Community Planning and Development:						
Community Development Fund	4,505	4,450	3,804	7,043	8,056	7,807
Community Development Loan Guarantees Program Account	6	6	....	4	3	....
Brownfields Redevelopment	17	18	....	17	....	3
Empowerment Zones/enterprise Communities/renewal Communities	....	....	....	35	1	....
Office of Lead Hazard Control and Healthy Homes:						
Lead Hazard Reduction	139	139	139	179	183	182
Office of Sustainable Housing and Communities:						
Sustainable Housing and Communities Initiative	....	....	150	....	....	2

Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
Department of the Interior:						
Bureau of Indian Affairs and Bureau of Indian Education:						
Operation of Indian Programs	159	159	159	158	158	159
Indian Guaranteed Loan Program Account	20	17	3	29	18	8
Appalachian Regional Commission	67	67	68	62	67	66
Delta Regional Authority	13	13	13	10	13	12
Denali Commission	13	12	12	25	54	24
Total, discretionary	**13,263**	**10,752**	**10,254**	**17,255**	**17,140**	**14,021**
Mandatory:						
Department of Commerce:						
Economic Development Administration:						
Economic Development Assistance Programs	....	....	20	....	....	20
Department of Housing and Urban Development:						
Community Planning and Development:						
Community Development Loan Guarantees Program Account	3	3	....	3	7	6
Neighborhood Stabilization Program	....	1,000	....	1,560	1,490	754
Total, mandatory	**3**	**1,003**	**20**	**1,563**	**1,497**	**780**
Total, Community and Regional Development	**13,266**	**11,755**	**10,274**	**18,818**	**18,637**	**14,801**
Education, Training, Employment, and Social Services						
Discretionary:						
Department of Commerce:						
National Telecommunications and Information Administration:						
Public Telecommunications Facilities, Planning and Construction	18	18	....	6	28	23
Information Infrastructure Grants	....	....	-2	....	....	....
Department of Education:						
Office of Elementary and Secondary Education:						
Indian Student Education	123	123	123	117	110	122
Impact Aid	1,272	1,272	1,272	1,219	1,533	1,296
Accelerating Achievement and Ensuring Equity	15,815	15,864	15,408	19,515	23,661	16,307
Education Improvement Programs	5,098	5,096	3,198	5,184	5,456	5,148
State Fiscal Stabilization Fund, Recovery Act	....	....	....	23,274	17,831	....
Office of Innovation and Improvement:						
Innovation and Instructional Teams	958	958	4,632	639	1,083	1,206
Office of Safe and Drug-Free Schools:						
Supporting Student Success	288	301	1,781	583	426	428
Office of English Language Acquisition:						
English Learner Education	705	744	745	646	762	733
Office of Special Education and Rehabilitative Services:						
Special Education	12,367	12,367	11,776	17,075	17,359	13,877
Rehabilitation Services and Disability Research	147	147	217	368	469	239
American Printing House for the Blind	25	25	25	25	30	25
Office of Vocational and Adult Education:						
Career, Technical and Adult Education	1,998	1,997	1,652	1,989	2,023	1,949
Office of Postsecondary Education:						
Higher Education	364	364	322	412	488	407
Office of Federal Student Aid:						
Student Financial Assistance	64	64	....	63	68	14
Institute of Education Sciences	48	48	85	47	167	168
Hurricane Education Recovery	....	....	....	25	92	....

Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
Department of Health and Human Services:						
Administration for Children and Families:						
Supporting Healthy Families and Adolescent Development	62	63	62	62	63	62
Children and Families Services Programs	8,944	8,943	9,424	10,473	10,990	8,969
Administration on Aging:						
Aging Services Programs	1,493	1,516	2,237	1,473	1,513	1,959
Department of the Interior:						
Bureau of Indian Affairs and Bureau of Indian Education:						
Operation of Indian Programs	159	111	111	138	108	106
Department of Labor:						
Employment and Training Administration:						
Training and Employment Services	3,088	3,199	3,188	4,592	4,053	3,155
Community Service Employment for Older Americans	549	325	....	315	388	299
State Unemployment Insurance and Employment Service Operations	86	87	87	95	84	64
States Paid Leave Fund	....	....	22	....	....	6
Unemployment Trust Fund	967	964	964	1,156	1,080	951
Corporation for National and Community Service:						
Operating Expenses	438	485	496	400	232	363
Corporation for Public Broadcasting	506	516	451	506	516	451
District of Columbia:						
District of Columbia General and Special Payments:						
Federal Payment for Resident Tuition Support	35	35	35	35	35	35
Federal Payment for School Improvement	74	75	66	74	75	66
National Endowment for the Arts:						
National Endowment for the Arts: Grants and Administration	55	55	44	55	55	54
Institute of Museum and Library Services:						
Office of Museum and Library Services: Grants and Administration	265	265	226	246	260	260
Total, discretionary	**56,011**	**56,027**	**58,647**	**90,807**	**91,038**	**58,742**
Mandatory:						
Department of Education:						
Office of Elementary and Secondary Education:						
Education Jobs Fund	10,000	....	....	1,232	3,897	4,871
Office of Special Education and Rehabilitative Services:						
Rehabilitation Services and Disability Research	3,085	3,085	3,122	2,687	3,316	3,168
Office of Federal Student Aid:						
Student Financial Assistance	....	....	50	....	....	2
Department of Health and Human Services:						
Administration for Children and Families:						
Supporting Healthy Families and Adolescent Development	497	496	497	335	468	489
Social Services Block Grant	1,785	1,785	1,785	2,035	2,011	1,802
Department of Labor:						
Employment and Training Administration:						
TAA Community College and Career Training Grant Fund	....	500	500	....	25	350
Federal Unemployment Benefits and Allowances	686	686	687	490	700	705
Total, mandatory	**16,053**	**6,552**	**6,641**	**6,779**	**10,417**	**11,387**
Total, Education, Training, Employment, and Social Services	**72,064**	**62,579**	**65,288**	**97,586**	**101,455**	**70,129**

Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
Health						
Discretionary:						
Department of Agriculture:						
Food Safety and Inspection Service:						
Salaries and Expenses	49	51	51	49	50	50
Department of Health and Human Services:						
Health Resources and Services Administration:						
Health Resources and Services	2,906	2,847	2,847	2,987	2,987	2,655
Centers for Disease Control and Prevention:						
Disease Control, Research, and Training	2,434	2,358	2,309	2,397	2,335	2,153
Substance Abuse and Mental Health Services Administration:						
Substance Abuse and Mental Health Services	2,805	2,756	2,823	2,846	2,964	2,965
Departmental Management:						
Public Health and Social Services Emergency Fund	426	426	380	277	277	176
Prevention and Wellness Fund, Recovery Act	....	....	....	10	8	31
General Departmental Management	147	147	147	286	229	258
Department of Labor:						
Occupational Safety and Health Administration:						
Salaries and Expenses	104	115	118	104	115	118
Mine Safety and Health Administration:						
Salaries and Expenses	9	9	9	9	9	9
Total, discretionary	**8,880**	**8,709**	**8,684**	**8,965**	**8,974**	**8,415**
Mandatory:						
Department of Health and Human Services:						
Health Resources and Services Administration:						
Maternal, Infant, and Early Childhood Home Visiting Programs	100	250	350	1	147	322
Centers for Medicare and Medicaid Services:						
Grants to States for Premium Review	250	....	....	....	71	66
American Health Benefit Exchange Program	49	201	400	1	249	400
Program Management	30	....	....	....	30	....
Grants to States for Medicaid	292,662	260,783	270,427	272,771	276,249	269,068
Children's Health Insurance Fund	12,563	13,504	15,027	7,887	9,069	9,781
State Grants and Demonstrations	622	808	550	531	615	538
Child Enrollment Contingency Fund	1	4	16	....	100	200
Departmental Management:						
Pregnancy Assistance Fund	25	25	25	3	20	25
General Departmental Management	10	....	....	9	11	11
Total, mandatory	**306,312**	**275,575**	**286,795**	**281,203**	**286,561**	**280,411**
Total, Health	**315,192**	**284,284**	**295,479**	**290,168**	**295,535**	**288,826**
Income Security						
Discretionary:						
Department of Agriculture:						
Food and Nutrition Service:						
Commodity Assistance Program	251	250	250	268	286	250
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	7,257	6,696	7,390	6,469	7,731	7,495
Department of Health and Human Services:						
Administration for Children and Families:						
Low Income Home Energy Assistance	5,100	5,100	2,570	4,598	5,134	3,257
Refugee and Entrant Assistance	531	531	625	571	520	745
Payments to States for the Child Care and Development Block Grant	2,120	2,118	2,918	3,129	2,695	2,813

Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
Department of Homeland Security:						
Federal Emergency Management Agency:						
Emergency Food and Shelter	200	200	100	195	201	110
Department of Housing and Urban Development:						
Public and Indian Housing Programs:						
Public Housing Operating Fund	4,760	4,775	3,962	4,603	4,773	4,190
Revitalization of Severely Distressed Public Housing (HOPE VI)	198	200	....	185	205	246
Native Hawaiian Housing Block Grant	13	13	10	8	16	7
Tenant Based Rental Assistance	18,084	18,184	19,223	17,987	18,591	19,430
Project-based Rental Assistance	232	315	289	277	315	289
Public Housing Capital Fund	2,475	2,500	2,405	4,311	3,916	3,353
Native American Housing Block Grant	700	700	700	856	833	730
Choice Neighborhoods	....	....	250	....	....	7
Transforming Rental Assistance	....	....	200	....	....	....
Community Planning and Development:						
Homeless Assistance Grants	1,852	1,865	2,372	2,026	2,332	2,142
Home Investment Partnership Program	1,807	1,825	1,650	2,811	2,693	2,168
Housing Opportunities for Persons with AIDS	332	335	335	294	321	325
Rural Housing and Economic Development	....	....	....	14	18	15
Permanent Supportive Housing	....	....	....	11	10	10
Housing Programs:						
Housing for Persons with Disabilities	297	300	196	326	316	289
Housing for the Elderly	817	825	757	960	901	826
Department of Labor:						
Employment and Training Administration:						
Unemployment Trust Fund	3,263	3,421	3,421	3,730	2,309	2,128
Total, discretionary	**50,289**	**50,153**	**49,623**	**53,629**	**54,116**	**50,825**
Mandatory:						
Department of Agriculture:						
Agricultural Marketing Service:						
Funds for Strengthening Markets, Income, and Supply (section 32)	1,011	1,018	1,031	1,044	1,037	1,031
Food and Nutrition Service:						
Supplemental Nutrition Assistance Program	6,363	6,388	6,498	5,739	6,105	6,655
Commodity Assistance Program	21	21	21	20	22	21
Child Nutrition Programs	16,863	17,445	18,788	16,259	18,451	18,728
Department of Health and Human Services:						
Administration for Children and Families:						
Payments to States for Child Support Enforcement and Family Support Programs	4,666	4,065	3,810	4,423	3,620	3,780
Contingency Fund	....	334	612	2,905	2,429	844
Payments to States for Foster Care and Adoption Assistance	7,335	6,622	7,258	6,972	6,892	7,238
Child Care Entitlement to States	2,917	2,917	3,417	2,723	2,741	3,477
Temporary Assistance for Needy Families	17,059	17,059	17,059	17,513	17,048	17,205
Department of Housing and Urban Development:						
Public and Indian Housing Programs:						
Public Housing Capital Fund	....	....	....	898	....	....
Department of Labor:						
Employment and Training Administration:						
Unemployment Trust Fund	1,296	718	809	1,093	718	809
Department of the Treasury:						
Departmental Offices:						
Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credit Allocations	3,054	123	450	1,938	3,300	250

Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
Total, mandatory	60,585	56,710	59,753	61,527	62,363	60,038
Total, Income Security	110,874	106,863	109,376	115,156	116,479	110,863
Social Security						
Mandatory:						
Social Security Administration:						
Federal Disability Insurance Trust Fund	20	24	38	28	22	31
Veterans Benefits and Services						
Discretionary:						
Department of Veterans Affairs:						
Veterans Health Administration:						
Medical Services	691	741	796	691	741	796
Departmental Administration:						
Grants for Construction of State Extended Care Facilities	100	100	85	109	207	182
Grants for Construction of Veterans Cemeteries	46	46	46	36	32	33
Total, discretionary	**837**	**887**	**927**	**836**	**980**	**1,011**
Total, Veterans Benefits and Services	**837**	**887**	**927**	**836**	**980**	**1,011**
Administration of Justice						
Discretionary:						
Department of Housing and Urban Development:						
Fair Housing and Equal Opportunity:						
Fair Housing Activities	71	72	72	51	64	70
Department of Justice:						
Legal Activities and U.S. Marshals:						
Assets Forfeiture Fund	21	21	21	21	20	17
Office of Justice Programs:						
Justice Assistance	180	152	100	183	186	174
State and Local Law Enforcement Assistance	1,659	1,672	1,116	2,303	2,317	1,727
Juvenile Justice Programs	382	375	231	288	339	424
Community Oriented Policing Services	537	537	700	389	522	760
Violence against Women Prevention and Prosecution Programs	386	404	431	373	491	453
Equal Employment Opportunity Commission:						
Salaries and Expenses	30	30	30	30	30	30
Federal Drug Control Programs:						
High-intensity Drug Trafficking Areas Program	217	239	200	222	218	229
State Justice Institute:						
State Justice Institute: Salaries and Expenses	5	5	5	5	5	5
Total, discretionary	**3,488**	**3,507**	**2,906**	**3,865**	**4,192**	**3,889**
Mandatory:						
Department of Justice:						
Legal Activities and U.S. Marshals:						
Assets Forfeiture Fund	543	517	530	453	501	520
Office of Justice Programs:						
Crime Victims Fund	663	605	800	582	667	848
Department of the Treasury:						
Departmental Offices:						
Treasury Forfeiture Fund	417	148	498	186	216	463
Total, mandatory	**1,623**	**1,270**	**1,828**	**1,221**	**1,384**	**1,831**
Total, Administration of Justice	**5,111**	**4,777**	**4,734**	**5,086**	**5,576**	**5,720**

Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
General Government						
Discretionary:						
Department of the Interior:						
United States Fish and Wildlife Service:						
National Wildlife Refuge Fund	14	14	....	14	14	....
Insular Affairs:						
Assistance to Territories	57	57	66	48	50	73
Trust Territory of the Pacific Islands	....	....	....	....	2	2
District of Columbia:						
District of Columbia Courts:						
Federal Payment to the District of Columbia Courts	261	261	229	231	243	265
Defender Services in District of Columbia Courts	55	55	55	51	62	63
District of Columbia General and Special Payments:						
Federal Support for Economic Development and Management Reforms in the District	61	61	58	60	61	58
Election Assistance Commission:						
Election Reform Programs	75	75	....	88	99	69
Election Data Collection Grants	....	....	....	4	....	....
Total, discretionary	**523**	**523**	**408**	**496**	**531**	**530**
Mandatory:						
Department of Agriculture:						
Forest Service:						
Forest Service Permanent Appropriations	526	450	408	478	462	419
Department of Energy:						
Energy Programs:						
Payments to States under Federal Power Act	....	6	3	....	6	3
Department of Homeland Security:						
Customs and Border Protection:						
Refunds, Transfers, and Expenses of Operation, Puerto Rico	85	90	92	77	75	92
Department of the Interior:						
Office of Surface Mining Reclamation and Enforcement:						
Payments to States in Lieu of Coal Fee Receipts	147	164	....	80	332	103
United States Fish and Wildlife Service:						
National Wildlife Refuge Fund	8	6	6	8	6	6
Departmental Offices:						
Mineral Leasing and Associated Payments	1,723	1,861	2,070	1,723	1,861	2,070
National Petroleum Reserve, Alaska	20	4	3	20	4	3
Geothermal Lease Revenues, Payment to Counties	7	6	....	7	6	....
Insular Affairs:						
Assistance to Territories	28	28	28	22	20	28
Payments to the United States Territories, Fiscal Assistance	187	145	145	187	145	145
Department-Wide Programs:						
Payments in Lieu of Taxes	358	369	380	358	369	380
Department of the Treasury:						
Alcohol and Tobacco Tax and Trade Bureau:						
Internal Revenue Collections for Puerto Rico	378	574	510	378	574	510
Internal Revenue Service:						
Build America Bond Payments, Recovery Act	1,376	2,814	3,589	1,376	2,814	3,589
Corps of Engineers-Civil Works:						
Permanent Appropriations	4	4	4	8	4	4
Total, mandatory	**4,847**	**6,521**	**7,238**	**4,722**	**6,678**	**7,352**
Total, General Government	**5,370**	**7,044**	**7,646**	**5,218**	**7,209**	**7,882**

Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
Total, Grants	**602,874**	**549,292**	**606,049**	**608,390**	**625,211**	**584,278**
Discretionary	**141,641**	**138,977**	**138,337**	**207,646**	**206,563**	**159,353**
Mandatory	**461,233**	**410,315**	**467,712**	**400,744**	**418,648**	**424,925**

[1] These programs are included in the surface transportation reauthorization proposal. As part of that proposal, the Administration proposes to reclassify all surface transportation outlays as mandatory, consistent with the recommendations of the President's National Commission on Fiscal Responsibility and Reform, and to also move a number of current General Fund programs into the Transportation Trust Fund. For comparability purposes, the Budget reclassifies 2010 actual and 2011 estimated budget authority and outlays as mandatory. The table reflects these changes.

[2] Two mandatory grant programs in the Budget were erroneously omitted from the grants database and should be added to the totals in this chapter: National Infrastructure Investments, which includes $2 billion in budget authority and $350 million in outlays in 2012; and National Infrastructure Bank, which includes $5 billion in budget authority and $470 million in outlays in 2012.

America cannot be globally competitive if too many of its people are food insecure or ill because of lack of access to healthy foods. At a time of abiding need, the Budget provides $7.9 billion for discretionary nutrition program support. Funding supports 9.6 million participants in the Special Supplemental Nutrition Program for Women, Infants, and Children, which is critical to the health of pregnant women, new mothers, and their infants. The Administration supports implementation of the Healthy, Hunger-Free Kids Act of 2010, Public Law 111-296, strengthening the child nutrition programs and increasing children's access to healthy meals and snacks.

As the Supplemental Nutrition Assistance Program (SNAP) continues to serve an unprecedented number of participants, the Administration proposes to temporarily suspend the time benefit limits for certain working-age, low-income adults without dependents for an additional fiscal year. This proposal helps remove access barriers to SNAP and increase food purchasing power among some of the hardest-to-reach populations. The Budget also proposes to restore the SNAP benefit cuts that were included in child nutrition reauthorization. Additionally, the Administration will begin development of a SNAP reauthorization package that improves benefit access, program operations, and program integrity. SNAP is the cornerstone of the Nation's food assistance safety net and touches the lives of more than 43 million people. The Administration is committed to meeting the continued needs of its beneficiaries by serving all eligible participants to reduce food insecurity.

Because effective investment in early childhood is so critical to children's opportunity and the Nation's growth, the Budget includes $8.099 billion for Head Start and Early Head Start to serve approximately 965,000 children and families, maintaining the historic expansion undertaken with Recovery Act funds. The Budget similarly includes an additional $1.3 billion to maintain the current 1.6 million children receiving child care subsidies. At the same time, the Budget invests in improved quality: supporting an $450 million competition among States to improve program quality through the Early Learning Challenge Fund; proposing a Child Care Development Block Grant reauthorization that focuses on improving quality, protecting health and safety, and strengthening early learning; and supporting proposed regulations to strengthen Head Start by requiring low-performing programs to compete for funding.

During this period of tough budget choices, the President's Budget provides $2.57 billion for the Low Income Home Energy Assistance Program (LIHEAP) to help struggling families make ends meet by offsetting some of their home heating and cooling costs. The Budget does not re-propose the creation of a LIHEAP funding trigger included in previous budget requests. Reflecting current energy price forecasts, this returns LIHEAP funding to the historical levels received for FY 2008 prior to the energy price spikes.

Administration of Justice

Grant outlays for justice programs are estimated to be $5.7 billion in 2012.

The Administration supports strengthening the State and local criminal justice system with almost $3.0 billion in targeted assistance, including: $519 million for the Byrne Justice Assistance Grant Program; $600 million to support the hiring and retention of more than 3,300 police officers and sheriffs' deputies; $591 million to strengthen efforts to combat the staggering level of violence against women; $415 million to improve juvenile justice and child safety; $243 million in funding and set-asides for tribal criminal justice assistance; $187 million in prisoner re-entry and jail diversion programs (including $100 million for the Second Chance Act programs and $64 million for drug, mental health, and other problem-solving courts); and $30 million for the Byrne Criminal Justice Innovation Program, which supports the Administration's Neighborhood Revitalization Initiative by directing resources where they are needed in local communities. All of these grants are made through the Department of Justice.

Table 18–1, "Federal Grants to State and Local Governments-Budget Authority and Outlays," provides detailed budget authority and outlay data for grants by function and budget account, including proposed legislation. This table displays discretionary and mandatory grant programs separately.

HISTORICAL PERSPECTIVES

In recent decades, Federal aid to State and local governments has become a major factor in the financing of certain government functions. The rudiments of the present system date back to the Civil War. The Morrill Act, passed in 1862, established the land grant colleges and instituted certain federally required standards for States that received the grants, as is characteristic of present-day grant programs. Federal aid was later initiated for agriculture; highways; vocational education and rehabilitation; forestry; and public health. During the Great Depression, Federal aid was extended to meet income security and other social welfare needs. However, Federal grants did not become a significant portion of Federal Government expenditures until after World War II.

Table 18–2 displays trends in Federal grants to State and local governments since 1960. Section A shows Federal grants by function. Functions with a substantial amount of grant funding are broken out on separate lines. Grants for national defense, energy, social security, and veterans benefits and services functions are combined on the "Other" line.

In 1960, the function with the most grant funding was transportation. Federal grants for transportation were $3.0 billion, or 43 percent of all Federal grants, in 1960 due to the initiation of aid to States to build the Interstate Highway System in the late 1950s. Transportation is now the fourth largest grant category and accounted for 10 percent of total grant outlays in 2010.

By 1970 there had been significant increases in grant funding for education, training, employment, and social services. This function was the largest grant category in 1970 and accounted for 27 percent of total grant outlays. In 2010, education, training, employment, and social services constituted 16 percent of total grant outlays. Also, in the early and mid-1970s, major new grants were created for natural resources and environment (construction of sewage treatment plants), community and regional development (community development block grants), and general government (general revenue sharing).

Since 1980, changes in the relative amounts among functions reflect steady growth of grants for health (primarily Medicaid) and income security. Together, these two grant categories account for an estimated $405.3 billion or 66 percent of total grant spending in 2010. Health care grants alone increased more than sixfold over the last two decades, from $43.9 billion in 1990 to $290.2 billion in 2010.

Section B of Table 18-2 distributes grants between mandatory and discretionary spending. Programs whose funding is provided directly in authorizing legislation are categorized as mandatory. Funding levels for most mandatory programs can only be changed by changing eligibility criteria or benefit formulas established in law and are usually not limited by the annual appropriations process. For more information on these categories, see Chapter 12, "Budget Concepts," in this volume. Outlays for mandatory grant programs were $400.7 billion in 2010. As shown in Table 18-1, the three largest mandatory grant programs are Medicaid, with outlays of $272.8 billion in 2010; Federal-aid Highways, $30.4 billion;[4] and Temporary Assistance for Needy Families, $17.5 billion.

Funding levels for discretionary grant programs are determined annually through appropriations acts. Outlays for discretionary grant programs were $207.7 billion in 2010. As shown in Table 18-1, the three largest discretionary programs in 2010 were the State Fiscal Stabilization Fund, $23.3 billion; Accelerating Achievement and Ensuring Equity (Education for the Disadvantaged), $19.5 billion; and Tenant Based Rental Assistance, $18.0 billion.

Section C of Table 18–2 divides grants among three major categories: payments for individuals, grants for physical capital, and other grants. Grant outlays for payments for individuals, which are mainly entitlement programs in which the Federal Government and the States share the costs, have grown significantly as a percent of total grants. They increased from about a third of the total in 1960 to slightly less than two-thirds in the mid-1990s, and have remained about that proportion since. These grants are distributed through State or local governments to provide cash or in-kind benefits that constitute income transfers to individuals or families. The major grant in this category is Medicaid. Temporary Assistance for Needy Families, child nutrition programs, and housing assistance are also large grants in this category.

Grants for physical capital assist States and localities with construction and other physical capital activities. The major capital grants are for highways, but there are also grants for airports, mass transit, sewage treatment plant construction, community development, and other facilities. Grants for physical capital were almost half of total grants in 1960, shortly after grants began for construction of the Interstate Highway System. The relative share of these outlays has declined, as payments for individuals have grown. In 2010, grants for physical capital were $93.3 billion, 15 percent of total grants.

The other grants category includes grants for education, training, employment, and social services. These grants were 22 percent of total grants in 2010.

Section D of this table shows grants as a percentage of Federal outlays, State and local expenditures, and gross domestic product. Grants have increased as a percentage of total Federal outlays from 11 percent in 1990 to 18 percent in 2010. Grants as a percentage of domestic programs were 23 percent in 2010. Federal grants have increased as a percentage of total State and local expenditures since 1990 when they were 19 percent. However, a comparison with 2010 cannot be made because final data are not yet available for that year.

Section E shows the relative contribution of physical capital grants in assisting States and localities with gross investment. Federal capital grants are estimated to be 21 percent of State and local gross investment in 2010.

[4] Outlays from Federal-aid Highways were previously classified as discretionary. As part of the surface transportation reauthorization proposal included in the Budget these outlays have been reclassified as mandatory.

Table 18–2. TRENDS IN FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS

(Outlays in billions of dollars)

	Actual											Estimate	
	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010	CR	2012
A. Distribution of grants by function:													
Natural resources and environment	0.1	0.2	0.4	2.4	5.4	4.1	3.7	4.0	4.6	5.9	9.1	9.1	7.8
Agriculture	0.2	0.5	0.6	0.4	0.6	2.4	1.3	0.8	0.7	0.9	0.8	1.0	1.0
Transportation	3.0	4.1	4.6	5.9	13.0	17.0	19.2	25.8	32.2	43.4	61.0	61.1	70.7
Community and regional development	0.1	0.6	1.8	2.8	6.5	5.2	5.0	7.2	8.7	20.2	18.8	18.6	14.8
Education, training, employment, and social services	0.5	1.1	6.4	12.1	21.9	17.1	21.8	30.9	36.7	57.2	97.6	101.5	70.1
Health	0.2	0.6	3.8	8.8	15.8	24.5	43.9	93.6	124.8	197.8	290.2	295.5	288.8
Income security	2.6	3.5	5.8	9.4	18.5	27.9	36.8	58.4	68.7	90.9	115.2	116.5	110.9
Administration of justice	....	....	0.0	0.7	0.5	0.1	0.6	1.2	5.3	4.8	5.1	5.6	5.7
General government	0.2	0.2	0.5	7.1	8.6	6.8	2.3	2.3	2.1	4.4	5.2	7.2	7.9
Other	0.0	0.1	0.1	0.2	0.7	0.8	0.8	0.8	2.1	2.6	5.4	9.2	6.6
Total	**7.0**	**10.9**	**24.1**	**49.8**	**91.4**	**105.9**	**135.3**	**225.0**	**285.9**	**428.0**	**608.4**	**625.2**	**584.3**
B. Distribution of grants by BEA category:													
Discretionary	N/A	2.9	10.2	21.0	53.3	55.5	63.3	94.0	116.7	181.7	207.7	206.6	159.4
Mandatory	N/A	8.0	13.9	28.8	38.1	50.4	72.0	131.0	169.2	246.3	400.7	418.6	424.9
Total	**7.0**	**10.9**	**24.1**	**49.8**	**91.4**	**105.9**	**135.3**	**225.0**	**285.9**	**428.0**	**608.4**	**625.2**	**584.3**
C. Composition:													
Current dollars:													
Payments for individuals [1]	2.5	3.7	8.7	16.8	32.6	50.1	77.3	144.4	182.6	273.9	384.5	392.5	385.4
Physical capital [1]	3.3	5.0	7.1	10.9	22.6	24.9	27.2	39.6	48.7	60.8	93.3	100.2	100.9
Other grants	1.2	2.2	8.3	22.2	36.2	30.9	30.9	41.0	54.6	93.3	130.6	132.5	98.0
Total	**7.0**	**10.9**	**24.1**	**49.8**	**91.4**	**105.9**	**135.3**	**225.0**	**285.9**	**428.0**	**608.4**	**625.2**	**584.3**
Percentage of total grants:													
Payments for individuals [1]	35.3%	34.1%	36.2%	33.6%	35.7%	47.3%	57.1%	64.2%	63.9%	64.0%	63.2%	62.8%	66.0%
Physical capital [1]	47.3%	45.7%	29.3%	21.9%	24.7%	23.5%	20.1%	17.6%	17.0%	14.2%	15.3%	16.0%	17.3%
Other grants	17.4%	20.2%	34.5%	44.5%	39.6%	29.2%	22.8%	18.2%	19.1%	21.8%	21.5%	21.2%	16.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Constant (FY 2005) dollars:													
Payments for individuals [1]	13.3	18.8	37.3	53.5	71.1	83.5	107.6	175.7	203.2	273.9	342.1	344.4	332.8
Physical capital [1]	19.6	27.9	31.4	30.0	44.9	39.5	37.6	50.0	56.5	60.8	74.4	78.4	76.7
Other grants	12.3	19.2	55.0	103.4	111.1	66.6	53.0	57.9	67.0	93.3	110.5	109.9	79.0
Total	**45.3**	**65.9**	**123.7**	**186.9**	**227.1**	**189.6**	**198.1**	**283.6**	**326.8**	**428.0**	**527.1**	**532.7**	**488.4**
D. Total grants as a percent of:													
Federal outlays:													
Total	7.6%	9.2%	12.3%	15.0%	15.5%	11.2%	10.8%	14.8%	16.0%	17.3%	17.6%	16.4%	15.7%
Domestic programs [2]	18.0%	18.3%	23.2%	21.7%	22.2%	18.2%	17.1%	21.6%	22.0%	23.5%	23.3%	21.7%	20.9%
State and local expenditures	14.8%	15.5%	20.1%	24.0%	27.4%	22.0%	18.9%	22.8%	22.2%	24.5%	N/A	N/A	N/A
Gross domestic product	1.4%	1.6%	2.4%	3.2%	3.4%	2.6%	2.4%	3.1%	2.9%	3.4%	4.2%	4.1%	3.7%
E. As a share of total State and local gross investments:													
Federal capital grants	24.6%	25.5%	25.4%	26.0%	35.4%	30.2%	21.9%	26.0%	22.0%	22.0%	21.2%	N/A	N/A
State and local own-source financing	75.4%	74.5%	74.6%	74.0%	64.6%	69.8%	78.1%	74.0%	78.0%	78.0%	78.8%	N/A	N/A
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**N/A**	**N/A**

N/A: Not available.

* 50 million or less.

[1] Grants that are both payments for individuals and capital investment are shown under capital investment.

[2] Excludes national defense, international affairs, net interest, and undistributed offsetting receipts.

OTHER INFORMATION ON FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

Additional information regarding aid to State and local governments can be found elsewhere in this Budget and in other documents.

Major public physical capital investment programs providing Federal grants to State and local governments are identified in Chapter 21, "Federal Investment" in this volume.

Summary and detailed data for grants to State and local governments can be found in many sections of a separate volume of the Budget entitled *Historical Tables*. Section 12 of that document is devoted exclusively to grants to State and local governments. Additional information on grants can be found in Section 6, Composition of Federal Government Outlays; Section 9, Federal Government Outlays for Major Public Physical Capital, Research and Development, and Education and Training; Section 11, Federal Government Payments for Individuals; and Section 15, Total (Federal and State and Local) Government Finances.

In addition to those mentioned above, a number of other sources provide State-by-State data, information on how to apply for Federal aid, or display information about audits but use a slightly difference concept of grants.

Current and updated grant receipt information by State and local governments can be found on *USAspending.gov*. This public website also contains contract and loan information and is updated twice per month. Additional current and updated information about grants provided specifically by the Recovery Act can be found on *Recovery.gov*.

The Bureau of the Census in the Department of Commerce provides data on public finances, including Federal aid to State and local governments. The Bureau's major reports and databases on grant-making include:

- *Federal Aid to States*, a report on Federal grant spending by State for the most recently completed fiscal year.
- *The Consolidated Federal Funds Report* is an annual document that shows the distribution of Federal spending by State and county areas and by local governmental jurisdictions.
- The Federal Assistance Awards Data System (FAADS) provides computerized information about current grant funding. Data on all direct assistance awards are provided quarterly to the States and to the Congress.
- The Federal Audit Clearinghouse maintains an online database *(harvester.census.gov/sac)* that provides access to summary information about audits conducted under OMB Circular A–133, "Audits to States, Local Governments, and Non-Profit Organizations." Information is available for each audited entity, including the amount of Federal money expended by program and whether there were audit findings.

The Bureau of Economic Analysis, also in the Department of Commerce, publishes the monthly *Survey of Current Business*, which provides data on the national income and product accounts (NIPA), a broad statistical concept encompassing the entire economy. These accounts include data on Federal grants to State and local governments. Data using the NIPA concepts appear in this volume in Chapter 29, "National Income and Product Accounts" in this volume.

The *Catalog of Federal Domestic Assistance* is a primary reference source for communities wishing to apply for grants and other domestic assistance. The *Catalog* is prepared by the General Services Administration and contains a detailed listing of grant and other assistance programs; discussions of eligibility criteria, application procedures, and estimated obligations; and related information. The *Catalog* is available on the Internet at *www.cfda.gov*.

APPENDIX: SELECTED GRANT DATA BY STATE

This Appendix displays State-by-State spending for select grant programs to State and local governments shown in the following table, "Summary of Grant Programs by Agency, Bureau, and Program." The programs selected here cover more than 80 percent of total grant spending.

The first summary table shows the obligations for each program. The second summary table, "Summary of Grant Programs by State," shows the obligations for each State for these programs. Although not shown separately, program totals include any remaining Recovery Act funding obligated in the period covered by the tables.

The individual program tables display obligations for each program on a State-by-State basis, consistent with the estimates in this Budget. These tables include both funding provided by the Recovery Act with funding provided through other authority. Each table reports the following information:

- The Federal agency that administers the program.
- The program title and number as contained in the *Catalog of Federal Domestic Assistance.*
- The budget account number from which the program is funded.
- Actual 2010 obligations by State, Federal territory, and Indian tribes in thousands of dollars. Undistributed obligations shown at the bottom of each page are generally project funds that are not distributed by formula, or programs for which State-by-State data are not available.
- Estimates of 2011 obligations by State from previous budget authority and under new authority, including authority in the continuing resolution, P.L. 111-242, as amended.
- Estimates of 2012 obligations by State, which are based on the 2012 Budget request, unless otherwise noted.
- The percentage share of 2012 estimated program funds distributed to each State.

Table 18–3. SUMMARY OF PROGRAMS BY AGENCY, BUREAU, AND PROGRAM
(Obligations in millions of dollars)

Agency, Bureau, and Program	FY 2010 (actual)	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)
Department of Agriculture, Food and Nutrition Service					
School Breakfast Program (10.553)	2,895	....	3,115	3,115	3,338
National School Lunch Program (10.555)	9,933	587	9,864	10,451	10,941
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557)	7,047	531	6,898	7,429	7,373
Child and Adult Care Food Program (10.558)	2,543	....	2,685	2,685	2,823
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Food Stamps) (10.561)	3,131	....	3,243	3,243	3,332
Department of Education, Office of Elementary and Secondary Education					
Title I College-and-Career-Ready Students (formerly Title I Grants to Local Educational Agencies) (84.010)	14,492	....	14,492	14,492	14,792
Improving Teacher Quality State Grants (84.367)	2,948	....	2,948	2,948	....
Effective Teachers and Leaders State Grants	....	....	....	....	2,500
Education Jobs Fund (84.410)	10,000	....	....	....	....
Department of Education, Office of Special Education and Rehabilitative Services					
Vocational Rehabilitation State Grants (84.126)	3,085	....	3,085	3,085	3,141
IDEA Part B: Grants to States and Grants to States Recovery Act (84.027)	11,505	....	11,505	11,505	11,705
Department of Energy, Energy Programs					
State Energy Program (81.041)	62	75	50	125	64
Weatherization Assistance For Low-Income Persons (81.042)	17,919	299	210	509	320
Energy Efficiency And Conservation Block Grant (81.043)	1,669	....	....	....	....
Department of Health and Human Services, Centers for Medicare and Medicaid Services					
Children's Health Insurance Program (93.767)	12,598	....	13,459	13,459	14,982
Grants To States For Medicaid (93.778)	290,461	....	281,299	281,299	270,889
Department of Health and Human Services, Administration for Children and Families					
Temporary Assistance for Needy Families (TANF)—Family Assistance Grants (93.558)	21,654	....	17,393	17,393	17,671
Child Support Enforcement - Federal Share of State and Local Administrative Costs and Incentives (93.563)	4,993	....	4,431	4,431	3,977
Low Income Home Energy Assistance Program (93.568)	4,510	....	4,510	4,510	1,980
Child Care and Development Block Grant (93.575)	2,130	....	2,127	2,127	2,927
Child Care and Development Fund - Mandatory (93.596a)	1,240	....	1,240	1,240	1,252
Child Care and Development Fund - Matching (93.596b)	1,677	....	1,677	1,677	2,165
Head Start (93.600)	7,236	....	7,235	7,235	8,100
Foster Care - Title IV-E (93.658)	4,414	....	3,967	3,967	4,088
Adoption Assistance (93.659)	2,226	....	2,480	2,480	2,495
Social Services Block Grant (93.667)	1,700	....	1,700	1,700	1,700
Department of Health and Human Services, HIV/AIDS Bureau					
Ryan White HIV/AIDS Treatment Modernization Act - Part B HIV Care Grants (93.917)	1,229	....	1,189	1,189	1,278
Department of Housing and Urban Development, Public and Indian Housing Programs					
Public Housing Operating Fund (14.850)	4,754	....	4,775	4,775	3,962
Section 8 Housing Choice Vouchers (14.871)	18,071	307	18,079	18,386	19,238
Public Housing Capital Fund (14.872)	2,486	105	2,494	2,599	2,440
Department of Housing and Urban Development, Community Planning and Development					
Community Development Block Grant (14.218)	6,166	1,085	4,211	5,296	3,955
HOME Investment Partnership Program (14.258)	1,839	259	1,588	1,847	1,673
Department of Labor, Employment and Training Administration					
Unemployment Insurance (17.225)	3,196	....	3,196	3,196	3,208
Department of Transportation, Federal Aviation Administration					
Airport Improvement Program (20.106)	3,411	....	3,384	3,384	5,379
Department of Transportation, Federal Highway Administration					
Highway Planning and Construction (20.205)	46,968	....	41,846	41,846	70,414
Department of Transportation, Federal Transit Administration					
Federal Transit Formula Grants Programs (20.507)	8,108	3,338	6,257	9,595	11,193

Table 18–3. SUMMARY OF PROGRAMS BY AGENCY, BUREAU, AND PROGRAM—Continued
(Obligations in millions of dollars)

Agency, Bureau, and Program	FY 2010 (actual)	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)
Environmental Protection Agency, Office of Water					
Capitalization Grants for Clean Water State Revolving Fund (66.458)	1,695	589	2,100	2,689	1,550
Capitalization Grants for Drinking Water State Revolving Fund (66.468)	1,143	453	1,387	1,840	990
Federal Communications Commission					
Universal Service Fund E-Rate	1,808	....	1,836	1,836	1,866
Total	542,942	7,628	491,957	499,584	519,700

Table 18–4. SUMMARY OF PROGRAMS BY STATE

(Obligations in millions of dollars)

State or Territory	All programs FY 2010 (actual)	Programs distributed in all years: Estimated FY 2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	5,914	80	6,343	6,423	7,757	1.59
Alaska	2,167	19	2,104	2,123	2,300	0.47
Arizona	11,290	121	10,687	10,808	11,560	2.37
Arkansas	5,429	41	5,291	5,333	5,519	1.13
California	56,660	782	60,223	61,005	55,301	11.35
Colorado	5,465	43	5,051	5,094	5,120	1.05
Connecticut	6,086	302	5,791	6,093	6,172	1.27
Delaware	1,548	35	1,398	1,433	1,438	0.30
District of Columbia	2,682	195	2,533	2,728	2,678	0.55
Florida	22,554	430	21,276	21,705	22,420	4.60
Georgia	12,790	125	11,856	11,981	12,708	2.61
Hawaii	1,954	43	1,872	1,915	1,880	0.39
Idaho	2,180	18	2,122	2,141	2,337	0.48
Illinois	19,029	176	17,196	17,371	17,059	3.50
Indiana	8,772	67	8,849	8,916	9,509	1.95
Iowa	4,191	82	4,082	4,164	4,143	0.85
Kansas	3,482	71	3,288	3,358	3,399	0.70
Kentucky	7,559	91	7,438	7,528	7,888	1.62
Louisiana	9,528	86	8,626	8,712	8,298	1.70
Maine	2,814	13	2,502	2,515	2,425	0.50
Maryland	8,169	109	7,787	7,896	7,933	1.63
Massachusetts	12,701	337	12,588	12,925	12,034	2.47
Michigan	15,728	249	14,948	15,197	15,578	3.20
Minnesota	8,242	77	7,901	7,978	8,036	1.65
Mississippi	6,087	44	6,046	6,090	6,675	1.37
Missouri	10,242	125	9,511	9,635	9,960	2.04
Montana	1,882	22	1,620	1,642	1,859	0.38
Nebraska	2,445	28	2,299	2,326	2,443	0.50
Nevada	2,651	23	2,235	2,258	2,358	0.48
New Hampshire	1,609	49	1,566	1,615	1,648	0.34
New Jersey	12,715	123	12,207	12,329	12,471	2.56
New Mexico	4,817	43	4,588	4,631	4,881	1.00
New York	49,627	947	50,595	51,542	49,576	10.17
North Carolina	13,796	161	12,238	12,400	12,619	2.59
North Dakota	1,338	36	1,172	1,209	1,242	0.25
Ohio	19,633	316	18,789	19,105	19,572	4.02
Oklahoma	5,843	44	5,945	5,989	6,052	1.24
Oregon	5,919	36	5,875	5,911	6,265	1.29
Pennsylvania	21,628	161	20,996	21,158	21,119	4.33
Rhode Island	2,267	45	2,138	2,183	2,146	0.44
South Carolina	6,821	89	6,500	6,589	6,705	1.38
South Dakota	1,444	8	1,257	1,266	1,368	0.28
Tennessee	10,607	58	9,698	9,757	10,124	2.08
Texas	35,797	393	34,210	34,603	35,479	7.28
Utah	2,982	25	2,814	2,839	2,999	0.62
Vermont	1,552	26	1,463	1,489	1,455	0.30
Virginia	8,716	71	7,927	7,998	8,299	1.70
Washington	9,048	110	8,360	8,470	8,430	1.73
West Virginia	3,758	25	3,630	3,654	3,765	0.77
Wisconsin	8,285	135	8,027	8,162	8,330	1.71
Wyoming	925	5	860	865	1,012	0.21
American Samoa	298	2	94	96	93	0.02
Guam	522	18	195	213	227	0.05
Northern Mariana Islands	280	2	58	60	61	0.01
Puerto Rico	19,898	151	3,111	3,262	3,282	0.67
Freely Associated States	47	....	47	47	62	0.01
Virgin Islands	611	20	181	200	175	0.04
Indian Tribes	979	25	970	995	1,009	0.21
Total, programs distributed by State in all years	512,001	6,956	478,974	485,930	487,256	100.00
MEMORANDUM:						
Not distributed by State in all years [1]	30,941	672	12,983	13,655	32,444	N/A
Total, including undistributed	542,942	7,628	491,957	499,584	519,700	N/A

[1] The sum of programs not distributed by State in all years.

Department of Agriculture, Food and Nutrition Service **12-3539-0-1-605**

Table 18–5. SCHOOL BREAKFAST PROGRAM (10.553)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	54,897	....	60,146	60,146	64,440	1.93
Alaska	6,880	....	7,538	7,538	8,076	0.24
Arizona	63,230	....	69,276	69,276	74,222	2.22
Arkansas	38,009	....	41,644	41,644	44,616	1.34
California	344,644	....	377,600	377,600	404,558	12.12
Colorado	26,244	....	28,754	28,754	30,806	0.92
Connecticut	19,325	....	21,173	21,173	22,684	0.68
Delaware	7,374	....	8,079	8,079	8,656	0.26
District of Columbia	5,664	....	6,206	6,206	6,649	0.20
Florida	161,209	....	176,624	176,624	189,234	5.67
Georgia	140,416	....	153,843	153,843	164,826	4.94
Hawaii	8,560	....	9,379	9,379	10,048	0.30
Idaho	15,051	....	16,490	16,490	17,667	0.53
Illinois	89,500	....	98,058	98,058	105,059	3.15
Indiana	55,019	....	60,280	60,280	64,583	1.93
Iowa	17,560	....	19,239	19,239	20,613	0.62
Kansas	21,894	....	23,988	23,988	25,700	0.77
Kentucky	56,720	....	62,144	62,144	66,580	1.99
Louisiana	60,737	....	66,545	66,545	71,295	2.14
Maine	9,029	....	9,892	9,892	10,599	0.32
Maryland	34,320	....	37,602	37,602	40,286	1.21
Massachusetts	35,703	....	39,117	39,117	41,910	1.26
Michigan	77,291	....	84,682	84,682	90,727	2.72
Minnesota	31,500	....	34,512	34,512	36,976	1.11
Mississippi	54,282	....	59,473	59,473	63,718	1.91
Missouri	54,636	....	59,861	59,861	64,134	1.92
Montana	6,061	....	6,641	6,641	7,115	0.21
Nebraska	11,787	....	12,914	12,914	13,836	0.41
Nevada	15,027	....	16,464	16,464	17,639	0.53
New Hampshire	4,355	....	4,771	4,771	5,112	0.15
New Jersey	46,273	....	50,698	50,698	54,317	1.63
New Mexico	31,090	....	34,063	34,063	36,495	1.09
New York	148,424	....	162,617	162,617	174,226	5.22
North Carolina	93,012	....	101,906	101,906	109,181	3.27
North Dakota	3,763	....	4,123	4,123	4,417	0.13
Ohio	85,829	....	94,036	94,036	100,749	3.02
Oklahoma	50,173	....	54,971	54,971	58,895	1.76
Oregon	31,388	....	34,389	34,389	36,844	1.10
Pennsylvania	72,729	....	79,684	79,684	85,372	2.56
Rhode Island	6,295	....	6,897	6,897	7,389	0.22
South Carolina	63,368	....	69,427	69,427	74,384	2.23
South Dakota	6,030	....	6,607	6,607	7,078	0.21
Tennessee	67,589	....	74,052	74,052	79,339	2.38
Texas	402,629	....	441,130	441,130	472,623	14.16
Utah	16,011	....	17,542	17,542	18,794	0.56
Vermont	4,542	....	4,976	4,976	5,332	0.16
Virginia	52,606	....	57,636	57,636	61,751	1.85
Washington	43,677	....	47,854	47,854	51,270	1.54
West Virginia	19,329	....	21,177	21,177	22,689	0.68
Wisconsin	33,898	....	37,139	37,139	39,791	1.19
Wyoming	3,083	....	3,378	3,378	3,619	0.11
American Samoa	....	....	....	....	....	....
Guam	2,101	....	2,302	2,302	2,466	0.07
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	31,602	....	34,624	34,624	37,096	1.11
Freely Associated States	....	....	....	....	....	....
Virgin Islands	1,019	....	1,116	1,116	1,196	0.04
Indian Tribes	....	....	....	....	....	....
Undistributed	51,953	....	....	....	....	....
DOD/AF/USMC/Navy	19	....	21	21	22	*
Total	**2,895,356**	**.........**	**3,115,300**	**3,115,300**	**3,337,699**	**[1] 100.00**

* $500 or less or 0.005 percent or less.

[1] Excludes undistributed obligations.

Department of Agriculture, Food and Nutrition Service **12-3539-0-1-605**

Table 18–6. NATIONAL SCHOOL LUNCH PROGRAM (10.555)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	180,950	10,949	183,950	194,899	204,039	1.86
Alaska	28,087	1,700	28,552	30,252	31,671	0.29
Arizona	226,118	13,682	229,867	243,549	254,970	2.33
Arkansas	112,778	6,824	114,648	121,472	127,168	1.16
California	1,280,057	77,455	1,301,278	1,378,733	1,443,387	13.19
Colorado	111,046	6,719	112,887	119,606	125,215	1.14
Connecticut	76,238	4,613	77,502	82,115	85,966	0.79
Delaware	23,766	1,438	24,160	25,598	26,798	0.24
District of Columbia	19,160	1,159	19,478	20,637	21,605	0.20
Florida	576,245	34,868	585,798	620,666	649,772	5.94
Georgia	408,284	24,705	415,052	439,757	460,379	4.21
Hawaii	32,982	1,996	33,528	35,524	37,190	0.34
Idaho	46,424	2,809	47,194	50,003	52,348	0.48
Illinois	367,939	22,263	374,039	396,302	414,887	3.79
Indiana	211,101	12,773	214,601	227,374	238,037	2.18
Iowa	81,870	4,954	83,227	88,181	92,316	0.84
Kansas	85,429	5,169	86,845	92,014	96,329	0.88
Kentucky	158,266	9,576	160,890	170,466	178,460	1.63
Louisiana	185,097	11,200	188,166	199,366	208,715	1.91
Maine	30,000	1,815	30,498	32,313	33,828	0.31
Maryland	120,438	7,288	122,434	129,722	135,805	1.24
Massachusetts	136,042	8,232	138,297	146,529	153,400	1.40
Michigan	260,988	15,792	265,315	281,107	294,289	2.69
Minnesota	126,156	7,634	128,247	135,881	142,253	1.30
Mississippi	147,688	8,936	150,137	159,073	166,532	1.52
Missouri	168,539	10,198	171,333	181,531	190,044	1.74
Montana	22,955	1,389	23,336	24,725	25,884	0.24
Nebraska	53,324	3,227	54,208	57,435	60,128	0.55
Nevada	67,912	4,109	69,038	73,147	76,577	0.70
New Hampshire	21,337	1,291	21,691	22,982	24,060	0.22
New Jersey	195,044	11,802	198,277	210,079	219,931	2.01
New Mexico	82,177	4,972	83,540	88,512	92,662	0.85
New York	558,013	33,765	567,264	601,029	629,213	5.75
North Carolina	307,299	18,594	312,394	330,988	346,509	3.17
North Dakota	15,346	929	15,600	16,529	17,304	0.16
Ohio	301,337	18,233	306,333	324,566	339,786	3.11
Oklahoma	137,821	8,339	140,106	148,445	155,406	1.42
Oregon	95,278	5,765	96,858	102,623	107,435	0.98
Pennsylvania	284,607	17,221	289,326	306,547	320,922	2.93
Rhode Island	25,053	1,516	25,468	26,984	28,250	0.26
South Carolina	170,345	10,307	173,169	183,476	192,080	1.76
South Dakota	24,110	1,459	24,510	25,969	27,186	0.25
Tennessee	206,736	12,509	210,164	222,673	233,115	2.13
Texas	1,143,393	69,185	1,162,349	1,231,534	1,289,285	11.78
Utah	82,015	4,963	83,374	88,337	92,480	0.85
Vermont	12,791	774	13,003	13,777	14,423	0.13
Virginia	182,326	11,032	185,349	196,381	205,590	1.88
Washington	162,632	9,841	165,328	175,169	183,383	1.68
West Virginia	54,664	3,308	55,570	58,878	61,639	0.56
Wisconsin	140,282	8,488	142,608	151,096	158,181	1.45
Wyoming	12,579	761	12,788	13,549	14,184	0.13
American Samoa	....	....	....	....	....	....
Guam	6,306	382	6,410	6,792	7,111	0.06
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	121,591	7,357	123,607	130,964	137,106	1.25
Freely Associated States	....	....	....	....	....	....
Virgin Islands	4,970	301	5,052	5,353	5,604	0.05
Indian Tribes	....	....	....	....	....	....
Undistributed	229,771	....	....	....	....	....
DOD/AF/USMC/Navy	9,112	552	9,261	9,813	10,276	0.09
Total	**9,932,814**	**587,118**	**9,863,904**	**10,451,022**	**10,941,113**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Agriculture, Food and Nutrition Service **12-3510-0-1-605**

Table 18–7. SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC) (10.557)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	116,410	8,773	113,969	122,742	121,826	1.65
Alaska	25,362	1,911	24,831	26,742	26,543	0.36
Arizona	156,924	11,827	153,633	165,460	164,226	2.23
Arkansas	73,449	5,536	71,908	77,444	76,866	1.04
California	1,186,655	89,435	1,161,769	1,251,204	1,241,869	16.84
Colorado	74,923	5,647	73,352	78,999	78,410	1.06
Connecticut	48,644	3,666	47,624	51,290	50,907	0.69
Delaware	16,537	1,246	16,190	17,436	17,306	0.23
District of Columbia	15,193	1,145	14,874	16,019	15,900	0.22
Florida	385,261	29,036	377,183	406,219	403,187	5.47
Georgia	281,061	21,183	275,166	296,349	294,139	3.99
Hawaii	34,105	2,570	33,390	35,960	35,692	0.48
Idaho	31,653	2,386	30,989	33,375	33,126	0.45
Illinois	245,794	18,525	240,639	259,164	257,231	3.49
Indiana	125,817	9,482	123,179	132,661	131,671	1.79
Iowa	52,565	3,962	51,463	55,425	55,011	0.75
Kansas	50,354	3,795	49,298	53,093	52,697	0.71
Kentucky	115,660	8,717	113,234	121,951	121,042	1.64
Louisiana	128,935	9,717	126,231	135,948	134,934	1.83
Maine	19,930	1,502	19,512	21,014	20,858	0.28
Maryland	104,723	7,893	102,527	110,420	109,596	1.49
Massachusetts	92,062	6,938	90,132	97,070	96,345	1.31
Michigan	190,685	14,371	186,686	201,057	199,558	2.71
Minnesota	104,304	7,861	102,116	109,977	109,157	1.48
Mississippi	99,875	7,527	97,781	105,308	104,523	1.42
Missouri	100,057	7,541	97,958	105,499	104,712	1.42
Montana	16,606	1,252	16,257	17,509	17,378	0.24
Nebraska	34,271	2,583	33,552	36,135	35,866	0.49
Nevada	49,185	3,707	48,153	51,860	51,474	0.70
New Hampshire	13,028	982	12,754	13,736	13,634	0.18
New Jersey	140,490	10,588	137,544	148,132	147,027	1.99
New Mexico	50,037	3,771	48,987	52,758	52,365	0.71
New York	438,477	33,047	429,283	462,330	458,880	6.22
North Carolina	205,397	15,480	201,089	216,569	214,954	2.92
North Dakota	13,072	985	12,798	13,783	13,680	0.19
Ohio	200,677	15,124	196,469	211,593	210,015	2.85
Oklahoma	100,835	7,600	98,719	106,319	105,526	1.43
Oregon	79,838	6,017	78,163	84,180	83,552	1.13
Pennsylvania	201,107	15,157	196,889	212,046	210,464	2.85
Rhode Island	20,576	1,551	20,144	21,695	21,534	0.29
South Carolina	100,614	7,583	98,504	106,087	105,296	1.43
South Dakota	18,740	1,412	18,348	19,760	19,612	0.27
Tennessee	127,115	9,580	124,450	134,030	133,030	1.80
Texas	587,751	44,297	575,425	619,722	615,099	8.34
Utah	46,725	3,522	45,744	49,266	48,899	0.66
Vermont	14,341	1,081	14,040	15,121	15,008	0.20
Virginia	106,761	8,046	104,522	112,568	111,728	1.52
Washington	172,842	13,027	169,216	182,243	180,884	2.45
West Virginia	40,886	3,081	40,029	43,110	42,789	0.58
Wisconsin	93,450	7,043	91,490	98,533	97,798	1.33
Wyoming	10,188	768	9,974	10,742	10,662	0.14
American Samoa	8,583	647	8,403	9,050	8,982	0.12
Guam	9,916	747	9,709	10,456	10,378	0.14
Northern Mariana Islands	5,909	445	5,786	6,231	6,184	0.08
Puerto Rico	252,567	19,035	247,272	266,307	264,319	3.58
Freely Associated States	....	....	....	....	....	....
Virgin Islands	8,505	641	8,326	8,967	8,900	0.12
Indian Tribes	....	....	....	....	....	....
Undistributed	1,426	....	....	....	....	....
Total	**7,046,853**	**530,991**	**6,897,673**	**7,428,664**	**7,373,249**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Agriculture, Food and Nutrition Service **12-3539-0-1-605**

Table 18–8. CHILD AND ADULT CARE FOOD PROGRAM (10.558)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	37,091	....	38,731	38,731	40,530	1.46
Alaska	7,842	....	8,189	8,189	8,569	0.31
Arizona	44,165	....	46,118	46,118	48,260	1.74
Arkansas	39,713	....	41,469	41,469	43,396	1.56
California	258,238	....	269,657	269,657	282,185	10.16
Colorado	22,528	....	23,524	23,524	24,617	0.89
Connecticut	13,815	....	14,426	14,426	15,096	0.54
Delaware	12,436	....	12,986	12,986	13,589	0.49
District of Columbia	3,808	....	3,976	3,976	4,161	0.15
Florida	153,836	....	160,638	160,638	168,101	6.05
Georgia	104,417	....	109,034	109,034	114,100	4.11
Hawaii	5,771	....	6,026	6,026	6,306	0.23
Idaho	6,171	....	6,444	6,444	6,743	0.24
Illinois	117,227	....	122,411	122,411	128,098	4.61
Indiana	42,097	....	43,958	43,958	46,001	1.66
Iowa	25,844	....	26,987	26,987	28,241	1.02
Kansas	33,018	....	34,478	34,478	36,080	1.30
Kentucky	29,593	....	30,902	30,902	32,337	1.16
Louisiana	65,810	....	68,720	68,720	71,913	2.59
Maine	9,767	....	10,199	10,199	10,673	0.38
Maryland	39,238	....	40,973	40,973	42,877	1.54
Massachusetts	53,607	....	55,977	55,977	58,578	2.11
Michigan	61,674	....	64,401	64,401	67,393	2.43
Minnesota	61,616	....	64,341	64,341	67,330	2.42
Mississippi	35,121	....	36,674	36,674	38,378	1.38
Missouri	44,680	....	46,656	46,656	48,823	1.76
Montana	10,312	....	10,768	10,768	11,268	0.41
Nebraska	28,318	....	29,570	29,570	30,944	1.11
Nevada	4,971	....	5,191	5,191	5,432	0.20
New Hampshire	3,721	....	3,886	3,886	4,066	0.15
New Jersey	61,565	....	64,287	64,287	67,274	2.42
New Mexico	34,162	....	35,673	35,673	37,330	1.34
New York	183,879	....	192,010	192,010	200,930	7.23
North Carolina	83,792	....	87,497	87,497	91,562	3.30
North Dakota	10,443	....	10,905	10,905	11,411	0.41
Ohio	84,891	....	88,645	88,645	92,763	3.34
Oklahoma	53,608	....	55,978	55,978	58,579	2.11
Oregon	29,683	....	30,996	30,996	32,436	1.17
Pennsylvania	81,559	....	85,165	85,165	89,122	3.21
Rhode Island	6,866	....	7,170	7,170	7,503	0.27
South Carolina	27,231	....	28,435	28,435	29,756	1.07
South Dakota	8,320	....	8,688	8,688	9,092	0.33
Tennessee	50,381	....	52,609	52,609	55,053	1.98
Texas	256,999	....	268,363	268,363	280,831	10.11
Utah	22,342	....	23,330	23,330	24,414	0.88
Vermont	4,496	....	4,695	4,695	4,913	0.18
Virginia	35,730	....	37,310	37,310	39,043	1.41
Washington	44,171	....	46,124	46,124	48,267	1.74
West Virginia	14,380	....	15,016	15,016	15,713	0.57
Wisconsin	38,697	....	40,408	40,408	42,285	1.52
Wyoming	5,189	....	5,418	5,418	5,670	0.20
American Samoa	....	....	....	....	....	....
Guam	342	....	357	357	374	0.01
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	26,006	....	27,156	27,156	28,418	1.02
Freely Associated States	....	....	....	....	....	....
Virgin Islands	885	....	924	924	967	0.03
Indian Tribes	....	....	....	....	....	....
Undistributed	1,122	....	31,000	31,000	45,000	....
Total	**2,543,184**	**........**	**2,685,469**	**2,685,469**	**2,822,791**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Agriculture, Food and Nutrition Service **12-3505-0-1-605**

Table 18–9. STATE ADMINISTRATIVE MATCHING GRANTS FOR THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (FOOD STAMPS) (10.561)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	41,166	....	39,801	39,801	40,894	1.23
Alaska	12,101	....	11,700	11,700	12,021	0.36
Arizona	26,636	....	25,753	25,753	26,460	0.79
Arkansas	33,614	....	32,500	32,500	33,392	1.00
California	590,983	....	571,397	571,397	587,078	17.62
Colorado	35,300	....	34,130	34,130	35,067	1.05
Connecticut	33,272	....	32,169	32,169	33,052	0.99
Delaware	13,785	....	13,328	13,328	13,694	0.41
District of Columbia	12,704	....	12,282	12,282	12,620	0.38
Florida	91,236	....	88,213	88,213	90,633	2.72
Georgia	73,726	....	71,282	71,282	73,238	2.20
Hawaii	12,757	....	12,334	12,334	12,672	0.38
Idaho	7,942	....	7,679	7,679	7,890	0.24
Illinois	122,420	....	118,363	118,363	121,611	3.65
Indiana	47,373	....	45,803	45,803	47,060	1.41
Iowa	22,595	....	21,846	21,846	22,446	0.67
Kansas	21,533	....	20,820	20,820	21,391	0.64
Kentucky	47,676	....	46,096	46,096	47,361	1.42
Louisiana	61,471	....	59,433	59,433	61,064	1.83
Maine	12,380	....	11,970	11,970	12,298	0.37
Maryland	47,989	....	46,398	46,398	47,672	1.43
Massachusetts	47,993	....	46,403	46,403	47,676	1.43
Michigan	143,503	....	138,747	138,747	142,554	4.28
Minnesota	60,627	....	58,618	58,618	60,226	1.81
Mississippi	31,179	....	30,146	30,146	30,973	0.93
Missouri	53,537	....	51,763	51,763	53,183	1.60
Montana	11,633	....	11,247	11,247	11,556	0.35
Nebraska	13,960	....	13,497	13,497	13,868	0.42
Nevada	19,263	....	18,625	18,625	19,136	0.57
New Hampshire	8,123	....	7,854	7,854	8,070	0.24
New Jersey	114,653	....	110,853	110,853	113,895	3.42
New Mexico	26,408	....	25,533	25,533	26,234	0.79
New York	349,059	....	337,490	337,490	346,752	10.41
North Carolina	79,517	....	76,881	76,881	78,991	2.37
North Dakota	7,465	....	7,217	7,217	7,415	0.22
Ohio	99,846	....	96,536	96,536	99,186	2.98
Oklahoma	52,655	....	50,910	50,910	52,307	1.57
Oregon	69,957	....	67,638	67,638	69,495	2.09
Pennsylvania	186,005	....	179,840	179,840	184,776	5.55
Rhode Island	8,428	....	8,148	8,148	8,372	0.25
South Carolina	21,597	....	20,881	20,881	21,454	0.64
South Dakota	8,019	....	7,753	7,753	7,966	0.24
Tennessee	49,876	....	48,223	48,223	49,546	1.49
Texas	240,950	....	232,966	232,966	239,359	7.18
Utah	26,848	....	25,959	25,959	26,671	0.80
Vermont	10,401	....	10,056	10,056	10,332	0.31
Virginia	94,582	....	91,447	91,447	93,957	2.82
Washington	66,876	....	64,660	64,660	66,434	1.99
West Virginia	17,379	....	16,803	16,803	17,264	0.52
Wisconsin	52,497	....	50,758	50,758	52,150	1.57
Wyoming	6,022	....	5,822	5,822	5,982	0.18
American Samoa	....	....	....	....	....	....
Guam	1,605	....	1,552	1,552	1,595	0.05
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	5,044	....	4,877	4,877	5,011	0.15
Indian Tribes	....	....	....	....	....	....
Undistributed	(223,088)	....	....	....	....	....
Total	**3,131,078**	....	**3,243,000**	**3,243,000**	**3,332,000**	[1] **100.00**

Note: Table does not reflect the proposal to suspend the time limits for Able-bodied Working Age Adults Without Dependents (ABAWDs) in FY2012.

[1] Excludes undistributed obligations.

Department of Education, Office of Elementary and Secondary Education **91-0900-0-1-501**

Table 18–10. TITLE I COLLEGE-AND-CAREER-READY STUDENTS (FORMERLY TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES) (84.010)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	220,631	....	225,936	225,936	227,732	1.54
Alaska	37,246	....	35,920	35,920	35,920	0.24
Arizona	304,582	....	315,246	315,246	317,003	2.14
Arkansas	157,648	....	156,656	156,656	156,769	1.06
California	1,726,744	....	1,630,889	1,630,889	1,619,321	10.95
Colorado	155,759	....	150,030	150,030	149,263	1.01
Connecticut	114,520	....	107,238	107,238	105,955	0.72
Delaware	41,388	....	42,430	42,430	42,319	0.29
District of Columbia	47,617	....	50,060	50,060	50,932	0.34
Florida	718,131	....	741,127	741,127	752,746	5.09
Georgia	514,051	....	529,251	529,251	529,856	3.58
Hawaii	42,599	....	47,931	47,931	48,480	0.33
Idaho	49,334	....	54,368	54,368	54,808	0.37
Illinois	613,255	....	643,485	643,485	652,772	4.42
Indiana	251,583	....	257,392	257,392	257,200	1.74
Iowa	77,475	....	77,009	77,009	77,785	0.53
Kansas	101,985	....	111,095	111,095	112,577	0.76
Kentucky	226,553	....	225,590	225,590	226,205	1.53
Louisiana	316,260	....	300,695	300,695	294,945	2.00
Maine	52,339	....	52,697	52,697	53,018	0.36
Maryland	183,802	....	183,893	183,893	186,603	1.26
Massachusetts	224,208	....	219,043	219,043	216,376	1.46
Michigan	534,724	....	536,822	536,822	537,942	3.64
Minnesota	130,061	....	159,440	159,440	161,729	1.09
Mississippi	202,657	....	193,509	193,509	191,556	1.30
Missouri	237,637	....	244,577	244,577	247,030	1.67
Montana	45,249	....	44,636	44,636	44,757	0.30
Nebraska	61,407	....	61,987	61,987	62,588	0.42
Nevada	90,362	....	98,131	98,131	99,814	0.68
New Hampshire	39,526	....	40,590	40,590	40,570	0.27
New Jersey	298,946	....	299,799	299,799	299,137	2.02
New Mexico	114,256	....	114,143	114,143	114,726	0.78
New York	1,240,979	....	1,170,779	1,170,779	1,142,781	7.73
North Carolina	378,123	....	392,170	392,170	396,183	2.68
North Dakota	35,595	....	34,224	34,224	34,224	0.23
Ohio	533,140	....	570,380	570,380	577,634	3.91
Oklahoma	161,249	....	155,106	155,106	155,168	1.05
Oregon	145,447	....	146,233	146,233	148,366	1.00
Pennsylvania	576,550	....	546,428	546,428	540,202	3.65
Rhode Island	50,517	....	49,673	49,673	49,238	0.33
South Carolina	215,650	....	221,548	221,548	224,170	1.52
South Dakota	43,747	....	43,747	43,747	43,747	0.30
Tennessee	273,327	....	275,611	275,611	276,313	1.87
Texas	1,339,020	....	1,354,801	1,354,801	1,365,727	9.24
Utah	68,647	....	80,335	80,335	81,611	0.55
Vermont	33,384	....	33,368	33,368	33,368	0.23
Virginia	249,633	....	245,649	245,649	245,877	1.66
Washington	190,738	....	212,574	212,574	215,643	1.46
West Virginia	91,428	....	92,435	92,435	93,391	0.63
Wisconsin	196,433	....	213,608	213,608	215,358	1.46
Wyoming	32,465	....	32,839	32,839	32,839	0.22
American Samoa	10,086	....	9,582	9,582	9,501	0.06
Guam	11,910	....	11,623	11,623	11,642	0.08
Northern Mariana Islands	3,664	....	3,729	3,729	3,735	0.03
Puerto Rico	554,910	....	520,393	520,393	503,243	3.40
Freely Associated States	....	....	....	....	....	....
Virgin Islands	13,553	....	12,876	12,876	12,767	0.09
Indian Tribes	100,671	....	102,075	102,075	102,239	0.69
Undistributed	9,000	....	9,000	9,000	9,000	....
School and School District Rewards	....	....	....	....	300,000	2.03
Total	**14,492,401**	**........**	**14,492,401**	**14,492,401**	**14,792,401**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Education, Office of Elementary and Secondary Education **91-1000-0-1-501**

Table 18–11. IMPROVING TEACHER QUALITY STATE GRANTS (84.367)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	46,518	....	46,914	46,914	....	....
Alaska	14,024	....	14,024	14,024	....	....
Arizona	50,266	....	50,647	50,647	....	....
Arkansas	28,995	....	28,979	28,979	....	....
California	331,062	....	329,422	329,422	....	....
Colorado	33,577	....	33,852	33,852	....	....
Connecticut	26,713	....	26,447	26,447	....	....
Delaware	14,024	....	14,024	14,024	....	....
District of Columbia	14,024	....	14,024	14,024	....	....
Florida	134,589	....	136,517	136,517	....	....
Georgia	81,354	....	82,082	82,082	....	....
Hawaii	14,024	....	14,024	14,024	....	....
Idaho	14,024	....	14,024	14,024	....	....
Illinois	118,447	....	118,986	118,986	....	....
Indiana	51,245	....	51,322	51,322	....	....
Iowa	22,538	....	22,460	22,460	....	....
Kansas	22,807	....	23,098	23,098	....	....
Kentucky	45,471	....	45,430	45,430	....	....
Louisiana	63,448	....	62,546	62,546	....	....
Maine	14,024	....	14,024	14,024	....	....
Maryland	40,858	....	40,954	40,954	....	....
Massachusetts	51,099	....	51,088	51,088	....	....
Michigan	112,235	....	112,351	112,351	....	....
Minnesota	38,554	....	39,312	39,312	....	....
Mississippi	43,010	....	42,482	42,482	....	....
Missouri	51,011	....	51,175	51,175	....	....
Montana	14,024	....	14,024	14,024	....	....
Nebraska	14,301	....	14,301	14,301	....	....
Nevada	15,803	....	16,117	16,117	....	....
New Hampshire	14,024	....	14,024	14,024	....	....
New Jersey	65,379	....	65,308	65,308	....	....
New Mexico	22,851	....	22,824	22,824	....	....
New York	227,583	....	225,214	225,214	....	....
North Carolina	68,543	....	68,989	68,989	....	....
North Dakota	14,024	....	14,024	14,024	....	....
Ohio	107,829	....	108,964	108,964	....	....
Oklahoma	34,363	....	34,005	34,005	....	....
Oregon	28,876	....	28,895	28,895	....	....
Pennsylvania	115,348	....	114,050	114,050	....	....
Rhode Island	14,024	....	14,024	14,024	....	....
South Carolina	38,097	....	38,296	38,296	....	....
South Dakota	14,024	....	14,024	14,024	....	....
Tennessee	52,049	....	52,079	52,079	....	....
Texas	248,494	....	249,130	249,130	....	....
Utah	19,566	....	20,032	20,032	....	....
Vermont	14,024	....	14,024	14,024	....	....
Virginia	52,957	....	52,625	52,625	....	....
Washington	47,748	....	48,335	48,335	....	....
West Virginia	23,370	....	23,308	23,308	....	....
Wisconsin	46,276	....	47,102	47,102	....	....
Wyoming	14,024	....	14,024	14,024	....	....
American Samoa	3,498	....	3,498	3,498	....	....
Guam	5,155	....	5,155	5,155	....	....
Northern Mariana Islands	1,646	....	1,646	1,646	....	....
Puerto Rico	93,139	....	90,731	90,731	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	4,365	....	4,365	4,365	....	....
Indian Tribes	14,665	....	14,665	14,665	....	....
Undistributed	19,739	....	19,739	19,739	....	....
Total	**2,947,749**	**.........**	**2,947,749**	**2,947,749**	**.........**	**.........**

Department of Education, Office of Elementary and Secondary Education 91-0204-0-1-501

Table 18–12. EFFECTIVE TEACHERS AND LEADERS STATE GRANTS

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	....	....	....	....	38,844	1.60
Alaska	....	....	....	....	11,611	0.48
Arizona	....	....	....	....	41,934	1.73
Arkansas	....	....	....	....	23,993	0.99
California	....	....	....	....	272,750	11.25
Colorado	....	....	....	....	28,028	1.16
Connecticut	....	....	....	....	21,897	0.90
Delaware	....	....	....	....	11,611	0.48
District of Columbia	....	....	....	....	11,611	0.48
Florida	....	....	....	....	113,031	4.66
Georgia	....	....	....	....	67,961	2.80
Hawaii	....	....	....	....	11,611	0.48
Idaho	....	....	....	....	11,611	0.48
Illinois	....	....	....	....	98,517	4.06
Indiana	....	....	....	....	42,493	1.75
Iowa	....	....	....	....	18,596	0.77
Kansas	....	....	....	....	19,124	0.79
Kentucky	....	....	....	....	37,615	1.55
Louisiana	....	....	....	....	51,786	2.14
Maine	....	....	....	....	11,611	0.48
Maryland	....	....	....	....	33,908	1.40
Massachusetts	....	....	....	....	42,299	1.74
Michigan	....	....	....	....	93,022	3.84
Minnesota	....	....	....	....	32,549	1.34
Mississippi	....	....	....	....	35,174	1.45
Missouri	....	....	....	....	42,371	1.75
Montana	....	....	....	....	11,611	0.48
Nebraska	....	....	....	....	11,840	0.49
Nevada	....	....	....	....	13,344	0.55
New Hampshire	....	....	....	....	11,611	0.48
New Jersey	....	....	....	....	54,073	2.23
New Mexico	....	....	....	....	18,897	0.78
New York	....	....	....	....	186,469	7.69
North Carolina	....	....	....	....	57,120	2.36
North Dakota	....	....	....	....	11,611	0.48
Ohio	....	....	....	....	90,218	3.72
Oklahoma	....	....	....	....	28,155	1.16
Oregon	....	....	....	....	23,924	0.99
Pennsylvania	....	....	....	....	94,429	3.89
Rhode Island	....	....	....	....	11,611	0.48
South Carolina	....	....	....	....	31,708	1.31
South Dakota	....	....	....	....	11,611	0.48
Tennessee	....	....	....	....	43,119	1.78
Texas	....	....	....	....	206,271	8.51
Utah	....	....	....	....	16,586	0.68
Vermont	....	....	....	....	11,611	0.48
Virginia	....	....	....	....	43,572	1.80
Washington	....	....	....	....	40,020	1.65
West Virginia	....	....	....	....	19,298	0.80
Wisconsin	....	....	....	....	38,999	1.61
Wyoming	....	....	....	....	11,611	0.48
American Samoa	....	....	....	....	3,408	0.14
Guam	....	....	....	....	4,082	0.17
Northern Mariana Islands	....	....	....	....	1,496	0.06
Puerto Rico	....	....	....	....	75,122	3.10
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	3,515	0.14
Indian Tribes	....	....	....	....	12,500	0.52
Undistributed	....	....	....	....	75,000	....
Total	**.........**	**.........**	**.........**	**.........**	**2,500,000**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Education, Office of Elementary and Secondary Education **91-0012 2010/2011**

Table 18–13. EDUCATION JOBS FUND (84.410)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	149,540	....	....	....	....	....
Alaska	23,540	....	....	....	....	....
Arizona	211,824	....	....	....	....	....
Arkansas	91,312	....	....	....	....	....
California	1,201,534	....	....	....	....	....
Colorado	159,522	....	....	....	....	....
Connecticut	110,487	....	....	....	....	....
Delaware	27,425	....	....	....	....	....
District of Columbia	18,073	....	....	....	....	....
Florida	554,821	....	....	....	....	....
Georgia	322,314	....	....	....	....	....
Hawaii	39,312	....	....	....	....	....
Idaho	51,641	....	....	....	....	....
Illinois	415,398	....	....	....	....	....
Indiana	207,058	....	....	....	....	....
Iowa	96,490	....	....	....	....	....
Kansas	92,457	....	....	....	....	....
Kentucky	134,946	....	....	....	....	....
Louisiana	147,032	....	....	....	....	....
Maine	39,069	....	....	....	....	....
Maryland	178,930	....	....	....	....	....
Massachusetts	204,017	....	....	....	....	....
Michigan	318,133	....	....	....	....	....
Minnesota	166,717	....	....	....	....	....
Mississippi	97,823	....	....	....	....	....
Missouri	189,728	....	....	....	....	....
Montana	30,737	....	....	....	....	....
Nebraska	58,891	....	....	....	....	....
Nevada	83,113	....	....	....	....	....
New Hampshire	40,988	....	....	....	....	....
New Jersey	268,105	....	....	....	....	....
New Mexico	64,870	....	....	....	....	....
New York	607,591	....	....	....	....	....
North Carolina	298,458	....	....	....	....	....
North Dakota	21,518	....	....	....	....	....
Ohio	361,180	....	....	....	....	....
Oklahoma	119,380	....	....	....	....	....
Oregon	117,949	....	....	....	....	....
Pennsylvania	387,816	....	....	....	....	....
Rhode Island	32,929	....	....	....	....	....
South Carolina	143,701	....	....	....	....	....
South Dakota	26,292	....	....	....	....	....
Tennessee	195,881	....	....	....	....	....
Texas	830,820	....	....	....	....	....
Utah	101,304	....	....	....	....	....
Vermont	19,304	....	....	....	....	....
Virginia	249,482	....	....	....	....	....
Washington	208,335	....	....	....	....	....
West Virginia	54,658	....	....	....	....	....
Wisconsin	179,650	....	....	....	....	....
Wyoming	17,534	....	....	....	....	....
American Samoa	8,324	....	....	....	....	....
Guam	20,146	....	....	....	....	....
Northern Mariana Islands	8,290	....	....	....	....	....
Puerto Rico	129,371	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	13,240	....	....	....	....	....
Indian Tribes	50,000	....	....	....	....	....
Undistributed	[1] 1,000	....	....	....	....	....
Total	**10,000,000**	**.........**	**.........**	**.........**	**.........**	**.........**

[1] Up to $1,000,000 may be reserved for administration and oversight, including program evaluation.

Department of Education, Office of Special Education and Rehabilitative Services **91-0301-0-1-506**

Table 18–14. VOCATIONAL REHABILITATION STATE GRANTS (84.126)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	59,746	....	59,755	59,755	61,482	1.96
Alaska	11,157	....	10,157	10,157	10,700	0.34
Arizona	64,466	....	64,737	64,737	65,272	2.08
Arkansas	44,038	....	38,296	38,296	38,075	1.21
California	290,147	....	289,171	289,171	294,099	9.36
Colorado	39,952	....	40,186	40,186	41,209	1.31
Connecticut	31,122	....	20,928	20,928	21,664	0.69
Delaware	10,807	....	10,157	10,157	10,700	0.34
District of Columbia	13,346	....	13,373	13,373	13,915	0.44
Florida	159,154	....	160,866	160,866	167,519	5.33
Georgia	76,511	....	103,919	103,919	105,478	3.36
Hawaii	14,655	....	11,400	11,400	11,792	0.38
Idaho	15,816	....	17,373	17,373	18,299	0.58
Illinois	117,944	....	112,170	112,170	112,433	3.58
Indiana	62,549	....	73,905	73,905	76,206	2.43
Iowa	27,329	....	33,675	33,675	33,342	1.06
Kansas	29,188	....	29,104	29,104	28,606	0.91
Kentucky	47,155	....	56,128	56,128	57,096	1.82
Louisiana	31,482	....	57,535	57,535	54,276	1.73
Maine	16,690	....	16,036	16,036	16,320	0.52
Maryland	47,030	....	40,406	40,406	41,863	1.33
Massachusetts	67,075	....	48,221	48,221	49,342	1.57
Michigan	102,486	....	108,119	108,119	112,827	3.59
Minnesota	47,219	....	47,185	47,185	48,439	1.54
Mississippi	44,514	....	43,357	43,357	43,228	1.38
Missouri	62,516	....	68,089	68,089	67,952	2.16
Montana	12,088	....	11,429	11,429	11,867	0.38
Nebraska	19,872	....	19,034	19,034	18,893	0.60
Nevada	17,365	....	19,353	19,353	22,068	0.70
New Hampshire	11,650	....	11,624	11,624	12,093	0.39
New Jersey	59,391	....	57,620	57,620	59,042	1.88
New Mexico	23,987	....	24,520	24,520	24,819	0.79
New York	176,844	....	148,471	148,471	152,381	4.85
North Carolina	106,916	....	103,490	103,490	106,293	3.38
North Dakota	10,157	....	10,157	10,157	10,700	0.34
Ohio	98,527	....	131,007	131,007	133,561	4.25
Oklahoma	41,092	....	42,205	42,205	42,945	1.37
Oregon	39,072	....	39,059	39,059	39,683	1.26
Pennsylvania	128,695	....	129,130	129,130	131,924	4.20
Rhode Island	13,007	....	10,453	10,453	10,899	0.35
South Carolina	55,391	....	55,954	55,954	57,246	1.82
South Dakota	10,157	....	10,157	10,157	10,700	0.34
Tennessee	72,509	....	72,682	72,682	74,674	2.38
Texas	235,795	....	234,145	234,145	238,587	7.60
Utah	37,673	....	31,874	31,874	31,846	1.01
Vermont	13,247	....	10,157	10,157	10,700	0.34
Virginia	71,479	....	66,379	66,379	66,831	2.13
Washington	52,131	....	54,767	54,767	54,478	1.73
West Virginia	54,579	....	26,456	26,456	26,841	0.85
Wisconsin	55,648	....	60,586	60,586	61,780	1.97
Wyoming	8,912	....	10,157	10,157	10,700	0.34
American Samoa	1,082	....	1,084	1,084	1,168	0.04
Guam	2,052	....	3,127	3,127	3,228	0.10
Northern Mariana Islands	878	....	821	821	853	0.03
Puerto Rico	75,355	....	75,015	75,015	72,438	2.31
Freely Associated States	....	....	....	....	....	....
Virgin Islands	2,101	....	2,086	2,086	2,157	0.07
Indian Tribes	42,899	....	37,449	37,449	37,449	1.19
Undistributed	51	....	....	....	....	....
Total	**3,084,696**	**.........**	**3,084,696**	**3,084,696**	**3,140,978**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Education, Office of Special Education and Rehabilitative Services **91-0300-0-1-501**

Table 18–15. IDEA PART B: GRANTS TO STATES AND GRANTS TO STATES RECOVERY ACT (84.027)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	180,595	....	180,532	180,532	183,357	1.57
Alaska	36,195	....	36,182	36,182	36,896	0.32
Arizona	184,139	....	184,070	184,070	190,031	1.63
Arkansas	111,392	....	111,353	111,353	113,095	0.97
California	1,218,328	....	1,217,887	1,217,887	1,236,941	10.59
Colorado	153,451	....	153,394	153,394	158,127	1.35
Connecticut	132,047	....	132,002	132,002	134,067	1.15
Delaware	33,738	....	33,725	33,725	34,818	0.30
District of Columbia	16,964	....	16,957	16,957	17,506	0.15
Florida	627,798	....	627,580	627,580	637,398	5.46
Georgia	323,713	....	323,592	323,592	334,071	2.86
Hawaii	39,645	....	39,631	39,631	40,251	0.34
Idaho	54,938	....	54,918	54,918	55,777	0.48
Illinois	502,946	....	502,773	502,773	510,639	4.37
Indiana	256,185	....	256,098	256,098	260,105	2.23
Iowa	121,246	....	121,206	121,206	123,102	1.05
Kansas	106,125	....	103,902	103,902	105,528	0.90
Kentucky	157,043	....	156,989	156,989	159,445	1.37
Louisiana	187,989	....	187,921	187,921	190,861	1.63
Maine	54,344	....	54,326	54,326	55,175	0.47
Maryland	198,845	....	198,777	198,777	201,887	1.73
Massachusetts	281,921	....	281,827	281,827	286,236	2.45
Michigan	397,799	....	397,657	397,657	403,878	3.46
Minnesota	188,515	....	188,451	188,451	191,399	1.64
Mississippi	119,357	....	119,314	119,314	121,181	1.04
Missouri	225,596	....	225,520	225,520	229,048	1.96
Montana	36,946	....	36,932	36,932	37,646	0.32
Nebraska	74,158	....	74,133	74,133	75,293	0.64
Nevada	69,249	....	69,223	69,223	71,465	0.61
New Hampshire	47,131	....	47,115	47,115	47,853	0.41
New Jersey	358,979	....	358,859	358,859	364,473	3.12
New Mexico	90,513	....	90,482	90,482	91,898	0.79
New York	753,907	....	753,652	753,652	765,443	6.56
North Carolina	324,394	....	324,277	324,277	333,507	2.86
North Dakota	27,395	....	27,385	27,385	28,271	0.24
Ohio	434,670	....	434,515	434,515	441,313	3.78
Oklahoma	146,891	....	146,840	146,840	149,137	1.28
Oregon	128,078	....	128,033	128,033	130,036	1.11
Pennsylvania	424,187	....	424,037	424,037	430,671	3.69
Rhode Island	43,430	....	43,416	43,416	44,095	0.38
South Carolina	175,880	....	175,819	175,819	178,570	1.53
South Dakota	32,634	....	32,622	32,622	33,679	0.29
Tennessee	235,217	....	235,135	235,135	238,814	2.05
Texas	975,656	....	975,298	975,298	990,556	8.48
Utah	108,892	....	108,852	108,852	112,377	0.96
Vermont	26,414	....	26,404	26,404	27,259	0.23
Virginia	279,981	....	279,883	279,883	284,262	2.43
Washington	219,805	....	219,726	219,726	223,163	1.91
West Virginia	75,424	....	75,399	75,399	76,578	0.66
Wisconsin	206,748	....	206,677	206,677	209,911	1.80
Wyoming	27,711	....	27,700	27,700	28,597	0.24
American Samoa	6,297	....	6,297	6,297	6,390	0.05
Guam	13,962	....	13,962	13,962	14,168	0.12
Northern Mariana Islands	4,785	....	4,785	4,785	4,856	0.04
Puerto Rico	112,560	....	112,518	112,518	116,162	0.99
Freely Associated States	6,579	....	6,579	6,579	6,579	0.06
Virgin Islands	8,874	....	8,874	8,874	9,005	0.08
Indian Tribes	92,012	....	92,012	92,012	93,366	0.80
Undistributed	25,000	....	31,186	29,000	29,000	..
Total	**11,505,213**	**.........**	**11,505,211**	**11,503,025**	**11,705,212**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Energy, Energy Programs **89-0321-0-1-272**

Table 18–16. STATE ENERGY PROGRAM (81.041)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	372	597	372	969	461	0.72
Alaska	175	292	175	467	222	0.35
Arizona	335	558	335	893	422	0.66
Arkansas	301	460	301	761	365	0.57
California	1,564	2,480	1,564	4,044	1,931	3.03
Colorado	391	591	391	982	470	0.74
Connecticut	391	549	391	940	455	0.71
Delaware	160	259	160	419	200	0.31
District of Columbia	154	245	154	399	190	0.30
Florida	811	1,321	811	2,132	1,012	1.59
Georgia	521	856	521	1,377	652	1.02
Hawaii	166	271	166	437	208	0.33
Idaho	185	301	185	486	231	0.36
Illinois	1,133	1,552	1,133	2,685	1,299	2.04
Indiana	620	900	620	1,520	733	1.15
Iowa	366	532	366	898	432	0.68
Kansas	321	476	321	797	384	0.60
Kentucky	402	616	402	1,018	487	0.76
Louisiana	435	717	435	1,152	550	0.86
Maine	227	339	227	566	272	0.43
Maryland	477	692	477	1,169	564	0.88
Massachusetts	608	834	608	1,442	700	1.10
Michigan	959	1,299	959	2,258	1,097	1.72
Minnesota	575	796	575	1,371	663	1.04
Mississippi	272	435	272	707	338	0.53
Missouri	509	742	509	1,251	601	0.94
Montana	178	283	178	461	219	0.34
Nebraska	241	366	241	607	291	0.46
Nevada	190	330	190	520	245	0.38
New Hampshire	212	318	212	530	254	0.40
New Jersey	771	1,075	771	1,846	892	1.40
New Mexico	214	343	214	557	265	0.42
New York	1,613	2,122	1,613	3,735	1,819	2.85
North Carolina	552	863	552	1,415	674	1.06
North Dakota	168	268	168	436	208	0.33
Ohio	1,057	1,455	1,057	2,512	1,217	1.91
Oklahoma	344	532	344	876	419	0.66
Oregon	318	489	318	807	386	0.61
Pennsylvania	1,074	1,483	1,074	2,557	1,238	1.94
Rhode Island	195	293	195	488	235	0.37
South Carolina	332	537	332	869	412	0.65
South Dakota	164	261	164	425	203	0.32
Tennessee	466	721	466	1,187	567	0.89
Texas	1,287	2,166	1,287	3,453	1,652	2.59
Utah	236	379	236	615	292	0.46
Vermont	168	258	168	426	204	0.32
Virginia	560	846	560	1,406	672	1.05
Washington	428	676	428	1,104	526	0.82
West Virginia	281	412	281	693	334	0.52
Wisconsin	595	822	595	1,417	686	1.08
Wyoming	151	252	151	403	191	0.30
American Samoa	112	188	112	300	142	0.22
Guam	117	195	117	312	148	0.23
Northern Mariana Islands	111	187	111	298	141	0.22
Puerto Rico	316	467	316	783	376	0.59
Freely Associated States	....	....	....	....	....	....
Virgin Islands	119	203	119	322	153	0.24
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Washington HQ	23,075	32,500	22,675	55,175	29,298	45.92
NREL TA	1,400	1,000	1,400	2,400	1,500	2.35
ORNL TA	11,735	3,500	425	3,925	2,500	3.92
LBNL TA	500	500	500	1,000	500	0.78
Total	**61,710**	**75,000**	**50,000**	**125,000**	**63,798**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Energy, Energy Programs **89-0321-0-1-272**

Table 18–17. WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS (81.042)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	1,882	2,968	1,882	4,850	2,339	0.73
Alaska	1,330	1,943	1,330	3,273	1,648	0.52
Arizona	1,058	1,866	1,058	2,924	1,309	0.41
Arkansas	1,622	2,309	1,622	3,931	2,014	0.63
California	4,918	7,609	4,918	12,527	6,130	1.92
Colorado	4,308	6,349	4,308	10,657	5,368	1.68
Connecticut	1,972	3,070	1,972	5,042	2,451	0.77
Delaware	460	698	460	1,158	563	0.18
District of Columbia	519	727	519	1,246	636	0.20
Florida	1,484	3,397	1,484	4,881	1,841	0.58
Georgia	2,282	3,719	2,282	6,001	2,838	0.89
Hawaii	169	265	169	434	199	0.06
Idaho	1,558	2,304	1,558	3,862	1,934	0.60
Illinois	10,845	15,544	10,845	26,389	13,533	4.23
Indiana	5,138	7,563	5,138	12,701	6,405	2.00
Iowa	3,919	4,882	3,919	8,801	4,882	1.53
Kansas	1,988	2,899	1,988	4,887	2,471	0.77
Kentucky	3,548	5,254	3,548	8,802	4,419	1.38
Louisiana	1,341	1,840	1,341	3,181	1,662	0.52
Maine	2,416	3,517	2,416	5,933	3,005	0.94
Maryland	2,083	3,159	2,083	5,242	2,590	0.81
Massachusetts	5,138	7,482	5,183	12,665	6,404	2.00
Michigan	11,911	17,180	11,911	29,091	14,864	4.65
Minnesota	7,740	11,205	7,740	18,945	9,654	3.02
Mississippi	1,291	1,992	1,291	3,283	1,599	0.50
Missouri	4,704	6,788	4,704	11,492	5,862	1.83
Montana	1,987	2,865	1,987	4,852	2,469	0.77
Nebraska	1,964	2,846	1,964	4,810	2,441	0.76
Nevada	663	1,219	663	1,882	815	0.25
New Hampshire	1,193	1,731	1,193	2,924	1,478	0.46
New Jersey	3,999	6,091	3,999	10,090	4,983	1.56
New Mexico	1,506	2,190	1,506	3,696	1,869	0.58
New York	15,787	23,214	15,787	39,001	19,705	6.16
North Carolina	3,250	4,996	3,250	8,246	4,046	1.26
North Dakota	1,969	2,794	1,969	4,763	2,447	0.76
Ohio	10,762	15,551	10,762	26,313	13,429	4.20
Oklahoma	2,029	2,985	2,029	5,014	2,522	0.79
Oregon	2,223	3,283	2,223	5,506	2,764	0.86
Pennsylvania	11,520	16,799	11,520	28,319	14,376	4.49
Rhode Island	916	1,313	916	2,229	1,132	0.35
South Carolina	1,389	2,100	1,389	3,489	1,722	0.54
South Dakota	1,513	2,139	1,513	3,652	1,877	0.59
Tennessee	3,278	5,117	3,278	8,395	4,082	1.28
Texas	4,294	7,788	4,294	12,082	5,351	1.67
Utah	1,639	2,472	1,639	4,111	2,034	0.64
Vermont	1,012	1,448	1,012	2,460	1,252	0.39
Virginia	3,148	4,663	3,148	7,811	3,920	1.23
Washington	3,571	5,275	3,571	8,846	4,448	1.39
West Virginia	2,526	3,516	2,526	6,042	3,142	0.98
Wisconsin	6,727	9,909	6,727	16,636	8,389	2.62
Wyoming	932	1,322	932	2,254	1,152	0.36
American Samoa	179,130	201	155	356	181	0.06
Guam	311,271	205	159	364	186	0.06
Northern Mariana Islands	202,132	202	156	358	182	0.06
Puerto Rico	16,397,754	784	647	1,431	796	0.25
Freely Associated States	....	....	....	....	....	....
Virgin Islands	410,992	209	162	371	190	0.06
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
HQ Other Grants #3DC	120,000	30,000	30,000	60,000	97,000	30.31
Washington HQ T and TA	82,942	5,140	2,580	7,720	880	0.28
NREL T and TA	10,501	120	120	240	120	0.04
ORNL T and TA	26,936	2,240	600	2,840	2,000	0.63
LBNL T and TA	2,000	....	....	....	....	....
Total	**17,919,079**	**299,256**	**210,045**	**509,301**	**320,000**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Energy, Energy Programs **89-0321-0-1-272**

Table 18–18. ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT (81.043)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	6,909	....	....	....	....	....
Alaska	16,940	....	....	....	....	....
Arizona	23,186	....	....	....	....	....
Arkansas	6,270	....	....	....	....	....
California	193,554	....	....	....	....	....
Colorado	13,216	....	....	....	....	....
Connecticut	5,501	....	....	....	....	....
Delaware	5,087	....	....	....	....	....
District of Columbia	9,593	....	....	....	....	....
Florida	99,186	....	....	....	....	....
Georgia	15,132	....	....	....	....	....
Hawaii	4,469	....	....	....	....	....
Idaho	4,182	....	....	....	....	....
Illinois	40,279	....	....	....	....	....
Indiana	10,683	....	....	....	....	....
Iowa	9,747	....	....	....	....	....
Kansas	16,371	....	....	....	....	....
Kentucky	5,275	....	....	....	....	....
Louisiana	11,701	....	....	....	....	....
Maine	13,917	....	....	....	....	....
Maryland	39,132	....	....	....	....	....
Massachusetts	15,284	....	....	....	....	....
Michigan	38,835	....	....	....	....	....
Minnesota	8,814	....	....	....	....	....
Mississippi	4,395	....	....	....	....	....
Missouri	19,013	....	....	....	....	....
Montana	4,623	....	....	....	....	....
Nebraska	7,457	....	....	....	....	....
Nevada	18,931	....	....	....	....	....
New Hampshire	7,097	....	....	....	....	....
New Jersey	43,596	....	....	....	....	....
New Mexico	18,002	....	....	....	....	....
New York	46,563	....	....	....	....	....
North Carolina	23,684	....	....	....	....	....
North Dakota	2,394	....	....	....	....	....
Ohio	43,898	....	....	....	....	....
Oklahoma	16,440	....	....	....	....	....
Oregon	17,402	....	....	....	....	....
Pennsylvania	48,416	....	....	....	....	....
Rhode Island	3,210	....	....	....	....	....
South Carolina	8,951	....	....	....	....	....
South Dakota	3,701	....	....	....	....	....
Tennessee	10,807	....	....	....	....	....
Texas	82,120	....	....	....	....	....
Utah	22,442	....	....	....	....	....
Vermont	1,673	....	....	....	....	....
Virginia	33,712	....	....	....	....	....
Washington	29,431	....	....	....	....	....
West Virginia	10,014	....	....	....	....	....
Wisconsin	21,358	....	....	....	....	....
Wyoming	1,546	....	....	....	....	....
American Samoa	9,594	....	....	....	....	....
Guam	9,593	....	....	....	....	....
Northern Mariana Islands	9,594	....	....	....	....	....
Puerto Rico	18,332	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
WHQ Other Grants	452,820	....	....	....	....	....
WHQ TA	4,759	....	....	....	....	....
Total	**1,668,831**	....	....	....	....	....

Department of Health and Human Services, Centers for Medicare and Medicaid Services **75-2010-0515**

Table 18–19. CHILDREN'S HEALTH INSURANCE PROGRAM (93.767)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	147,158	....	135,448	135,448	135,448	1.60
Alaska	25,717	....	19,830	19,830	19,830	0.23
Arizona	182,592	....	61,462	61,462	61,462	0.73
Arkansas	140,776	....	90,853	90,853	90,853	1.07
California	1,629,092	....	1,254,895	1,254,895	1,254,895	14.81
Colorado	122,852	....	123,499	123,499	123,499	1.46
Connecticut	47,785	....	31,320	31,320	31,320	0.37
Delaware	15,889	....	13,570	13,570	13,570	0.16
District of Columbia	14,845	....	11,989	11,989	11,989	0.14
Florida	372,791	....	324,871	324,871	324,871	3.83
Georgia	320,022	....	239,369	239,369	239,369	2.82
Hawaii	21,928	....	33,257	33,257	33,257	0.39
Idaho	47,219	....	36,206	36,206	36,206	0.43
Illinois	360,717	....	273,211	273,211	273,211	3.22
Indiana	144,186	....	94,539	94,539	94,539	1.12
Iowa	68,492	....	75,497	75,497	75,497	0.89
Kansas	60,287	....	55,864	55,864	55,864	0.66
Kentucky	132,153	....	129,601	129,601	129,601	1.53
Louisiana	229,089	....	186,019	186,019	186,019	2.19
Maine	42,268	....	35,490	35,490	35,490	0.42
Maryland	216,082	....	168,778	168,778	168,778	1.99
Massachusetts	403,133	....	316,955	316,955	316,955	3.74
Michigan	231,492	....	120,970	120,970	120,970	1.43
Minnesota	87,897	....	20,498	20,498	20,498	0.24
Mississippi	214,132	....	160,649	160,649	160,649	1.90
Missouri	166,276	....	112,711	112,711	112,711	1.33
Montana	96,382	....	38,466	38,466	38,466	0.45
Nebraska	52,978	....	38,943	38,943	38,943	0.46
Nevada	65,135	....	24,078	24,078	24,078	0.28
New Hampshire	15,540	....	12,821	12,821	12,821	0.15
New Jersey	634,745	....	592,188	592,188	592,188	6.99
New Mexico	345,313	....	245,492	245,492	245,492	2.90
New York	453,796	....	525,836	525,836	525,836	6.20
North Carolina	351,156	....	382,336	382,336	382,336	4.51
North Dakota	16,596	....	15,258	15,258	15,258	0.18
Ohio	298,650	....	277,965	277,965	277,965	3.28
Oklahoma	159,709	....	120,389	120,389	120,389	1.42
Oregon	281,059	....	91,102	91,102	91,102	1.07
Pennsylvania	324,858	....	321,847	321,847	321,847	3.80
Rhode Island	75,436	....	30,345	30,345	30,345	0.36
South Carolina	112,887	....	98,027	98,027	98,027	1.16
South Dakota	21,764	....	20,067	20,067	20,067	0.24
Tennessee	164,728	....	134,225	134,225	134,225	1.58
Texas	925,033	....	832,714	832,714	832,714	9.82
Utah	69,926	....	63,916	63,916	63,916	0.75
Vermont	9,935	....	5,794	5,794	5,794	0.07
Virginia	184,455	....	175,234	175,234	175,234	2.07
Washington	99,438	....	41,894	41,894	41,894	0.49
West Virginia	45,292	....	41,268	41,268	41,268	0.49
Wisconsin	213,853	....	102,733	102,733	102,733	1.21
Wyoming	12,063	....	9,989	9,989	9,989	0.12
American Samoa	892	....	1,205	1,205	1,205	0.01
Guam	3,963	....	4,178	4,178	4,178	0.05
Northern Mariana Islands	818	....	861	861	861	0.01
Puerto Rico	117,254	....	99,567	99,567	99,567	1.17
Freely Associated States	....	....	....	....	....	....
Virgin Islands	[1] 2,396	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	1,997,563	....	4,982,912	4,982,912	6,505,912	....
Total	**12,598,483**	....	**13,459,001**	**13,459,001**	**14,982,001**	**[2] 100.00**

Note: Obligations remain available for Federal payments for two years. FY 2012 estimates will be increased according to growth factors in the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA, P.L. 111-3).

[1] Virgin Islands received no Federal payments from available allotments in 2010, resulting in no new obligations in 2011 per rebasing methodology in CHIPRA. The Virgin Islands' 2010 allotment remains available for Federal payments through 2011.

[2] Excludes undistributed obligations.

Department of Health and Human Services, Centers for Medicare and Medicaid Services **75-0512-0-1-551**

Table 18–20. GRANTS TO STATES FOR MEDICAID (93.778)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	2,599,912	....	3,509,899	3,509,899	4,231,721	1.58
Alaska	873,805	....	940,454	940,454	894,103	0.33
Arizona	7,297,083	....	7,480,128	7,480,128	7,688,453	2.88
Arkansas	3,255,656	....	3,429,653	3,429,653	3,349,779	1.25
California	27,639,009	....	34,562,832	34,562,832	26,673,676	9.99
Colorado	2,555,101	....	2,633,338	2,633,338	2,344,234	0.88
Connecticut	3,418,530	....	3,387,342	3,387,342	3,224,606	1.21
Delaware	829,599	....	810,670	810,670	759,273	0.28
District of Columbia	1,477,180	....	1,482,482	1,482,482	1,344,678	0.50
Florida	12,054,019	....	12,236,856	12,236,856	11,747,526	4.40
Georgia	5,960,877	....	5,927,768	5,927,768	5,668,707	2.12
Hawaii	964,201	....	975,776	975,776	858,109	0.32
Idaho	1,120,504	....	1,247,698	1,247,698	1,272,249	0.48
Illinois	9,560,814	....	9,004,930	9,004,930	8,118,905	3.04
Indiana	4,627,196	....	5,237,847	5,237,847	5,209,060	1.95
Iowa	2,273,031	....	2,319,170	2,319,170	2,162,359	0.81
Kansas	1,748,072	....	1,778,554	1,778,554	1,605,441	0.60
Kentucky	4,503,630	....	4,591,515	4,591,515	4,578,517	1.71
Louisiana	5,437,675	....	5,175,105	5,175,105	4,480,417	1.68
Maine	1,792,977	....	1,609,255	1,609,255	1,455,325	0.55
Maryland	4,474,549	....	4,522,964	4,522,964	4,251,553	1.59
Massachusetts	7,518,487	....	8,070,044	8,070,044	6,838,372	2.56
Michigan	8,694,016	....	8,875,589	8,875,589	8,735,947	3.27
Minnesota	4,819,550	....	4,976,396	4,976,396	4,733,327	1.77
Mississippi	3,532,919	....	3,823,776	3,823,776	4,113,296	1.54
Missouri	6,076,129	....	6,023,774	6,023,774	5,844,970	2.19
Montana	761,723	....	756,734	756,734	769,871	0.29
Nebraska	1,158,863	....	1,209,565	1,209,565	1,163,096	0.44
Nevada	1,001,917	....	952,428	952,428	959,092	0.36
New Hampshire	827,967	....	886,806	886,806	849,572	0.32
New Jersey	6,362,524	....	6,541,395	6,541,395	6,212,464	2.33
New Mexico	2,870,026	....	2,960,787	2,960,787	2,972,076	1.11
New York	31,434,531	....	33,715,356	33,715,356	30,877,828	11.56
North Carolina	8,029,255	....	7,099,637	7,099,637	6,628,176	2.48
North Dakota	505,155	....	548,707	548,707	473,568	0.18
Ohio	11,267,688	....	11,411,806	11,411,806	11,254,421	4.21
Oklahoma	3,103,379	....	3,539,708	3,539,708	3,273,194	1.23
Oregon	3,053,082	....	3,616,062	3,616,062	3,754,777	1.41
Pennsylvania	12,674,444	....	13,077,629	13,077,629	12,037,959	4.51
Rhode Island	1,254,119	....	1,266,456	1,266,456	1,162,740	0.44
South Carolina	4,022,265	....	4,039,350	4,039,350	3,792,084	1.42
South Dakota	612,332	....	586,713	586,713	545,461	0.20
Tennessee	6,597,330	....	6,162,088	6,162,088	5,967,395	2.23
Texas	19,063,390	....	19,639,095	19,639,095	18,331,275	6.87
Utah	1,431,912	....	1,430,540	1,430,540	1,429,329	0.54
Vermont	872,532	....	892,565	892,565	824,861	0.31
Virginia	4,075,453	....	4,077,503	4,077,503	3,719,557	1.39
Washington	4,609,523	....	4,626,829	4,626,829	4,195,531	1.57
West Virginia	2,168,094	....	2,233,656	2,233,656	2,116,043	0.79
Wisconsin	4,682,939	....	4,894,357	4,894,357	4,714,112	1.77
Wyoming	354,022	....	341,941	341,941	309,657	0.12
American Samoa	13,004	....	17,578	17,578	17,578	0.01
Guam	16,691	....	26,726	26,726	29,534	0.01
Northern Mariana Islands	6,803	....	9,059	9,059	9,059	*
Puerto Rico	554,333	....	410,600	410,600	410,600	0.15
Freely Associated States	....	....	....	....	....	....
Virgin Islands	24,013	....	19,855	19,855	19,039	0.01
Indian Tribes	....	....	....	....	....	....
Undistributed	17,307,304	....	(6,851,425)	(6,851,425)	3,864,666	....
Survey and Certification	214,361	....	234,600	234,600	238,600	0.09
Vaccines For Children	3,760,638	....	3,905,644	3,905,644	4,030,996	1.51
Fraud Control Units	149,876	....	215,319	215,319	226,085	0.08
Medicare Part B Transfer	515,251	....	630,000	630,000	165,000	0.06
Incurred But Not Reported	....	....	1,539,500	1,539,500	1,359,500	0.51
Total	**290,461,260**	**........**	**281,298,984**	**281,298,984**	**270,889,399**	**[1] 100.00**

* $500 or less or 0.005 percent or less.

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1552-0-1-609**

Table 18–21. TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)—FAMILY ASSISTANCE GRANTS (93.558)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	104,408	....	104,408	104,408	104,408	0.59
Alaska	53,309	....	53,309	53,309	53,309	0.30
Arizona	224,158	....	224,158	224,158	224,158	1.27
Arkansas	62,951	....	62,951	62,951	62,951	0.36
California	3,657,885	....	3,657,885	3,657,885	3,657,885	20.70
Colorado	149,626	....	149,626	149,626	149,626	0.85
Connecticut	266,788	....	266,788	266,788	266,788	1.51
Delaware	32,291	....	32,291	32,291	32,291	0.18
District of Columbia	92,610	....	92,610	92,610	92,610	0.52
Florida	622,746	....	622,746	622,746	622,746	3.52
Georgia	368,025	....	368,025	368,025	368,025	2.08
Hawaii	98,905	....	98,905	98,905	98,905	0.56
Idaho	33,911	....	33,911	33,911	33,911	0.19
Illinois	585,057	....	585,057	585,057	585,057	3.31
Indiana	206,799	....	206,799	206,799	206,799	1.17
Iowa	131,030	....	131,030	131,030	131,030	0.74
Kansas	101,931	....	101,931	101,931	101,931	0.58
Kentucky	181,288	....	181,288	181,288	181,288	1.03
Louisiana	180,999	....	180,999	180,999	180,999	1.02
Maine	78,121	....	78,121	78,121	78,121	0.44
Maryland	229,098	....	229,098	229,098	229,098	1.30
Massachusetts	459,371	....	459,371	459,371	459,371	2.60
Michigan	775,353	....	775,353	775,353	775,353	4.39
Minnesota	263,434	....	263,434	263,434	263,434	1.49
Mississippi	95,803	....	95,803	95,803	95,803	0.54
Missouri	217,052	....	217,052	217,052	217,052	1.23
Montana	39,172	....	39,172	39,172	39,172	0.22
Nebraska	57,514	....	57,514	57,514	57,514	0.33
Nevada	47,641	....	47,641	47,641	47,641	0.27
New Hampshire	38,521	....	38,521	38,521	38,521	0.22
New Jersey	404,035	....	404,035	404,035	404,035	2.29
New Mexico	117,131	....	117,131	117,131	117,131	0.66
New York	2,442,931	....	2,442,931	2,442,931	2,442,931	13.82
North Carolina	338,350	....	338,350	338,350	338,350	1.91
North Dakota	26,400	....	26,400	26,400	26,400	0.15
Ohio	727,968	....	727,968	727,968	727,968	4.12
Oklahoma	145,281	....	145,281	145,281	145,281	0.82
Oregon	166,799	....	166,799	166,799	166,799	0.94
Pennsylvania	719,499	....	719,499	719,499	719,499	4.07
Rhode Island	95,022	....	95,022	95,022	95,022	0.54
South Carolina	99,968	....	99,968	99,968	99,968	0.57
South Dakota	21,280	....	21,280	21,280	21,280	0.12
Tennessee	213,089	....	213,089	213,089	213,089	1.21
Texas	538,965	....	538,965	538,965	538,965	3.05
Utah	84,314	....	84,314	84,314	84,314	0.48
Vermont	47,353	....	47,353	47,353	47,353	0.27
Virginia	158,285	....	158,285	158,285	158,285	0.90
Washington	380,740	....	380,740	380,740	380,740	2.15
West Virginia	110,176	....	110,176	110,176	110,176	0.62
Wisconsin	314,499	....	314,499	314,499	314,499	1.78
Wyoming	18,501	....	18,501	18,501	18,501	0.10
American Samoa	....	....	....	....	....	....
Guam	3,465	....	3,465	3,465	3,465	0.02
Northern Mariana Islands	....	....	....	....	....	..
Puerto Rico	71,563	....	71,563	71,563	71,563	0.40
Freely Associated States	....	....	....	....	....	....
Virgin Islands	2,847	....	2,847	2,847	2,847	0.02
Indian Tribes	181,734	....	181,734	181,734	181,734	1.03
Undistributed	....	....	....	....	....	....
Healthy Marriage Promotion and Responsible Fatherhood	150,000	....	150,000	150,000	150,000	0.85
Obligated Contingency Fund	212,397	....	334,239	334,239	612,000	3.46
Tribal New Program	7,633	....	7,633	7,633	7,633	0.04
Obligated Emergency Fund, Recovery Act	4,383,305	....	....	....	....	....
Matching Grants to Territories	15,000	....	15,000	15,000	15,000	0.08
Total	**21,654,327**	**........**	**17,392,864**	**17,392,864**	**17,670,625**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1501-0-1-609**

Table 18–22. CHILD SUPPORT ENFORCEMENT—FEDERAL SHARE OF STATE AND LOCAL ADMINISTRATIVE COSTS AND INCENTIVES (93.563)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	52,957	....	47,091	47,091	42,222	1.06
Alaska	19,297	....	17,159	17,159	15,385	0.39
Arizona	92,999	....	82,698	82,698	74,148	1.86
Arkansas	20,542	....	18,267	18,267	16,378	0.41
California	614,737	....	546,646	546,646	490,126	12.32
Colorado	55,532	....	49,381	49,381	44,275	1.11
Connecticut	54,149	....	48,152	48,152	43,173	1.09
Delaware	29,773	....	26,475	26,475	23,738	0.60
District of Columbia	21,141	....	18,799	18,799	16,855	0.42
Florida	266,491	....	236,973	236,973	212,472	5.34
Georgia	101,025	....	89,835	89,835	80,547	2.03
Hawaii	19,403	....	17,254	17,254	15,470	0.39
Idaho	21,957	....	19,525	19,525	17,507	0.44
Illinois	157,802	....	140,323	140,323	125,815	3.16
Indiana	76,490	....	68,018	68,018	60,985	1.53
Iowa	62,679	....	55,736	55,736	49,973	1.26
Kansas	49,074	....	43,638	43,638	39,126	0.98
Kentucky	79,759	....	70,925	70,925	63,591	1.60
Louisiana	86,474	....	76,896	76,896	68,945	1.73
Maine	22,690	....	20,177	20,177	18,091	0.45
Maryland	107,986	....	96,025	96,025	86,096	2.16
Massachusetts	64,016	....	56,926	56,926	51,040	1.28
Michigan	225,736	....	200,732	200,732	179,978	4.53
Minnesota	133,757	....	118,942	118,942	106,644	2.68
Mississippi	40,731	....	36,220	36,220	32,475	0.82
Missouri	82,472	....	73,337	73,337	65,754	1.65
Montana	12,336	....	10,969	10,969	9,835	0.25
Nebraska	31,687	....	28,177	28,177	25,264	0.64
Nevada	47,080	....	41,865	41,865	37,537	0.94
New Hampshire	15,087	....	13,416	13,416	12,029	0.30
New Jersey	213,483	....	189,837	189,837	170,209	4.28
New Mexico	34,128	....	30,348	30,348	27,210	0.68
New York	334,570	....	297,511	297,511	266,750	6.71
North Carolina	110,029	....	97,842	97,842	87,725	2.21
North Dakota	15,882	....	14,123	14,123	12,662	0.32
Ohio	305,743	....	271,878	271,878	243,767	6.13
Oklahoma	68,532	....	60,941	60,941	54,640	1.37
Oregon	58,595	....	52,105	52,105	46,717	1.17
Pennsylvania	188,747	....	167,841	167,841	150,487	3.78
Rhode Island	8,093	....	7,196	7,196	6,452	0.16
South Carolina	41,360	....	36,779	36,779	32,976	0.83
South Dakota	9,151	....	8,137	8,137	7,296	0.18
Tennessee	61,932	....	55,072	55,072	49,378	1.24
Texas	377,964	....	336,099	336,099	301,348	7.58
Utah	34,534	....	30,709	30,709	27,534	0.69
Vermont	11,309	....	10,057	10,057	9,017	0.23
Virginia	88,077	....	78,321	78,321	70,223	1.77
Washington	137,968	....	122,687	122,687	110,001	2.77
West Virginia	33,406	....	29,706	29,706	26,635	0.67
Wisconsin	94,268	....	83,826	83,826	75,159	1.89
Wyoming	5,037	....	4,479	4,479	4,016	0.10
American Samoa	....	....	....	....	....	....
Guam	3,746	....	3,331	3,331	2,986	0.08
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	28,483	....	25,328	25,328	22,709	0.57
Freely Associated States	....	....	....	....	....	....
Virgin Islands	4,596	....	4,087	4,087	3,665	0.09
Indian Tribes	35,793	....	42,000	42,000	42,000	1.06
Undistributed	....	....	....	....	....	....
Adjustment	22,133	....	....	....	....	....
Total	**4,993,418**	**.........**	**4,430,817**	**4,430,817**	**3,977,036**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1502-0-1-609**

Table 18–23. LOW INCOME HOME ENERGY ASSISTANCE PROGRAM (93.568)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	58,394	....	58,857	58,857	16,633	0.84
Alaska	15,514	....	14,366	14,366	6,516	0.33
Arizona	31,171	....	30,164	30,164	7,438	0.38
Arkansas	35,773	....	34,868	34,868	12,780	0.65
California	201,024	....	200,296	200,296	89,084	4.50
Colorado	64,257	....	61,850	61,850	31,328	1.58
Connecticut	96,942	....	97,877	97,877	40,868	2.06
Delaware	15,189	....	15,122	15,122	5,424	0.27
District of Columbia	13,992	....	13,992	13,992	6,347	0.32
Florida	110,326	....	107,442	107,442	26,494	1.34
Georgia	87,252	....	84,971	84,971	20,953	1.06
Hawaii	6,023	....	6,008	6,008	2,110	0.11
Idaho	25,632	....	25,632	25,632	11,627	0.59
Illinois	232,865	....	237,669	237,669	113,115	5.71
Indiana	104,144	....	102,270	102,270	51,209	2.59
Iowa	67,803	....	67,803	67,803	36,297	1.83
Kansas	41,678	....	42,094	42,094	16,590	0.84
Kentucky	57,742	....	58,089	58,089	26,652	1.35
Louisiana	51,870	....	53,006	53,006	17,122	0.86
Maine	52,324	....	51,346	51,346	25,508	1.29
Maryland	82,002	....	85,234	85,234	31,292	1.58
Massachusetts	175,454	....	174,354	174,354	81,717	4.13
Michigan	232,323	....	226,121	226,121	106,570	5.38
Minnesota	144,528	....	144,528	144,528	77,371	3.91
Mississippi	39,586	....	38,629	38,629	14,332	0.72
Missouri	95,257	....	95,179	95,179	45,183	2.28
Montana	26,075	....	26,075	26,075	11,828	0.60
Nebraska	39,533	....	39,533	39,533	17,910	0.90
Nevada	15,841	....	15,427	15,427	3,804	0.19
New Hampshire	34,112	....	34,112	34,112	15,473	0.78
New Jersey	177,196	....	180,291	180,291	75,892	3.83
New Mexico	20,575	....	20,575	20,575	9,333	0.47
New York	478,998	....	493,253	493,253	247,665	12.51
North Carolina	107,395	....	108,950	108,950	36,273	1.83
North Dakota	27,299	....	26,911	26,911	12,207	0.62
Ohio	223,108	....	224,476	224,476	100,067	5.05
Oklahoma	43,484	....	43,186	43,186	13,953	0.70
Oregon	44,640	....	44,640	44,640	23,713	1.20
Pennsylvania	282,279	....	279,251	279,251	133,104	6.72
Rhode Island	29,582	....	29,582	29,582	13,418	0.68
South Carolina	47,311	....	46,787	46,787	13,301	0.67
South Dakota	22,921	....	22,921	22,921	10,397	0.53
Tennessee	72,092	....	71,346	71,346	26,998	1.36
Texas	183,593	....	178,793	178,793	44,088	2.23
Utah	31,596	....	31,572	31,572	14,288	0.72
Vermont	25,568	....	25,568	25,568	11,598	0.59
Virginia	100,856	....	102,488	102,488	38,117	1.93
Washington	71,568	....	71,568	71,568	38,309	1.93
West Virginia	38,884	....	38,884	38,884	17,638	0.89
Wisconsin	130,096	....	130,096	130,096	69,645	3.52
Wyoming	12,527	....	12,437	12,437	5,647	0.29
American Samoa	100	....	100	100	44	*
Guam	220	....	220	220	96	*
Northern Mariana Islands	76	....	76	76	33	*
Puerto Rico	5,465	....	5,465	5,465	2,378	0.12
Freely Associated States	....	....	....	....	....	....
Virgin Islands	208	....	208	208	91	*
Indian Tribes	50,108	....	49,814	49,814	22,131	1.12
Undistributed	....	....	....	....	....	....
Discretionary Funds	27,000	....	27,000	27,000	27,000	1.36
Technical Assistance	300	....	300	300	3,000	0.15
Total	**4,509,671**	**.........**	**4,509,672**	**4,509,672**	**1,979,999**	**[1] 100.00**

* $500 or less or 0.005 percent or less.

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1515-0-1-609**

Table 18–24. CHILD CARE AND DEVELOPMENT BLOCK GRANT (93.575)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	40,358	....	39,978	39,978	54,945	1.88
Alaska	4,173	....	4,128	4,128	5,673	0.19
Arizona	54,609	....	54,890	54,890	75,440	2.58
Arkansas	26,501	....	26,409	26,409	36,297	1.24
California	235,628	....	232,617	232,617	319,706	10.92
Colorado	25,882	....	26,323	26,323	36,177	1.24
Connecticut	14,238	....	13,891	13,891	19,092	0.65
Delaware	4,859	....	5,094	5,094	7,002	0.24
District of Columbia	2,752	....	2,807	2,807	3,858	0.13
Florida	111,245	....	113,306	113,306	155,726	5.32
Georgia	87,007	....	88,405	88,405	121,502	4.15
Hawaii	6,732	....	6,605	6,605	9,078	0.31
Idaho	12,698	....	12,933	12,933	17,774	0.61
Illinois	77,114	....	75,683	75,683	104,017	3.55
Indiana	45,916	....	47,938	47,938	65,885	2.25
Iowa	19,234	....	19,102	19,102	26,254	0.90
Kansas	19,710	....	19,497	19,497	26,796	0.92
Kentucky	36,746	....	37,354	37,354	51,339	1.75
Louisiana	42,624	....	39,377	39,377	54,120	1.85
Maine	7,107	....	7,027	7,027	9,658	0.33
Maryland	25,083	....	25,306	25,306	34,780	1.19
Massachusetts	25,296	....	25,176	25,176	34,602	1.18
Michigan	61,049	....	64,416	64,416	88,532	3.02
Minnesota	27,552	....	27,628	27,628	37,972	1.30
Mississippi	32,101	....	31,693	31,693	43,558	1.49
Missouri	40,639	....	40,922	40,922	56,242	1.92
Montana	6,176	....	6,066	6,066	8,336	0.28
Nebraska	12,470	....	12,311	12,311	16,920	0.58
Nevada	15,329	....	15,326	15,326	21,064	0.72
New Hampshire	4,975	....	4,952	4,952	6,807	0.23
New Jersey	35,871	....	36,587	36,587	50,285	1.72
New Mexico	18,727	....	18,816	18,816	25,861	0.88
New York	100,812	....	96,057	96,057	132,019	4.51
North Carolina	71,165	....	71,285	71,285	97,973	3.35
North Dakota	3,885	....	3,698	3,698	5,083	0.17
Ohio	72,170	....	73,587	73,587	101,137	3.46
Oklahoma	31,508	....	31,173	31,173	42,844	1.46
Oregon	23,993	....	24,298	24,298	33,395	1.14
Pennsylvania	63,324	....	63,964	63,964	87,911	3.00
Rhode Island	5,496	....	5,262	5,262	7,232	0.25
South Carolina	38,138	....	38,293	38,293	52,630	1.80
South Dakota	5,761	....	5,605	5,605	7,704	0.26
Tennessee	48,338	....	49,152	49,152	67,554	2.31
Texas	227,374	....	228,776	228,776	314,427	10.74
Utah	24,231	....	24,662	24,662	33,895	1.16
Vermont	2,950	....	2,926	2,926	4,022	0.14
Virginia	39,944	....	40,139	40,139	55,166	1.88
Washington	35,254	....	35,658	35,658	49,008	1.67
West Virginia	13,632	....	13,256	13,256	18,218	0.62
Wisconsin	32,247	....	32,384	32,384	44,508	1.52
Wyoming	2,803	....	2,650	2,650	3,643	0.12
American Samoa	2,832	....	2,803	2,803	3,856	0.13
Guam	3,979	....	4,011	4,011	5,518	0.19
Northern Mariana Islands	1,939	....	1,779	1,779	2,447	0.08
Puerto Rico	33,926	....	32,289	32,289	44,377	1.52
Freely Associated States	....	....	....	....	....	....
Virgin Islands	1,886	....	2,044	2,044	2,812	0.10
Indian Tribes	42,542	....	42,542	42,542	58,535	2.00
Undistributed	....	....	....	....	....	....
Technical Assistance	5,268	....	5,318	5,318	14,634	0.50
Research Set-Aside	9,902	....	9,910	9,910	9,910	0.34
Child Care Aware	1,000	....	1,000	1,000	1,000	0.03
ARRA Technical Asst	3,051	....	....	....	....	..
Total	**2,129,751**	**.........**	**2,127,084**	**2,127,084**	**2,926,756**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1550-0-1-609**

Table 18–25. CHILD CARE AND DEVELOPMENT FUND—MANDATORY (93.596A)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	16,442	....	16,442	16,442	16,442	1.31
Alaska	3,545	....	3,545	3,545	3,545	0.28
Arizona	19,827	....	19,827	19,827	19,827	1.58
Arkansas	5,300	....	5,300	5,300	5,300	0.42
California	85,593	....	85,593	85,593	85,593	6.84
Colorado	10,174	....	10,174	10,174	10,174	0.81
Connecticut	18,738	....	18,738	18,738	18,738	1.50
Delaware	5,179	....	5,179	5,179	5,179	0.41
District of Columbia	4,567	....	4,567	4,567	4,567	0.36
Florida	43,027	....	43,027	43,027	43,027	3.44
Georgia	36,548	....	36,548	36,548	36,548	2.92
Hawaii	4,972	....	4,972	4,972	4,972	0.40
Idaho	2,868	....	2,868	2,868	2,868	0.23
Illinois	56,874	....	56,874	56,874	56,874	4.54
Indiana	26,182	....	26,182	26,182	26,182	2.09
Iowa	8,508	....	8,508	8,508	8,508	0.68
Kansas	9,812	....	9,812	9,812	9,812	0.78
Kentucky	16,702	....	16,702	16,702	16,702	1.33
Louisiana	13,865	....	13,865	13,865	13,865	1.11
Maine	3,019	....	3,019	3,019	3,019	0.24
Maryland	23,301	....	23,301	23,301	23,301	1.86
Massachusetts	44,973	....	44,973	44,973	44,973	3.59
Michigan	32,082	....	32,082	32,082	32,082	2.56
Minnesota	23,368	....	23,368	23,368	23,368	1.87
Mississippi	6,293	....	6,293	6,293	6,293	0.50
Missouri	24,669	....	24,669	24,669	24,669	1.97
Montana	3,191	....	3,191	3,191	3,191	0.25
Nebraska	10,595	....	10,595	10,595	10,595	0.85
Nevada	2,580	....	2,580	2,580	2,580	0.21
New Hampshire	4,582	....	4,582	4,582	4,582	0.37
New Jersey	26,374	....	26,374	26,374	26,374	2.11
New Mexico	8,308	....	8,308	8,308	8,308	0.66
New York	101,984	....	101,984	101,984	101,984	8.15
North Carolina	69,639	....	69,639	69,639	69,639	5.56
North Dakota	2,506	....	2,506	2,506	2,506	0.20
Ohio	70,125	....	70,125	70,125	70,125	5.60
Oklahoma	24,910	....	24,910	24,910	24,910	1.99
Oregon	19,409	....	19,409	19,409	19,409	1.55
Pennsylvania	55,337	....	55,337	55,337	55,337	4.42
Rhode Island	6,634	....	6,634	6,634	6,634	0.53
South Carolina	9,867	....	9,867	9,867	9,867	0.79
South Dakota	1,711	....	1,711	1,711	1,711	0.14
Tennessee	37,702	....	37,702	37,702	37,702	3.01
Texas	59,844	....	59,844	59,844	59,844	4.78
Utah	12,592	....	12,592	12,592	12,592	1.01
Vermont	3,945	....	3,945	3,945	3,945	0.32
Virginia	21,329	....	21,329	21,329	21,329	1.70
Washington	41,883	....	41,883	41,883	41,883	3.35
West Virginia	8,727	....	8,727	8,727	8,727	0.70
Wisconsin	24,511	....	24,511	24,511	24,511	1.96
Wyoming	2,815	....	2,815	2,815	2,815	0.22
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	58,340	....	58,340	58,340	68,340	5.46
Undistributed	....	....	....	....	....	....
Technical Assistance	3,792	....	3,792	3,792	6,229	0.50
Total	**1,239,660**	**.........**	**1,239,660**	**1,239,660**	**1,252,097**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1550-0-1-609**

Table 18–26. CHILD CARE AND DEVELOPMENT FUND—MATCHING (93.596B)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	25,310	....	25,223	25,223	32,460	1.50
Alaska	4,046	....	4,131	4,131	5,317	0.25
Arizona	39,671	....	39,839	39,839	51,269	2.37
Arkansas	16,049	....	16,048	16,048	20,652	0.95
California	211,296	....	211,577	211,577	272,277	12.58
Colorado	27,886	....	28,143	28,143	36,217	1.67
Connecticut	17,961	....	17,637	17,637	22,697	1.05
Delaware	4,669	....	4,643	4,643	5,975	0.28
District of Columbia	2,568	....	2,605	2,605	3,353	0.15
Florida	90,435	....	91,041	91,041	117,160	5.41
Georgia	58,670	....	58,916	58,916	75,819	3.50
Hawaii	6,517	....	6,606	6,606	8,501	0.39
Idaho	9,524	....	9,582	9,582	12,331	0.57
Illinois	71,937	....	71,135	71,135	91,543	4.23
Indiana	35,919	....	35,597	35,597	45,809	2.12
Iowa	16,048	....	15,937	15,937	20,510	0.95
Kansas	16,022	....	15,968	15,968	20,549	0.95
Kentucky	22,839	....	22,749	22,749	29,275	1.35
Louisiana	25,068	....	25,259	25,259	32,505	1.50
Maine	5,983	....	5,849	5,849	7,527	0.35
Maryland	29,983	....	30,076	30,076	38,704	1.79
Massachusetts	31,730	....	31,542	31,542	40,591	1.88
Michigan	52,658	....	51,246	51,246	65,947	3.05
Minnesota	28,339	....	28,280	28,280	36,393	1.68
Mississippi	17,404	....	17,273	17,273	22,229	1.03
Missouri	31,989	....	31,907	31,907	41,060	1.90
Montana	4,897	....	4,861	4,861	6,255	0.29
Nebraska	10,220	....	10,258	10,258	13,201	0.61
Nevada	15,465	....	15,609	15,609	20,087	0.93
New Hampshire	6,387	....	6,236	6,236	8,026	0.37
New Jersey	45,926	....	45,397	45,397	58,421	2.70
New Mexico	11,475	....	11,612	11,612	14,944	0.69
New York	97,954	....	97,517	97,517	125,494	5.80
North Carolina	51,571	....	51,912	51,912	66,804	3.09
North Dakota	3,206	....	3,210	3,210	4,132	0.19
Ohio	61,037	....	59,977	59,977	77,183	3.57
Oklahoma	20,804	....	20,928	20,928	26,932	1.24
Oregon	19,598	....	19,563	19,563	25,175	1.16
Pennsylvania	60,822	....	60,584	60,584	77,965	3.60
Rhode Island	5,028	....	4,943	4,943	6,361	0.29
South Carolina	24,126	....	24,304	24,304	31,277	1.44
South Dakota	4,504	....	4,498	4,498	5,788	0.27
Tennessee	33,532	....	33,541	33,541	43,164	1.99
Texas	156,694	....	159,360	159,360	205,079	9.47
Utah	20,225	....	20,482	20,482	26,359	1.22
Vermont	2,762	....	2,698	2,698	3,472	0.16
Virginia	41,422	....	41,691	41,691	53,652	2.48
Washington	34,731	....	35,238	35,238	45,347	2.09
West Virginia	8,647	....	8,566	8,566	11,023	0.51
Wisconsin	29,363	....	29,044	29,044	37,377	1.73
Wyoming	2,924	....	3,003	3,003	3,864	0.18
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Technical Assistance	3,501	....	3,501	3,501	10,770	0.50
Total	**1,677,342**	**.........**	**1,677,342**	**1,677,342**	**2,164,822**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1536-0-1-506**

Table 18–27. HEAD START (93.600)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	112,229	....	112,246	112,246	127,909	1.58
Alaska	13,128	....	13,130	13,130	14,617	0.18
Arizona	108,937	....	108,953	108,953	123,766	1.53
Arkansas	67,916	....	67,926	67,926	76,547	0.95
California	875,307	....	875,482	875,482	973,799	12.02
Colorado	71,928	....	71,939	71,939	82,194	1.01
Connecticut	54,624	....	54,632	54,632	59,766	0.74
Delaware	13,931	....	13,933	13,933	15,618	0.19
District of Columbia	26,426	....	26,430	26,430	28,356	0.35
Florida	276,914	....	276,996	276,996	318,546	3.93
Georgia	177,357	....	177,384	177,384	201,977	2.49
Hawaii	24,088	....	24,092	24,092	26,044	0.32
Idaho	24,012	....	24,016	24,016	27,701	0.34
Illinois	284,942	....	285,026	285,026	319,755	3.95
Indiana	101,252	....	101,267	101,267	117,208	1.45
Iowa	54,257	....	54,265	54,265	60,342	0.74
Kansas	53,601	....	53,609	53,609	60,934	0.75
Kentucky	113,509	....	113,526	113,526	127,709	1.58
Louisiana	153,564	....	153,588	153,588	170,920	2.11
Maine	29,061	....	29,065	29,065	32,093	0.40
Maryland	82,132	....	82,145	82,145	90,922	1.12
Massachusetts	114,040	....	114,057	114,057	124,749	1.54
Michigan	246,867	....	246,905	246,905	272,338	3.36
Minnesota	75,785	....	75,796	75,796	85,233	1.05
Mississippi	170,181	....	170,207	170,207	183,637	2.27
Missouri	125,240	....	125,259	125,259	141,405	1.75
Montana	22,049	....	22,053	22,053	24,403	0.30
Nebraska	37,952	....	37,958	37,958	42,938	0.53
Nevada	25,555	....	25,559	25,559	30,434	0.38
New Hampshire	14,089	....	14,091	14,091	15,801	0.20
New Jersey	135,788	....	135,809	135,809	151,995	1.88
New Mexico	55,046	....	55,054	55,054	63,620	0.79
New York	455,901	....	456,010	456,010	501,947	6.20
North Carolina	148,694	....	148,716	148,716	174,593	2.16
North Dakota	18,077	....	18,079	18,079	20,407	0.25
Ohio	259,862	....	259,901	259,901	291,672	3.60
Oklahoma	85,306	....	85,319	85,319	99,419	1.23
Oregon	62,592	....	62,602	62,602	71,634	0.88
Pennsylvania	240,154	....	240,191	240,191	266,501	3.29
Rhode Island	23,171	....	23,175	23,175	25,478	0.31
South Carolina	86,835	....	86,848	86,848	100,911	1.25
South Dakota	19,814	....	19,817	19,817	22,000	0.27
Tennessee	125,607	....	125,626	125,626	139,470	1.72
Texas	503,849	....	503,926	503,926	569,246	7.03
Utah	39,747	....	39,753	39,753	45,898	0.57
Vermont	14,271	....	14,273	14,273	15,399	0.19
Virginia	104,302	....	104,318	104,318	117,266	1.45
Washington	105,633	....	105,649	105,649	119,379	1.47
West Virginia	53,303	....	53,311	53,311	59,229	0.73
Wisconsin	95,650	....	95,665	95,665	107,036	1.32
Wyoming	13,021	....	13,023	13,023	13,693	0.17
American Samoa	2,263	....	2,263	2,263	2,361	0.03
Guam	2,277	....	2,278	2,278	2,531	0.03
Northern Mariana Islands	1,752	....	1,752	1,752	1,795	0.02
Puerto Rico	262,409	....	262,449	262,449	283,007	3.49
Freely Associated States	1,403	....	1,404	1,404	1,444	0.02
Virgin Islands	8,417	....	8,418	8,418	9,576	0.12
Indian Tribes	207,465	....	207,497	207,497	237,620	2.93
Undistributed	....	....	....	....	....	....
Training and Technical Assistance	176,625	....	176,352	176,352	202,495	2.50
Research and Evaluation	19,991	....	20,000	20,000	20,000	0.25
Program Support	41,994	....	42,000	42,000	42,000	0.52
Migrant Program	311,724	....	311,771	311,771	342,499	4.23
Centers of Excellence	2,000	....	....	....	....	....
Total	**7,235,816**	**.........**	**7,234,784**	**7,234,784**	**8,099,782**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1545-0-1-609**

Table 18–28. FOSTER CARE—TITLE IV-E (93.658)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	29,161	....	31,896	31,896	30,613	0.75
Alaska	11,653	....	12,020	12,020	11,536	0.28
Arizona	68,140	....	77,322	77,322	74,211	1.82
Arkansas	41,543	....	33,674	33,674	32,319	0.79
California	1,227,536	....	1,088,133	1,088,133	1,044,353	25.55
Colorado	59,171	....	55,105	55,105	52,888	1.29
Connecticut	55,726	....	55,330	55,330	53,104	1.30
Delaware	3,295	....	3,235	3,235	3,105	0.08
District of Columbia	34,007	....	19,542	19,542	18,755	0.46
Florida	167,648	....	139,501	139,501	133,888	3.28
Georgia	97,156	....	75,735	75,735	72,688	1.78
Hawaii	14,948	....	17,032	17,032	16,347	0.40
Idaho	9,451	....	8,918	8,918	8,560	0.21
Illinois	180,392	....	191,539	191,539	183,833	4.50
Indiana	79,160	....	87,958	87,958	84,419	2.07
Iowa	23,869	....	22,472	22,472	21,568	0.53
Kansas	26,542	....	20,684	20,684	19,851	0.49
Kentucky	47,907	....	43,966	43,966	42,197	1.03
Louisiana	52,034	....	43,283	43,283	41,542	1.02
Maine	17,973	....	12,292	12,292	11,797	0.29
Maryland	69,454	....	79,874	79,874	76,661	1.88
Massachusetts	56,261	....	48,378	48,378	46,431	1.14
Michigan	90,716	....	79,771	79,771	76,562	1.87
Minnesota	43,386	....	46,045	46,045	44,192	1.08
Mississippi	13,039	....	9,553	9,553	9,168	0.22
Missouri	53,917	....	51,984	51,984	49,892	1.22
Montana	14,380	....	9,342	9,342	8,966	0.22
Nebraska	17,609	....	17,674	17,674	16,963	0.41
Nevada	39,360	....	26,584	26,584	25,515	0.62
New Hampshire	15,353	....	13,437	13,437	12,896	0.32
New Jersey	80,544	....	72,884	72,884	69,952	1.71
New Mexico	24,185	....	20,743	20,743	19,909	0.49
New York	402,070	....	368,476	368,476	353,651	8.65
North Carolina	73,781	....	69,352	69,352	66,562	1.63
North Dakota	10,846	....	9,547	9,547	9,163	0.22
Ohio	175,070	....	183,205	183,205	175,834	4.30
Oklahoma	33,152	....	34,046	34,046	32,677	0.80
Oregon	101,404	....	84,688	84,688	81,280	1.99
Pennsylvania	219,786	....	122,668	122,668	117,732	2.88
Rhode Island	15,873	....	13,391	13,391	12,852	0.31
South Carolina	30,544	....	31,657	31,657	30,384	0.74
South Dakota	6,112	....	4,880	4,880	4,683	0.11
Tennessee	53,353	....	36,935	36,935	35,449	0.87
Texas	237,153	....	206,504	206,504	198,195	4.85
Utah	20,861	....	16,283	16,283	15,628	0.38
Vermont	9,996	....	10,025	10,025	9,621	0.24
Virginia	60,024	....	61,388	61,388	58,918	1.44
Washington	91,331	....	84,171	84,171	80,785	1.98
West Virginia	30,606	....	29,881	29,881	28,679	0.70
Wisconsin	49,779	....	45,635	45,635	43,799	1.07
Wyoming	2,233	....	2,528	2,528	2,426	0.06
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	....	....	7,570	7,570	36,000	0.88
Undistributed	....	....	....	....	....	....
Techincal Assistance	21,362	....	25,500	25,500	26,000	0.64
Pre-appropriated Tribal Technical Assistance	2,999	....	3,000	3,000	3,000	0.07
Foster Care Financing	....	....	....	....	250,000	6.12
Total	**4,413,851**	**.........**	**3,967,236**	**3,967,236**	**4,087,999**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1545-0-1-609**

Table 18–29. ADOPTION ASSISTANCE (93.659)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	8,652	....	12,213	12,213	12,287	0.49
Alaska	10,548	....	10,574	10,574	10,638	0.43
Arizona	74,261	....	74,559	74,559	75,009	3.01
Arkansas	14,177	....	14,957	14,957	15,047	0.60
California	412,293	....	461,614	461,614	464,406	18.61
Colorado	19,483	....	24,428	24,428	24,576	0.99
Connecticut	32,896	....	36,483	36,483	36,704	1.47
Delaware	1,875	....	2,148	2,148	2,161	0.09
District of Columbia	22,646	....	20,277	20,277	20,400	0.82
Florida	80,792	....	93,587	93,587	94,153	3.77
Georgia	40,654	....	43,630	43,630	43,894	1.76
Hawaii	14,935	....	17,327	17,327	17,431	0.70
Idaho	5,732	....	5,668	5,668	5,703	0.23
Illinois	91,366	....	94,552	94,552	95,124	3.81
Indiana	55,139	....	69,684	69,684	70,106	2.81
Iowa	33,720	....	40,735	40,735	40,982	1.64
Kansas	13,955	....	16,756	16,756	16,857	0.68
Kentucky	41,423	....	44,270	44,270	44,538	1.79
Louisiana	15,887	....	18,982	18,982	19,097	0.77
Maine	15,876	....	16,204	16,204	16,302	0.65
Maryland	22,053	....	26,468	26,468	26,628	1.07
Massachusetts	34,134	....	38,133	38,133	38,364	1.54
Michigan	117,469	....	133,662	133,662	134,470	5.39
Minnesota	21,602	....	28,127	28,127	28,297	1.13
Mississippi	5,528	....	6,107	6,107	6,144	0.25
Missouri	35,347	....	41,889	41,889	42,142	1.69
Montana	6,875	....	9,135	9,135	9,191	0.37
Nebraska	11,253	....	11,979	11,979	12,052	0.48
Nevada	14,037	....	13,747	13,747	13,830	0.55
New Hampshire	4,974	....	5,915	5,915	5,951	0.24
New Jersey	49,414	....	61,821	61,821	62,194	2.49
New Mexico	16,501	....	17,686	17,686	17,793	0.71
New York	213,499	....	254,703	254,703	256,243	10.27
North Carolina	48,804	....	49,652	49,652	49,953	2.00
North Dakota	4,424	....	4,922	4,922	4,952	0.20
Ohio	147,818	....	199,795	199,795	201,004	8.06
Oklahoma	27,733	....	31,812	31,812	32,004	1.28
Oregon	37,055	....	43,062	43,062	43,322	1.74
Pennsylvania	100,236	....	47,151	47,151	47,436	1.90
Rhode Island	7,952	....	9,124	9,124	9,179	0.37
South Carolina	14,721	....	16,889	16,889	16,991	0.68
South Dakota	3,508	....	3,857	3,857	3,880	0.16
Tennessee	38,960	....	44,301	44,301	44,569	1.79
Texas	79,722	....	88,961	88,961	89,499	3.59
Utah	7,551	....	8,887	8,887	8,941	0.36
Vermont	7,989	....	9,202	9,202	9,257	0.37
Virginia	23,732	....	25,065	25,065	25,216	1.01
Washington	49,020	....	54,305	54,305	54,633	2.19
West Virginia	17,001	....	17,758	17,758	17,865	0.72
Wisconsin	50,021	....	56,157	56,157	56,497	2.26
Wyoming	890	....	1,081	1,081	1,087	0.04
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Total	**2,226,133**	**........**	**2,480,001**	**2,480,001**	**2,494,999**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families **75-1534-0-1-506**

Table 18–30. SOCIAL SERVICES BLOCK GRANT (93.667)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	25,919	....	25,928	25,928	25,928	1.53
Alaska	3,816	....	3,846	3,846	3,846	0.23
Arizona	36,140	....	36,319	36,319	36,319	2.14
Arkansas	15,875	....	15,911	15,911	15,911	0.94
California	204,360	....	203,527	203,527	203,527	11.97
Colorado	27,462	....	27,668	27,668	27,668	1.63
Connecticut	19,466	....	19,373	19,373	19,373	1.14
Delaware	4,854	....	4,874	4,874	4,874	0.29
District of Columbia	3,290	....	3,302	3,302	3,302	0.19
Florida	101,902	....	102,078	102,078	102,078	6.00
Georgia	53,851	....	54,124	54,124	54,124	3.18
Hawaii	7,162	....	7,132	7,132	7,132	0.42
Idaho	8,472	....	8,512	8,512	8,512	0.50
Illinois	71,730	....	71,090	71,090	71,090	4.18
Indiana	35,454	....	35,368	35,368	35,368	2.08
Iowa	16,694	....	16,563	16,563	16,563	0.97
Kansas	15,579	....	15,521	15,521	15,521	0.91
Kentucky	23,736	....	23,755	23,755	23,755	1.40
Louisiana	24,523	....	24,735	24,735	24,735	1.46
Maine	7,319	....	7,259	7,259	7,259	0.43
Maryland	31,322	....	31,384	31,384	31,384	1.85
Massachusetts	36,127	....	36,307	36,307	36,307	2.14
Michigan	55,617	....	54,898	54,898	54,898	3.23
Minnesota	29,024	....	28,998	28,998	28,998	1.71
Mississippi	16,338	....	16,255	16,255	16,255	0.96
Missouri	32,867	....	32,970	32,970	32,970	1.94
Montana	5,379	....	5,369	5,369	5,369	0.32
Nebraska	9,916	....	9,893	9,893	9,893	0.58
Nevada	14,456	....	14,554	14,554	14,554	0.86
New Hampshire	7,316	....	7,294	7,294	7,294	0.43
New Jersey	48,274	....	47,949	47,949	47,949	2.82
New Mexico	11,033	....	11,066	11,066	11,066	0.65
New York	108,362	....	107,604	107,604	107,604	6.33
North Carolina	51,275	....	51,655	51,655	51,655	3.04
North Dakota	3,567	....	3,562	3,562	3,562	0.21
Ohio	63,859	....	63,559	63,559	63,559	3.74
Oklahoma	20,251	....	20,303	20,303	20,303	1.19
Oregon	21,072	....	21,066	21,066	21,066	1.24
Pennsylvania	69,210	....	69,407	69,407	69,407	4.08
Rhode Island	5,842	....	5,799	5,799	5,799	0.34
South Carolina	24,907	....	25,116	25,116	25,116	1.48
South Dakota	4,471	....	4,473	4,473	4,473	0.26
Tennessee	34,554	....	34,670	34,670	34,670	2.04
Texas	135,253	....	136,462	136,462	136,462	8.03
Utah	15,214	....	15,333	15,333	15,333	0.90
Vermont	3,454	....	3,424	3,424	3,424	0.20
Virginia	43,195	....	43,405	43,405	43,405	2.55
Washington	36,412	....	36,696	36,696	36,696	2.16
West Virginia	10,088	....	10,020	10,020	10,020	0.59
Wisconsin	31,290	....	31,138	31,138	31,138	1.83
Wyoming	2,962	....	2,997	2,997	2,997	0.18
American Samoa	49	....	49	49	49	*
Guam	293	....	293	293	293	0.02
Northern Mariana Islands	59	....	59	59	59	*
Puerto Rico	8,793	....	8,793	8,793	8,793	0.52
Freely Associated States	....	....	....	....	....	....
Virgin Islands	293	....	293	293	293	0.02
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Total	**1,699,998**	**........**	**1,699,998**	**1,699,998**	**1,699,998**	**[1] 100.00**

* $500 or less or 0.005 percent or less.

1 Excludes undistributed obligations.

Department of Health and Human Services, HIV/AIDS Bureau 75 1012 0350

Table 18–31. RYAN WHITE HIV/AIDS TREATMENT MODERNIZATION ACT—PART B HIV CARE GRANTS (93.917)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	19,655	....	....	....	....	....
Alaska	1,229	....	....	....	....	....
Arizona	16,888	....	....	....	....	....
Arkansas	8,626	....	....	....	....	....
California	139,688	....	....	....	....	....
Colorado	13,908	....	....	....	....	....
Connecticut	14,856	....	....	....	....	....
Delaware	4,895	....	....	....	....	....
District of Columbia	20,080	....	....	....	....	....
Florida	127,690	....	....	....	....	....
Georgia	47,433	....	....	....	....	....
Hawaii	3,876	....	....	....	....	....
Idaho	1,670	....	....	....	....	....
Illinois	44,741	....	....	....	....	....
Indiana	12,421	....	....	....	....	....
Iowa	3,674	....	....	....	....	....
Kansas	3,657	....	....	....	....	....
Kentucky	10,388	....	....	....	....	....
Louisiana	25,490	....	....	....	....	....
Maine	1,658	....	....	....	....	....
Maryland	38,758	....	....	....	....	....
Massachusetts	20,432	....	....	....	....	....
Michigan	17,968	....	....	....	....	....
Minnesota	7,636	....	....	....	....	....
Mississippi	14,126	....	....	....	....	....
Missouri	14,532	....	....	....	....	....
Montana	1,012	....	....	....	....	....
Nebraska	2,804	....	....	....	....	....
Nevada	8,484	....	....	....	....	....
New Hampshire	1,502	....	....	....	....	....
New Jersey	45,062	....	....	....	....	....
New Mexico	4,013	....	....	....	....	....
New York	164,425	....	....	....	....	....
North Carolina	38,640	....	....	....	....	....
North Dakota	427	....	....	....	....	....
Ohio	25,312	....	....	....	....	....
Oklahoma	8,741	....	....	....	....	....
Oregon	7,224	....	....	....	....	....
Pennsylvania	43,012	....	....	....	....	....
Rhode Island	3,794	....	....	....	....	....
South Carolina	28,568	....	....	....	....	....
South Dakota	884	....	....	....	....	....
Tennessee	21,638	....	....	....	....	....
Texas	89,709	....	....	....	....	....
Utah	4,812	....	....	....	....	....
Vermont	893	....	....	....	....	....
Virginia	29,712	....	....	....	....	....
Washington	13,388	....	....	....	....	....
West Virginia	2,641	....	....	....	....	....
Wisconsin	9,326	....	....	....	....	....
Wyoming	784	....	....	....	....	....
American Samoa	52	....	....	....	....	....
Guam	286	....	....	....	....	....
Northern Mariana Islands	57	....	....	....	....	....
Puerto Rico	34,373	....	....	....	....	....
Freely Associated States	58	....	....	....	....	....
Virgin Islands	1,250	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	[1] 1,188,970	1,188,970	[2] 1,277,754	....
Marshall Islands	52	....	....	....	....	....
Republic of Palau	50	....	....	....	....	....
Total	**1,228,975**	**.........**	**1,188,970**	**1,188,970**	**1,277,754**	....

Note: FY 2010 data does not include Part B Supplemental Awards.

[1] FY 2011 data for each state is not available.

[2] FY 2012 data for each state is not available.

Department of Housing and Urban Development, Public and Indian Housing Programs 86-0163-0-1-604

Table 18–32. PUBLIC HOUSING OPERATING FUND (14.850)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	152,049	....	15,721	15,721	126,713	3.20
Alaska	10,656	....	10,703	10,703	8,880	0.22
Arizona	23,556	....	23,660	23,660	19,631	0.50
Arkansas	37,767	....	37,934	37,934	31,474	0.79
California	144,686	....	145,325	145,325	120,577	3.04
Colorado	29,712	....	29,844	29,844	24,761	0.62
Connecticut	70,720	....	79,033	79,033	58,936	1.49
Delaware	12,803	....	12,859	12,859	10,669	0.27
District of Columbia	53,205	....	53,440	53,440	44,340	1.12
Florida	138,340	....	155,951	155,951	115,289	2.91
Georgia	158,707	....	159,408	159,408	132,262	3.34
Hawaii	21,605	....	21,700	21,700	18,005	0.45
Idaho	1,380	....	1,386	1,386	1,150	0.03
Illinois	288,208	....	289,481	289,481	240,185	6.06
Indiana	50,872	....	51,097	51,097	42,396	1.07
Iowa	6,564	....	6,593	6,593	5,470	0.14
Kansas	21,041	....	21,134	21,134	17,535	0.44
Kentucky	69,596	....	69,903	69,903	57,999	1.46
Louisiana	69,067	....	75,372	75,372	57,558	1.45
Maine	15,886	....	15,956	15,956	13,239	0.33
Maryland	115,926	....	125,438	125,438	96,610	2.44
Massachusetts	166,332	....	167,067	167,067	138,616	3.50
Michigan	69,843	....	70,152	70,152	58,205	1.47
Minnesota	52,454	....	56,686	56,686	43,714	1.10
Mississippi	41,469	....	41,653	41,653	34,559	0.87
Missouri	45,473	....	45,674	45,674	37,896	0.96
Montana	5,656	....	5,681	5,681	4,714	0.12
Nebraska	15,995	....	16,066	16,066	13,330	0.34
Nevada	17,615	....	17,693	17,693	14,680	0.37
New Hampshire	13,710	....	13,771	13,771	11,426	0.29
New Jersey	183,303	....	194,112	194,112	152,759	3.86
New Mexico	12,070	....	12,123	12,123	10,058	0.25
New York	1,040,644	....	1,072,242	1,072,242	867,244	21.89
North Carolina	145,239	....	145,880	145,880	121,038	3.06
North Dakota	3,951	....	3,968	3,968	3,293	0.08
Ohio	220,147	....	221,119	221,119	183,464	4.63
Oklahoma	38,419	....	38,588	38,588	32,017	0.81
Oregon	19,955	....	20,043	20,043	16,630	0.42
Pennsylvania	318,658	....	366,065	366,065	265,560	6.70
Rhode Island	38,697	....	38,868	38,868	32,249	0.81
South Carolina	52,463	....	53,695	53,695	43,721	1.10
South Dakota	2,999	....	3,012	3,012	2,499	0.06
Tennessee	125,941	....	126,497	126,497	104,956	2.65
Texas	193,275	....	194,129	194,129	161,070	4.07
Utah	5,013	....	5,035	5,035	4,178	0.11
Vermont	4,631	....	4,651	4,651	3,859	0.10
Virginia	82,172	....	87,535	87,535	68,480	1.73
Washington	43,873	....	48,067	48,067	36,563	0.92
West Virginia	22,193	....	22,291	22,291	18,495	0.47
Wisconsin	23,370	....	23,474	23,474	19,476	0.49
Wyoming	1,785	....	1,793	1,793	1,488	0.04
American Samoa	....	....	....	....	....	....
Guam	4,310	....	4,329	4,329	3,592	0.09
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	230,687	....	231,706	231,706	192,248	4.85
Freely Associated States	....	....	....	....	....	....
Virgin Islands	19,312	....	19,397	19,397	16,094	0.41
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Total	**4,754,000**	....	**4,775,000**	**4,775,000**	**3,961,850**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Housing and Urban Development, Public and Indian Housing Programs **86-0302-08-1-604**

Table 18–33. SECTION 8 HOUSING CHOICE VOUCHERS (14.871)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	181,787	3,084	178,706	181,790	189,546	1.01
Alaska	33,351	566	32,786	33,352	34,774	0.18
Arizona	163,695	2,777	160,920	163,697	170,681	0.91
Arkansas	100,568	1,706	98,864	100,570	104,860	0.56
California	3,308,502	56,127	3,252,416	3,308,543	3,449,702	18.31
Colorado	222,604	3,776	218,831	222,607	232,105	1.23
Connecticut	358,746	6,086	352,665	358,751	374,057	1.99
Delaware	35,018	594	34,424	35,018	36,512	0.19
District of Columbia	170,498	2,892	167,607	170,499	177,774	0.94
Florida	826,055	14,014	812,051	826,065	861,309	4.57
Georgia	478,406	8,116	470,296	478,412	498,823	2.65
Hawaii	107,213	1,819	105,396	107,215	111,789	0.59
Idaho	38,551	654	37,898	38,552	40,197	0.21
Illinois	829,359	14,070	815,299	829,369	864,754	4.59
Indiana	209,141	3,548	205,595	209,143	218,067	1.16
Iowa	98,351	1,668	96,684	98,352	102,549	0.54
Kansas	60,510	1,027	59,484	60,511	63,093	0.33
Kentucky	184,202	3,125	181,079	184,204	192,063	1.02
Louisiana	358,847	6,088	352,764	358,852	374,162	1.99
Maine	83,589	1,418	82,172	83,590	87,156	0.46
Maryland	459,381	7,793	451,594	459,387	478,987	2.54
Massachusetts	825,043	13,996	811,056	825,052	860,254	4.57
Michigan	346,466	5,878	340,593	346,471	361,253	1.92
Minnesota	214,498	3,639	210,862	214,501	223,653	1.19
Mississippi	134,840	2,287	132,554	134,841	140,595	0.75
Missouri	240,498	4,080	236,421	240,501	250,762	1.33
Montana	31,269	530	30,739	31,269	32,603	0.17
Nebraska	63,236	1,073	62,164	63,237	65,935	0.35
Nevada	123,573	2,096	121,479	123,575	128,847	0.68
New Hampshire	82,880	1,406	81,475	82,881	86,417	0.46
New Jersey	673,615	11,428	662,196	673,624	702,364	3.73
New Mexico	76,121	1,291	74,831	76,122	79,370	0.42
New York	2,271,492	38,535	2,232,986	2,271,521	2,368,435	12.57
North Carolina	345,590	5,863	339,732	345,595	360,340	1.91
North Dakota	32,092	544	31,548	32,092	33,462	0.18
Ohio	560,884	9,515	551,375	560,890	584,821	3.10
Oklahoma	125,899	2,136	123,764	125,900	131,272	0.70
Oregon	212,015	3,597	208,421	212,018	221,063	1.17
Pennsylvania	556,548	9,442	547,114	556,556	580,301	3.08
Rhode Island	78,650	1,334	77,317	78,651	82,007	0.44
South Carolina	141,189	2,395	138,795	141,190	147,215	0.78
South Dakota	28,351	481	27,870	28,351	29,561	0.16
Tennessee	205,121	3,480	201,644	205,124	213,875	1.14
Texas	1,028,555	17,449	1,011,119	1,028,568	1,072,452	5.69
Utah	71,136	1,207	69,930	71,137	74,172	0.39
Vermont	42,765	725	42,041	42,766	44,591	0.24
Virginia	376,895	6,394	370,506	376,900	392,980	2.09
Washington	405,246	6,875	398,376	405,251	422,541	2.24
West Virginia	67,737	1,149	66,589	67,738	70,628	0.37
Wisconsin	154,661	2,624	152,039	154,663	161,261	0.86
Wyoming	12,487	212	12,275	12,487	13,020	0.07
American Samoa	....	....	....	....	....	....
Guam	34,627	587	34,040	34,627	36,104	0.19
Northern Mariana Islands	4,021	68	3,953	4,021	4,192	0.02
Puerto Rico	182,002	3,088	178,917	182,005	189,770	1.01
Freely Associated States	....	....	....	....	....	....
Virgin Islands	12,400	210	12,190	12,400	12,929	0.07
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	[1] 315,000	315,000	[1] 396,000	....
Total	**18,070,776**	**306,562**	**18,079,442**	**18,386,004**	**19,238,005**	**[2] 100.00**

[1] Sum of competitive grants. Allociations to public housing authorities in each state have yet to be determined.

[2] Excludes undistributed obligations.

Department of Housing and Urban Development, Public and Indian Housing Programs **86-0304-0-1-604**

Table 18–34. PUBLIC HOUSING CAPITAL FUND (14.872)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	75,520	417	71,870	72,287	71,845	3.04
Alaska	3,066	17	2,918	2,935	2,917	0.12
Arizona	10,372	57	9,870	9,927	9,867	0.42
Arkansas	23,540	130	22,402	22,532	22,394	0.95
California	98,638	545	93,870	94,415	93,837	3.97
Colorado	14,905	82	14,185	14,267	14,180	0.60
Connecticut	30,097	166	28,642	28,808	28,632	1.21
Delaware	5,494	30	5,228	5,258	5,226	0.22
District of Columbia	21,365	118	20,332	20,450	20,325	0.86
Florida	72,416	400	68,916	69,316	68,892	2.91
Georgia	89,980	497	85,630	86,127	85,600	3.62
Hawaii	13,217	73	12,578	12,651	12,574	0.53
Idaho	1,229	7	1,170	1,177	1,170	0.05
Illinois	181,440	1,003	172,670	173,673	172,609	7.30
Indiana	30,087	166	28,632	28,798	28,622	1.21
Iowa	6,481	36	6,167	6,203	6,165	0.26
Kansas	15,139	84	14,407	14,491	14,402	0.61
Kentucky	43,448	240	41,347	41,587	41,333	1.75
Louisiana	60,095	332	57,190	57,522	57,170	2.42
Maine	7,048	39	6,708	6,747	6,705	0.28
Maryland	38,970	215	37,087	37,302	37,073	1.57
Massachusetts	70,109	388	66,720	67,108	66,696	2.82
Michigan	43,406	240	41,308	41,548	41,293	1.75
Minnesota	39,292	217	37,393	37,610	37,380	1.58
Mississippi	28,350	157	26,979	27,136	26,970	1.14
Missouri	40,204	222	38,261	38,483	38,247	1.62
Montana	3,715	21	3,536	3,557	3,534	0.15
Nebraska	10,960	61	10,430	10,491	10,427	0.44
Nevada	7,718	43	7,345	7,388	7,342	0.31
New Hampshire	6,180	34	5,881	5,915	5,879	0.25
New Jersey	87,448	483	83,221	83,704	83,192	3.52
New Mexico	7,739	43	7,365	7,408	7,362	0.31
New York	413,217	2,285	412,246	414,531	393,109	16.62
North Carolina	69,606	385	66,241	66,626	66,218	2.80
North Dakota	2,828	16	2,691	2,707	2,690	0.11
Ohio	107,791	596	102,200	102,796	102,544	4.34
Oklahoma	20,808	115	19,802	19,917	19,795	0.84
Oregon	11,862	66	11,288	11,354	11,284	0.48
Pennsylvania	180,992	1,001	172,244	173,245	172,183	7.28
Rhode Island	20,756	115	19,753	19,868	19,746	0.83
South Carolina	29,682	164	28,247	28,411	28,237	1.19
South Dakota	2,914	16	2,773	2,789	2,772	0.12
Tennessee	67,401	373	64,143	64,516	64,120	2.71
Texas	101,833	563	96,911	97,474	96,877	4.10
Utah	3,213	18	3,057	3,075	3,056	0.13
Vermont	2,657	15	2,529	2,544	2,528	0.11
Virginia	40,896	226	38,919	39,145	38,905	1.65
Washington	34,566	191	32,895	33,086	32,883	1.39
West Virginia	10,807	60	10,285	10,345	10,281	0.43
Wisconsin	21,238	117	20,211	20,328	20,204	0.85
Wyoming	1,120	6	1,066	1,072	1,066	0.05
American Samoa	....	....	....	....	....	....
Guam	1,623	9	1,545	1,554	1,544	0.07
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	144,599	799	137,610	138,409	137,561	5.82
Freely Associated States	....	....	....	....	....	....
Virgin Islands	7,923	44	7,540	7,584	7,537	0.32
Indian Tribes	....	....	....	....	....	....
Undistributed	....	91,000	110,000	201,000	75,000	....
Total	**2,486,000**	**104,743**	**2,494,454**	**2,599,197**	**2,440,000**	[1] **100.00**

[1] Excludes undistributed obligations.

Department of Housing and Urban Development, Community Planning and Development **86-0162-0-1-451**

Table 18–35. COMMUNITY DEVELOPMENT BLOCK GRANT (14.218)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	73,704	3,829	55,360	59,189	51,204	1.35
Alaska	5,422	....	5,520	5,520	5,106	0.14
Arizona	141,083	....	60,735	60,735	56,176	1.49
Arkansas	44,877	....	30,750	30,750	28,442	0.75
California	733,796	89,719	476,221	565,940	440,471	11.65
Colorado	57,481	2,290	39,674	41,964	36,696	0.97
Connecticut	42,490	5,650	43,800	49,450	40,512	1.07
Delaware	17,761	....	7,993	7,993	7,393	0.20
District of Columbia	38,363	19,636	18,741	38,377	17,334	0.46
Florida	436,426	122,400	166,768	289,168	154,249	4.08
Georgia	86,238	4,482	88,897	93,379	82,224	2.18
Hawaii	16,332	....	16,836	16,836	15,572	0.41
Idaho	13,416	2,566	13,830	16,396	12,792	0.34
Illinois	319,171	25,950	189,940	215,890	175,681	4.65
Indiana	75,147	1,680	77,464	79,144	71,649	1.90
Iowa	45,392	....	46,267	46,267	42,794	1.13
Kansas	30,050	2,699	30,977	33,676	28,652	0.76
Kentucky	49,408	....	50,931	50,931	47,108	1.25
Louisiana	130,291	14,005	97,704	111,709	90,369	2.39
Maine	27,799	1,115	24,231	25,346	22,412	0.59
Maryland	65,611	28,859	40,737	69,596	37,679	1.00
Massachusetts	159,644	10,748	127,482	138,230	117,912	3.12
Michigan	362,142	48,602	141,700	190,302	131,063	3.47
Minnesota	100,438	....	64,892	64,892	60,021	1.59
Mississippi	38,221	3,033	39,400	42,433	36,442	0.96
Missouri	71,982	205	74,202	74,407	68,632	1.82
Montana	9,933	....	10,239	10,239	9,470	0.25
Nebraska	20,683	....	21,321	21,321	19,720	0.52
Nevada	42,928	....	22,609	22,609	20,912	0.55
New Hampshire	14,304	....	14,745	14,745	13,638	0.36
New Jersey	154,052	42,310	109,774	152,084	101,533	2.69
New Mexico	22,796	466	23,499	23,965	21,735	0.58
New York	391,203	31,007	382,588	413,595	353,866	9.36
North Carolina	75,689	3,659	78,023	81,682	72,166	1.91
North Dakota	6,852	....	7,063	7,063	6,533	0.17
Ohio	337,609	3,512	183,963	187,475	170,153	4.50
Oklahoma	30,594	6,126	31,537	37,663	29,170	0.77
Oregon	46,198	481	40,582	41,063	37,536	0.99
Pennsylvania	284,957	15,098	243,290	258,388	225,026	5.95
Rhode Island	18,914	....	19,247	19,247	17,802	0.47
South Carolina	41,881	1,508	43,172	44,680	39,931	1.06
South Dakota	8,672	....	8,939	8,939	8,268	0.22
Tennessee	84,546	....	55,743	55,743	51,558	1.36
Texas	266,338	117,474	264,045	381,519	244,223	6.46
Utah	20,948	2,510	21,594	24,104	19,973	0.53
Vermont	9,015	....	9,293	9,293	8,595	0.23
Virginia	66,838	5,194	68,899	74,093	63,727	1.69
Washington	65,876	124	67,907	68,031	62,809	1.66
West Virginia	27,016	126	27,849	27,975	25,758	0.68
Wisconsin	91,658	8,246	68,475	76,721	63,335	1.68
Wyoming	4,561	....	4,702	4,702	4,349	0.12
American Samoa	1,122	....	1,133	1,133	1,133	0.03
Guam	2,817	3,050	3,081	6,131	26,011	0.69
Northern Mariana Islands	1,387	880	889	1,769	889	0.02
Puerto Rico	119,176	....	122,851	122,851	113,629	3.01
Freely Associated States	....	....	....	....	....	....
Virgin Islands	1,758	1,878	1,897	3,775	1,897	0.05
Indian Tribes	66,000	1,000	65,000	66,000	66,000	1.75
Undistributed	[1] 647,108	453,000	[2] 156,000	609,000	[2] 175,000	....
Total	**6,166,114**	**1,085,117**	**4,211,001**	**5,296,118**	**3,954,930**	**[1] 100.00**

Note: Totals do not include CDBG disaster supplemental obligations

[1] Undistributed amounts in 2010 obligations include multi-state Neighborhood Stablization Program grants, CDBG Recovery due to accounting purposes, as well as other set-aside within the account (e.g., Congressional Earmarks, Administration Initiatives).

[2] Undistributed amounts in 2011 and 2012 include set-aside within the account (e.g., Congressional Earmarks, Administration Initiatives).

[3] Excludes undistributed obligations.

Department of Housing and Urban Development, Community Planning and Development **86-0205-0-1-604**

Table 18–36. HOME INVESTMENT PARTNERSHIP PROGRAM (14.258)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	24,353	3,115	21,028	24,143	22,155	1.32
Alaska	5,150	....	4,447	4,447	4,020	0.24
Arizona	30,423	....	26,269	26,269	23,750	1.42
Arkansas	16,397	....	14,158	14,158	12,800	0.77
California	259,086	25,263	223,708	248,971	227,753	13.62
Colorado	26,775	1,250	23,119	24,369	22,164	1.33
Connecticut	21,158	1,714	18,269	19,983	18,247	1.09
Delaware	4,986	....	4,305	4,305	3,892	0.23
District of Columbia	9,322	9,346	8,049	17,395	16,710	1.00
Florida	80,960	50,958	69,905	120,863	114,632	6.85
Georgia	66,281	2,184	57,230	59,414	53,946	3.23
Hawaii	7,610	....	6,571	6,571	5,941	0.36
Idaho	6,801	864	5,872	6,736	6,181	0.37
Illinois	76,613	11,220	66,151	77,371	71,132	4.25
Indiana	31,260	....	26,991	26,991	24,403	1.46
Iowa	15,901	....	13,730	13,730	12,413	0.74
Kansas	13,778	957	11,897	12,854	11,722	0.70
Kentucky	25,359	....	21,896	21,896	19,797	1.18
Louisiana	47,475	6,571	40,992	47,563	43,693	2.61
Maine	9,844	....	8,500	8,500	7,685	0.46
Maryland	22,998	8,162	19,858	28,020	26,191	1.57
Massachusetts	49,949	2,955	43,128	46,083	41,975	2.51
Michigan	51,681	14,870	44,624	59,494	55,353	3.31
Minnesota	22,802	....	19,688	19,688	17,800	1.06
Mississippi	18,066	1,307	15,599	16,906	15,422	0.92
Missouri	31,147	....	26,894	26,894	24,315	1.45
Montana	6,308	....	5,447	5,447	4,924	0.29
Nebraska	9,328	....	8,054	8,054	7,282	0.44
Nevada	11,926	....	10,298	10,298	9,310	0.56
New Hampshire	6,675	....	5,764	5,764	5,211	0.31
New Jersey	44,254	19,999	38,211	58,210	54,731	3.27
New Mexico	11,170	....	9,645	9,645	8,720	0.52
New York	203,001	7,414	175,281	182,695	165,958	9.92
North Carolina	39,206	2,551	33,852	36,403	33,181	1.98
North Dakota	3,612	....	3,119	3,119	2,820	0.17
Ohio	67,705	1,537	58,460	59,997	54,405	3.25
Oklahoma	19,339	3,621	16,698	20,319	18,752	1.12
Oregon	21,914	....	18,922	18,922	17,107	1.02
Pennsylvania	75,446	3,003	65,144	68,147	61,928	3.70
Rhode Island	9,615	....	8,302	8,302	7,506	0.45
South Carolina	20,458	636	17,664	18,300	16,613	0.99
South Dakota	4,378	....	3,780	3,780	3,418	0.20
Tennessee	31,296	....	27,023	27,023	24,431	1.46
Texas	114,696	45,429	99,034	144,463	135,388	8.09
Utah	7,929	1,420	6,846	8,266	7,623	0.46
Vermont	4,619	....	3,988	3,988	3,606	0.22
Virginia	33,959	4,122	29,322	33,444	30,670	1.83
Washington	33,788	750	29,174	29,924	27,134	1.62
West Virginia	13,298	....	11,482	11,482	10,381	0.62
Wisconsin	26,517	3,383	22,896	26,279	24,115	1.44
Wyoming	3,500	....	3,022	3,022	2,732	0.16
American Samoa	341	....	341	341	308	0.02
Guam	1,406	1,406	1,406	2,812	1,271	0.08
Northern Mariana Islands	647	647	647	1,294	585	0.03
Puerto Rico	35,056	....	30,269	30,269	27,367	1.64
Freely Associated States	....	....	....	....	....	....
Virgin Islands	1,256	1,256	1,256	2,512	1,136	0.07
Indian Tribes	....	....	....	....	....	....
Undistributed	....	[1] 21,096	....	21,096	....	....
Total	**1,838,818**	**259,006**	**1,588,225**	**1,847,231**	**1,672,705**	**[2] 100.00**

[1] $3 million in 2011 are 2009–11 recaptures, of which allocations have yet to-be-determined. $18m of Recovery Act Tax Credit Assistance Program will be re-allocated.

[2] Excludes undistributed obligations.

Department of Labor, Employment and Training Administration **16-0179-0-1-603**

Table 18–37. UNEMPLOYMENT INSURANCE (17.225)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	40,184	....	29,807	29,807	....	....
Alaska	25,560	....	20,238	20,238	....	....
Arizona	43,256	....	29,581	29,581	....	....
Arkansas	24,067	....	20,848	20,848	....	....
California	492,813	....	362,726	362,726	....	....
Colorado	47,325	....	35,370	35,370	....	....
Connecticut	62,010	....	47,090	47,090	....	....
Delaware	11,253	....	9,692	9,692	....	....
District of Columbia	12,288	....	10,163	10,163	....	....
Florida	125,762	....	80,222	80,222	....	....
Georgia	73,329	....	59,602	59,602	....	....
Hawaii	17,347	....	14,464	14,464	....	....
Idaho	20,513	....	16,603	16,603	....	....
Illinois	161,492	....	135,019	135,019	....	....
Indiana	44,788	....	38,827	38,827	....	....
Iowa	31,244	....	23,444	23,444	....	....
Kansas	22,345	....	18,035	18,035	....	....
Kentucky	32,043	....	27,594	27,594	....	....
Louisiana	34,988	....	26,944	26,944	....	....
Maine	16,861	....	13,174	13,174	....	....
Maryland	63,071	....	49,411	49,411	....	....
Massachusetts	73,756	....	57,976	57,976	....	....
Michigan	139,937	....	121,483	121,483	....	....
Minnesota	52,535	....	40,760	40,760	....	....
Mississippi	26,925	....	20,990	20,990	....	....
Missouri	50,875	....	36,108	36,108	....	....
Montana	11,578	....	8,346	8,346	....	....
Nebraska	16,890	....	12,745	12,745	....	....
Nevada	33,172	....	26,550	26,550	....	....
New Hampshire	17,734	....	12,006	12,006	....	....
New Jersey	120,978	....	96,561	96,561	....	....
New Mexico	16,838	....	13,525	13,525	....	....
New York	202,920	....	166,601	166,601	....	....
North Carolina	74,863	....	55,345	55,345	....	....
North Dakota	6,991	....	6,199	6,199	....	....
Ohio	108,865	....	84,748	84,748	....	....
Oklahoma	28,381	....	21,101	21,101	....	....
Oregon	64,952	....	45,548	45,548	....	....
Pennsylvania	158,482	....	123,103	123,103	....	....
Rhode Island	16,320	....	12,588	12,588	....	....
South Carolina	36,641	....	28,084	28,084	....	....
South Dakota	6,315	....	5,177	5,177	....	....
Tennessee	39,329	....	33,505	33,505	....	....
Texas	156,818	....	123,973	123,973	....	....
Utah	30,621	....	20,702	20,702	....	....
Vermont	8,222	....	6,884	6,884	....	....
Virginia	53,748	....	37,437	37,437	....	....
Washington	108,513	....	82,498	82,498	....	....
West Virginia	15,842	....	12,199	12,199	....	....
Wisconsin	76,914	....	56,331	56,331	....	....
Wyoming	9,442	....	6,944	6,944	....	....
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	23,631	....	17,989	17,989	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	2,062	....	1,528	1,528	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	728,877	728,877	3,207,797	....
Dept of Health and Human Services	2,013	....	2,380	2,380	....	....
Total	**3,195,642**	**.........**	**3,195,645**	**3,195,645**	**3,207,797**	**[1] 100.00**

[1] Excludes undistributed obligations.

Department of Transportation, Federal Aviation Administration **69-8106-0-7-402**

Table 18–38. AIRPORT IMPROVEMENT PROGRAM (20.106)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	40,655	....	56,484	56,484	87,990	1.64
Alaska	235,633	....	214,524	214,524	345,226	6.42
Arizona	73,580	....	69,204	69,204	109,913	2.04
Arkansas	48,050	....	39,678	39,678	61,210	1.14
California	249,508	....	265,260	265,260	430,403	8.00
Colorado	98,430	....	93,079	93,079	145,299	2.70
Connecticut	23,228	....	22,602	22,602	32,439	0.60
Delaware	5,741	....	8,264	8,264	12,398	0.23
District of Columbia	396	....	193	193	245	*
Florida	171,382	....	163,417	163,417	258,805	4.81
Georgia	95,859	....	91,228	91,228	143,995	2.68
Hawaii	23,591	....	30,126	30,126	47,968	0.89
Idaho	24,464	....	24,842	24,842	37,872	0.70
Illinois	110,954	....	120,586	120,586	199,862	3.72
Indiana	60,165	....	58,295	58,295	93,085	1.73
Iowa	38,246	....	36,856	36,856	59,895	1.11
Kansas	26,274	....	35,079	35,079	51,233	0.95
Kentucky	30,727	....	52,853	52,853	94,754	1.76
Louisiana	55,795	....	59,959	59,959	97,315	1.81
Maine	26,715	....	25,862	25,862	37,785	0.70
Maryland	10,543	....	24,454	24,454	43,521	0.81
Massachusetts	58,104	....	55,090	55,090	81,298	1.51
Michigan	99,633	....	103,091	103,091	163,230	3.03
Minnesota	58,642	....	60,774	60,774	97,026	1.80
Mississippi	55,981	....	44,148	44,148	88,997	1.65
Missouri	51,499	....	68,836	68,836	112,120	2.08
Montana	38,849	....	37,332	37,332	57,376	1.07
Nebraska	56,476	....	35,006	35,006	51,441	0.96
Nevada	44,315	....	53,843	53,843	85,575	1.59
New Hampshire	13,399	....	19,319	19,319	35,786	0.67
New Jersey	44,402	....	38,354	38,354	64,524	1.20
New Mexico	29,689	....	24,564	24,564	37,913	0.70
New York	139,350	....	122,584	122,584	199,761	3.71
North Carolina	75,035	....	83,686	83,686	124,788	2.32
North Dakota	30,988	....	24,742	24,742	37,298	0.69
Ohio	90,845	....	86,505	86,505	135,998	2.53
Oklahoma	45,565	....	40,566	40,566	65,074	1.21
Oregon	55,820	....	49,327	49,327	74,620	1.39
Pennsylvania	65,131	....	91,641	91,641	156,053	2.90
Rhode Island	12,102	....	12,675	12,675	24,043	0.45
South Carolina	52,007	....	45,815	45,815	63,278	1.18
South Dakota	36,267	....	31,039	31,039	46,094	0.86
Tennessee	89,880	....	75,148	75,148	120,828	2.25
Texas	243,794	....	251,699	251,699	395,117	7.35
Utah	38,972	....	35,871	35,871	59,935	1.11
Vermont	28,306	....	12,831	12,831	18,263	0.34
Virginia	72,237	....	74,903	74,903	119,034	2.21
Washington	125,967	....	106,342	106,342	163,776	3.04
West Virginia	18,141	....	24,771	24,771	40,637	0.76
Wisconsin	69,084	....	60,630	60,630	94,764	1.76
Wyoming	20,887	....	23,641	23,641	35,345	0.66
American Samoa	11,000	....	8,926	8,926	11,316	0.21
Guam	17,425	....	18,275	18,275	26,796	0.50
Northern Mariana Islands	9,861	....	7,948	7,948	12,632	0.23
Puerto Rico	15,187	....	14,538	14,538	22,402	0.42
Freely Associated States	38,600	....	39,228	39,228	54,321	1.01
Virgin Islands	7,748	....	7,574	7,574	10,078	0.19
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Total	**3,411,124**	**.........**	**3,384,107**	**3,384,107**	**5,378,750**	**[1] 100.00**

* $500 or less or 0.005 percent or less.

[1] Excludes undistributed obligations.

Department of Transportation, Federal Highway Administration **69-8083-0-7-401**

Table 18–39. HIGHWAY PLANNING AND CONSTRUCTION (20.205)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	874,863	....	735,122	735,122	1,239,576	2.00
Alaska	471,443	....	447,418	447,418	565,888	0.91
Arizona	981,420	....	710,273	710,273	1,216,246	1.96
Arkansas	606,036	....	491,496	491,496	783,413	1.26
California	3,866,208	....	3,483,175	3,483,175	5,664,900	9.15
Colorado	748,229	....	517,423	517,423	809,750	1.31
Connecticut	574,970	....	480,413	480,413	841,203	1.36
Delaware	247,069	....	160,134	160,134	245,877	0.40
District of Columbia	182,665	....	153,904	153,904	244,820	0.40
Florida	2,134,657	....	1,841,580	1,841,580	3,131,866	5.06
Georgia	1,655,988	....	1,254,235	1,254,235	2,220,850	3.59
Hawaii	238,630	....	163,287	163,287	263,851	0.43
Idaho	393,324	....	277,608	277,608	459,506	0.74
Illinois	1,868,980	....	1,376,928	1,376,928	2,052,745	3.31
Indiana	1,190,821	....	925,734	925,734	1,570,090	2.53
Iowa	544,600	....	465,214	465,214	680,465	1.10
Kansas	502,817	....	364,741	364,741	635,796	1.03
Kentucky	757,318	....	644,150	644,150	1,063,191	1.72
Louisiana	1,036,883	....	657,296	657,296	987,261	1.59
Maine	217,271	....	178,310	178,310	273,404	0.44
Maryland	615,191	....	579,482	579,482	977,738	1.58
Massachusetts	812,729	....	586,336	586,336	1,033,252	1.67
Michigan	1,293,923	....	1,019,394	1,019,394	1,839,256	2.97
Minnesota	815,446	....	611,250	611,250	967,594	1.56
Mississippi	576,732	....	458,161	458,161	737,899	1.19
Missouri	1,312,504	....	875,610	875,610	1,456,074	2.35
Montana	512,798	....	374,470	374,470	593,862	0.96
Nebraska	362,790	....	279,354	279,354	453,196	0.73
Nevada	507,440	....	352,041	352,041	432,435	0.70
New Hampshire	226,691	....	159,839	159,839	285,519	0.46
New Jersey	940,894	....	962,965	962,965	1,631,046	2.63
New Mexico	473,322	....	347,375	347,375	593,994	0.96
New York	1,763,740	....	1,622,854	1,622,854	2,827,660	4.56
North Carolina	1,268,272	....	1,009,687	1,009,687	1,759,392	2.84
North Dakota	433,140	....	239,957	239,957	384,391	0.62
Ohio	1,820,652	....	1,275,035	1,275,035	2,219,397	3.58
Oklahoma	729,714	....	613,908	613,908	949,569	1.53
Oregon	646,253	....	473,733	473,733	703,093	1.14
Pennsylvania	1,751,678	....	1,587,405	1,587,405	2,818,937	4.55
Rhode Island	253,029	....	207,724	207,724	308,239	0.50
South Carolina	773,541	....	609,177	609,177	1,020,905	1.65
South Dakota	384,720	....	266,873	266,873	413,934	0.67
Tennessee	941,478	....	802,465	802,465	1,365,267	2.20
Texas	3,936,371	....	3,064,449	3,064,449	5,225,692	8.44
Utah	332,829	....	312,033	312,033	453,159	0.73
Vermont	239,025	....	192,156	192,156	259,234	0.42
Virginia	1,330,871	....	967,926	967,926	1,654,115	2.67
Washington	943,540	....	638,673	638,673	1,033,516	1.67
West Virginia	499,639	....	417,644	417,644	667,465	1.08
Wisconsin	880,747	....	705,127	705,127	1,210,475	1.95
Wyoming	265,970	....	235,830	235,830	422,054	0.68
American Samoa	24,276	....	16,794	16,794	14,780	0.02
Guam	26,193	....	18,120	18,120	15,947	0.03
Northern Mariana Islands	1,489	....	1,030	1,030	907	*
Puerto Rico	144,294	....	128,707	128,707	244,000	0.39
Freely Associated States	....	....	....	....	....	....
Virgin Islands	31,660	....	21,902	21,902	19,275	0.03
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	4,482,073	4,482,073	8,470,034	....
Total	**46,967,773**	**........**	**41,846,000**	**41,846,000**	**70,414,000**	[1] **100.00**

* $500 or less or 0.005 percent or less.

Note: This table also includes Budget account number 69-0504-0-1-401.

Note: The FY 2011 and FY 2012 columns are estimated distributions of Federal-aid highways obligation limitation plus exempt contract authority.

Note: The estimated FY 2012 obligation limitation distribution is calculated based on average annual apportionment shares under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and does not reflect any reauthorization proposal on apportionment formulas.

[1] Excludes undistributed obligations.

Department of Transportation, Federal Transit Administration **69-8350-0-7-1**

Table 18–40. FEDERAL TRANSIT FORMULA GRANTS PROGRAMS (20.507)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	38,613	45,875	32,435	78,310	86,511	0.78
Alaska	64,395	10,241	46,451	56,692	68,435	0.62
Arizona	116,142	84,027	77,853	161,880	181,563	1.64
Arkansas	35,284	3,584	26,639	30,223	36,958	0.33
California	1,187,881	431,689	826,314	1,258,003	1,466,911	13.23
Colorado	132,214	15,746	109,404	125,150	152,810	1.38
Connecticut	148,553	235,703	131,421	367,124	400,349	3.61
Delaware	19,835	16,856	18,082	34,938	39,509	0.36
District of Columbia	242,955	149,148	212,802	361,950	415,751	3.75
Florida	333,075	129,008	281,216	410,224	481,320	4.34
Georgia	178,353	58,674	150,888	209,562	247,708	2.23
Hawaii	49,900	10,409	46,677	57,086	68,887	0.62
Idaho	29,159	5,672	28,157	33,829	40,947	0.37
Illinois	457,738	64,930	402,829	467,759	569,600	5.14
Indiana	97,300	30,512	84,112	114,624	135,889	1.23
Iowa	45,289	12,344	37,545	49,889	59,382	0.54
Kansas	31,208	16,662	22,788	39,450	45,212	0.41
Kentucky	41,303	14,886	37,671	52,557	62,081	0.56
Louisiana	59,537	10,896	49,815	60,711	73,305	0.66
Maine	20,162	3,275	11,675	14,950	17,902	0.16
Maryland	229,219	38,894	160,707	199,601	240,231	2.17
Massachusetts	167,523	284,345	161,626	445,971	486,833	4.39
Michigan	149,531	34,416	120,292	154,708	185,120	1.67
Minnesota	129,468	45,800	107,783	153,583	180,832	1.63
Mississippi	25,347	17,624	17,942	35,566	40,101	0.36
Missouri	116,707	27,624	93,356	120,980	144,582	1.30
Montana	14,380	4,800	7,479	12,279	14,170	0.13
Nebraska	23,400	17,277	22,223	39,500	45,118	0.41
Nevada	56,044	10,712	36,870	47,582	56,903	0.51
New Hampshire	14,487	6,790	9,829	16,619	19,103	0.17
New Jersey	393,814	18,531	182,304	200,835	246,925	2.23
New Mexico	31,062	14,977	25,458	40,435	46,871	0.42
New York	1,179,090	774,753	959,304	1,734,057	1,976,586	17.83
North Carolina	119,350	73,360	96,508	169,868	194,267	1.75
North Dakota	8,379	6,334	9,488	15,822	18,221	0.16
Ohio	197,879	79,445	144,318	223,763	260,249	2.35
Oklahoma	37,145	12,245	28,676	40,921	48,171	0.43
Oregon	98,251	15,497	61,040	76,537	91,969	0.83
Pennsylvania	431,075	81,539	327,197	408,736	491,456	4.43
Rhode Island	25,161	25,187	24,902	50,089	56,384	0.51
South Carolina	39,510	27,537	33,879	61,416	69,981	0.63
South Dakota	10,224	2,184	8,282	10,466	12,559	0.11
Tennessee	78,278	26,291	68,768	95,059	112,444	1.01
Texas	437,603	87,927	334,039	421,966	506,416	4.57
Utah	82,084	8,284	82,978	91,262	112,240	1.01
Vermont	21,329	8,338	3,786	12,124	13,082	0.12
Virginia	184,484	29,652	107,337	136,989	164,125	1.48
Washington	244,708	72,487	193,004	265,491	314,285	2.83
West Virginia	20,687	12,150	16,494	28,644	32,814	0.30
Wisconsin	88,592	11,222	78,899	90,121	110,069	0.99
Wyoming	8,377	1,660	6,206	7,866	9,435	0.09
American Samoa	395	508	266	774	842	0.01
Guam	1,413	145	1,332	1,477	1,813	0.02
Northern Mariana Islands	1,109	....	748	748	937	0.01
Puerto Rico	48,980	76,834	43,329	120,163	131,117	1.18
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	1,000	....	1,000	1,000	0.01
Indian Tribes	....	....	....	....	....	....
Undistributed	[1] 63,812	[2] 31,367	[3] 45,956	77,323	[4] 104,375	....
Total	**8,107,793**	**3,337,873**	**6,257,379**	**9,595,252**	**11,192,656**	**[5] 100.00**

[1] FY 2010 undistributed is the Oversight takedown.
[2] FY 2011 undistributed is the Oversight takedown.
[3] FY 2011 undistributed is the Oversight takedown.
[4] FY 2012 undistributed is the Oversight takedown.
[5] Excludes undistributed obligations.

Environmental Protection Agency, Office of Water **68-0103-0-1-304**

Table 18–41. CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUND (66.458)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from:			FY 2012 (estimated)	FY 2012 Percentage of distributed total
		Previous authority	CR	Total		
Alabama	23,013	....	23,013	23,013	16,985	1.10
Alaska	12,317	....	12,317	12,317	9,091	0.59
Arizona	24,336	3,814	13,901	17,715	10,260	0.66
Arkansas	13,463	....	13,463	13,463	9,937	0.64
California	150,463	....	147,193	147,193	108,640	7.01
Colorado	16,463	....	16,463	16,463	12,151	0.78
Connecticut	342	27,367	25,213	52,580	18,609	1.20
Delaware	13,382	....	10,103	10,103	7,457	0.48
District of Columbia	9,117	1,085	10,103	11,188	7,457	0.48
Florida	69,471	....	69,471	69,471	51,275	3.31
Georgia	34,797	....	34,797	34,797	25,683	1.66
Hawaii	5,224	11,791	15,940	27,731	11,765	0.76
Idaho	10,103	....	10,103	10,103	7,457	0.48
Illinois	93,391	....	93,080	93,080	68,700	4.43
Indiana	49,441	175	49,600	49,775	36,608	2.36
Iowa	279	30,342	27,854	58,196	20,558	1.33
Kansas	186	20,237	18,577	38,814	13,711	0.88
Kentucky	262	28,535	26,194	54,729	19,333	1.25
Louisiana	7,682	16,441	22,624	39,065	16,699	1.08
Maine	15,932	....	15,932	15,932	11,759	0.76
Maryland	49,777	....	49,777	49,777	36,739	2.37
Massachusetts	69,876	....	69,876	69,876	51,573	3.33
Michigan	885	96,400	88,493	184,893	65,315	4.21
Minnesota	37,827	....	37,827	37,827	27,919	1.80
Mississippi	18,542	....	18,542	18,542	13,686	0.88
Missouri	19,536	41,284	57,054	98,338	42,110	2.72
Montana	10,103	....	10,103	10,103	7,457	0.48
Nebraska	10,527	....	10,527	10,527	7,770	0.50
Nevada	13,377	....	10,103	10,103	7,457	0.48
New Hampshire	206	22,404	20,567	42,971	15,180	0.98
New Jersey	84,102	....	84,102	84,102	62,074	4.00
New Mexico	8,519	1,743	10,103	11,846	7,457	0.48
New York	227,170	....	227,170	227,170	167,662	10.82
North Carolina	49,178	....	37,144	37,144	27,415	1.77
North Dakota	100	11,007	10,103	21,110	7,457	0.48
Ohio	387	127,063	115,861	242,924	85,514	5.52
Oklahoma	22,312	....	16,627	16,627	12,272	0.79
Oregon	23,289	....	23,249	23,249	17,160	1.11
Pennsylvania	130,208	....	81,524	81,524	60,171	3.88
Rhode Island	18,334	....	13,819	13,819	10,200	0.66
South Carolina	214	22,965	21,084	44,049	15,562	1.00
South Dakota	10,103	....	10,103	10,103	7,457	0.48
Tennessee	29,897	....	29,897	29,897	22,066	1.42
Texas	125,169	....	94,067	94,067	69,428	4.48
Utah	10,844	....	10,844	10,844	8,004	0.52
Vermont	13,377	....	10,103	10,103	7,457	0.48
Virginia	42,184	....	42,119	42,119	31,087	2.01
Washington	35,791	....	35,791	35,791	26,416	1.70
West Virginia	31,971	124	32,083	32,207	23,680	1.53
Wisconsin	556	59,999	55,639	115,638	41,066	2.65
Wyoming	10,188	....	10,103	10,103	7,457	0.48
American Samoa	12,734	....	11,129	11,129	8,229	0.53
Guam	1,565	7,138	8,052	15,190	5,955	0.38
Northern Mariana Islands	5,646	....	5,172	5,172	3,825	0.25
Puerto Rico	....	29,504	26,843	56,347	19,812	1.28
Freely Associated States	....	....	....	....	....	....
Virgin Islands	100	6,997	6,459	13,456	4,776	0.31
Indian Tribes	21,108	22,989	42,000	64,989	31,000	2.00
Undistributed	....	....	....	....	....	....
Total	**1,695,366**	**589,404**	**2,100,000**	**2,689,404**	**1,550,000**	[1] **100.00**

[1] Excludes undistributed obligations.

Environmental Protection Agency, Office of Water **68-0103-0-1-304**

Table 18–42. CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUND (66.468)

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	16,823	323	16,823	17,146	12,000	1.21
Alaska	21,719	2,532	13,573	16,105	9,682	0.98
Arizona	33,058	2,209	27,259	29,468	19,445	1.97
Arkansas	10,229	20,526	20,539	41,065	14,651	1.48
California	128,102	1,622	126,958	128,580	90,566	9.17
Colorado	24,074	408	24,074	24,482	17,173	1.74
Connecticut	8,146	13,560	13,573	27,133	9,682	0.98
Delaware	....	13,560	13,573	27,133	9,682	0.98
District of Columbia	16,132	9,615	13,573	23,188	9,682	0.98
Florida	....	44,303	44,316	88,619	31,613	3.20
Georgia	32,071	285	32,071	32,356	22,878	2.32
Hawaii	8,146	13,560	13,573	27,133	9,682	0.98
Idaho	13,573	728	13,573	14,301	9,682	0.98
Illinois	51,040	582	51,230	51,812	36,545	3.70
Indiana	22,738	398	22,638	23,036	16,148	1.63
Iowa	10,148	23,156	23,169	46,325	16,528	1.67
Kansas	165	16,592	16,605	33,197	11,845	1.20
Kentucky	....	19,579	19,592	39,171	13,976	1.41
Louisiana	17,594	7,979	25,649	33,628	18,297	1.85
Maine	13,573	373	13,573	13,946	9,682	0.98
Maryland	18,409	6,108	21,059	27,167	15,022	1.52
Massachusetts	25,303	611	25,303	25,914	18,050	1.83
Michigan	41,226	393	41,226	41,619	29,409	2.98
Minnesota	23,219	291	22,776	23,067	16,248	1.64
Mississippi	14,125	433	14,125	14,558	10,076	1.02
Missouri	15,816	26,221	26,234	52,455	18,714	1.89
Montana	20,245	10,413	13,573	23,986	9,682	0.98
Nebraska	13,573	285	13,573	13,858	9,682	0.98
Nevada	21,719	285	13,573	13,858	9,682	0.98
New Hampshire	8,146	13,560	13,573	27,133	9,682	0.98
New Jersey	28,995	285	28,995	29,280	20,683	2.09
New Mexico	5,265	13,560	13,573	27,133	9,682	0.98
New York	89,427	544	89,427	89,971	63,793	6.46
North Carolina	27,414	35,580	35,593	71,173	25,390	2.57
North Dakota	2,600	13,560	13,573	27,133	9,682	0.98
Ohio	....	43,597	43,610	87,207	31,109	3.15
Oklahoma	17,171	285	16,863	17,148	12,030	1.22
Oregon	25,485	594	13,573	14,167	9,682	0.98
Pennsylvania	45,528	285	39,766	40,051	28,366	2.87
Rhode Island	8,146	13,560	13,573	27,133	9,682	0.98
South Carolina	762	13,560	13,573	27,133	9,682	0.98
South Dakota	13,573	285	13,573	13,858	9,682	0.98
Tennessee	15,084	302	15,084	15,386	10,760	1.09
Texas	86,254	1,143	86,254	87,397	61,529	6.23
Utah	13,573	285	13,573	13,858	9,682	0.98
Vermont	8,146	13,560	13,573	27,133	9,682	0.98
Virginia	23,008	397	23,008	23,405	16,413	1.66
Washington	34,650	533	34,650	35,183	24,717	2.50
West Virginia	21,269	735	13,573	14,308	9,682	0.98
Wisconsin	....	23,386	23,399	46,785	16,692	1.69
Wyoming	13,573	285	13,573	13,858	9,682	0.98
American Samoa	2,259	221	2,057	2,278	1,467	0.15
Guam	935	4,402	5,138	9,540	3,665	0.37
Northern Mariana Islands	6,652	....	6,148	6,148	4,386	0.44
Puerto Rico	8,146	13,560	13,573	27,133	9,682	0.98
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	7,003	7,016	14,019	5,005	0.51
Indian Tribes	15,596	836	27,740	28,576	19,800	2.00
Undistributed	500	....	2,000	2,000	2,000	....
Total	**1,143,124**	**452,822**	**1,387,000**	**1,839,822**	**990,000**	**[1] 100.00**

[1] Excludes undistributed obligations.

Federal Communications Commission **27-5183-0-2-376**

Table 18–43. UNIVERSAL SERVICE FUND E-RATE

(Obligations in thousands of dollars)

State or Territory	FY 2010 Actual	Estimated FY2011 obligations from: Previous authority	CR	Total	FY 2012 (estimated)	FY 2012 Percentage of distributed total
Alabama	34,871	....	35,416	35,416	35,994	1.93
Alaska	17,540	....	17,814	17,814	18,104	0.97
Arizona	45,549	....	46,262	46,262	47,016	2.52
Arkansas	18,201	....	18,486	18,486	18,787	1.01
California	278,748	....	283,108	283,108	287,724	15.42
Colorado	13,217	....	13,424	13,424	13,642	0.73
Connecticut	18,468	....	18,757	18,757	19,062	1.02
Delaware	892	....	832	832	906	0.05
District of Columbia	12,748	....	12,948	12,948	13,158	0.70
Florida	75,268	....	76,446	76,446	77,692	4.16
Georgia	60,243	....	61,185	61,185	62,182	3.33
Hawaii	2,122	....	2,155	2,155	2,190	0.12
Idaho	4,584	....	4,656	4,656	4,732	0.25
Illinois	51,532	....	52,338	52,338	53,191	2.85
Indiana	33,338	....	33,860	33,860	34,412	1.84
Iowa	9,956	....	10,112	10,112	10,276	0.55
Kansas	14,738	....	14,968	14,968	15,212	0.82
Kentucky	28,882	....	29,334	29,334	29,812	1.60
Louisiana	48,382	....	49,138	49,138	49,940	2.68
Maine	8,800	....	8,937	8,937	9,083	0.49
Maryland	9,802	....	9,956	9,956	10,118	0.54
Massachusetts	24,115	....	24,492	24,492	24,892	1.33
Michigan	45,247	....	45,955	45,955	46,704	2.50
Minnesota	17,161	....	17,429	17,429	17,714	0.95
Mississippi	28,470	....	28,915	28,915	29,386	1.57
Missouri	37,554	....	38,141	38,141	38,763	2.08
Montana	4,146	....	4,210	4,210	4,279	0.23
Nebraska	7,327	....	7,442	7,442	7,563	0.41
Nevada	6,348	....	6,447	6,447	6,552	0.35
New Hampshire	1,760	....	1,788	1,788	1,816	0.10
New Jersey	42,554	....	43,220	43,220	43,924	2.35
New Mexico	26,200	....	26,609	26,609	27,043	1.45
New York	167,597	....	170,218	170,218	172,994	9.27
North Carolina	44,233	....	44,924	44,924	45,657	2.45
North Dakota	4,420	....	4,489	4,489	4,562	0.24
Ohio	58,356	....	59,268	59,268	60,234	3.23
Oklahoma	37,484	....	38,071	38,071	38,692	2.07
Oregon	11,250	....	11,426	11,426	11,613	0.62
Pennsylvania	68,416	....	69,486	69,486	70,618	3.78
Rhode Island	5,754	....	5,844	5,844	5,939	0.32
South Carolina	28,327	....	28,770	28,770	29,239	1.57
South Dakota	3,808	....	3,868	3,868	3,931	0.21
Tennessee	51,092	....	51,890	51,890	52,736	2.83
Texas	178,726	....	181,520	181,520	184,480	9.88
Utah	12,942	....	13,144	13,144	13,359	0.72
Vermont	1,494	....	1,517	1,517	1,542	0.08
Virginia	25,288	....	25,683	25,683	26,102	1.40
Washington	22,398	....	22,748	22,748	23,120	1.24
West Virginia	10,113	....	10,271	10,271	10,438	0.56
Wisconsin	21,540	....	21,876	21,876	22,233	1.19
Wyoming	1,806	....	1,834	1,834	1,864	0.10
American Samoa	....	....	....	....	....	....
Guam	208	....	211	211	214	0.01
Northern Mariana Islands	855	....	868	868	883	0.05
Puerto Rico	16,083	....	16,335	16,335	16,601	0.89
Freely Associated States	....	....	....	....	....	....
Virgin Islands	7,327	....	7,442	7,442	7,563	0.41
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Total	1,808,280	....	1,836,483	1,836,483	1,866,483	[1] 100.00

[1] Excludes undistributed obligations.

19. STRENGTHENING FEDERAL STATISTICS

Federal statistical programs produce key information to illuminate public and private decisions on a range of topics, including the economy, the population, agriculture, crime, education, energy, the environment, health, science, and transportation. The share of budget resources spent on supporting Federal statistics is relatively modest—about 0.04 percent of GDP in non-decennial census years and roughly double that in decennial census years—but that funding is leveraged to inform crucial decisions in a wide variety of spheres. The ability of governments, businesses, and the general public to make appropriate decisions about budgets, employment, investments, taxes, and a host of other important matters depends critically on the ready availability of relevant, accurate, and timely Federal statistics.

The Federal statistical community remains alert for opportunities to improve these measures of our Nation's performance, which is critical to long-term global competitiveness. For example, during 2010, Federal statistical agencies: (i) developed new tools to track the economic recovery such as quarterly measures of the effects of the American Recovery and Reinvestment Act; new quarterly integrated National Income and Product Accounts and Federal Reserve Board financial accounts; and improved measures of services using expanded Quarterly Services Survey data from the Census Bureau (Bureau of Economic Analysis); (ii) published the first monthly estimates of labor force data for veterans and the foreign born, the first annual estimates of labor force data for persons with disabilities, the first national estimates of workplace injuries and illnesses incurred by State and local government workers, and the initial green career information product on careers in wind energy (Bureau of Labor Statistics); (iii) published detailed airline data on departure times, tarmac delays, and arrivals to allow the public to assess air carrier performance (Bureau of Transportation Statistics); (iv) based on the official national resident population count of 308,745,538 on April 1, 2010, from the 2010 Decennial Census, delivered House of Representatives apportionment data to the President (Census Bureau); (v) collected new data on the service sector of the economy including truck transportation and warehousing rental and leasing services; security and commodity dealers; arts, recreation, and entertainment; and additional parts of the health and social assistance sector (Census Bureau); (vi) published a new *Food Environment Atlas* that spatially assembles statistics containing 155 data layers on three broad categories of food environment factors: Community Characteristics, Food Choices, and Health and Well-Being (Economic Research Service, USDA); (vii) produced more accurate estimates of natural gas supply-demand balances for use in calculating monthly natural gas consumption for the residential and commercial sectors (Energy Information Administration); (viii) released for the first time earnings histories of a one percent sample based on Social Security Numbers that will allow data users to conduct research on labor force issues and the effects of modifying Social Security program rules (Office of Research, Evaluation, and Statistics, SSA); (ix) launched the full scale Business Research and Development (R&D) and Innovation Survey which provides government and business policymakers, researchers, and the media information needed to measure and evaluate the Nation's R&D enterprise and to assess the effectiveness of R&D investments in keeping the United States competitive globally (in partnership with the Census Bureau, National Center for Science and Engineering Statistics, NSF—formerly, Division of Science Resources Statistics, NSF); and (x) produced files linking data from related tax returns as well as longitudinal panel files that provided new insights for tax policy analysis (Statistics of Income Division, IRS).

For Federal statistical programs to be useful to their wide range of users, the underlying data systems must be credible. To foster this credibility, Federal statistical programs seek to adhere to high-quality standards and to maintain integrity and efficiency in the production of data. As the collectors and providers of these basic statistics, the responsible agencies act as data stewards—balancing public information demands and decision-makers' needs for information with legal and ethical obligations to minimize reporting burden, respect respondents' privacy, and protect the confidentiality of the data provided to the Government. This chapter presents highlights of principal statistical agencies' 2012 budget proposals.

Highlights of 2012 Program Budget Proposals

The programs that provide essential statistical information for use by governments, businesses, researchers, and the public are carried out by agencies spread across every department and several independent agencies. Excluding cyclical funding for the decennial census, approximately 40 percent of the total budget for these programs provides resources for 13 agencies or units that have statistical activities as their principal mission (see Table 19–1). The remaining funding supports work in more than 80 agencies or units that carry out statistical activities in conjunction with other missions such as providing services, conducting research, or implementing regulations. More comprehensive budget and program information about the Federal statistical system, including its core programs, will be available in OMB's annual report, *Statistical Programs of the United States*

Government, Fiscal Year 2012, when it is published later this year. The following highlights elaborate on the Administration's proposals for the programs of the principal Federal statistical agencies, giving particular attention to new initiatives and to other program changes, including terminations or reductions.

Bureau of Economic Analysis (BEA): Funding is requested to continue BEA's core programs, and to: (1) develop a New Economic Dashboard that will significantly improve the analytical tools available to the public including the regular production of Gross Domestic Product-by-Industry on a quarterly basis (which builds on the prototype quarterly accounts), new detail and breakouts for the business sector, with an emphasis on small businesses, and measures of trends in business investment, production, and asset prices; (2) produce a new suite of measures, "Everyday Economics: The American Household," that will detail the distribution of household spending power, debt, and the composition of savings; (3) create integrated BEA-EIA statistics on energy supply, consumption, and price data to provide consistent metrics for discussing energy trends and developing forecast models of energy supply and consumption dynamics; and (4) implement a critical modernization of the Bureau's information technology systems that will lead directly to an increase in the operational efficiency and security of BEA's statistical production and analysis.

Bureau of Justice Statistics (BJS): Funding is requested to maintain BJS' core programs, and to: (1) improve the quality and usefulness of BJS' criminal victimization statistics derived from the National Crime Victimization Survey (NCVS) by continuing to address recommendations of the 2008 National Research Council report, *Surveying Victims: Options for Conducting the National Crime Victimization Survey* with special emphasis on sub-national estimates and the crimes of rape and sexual assault; (2) explore the use of administrative records data in police and correctional agencies for providing statistical data in these areas including recidivism estimates; and (3) expand the surveys of inmates of prisons and jails to inform the process of re-entry.

Bureau of Labor Statistics (BLS): Funding is requested to provide support for ongoing BLS programs, and to: (1) publish the first set of industry employment data on the green economy, as well as the first set of estimates on occupational staffing patterns and wages at establishments producing green goods and services as part of a 2010 initiative to measure green jobs; (2) continue to increase the sample of commodity and service items priced in the Consumer Price Index; (3) implement a pilot test of individual household member diaries to improve data accuracy in the Consumer Expenditure (CE) Surveys, and increase the CE sample size by eight percent through the introduction of additional geographic areas; (4) implement new questions to the CE Interview Survey to support the Census Bureau in its development of a supplemental statistical poverty measure using CE data; (5) add the Contingent Work Supplement to the Current Population Survey to capture data on contingent work and alternative work arrangements; (6) establish a new National Longitudinal Survey (NLS) youth cohort to enhance the capability of the BLS to produce timely and relevant data on the U.S. labor market; and (7) elongate the fielding schedules of the 1979 and 1997 cohorts of the NLS of Youth to partially offset the cost of the new cohort. The 2011 initiative to expand the sample in the Occupational Employment Statistics program, which would have facilitated year-to-year comparisons, will be eliminated in order to avoid other programmatic reductions.

Bureau of Transportation Statistics (BTS): Funding is requested to maintain BTS' core statistical programs, and to: (1) continue implementation of the 2012 Commodity Flow Survey; (2) enhance production of a core set of transportation performance indicators including the Transportation Services Index; and (3) establish a Safety Data Analysis Program.

Census Bureau: Funding is requested to continue Census Bureau core programs, and to: (1) release data, continue evaluations, and conduct contract closeout activities for the 2010 Decennial Census; (2) begin a program of research and testing for the 2020 Census to support fundamental changes to program, business, operational, and technical processes; (3) further increase the sample size for the American Community Survey to boost the reliability of local area estimates; (4) enhance the Government Statistics program by developing new methodologies for measuring revenues, expenditures, and financial assets for publicly sponsored defined-contribution pension plans and to measure costs and liabilities for other post-employment benefits (e.g., health insurance) for public employees; and (5) support activities related to the 2012 Economic Census and the 2012 Census of Governments. The Census Bureau is terminating or reducing funding for several existing programs in order to fund higher-priority activities. Programs being terminated include: (1) Current Industrial Reports, (2) Federal Financial Statistics, (3) Population Distribution, (4) a Demographic Call Center, (5) Foreign Research and Analysis, and (6) the Statistical Abstract; programs being reduced include: (1) Measuring E-business, (2) Demographic Surveys Sample Redesign, and (3) Data Processing Systems.

Economic Research Service (ERS): Funding is requested to continue ERS' highest priority core programs, and to: (1) support community access to local foods; (2) enhance the statistical use of administrative records; (3) foster the interagency sharing of best practices for statistical protocols and tools; and (4) establish a Center of Excellence for Behavioral Economics within which both intramural and extramural behavioral economic research will inform food, farm, rural development, and natural resource policy decision making. ERS will apply insights and analytical tools from behavioral economics to policy questions for farm program participation, resource use, technology adoption, and risk management, in addition to on-going work on food assistance.

Energy Information Administration (EIA): Funding is requested to maintain core energy data, analyses, and forecasting programs critical to energy markets and policymakers, and to: (1) analyze energy market behavior and the interrelationship of energy and financial markets; (2) support energy literacy through product content and delivery innovations, including development of an integrated dissemination database offering user-friendly, interactive access to a wide range of EIA data; (3) expand surveys of energy consumption in homes, commercial buildings, and manufacturing to provide baseline information critical to understanding energy utilization and for use as the basis for benchmarking and performance measurement of energy efficiency programs; (4) continue upgrades to the National Energy Model, which will improve EIA's ability to assess and forecast supply, demand, and technology trends affecting U.S. and world energy markets; and (5) continue implementation of improvements in data coverage, quality, and integration.

National Agricultural Statistics Service (NASS): Funding is requested to continue NASS' core programs, and to: (1) fully fund the Census of Agriculture; and (2) improve the quality of county estimates. These increases will be partially off-set by: (1) eliminating the quarterly Farm Labor Report; (2) modeling the annual Livestock County estimates from the quinquennial Census of Agriculture, in lieu of conducting a survey; and (3) changing the source of Livestock Prices Received, which will be estimated at the U.S. level using data already available from other USDA sources. In addition, several adjustments have been made to NASS plans proposed in the 2011 President's budget including: (1) in lieu of funding a Rotational Organic Agriculture Study, NASS will collaborate with partnering USDA agencies to collect organic production and price data; and (2) through operational efficiencies, NASS will publish a cropland data layer for the 48 contiguous States. NASS plans to implement its critical 2011 initiative for small area county estimates of crops by re-directing resources toward non-response follow-ups necessary to implement a probability-based design, and to eliminate the July Sheep and Goats inventory survey as proposed in the 2011 President's Budget.

National Center for Education Statistics (NCES): Funding is requested to continue NCES' core programs, and to: (1) conduct the National Assessment of Educational Progress, including administration of the 2012 national economic assessment at grade 12, and the long-term trend assessment of mathematics and reading among students at ages 9, 13, and 17; (2) participate in the 2012 Program for International Student Assessment; (3) conduct the 2011-12 administration of the National Postsecondary Aid Study, which is used to analyze student financial aid and to inform public policy on Federal financial aid programs; (4) conduct the second wave of the High School Longitudinal Study of 2009; (5) continue developmental work on mechanisms to measure adults' acquisition of education and training that is oriented towards work, including formal education credentials, industry-recognized credentials, and basic literacy skills; and (6) continue the development of State-wide longitudinal data systems to allow States to improve their data systems, by ensuring that information is available at the pre-school, postsecondary, and workforce levels in addition to kindergarten through grade 12.

National Center for Health Statistics (NCHS): Funding is requested to continue data collection, analysis, and dissemination activities for NCHS surveys that provide information necessary for understanding the health of the population, health care delivery, and unmet health care needs, including the National Vital Statistics System and National Health Care Surveys, and to: (1) increase sample sizes for some surveys, thereby allowing NCHS to increase the number of State-level estimates for certain key health and health care delivery statistics; (2) enhance the quality and usability of data access tools through improved tutorials; and (3) fully support electronic birth records in all 50 States.

National Center for Science and Engineering Statistics (NCSES), NSF: Funding is requested to maintain and enhance ongoing programs, and to: (1) increase exploration of new methods to enhance data collection, analysis, and the accessibility of NCSES' data and products; (2) establish a collaboration with several Federal agencies to test the feasibility of tagging and extracting agencies' administrative records to measure research and development (R&D) activity; and (3) develop new transformational data sets that link R&D data traditionally collected by NCSES with outcomes data in order to better measure innovation.

Office of Research, Evaluation, and Statistics (ORES), SSA: Funding is requested to continue ORES' core programs, and to: (1) modernize ORES' processes for developing and disseminating data from the Social Security Administration's major administrative data files for statistical purposes; (2) support outside surveys and linkage of SSA administrative data to surveys; (3) create new public use files of administrative data, such as earnings histories for a sample of Social Security Numbers, and information on samples of Social Security and Supplemental Security Income beneficiaries; (4) strengthen microsimulation models that estimate the distributional effects of proposed changes in Social Security programs; (5) develop a topical module for the redesign of the Survey of Income and Program Participation to address Social Security's data needs for microsimulation models, program evaluation, and analysis; (6) provide enhanced statistical and analytical support for initiatives to improve Social Security and other government agency programs; and (7) expand disability research through the creation of a Disability Research Consortium and commissioning expert studies on critical program design issues.

Statistics of Income Division (SOI), IRS: Funding is requested to continue SOI's core programs, and to: (1) further modernize tax data collection systems by efficiently assimilating data captured from the electronic filing of tax and information returns, focusing particularly on increased use and analysis of e-filed individual, corporation, and partnership data; (2) develop and pilot an expert-system for computer coding 22 distinct asset categories reported as capital gains and losses for the Tax Year 2010 Sales of Capital Assets study; (3) expand and improve dissemination of tax data by implementing a table wizard application, making additional data files available through *www.data.gov*, and supporting focused research projects that have the potential to improve the administration of the tax system; (4) develop statistical techniques to identify outliers and edit data in IRS administrative population files; and (5) provide relevant statistics needed to evaluate and monitor the tax-related provisions of the American Recovery and Reinvestment Act; the Hiring Incentives to Restore Employment Act; the Patient Protection and Affordable Care Act; and the Tax Relief, and Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

Table 19–1. 2010-2012 BUDGET AUTHORITY FOR PRINCIPAL STATISTICAL AGENCIES[1]

(In millions of dollars)

	2010 Actual	Estimate	
		CR	2012
Bureau of Economic Analysis	93	93	108
Bureau of Justice Statistics[2]	69	69	66
Bureau of Labor Statistics	611	611	647
Bureau of Transportation Statistics	27	27	35
Census Bureau[3]	7126	1253	1055
Salaries and Expenses[3]	289	289	302
Periodic Censuses and Programs	6837	964	753
Economic Research Service	82	82	86
Energy Information Administration	111	111	124
National Agricultural Statistics Service[4]	162	162	165
National Center for Education Statistics[5]	264	264	279
Statistics[5]	125	125	135
Assessment	130	130	135
National Assessment Governing Board	9	9	9
National Center for Health Statistics[6]	139	139	162
National Center for Science and Engineering Statistics, NSF[7]	41	41	45
Office of Research, Evaluation, and Statistics, SSA	28	31	35
Statistics of Income Division, IRS[8]	43	43	44

[1] Reflects any recissions.

[2] Includes funds for management and administrative costs of $8.5, $8.5, and $8.8 million in 2010, 2011, 2012, respectively, that were previously displayed separately.

[3] Salaries and Expenses funds include discretionary and mandatory funds.

[4] Includes funds for the periodic Census of Agriculture of $38, $38, and $42 million in 2010, 2011, and 2012, respectively. 2010 funding was used to continue planned follow-on studies and preparations for the 2012 Census of Agriculture. 2011 funding will be used to continue those studies and preparations.

[5] Includes funds for salaries and expenses of $17, $17, and $18 million in 2010, 2011, and 2012, respectively, that are reflected in the Institute of Education Sciences (IES) budget. In addition, NCES manages the IES grant program for the State Longitudinal Data System which is funded at $58 million, $58 million, and $100 million in 2010, 2011, and 2012, respectively.

[6] All funds from the Public Health Service Evaluation Fund. Administrative costs for NCHS that previously were displayed as part of the NCHS budget line are now reflected in two consolidated CDC-wide budget lines for management and administrative costs.

[7] Includes funds for salaries and expenses of $6.5, $6.6, and $6.6 million in 2010, 2011, and 2012, respectively, that were previously displayed separately.

[8] 2011 and 2012 estimates each include $2.8 million allocated for IT funding in support of SOI activities.

20. INFORMATION TECHNOLOGY

Through the Accountable Government Initiative, the Administration is focused on leveraging technology to address national priorities and create a government that is more productive, efficient, effective and responsive. National priorities across a range of domains from healthcare to energy can be advanced through a thoughtful and effective use of modern technologies. The Federal Government spends billions of dollars annually on information technology (IT) to provide services to citizens and administer programs. A productivity boom has transformed private sector performance over the past two decades. Improvements in operations and technology have transformed entire industries, increasing output, lowering prices, and boosting customer satisfaction. Unfortunately, the Federal Government has lagged significantly in realizing such gains. Public sector productivity largely kept pace with the private sector through the mid-1980s, but progress then slowed abruptly. Typical government operations have a striking absence of many of the systems, processes and tools now taken for granted in the private sector. Despite spending more than $600 billion on IT over the last decade, the Federal Government has failed to realize the full productivity potential of IT. Too often, IT projects run over budget, fall behind schedule, or fail to deliver their promised functionality. The Administration has taken aggressive steps to reform IT in the last 18 months, including implementing rigorous evaluations and eliminating ineffective programs to focus resources where they can most effectively deliver critical services and make Government more open, efficient and responsive to the American people. As a result of these efforts the Administration has reduced project costs by $3 billion for underperforming IT projects through terminations and revisions to scope. In 2012, the Administration will build on the progress made in previous years to leverage the power of technology to transform the Government and address national priorities through technology innovation.

MANAGING THE FEDERAL IT PORTFOLIO

Federal Spending on Information Technology— The total planned spending on Federal information technology in 2012 is $79.5 billion, a 1.9 percent increase from the 2010 enacted level of $78.0 billion. Table 20-1 displays these estimates and other important details on IT spending for Executive Branch agencies. Chart 20-1 shows spending from 2001 forward, and data center growth from 1998 to 2010, illustrating the Administration's success in flattening the growth in Federal IT spending since 2009, and the need to reverse the rapid growth in Federal data centers.

IT Management Reforms—IT management reform efforts started with the President's appointment of the first Federal CIO to drive the Government's efforts forward. In 2009, the IT Dashboard was launched, where citizens can monitor every dollar the Government spends on large technology projects. Since January 2010, the IT Dashboard has been used to power "TechStat" sessions, where all of the stakeholders in a project, those contributing IT design and management expertise, and those managing the programs supported by the IT project, meet together in the same room to diagnose problems and agree on how to fix troubled projects. In June, all major finan-

Chart 20-1. Totals for Federal IT Spending and Data Center Growth

(Spending in billions of dollars for the Executive Branch)

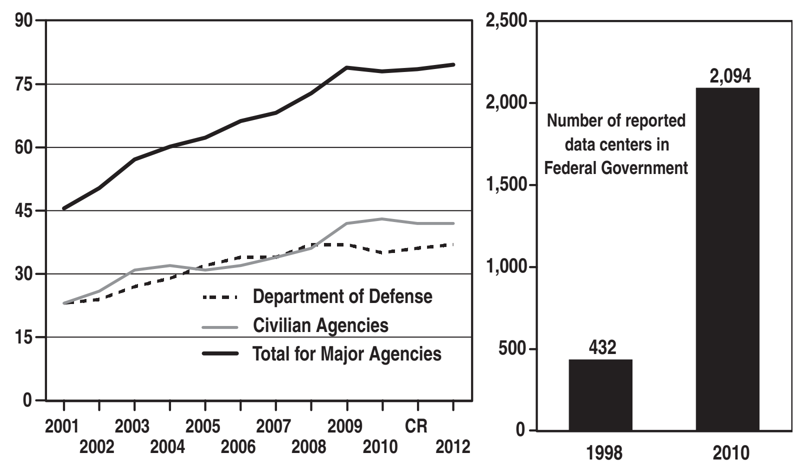


Table 20–1. FEDERAL IT SPENDING 2010–2012, INCLUDING MAJOR FEDERAL IT INVESTMENTS
(Investment counts, spending in millions of dollars)

	2010	CR	2012
Number of Major IT Investments	788	801	806
Total Number of IT Investments	6,680	6,593	6,816
Major IT Investment Spending ($ M).	$38,548	$40,626	$42,229
All IT Investment Spending ($ M)	$77,999	$78,513	$79,501

Note: Agency estimates for 2012 Budget.

cial management systems projects at every major agency were halted, putting the brakes on more than $20 billion of projects. Since then, reviews were completed on 20 financial system projects:

- Ten were determined to be basically on track,
- Five were significantly reduced in scope,
- Three were accelerated to deliver meaningful functionality, and
- Two were terminated altogether.

As a result of these actions, delivery times were cut by more than half and project costs reduced. An additional 26 high-priority non-financial projects were identified for review by agency CIOs. With 18 of these reviews completed, project cost reductions for financial and non-financial IT projects total $3 billion, reflecting a combination of reduced scope and accelerated deliveries.

The Administration is undertaking a series of IT management reforms to make the structural changes required to drive sustainable improvements across Government. These reforms were developed through extensive collaborative dialogues with Federal agency CIOs and their staffs, Federal procurement professionals, members of Congress and their staffs, and the private sector. Those discussions determined that controversial new frameworks or radical new management approaches are not necessary; rather, the key is to remove barriers that get in the way of consistent execution. These reforms will enable agencies to move away from the "grand design" approach of the past that too often led to failure. Instead, agencies will adopt the agile, modular approaches that have transformed the success rate of IT projects in the private sector by breaking projects into manageable chunks, and demanding functionality be delivered every few quarters rather than every few years. Management reforms will be implemented in the following areas to drive increased success in the Federal Government's IT investments in the future:

Aligning budget and acquisitions with the Technology Cycle. The appropriations process forces agencies to specify projects in detail 24 months before they can even start, and the acquisition process routinely tacks on another 12 to 18 months, locking agencies into specific technology solutions that are often out of date by the time the project starts. Three years is forever in the world of technology; for example, the iPhone was developed in less time than it takes to prepare and defend a budget and receive funding. To deploy IT successfully, agencies need the ability to make final decisions on technology solutions at the point of execution, not years in advance. And agencies need the flexibility to move resources within their portfolio to respond to changes in needs and available solutions. But at the same time, Congress has a legitimate and important need for oversight. Given the history of project failures and wasted investments, it is understandable that Congress relies on strict controls for managing IT investments. A better balance is needed between increased funding flexibility and more effective oversight. In 2012, the Administration will work with the Congress to establish a series of pilot projects to determine the best way to achieve these objectives.

Strengthening program management. The success of IT projects hinges on strong program management, which is too often an afterthought in the Government. This function is too often filled on an ad-hoc basis with people temporarily pulled from other functional areas. As a result, agencies suffer from a lack of expertise and high turnover in this critical position that contributes to an unacceptable rate of project failures. To address this problem, the Administration is working with OPM to professionalize program management by creating a formal, Government-wide IT program manager career path. Through a robust program of training and experience, the Government will develop a cadre of seasoned program managers who have the skills and experience to successfully manage large, complex Federal IT investments. Project success also depends on cross-functional teams skilled in key disciplines to support comprehensive program management approaches. Too often, projects are undertaken without key skills represented, resulting in subsequent project problems or failures. In the future, no major IT projects will be allowed to proceed until senior agency officials ensure that a complete and dedicated integrated program team is in place.

Streamlining governance and increasing accountability. There are many varied and fragmented forms of governance and accountability across the Government with layer upon layer of oversight and accountability. Rather than producing successful results, these structures hinder progress, increase administrative burden unnecessarily, and can actually impede successful project completion. The first step will be to reconstitute agency Investment Review Boards. Too often in the past, these Boards attempted to review dozens of major projects in a single meeting. It is simply not possible to delve deeply into complex issues and problems and determine effective solutions on such a large number of projects in that short period of time. Using lessons learned from the TechStat sessions, the IT Investment Review Boards will be remade as vehicles for effective governance. Senior agency officials with the power to make decisions will be identified and held accountable for project performance. They will be helped to hardwire the TechStat lessons into their governance processes.

Increasing engagement with industry. Federal IT procurement is governed by a set of laws, regulations, and policies intended to deliver the best value for the taxpayers by tapping the best solutions the private sector has to offer. Frequently, Federal employees mistakenly interpret those rules as requiring them to disengage from their providers the closer they get to purchasing goods or services. This often leads to misunderstanding of requirements, suboptimal solutions, poor value or failed purchases. While maintaining the integrity of every acquisition, we must stop the Government from making decisions without effectively engaging industry. To address this problem, acquisition officers across agencies will be engaged to eliminate the barriers to effective industry engagement. This will include a "myth busting" campaign to eliminate misconceptions and publicize clear guidance for how agencies should engage with industry to find innovative solutions. A plan will also be developed to ensure broader industry collaboration to help Government effectively manage projects throughout their lifecycles.

Adopting light technologies and shared solutions. Government agencies often rely on proprietary, custom IT solutions that take too long, cost too much, and limit future options. Solving this problem requires shifting the mindset from building custom systems to adopting lighter technologies and shared solutions. As part of the 2012 budget process, the Administration will shift to a "cloud-first" policy. Agencies will be required to adopt cloud-based solutions whenever a secure, reliable, cost effective cloud option exists. Secure, Government-wide cloud computing platforms will be established to enable agencies to easily adopt cloud solutions for systems such as infrastructure, email, and productivity suites. Finally, by March 2011, firm targets will be announced for agency implementation plans for data center consolidation initiative, an area that is ripe for shared services and common solutions.

MODERNIZING FEDERAL AND NATIONAL IT INFRASTRUCTURE

Data Center Consolidation— An important building block of the Government's strategy to remake Federal IT is the consolidation of its data centers. A 1998 survey of Federal agencies identified 432 agency data centers. In 2010, agencies collected and refined data center inventories, based on a common definition, resulting in the most complete picture of Government data center assets in more than a decade. In August 2010, after a year of data collection and analysis, agencies identified 2,094 Federal data centers, an increase

Table 20–2. DATA CENTER INVENTORY AND CONSOLIDATION TARGETS

Agency Name	Number of Data Centers in 2010	Target Number of Data Centers in 2015
Department of Commerce	41	23
Department of Defense	772	428
Department of Energy	89	83
General Services Administration	15	3
Department of Health and Human Services	185	131
Department of Homeland Security	24	2
Department of Interior	210	120
Department of Housing and Urban Development	2	1
Department of Justice	65	50
Department of Labor	20	18
National Aeronautics and Space Administration	79	57
National Science Foundation	2	1
Nuclear Regulatory Commission	3	1
Small Business Administration	4	2
Department of State	361	282
Department of Transportation	35	31
Department of Treasury	42	29
U.S. Agency for International Development	2	1
U.S. Department of Agriculture	46	7
Department of Veterans Affairs	87	4

of 385 percent over 12 years. This rapid proliferation of data centers stands in direct contrast to the long acknowledged best practice of consolidating data centers to increase service delivery to customers, decrease operational, real estate and energy costs, increase security, and adopt common standards. The goal of the Government's data center consolidation initiative is to reverse the historic growth of Federal data centers shifting IT investments to more efficient and cost effective computing platforms; promoting the use of Green IT by reducing the overall energy and real estate footprint of Government data centers; and increasing the IT security posture of the Government. This will promote shared, cost effective, and sustainable Federal data centers in support of agency missions. Consolidating Federal data centers will also play an important role in meeting the Administration's sustainability goals outlined in Executive Order 13514 and related statutes. If the Government does not consolidate its data centers, Federal IT infrastructure costs, already substantially above private sector levels, will continue to grow. Unchecked data center growth would lead the Government to devote a smaller percentage of IT resources to mission-critical applications needed to service the diverse and dynamic needs of taxpayers. In aggregate, agency plans identified the potential to reduce the number of data centers from 2,094 to at least 1,284 by 2015, a reduction of approximately 40 percent as shown in Tables 20–2 and 20–3. Further reductions will be pursued through ongoing planning efforts.

Agencies shown in Table 20–2 are those with data center reductions planned. The agencies listed in Table 20–3 will maintain their current number of data centers, in concert with the zero growth policy, and evaluate opportunities for interagency collaboration or other forms of more efficient servicing in the future.

In 2012, agencies will continue implementing data center consolidation plans by deploying innovative technologies like virtualization and cloud computing, decommissioning aging equipment and closing unneeded buildings.

Table 20–3. DATA CENTER INVENTORY AND CONSOLIDATION TARGETS

Agency Name	2010 Data Centers	2015 Data Centers
Department of Education	3	3
Environmental Protection Agency	4	4
Office of Personnel Management	1	1
Social Security Administration	2	2

Agency efforts to consolidate data centers will be facilitated by developing cost, energy and risk models for agency use, establishing a Government-wide marketplace where agencies can provide data center services to promote sharing consolidated resources and developing more flexible data center, strategic-sourcing acquisition vehicles.

Cloud Computing—An integral part of the Government's strategy to make Federal IT more efficient and effective will be the aggressive adoption of cloud computing technologies.[1] Cloud computing will enable the Government to deploy innovative technological capabilities faster and at lower costs, thereby increasing its capacity to pursue transformational solutions to our most pressing national problems. Cloud computing has already been demonstrated as a viable approach to reduce costs while improving service and speeding delivery of solutions to customers in the Government:

- In December 2010, GSA announced they were moving all agency email to a cloud provider, yielding a 50 percent cost reduction, saving the agency $15 million.
- In November 2010, the Federal Communications Commission (FCC) selected a cloud provider to help the agency move its web site and other online services to the cloud.
- The Census Bureau deployed multiple cloud solutions as it conducted the Decennial Census. In one instance it implemented a self service customer support application just 25 days after purchasing the system, instead of the six months it normally takes. In another example, the Census Bureau made use of a free application to quickly roll out mapping applications.
- The Department of the Army's Army Experience Center (AEC) is a pilot program designed to explore new technologies and techniques that the Army can leverage to improve the efficiency and effectiveness of its marketing and recruiting operations. Instead of upgrading a costly, legacy information technology system to power the AEC, the Army chose a flexible, customizable cloud application. As a result, the Army needed fewer recruiters handle the same workload as the five traditional recruiting centers the AEC replaced.

More recently, agencies awarded a dozen contracts for vendors to provide Federal, state, local, and tribal governments the ability to purchase cloud-based storage, computing power, and website hosting offerings, thereby allowing the Government to realize cost savings and efficiencies without having to expend capital resources expanding their existing infrastructure. Looking ahead, the Government plans to award contracts for vendors to provide Government-wide, cloud e-mail solutions. Doing so will enable agencies to close the IT productivity gap, freeing up agencies to devote resources to mission applications and public services.

The Government has established a centralized process and a standard approach to assess and accredit cloud computing services and products. This body will publish a common set of security controls for cloud solutions, low-

[1] Cloud computing is defined by the National Institute of Standards and Technology (NIST) as a "model for enabling convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction." (See: http://www.nist.gov/itl/cloud/upload/cloud-def-v15.pdf)

ering barriers of entry for the private sector and enabling the Government to eliminate redundant, costly, and time consuming security authorizations. As of December 2010, Federal agencies were required to institute a 'cloud first' implementation approach. If a secure, reliable and cost-effective cloud solution exists, agencies are required to implement that solution.

Technology Innovation and the Nation's Infrastructure—The Administration continues to apply innovative technology solutions to address important national priorities across the Nation's infrastructure. In advancing health information technology, key agencies have defined the principles driving Federal IT investments related to health care. Better-focused Government efforts have already yielded tangible results in the new "Blue Button," a web-based feature for patients to easily download their health information and share it with health care providers, caregivers, and others they trust. The Blue Button capability allows Veterans to download their personal health information from their My HealtheVet account (explained at: *http://www.myhealth.va.gov*). With the January 2011 enhancement release, registered users of My HealtheVet can now download a single file that includes VA Appointments (past and future), self-entered health care providers, treatment facilities and health insurance information, and includes the ability to customize the Blue Button download based on topics and dates.

In the area of spectrum management, President Obama's memorandum "Unleashing the Wireless Broadband Revolution" of June 28, 2010, committed to a sustained effort to make 500 MHz of Federal and commercial spectrum available over the next 10 years, increasing economic growth and creating jobs, by spurring new investments. In this area the Administration continues to explore new wireless technologies, and has committed to a nationwide wireless broadband network for public safety. The Administration is also spurring efforts to transform the distribution and utilization of electricity by making the national electric grid a "Smart Grid," using technology to realize a smarter, more efficient, secure and reliable electric system. Federal, state, industry, consumer advocacy and other stakeholders are working together on the new technologies and applications needed in this area.

SECURITY AND PRIVACY

America depends on Federal agencies for hundreds of essential services, ranging from disaster assistance to Social Security to national defense. These services are, in turn, dependent on a safe, secure, and resilient government information and communications infrastructure. Threats to this infrastructure—whether from criminal elements or nation-states—continue to grow in number and sophistication, creating the potential that essential services could be degraded or interrupted, and confidential information stolen or compromised, with serious effects.

Securing the Nation's Information Infrastructure—In order to address the challenges ahead, the Administration's cybersecurity team will continue its vigorous and extensive build-out of technical and policy protection capabilities for Government systems, expand its partnerships with the private sector, and work with Congress to clarify roles and authorities. The Administration will assist and strengthen the abilities of Federal agencies to protect themselves. Specifically, the Administration will:

- *Assess and improve the effectiveness of cybersecurity defenses.* The Department of Homeland Security (DHS) will work with agencies to conduct penetration testing and vulnerability assessments (red/blue teaming) of agency infrastructures to determine operational readiness and cybersecurity risk. The results of these objective assessments will directly inform mitigation efforts to improve our overall security posture.

- *Initiate CyberStat sessions. Modeled on the successful TechStat sessions.* DHS will work with agencies to identify and correct weaknesses in cybersecurity programs.

- *Enhance cybersecurity program monitoring, management, and reporting under the Federal Information Security Management Act (FISMA).* CyberScope, an interactive data collection tool launched in 2009, is being upgraded to enable agencies to securely provide critical and continuous monitoring data about the state of their critical networks. DHS will continue to operate, maintain and enhance CyberScope on behalf of the Federal Government to improve its security programs.

- *Mature critical standards and guidance.* The Administration will collaboratively develop and issue an outcome-focused set of metrics, reference architectures, and implementation guidance that support broad security improvements and improved management of critical security controls by Federal agencies.

- *Enhance the Cybersecurity Workforce.* As part of the Administration's National Initiative on Cybersecurity Education, cybersecurity training and professional development will be identified that will be required for Federal government civilian, military, and contractor personnel, enhancing the ability of Federal agencies to recruit and retain the highest quality cyber analysts, developers and engineers.

- *Deploy Intrusion Detection and Protection.* As part of the National Cybersecurity Protection System, the deployment of intrusion detection systems across the Federal agencies will be completed, the deployment of intrusion prevention systems will be advanced, and, in cooperation with the private sector, deployment of additional security technologies will begin.

- *Prepare for Incidents.* During 2010, the Administration produced a National Cybersecurity Incident Response Plan (NCIRP), and tested it in a three-day national exercise involving the major Federal agencies, State and local governments, and private sector entities. DHS will continue to refine and exercise the NCIRP to ensure the Nation is prepared for any cyber incident.

- *Improve Identity Management.* The Federal Chief Information Officer Council issued the "Federal Identity, Credential and Access Management (ICAM) Roadmap and Implementation Guidance" in November 2009 to help guide agency efforts as they plan and upgrade their architectures. ICAM solutions leverage existing investments in the Federal Government while promoting efficient use of tax dollars when designing, deploying, and operating information technology systems. As of December 1, 2010, more than 4.5 million Personal Identity Verification (PIV) credentials (79 percent of those needed) were issued to the Federal workforce and almost five million background investigations (87 percent of those needed) were completed in accordance with Homeland Security Presidential Directive 12. With the majority of the Federal workforce now possessing credentials, agencies can accelerate their use of these for secure access to Federal facilities and information systems. Beginning in 2010, metrics on agency usage of the electronic capabilities of PIV credentials were collected as part of the FISMA oversight process. In response to demand for improved digital identification from the private sector, other levels of government, and the general public, the Administration will release the National Strategy for Trusted Identities in Cyberspace (NSTIC) in 2011. NSTIC will promote a public-private collaboration to develop an online identity environment where individuals and organizations can take advantage of secure, efficient, easy-to-use, and interoperable identity solutions to access online services in a manner that promotes confidence, privacy, choice, and innovation.

Protecting Privacy—Ensuring the privacy of personal information for all Americans remains a top Administration priority. Federal agencies are expected to demonstrate continued progress in all aspects of privacy protection and to ensure compliance with all privacy requirements in law, regulation, and policy. Agencies will review their information systems to ensure that they eliminate unnecessary holdings of personally identifiable information such as unnecessary collection and use of Social Security numbers. In addition, Federal agencies will continue to develop and implement policies outlining rules of behavior, detailing training requirements for personnel, and identifying consequences and corrective actions to address non-compliance. Agencies will work with their Senior Agency Officials for Privacy to ensure that all privacy impact assessments and system of records notices are completed and up-to-date. Finally, agencies will continue to implement appropriate data breach response procedures.

TRANSPARENCY AND PARTICIPATION

A transparent and open Government is one of the hallmark objectives of this Administration, as demonstrated by the President's January 21, 2009 Memorandum on Transparency and Open Government, which set forth the principles of transparency, participation, and collaboration, as one of his first official acts in office. Agencies were subsequently directed in the OMB Memorandum M-10-06 "Open Government Directive." of December 8, 2009 to take specific actions to implement those principles including:

- Publishing Government information online;
- Improving the quality of Government information;
- Creating and institutionalizing a culture of open Government; and
- Creating an enabling policy framework for open Government.

Transparency—Using 2010 E-Government funds, new tools were developed and deployed to enable citizens to interact with their Government, help solve problems, and monitor the Government's use of their taxpayer dollars and its performance. These initiatives include:

Data.gov. Launched in May 2009 with 47 datasets, *Data.gov* has grown to host over 300,000 datasets and hundreds of tools that are generated and managed by the Federal Government. Today, *Data.gov* allows the public to easily find, download, and use economic, healthcare, environmental, and other Government data on a single public website. *Data.gov* also enables citizen feedback on programs; catalyzes public and private sector innovation; and sparks social, policy, and economic entrepreneurship. Since its inception, the *Data.gov* website has attracted well over 100 million hits and continues to receive approximately 150,000 visitors per month. The data set catalog is supported by nearly 200 agency and bureau-based points of contact who are working to integrate additional agency datasets. The budget for *Data.gov* began with pilot funding in 2009, and has been sustained at $4 million in 2010 and 2011, with a requested increase to $6 million in 2012 to support the growth in data sets, tools, and functionality to assist public inquiries.

USASpending.gov. To improve transparency regarding Federal spending, *USASspending.gov* has undergone significant enhancements. In addition to continuing to provide information on Federal prime contracts, grants, and loans, *USASpending* now also includes spending data on sub-awards to Federal grants and contracts in one searchable location. *USASpending* has added multiple enhancements, with improvements in search capability, exporting functionality, and summary views. In developing the enhancements to *USASpending*, both user feedback and lessons learned from implementation of the American Recovery and Reinvestment Act have been used to improve data quality, and reduce reporting burden. In 2011 and 2012, *USASpending.gov* will continue to provide both Federal awards and contract and grant sub-award information, while evolving to improve functionality.

Performance.gov. Launched in August 2010 as an internal management tool, the website dedicated to the President's performance agenda, *Performance.gov* provides information to OMB and agency leadership for quarterly Progress Reviews. The 2011 launch of the publicly available site will provide Americans a window on the way the Administration is managing performance and communicate candidly with the public on progress toward achieving priority goals.

Citizen Engagement Tools—*Citizen Services Dashboard*. Launched in the fall of 2010, the Citizen Services Dashboard is a user-friendly website that provides information about citizen-facing services that currently features seven services from four Federal agencies. Its objective is to increase the awareness and performance of agencies citizen services functions. The Dashboard is designed to display customer service standards and performance against those standards. As development of this resource continues in 2012, the Dashboard will help fulfill Executive Order 12862, which requires agencies to develop and post service standards and measure results against them. This level of transparency will promote continued accountability, as well as drive improvements in citizen-focused service delivery. In 2012, the Citizen Services Dashboard will add more Government agency services to the dashboard, continue to refine and standardize metrics and visualization of those metrics, and engage citizens in ways to improve these services, through the interactive component allowing public suggestions to improve the treatment of featured services.

Challenge.gov. Launched in September 2010, *Challenge.gov* is a Government-wide platform that facilitates innovation through the use of challenges and prizes. In September 2009, when the President unveiled his Strategy for American Innovation, he called on Government to "use prizes and challenges to solve tough problems, support the broad adoption of community solutions that work, and form high-impact collaborations with researchers, the private sector, and civil society." *Challenge.gov* debuted with over 35 unique challenges from over 15 departments and agencies, with more challenges being initiated on a continuing basis. As of November, 2010, the site was visited over 67,000 times by people from 159 countries/territories. The 54,000 visits coming from the United States came from over 4,500 different cities. In the period after its rollout, over 2,500 requests were registered where a citizen asked to stay involved in a challenge that they found important or meaningful. In 2012, plans will be explored for acquisition options to make it easier for agencies to procure products and services related to challenges, as well as working to provide training opportunities on challenges and contests for Federal agencies interested in using this exciting methodology.

CONCLUSION

The Administration continues to maintain its commitment to making the Government work better for the American people, making it more responsive to their needs. In a time of historic economic challenges and an increasing commitment to a lean, efficient Federal enterprise, the first challenge in managing Federal information technology investments is to make sure that every dollar is well spent. The era of Federal IT projects with no time limit on development plans, and continuous rebaselining of investment projects, effectively "moving the goalposts" to correct for failures to meet cost, schedule and performance objectives, is coming to an end. So is the era of a continuous expansion in the number of Federal data centers, with each agency's infrastructure base independent of other agencies, and Government-wide potentials for savings ignored. Through the Administration's efforts to change the way Government manages IT, the Government can close the technology gap between the private and public sectors and realize the potential of information technology to transform the Government and improve agencies' performance of their missions to deliver services to all Americans, at a significantly lower cost.

21. FEDERAL INVESTMENT

Federal investment is the portion of Federal spending intended to yield long-term benefits. It promotes improved efficiency within Federal agencies, as well as growth in the national economy by increasing the overall stock of capital. Investment spending can take the form of direct Federal spending or of grants to State and local governments. It can be designated for physical capital, which creates a tangible asset that yields a stream of services over a period of years. It also can be for research and development, education, or training, all of which are intangible but still increase income in the future or provide other long-term benefits.

Most presentations in this volume combine investment spending with spending intended for current use. This chapter focuses solely on Federal and federally financed investment. It provides a comprehensive picture of Federal investment spending, but because it disregards spending for non-investment activities, it provides only a partial picture of Federal support for specific national needs, such as defense, transportation, or environmental protection.

In this chapter, investment is discussed in the following sections:

- a description of the size and composition of Federal investment spending; and
- a presentation of trends in the stock of federally financed physical capital, research and development, and education.

PART I: DESCRIPTION OF FEDERAL INVESTMENT

The distinction between investment 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 childhood immunization, 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, regardless of ultimate ownership of the resulting asset or the purpose it serves. It does not include "social investment" items like health care or social services where it is difficult to separate out the degree to which the spending provides current versus future benefits. The definition of investment used in this section provides consistency over time (historical figures on investment outlays back to 1940 can be found in the separate *Historical Tables* volume). Table 21–2 at the end of this section allows disaggregation of the data to focus on those investment outlays that best suit a particular purpose.

In addition to this basic issue of definition, there are two technical problems in the classification of investment data: the treatment of grants to State and local governments and the classification of spending that could be shown in multiple categories.

First, for some grants to State and local governments it is the recipient jurisdiction, not the Federal Government, that ultimately determines whether the money is used to finance investment or current purposes. This analysis classifies all of the outlays into the category in which the recipient jurisdictions are expected to spend a majority of the money. Hence, the Community Development Block Grants are classified as physical investment, although some may be spent for current purposes. General purpose fiscal assistance is classified as current spending, although some may be spent by recipient jurisdictions on investment.

Second, some spending could be classified in more than one category of investment. For example, outlays for construction of research facilities finance the acquisition of physical assets, but they also contribute to research and development. To avoid double counting, the outlays are classified hierarchically in the category that is most commonly recognized as investment: physical assets, followed by research and development, followed by education and training. Consequently, outlays for the conduct of research and development do not include outlays for the construction of research facilities, because these outlays are included in the category for investment in physical assets.

When direct loans and loan guarantees are used to fund investment, the subsidy value is included as investment. The subsidies are classified according to their program purpose, such as construction or education and training. For more information about the treatment of Federal credit programs, refer to the section on Federal Credit in Chapter 12, "Budget Concepts," in this volume.

This section presents spending for gross investment, without adjusting for depreciation.

Composition of Federal Investment Outlays

Major Federal Investment

The composition of major Federal investment outlays is summarized in Table 21–1. They include major public physical investment, the conduct of research and development, and the conduct of education and training. Combined defense and nondefense investment outlays were $561.4 billion in 2010. They are estimated to increase to $597.7 billion in 2011 before falling to $561.9 billion in 2012. The decrease in the overall level of Federal investment from 2011 to 2012 can be attributed to the completion of several provisions from P.L. 111-5, the American Recovery and Reinvestment Act of 2009 (Recovery Act), but primarily a $17.8 billion decrease in outlays for the Recovery Act's State Fiscal Stabilization grant program in 2012.

Major Federal investment outlays will comprise an estimated 15.1 percent of total Federal outlays in 2012 and 3.6 percent of the Nation's gross domestic product. Greater detail on Federal investment is available in Table

Table 21–1. COMPOSITION OF FEDERAL INVESTMENT OUTLAYS

(In billions of dollars)

Federal Investment	Actual 2010	Estimate	
		CR	2012
Major public physical capital investment:			
Direct Federal:			
National defense	147.2	168.4	151.8
Nondefense	48.1	61.8	49.7
Subtotal, direct major public physical capital investment	195.3	230.2	201.5
Grants to State and local governments	93.3	100.2	100.9
Subtotal, major public physical capital investment	288.6	330.4	302.4
Conduct of research and development:			
National defense	81.1	85.1	83.0
Nondefense	59.8	62.2	66.1
Subtotal, conduct of research and development	140.9	147.3	149.1
Conduct of education and training:			
Grants to State and local governments	92.6	96.7	65.3
Direct Federal	39.3	23.4	45.0
Subtotal, conduct of education and training	131.9	120.0	110.3
Total, major Federal investment outlays	**561.4**	**597.7**	**561.9**
MEMORANDUM			
Major Federal investment outlays:			
National defense	228.3	253.5	234.8
Nondefense	333.0	344.2	327.0
Total, major Federal investment outlays	561.4	597.7	561.9
Miscellaneous physical investment:			
Commodity inventories	–0.3	–0.2	–0.5
Other physical investment (direct)	11.1	10.1	2.8
Total, miscellaneous physical investment	10.9	9.9	2.3
Total, Federal investment outlays, including miscellaneous physical investment	572.2	607.6	564.1

21–2 at the end of this section. That table includes both budget authority and outlays.

Physical investment. Outlays for major public physical capital investment (hereafter referred to as "physical investment outlays") are estimated to be $302.4 billion in 2012. Physical investment outlays are for construction and rehabilitation, the purchase of major equipment, and the purchase or sale of land and structures. Approximately two-thirds of these outlays are for direct physical investment by the Federal Government, with the remainder being grants to State and local governments for physical investment.

Direct physical investment outlays by the Federal Government are primarily for national defense. Defense outlays for physical investment are estimated to be $151.8 billion in 2012. Almost all of these outlays, or an estimated $134.5 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.

Outlays for direct physical investment for nondefense purposes are estimated to be $49.7 billion in 2012. These outlays include $31.4 billion for construction and rehabilitation. This amount includes funds for water, power, and natural resources projects of the Corps of Engineers, the Bureau of Reclamation within the Department of the Interior, and the Tennessee Valley Authority; construction and rehabilitation of veterans hospitals and Indian Health Service hospitals and clinics; facilities for space and science programs; Postal Service facilities; energy conservation projects in the Department of Energy; construction for the administration of justice programs (largely in Customs and Border Protection within the Department of Homeland Security); construction of office buildings by the General Services Administration; and construction for embassy security. Outlays for the acquisition of major equipment are estimated to be $17.4 billion in 2012. The largest amounts are for the air traffic control system; railroad system preservation; weather and climate monitoring in the National Oceanic and Atmospheric Administration; law enforcement activities, largely in the Department of Homeland Security and the Federal Bureau of Investigation; and information systems in the Department of Veterans Affairs.

Grants to State and local governments for physical investment are estimated to be $100.9 billion in 2012. Nearly 70 percent of these outlays, or $69.5 billion, are to assist States and localities with transportation infrastructure, primarily highways. 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 $149.1 billion in 2012. 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 $83.0 billion, are for national defense. Physical investment for research and development facilities and equipment is included in the physical investment category.

Nondefense outlays for the conduct of research and development are estimated to be $66.1 billion in 2012. These are largely for the National Institutes of Health, National Aeronautics and Space Administration, the Department of Energy, and the National Science Foundation.

A more complete and detailed discussion of research and development funding can be found in Chapter 22, "Research and Development," in this volume.

Conduct of education and training. Outlays for the conduct of education and training are estimated to be $110.3 billion in 2012. 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 $65.3 billion in 2012, nearly 60 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. Direct Federal education and training outlays are estimated to be $45.0 billion in 2012. Programs in this category primarily consist of aid for higher education through student financial assistance, loan subsidies, veterans education, and health training programs. Significant downward reestimates of student loan subsidies recorded in 2011 will reduce net outlays for direct Federal education and training to $23.4 billion in that year, leading to a large increase in this category in 2012.

This category does not include outlays for education and training of Federal civilian and military employees. Outlays for education and training that are for physical investment and for research and development are in the categories for physical investment and the conduct of research and development.

Miscellaneous Physical Investment

In addition to the categories of major Federal investment, several miscellaneous categories of investment outlays are shown at the bottom of Table 21–1. These items, all for physical investment, are generally unrelated to improving Government operations or enhancing economic activity.

Outlays for commodity inventories are for the purchase or sale of agricultural products pursuant to farm price support programs and other commodities. Sales are estimated to exceed purchases by $492 million in 2012.

Outlays for other miscellaneous physical investment are estimated to be $2.8 billion in 2012. 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.

PART II: FEDERALLY FINANCED CAPITAL STOCKS

Table 21–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS

(In millions of dollars)

Description	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
GRANTS TO STATE AND LOCAL GOVERNMENTS						
Major public physical investment:						
Construction and rehabilitation:						
Transportation:						
Highways	48,591	42,205	69,033	43,040	41,955	48,305
Mass transportation	11,996	10,566	22,054	12,939	13,235	15,383
Rail transportation	2,505	2,505	3,950	34	1,031	1,798
Air and other transportation	2,991	3,566	5,382	3,882	3,492	3,979
Subtotal, transportation	66,083	58,842	100,419	59,895	59,713	69,465
Other construction and rehabilitation:						
Pollution control and abatement	3,922	3,931	2,551	5,091	5,050	4,088
Community and regional development	5,717	6,682	4,944	10,121	11,773	10,419
Housing assistance	9,693	6,821	6,753	12,612	12,529	8,226
Other	2,008	3,545	4,287	3,990	8,518	6,247
Subtotal, other construction and rehabilitation	21,340	20,979	18,535	31,814	37,870	28,980
Subtotal, construction and rehabilitation	87,423	79,821	118,954	91,709	97,583	98,445
Other physical assets	1,845	1,731	2,229	1,565	2,616	2,416
Subtotal, major public physical investment	89,268	81,552	121,183	93,274	100,199	100,861
Conduct of research and development:						
Agriculture	297	298	269	248	363	377
Other	352	343	363	440	385	400
Subtotal, conduct of research and development	649	641	632	688	748	777
Conduct of education and training:						
Elementary, secondary, and vocational education	48,863	38,915	40,771	71,694	74,384	46,095
Higher education	463	463	407	510	591	458
Research and general education aids	874	884	806	854	998	933
Training and employment	3,774	4,385	4,375	5,082	4,778	4,210
Social services	10,691	10,690	11,278	12,010	13,257	10,899
Agriculture	408	409	394	353	514	509
Other	2,096	2,150	2,195	2,057	2,134	2,187
Subtotal, conduct of education and training	67,169	57,896	60,226	92,560	96,656	65,291
Subtotal, grants for investment	157,086	140,089	182,041	186,522	197,603	166,929
DIRECT FEDERAL PROGRAMS						
Major public physical investment:						
Construction and rehabilitation:						
National defense:						
Military construction and family housing	14,967	14,931	12,517	12,723	15,798	16,700
Atomic energy defense activities and other	142	140	79	130	80	68
Subtotal, national defense	15,109	15,071	12,596	12,853	15,878	16,768
Nondefense:						
International affairs	981	893	999	672	659	910
General science, space, and technology	2,783	3,146	750	2,322	3,346	750
Water resources projects	3,564	3,320	2,700	5,410	6,676	4,854
Other natural resources and environment	1,369	1,359	1,036	1,935	2,252	1,506
Energy	7,415	8,437	10,472	9,521	14,887	12,888
Postal service	617	1,052	549	675	1,027	579
Transportation	77	226	451	117	258	450
Veterans hospitals and other health facilities	1,810	6,056	3,058	4,061	4,138	3,470
Administration of justice	1,461	1,526	993	1,374	1,993	1,524
GSA real property activities	1,896	780	1,709	2,630	3,012	2,979
Other construction	2,362	4,669	2,009	2,582	5,658	1,516
Subtotal, nondefense	24,335	31,464	24,726	31,299	43,906	31,426
Subtotal, construction and rehabilitation	39,444	46,535	37,322	44,152	59,784	48,194

Table 21–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued
(In millions of dollars)

Description	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
Acquisition of major equipment:						
National defense:						
Department of Defense	135,974	134,317	128,126	133,769	152,024	134,481
Atomic energy defense activities	701	596	637	620	531	567
Subtotal, national defense	136,675	134,913	128,763	134,389	152,555	135,048
Nondefense:						
General science and basic research	783	808	890	931	1,389	1,034
Space flight, research, and supporting activities	130	120	112	139	120	112
Postal Service	470	447	951	727	305	798
Air transportation	3,308	3,762	4,172	3,123	3,597	4,211
Water transportation (Coast Guard)	1,508	1,403	1,189	1,118	1,262	1,045
Other transportation (railroads)	1,565	1,565	4,046	2,391	1,981	2,253
Hospital and medical care for veterans	1,083	985	1,034	972	911	933
Federal law enforcement activities	2,069	1,809	1,578	1,800	2,005	1,584
Department of the Treasury (fiscal operations)	287	293	352	256	252	282
National Oceanic and Atmospheric Administration	1,335	1,335	2,010	1,343	1,320	1,586
GSA general services funds	....	856	886	....	–856	–886
Other	4,218	4,226	4,106	3,615	5,134	4,462
Subtotal, nondefense	16,756	17,609	21,326	16,415	17,420	17,414
Subtotal, acquisition of major equipment	153,431	152,522	150,089	150,804	169,975	152,462
Purchase or sale of land and structures:						
National defense	–28	–27	–29	–27	–24	–27
Natural resources and environment	325	337	523	254	288	438
General government	148	136	127	148	136	127
Other	–6	1,886	–42	–51	32	339
Subtotal, purchase or sale of land and structures	439	2,332	579	324	432	877
Subtotal, major public physical investment	193,314	201,389	187,990	195,280	230,191	201,533
Conduct of research and development:						
National defense:						
Defense military	80,533	81,342	76,529	77,591	81,099	78,899
Atomic energy and other	3,656	3,859	4,261	3,499	3,965	4,120
Subtotal, national defense	84,189	85,201	80,790	81,090	85,064	83,019
Nondefense:						
International affairs	194	196	196	170	185	184
General science, space, and technology:						
NASA	6,540	6,689	9,407	7,962	6,694	8,724
National Science Foundation	4,963	4,916	5,877	4,772	5,890	5,466
Department of Energy	3,908	3,865	4,142	3,437	3,839	4,269
Other general science, space, and technology	706	707	751	735	443	659
Subtotal, general science, space, and technology	16,117	16,177	20,177	16,906	16,866	19,118
Energy	2,466	2,260	3,627	1,966	3,433	4,285
Transportation:						
Department of Transportation	892	874	1,000	643	842	857
NASA	409	492	301	510	492	301
Other transportation	24	25	20	25	30	20
Subtotal, transportation	1,325	1,391	1,321	1,178	1,364	1,178
Health:						
National Institutes of Health	30,047	30,049	31,041	32,122	32,162	32,810
Other health	1,011	1,057	1,037	1,015	1,112	1,230
Subtotal, health	31,058	31,106	32,078	33,137	33,274	34,040
Agriculture	1,746	1,750	1,631	1,606	1,841	1,834
Natural resources and environment	2,218	2,221	2,187	1,833	1,848	1,962

Table 21–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued

(In millions of dollars)

Description	Budget Authority			Outlays		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
National Institute of Standards and Technology	477	479	757	491	548	748
Hospital and medical care for veterans	1,162	1,162	1,018	1,042	1,138	1,042
All other research and development	900	1,383	1,077	819	968	952
Subtotal, nondefense	57,663	58,125	64,069	59,148	61,465	65,343
Subtotal, conduct of research and development	141,852	143,326	144,859	140,238	146,529	148,362
Conduct of education and training:						
Elementary, secondary, and vocational education	1,613	1,622	1,410	1,501	1,622	1,596
Higher education	12,378	4,791	26,290	19,855	323	22,397
Research and general education aids	2,323	2,317	2,354	2,207	2,271	2,279
Training and employment	2,444	2,456	2,292	2,283	2,428	2,559
Health	2,139	1,899	1,438	1,864	2,022	1,710
Veterans education, training, and rehabilitation	9,277	10,884	11,531	8,774	11,244	11,437
General science and basic research	991	1,047	1,081	916	1,177	1,122
National defense	140	....	....	107	....	....
International affairs	681	660	664	608	640	833
Other	1,053	1,112	955	1,195	1,665	1,100
Subtotal, conduct of education and training	33,039	26,788	48,015	39,310	23,392	45,033
Subtotal, direct Federal investment	368,205	371,503	380,864	374,828	400,112	394,928
Total, Federal investment	525,291	511,592	562,905	561,350	597,715	561,857

Federal investment spending creates a "stock" of capital that is available for future productive use. Each year, Federal investment outlays add to this stock of capital. At the same time, however, wear and tear and obsolescence reduce it. This section presents very rough measures over time of three different kinds of capital stocks financed by the Federal Government: public physical capital, research and development (R&D), and education.

Federal spending for physical assets adds to the Nation's capital stock of tangible assets, such as roads, buildings, and aircraft carriers. These assets deliver a flow of services over their lifetime. The capital depreciates as the asset ages, wears out, is accidentally damaged, or becomes obsolete.

Federal spending for the conduct of R&D adds to an "intangible" asset, the Nation's stock of knowledge. Spending for education adds to the stock of human capital by providing skills that help make people more productive. Although financed by the Federal Government, R&D or education can be carried out by Federal or State government laboratories, universities and other nonprofit organizations, local governments, or private industry. R&D covers a wide range of activities, from the investigation of subatomic particles to the exploration of outer space; it can be "basic" research without particular applications in mind, or it can have a highly specific practical use. Similarly, education includes a wide variety of programs, assisting people of all ages beginning with pre-school education and extending through graduate studies and adult education. Like physical assets, the capital stocks of R&D and education provide services over a number of years and depreciate as they become outdated.

For this analysis, physical and R&D capital stocks are estimated using the perpetual inventory method. Each year's Federal outlays are treated as gross investment, adding to the capital stock; depreciation reduces the capital stock. Gross investment less depreciation is net investment. The estimates of the capital stock are equal to the sum of net investment in the current and prior years. Conversely, the year-to-year change in the capital stock estimates is annual net investment. A limitation of the perpetual inventory method is that the original investment spending may not accurately measure the current value of the asset created, even after adjusting for inflation, because the value of existing capital changes over time due to changing market conditions. However, alternative methods for measuring asset value, such as direct surveys of current market worth or indirect estimation based on an expected rate of return, are especially difficult to apply to assets that do not have a private market, such as highways or weapons systems.

In contrast to physical and R&D stocks, the estimate of the education stock is based on the replacement cost method. Data on the total years of education of the U.S. population are combined with data on the current cost of education and the Federal share of education spending to yield the cost of replacing the Federal share of the Nation's stock of education.

It should be stressed that these estimates are rough approximations, and provide a basis only for making broad generalizations. Errors may arise from uncertainty about the useful lives and depreciation rates of different types of assets, incomplete data for historical outlays, and imprecision in the deflators used to express costs in constant dollars. The methods used to estimate capital stocks are discussed further in Chapter 31, "Budget and Financial Reporting," in this volume. Additional detail about these methods appeared in a methodological note in Chapter

Table 21–3. NET STOCK OF FEDERALLY FINANCED PHYSICAL CAPITAL
(In billions of 2005 dollars)

Fiscal Year	Total	National Defense	Total Nondefense	Direct Federal Capital: Total	Direct Federal Capital: Water and Power	Direct Federal Capital: Other	Capital Financed by Federal Grants: Total	Capital Financed by Federal Grants: Transportation	Capital Financed by Federal Grants: Community and Regional	Capital Financed by Federal Grants: Natural Resources	Capital Financed by Federal Grants: Other
Five year intervals:											
1960	888	622	267	98	61	37	169	102	31	24	12
1965	989	603	386	126	76	50	260	182	37	26	14
1970	1,169	645	524	150	91	59	374	265	54	30	24
1975	1,220	558	662	171	105	66	491	325	88	48	29
1980	1,362	506	856	200	126	74	656	395	139	91	31
1985	1,585	586	999	228	139	88	771	458	168	115	30
1990	1,881	740	1,142	263	150	112	879	534	182	130	33
1995	2,041	731	1,310	305	160	144	1,006	616	194	142	53
2000	2,159	650	1,509	346	164	182	1,163	714	212	151	87
Annual data:											
2005	2,466	696	1,770	409	172	236	1,361	852	229	159	121
2006	2,531	717	1,814	419	173	245	1,395	878	231	160	127
2007	2,539	723	1,816	420	174	246	1,397	876	235	160	126
2008	2,621	758	1,863	433	175	258	1,430	903	235	161	131
2009	2,639	764	1,875	443	176	267	1,432	906	234	161	132
2010	2,664	775	1,889	445	180	265	1,443	905	240	162	137
2011 est.	2,778	827	1,951	471	188	283	1,480	931	241	164	145
2012 est.	2,782	821	1,961	470	187	283	1,492	938	244	165	145

7, "Federal Investment Spending and Capital Budgeting," in the *Analytical Perspectives* volume of the 2004 Budget.

The Stock of Physical Capital

This section presents data on stocks of physical capital assets and estimates of the depreciation of these assets.

Trends. Table 21–3 shows the value of the net federally financed physical capital stock since 1960, in constant fiscal year 2005 dollars. The total stock grew at a 2.2 percent average annual rate from 1960 to 2010, with periods of faster growth during the late 1960s and the 1980s. The stock amounted to $2,664 billion in 2010 and is estimated to increase to $2,782 billion by 2012. In 2010, the national defense capital stock accounted for $775 billion, or 29 percent of the total, and nondefense stocks for $1,889 billion, or 71 percent of the total.

Real stocks of defense and nondefense capital show very different trends. Nondefense stocks have grown consistently since 1970, increasing from $524 billion in 1970 to $1,889 billion in 2010. With the investments proposed in the Budget, nondefense stocks are estimated to grow to $1,961 billion in 2012. During the 1970s, the nondefense capital stock grew at an average annual rate of 5.0 percent. In the 1980s, however, the growth rate slowed to 2.9 percent annually, with growth continuing at about that rate since then.

Real national defense stocks began in 1970 at a relatively high level, and declined steadily throughout the decade as depreciation from investment during the Vietnam War exceeded new investment in military construction and weapons procurement. Starting in the early 1980s, a large defense buildup began to increase the stock of defense capital. By 1987, the defense stock exceeded its earlier Vietnam-era peak. In the early 1990s, however, depreciation on the increased stocks and a slower pace of defense physical capital investment began to reduce the stock from its previous levels. The increased defense investment in the last few years has reversed this decline, increasing the stock from a low of $647 billion in 2001 to $821 billion in 2012.

Another trend in the Federal physical capital stocks is the shift from direct Federal assets to grant-financed assets. In 1960, 37 percent of federally financed nondefense capital was owned by the Federal Government, and 63 percent was owned by State and local governments but financed by Federal grants. Expansion in Federal grants for highways and other State and local capital, coupled with slower growth in direct Federal investment for water resources, for example, shifted the composition of the stock substantially. In 2010, 24 percent of the federally financed nondefense stock was owned by the Federal Government and 76 percent by State and local governments.

The growth in the stock of physical capital financed by grants has come in several areas. The growth in the stock for transportation is largely grants for highways, including the Interstate Highway System. The growth in community and regional development stocks occurred largely following the enactment of the Community Development Block Grant in the early 1970s. The value of this capital stock has grown only slowly in the past few years. The growth in the natural resources area occurred primarily because of construction grants for water infrastructure projects. The value of this federally financed stock has increased about 40 percent since the mid-1980s.

The Stock of Research and Development Capital

This section presents data on the stock of research and development (R&D) capital, taking into account adjustments for its depreciation.

Trends. As shown in Table 21–4, the R&D capital stock financed by Federal outlays is estimated to be $1,492 billion in 2010 in constant 2005 dollars. Roughly half is the stock of basic research knowledge; the remainder is the stock of applied research and development.

The nondefense stock accounted for about three-fifths of the total federally financed R&D stock in 2010. Although investment in defense R&D has exceeded that of nondefense R&D in nearly every year since 1981, the nondefense R&D stock is actually the larger of the two, because of the different emphasis on basic research and applied research and development. Defense R&D spending is heavily concentrated in applied research and development, which depreciates much more quickly than basic research. The stock of applied research and development is assumed to depreciate at a ten percent geometric rate, while basic research is assumed not to depreciate at all.

The defense R&D stock rose slowly during the 1970s, as gross outlays for R&D trended down in constant dollars and the stock created in the 1960s depreciated. Increased defense R&D spending from 1980 through 1990 led to a more rapid growth of the R&D stock. Subsequently, real defense R&D outlays tapered off, depreciation grew, and, as a result, the real net defense R&D stock stabilized at around $475 billion. Renewed spending for defense R&D in recent years has begun to increase the stock, and it is projected to increase to $629 billion in 2012.

The growth of the nondefense R&D stock slowed from the 1970s to the 1980s, from an annual rate of 3.8 percent in the 1970s to a rate of 2.1 percent in the 1980s. Gross investment in real terms fell during the early 1980s, and about three-fourths of new outlays went to replacing depreciated R&D. Since 1984, however, nondefense R&D outlays have been on an upward trend while depreciation has edged down. As a result, the net nondefense R&D capital stock has grown more rapidly.

The Stock of Education Capital

This section presents estimates of the stock of education capital financed by the Federal Government.

As shown in Table 21–5, the federally financed education stock is estimated at $2,038 billion in 2010 in constant 2005 dollars. The vast majority of the Nation's education stock is financed by State and local governments, and by students and their families themselves. This federally financed portion of the stock represents about 3.5 percent of the Nation's total education stock. Nearly three-quarters is for elementary and secondary education, while the remainder is for higher education.

The federally financed education stock has grown steadily in the last few decades, with an average annual growth rate of 5.2 percent from 1970 to 2010. The expansion of the education stock is projected to continue under this budget, with the stock rising to $2,128 billion in 2012.

Table 21–4. NET STOCK OF FEDERALLY FINANCED RESEARCH AND DEVELOPMENT [1]

(In billions of 2005 dollars)

Fiscal Year	National Defense			Nondefense			Total Federal		
	Total	Basic Research	Applied Research and Development	Total	Basic Research	Applied Research and Development	Total	Basic Research	Applied Research and Development
Five year intervals:									
1970	294	18	276	242	75	167	536	93	443
1975	311	23	288	296	110	186	607	133	475
1980	315	28	287	350	148	202	666	176	490
1985	362	34	328	382	196	186	744	230	514
1990	454	41	413	431	258	173	885	299	587
1995	476	48	428	519	331	188	996	379	617
2000	484	55	430	611	414	197	1,096	469	626
Annual data:									
2005	544	63	481	748	531	217	1,291	594	697
2006	561	64	497	774	554	220	1,335	618	716
2007	579	66	513	798	577	221	1,377	643	735
2008	594	67	527	823	600	223	1,417	667	750
2009	606	69	537	850	625	224	1,455	694	761
2010	614	70	544	878	651	228	1,492	721	771
2011 est.	621	72	550	910	678	232	1,531	749	782
2012 est.	629	73	556	943	706	237	1,572	779	793

[1] Excludes stock of physical capital for research and development, which is included in Table 21-3.

Table 21–5. NET STOCK OF FEDERALLY FINANCED EDUCATION CAPITAL

(In billions of 2005 dollars)

Fiscal Year	Total Education Stock	Elementary and Secondary Education	Higher Education
Five year intervals:			
1960	80	58	22
1965	115	83	31
1970	264	207	57
1975	394	318	75
1980	544	427	117
1985	651	489	162
1990	826	615	211
1995	989	722	267
2000	1,276	930	347
Annual data:			
2005	1,528	1,116	412
2006	1,620	1,167	453
2007	1,717	1,236	481
2008	1,821	1,318	504
2009	1,919	1,403	516
2010	2,038	1,496	542
2011 est.	2,088	1,538	550
2012 est.	2,128	1,558	569

22. RESEARCH AND DEVELOPMENT

The President is focused on expanding the economic recovery to spur job creation and get Americans back to work in the near term. At the same time, he is looking ahead to what will fuel economic growth and create jobs over the next several years so that we can keep the American Dream alive for future generations. In order to be globally competitive in the 21st Century, we must not only put this Nation on a sustainable fiscal path, as this Budget does, but we must also create an environment where invention, innovation, and industry can flourish. That starts with continuing investment in the basic research, science, and technology from which new products, new businesses, and even new industries are formed. Scientific discovery, technological breakthroughs, and innovation are major engines for expanding the frontiers of human knowledge and are indispensable for promoting sustainable economic growth, moving toward a clean energy future, improving the health of the population, addressing global climate change challenges, managing competing demands on the environment, and safeguarding our national security.

The President's 2012 Budget proposes $148 billion for Federal research and development (R&D), including the conduct of R&D and investments in R&D facilities and equipment. This investment reinforces the Administration's commitment to science, technology, and innovation that will help the country make progress toward increasing U.S. productivity and competitiveness, and underpin the industries and jobs of the future. In conjunction with this investment, the 2012 Budget's proposed expanded, simplified, and permanent extension of the Research and Experimentation tax credit will spur private investment in R&D by providing certainty that the credit will be available for the duration of the R&D investment.

The 2012 Budget continues to strengthen U.S. leadership in the 21st century's high-tech knowledge-based economy, including advanced manufacturing that will enable us to lead the world in clean energy, agriculture, and healthcare while protecting the environment for future generations. The Budget will help ensure that the U.S. continues its long-standing and overwhelming leadership in public and private sector R&D, and maintains the quality of our R&D institutions and entrepreneurial nature of our R&D enterprise.

As required by the America COMPETES Act of 2007, the Budget's priorities generally align with the conclusions of the report from the National Science and Technology Summit held in August 2008. The President recently signed into law the America COMPETES Reauthorization Act of 2010, reauthorizing various programs intended to strengthen research and education in the U.S. related to science, technology, engineering, and mathematics.

I. PRIORITIES FOR FEDERAL RESEARCH AND DEVELOPMENT[1]

The Budget provides support for a wide spectrum of research and development, including multidisciplinary research and promising, exploratory and high-risk, research proposals that could fundamentally improve our understanding of nature, revolutionize fields of science, and lead to radically new technologies. The Budget will fund key programs to improve our productivity and to create new technologies that can meet our Nation's needs better, cheaper, and with fewer environmental consequences.

Promoting Sustainable Economic Growth and Job Creation

The Administration recognizes the Government's role in fostering scientific and technological breakthroughs, and has committed resources to ensure America leads the world in the innovations of the future. The Budget proposes $66 billion for basic and applied research because it is a reliable source of new knowledge to drive job creation and economic growth.

The President's 2012 Budget maintains his commitment to double Federal investment in key basic research agencies: the National Science Foundation (NSF); the Department of Energy (DOE) Office of Science; and the laboratories of the Department of Commerce (DOC) National Institute of Standards and Technology (NIST). The Budget proposes $14 billion in 2012 for these three agencies, an increase of $1.5 billion over 2010 funding. Priorities for 2012 include clean energy and advanced manufacturing research in areas such as information technology, nanotechnology, and biotechnology at NSF, basic energy sciences at DOE, and cybersecurity, biomanufacturing, and innovative energy technologies at NIST.

The Federal R&D effort needs complementary R&D investments from business to provide a much wider range of technology options than the Government alone could provide and to translate scientific discoveries into commercially successful, innovative products and services. In order to provide businesses with greater confidence to invest, innovate, and grow, the Budget proposes to simplify and expand the Research and Experimentation tax credit, and make it permanent.

Moving Toward a Clean Energy Future

The Administration intends for the United States to lead the world in research, development, demonstration, and deployment of clean-energy technology to reduce dependence on oil and other energy imports and to mitigate the

[1] Numbers referenced in the text may not directly correspond to R&D numbers reflected in Table 22-1.

impact of climate change while creating high-paying, high-skilled clean energy jobs and new businesses. The Budget reflects the Administration's comprehensive strategy on clean energy, which starts with basic and applied research to address some of the fundamental unknowns to advancing clean energy technologies, such as developing advanced light-weight, ultra-strong materials, followed by research and development to create clean energy products, like solar panels, batteries and electric vehicles, wind turbines, and modular nuclear reactors, and then providing appropriate assistance, such as loan guarantees and tax incentives, to American entrepreneurs to commercialize the technologies that will lead the world in new clean energy technology.

We will dedicate $8.7 billion to clean energy research, development, demonstration and deployment government-wide to accelerate the transition to a low-carbon economy and position the United States as the world leader in clean energy technology.

Compared to 2010, the Budget more than doubles funding to $1.4 billion for energy efficiency activities including initiatives to improve the energy productivity of our industries, vehicles, and buildings. It ramps up support for renewable energy research, development, and deployment (RD&D) activities by over 70 percent, including: $457 million for solar energy; $341 million for biofuels and biomass RD&D including a new reverse auction to promote advanced biofuels, and more than doubling investment in geothermal energy to $102 million. It also includes $853 million to support nuclear energy, including research and development in areas of fuel cycle and reactor technologies, and $453 million for an R&D portfolio of carbon capture and storage technologies and advanced coal-fueled power systems that reduce the carbon emission intensity of fossil fuel-based power systems. The Budget includes funding to accelerate the deployment of new models of energy research pioneered in the last several years, including $550 million for the Advanced Research Projects Agency-Energy, a program that seeks to fund breakthrough ideas that industry by itself cannot or will not support due to high risk and where success would provide dramatic benefits to the Nation. The Budget also proposes $120 million for bioenergy research in the U.S. Department of Agriculture to develop next-generation biofuels like cellulosic and algae-based biofuels that displace oil consumption and reduce greenhouse gas emissions.

The Budget also expands the Title XVII Innovative Loan Guarantee Program, that supports commercial deployment of projects that employ innovative technologies to reduce air pollutants or man-made greenhouse gases, by adding up to $36 billion in additional loan authority for nuclear power facilities and $200 million in credit subsidy to support $1 to $2 billion in additional innovative renewable energy and efficient end use energy technology projects.

Defeating Dangerous Diseases and Achieving Better Health Outcomes

The Administration is committed to funding Federal R&D investments in biomedical and health research and supporting policies to improve health. The 2012 Budget strongly supports research that has the potential to accelerate the pace of discovery in the life sciences, especially imaging, bioinformatics, and high-throughput biology.

The 2012 Budget proposes nearly $32 billion for the National Institutes of Health (NIH) to support high-quality, innovative biomedical research both on-campus and at research institutions across the country. Through implementation of the National Center for Advancing Translational Sciences and the Cures Acceleration Network, NIH will increase its focus on bridging the translational divide between basic science and therapeutic applications. To get the most from these investments, NIH will increase its focus on reducing barriers along the path to clinical trials, which will facilitate the development of new therapeutics to treat diseases and disorders that affect millions of Americans.

The Budget also proposes $1 billion for medical research across the Department of Veterans Affairs.

Understanding Global Climate Change and Its Impacts

The U.S. Global Change Research Program (USGCRP) integrates Federal research and solutions for climate and global change. Within coordinated USGCRP interagency investments, the 2012 Budget supports an integrated and continuing National Climate Assessment of climate change science, impacts, vulnerabilities, and response strategies. The Budget also prioritizes research for measuring, reporting, and verifying greenhouse gas emissions. The 2012 Budget provides $2.7 billion for USGCRP programs.

Managing the Competing Demands on Resources Based on Sustainability and Biodiversity

The competing demands on land, fresh water, and the oceans for the production of food, fiber, biofuels, and ecosystem services requires research to inform improved management practices. The 2012 Budget provides $36 million to support the development and deployment of integrated ocean observing capabilities to support ecosystems-based management, improve the Nation's response to oil spills, and advance the priorities of the National Ocean Policy. The 2012 Budget provides $8 million to support research on integrated ecosystem management approaches.

Developing Technologies to Protect Our Troops, Citizens, and National Interests

Federal R&D investments in security assure that we have the technologies needed to protect our troops, citizens, and National interests against current and emerging threats, including technologies needed to verify arms control and nonproliferation agreements essential to our security and to the security of cyberspace.

The 2012 Budget sustains the Department of Defense's (DOD) critical role in fostering technological advances in support of U.S. military forces with $3 billion for the Defense Advanced Research Projects Agency (DARPA) for its support of longer-term breakthrough research. The Budget proposes $6.9 billion provided by the military Services, DARPA and other DOD agencies for DOD basic and applied research. The Budget maintains scientific and technological preeminence for our Armed Forces.

The Budget invests in the technological capabilities necessary to monitor nuclear nonproliferation compliance and to prevent weapons of mass destruction from entering the country. The Budget proposes $418 million for DOE's nonproliferation and verification R&D portfolio.

Responding to the call in the President's Cyberspace Policy Review for R&D in game-changing technologies, the 2012 Budget invests in cybersecurity R&D for a more trustworthy cyberspace, moving target defense strategies, and economic incentives for better security.

Science and technology are needed to combat natural and manmade threats to our Nation's food supply. The Budget provides $151.5 million in the U.S. Department of Agriculture for research associated with the safety of the U.S. food supply.

Strengthening Key Cross-cutting Areas

In order to address these priorities effectively, the Administration recognizes the need to strengthen key cross-cutting areas.

Science, technology, engineering, and mathematics (STEM) education: Students need to master science, technology, engineering, and mathematics (STEM) in order to thrive in the 21st Century economy. Steadily, we have seen other nations eclipse ours in preparing their children in these critical fields. That is why the President is committed to strengthening STEM education, from elementary school to post-graduate education to lifelong learning. The Budget invests $3.4 billion in STEM education programs throughout the Federal government. These Federal programs complement an expanding array of Federal-private partnerships in STEM education announced by the President in November 2009 in the "Educate to Innovate" campaign.

The Budget emphasizes support for researchers at the beginning of their careers to sustain and expand the Nation's scientific and technical workforce, including $198 million for NSF's Graduate Research Fellowships program to fund 2,000 new fellows in 2012.

The Budget also proposes significant investments in STEM education at the Department of Education. Through the reauthorization of the Elementary and Secondary Education Act, the Administration is seeking to create the Effective Teaching and Learning: STEM program, which would support State and local efforts to implement a comprehensive strategy for the provision of high-quality STEM instruction to students from pre-K–12. The Budget also invests $100 million in the NSF and Department of Education for preparing 100,000 effective STEM teachers over the next decade and dedicates $350 million to the Investing in Innovation program for competitive grants to school districts, nonprofits, and other organizations to test, validate, and scale up promising strategies to improve student learning, including in STEM subjects.

Aerospace capabilities: Many of today's space technologies still rely on capabilities developed decades ago. The Administration supports NASA's efforts to drive innovation through the aerospace sector by increasing funding for space technology programs that will enhance our capabilities in space, which are essential for communications, geopositioning, intelligence gathering, Earth observation, and national defense. As part of this commitment, the National Aeronautics and Space Administration (NASA) will embark on technology development and test programs aimed at increasing these capabilities and reducing the cost of NASA, other government, and U.S. commercial space activities, including through innovative fundamental research and systems-level applications to reduce fuel needs, noise, and emissions of aircraft.

Infrastructure: The Administration places a high priority on improving and protecting our information, communication, and transportation infrastructure, which is essential to our commerce, science, and security alike. As an example, the Budget invests $18 billion from expected spectrum auction proceeds to support the Wireless Innovation and Infrastructure Initiative (WI3). Through WI3, the Budget would help build a modern and interoperable broadband network for first responders, expand high-speed wireless broadband to 98 percent of the country, and create a Wireless Innovation (WIN) fund to accelerate the research and development of cutting-edge wireless technologies and applications.

II. FEDERAL R&D DATA

R&D is the collection of efforts directed toward gaining greater knowledge or understanding and applying knowledge toward the production of useful materials, devices, and methods. R&D investments can be characterized as basic research, applied research, development, R&D equipment, or R&D facilities. The Office of Management and Budget has used those or similar categories in its collection of R&D data since 1949.

Federal R&D Funding

More than 20 Federal agencies fund R&D in the United States. The nature of the R&D that these agencies fund depends on the mission of each agency and on the role of R&D in accomplishing it. Table 22–1 shows agency-by-agency spending on basic and applied research, development, and R&D equipment and facilities.

Basic research is systematic study directed toward a fuller knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications towards processes or products in mind. Basic research, however, may include activities with broad applications in mind.

Applied research is systematic study to gain knowledge or understanding necessary to determine the means by which a recognized and specific need may be met.

Development is systematic application of knowledge or understanding, directed toward the production of useful materials, devices, and systems or methods, including design, development, and improvement of prototypes and new processes to meet specific requirements.

Research and development equipment includes acquisition or design and production of movable equipment, such as spectrometers, research satellites, detectors, and other instruments. At a minimum, this category should include programs devoted to the purchase or construction of R&D equipment.

Research and development facilities include the acquisition, design, and construction of, or major repairs or alterations to, all physical facilities for use in R&D activities. Facilities include land, buildings, and fixed capital equipment, regardless of whether the facilities are to be used by the Government or by a private organization, and regardless of where title to the property may rest. This category includes such fixed facilities as reactors, wind tunnels, and particle accelerators.

III. MULTI-AGENCY R&D ACTIVITIES

Many research investments into the most promising areas for future industry and job creation are being addressed through multi-agency research activities coordinated through the National Science and Technology Council (NSTC) and other interagency forums. Most of these challenges simply cannot be addressed effectively by a single agency. Moreover, innovation often arises from combining the tools, techniques, and insights from multiple agencies. Details of three such interagency efforts – networking and information technology R&D, nanotechnology R&D, and climate change R&D – are described below.

Networking and Information Technology R&D: The multi-agency Networking and Information Technology Research and Development (NITRD) Program plans and coordinates agency research efforts in cyber security, high-end computing systems, advanced networking, software development, high-confidence systems, cloud computing and other light technologies, information management, and other information technologies.

The 2012 Budget includes a focus on research to improve our ability to derive value and scientific inferences from enormous quantities of data, and continues to emphasize foundations for assured computing and secure hardware, software and network design, and engineering to address the goal of making Internet communications more secure and reliable. Budget information for NITRD is available at *www.nitrd.gov*.

Nanotechnology R&D: The multi-agency National Nanotechnology Initiative (NNI) focuses on R&D that creates materials, devices, and systems that exploit the fundamentally distinct properties of matter as it is manipulated at the nanoscale (roughly 1 to 100 nanometers). Participating agencies have developed three signature initiatives in areas ready for advances through close and targeted program-level interagency collaboration: Nanoelectronics for 2020 and Beyond; Sustainable Manufacturing: Creating the Industries of the Future; and Nanotechnology for Solar Energy Collection and Conversion.

Guided by the NNI strategies developed by the Nanoscale Science, Engineering, and Technology Subcommittee of the NSTC, participating agencies will continue to support nanoscience and nanotechnology development through investigator-led research; multidisciplinary centers of excellence; education and training; and infrastructure and standards development, including user facilities and networks that are broadly available to support research and innovation. In addition, consistent with the *NNI Strategy for Nanotechnology-Related Environmental Health, and Safety Research*, agencies continue to maintain a focus on the responsible development of nanotechnology, with attention to the human and environmental health impacts, as well as ethical, legal, and other societal issues. Budget information for the NNI is available at *www.nano.gov.*

Climate Change R&D: The U.S. Global Change Research Program (USGCRP) integrates Federal research and solutions for climate and global change. The 2012 Budget supports scientific research and applications to support the goals set forth in the program's strategic plan. These activities can be grouped under the following areas: improve our knowledge of Earth's past and present climate variability and change; improve our understanding of natural and human forces of climate change; improve our capability to model and predict future conditions and impacts; assess the Nation's vulnerability to current and anticipated impacts of climate change; and improve the Nation's ability to respond to climate change by providing climate information and decision support tools that are useful to policy makers and the general public. Reports and general information about the USGCRP are available on the program's website, *www.globalchange.gov.*

Table 22–1. FEDERAL RESEARCH AND DEVELOPMENT SPENDING

(Budget authority, dollar amounts in millions)

	2010 Actual	CR	2012 Proposed	Dollar Change: 2012 to 2010	Percent Change: 2012 to 2010
By Agency					
Defense	80,602	81,442	76,633	–3,969	–5%
Health and Human Services	31,424	31,948	32,343	919	3%
Energy	10,836	10,783	12,989	2,153	20%
NASA	9,262	9,911	9,821	559	6%
National Science Foundation	5,445	5,374	6,320	875	16%
Agriculture	2,611	2,619	2,150	–461	–18%
Commerce	1,344	1,331	1,720	376	28%
Transportation	1,069	1,054	1,215	146	14%
Homeland Security	887	887	1,054	167	19%
Veterans Affairs	1,162	1,162	1,018	–144	–12%
Interior	776	776	727	–49	–6%
Environmental Protection Agency	590	590	579	–11	–2%
Education	353	356	480	127	36%
Smithsonian Institution	213	226	212	–1	-*
Other	565	575	650	85	15%
TOTAL	**147,139**	**149,034**	**147,911**	**772**	**1%**
Basic Research					
Defense	1,815	1,998	2,078	263	14%
Health and Human Services	16,082	16,083	16,614	532	3%
Energy	3,971	3,925	4,200	229	6%
NASA [1]	835	938	2,671	1,836	220%
National Science Foundation	4,636	4,573	5,310	674	15%
Agriculture	991	1,004	960	–31	–3%
Commerce	131	131	173	42	32%
Transportation	....	....	....	....	....
Homeland Security	141	143	150	9	6%
Veterans Affairs	464	454	392	–72	–16%
Interior	50	50	48	–2	–4%
Environmental Protection Agency	90	90	89	–1	–1%
Education	7	6	9	2	29%
Smithsonian Institution	167	168	171	4	2%
Other	17	27	30	13	76%
SUBTOTAL	**29,397**	**29,590**	**32,895**	**3,498**	**12%**
Applied Research					
Defense	4,984	4,475	4,787	–197	–4%
Health and Human Services	15,177	15,700	15,559	382	3%
Energy	3,407	3,480	4,830	1,423	42%
NASA	653	661	1,902	1,249	191%
National Science Foundation	327	343	567	240	73%
Agriculture	1,244	1,257	1,154	–90	–7%
Commerce	806	801	1,059	253	31%
Transportation	727	725	846	119	16%
Homeland Security	220	220	232	12	5%
Veterans Affairs	618	628	546	–72	–12%
Interior	642	641	610	–32	–5%
Environmental Protection Agency	412	412	404	–8	–2%
Education	211	217	233	22	10%
Smithsonian Institution	....	....	....	....	....
Other	371	383	453	82	22%
SUBTOTAL	**29,799**	**29,943**	**33,182**	**3,383**	**11%**
Development					
Defense	73,734	74,869	69,664	–4,070	–6%
Health and Human Services	20	20	20	0	0%

Table 22–1. FEDERAL RESEARCH AND DEVELOPMENT SPENDING—Continued

(Budget authority, dollar amounts in millions)

	2010 Actual	CR	2012 Proposed	Dollar Change: 2012 to 2010	Percent Change: 2012 to 2010
Energy	2,520	2,442	2,859	339	13%
NASA	5,461	5,582	5,135	–326	–6%
National Science Foundation	....	....	....	....	....
Agriculture	186	170	160	–26	–14%
Commerce	138	131	206	68	49%
Transportation	320	304	341	21	7%
Homeland Security	371	371	391	20	5%
Veterans Affairs	80	80	80	....	....
Interior	82	83	67	–15	–18%
Environmental Protection Agency	88	88	86	–2	–2%
Education	135	133	238	103	76%
Smithsonian Institution	....	....	....	....	....
Other	170	161	167	–3	–2%
SUBTOTAL	**83,305**	**84,434**	**79,414**	**–3,891**	**–5%**
Facilities and Equipment					
Defense	69	100	104	35	51%
Health and Human Services	145	145	150	5	3%
Energy	938	936	1,100	162	17%
NASA [1]	2,313	2,730	113	–2,200	–95%
National Science Foundation	482	458	443	–39	–8%
Agriculture	190	188	–124	–314	–165%
Commerce	269	268	282	13	5%
Transportation	22	25	28	6	27%
Homeland Security	155	153	281	126	81%
Veterans Affairs	....	....	....	....	....
Interior	2	2	2	....	....
Environmental Protection Agency	....	....	....	....	....
Education	....	....	....	....	....
Smithsonian Institution	46	58	41	–5	–11%
Other	7	4	....	–7	–100%
SUBTOTAL	**4,638**	**5,067**	**2,420**	**–2,218**	**–48%**

[1] NASA's multi-year construction of the International Space Station is complete so resources to operate this National Laboratory are now considered to to be for “basic research” instead of “R&D facilities.”

23. CREDIT AND INSURANCE

The Federal Government offers direct loans and loan guarantees to support a wide range of activities including home ownership, education, small business, farming, energy, infrastructure investment, and exports. Also, Government-Sponsored Enterprises (GSEs) operate under Federal charters for the purpose of enhancing credit availability for targeted sectors. Through its insurance programs, the Federal Government insures deposits at depository institutions, guarantees private defined-benefit pensions, and insures against some other risks such as flood and terrorism. Recently, in response to severe financing difficulties in private markets, GSEs have been playing more active roles in the secondary market, Federal credit programs have sought to facilitate access to credit and support a greater number of borrowers, and Government guarantees and insurance have been expanded to new areas of the economy. Some of these measures are temporary, taken only to address the economic crisis.

This chapter discusses the roles of these diverse programs:

- The first section emphasizes the roles of Federal credit and insurance programs in addressing market imperfections that may prevent the private market from efficiently providing credit and insurance.
- The second section discusses individual credit programs and the GSEs. Credit programs are broadly classified into five categories: housing, education, small business and farming, energy and infrastructure, and international lending.
- The third section reviews Federal deposit insurance, pension guarantees, disaster insurance, and insurance against terrorism and other security-related risks.

I. THE FEDERAL ROLE

Credit and insurance markets sometimes fail to function smoothly due to market imperfections. Relevant market imperfections include information failures, monitoring problems, limited ability to secure resources, insufficient competition, externalities, and financial market instability. Federal credit and insurance programs may improve economic efficiency if they effectively fill the gaps created by market imperfections. But the presence of a market imperfection does not mean that Government intervention will always be effective. To be effective, a credit or insurance program should be carefully designed to reduce inefficiencies in the targeted area while minimizing inefficiencies elsewhere.

Information Failures. When lenders have insufficient information about borrowers, they may fail to evaluate the creditworthiness of borrowers accurately. As a result, some creditworthy borrowers may fail to obtain credit at a reasonable interest rate, while some high-risk borrowers obtain credit at an attractive interest rate. The problem becomes more serious when borrowers are much better informed about their own creditworthiness than lenders (asymmetric information). With asymmetric information, raising the interest rate can disproportionately draw high-risk borrowers who care less about the interest rate (adverse selection). Thus, if adverse selection is likely for a borrower group, lenders may limit the amount of credit to the group instead of raising the interest rate or even exclude the group all together. In this situation, many creditworthy borrowers may fail to obtain credit even at a high interest rate. Ways to deal with this problem in the private sector include equity financing and pledging collateral. Federal credit programs play a crucial role for those populations that are vulnerable to this information failure and do not have effective means to deal with it. Start-up businesses lacking a credit history, for example, are vulnerable to the information failure, but most of them do not have access to equity financing or sufficient collateral. Another example is students who have little income, little credit experience, and no collateral to pledge. Without Federal credit assistance, many in these groups may be unable to pursue their goals. In addition, a moderate subsidy provided by the Government can alleviate adverse selection by attracting more low-risk borrowers, although an excessive subsidy can cause economic inefficiency by attracting many borrowers with unworthy projects.

Monitoring Needs. Monitoring is a critical part of credit and insurance businesses. Once the price (the interest rate or the insurance premium) is set, borrowers and policyholders may have incentives to engage in risky activities. Insured banks, for example, might take more risk to earn a higher return. Although private lenders and insurers can deter risk-taking through covenants, 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 prevented because they can disrupt the financial market. As for pension funds, if they were unprotected, many retirees would not receive adequate income.

Limited Ability to Secure Resources. The ability of private entities to absorb losses is more limited than that of the Federal Government, which has general taxing and borrowing authority and can therefore spread risk more widely. For some events potentially involving a very large loss concentrated in a short time period, therefore, Government insurance can be more reliable. Such events include large bank failures and some natural and man-made disasters that can threaten the solvency of private insurers. In addition, some lenders may have limited funding sources. Small local banks, for example, may have to rely largely on local deposits.

Insufficient Competition. Competition can be insufficient in some markets because of barriers to entry or economies of scale. Insufficient competition may result in unduly high prices of credit and insurance in those markets.

Externalities. Decisions at the individual level are not socially optimal when individuals do not capture the full benefit (positive externalities) or bear the full cost (negative externalities) of their activities. Education, for example, generates positive externalities because the general public benefits from the high productivity and good citizenship of a well-educated person. Homeownership and small business activity may also have significant social benefits. Pollution, in contrast, is a negative externality, from which other people suffer. Without Government intervention, people will engage less than the socially optimal level in activities that generate positive externalities and more in activities that generate negative externalities.

Financial Market Instability. Another rationale for Federal intervention is to prevent instability in the financial market. Without deposit insurance, for example, the financial market would be much less stable. When an economic shock impairs the financial structure of many banks, depositors may find it difficult to distinguish between solvent banks and insolvent ones. In this situation, a large number of bank failures might prompt depositors to withdraw deposits from all banks (bank runs). Bank runs would make bank failures contagious and harm the entire economy. Deposit insurance is critical in preventing bank runs.

Reducing Inequality and Increasing Access. In addition to correcting market failures, Federal credit programs are often used to provide subsidies that reduce inequalities or extend opportunities to disadvantaged regions or segments of the population.

II. CREDIT IN FOUR SECTORS

Housing Credit Programs and GSEs

Through housing credit programs, the Federal Government promotes homeownership and housing among various target groups, including low-income people, veterans, and rural residents. But the target market served has expanded dramatically due to the financial crisis. The primary function of housing GSEs is to increase liquidity in the mortgage market, and the Administration is releasing a framework to guide debate about the future of the GSEs and the Federal Government's role in the housing market.

Homeownership has long been recognized as an important part of the American economy and part of the American dream. However, inflated house prices and loose mortgage underwriting during the housing bubble that peaked in 2007 have transformed that dream into a nightmare for many American homeowners. As broader economic conditions have soured and home prices have declined, millions of families have been foreclosed upon, millions more find themselves owing more on their homes than their homes are worth, and entire communities have been destabilized. To make matters more difficult, private capital had all but disappeared from the market. Without the unprecedented federal support provided to the housing market over the last three years, the situation would be far more problematic. During the Great Depression, a typical mortgage required a down payment of around 50 percent and a balloon payment of principal within a few years. Limitations in financial and communication technologies and restrictions on financial institutions made it difficult for surplus funds in one part of the country to be shifted to other parts of the country to finance residential housing. Starting in 1932, the Congress responded by creating a series of entities and programs that together promoted the development of long-term, amortizing mortgages and facilitated the movement of capital to support housing finance.

A key element of this response was the creation of the Federal Housing Administration (FHA) in 1934. Another element was the establishment of several entities designed to develop secondary mortgage markets and to facilitate the movement of capital into housing finance. These entities were chartered by the Congress with public missions and endowed with certain benefits that gave them competitive advantages when compared with fully private companies.

Federal Housing Administration

The Federal Housing Administration (FHA) guarantees mortgage loans, through mortgage insurance products, 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, pioneered products such as the 30-year self-amortizing mortgage, and enhances the credit of many moderate and low-income households. It continues to have an important place in the mortgage market, but its role—and its risks—evolve.

FHA and the Mortgage Market

In the early 2000s, FHA's market presence diminished greatly as lower interest rates increased the affordability of mortgage finance and more borrowers used emerging non-prime mortgage products, including subprime and

Alt-A mortgages. Many of these products had exotic and risky features such as low "teaser rates" offered for periods as short as the first two years of the mortgage, high loan-to-value ratios (with some mortgages exceeding the value of the house), and interest-only loans requiring full payoff at a set future date. The Alt-A mortgage made credit easily available by not requiring documentation of income or assets. This competition eroded the market share of FHA's single-family purchase and re-financing loans, reducing it from 10 percent in 2000 to 2 percent in 2006.

Starting at the end of 2007 and continuing through the present day, the availability of FHA and Government National Mortgage Association (which supports the secondary market for federally-insured housing loans by guaranteeing securities backed by such mortgages) credit guarantees has been an important counter-cyclical response to the tightening of the private credit markets. With fewer conventional options, borrowers and lenders have flocked to FHA mortgages that have the advantages of being widely understood in the mortgage market, and offering ready access to the secondary markets. FHA's mortgage loan volume, excluding reverse mortgages, soared from $57 billion to $330 billion during 2009. Volume remained high in 2010, at $298 billion.

FHA's presence has supported the home purchase market and enabled existing homeowners to re-finance at today's lower rates. If not for such re-financing options, many homeowners would face higher risk of foreclosure due to the less favorable terms of their current mortgages.

FHA's reverse mortgage program – its Home Equity Conversion Mortgage program, or HECM – grew steadily throughout the decade. This program allows homeowners with a minimum age of 62 to tap their home equity to help meet their financial goals during retirement. FHA successfully pioneered this innovative product from a pilot started in 1990 to a volume of $30 billion in FY 2009. This program growth is due to a combination of factors: the sharp growth in home equity attributable to strong housing price appreciation throughout most of the program's life, the growing population of eligible elderly homeowners, and increased marketing efforts by lenders offering the product. With stagnant home values, volume moderated in 2010 to $21 billion, still high by historical standards.

While the provision of FHA insurance is serving a valuable role in addressing the needs of the present, the potential return of conventional finance to the mortgage market – with appropriate safeguards for consumers and investors including proper assessment and disclosure of risk – would broaden both the options available to borrowers and the sources of capital to fund those options. Nevertheless, FHA will continue to play an important role in the mortgage market going forward.

Policy Response to Address Weakness in the Mortgage Market

In September, 2010, FHA implemented enhancements to the existing Making Home Affordable Program (MHA) and FHA refinance program to give a greater number of responsible borrowers an opportunity to remain in their homes. These enhancements are designed to maintain homeownership by providing borrowers who owe more on their mortgage than the value of their home opportunity to refinance into an affordable FHA loan. This opportunity allows borrowers who are current on their mortgage to qualify for an FHA refinance loan provided that the lender or investor writes off the unpaid principal balance of the original first lien mortgage by at least 10 percent. A second lien write-down program is paired with these changes to encourage further write-down of second liens such that total mortgage debt (first and second liens) is no greater than 115 percent of the current value of the home. TARP funds will be made available to provide incentives to support writedowns of second liens and encourage participation by servicers and to cover a share of potential losses on these loans.

FHA's Budget Costs

Throughout the recent period of stress in the mortgage market and into the Budget's projections for 2012, FHA, like all other mortgage market participants, has faced significant financial risk and incurred large costs associated with defaults. Since 1992, the net cost of FHA Mutual Mortgage single-family insurance (comprised of nearly all FHA single-family mortgages and, beginning with 2008 originations, HECMs) has been reestimated and increased by a total of $42.5 billion excluding interest, with $13.5 billion of that reestimate occurring in the last two years. In total, however, the program's fees and other collections from its inception to the end of 2011 will have still exceeded these estimated costs by $8 billion.

One of the major benefits of an FHA-insured mortgage is that it provides an option for borrowers who make only a modest downpayment, but show that they are creditworthy and have sufficient income to afford the house they want to buy. The disadvantage to these low downpayment mortgages (roughly 80 percent of FHA-insured purchase loans are financed with less than five percent down) is that they have little in the way of an equity cushion should house prices decline. When the house price declines, income drops due to an adverse event such as job loss, or a divorce or other separation occurs, the limited equity makes mortgage defaults more likely, as the market price for a home may not be sufficient to pay off the debt.

FHA has safeguards (such as requiring documented income) to protect it from the worst credit-risk exposure, such as that experienced in the private sector subprime and Alt-A markets. All parties with credit-risk, however, have been significantly hurt by house price depreciation and the prospect of continued weakness in the near-term. FHA's exposure is more limited than many other mortgage market participants, however, due to a relatively lower number of mortgages in higher cost markets and a low volume of originations until 2008.

The FHA reverse mortgage product, HECMs, has experienced significant cost increases. This product displays unique risks—its borrowers generally make no payments until their home is sold, and its costs are particularly sensitive to long-term house price appreciation. As the average term of a HECM is longer than a forward mortgage, trends in house prices may compound, creating a proportionally larger effect on costs than for the forward program.

Combining all these factors, FHA recorded a reestimate excluding interest of $5 billion in 2010 in the expected costs of its outstanding portfolio of the Mutual Mortgage Insurance (MMI) Fund. Under the provisions of the Federal Credit Reform Act, these costs are recorded as mandatory outlays in the year the reestimates are performed and will increase the 2011 deficit. According to its annual actuarial analysis, FHA has been below the statutorily-mandated capital ratio of 2 percent since 2009. As the housing market recovers, the actuarial review projects that the ratio will again exceed 2 percent by 2015. However, it is important to note that a low capital ratio does not threaten FHA's operations, either for its existing portfolio or for new books of business. Unlike private lenders, the guarantee on FHA and other federal loans is backed by the full faith and credit of the Federal Government and is not dependent on capital reserves to honor its commitments.

Continued short-term weakness in house prices increases risks on new FHA loan guarantees endorsed in 2011 and beyond. The cost effects identified in the reestimates of the existing FHA portfolio also inform the credit subsidy estimates for new activity in both forward mortgages and HECMs.

Policy Responses to Enhance FHA's Risk Management and Capital Reserve

The 2011 Budget included several policy changes to focus FHA's credit enhancement on prudent risks and improve the financial health of the MMI Fund with premium increases. FHA is promulgating most of these through the appropriate administrative methods. Annual premium levels are a key exception. In August, the President signed into law a bill providing FHA with greater flexibility to set these levels, as proposed in the Budget. At the beginning of FY 2011, FHA increased annual premiums while reducing upfront premiums. FHA will again raise premiums in April 2011.

The changes to premium levels and underwriting criteria (described below) are the product of analyses of: 1) the ongoing broader housing market stabilization and recovery; 2) the credit risk of specific targeted populations; and 3) FHA MMI Fund capital reserves. This approach balances the goal of rebuilding FHA's capital reserves quickly against the risks of compromising FHA's mission and overcorrecting during this critical time in the housing market recovery.

In 2010, FHA implemented new loan-to-value (LTV) and credit score requirements. FHA's minimum credit score was raised to 580 for borrowers making low downpayments of less than 10 percent (loan-to-value ratios above 90 percent). Other borrowers, having the security of possessing a high amount of home equity relative to low downpayment borrowers, are eligible for FHA assistance with a credit score as low as 500. FHA also proposed reducing allowable seller concessions from 6 percent to 3 percent; this will conform to industry standards and reduce potential house over-valuation.

FHA continues to emphasize enforcement and monitoring of lenders. In January 2010, FHA started a quarterly review process to terminate the underwriting authority of direct endorsement lenders with excessive default and claim rates. As in the 2011 Budget, the Administration supports legislative changes to allow withdrawal of originating and underwriting approval authority for a lender nationwide on the basis of the actions of its regional branches.

The President's Budget also includes changes to the HECM program to minimize the risk and cost of the program. Starting in 2011, the program has higher premiums, and borrowers generally have access to slightly lower loan limits than in the past.

VA Housing Program

The Department of Veterans Affairs (VA) assists veterans, members of the Selected Reserve, and active duty personnel in purchasing homes as recognition of their service to the Nation. The housing program substitutes the Federal guarantee for the borrower's down payment, making the lending terms more favorable than loans without a VA guarantee. VA provided 134,385 zero down payment loans in 2010. The number of loans VA guaranteed remained at a high level in 2010, 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 2010 allowed 65,953 Veteran borrowers to lower the interest rate on their home mortgages. VA provided $63 billion in guarantees to assist 303,701 borrowers in 2010, compared with $68 billion and 323,812 borrowers in 2009.

VA also assists borrowers through joint servicing efforts with VA-guaranteed loan servicers via home retention options and alternatives to foreclosure. VA intervenes when needed to help veterans and service members avoid foreclosure through the acquired loan program, loan modifications, and assistance to complete a short sale or deed-in-lieu of foreclosure. These joint efforts helped resolve over 76 percent of defaulted VA-guaranteed loans in 2010.

Rural Housing Service

The Rural Housing Service (RHS) at the U.S. Department of Agriculture (USDA) offers direct and guaranteed loans to help very low- to moderate-income rural residents buy and maintain adequate, affordable housing. RHS housing loans and loan guarantees differ from other Federal housing loan programs in that they are means-tested, making them more accessible to low-income, rural residents.

The 2012 Budget reflects a re-focusing of USDA single family housing assistance programs to improve effectiveness by providing single family housing assistance primarily through loan guarantees. Within its $24 billion loan level, the Budget expects to provide at least $4 billion in loans for low income rural borrowers, which will provide 30,000 new homeownership opportunities to that income group. Overall, the program could potentially provide 170,000 new homeownership opportunities to low to moderate income rural residents in 2012.

The Budget assumes a revised fee structure for the single family housing guarantees to be more consistent with that of HUD's FHA guaranteed loan program. The up-front fee on new purchase loans will be 2 percent, but an annual fee of 0.03 percent will be added to both new and refinanced loans. The up-front fee for refinanced loan guarantees will continue to be 1 percent. The new fee structure serves to reduce the overall subsidy cost of the loans without adding significant burden to the borrowers, given that the up-front fee may be financed and repaid over a long period. The introduction of an annual fee will be a nominal amount added to the monthly payment. The Budget also includes language that will make the USDA's guaranteed home loan program a direct endorsement program, which is also consistent with VA and HUD's guaranteed home loan programs. This will make RHS more efficient and allow the single family housing staff to refocus on other unmet needs.

USDA's single family housing direct loan program is funded at $211 million in 2012. These loans will now be targeted for various initiatives within the Administration's priorities.

For USDA's multifamily housing portfolio, the Budget fully funds the programs that serve the very lowest income population. The Budget provides an increase in the multifamily housing direct loan level from $70 million to $95 million. In doing this, the Administration supports the poorest rural tenant population base. Meanwhile, the rental assistance grants, which are vital to the proper underwriting of the multifamily housing direct loan portfolio, are funded at $907 million, which is sufficient to renew the outstanding contracts.

Government-Sponsored Enterprises in the Housing Market

The Federal Home Loan Bank (FHLB) System, created in 1932, is comprised of twelve individual banks with shared liabilities. Together they lend money to financial institutions – mainly banks and thrifts – that are involved in mortgage financing to varying degrees, and they also finance some mortgages on their own balance sheets. Recent financial market conditions have led to strong net interest income for the FHLBs, but several banks have experienced significant losses on their investments in private-label mortgage-backed securities. These securities constitute less than 5 percent of their total portfolio.

The Federal National Mortgage Association, or Fannie Mae, created in 1938, and the Federal Home Loan Mortgage Corporation, or Freddie Mac, created in 1970, were established to support the stability and liquidity of a secondary market for residential mortgage loans. Fannie Mae's and Freddie Mac's public missions were later broadened to promote affordable housing.

Together these three GSEs currently are involved, in one form or another, with approximately half of the $10.6 trillion residential mortgages outstanding in the U.S. today. Their share of outstanding residential mortgage debt peaked at 55 percent in 2003. Subsequently, originations of subprime and non-traditional mortgages led to a surge of private-label Mortgage-Backed Securities (MBS), reducing the three GSEs' market share to a low of 47 percent in 2006. Recent disruptions in the financial market, however, have led to a resurgence of their market share, which has increased to 53 percent as of September 30, 2010.

The growing stress and losses in the mortgage markets over the last three years also reduced the GSEs' capital, and responsive legislation enacted in July 2008 strengthened GSE regulation and provided the Treasury Department with authorities to bolster the GSEs' financial condition. In September 2008, reacting to growing GSE losses and uncertainty that approached paralysis in the mortgage markets, the Federal Housing Finance Agency put Fannie Mae and Freddie Mac under Federal conservatorship, and Treasury began to exercise its authorities to provide assistance to stabilize the GSEs. The Budget continues to reflect the GSEs as non-budgetary entities in keeping with their temporary status in conservatorship. However, all of the current federal assistance being provided to Fannie Mae and Freddie Mac, including capital provided by Treasury through the Senior Preferred Stock Purchase Agreements, is shown on-budget, and discussed below.

The Administration is transmitting to Congress a framework for developing a new housing finance system that will minimize taxpayer exposure, promote stable and widely available mortgage credit, provide affordable housing options for low and middle-income homeowners and renters, and build upon the improvements to consumer protection and disclosures enacted in the Dodd-Frank Act. To begin the transition to the new system, the Budget assumes that the activities of Fannie Mae and Freddie Mac will be scaled back as the Administration and Congress continue to develop legislative reform proposals. To this end, the Budget proposes to allow the temporary GSE conforming loan limits of up to $729,750 to expire at the end of Fiscal Year 2011. The allowable investment portfolios of Fannie Mae and Freddie Mac will also be reduced by 10 percent each year, according to the terms of Treasury's agreements with the enterprises.

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 promote affordable housing, and provide liquidity and stability to the secondary mortgage market. 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 either buying and pooling whole mortgages or by entering into swap arrangements with mortgage originators. Over time these MBS held by the public have averaged about one-quarter of the U.S. mortgage market, and as of November 30, 2010 they totaled $3.8 trillion.

2. Mortgage Investment Business – Fannie Mae and Freddie Mac manage retained mortgage portfolios composed of their own MBS, MBS issued by others, and individual mortgages. The GSEs finance the purchase of assets held in their portfolios through debt issued in the credit markets. As of November 30, 2010, these retained mortgages, financed largely by GSE debt, totaled $1.5 trillion. As a term of their Senior Preferred Stock Purchase Agreements with Treasury, the combined investment portfolios of Fannie Mae and Freddie Mac are limited to no more than $1.6 trillion as of December 31, 2010, and this cap will decline by 10% each year.

The mission of the Federal Home Loan Bank 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.

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 and compliance monitoring of housing goals and capital requirements. FHFA is required to issue housing goals for each of the regulated enterprises, including the FHLBs, with respect to single family and multi-family mortgages and has the authority to require a corrective "housing plan" if an enterprise does not meet its goals and statutory reporting requirements, and in some instances impose civil money penalties. In August of 2009, FHFA promulgated a final rule adjusting the overall 2009 housing goals downward based on a finding that current market conditions have reduced the share of loans that qualify under the goals. HERA mandated dramatic revisions to the housing goals. The revised goals for 2010 and 2011, promulgated by FHFA on September 14, 2010, provide for a retrospective and market based analysis of the GSEs contributions toward the goals by expressing the goals as a share of the GSEs total portfolio purchase activity. The revised goals for Fannie Mae and Freddie Mac comprise four single-family goals and one multifamily special affordable goal. The expanded authorities of FHFA also include the ability to place any of the regulated enterprises into conservatorship or receivership based on a finding of under-capitalization or a number of other factors.

Conservatorship

On September 6, 2008, FHFA placed Fannie Mae and Freddie Mac into conservatorship. This action was taken in response to the GSEs' declining capital adequacy and to support the safety and soundness of the GSEs and their role in the secondary mortgage market. HERA provides that as conservator FHFA may take any action that is necessary to return Fannie Mae and Freddie Mac to a sound and solvent condition and to preserve and conserve the assets of each firm. As conservator, FHFA has assumed the powers of the Board and shareholders at Fannie Mae and Freddie Mac. FHFA has appointed new Directors and CEOs that are responsible for the day-to-day operations of the two firms. While in conservatorship, FHFA expects Fannie Mae and Freddie Mac to continue to fulfill their core statutory purposes, including their support for affordable housing discussed above.

Department of Treasury GSE Programs under HERA

On September 7, 2008, the U.S. Treasury launched three new programs to provide temporary financial support to the GSEs under the temporary authority provided in HERA. These authorities sunset on December 31, 2009.

Senior Preferred Stock Purchase Agreements with Fannie Mae and Freddie Mac

Treasury has entered into agreements with Fannie Mae and Freddie Mac to make investments in senior preferred stock in each GSE in order to ensure that each company maintains a positive net worth. In exchange for the substantial funding commitment the Treasury received $1 billion in preferred stock for each GSE and warrants to purchase up to a 79.9 percent share of common stock at a nominal price. The initial agreements were for up to $100 billion in each GSE. On February 18, 2009 Treasury announced that the funding commitments for these agreements would be increased to $200 billion each. On December 24, 2009, Treasury announced that the funding commitments in the purchase agreements would be modified to the greater of $200 billion or $200 billion plus cumulative net worth deficits experienced during 2010-2012, less any surplus remaining as of December 31, 2012. In total, as of December 31, 2010, $150.8 billion has been invested in the GSEs, and the redemption face value of Treasury's preferred stock has increased accordingly. Fannie Mae and Freddie Mac must pay quarterly dividends to Treasury based on the redemption value of Treasury's senior preferred stock; $20.2 billion in dividends have been paid as of December 31, 2010. The Budget assumes that Treasury will make cumulative investments in Fannie Mae and Freddie Mac of $224 billion from FY2009 through FY2012 and receive dividends of $55 billion over the same period. These estimates are consistent with the "baseline" case in the range of potential draws announced by FHFA in October 2010. Starting in 2013, the Budget forecasts that Fannie Mae and Freddie

Mac will have sufficient earnings to pay part but not all of the scheduled dividend payments. The Budget assumes additional net dividend receipts of $97 billion from FY2013-FY2021.

GSE MBS Purchase Programs

Treasury initiated a temporary program to purchase MBS issued by Fannie Mae and Freddie Mac, which carry the GSEs' standard guarantee against default. The purpose of the program was to promote liquidity in the mortgage market and, thereby, affordable homeownership by stabilizing the interest rate spreads between mortgage rates and Treasuries. Treasury purchased $226 billion in MBS from September 2008 to December 31, 2009, when the statutory authority for this program expired. In addition, the Federal Reserve engaged in GSE MBS purchases over this period totaling $1.1 trillion through March 31, 2010 (see discussion below).

GSE Lending Facility

Treasury promulgated the terms of a temporary secured lending 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.

State HFA Programs

In December 2009, Treasury initiated two additional purchase programs under HERA authority to support state and local Housing Financing Agencies (HFAs). Under the New Issue Bond Program (NIBP) Treasury purchased $15.3 billion in securities of Fannie Mae and Freddie Mac to be backed by new HFA housing bonds. The Temporary Credit and Liquidity Program (TCLP) provides HFAs with credit and liquidity facilities supporting up to $8.2 billion in existing HFA bonds. Treasury's statutory authority to enter new obligations for these programs expired on December 31, 2009. Historically, HFAs have funded their activities by issuing tax-exempt mortgage revenue bonds (MRBs), keeping the associated mortgage collateral produced on HFA balance sheets. The bond performance of HFAs has generally been strong. However, due to the uncertainties and strain throughout the housing sector and the widening of spreads in the tax-exempt market, HFAs have experienced challenges in issuing new bonds to fund new mortgage lending. They have also faced difficulties in renewing required liquidity facilities on non-punitive terms.

Federal Reserve Agency Mortgage-Backed Securities and Direct GSE Obligation Purchase Programs

On November 25, 2008, the Federal Reserve Board announced new programs to purchase agency MBS, including Fannie Mae, Freddie Mac, and Ginnie Mae issuances, and direct debt obligations of the GSEs (including the FHLBs). In total, the Federal Reserve purchased $1.1 trillion in GSE MBS and $172 billion in GSE debt. The purchase programs were wound down in March 2010 and are widely credited with pushing down mortgage interest rates. Mortgage rates have remained low by historical standards and according to the Freddie Mac Primary Mortgage Market Survey (PMMS) reached an all time low of 4.17 for the average 30-year fixed-rate the week ending November 11, 2010.

Recent GSE Role in Administration Initiatives to Relieve the Foreclosure Crisis

While under conservatorship, Fannie Mae and Freddie Mac have continued to play a leading role in government and market initiatives to prevent homeowners who can no longer afford to make their mortgage payments from losing their homes. In November, 2008 the mortgage industry's HOPE NOW Alliance announced the Streamlined Modification Program (SMP). The SMP established industry standards for voluntary mortgage modifications to assist distressed borrowers by reducing their monthly mortgage payments to no more than 38 percent of a borrower's gross monthly income. However, only a small number of modifications were initiated under the SMP program. The limited success of the SMP program was due in part to restrictions in securitization agreements on mortgage servicers regarding permissible modifications. These restrictions included requiring a finding of imminent default, or a demonstration that the net present value to the investor would be maximized, before a loan can be modified.

In March 2009, the Administration announced its Making Home Affordable (MHA) program, which includes the Home Affordable Modification Program (HAMP), and the Home Affordable Refinance Program (HARP).

Fannie Mae and Freddie Mac are participating in the HAMP both for their own mortgage books and as the Treasury Department's contractual financial agents. Under HAMP, lenders, servicers, and borrowers receive incentive and interest supplement payments from Treasury to reduce the monthly mortgage payment for troubled borrowers to 31 percent of their gross income, fixed for 5 years, establishing a new standard for mortgage modification affordability. Treasury is also working with the Federal Housing Administration (FHA) to incorporate HAMP incentive payments into FHA's mortgage modification program. As of November 30, 2010, over 1.4 million trial modifications have been extended to borrowers, resulting in 550,000 permanent mortgage modifications.

Fannie Mae and Freddie Mac are also integral to the HARP. Under the program, borrowers with a mortgage that is owned by Fannie Mae or Freddie Mac and with a current loan-to-value (LTV) ratio up to 125 percent may be eligible to refinance their mortgage to take advantage of the current low interest rate environment. 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. Under HARP, borrowers whose mortgages are already owned or guaranteed by Fannie Mae or Freddie Mac may be eligible to refinance their mortgage without obtaining new or additional mortgage insurance even if their current loan-to-value ratio is as high as 125 percent. (See Chapter 4 for more information).

Risks that GSEs Face

Like other financial institutions, the GSEs face a full range of risks, including market risk, credit risk, and operational risk. The housing market downturn in the last three years has significantly increased the credit risk for mortgage delinquencies and defaults faced by Fannie Mae and Freddie Mac, and they in turn generate system risk. Systemic risk is the risk that liquidity or solvency problems at a financial institution or group of institutions could lead to problems more widely in the financial system or economy—the risk that a small problem could multiply to a point where it could jeopardize the country's economic well-being. Before conservatorship, Fannie Mae and Freddie Mac posed a significant systemic risk because of their size, high leverage and the critical role of mortgage financing in the economy. However, this risk has been substantially reduced as a result of the additional risk capital provided to them through the Senior Preferred Stock Purchase Agreements with the U.S. Department of Treasury.

The GSEs borrow significant funds from various types of investors, and the health of the housing market critically affects the overall economic activity. Thus, financial trouble at one or more of the GSEs could unsettle not only the mortgage finance markets, but also other vital parts of the financial system and economy. As of November 30, 2010, the combined debt and guaranteed MBS of Fannie Mae and Freddie Mac totaled $5.3 trillion. Historically, investors in GSE debt have included thousands of banks, institutional investors such as insurance companies, pension funds, foreign governments and millions of individuals through mutual funds and 401k investments. The investor-fueled growth of the GSEs was due in large part to the funding advantages arising from a public perception of a Federal guarantee of their obligations, which yielded above-Treasury rate returns.

Education Credit Programs

Historically, the Department of Education (ED) helped finance student loans through two major programs: the Federal Family Education Loan (FFEL) program and the William D. Ford Federal Direct Student Loan (Direct Loan) program. In March 2010, President Obama signed the Student Aid and Fiscal Responsibility Act (SAFRA) into law which ended the FFEL program and used the $67 billion in savings estimated by CBO to increase Pell Grants, provide more beneficial student loan repayment terms, and create a new program supporting community colleges and job training run by the Department of Labor. On July 1, 2010, ED became the sole originator of federal student loans through the Direct Loan program, and despite the significant challenge of transitioning over 2,500 institutions in just three months, ED made all the loans on time and without disruption.

The Direct Loan program was authorized by the Student Loan Reform Act of 1993. Under the Direct Loan program, the Federal Government provides loan capital directly to over 5,500 domestic and foreign schools, which then disburse loan funds to students. Loans are available to students regardless of income. However, borrowers with low family incomes are eligible for loans with more generous terms. For those loans, the Federal Government subsidizes loan interest costs while borrowers are in school, during a six-month grace period after graduation, and during certain deferment periods.

The program offers a variety of flexible repayment plans including income-based repayment, under which annual repayment amounts vary based on the income of the borrower and payments can be made over 25 years with any residual balances forgiven. Under SAFRA, beginning on July 1, 2014, the percentage of discretionary income a borrower would pay will be reduced from 15 percent to 10 percent and the repayment timeframe for forgiveness will be changed to 20 years.

As part of the Administration's broader focus on educating a globally competitive workforce while also putting the Nation on a sustainable fiscal path, the 2012 President's Budget makes several significant proposals related to the Direct Loan program:

- *End In-School Interest Subsidies for Graduate Students* – Subsidized Stafford loans do not begin accruing interest until the loans enter repayment. This is a costly benefit, yet higher education research has noted that there is no evidence that eliminating these subsidies will affect students' enrollment decisions. The 2012 President's Budget would end these subsidies for graduate and professional students.

- *Reform and Expand the Perkins Loan Program* – This proposal, similar to the 2011 Budget proposal, would create an expanded, modernized Perkins Loan program providing $8.5 billion in new loan volume annually. Instead of being serviced by the colleges, loans would be serviced by the Department of Education along with other Federal loans.

- *Provide Students Loan Conversion Incentive* – While FFEL lenders will no longer be originating student loans, many students have a mix of FFEL and Direct Loans. The 2012 President's Budget proposes to provide those borrowers holding both Direct and FFEL loans with incentive to convert their FFEL loans into the Direct Loan program.

Small Business and Farm Credit Programs and GSEs

The Government offers direct loans and loan guarantees to small businesses and farmers, who may have difficulty obtaining credit elsewhere. It also provides guarantees of debt issued by certain investment funds that invest in small businesses. Two GSEs, the Farm Credit System and the Federal Agricultural Mortgage Corporation, increase liquidity in the agricultural lending market.

Loans to Small Businesses

The President has said small businesses can be "the engine of job growth in America," and his 2012 Budget reflects his commitment to creating a climate where innovation and entrepreneurship can thrive. The Small Business Administration (SBA) helps entrepreneurs start, sustain, and grow small businesses. As a "gap lender," SBA works to supplement market lending and provide access to credit where private lenders are reluctant to do so without a Government guarantee. SBA helps home- and business-owners, as well as renters, cover the uninsured costs of recovery from disasters through its direct loan program. Through its Small Business Investment Company (SBIC) program, SBA provides guarantees for debt invested in funds that invest in small companies and start-up operations seeking to attract private equity investments and expand their businesses in markets or geographic areas that lack a thriving venture finance industry.

The 2012 Budget requests $216 million in credit subsidy costs and $148 million in administrative funds for SBA to support more than $27 billion in financing for small businesses. The 7(a) General Business Loan program will support up to $16.5 billion in guaranteed loans that will help small businesses operate and expand. This includes an estimated $14.5 billion in term loans and $2 billion in revolving lines of credit; the latter are expected to support $48 billion in total credit assistance through draws and repayments over the life of the guarantee. The 504 Certified Development Company (CDC) program will support up to $7.5 billion in guaranteed loans for fixed-asset financing. SBA will supplement the capital of SBICs with up to $3 billion in long-term, guaranteed loans to support SBIC financing assistance for venture capital investments in small businesses. At the end of 2010, SBA's outstanding balance of direct and guaranteed loans totaled $90 billion. In addition, the Budget supports SBA's disaster direct loan program at its 10-year average volume of $1.1 billion in loans, and includes $167 million to administer the program and use of $124 million in carryover balances for loan subsidy costs.

During the past year, SBA experienced rising defaults in its outstanding portfolio, largely attributable to the economic downturn. For the 2012 Budget credit re-estimates, SBA recorded a $3.7 billion net upward cost reestimate for its guaranteed loan programs. This additional cost reflects actual and expected losses on loans issued prior to 2010. It is covered by mandatory appropriations, and increases the 2011 Budget deficit. In addition, the Administration will propose legislation to mitigate the rising cost of 7(a) and 504 guarantees by giving SBA the flexibility to adjust fees to offset losses.

Due to higher actual and projected defaults, the subsidy cost of the 7(a) program – largely the difference between the program's net default costs and the share of costs covered by fees – is projected to increase in 2012 from 2011. The Budget provides $212 million in subsidy BA for the 7(a) and 504 programs to provide loan volumes equivalent to the historical program levels, but with an accounting adjustment for revolving lines of credit, to capture their loan drawdown and repayment activity. This treatment more accurately reflects the total credit activity supported by the Federal guarantee.

The Budget also requests $4 million in subsidy BA and $10 million in technical assistance grant funds for the Microloan program. The Microloan program provides funds to non-profit intermediaries who in turn provide loans of up to $50,000 to new entrepreneurs.

In 2012, SBA will be using the SBIC debentures program to support $200 million in SBIC impact investments that are: "place-based" (located in or employing residents of economically distressed regions); "people-based" (owned or managed by women, veterans, or a member of a socially or economically disadvantaged group); or "sector-based" (sectors that have been identified as national priorities). SBA will also create within the SBIC program a new vehicle to address the capital gap many start-ups face between early-stage "angel investor" financing and later-stage venture capital financing.

To help small businesses drive economic recovery and create jobs, the Small Business Jobs Act of 2010 enhanced SBA lending programs and created two new lending-related programs to be administered by the Department of the Treasury, in addition to other forms of support, such as tax cuts for entrepreneurs and small business owners. The Act extended the temporary SBA enhanced loan provisions initiated under the Recovery Act. SBA received $505 million in subsidy for its enhanced business loan guarantee programs, supporting $14 billion in loans. The Jobs Act also permanently increased the 7(a) and 504 limits from $2 million to $5 million (for manufacturers in 504 loan program, up to $5.5 million).

One of the two new programs in the Treasury Department is the State Small Business Credit Initiative (SSBCI), designed to assist state programs that support lending to small businesses and small manufacturers. SSBCI offers States (and in certain circumstances, municipalities) the opportunity to apply for Federal funds for programs that partner with private lenders to extend greater credit to small businesses to create jobs. Under SSBCI, both new and existing programs are eligible for Federal support that allows States to build on successful models for small business programs, including collateral support programs, Capital Access Programs (CAPs), and loan guarantee programs. SSBCI requires the eligible programs to show a minimum "bang for the buck" of $10 in new private lending for every $1 in Federal funding. All SSBCI funds must be obligated within two years. All 50 States, the District of Columbia, and the five U.S. Territories are eligible to participate in the SSBCI. Congress appropriated $1.5 billion for SSBCI, including administrative expenses, which will create up to $15 billion in new lending to small businesses based on statutory matching requirements for State participants. Of the total available funding, the allocation for each eligible recipient jurisdiction was determined by a statutory formula that takes into account that jurisdiction's unemployment rate and decline in employment relative to other jurisdictions.

The second Treasury program created by the Act is the Small Business Lending Fund (SBLF), a $30 billion fund that encourages lending to small businesses by providing Tier 1 capital to qualified community banks with assets of less than $10 billion. Because banks leverage their capital, the SBLF will help increase lending to small businesses in an amount significantly greater than the total capital provided to participating banks. These new loans will enable small businesses to grow and create new jobs. In addition to expanding the lending capacity of banks, SBLF creates a strong incentive for lenders to increase small business loans by tying the cost of SBLF funding to the growth of small business loans. The initial dividend rate on SBLF funding will be, at most, 5 percent. If a bank's small business lending increases by 10 percent or more, then the rate will fall to as low as 1 percent. Banks that increase their lending by amounts less than 10 percent can benefit from rates set between 2 percent and 4 percent. For participants whose lending does not increase in the first two years, however, the rate will increase to 7 percent, and after 4.5 years, the rate on outstanding SBLF funding will increase to 9 percent.

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 2010, FSA provided loans and loan guarantees to approximately 36,000 family farmers totaling $5.3 billion. Direct and guaranteed loan programs provided assistance totaling $1.7 billion to beginning farmers during 2010. Loans for socially disadvantaged farmers totaled $510 million, of which $222 million was in the farm ownership program and $287 million in the farm operating program. The average size of farm ownership loans continues to increase, with new customers receiving the bulk of these loans. In contrast, the majority of assistance provided in the operating loan program is to existing FSA farm borrowers. Overall, demand for FSA loans – both direct and guaranteed – continues to be high. More conservative credit standards in the private sector are moving additional applicants from commercial credit to FSA direct programs. Also, the increase in market volatility and uncertainty is driving lenders to request guarantees in situations where they may not have in the past. In the 2012 Budget, FSA proposes to make $4.7 billion in direct and guaranteed loans through discretionary programs.

Lending to beginning farmers was strong during 2010. FSA loaned or guaranteed loans to over 15,000 beginning farmers. Loans provided under the Beginning Farmer Down Payment Loan Program represented over 22 percent of total direct ownership loans made during the year, maintaining the substantial increase made in 2009 over previous years. Fifty percent of direct operating loans were made to beginning farmers. Overall, lending to beginning farmers was 7 percent above the 2009 levels. Lending to minority and women farmers was a significant portion of overall assistance provided, with $509 million in loans and loan guarantees provided to more than 5,000 farmers. This represents an increase of 11 percent in the overall dollar value of loans to minority borrowers. Outreach efforts by FSA field offices to promote and inform beginning and minority farmers about available FSA funding have resulted in increased lending to these groups.

The 2012 Budget proposes to eliminate subsidized guaranteed farm operating loans, because they are costly and provide no more benefit than the less costly direct farm operating loan program. The Budget also proposes to shift funding from direct conservation loans to the less costly guaranteed conservation loans. The overall loan level for conservation loans is unchanged from the 2011 level.

FSA continues to evaluate the farm loan programs in order to improve their effectiveness. As part of this effort, FSA has undertaken an initiative to identify and develop outcome metrics for the direct and guaranteed loan programs. FSA is also developing a nationwide continuing education program for its loan officers to ensure they remain experts in agricultural lending. FSA will also be transitioning all information technology applications for direct loan servicing into a single, web-based application. In addition to moving direct loan servicing to a modern platform, the system will expand on existing capabilities to include all special servicing options, and its implementation will allow FSA to better service its delinquent and financially distressed borrowers.

The Farm Credit System and Farmer Mac

The Farm Credit System (FCS or System) is a Government-sponsored enterprise (GSE) composed of a nationwide network of borrower-owned cooperative lending institutions originally authorized by Congress in 1916. The FCS's mission continues to be providing sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives and farm-related businesses.

The financial condition of the System's banks and associations remains fundamentally sound. Between September 30, 2009, and September 30, 2010, the ratio of capital to assets increased from 13.6 percent to 15.0

percent. Capital consisted of $29.9 billion of unrestricted capital, and $3.2 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 2010, net income equaled $2.63 billion, compared with $2.02 billion for the same period of the previous year. The increase in net income primarily resulted from a decrease in provision for loan losses and an increase in net interest income. Over the 12-month period ending September 30, 2010, nonperforming loans as a percentage of total loans outstanding decreased from 2.65 percent to 2.22 percent, primarily because of an improvement in the credit quality of loans to borrowers in certain agricultural sectors. System assets grew a moderate 2.4 percent over the past 12 months as growth in the agribusiness portfolio offset declines in loans outstanding for hogs, forestry and ethanol. The number of FCS institutions continues to decrease because of consolidation. As of September 30, 2010, the System consisted of five banks and 87 associations, compared with seven banks and 104 associations in September 2002. Of the 92 FCS banks and associations, 75 had one of the top two examination ratings (1 or 2 on a 1 to 5 scale), 15 FCS institutions had a rating of 3, and 2 FCS institutions had a rating of 4.

Over the 12-month period ending September 30, 2010, the System's outstanding loans grew by $6.3 billion, or 3.9 percent, while over the past five years they grew by $65.3 billion, or 63.2 percent. As required by law, borrowers are also stockholder- owners of System banks and associations. As of September 30, 2010, the System had 486,677 stockholders. Loans to young, beginning, and small farmers and ranchers represented 11.7 percent, 19.5 percent, and 24.4 percent, respectively, of the total dollar volume of farm loans outstanding at the end of calendar year 2009. The percentage of loans made to young, beginning, and small farmers in calendar year 2009 increased slightly in the young category and decreased slightly in the beginning and small categories, compared with calendar year 2008. Young, beginning, and small farmers are not mutually exclusive groups and, thus, cannot be added across categories. Maintaining special policies and programs for the extension of credit to young, beginning, and small farmers and ranchers is a legislative mandate for the System.

The System, while continuing to record strong earnings and capital growth, remains exposed to a variety of risks associated with its portfolio concentration in agriculture and rural America. While there have been improvements in certain stressed sectors of the rural economy, notably forestry, livestock and ethanol, the weakness in the housing market will continue to stress the forestry sector. The run-up in grain prices that began in the summer of 2010, while benefiting crop producers, has reduced the profitability of livestock and ethanol production, which is expected to continue into 2011. As financial markets have recovered from the financial crisis, the System has regained its capacity to issue longer-term debt. The agricultural sector is also subject to future risks such as a farmland price decline, a rise in interest rates, volatile commodity prices, rising production costs, weather-related catastrophes, and long-term environmental risks related to climate change.

The FCSIC ensures the timely payment of principal and interest on FCS obligations for which the System banks are jointly and severally liable. On September 30, 2010, the assets in the Insurance Fund totaled $3.2 billion. As of September 30, 2010, the Insurance Fund as a percentage of adjusted insured debt was 2.11 percent. This was above the statutory secure base ratio of 2 percent. During 2010, growth in System debt has been slightly positive at 0.7 percent.

Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac was established in 1988 as a federally chartered instrumentality of the United States and an institution of the FCS to facilitate a secondary market for farm real estate and rural housing loans. Farmer Mac is not liable for any debt or obligation of the other System institutions, and no other System institutions are liable for any debt or obligation of Farmer Mac. The Farm Credit System Reform Act of 1996 expanded Farmer Mac's role from a guarantor of securities backed by loan pools to a direct purchaser of mortgages, enabling it to form pools to securitize. In May 2008, the Food, Conservation and Energy Act of 2008 (2008 Farm Bill) expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac continues to meet core capital and regulatory risk-based capital requirements. As of September 30, 2010, Farmer Mac's total outstanding program volume (loans purchased and guaranteed, AgVantage bonds purchased and guaranteed, and real estate owned) amounted to $11.5 billion, which represents an increase of 7 percent from the level a year ago. Of total program activity, $6.0 billion were on-balance sheet loans, AgVantage bonds and agricultural mortgage-backed securities, and $5.5 billion were off-balance sheet obligations. Total assets were $8.2 billion, with nonprogram investments (including cash and cash equivalents) accounting for $1.9 billion of those assets. Farmer Mac's net income for the first three quarters of calendar year 2010 was $9.6 million, a significant decrease from the same period in 2009, during which Farmer Mac reported net income of $76.8 million. Farmer Mac's earnings are often substantially influenced by unrealized fair value gains and losses. For example, earnings in 2009 were significantly aided by $56.7 million in unrealized fair value gains on trading assets and $15.5 million in unrealized fair value gains on financial derivatives (both pre-tax). In 2010, unrealized fair value gains on trading assets contributed $6.7 million in earnings, but fair value changes on financial derivatives resulted in an unrealized loss of $28.5 million (both pre-tax).

Energy and Infrastructure Credit Programs

This Administration is committed to constructing a new foundation for economic growth and job creation, and clean energy is a critical component of that. The general public, as well as individual consumers and owners, benefits from clean energy and well-developed infrastructure. Thus, the Federal Government promotes clean energy and infrastructure development through various credit programs.

Credit Programs to Promote Clean and Efficient Energy

The Department of Energy (DOE) administers two credit programs that serve to reduce emissions and enhance energy efficiency: a loan guarantee program to support innovative energy technologies and a direct loan program to support advanced automotive technologies.

The DOE's Title 17 loan guarantee program is authorized to issue loan guarantees for projects that employ innovative technologies to reduce air pollutants or man-made greenhouse gases. The program was first provided $4 billion in loan volume authority in 2007. The 2009 Consolidated Appropriations Act provided an additional $47 billion in loan volume authority, allocated as follows: $18.5 billion for nuclear power facilities, $2 billion for "front-end" nuclear enrichment activities, $6 billion for new or retrofitted coal-based power facilities equipped with carbon capture and sequestration (CCS) technologies, $2 billion for advanced coal gasification, and $18.5 billion for energy efficiency, renewable energy, and transmission and distribution projects. The 2012 President's Budget expands the program by adding $36 billion in loan authority for nuclear power facilities and $200 million in budget authority (credit subsidy) to support approximately $1 to $2 billion in additional renewable energy and efficient end use energy technology projects.

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 in credit subsidy which the program has begun to deploy. Early solicitations for the guarantee program attracted many projects requesting loan guarantees for 100 percent of DOE-supported project debt. Consistent with Federal credit policies, loans with 100 percent guarantees in this program are made through the Federal Financing Bank, and therefore do not involve private sector lenders. The program's "Financial Institutions Partnership Program" solicitation, however, invited private sector lenders to participate whereby DOE would provide guarantees for up to 80 percent of loan amounts financed by private sector financial institutions. This structure utilizes private sector expertise, expedites the lending/underwriting process, and leverages the program's funds by sharing project risks with the private sector, while increasing private sector experience with financing energy technologies. The program also added a new solicitation in 2010 specifically targeting projects in the United States that manufacture renewable energy systems or related components.

The DOE's direct loan program, the Advanced Technology Vehicle Manufacturing (ATVM) Direct Loan program, was created to support the development of advanced technology vehicles and associated components in the United States that would improve vehicle energy efficiency by at least 25 percent relative to a 2005 Corporate Average Fuel Economy standards baseline. The 2009 Continuing Resolution 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 2012 Budget proposes a new program at the Department of Energy to provide loan guarantees for commercial retrofits at Universities, Hospitals, and Schools. SBA will also be encouraging use of its 504 Certified Development Company loan guarantee program to support energy-efficiency retrofit investments in commercial buildings.

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. No funds are provided to support generation using fossil fuels. The Budget also provides $690 million in direct telecommunications loans, $18 million in broadband grants, and $30 million in DLT grants.

USDA Rural Infrastructure and Business Development Programs

USDA provides grants, loans, and loan guarantees to communities for constructing facilities such as healthcare clinics, police stations, and water systems. Direct loans are available at lower interest rates for the poorest communities. These programs have very low default rates. The cost associated with them is due primarily to subsidized interest rates that are below the prevailing Treasury rates.

The program level for the Water and Wastewater (W&W) treatment facility loan and grant program in the 2012 President's Budget is $1.2 billion. These funds are available to communities of 10,000 or fewer residents. The Community Facility Program is targeted to rural communities with fewer than 20,000 residents. It will have a program level of $ 1 billion in direct loans for 2012, and $38 million in grants.

USDA also provides grants, direct loans, and loan guarantees to assist rural businesses, cooperatives, nonprofits, and farmers in creating new community infrastructure (i.e. educational networks or healthcare coops) and to diversify the rural economy and employment opportunities. In 2012, USDA proposes to provide $859 million in loan guarantees and direct loans to entities that serve communities of 50,000 or less through the Business and Industry guaranteed loan program and Intermediary Relending program. These loans are structured to save or create jobs and stabilize fluctuating rural economies.

The Rural Business Service is responsible for five rural renewable energy and small business programs. The Budget includes $241 million in discretionary and mandatory funds to support over $370 million in loans and grants for the following programs: the Rural Microentrepreneur Assistance Program, the Value-Added Agricultural Market Development Grant Program, the Biorefinery Assistance Program, the Rural Energy for America Program, and the Bioenergy Program for Advanced Biofuels. These programs are targeted to promote energy efficiencies, renewable energy, and small business development in rural communities.

Transportation Infrastructure

Federal credit programs, offered through the Department of Transportation (DOT), fund critical transportation infrastructure projects, often using innovative financing methods. The two predominant programs are the program authorized by the Transportation Infrastructure Finance and Innovation Act (TIFIA), and the Railroad Rehabilitation and Improvement Financing (RRIF) program.

Established by the Transportation Equity Act of the 21st century (TEA-21), 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 freight projects including seaports. The 22 projects that have received TIFIA credit assistance represent approximately $29.4 billion of infrastructure investment in the United States. Government commitments in these partnerships constitute nearly $7.9 billion in Federal assistance with a budgetary cost of approximately $596 million.

The TIFIA program also facilitates the financing of many projects by attracting investment from domestic and overseas markets. Private for-profit entities provide substantial new sources of investment capital for transportation infrastructure and have indicated strong interest in leveraging their investment by participating in TIFIA projects. The Federal assistance mitigates unusual risks and market imperfections that might discourage private investment in infrastructure projects. A growing number of surface transportation investments are likely to be financed by repayment streams. Forecasting repayment streams, however, is difficult because cash flows from most infrastructure projects are delayed and uncertain.

DOT has provided direct loans and loan guarantees to railroads since 1976 for facilities maintenance, rehabilitation, acquisitions, and refinancing. Federal assistance was created to provide financial assistance to the financially-challenged portions of the rail industry. However, following railroad deregulation in 1980, the industry's financial condition began to improve, larger railroads were able to access private credit markets, and interest in Federal credit support began to decrease.

Also established by TEA-21, the RRIF program provides loans with an interest rate equal to the Treasury rate for similar-term securities. TEA-21 also provided that non-Federal sources pay the subsidy cost of the loan, thereby allowing the program to operate without Federal subsidy appropriations. The RRIF program assists projects that improve rail safety, enhance the environment, promote economic development, or enhance the capacity of the national rail network. While refinancing existing debt is an eligible use of RRIF proceeds, capital investment projects that would not occur without a RRIF loan are prioritized.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) increased the amount of total RRIF assistance available from $3.5 billion to $35 billion, and the Rail Safety Improvement Act (RSIA) extended the maximum loan term from 25 to 35 years. Since enactment of TEA-21, nearly $800 million in direct loans have been made under the RRIF program. Due to the recent disruptions in the credit markets caused by the financial crisis, the RRIF program has seen renewed interest from the railroad industry as a means of project financing. This interest is not only from traditional short-line railroads, but also from commuter rail operators.

International Credit Programs

Seven Federal agencies -- the Department of Agriculture (USDA), the Department of Defense, the Department of State, the Department of the Treasury, the Agency for International Development (USAID), the Export-Import Bank, and the Overseas Private Investment Corporation (OPIC) -- provide direct loans, loan guarantees, and insurance to a variety of foreign private and sovereign borrowers. These programs are intended to level the playing field for U.S. exporters, deliver robust support for U.S. manufactured goods, stabilize international financial markets, and promote sustainable development.

Leveling the Playing Field

Federal export credit programs counter subsidies that foreign governments, largely in Europe and Japan, provide their exporters, usually through export credit agencies (ECAs). The U.S. Government has worked since the 1970's to constrain official credit support through a multilateral agreement in the Organization for Economic Cooperation and Development (OECD). This agreement has significantly constrained direct interest rate subsidies and tied-aid grants. Further negotiations resulted in a multilateral agreement that standardized the fees for sovereign lending across all ECAs beginning in April 1999. Fees for non-sovereign lending, however, continue to vary widely across ECAs and markets, thereby providing implicit subsidies.

The Export-Import Bank attempts to "level the playing field" strategically and to fill gaps in the availability of private export credit. The Export-Import Bank provides export credits, in the form of direct loans or loan guarantees, to U.S. exporters who meet basic eligibility criteria and who request the Bank's assistance. USDA's Export Credit Guarantee Programs (also known as GSM programs) similarly help to level the playing field. Like programs of other agricultural exporting nations, GSM programs guarantee payment from countries and entities that want to import U.S. agricultural products but cannot easily obtain credit.

Stabilizing International Financial Markets

Consistent with U.S. obligations in the International Monetary Fund regarding global financial stability, the Exchange Stabilization Fund managed by the Department of the Treasury may provide loans or credits to a foreign entity or government of a foreign country. A loan or credit may not be made for more than six months in any 12-month period unless the President gives the Congress a written statement that unique or emergency circumstances require that the loan or credit be for more than six months.

Using Credit to Promote Sustainable Development

Credit is an important tool in U.S. bilateral assistance to promote sustainable development. USAID's Development Credit Authority (DCA) allows USAID to use a variety of credit tools to support its development activities abroad. DCA provides non-sovereign loan guarantees in targeted cases where credit serves more effectively than traditional grant mechanisms to achieve sustainable development. DCA is intended to mobilize host country private capital to finance sustainable development in line with USAID's strategic objectives. Through the use of partial loan guarantees and risk sharing with the private sector, DCA stimulates private-sector lending for financially viable development projects, thereby leveraging host-country capital and strengthening sub-national capital markets in the developing world.

OPIC also supports a mix of development, employment, and export goals by promoting U.S. direct investment in developing countries. OPIC pursues these goals through political risk insurance, direct loans, and guarantee products, which provide finance, as well as associated skills and technology transfers. These programs are intended to create more efficient financial markets, eventually encouraging the private sector to supplant OPIC finance in developing countries. OPIC has also created a number of investment funds that provide equity to local companies with strong development potential.

Ongoing Coordination

International credit programs are coordinated through two groups to ensure consistency in policy design and credit implementation. The Trade Promotion Coordinating Committee (TPCC) works within the Administration to develop a National Export Strategy to make the delivery of trade promotion support more effective and convenient for U.S. exporters.

The Interagency Country Risk Assessment System (ICRAS) standardizes the way in which most agencies that lack sufficient historical experience budget for the cost associated with the risk of international lending. The cost of lending by these agencies is governed by proprietary U.S. Government ratings, which correspond to a set of default estimates over a given maturity. The methodology establishes assumptions about default risks in international lending using averages of international sovereign bond market data. The strength of this method is its link to the market and an annual update that adjusts the default estimates to reflect the most recent risks observed in the market.

Promoting Economic Growth and Poverty Reduction through Debt Sustainability

The Enhanced Heavily Indebted Poor Countries (HIPC) Initiative reduces the debt of some of the poorest countries with unsustainable debt burdens that are committed to economic reform and poverty reduction.

III. INSURANCE PROGRAMS

Deposit Insurance

Federal deposit insurance promotes stability in the U.S. financial system. Prior to the establishment of Federal deposit insurance, depository institution failures often caused depositors to lose confidence in the banking system and rush to withdraw deposits. Such sudden withdrawals caused serious disruption to the economy. In 1933, in the midst of the Great Depression, a system of Federal deposit insurance was established to protect depositors and to prevent bank failures from causing widespread disruption in financial markets.

Today, the Federal Deposit Insurance Corporation (FDIC) insures deposits in banks and savings associations (thrifts) using the resources available in its Deposit Insurance Fund (DIF). The National Credit Union Administration (NCUA) insures deposits (shares) in most credit unions (certain credit unions are privately insured) using the resources available in the National Credit Union Share Insurance Fund (NCUSIF). As of September 30, 2010, the FDIC insured $7.7 trillion of deposits at 7,760 commercial banks and thrifts, and the NCUA insured $908 billion of shares at 7,402 credit unions.

The NCUA also administers the Central Liquidity Facility (CLF), which serves as a back-up lender for credit unions when market sources of liquidity are unavailable. By statute, the CLF is authorized to borrow up to 12 times its subscribed capital stock and surplus. As of 2010, this statue would allow the CLF to borrow up to approximately $47 billion. However, Congress traditionally sets the CLF borrowing limit on an annual basis through the appropriation process; historically, Congress has set the CLF borrowing limit at $1.5 billion. In order to give the CLF the flexibility to respond to the liquidity needs of credit unions at the height of the economic crises, the 2009 Omnibus Appropriations Act and the Consolidated Appropriations Act of 2010 did not include the $1.5 billion appropriations limit on the CLF, effectively allowing the CLF to borrow up to its statutory limit. The CLF borrowed $5 million in FY 2010, compared to $19.5 billion in FY 2009. The significant decrease in CLF borrowing is directly related to the expiration of two CLF lending programs, Credit Unions Homeowners Affordability Relief Program (HARP) and the System Investment Program (SIP), and the creation of the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) in 2009 that provided $6 billion in borrowing authority as a resource to support NCUA's actions with the corporate credit union system. In FY 2010, TCCUSF borrowed $810 million to support liquidity within the corporate credit union system; all outstanding loans were repaid by the end of fiscal year 2010.

Since its creation, the deposit insurance system has undergone a series of reforms. The Dodd-Frank Wall Street Reform and Consumer Protection (Dodd-Frank) Act, enacted July 21, 2010, allows the FDIC to more effectively and efficiently manage the DIF. The Act authorized the FDIC to set the minimum DIF reserve ratio (ratio of the deposit insurance fund to total insured deposits) to 1.35 percent, up from 1.15 percent. In addition to raising the minimum reserve ratio, the Dodd-Frank Act also:

- Eliminated the FDIC's requirement to rebate premiums when the reserve ratio is between 1.35 and 1.5 percent;
- Gave the FDIC discretion to suspend or limit rebates when the DIF reserve ratio is at least 1.5 percent, effectively removing the 1.5 percent cap on the DIF; and
- Required the FDIC to offset the effect on small insured depository institutions (defined as banks with assets less than $10 billion) when setting assessments to raise the reserve ratio from 1.15 to 1.35 percent.

In order to implement the Dodd-Frank Act, the FDIC has issued a final rule setting a long-term (greater than 10 years) reserve ratio target of 2 percent, with the goal of maintaining a positive fund balance during economic crises and maintaining a moderate, steady long-term assessment rate that provides transparency and predictability to the banking sector. This rule, coupled with other provisions of theDodd-Frank Act, will significantly improve the FDIC's capacity to resolve bank failures and maintain market stability during economic downturns.

The Dodd-Frank Act also permanently increased the insured deposit level to $250,000 per account at banks or credit unions insured by the FDIC or NCUA.

Emergency Programs

Responding to the stress among financial institutions, the FDIC and the NCUA have committed resources to increase access to credit, strengthen financial institutions, and restore confidence in the housing sector. These programs include:

FDIC:

- A 3-year guarantee, expiring on December 31, 2012, of qualifying bank and bank holding company senior unsecured debt issued prior to October 31, 2009
- Unlimited insurance coverage for non-interest bearing transaction account deposits, such as payroll accounts used by businesses, through December 31, 2012, as authorized by the Dodd-Frank Act.

NCUA:

- Corporate credit union stabilization programs, including lending programs designed to increase liquidity at corporate credit unions

See Chapter 4 for additional programmatic detail.

Money Market Guarantee Program: In September 2008, Treasury opened a temporary money market mutual fund guarantee program, which guaranteed the share price of any publicly offered eligible money market mutual fund – both retail and institutional – that paid a fee to participate in the program. The program expired on September 18, 2009. Treasury had no losses under the program and earned approximately $1.2 billion in participation fees. (See Chapter 4 for additional information on this program.)

Recent Performance of the Federal Deposit Insurance Funds

As of September 30, 2010, the number of insured institutions on the FDIC's "problem list" (institutions with the highest risk ratings) rose to 860 institutions. This is approximately a 20 percent increase from the number of "problem institutions" listed in December, 2009, and represents the highest number of institutions since March 31, 1993. However, the aggregate assets of "problem institutions" have fallen from a high of $403 billion on December 31, 2009 to $379 billion, indicating that the "problem list" includes a greater proportion of smaller banks. As of September 30, 2010, the DIF fund balance stood at -$8.0 billion on an accrual basis measuring expected losses to current balances, equivalent to a reserve ratio of -0.15 percent, or $81.2 billion below the level that would meet the target reserve ratio of 1.35 percent.

The National Credit Union Share Insurance Fund (SIF), the Federal fund for credit unions that is analogous to the DIF for banks and thrifts, ended September 2010 with assets of $20.1 billion (including $10.0 billion in loans receivable from corporate credit unions) and an equity ratio of 1.18 percent, which is below the NCUA-set target ratio of 1.30. NCUA expects to fully restore the fund to its 1.30 target in FY 2011.

Ongoing market volatility has resulted in a continued increase in observed losses in the credit union industry. The number of "problem institutions" reported by the NCUA has steadily risen since 2008, and as of September 2010 the SIF has set aside more than $1.2 billion in reserves to cover potential insurance losses, significantly more than the $520 million set-aside as of September 2009. For the fiscal years ending on September 2010 and 2009, the SIF has incurred GAAP-based losses of $910 million and $510 million, respectively.

Restoration Plans

Pursuant to the Dodd-Frank Act, the restoration period for the DIF reserve ratio to reach 1.35 percent was extended to 2020 (prior to the Act, the DIF reserve ratio was required to reach the minimum target of 1.15 percent by 2017). The Budget projects that the DIF reserve ratio will be positive in 2015 and reach the statutorily required 1.35 percent level by 2020. Although the DIF's fund balance is currently negative, the FDIC has ample operating cash to fund future bank resolutions. In late 2009, the FDIC Board of Directors adopted a final rule requiring insured institutions to prepay quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. The FDIC collected approximately $45 billion in prepaid assessments. Unlike a special assessment, the prepaid assessments will not immediately affect bank earnings. Banks will book a prepayment asset on their balance sheets, and then a payment liability at the end of each quarter for that quarter's estimated prepayment. The FDIC also has authority to borrow up to $100 billion from Treasury to maintain sufficient DIF balances. However, the Budget does not anticipate FDIC utilizing their borrowing authority, as the DIF is projected to maintain positive operating cash flow over the 10-year Budget horizon.

In 2010, the NCUA Board approved the assessment of $1.9 billion, in addition to the $457 million assessed in FY 2009, on federally insured credit unions in order to maintain the target equity ratio of 1.3 percent. Although NCUA ended the fiscal year with an equity ratio of 1.18 percent, $929 million was collected in the first month of fiscal 2011, increasing the equity ratio to 1.29 percent. The Budget reflects NCUA maintaining an equity ratio of 1.3 percent over the next ten years, pursuant to the set target.

Budget Outlook

The Budget estimates DIF net outlays of -$140.9 billion (i.e. collections) over the 10-year Budget window, which represents a decrease of $23.7 billion (i.e. increase in collections) relative to the 2011 Mid-Session Review (MSR). The deficit impact of the DIF over 10-year Budget horizon is consistent with the $20.1 billion in deficit savings identified in the DIF PAYGO estimate of the Dodd-Frank Act. A significant reduction in projected bank failures and the higher DIF minimum reserve ratio are the major factors driving the decrease in net outlays. The Budget's estimates for bank failures, in terms of assets, decreased by nearly 25 percent compared to the MSR estimates. This steep reduction is largely the result of appreciating market values of bank stocks, which are indicative of improved future earnings potential. The outlook on the banking industry has improved thanks to several factors: The economy is rebounding; banks' capacity to sustain losses is increasing as they are holding more capital in anticipation of higher BASEL III capital and liquidity requirements; and expected future losses are decreasing as the banks' employ more stringent credit policies. The Budget also projects a significant increase in insured deposit premiums, which is a direct result of the Dodd-Frank Act increasing the minimum DIF ratio from 1.15 percent to 1.35 percent.

Pension Guarantees

The Pension Benefit Guaranty Corporation (PBGC) insures the pension benefits of workers and retirees in covered defined-benefit pension plans. PBGC pays benefits, up to a guaranteed level, when a company's plan closes without enough assets to pay future benefits. PBGC's claims exposure is the amount by which qualified benefits exceed assets in insured plans. In the near term, the risk of loss stems from financially distressed firms with underfunded plans. In the longer term, loss exposure results from the possibility that healthy firms become distressed and well-funded plans become underfunded due to inadequate contributions, poor investment results, or increased liabilities.

PBGC monitors companies with underfunded plans and acts to protect the interests of the pension insurance program's stakeholders where possible. Under its Early Warning Program, PBGC works with companies to 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 or apply traditional insurance underwriting methods to these risks. Unlike private insurers, PBGC cannot deny insurance coverage or adjust premiums according to risk. PBGC's premiums are set in statute.

Claims against PBGC's insurance programs are highly variable. A single large pension plan termination may result in a larger claim against the Corporation than the termination of many smaller plans. Future results will continue to depend largely on the infrequent and unpredictable termination of a limited number of very large plans.

As a result of a flawed pension funding system and exposure to losses from financially troubled plan sponsors, PBGC's single-employer program incurred substantial losses from underfunded plan terminations in 2001 through 2006. The table below shows the ten largest plan termination losses in PBGC's history. Nine of the ten have come since 2001.

As of September 30, 2010, the single-employer and multiemployer programs reported deficits of $21.6 billion and $1.4 billion, respectively. Notwithstanding these deficits, the Corporation has $79 billion in assets and will be able to meet its obligations for a number of years. However, neither program has the resources to fully satisfy PBGC's obligations in the long run. PBGC estimates its long-term loss exposure to reasonably possible terminations (e.g., underfunded plans sponsored by companies with credit ratings below investment grade) at approximately $190 billion on September 30, 2010, with a significant increase in exposure in its multi-employer insurance program due to the addition of two large plans. For FY 2010, exposure was concentrated in the following sectors: manufacturing (primarily automobile/auto parts, and primary and fabricated metals), transportation (primarily airlines), services, and wholesale and retail trade.

The 2012 Budget proposes to give the PBGC Board the authority to adjust premiums and directs PBGC to account for the risk that different sponsors pose to retirees and to PBGC. This will both encourage companies to fully fund their pension benefits and ensure the continued financial soundness of PBGC. In order to ensure that these reforms are undertaken responsibly during challenging economic times, the Budget would require two years of study and public comments before any implementation and gradual phasing-in of any increases.

Disaster Insurance

Flood Insurance

The Federal Government provides flood insurance through the National Flood Insurance Program (NFIP), which is administered by the Federal Emergency Management Agency of the Department of Homeland Security (DHS). Flood insurance is available to homeowners and businesses in communities that have adopted and enforce appropriate flood plain management measures. Coverage is limited to buildings and their contents. By the end of 2010, the program had over 5.6 million policies in more than 20,200 communities with over $1 trillion of insurance in force.

Prior to the creation of the program in 1968, many factors made it cost prohibitive for private insurance companies alone to make affordable flood insurance available. In response, the NFIP was established to make affordable insurance coverage widely available. The NFIP requires building standards and other mitigation efforts to reduce losses, and operates a flood hazard mapping program to quantify geographic variation in the risk of flooding. These efforts have made substantial progress. However, structures built prior to flood mapping and NFIP floodplain management requirements, which make up 26 percent of the total policies in force, pay less than fully actuarial rates.

Table 23–1. TOP 10 FIRMS PRESENTING CLAIMS (1975-2010)

Single-Employer Program

	Firm	Fiscal Year(s) of Plan Termination(s)	Claims (by firm)	Percent of Total Claims (1975-2010)
1	United Airlines	2005	$7,441,450,992	17.30%
2	Delphi	2009	6,108,491,551	14.20%
3	Bethlehem Steel	2003	3,654,380,116	8.50%
4	US Airways	2003, 2005	2,751,534,173	6.40%
5	LTV Steel*	2002, 2003, 2004	2,134,985,884	5.00%
6	Delta Air Lines	2006	1,641,083,525	3.80%
7	National Steel	2003	1,275,628,286	3.00%
8	Pan American Air	1991, 1992	841,082,434	2.00%
9	Trans World Airlines	2001	668,377,106	1.60%
10	Weirton Steel	2004	640,480,970	1.50%
	Top 10 Total		$27,157,495,038	63.30%
	All Other Total		15,760,580,981	36.70%
	Total		$42,918,076,019	100.00%

Sources: PBGC Fiscal Year Closing File (9/30/10), PBGC Case Management System, and PBGC Participant System (PRISM).

Due to rounding of individual items, numbers and percentages may not add up to totals.

Data in this table have been calculated on a firm basis and, except as noted, include all trusteed plans of each firm.

Values and distributions are subject to change as PBGC completes its reviews and establishes termination dates.

* Does not include 1986 termination of a Republic Steel plan sponsored by LTV.

A major DHS goal is to have property owners be compensated for flood losses through flood insurance, rather than through taxpayer-funded disaster assistance. The 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. Provide financial incentives, to the private insurers that sell and service flood policies for the Federal Government, to expand the flood insurance business.

2. Conduct 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. Foster lender compliance with flood insurance requirements through training, guidance materials, regular communication with lending regulators and the lending community.

4. Conduct NFIP training for insurance agents via instructor-led seminars, online training modules, and other vehicles.

5. Seek opportunities to simplify NFIP processes to make it easier for agents to sell and consumers to buy.

While these strategies have resulted in steady policy growth over recent years, the growth slowed somewhat in 2009 due to the severe downturn in the economy.

DHS also has a multi-pronged strategy for reducing future flood damage. The NFIP offers flood mitigation assistance grants to assist flood victims to rebuild to current building codes, including base flood elevations, thereby reducing future flood damage costs. In addition, two grant programs targeted toward repetitive and severe repetitive loss properties not only help owners of high-risk property, but also reduce the disproportionate drain on the National Flood Insurance Fund these properties cause through acquisition, relocation, or elevation. DHS is working to ensure that all of the flood mitigation grant programs are closely integrated, resulting in better coordination and communication with State and local governments. Further, through the Community Rating System, DHS adjusts premium rates to encourage community and State mitigation activities beyond those required by the NFIP. These efforts, in addition to the minimum NFIP requirements for floodplain management, save over $1 billion annually in avoided flood damages.

Due to the catastrophic nature of flooding, specifically Hurricane Katrina, insured flood damages far exceeded premium revenue in some years, depleting the program's reserve account, which is a cash fund. On those occasions, the NFIP had to borrow funds from the Treasury in order to meet claim obligations. While funds borrowed during the 1970's were repaid by appropriations in the early 1980's, from 1986 until 2005, the program was able to repay all borrowed funds with interest from premium dollars. However, Hurricanes Katrina, Rita, and Wilma generated more flood insurance claims than the cumulative number of claims from 1968 to 2004. These three storms resulted in over 234,000 claims with total claims payments expected to be approximately $20 billion. As a result, the Administration and the Congress have increased the borrowing authority to $20.8 billion to date in order to make certain that all claims could be paid. The debt is currently $18.5 billion.

The catastrophic nature of the 2005 hurricane season has also triggered an examination of the program, and the Administration is working with the Congress to improve the program. FEMA is engaged in a multi-stage process designed to involve stakeholders and consider a range of policy options to reform the NFIP. FEMA believes this important process will ensure that the program efficiently and effectively meets the needs of the public. FEMA established guiding principles for the reform to provide the foundation for any proposed policy solution. These principles are: protect lives, property, and environmental and cultural assets; motivate people to voluntarily participate in reducing society's risk; make the best use of public resources; ensure selection of an adoptable and sustainable policy; consider notions of equity with regard to risk and socioeconomic status; and recognize and consider the governance and responsibility of states, communities and tribes as a means to achieve sustainability and resiliency.

Crop Insurance

Subsidized Federal crop insurance administered by USDA's Risk Management Agency (RMA) assists farmers in managing yield and revenue shortfalls due to bad weather or other natural disasters. The program is a cooperative effort between the Federal Government and the private insurance industry. Private insurance companies sell and service crop insurance policies. These companies rely on reinsurance provided by the Federal Government and also by the commercial reinsurance market to manage their individual risk portfolio. The Federal Government reimburses private companies for a portion of the administrative expenses associated with providing crop insurance and reinsures the private companies for excess insurance losses on all policies. The Federal Government also subsidizes premiums for farmers.

Standard Reinsurance Agreement (SRA) negotiations were formally completed on July 12, 2010, with the signing of the 2011 SRA by all insurance providers that had been approved for the 2010 reinsurance year. During the negotiations, RMA worked with recommendations from the insurance industry, analyzed various reports prepared by Office of General Counsel (OGC) and Office of Inspector General (OIG), and briefed the Congress. SRA negotiations were an iterative process of preparing draft documents, holding explanatory meetings, establishing comment periods, analyzing proposed revisions, and revising documents. The resulting SRA is projected by USDA to save the government $6 billion over the next 10 years. The Administration applied $4 billion of the savings for deficit reduction and allocated the remaining

$2 billion to expand and improve select conservation and crop insurance programs.

In an effort to continue to find efficiencies in this program, the 2012 Budget assumes a legislative proposal to make the amount charged for the catastrophic (CAT) coverage on crop insurance policies more accurate. The proposal is expected to save $1.78 billion over 10 years, while reducing the CAT premium in most instances.

The most basic type of crop insurance is catastrophic coverage (CAT), which compensates the farmer for losses in excess of 50 percent of the individual's average yield at 55 percent of the expected market price. The CAT premium is entirely subsidized, and farmers pay only an administrative fee. Higher levels of coverage, called "buy-up", are also available. A premium is charged for buy-up coverage. The premium is determined by the level of coverage selected and varies from crop to crop and county to county. For the 10 principal crops, which accounted for about 81 percent of total liability in 2010, the most recent data show that about 83 percent of eligible acres participated in the crop insurance program.

RMA offers both yield and revenue-based insurance products. Revenue insurance programs protect against loss of revenue stemming from low prices, poor yields, or a combination of both. These programs extend traditional multi-peril or yield crop insurance by adding price variability to production history.

RMA is continuously trying to develop new products or expand existing products in order to cover more types of crops. Currently, RMA has received 6 section 522(b) Concept Proposal submissions, which are in various stages of review. The Federal Crop Insurance Act and Federal Crop Insurance Corporation (FCIC) corresponding procedures allow for an advance payment of up to 50 percent of reasonable research and development costs prior to submission and approval of a policy by the Board under section 508(h). Nineteen proposals have been submitted to the FCIC Board of Directors as of November 2010. Pasture, Rangeland, and Forage Pilot Programs are based on vegetation greenness and rainfall indices to meet the needs of livestock producers who purchase insurance protection for losses of forage produced for grazing or harvested for hay. In 2010, there were 12,167 vegetation and rainfall policies sold, covering nearly 31 million acres of pasture, rangeland and forage. There was over $416 million in liability, and almost $11 million in indemnities was paid to livestock producers who purchased coverage.

For more information and additional crop insurance program details, please reference RMA's web site: (www.rma.usda.gov).

Insurance against Security-Related Risks

Terrorism Risk Insurance

The Terrorism Risk Insurance Program (TRIP) was authorized under P.L. 107-297 to help stabilize the insurance industry following the terrorist attacks of September 11, 2001. Initially, TRIP was a three-year Federal program that provided a system of shared public and private compensation for insured commercial property and casualty losses arising from certified acts of foreign terrorism. In 2005, Congress passed a two-year extension (P.L.109-144), which narrowed the Government's role by increasing the private sector's share of losses, reducing lines of insurance covered by the program, and adding a threshold event amount triggering Federal payments.

In 2007, Congress extended TRIP for an additional seven years (P.L.110-318) and expanded the program to include losses from domestic as well as foreign acts of terrorism. For all seven extension years, however, it maintains a private insurer deductible of 20 percent of the prior year's direct earned premiums, an insurer co-payment of 15 percent of insured losses above the deductible, and a $100 million event trigger amount for Federal payments. The 2007 extension also requires Treasury to recoup 133 percent of the Federal payments made under the program, and accelerates deadlines for recoupment of any Federal payments made before September 30, 2017.

The Budget baseline includes the estimated Federal cost of providing terrorism risk insurance, reflecting the 2007 extension of the TRIP through 2014. Using market driven data, the Budget projects annual outlays and recoupment for TRIP. While the Budget does not forecast any specific events, the estimates for this account represent the weighted average of TRIP payments over a full range of possible scenarios, most of which include no notional terrorist attacks (and therefore no TRIP payments), and some of which include notional terrorist attacks of varying magnitudes. On this basis, the Budget projects net spending of $945 million over the 2012-2016 period and $984 million over the 2012-2021 period.

Airline War Risk Insurance

After the September 11, 2001 attacks, private insurers cancelled third-party liability war risk coverage for airlines and dramatically increased the cost of other war risk insurance. In addition to a number of short term responses, the Congress also passed the Homeland Security Act of 2002 (P.L. 107-296). Among other provisions, this Act required the Secretary of Transportation to provide additional war risk insurance coverage for hull losses and passenger liability to air carriers insured for third-party war risk liability as of June 19, 2002. The Airport and Airway Extension Act of 2010, Part IV (P.L. 111-329) further extended the requirement to provide insurance coverage. Acting on behalf of the Secretary, the FAA has made available insurance coverage for (i) hull losses at agreed value; (ii) death, injury, or property loss liability to passengers or crew, the limit being the same as that of the air carrier's commercial coverage as of November 25, 2002; and (iii) third party liability, the limit generally being twice that of such coverage. The Secretary is also authorized to limit an air carrier's third party liability to $100 million, when the Secretary certifies that the loss is from an act of terrorism.

This program provides airlines with financial protection from war risk occurrences, and thus allows airlines to meet the basic requirement for adequate hull loss and liability coverage found in most aircraft mortgage covenants, leases, and government regulation. Without such coverage, many airlines might be grounded. Currently, aviation war risk insurance coverage is generally available from private insurers, but premiums are significantly higher in the private market. Also, private insurance coverage is very limited for occurrences involving weapons of mass destruction and nuclear, chemical and biological perils.

Currently, 58 air carriers are insured by the Department of Transportation. Coverage for individual carriers ranges from $100 million to $4 billion per carrier, with the median insurance coverage at approximately $1.8 billion per occurrence. Premiums collected by the Government for these policies are deposited into the Aviation Insurance Revolving Fund. In 2010, the Fund collected approximately $112 million in premiums for insurance provided by DOT. At the end of 2010, the balance in the Aviation Insurance Revolving Fund available for payment of future claims was $1.45 billion. One minor claim has been paid by the Fund since 2001, for the Christmas Day 2009 bombing attempt of a domestic airliner. The balance in the Fund would be inadequate to meet either the coverage limits of the largest policies in force ($4 billion) or to meet a series of large claims in succession. The Federal Government would pay any claims by the airlines that exceed the balance in the Aviation Insurance Revolving Fund. Therefore, the Administration's goal is to incentivize the commercial marketplace to underwrite most, although not all, aviation war risks. Now that commercial underwriters are expressing a stronger interest in writing small policies with limited exposure to war risks, the Budget proposes to establish a $150 million deductible for hull and liability exposure in all FAA War Risk policies.

Chart 23-1. Face Value of Federal Credit Outstanding

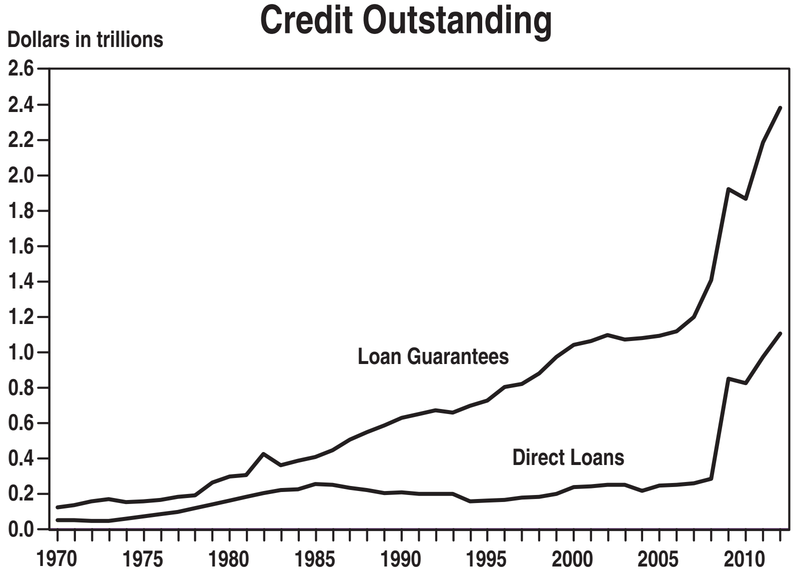


Table 23–2. ESTIMATED FUTURE COST OF OUTSTANDING FEDERAL CREDIT PROGRAMS

(In billions of dollars)

Program	Outstanding 2009	Estimated Future Costs of 2009 Outstanding [1]	Outstanding 2010	Estimated Future Costs of 2010 Outstanding [1]
Direct Loans: [2]				
Troubled Asset Relief Program (TARP) [3]	290	54	135	37
GSE Mortgage-Backed Securities Purchase Program	186	–11	164	–9
Federal Student Loans	179	12	254	10
Education Temporary Student Loan Purchase Authority	51	–5	100	–9
Farm Service Agency (excl. CCC), Rural Development, Rural Housing	47	10	49	10
Rural Utilities Service and Rural Telephone Bank	44	2	45	2
Disaster Assistance	10	3	9	3
Housing and Urban Development	9	7	10	8
Public Law 480	6	2	6	2
Export-Import Bank	6	2	9	3
Agency for International Development	5	2	5	2
State Housing Finance Authority Direct Loans	....	....	15	–1
Other direct loan programs	17	4	27	7
Total direct loans	850	82	828	65
Guaranteed Loans: [2]				
FHA-Mutual Mortgage Insurance Fund	691	28	891	26
Federal Student Loans	457	21	390	15
Troubled Asset Relief Program [3]	251	–2	....	....
Department of Veterans Affairs (VA) Mortgages	194	4	225	5
FHA-General and Special Risk Insurance Fund	128	6	134	9
Small Business Administration (SBA) [4]	75	4	76	4
Farm Service Agency (excl. CCC), Rural Development, Rural Housing	50	2	69	3
Export-Import Bank	42	1	45	2
International Assistance	21	2	21	3
Commodity Credit Corporation	7	*	7	*
Government National Mortgage Association (GNMA) [4]	....	*	....	*
Other guaranteed loan programs	8	4	9	*
Total guaranteed loans	1,924	70	1,867	67
Total Federal credit	**2,774**	**152**	**2,695**	**132**

* Less than $500 million.

[1] Direct loan future costs reflect the financing account allowance for subsidy cost and the liquidating account allowance for estimated uncollectible principal and interest. Loan guarantee future costs reflect estimated liabilities for loan guarantees.

[2] Excludes loans and guarantees by deposit insurance agencies and programs not included under credit reform, such as Commodity Credit Corporation (CCC) commodity price supports. Defaulted guaranteed loans that result in loans receivable are included in direct loan amounts.

[3] As authorized by the Emergency Economic Stabilization Act (EESA), table includes equity purchases under TARP. Future costs for TARP equity purchases, direct loan transactions, and asset guarantees are calculated using the discount rate required by the Federal Credit Reform Act adjusted for market risks, consistent with the EESA.

[4] Certain SBA data are excluded from the totals because they are secondary guarantees on SBA's own guaranteed loans. GNMA data are excluded from the totals because they are secondary guarantees on loans guaranteed by FHA, VA and RHS.

Table 23–3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992–2010 [1]

(Budget authority and outlays, in millions of dollars)

Agency and Program	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
DIRECT LOANS												
Agriculture:												
Agriculture Credit Insurance Fund	331	–656	921	10	–701	–147	–2	–14	–251	–478	326	–147
Farm Storage Facility Loans	....	....	–1	–7	–8	7	–1	....	50	–47	–11	–19
Apple Loans	....	....	–2	1	....	*	*	*	*	–1	–1	–*
Emergency Boll Weevil Loans	....	....	....	1	*	*	3	....	*	*	–*	–*
Distance Learning, Telemedicine, and Broadband Loans	....	....	1	–1	–1	1	7	1	3	–3	1	–2
Rural Electrification and Telecommunications Loans	....	–17	–42	101	265	143	–197	–108	–149	293	248	192
Rural Telephone Bank	....	–1	....	–3	–7	–6	–17	–48	–22	36	1	–4
Rural Housing Insurance Fund	....	19	–29	–435	–64	–200	109	....	–13	–405	18	170
Rural Economic Development Loans	*	....	–1	–1	....	–2	*	–3	3	–1	–4	–2
Rural Development Loan Program	....	....	–1	–3	....	–3	–2	–7	*	–4	–4	–4
Rural Community Facilities Program	....	....	....	....	....	....	....	....	4	77	–19	–31
Rural Business and Industry Program	....	....	....	....	....	....	....	....	–22	–5	–5	4
Rural Water and Waste Disposal Program	....	....	....	....	....	....	....	....	–13	72	–124	–52
Rural Community Advancement Program [2]	....	37	3	–1	–84	–34	–73	–77	....	....	....	....
P.L. 480	....	–23	65	–348	33	–43	–239	–26	44	–163	–171	31
P.L. 480 Title I Food for Progress Credits	....	....	....	–112	–44	....	....	....	....	....	....	....
Commerce:												
Fisheries Finance	....	–19	–1	–3	....	1	–15	–12	11	–16	–*	6
Defense:												
Military Housing Improvement Fund	....	....	....	....	....	*	–4	–1	–8	–2	–13	–8
Education:												
Federal Direct Student Loan Program: [3]												
Volume reestimate	....	–6	....	43	....	....	....	....	....	....	....	....
Other technical reestimate	–2,158	560	....	3,678	1,999	855	2,827	2,674	408	–45	–1,176	–5,624
Temporary Student Loan Purchase Authority: [3]												
Volume reestimate	....	....	....	....	....	....	....	....	....	418	....	....
Other technical reestimate	....	....	....	....	....	....	....	....	....	444	1,076	–5,529
College Housing and Academic Facilities Loans	....	–1	....	....	....	....	....	*	*	*	*	*
Historically Black Colleges and Universities	....	....	....	....	....	....	....	11	–16	–24	–75	68
TEACH Grants	....	....	....	....	....	....	....	....	....	....	11	–5
Energy:												
Title 17 Innovative Technology Fund	....	....	....	....	....	....	....	....	....	....	–*	55
Advanced Technology Vehicle Manufacturing Fund	....	....	....	....	....	....	....	....	....	....	12	–712
Homeland Security:												
Disaster Assistance	47	36	–7	–6	*	4	*	*	*	....	–*	–17
Interior:												
Bureau of Reclamation Loans	3	3	–9	–14	....	17	1	1	5	–3	–1	–9
Bureau of Indian Affairs Direct Loans	5	–1	–1	2	*	*	*	1	–1	....	1	1
Assistance to American Samoa	....	....	....	....	*	*	....	2	....	....	–4	*
Transportation:												
High Priority Corridor Loans	....	....	....	....	....	....	....	....	....	....	....	....
Alameda Corridor Loan	–58	....	....	....	–12	....	....	....	....	....	....	....
Transportation Infrastructure Finance and Innovation	....	18	....	....	....	3	–11	7	11	–163	92	17
Railroad Rehabilitation and Improvement Program	....	....	....	....	–5	–14	–11	–1	15	–8	15	13
Treasury:												
GSE Mortgage-Backed Securities Purchase Program	....	....	....	....	....	....	....	....	....	....	–8,165	2,054
Community Development Financial Institutions Fund	1	....	....	*	–1	*	–1	1	*	....	–2	2
Troubled Asset Relief Program (TARP) Direct Loan [4]	....	....	....	....	....	....	....	....	....	....	–15,499	–4,195
TARP Equity [4]	....	....	....	....	....	....	....	....	....	....	–90,601	–30,474
Veterans Affairs:												
Veterans Housing Benefit Program Fund	–52	–107	–697	17	–178	987	–44	–76	–402	20	69	45

Table 23–3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992–2010 [1]—Continued

(Budget authority and outlays, in millions of dollars)

Agency and Program	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Native American Veteran Housing	....	....	....	–3	*	*	*	1	1	*	–*	2
Vocational Rehabilitation Loans	....	....	....	*	*	*	–1	1	–1	1	–*	*
Environmental Protection Agency:												
Abatement, Control, and Compliance	....	3	–1	*	–3	*	*	*	*	*	–*	–*
International Assistance Programs:												
Foreign Military Financing	152	–166	119	–397	–64	–41	–7	–6	7	....	....	....
U.S. Agency for International Development:												
Micro and Small Enterprise Development	....	....	*	....	*	....	....	....	....	....	....	....
Overseas Private Investment Corporation Direct Loans	....	....	....	–4	–21	3	–7	72	31	–15	–46	–5
Debt Reduction	36	–4	....	*	–47	–104	54	–3	....	....	....	....
Small Business Administration:												
Business Loans	....	1	–2	1	25	....	–16	–4	4	7	3	1
Disaster Loans	–398	–282	–14	266	589	196	61	258	–109	134	157	136
Other Independent Agencies:												
Export-Import Bank Direct Loans	–177	157	117	–640	–305	111	–257	–227	–120	7	54	394
Federal Communications Commission	–1,501	–804	92	346	380	732	–24	11	....	–100	–23	12
LOAN GUARANTEES												
Agriculture:												
Agriculture Credit Insurance Fund	–31	205	40	–36	–33	–22	–162	20	–36	–48	–4	–58
Agriculture Resource Conservation Demonstration	....	2	....	1	–1	*	*	....	....	....	....	....
Commodity Credit Corporation Export Guarantees	....	–1,410	....	–13	–230	–205	–366	–232	–225	–39	9	–22
Rural Electrification and Telecommunications Loans	....	....	....	....	....	....	....	*	*	*	–*	–*
Rural Housing Insurance Fund	....	152	–56	32	50	66	44	....	–19	–24	81	184
Rural Business and Industry Program	....	....	....	....	....	....	....	....	–9	–11	41	72
Rural Community Facilities Program	....	....	....	....	....	....	....	....	–1	13	7	11
Rural Water and Waste Disposal Program	....	....	....	....	....	....	....	....	....	....	1	*
Rural Community Advancement Program [2]	....	63	17	91	15	29	–64	–16	....	....	....	....
Rural Energy for America	....	....	....	....	....	....	....	....	*	*	2	4
Biorefinery Assistance	....	....	....	....	....	....	....	....	....	....	....	*
Commerce:												
Fisheries Finance	....	–3	–1	3	*	1	*	1	*	*	*	*
Emergency Steel Guaranteed Loans	....	....	....	50	*	3	–75	–13	1	–53	....	....
Emergency Oil and Gas Guaranteed Loans	....	*	*	*	*	*	–1	*	*	....	....	....
Defense:												
Military Housing Improvement Fund	....	....	....	....	–3	–1	–3	–5	–1	–2	–3	–2
Defense Export Loan Guarantee	....	....	....	....	....	–5	....	....	....	....	....	....
Arms Initiative Guaranteed Loan Program	....	....	....	....	....	....	....	....	20	....	2	–3
Education:												
Federal Family Education Loan Program: [3]												
Volume reestimate	–60	–42	....	277	....	....	....	....	....	....	....	....
Other technical reestimate	667	–3,484	....	–2,483	–3,278	1,348	6,837	–3,399	–189	–13,463	–7,008	–14,456
Energy:												
Title 17 Innovative Technology Fund	....	....	....	....	....	....	....	....	....	....	....	*
Health and Human Services:												
Heath Center Loan Guarantees	3	....	*	*	....	1	*	*	–1	–2	*	–*
Health Education Assistance Loans	....	....	....	–5	–37	–33	–18	–20	*	–15	–5	13
Housing and Urban Development:												
Indian Housing Loan Guarantee	....	–6	*	–1	*	–3	–1	*	–5	–7	–7	–2
Title VI Indian Guarantees	....	....	....	–1	1	4	*	–4	–3	–2	–2	–1
Community Development Loan Guarantees	....	....	....	....	19	–10	–2	4	1	–1	–9	–6
FHA-Mutual Mortgage Insurance	....	2,413	–1,308	1,100	5,947	1,979	2,842	636	3,923	9,262	8,435	5,014
FHA-General and Special Risk	....	–217	–403	77	352	507	238	–1,254	–362	6,086	571	1,848

Table 23–3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992–2010 [1]—Continued

(Budget authority and outlays, in millions of dollars)

Agency and Program	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Guarantees of Mortgage-Backed Securities	....	....	....	....	....	....	....	....	....	....	....	684
Interior:												
Bureau of Indian Affairs Guaranteed Loans	....	–14	–1	–2	–2	*	15	5	–30	–3	11	4
Bureau of Indian Affairs Insured Loans	....	....	....	....	....	....	....	....	....	....	....	–*
Transportation:												
Maritime Guaranteed Loans (Title XI)	30	–15	187	27	–16	4	–76	–11	–51	23	8	31
Minority Business Resource Center	....	....	1	....	*	*	....	*	*	....	–*	–*
Treasury:												
Air Transportation Stabilization Program	....	....	....	113	–199	292	–109	–95	....	....	....	....
TARP Asset Guarantees [4]	....	....	....	....	....	....	....	....	....	....	–517	–691
Veterans Affairs:												
Veterans Housing Benefit Fund Program	229	–770	–163	–184	–1,515	–462	–842	–525	182	–70	494	1,084
International Assistance Programs:												
U.S. Agency for International Development:												
Development Credit Authority	....	....	–1	....	1	–3	–2	2	11	5	–8	–6
Micro and Small Enterprise Development	....	....	....	....	2	–2	....	–3	*	....	....	–1
Urban and Environmental Credit	....	....	–4	–15	48	–2	–5	–11	–22	7	–1	–10
Assistance to the New Independent States of the Former Soviet Union	....	....	–34	....	....	....	....	....	....	....	....	....
Loan Guarantees to Israel	....	....	....	....	–76	–111	188	34	–16	–46	283	–21
Loan Guarantees to Egypt	....	....	....	....	....	....	7	14	–12	12	–11	6
Overseas Private Investment Corporation Guaranteed Loans	....	....	5	77	60	–212	–21	–149	–268	–26	–23	–16
Small Business Administration:												
Business Loans	–235	–528	–226	304	1,750	1,034	–390	–268	–140	931	3,746	3,711
Other Independent Agencies:												
Export-Import Bank Guarantees	–191	–1,520	–417	–2,042	–1,133	–655	–1,164	–579	–174	23	571	–370
Total	**–3,357**	**–6,427**	**–1,854**	**–142**	**3,468**	**6,008**	**9,003**	**–3,441**	**2,044**	**2,576**	**–107,196**	**–46,634**

* Less than $500,000.

[1] Excludes interest on reestimates. Additional information on credit subsidy reestimates is available in the Federal Credit Supplement.

[2] Includes Rural Water and Waste Disposal, Rural Community Facilities, and Rural Business and Industry programs in fiscal years 1999–2007.

[3] Volume reestimates in mandatory programs represent a change in volume of loans disbursed in the prior years.

[4] As authorized by the Emergency Economic Stabilization Act (EESA), table includes reestimates associated with equity purchases under TARP. Subsidy costs for TARP equity purchases, direct loans, and guarantees are estimated using the discount rate required under the Federal Credit Reform Act adjusted for market risks, consistent with the EESA.

Table 23–4. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2010–2012

(Dollars in millions)

Agency and Program	2010 Actual			CR			2012 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels
Agriculture:									
Agricultural Credit Insurance Fund Program Account	4.48	89	1,985	5.68	81	1,401	5.04	82	1,615
Farm Storage Facility Loans Program Account	–1.01	–3	327	–1.99	–6	303	–2.28	–7	303
Rural Electrification and Telecommunications Loans Program Account	–1.25	–98	7,790	–4.40	–321	7,290	–4.24	–288	6,790
Distance Learning, Telemedicine, and Broadband Program	7.24	92	1,266	5.57	68	1,223	....	....	....
Rural Water and Waste Disposal Program Account	7.54	168	2,229	8.58	155	1,817	9.58	74	770
Rural Community Facilities Program Account	1.31	23	1,780	1.33	7	498	–3.03	–30	1,000
Farm Labor Program Account	36.14	6	15	38.38	16	43	....	....	....
Multifamily Housing Revitalization Program Account	64.36	21	31	48.08	27	56	....	....	....
Rural Housing Insurance Fund Program Account	4.46	100	2,247	8.58	64	742	15.50	51	333
Rural Microenterprise Investment Program Account	11.32	3	25	21.39	5	25	15.59	5	31
Rural Development Loan Fund Program Account	25.24	9	34	38.58	8	21	33.88	12	36
Rural Economic Development Loans Program Account	13.05	3	23	17.91	10	56	12.98	4	33
Commerce:									
Fisheries Finance Program Account	–9.00	–6	69	–11.48	–8	75	–13.49	–11	83
Defense—Military:									
Defense Family Housing Improvement Fund	....	....	....	16.66	86	514	6.17	9	146
Education:									
College Housing and Academic Facilities Loans Program Account	11.35	20	178	7.24	13	178	5.50	20	368
Teacher Education Assistance	13.63	15	108	13.31	22	163	16.83	14	84
Federal Perkins Loan Program Account	....	....	....	....	....	....	–26.25	–1,241	4,727
Federal Family Education Loan Program Account [2]	–5.19	–1,610	31,019	....	....	....	–4.36	–1,700	38,985
Federal Direct Student Loan Program Account	–7.82	–8,634	110,355	–14.08	–21,094	149,798	–16.77	–27,224	162,332
Energy:									
Title 17 Innovative Technology Loan Guarantee Program	10.16	16	160	8.26	2,144	25,945	0.79	200	25,273
Advanced Technology Vehicles Manufacturing Loan Program Account	....	....	....	26.01	4,226	16,245	....	....	....
Health and Human Services:									
Consumer Operated and Oriented Plan Program Account	....	....	....	....	....	....	63.42	376	593
Homeland Security:									
Disaster Assistance Direct Loan Program Account	....	....	....	–1.22	....	25	–1.17	....	25
Housing and Urban Development:									
FHA-Mutual Mortgage Insurance Program Account	....	....	....	0.00	....	50	0.00	....	50
FHA-General and Special Risk Program Account	....	....	....	0.00	....	1	0.00	....	1
Green Retrofit Program for Multifamily Housing, Recovery Act	82.30	68	83	....	....	....	....	....	....
Emergency Homeowners' Relief Fund	....	....	....	97.72	723	740	....	....	....
State:									
Repatriation Loans Program Account	58.05	1	3	58.57	1	1	57.85	1	1
Transportation:									
National Infrastructure Bank	....	....	....	....	....	....	20.00	200	1,000
Highway Infrastructure Investment, Recovery Act	....	....	....	4.42	27	610	....	....	....
TIFIA General Fund Program Account, Federal Highway Administration, Transportation	....	....	....	....	....	....	3.21	19	592
Federal-aid Highways	7.74	167	2,158	6.61	100	1,514	9.53	425	4,459
Railroad Rehabilitation and Improvement Program	0.00	....	172	0.00	....	600	0.00	....	600
Treasury:									
GSE Mortgage-Backed Securities Purchase Program Account	–3.31	–1745	52,759	....	....	....	....	....	....
Troubled Asset Relief Program Account [3]	–10.53	–1436	13,635	....	....	....	....	....	....
Troubled Asset Relief Program Equity Purchase Program [3]	26.27	2,958	11,264	....	....	....	....	....	....
Small Business Lending Fund Program Account	....	....	....	7.24	1,260	17,399	....	....	....
Community Development Financial Institutions Fund Program Account	....	....	....	....	....	....	40.26	4	10

Table 23–4. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2010–2012—Continued

(Dollars in millions)

Agency and Program	2010 Actual			CR			2012 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels
Veterans Affairs:									
Veterans Housing Benefit Program Fund	–4.59	–11	251	–2.21	–24	1,082	–1.51	–19	1,236
Native American Veteran Housing Loan Program Account	–29.00	–5	18	–12.38	–3	24	–8.82	–1	12
International Assistance Programs:									
Overseas Private Investment Corporation Program Account	–5.19	–62	1,194	–2.51	–24	950	–2.37	–25	1,050
United States Quota IMF Direct Loan Program Account [3]	....	....	....	2.34	184	7,879	....	....	....
Loans to the IMF Direct Loan Program Account [3]	....	....	....	0.34	340	100,000	....	....	....
Small Business Administration:									
Disaster Loans Program Account	10.77	51	472	13.53	149	1,100	11.28	124	1,100
Business Loans Program Account	12.04	5	38	1.21	9	712	19.61	9	45
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account	–21.24	–905	4,261	33.35	8	25	32.99	8	25
Total	**N/A**	**–10,700**	**245,949**	**N/A**	**–11,747**	**339,105**	**N/A**	**–28,909**	**253,708**

N/A = Not applicable.

[1] Additional information on credit subsidy rates is contained in the Federal Credit Supplement.

[2] Includes student loan acquisitions under the Temporary Student Loan Purchase programs authorized by the Ensuring Continued Access to Student Loans Act, and the proposed acquisition of certain loans in the 2012 Budget.

[3] As authorized by the Emergency Economic Stabilization Act (EESA), table includes equity purchases under the Troubled Asset Relief Program (TARP). Table also includes contributions to the International Monetary Fund (IMF) provided in the Supplemental Appropriations Act of 2009. Subsidy costs for TARP and these IMF transactions are calculated using the discount rates required by the Federal Credit Reform Act adjusted for market risks, as directed in legislation.

Table 23–5. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2010–2012

(Dollars in millions)

Agency and Program	2010 Actual			CR			2012 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels
Agriculture:									
Agricultural Credit Insurance Fund Program Account	2.03	67	3,298	2.02	65	3,217	0.82	26	3,150
Commodity Credit Corporation Export Loans Program Account	–1.21	–45	3,719	–0.51	–28	5,500	–0.60	–33	5,500
Rural Water and Waste Disposal Program Account	–0.82	....	11	–0.85	–1	75	1.59	....	12
Rural Community Facilities Program Account	3.21	10	292	3.95	8	197	....	....	....
Rural Housing Insurance Fund Program Account	1.21	205	16,894	–0.18	–45	24,015	–0.03	–7	24,000
Rural Business Program Account	6.77	199	2,938	5.06	67	1,331	6.38	53	823
Rural Energy for America Program	13.64	10	73	46.36	55	118	26.19	37	140
Biorefinery Assistance Program Account	35.47	19	55	31.10	274	881	....	....	....
Commerce:									
Economic Development Assistance Programs	....	....	....	....	....	....	15.50	7	45
Defense—Military Programs:									
Defense Family Housing Improvement Fund	6.01	10	159	....	....	....	....	....	....
Education:									
Federal Family Education Loan Program Account	–0.22	–92	42,059	....	....	....	....	....	....
Energy:									
Title 17 Innovative Technology Loan Guarantee Program	3.78	4	99	4.46	230	5,172	....	....	7,100
Better Buildings Pilot Loan Guarantee Initiative for Universities, Schools, and Hospitals	....	....	....	....	....	....	5.01	100	2,000
Health and Human Services:									
Health Resources and Services	....	....	....	4.35	....	17	4.40	....	17
Housing and Urban Development:									
Indian Housing Loan Guarantee Fund Program Account	0.68	4	536	0.83	4	482	1.46	7	428
Native Hawaiian Housing Loan Guarantee Fund Program Account	2.52	1	42	0.83	1	42	0.93	1	42
Native American Housing Block Grant	11.18	....	3	10.20	2	20	10.80	2	20
Community Development Loan Guarantees Program Account	2.40	4	166	2.34	6	275	0.00	....	500
FHA-Mutual Mortgage Insurance Program Account	–0.84	–2,652	318,701	–2.54	–9,762	384,599	–1.56	–5,013	321,681
FHA-General and Special Risk Program Account	–2.96	–480	16,069	–2.60	–520	19,852	–1.85	–462	22,694
Home Ownership Preservation Equity Fund Program Account	17.55	3	20	10.90	2	20	....	....	....
Interior:									
Indian Guaranteed Loan Program Account	7.26	9	129	7.87	6	84	8.31	2	26
Transportation:									
Minority Business Resource Center Program	1.86	....	3	1.79	....	18	1.81	....	18
Federal-aid Highways	....	....	....	10.00	20	200	10.00	20	200
Railroad Rehabilitation and Improvement Program	....	....	....	0.00	....	100	0.00	....	100
Maritime Guaranteed Loan (Title XI) Program Account	6.21	1	23	5.24	16	312	5.78	11	182
Veterans Affairs:									
Veterans Housing Benefit Program Fund	–0.16	–102	63,367	–0.28	–192	69,397	0.07	227	59,667
International Assistance Programs:									
Loan Guarantees to Israel Program Account	....	....	....	....	....	1,800	....	....	2,014
Development Credit Authority Program Account	4.86	25	518	4.12	25	605	7.56	50	670
Overseas Private Investment Corporation Program Account	–3.95	–51	1,285	–6.08	–101	1,700	–5.66	–125	2,050
Small Business Administration:									
Disaster Loans Program Account	....	....	....	1.89	....	19	2.28	1	63
Business Loans Program Account	3.53	587	16,636	0.39	404	103,899	0.30	250	83,122
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account	–0.98	–198	20,208	–1.37	–260	18,969	–0.87	–276	31,794
Total	**N/A**	**–2,462**	**507,303**	**N/A**	**–9,724**	**642,916**	**N/A**	**–5,122**	**568,058**

Table 23–5. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2010–2012—Continued

(Dollars in millions)

Agency and Program	2010 Actual			CR			2012 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS									
GNMA:									
Guarantees of Mortgage-backed Securities Loan Guarantee Program Account	–0.24	–991	412,953	–0.24	–696	290,000	–0.19	–528	278,000
Treasury:									
Troubled Asset Relief Program, Home Affordable Modification Program [2]	....	....	....	4.37	2,621	60,000	4.90	4,103	83,681
SBA:									
Secondary Market Guarantee Program	0.00	....	3,379	0.00	....	12,000	0.00	....	12,000
Total, secondary guaranteed loan commitments	**N/A**	**–991**	**416,332**	**N/A**	**1,925**	**362,000**	**N/A**	**3,575**	**373,681**

[1] Please see the Federal Credit Supplement for additional information on credit subsidy rates.

[2] Amounts reflect the Troubled Asset Relief Program, FHA Refinance Letter of Credit. Subsidy costs for the program are calculated using the discount rate under the Federal Credit Reform Act adjusted for market risks, consistent with the Emergency Economic Stabilization Act of 2008.

N/A = Not applicable.

Table 23–6. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES [1]

(In billions of dollars)

	Actual								Estimate	
	2003	2004	2005	2006	2007	2008	2009	2010	CR	2012
Direct Loans:										
Obligations	45.4	42.0	56.3	57.8	42.5	75.6	812.9	246.0	339.1	253.7
Disbursements	39.7	38.7	50.6	46.6	41.7	41.1	669.4	218.9	242.2	230.0
New subsidy budget authority [2]	0.7	0.4	2.1	4.7	1.4	3.7	140.1	–9.2	–12.8	–28.9
Reestimate subsidy budget authority [2, 3]	2.9	2.6	3.8	3.1	3.4	–0.8	–0.1	–125.1	–49.9	....
Total subsidy budget authority	**3.5**	**3.0**	**6.0**	**7.8**	**4.8**	**–1.3**	**140.0**	**–134.3**	**–62.7**	**–28.9**
Loan guarantees:										
Commitments [4]	345.9	300.6	248.5	280.7	270.2	367.7	879.2	507.3	642.9	568.1
Lender disbursements [4]	331.3	279.9	221.6	256.0	251.2	354.6	841.5	494.8	539.3	455.1
New subsidy budget authority [2]	3.8	7.3	10.1	17.2	5.7	–1.4	–7.8	–4.9	–7.8	–1.9
Reestimate subsidy budget authority [2, 3]	–3.5	2.0	3.5	7.0	–6.8	3.6	0.5	7.6	–4.0	....
Total subsidy budget authority	**0.3**	**9.3**	**13.6**	**24.2**	**–1.1**	**2.2**	**–7.2**	**2.8**	**–11.8**	**–1.9**

[1] Table includes Troubled Asset Relief Program (TARP) equity purchases under the authority of the Emergency Economic Stabilization Act (EESA) and certain International Monetary Fund (IMF) contributions as authorized by the Supplemental Appropriations Act of 2009.

[2] Credit subsidy costs for TARP and contributions to the IMF provided in the Supplemental Appropriations Act of 2009 are calculated using discount rates as required under the Federal Credit Reform Act adjusted for market risks, consistent with legislative direction.

[3] Includes interest on reestimate.

[4] To avoid double-counting, totals exclude Government National Mortgage Association secondary guarantees of loans that are guaranteed by Federal Housing Administration (FHA), Department of Veterans Affairs, and Rural Housing Service; TARP support of FHA Refinance guarantees; and Small Business Administration's guarantee of 7(a) loans sold in the secondary market.

Table 23–7. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS

Agency and Program	In millions of dollars			As a percentage of outstanding loans [1]		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
DIRECT LOAN WRITE-OFFS						
Agriculture:						
Agricultural Credit Insurance Fund	76	57	56	0.87	0.62	0.58
Rural Community Facility	5	....	....	0.15	....	....
Rural Business and Industry Program		1	1		3.70	4.17
Rural Development Loan Fund	2	....	....	0.15	....	....
Rural Electrification and Telecommunications Fund	168	62	60	0.35	0.12	0.11
Rural Housing Insurance Fund	33	82	82	0.12	0.30	0.31
Debt Restructuring	128	....	....	45.39	....	....
P.L. 480 Direct Credit	34	....	....	0.59	....	....
Commerce:						
Economic Development Revolving Fund Liquidating Account	....	1	1	....	20.00	33.33
Defense—Military:						
Family Housing Improvement Fund	....	1	2	....	0.11	0.18
Housing and Urban Development:						
Revolving Fund (Liquidating Programs)	1	....	....	16.67	....	....
Guarantees of Mortgage-Backed Securities	3	1	4	25.00	11.11	50.00
Emergency Homeowners' Relief	....	16	24	....	3.88	3.86
Treasury:						
Community Development Financial Institutions Fund	....	1	1	....	1.79	1.64
Troubled Asset Relief Program Direct Loans	44,790	....	3,685	64.05	....	16.22
Troubled Assets Relief Program Equity Purchases	5,334	....	....	2.19	....	....
Small Business Lending Fund	....	....	8	....	....	0.05
Veterans Affairs:						
Miscellaneous Veterans Housing Loans	....	4	....	....	4.65	....
Veterans Housing Benefit Program	61	38	28	6.30	2.19	1.46
International Assistance Programs:						
Overseas Private Investment Corporation	1	82	109	0.07	3.34	3.68
Debt Reduction (Agency for International Development)	35	24	20	3.40	2.44	2.06
Small Business Administration:						
Disaster Loans	301	284	276	3.40	3.14	2.97
Business Loans	4	3	4	2.35	1.68	2.21
Other Independent Agencies:						
Debt Reduction (Export-Import Bank)	7	724	....	0.81	86.29	....
Export-Import Bank	20	10	10	0.25	0.13	0.15
Spectrum Auction Program	4	21	24	1.97	10.55	13.48
Tennessee Valley Authority Fund	....	1	....	....	1.85	....
Total, direct loan write-offs	**51,007**	**1,413**	**4,395**	**11.83**	**0.46**	**1.54**
GUARANTEED LOAN TERMINATIONS FOR DEFAULT						
Agriculture:						
Agricultural Credit Insurance Fund	72	82	78	0.52	0.54	0.49
Commodity Credit Corporation Export Loans	163	185	161	1.74	1.47	1.02
Rural Community Facility	11	11	11	1.08	0.93	0.84
Rural Business and Industry Program	163	177	209	2.55	2.25	2.47
Rural Housing Insurance Fund	198	324	406	0.38	0.46	0.47
Rural Water and Waste Disposal Fund	1	....	....	1.43	....	....
Renewable Energy Guaranteed Loans	9	7	10	12.50	5.65	5.21
Biorefinery Assistance Guaranteed Loans	....	1	3	....	0.55	0.48
Defense—Military:						
Family Housing Improvement Fund	....	7	5	....	1.55	1.14
Education:						
Federal Family Education Loans	13,522	9,744	8,174	2.71	2.50	2.33
Health Education Assistance Loans [2]	....	....	17	....	....	2.49

Table 23–7. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS—Continued

Agency and Program	In millions of dollars			As a percentage of outstanding loans [1]		
	2010 Actual	CR	2012 Estimate	2010 Actual	CR	2012 Estimate
Energy:						
Better Buildings Pilot Loan Guarantee Initiative for Universities, Schools, and Hospitals	....	....	9	....	....	0.45
Title 17 Innovative Technology	....	13	47	....	0.48	0.73
Health and Human Services:						
Health Education Assistance Loans [2]	15	19	....	1.76	2.60	....
Health Center Loan Guarantees	....	1	1	....	1.22	1.14
Housing and Urban Development:						
Indian Housing Loan Guarantee	9	13	16	0.52	0.49	0.53
FHA-Mutual Mortgage Insurance	13,673	22,841	25,061	1.37	1.80	1.76
FHA-General and Special Risk Insurance	1,849	2,450	2,360	1.27	1.62	1.41
Home Ownership Preservation Equity Fund	....	1	2	....	2.27	4.76
Title VI Indian Federal Guarantees	....	2	2	....	1.55	1.46
Interior:						
Indian Guaranteed Loans	3	8	9	0.58	1.44	1.74
Transportation:						
Maritime Guaranteed Loan (Title XI)	222	81	79	8.87	3.46	3.55
Treasury:						
Troubled Asset Relief Program, Home Affordable Modification	....	8	144	....	0.01	0.10
Veterans Affairs:						
Veterans Housing Benefit Program	2,834	1,985	2,006	1.10	0.68	0.58
International Assistance Programs:						
Foreign Military Financing	9	6	3	0.88	0.87	0.68
Urban and Environmental Credit Program	4	5	4	1.16	1.85	1.61
Housing and Other Credit Guaranty Program	16	19	26	2.15	2.77	4.28
Development Credit Authority	3	3	4	1.05	0.44	0.39
Overseas Private Investment Corporation	70	77	84	1.12	1.10	1.11
Small Business Administration:						
Business Loans	5,264	4,946	3,636	5.91	4.94	3.29
Other Independent Agencies:						
Export-Import Bank	231	202	202	0.39	0.34	0.29
Total, guaranteed loan terminations for default	**38,341**	**43,218**	**42,769**	**1.78**	**1.77**	**1.55**
Total, direct loan write-offs and guaranteed loan terminations	**89,348**	**44,631**	**47,164**	**3.46**	**1.62**	**1.55**
ADDENDUM: WRITE-OFFS OF DEFAULTED GUARANTEED LOANS THAT RESULT IN LOANS RECEIVABLE						
Agriculture:						
Agricultural Credit Insurance Fund	11	10	10	11.00	9.17	8.20
Education:						
Federal Family Education Loans	1,929	1,915	1,822	4.69	4.60	4.56
Health and Human Services:						
Health Education Assistance Loans [2]	19	1	....	3.15	0.18	....
Housing and Urban Development:						
FHA-Mutual Mortgage Insurance	39	1	1	4.89	0.06	0.04
FHA-General and Special Risk Insurance	337	411	581	6.56	7.09	9.03
Veterans Affairs:						
Veterans Housing Benefit Program	9	6	4	26.47	28.57	33.33
International Assistance Programs:						
Housing and Other Credit Guaranty Program	36	1	....	13.09	0.39	....
Small Business Administration:						
Business Loans	2,426	277	277	22.06	2.89	2.85
Other Independent Agencies:						
Export-Import Bank	3	....	....	1.27	....	....
Total, write-offs of loans receivable	**4,806**	**2,622**	**2,695**	**8.14**	**4.39**	**4.53**

[1] Loans outstanding at start of year plus new disbursements.

[2] The Budget reflects the proposal to transfer the Health Education Assistance Loans loan guarantee program from the Department of Health and Human Services to the Department of Education.

Table 23–8. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS [1]

(In millions of dollars)

Agency and Program	2010 Actual	CR	2012 Estimate
DIRECT LOAN OBLIGATIONS			
Agriculture:			
Agricultural Credit Insurance Fund Direct Loan Financing Account	1,834	1,334	1,615
Distance Learning, Telemedicine, and Broadband Direct Loan Financing Account	1,266	1,223	....
Rural Economic Development Direct Loan Financing Account	23	56	33
Commerce:			
Fisheries Finance Direct Loan Financing Account	75	75	83
Education:			
Historically Black College and University Capital Financing Direct Loan Financing Account	178	178	368
Energy:			
Title 17 Innovative Technology Direct Loan Financing Account	....	....	9,000
Homeland Security:			
Disaster Assistance Direct Loan Financing Account	25	25	25
Housing and Urban Development:			
FHA-General and Special Risk Direct Loan Financing Account	20	20	20
FHA-Mutual Mortgage Insurance Direct Loan Financing Account	50	50	50
Emergency Homeowners' Relief Financing Account	....	740	....
Treasury:			
Community Development Financial Institutions Fund Direct Loan Financing Account	....	....	25
Veterans Affairs:			
Vocational Rehabilitation Direct Loan Financing Account	2	2	3
Total, limitations on direct loan obligations	**3,473**	**3,703**	**11,222**
LOAN GUARANTEE COMMITMENTS			
Agriculture:			
Agricultural Credit Insurance Fund Guaranteed Loan Financing Account	3,298	3,217	3,150
Commerce:			
Economic Development Assistance Programs Financing Account	....	....	45
Energy:			
Better Buildings Pilot Loan Guarantee Initiative for Universities, Schools, and Hospitals	....	....	2,000
Title 17 Innovative Technology Guaranteed Loan Financing Account	....	....	27,000
Housing and Urban Development:			
Indian Housing Loan Guarantee Fund Financing Account	919	919	428
Title VI Indian Federal Guarantees Financing Account	18	18	20
Native Hawaiian Housing Loan Guarantee Fund Financing Account	42	42	42
Community Development Loan Guarantees Financing Account	275	275	500
FHA-General and Special Risk Guaranteed Loan Financing Account	20,000	20,000	25,000
FHA-Mutual Mortgage Insurance Guaranteed Loan Financing Account	400,000	400,000	400,000
Interior:			
Indian Guaranteed Loan Financing Account	129	84	26
Transportation:			
Minority Business Resource Center Guaranteed Loan Financing Account	18	18	18
International Assistance Programs:			
Development Credit Authority Guaranteed Loan Financing Account	700	700	2,000
Small Business Administration:			
Business Guaranteed Loan Financing Account [2]	31,247	115,898	95,122
Total, limitations on loan guarantee commitments	**456,646**	**541,171**	**555,351**

Table 23–8. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS [1]—Continued

(In millions of dollars)

Agency and Program	2010 Actual	CR	2012 Estimate
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS			
Housing and Urban Development:			
Guarantees of Mortgage-Backed Securities Financing Account	500,000	500,000	500,000
Small Business Administration:			
Secondary Market Guarantee	12,000	12,000	12,000
Total, limitations on secondary guaranteed loan commitments	**512,000**	**512,000**	**512,000**

[1] Data represent loan level limitations enacted or proposed to be enacted in appropriation acts. For information on actual and estimated loan levels supportable by new subsidy budget authority requested, see Tables 23–4 and 23–5.

[2] Amounts include the full face value of guarantees of revolving credit facilities starting in 2011.

Table 23–9. FACE VALUE OF GOVERNMENT-SPONSORED LENDING [1]

(In billions of dollars)

	2009	2010
Government-Sponsored Enterprises:		
Fannie Mae [2]	3,083	3,183
Freddie Mac [3]	2,172	2,061
Federal Home Loan Banks	678	500
Farm Credit System	161	166
Total	**6,094**	**5,909**

[1] New originations including issuance of securities and investment portfolio purchases, net of purchases of federally-guaranteed loans.

[2] Data for Fannie Mae is net of purchases of federally-guaranteed loans and Freddie Mac issuances, as reported by the Federal Housing Financing Agency (FHFA).

[3] Data for Freddie Mac is net of purchases of federally-guaranteed loans and Fannie Mae issuances, as reported by the FHFA.

Table 23–10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]

(In millions of dollars)

Enterprise	2010
LENDING	
Federal National Mortgage Association:	
Portfolio programs:	
Net change	9,924
Outstandings	802,851
Mortgage-Backed securities:	
Net change	–11,391
Outstandings	2,405,000
Federal Home Loan Mortgage Corporation:	
Portfolio programs:	
Net change	–286,165
Outstandings	498,006
Mortgage-Backed securities:	
Net change	–9,043
Outstandings	1,449,488
Farm Credit System:	
Agricultural credit bank:	
Net change	4,052
Outstandings	46,467
Farm credit banks:	
Net change	767
Outstandings	108,320
Federal Agricultural Mortgage Corporation:	
Net change	704
Outstandings	11,476
Federal Home Loan Banks:	
Net change	–188,076
Outstandings	563,981
Less federally-guaranteed loans purchased by:	
Federal National Mortgage Association:	
Net change	–12,546
Outstandings	54,332
Federal Home Loan Mortgage Corporation:	
Net change	–1,440
Outstandings	5,767
Federal Home Loan Banks:	
Net change	–657
Outstandings	6,966
Other:	
Net change	N/A
Outstandings	N/A
Less purchase of mortgage securities issued by other GSEs: [2]	
Net change	–66,426
Outstandings	159,460
BORROWING	
Federal National Mortgage Association:	
Portfolio programs:	
Net change	27,220
Outstandings	830,210

Table 23–10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]—Continued

(In millions of dollars)

Enterprise	2010
Mortgage-Backed securities:	
Net change	–11,391
Outstandings	2,405,000
Federal Home Loan Mortgage Corporation:	
Portfolio programs:	
Net change	–61,230
Outstandings	742,551
Mortgage-Backed securities:	
Net change	–9,043
Outstandings	1,449,488
Farm Credit System:	
Agricultural credit bank:	
Net change	–400
Outstandings	54,315
Farm credit banks:	
Net change	1,965
Outstandings	128,575
Federal Agricultural Mortgage Corporation:	
Net change	2,357
Outstandings	7,475
Federal Home Loan Banks: [3]	
Net change	–166,325
Outstandings	813,938
DEDUCTIONS [4]	
Less borrowing from other GSEs:	
Net change	N/A
Outstandings	N/A
Less purchase of Federal debt securities:	
Net change	N/A
Outstandings	N/A
Less borrowing to purchase federally-guaranteed loans and securities:	
Net change	–14,643
Outstandings	67,065
Less borrowing to purchase mortgage securities issued by other GSEs: [2]	
Net change	–66,426
Outstandings	159,460

N/A = Not available.

[1] Data does not reflect an official view of future GSE activity, nor have the data been validated by the Administration. The data for all years include programs of mortgage-backed securities. In cases where a GSE owns securities issued by the same GSE, including mortgage-backed securities, the borrowing and lending data for that GSE are adjusted to remove double-counting. Data for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks as reported by the Federal Housing Financing Agency (FHFA).

[2] Includes Fannie Mae securities purchased by Freddie Mac and the Federal Home Loan Banks, and Freddie Mac securities purchased by Fannie Mae and the Federal Home Loan Banks.

[3] The net change in borrowings is derived from a year-over-year comparison of borrowings in the Federal Home Loan Banks' audited financial statements.

[4] Where totals and subtotals have not been calculated, a portion of the total is unavailable.

24. HOMELAND SECURITY FUNDING ANALYSIS

Section 889 of the Homeland Security Act of 2002 requires that a homeland security funding analysis be incorporated in the President's Budget. This analysis addresses that legislative requirement, and covers homeland security funding and activities of all Federal agencies, not only those carried out by the Department of Homeland Security (DHS), as well as State, local, and private sector expenditures. 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.

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 development and review.

Data Collection Methodology and Adjustments

The Federal spending estimates in this analysis utilize funding and programmatic information collected

Table 24–1. HOMELAND SECURITY FUNDING BY AGENCY

(Budget authority in millions of dollars)

	Agency	2010 Enacted	2010 Supplemental/	CR	2012 Request
1	Department of Agriculture	613.9	....	603.5	597.4
2	Department of Commerce	284.1	....	259.4	344.6
3	Department of Defense	19,054.4	....	17,625.7	18,102.3
4	Department of Education	29.0	....	30.0	32.9
5	Department of Energy	2,015.5	....	1,969.0	1,973.0
6	Department of Health and Human Services	7,196.0	....	4,227.3	4,579.0
7	Department of Homeland Security	32,609.2	626.6	35,985.1	37,045.8
8	Department of Housing and Urban Development	4.9	....	4.0	4.0
9	Department of the Interior	51.5	....	65.9	61.9
10	Department of Justice	4,093.5	25.2	4,071.8	4,068.3
11	Department of Labor	39.5	....	41.5	46.1
12	Department of State	1,792.9	....	2,130.7	2,326.6
13	Department of Transportation	228.3	....	247.5	281.1
14	Department of the Treasury	124.8	....	122.0	118.4
15	Department of Veterans Affairs	426.8	....	421.3	375.1
16	Corps of Engineers	35.5	....	35.5	35.5
17	Environmental Protection Agency	153.8	....	153.8	103.4
18	Executive Office of the President	12.0	....	12.0	10.4
19	General Services Administration	214.0	....	50.0	427.0
20	National Aeronautics and Space Administration	218.0	....	182.8	191.5
21	National Science Foundation	390.0	....	390.0	425.9
22	Office of Personnel Management	1.8	....	....	....
23	Social Security Administration	189.5	....	210.5	245.8
24	District of Columbia	15.0	....	15.0	15.0
25	Federal Communications Commission	1.2	....	....	2.6
26	Intelligence Community Management Account	13.7	....	13.4	10.0
27	National Archives and Records Administration	20.0	....	20.2	20.9
28	Nuclear Regulatory Commission	65.4	....	65.4	78.9
29	Securities and Exchange Commission	6.0	....	7.0	7.0
30	Smithsonian Institution	98.5	....	98.5	97.8
31	United States Holocaust Memorial Museum	10.0	....	10.0	11.0
	Total, Homeland Security Budget Authority	**70,008.5**	**651.9**	**69,068.8**	**71,638.9**
	Less Department of Defense	–19,054.4	....	–17,625.7	–18,102.3
	Non-Defense Homeland Security BA	**50,954.1**	**651.9**	**51,443.1**	**53,536.7**
	Less Fee-Funded Homeland Security Programs	–5,061.0	....	–5,521.0	–6,753.0
	Less Mandatory Homeland Security Programs	–2,538.8	....	–2,884.8	–2,976.1
	Net Non-Defense Discretionary Homeland Security BA	**43,354.4**	**651.9**	**43,037.4**	**43,807.6**

on the Executive Branch's homeland security efforts. Throughout the budget formulation process, the Office of Management and Budget (OMB) collects three-year funding estimates and associated programmatic information from all Federal agencies with homeland security responsibilities. These estimates do not include the efforts of the Legislative or Judicial branches. Information in this chapter is augmented by a detailed appendix of account-level funding estimates, which is available on the *Analytical Perspectives* CD-ROM.

To compile this data, agencies report information using standardized definitions for homeland security. The data provided by the agencies are developed at the "activity level," which incorporates a set of like programs or projects, at a level of detail sufficient to consolidate the information to determine total Governmental spending on homeland security.

To the extent possible, this analysis maintains programmatic and funding consistency with previous estimates. Some discrepancies from data reported in earlier years arise due to agencies' improved ability to extract homeland security-related activities from host programs and refine their characterizations. As in the Budget, where appropriate, the data is also updated to reflect agency activities, congressional action, and technical re-estimates. In addition, the Administration may refine definitions or mission area estimates over time based on additional analysis or changes in the way specific activities are characterized, aggregated, or disaggregated.

Federal Expenditures

Total funding for homeland security has grown significantly since the attacks of September 11, 2001. For 2012, the President's Budget includes $71.6 billion of gross budget authority for homeland security activities, a $2.6 billion (4 percent) increase above the 2011 annualized continuing appropriations level. Excluding mandatory spending, fees, and the Department of Defense's (DOD) homeland security budget, the 2012 Budget proposes a net, non-Defense, discretionary budget authority level of $43.8 billion, which is an increase of $0.8 billion (2 percent) above the 2011 annualized continuing appropriations level (see Table 24–1).

A total of 31 agency budgets include Federal homeland security funding in 2012. Six agencies—the Departments of Homeland Security, Defense, Health and Human Services (HHS), Justice (DOJ), State (DOS), and Energy (DOE)—account for approximately $68.1 billion (95 percent) of total Government-wide gross discretionary homeland security funding in 2012.

As required by the Homeland Security Act, this analysis presents homeland security risk and spending in three broad categories: Prevent and Disrupt Terrorist Attacks; Protect the American People, Our Critical Infrastructure, and Key Resources; and Respond To and Recover From Incidents.

Prevent and Disrupt Terrorist Attacks

Activities of both 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; but it does not include most foreign intelligence collection—although the resulting intelligence may inform homeland security activities. In 2012, funding for intelligence-and-warning is distributed between DHS (50 percent), primarily in the Office of Intelligence and Analysis; and DOJ (40 percent), primarily in the Federal Bureau of Investigation (FBI). The 2012 funding for intelligence and warning activities is 2

Table 24–2. PREVENT AND DISRUPT TERRORIST ATTACKS
(Budget authority in millions of dollars)

Agency	2010 Enacted	2010 Supplemental/ Emergency	CR	2012 Request
Department of Agriculture	247.5	....	236.5	232.2
Department of Commerce	5.4	....	4.5	3.5
Department of Energy	49.2	....	64.0	50.4
Department of Homeland Security	26,556.7	626.6	27,043.8	27,538.6
Department of the Interior	0.4	....	0.3	0.3
Department of Justice	3,308.5	15.0	3,309.1	3,429.3
Department of Labor	0.4	....	0.4	0.4
Department of State	1,766.1	....	2,110.8	2,306.7
Department of Transportation	41.7	....	41.9	49.6
Department of the Treasury	71.1	....	69.1	66.2
General Services Administration	151.0	....	....	370.0
Total, Prevent and Disrupt Terrorist Attacks	**32,198.1**	**641.6**	**32,880.4**	**34,047.2**

percent above the 2011 annualized continuing appropriations level.

Activities to deny terrorists and terrorist-related weapons and materials entry into our country and across all international borders include measures to protect border and transportation systems, such as screening airport passengers, detecting dangerous materials at ports overseas and at U.S. ports-of-entry, and patrolling our coasts and the land between ports-of-entry. Securing our borders and transportation systems is a complex task. Security enhancements in one area may make another avenue more attractive to terrorists. Therefore, our border and transportation security strategy aims to make the U.S. borders "smarter"—targeting layered resources toward the highest risks and sharing information so that frontline personnel can stay ahead of potential adversaries—while facilitating the flow of legitimate visitors and commerce. The majority of funding for border and transportation security ($24.7 billion, or 89 percent, in 2012) is in DHS, largely for the U.S. Customs and Border Protection (CBP), the Transportation Security Administration (TSA), and the U.S Coast Guard. Other DHS bureaus and other Federal Departments, such as the Department of State, also play a significant role. Many of these activities support the Obama Administration's emphasis on reducing the illicit flow of drugs, currency, weapons, and people across our borders as well as targeting transnational criminal organizations operating along the Southwest border and elsewhere. The President's 2012 request would increase funding for border and transportation security activities by 4 percent over the 2011 annualized continuing appropriations level.

Funding for domestic counterterrorism contains Federal and Federally-supported efforts to identify, thwart, and prosecute terrorists in the United States. It also includes pursuit not only of the individuals directly involved in terrorist activity, but also their sources of support: the people and organizations that knowingly fund the terrorists and those that provide them with logistical assistance. In today's world, preventing and interdicting terrorist activity within the United States is a priority for law enforcement at all levels of government. The largest contributors to the domestic counterterrorism goal are law enforcement organizations, with DOJ (largely for the FBI) and DHS (largely for ICE) accounting for 55 and 43 percent of funding for 2012, respectively.

Protect the American People, Our Critical Infrastructure, and Key Resources

Critical infrastructure includes the assets, systems, and networks, whether physical or virtual, so vital to the United States that their destruction would have a debilitating effect on national economic or homeland security, public health or safety, or any combination thereof. Key resources are publicly or privately controlled resources essential to the minimal operations of the economy and government whose disruption or destruction could have significant consequences across multiple dimensions, including national monuments and icons.

Efforts to protect the American people include defending against catastrophic threats through research, development, and deployment of technologies, systems, and medical measures to detect and counter the threat of chemical, biological, radiological, and nuclear (CBRN) weapons. Funding encompasses activities to protect against, detect, deter, or mitigate the possible terrorist use of CBRN weapons through detection systems and procedures, improving decontamination techniques, and the development of medical countermeasures, such as vaccines, drugs and diagnostics to protect the public from the threat of a CBRN attack or other public health emergency. The agencies with the most significant resources to help develop and field technologies to counter CBRN threats are: HHS, largely for research at the National Institutes of Health (NIH) and for advanced development of medical

Table 24–3. PROTECT THE AMERICAN PEOPLE, OUR CRITICAL INFRASTRUCTURE, AND KEY RESOURCES

(Budget authority in millions of dollars)

Agency	2010 Enacted	2010 Supplemental/ Emergency	CR	2012 Request
Department of Agriculture	310.2	....	309.5	309.2
Department of Commerce	224.2	....	200.8	288.3
Department of Defense	18,741.9	....	15,254.0	16,939.5
Department of Energy	1,806.1	....	1,737.7	1,753.6
Department of Health and Human Services	4,968.0	....	2,001.1	2,333.7
Department of Homeland Security	2,614.5	....	5,579.1	6,508.0
Department of Justice	769.0	10.2	750.7	626.8
Department of Veterans Affairs	270.9	....	273.3	247.0
National Aeronautics and Space Administration	218.0	....	182.8	191.5
National Science Foundation	390.0	....	390.0	425.9
Social Security Administration	189.1	....	210.1	245.4
Other Agencies	671.7	....	690.0	701.0
Total, Protect the American People, Our Critical Infrastructure, and Key Resources	**31,173.7**	**10.2**	**27,579.2**	**30,569.8**

countermeasures ($2.1 billion, or 39 percent, of the 2012 total); DOD ($1.4 billion, or 26 percent, of the 2012 total); and DHS ($1.3 billion, or 24 percent, of the 2012 total).

Protecting the Nation's critical infrastructure and key resources (CI/KR) is a complex challenge for two reasons: (1) the diversity of infrastructure and (2) the high level of private ownership of the Nation's critical infrastructure and key assets. Efforts to protect CI/KR include unifying disparate efforts to protect critical infrastructure across the Federal Government, and with State, local, and private stakeholders; accurately assessing CI/KR and prioritizing protective action based on risk; and reducing threats and vulnerabilities in cyberspace. In fact, securing our cyberspace is a top priority of the Obama Administration as a foundation for continuing to grow the Nation's economy and protecting Americans and our way of life. DOD continues to report the largest share of funding in this category for 2012 ($15.5 billion, or 61 percent), which includes programs focusing on physical security and improving the military's ability to prevent or mitigate the consequences of attacks against departmental personnel and facilities. DHS has overall responsibility for prioritizing and executing infrastructure protection activities at the national level and accounts for $5.2 billion (21 percent) of 2012 funding. Another 25 agencies also report funding to protect their own assets and work with States, localities, and the private sector to reduce vulnerabilities in their areas of expertise.

The President's 2012 request increases funding for activities to protect the Nation's people, critical infrastructure and key resources by $3 billion.

Respond To and Recover From Incidents

The ability to respond to and recover from incidents requires efforts to bolster capabilities nationwide to prevent and protect against terrorist attacks, and also minimize the damage from attacks through effective response and recovery. This includes programs that help to plan, equip, train, and practice the capabilities of many different response units (including first responders, such as police officers, firefighters, emergency medical providers, public works personnel, and emergency management officials) that are instrumental in their preparedness to mobilize without warning for an emergency. Building this capability encompasses a broad range of agency incident management activities, as well as grants and other assistance to States and localities for first responder preparedness capabilities. Response to natural disasters and other major incidents, including catastrophic natural events such as Hurricane Katrina and chemical or oil spills, like Deepwater Horizon, do not directly fall within the definition of a homeland security activity for fund-

Table 24–4. RESPOND TO AND RECOVER FROM INCIDENTS
(Budget authority in millions of dollars)

Agency	2010 Enacted	2010 Supplemental/ Emergency	CR	2012 Request
Department of Agriculture	56.3	....	57.5	56.0
Department of Commerce	54.5	....	54.2	52.8
Department of Defense	312.4	....	2,371.7	1,162.7
Department of Education	1.3	....	1.3	1.3
Department of Energy	160.1	....	167.2	169.0
Department of Health and Human Services	2,228.0	....	2,226.2	2,245.3
Department of Homeland Security	3,206.6	....	3,130.9	2,770.2
Department of Housing and Urban Development	4.9	....	4.0	4.0
Department of the Interior	4.1	....	4.1	4.6
Department of Justice	12.0	....	12.0	12.1
Department of Labor	17.4	....	17.1	17.5
Department of State	13.9	....	7.0	7.0
Department of Transportation	18.8	....	24.0	29.7
Department of the Treasury	36.1	....	36.1	36.2
Department of Veterans Affairs	155.8	....	147.9	128.2
Environmental Protection Agency	70.1	....	70.1	51.7
Executive Office of the President	6.0	....	6.0	5.2
General Services Administration	3.0	....	3.0	3.0
Office of Personnel Management	0.6	....	....	....
Social Security Administration	0.4	....	0.5	0.5
District of Columbia	15.0	....	15.0	15.0
Federal Communications Commission	1.2	....	....	2.6
Intelligence Community Management Account	13.7	....	13.4	10.0
National Archives and Records Administration	1.7	....	1.3	1.3
Securities and Exchange Commission	4.0	....	4.0	4.0
Total, Respond To and Recover From Incidents	**6,398.0**	**.........**	**8,374.5**	**6,789.9**

ing purposes, as defined by section 889 of the Homeland Security Act of 2002. However, preparing for terrorism-related threats includes many activities that also support preparedness for catastrophic natural and man-made disasters. Additionally, lessons learned from the response to Hurricane Katrina have been used to revise and strengthen catastrophic response planning. The agencies with the most significant participation in this effort are: DHS ($2.8 billion, or 41 percent, of the 2012 total); and HHS ($2.2 billion, or 33 percent, of the 2012 total). Twenty-three other agencies include emergency preparedness and response funding. The President's 2012 request would decrease funding by $1.6 billion (19 percent) below the 2011 annualized continuing appropriations level, largely due to reductions in State and local grant programs that were not awarded based on a risk methodology and were subject to earmarking for non-risk based projects, and the restructuring of homeland security funding within DOD.

Continue to Strengthen the Homeland Security Foundation

Preventing and disrupting terrorist attacks; protecting the American people, critical infrastructure, and key resources; and responding to and recovering from incidents that do occur are enduring homeland security responsibilities. For the long-term fulfillment of these responsibilities it is necessary to continue to strengthen the principles, systems, structures, and institutions that cut across the homeland security enterprise and support our activities to secure the Nation. Long-term success across several cross-cutting areas is essential to protect the United States. In addition, an all-of-Nation integration of effort and the leveraging of resources that exist in local communities, as manifest in the Obama Administration's "Whole of Community" initiative, for example, are essential to effective preparedness and incident response capabilities. While these areas are not quantifiable in terms of budget figures, they are important elements in the management and budgeting processes. As the Administration sets priorities and determines funding for new and existing homeland security programs, consideration must be given to areas such as the assessment and management of risk, which underlie the full spectrum of homeland security activities. This would include decisions about when, where, and how to invest resources in capabilities or assets that eliminate, control, or mitigate risks. Likewise, research and development initiatives promote the application of science and technology to homeland security activities, and can drive improvements in processes and efficiencies to reduce the vulnerability of the Nation.

Non-Federal Expenditures [1]

State and local governments and private-sector firms also have devoted resources of their own to the task of defending against terrorist threats. Some of the spending has been of a one-time nature, such as investment in new security equipment and infrastructure; some spending has been ongoing, such as hiring more personnel, and increasing overtime for existing security personnel. In many cases, own-source spending has supplemented the resources provided by the Federal Government.

Many governments and businesses, though not all, place a high priority on, and provide additional resources, for security. A 2004 survey conducted by the National Association of Counties found, that as a result of the homeland security process of intergovernmental planning and funding, three out of four counties believed they were better prepared to respond to terrorist threats. Moreover, almost 40 percent of the surveyed counties had appropriated their own funds to assist with homeland security. Own-source resources supplemented funds provided by states and the Federal Government. However, the same survey revealed that 54 percent of counties had not used any of their own funds.[2] The survey's findings were based on the responses from 471 counties (15 percent) nationwide, out of 3,140 counties or equivalents.[3]

A recent study conducted by the Heritage Foundation, one of the few organizations to compile homeland security spending estimates from states and localities, provides data on State and local spending in support of homeland security activities.[4] The report surveyed 43 jurisdictions that are eligible for DHS' Urban Areas Security Initiative (UASI) grant funds due to the risk of a terrorist attack.[5] These jurisdictions are home to approximately 145 million people or 47 percent of the total United States population. According to the report, the 2007 homeland security budgets for the jurisdictions examined (which include 26 states and the District of Columbia, 50 primary cities, and 35 primary counties) totaled $37 billion, while the same entities received slightly more than $2 billion in Federal homeland security grants.[6] The report further states that from 2000 - 2007, these states and localities spent $220 billion on homeland security activities, which includes increases of three to six percent a year for law enforcement and fire services budgets, and received over $10 billion in Federal grants. California, the most populous State, is also the largest recipient of Federal homeland

[1] OMB does not collect detailed homeland security expenditure data from State, local, or private entities directly.

[2] Source: National Association of Counties, "Homeland Security Funding—2003 State Homeland Security Grants Programs I and II."

[3] The National Association of Counties conducted a survey through its various state associations (48), responses were received from 471 counties in 26 states.

[4] Source: Matt A. Mayer, "An Analysis of Federal, State, and Local Homeland Security Budgets," A Report of the Heritage Center for Data Analysis, CDA09-01, March 9, 2009, at http://www.heritage.org/Research/HomelandSecurity/upload/ CDA_09_01.pdf. Figures cited in this report have not been independently verified by the Office of Management and Budget.

[5] The Heritage Foundation report's methodology in selecting the states, cities, and counties to include in the report is as follows: the state had to possess a designated UASI jurisdiction and the city and county had to belong to a designated UASI jurisdiction that had received at least $15 million from 2003 to 2007 from the DHS.

[6] The Heritage Foundation report's budget data for homeland security included primary law enforcement agencies, fire departments, homeland security offices, and emergency management agencies. In some cases, state and local emergency management agency budget data was embedded in the fire department budget data and was not separately noted in its own category.

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.[7] About 15 percent of the companies surveyed had increased their security spending by 20 percent or more.[8] Large increases in spending were especially evident in critical industries, such as transportation, energy, financial services, media and telecommunications, information technology, and healthcare. However, about one-third of the surveyed companies reported that they had not increased their security spending after September 11th.[9] Given the difficulty of obtaining survey results that are representative of the universe of states, localities, and businesses, it is likely that there will be a wide range of estimates of non-Federal security spending for critical infrastructure protection.

[7] Source: Thomas E. Cavanagh and Meredith Whiting, "2003 Corporate Security Management: Organization and Spending Since 9/11," The Conference Board. R-1333-03-RR. July 2003. This report references sample size of 199 corporate security directors, of which 96 were in "critical industries", while the remaining 103 were in "non-critical industries." In the report, the Conference Board states that it followed the DHS usage of critical industries, "defined as the following: transportation; energy and utilities; financial services; media and telecommunications; information technology; and healthcare."

[8] The Conference Board survey cites the sample size for this statistic was 192 corporate security directors.

Additional Tables

The tables in the Federal expenditures section of this chapter present data based on the President's policy for the 2012 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.

[9] The Conference Board survey cites the sample size for this statistic was 199 corporate security directors.

Table 24–5. DISCRETIONARY FEE-FUNDED HOMELAND SECURITY ACTIVITIES BY AGENCY

(Budget authority in millions of dollars)

Agency	2010 Enacted	2010 Supplemental/ Emergency	CR	2012 Request
Department of Energy	16.3	....	15.4	15.5
Department of Homeland Security	2,985.0	....	3,287.0	3,910.0
Department of State	1,657.0	....	1,959.0	2,153.0
General Services Administration	206.0	....	42.0	419.0
Social Security Administration	189.5	....	210.5	245.8
Federal Communications Commission	1.2	....	....	2.6
Securities and Exchange Commission	6.0	....	7.0	7.0
Total, Discretionary Homeland Security Fee-Funded Activities	**5,061.0**	**.........**	**5,521.0**	**6,753.0**

Table 24–6. MANDATORY HOMELAND SECURITY FUNDING BY AGENCY

(Budget authority in millions of dollars)

Agency	2010 Enacted	2010 Supplemental/ Emergency	CR	2012 Request
Department of Agriculture	200.3	---	189.3	192.2
Department of Defense	---	---	279.3	288.0
Department of Energy	13.0	---	12.0	12.0
Department of Health and Human Services	0.5	---	0.4	0.5
Department of Homeland Security	2,317.7	---	2,395.2	2,472.9
Department of Labor	7.2	---	8.5	10.6
Total, Homeland Security Mandatory Programs	**2,538.8**	**---**	**2,884.8**	**2,976.1**

Table 24–7. BASELINE ESTIMATES—TOTAL HOMELAND SECURITY FUNDING BY AGENCY

(Budget authority in millions of dollars)

Agency	CR	Baseline				
		2012	2013	2014	2015	2016
Department of Agriculture	603	615	629	642	657	672
Department of Commerce	260	263	269	272	284	290
Department of Defense	17,621	17,752	17,727	18,025	18,330	18,642
Department of Education	30	30	31	31	32	33
Department of Energy	1,970	1,999	2,034	2,072	2,109	2,147
Department of Health and Human Services	4,222	4,307	4,400	4,501	4,603	4,708
Department of Homeland Security	35,782	36,815	37,890	38,996	40,132	41,324
Department of Housing and Urban Development	4	4	4	4	4	5
Department of the Interior	65	66	68	71	73	77
Department of Justice	3,970	4,092	4,223	4,360	4,502	4,652
Department of Labor	37	38	38	39	39	39
Department of State	2,130	2,159	2,194	2,231	2,269	2,308
Department of Transportation	247	256	265	276	288	300
Department of the Treasury	122	125	128	133	137	142
Department of Veterans Affairs	421	431	439	451	462	472
Corps of Engineers	36	37	37	38	38	39
Environmental Protection Agency	154	158	162	164	169	174
Executive Office of the President	12	12	12	13	13	13
General Services Administration	50	50	51	52	53	54
National Aeronautics and Space Administration	183	185	188	191	195	198
National Science Foundation	390	395	401	409	415	422
Office of Personnel Management	2	2	2	2	2	2
Social Security Administration	211	246	236	238	244	250
District of Columbia	15	15	15	16	16	16
Federal Communications Commission	2	2	2	2	2	2
Intelligence Community Management Account	13	13	13	14	14	14
National Archives and Records Administration	20	20	21	21	21	22
Nuclear Regulatory Commission	65	67	68	72	74	76
Securities and Exchange Commission	7	7	7	7	7	8
Smithsonian Institution	99	103	108	112	117	123
United States Holocaust Memorial Museum	10	10	10	10	11	11
Total, Homeland Security Budget Authority	**68,753**	**70,274**	**71,672**	**73,465**	**75,312**	**77,235**
Less Department of Defense	–17,621	–17,752	–17,727	–18,025	–18,330	–18,642
Non-Defense Homeland Security BA	**51,132**	**52,522**	**53,945**	**55,440**	**56,982**	**58,593**
Less Fee-Funded Homeland Security Programs	–5,546	–5,720	–5,800	–5,902	–6,007	–6,113
Less Mandatory Homeland Security Programs	–2,884	–2,971	–2,798	–2,884	–2,973	–3,068
Net Non-Defense, Discretionary Homeland Security BA	**42,702**	**43,831**	**45,347**	**46,654**	**48,002**	**49,412**
Obligations Limitations						
Department of Transportation Obligations Limitation	58	59	60	61	62	63

24–8. HOMELAND SECURITY FUNDING BY BUDGET FUNCTION

(Budget authority in millions of dollars)

Budget Function	2010 Actual	CR	2012 Request
National Defense	28,848	22,371	23,035
International Affairs	1,793	2,130	2,326
General Science Space and Technology	1,546	1,514	1,729
Energy	122	121	123
Natural Resources and the Environment	328	319	273
Agriculture	633	571	576
Commerce and Housing Credit	189	188	266
Transportation	11,461	11,214	11,773
Community and Regional Development	3,967	3,831	3,811
Education, Training, Employment and Social Services	162	163	171
Health	4,168	4,230	4,563
Medicare	28	28	38
Income Security	14	13	14
Social Security	190	211	246
Veterans Benefits and Services	429	421	375
Administration of Justice	20,068	20,119	20,553
General Government	1,528	1,309	1,789
Total, Homeland Security Budget Authority	**75,474**	**68,753**	**71,661**
Less National Defense, DoD	–23,737	–17,341	–17,814
Non-Defense Homeland Security BA	**51,737**	**51,412**	**53,847**
Less Fee-Funded Homeland Security Programs	–5,041	–5,500	–6,729
Less Mandatory Homeland Security Programs	–2,626	–2,884	–2,971
Net Non-Defense, Discretionary Homeland Security BA	**44,070**	**43,028**	**44,147**

Table 24–9. BASELINE ESTIMATES—HOMELAND SECURITY FUNDING BY BUDGET FUNCTION

(Budget authority in millions of dollars)

Budget Function	CR	Baseline				
		2012	2013	2014	2015	2016
National Defense	22,371	22,603	22,693	23,112	23,541	23,981
International Affairs	2,130	2,159	2,194	2,231	2,269	2,308
General Science Space and Technology	1,514	1,535	1,559	1,587	1,615	1,642
Energy	121	124	125	130	133	135
Natural Resources and the Environment	319	326	333	340	349	359
Agriculture	571	583	595	608	622	636
Commerce and Housing Credit	188	190	194	196	204	211
Transportation	11,214	11,499	11,845	12,196	12,553	12,928
Community and Regional Development	3,831	3,886	3,948	4,017	4,087	4,156
Education, Training, Employment and Social Services	163	167	173	178	185	192
Health	4,230	4,314	4,407	4,507	4,608	4,713
Medicare	28	29	31	32	34	35
Income Security	13	14	14	14	14	15
Social Security	211	246	236	238	244	250
Veterans Benefits and Services	421	431	439	451	462	472
Administration of Justice	20,119	20,754	21,442	22,154	22,891	23,671
General Government	1,309	1,414	1,444	1,474	1,501	1,531
Total, Homeland Security Budget Authority	**68,753**	**70,274**	**71,672**	**73,465**	**75,312**	**77,235**
Less National Defense, DoD	–17,621	–17,752	–17,727	–18,025	–18,330	–18,642
Non-Defense, Discretionary Homeland Security BA	**51,132**	**52,522**	**53,945**	**55,440**	**56,982**	**58,593**
Less Fee-Funded Homeland Security Programs	–5,546	–5,720	–5,800	–5,902	–6,007	–6,113
Less Mandatory Homeland Security Programs	–2,884	–2,971	–2,798	–2,884	–2,973	–3,068
Net Non-Defense, Discretionary Homeland Security BA	**42,702**	**43,831**	**45,347**	**46,654**	**48,002**	**49,412**
Obligations Limitations						
Department of Transportation Obligations Limitation	58	59	60	61	62	63

25. FEDERAL DRUG CONTROL FUNDING

In FY 2004, the National Drug Control Budget was produced to eliminate agency programs where funding dedicated to the drug effort could not reasonably be estimated or was thought to be a consequence of drug use, as opposed to drug use reduction. The prevailing thought at that time was that the consequences of drug use could not reasonably be influenced by drug policy in the President's Strategy.

In the Office of National Drug Control Policy's (ONDCP) 2006 Reauthorization Act (Sec. 105 P.L. 109-469), Congress called upon ONDCP to restructure the federal drug budget to represent the full range of Federal spending on drug control. In order to display a full and accurate estimate of Federal resources available to reduce drug use and its consequences, ONDCP identified and reviewed federal programs that have a drug control nexus. To advise the Director of ONDCP on this matter, a federal panel was established to define the criteria for determining if an agency's program should be included in the National Drug Control Budget.

The panel used a two-pronged approach to determine if a program should be included in the National Drug Control Budget: first – if the program has a drug-control nexus; second – if the program has an acceptable budget estimation methodology based on empirical data. Based on the panel's recommendation, the Administration is adding the following executive departments and programs to the restructured federal drug control program agencies budget:

- Agriculture: U.S. Forest Service (Law Enforcement Operations drug-related enforcement efforts)
- Court Services and Offender Supervision Agency for the District of Columbia (substance abuse related to Community Supervision Program and Pretrial Services Agency)
- Defense: Counterdrug OPTEMPO
- Health and Human Services: National Institute on Alcohol Abuse and Alcoholism (Underage Drinking Research)
- Health and Human Services: Centers for Medicare & Medicaid Services (estimates of substance abuse screening and treatment in the Medicare and Medicaid programs, expanded from previous years to now include Medicare and additional Medicaid services)
- Health and Human Services: Health Resources and Services Administration (substance abuse services related to Primary Health Care Grants)
- Homeland Security: Border Security Fencing, Infrastructure, and Technology (drug-related expenses of SBInet & Other Technology systems)
- Homeland Security: Federal Law Enforcement Training Center (drug-related training)
- Homeland Security: Operation Stonegarden (drug-related grants)
- Interior: Bureau of Land Management (drug-related efforts funded by Resource Protection and Law Enforcement and additional earmarks)
- Interior: National Park Service (drug-related efforts funded by Park Protection sub-activity and additional earmarks)
- Justice: Assets Forfeiture Fund (Drug control budget estimates allocated to DEA and OCDETF)
- Justice: Criminal Division (Narcotics and Dangerous Drugs Section, less reimbursement by OCDETF)
- Justice: Office of Federal Detention Trustee (detention costs associated with drug-related offenders)
- Justice: U.S. Attorneys (drug-related expenses less OCDETF prosecutions)
- Justice: U.S. Marshals Service (drug-related expenses for Judicial and Courthouse Security, Fugitive Apprehension, & Prisoner Security and Transportation)
- Justice: Bureau of Prisons (housing for drug offenders)
- Transportation: Federal Aviation Administration (Industry Drug Abatement program and the Law Enforcement Assistance program and air traffic control monitoring related to drug-related enforcement)

Table 25–1. FEDERAL DRUG CONTROL FUNDING, 2010–2012 [1]
(Budget authority, in millions of dollars)

Department/Agency	Enacted		
	2010	CR	2012 Request
Department of Agriculture:			
U.S. Forest Service	15.3	15.3	15.2
Court Services and Offender Supervision Agency for the District of Coloumbia:	47.0	47.4	48.9
Department of Defense: [2]			
Drug Interdiction and Counterdrug Activities	1,598.8	1,590.7	1,642.7
OPTEMPO[3]	128.5	142.0	141.1
Total DOD	**1,727.3**	**1,732.7**	**1,783.8**
Department of Education:	175.8	217.8	266.9
Federal Judiciary:	1,153.5	1,167.9	1,216.0
Department of Health and Human Services:			
Centers for Medicare and Medicaid Services [4]	5,114.0	5,173.2	5,040.9
Health Resources and Services Administration	15.7	23.8	24.4
Indian Health Service	96.0	96.0	105.6
National Institute on Alcohol Abuse and Alcoholism	55.5	55.5	56.4
National Institute on Drug Abuse	1,059.4	1,059.4	1,080.0
Substance Abuse and Mental Health Services Administration [5]	2,557.4	2,557.4	2,578.5
Total HHS	**8,898.0**	**8,965.3**	**8,885.8**
Department of Homeland Security:			
Customs and Border Protection	2,184.8	2,206.7	2,386.1
Federal Emergency Management Agency[6]	60.0	60.0	50.0
Federal Law Enforcement Training Center	48.6	48.6	48.5
Immigration and Customs Enforcement	490.7	474.1	493.3
Office of Counternarcotics Enforcement	3.6	3.6	3.8
U.S. Coast Guard[7]	1,162.3	1,162.3	1,197.2
Total DHS	**3,950.0**	**3,955.3**	**4,178.9**
Department of the Interior:			
Bureau of Indian Affairs	10.0	10.0	10.0
Bureau of Land Management	5.1	5.1	5.1
National Park Service	3.3	3.3	3.3
Total DOI	**18.4**	**18.4**	**18.4**
Department of Justice:[8]			
Asset Forfeiture Fund	204.9	205.4	215.6
Bureau of Prisons	3,256.6	3,246.3	3,568.8
Criminal Division	13.7	12.5	15.2
Drug Enforcement Administration	2,305.1	2,310.0	2,364.1
Interagency Crime and Drug Enforcement	549.6	528.6	541.0
Office of Federal Detention Trustee	512.0	512.0	580.0
Office of Justice Programs	288.4	288.4	298.6
National Drug Intelligence Center	44.0	44.0	25.0
U.S. Attorneys	82.1	82.1	84.3
U.S. Marshals Service	256.2	242.1	266.8
Total DOJ	**7,512.6**	**7,471.4**	**7,959.4**
Office of National Drug Control Policy:			
Operations	29.6	29.6	23.4
Counterdrug Technology Assessment Center	5.0	5.0	0.0
High Intensity Drug Trafficking Area Program	239.0	239.0	200.0
Other Federal Drug Control Programs	154.4	154.4	143.6
Total ONDCP	**428.0**	**428.0**	**367.0**
Department of State:[9]			
Bureau of International Narcotics and Law Enforcement Affairs	884.0	727.7	506.4
Economic Support and Development Assistance	477.7	368.8	339.5
Total DOS	**1,361.7**	**1,096.5**	**845.9**

Table 25–1. FEDERAL DRUG CONTROL FUNDING, 2010–2012 [1]—Continued

(Budget authority, in millions of dollars)

Department/Agency	Enacted		2012 Request
	2010	CR	
Department of the Transportation:			
Federal Aviation Administration	27.1	27.1	29.5
National Highway Safety Administration	2.8	2.8	2.8
Total DOT	**29.9**	**29.9**	**32.3**
Small Business Administration:	1.0	1.0	0.0
Department of the Treasury:			
Internal Revenue Service	60.3	60.3	60.7
Department of Veterans Affairs:			
Veterans Health Administration[10]	508.3	524.7	541.7
Total Federal Drug Budget	**25,887.1**	**25,731.8**	**26,221.0**

[1] Detail may not add due to rounding.

[2] DOD amounts include supplemental funding. The 2009 enacted includes the 2009 supplemental war appropriations. The 2010 and 2011 amounts are the current request levels and include war funding.

[3] OPTEMPO funding (flight hours and steaming days) is reported by the military services and is not part of DOD's counter-drug budget request.

[4] Outlay estimates were developed as a placeholder by ONDCP for Medicare and Medicaid substance abuse treatment spending, based on data in the 2008 report 'SAMHSA Spending Estimates: MHSA Spending Projections for 2004–2014'. CMS's Office of the Actuary (OACT) did not develop nor approve these estimates. The estimates are not consistent with the FY 2012 President's Budget Medicaid or Medicare baseline projections, and do not incorporate the impact of recent legislation (including the Recovery Act and Affordable Care Act), nor recent economic and policy changes to the programs. These estimates reflect a methodology change from previous years where OACT estimated baseline outlays of certain treatment codes only for the Medicaid program based on projected State Medicaid program participation; the current placeholder estimates are for use while HHS develops a more accurate estimate consistent with current program spending.

[5] Includes budget authority and funding through evaluation set-aside authorized by Section 241 of the Public Health Service (PHS) Act. PHS Evaluation Fund levels are as follows: $131.6 million in 2010, $131.6 million in 2011, and $169.7 million in 2012.

[6] FEMA amount reflects Operation Stonegarden grant funding.

[7] The USCG budgets by appropriation rather than individual missions. The USCG projects resource allocations by mission through use of an activity-based costing system. Actual allocations will vary depending upon operational environment and mission need. In FY 2010, the USCG anticipated allocating $1,162.2 toward the drug interdiction mission. According to the USCG operations database, however, actual EOY expenditures totaled $860 million.

[8] FY2010 funding for Department of Justice components (ICDE, DEA, USMS, USA, BOP, OFDT) includes supplemental funding for the southwest border (Public Law 111–230).

[9] State/International Affairs amounts include supplemental funding. The 2010 enacted includes the 2010 war supplemental enacted.

[10] VA Medical Care receives advance appropriations; FY 2011 funding was provided in the Consolidated Appropriations Act, 2010 (Public Law 111–117).

26. CALIFORNIA-FEDERAL BAY-DELTA PROGRAM BUDGET CROSSCUT (CALFED)

The California-Federal Bay-Delta program (also known as CALFED) is a cooperative effort among the Federal Government, the State of California, local governments, and water users, to proactively address the water management and aquatic ecosystem needs of California's Central Valley. This valley, one of the most productive agricultural regions of the world, is drained by the Sacramento River in the north and the San Joaquin River in the south. The two rivers meet southwest of Sacramento, forming the Sacramento-San Joaquin Delta, and drain west into San Francisco Bay.

The Bay-Delta is the hub of the nation's largest water delivery system, providing drinking water to 25 million Californians. According to the State of California, it supports about $400 billion of annual economic activity, including a $28 billion agricultural industry and a robust set of recreational opportunities.

The extensive development of the area's water resources has boosted agricultural production, but has also adversely affected the region's ecosystems. CALFED participants recognized the need to provide a safe, clean, reliable source of water for multiple uses, while at the same time restoring or maintaining the ecosystems of the area and protecting against floods. This recognition resulted in the 1994 Bay-Delta Accord, which laid the foundation for the CALFED program. CALFED's adaptive management approach to water resources development and management seeks to balance achievement among the program's four objectives: Water Supply Reliability, Levee System Integrity, Water Quality, and Ecosystem Restoration. The program integrates science and monitoring into program management to track progress toward achieving those goals. The partners signed a Record of Decision in 2000, spelling out the different program components and goals.

In 2004, the Calfed Bay-Delta Authorization Act (P.L. 108-361) was signed into law. This Act authorizes activities for the CALFED program provides new programmatic authority for participating agencies, authorizes funding to be appropriated for the Federal share of CALFED activities, and specifies criteria for program cost-shares and achieving balanced implementation of CALFED program components. Federal agencies contributing to CALFED goals include: the Department of the Interior's Bureau of Reclamation, U.S. Fish and Wildlife Service, and U.S. Geological Survey; the Department of Agriculture's Natural Resources Conservation Service; the U.S. Army Corps of Engineers; the Department of Commerce's National Oceanic and Atmospheric Administration (NOAA); and the Environmental Protection Agency. The 2012 Budget includes a crosscut of estimated Federal funding by each of the CALFED agencies, fulfilling the reporting requirements of P.L. 108-361. Additional tables can be found in the CD-ROM included with the Analytical Perspectives. Please note that the funding amounts included in the budget for each participating agency have been updated to align with the programs and activities outlined in the Interim Federal Action Plan for the Bay-Delta, as described below.

The Department of the Interior and the White House Council on Environmental Quality have been leading an interagency Federal working group that continues to develop strategies to establish a sustainable Bay Delta ecosystem that provides for a high quality, reliable, and sustainable long-term water supply for California, and restores the environmental integrity and sustainability of the system. The working group is tracking progress being made toward reaching near-term objectives and contributing to longer range success in the key areas identified in the Interim Federal Action Plan: renewed Federal-State partnership, smarter water supply and use, habitat restoration, and floodplain and drought management. In many cases the focus of the Interim Federal Action Plan includes the same projects and programs that were historically reported in the crosscut, but also additional programs not previously included to reflect the strategic direction provided by the plan. More information about the Interim Federal Action Plan can be found at *http://www.doi.gov/documents/CAWaterWorkPlan.pdf*.

Table 26–1. BAY-DELTA FEDERAL FUNDING BUDGET CROSSCUT
(In millions of dollars)

Agency	Enacted													2011 Pres. Budget	2012 Pres. Budget
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 [1]	2010		
Bureau of Reclamation	153.37	114.67	138.51	79.75	103.32	74.21	75.74	81.1	99.83	101.34	66.05	156.8	94.66	140.21	172.85
Corps of Engineers	100.67	103.34	93.79	54.19	58.22	57.83	72.64	52.31	91.29	87.44	51.2	140.74	72.52	58.07	57.03
Natural Resources Conservation Service	0.00	14.54	12.85	16.95	39.08	38.4	48.75	36.39	34.64	26.86	40.9	44.4	39.7	56.08	56.08
NOAA Fisheries	0.30	0.38	0.45	0.55	0.58	0.78	0.78	0.78	0.78	0.5	0.53	0.53	0.53	1.60	1.60
Geological Survey	3.16	3.16	4.32	5.37	5.09	4.91	4.89	5.42	5.18	4.08	3.73	3.73	3.44	3.50	3.50
Fish and Wildlife Service	0.94	1.14	3.65	18.23	5.61	11.19	13.68	8.91	10.74	7.53	22.03	24.19	6.52	6.52	6.85
Environmental Protection Agency[2]	3.20	3.05	57.26	53.38	54.26	20.69	62.78	97.65	36.56	36.13	68.34	161.47	123.7	114.70	90.00
Totals:	261.64	240.28	310.83	228.42	266.16	208.01	279.26	282.56	279.02	263.88	252.78	531.86	341.07	380.68	387.91

[1] The 2009 total includes American Recovery and Reinvestment Act projects and activities.
[2] EPA's 2011 and 2012 figures include estimated projections of California's total State Revolving Fund (SRF) allocations. Prior Budgets did not forecast SRF spending.
Note: The 2012 Pres. Budget column is aligned with the categories in the Interim Federal Action Plan for the Bay-Delta, and in some cases may include different projects.

TECHNICAL BUDGET ANALYSES

27. CURRENT SERVICES ESTIMATES

Current services, or "baseline," estimates are designed to provide a benchmark against which policy proposals can be measured. A baseline is not a prediction of the final outcome of the annual budget process, nor is it a proposed budget. It can be a useful tool in budgeting, however. It can be used as a benchmark against which to measure the magnitude of the policy changes in the President's Budget or other budget proposals, and it can also be used to warn of future problems, either for Government fiscal policy as a whole or for individual tax and spending programs.

Since the early 1970s, when the first requirements for the calculation of a "current services" baseline were enacted, a variety of concepts and measures have been employed. Shortly after enactment of the Budget Enforcement Act of 1990 (BEA), which provided detailed rules for calculating a baseline, there was a consensus to define the current services estimates according to those rules. However, that baseline has flaws, which compromise its ability to serve as an appropriate benchmark. This section provides detailed estimates of a baseline that corrects for some of these flaws. It also discusses alternative formulations for the baseline.

Ideally, a current services baseline would provide a projection of estimated receipts, outlays, deficits or surpluses, and budget authority needed to reflect this year's enacted policies and programs for each year in the future. Because such a concept would be nearly impossible to apply across all segments of the government, the baseline has instead become largely a mechanical construct whose levels may be considered a representation of current services when viewed in aggregate.

The Administration believes adjustments to the BEA baseline are needed to better represent the deficit outlook under current policy. For example, an appropriate benchmark should include the future costs of extending temporary tax cuts for the middle class, which are expected to

Table 27–1. CATEGORY TOTALS FOR THE ADJUSTED BASELINE

(In billions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Receipts	2,163	2,174	2,609	2,959	3,305	3,487	3,679	3,942	4,159	4,386	4,584	4,820
Outlays:												
Discretionary:												
Defense	689	746	735	735	747	758	773	788	806	824	842	861
Non-defense	617	640	608	591	593	601	610	622	637	653	670	687
Subtotal, discretionary	1,306	1,386	1,344	1,326	1,339	1,359	1,383	1,410	1,443	1,477	1,512	1,548
Mandatory:												
Social Security	701	727	761	802	847	895	947	1,004	1,065	1,129	1,199	1,272
Medicare	446	488	468	501	529	554	601	617	637	692	742	792
Medicaid and CHIP	281	285	279	299	365	406	448	470	499	533	568	611
Other mandatory	526	676	601	547	565	600	644	659	665	707	735	774
Subtotal, mandatory	1,954	2,177	2,109	2,150	2,306	2,455	2,640	2,750	2,866	3,061	3,245	3,450
Disaster costs [1]	....	3	7	8	9	9	10	10	10	10	10	10
Net interest	196	205	240	322	421	505	584	661	730	798	863	928
Total, outlays	3,456	3,771	3,699	3,805	4,075	4,328	4,617	4,831	5,049	5,346	5,629	5,936
Unified deficit(+)/surplus(–)	1,293	1,597	1,090	846	770	841	938	890	891	960	1,045	1,116
On-budget	1,370	1,653	1,168	928	859	934	1,044	995	997	1,063	1,133	1,195
Off-budget	–77	–56	–77	–82	–89	–93	–106	–105	–107	–103	–88	–78
Memorandum:												
BEA baseline deficit	1,293	1,593	1,036	643	463	496	552	460	417	438	472	488
Adjustments to reflect current tax policies	....	1	36	180	272	294	317	342	366	393	420	449
Adjustments to reflect current spending policies and potential disaster costs	....	3	18	20	20	21	21	22	22	22	22	22
Related debt service	....	*	*	4	15	30	47	66	85	107	131	157
Adjusted baseline deficit	1,293	1,597	1,090	846	770	841	938	890	891	960	1,045	1,116

* $500 million or less.

[1] These amounts represent the probability of major disasters requiring Federal assistance for relief and reconstruction. Such assistance might be provided in the form of discretionary or mandatory outlays or tax relief. These amounts are included as outlays for convenience.

be extended beyond their expiration at the end of 2012 and which are explicitly exempted from the provisions of the Statutory Pay-As-You-Go (PAYGO) Act enacted in February 2010. Omitting these costs would make the deficit outlook appear more favorable than is actually likely, masking future problems and providing an inappropriate benchmark for measuring budget proposals.

Table 27–1 shows estimates of receipts, outlays, and surpluses under the Administration's adjusted baseline for 2010 through 2021. The estimates are based on the economic assumptions described later in this chapter. They are shown on a unified budget basis; i.e., the off-budget receipts and outlays of the Social Security trust funds and the Postal Service Fund are added to the on-budget receipts and outlays to calculate the unified budget totals. The table also shows the Administration's estimates by major component. Estimates based on the BEA baseline rules are shown as a memorandum in the table. Table 27–2 shows the changes proposed in the President's Budget relative to the Administration's baseline.

Conceptual Basis for Estimates

Receipts and outlays are divided into two categories that are important for calculating the baseline: those controlled by authorizing legislation (direct spending and receipts) and those controlled through the annual appropriations process (discretionary spending). Different estimating rules apply to each category. There are numerous alternative rules that could be used to develop current services estimates for both categories. The next section discusses some alternatives that might be considered.

Direct spending and receipts.—Direct spending includes the major entitlement programs, such as Social Security, Medicare, Medicaid, Federal employee retirement, unemployment compensation, and the Supplemental Nutrition Assistance Program (SNAP). It also includes such programs as deposit insurance and farm price and income supports, where the Government is legally obligated to make payments under certain conditions. Receipts and direct spending are alike in that they involve ongoing activities that generally operate under permanent or long-standing authority (they do not require annual authorization), and the underlying statutes generally specify the tax rates or benefit levels that must be collected or paid, and who must pay or who is eligible to receive benefits.

The baseline generally—but not always—assumes that receipts and direct spending programs continue in the future as specified by current law. The budgetary effects of anticipated regulatory and administrative actions that are permissible under current law are also reflected in the estimates. Exceptions to this general rule are described below:

- Consistent with the BEA, expiring excise taxes dedicated to a trust fund are assumed to be extended at current rates. During the projection period of 2011 through 2021, the only taxes affected by this exception are taxes deposited in the Airport and Airway Trust Fund, which expire on March 31, 2011; taxes deposited in the Highway Trust Fund, the Leaking Underground Storage Tank Trust Fund, and the Sport Fish Restoration and Boating Safety Trust Fund, which expire on September 30, 2011; tobacco assessments deposited in the Tobacco Trust Fund, which expire on September 30, 2014; taxes deposited in the Oil Spill Liability Trust Fund, which expire on December 31, 2017; and taxes deposited in the Patient-Centered Outcomes Research Trust Fund, which expire on September 30, 2019.
- The BEA required temporary direct spending programs that were enacted before the Balanced Budget Act of 1997 to be extended if their current year outlays exceed $50 million. For example, the Supplemental Nutrition Assistance Program is scheduled to expire at the end of 2012. The baseline estimates provided here assume continuation of this program through the projection period. For programs enacted since the Balanced Budget Act of 1997, programs that are explicitly temporary in nature expire in the baseline even if their current year outlays exceed the $50 million threshold. For example, the tobacco buyout payments enacted in the Fair and Equitable Tobacco Reform Act of 2004 are scheduled to expire in 2014 even though current year outlays are estimated to be $960 million.
- The middle class tax cuts enacted in 2001 and 2003 and extended for two years by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 are assumed to continue permanently in the Administration's baseline. Estate, gift, and generation-skipping transfer taxes are assumed to be extended at their 2009 parameters (maximum rate of 45 percent and exemption amount of $3.5 million) once the estate tax provisions enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 expire on December 31, 2012. The baseline estimates also reflect annual indexation of the alternative minimum tax (AMT) exemption amounts in effect for taxable year 2011, the income thresholds for the 28-percent AMT rate, and the income thresholds for the phase-out of the AMT exemption amounts. AMT relief for refundable personal credits is also permanently extended after it expires on December 31, 2011.

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 BEA baseline provides a mechanical definition to reflect the continuing costs of discretionary programs that is admittedly somewhat arbitrary. Under the

BEA, the baseline estimates for discretionary programs in the current year are equal to enacted appropriations.[1] For the budget year and beyond, the spending authority enacted in the current year is adjusted for inflation, using specified inflation rates. The definition attempts to keep discretionary spending roughly level in real terms. The Administration's baseline projection is based on the following modifications to the BEA baseline:

- The adjusted baseline reflects the costs of continuing the annually appropriated portion of the Pell grant program for all eligible students at the maximum award amount of $4,860 specified in existing appropriations. While the Pell program has traditionally been funded largely through discretionary appropriations, this baseline treatment reflects the reality that the program has effectively operated as an entitlement, in which funding is provided to meet the specified award level for all eligible students.

- The adjusted baseline removes the extension and inflation of items designated as "emergency" requirements that are clearly one-time in nature and instead substitutes an allowance for future disaster costs. There is no obvious reason that the specific non-recurring emergency costs enacted in the most current year should be the basis for the baseline in all future years, as required by the BEA. On the other hand, including no adjustment for future one-time expenditures could understate the baseline costs, and therefore the Administration's baseline projection includes a disaster cost allowance as explained below. For the 2012 Budget, the adjusted baseline makes no adjustments to remove one-time emergency funding, because no such funding had been enacted at the time the Budget was prepared.

[1] When current year appropriations have not been enacted, the BEA 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.

The Administration's baseline uses the same inflation rates for discretionary spending as required by the BEA, despite the fact that this allows for an overcompensation for Federal pay inherent in the BEA 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. Correcting for this error in the BEA would have only a small effect on the discretionary baseline.

Reclassification of transportation spending. — To provide an appropriate baseline for assessing the budgetary impact of the Administration's proposal for surface transportation reauthorization, the adjusted baseline reclassifies surface transportation spending to be included in the proposed Transportation Trust Fund (TTF) as mandatory. The National Commission on Fiscal Responsibility and Reform noted that the current hybrid treatment of trust fund spending for surface transportation allows for budget gimmicks to circumvent limits on spending, and recommended that TTF spending be treated as mandatory. This reclassification, which is a zero-sum shift of outlays from the discretionary category to the mandatory category, provides a more transparent presentation of the difference between baseline levels and the TTF proposal, and allows accounting for the proposal under the existing statutory PAYGO system of budget enforcement.

Disaster funding.—An allowance for the possible future costs of major natural or man-made disasters during the remainder of 2011 and in subsequent years is assumed

Table 27–2. IMPACT OF BUDGET POLICY
(In billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Totals 2012–2016	Totals 2012–2021
Adjusted baseline deficit	1,597	1,090	846	770	841	938	890	891	960	1,045	1,116	4,486	9,387
Proposals:													
Revenue proposals [1]	1	1	–16	21	–37	–81	–34	–32	–25	–37	–33	–113	–273
Discretionary policy:													
Defense	15	–6	–66	–88	–93	–99	–103	–107	–111	–117	–124	–353	–915
Non-defense	14	2	–17	–31	–46	–47	–50	–48	–51	–48	–57	–139	–392
Subtotal, discretionary	29	–3	–84	–119	–140	–146	–152	–154	–162	–166	–181	–492	–1,307
Mandatory proposals	18	26	28	–12	–34	–31	–35	–34	–27	–30	–35	–22	–184
Surface transportation reauthorization [2]	....	–13	–6	–11	–13	–10	–7	–5	–6	–7	–9	–53	–87
Net interest	....	–1	–1	–1	–*	*	*	*	1	1	1	–3	*
Debt service	*	*	*	–3	–11	–22	–35	–46	–58	–71	–85	–36	–331
Resulting deficits in 2012 Budget	1,645	1,101	768	645	607	649	627	619	681	735	774	3,860	7,623

* $500 million or less.
[1] Includes outlay impact of revenue proposals.
[2] Affects receipts and outlays.

in the Administration's baseline in order to make budget totals more realistic. Baselines would be more meaningful if they did not project forward whatever disaster costs happen to have occurred in the current year. Rather, baselines should replace the projection of actual current-year costs—which might be unusually low or unusually high—with plausible estimates of future costs. This allowance is displayed as possible future outlays for convenience, but in practice the disaster relief could take the form of either increases in outlays or reductions in receipts.

As discussed, baselines can be used as a benchmark against which policy proposals are measured. However, this purpose is achieved only if the policies and the baseline are each constructed under the same set of economic and technical assumptions. For this reason, the Administration uses the same assumptions – for example, the same inflation assumptions – in preparing its current service estimates and its Budget.

Alternative Formulations of Baseline

Throughout much of U.S. history, congressional budget proposals were often compared with either the President's request or the previous year's budget. In the early 1970s, policymakers developed the concept of a baseline to provide a more neutral benchmark for comparisons. While the Congressional Budget Act of 1974 included a requirement that OMB and the Congressional Budget Office (CBO) provide estimates of a current services baseline, the definition of the baseline was very general and specific guidance was not provided.

Subsequent budget laws have specified in increasing detail the requirements for constructing baselines. Current services estimates for direct spending programs and receipts are generally estimated based on laws currently in place and most major programs are assumed to continue even past sunset dates set in law. In the case of receipts, the BEA requires only the extension of trust fund excise taxes, but otherwise bases the estimates on current law. For discretionary programs, these acts instituted a precise definition of the baseline with numerous rules for its construction.

It is clear, however, that a number of baseline definitions could be developed that differ from those presented in this chapter:

- *Extend provisions affecting mandatory programs.* Currently, mandatory programs that have outlays of over $50 million in current year are generally assumed to continue, unless the programs are explicitly temporary. However, individual provisions of law that affect mandatory programs are assumed to expire as scheduled. If instead, these expiring provisions were extended, baseline outlays would be higher. For example, the cost of extending Transitional Medical Assistance (TMA), a component of the Medicaid program which is scheduled to expire at the end of 2011, would be $7.4 billion over 2012-2021.[2]
- *Do not extend any authorizing laws that expire.*[2] If all mandatory programs were assumed to expire as scheduled, deficits for 2012 through 2021 would be $1,148 billion lower than in the Administration's baseline. (See the section below on major program assumptions for details on mandatory program extensions assumed in the estimates.) If excise taxes dedicated to trust funds were assumed to expire as scheduled under current law, the deficit would be $585 billion higher over the period 2012 through 2021. If the middle class tax relief recently enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 were assumed to expire, the deficit would be $1,506 billion lower over the 10-year period. If the AMT relief enacted in that bill were assumed to expire as scheduled, the deficit would be $1,838 billion lower over the 10 years. If estate, gift, and generation-skipping

[2] Estimates include debt service.

Table 27–3. ALTERNATIVE BASELINE ASSUMPTIONS
(In billions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Totals 2012–2016	Totals 2012–2021
Adjusted baseline deficit	1,293	1,597	1,090	846	770	841	938	890	891	960	1,045	1,116	4,486	9,387
Alternative assumptions ("+" represents deficit increase): [1]														
Do not extend any authorizing laws:														
Mandatory spending	....	1	–16	–102	–104	–108	–116	–124	–130	–141	–150	–156	–447	–1,148
Trust fund excise taxes	....	5	42	44	49	53	57	61	64	67	72	76	245	585
AMT relief	....	....	–33	–108	–114	–137	–163	–190	–220	–254	–290	–328	–555	–1,838
Estate, gift, and generation-skipping transfer tax relief	....	–1	–2	–5	–25	–28	–33	–37	–41	–45	–50	–54	–92	–319
2001 and 2003 tax cuts for middle-income taxpayers	....	....	–1	–70	–147	–156	–165	–175	–184	–193	–202	–212	–539	–1,506
Straightline appropriations	....	....	–16	–40	–68	–100	–135	–172	–213	–256	–303	–352	–359	–1,655
Account for population growth	....	....	13	27	42	58	76	95	116	139	164	191	215	921
Do not extend any appropriations	....	....	–744	–1,160	–1,354	–1,487	–1,605	–1,716	–1,827	–1,945	–2,069	–2,197	–6,350	–16,103

[1] Includes costs or savings from debt service.

transfer taxes were assumed to return to the rates and exemptions prior to the 2001 tax cuts rather than continue at 2009 parameters, the deficit would be $319 billion lower over 10 years.

- *Straightline appropriations.* If all discretionary budgetary resources in the current year that are inflated in the Administration's baseline were instead frozen throughout the projection period, total outlays would be $16 billion lower in 2012 and $1,655 billion lower over the period 2012 through 2021, which includes savings from debt service. This calculation does not include any extension of the Recovery Act and other emergency resources, which are not extended in the baseline.
- *Account for population growth.* While the baseline assumes that discretionary budgetary resources will grow with inflation, an alternative would be to assume growth with both inflation and population, so that real resources per person (or the real cost per person of funding these programs) remains constant over time. Such an alternative would increase total outlays by $13 billion in 2011 and $921 billion over the period 2012-2021 relative to the BEA baseline, which includes costs from debt service.
- *Do not extend any appropriations.* The current treatment of expiring provisions of mandatory programs is inconsistent with the treatment of discretionary spending. All discretionary spending continues whether there is authorization for the program or not and whether funds have already been provided or not. In nearly all cases, funds for discretionary programs have not been provided in advance for years beyond the current year. If rules consistent with the treatment of other expiring provisions were applied to discretionary spending, no new budgetary resources would be provided. Thus, under a strict "current law" approach, the only discretionary outlays that would be included in the baseline would be the lagged spending from budgetary resources already provided in the current year or past years. If this rule were followed, outlays in 2012 would be reduced by $744 billion relative to the Administration's baseline, which includes savings from debt service. However, clearly this would provide an unrealistic estimate of future spending and the Government's future fiscal position.

Table 27–3 provides estimates for a variety of changes in baseline definitions that could be considered.

Economic Assumptions

The estimates for the baseline are prepared using the same economic assumptions as the President's Budget. These assumptions are based on enactment of the President's Budget proposals. The economy and the

Table 27–4. SUMMARY OF ECONOMIC ASSUMPTIONS
(Fiscal years; dollar amounts in billions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Gross Domestic Product (GDP):												
Levels, dollar amounts in billions:												
Current dollars	14,508	15,080	15,813	16,752	17,782	18,804	19,791	20,755	21,679	22,624	23,608	24,633
Real, chained (2005) dollars	13,153	13,491	13,953	14,546	15,189	15,787	16,332	16,819	17,259	17,691	18,133	18,586
Percent change, year over year:												
Current dollars	2.9	3.9	4.9	5.9	6.1	5.7	5.2	4.9	4.4	4.4	4.3	4.3
Real, chained (2005) dollars	2.2	2.6	3.4	4.3	4.4	3.9	3.4	3.0	2.6	2.5	2.5	2.5
Inflation measures (percent change, year over year):												
GDP chained price index	0.8	1.3	1.4	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8
Consumer price index (all urban)	1.7	1.2	1.7	1.9	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1
Unemployment rate, civilian (percent)	9.8	9.5	8.8	7.8	6.8	6.1	5.6	5.4	5.3	5.3	5.3	5.3
Interest rates (percent):												
91-day Treasury bills	0.1	0.2	0.6	2.2	3.6	4.0	4.1	4.1	4.1	4.1	4.1	4.1
10-year Treasury notes	3.4	2.9	3.5	4.1	4.5	4.9	5.2	5.3	5.3	5.3	5.3	5.3
MEMORANDUM:												
Related program assumptions:												
Automatic benefit increases (percent):												
Social security and veterans pensions	0.0	0.0	0.9	1.9	1.9	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Federal employee retirement	0.0	0.0	0.9	1.9	1.9	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Supplemental Nutrition Assistance Program [1]	0.0	0.0	0.0	0.0	–9.1	2.0	2.1	2.0	2.1	2.1	2.1	2.1
Insured unemployment rate	3.7	3.6	3.6	3.5	3.1	2.7	2.5	2.3	2.3	2.3	2.3	2.3

[1] Enhanced Thrifty Food Plan (TFP) benefits provided by the Recovery Act (P.L. 111–5) are set to expire on October 31, 2013. Benefits will return to regular levels and will be updated annually based on the TFP from the proceeding June.

budget interact. Changes in economic conditions significantly alter the estimates of tax receipts, unemployment benefits, entitlement payments that are automatically adjusted for changes in cost-of-living (COLAs), income support programs for low-income individuals, and interest on the Federal debt. In turn, Government tax and spending policies influence prices, economic growth, consumption, savings, and investment. Because of these interactions, it would be reasonable, from an economic perspective, to assume different economic paths for the baseline projection and the President's Budget. However, this would diminish the value of the baseline estimates as a benchmark for measuring proposed policy changes, because it would then be difficult to separate the effects of proposed policy changes from the effects of different economic assumptions. By using the same economic assumptions for the baseline and the President's Budget, this potential source of confusion is eliminated. The economic assumptions underlying both the Budget and the Administration's baseline are summarized in Table 27–4. The economic outlook underlying these assumptions is discussed in greater detail in Chapter 2 of this volume.

Major Programmatic Assumptions

A number of programmatic assumptions must be made in order to calculate the baseline estimates. These include assumptions about annual cost-of-living adjustments in the indexed programs and the number of beneficiaries who will receive payments from the major benefit programs. Assumptions about various automatic cost-of-living-adjustments are shown in Table 27–4, and assumptions about baseline caseload projections for the major benefit programs are shown in Table 27–5. These assumptions affect baseline estimates of direct spending for each of these programs, and they also affect estimates of the discretionary baseline for a limited number of programs. For Pell Grants and the administrative expenses for Medicare, Railroad Retirement, and unemployment insurance, the discretionary baseline is increased (or decreased) for changes in the number of beneficiaries in addition to the adjustments for inflation described earlier.

It is also necessary to make assumptions about the continuation of expiring programs and provisions. As explained above, in the baseline estimates provided here, expiring excise taxes dedicated to a trust fund are extended at current rates. Certain tax reductions enacted in 2001 and 2003 are assumed to be permanent for purposes of calculating revenue estimates. In general, mandatory programs with spending of at least $50 million in the current year are also assumed to continue, unless the programs are explicitly temporary in nature For example, under the Fair and Equitable Tobacco Reform Act of 2004, tobacco buyout payments will expire in 2014, even though current year outlays are $960 million. Table 27–6 provides a listing of mandatory programs and taxes assumed to continue in the baseline after their expiration. All discretionary programs with enacted non-emergency appropriations in the current year and the 2011 costs for overseas contingency operations in Iraq and Afghanistan and other recurring international activities are assumed to continue.

Many other important assumptions must be made in order to calculate the baseline estimates. These include assumptions about the timing and substance of regulations that will be issued over the projection period, the use of administrative discretion provided under current law, and other assumptions about the way programs operate. Table 27–6 lists many of these assumptions and their effects on the baseline estimates. It is not intended to be an exhaustive listing; the variety and complexity of Government programs are too great to provide a complete list. Instead, some of the more important assumptions are shown.

Current Services Receipts, Outlays, and Budget Authority

Receipts.—Table 27–7 shows the Administration's baseline receipts by major source. Total receipts are projected to increase by $434 billion from 2011 to 2012, by $1,070 billion from 2012 to 2016, and by $1,141 billion from 2016 to 2021. These increases are largely due to assumed increases in incomes resulting from both real economic growth and inflation.

Individual income taxes are estimated to increase by $189 billion from 2011 to 2012, by $621 billion from 2012 to 2016, and by $639 billion from 2016 to 2021 under baseline assumptions. This average annual rate of growth of 8.6 percent between 2012 and 2021 is primarily the effect of increased collections resulting from rising aggregate personal incomes.

Corporation income taxes are estimated to increase by $128 billion from 2011 to 2012, by $76 billion from 2012 to 2016, and by $99 billion from 2016 to 2021 under baseline assumptions. This average annual rate of growth of 4.9 percent between 2012 and 2021 is primarily attributable to growth in corporate profits.

Social insurance and retirement receipts are estimated to increase by $120 billion from 2011 to 2012, by an additional $297 billion between 2012 and 2016, and by an additional $313 billion between 2016 and 2021. These baseline estimates reflect the expiration of the one-year payroll tax holiday for calendar year 2011 enacted in the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, increases in total wages and salaries paid, and scheduled increases in the Social Security taxable earnings base from $106,800, in 2011 to $128,700 in 2016 and to $161,100 in 2021, as shown in Table 27-8.

Other baseline receipts (excise taxes, estate and gift taxes, customs duties and miscellaneous receipts) are projected to decrease by $3 billion between 2011 and 2012, and to rise to $377 billion by 2021.

Outlays.—Outlays in the Administration's baseline are estimated to decrease from $3,771 billion in 2011 to $3,699 billion in 2012, a 1.9 percent decrease. Between 2011 and 2016, the baseline outlays are projected to increase at an average annual rate of 4.1 percent and between 2011 and 2021, the baseline outlays are projected to increase at an average annual rate of 4.6 percent. Table 27–9 shows the growth from 2011 to 2012 and average annual growth over the five-year and ten-year periods for certain discretionary and major mandatory programs.

While most discretionary budget authority is assumed to grow with inflation, outlays for discretionary programs decrease by 3.1 percent from $1,386 billion in 2011 to $1,344 billion in 2012, largely due to the spending of remaining Recovery Act funds. Entitlement and other mandatory programs are estimated to decrease from $2,177 billion in 2011 to $2,109 billion in 2012, largely due to reduced spending on unemployment compensation in 2012 and to retroactive veterans compensation payments for disability claims related to Agent Orange exposure, which resulted in a one-time increase in outlays for veterans' programs in 2011. While several programs show some outlay growth between 2011 and 2012, including Medicaid (2.8 percent) and Social Security (4.6 percent), most programs show significant outlay decreases, including farm programs (32.7 percent), and other health care (34.2 percent). The outlay growth for other mandatory programs is due to significant downward reestimates of credit subsidies in 2011 for the Troubled Asset Relief Program (TARP) and student loan programs, which reduce 2011 outlays relative to 2012. Mandatory outlays generally increase after 2012, reaching $3,450 billion in 2021, due mostly to increased spending on Medicaid and other health care programs, followed by more modest increases in Social Security and Medicare. Medicaid outlays grow from $261 billion in 2011 to $605 billion in 2021, an average annual rate of 8.8 percent; over the same period, Medicaid and Children's Health Insurance Program (CHIP) beneficiaries grow at a lower average annual rate of 3.5 percent. Social Security (OASDI) outlays grow at an average annual rate of 5.8 percent, but grow faster than Social Security beneficiary projections over the same period (2.7 percent). Medicare outlays grow at an average annual rate of 5.0 percent, but faster than the growth in Medicare beneficiaries (2.7 percent). Veterans programs grow at an average annual rate of 4.0 percent over ten years, while outlays for unemployment compensation decline by 6.6 percent over the same period. Net interest payments are projected to increase by 16.8 percent from $205 billion in 2011 to $240 billion in 2012 due to increased interest rates, and are projected to increase to $928 billion in 2021, an average annual rate of 16.3 percent, due to increases in the amount of debt outstanding and to the average interest rate on the debt.

Tables 27–10 and 27–11 show the Administration's baseline outlays by function and by agency, respectively. A more detailed presentation of outlays (by function, category, subfunction, and program) is available as Table 27–14 online and on the CD-ROM enclosed with the printed version of this *Analytical Perspectives* volume.

Budget authority.—Tables 27–12 and 27–13 show estimates of budget authority in the Administration's baseline by function and by agency, respectively. A more detailed presentation of budget authority with program level estimates is also part of Table 27–14 on the Internet and on the CD-ROM enclosed with the printed version of this *Analytical Perspectives* volume.

Table 27–5. BASELINE BENEFICIARY PROJECTIONS FOR MAJOR BENEFIT PROGRAMS

(Annual average, in thousands)

	Actual 2010	Estimate										
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Farmers receiving Federal payments	1,402	1,395	1,388	1,381	1,374	1,367	1,360	1,353	1,346	1,339	1,332	1,325
Federal family education loans	2,885	....	....	....	....	....	....	....	....	....	....	....
Federal direct student loans	8,880	11,941	12,666	13,268	13,905	14,500	15,128	15,792	16,495	17,238	18,024	18,857
Federal Pell Grants	8,873	9,413	9,481	9,547	9,786	10,042	10,296	10,546	10,767	10,978	11,192	11,396
Medicaid/State Childrens' Health Insurance Program [1]	59,339	61,743	62,948	63,366	78,024	84,708	87,418	85,249	85,206	85,682	86,196	86,705
Medicare-eligible military retiree health benefits	2,055	2,087	2,137	2,234	2,282	2,322	2,356	2,387	2,420	2,454	2,489	2,524
Medicare:												
Hospital insurance	46,906	48,174	49,763	51,498	53,120	54,658	56,177	57,729	59,336	61,003	62,729	64,501
Supplementary medical insurance:												
Part B	43,569	44,730	46,147	47,734	49,171	50,533	51,874	53,249	54,674	56,159	57,744	59,345
Part D	34,222	35,316	36,727	37,939	38,972	39,997	41,062	42,212	43,387	44,583	46,096	47,499
Prescription Drug Plans and Medicare Advantage Prescription Drug Plans	27,559	28,976	31,771	34,776	36,712	38,365	40,096	41,397	42,548	43,721	45,209	46,586
Retiree Drug Subsidy	6,663	6,339	4,956	3,164	2,260	1,632	966	814	838	863	888	913
Managed Care Enrollment [2]	11,467	11,849	12,210	12,501	12,405	11,871	10,944	9,992	9,348	9,095	9,169	9,410
Total, Medicare	170,386	175,384	181,574	187,612	192,639	197,056	201,120	205,394	210,131	215,424	221,834	228,254
Railroad retirement	549	545	541	538	534	531	528	524	519	514	508	500
Federal civil service retirement	2,523	2,549	2,575	2,600	2,623	2,646	2,668	2,688	2,707	2,726	2,745	2,763
Military retirement	2,212	2,230	2,244	2,276	2,283	2,290	2,296	2,303	2,309	2,316	2,324	2,331
Unemployment insurance	11,429	12,287	12,539	12,060	11,081	10,263	9,686	9,430	9,367	9,409	9,455	9,501
Supplemental Nutrition Assistance Program (formerly Food Stamps)	40,302	45,005	44,981	43,558	41,689	38,675	35,538	33,499	32,028	31,079	30,548	30,334
Child nutrition	34,899	35,472	36,094	36,641	37,075	37,454	37,838	38,228	38,624	39,025	39,432	39,845
Commodity Supplemental Food Program	519	605	605	605	605	605	605	605	605	605	605	605
Foster care, Adoption Assistance and Guardianship Assistance	611	628	651	680	709	733	754	780	810	839	870	901
Supplemental security income (SSI):												
Aged	1,105	1,102	1,104	1,113	1,127	1,144	1,162	1,184	1,208	1,236	1,268	1,301
Blind/disabled	6,417	6,665	6,942	7,165	7,276	7,345	7,393	7,417	7,437	7,469	7,521	7,558
Total, SSI	7,522	7,767	8,046	8,278	8,403	8,489	8,555	8,601	8,645	8,705	8,789	8,859
Child care and development fund [3]	2,626	2,442	2,552	2,499	2,451	2,363	2,297	2,231	2,168	2,107	2,047	1,989
Social Security (OASDI):												
Old age and survivor insurance	43,110	44,220	45,386	46,703	48,127	49,586	51,099	52,666	54,276	55,932	57,618	59,285
Disability insurance	9,822	10,299	10,748	11,073	11,249	11,376	11,469	11,553	11,634	11,719	11,809	11,954
Total, OASDI	52,932	54,519	56,134	57,776	59,376	60,962	62,568	64,219	65,910	67,651	69,427	71,239
Veterans compensation:												
Veterans	3,155	3,459	3,588	3,748	3,902	4,052	4,198	4,339	4,476	4,609	4,739	4,873
Survivors (non-veterans)	343	386	388	396	404	414	424	435	447	459	472	485
Total, Veterans compensation	3,498	3,845	3,977	4,144	4,307	4,466	4,622	4,774	4,923	5,068	5,211	5,358
Veterans pensions:												
Veterans	312	308	304	300	296	292	289	285	281	278	274	271
Survivors (non-veterans)	195	200	203	206	209	212	216	219	222	226	229	232
Total, Veterans pensions	506	508	507	506	505	504	504	504	504	503	503	503

[1] Enrollment figures in person years.

[2] Enrollment figures include only beneficiaries who receive both Part A and Part B services through managed care.

[3] Assumes CCDF reauthorization proposed in President's Budget and includes children served through the CCDF (including TANF transfers) and through funds spent directly on child care in the Social Services Block Grant and TANF programs.

Table 27–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE

(Outlays in millions of dollars)

	Estimate										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
REGULATIONS											
Finalized											
Old Age and Survivors Insurance (OASI), Disability Insurance (DI) and Supplemental Security Income (SSI):											
Reduction of Title II Benefits Under Family Maximum in Cases of Dual Entitlement (OASDI)	23	23	23	23	23	23	23	23	23	23	23
Title XVI Cross Program Recovery (SSI)	–20	–20	–20	–20	–20	–20	–20	–20	–20	–20	–20
Student Earned Income Exclusion (SSI)	5	5	5	5	5	5	5	5	5	5	5
Continuing Disability Review Failure to Cooperate Process(OASDI)	–13	–14	–15	–16	–17	–17	–17	–17	–17	–17	–17
60 Month Government Pension Offset Exemption (OASDI)	–7	8	–10	–10	–10	–10	–10	–10	–10	–10	–10
Exemption of Work Activity as a Basis for a Continuing Disability Review (OASDI and SSI):											
OASDI	70	87	105	124	142	142	142	142	142	142	142
SSI	2	2	3	3	3	3	3	3	3	3	3
Amendments to the Quick Disability Determination Process (OASDI and SSI):											
OASDI	–4	–5	–8	–9	–12	–16	–1	–1	–1	–1	–1
SSI	–1	–1	–1	–2	–2	–2	....	....	....	....	....
Revised Medical Criteria for Evaluating Digestive Disorders (OASDI and SSI):											
OASDI	–35	–42	–50	–58	–67	–75	–83	–83	–83	–83	–83
SSI	–8	–8	–11	–12	–14	–17	–17	–17	–17	–17	–17
Attorney Advisors (OASDI and SSI):											
OASDI	26	6	6	5	5	5	4	4	4	4	4
SSI	8	2	2	2	2	2	2	2	2	2	2
Revised Medical Criteria for Evaluating Immune System Disorders (OASDI and SSI):											
OASDI	5	6	7	9	10	11	12	12	12	12	12
SSI	1	1	2	2	2	2	2	2	2	2	2
Ticket to Work (OASDI and SSI):											
OASDI	92	134	174	189	195	173	158	134	134	134	134
SSI	–11	–3	–8	–11	–8	–20	–13	–4	–4	–4	–4
Revised Medical Criteria for Evaluating Malignant Neoplastic Diseases (OASDI and SSI):											
OASDI	–2	–3	–4	–5	–6	–7	–8	–9	9	–9	–9
SSI	–	–1	–1	–1	–1	–1	–1	–1	–1	–1	–1
Revised Medical Criteria for Evaluating Hearing Loss (OASDI and SSI):											
OASDI	10	10	10	10	10	10	5	5	5	5	5
SSI	1	1	1	1	1	1	1	1	1	1	1
Additional Presumptions for Agent Orange Exposure for Vietnam Veterans	12,474	1,994	2,099	2,209	2,320	2,433	2,549	2,666	2,786	2,907	3,034
Cellulosic Biofuel Waiver Credits, Renewable Fuel Program (EPA):											
Collection of waiver credits beginning in 2011, per RFS rule	10	10	10	10	11	11	11	11	11	12	12
Not Finalized											
Adoption and Foster Care Analysis and Reporting System (AFCARS)	....	....	1	6	3	2	....	–2	–4	–4	–4
Federal Funding for Medicaid Eligibility Determination and Enrollment Activities	560	906	1,070	524	254	–195	–199	–200	–202	–203	–205
EXPIRING AUTHORIZATIONS											
Programs Extended in the Adjusted Baseline											

Table 27–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Spending:											
Agriculture:											
National Institute of Food and Agriculture (Formerly CSREES, Cooperative State Research, Education, and Extension Service):											
Specialty Crop Research Initiative	....	....	3	20	38	50	50	50	50	50	50
DM/Office of Advocacy and Outreach:											
Outreach and Technical Assistance for Socially Disadvantaged Farmers and Ranchers	....	....	21	22	23	24	24	24	26	27	27
Forest Service (FS):											
Federal Land and Facility Enhancement Fund	....	30	30	30	30	31	32	33	34	35	36
Administration of Rights-of-Way and Other Land Uses Fund	....	....	4	4	4	4	5	5	5	5	5
Federal Lands Recreation Enhancement Fund	....	....	....	....	75	77	80	83	86	89	92
Sect. 420 Sale of botanical products pilot program	....	....	....	....	3	3	3	3	3	3	3
Natural Resources Conservation Service (NRCS):											
Environmental Quality Incentives Program	....	....	546	978	1,241	1,381	1,510	1,639	1,756	1,753	1,751
Agricultural Water Enhancement Program	....	....	28	46	54	57	60	60	60	60	60
Wildlife Habitat Incentives Program	....	....	21	40	53	62	68	73	80	85	85
Farm and Ranch Land Protection Program	....	....	10	63	123	155	182	201	201	201	201
Conservation Stewardship Program.	....	....	....	....	....	....	....	105	2,354	2,582	2,366
Chesapeake Bay Watershed Initiative	....	....	20	31	37	41	44	47	50	50	50
Conservation Reserve Program			124	124	124	124	124	124	124	124	124
Farm Service Agency (FSA):											
Agricultural Commodity Marketing Loans	....	....	–27	28	–8	–1	....	10	12	1	3
Dairy Product Price Support Program	....	....	83	79	75	71	67	63	59	55	51
Agricultural Commodity Counter-Cyclical Program.	....	....	....	....	20	15	12	9	7	5	4
Average Crop Revenue Election (ACRE) Program	....	....	....	....	182	57	34	30	30	17	22
Direct Crop Payments	....	....	....	4,972	4,968	4,963	4,959	4,955	4,994	4,990	4,985
Conservation Reserve Program	....	....	29	92	309	434	544	632	764	838	869
Milk Income Loss Contract Program	....	....	47	39	32	24	14	11	8	5	5
Market Access Program — FAS	....	....	40	200	200	200	200	200	200	200	200
Child Nutrition Programs:											
State Administrative Expenses	....	....	....	....	....	269	273	278	283	291	300
Summer Food Service Program	....	....	....	....	....	493	519	546	575	604	635
Supplemental Nutrition Assistance Program (SNAP) (formerly Food Stamps) [1]	....	....	77,926	67,563	63,786	60,711	59,091	58,371	58,352	58,885	57,146
Health and Human Services:											
CMS:											
Children's Health Insurance Program	....	....	....	....	....	3,900	6,000	5,800	5,700	5,700	5,700
Administration for Children and Families:											
Child Care Entitlements to States	....	2,258	2,789	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917
Promoting safe and stable families	....	76	266	325	342	358	363	365	365	365	365
TANF	....	13,378	16,221	16,473	16,639	16,724	16,724	16,724	16,724	16,724	16,724
Contingency Fund	....	....	600	612	612	612	612	612	612	612	612
Homeland Security:											
National Flood Insurance Fund	–855	–361	–215	–275	–122	–75	–61	–58	–57	–58	–60
Interior:											
Sport Fish Restoration and Boating Trust Fund	245	505	505	505	505	505	505	515	524	534	544
Labor:											
Trade Adjustment Assistance for Workers	....	83	605	831	832	802	806	823	852	882	912
Veterans Affairs:											
Veterans Compensation Cost of Living Adjustment	....	329	1,162	2,192	3,359	4,675	6,106	7,645	9,488	11,246	13,124

Table 27–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenues:											
Airport and Airway Trust Fund Taxes	4,874	9,895	10,238	10,752	11,204	11,718	12,117	12,514	12,959	13,389	13,712
Highway Trust Fund Taxes	....	31,047	31,960	32,925	33,703	34,139	34,375	34,394	34,521	34,840	35,280
Leaking Underground Storage Tank (LUST) Trust Fund Taxes	....	181	183	187	190	191	192	190	190	190	192
Oil Spill Liability Trust Fund Taxes	....	....	....	....	....	....	404	552	552	555	555
Sport Fish Restoration and Boating Safety Trust Fund Taxes	....	491	499	507	515	523	530	539	547	556	564
Tobacco Assessment	....	....	....	....	960	960	960	960	960	960	960
Fee on Insured and Self Insured Plans	....	....	....	....	....	....	....	....	....	579	613
Programs and Provisions Not Extended in the Adjusted Baseline											
Spending:											
Agriculture:											
Animal and Plant Health Inspection Service:											
National Clean Plant Network (2008 Farm Bill, Section 10202)	....	....	2	5	5	5	5	5	5	5	5
Child Nutrition:											
NSLP Commodity Support (Bonus - Section 6(e)(1)(B) of NSLA)	....	....	....	....	....	....	....	....	....	....	100
Farm Service Agency (FSA):											
Agricultural Disaster Relief Fund	....	....	....	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Biomass Crop Assistance Program (BCAP)	....	....	215	222	264	310	359	409	460	515	572
Tobacco buyout payments	....	....	....	....	960	960	960	960	960	960	960
Voluntary Public Access	....	....	17	17	17	17	17	17	17	17	17
National Institute of Food and Agriculture (Formerly CSREES, Cooperative State Research, Education, and Extension Service):											
Biomass research and development	....	....	5	21	31	37	40	40	40	40	40
Healthy Urban Food Enterprise Development Center	....	....	1	1	1	1	1	1	1	1	1
Beginning Farmer and Rancher Program	....	....	2	10	19	19	19	19	19	19	19
Organic Research Initiative	....	....	1	8	15	20	20	20	20	20	20
Natural Resources Conservation Service (NRCS):											
Healthy Forests Reserve Program	....	....	10	10	10	10	10	10	10	10	10
Agricultural Marketing Service:											
Farmers Market Promotion Program (2008 Farm Bill, Sec. 10106)	....	....	10	10	10	10	10	10	10	10	10
Wool Research, Development, and Promotion Trust Fund Program	....	....	....	....	....	3	3	3	3	3	3
Specialty Crop Block Grants Program (2008 Farm Bill, Sec. 10109)	....	....	55	55	55	55	55	55	55	55	55
Agricultural Management Assistance Organic Cerification Cost Share Program	....	....	2	2	2	2	2	2	2	2	2
Rural Business-Cooperative Service:											
Rural Energy for America Program	....	....	2	26	42	54	67	70	70	70	70
Bioenergy Program for Advanced Biofuels	....	....	26	105	105	105	105	105	105	105	105
Value Added Agricultural Market Development Program	10	13	14	15	15	15	15	15	15	15	15
Repowering Assistance Program	35	35	35	35	35	35	35	35	35	35	35
Biorefinery Assistance Program	12	135	245	245	245	245	245	245	245	245	245
Rural Microentrepreneur Assistance Program	....	....	2	3	4	4	4	4	4	4	4
Trade Assistance Programs:											
Foreign Market Development (Cooperator) Program	....	....	35	35	35	35	35	35	35	35	35
Technical Assistance Specialty Crops	....	....	9	9	9	9	9	9	9	9	9
Emerging Markets	....	....	10	10	10	10	10	10	10	10	10
Trade Adjustment Assistance for Farmers	....	10	10	10	10	10	10	10	10	10	10
Forest Service (FS):											
Forest County Safety Net Payments (Departments of Agriculture and the Interior)	....	....	328	295	265	238	214	193	174	167	141
Health and Human Services:											

Table 27–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
TANF Supplemental Grants	....	251	315	319	319	319	319	319	319	319	319
Medicaid:											
Transitional Medical Assistance	....	240	670	700	730	760	790	820	860	890	930
Medicare Low-Income Premium Assistance	....	495	720	800	885	985	1,095	1,225	1,360	1,525	1,710
Interior:											
Oil and Gas Permit Processing Improvement Fund	....	....	....	....	....	16	15	14	13	12	11
Payments in Lieu of Taxes	369	380	392	403	416	428	441	454	467	482	496
Labor:											
Alternative Trade Adjustment Assistance	....	4	14	23	30	32	32	32	32	33	35
Veterans Affairs											
Veterans Compensation:											
National Directory for New Hires (NDNH) Data Matches	....	4	2	1	*	–1	–2	–3	–4	–5	–5
Veterans Pension:											
Income Verification Match	....	26	–7	–13	–20	–27	–36	–45	–55	–65	–76
Veterans Housing:											
Increase in Maximum Loan Guaranty Amount	....	1	1	2	2	3	3	3	3	3	3
Adjustable Rate Mortgages (ARM)/ Hybrid Adjustable Rate Mortages	–*	6	*	6	6	1	7	*	*	1	1
Guaranteed Loan Funding Fees Extension	....	–322	–326	–419	–418	–424	–423	–429	–434	–434	–433
Environmental Protection Agency:											
Pesticide maintenance fee	....	....	–22	–22	–22	–22	–22	–22	–22	–22	–22
Pesticide registration service fee	....	....	–6	–11	–15	–15	–15	–15	–15	–15	–15
OTHER IMPORTANT PROGRAM ASSUMPTIONS											
Defense:											
Medicare-Eligible Retiree Health Care Trust Fund:											
Pharmacy Co-Pays	....	–285	–315	–348	–382	–419	–458	–499	–543	–589	–638
Health and Human Services:											
Children's Health Insurance Program (Title XXI):											
State allotments	8,800	9,600	10,500	11,300	12,100	17,100	8,600	6,300	5,800	5,700	5,700
Contingency fund	100	200	200	200	200	....	....	....	....	....	....
Performance bonus	221	130	40	....	....	....	....	....	....	....	....
Child health quality activities	48	51	47	36	35	....	....	....	....	....	....
Medicaid:											
Financial management recoveries	–274	–290	–306	–324	–345	–369	–396	–426	–458	–492	–528
Vaccines for Children, total program costs	3,906	4,031	4,120	4,521	4,630	4,726	4,750	4,905	5,061	5,229	5,399
Institutional long-term care [2]	40,262	36,537	37,469	39,034	40,691	42,599	44,789	47,530	50,384	53,511	56,950
Home and community based institutional alternatives [2]	35,362	35,816	39,395	43,741	47,668	52,708	57,790	63,456	69,350	75,732	82,584
Pharmaceuticals (FFS, net of rebates) [2]	4,641	7,249	7,497	9,055	10,035	10,771	11,333	11,985	12,618	13,127	13,849
Managed care (including Medicaid MCOs, PHPs, and PCCM) [2]	70,398	67,855	72,938	101,346	121,186	137,223	149,746	162,761	175,839	186,652	199,953
Medicare:											
Contracting Reform	–580	–620	–660	–730	–780	–840	–910	–990	–1,080	–1,180	–1,290
DME Competitive Bidding [3]	....	–190	–900	–1,360	–1,460	–2,360	–2,990	–3,220	–3,470	–3,740	–4,030
Administrative Savings	....	–1,000	–1,000	–1,000	–1,000	–1,000	–1,000	–1,000	–1,000	–1,000	–1,000
State Grants and Demonstrations: [4]											
Ticket to Work Health Grant Programs:											
Infrastructure Grant Program	65	65	6	....	....	....	....	....	....	....	....
High-Risk Pools:											
Initial Seed Grants and Operation of Pools	3	....	....	....	....	....	....	....	....	....	....
Emergency Health Services for Undocumented Aliens	75	50	55	28	....	....	....	....	....	....	....
Katrina Relief	10	....	....	....	....	....	....	....	....	....	....
Funding for PACE Outliers	*	....	....	....	....	....	....	....	....	....	....

Table 27–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Drug Surveys and Reports	*	....	....	....	....	....	....	....	....	....	....
Partnerships for Long-Term Care	4	3	3	3	3	3	3	3	2	....	....
Alternate Non-Emergency Care	16	....	....	....	....	....	....	....	....	....	....
Psychiatric Residential Treatment Demonstration	19	19	19	18	....	....	....	....	....	....	....
Money Follows the Person (MFP) Demonstration	250	250	250	300	300	340	340	340	340	333	....
MFP Evaluation and Support	2	2	2	2	1	1	1	....	....	....	....
Medicaid Transformation Grants	42	....	....	....	....	....	....	....	....	....	....
Medicaid Integrity Program	92	77	79	80	82	83	85	87	88	90	92
Grants to Improve Outreach and Enrollment	35	34	17	17	22	....	....	....	....	....	....
Application of Prospective Payment System	2	3	....	....	....	....	....	....	....	....	....
Medicaid Emergency Psychiatric Demonstration	....	5	15	15	15	15	10	....	....	....	....
Incentives for Prevention of Chronic Diseases in Medicaid	....	10	20	20	20	20	10	....	....	....	....
Approved and Implemented Demonstrations and Pilot Programs: [5]											
Medicare, HI:											
Premier:											
Baseline estimate	....	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	12	....	....	....	....	....	....	....	....	....	....
Rural Community Hospital: [6]											
Baseline estimate	126	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	179	....	....	....	....	....	....	....	....	....	....
Medicare, SMI:											
Medicare Health Support Program: [7]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Program Estimate	TBD	....	....	....	....	....	....	....	....	....	....
Coordinated Care Disease Management Demonstration:											
Baseline estimate	14	14	14	....	....	....	....	....	....	....	....
Demonstration estimate	14	14	14	....	....	....	....	....	....	....	....
Low-Vision Rehabilitation:											
Baseline estimate	3	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	3	....	....	....	....	....	....	....	....	....	....
Cancer Prevention and Treatment for Ethnic and Racial Minorities:											
Baseline estimate	2	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	2	....	....	....	....	....	....	....	....	....	....
Demonstration to Transition Enrollment of Low-Income Subsidy Beneficiaries:											
Baseline estimate	....	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	20	....	....	....	....	....	....	....	....	....	....
Frontier Extended Stay Clinic Demonstration:											
Baseline estimate	2	2	1	....	....	....	....	....	....	....	....
Demonstration estimate	1	1	1	....	....	....	....	....	....	....	....
Part D Retroactive & Immediate Coverage for New Dual Eligible Individuals:											
Baseline estimate	TBD	TBD	TBD	TBD	....	....	....	....	....	....	....
Demonstration estimate	TBD	TBD	TBD	TBD	....	....	....	....	....	....	....
Multi-Payer Advanced Primary Care Demo:											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	TBD	....	....	....	....	....	....	....	....	....	....
Assess Appropriate Use of Imaging Services (MIPPA sec. 135):											
Baseline estimate	3	4	2	....	....	....	....	....	....	....	....
Demonstration estimate	3	4	2	....	....	....	....	....	....	....	....
Medicare, HI and SMI:											
Acute Care Episode Bundling Demonstration:											
Baseline estimate	168	175	76	8	....	....	....	....	....	....	....
Demonstration estimate	161	167	73	8	....	....	....	....	....	....	....
Electronic Health Records Demonstration:											

Table 27–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Baseline estimate	1,286	1,263	1,306	896	....	....	....	....	....	....	....
Demonstration estimate	1,286	1,263	1,306	896	4	....	....	....	....	....	....
Physician Hospital Collaboration Demonstration:											
Baseline estimate	2,611	1,358	....	....	....	....	....	....	....	....	....
Demonstration estimate	2,611	1,358	....	....	....	....	....	....	....	....	....
Senior Risk Reduction Demonstration:											
Baseline estimate	3	1	....	....	....	....	....	....	....	....	....
Demonstration estimate	3	1	....	....	....	....	....	....	....	....	....
ESRD Disease Management Demonstration:											
Baseline estimate	48	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	48	....	....	....	....	....	....	....	....	....	....
Home Health Third-Party Liability Demonstration:											
Baseline estimate	210	203	105	....	....	....	....	....	....	....	....
Demonstration estimate	200	193	100	....	....	....	....	....	....	....	....
Medicare+Choice Phase II Demonstration:											
Baseline estimate	....	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	29	....	....	....	....	....	....	....	....	....	....
S/HMO I Demonstration:											
Baseline estimate	374	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	374	....	....	....	....	....	....	....	....	....	....
S/HMO II Demonstration:											
Baseline estimate	167	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	167	....	....	....	....	....	....	....	....	....	....
Minnesota-Dual Eligibles:											
Baseline estimate	198	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	198	....	....	....	....	....	....	....	....	....	....
Wisconsin Health Partnership Dual Eligible Demonstration:											
Baseline estimate	101	32	....	....	....	....	....	....	....	....	....
Demonstration estimate	105	32	....	....	....	....	....	....	....	....	....
Massachusetts SCO Dual Eligible Demonstration:											
Baseline estimate	342	108	....	....	....	....	....	....	....	....	....
Demonstration estimate	347	109	....	....	....	....	....	....	....	....	....
Physician Group Practice Demonstration:											
Baseline estimate	....	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	98	....	....	....	....	....	....	....	....	....	....
Home Health Pay for Performance:											
Baseline estimate	....	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	16	....	....	....	....	....	....	....	....	....	....
PACE for Profit:											
Baseline estimate	6	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	6	....	....	....	....	....	....	....	....	....	....
DRA 5007 Medicare Hospital Gainsharing Demonstration:											
Baseline estimate	287	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	287	....	....	....	....	....	....	....	....	....	....
Medicare Care Management Performance:											
Baseline estimate		....	....	....	....	....	....	....	....	....	....
Demonstration estimate	24	....	....	....	....	....	....	....	....	....	....
Care Management for High-Cost Beneficiaries:											
Baseline estimate	477	201	....	....	....	....	....	....	....	....	....
Demonstration estimate	477	201	....	....	....	....	....	....	....	....	....
Medicare Health Care Quality Demonstration Programs:											
Baseline estimate	2,739	4,612	4,913	3,917	....	....	....	....	....	....	....
Demonstration estimate	2,671	4,488	4,753	3,810	153	....	....	....	....	....	....
Nursing Home Value Based Purchasing Demonstration:											
Baseline estimate	534	416	....	....	....	....	....	....	....	....	....
Demonstration estimate	510	400	17	....	....	....	....	....	....	....	....

Table 27–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Medicare Advantage Quality Bonus Payment Demonstration:											
Baseline estimate	....	....	....	....	....	....	....	....	....	....	....
Demonstration estimate	....	600	1,100	1,300	....	....	....	....	....	....	....
Medicaid: [8]											
Alabama Family Planning:											
Baseline estimate	189	....	....	....	....	....	....	....	....	....	....
Arizona AHCCCS:											
Baseline estimate	6,571	....	....	....	....	....	....	....	....	....	....
Arkansas Family Planning:											
Baseline estimate	277	96	....	....	....	....	....	....	....	....	....
Arkansas TEFRA:											
Baseline estimate	44	50	55	14	....	....	....	....	....	....	....
California Family Planning: [9]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
California Bridge to Reform:											
Baseline estimate	8,432	8,649	9,914	9,607	7,868	656	....	....	....	....	....
Delaware Diamond State Health Plan: [10]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
District of Columbia Childless Adults II:											
Baseline estimate	16	29	43	13	....	....	....	....	....	....	....
District of Columbia HIV: [11]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Florida Family Planning: [10]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Florida MEDS-AD Program: [12]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Florida Medicaid Reform:											
Baseline estimate	4,137	....	....	....	....	....	....	....	....	....	....
Georgia Planning for Healthy Babies:											
Baseline estimate	390	522	526	132	....	....	....	....	....	....	....
Hawaii Health QUEST:											
Baseline estimate	870	961	777	....	....	....	....	....	....	....	....
Healthy Indiana Plan:											
Baseline estimate	1,404	1,541	394	....	....	....	....	....	....	....	....
Idaho Adult Access Card: [13]											
Baseline estimate	....	....	....	....	....	....	....	....	....	....	....
Illinois Family Planning:											
Baseline estimate	662	345	....	....	....	....	....	....	....	....	....
IowaCare:											
Baseline estimate	93	99	106	28	....	....	....	....	....	....	....
Iowa Family Planning: [14]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Kentucky Health Care Partnership Program:											
Baseline estimate	691	58	....	....	....	....	....	....	....	....	....
Louisiana Family Planning:											
Baseline estimate	522	....	....	....	....	....	....	....	....	....	....
Louisiana GNO Community Health Connection:											
Baseline estimate	20	20	20	5	....	....	....	....	....	....	....
Maine HIV:											
Baseline estimate	8	10	11	3	....	....	....	....	....	....	....
MaineCare Childless Adults:											
Baseline estimate	58	58	58	15	....	....	....	....	....	....	....
Maryland Health Choice:											
Baseline estimate	1,361	....	....	....	....	....	....	....	....	....	....
Massachusetts MassHealth:											

Table 27–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Baseline estimate	2,855	....	....	....	....	....	....	....	....	....	....
Michigan Adult Benefits:											
Baseline estimate	143	149	157	166	....	....	....	....	....	....	....
Michigan Family Planning:											
Baseline estimate	285	....	....	....	....	....	....	....	....	....	....
Minnesota Prepaid Med. Assist. Project Plus:											
Baseline estimate	695	....	....	....	....	....	....	....	....	....	....
Minnesota Family Planning:											
Baseline estimate	88	....	....	....	....	....	....	....	....	....	....
Mississippi Family Planning:											
Baseline estimate	521	....	....	....	....	....	....	....	....	....	....
Mississippi - Healthier Mississippi:											
Baseline estimate	79	83	70	18	....	....	....	....	....	....	....
Montana Basic Medicaid for Able-Bodied Adults:											
Baseline estimate	31	33	48	10	....	....	....	....	....	....	....
Missouri Family Planning: [10]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Missouri Gateway to Better Health:											
Baseline estimate	19	19	19	5	....	....	....	....	....	....	....
New Mexico Family Planning: [10]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
New Mexico State Coverage Insurance:											
Baseline estimate	184	193	203	214	....	....	....	....	....	....	....
New York Partnership Plan: [15]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
New York Federal-State Health Reform Partnership:											
Baseline estimate	13,153	....	....	....	....	....	....	....	....	....	....
North Carolina Family Planning: [16]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Oklahoma Family Planning: [10]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Oregon Family Planning:											
Baseline estimate	170	206	18	....	....	....	....	....	....	....	....
Pennsylvania Family Planning:											
Baseline estimate	354	271	....	....	....	....	....	....	....	....	....
Rhode Island Global:											
Baseline estimate	1,250	1,224	1,572	625	....	....	....	....	....	....	....
South Carolina Family Planning: [10]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
TennCare II:											
Baseline estimate	6,455	6,818	5,329	....	....	....	....	....	....	....	....
Texas Family Planning:											
Baseline estimate	2,026	....	....	....	....	....	....	....	....	....	....
Utah Primary Care Network:											
Baseline estimate	136	145	114	....	....	....	....	....	....	....	....
Vermont Long Term Care Plan:											
Baseline estimate	180	195	210	227	245	....	....	....	....	....	....
Vermont Global Commitment to Health:											
Baseline estimate	701	766	837	229	....	....	....	....	....	....	....
Virginia Family Planning: [16]											
Baseline estimate	TBD	....	....	....	....	....	....	....	....	....	....
Washington Take Charge/Family Planning: [17]											
Baseline estimate	5	....	....	....	....	....	....	....	....	....	....
Wisconsin BadgerCare:											
Baseline estimate	15	....	....	....	....	....	....	....	....	....	....
Wisconsin BadgerCare Plus:											

Table 27–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued
(Outlays in millions of dollars)

	Estimate										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Baseline estimate	100	104	108	28	....	....	....	....	....	....	....
Wisconsin Family Planning:											
Baseline estimate	95	....	....	....	....	....	....	....	....	....	....
Wyoming Family Planning:											
Baseline estimate	37	39	39	....	....	....	....	....	....	....	....
Pharmacy Plus:											
Wisconsin Pharmacy Plus: [18]											
Demonstration estimate	42	46	12	....	....	....	....	....	....	....	....
Children's Health Insurance Program (CHIP)/Medicaid Demonstrations: [19]											
Arkansas ARKids B:											
Baseline estimate (CHIP)	88	82	87	91	....	....	....	....	....	....	....
Baseline estimate (Medicaid)	2	....	....	....	....	....	....	....	....	....	....
Arkansas Safety Net Benefit Program:											
Demonstration estimate (CHIP funds)	31	....	....	....	....	....	....	....	....	....	....
Baseline estimate (Medicaid funds)	2,318	....	....	....	....	....	....	....	....	....	....
Colorado: [20]											
Demonstration estimate (CHIP funds)	TBD	....	....	....	....	....	....	....	....	....	....
Idaho:											
Demonstration estimate (CHIP funds)	48	52	57	....	....	....	....	....	....	....	....
Nevada:											
Demonstration estimate (CHIP funds)	17	....	....	....	....	....	....	....	....	....	....
New Jersey FamilyCare: [21]											
Demonstration estimate (CHIP funds)	375	417	478	....	....	....	....	....	....	....	....
New Mexico:											
Demonstration estimate (CHIP funds)	110	....	....	....	....	....	....	....	....	....	....
Oklahoma Sooner Care Demo:											
Baseline estimate (CHIP funds)	129	139	....	....	....	....	....	....	....	....	....
Oregon Health Plan 2:											
Demonstration estimate (CHIP funds)	6	6	5	....	....	....	....	....	....	....	....
Baseline estimate (Medicaid funds)	2,802	3,174	3,578	301	....	....	....	....	....	....	....
Virginia:											
Demonstration estimate (CHIP funds)	10	11	9	....	....	....	....	....	....	....	....
Old Age and Survivors Insurance (OASI), Disability Insurance (DI) and Supplemental Security Income (SSI):											
Performance of CDRs in 2011 and Subsequent Years (OASDI and SSI):											
OASDI	–31	–134	–193	–220	–245	–266	–286	–304	–321	–337	–354
SSI	–11	–141	–362	–587	–808	–1,106	–1,226	–1,293	–1,567	–1,729	–1,880
Collection of Overpayments (OASI, DI, and SSI):											
OASI	–1,149	–1,178	–1,223	–1,281	–1,349	–1,425	–1,425	–1,425	–1,425	–1,425	–1,425
DI	–874	–912	–950	–988	–1,026	–1,064	–1,064	–1,064	–1,064	–1,064	–1,064
SSI	–1,140	–1,218	–1,306	–1,394	–1,478	–1,561	–1,561	–1,561	–1,561	–1,561	–1,561
Debts Written off as Uncollectible (no effect on outlays—OASI, DI and SSI):											
OASI	168	172	178	187	197	208	208	208	208	208	208
DI	479	500	521	542	562	583	583	583	583	583	583
SSI (Federal)	353	377	404	431	457	483	483	483	483	483	483
Payments to States for Vocational Rehabilitation (excludes ticket payments - OASDI and SSI):											
OASDI	77	84	91	100	108	115	119	125	130	136	140
SSI	48	50	54	58	62	66	70	73	76	78	81
Research and Demonstration Projects (OASDI and SSI):											
OASDI	22	26	14	....	....	....	....	....	....	....	....
SSI	40	43	43	37	38	38	39	40	40	41	43
State Supplementation Benefit Payments (SSI)											
Payments from States	–3,650	–3,835	–4,017	–4,161	–4,291	–4,420	–4,540	–4,666	–4,803	–4,952	–5,098

Table 27–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(Outlays in millions of dollars)

	Estimate										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Benefit Payments	3,895	3,560	4,005	4,150	4,280	4,720	4,540	4,335	4,790	4,940	5,085
Fees for Federal Administration of SSI State Supplemental Benefit Payments:											
Treasury Share	–159	–139	–156	–158	–160	–175	–162	–150	–165	–166	–168
SSA Share	–160	–163	–185	–194	–203	–231	–222	–212	–242	–253	–264
Performance of Non-Disability SSI Redeterminations (SSI)	459	–910	–435	–59	–43	–52	–30	8	–15	–10	12

* $500 million or less.

[1] Includes temporary benefit increase from the American Recovery and Reinvestment Act of 2009 (P.L. 111–5).

[2] Reflects the temporary FMAP adjustments included in the American Recovery and Reinvestment Act, P.L. 111–5 and P.L. 111–226.

[3] Projected without premium offset.

[4] State Grants and Demonstrations estimates do not reflect temporary FMAP adjustments included in the American Recovery and Reinvestment Act, P.L. 111–5 and P.L. 111–226.

[5] Baseline estimates reflect costs absent the demonstration; demonstration estimate reflects costs of the demonstration. The differences represent the net impact of the demonstration. Any demonstrations are implicitly assumed in the current services baseline. The demonstrations listed are only those that were approved and implemented by release of the 2012 President's Budget.

[6] Costs of this demonstration are offset annually by a reduction to inpatient hospital prospective payment rates.

[7] Demonstration ended in 2008, but costs reflected as $0 pending final settlement agreements.

[8] Medicaid demonstration estimates do not reflect temporary FMAP adjustments included in the American Recovery and Reinvestment Act, P.L. 111–5 or P.L. 111–226.

[9] The Federal Government does not have current estimates for California; the State has been operating under a temporary extension for six years. The current temporary extension is through 1/31/2011.

[10] Demonstration on temporary extension through January 31, 2011.

[11] Demonstration was on temporary extension through December 30, 2010, and will not be extended.

[12] Demonstration will expend accumulated budget neutrality savings from prior years.

[13] Baseline estimates round to zero.

[14] Demonstration on temporary extension through July 1, 2011.

[15] An extension request is under review. Demonstration on temporary extension through January 31, 2011.

[16] Demonstration on temporary extension through March 31, 2011.

[17] Demonstration on temporary extension through February 28, 2011.

[18] Demonstration extended through 12/31/2012. Estimate for FY 2012 is for one calendar quarter only.

[19] The Children's Health Insurance Program Reauthorization Act (CHIPRA) (P.L. 111–3) authorized coverage for childless adults through December 31, 2009 and parents through September 31, 2011. States may extend coverage for parents of low-income children through September 31, 2013 subject to terms and conditions outlined in Section 2111(b) of the Social Security Act.

[20] Demonstration on temporary extension through January 31, 2011.

[21] The estimates are based on the Federal share of the State's current approved demonstration budget.

Table 27–7. RECEIPTS BY SOURCE IN THE ADJUSTED BASELINE

(In billions of dollars)

	2010 Actual	Estimate 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Individual income taxes	898.5	955.8	1,144.6	1,338.7	1,491.0	1,628.3	1,765.1	1,898.2	2,028.0	2,156.5	2,281.5	2,404.0
Corporation income taxes	191.4	198.4	326.8	396.6	477.9	435.4	402.7	462.3	466.9	477.8	479.5	501.8
Social insurance and retirement receipts	864.8	806.8	927.1	1,020.8	1,087.7	1,149.6	1,224.0	1,279.8	1,345.0	1,410.4	1,464.3	1,537.3
(On-budget)	(233.1)	(247.4)	(267.1)	(289.1)	(312.2)	(330.0)	(349.6)	(360.5)	(377.0)	(393.3)	(405.3)	(425.3)
(Off-budget)	(631.7)	(559.4)	(660.1)	(731.8)	(775.5)	(819.6)	(874.4)	(919.3)	(968.0)	(1,017.0)	(1,059.0)	(1,112.0)
Excise taxes	66.9	74.1	80.0	87.4	97.8	103.0	104.6	109.1	114.6	124.8	128.7	134.3
Estate and gift taxes	18.9	12.2	12.7	13.5	23.2	25.8	28.1	30.4	32.6	35.1	37.6	40.3
Customs duties	25.3	28.5	31.2	33.9	36.4	38.6	40.4	42.6	45.2	47.9	50.5	53.1
Miscellaneous receipts	96.8	98.4	86.1	67.8	91.0	106.1	113.8	119.4	126.2	133.6	141.7	149.3
Total, receipts	2,162.7	2,174.3	2,608.5	2,958.9	3,305.0	3,487.0	3,678.7	3,941.8	4,158.5	4,386.0	4,583.8	4,820.1
On-budget	1,531.0	1,614.9	1,948.5	2,227.1	2,529.5	2,667.3	2,804.3	3,022.5	3,190.6	3,368.9	3,524.8	3,708.1
Off-budget	631.7	559.4	660.1	731.8	775.5	819.6	874.4	919.3	968.0	1,017.0	1,059.0	1,112.0

Table 27–8. EFFECT ON RECEIPTS OF CHANGES IN THE SOCIAL SECURITY TAXABLE EARNINGS BASE

(In billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Social security (OASDI) taxable earnings base increases:										
$106,800 to $110,100 on Jan. 1, 2012 [1]	1.5	4.0	4.5	5.1	5.8	5.9	5.3	5.9	6.8	7.7
$110,100 to $113,100 on Jan. 1, 2013	....	1.5	3.9	4.3	4.9	5.5	4.8	4.9	5.6	6.4
$113,100 to $117,600 on Jan. 1, 2014	....	....	2.3	6.1	6.8	7.6	8.5	7.1	7.4	8.5
$117,600 to $122,700 on Jan. 1, 2015	....	....	....	2.7	7.1	7.9	8.8	9.8	8.3	8.3
$122,700 to $128,700 on Jan. 1, 2016	....	....	....	....	3.2	8.4	9.3	10.3	11.4	10.5
$128,700 to $135,000 on Jan. 1, 2017	....	....	....	....	....	3.4	8.8	9.8	10.7	11.8
$135,000 to $141,300 on Jan. 1, 2018	....	....	....	....	....	....	3.4	8.8	9.6	10.6
$141,300 to $147,900 on Jan. 1, 2019	....	....	....	....	....	....	....	3.6	9.1	10.0
$147,900 to $154,500 on Jan. 1, 2020	....	....	....	....	....	....	....	....	3.5	9.1
$154,500 to $161,100 on Jan. 1, 2021	....	....	....	....	....	....	....	....	....	3.4

[1] The taxable earnings base for 2011 is $106,800, the same as in 2009 and 2010.

Table 27–9. CHANGE IN OUTLAY ESTIMATES BY CATEGORY IN THE ADJUSTED BASELINE

(Dollar amounts in billions)

	2011	2012	2016	2021	Change 2011 to 2012		Change 2011 to 2016		Change 2011 to 2021	
					Amount	Percent	Amount	Annual average rate	Amount	Annual average rate
Outlays:										
Discretionary:										
Defense	746	735	773	861	–11	–1.4%	26	0.7%	115	1.4%
Non-defense	640	608	610	687	–32	–5.0%	–30	–1.0%	47	0.7%
Subtotal, discretionary	1,386	1,344	1,383	1,548	–43	–3.1%	–4	–0.1%	162	1.1%
Mandatory:										
Farm programs	18	12	14	15	–6	–32.7%	–4	–4.8%	–3	–2.1%
Medicaid	261	268	429	605	7	2.8%	168	10.5%	344	8.8%
Other health care	59	39	108	149	–20	–34.2%	50	13.1%	91	9.8%
Medicare	488	468	601	792	–20	–4.2%	112	4.2%	304	5.0%
Federal employee retirement and disability	126	122	149	170	–4	–3.4%	23	3.4%	44	3.0%
Unemployment compensation	131	93	57	67	–38	–29.3%	–74	–15.3%	–65	–6.6%
Other income security programs	290	268	259	275	–23	–7.8%	–31	–2.2%	–15	–0.5%
Social Security	727	761	947	1,272	33	4.6%	220	5.4%	545	5.8%
Veterans programs	85	66	99	126	–19	–22.3%	14	3.1%	41	4.0%
Other mandatory programs	78	110	78	104	33	42.4%	1	0.2%	26	3.0%
Undistributed offsetting receipts	–87	–97	–102	–125	–11	12.4%	–15	3.3%	–39	3.8%
Subtotal, mandatory	2,177	2,109	2,640	3,450	–68	–3.1%	464	3.9%	1,273	4.7%
Disaster costs [1]	3	7	10	10	4	160.0%	7	30.6%	8	14.9%
Net interest	205	240	584	928	35	16.8%	379	23.3%	722	16.3%
Total, outlays	3,771	3,699	4,617	5,936	–72	–1.9%	846	4.1%	2,165	4.6%

[1] These amounts represent the statistical probability of a major disaster requiring federal assistance for relief and reconstruction. Such assistance might be provided in the form of discretionary or mandatory outlays or tax relief. These amounts are included as outlays for convenience.

Table 27–10. OUTLAYS BY FUNCTION IN THE ADJUSTED BASELINE
(In billions of dollars)

Function	2010 Actual	Estimate 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
National Defense:												
Department of Defense—Military	666.7	725.5	713.4	714.3	725.5	737.1	750.6	766.0	782.9	800.3	818.2	836.5
Other	26.9	28.0	29.7	27.6	27.7	28.0	28.6	29.1	29.8	30.4	31.1	31.6
Total, National Defense	693.6	753.5	743.1	741.9	753.2	765.1	779.1	795.1	812.7	830.7	849.2	868.1
International Affairs	45.2	52.9	56.2	54.7	53.5	54.8	57.0	60.0	61.3	62.5	63.9	66.6
General Science, Space, and Technology	31.0	33.5	32.3	33.4	32.4	32.8	33.2	34.0	35.0	35.7	36.5	37.2
Energy	11.6	27.2	20.3	10.9	8.1	6.8	4.6	4.3	4.6	4.8	5.0	5.0
Natural Resources and Environment	43.7	49.0	44.3	42.1	42.3	43.0	44.3	44.9	46.9	48.1	49.9	50.9
Agriculture	21.4	25.5	19.8	23.9	23.0	22.0	22.1	22.4	22.8	23.2	23.5	23.8
Commerce and Housing Credit	–82.3	11.2	18.3	–20.4	–24.7	–20.2	–14.8	–14.1	–16.9	–19.7	–21.5	–9.2
On-Budget	(–87.0)	(7.4)	(18.3)	(–20.4)	(–24.7)	(–20.2)	(–14.8)	(–14.1)	(–16.9)	(–19.7)	(–21.5)	(–9.2)
Off-Budget	(4.7)	(3.8)	....	(–*)	(–*)	(–*)	(–*)	(–*)	(–*)	(–*)	(–*)	....
Transportation	92.0	94.1	98.0	92.1	100.1	102.4	102.5	104.9	108.6	111.6	114.0	116.0
Community and Regional Development	23.8	25.5	25.9	21.9	18.0	17.5	17.6	17.9	18.1	18.0	18.1	18.5
Education, Training, Employment, and Social Services	127.7	113.5	110.9	109.0	111.4	118.4	123.8	130.0	133.7	136.4	138.8	141.0
Health	369.1	384.8	371.0	385.1	480.8	546.0	601.3	638.7	677.5	722.9	769.5	825.0
Medicare	451.6	494.3	474.2	507.6	535.9	560.5	608.0	625.2	645.0	700.3	750.8	802.0
Income Security	622.2	620.4	552.6	538.3	525.2	525.2	536.4	534.9	536.6	560.1	575.9	589.9
Social Security	706.7	733.7	766.5	808.1	853.5	902.0	954.1	1,011.2	1,071.8	1,137.0	1,206.7	1,280.5
On-Budget	(23.3)	(102.8)	(55.0)	(29.3)	(34.8)	(38.8)	(42.6)	(46.8)	(50.7)	(54.5)	(58.6)	(63.0)
Off-Budget	(683.4)	(630.9)	(711.5)	(778.7)	(818.7)	(863.3)	(911.6)	(964.4)	(1,021.2)	(1,082.5)	(1,148.1)	(1,217.6)
Veterans Benefits and Services	108.4	141.5	124.0	134.5	142.6	150.2	163.8	166.4	167.7	183.6	192.6	201.9
Administration of Justice	53.4	58.2	62.4	61.5	61.5	61.9	65.5	65.9	67.9	70.1	74.4	76.8
General Government	23.0	31.0	30.1	25.7	25.8	26.4	26.6	27.3	28.1	29.0	29.9	30.0
Net Interest	196.2	205.4	240.0	321.5	421.1	505.2	584.3	660.9	730.1	797.8	862.6	927.6
On-Budget	(314.7)	(321.2)	(353.4)	(434.7)	(536.7)	(624.7)	(709.1)	(791.9)	(869.8)	(945.0)	(1,017.4)	(1,088.3)
Off-Budget	(–118.5)	(–115.7)	(–113.3)	(–113.2)	(–115.5)	(–119.5)	(–124.8)	(–131.0)	(–139.7)	(–147.2)	(–154.8)	(–160.7)
Allowances	....	2.5	6.5	8.0	8.5	9.0	9.5	10.0	10.0	10.0	10.0	10.0
Undistributed Offsetting Receipts:												
Employer share, employee retirement (on-budget)	–62.1	–64.0	–65.8	–66.5	–68.5	–70.6	–72.6	–79.5	–82.7	–86.0	–89.3	–92.8
Employer share, employee retirement (off-budget)	–14.9	–15.1	–15.2	–15.8	–16.5	–17.4	–18.4	–19.3	–20.1	–21.2	–22.2	–23.3
Rents and royalties on the Outer Continental Shelf	–4.9	–5.2	–7.3	–7.2	–8.0	–8.5	–9.0	–9.5	–9.7	–9.4	–9.4	–9.4
Sale of major assets	....	–2.0	–4.0	–4.0	–4.0	–4.4	–2.0	....	....	....	....	....
Other undistributed offsetting receipts	–0.2	–0.2	–5.0	–0.8	....	....	....	....	....	....	....	....
Total, Undistributed Offsetting Receipts	–82.1	–86.6	–97.3	–94.4	–97.0	–100.9	–102.0	–108.2	–112.4	–116.6	–120.9	–125.5
On-Budget	(–67.2)	(–71.4)	(–82.1)	(–78.5)	(–80.5)	(–83.5)	(–83.6)	(–89.0)	(–92.3)	(–95.4)	(–98.7)	(–102.2)
Off-Budget	(–14.9)	(–15.1)	(–15.2)	(–15.8)	(–16.5)	(–17.4)	(–18.4)	(–19.3)	(–20.1)	(–21.2)	(–22.2)	(–23.3)
Total	3,456.2	3,771.2	3,699.0	3,805.3	4,075.1	4,328.1	4,616.9	4,831.4	5,049.1	5,345.7	5,628.8	5,936.2
On-Budget	(2,901.5)	(3,267.4)	(3,116.1)	(3,155.5)	(3,388.4)	(3,601.7)	(3,848.6)	(4,017.4)	(4,187.8)	(4,431.6)	(4,657.7)	(4,902.6)
Off-Budget	(554.7)	(503.8)	(582.9)	(649.8)	(686.6)	(726.4)	(768.3)	(814.1)	(861.4)	(914.2)	(971.1)	(1,033.6)

* $50 million or less.

Table 27–11. OUTLAYS BY AGENCY IN THE ADJUSTED BASELINE

(In billions of dollars)

Agency	2010 Actual	Estimate										
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Legislative Branch	5.8	4.9	5.3	5.4	5.4	5.4	5.6	5.8	6.0	6.2	6.4	6.7
Judicial Branch	7.2	7.4	7.5	7.7	8.0	8.2	8.5	8.8	9.1	9.4	9.7	10.0
Agriculture	129.5	151.8	145.6	147.7	137.0	132.9	131.3	131.3	132.4	134.3	136.8	136.4
Commerce	13.2	11.1	11.3	9.1	9.0	9.0	9.2	9.4	9.6	9.9	10.1	10.5
Defense—Military Programs	666.7	725.5	713.4	714.3	725.5	737.1	750.6	766.0	782.9	800.3	818.2	836.5
Education	92.9	78.7	76.7	73.7	80.9	87.4	92.7	98.5	101.7	103.8	105.6	107.2
Energy	30.8	43.5	37.8	30.1	27.9	27.3	25.7	25.9	26.3	26.7	27.2	27.6
Health and Human Services	854.1	909.0	873.5	920.0	1,026.6	1,098.5	1,189.2	1,232.4	1,285.8	1,380.3	1,472.7	1,573.1
Homeland Security	44.5	47.5	46.7	46.8	46.8	48.5	50.0	51.6	53.2	54.9	58.7	60.5
Housing and Urban Development	60.1	56.7	48.1	46.2	45.6	45.0	45.1	44.9	45.5	45.9	46.5	47.3
Interior	13.2	12.9	14.3	13.9	13.9	13.9	14.0	14.2	14.8	14.9	15.4	15.9
Justice	29.6	31.1	37.2	35.2	34.3	34.2	36.9	36.3	37.3	38.4	39.6	40.8
Labor	173.1	146.2	107.1	83.4	78.5	75.2	73.0	73.7	76.2	79.4	82.9	86.3
State	23.8	27.9	29.8	31.0	30.6	30.2	30.4	30.9	31.5	32.1	32.8	33.6
Transportation	77.8	79.7	82.9	75.6	83.4	85.1	84.7	86.5	89.6	92.0	93.7	95.1
Treasury	444.3	531.8	561.5	618.7	722.0	837.5	941.7	1,042.8	1,138.1	1,232.8	1,324.5	1,415.0
Veterans Affairs	108.3	141.3	123.7	134.2	142.2	149.9	163.5	166.0	167.3	183.2	192.2	201.5
Corps of Engineers—Civil Works	9.9	11.1	8.6	8.0	7.0	6.6	6.6	6.0	6.2	6.4	6.5	6.7
Other Defense Civil Programs	54.0	59.2	51.5	57.3	59.1	60.6	67.0	64.3	61.4	68.0	70.1	72.3
Environmental Protection Agency	11.0	11.2	10.3	8.3	8.9	9.5	10.1	10.6	11.3	11.7	12.2	12.5
Executive Office of the President	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6
General Services Administration	0.9	2.6	2.2	0.9	0.2	*	–0.2	–0.5	–0.5	–0.5	–0.5	–0.5
International Assistance Programs	20.0	23.8	25.3	22.8	22.0	23.6	25.6	28.1	28.7	29.2	29.9	31.8
National Aeronautics and Space Administration	18.9	19.5	18.9	19.4	19.7	20.1	20.5	21.0	21.4	21.9	22.4	22.9
National Science Foundation	6.7	8.5	7.4	7.1	7.0	7.1	6.9	7.1	7.6	7.8	7.9	8.1
Office of Personnel Management	69.9	73.0	76.4	79.8	83.1	86.7	90.0	101.1	105.1	109.7	114.6	119.8
Small Business Administration	6.1	6.1	1.0	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.1
Social Security Administration	754.2	786.5	814.3	863.2	911.0	961.4	1,020.1	1,074.7	1,132.5	1,204.5	1,276.4	1,352.5
On-Budget	(70.8)	(155.6)	(102.8)	(84.5)	(92.3)	(98.1)	(108.5)	(110.3)	(111.3)	(122.0)	(128.3)	(134.9)
Off-Budget	(683.4)	(630.9)	(711.5)	(778.7)	(818.7)	(863.3)	(911.6)	(964.4)	(1,021.2)	(1,082.5)	(1,148.1)	(1,217.6)
Other Independent Agencies	–2.8	26.6	31.8	14.1	16.2	19.3	22.5	20.3	17.8	15.7	12.8	25.7
On-Budget	(–7.5)	(22.8)	(31.8)	(14.1)	(16.2)	(19.3)	(22.5)	(20.3)	(17.7)	(15.7)	(12.8)	(25.7)
Off-Budget	(4.7)	(3.8)	....	(–*)	(–*)	(–*)	(–*)	(–*)	(–*)	(–*)	(–*)	....
Allowances	....	2.5	6.5	8.0	8.5	9.0	9.5	10.0	10.0	10.0	10.0	10.0
Undistributed Offsetting Receipts	–267.9	–266.7	–277.9	–277.7	–286.5	–302.5	–315.1	–337.6	–361.3	–384.9	–408.1	–431.1
On-Budget	(–134.4)	(–135.8)	(–149.4)	(–148.7)	(–154.4)	(–165.6)	(–171.9)	(–187.3)	(–201.5)	(–216.5)	(–231.1)	(–247.1)
Off-Budget	(–133.4)	(–130.9)	(–128.5)	(–129.0)	(–132.1)	(–136.9)	(–143.2)	(–150.3)	(–159.8)	(–168.4)	(–177.0)	(–184.0)
Total	3,456.2	3,771.2	3,699.0	3,805.3	4,075.1	4,328.1	4,616.9	4,831.4	5,049.1	5,345.7	5,628.8	5,936.2
On-Budget	(2,901.5)	(3,267.4)	(3,116.1)	(3,155.5)	(3,388.4)	(3,601.7)	(3,848.6)	(4,017.4)	(4,187.8)	(4,431.6)	(4,657.7)	(4,902.6)
Off-Budget	(554.7)	(503.8)	(582.9)	(649.8)	(686.6)	(726.4)	(768.3)	(814.1)	(861.4)	(914.2)	(971.1)	(1,033.6)

* $50 million or less.

Table 27–12. BUDGET AUTHORITY BY FUNCTION IN THE ADJUSTED BASELINE

(In billions of dollars)

Function	2010 Actual	Estimate										
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
National Defense:												
Department of Defense—Military	695.6	689.6	701.9	715.9	730.9	746.1	761.5	778.2	795.4	813.0	831.1	849.7
Other	25.7	25.9	26.5	27.3	27.8	28.4	28.9	29.5	30.1	30.8	31.4	32.0
Total, National Defense	721.3	715.5	728.4	743.2	758.7	774.5	790.4	807.8	825.6	843.8	862.6	881.8
International Affairs	60.6	69.7	66.8	56.5	53.1	50.6	53.7	57.2	58.9	60.6	62.3	65.5
General Science, Space, and Technology	31.1	31.0	31.5	32.1	32.8	33.4	34.0	34.8	35.5	36.2	37.0	37.7
Energy	7.7	9.1	11.7	9.8	9.8	9.1	7.2	6.7	7.1	7.3	7.3	7.4
Natural Resources and Environment	39.7	38.5	41.0	41.0	42.1	43.2	44.6	45.9	47.8	49.0	50.5	51.4
Agriculture	19.8	25.6	18.2	23.6	22.9	22.1	22.2	22.6	23.0	23.4	23.7	24.1
Commerce and Housing Credit	–119.0	–44.4	–3.7	–1.7	–3.5	0.1	5.1	10.4	11.7	12.0	12.9	13.0
On-Budget	(–123.7)	(–49.6)	(–9.9)	(–1.7)	(–3.5)	(0.1)	(5.1)	(10.4)	(11.7)	(12.0)	(12.9)	(13.0)
Off-Budget	(4.7)	(5.2)	(6.2)	(–*)	(–*)	(–*)	(–*)	(–*)	(–*)	(–*)	(–*)	....
Transportation	100.1	92.7	94.4	96.4	98.3	100.4	102.6	104.9	107.2	109.6	112.1	114.7
Community and Regional Development	21.1	16.2	16.0	16.1	16.4	16.8	17.1	17.5	17.9	18.4	18.8	19.2
Education, Training, Employment, and Social Services	95.2	78.8	112.7	110.3	113.3	119.6	125.6	132.2	135.2	137.9	140.0	142.6
Health	406.2	373.6	367.5	389.6	487.4	555.9	588.2	635.2	677.2	723.0	780.1	826.1
Medicare	452.6	494.8	474.3	507.6	536.1	560.8	608.0	625.5	645.5	700.5	751.3	802.6
Income Security	624.0	602.0	543.7	535.4	526.6	527.8	540.7	540.5	543.2	566.4	582.0	595.5
Social Security	706.8	735.5	769.6	811.6	857.2	906.1	958.6	1,016.0	1,077.0	1,142.6	1,212.7	1,286.8
On-Budget	(22.9)	(102.4)	(55.0)	(29.3)	(34.7)	(38.8)	(42.6)	(46.8)	(50.7)	(54.5)	(58.6)	(63.0)
Off-Budget	(683.9)	(633.2)	(714.5)	(782.3)	(822.5)	(867.4)	(916.0)	(969.2)	(1,026.4)	(1,088.1)	(1,154.1)	(1,223.8)
Veterans Benefits and Services	124.4	123.9	129.4	136.1	143.9	151.6	159.7	167.9	176.4	185.2	194.3	203.7
Administration of Justice	55.2	54.8	64.2	58.7	60.4	62.2	66.0	66.3	68.4	70.6	74.9	77.4
General Government	23.7	29.0	27.7	25.7	26.4	27.0	27.7	28.5	29.3	30.3	31.0	32.0
Net Interest	196.2	205.4	240.0	321.5	421.1	505.2	584.3	660.9	730.1	797.8	862.6	927.6
On-Budget	(314.7)	(321.2)	(353.4)	(434.7)	(536.7)	(624.7)	(709.1)	(791.9)	(869.8)	(945.0)	(1,017.4)	(1,088.3)
Off-Budget	(–118.5)	(–115.7)	(–113.3)	(–113.2)	(–115.5)	(–119.5)	(–124.8)	(–131.0)	(–139.7)	(–147.2)	(–154.8)	(–160.7)
Allowances	....	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Undistributed Offsetting Receipts:												
Employer share, employee retirement (on-budget)	–62.1	–64.0	–65.8	–66.5	–68.5	–70.6	–72.6	–79.5	–82.7	–86.0	–89.3	–92.8
Employer share, employee retirement (off-budget)	–14.9	–15.1	–15.2	–15.8	–16.5	–17.4	–18.4	–19.3	–20.1	–21.2	–22.2	–23.3
Rents and royalties on the Outer Continental Shelf	–4.9	–5.2	–7.3	–7.2	–8.0	–8.5	–9.0	–9.5	–9.7	–9.4	–9.4	–9.4
Sale of major assets	....	–2.0	–4.0	–4.0	–4.0	–4.4	–2.0	....	....	....	....	....
Other undistributed offsetting receipts	–0.2	–0.2	–5.0	–0.8	....	....	....	....	....	....	....	....
Total, Undistributed Offsetting Receipts	–82.1	–86.6	–97.3	–94.4	–97.0	–100.9	–102.0	–108.2	–112.4	–116.6	–120.9	–125.5
On-Budget	(–67.2)	(–71.4)	(–82.1)	(–78.5)	(–80.5)	(–83.5)	(–83.6)	(–89.0)	(–92.3)	(–95.4)	(–98.7)	(–102.2)
Off-Budget	(–14.9)	(–15.1)	(–15.2)	(–15.8)	(–16.5)	(–17.4)	(–18.4)	(–19.3)	(–20.1)	(–21.2)	(–22.2)	(–23.3)
Total	3,484.6	3,575.1	3,646.1	3,829.3	4,116.0	4,375.6	4,643.9	4,882.4	5,114.4	5,408.0	5,705.2	5,993.5
On-Budget	(2,929.4)	(3,067.7)	(3,053.9)	(3,175.9)	(3,425.6)	(3,645.1)	(3,871.1)	(4,063.5)	(4,247.8)	(4,488.2)	(4,728.2)	(4,953.6)
Off-Budget	(555.2)	(507.4)	(592.2)	(653.3)	(690.4)	(730.5)	(772.8)	(818.9)	(866.6)	(919.7)	(977.0)	(1,039.8)
MEMORANDUM												
Discretionary budget authority:												
National Defense	714.2	709.5	721.7	736.8	752.2	767.9	783.9	801.1	818.8	836.9	855.5	874.7
International affairs	57.0	52.6	53.2	54.2	55.3	56.3	57.4	58.6	59.8	61.0	62.2	63.6
Domestic	486.4	468.4	512.5	516.3	529.2	541.4	554.5	568.0	582.8	598.3	614.1	630.9
Total, discretionary	1,257.6	1,230.6	1,287.4	1,307.3	1,336.7	1,365.7	1,395.7	1,427.7	1,461.4	1,496.2	1,531.9	1,569.1

* $50 million or less.

Table 27–13. BUDGET AUTHORITY BY AGENCY IN THE ADJUSTED BASELINE

(In billions of dollars)

Agency	2010 Actual	Estimate										
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Legislative Branch	4.9	4.8	5.0	5.1	5.3	5.5	5.7	5.9	6.1	6.3	6.5	6.7
Judicial Branch	7.2	7.3	7.6	7.8	8.1	8.4	8.7	9.0	9.3	9.6	9.9	10.3
Agriculture	131.0	147.7	148.7	152.3	142.4	138.9	137.1	137.1	138.7	140.8	142.9	142.6
Commerce	13.7	7.9	8.4	8.6	8.8	9.0	9.3	9.5	9.8	10.0	10.3	10.6
Defense—Military Programs	695.6	689.6	701.9	715.9	730.9	746.1	761.5	778.2	795.4	813.0	831.1	849.7
Education	62.9	46.1	78.6	74.6	82.5	89.0	94.4	100.5	102.8	104.9	106.5	108.4
Energy	23.0	23.8	25.1	26.2	27.3	27.9	27.0	27.2	27.6	28.1	28.5	29.0
Health and Human Services	889.6	893.2	869.1	923.6	1,032.9	1,108.1	1,175.6	1,228.7	1,285.3	1,380.4	1,483.0	1,573.7
Homeland Security	45.4	42.5	44.8	46.3	47.7	49.1	50.6	52.2	53.9	55.6	59.4	61.3
Housing and Urban Development	45.1	50.3	46.3	47.4	48.5	49.7	50.7	51.8	52.9	54.1	55.4	55.8
Interior	12.8	12.3	12.5	12.4	12.7	12.8	13.2	13.5	14.5	14.8	15.4	15.6
Justice	30.2	29.9	38.3	32.7	33.5	34.4	37.2	36.5	37.6	38.7	39.9	41.2
Labor	179.2	147.3	107.6	83.7	78.3	74.0	71.6	72.0	74.1	76.8	80.0	83.1
State	30.3	27.7	28.2	28.7	29.3	30.0	30.6	31.2	31.9	32.6	33.3	34.1
Transportation	84.3	77.2	78.4	79.8	81.4	82.9	84.6	86.3	88.0	89.8	91.7	93.6
Treasury	392.2	466.7	519.9	598.8	718.0	834.3	940.9	1,042.7	1,138.8	1,233.8	1,325.4	1,416.8
Veterans Affairs	124.3	123.6	129.1	135.8	143.5	151.2	159.3	167.5	176.0	184.8	193.9	203.3
Corps of Engineers—Civil Works	5.7	5.4	5.4	5.5	5.7	5.8	6.0	6.2	6.4	6.5	6.7	6.9
Other Defense Civil Programs	54.8	59.4	51.7	57.5	59.4	60.8	67.2	64.6	61.6	68.0	70.1	72.3
Environmental Protection Agency	10.2	10.2	10.4	10.6	10.9	11.2	11.4	11.7	12.0	12.3	12.6	12.9
Executive Office of the President	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6
General Services Administration	0.3	–*	–*	–*	*	*	*	*	*	*	*	*
International Assistance Programs	28.1	40.6	37.4	26.4	22.4	19.3	21.7	24.5	25.4	26.4	27.4	29.7
National Aeronautics and Space Administration	18.7	18.7	19.0	19.4	19.8	20.2	20.7	21.1	21.6	22.1	22.6	23.1
National Science Foundation	7.0	7.0	7.1	7.2	7.3	7.4	7.6	7.7	7.8	8.0	8.1	8.3
Office of Personnel Management	72.4	75.1	78.2	82.0	85.7	89.6	93.2	104.4	108.8	113.5	118.6	123.9
Small Business Administration	6.5	5.5	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.1	1.1
Social Security Administration	754.1	788.1	817.6	866.8	914.7	965.5	1,024.2	1,079.5	1,138.0	1,210.2	1,282.5	1,358.7
On-Budget	(70.2)	(154.9)	(103.1)	(84.5)	(92.2)	(98.1)	(108.2)	(110.3)	(111.6)	(122.1)	(128.4)	(134.9)
Off-Budget	(683.9)	(633.2)	(714.5)	(782.3)	(822.5)	(867.4)	(916.0)	(969.2)	(1,026.4)	(1,088.1)	(1,154.1)	(1,223.8)
Other Independent Agencies	22.6	23.3	36.7	40.5	34.1	35.5	37.5	38.9	39.9	40.0	40.0	41.2
On-Budget	(17.9)	(18.2)	(30.5)	(40.5)	(34.1)	(35.5)	(37.5)	(38.9)	(39.8)	(40.0)	(40.0)	(41.2)
Off-Budget	(4.7)	(5.2)	(6.2)	(–*)	(–*)	(–*)	(–*)	(–*)	(–*)	(–*)	(–*)	....
Allowances	....	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Undistributed Offsetting Receipts	–267.9	–266.7	–277.9	–277.7	–286.5	–302.5	–315.1	–337.6	–361.3	–384.9	–408.1	–431.1
On-Budget	(–134.4)	(–135.8)	(–149.4)	(–148.7)	(–154.4)	(–165.6)	(–171.9)	(–187.3)	(–201.5)	(–216.5)	(–231.1)	(–247.1)
Off-Budget	(–133.4)	(–130.9)	(–128.5)	(–129.0)	(–132.1)	(–136.9)	(–143.2)	(–150.3)	(–159.8)	(–168.4)	(–177.0)	(–184.0)
Total	3,484.6	3,575.1	3,646.1	3,829.3	4,116.0	4,375.6	4,643.9	4,882.4	5,114.4	5,408.0	5,705.2	5,993.5
On-Budget	(2,929.4)	(3,067.7)	(3,053.9)	(3,175.9)	(3,425.6)	(3,645.1)	(3,871.1)	(4,063.5)	(4,247.8)	(4,488.2)	(4,728.2)	(4,953.6)
Off-Budget	(555.2)	(507.4)	(592.2)	(653.3)	(690.4)	(730.5)	(772.8)	(818.9)	(866.6)	(919.7)	(977.0)	(1,039.8)

* $50 million or less.

28. TRUST FUNDS AND FEDERAL FUNDS

As is common for State and local government budgets, the budget for the Federal Government presents 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 transactions that are not required by law to pass through trust funds and accounts for a larger share of the budget than the trust funds group.

The Federal funds group includes the "general fund," which is used for the general purposes of Government rather than being restricted by law to a specific program. The general fund is the largest fund in the Government and it receives all collections not dedicated for some other fund, including virtually all income taxes and many excise taxes. The general fund is used for all programs that are not supported by trust, special, or revolving funds.

The Federal funds group also includes special funds and revolving funds, both of which receive collections that are dedicated by law for specific purposes. Where the law requires that Federal fund collections be dedicated to a particular program, the collections and associated disbursements are recorded in special fund receipt and expenditure accounts.[1] An example is the portion of the Outer Continental Shelf mineral leasing receipts deposited into the Land and Water Conservation Fund. Money in special fund receipt accounts must be appropriated before it can be obligated and spent. The majority of special fund collections are derived from the Government's power to impose taxes or fines, or otherwise compel payment, as in the case of the Nuclear Waste Disposal Fund. In addition, a significant amount of collections credited to special funds is derived from business-like activity, such as the receipts from Outer Continental Shelf mineral leasing.

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 net of these proceeds; 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 as governmental receipts, the proceeds are known as "offsetting collections." There are two classes of revolving funds in the Federal funds group. Public enterprise funds, such as the Postal Service Fund, conduct business-like operations mainly with the public. Intragovernmental funds, such as the Federal Buildings Fund, conduct business-like operations mainly within and between Government agencies.

The Trust Funds Group

The trust funds group consists of funds that are designated by law as trust funds. Like special funds and revolving funds, trust funds receive collections that are dedicated by law for specific purposes. Many of the larger trust funds are used to budget for social insurance programs, such as Social Security, Medicare, and unemployment compensation. Other major trust funds are used to budget for military and Federal civilian employees' retirement benefits, highway and transit construction, and airport and airway development. 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.[2]

The Federal Government uses the term "trust fund" very differently than the private sector. The beneficiary of a private trust owns the trust's income and may own the trust's assets. A custodian or trustee manages the assets on behalf of the beneficiary according to the stipulations of the trust, which is set up by a trustor and which neither the trustee nor the beneficiary can change; only the trustor can change the terms of the trust agreement. In con-

[1] There are two types of budget accounts: expenditure (or appropriation) accounts and receipt accounts. Expenditure accounts are used to record outlays and receipt accounts are used to record governmental receipts and offsetting receipts.

[2] 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.

trast, 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, and even then the Government generally owns the funds and has some ability to alter the amount deposited into or paid out of the funds.

By contrast, 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.[3]

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 the Federal civilian employees' retirement trust funds, less income is currently spent each year than is collected. A surplus of income over outgo adds to the trust fund's balance, which is available for future expenditures. The balances are generally required by law to be invested in Federal securities issued by the Department of the Treasury.[4] 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.

[3] Deposit funds are discussed briefly in Chapter 13 of this volume, "Coverage of the Budget."

[4] The relationships between Treasury securities held by trust funds (and by other Government accounts), debt held by the public, and gross Federal debt are discussed in Chapter 6 of this volume, "Federal Borrowing and Debt."

Table 28–1. RECEIPTS, OUTLAYS AND SURPLUS OR DEFICIT BY FUND GROUP

(In billions of dollars)

	2010 Actual	Estimate					
		2011	2012	2013	2014	2015	2016
Receipts:							
Federal funds cash income:							
From the public	1,485.2	1,524.3	1,771.5	2,048.2	2,289.3	2,466.3	2,617.2
From trust funds	2.0	2.8	3.0	3.2	3.4	3.6	3.6
Total, Federal funds cash income	1,487.2	1,527.2	1,774.5	2,051.4	2,292.8	2,469.9	2,620.9
Trust funds cash income:							
From the public	1,018.8	972.4	1,132.5	1,249.2	1,340.3	1,419.7	1,500.1
From Federal funds:							
Interest	185.8	180.1	180.2	182.1	187.0	197.7	207.3
Other	509.0	561.3	495.1	478.5	511.9	544.5	586.0
Total, trust funds cash income	1,713.6	1,713.8	1,807.8	1,909.8	2,039.2	2,161.9	2,293.4
Offsetting receipts	–1,038.0	–1,067.2	–954.9	–957.9	–999.4	–1,048.8	–1,095.2
Total, unified budget receipts	2,162.7	2,173.7	2,627.4	3,003.3	3,332.6	3,583.0	3,819.1
Outlays:							
Federal funds cash outgo	2,904.0	3,218.4	3,001.1	2,964.7	3,126.4	3,305.0	3,508.9
Trust funds cash outgo	1,590.2	1,667.6	1,682.4	1,764.0	1,850.1	1,933.6	2,054.1
Offsetting receipts	–1,038.0	–1,067.2	–954.9	–957.9	–999.4	–1,048.8	–1,095.2
Total, unified budget outlays	3,456.2	3,818.8	3,728.7	3,770.9	3,977.1	4,189.8	4,467.8
Surplus or deficit(–):							
Federal funds	–1,416.8	–1,691.2	–1,226.6	–913.4	–833.6	–835.0	–888.0
Trust funds	123.3	46.1	125.4	145.8	189.0	228.3	239.3
Total, unified surplus/deficit(–)	–1,293.5	–1,645.1	–1,101.2	–767.5	–644.6	–606.7	–648.7

Note: Receipts include governmental, offsetting governmental, interfund, and proprietary receipts and exclude intrafund receipts (which are offset against intrafund payments so that cash income and cash outgo are not overstated).

Income and Outgo by Fund Group

Table 28–1 shows income, outgo, and the surplus or deficit by fund group and in the aggregate (netted to avoid double-counting) from which the total unified budget receipts, outlays, and surplus or deficit are derived. Income consists mostly of governmental receipts (derived from governmental activity, primarily income, payroll, and excise taxes). Income also consists of offsetting receipts, which include proprietary receipts (derived from business-like transactions with the public), interfund collections (derived from payments from a fund in one fund group to a fund in the other fund group), and gifts. Outgo consists of payments made to the public or to a fund in the other fund group.

Two types of transactions are treated specially in the table. First, income and outgo for each fund group net out all transactions that occur between funds within the same fund group.[5] These intrafund transactions constitute outgo and income for the individual funds that make and collect the payments, but they are offsetting within the fund group as a whole. The totals for each fund group measure only the group's transactions with the public and the other fund group. Second, outgo is calculated net of the collections that are credited to expenditure accounts (which, as noted above, are referred to as offsetting collections); the collections are added to and subsequently subtracted from outgo.[6] Although it would be conceptually correct to add interfund offsetting collections to income for a particular fund, this cannot be done at the present time because the budget data do not provide this type of detail. As a result, both interfund and intrafund offsetting collections are offset against outgo in Table 28–1 and are not shown separately.

The vast majority of the interfund transactions in the table are payments by the Federal funds to the trust funds. These payments include interest payments from the general fund to the trust funds for interest earned on trust fund balances invested in interest-bearing Treasury securities. The payments also include payments by Federal agencies to Federal employee benefits and Social Security trust funds on behalf of current employees, and general fund payments to employee retirement trust funds to

[5] For example, the railroad retirement trust funds pay the equivalent of Social Security benefits to railroad retirees in addition to the regular railroad pension. These benefits are financed by a payment from the Federal Old-Age and Survivors Insurance trust fund to the railroad retirement trust funds. The payment and collection are not included in Table 28–1 so that the total trust fund income and outgo shown in the table reflect disbursements to the public and to Federal funds.

[6] For example, postage stamp fees are deposited as offsetting collections in the Postal Service Fund. As a result, the Fund's outgo reported in Table 28–1 is gross disbursements less collections.

Table 28–2. INCOME, OUTGO, AND BALANCES OF TRUST FUNDS GROUP

(In billions of dollars)

	2010 Actual	Estimate 2011	2012	2013	2014	2015	2016
Balance, start of year	4,088.6	4,238.7	4,308.9	4,453.1	4,598.9	4,787.9	5,016.3
Adjustments	–0.3	–2.5	....	....	....	....	....
Total balance, start of year	4,088.3	4,236.2	4,308.9	4,453.1	4,598.9	4,787.9	5,016.3
Income:							
Governmental receipts	916.2	862.1	1,009.8	1,114.8	1,197.2	1,269.0	1,343.4
Offsetting governmental receipts	*	*	*	*	*	*	*
Proprietary receipts	119.5	127.6	141.0	153.7	163.6	172.4	179.8
Receipts from Federal funds:							
Interest	187.2	181.7	182.1	184.2	189.3	200.1	209.9
Other	550.2	604.5	540.6	525.8	561.9	597.5	642.2
Subtotal, income	1,773.0	1,776.0	1,873.5	1,978.5	2,112.0	2,239.0	2,375.3
Outgo (–):							
To the public	–1,648.7	–1,728.6	–1,747.0	–1,831.5	–1,921.8	–2,009.5	–2,134.7
To Federal funds	–1.0	–1.3	–1.2	–1.2	–1.2	–1.2	–1.3
Subtotal, outgo	–1,649.7	–1,729.9	–1,748.2	–1,832.7	–1,922.9	–2,010.7	–2,136.0
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	–63.8	–135.6	–56.8	–38.4	–0.3	28.2	29.4
Interest from Federal funds	187.2	181.7	182.1	184.2	189.3	200.1	209.9
Subtotal, surplus or deficit (–)	123.3	46.1	125.4	145.8	189.0	228.3	239.3
Borrowing/transfers/lapses (net)	27.0	26.6	18.8	....	....	....	....
Subtotal, change in fund balance	150.4	72.7	144.1	145.8	189.0	228.3	239.3
Balance, end of year	4,238.7	4,308.9	4,453.1	4,598.9	4,787.9	5,016.3	5,255.5

* $50 million or less.

NOTE: In contrast to table 28-1, income in Table 28-2 includes income that is recorded in expenditure accounts as offsetting collections, instead of being deposited in receipt accounts.

amortize the unfunded liabilities of these funds. In addition, the payments include general fund payments to the Medicare trust funds for the cost of Parts B and D that is not covered by premiums. For 2011 and 2012, general fund payments will be made to the Social Security trust funds to hold the funds harmless for the one-year (2 percentage point) reduction in the Social Security tax payroll rate enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

In addition to investing their balances with Treasury, some funds in the Federal funds group and most trust funds[7] are authorized to borrow from the general fund of the Treasury.[8] Similar to the treatment of funds invested with Treasury, borrowed funds are not recorded as receipts of the fund or included in the income of the fund. Rather, the borrowed funds finance outlays by the fund in excess of available receipts. Subsequently, any excess fund receipts are transferred from the fund to the general fund in repayment of the borrowing. The repayment is not recorded as an outlay of the fund or included in fund 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.[9]

Some income in both Federal funds and trust funds consists of offsetting receipts.[10] Offsetting receipts are not considered governmental receipts (such as taxes) but instead are subtracted from gross outlays. There are two reasons for this treatment:

- *Business-like or market-oriented activities with the public:* The collections from such activities are deducted from gross outlays, rather than added to receipts, in order to produce budget totals for receipts and outlays that represent governmental rather than market activity.
- *Intragovernmental transactions:* Collections by one Government account from another are deducted from gross outlays, rather than added to receipts, so that the budget totals measure the transactions of the Government with the public.

Because the income for Federal funds and trust funds recorded in Table 28–1 includes offsetting receipts, offsetting receipts must be deducted from the two fund groups' combined gross income in order to reconcile to total (net) unified budget receipts. Similarly, because the outgo for Federal funds and trust funds in Table 28–1 consists of

[7] For example, the Unemployment trust fund borrowed $26 billion from the general fund in 2010 for unemployment benefits.

[8] For example, the Bonneville Power Administration Fund, a revolving fund in the Department of Energy, is authorized to borrow from the general fund. The Black Lung Disability Trust Fund, a trust fund in the Department of Labor, is authorized to receive appropriations of repayable advances from the general fund; this constitutes a form of borrowing.

[9] Borrowing and debt repayment are discussed in Chapter 12 of this volume, "Budget Concepts."

[10] Interest on borrowed funds is an example of an offsetting receipt.

Table 28–3. COMPARISON OF TOTAL FEDERAL FUND AND TRUST FUND RECEIPTS TO UNIFIED BUDGET RECEIPTS, FISCAL YEAR 2010

(In billions of dollars)

Gross trust fund receipts	1,719.9
Gross Federal fund receipts	1,525.3
Total, gross receipts	3,245.2
Deduct intrafund receipts (from funds within same fund group):	
Trust fund intrafund receipts	–6.4
Federal fund intrafund receipts	–38.1
Subtotal, intrafund receipts	–44.5
Total trust funds and Federal funds cash income	3,200.7
Deduct other offsetting receipts:	
Trust fund receipts from Federal funds:	
Interest in receipt accounts	–185.8
General fund payments to Medicare Parts B and D	–213.7
Employing agencies' payments for pensions, Social Security, and Medicare	–65.9
General fund payments for unfunded liabilities of Federal employees' retirement funds	–92.2
Transfer of taxation of Social Security and RRB benefits to OASDI, HI, and RRB	–37.1
Other receipts from Federal funds	–100.1
Subtotal, trust fund receipts from Federal funds	–694.7
Federal fund receipts from trust funds	–2.0
Proprietary receipts	–333.9
Offsetting governmental receipts	–7.3
Subtotal, offsetting receipts	–1,038.0
Unified budget receipts	2,162.7

Note: Offsetting receipts are included in cash income for each fund group, but are deducted from outlays in the unified budget.

outlays gross of offsetting receipts, the amount of the offsetting receipts must be deducted from the sum of the Federal funds' and the trust funds' gross outgo in order to reconcile to total (net) unified budget outlays. Table 28–3 reconciles, for fiscal year 2010, the gross total of all trust fund and Federal fund receipts with the net total of the cash income of the Federal fund group and the trust fund group (as shown in Table 28–1), and with the receipt total of the unified budget.

Income, Outgo, and Balances of Trust Funds

Table 28–2 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 28–1 in one important way. Trust fund collections that are offset against outgo (as offsetting collections) within expenditure accounts instead of being deposited in separate receipt accounts are classified as income in this table, but not in Table 28–1. This classification is consistent with the definitions of income and outgo for trust funds used elsewhere in the budget. It has the effect of increasing both income and outgo by the amount of the offsetting collections. The difference was approximately $59 billion in 2010. Table 28–2, therefore, provides a more complete summary of trust fund income and outgo.

The trust funds group is expected to have large and growing surpluses over the projection period. As a consequence, trust fund balances are estimated to grow substantially, continuing a trend that has persisted over the past several decades.[11] The size of the anticipated balances is unprecedented and results mainly from changes in the way some trust funds (primarily Social Security and the Federal retirement funds) are financed.

Because of these changes and economic growth (both real and inflationary), trust fund balances increased from $205 billion in 1982 to $4.2 trillion in 2010. The current balances are estimated to increase by more than 20 percent by the year 2016, rising to $5.3 trillion. Almost all of these balances are invested in Treasury securities and earn interest. The balances represent the value, in current dollars, of (1) taxes and user fees received by the Government and dedicated to particular programs that have not yet been spent and (2) intragovernmental payments (from the general fund and from agencies) to the trust funds that have not yet been spent.

Until the 1980s, most trust funds operated on a pay-as-you-go basis as distinct from a pre-funded basis. Taxes and user fees were set at levels sufficient to finance current program expenditures and administrative expenses, and to maintain balances generally equal to one year's worth of expenditures (to provide for unexpected events). As a result, trust fund balances tended to grow at about the same rate as the fund's annual expenditures.

For some of the larger trust funds, pay-as-you-go financing was replaced in the 1980s by full or partial advance funding. The Social Security Amendments of 1983 raised payroll taxes above the levels necessary to finance current expenditures. Similarly, in 1985, a new system took effect that funded military retirement benefits on a full accrual basis and, in 1986, full accrual funding of retirement benefits was mandated for Federal civilian employees hired after December 31, 1983. The two retirement programs now require Federal agencies and employees together to pay the trust funds that disburse Federal civilian and military retirement benefits an amount equal to those accruing retirement benefits. Since many years will pass between the time when benefits are earned (or accrued) and when they are paid, the trust funds will accumulate substantial balances over time.

From the perspective of the trust fund, these balances represent the value, in today's dollars, of taxes, user fees, and other income that the trust fund has received in the past for the purpose of funding future benefits and services. Trust fund assets held in Treasury bonds are legal claims on the Treasury, similar to bonds issued to the public. Like all other fund assets, these are available to the fund for future benefit payments and other expenditures.

In contrast, from the perspective of the unified budget, the trust fund balances do not represent net resources. The trust fund balances are assets of the trust fund program agencies and liabilities of the Treasury, which net each other out in the unified budget. From a cash perspective, 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 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 be left with fewer resources available to meet its obligations and

[11] Because of the economic downturn, Social Security trust fund collections from the public (payroll taxes) fell well below Social Security benefit payments in 2010; however, because of interest earnings on trust fund investments, Social Security trust fund balances continued to grow in 2010. Social Security trust fund balances are expected to continue to grow (although at diminishing rates) throughout the budget window.

will face more difficult choices among cutting spending, raising taxes, or borrowing from private credit markets.

Table 28–4 shows estimates of income, outgo, and balances for 2010 through 2016 for the major trust funds. With the exception of transactions between trust funds, the data for the individual trust funds are conceptually the same as the data in Table 28–2 for the trust funds group. As explained previously, transactions between trust funds are shown as outgo of the fund that makes the payment and as income of the fund that collects it in the data for an individual trust fund, but the collections are offset against outgo in the data for the trust fund group as a whole. A brief description of the funding sources for the major trust funds is given below; additional information for these and other trust funds can be found in the Status of Funds tables in the *Budget Appendix*.

- Social Security Trust Funds: The Social Security trust funds are funded by payroll taxes from employers and employees, interest earnings on trust fund balances, Federal agency payments as employers, and a portion of the income taxes paid on Social Security benefits.
- Medicare Trust Funds: Like the Social Security trust funds, the Medicare Hospital Insurance (HI) trust fund is funded by payroll taxes from employers and employees, interest earnings on trust fund balances, 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 funds are for Part B (Supplementary Medical Insurance) and Part D (prescription drug benefits). These two trust funds receive premium payments from covered individuals and transfers from the general fund of the Treasury for that portion of Part B and Part D costs not covered by premiums. In addition, like the Social Security and all trust funds, these two trust funds receive interest earnings on any trust fund balances.
- Unemployment Trust Fund: The Unemployment trust fund is funded by taxes on employers, payments from Federal agencies, taxes on certain employees, and interest earnings on trust fund balances. In addition, as noted above, some trust funds have the authority to borrow from the general fund of the Treasury and in 2010 the Unemployment trust fund borrowed $26 billion from the general fund. This borrowed amount is repayable with interest and allowed the trust fund to meet its legal obligations to pay benefits and make repayable advances to States.
- Civilian and military retirement trust funds: The Civil Service Retirement and Disability Fund is funded by employee and agency payments, general fund transfers for the unfunded portion of retirement costs, and interest earnings on trust fund balances. The Military Retirement Fund is funded by payments from the Department of Defense, general fund transfers for unfunded retirement costs, and interest earnings on trust fund balances.

As noted, trust funds are funded by a combination of payments from the public and payments from Federal funds, including payments directly from the general fund and payments from agency appropriations. Just as the funding sources for trust funds are specified in law, the uses for trust fund balances are specified in law.

Table 28–5 shows income, outgo, and balances of five Federal funds–three revolving funds and two special funds. These five funds are similar to trust funds in that they are financed by dedicated receipts, the excess of income over outgo is invested in Treasury securities, the interest earnings add to fund balances, and the balances remain available to cover future expenditures. The table is illustrative of the Federal funds group, which includes many other revolving funds and special funds.

Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS
(In billions of dollars)

	2010 Actual	Estimate					
		2011	2012	2013	2014	2015	2016
Airport and Airway Trust Fund							
Balance, start of year	8.8	9.4	9.1	7.6	7.3	8.1	9.7
Adjustments	*	....	....	....	....	....	....
Total balance, start of year	8.8	9.4	9.1	7.6	7.3	8.1	9.7
Income:	....	....	....	....	....	....	....
Governmental receipts	10.6	10.1	10.2	10.6	11.2	11.7	12.2
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Receipts from Federal funds:							
Interest	0.2	0.2	0.2	0.2	0.2	0.3	0.4
Other	*	0.1	0.1	0.1	0.1	0.1	0.1
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	10.9	10.5	10.6	11.0	11.5	12.1	12.7
Outgo (–):							
To the public	–10.3	–10.8	–12.1	–11.3	–10.7	–10.5	–10.5
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–10.3	–10.8	–12.1	–11.3	–10.7	–10.5	–10.5
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	0.4	–0.5	–1.7	–0.5	0.6	1.3	1.8
Interest	0.2	0.2	0.2	0.2	0.2	0.3	0.4
Subtotal, surplus or deficit(–)	0.6	–0.3	–1.5	–0.3	0.8	1.6	2.2
Borrowing/transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	0.6	–0.3	–1.5	–0.3	0.8	1.6	2.2
Balance, end of year	9.4	9.1	7.6	7.3	8.1	9.7	11.8
Civil Service Retirement and Disability Fund							
Balance, start of year	754.3	780.4	803.4	823.8	841.8	858.4	873.8
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	754.3	780.4	803.4	823.8	841.8	858.4	873.8
Income:							
Governmental receipts	4.0	4.3	4.0	3.8	3.6	3.4	3.4
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	....	....	....	....	....	....	....
Receipts from Federal funds:							
Interest	36.6	34.7	34.6	34.7	35.3	36.2	37.5
Other	55.0	56.3	56.5	57.5	58.7	60.1	62.0
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	95.7	95.3	95.1	95.9	97.6	99.7	102.9
Outgo (–):							
To the public	–69.5	–72.2	–74.8	–77.9	–81.1	–84.3	–87.6
Payments to other funds	-*	-*	-*	-*	-*	-*	-*
Subtotal, outgo	–69.5	–72.2	–74.8	–77.9	–81.1	–84.3	–87.6
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–10.5	–11.7	–14.3	–16.6	–18.8	–20.8	–22.3
Interest	36.6	34.7	34.6	34.7	35.3	36.2	37.5
Subtotal, surplus or deficit(–)	26.1	23.0	20.4	18.1	16.6	15.4	15.2
Borrowing/transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	26.1	23.0	20.4	18.1	16.6	15.4	15.2
Balance, end of year	780.4	803.4	823.8	841.8	858.4	873.8	889.0

Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2010 Actual	Estimate					
		2011	2012	2013	2014	2015	2016
Federal Employees Health Benefits Fund							
Balance, start of year	15.3	16.2	16.3	16.1	16.1	16.5	16.8
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	15.3	16.2	16.3	16.1	16.1	16.5	16.8
Income:							
Governmental receipts	....	....	....	....	....	....	....
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	11.6	12.5	13.2	14.2	15.2	16.4	17.6
Receipts from Federal funds:							
Interest	0.3	0.4	0.5	0.6	0.7	0.7	0.8
Other	28.0	30.1	31.8	34.0	36.6	39.2	42.1
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	39.8	43.1	45.5	48.8	52.5	56.3	60.5
Outgo (–):							
To the public	–39.0	–42.9	–45.8	–48.7	–52.1	–55.9	–59.9
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–39.0	–42.9	–45.8	–48.7	–52.1	–55.9	–59.9
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	0.6	–0.3	–0.8	–0.5	–0.3	–0.4	–0.2
Interest	0.3	0.4	0.5	0.6	0.7	0.7	0.8
Subtotal, surplus or deficit(–)	0.9	0.1	–0.3	0.1	0.4	0.3	0.5
Borrowing/transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	0.9	0.1	–0.3	0.1	0.4	0.3	0.5
Balance, end of year	16.2	16.3	16.1	16.1	16.5	16.8	17.4
Foreign Military Sales Trust Fund							
Balance, start of year	17.2	17.6	18.7	19.0	20.3	21.8	22.5
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	17.2	17.6	18.7	19.0	20.3	21.8	22.5
Income:							
Governmental receipts	....	....	....	....	....	....	....
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	24.0	28.0	27.7	27.2	26.6	25.3	23.4
Receipts from Federal funds:							
Interest	....	....	....	....	....	....	....
Other	....	....	....	....	....	....	....
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	24.0	28.0	27.7	27.2	26.6	25.3	23.4
Outgo (–):							
To the public	–23.6	–26.9	–27.4	–25.9	–25.1	–24.7	–24.3
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–23.6	–26.9	–27.4	–25.9	–25.1	–24.7	–24.3
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	0.4	1.1	0.3	1.3	1.5	0.6	–0.9
Interest	....	....	....	....	....	....	....
Subtotal, surplus or deficit(–)	0.4	1.1	0.3	1.3	1.5	0.6	–0.9
Borrowing/transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	0.4	1.1	0.3	1.3	1.5	0.6	–0.9
Balance, end of year	17.6	18.7	19.0	20.3	21.8	22.5	21.6

Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2010 Actual	Estimate					
		2011	2012	2013	2014	2015	2016
Medicare: Hospital Insurance (HI) Trust Fund							
Balance, start of year	309.8	280.1	240.7	212.2	185.3	165.9	155.7
Adjustments	*	....	....	....	....	....	....
Total balance, start of year	309.9	280.1	240.7	212.2	185.3	165.9	155.7
Income:							
Governmental receipts	180.7	187.5	201.6	217.3	235.5	250.4	268.1
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	8.1	9.1	9.3	9.6	9.9	10.0	10.2
Receipts from Federal funds:							
Interest	14.6	13.0	11.3	9.6	8.2	7.2	6.7
Other	19.5	20.1	20.7	23.5	27.3	30.8	33.7
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	222.9	229.8	243.0	260.0	280.8	298.4	318.7
Outgo (–):							
To the public	–253.9	–269.2	–271.4	–286.8	–300.2	–308.5	–326.4
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–253.9	–269.2	–271.4	–286.8	–300.2	–308.5	–326.4
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–45.6	–52.5	–39.8	–36.5	–27.6	–17.4	–14.4
Interest	14.6	13.0	11.3	9.6	8.2	7.2	6.7
Subtotal, surplus or deficit(–)	–31.0	–39.5	–28.5	–26.9	–19.4	–10.2	–7.6
Borrowing/transfers/lapses (net)	1.3	....	....	....	....	....	....
Total, change in fund balance	–29.7	–39.5	–28.5	–26.9	–19.4	–10.2	–7.6
Balance, end of year	280.1	240.7	212.2	185.3	165.9	155.7	148.1
Medicare: Supplementary Medical Insurance SMI Trust Fund							
Balance, start of year	61.4	72.0	64.5	69.9	74.0	81.5	92.3
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	61.4	72.0	64.5	69.9	74.0	81.5	92.3
Income:							
Governmental receipts	....	2.2	2.8	2.8	3.0	3.0	3.0
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	65.9	70.4	77.6	84.6	91.7	99.1	107.1
Receipts from Federal funds:							
Interest	3.0	3.2	3.3	3.5	3.9	4.5	5.2
Other	214.2	221.3	229.5	255.0	274.1	294.0	322.8
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	283.1	297.1	313.2	346.0	372.7	400.5	438.1
Outgo (–):							
To the public	–272.5	–304.6	–307.8	–341.8	–365.2	–389.8	–429.3
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–272.5	–304.6	–307.8	–341.8	–365.2	–389.8	–429.3
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	7.6	–10.7	2.1	0.6	3.6	6.3	3.6
Interest	3.0	3.2	3.3	3.5	3.9	4.5	5.2
Subtotal, surplus or deficit(–)	10.6	–7.5	5.4	4.1	7.5	10.7	8.8
Borrowing/transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	10.6	–7.5	5.4	4.1	7.5	10.7	8.8
Balance, end of year	72.0	64.5	69.9	74.0	81.5	92.3	101.1

Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued

(In billions of dollars)

	2010 Actual	Estimate 2011	2012	2013	2014	2015	2016
Military Retirement Fund							
Balance, start of year	276.1	318.6	361.5	419.7	477.1	538.3	606.4
Adjustments	–0.6	....	....	....	....	....	....
Total balance, start of year	275.5	318.6	361.5	419.7	477.1	538.3	606.4
Income:							
Governmental receipts	....	....	....	....	....	....	....
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	....	....	....	....	....	....	....
Receipts from Federal funds:							
Interest	10.2	10.9	15.2	18.4	20.6	26.0	27.9
Other	83.5	87.4	91.2	92.9	96.1	99.0	101.9
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	93.7	98.2	106.4	111.3	116.7	125.0	129.7
Outgo:							
To the public	–50.6	–55.3	–48.3	–53.8	–55.5	–57.0	–62.9
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–50.6	–55.3	–48.3	–53.8	–55.5	–57.0	–62.9
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	32.9	32.1	42.9	39.0	40.6	42.0	39.0
Interest	10.2	10.9	15.2	18.4	20.6	26.0	27.9
Subtotal, surplus or deficit(–)	43.1	43.0	58.1	57.5	61.2	68.0	66.8
Borrowing/transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	43.1	43.0	58.1	57.5	61.2	68.0	66.8
Balance, end of year	318.6	361.5	419.7	477.1	538.3	606.4	673.2
Railroad Retirement Trust Funds							
Balance, start of year	21.2	21.6	20.5	19.2	18.0	16.8	15.6
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	21.2	21.6	20.5	19.2	18.0	16.8	15.6
Income:							
Governmental receipts	4.1	4.0	4.3	4.6	4.8	5.1	5.3
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	2.4	0.9	0.7	0.8	0.8	0.8	0.8
Receipts from Federal funds:							
Interest	*	0.1	*	0.1	0.1	0.1	0.1
Other	0.6	0.8	0.7	0.7	0.7	0.7	0.8
Receipts from trust funds	4.4	4.4	4.5	4.6	4.7	4.8	4.5
Subtotal, income	11.6	10.2	10.2	10.7	11.0	11.5	11.4
Outgo:							
To the public	–11.0	–11.2	–11.4	–11.7	–12.1	–12.4	–12.8
Payments to other funds	–0.1	–0.1	–0.1	–0.1	–0.2	–0.2	–0.2
Subtotal, outgo	–11.2	–11.3	–11.6	–11.9	–12.3	–12.6	–13.0
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	0.4	–1.2	–1.4	–1.2	–1.3	–1.2	–1.7
Interest	*	0.1	*	0.1	0.1	0.1	0.1
Subtotal, surplus or deficit(–)	0.4	–1.1	–1.3	–1.2	–1.2	–1.1	–1.6
Borrowing/transfers/lapses (net)	-*	*	*	....	....	....	....
Total, change in fund balance	0.4	–1.1	–1.3	–1.2	–1.2	–1.1	–1.6
Balance, end of year	21.6	20.5	19.2	18.0	16.8	15.6	14.0

Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2010 Actual	Estimate					
		2011	2012	2013	2014	2015	2016
Social Security: Old-Age, Survivors and Disability Insurance (OASDI) Trust Funds							
Balance, start of year	2,503.8	2,585.5	2,644.9	2,720.6	2,800.9	2,886.4	2,976.3
Adjustments	*	....	....	....	....	....	....
Total balance, start of year	2,503.8	2,585.5	2,644.9	2,720.6	2,800.9	2,886.4	2,976.3
Income:							
Governmental receipts	631.7	559.4	658.7	730.0	771.5	814.9	869.9
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Receipts from Federal funds:							
Interest	118.5	115.7	113.3	113.2	115.5	119.5	124.8
Other	49.1	129.6	82.9	57.3	63.6	68.8	74.0
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	799.4	804.8	855.1	900.6	950.8	1,003.3	1,068.8
Outgo:							
To the public	–712.5	–739.9	–773.9	–814.7	–859.6	–907.6	–959.5
Payments to other funds	–5.2	–5.5	–5.5	–5.6	–5.7	–5.8	–5.5
Subtotal, outgo	–717.7	–745.4	–779.4	–820.3	–865.4	–913.4	–965.1
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–36.8	–56.3	–37.7	–32.8	–30.1	–29.6	–21.1
Interest	118.5	115.7	113.3	113.2	115.5	119.5	124.8
Subtotal, surplus or deficit(–)	81.7	59.4	75.7	80.4	85.4	89.9	103.7
Borrowing/transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	81.7	59.4	75.7	80.4	85.4	89.9	103.7
Balance, end of year	2,585.5	2,644.9	2,720.6	2,800.9	2,886.4	2,976.3	3,080.0
Transportation Trust Fund [1]							
Balance, start of year	14.1	29.2	22.0	26.4	33.7	37.9	41.9
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	14.1	29.2	22.0	26.4	33.7	37.9	41.9
Income:							
Governmental receipts	35.0	37.5	64.4	76.4	79.5	82.4	84.8
Offsetting governmental receipts	*	*	*	*	*	*	*
Proprietary receipts	*	*	....	....	....	....	....
Receipts from Federal funds:							
Interest	*	....	....	....	....	....	....
Other	19.8	0.3	0.3	0.3	0.2	0.2	0.2
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	54.8	37.8	64.7	76.7	79.8	82.6	85.1
Outgo:							
To the public	–39.7	–45.0	–60.3	–69.4	–75.5	–78.6	–83.6
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–39.7	–45.0	–60.3	–69.4	–75.5	–78.6	–83.6
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	15.1	–7.2	4.4	7.3	4.2	4.0	1.6
Interest	*	....	....	....	....	....	....
Subtotal, surplus or deficit(–)	15.1	–7.2	4.4	7.3	4.2	4.0	1.6
Borrowing/transfers/lapses (net)	-*	-*	-*	....	....	....	....
Total, change in fund balance	15.1	–7.2	4.3	7.3	4.2	4.0	1.6
Balance, end of year	29.2	22.0	26.4	33.7	37.9	41.9	43.5

Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2010 Actual	Estimate					
		2011	2012	2013	2014	2015	2016
Unemployment Trust Fund							
Balance, start of year	22.8	20.0	17.0	19.5	10.6	25.7	54.6
Adjustments	....	–2.1	....	....	....	....	....
Total balance, start of year	22.8	17.9	17.0	19.5	10.6	25.7	54.6
Income:							
Governmental receipts	44.8	51.8	56.8	61.1	79.5	89.5	87.8
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	*	*	0.3	1.9	2.5	2.5	2.4
Receipts from Federal funds:							
Interest	0.8	0.4	0.3	0.2	0.3	0.4	0.6
Other	76.6	54.9	23.4	1.1	1.1	1.1	1.0
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	122.3	107.2	80.8	64.4	83.4	93.5	91.9
Outgo:							
To the public	–151.3	–134.7	–97.7	–73.2	–68.2	–64.6	–62.2
Payments to Federal funds	....	....	....	....	....	....	....
Subtotal, outgo	–151.3	–134.7	–97.7	–73.2	–68.2	–64.6	–62.2
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–29.9	–28.0	–17.2	–9.1	14.8	28.4	29.1
Interest	0.8	0.4	0.3	0.2	0.3	0.4	0.6
Subtotal, surplus or deficit(–)	–29.0	–27.6	–16.9	–8.9	15.1	28.8	29.7
Borrowing/transfers/lapses (net)	26.2	26.7	19.4	....	....	....	....
Total, change in fund balance	–2.8	–0.9	2.5	–8.9	15.1	28.8	29.7
Balance, end of year	20.0	17.0	19.5	10.6	25.7	54.6	84.3
Veterans Life Insurance Funds							
Balance, start of year	10.8	10.2	9.5	8.8	8.0	7.2	6.5
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	10.8	10.2	9.5	8.8	8.0	7.2	6.5
Income:							
Governmental receipts	....	....	....	....	....	....	....
Offsetting governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	0.4	0.4	0.3	0.3	0.3	0.2	0.2
Receipts from Federal funds:							
Interest	0.6	0.5	0.5	0.4	0.4	0.3	0.3
Other	....	....	....	....	....	....	....
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	1.0	0.9	0.8	0.7	0.6	0.5	0.5
Outgo:							
To the public	–1.6	–1.6	–1.5	–1.4	–1.4	–1.3	–1.3
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–1.6	–1.6	–1.5	–1.4	–1.4	–1.3	–1.3
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–1.2	–1.2	–1.2	–1.2	–1.1	–1.1	–1.1
Interest	0.6	0.5	0.5	0.4	0.4	0.3	0.3
Subtotal, surplus or deficit(–)	–0.6	–0.7	–0.7	–0.7	–0.8	–0.8	–0.8
Borrowing/transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	–0.6	–0.7	–0.7	–0.7	–0.8	–0.8	–0.8
Balance, end of year	10.2	9.5	8.8	8.0	7.2	6.5	5.7

Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2010 Actual	Estimate					
		2011	2012	2013	2014	2015	2016
Other Trust Funds							
Balance, start of year	73.0	78.0	80.8	90.6	105.7	123.3	144.2
Adjustments	0.3	–0.4	....	....	....	....	....
Total balance, start of year	73.3	77.6	80.8	90.6	105.7	123.3	144.2
Income:							
Governmental receipts	5.2	5.1	6.9	8.1	8.5	8.7	8.8
Offsetting governmental receipts	*	*	*	*	*	*	*
Proprietary receipts	6.9	6.2	11.6	15.0	16.4	17.9	17.9
Receipts from Federal funds:							
Interest	2.3	2.5	2.8	3.3	4.0	4.8	5.7
Other	3.9	3.7	3.6	3.5	3.5	3.5	3.6
Receipts from trust funds	*	*	*	0.1	0.1	0.1	0.1
Subtotal, income	18.2	17.5	24.9	30.0	32.6	35.1	36.3
Outgo:							
To the public	–13.2	–14.2	–14.6	–14.8	–14.9	–14.1	–14.5
Payments to other funds	-*	-*	-*	–0.1	–0.1	–0.1	–0.1
Subtotal, outgo	–13.2	–14.3	–14.6	–14.9	–15.0	–14.2	–14.6
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	2.7	0.8	7.5	11.8	13.6	16.1	15.9
Interest	2.3	2.5	2.8	3.3	4.0	4.8	5.7
Subtotal, surplus or deficit(–)	5.0	3.3	10.3	15.1	17.6	20.9	21.7
Borrowing/transfers/lapses (net)	–0.4	–0.1	–0.5	....	....	....	....
Total, change in fund balance	4.6	3.2	9.8	15.1	17.6	20.9	21.7
Balance, end of year	78.0	80.8	90.6	105.7	123.3	144.2	165.9

* $50 million or less.
[1] This table does not reflect $434 million in Transportation Trust Fund outlays from 2013 to 2016 that were inadvertently excluded from the account level data in the budget database.

Table 28–5. INCOME, OUTGO, AND BALANCE OF MAJOR FEDERAL FUNDS
(In billions of dollars)

	2010 Actual	Estimate 2011	2012	2013	2014	2015	2016
Abandoned Mine Reclamation Fund							
Balance, start of year	2.5	2.6	2.7	2.8	2.8	2.9	2.9
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	2.5	2.6	2.7	2.8	2.8	2.9	2.9
Income:							
Governmental receipts	0.3	0.3	0.3	0.2	0.3	0.2	0.2
Proprietary receipts	....	....	....	....	....	....	....
Receipts from Federal funds:							
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	....	....	....	....	....	....	....
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Outgo (–):							
To the public	–0.2	–0.2	–0.2	–0.3	–0.4	–0.4	–0.4
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–0.2	–0.2	–0.2	–0.3	–0.4	–0.4	–0.4
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	*	*	*	–0.1	–0.1	–0.1	–0.1
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal, surplus or deficit(–)	0.1	0.1	0.1	*	*	*	....
Borrowing/transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	0.1	0.1	0.1	*	*	*	....
Balance, end of year	2.6	2.7	2.8	2.8	2.9	2.9	2.9
Credit Union Share Insurance Fund							
Balance, start of year	7.6	9.3	10.2	11.1	11.4	11.9	12.5
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	7.6	9.3	10.2	11.1	11.4	11.9	12.5
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	2.0	11.3	1.2	0.4	0.4	0.4	0.5
Receipts from Federal funds:							
Interest	0.2	0.2	0.2	0.3	0.4	0.4	0.4
Other	....	....	....	....	....	....	....
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	2.2	11.6	1.4	0.7	0.8	0.8	0.9
Outgo (–):							
To the public	–0.5	–10.6	–0.5	–0.4	–0.3	–0.3	–0.3
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–0.5	–10.6	–0.5	–0.4	–0.3	–0.3	–0.3
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	1.4	0.7	0.7	*	0.1	0.2	0.2
Interest	0.2	0.2	0.2	0.3	0.4	0.4	0.4
Subtotal, surplus or deficit(–)	1.6	0.9	0.9	0.4	0.5	0.6	0.6
Borrowing/transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	1.6	0.9	0.9	0.4	0.5	0.6	0.6
Balance, end of year	9.3	10.2	11.1	11.4	11.9	12.5	13.1

Table 28–5. INCOME, OUTGO, AND BALANCE OF MAJOR FEDERAL FUNDS—Continued
(In billions of dollars)

	2010 Actual	Estimate					
		2011	2012	2013	2014	2015	2016
Department of Defense Medicare-Eligible Retiree Health Care Fund							
Balance, start of year	146.8	164.6	182.1	200.5	217.9	236.2	255.5
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	146.8	164.6	182.1	200.5	217.9	236.2	255.5
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	....	....	....	....	....	....	....
Receipts from Federal funds:							
Interest	5.1	5.8	7.0	7.6	8.2	9.1	9.5
Other	....	....	....	....	....	....	....
Receipts from trust funds	21.1	21.1	21.3	20.6	21.6	22.6	23.6
Subtotal, income	26.2	26.9	28.3	28.2	29.8	31.7	33.1
Outgo (–):							
To the public	–8.4	–9.5	–9.9	–10.7	–11.5	–12.4	–13.3
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–8.4	–9.5	–9.9	–10.7	–11.5	–12.4	–13.3
Change in fund balance:							
Surplus or deficit(–):	....	....	....	....	....	....	....
Excluding interest	12.7	11.6	11.4	9.9	10.1	10.2	10.3
Interest	5.1	5.8	7.0	7.6	8.2	9.1	9.5
Subtotal, surplus or deficit(–)	17.8	17.4	18.4	17.5	18.3	19.3	19.8
Borrowing/transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	17.8	17.4	18.4	17.5	18.3	19.3	19.8
Balance, end of year	164.6	182.1	200.5	217.9	236.2	255.5	275.3
Overseas Private Investment Corporation Noncredit Account							
Balance, start of year	4.8	4.9	5.1	5.2	5.4	5.6	5.8
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	4.8	4.9	5.1	5.2	5.4	5.6	5.8
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	*	*	*	*	*	*	*
Receipts from Federal funds:							
Interest	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	*	*	*	*	*	*	*
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	0.3	0.2	0.2	0.3	0.3	0.3	0.3
Outgo (–):							
To the public	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	*	*	*	*	*	*	*
Interest	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Subtotal, surplus or deficit(–)	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Borrowing/transfers/lapses (net)	–0.1	–0.1	–0.1	....	....	....	....
Total, change in fund balance	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Balance, end of year	4.9	5.1	5.2	5.4	5.6	5.8	6.0

Table 28–5. INCOME, OUTGO, AND BALANCE OF MAJOR FEDERAL FUNDS—Continued

(In billions of dollars)

	2010 Actual	Estimate					
		2011	2012	2013	2014	2015	2016
Pension Benefit Guaranty Corporation Fund							
Balance, start of year	13.1	14.4	15.0	15.8	16.0	16.9	18.6
Adjustments	....	....	....	....	....	....	....
Total balance, start of year	13.1	14.4	15.0	15.8	16.0	16.9	18.6
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	5.3	6.4	7.3	7.5	9.0	10.8	10.9
Receipts from Federal funds:							
Interest	1.6	0.8	0.8	0.9	0.9	0.9	1.0
Other	....	....	....	....	....	....	....
Receipts from trust funds	....	....	....	....	....	....	....
Subtotal, income	6.9	7.2	8.1	8.3	9.9	11.7	11.9
Outgo (–):							
To the public	–5.6	–6.6	–7.3	–8.1	–9.0	–10.0	–10.9
Payments to other funds	....	....	....	....	....	....	....
Subtotal, outgo	–5.6	–6.6	–7.3	–8.1	–9.0	–10.0	–10.9
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest	–0.2	–0.2	–0.1	–0.6	–*	0.8	0.1
Interest	1.6	0.8	0.8	0.9	0.9	0.9	1.0
Subtotal, surplus or deficit(–)	1.3	0.6	0.8	0.2	0.8	1.7	1.1
Borrowing/transfers/lapses (net)	....	....	....	....	....	....	....
Total, change in fund balance	1.3	0.6	0.8	0.2	0.8	1.7	1.1
Balance, end of year	14.4	15.0	15.8	16.0	16.9	18.6	19.6

* $50 million or less.

29. NATIONAL INCOME AND PRODUCT ACCOUNTS

The National Income and Product Accounts (NIPAs) are an integrated set of statistics prepared by the Department of Commerce that measure aggregate U.S. economic activity. Because the NIPAs include Federal transactions and are widely used in economic analysis, it is important to understand the differences between the NIPAs' distinctive presentation of Federal transactions and that of the budget.

The main purpose of the NIPAs is to measure the Nation's total production of goods and services, known as gross domestic product (GDP), and the incomes generated in its production. GDP excludes intermediate production to avoid double counting. Government consumption expenditures along with government gross investment—State and local as well as Federal—are included in GDP as part of final output, together with personal consumption expenditures, gross private domestic investment, and net exports of goods and services (exports minus imports).

Not all government expenditures are counted in GDP. Benefit payments to individuals, grants to State and local governments, subsidies, and interest payments are not purchases of final output and are therefore not included in GDP. However, these transactions are recorded in the NIPA government account that records current receipts and expenditures (including depreciation on government gross investment) because all of these affect the government's claim on economic resources.

Federal transactions are included in the NIPAs as part of the government sector. [1] The Federal subsector is designed to measure certain important economic effects of Federal transactions in a way that is consistent with the conceptual framework of the entire set of integrated accounts. The NIPA Federal subsector is not itself a budget, because it is not a financial plan for proposing, determining, and controlling the fiscal activities of the Government. For example, it omits from its current receipts and current expenditures certain "capital transfers" (such as estate tax receipts and grants to States for capital investment) that are recorded in the budget. These capital transfers are therefore not counted in net Federal Government saving, but are displayed separately to show their effect on net Federal lending or borrowing. NIPA concepts also differ in many other ways from budget concepts, and therefore the NIPA presentation of Federal finances is significantly different from that of the budget.

[1] The NIPA government sector consists of the Federal subsector and a State and local subsector that is a single set of transactions for all U.S. State and local units of government, treated as a consolidated entity.

Differences between the NIPAs and the Budget

Federal transactions in the NIPAs are measured according to NIPA accounting concepts and as a result they differ from the budget in netting and grossing, timing, and coverage. These differences cause current receipts and expenditures in the NIPAs to differ from total receipts and outlays in the budget, albeit by relatively small amounts.[2] Differences in timing and coverage also cause the NIPA measure of net Federal Government saving to differ from the budget surplus or deficit. Unlike timing and coverage differences, netting and grossing differences have equal effects on receipts and expenditures and thus have no effect on net Government saving. The NIPAs also combine transactions into different categories from those used in the budget.

Netting and grossing differences arise because the budget records certain transactions as offsets to outlays that are recorded as current receipts in the NIPAs (or vice versa). The budget treats all income that comes to the Government due to its sovereign powers—mainly, but not exclusively, taxes—as governmental receipts. The budget offsets against outlays any income that arises from voluntary business-type transactions with the public. The NIPAs generally follow this concept as well, and income to Government revolving accounts (such as the Government Printing Office) is offset against their expenditures. However, the NIPAs have a narrower definition of "business-type transactions" than does the budget. Rents and royalties, and some regulatory or inspection fees, which are classified as offsets to outlays in the budget, are recorded in the NIPAs as Government receipts (income receipts on assets and current transfer receipts, respectively). The NIPAs include Medicare premiums as Government receipts, while the budget classifies them as business-type transactions (offsetting receipts). In addition, the NIPAs treat the net surplus of Government enterprises, such as the Postal Service, as a component of current receipts.

In the budget, any intragovernmental income paid from one account to another is offset against outlays rather than being recorded as a receipt so that total outlays and receipts measure only transactions with the public. For example, Government contributions for Federal employee social insurance (such as Social Security) are offset against outlays. In contrast, the NIPAs treat the Federal Government like any other employer and show

[2] Over the period 1994–2009, NIPA current expenditures averaged 3.6 percent higher than budget outlays, while NIPA current receipts averaged 2.9 percent higher than budget receipts. Including capital transfers and net investment, NIPA total expenditures averaged 6.0 percent higher than budget outlays, while NIPA total receipts averaged 4.2 percent higher than budget receipts.

contributions for Federal employee social insurance as expenditures by the employing agencies and as current receipts, rather than offsets against outlays. The NIPAs also display certain transactions that are not recorded explicitly in the budget. For example, unemployment benefits for Federal employees are financed by direct appropriations rather than social insurance contributions. The NIPAs impute the social insurance contributions to the expenditures of employing agencies—again, treating the Federal Government like any other employer.

Timing differences for receipts occur because the NIPAs generally record business taxes when they accrue, while the budget generally records receipts when they are received. Thus the NIPAs attribute corporations' final settlement payments back to the quarter(s) in which the profits that gave rise to the tax liability occurred. The delay between accrual of liability and Treasury receipt of payment can result in significant timing differences between NIPA and budget measures of receipts for any given accounting period.

Timing differences also occur for expenditures. When the first day of a month falls on a weekend or holiday, monthly benefit checks normally deposited on the first day of the month may be deposited a day or two earlier; the budget then reflects two payments in one month and none the next. As a result, the budget totals occasionally reflect 13 monthly payments in one year and only 11 the next. NIPA expenditure figures always reflect 12 benefit payments per year, giving rise to a timing difference compared to the budget.

Coverage differences arise on the expenditure side because of the NIPA treatment of Government investment. The budget includes outlays for Federal investments as they are paid, while the NIPA Federal current account excludes current investments but includes a depreciation charge on past investments ("consumption of general government fixed capital") as part of "current expenditures." The inclusion of depreciation on fixed capital (structures, equipment and software) in current expenditures can be thought of as a proxy for the services that capital renders; i.e., for its contribution to Government output of public services. The depreciation charge is not a full reflection of capital services, however, since it does not include the net return to capital that in a private corporation would appear as interest income or profit. The NIPAs would need to include an imputed interest charge for government capital to assure a fully parallel treatment.

Certain items in the budget are excluded from the NIPA Federal current account because they are related to the acquisition or sale of assets, and not linked to current consumption or income. Examples include Federal grants to State and local governments for capital investment, investment subsidies to business, lump sum payments to amortize the unfunded liability of the Uniformed Services Retiree Health Care Fund and the Postal Service Retiree Health Benefits Fund, and forgiveness of debt owed by foreign governments. Likewise, estate and gift taxes, included in budget receipts, are excluded from NIPA current receipts as being capital transfers. The NIPAs also exclude the proceeds from the sales of nonproduced assets such as land. Bonuses paid on Outer Continental Shelf oil leases and proceeds from broadcast spectrum auctions are shown as offsetting receipts in the budget and are deducted from budget outlays. In the NIPAs these transactions are excluded from the Federal current account as an exchange of assets with no current production involved. The NIPAs are not strictly consistent in this interpretation, however, since they do include in total revenues the taxation of capital gains. The treatment of Government pension plan income and outgo creates a coverage difference. Whereas the budget treats employee payments to these pension plans as governmental receipts, and employer contributions by agencies as offsets to outlays because they are intragovernmental, the NIPAs treat employer contributions as personal income and employee payments as a transfer of income within the household sector, in the same way as it treats contributions to pension plans in the private (household) sector. Likewise, the budget records a Government check to a retired Government employee as an outlay, but under NIPA concepts, no Government expenditure occurs at that time; the payment is treated (like private pension payments) as a transfer of income within the household sector.

Financial transactions such as loan disbursements, loan repayments, loan asset sales, and loan guarantees are excluded from the NIPA current accounts on the grounds that such transactions simply involve an exchange of assets rather than current production, income, or consumption. In contrast, under the Federal Credit Reform Act of 1990, the budget records the estimated subsidy cost of the direct loan or loan guarantee as an outlay at the time when the loan is disbursed. The cash flows with the public are recorded in nonbudgetary accounts as a means of financing the budget rather than as budgetary transactions. This treatment recognizes that a Federal direct loan is an exchange of assets with equal value after allowing for the subsidy to the borrower implied by the terms of the loan. It also recognizes the subsidy element in loan guarantees. In the NIPAs current accounts, these subsidies are not recognized. Exclusion from the NIPA current accounts of asset purchases, direct loans, and loan guarantees under the Troubled Asset Relief Program (TARP) and other financial stabilization measures gave rise to the largest differences between budget and NIPA expenditures totals in 2009 and 2010.[3]

The NIPAs, like the budget, include all interest transactions with the public, including interest received by and paid to the loan financing accounts; and both the NIPAs and the budget include administrative costs of credit program operations.

Similarly to loan transactions, deposit insurance outlays for resolving failed banks and thrift institutions are excluded from the NIPAs on the grounds that there are no offsetting current income flows from these transactions. This exclusion created a particularly large difference in 2009, because of large outlays to liquidate failed bank

[3] The budgetary treatment of financial stabilization efforts is discussed further in Chapter 4 of this volume, "Financial Stabilization Efforts and Their Budgetary Effects," and is contrasted with the NIPA treatment in the box on the next page.

TREATMENT OF FINANCIAL STABILIZATION PROGRAMS

U.S. financial stabilization efforts include programs administered by Executive Branch agencies (principally Treasury, the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA)); and by the Federal Reserve. The Troubled Assets Relief Program (TARP), administered by Treasury, has injected capital into banks and other financial institutions by purchasing preferred stock, guaranteed assets of financial institutions, and provided loans and other support to the auto industry. Treasury has also provided support for the major Government Sponsored Enterprises (GSEs) in the housing area, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), which have been placed under conservatorship by the Federal Housing Finance Administration, including purchasing GSE preferred stock and purchasing mortgage-backed securities issued by GSEs. The FDIC and NCUA have taken steps to provide liquidity to the banking industry.

The Executive Branch actions in support of financial stabilization give rise to a number of differences between the budget and the NIPAs. As mentioned in the main text, deposit insurance transactions of the FDIC and NCUA are recorded on a cash basis in the budget but only premiums are included in the NIPAs. Likewise, purchase of GSE preferred stock is recorded in the budget on a cash basis, but is excluded from the NIPA current accounts; GSE preferred stock purchases, however, are shown as capital transfers.

Many of the Treasury's financial stabilization programs, including TARP equity purchases, are recorded in the budget on a credit basis, in which the budget recognizes the estimated subsidy value of direct loans, loan guarantees, and equity purchases at the time the loan or purchase is made. Under the Emergency Economic Stabilization Act of 2008, this credit treatment was extended to equity purchases under the Troubled Asset Relief Program, as well as loans. As mentioned in the text, the NIPAs normally exclude the principal disbursements and repayments of credit transactions as exchanges of assets with no current production involved; the interest and dividend receipts, however, are included in NIPA current receipts as receipts on assets. For certain transactions, the NIPAs recognize the subsidy conveyed by these transactions by recording capital transfers, calculated as the difference between the actual price paid for the financial asset and an estimate of its market value. This capital transfer treatment applies to preferred stock purchases and purchases of warrants for common stock.

Both the Budget and the NIPAs treat the Federal Reserve System (the Fed) as if it were a nonfederal entity; thus, those financial stabilization efforts undertaken by the Federal Reserve (assistance to AIG for example) are not recorded in either the Budget or NIPA current expenditures. Both the budget and the NIPAs treat GSEs in a similar way to their treatment of the Fed, and they continue to treat the two GSEs in conservatorship in the same manner.

deposits. In a similar episode in 1991, this exclusion was the largest difference between the NIPAs and the budget and made NIPA net Government saving a significantly smaller negative number than the budget deficit that year. In subsequent years, as assets acquired from failed financial institutions were sold, these collections tended to make the budget deficit a smaller negative figure than NIPA net Federal Government saving.

Federal Sector Current Receipts

Table 29–1 shows the NIPA classification of Federal current receipts in five major categories and four of the subcategories used to measure taxes, which are similar to the budget categories but with some significant differences.

Current tax receipts is the largest category of current receipts, and its personal current taxes subcategory—composed primarily of the individual income tax—is the largest single subcategory. The NIPAs' taxes on corporate income subcategory differs in classification from the corresponding budget category primarily because the NIPAs include the deposit of earnings of the Federal Reserve System as corporate income taxes, while the budget treats these collections as miscellaneous receipts. (The timing difference between the NIPAs and the budget is especially large for corporate receipts.) The taxes on production and imports subcategory is composed of excise taxes and customs duties.

Contributions for Government social insurance is the second largest category of current receipts. It differs from the corresponding budget category primarily because: (1) the NIPAs include Federal employer contributions for social insurance as a governmental receipt, while the budget offsets these contributions against outlays as undistributed offsetting receipts; (2) the NIPAs include premiums for Parts B and D of Medicare as governmental receipts, while the budget nets them against outlays; (3) the NIPAs treat Government employee contributions to their pension plans as a transfer of personal income within the household sector (as if the pension system were private), while the budget includes them in governmental receipts; and (4) the NIPAs impute employer contributions for Federal employees' unemployment insurance and workers' compensation.

The income receipts on assets category consists mainly of interest payments received on Government direct loans (such as student loans), rents and royalties on Outer Continental Shelf oil leases, and, beginning in 2009, dividends received on preferred stock. The current

Table 29–1. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 2001–2012

(In billions of dollars)

Description											Estimate	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CURRENT RECEIPTS												
Current tax receipts	1263.9	1095.5	1056.5	1115.7	1346.2	1538.5	1632.0	1518.2	1153.3	1275.9	1370.7	1689.6
Personal current taxes	991.4	849.4	781.5	782.3	913.2	1033.7	1140.6	1125.9	893.3	884.2	931.0	1117.9
Taxes on production and imports	85.9	85.9	88.7	93.4	98.0	99.1	94.4	96.4	93.2	98.5	106.6	137.8
Taxes on corporate income	179.1	152.4	177.8	230.8	323.0	393.8	380.8	280.1	151.5	280.6	320.5	421.3
Taxes from the rest of the world	7.5	7.7	8.4	9.3	12.0	11.8	16.1	15.8	15.2	12.6	12.6	12.6
Contributions for government social insurance	719.5	734.4	753.4	795.4	847.9	892.7	936.6	966.7	958.4	964.8	919.3	1024.7
Income receipts on assets	25.2	21.6	21.6	23.1	24.1	25.2	28.4	32.9	41.2	50.1	52.0	64.6
Current transfer receipts	25.6	27.5	24.9	27.8	32.4	38.1	42.2	49.4	69.7	68.2	66.5	71.4
Current surplus of government enterprises	–4.9	–0.9	4.0	1.7	–3.7	–3.3	–2.3	–3.5	–4.1	–5.6	–7.8	–0.7
Total current receipts	**2029.3**	**1878.1**	**1860.3**	**1963.7**	**2246.9**	**2491.2**	**2636.9**	**2563.8**	**2218.5**	**2353.5**	**2400.6**	**2849.5**
CURRENT EXPENDITURES												
Consumption expenditures	516.9	574.1	646.3	704.7	756.5	797.6	831.2	908.4	972.1	1040.7	1130.0	1115.1
Defense	335.5	367.6	422.9	469.7	507.3	531.3	562.8	617.7	655.7	692.0	743.3	728.9
Nondefense	181.3	206.6	223.4	235.0	249.3	266.3	268.4	290.7	316.5	348.7	386.8	386.2
Current transfer payments	1116.7	1226.0	1317.0	1392.2	1473.4	1566.0	1661.2	1804.1	2077.3	2288.4	2401.2	2336.8
Government social benefits	828.0	905.8	960.5	1014.9	1076.9	1166.6	1249.5	1368.3	1564.0	1719.9	1789.9	1765.0
Grants-in-aid to State and local governments	268.2	296.7	328.4	347.8	359.6	360.9	373.9	390.4	460.1	523.1	549.8	507.9
Other transfers to the rest of the world	20.5	23.5	28.1	29.5	37.0	38.5	37.8	45.5	53.3	45.5	61.6	63.9
Interest payments	267.9	234.5	215.7	215.8	242.8	284.4	302.9	313.3	239.9	276.4	314.2	360.2
Subsidies	51.3	41.0	48.1	44.6	57.6	54.6	47.6	48.7	57.2	56.2	72.7	76.3
Wage disbursements less accruals	....	....	....	....	....	....	....	....	....	....	....	....
Total current expenditures	**1952.8**	**2075.6**	**2227.0**	**2357.4**	**2530.2**	**2702.7**	**2842.8**	**3074.5**	**3346.5**	**3661.8**	**3918.1**	**3888.4**
Net Federal Government saving	**76.5**	**–197.5**	**–366.7**	**–393.8**	**–283.4**	**–211.5**	**–205.9**	**–510.7**	**–1128.0**	**–1308.3**	**–1517.5**	**–1038.9**
ADDENDUM: TOTAL RECEIPTS AND EXPENDITURES												
Current receipts	2029.3	1878.1	1860.3	1963.7	2246.9	2491.2	2636.9	2563.8	2218.5	2353.5	2400.6	2849.5
Capital transfer receipts	28.2	26.4	21.7	24.7	24.6	27.7	25.8	28.6	23.3	18.7	12.0	13.4
Total receipts	**2057.5**	**1904.5**	**1882.1**	**1988.3**	**2271.4**	**2518.9**	**2662.7**	**2592.4**	**2241.8**	**2372.2**	**2412.7**	**2862.9**
Current expenditures	1952.8	2075.6	2227.0	2357.4	2530.2	2702.7	2842.8	3074.5	3346.5	3661.8	3918.1	3888.4
Net investment:												
Gross government investment:												
Defense	50.5	55.7	61.4	67.1	73.8	78.6	86.1	96.9	108.3	115.4	134.6	136.1
Nondefense	30.1	32.9	33.7	33.5	34.8	40.0	40.1	41.7	45.2	52.2	56.0	56.5
Less: Consumption of fixed capital:												
Defense	60.5	60.3	61.4	63.7	67.8	72.0	76.3	81.4	85.5	89.2	94.0	97.8
Nondefense	28.0	28.6	29.0	29.7	31.3	33.0	34.8	36.4	37.9	38.9	40.3	41.4
Capital transfer payments	41.0	45.2	51.3	62.2	83.7	69.5	69.4	87.3	269.1	177.5	184.6	153.3
Net purchases of nonproduced assets	–0.8	0.3	0.1	0.1	–0.7	–0.3	–13.9	–10.0	–16.6	–*	0.1	–3.7
Total expenditures	**1985.0**	**2120.8**	**2283.0**	**2427.0**	**2622.7**	**2785.5**	**2913.5**	**3172.6**	**3629.0**	**3878.8**	**4159.1**	**4091.4**
Net lending or net borrowing (–)	**72.5**	**–216.3**	**–400.9**	**–438.7**	**–351.3**	**–266.6**	**–250.8**	**–580.2**	**–1387.3**	**–1506.6**	**–1746.4**	**–1228.5**

* $50 million or less.

transfer receipts category consists primarily of deposit insurance premiums, fees, fines and other receipts from both individuals and businesses, less insurance settlements from the National Flood Insurance Program—virtually all of which are netted against outlays in the budget. The current surplus (or deficit) of Government enterprises category is the profit or loss of "Government enterprises," such as the Postal Service, which are business-type operations of Government that usually appear in the budget as public enterprise revolving funds. Depreciation (consumption of enterprise fixed capital) is netted in calculating the current surplus of Government enterprises.

Federal Sector Current Expenditures

Table 29–1 shows the five major NIPA categories for current expenditures and five subcategories, which differ greatly from the corresponding budget categories.

Government consumption expenditures consist of goods and services purchased by the Federal Government, including compensation of employees and depreciation on fixed capital. Gross investment (shown among the addendum items in Table 28–1) is thus excluded from current expenditures and does not figure in computing net Government saving on a NIPA basis, whereas depreciation—charges on federally-owned fixed capital ("consumption of general government fixed capital")—is included. The NIPAs treat State and local investment and capital consumption in the same way—regardless of the extent to which it is financed with Federal aid (capital transfer payments) or from State and local own-source receipts.

Although gross investment is not included in Government current expenditures, Government gross investment is included in total GDP along with current consumption expenditures (including depreciation), which makes the treatment of the government sector in the NIPAs similar to that of the private sector. Investment includes structures, equipment, and computer software.

The largest expenditure category consists mainly of current transfer payments for Government income security and health benefits, such as Social Security and Medicare. Payment of pension benefits to former Government employees is not included, as explained previously. Grants-in-aid to State and local governments help finance a range of programs, including income security, Medicaid, and education (but capital transfer payments for construction of highways, airports, wastewater treatment plants, and mass transit are excluded). "Current transfer payments to the rest of the world (net)" consists mainly of grants to foreign governments and U.S. territories.

Interest payments consist of the interest paid by the Government on its debt (excluding debt held by trust funds, other than Federal employee pension plans; and other Government accounts). Where the budget nets interest received on loans against outlays, the NIPAs treat it as current receipts.

Subsidies consist of subsidy payments for resident businesses (excluding subsidies for investment). NIPA subsidies do not include the imputed credit subsidies estimated as budget outlays under credit reform. Rather, as explained previously loans and guarantees are excluded from the NIPAs except for associated interest and fees.

Wage disbursements less accruals is an adjustment that is necessary to the extent that the wages paid in a period differ from the amount earned in the period.

The Addendum to Table 29–1 shows the capital transfers and net investment adjustments necessary to bridge between NIPA current receipts and expenditures and total receipts and expenditures.

Table 29–2. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPAs

(In billions of dollars)

Description	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
RECEIPTS												
Budget receipts	1991.1	1853.1	1782.3	1880.1	2153.6	2406.9	2568.0	2524.0	2105.0	2162.7	2173.7	2627.4
Contributions to government employee retirement plans	–4.7	–4.6	–4.6	–4.6	–4.5	–4.4	–4.3	–4.2	–4.1	–4.1	–4.3	–4.0
Capital transfers received	–28.2	–26.4	–21.7	–24.7	–24.6	–27.7	–25.8	–28.6	–23.3	–18.7	–12.0	–13.4
Other coverage differences	–4.3	–5.4	–5.4	–6.4	–6.9	–7.0	–7.5	–7.7	–7.8	–7.9	–7.7	–7.8
Netting and grossing	69.7	79.2	87.2	91.5	97.6	110.9	121.8	137.8	167.8	221.2	171.6	201.3
Timing differences	5.7	–17.9	22.6	27.7	31.6	12.6	–15.4	–57.5	–19.1	0.3	79.3	46.1
NIPA current receipts	**2029.3**	**1878.1**	**1860.3**	**1963.7**	**2246.9**	**2491.2**	**2636.9**	**2563.8**	**2218.5**	**2353.5**	**2400.6**	**2849.5**
EXPENDITURES												
Budget outlays	1862.8	2010.9	2159.9	2292.8	2472.0	2655.1	2728.7	2982.5	3517.7	3456.2	3818.8	3728.7
Government employee retirement plan transactions	31.7	33.6	33.0	33.2	38.9	41.6	39.9	52.0	30.6	51.2	54.1	58.5
Deposit insurance and other financial transactions	–7.3	–9.2	–1.8	–0.9	–0.5	–9.8	–12.7	–58.1	–516.3	–185.7	–141.6	–96.5
Capital transfer payments	–41.0	–45.1	–45.7	–46.8	–65.1	–51.8	–53.1	–59.2	–236.2	–141.7	–152.7	–116.0
Net purchases of nonproduced assets	0.8	–0.3	–0.1	–0.1	0.7	0.3	13.9	10.0	16.6	*	–0.1	3.6
Net investment	7.9	0.3	–4.7	–7.3	–9.5	–13.6	–15.1	–20.8	–30.0	–39.5	–56.3	–53.4
Other coverage differences	18.7	10.9	–1.9	–8.2	–12.4	–23.3	9.7	21.0	396.4	292.2	231.6	138.0
Netting and grossing differences	69.7	79.2	87.2	91.5	97.6	110.9	121.8	137.8	167.8	221.2	171.6	201.3
Timing differences	9.3	–4.7	1.1	3.1	8.6	–6.5	9.6	9.3	–*	7.9	–7.4	24.1
NIPA current expenditures	**1952.8**	**2075.6**	**2227.0**	**2357.4**	**2530.2**	**2702.7**	**2842.8**	**3074.5**	**3346.5**	**3661.8**	**3918.1**	**3888.4**
ADDENDUM												
Budget surplus or deficit (–)	128.2	–157.8	–377.6	–412.7	–318.3	–248.2	–160.7	–458.6	–1412.7	–1293.5	–1645.1	–1101.2
NIPA net Federal Government saving	76.5	–197.5	–366.7	–393.8	–283.4	–211.5	–205.9	–510.7	–1128.0	–1308.3	–1517.5	–1038.9

* $50 million or less.

Differences in the Estimates

Since the introduction of the unified budget in January 1968, NIPA current receipts have been greater than budget receipts in most years. This is due principally to grossing differences and the fact that estate and gift taxes, which the NIPAs exclude as capital transfers, have been roughly matched by Medicare premiums, which the NIPAs include as a governmental receipt, but the budget treats as an offsetting receipt that is netted against the outlay total. Since 1986, NIPA current expenditures have usually been higher than budget outlays (from which the Medicare premiums and employer retirement contributions are netted out as offsetting receipts), despite the omission from NIPA expenditures of capital transfer grants and pension benefit payments to former Government employees.

Two components of budget outlays, however, are sometimes sufficiently large in combination to exceed the usual netting and grossing adjustments. These are financial transactions and net investment (the difference between gross investment and depreciation). Large outlays associated with resolving the failed savings and loan associations and banks in 1990 and 1991 caused those year's budget outlays to exceed NIPA current expenditures. With the change in budgetary treatment of direct loans in 1992 under credit reform, the cost of direct loans to the public recorded in the budget has been reduced, bringing it closer to the NIPA treatment. Disbursement and repayment of loans made since that time are recorded outside the budget; only credit subsidies are recorded as budget outlays, unlike the NIPAs which do not include this element of government expenditure.

Every year during the period 1975–1991, the budget deficit showed a larger fiscal imbalance than the amount of (negative) net Federal Government saving as measured in the NIPAs. The largest difference, $74.1 billion, occurred in 1991 as a result of resolving failed financial institutions as discussed above; the budget deficit was then $269.2 billion, while the NIPA net Government saving was $195.1 billion. Beginning in 1992, deposit insurance and other financial transactions caused the relationship to change, and in 1992–2002, the budget deficit or surplus showed a more positive fiscal picture than the NIPA measure, with NIPA (negative) net Federal Government saving exceeding in magnitude the budget deficit when the budget was in deficit and (positive) net Federal Government saving falling short of the budget surplus during the years the budget was in surplus. The budget measure was more positive again in 2007, 2008 and 2010 due to sales of nonproduced assets and unusual swings in timing differences and financial transactions in those years. For 2003–2006, however, the budget deficit was once again larger than NIPA net Federal Government saving, largely due to timing differences and financial transactions. For 2009, the difference was historically high, $284.6 billion, due primarily to differing treatment of TARP and other financial stabilization measures (see text box); it is projected to be lower in 2011 and 2012.

Table 29–1 displays Federal transactions using NIPA concepts with actual data for 2001–2010 and estimates for 2011 and 2012 consistent with the Administration's Budget proposals. Table 29–2 summarizes the reasons for differences between the NIPA and budget measures. Annual NIPA data for 1948–2012 are published in Section 14 of a separate budget volume, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2012*.

Detailed estimates of NIPA current receipts and expenditures consistent with the Budget and including quarterly estimates will be published in a forthcoming issue of the Department of Commerce publication, *Survey of Current Business* and on the Bureau of Economic Analysis website at www.bea.gov.

30. COMPARISON OF ACTUAL TO ESTIMATED TOTALS

In successive budgets, the Administration publishes several estimates of the surplus or deficit for a particular fiscal year. Initially, the year appears as an outyear projection at the end of the budget horizon. In each subsequent budget, the year advances in the estimating horizon until it becomes the "budget year." One year later, the year becomes the "current year" then in progress, and the following year, it becomes the just-completed "actual year."

The budget is legally required to compare budget year estimates of receipts and outlays with the subsequent actual receipts and outlays for that year. Part I of this chapter meets that requirement by comparing the actual results for 2010 with the current services estimates shown in the 2010 Budget, published in May 2009.

Part II of the chapter presents a broader comparison of estimates and actual outcomes. This part first discusses the historical record of budget year estimates versus actual results over the last two and a half decades. Second, it lengthens the focus to estimates made for each year of the budget horizon, extending four years beyond the budget year. This longer focus shows that the differences between estimates and the eventual actual results grow as the estimates extend further into the future.

PART I: COMPARISON OF ACTUAL TO ESTIMATED TOTALS FOR 2010

This part of the chapter compares the actual receipts, outlays, and deficit for 2010 with the current services estimates shown in the 2010 Budget, published in May 2009.[1] This part also presents a more detailed comparison for mandatory and related programs, and reconciles the actual receipts, outlays, and deficit totals shown here with the figures for 2010 previously published by the Department of the Treasury.

[1] The current services concept is discussed in Chapter 27, "Current Services Estimates." For mandatory programs and receipts, the May 2009 current services estimate was based on laws then in place, adjusted to reflect extension of certain expiring tax provisions. For discretionary programs the current services estimate was based on the current year enacted appropriations, adjusted to reflect full-year funding of Overseas Contingency Operations and increased for inflation. For a detailed explanation of the 2010 estimate, see "Current Services Estimates," Chapter 24 in *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2010*.

Receipts

Actual receipts for 2010 were $2,163 billion, $211 billion less than the $2,374 billion current services estimate in the 2010 Budget. As shown in Table 30–1, this decrease was the net effect of legislative and administrative changes, 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. Several laws were enacted after May 2009 that reduced 2010 receipts by a net $13 billion. The largest net reductions in 2010 receipts were provided by the Workers, Homeownership, and Business Assistance Act of 2009; the Department of Defense Appropriations Act, FY 2010; and the Hiring Incentives to Restore Employment (HIRE) Act.

Table 30–1. COMPARISON OF ACTUAL 2010 RECEIPTS WITH THE INITIAL CURRENT SERVICES ESTIMATES

(In billions of dollars)

	May 2009 estimate	Changes				Actual
		Policy	Economic	Technical	Total changes	
Individual income taxes	1,050	9	–102	–59	–152	899
Corporation income taxes	221	–18	34	–45	–29	191
Social insurance and retirement receipts	939	1	–45	–30	–74	865
Excise taxes	76	–*	–2	–7	–9	67
Estate and gift taxes	20	–4	–*	3	–1	19
Customs duties	25	–1	*	1	1	25
Miscellaneous receipts	43	*	–3	56	53	97
Total receipts	2,374	–13	–117	–81	–211	2,163

* $500 million or less.

Table 30–2. COMPARISON OF ACTUAL 2010 OUTLAYS WITH THE INITIAL CURRENT SERVICES ESTIMATES
(In billions of dollars)

	May 2009 estimate	Changes				Actual
		Policy	Economic	Technical	Total changes	
Discretionary:						
Defense	755	–41	....	–25	–66	689
Nondefense [1]	689	34	....	–65	–31	658
Subtotal, discretionary	1,444	–7	....	–90	–97	1,347
Mandatory:						
Social Security	696	....	*	5	5	701
Medicare and Medicaid	742	–3	–3	–17	–23	719
Other programs [1]	575	59	27	–168	–82	493
Subtotal, mandatory	2,013	56	24	–181	–101	1,913
Disaster costs [2]	11	....	....	–11	–11	....
Net interest	176	*	–20	40	20	196
Total outlays	3,644	50	3	–241	–188	3,456

* $500 million or less.
[1] The current services estimates published in the 2010 Budget re-classified Pell Grant costs as mandatory. The estimate for nondefense discretionary spending was $1,421 billion and $2,037 billion for mandatory outlays in the published Budget. This proposal was not subsequently enacted, so all Pell Grant costs are included in the discretionary totals in this table for comparability.
[2] These amounts were included in the 2010 Budget to represent the statistical probability of a major disaster requiring Federal assistance for relief and reconstruction.

Economic differences. Differences between the economic assumptions upon which the current services estimates were based and actual economic performance reduced 2010 receipts by a net $117 billion below the May 2009 estimate. Lower-than-anticipated wages and salaries and other sources of taxable personal income were responsible for the reduction in individual income taxes of $102 billion. Corporations were more profitable than anticipated, which increased collections of corporation income taxes $34 billion above the May 2009 estimate. Lower-than-anticipated wages and salaries and proprietors' income – the tax base for Social Security and Medicare payroll taxes – were in large part responsible for the reduction in social insurance and retirement receipts of $45 billion. Lower-than-expected gross domestic product (GDP) contributed to the decline in the demand for taxed goods, which reduced collections of excise taxes $2 billion below the May 2009 estimate. Reductions in deposits of earnings by the Federal Reserve System, attributable in large part to lower-than-expected interest rates, reduced collections of miscellaneous receipts by $3 billion.

Technical factors. Technical factors, which had the greatest effect on collections of individual and corporation income taxes, social insurance and retirement receipts, and deposits of earnings by the Federal Reserve System, reduced receipts by a net $81 billion below the May 2009 current services estimate. The models used to prepare the May 2009 estimates of individual and corporation income taxes were based on historical economic data and then-current tax and collections data that were all subsequently revised. These revisions indicated that: (1) sources of income that are not part of the economic forecast, but subject to tax, such as capital gains and pensions, were lower than expected at the time the May 2009 estimates were prepared; (2) for most sources of income subject to individual and corporation income taxes, both the percentage that was subject to tax and the effective tax rate on the portion subject to tax were lower than anticipated; and (3) the timing of the payment of tax liability was different from what had been assumed. These revisions in economic, tax, and collections data and their effect on income tax liability and the timing of collections, relative to what was assumed when the May 2009 estimates were prepared, accounted for the reductions in individual and corporation income taxes of $59 billion and $45 billion, respectively. The $30 billion reduction in social insurance and retirement receipts relative to the May 2009 estimate was also attributable, in large part, to models based on historical economic data that overstated the percentage of wages and salaries and self-employment earnings subject to Social Security payroll taxes. These reductions in collections of income taxes and social insurance and retirement receipts relative to the May 2009 estimates were only partially offset by increases in miscellaneous receipts of $56 billion. Higher-than-estimated deposits of earnings by the Federal Reserve System, attributable to greater-than-anticipated returns on its investment portfolio and its foreign currency holdings, accounted for most of the increase in miscellaneous receipts.

Outlays

Outlays for 2010 were $3,456 billion, $188 billion less than the $3,644 billion current services estimate in the 2010 Budget.

Table 30–2 distributes the $188 billion net decrease in outlays among discretionary and mandatory programs and net interest.[2] The table also shows rough estimates according to three reasons for the changes: policy; economic conditions; and technical estimating differences, a residual.

Policy changes are the result of legislative actions that change spending levels, primarily through higher or lower appropriations or changes in authorizing legislation, which may themselves reflect responses to changed economic conditions. For 2010, policy changes increased outlays by an estimated $50 billion relative to the initial current services estimates.

Policy changes decreased discretionary outlays by $7 billion. The $41 billion decrease in defense discretionary outlays was largely the result of lower appropriations for the wars in Iraq and Afghanistan than assumed in the current services estimate.

Policy changes increased mandatory outlays by a net $56 billion above current law. The largest increase was in unemployment compensation. Extensions and expansions of unemployment insurance enacted in 2009 and 2010 increased 2010 outlays by $44 billion. Changes to the first-time homebuyer tax credit in the Worker, Homeownership, and Business Assistance Act of 2009 increased outlays by an additional $9 billion. Debt service costs associated with the policy receipt and outlay changes was less than $1 billion.

There was a net increase in outlays of $3 billion as a result of differences between actual economic conditions and those forecast in May 2009. Mandatory outlays increased a total of $24 billion; higher-than-expected unemployment levels increased unemployment compensation spending by $25 billion over the 2010 Budget current services estimate. Smaller changes in Medicare, student financial assistance, and other financial assistance programs almost balanced each other. Lower-than-anticipated interest rates produced a $20 billion decrease in net interest, nearly offsetting the increase in mandatory spending.

Technical estimating factors resulted in a net decrease in outlays of $241 billion. Technical changes result from changes in such factors as the number of beneficiaries for entitlement programs, crop conditions, or other factors not associated with policy changes or economic conditions. Outlays for discretionary programs decreased by $90 billion, because appropriations for both defense and nondefense programs were spent more slowly than expected. Outlays for mandatory programs decreased a net $181 billion; the largest factor was a $117 billion downward reestimate of the cost of the Troubled Asset Relief Program, driven by better than anticipated performance and improved market conditions. Federal outlays for deposit insurance were $59 billion lower than estimated as a result of technical changes. There was also an $18 billion decrease in Medicaid outlays, and downward reestimates of the cost of student loan programs resulted in a further $12 billion in decreases. Net interest outlays increased by $40 billion due to technical factors compared to the May 2009 estimates; much of this change is due to TARP requirements for recording financing account interest, as discussed below.

[2] Discretionary programs are controlled by annual appropriations, while mandatory programs are generally controlled by authorizing legislation. Mandatory programs are primarily formula benefit or entitlement programs with permanent spending authority that depend on eligibility criteria, benefit levels, and other factors.

Deficit

The preceding two sections discussed the differences between the initial current services estimates and the actual amounts of Federal government receipts and outlays for 2010. This section combines these effects to show the net deficit impact of these differences.

As shown in Table 30–3, the 2010 current services deficit was initially estimated to be $1,270 billion. The actual deficit was $1,294 billion, which was a $24 billion increase from the initial estimates. Receipts and outlays were $212 billion and $188 billion less than the initial estimate, respectively. The table shows the distribution of the changes according to the categories in the preceding two sections. The net effect of policy changes for receipts and outlays increased the deficit by $63 billion. Economic conditions that differed from the initial assumptions in May 2009 accounted for an estimated $121 billion increase in the deficit. Technical factors decreased the deficit by an estimated $160 billion.

Comparison of the Actual and Estimated Outlays for Mandatory and Related Programs for 2010

This section compares the original 2010 outlay estimates for mandatory and related programs under current law in the 2010 Budget with the actual outlays. Major examples of these programs include Social Security and Medicare benefits, agricultural price support payments to farmers,

Table 30–3. COMPARISON OF THE ACTUAL 2010 DEFICIT WITH THE INITIAL CURRENT SERVICES ESTIMATE

(In billions of dollars)

	May 2009 estimate	Changes				Actual
		Policy	Economic	Technical	Total changes	
Receipts	2,374	–13	–117	–81	–212	2,162
Outlays	3,644	50	3	–241	–188	3,456
Deficit	1,270	63	121	–160	24	1,294

Note: Deficit changes are outlays minus receipts. For these changes, a positive number indicates an increase in the deficit.

Table 30–4. COMPARISON OF ACTUAL AND ESTIMATED OUTLAYS FOR MANDATORY AND RELATED PROGRAMS UNDER CURRENT LAW

(In billions of dollars)

	2010		
	May 2009 estimate	Actual	Change
Mandatory outlays:			
Human resources programs:			
Education, training, employment, and social services	2	–7	–8
Health:			
Medicaid	290	273	–17
Other	32	31	–1
Total, health	322	304	–18
Medicare	452	446	–6
Income security:			
Retirement and disability	127	126	–1
Unemployment compensation	89	157	68
Food and nutrition assistance	82	88	6
Other	178	182	3
Total, income security	476	553	76
Social security	696	701	5
Veterans benefits and services:			
Income security for veterans	48	49	1
Other	9	8	–*
Total, veterans benefits and services	57	57	1
Total, mandatory human resources programs	2,006	2,054	49
Other functions:			
Agriculture	19	15	–5
International	–3	–*	3
Mortgage credit	30	39	9
Deposit insurance	20	–32	–52
Other advancement of commerce (includes the Troubled Asset Relief Program)	11	–95	–106
Other functions	14	14	*
Total, other functions	91	–59	–151
Undistributed offsetting receipts:			
Employer share, employee retirement	–76	–77	–1
Rents and royalties on the outer continental shelf	–7	–5	2
Other undistributed offsetting receipts	–1	–*	1
Total, undistributed offsetting receipts	–83	–82	1
Total, mandatory	2,013	1,913	–101
Net interest:			
Interest on Treasury debt securities (gross)	448	414	–34
Interest received by trust funds	–198	–186	12
Other interest	–74	–32	42
Total, net interest	176	196	20
Total, outlays for mandatory and net interest	2,189	2,109	–80

* $500 million or less.

and deposit insurance for banks and thrift institutions. This category also includes net interest outlays and undistributed offsetting receipts.

A number of factors may cause differences between the amounts estimated in the budget and the actual mandatory outlays. For example, legislation may change benefit rates or coverage; the actual number of beneficiaries may differ from the number estimated; or economic conditions (such as inflation or interest rates) may differ from what was assumed in making the original estimates.

Table 30–4 shows the differences between the actual outlays for these programs in 2010 and the amounts originally estimated in the 2010 Budget, based on laws in effect at that time. Actual outlays for mandatory spending and net interest in 2010 were $2,109 billion, which was $80 billion less than the initial estimate of $2,189 billion, based on existing law in May 2009.

As Table 30–4 shows, actual outlays for mandatory human resources programs were $2,054 billion, $49 billion more than originally estimated. This increase 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 unemployment compensation increased by $68 billion for the reasons outlined above. Outlays for programs in other functions were $151 billion less than originally estimated, largely due to lower-than-expected costs for the Troubled Asset Relief Program and deposit insurance.

Outlays for net interest were $196 billion, or $20 billion more than the original estimate. As shown on Table 30–4, interest payments on Treasury debt securities decreased by $34 billion due to lower-than-expected interest rates, but this was offset by reduced interest earnings by trust funds. TARP statutory requirements for interest rates were the primary source of the $42 billion decrease in other interest receipts; budget projections for TARP financing account interest transactions use market risk-adjusted rates, while actual transactions are recorded using Treasury interest rates.

Reconciliation of Differences with Amounts Published by the Treasury for 2010

Table 30–5 provides a reconciliation of the receipts, outlays, and deficit totals for 2010 published by the Department of the Treasury in the September 2010 Monthly Treasury Statement (MTS) and those published in this Budget. The Department of the Treasury made adjustments to the estimates for the Combined Statement of Receipts, Outlays, and Balances, which increased receipts by $1 million and increased outlays by $147 million. Additional adjustments for this Budget increased receipts by $978 million and increased outlays by $231 million. A number of financial transactions that are not reported to the Department of the Treasury, including those for the Public Company Accounting Oversight Board, the Affordable Housing Program, the Securities Investor Protection Corporation, the Electric Reliability Organization, the Standard Setting Body, and the United Mine Workers of America benefit funds, are included in the Budget. Another conceptual difference in reporting is for the National Railroad Retirement Investment Trust (NRRIT). Reporting to the Department of the Treasury for the NRRIT is done with a one-month lag so that the fiscal year total provided in the Treasury Combined Statement covers September 2009 through August 2010. The Budget has been adjusted to reflect transactions that occurred during the actual fiscal year, which begins October 1. The Budget also reflects agency adjustments to 2010 outlays reported to Treasury after preparation of the Treasury Combined Statement.

Table 30–5. RECONCILIATION OF FINAL AMOUNTS FOR 2010
(In millions of dollars)

	Receipts	Outlays	Deficit
Totals published by Treasury (September 30 MTS)	2,161,745	3,455,835	1,294,090
Miscellaneous Treasury adjustments	1	147	146
Totals published by Treasury in Combined Statement	2,161,746	3,455,982	1,294,236
National Railroad Retirement Investment Trust	....	–672	–672
Troubled Asset Relief Program	....	–32	–32
Standard Setting Body	34	34	....
Public Company Accounting Oversight Board	178	164	–14
Affordable Housing Program	216	216	....
Securities Investor Protection Corporation	410	379	–31
Electric Reliability Organization	100	100	....
United Mine Workers of America benefit funds	42	42	....
Other	–2	....	2
Total adjustments, net	978	231	–747
Totals in the Budget	2,162,724	3,456,213	1,293,489
MEMORANDUM:			
Total change since year-end statement	979	378	–601

PART II: HISTORICAL COMPARISON OF ACTUAL TO ESTIMATED SURPLUSES OR DEFICITS

This part of the chapter compares estimated surpluses or deficits to actual outcomes over the last two and a half decades. The first section compares the estimate for the budget year of each budget with the subsequent actual result. The second section extends the comparison to the estimated surpluses or deficits for each year of the budget window: that is, for the current year through the fourth year following the budget year. This part concludes with some observations on the historical record of estimates of the surplus or deficit versus the subsequent actual outcomes.

Historical Comparison of Actual to Estimated Results for the Budget Year

Table 30–6 compares the estimated and actual surpluses or deficits since the deficit estimated for 1982 in the 1982 Budget. The estimated surpluses or deficits for each budget include the Administration's policy proposals. Therefore, the original deficit estimate for 2010 differs from that shown in Table 30–3, which is on a current services basis. Earlier comparisons of actual and estimated surpluses or deficits were on a policy basis, so for consistency the figures in Table 30–6 are on this basis.

Table 30–6. COMPARISON OF ESTIMATED AND ACTUAL SURPLUSES OR DEFICITS SINCE 1982

(In billions of dollars)

Budget	Surplus (–) or deficit (+) estimated for budget year [1]	Change				Actual surplus (–) or deficit (+)
		Policy	Economic	Technical	Total change	
1982	62	–15	70	11	66	128
1983	107	12	67	22	101	208
1984	203	21	–38	*	–17	185
1985	195	12	17	–12	17	212
1986	180	8	27	7	41	221
1987	144	–2	16	–8	6	150
1988	111	9	19	16	44	155
1989	130	22	–10	11	23	153
1990	91	21	31	79	131	221
1991	63	–21	85	143	206	269
1992	281	36	21	–48	9	290
1993	350	8	13	–115	–95	255
1994	264	8	–16	–52	–61	203
1995	165	18	–1	–18	–1	164
1996	197	–6	–53	–30	–89	107
1997	140	–1	4	–121	–118	22
1998	121	9	–48	–151	–190	–69
1999	–10	22	–56	–82	–116	–126
2000	–117	42	–88	–73	–119	–236
2001	–184	129	–32	–41	56	–128
2002	–231	104	201	84	389	158
2003	80	86	34	177	297	378
2004	307	122	22	–39	105	413
2005	364	67	11	–123	–45	318
2006	390	141	–6	–277	–142	248
2007	354	85	–7	–270	–192	162
2008	239	165	98	–44	219	459
2009	407	595	234	176	1,005	1,413
2010	1,270	63	121	–160	24	1,294
Average		61	25	–32	54	
Absolute average [2]		64	50	82	135	
Standard deviation		112	70	107	225	
Root mean squared error		128	74	112	231	

* $500 million or less.

[1] Surplus or deficit estimate includes the effect of the Budget's policy proposals.

[2] Absolute average is the average without regard to sign.

On average, the estimates for the budget year underestimated actual deficits (or overestimated actual surpluses) by $54 billion over the 29-year period. Policy outcomes that differed from the original proposals increased the deficit by an average of $61 billion. Differences between economic assumptions and actual economic performance increased the deficit an average of $25 billion. Differences due to these two factors were partly offset by technical revisions, which reduced the deficit an average of $32 billion.

The relatively small average difference between actual and estimated deficits conceals a wide variation in the differences from budget to budget. The differences ranged from a $1,005 billion underestimate of the deficit to a $192 billion overestimate. The $1,005 billion underestimate in the 2009 Budget was due largely to enactment of housing, economic stabilization, emergency unemployment assistance, and economic recovery legislation in response to a weak economy, lower 2009 receipts due to weak economic performance, and emergency supplemental appropriations for combat operations in Iraq and Afghanistan in 2008 and 2009. The $192 billion overestimate of the deficit in the 2007 Budget stemmed largely from higher-than-anticipated collections of individual and corporation income taxes due to different collection patterns and effective tax rates than initially assumed, as well as lower-than-expected outlays due to technical factors.

Because the average deficit difference obscures the degree of under- and over-estimation in the historical data, a more appropriate statistic to measure the magnitude of the differences is the average absolute difference. This statistic measures the difference without regard to whether it was an under- or overestimate. Since 1982, the average absolute difference has been $135 billion.

Other measures of variability include the standard deviation and the root mean squared error. These measures calculate the dispersion of the data around the average value. As shown in Table 30–6, the standard deviation of the deficit differences since 1982 is $225 billion and the root mean squared error is $231 billion. Similar to the average absolute difference, these measures illustrate the high degree of variation in the difference between estimates and actual deficits.

The large variability in errors in estimates of the surplus or deficit for the budget year underscores the inherent uncertainties in estimating the future path of the Federal budget. Some estimating errors are unavoidable, because of differences between the President's original budget proposals and the legislation that Congress subsequently enacts. Occasionally such differences are very large, such as additional spending in 2002 for disaster recovery, homeland security, and military operations in Afghanistan in response to the terrorist attacks of September 11, 2001, which could not have been anticipated in the Budget submitted in February 2001. Even aside from differences in policy outcomes, errors in budget estimates can arise from new economic developments, unexpected changes in program costs, shifts in taxpayer behavior, and other factors. The budget impact of changes in economic assumptions is discussed further in Chapter 3 of this volume, "Interactions Between the Economy and the Budget."

Five-Year Comparison of Actual to Estimated Surpluses or Deficits

The substantial difference between actual surpluses or deficits and the budget year estimates made less than two years earlier raises questions about the degree of variability for estimates of years beyond the budget year. Table 30–7 shows the summary statistics for the differences for the current year, budget year, and the four succeeding years. These are the years that are required to be estimated in the budget by the Budget Enforcement Act of 1990.

On average, the budget estimates since 1982 overstated the deficit in the current year by $39 billion, but underestimated the deficit in the budget year by $54

Table 30–7. DIFFERENCES BETWEEN ESTIMATED AND ACTUAL SURPLUSES OR DEFICITS FOR FIVE-YEAR BUDGET ESTIMATES SINCE 1982

(In billions of dollars)

	Current year estimate	Budget year estimate	Estimate for budget year plus			
			One year	Two years	Three years	Four years
In dollars:						
Average difference [1]	–39	54	142	176	204	231
Average absolute difference [2]	71	135	225	272	304	338
Standard deviation	100	225	345	369	366	373
Root mean squared error	108	231	373	409	420	438
As a percent of GDP:						
Average difference	0.4	–0.6	–1.4	–1.8	–2.1	–2.3
Average absolute difference	0.8	1.5	2.3	2.8	3.2	3.5
Standard deviation	0.9	2.0	2.9	3.1	3.2	3.2
Root mean squared error	1.0	2.1	3.2	3.6	3.8	4.0

[1] A positive figure represents an underestimate of the deficit or an overestimate of the surplus.

[2] Average absolute difference is the difference without regard to sign.

billion. The budget estimates on average understated the deficit in the years following, by amounts growing from $142 billion one year beyond the budget year to $231 billion four years beyond the budget year. While these results suggest a tendency to underestimate deficits toward the end of the budget horizon, the averages are not statistically different from zero in light of the high variation in the data. Chapter 3 of this volume, "Interactions Between the Economy and the Budget," further discusses the variability in the difference between estimated and actual deficits over the budget horizon and includes Chart 3–2, which is based on the variability measures shown in Table 30–7.

31. BUDGET AND FINANCIAL REPORTING

The Budget is a plan for proposing, allocating, and controlling financial resources of the Federal Government. It is also the primary mechanism for reporting fiscal results. Each year, the President's Budget proposes a fiscal plan for the current year and the coming budget year, includes projections for subsequent years, and reports budget results for prior fiscal years. Budget reporting occurs throughout the year with the *Monthly Treasury Statement*, which culminates in the first report of fiscal-year-end results in the September *Monthly Treasury Statement*.

In addition to the Budget, another source of financial information for the Government is the annual *Financial Report of the U.S. Government*. The *Financial Report* provides information on the cost of the Government's operations, the relationship between the Government's operating costs and the budget deficit, the Government's financial position at the beginning and end of the fiscal year, and forward-looking information on the Government's financial condition. Financial reporting and budget reporting use much of the same underlying data pertaining to agency financial transactions, but financial reports[1] compile the data using different methods and present the data using different formats,[2] as explained in this chapter.

Although discussed only briefly in this chapter, a third source of Government financial information is the Integrated Macroeconomic Accounts, which are a series of accounts that relate flows of production, income, saving, and investment to financial holdings and physical capital stocks for the major sectors of the U.S. economy.[3] Federal Government financial transactions are included as a separate sector of the Integrated Accounts. The Integrated Accounts combine the national income and product accounts with the flow of funds accounts,[4] and the treatment of Federal transactions under national income and product accounting and under budgetary accounting is compared in Chapter 29 of this volume, "National Income and Product Accounts."

The Purpose of Budget and Financial Reporting

In a democracy, the Government's sovereign authority to tax and to allocate the proceeds of those taxes to public purposes requires that the Government be accountable to the public for its use of tax dollars and that it be transparent in its activities. Accountability requires reporting the amount of money raised by taxation and other means, the programs on which the money was spent, and whether the money was spent in accordance with the requirements of appropriations, authorizing, and other applicable laws. In addition, accountability requires the Government to report balances for, among other things, cash on hand, other financial assets, and dedicated funds,[5] and to report on its borrowing needs.

In addition to providing information about how financial resources are obtained and used, accountability requires that the Government provide information about its operating performance. This includes information about the costs and results of Government programs and activities, and the degree to which their performance was efficient or effective. Chapters 7, 8, and 9 of this volume, "Delivering High-Performance Government," "Program Evaluation," and "Benefit-Cost Analysis," provide more information about the Government's operating performance and issues related to measuring performance.[6] Unlike a private entity, Government performance cannot be summed up in a single measure such as net income or net loss found on an income statement or net position found on a balance sheet.

The budget and financial reports provide information that the citizenry can use to hold the Government accountable, reporting on how and how well the Government has obtained, used, and managed its financial and other resources. The budget and financial reports seek to provide information in a transparent manner. Transparency is an important element of accountability for past actions, allowing the public to see the assets and liabilities remaining after those actions. Transparency is equally important when looking to the future. Future plans can only

[1] As used in this chapter, "*Financial Report*" refers to the *Financial Report of the United States Government*, which is the consolidated financial report for the Executive Branch and some Legislative and Judicial Branch entities, and "financial reports" refer to both the *Financial Report* and the Agency Financial Reports or the Performance and Accountability Reports issued by Executive Branch agencies. The *Financial Report* is issued by the Department of the Treasury in coordination with the Office of Management and Budget.

[2] Federal financial reporting is governed by statements issued by the Federal Accounting Standards Advisory Board (FASAB).

[3] The Integrated Accounts follow the guidelines of the System of National Accounts 1993, and are prepared jointly by the Bureau of Economic Analysis and the staff of the Board of Governors of the Federal Reserve.

[4] The National Income and Product Accounts show production, income, and expenditures for each sector of the economy and how these measures relate to wealth. Flow of funds accounts show financial flows (in the form of borrowing, lending, and investment) through the sectors of the economy.

[5] In this chapter, "dedicated" funds or collections refer to those Government collections that are designated for a particular purpose; the collections may be voluntary or compulsory, and include collections in trust, special, and revolving funds.

[6] Chapter 10 of this volume, "Social Indicators," provides some general measures of social, including, economic well-being, which can also be used to assess Government performance. The measures shown in Chapter 10 reflect Government performance and performance of the private sector, the non-profit sector, State and local governments, and international entities, and cannot, therefore, be viewed as solely the result of Government performance.

be evaluated based on how clearly and how completely they are explained.

As a financial plan, the President's Budget contains detailed information about the Government's fiscal policies for the coming fiscal year and the ten-year budget window. In addition, the Budget provides long-term (75-year) information about projected spending and projected receipts in Chapter 5 of this volume, "Long Term Budget Outlook." The financial report also contains information about the Government's long-run fiscal condition, showing projections of long-run sustainability and detailed information about social insurance[7] programs. The detailed historical and projected information contained in the Budget and the financial reports provide the public with transparent information about the Government's financial activities.

The Budget

As noted above, the budget serves as both a forward-looking planning tool and a backward-looking accountability report. To serve these dual purposes, the President's Budget contains both budget projections and historical budget data. The budget projections and historical data contain measures that represent flows or amounts over a period of time (usually a year) and measures that represent balances or amounts at a point in time (such as at the end of a fiscal year). These budget measures generally reflect either a cash basis or an accrual basis of accounting. Cash-based measures record transactions when cash is either paid or received, regardless of when the expense is incurred or when the revenue is earned or due, and accrual-based measures record transactions when the underlying transaction occurs regardless of when the cash is exchanged.

Measures

Budget measures that represent flows include budget authority, obligations, outlays, receipts,[8] and the deficit or surplus. Budget measures that represent balances at a point in time are referred to as "stocks" in budgetary accounting and economics literature, and include debt held by the public, debt net of financial assets, and gross Federal debt.

Budget authority is the amount of resources made available by the Congress and the President for use during a given period, usually a year. Obligations are legal financial commitments incurred during a year and cannot exceed the available budget authority. Both budget authority and obligations are generally recorded when a transaction occurs, rather than when cash is actually received or paid out by the Government.[9] Budget authority and obligations are used to control the amount of resources the Government uses. Government agencies record their use of budget authority, or obligations, on an ongoing basis as they conduct business so that they do not exceed the resources provided.

Outlays are the liquidation or payment of obligations during a year, and are measured primarily on a cash basis.[10] Whereas budget authority and obligations are used to control the amount of resources used, outlays reflect the actual use of Government resources and can have an impact on the economy. If outlays exceed Government receipts, the Government generally must borrow money from the public to cover the difference. Receipts are inflows of financial resources to the Government during a year, and are measured on a cash basis. Because the deficit or surplus is the difference between outlays and receipts for a given year, it represents an annual flow and is measured primarily on a cash basis, as are outlays and receipts.

In contrast to all of these measures that generally represent flows, the debt held by the public is a stock measure and it can be viewed as the accumulation of past deficits less past surpluses. Debt held by the public is measured on an amortized cost basis. Chapter 12 of this volume, "Budget Concepts," and Chapter 6 of this volume, "Federal Borrowing and Debt," contain more complete definitions of these concepts.

The President's Budget presents budget authority, obligations, outlays, and receipts at a summary level, for example, for the Government as a whole and by agency. In addition, the Budget presents all four of these measures at a very detailed level, by program, activity, and account. In addition to summary and detailed budget data, the Budget presents total obligations by object class and

[7] As used in this chapter, "social insurance" refers to Social Security, Medicare, Unemployment Insurance, Railroad Retirement, and the Black Lung Programs.

[8] The term "receipts" is used in this chapter to refer to governmental receipts. It does not refer to other collections such as offsetting receipts or offsetting collections, nor does it refer to the repayment of loans. See Chapter 12 of this volume, "Budget Concepts," for an explanation of the difference between governmental receipts and offsetting receipts or collections.

[9] Budget authority and obligations for loans and loan guarantees, or credit programs, are measured on a net present value basis. The present value of the cash outflows and inflows associated with the loan or loan guarantee is recorded as budget authority and obligations when the loan or guarantee is made. A present value represents the value today of some future amount and, thus, reflects the time value of money. A present value can be used as an accrual measure. In addition to being used for Federal credit programs, present values are used in budgetary accounting for Federal employee defined-benefit pension plans.

[10] In contrast to most Government outlays, which are measured on a cash basis, outlays for interest on debt held by the public are measured on an accrual basis. Budget authority and obligations for interest on debt held by the public are measured on an accrual basis, which is generally consistent with budget authority and obligations measures for most other programs. Outlays for credit programs are measured on a net present value basis with the present value of the cash outflows and inflows recorded as an outlay when the loan or guarantee is made. From an agency perspective, budget authority, obligations, and outlays for Federal employee defined-benefit pension plans are recorded on an accrual basis (with the actuarially accruing defined-benefit costs estimated by using present values). From a government-wide perspective, however, budget authority, obligations, and outlays for Federal employee defined benefit pensions are recorded on a cash basis. This is because agency payments to a Government defined-benefit pension plan—such as Military Retirement or Civil Service Retirement—are recorded as collections by the plan trust funds and net to zero within the unified budget. As a consequence of this netting, only the defined-benefit payments to current retirees constitute budget authority, obligations, and outlays in the budget, and only these payments are reflected in the deficit.

total budget authority and outlays by function and subfunction. The Budget presents the deficit (or surplus) and debt held by the public (and other measures) in nominal and inflation-adjusted dollar amounts, and as a percent of gross domestic product (GDP).[11]

Summary and detailed data for budget authority, obligations, outlays, and receipts; object class data; and functional classification data are reported for the prior fiscal year, the current fiscal year, and the budget year. In addition, many of these measures are presented for the entire ten-year budget horizon, and the summary measures are presented historically, in the *Historical Tables* volume, and projected for 75 years in Chapter 5 of this volume, "Long Term Budget Outlook."

Structure

The President's Budget is a multi-volume document, consisting of the main *Budget* volume, the *Budget Appendix*, the *Analytical Perspectives* volume, the *Historical Tables*, the *Federal Credit Supplement*, and other supplemental materials. In addition, the Mid-Session Review, with revised budget estimates, is issued later in the calendar year, in the middle of the Congressional session. The main *Budget* volume is a textual summary of the budget, discussing the Administration's fiscal plan, including its policy and program priorities, and significant proposed changes to current law.[12] The *Budget Appendix* contains the proposed appropriations language for each program, activity, or account that receives an appropriation, whether the appropriation is annual, biennial, or permanent. The *Analytical Perspectives* volume provides historical and cross-cutting analyses of the budget, and the *Historical Tables* volume reports historical data for summary budget measures; many are expressed in nominal and inflation-adjusted dollars and as a percent of GDP. The *Federal Credit Supplement* provides detailed information about the Government's loan and loan guarantee programs that are governed by the Federal Credit Reform Act (FCRA). In addition to the documents that comprise the President's Budget, the budget transmittal to the Congress involves the transmittal of Congressional Budget Justifications for each agency subject to the appropriations process and the transmittal of authorizing legislation in support of the President's Budget.

The Financial Reports

As noted above, financial reports are primarily an accountability tool. The financial reports are not plans per se, although they provide information that can be used in developing a fiscal plan. The *Financial Report* provides information about the Government's financial position at the end of the prior fiscal year, and how the financial position changed during the course of the fiscal year. In addition, like the Budget, the financial reports contain measures[13] that represent flows and measures that represent balances at a point in time or stocks. In addition, the financial reports contain measures that are reported on modified-cash and accrual bases of accounting. The *Financial Report* is intended for five groups of users: citizens, citizen intermediaries (such as the media or nonprofit groups that monitor Government activities), the Congress, Federal executives, and program managers.

Measures

The financial reporting measures that represent flows include revenues, expenses, and net operating cost, which is the difference between revenues and expenses. The measures that represent stocks include assets, liabilities, and net position, which is the difference between assets and liabilities. The most widely cited of these measures are the net operating cost and net position.

Less than ten percent of the Government's revenues are recognized on an accrual basis in the financial reports and the remainder, more than 90 percent of revenues, are recognized on a cash basis; overall, revenues are said to be recognized on a "modified-cash" basis of accounting. Assets (e.g., property, plant, and equipment) are generally measured at historical cost, but some (e.g., debt and equity securities) are measured at fair market value. Expenses are measured on an accrual basis.

Net operating cost and net position are derived from revenues and expenses, and from assets and liabilities, respectively. Even though they are derived from measures (including revenues) that are not pure accrual measures, both net operating cost and net position are generally considered to be accounted for on an accrual basis.

Structure

The *Financial Report* consists of seven basic financial statements organized as follows: the Statement of Net Cost, the Statement of Operations and Changes in Net Position, the Reconciliation of Net Operating Cost and Unified Budget Deficit, the Statement of Changes in Cash Balance from Unified Budget and Other Activities, the Balance Sheet, the Statement of Social Insurance,[14] and the Statement of Changes in Social Insurance.[15] Reported with the basic statements are required note disclosures. In addition, the *Financial Report* contains a Management's Discussion and Analysis section that summarizes the highlights of the statements, required supplementary disclosures (which include a Statement of Long-Term Fiscal Projections), and the auditor's report. The *Financial Report* is the government-wide report for the Executive Branch, and contains some financial data from the Legislative and Judicial Branches.

Individual agencies produce Agency Financial Reports or Performance and Accountability Reports, which include financial information that is used to develop the *Financial*

[11] The deficit and debt, as well as other measures, are presented as a percent of gross domestic product because comparisons of these measures over time are best done by looking at these measures in relation to the size of the economy as a whole, as measured by GDP.

[12] Budget data reflect all three Branches of Government, but the Budget documents reflect proposals for the Executive Branch only.

[13] The term "measures" is used in this chapter to refer to both budget and financial measures; however, the Federal Accounting Standards Advisory Board would refer to the financial measures as "elements."

[14] See footnote 6 for a definition of social insurance.

[15] The Statement of Changes in Social Insurance will be required beginning with year-end results for 2011.

Report and program performance information that is unique to each agency. The financial statements for agencies consist of four to seven basic statements. Five of the statements are the same as in the *Financial Report*: the Statement of Net Cost, the Statement of Operations and Changes in Net Position, the Balance Sheet, and, if applicable, the Statements of Social Insurance and Changes in Social Insurance.[16] Two statements required by agencies are not included in the *Financial Report*: the Statement of Budgetary Resources and, if applicable, the Statement of Custodial Activity.[17]

Comparison of the Budget and Financial Reports

Revenues in the *Financial Report* and budgetary receipts are quite similar, with revenues recognized on a modified cash basis and receipts recognized on a pure cash basis. The revenues recognized on an accrual basis are those resulting from Government business-like transactions with the public, for example the sale of stamps by the Postal Service and the recreation fees paid at National Parks; these revenues are referred to as "earned revenues."[18] As noted above, earned revenues comprise less than ten percent of total revenues. In addition, because the cash and accrual bases of earned revenues are themselves quite similar, the difference between total revenues and total receipts tends to be less than ten percent.

Expenses in the financial reports are recognized on an accrual basis, and in this regard are similar[19] to budgetary obligations. However, because expenses are subtracted from revenues to derive net operating cost, they are more frequently compared with budgetary outlays. In contrast to expenses, outlays are generally recognized on a cash basis.[20] As a result of the difference between cash and accrual accounting, the difference between total expenses (referred to as net cost in the *Financial Report*) and total budgetary outlays can be fairly significant, roughly 20 percent.

Net operating cost and the budget deficit are the most widely compared measures. They are similar in that both represent the annual increase or decrease in Government resources resulting from financial transactions. The primary difference between net operating cost and the deficit results from the accrual of certain expenses that affect net operating cost, but not the budget deficit. For example, the net operating cost includes certain accrued expenses such as expenses for civilian and military employee retirement and veterans programs, expenses for environmental cleanup and disposal, and depreciation expense. In addition, the full cost of asset acquisitions (or usable segments thereof) are included in the deficit upfront, when the asset is acquired, but these costs are included in net operating cost only over time, once the asset begins to be used up or depreciated. Because net operating cost is derived from revenues and expenses, and the deficit is derived from receipts and outlays, the difference between net operating cost and the deficit results from the differences, discussed above, between revenues and receipts, and to an even greater extent between expenses and outlays. Both the deficit and the net operating cost are measures of "cost," reflecting generally the difference between resources used and collected in a given year.

Liabilities recorded in the financial statements satisfy an accounting definition of that term, which includes, but is not limited to, legal liabilities. This is in contrast to budgetary accounting, where budget authority reflects the legal authority to incur budgetary obligations, obligations are legal commitments, and outlays are the liquidation of those budgetary obligations. In addition, debt held by the public is the primary budgetary stock measure that is cited and it is a legal liability. Debt held by the public is shown as a liability on the Government's balance sheet along with other liabilities, some of which are not legal liabilities. Total liabilities (as defined by generally accepted accounting principles), as of 2010, were almost twice the size of debt held by the public.

Assets are generally recorded in the financial statements at historical cost or fair market value. The full cost of an asset is recorded as a budget outlay when the asset is purchased, but the asset is generally not reflected in

Table 31–1. KEY BUDGET AND FINANCIAL MEASURES FOR 2010
(In billions of dollars)

BUDGET MEASURES	
Receipts.	2,162.7
Outlays	3,456.2
Deficit	(1,293.5)
Debt Held by the Public	9,018.9
FINANCIAL MEASURES	
Revenues	2,216.5
Expenses	4,296.0
Net Operating Cost	(2,080.3)
Assets	2,883.8
Liabilities	16,356.6
Net Position	(13,472.8)

[16] Only agencies with social insurance programs are required to prepare the two social insurance statements.

[17] Only agencies with custodial accounts are required to prepare the Statement of Custodial Activity.

[18] Earned revenue may be received before goods or services are provided, in which case it is referred to as "deferred" revenue. Examples include Department of Energy collections from utility companies for the future cost of disposing of nuclear waste, Federal Communications Commission collections from its competitive bidding system for the recovered analog spectrum for licenses that have not been granted, and Postal Service collections for prepaid postage, outstanding money orders, and prepaid P.O. box rentals. The budget recognizes these amounts when they are received.

[19] Undelivered orders are treated as obligations, but are not recognized as expenses. Once an undelivered order is delivered, it is recognized as an expense.

[20] Some items that are reflected in the budget on an accrual basis were noted in footnote 8 above.

any budget measures after it is acquired. Net position, which is the difference between assets and liabilities, reported in the financial reports does not have a budgetary analog.

The prior fiscal-year data included in the budget and the fiscal-year results reported in the financial reports are generally all taken from the same source, the Federal Agencies' Centralized Trial-Balance System, known as FACTS I and II. These data are required to be audited for certain Federal agencies[21] and for the government-wide financial statements; the related audit reports, which include audits of prior fiscal year data, are included in the financial reports.

The Federal Sector of the Integrated Macroeconomic Accounts

The integrated macroeconomic accounts are a series of tables that show production, income, saving, capital formation, financial transactions, and asset valuations for each of six major sectors of the economy. The integrated accounts also show how each sector relates to the other sectors and the economy as a whole. The six sectors include as a separate sector the Federal Government.[22]

The integrated accounts present seven accounts for each of the sectors of the economy, including the Federal Government sector. These seven accounts reflect seven different types of economic activity and include, among others, the balance sheet account, the current account, the capital account, and the financial account.[23] The information presented in the Federal Government sector of the integrated accounts is similar to information presented in the budget and the financial reports; however, the data used for the integrated accounts are not the same as the data used for the budget and financial reports. As noted above, budget and financial measures are based primarily on transaction data from FACTS I and FACTS II. The integrated accounts use data from the Bureau of Economic Analysis' national income and product accounts (NIPAs), the Federal Reserve Board's flow of funds accounts, and other sources.

Although the data sources for the integrated accounts are different from those used for budgetary and financial reporting, the measures presented in the Federal Government sector of the integrated accounts represent the same underlying Government activity as the budget and financial reports. All three seek to measure the cost or the value of Government activity over a period of time and have measures that reflect the Government's financial position at a point in time. The measures in the integrated accounts that represent flows include net saving, and net lending/net borrowing and the measures that represent stocks or balances at a point in time include assets, liabilities, and net worth.

The "current" account for the Government sector shows how much the Government contributed to current production and current consumption over a period of time, which is usually a year. "Current" is used in the integrated accounts to distinguish future production and consumption (which depend on investments in human and fixed capital) from current production and consumption. Net saving shown in the current account for the Federal Government sector measures the difference between current receipts and current expenditures. Current receipts include most taxes[24] and fees; some taxes such as the estate and gift taxes are not included in current receipts. Current expenditures include goods and services purchased by the Government (including accruing retirement costs for Federal employees and depreciation expenses for Government fixed assets); social insurance payments; most grants to State, local, and foreign governments; and most subsidies to businesses. If net savings were positive, the balance would represent an amount that could be used to invest in capital assets or financial assets or to reduce debt. Negative net savings reflect the amount that must be financed. Net saving is similar in some ways to both the deficit and the net operating cost, but is probably more similar to net operating cost because of its treatment of depreciation expense and accruing Federal employee retirement costs.

The capital account for the Government sector shows how much the Government contributed to capital formation in the economy as a whole over a period of time, usually a year. Net lending/net borrowing in the Government capital account reflects net saving plus capital transfers and net capital formation for the year. Net capital formation is investment in fixed assets less depreciation, so the full cost of asset acquisitions is reflected in the capital account when assets are purchased. Also included in the capital account are capital grants (e.g., grants for highway construction) and capital transfers (e.g., subsidies for home acquisition or home construction). In addition, estate and gift taxes (which as noted above are not reflected in the current account) are reflected in the capital account. Because of the inclusion in the capital account of these additional items, net lending/net borrowing in the capital account is similar to the deficit. A positive net lending/net borrowing balance represents an amount that is available for purchasing assets or retiring debt held by the public, and a negative amount represents an amount that must be borrowed.

The financial account for the Government sector shows the Government's financial activity for the year. Net lending/net borrowing in the Government financial account reflects the Government's borrowing needs for the year. It is the change in financial assets held by the Government less the change in debt held by the public, which is re-

[21] Audits are conducted for more than 100 Executive Branch agencies, including the 24 agencies covered by the Chief Financial Officers Act of 1990 and an additional 11 significant Executive Branch entities. Audits are not conducted for some of the smaller entities that are included in the *Financial Report*.

[22] The other five sectors are households and nonprofit institutions serving households, nonfinancial noncorporate business, nonfinancial corporate business, financial business, and State and local governments.

[23] The other three accounts are the other changes in volume account, the revaluation account, and the changes in balance sheet account.

[24] Individual income taxes are reported in the integrated accounts when they are received by the Government, which is the same as in the budget and financial reports. By contrast, corporate income taxes are reported in the integrated accounts when they are accrued, rather than when they are received by the Government (as in the budget and financial reports).

ported in the budget. Theoretically, net lending/net borrowing in the financial account should be the same as net lending/net borrowing in the capital account because saving that is not spent on fixed assets should increase the amount of financial assets held by the Government. Similarly, borrowing that is used to purchase fixed assets leads to financial liabilities. However, because of the different sources of data, differences in when flows are recorded, and other statistical differences, the net borrowing/net lending in the capital account is almost never equal to that of the financial account.

The assets, liabilities, and net worth shown in the balance sheet account for the Federal Government measure the value of the Government's financial and nonfinancial assets, liabilities, and net worth at the end of the fiscal year. These measures are similar conceptually to the assets, liabilities, and net position reported on the balance sheet in the financial reports. One difference between the balance sheet account and the balance sheet in the financial reports is that reproducible fixed assets in the balance sheet account are measured at replacement cost whereas the analogous property, plant, and equipment on the balance sheet of the financial reports are measured at acquisition cost.

Alternative Estimates of Government Assets and Liabilities

The traditional measures of financial position in budget and financial reporting are debt held by the public and net position respectively;[25] they reflect the Government's financial position at a point in time, but not the Government's future financial position. This is because measures of assets and liabilities at any particular point in time do not reflect the full scope of resources available to or responsibilities of the Government into the future. The alternative measures used by OMB to produce a Government balance sheet (shown below) use somewhat different methods from those used in the *Financial Report*, but they do not capture the Government's total future resources or responsibilities. Balance sheet measures reflect only past transactions or events, but the Government's responsibilities will continue into the indefinite future and its primary resource for fulfilling these responsibilities is future tax revenue, which is not reflected on a balance sheet. The best way to assess the Government's long-term financial condition is to compare future spending to future receipts, as is done in the "Long Term Budget Outlook" chapter of this volume.

The Government has many assets, including cash, mortgages, other loans, and assets acquired in an attempt to alleviate the crisis in the financial markets. The Government also owns plant and equipment, including military hardware. In addition, the Government owns a substantial amount of land, timber, and mineral resources. Finally, the Government possesses heritage assets (works of art, historical artifacts, and monuments) that, although disclosed in the financial reports, are not reported as assets. The Government's most valuable and unique asset is one that cannot reasonably be reported on any balance sheet—its sovereign power to tax. The Government's authority to levy taxes allows it to participate in the credit markets even though its liabilities exceed its measurable assets.

The Government's liabilities include debt held by the public, Federal employee and veterans health and pension benefits, insurance obligations, loan guarantees, environmental liabilities, and certain entitlement benefits that are due and payable. These liabilities, however, are only a subset of the Government's long-run budget responsibilities. Just as the power to tax or future tax revenue is not shown as an asset on the balance sheet, the Government's long-term commitments are not reported on the balance sheet.

For many years, the *Analytical Perspectives* volume has included a table of assets and liabilities, shown here as Table 31-2, and a chart showing the net liabilities as a ratio to gross domestic product (GDP). This table is similar in concept to the balance sheet in the *Financial Report*, but it was designed to show a consistent historical series of assets and liabilities and it uses economic valuation methods rather than accounting methods for certain entries.[26] The table shows Government assets and liabilities from 1960 through 2010 measured in constant 2010 dollars; the balance of net liabilities is also shown as a ratio to GDP and that ratio can be seen in the chart. As shown in the table and also in the chart, Government liabilities exceeded its assets over the entire period. There was a substantial increase in net liabilities in the 1980s and early 1990s, which was the result of the large budget deficits in those years. In the late 1990s, there was a marked decline in the ratio of net liabilities to GDP as the budget temporarily went into surplus and debt held by the public fell. Beginning in 2001, the ratio began increasing again, and in 2010 it reached a new high because of a sharp increase in debt held by the public as the Government sought to address the financial crisis and the resulting economic downturn.

Relative to GDP, the net liability position was 35 percent in 1960 and, although fluctuating over the next two decades, in 1980, it was still only 40 percent. From 1980 to 1993, the ratio of net liabilities rose to 58 percent of GDP primarily because of the increase in the budget deficits, but by 2000, the ratio had fallen to 44 percent mainly because of a decline in the budget deficit. As the deficit began to increase again, the net liability position also deteriorated, reaching a plateau of approximately 51 percent in 2004. The ratio has increased since 2007 because of the worldwide financial crisis and the recession. For 2010, the Government's net liabilities were 82 percent of GDP.

Financial Assets: The Government's financial assets amounted to about $1.3 trillion at the end of 2010. Government holdings of mortgages have been rela-

[25] As discussed above, net position is derived by subtracting liabilities from assets, and liabilities include debt held by the public.

[26] Land and mineral rights, shown in Table 31-2, are assets that are not reported on the balance sheets in the financial reports. Fixed reproducible capital is reported at acquisition or historical cost on the balance sheets in the financial reports, but is estimated using a model that approximates current replacement value in Table 31-2.

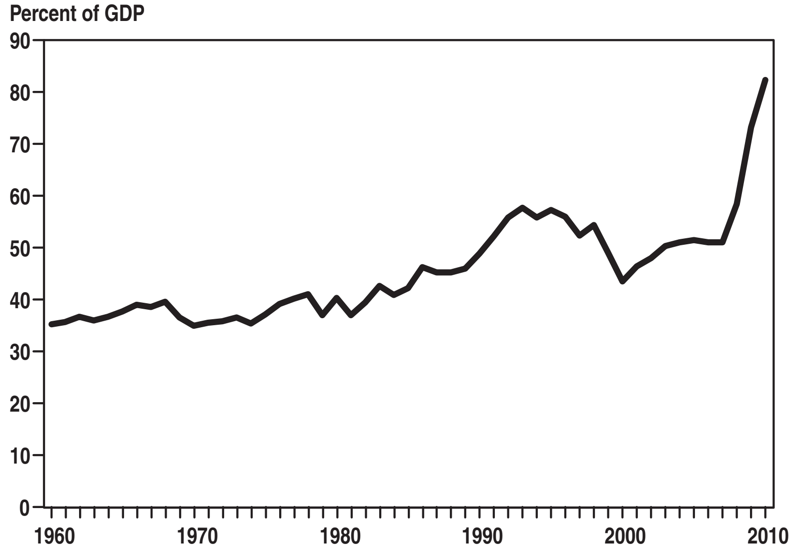
Table 31–2. GOVERNMENT ASSETS AND LIABILITIES*

(As of the end of the fiscal year, in billions of 2010 dollars)

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010
ASSETS															
Financial Assets:															
Foreign Exchange, SDRs, and Gold	12	9	20	15	22	40	53	74	50	45	38	38	38	98	96
Cash, Checking Deposits, Other Monetary Assets	53	76	47	39	60	40	53	54	77	41	60	81	380	281	313
Mortgages	33	32	48	50	93	95	121	83	94	84	85	85	90	111	107
Other Loans	123	170	213	215	276	358	253	205	234	220	214	214	217	336	471
less Expected Loan Losses	–1	–3	–5	–11	–21	–21	–24	–30	–46	–45	–50	–46	–50	–83	–65
Other Treasury Financial Assets	63	84	62	58	82	113	191	219	292	324	323	319	304	464	420
Subtotal	284	368	385	367	512	625	648	605	701	669	670	692	980	1,207	1,341
Nonfinancial Assets:															
Fixed Reproducible Capital.	1,241	1,231	1,282	1,243	1,177	1,331	1,380	1,386	1,219	1,221	1,236	1,224	1,257	1,288	1,283
Defense.	1,070	1,005	1,016	928	833	969	993	970	794	769	782	777	807	822	825
Nondefense	171	226	265	315	344	363	387	416	424	452	454	446	451	466	459
Inventories	325	281	262	234	290	331	293	226	231	301	301	288	294	288	286
Nonreproducible Capital.	160	212	253	413	600	700	594	442	769	1,389	1,419	1,357	1,109	782	753
Land.	114	158	199	316	403	419	431	316	547	1,024	1,052	996	644	439	408
Mineral Rights.	46	54	54	97	197	281	163	126	222	365	368	361	465	343	345
Subtotal.	1,726	1,725	1,797	1,890	2,067	2,363	2,267	2,054	2,219	2,911	2,956	2,869	2,660	2,358	2,322
Total Assets.	2,010	2,093	2,182	2,257	2,579	2,988	2,915	2,659	2,920	3,579	3,626	3,561	3,640	3,565	3,664
LIABILITIES															
Debt held by the Public.	1,417	1,457	1,297	1,319	1,639	2,710	3,689	4,900	4,259	5,076	5,169	5,240	5,886	7,634	9,019
Insurance and Guarantee Liabilities:															
Deposit Insurance.	0	0	0	0	2	11	89	24	1	1	1	2	35	73	108
Pension Benefit Guarantee	0	0	0	53	39	54	54	26	50	91	79	86	75	93	102
Loan Guarantees.	0	1	3	8	15	13	19	37	46	53	51	72	75	71	67
Other Insurance	39	35	27	25	33	20	25	22	20	45	21	17	21	15	15
Subtotal	39	36	30	86	90	99	186	108	118	190	153	178	206	252	293
Pension and Post-Employment Health Liabilities:															
Civilian and Military Pensions	1,070	1,345	1,609	1,823	2,242	2,224	2,172	2,105	2,201	2,398	2,479	2,514	2,646	2,739	2,896
Retiree Health Insurance Benefits.	219	275	329	373	459	455	445	440	488	1,243	1,212	1,194	1,179	1,192	1,260
Veterans Disability Compensation	235	296	354	392	402	332	299	362	690	1,241	1,235	1,174	1,488	1,333	1,475
Subtotal.	1,525	1,916	2,293	2,589	3,103	3,011	2,915	2,907	3,379	4,882	4,926	4,882	5,313	5,264	5,631
Environmental and Disposal Liabilities	82	104	124	140	168	200	234	309	376	287	327	356	348	346	321
Other Liabilities:															
Currency and SDRs	16	16	31	37	45	41	48	49	41	41	40	39	37	88	86
Trade Payables.	18	25	26	36	69	100	145	112	102	221	229	249	289	272	289
Benefits Due and Payable	26	30	41	43	55	61	73	85	97	129	138	139	146	163	164
Subtotal	59	72	98	116	169	203	265	246	240	391	408	427	473	523	540
Total Liabilities	3,123	3,584	3,841	4,250	5,169	6,224	7,290	8,470	8,373	10,826	10,981	11,082	12,226	14,019	15,804
Net Liabilities (Liabilities Minus Assets)	1,113	1,492	1,660	1,993	2,590	3,236	4,375	5,811	5,453	7,247	7,355	7,521	8,586	10,454	12,140
Addenda:															
Ratio to GDP (in percent)	35.4	37.7	35.1	37.2	40.4	42.3	48.9	57.4	43.6	51.5	51.1	51.0	58.4	73.2	82.3

* This table shows assets and liabilities for the Government as a whole excluding the Federal Reserve System. Data for 2010 are extrapolated in some cases.

Chart 31-1. Net Federal Liabilities



tively stable since the mid-1990s, but holdings of other loans and monetary assets have risen as a result of the Government's actions to resolve the financial crisis. OMB estimates the discounted present value of future losses and interest subsidies on loans to be $65 billion as of the end of 2010, and this amount was subtracted from the face value of outstanding loans to estimate their net value.

Non-Financial Assets: Government-owned stocks of reproducible defense and nondefense capital are similar in concept to property, plant, and equipment. The estimated replacement value of these assets is shown in Table 31-2. It has been relatively stable, between $1.2 and $1.4 trillion, for most of the last 45 years. In 1960, 86 percent of the capital was defense; today it is 64 percent. During the 1970s and again during the 1990s (after the end of the Cold War), there were substantial declines in defense capital.

Although there are no official estimates of the market value of the Government's vast land and mineral holdings, it is assumed here that Federal land values rise and fall along with private land values. Since the mid-1990s, oil prices have been volatile, which has caused the estimated market value of federally-owned proved reserves of oil and natural gas to fluctuate as well. In 2010, as estimated here, the combined real value of Federal land and mineral rights was $0.8 trillion compared with $1.4 trillion in 2006.

Total Assets: The total value of Government assets, measured in constant dollars, was about $3.7 trillion, equal to 25 percent of GDP, at the end of 2010.

Debt Held by the Public: The Government's largest liability is the debt owed to the public, which amounted to $9.0 trillion at the end of 2010. Publicly held debt declined for several years in the late 1990s because of the shift from unified budget deficits to unified budget surpluses, but began to increase again as deficits returned, and it has increased very substantially since 2007.

Insurance and Guarantee Liabilities: The estimates in Table 31-2 reflect the current discounted value of prospective future losses on outstanding guarantees and insurance contracts, not accounting for market risk. Other insurance includes veterans' life insurance, flood, crop, and terrorism insurance. Relative to total liabilities, insurance and guarantee liabilities are small, comprising less than 2 percent of total liabilities in 2010.

Pension and Post-Employment Health Liabilities: While the Government's employee pension obligations have risen slowly, there has been a sharp increase in the liability for future health benefits and veterans compensation. The discounted present value of these benefits is estimated to have been around $5.6 trillion at the end of 2010, which is 67 percent higher than a decade earlier in 2000.

Environmental and Disposal Liabilities: During World War II and the Cold War, the Government constructed a vast industrial complex to produce and test nuclear weapons, which resulted in environmental contamination. Ongoing defense and other activities can result in contamination if waste disposal is not carried out properly. Cleanup and disposal liabilities are estimated to be around $320 billion in present value terms.

The Government need not maintain a positive balance of net assets to assure its fiscal solvency. Indeed, the increase in the Government's net liability position since 1960 has not significantly affected the Government's creditworthiness, and interest rates on Federal debt have been very low recently, despite the surge in Government borrowing. Nevertheless, there are limits to how much debt any Government can assume without putting its finances in jeopardy.

Conclusion

Budget and financial reporting each provide the public with detailed information on how the Government raised and spent financial resources. The budget uses a conceptual framework based primarily on cash transactions, as laid out in the 1967 Report of the President's Commission on Budget Concepts. The Budget of the United States Government is recognized and used widely both within and outside of the Government, and the budget process is the primary way that the Government reaches agreement on public policy goals, allocates resources among competing uses, and assesses the Government's fiscal effects on economic growth.

Financial reporting uses much the same underlying data as the budget to develop reports prepared in accordance with generally accepted accounting principles promulgated by the Federal Accounting Standards Advisory Board and adopted for Executive Branch agencies by the Office of Management and Budget. Financial reporting focuses on the results of financial operations, including the cost of operations, financial position, and financial condition of the Government. Together, budget and financial reporting provide complementary information and a comprehensive view of the Government's financial resources and responsibilities.

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