



Analytical Perspectives

Budget of the U.S. Government



Fiscal Year 2010



Office of Management and Budget
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THE BUDGET DOCUMENTS

A New Era of Responsibility: Renewing America's Promise contains the Budget Message of the President, information on the President's priorities, and budget overviews organized by agency. This document was published on February 26, 2009.

Since publication of this initial volume, the Administration has produced updated budget estimates based on new technical and other information. The following volumes are based on those new estimates, and updated summary tables were published in the following volume.

Updated Summary Tables, May, 2009, Budget of the United States Government, Fiscal Year 2010 contains a set of summary tables updated and expanded from the February FY 2010 President's Budget overview.

Analytical Perspectives, Budget of the United States Government, Fiscal Year 2010 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 2010 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 2010 or 2014.

To the extent feasible, the data have been adjusted to provide consistency with the 2010 Budget and to provide comparability over time.

Appendix, Budget of the United States Government, Fiscal Year 2010 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 referred to are fiscal years, unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.

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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*.

Again this year, several large tables are included at <http://www.whitehouse.gov/omb/budget/fy2010/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

1. *Introduction*. This chapter briefly discusses each of the subsequent chapters.

Performance and Management Assessments

2. *Building a High-Performing Government*. This chapter discusses development of a new management and performance agenda based around the following themes:

- Putting Performance First: Replacing PART with a New Performance Improvement and Analysis Framework;
- Ensuring Responsible Spending of Recovery Act Funds;
- Transforming the Federal Workforce;
- Managing Across Sectors;
- Reforming Federal Contracting and Acquisition; and
- Enhancing Transparency, Technology and Participatory Democracy.

Crosscutting Programs

3. *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.

4. *Strengthening Federal Statistics*. This chapter discusses 2010 Budget proposals for the Government’s principal statistical programs.

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

6. *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.

7. *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). This year, the chapter also includes a section focusing on efforts to stabilize the economy and promote financial recovery, including the Troubled Asset Relief Program (TARP). The general portion of the chapter covers the categories of Federal credit (housing, education, business including farm operations, and international) and insurance programs (deposit insurance, pension guarantees, disaster insurance, and insurance against terrorism-related risks). Additionally, two detailed tables, “Table 7-10. Direct Loan Transactions of the Federal Government” and “Table 7-11. 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.

8. *Aid to State and Local Governments*. This chapter presents crosscutting information on Federal grants to State and local governments, including highlights of Administration proposals. An Appendix to this chapter includes State-by-State spending estimates of major grant

programs, including estimates for grant funding from the American Recovery and Reinvestment Act of 2009 (ARRA).

9. *Leveraging the Power of Technology to Transform the Federal Government.* This chapter presents a crosscutting look at Federal activities, policy, and spending related to information technology (IT). It describes the Administration's information technology agenda, aligned with the broad goals of transparency, participation, and collaboration, and promoting innovation for efficient and effective delivery of value to citizens.

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

11. *California-Federal Bay-Delta Program 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.

Economic Assumptions and Analyses

12. *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; compares the economic assumptions on which the Budget is based with the assumptions for last year's Budget and those of other forecasters; and illustrates the budget impact of alternatives to the Budget's economic forecast. This chapter also covers topics related to the effects on the budget of changes in economic conditions and assumptions.

13. *Stewardship.* This chapter assesses the Government's financial condition and sustainability in an integrated framework that includes Federal assets and liabilities; 75-year projections of the Federal budget under alternative assumptions; actuarial estimates for the future spending and dedicated income for Social Security and Medicare; a discussion of tax compliance; a national balance sheet that shows the Federal contribution to national wealth; and a table of economic and social indicators.

14. *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.

Budget Reform Proposals

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

Federal Borrowing and Debt

16. *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.

Federal Receipts and Collections

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

18. *User Charges and Other Collections.* This chapter presents information on collections from market-oriented activities, such as the sale of stamps by the Postal Service (which are recorded as offsets to outlays rather than as Federal receipts), and on receipts from regulatory fees. This chapter also presents information on all other collections that offset outlays, which result from both intragovernmental transactions and transactions with the public.

19. *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.

Dimensions of the Budget

20. *Comparison of Actual to Estimated Totals.* This chapter compares the actual receipts, outlays, and deficit for 2008 with the estimates for that year published two years ago in the 2008 Budget. It also includes a historical comparison of the differences between receipts, outlays, and the deficit as originally proposed with final outcomes.

21. *Trust Funds and Federal Funds.* This chapter provides summary information on Federal funds and trust funds, which comprise the entire budget. For trust funds the information includes income, outgo, and balances.

22. *Off-Budget Federal Entities and Non-Budgetary Activities.* This chapter discusses off-budget Federal entities (Social Security and Postal Service) and non-budgetary activities, such as deposit funds, regulation, and the cash flows for credit programs.

23. *Federal Employment and Compensation.* This chapter provides summary data on the level and recent trends in civilian and military employment, personnel compensation and benefits, and the cost of overseas staffing.

Current Services Estimates

24. *Current Services Estimates*. This chapter presents estimates of what receipts, outlays, and the deficit would be if current policies remained in force. It discusses the conceptual framework for these estimates and describes differences with the baseline under the Budget Enforcement Act (BEA) rules. Two detailed tables, "Table 25–13. Current Services Budget Authority by Function, Category, and Program" and "Table 25–14. Current Services Outlays by Function, Category, and Program," 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.

The Budget System and Concepts

25. *The Budget System and Concepts*. This chapter includes a basic reference to the budget process, concepts,

laws, and terminology, and includes a glossary of budget terms.

Detailed Displays of Program Costs

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.

- 26. *Detailed Functional Tables*. Table 26–1. "Budget Authority and Outlays by Function, Category, and Program."
- 27. *Federal Programs by Agency and Account*. Table 27–1. "Federal Programs by Agency and Account."

BUILDING A HIGH-PERFORMING GOVERNMENT

2. BUILDING A HIGH-PERFORMING GOVERNMENT

Just as important as changing what Washington does is changing how it does it. We cannot begin to tackle the challenges we face without restoring responsibility and accountability to government. The Administration is currently working to develop a new management and performance agenda based around the following themes:

I. Putting Performance First: Replacing PART with a New Performance Improvement and Analysis Framework

Several Administrations have made efforts to measure and improve government performance. Both Congressional and Administration efforts have produced some meaningful progress, though there is much more we can do to drive improved program results.

The Government Performance and Results Act (GPRA) of 1993 requires agencies to submit to the Office of Management and Budget (OMB) and Congress five-year Strategic Plans (updated every three years) as well as Annual Performance Plans and Reports. These requirements were fully implemented in 1999. The law requires Federal agencies to identify both annual and long-term goals and to collect and report performance data. Under GPRA, agencies were required for the first time to identify measures and targets for judging their performance in achieving their strategic goals and managing their programs. Agencies collect information on an annual basis in order to determine whether they are meeting those goals. The aim is not simply to measure performance, but also to use GPRA plans and reports to instill a culture of active performance management within agencies.

The November 13, 2007 Executive Order (EO) on Improving Government Program Performance requires the head of each agency to designate a Performance Improvement Officer (PIO) to coordinate agency performance management activities. PIOs are responsible for helping the head of the agency define clear goals, measure progress, and hold people accountable for achieving results. The EO also establishes a Performance Improvement Council (PIC) to facilitate collaboration between PIOs on performance management efforts.

The Program Assessment Rating Tool (PART), used during the past six years, has helped the Federal Government establish performance measures across Federal programs. But it has been less successful in encouraging the actual use of performance measurement as a performance improvement tool. A recent GAO study found that among Federal managers familiar with PART, only 26 percent said that PART results are used in management decision making, and only 14 percent viewed

PART as improving performance.¹ Others have been concerned about the lack of transparency of the PART ratings process and have argued that it has focused too much on rating programs and not enough on explaining performance trends and improving performance.

The Obama Administration will work with the PIC to fundamentally reconfigure how the Federal Government assesses program performance. A reformed performance improvement and analysis framework will switch the focus from grading programs as successful or unsuccessful to requiring agency leaders to set priority goals, demonstrate progress in achieving goals, and explain performance trends. In order to break down silos, cross-program and cross-agency goals would receive as much or more focus as program-specific ones. In developing this new approach, the Administration will engage the public, Congress, and outside experts to develop a better and more open performance measurement process that improves results and outcomes for Federal Government programs while reducing waste and inefficiency.

As a first step in this process, OMB, during the next few months, will ask each major agency to identify a limited set of high priority goals, supported by meaningful measures and quantitative targets, that will serve as the basis for the President's meetings with cabinet officers to review their progress toward meeting performance improvement targets. The Administration will also identify on-going opportunities to engage the public, stakeholders, and Congress in this effort.

A reformed performance improvement and analysis framework also would emphasize program evaluation. Just as the Administration is proposing historic investments in comparative effectiveness research so that our health care services will produce better results, the Administration will conduct quality research evaluating the effectiveness of government spending in order to produce better results.

In the coming months, the Administration will work with agency leaders and the PIC to develop options for:

- Establishing a comprehensive program and performance measurement system that shows how Federal programs link to agency and Government-wide goals;
- Reforming program assessment and performance measurement processes to emphasize the reporting of performance trends, explanations for the trends, mitigation of implementation risks, and plans for improvement with accountable leads;
- Streamlining reporting requirements under GPRA and PART to reduce the burden on agencies and OMB;

¹ *Government Performance Lessons Learned for the Next Administration on Using Performance Information to Improve Results*, GAO-08-1026T, July 24, 2008, page 9.

- Improving the communication of performance results to Congress, the public, and other stakeholders through better data display in agency reports and the *ExpectMore.gov* website; and
- Launching a comprehensive research program to study the comparative effectiveness of different program strategies to ensure that programs achieve their ultimate desired outcomes.

II. Ensuring Responsible Spending of Recovery Act Funds

Passing the Recovery Act was an important step toward immediate economic recovery and the restoration of long-term fiscal stability. But for the Recovery Act to be effective, funds need to be spent quickly and wisely. The Administration is committed to investing Recovery Act dollars with an unprecedented level of transparency and accountability so Americans know where their tax dollars are going and how they are being spent.

The Administration has moved swiftly to implement processes necessary to oversee this massive effort. OMB guidance contains critical action steps that Federal agencies must take immediately to meet these objectives and to implement the Act effectively. The guidance calls on agencies to go beyond standard operating procedures and recognize the unusual nature of Recovery funds. For example, agencies are required to ensure that Recovery money is distinguished from other funding in their financial systems, grant and contract writing systems, and reporting systems. This allows for more efficient tracking of Recovery funds and a better evaluation of their impact.

Recovery Act planning and implementation requirements are intended to meet crucial accountability objectives to ensure:

- Funds are awarded and distributed in a prompt, fair, and reasonable manner;
- The recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner;
- Funds are used for authorized purposes and instances of fraud, waste, error, and abuse are mitigated;
- Projects funded under this Act avoid unnecessary delays and cost overruns; and
- Program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

III. Transforming the Federal Workforce

Government performance depends heavily on the quality of its workforce. Almost half of the Federal workforce is projected to retire during the coming decade. This retirement wave presents a challenge because the Government will be losing a lot of top talent, expertise, and institutional

memory. If the Government fails to recruit and retain new talent to critical management and mission-critical positions then it will be difficult for it to achieve key public objectives. However, the retirement wave also presents an opportunity to reform and reenergize the Federal workforce by re-evaluating what the workforce does and how it does it. It will provide an opportunity to transform the Government's workforce capacity to address 21st Century challenges by implementing 21st Century systems and processes to acquire, develop, engage, compensate, recognize, and effectively retain talented employees.

The Federal Government will hire several hundred thousand new civilian employees during the next four years. In filling these positions, it is essential to restore the prestige of public service and reform the recruitment process to improve targeting and outreach to talented Americans eager to serve.

The Federal hiring process also needs to be reformed. The current Federal hiring process is lengthy and encumbered by burdensome requirements and outdated technology systems. For example, the Department of Education's Office of Federal Student Aid (FSA), using information gathered through interviews with staff members, developed the detailed process map that reflected every activity, requirement and hand-off associated with FSA's hiring process. The map consisted of 114 discrete steps, and more than 45 hand-offs between managers, administrative officers, and human resources specialists. The Department has worked to streamline its process. Agencies need to develop strategic workforce plans, post brief, clear job announcements in plain language, provide timely notification to applicants on the status of their applications, and measure the average length of the hiring process along with the effectiveness of hiring efforts and reforms. The Office of Personnel Management will lead the retooling of the Federal hiring process.

Additionally, the Federal Government needs to make greater investments in its existing workforce, helping workers build skills and gain expertise to meet new challenges. Agencies need to increase and improve their training efforts, and implement plans to measure the effectiveness of their training investments. They should make greater use of management rotations both within and between agencies – following the lead of many private sector organizations which move top talent around early in their careers so that individuals have a wide range of experiences and skills before they reach top management roles. Agencies should also put a healthy leadership pipeline in place, identifying possible successors for mission critical positions several years before potential retirees leave Federal service. General Services Administration and Office of Personnel Management will work with other agencies to improve work-life issues for the Federal workforce.

Finally, agencies need to improve methods for evaluating employee performance, implementing mechanisms for rewarding both success and smart risk-taking for individuals as well as teams, and creating incentives to retain talented workers.

Transforming the Federal workforce is a critical component of enhanced public service for the Nation. Without a strong civil service, it will be impossible to achieve the high level of performance that the American people deserve.

IV. Managing Across Sectors

Governing effectively in the 21st Century involves managing public sector resources, acquiring needed resources from the private and nonprofit sectors, and collaborating across levels of government. The goal through all of these activities is to provide the highest level of government performance with the least cost to taxpayers. In the new management agenda, the focus will be on determining and then implementing government services in a manner that provides the best value for taxpayers.

V. Reforming Federal Contracting and Acquisition

Since 2001, spending on Federal contracts has more than doubled, reaching more than \$500 billion in 2008. During this same period, there has been a significant increase in the dollars awarded without full and open competition and an increase in the dollars obligated through cost-reimbursement contracts. Between fiscal years 2000 and 2008, for example, dollars obligated under cost-reimbursement contracts nearly doubled, from \$71 billion in 2000 to \$135 billion in 2008. Reversing these trends away from full and open competition and toward cost-reimbursement contracts could result in savings of billions of dollars each year for the American taxpayer.

When awarding contracts, the Federal Government must strive for an open and competitive process. However, executive agencies must have the flexibility to tailor contracts to carry out their missions and achieve the policy goals of the Government. In certain exigent circumstances, agencies may need to consider whether a competitive process will not accomplish the agency's mission. In such cases, the agency must make sure that the risks associated with noncompetitive contracts are minimized.

Moreover, it is essential that the Federal Government have the capacity to carry out robust and thorough management and oversight of its contracts in order to achieve programmatic goals, avoid significant overcharges, and curb wasteful spending.

Outsourcing for services raises special concerns. For decades, the Federal Government has relied on the private sector for core services used by the Government, such as transportation, food, and maintenance. OMB Circular A-76, first issued in 1966, was based on the reasonable premise that while inherently governmental activities should be performed by Government employees, taxpayers may receive more value for their dollars if non-inherently governmental activities that can be provided commercially are subject to the forces of competition.

However, the line between inherently governmental activities that should not be outsourced and commercial activities that may be subject to private-sector competition has been blurred and inadequately defined. As a result,

contractors may be performing inherently governmental functions or other critical functions that are more properly performed by Government. Agencies and departments must operate under clear rules prescribing when outsourcing is and is not appropriate.

On March 4, 2009, the President issued a memorandum on Government contracting that stated: "It is the policy of the Federal Government that executive agencies shall not engage in noncompetitive contracts except in those circumstances where their use can be fully justified and where appropriate safeguards have been put in place to protect the taxpayer. In addition, there shall be a preference for fixed-price type contracts. Cost-reimbursement contracts shall be used only when circumstances do not allow the agency to define its requirements sufficiently to allow for a fixed-price type contract. Moreover, the Federal Government shall ensure that taxpayer dollars are not spent on contracts that are wasteful, inefficient, subject to misuse, or otherwise not well designed to serve the Federal Government's needs and to manage the risk associated with the goods and services being procured. The Federal Government must have sufficient capacity to manage and oversee the contracting process from start to finish, so as to ensure that taxpayer funds are spent wisely and are not subject to excessive risk. Finally, the Federal Government must ensure that those functions that are inherently governmental in nature are performed by executive agencies and are not outsourced."

The memorandum instructs the Director of the OMB to work with other Administration officials to issue new guidance on: 1) reviewing contracts; 2) maximizing use of competitive procurement processes; 3) appropriate use of all contracts types; 4) assessing the capacity and ability of the Federal acquisition workforce to develop, manage, and oversee acquisitions appropriately; and 5) clarifying when outsourcing is and is not appropriate.

VI. Transparency, Technology, and Participatory Democracy

Transparency promotes accountability and provides information for citizens about what their Government is doing. Information maintained by the Federal Government is a national asset. The Administration will take appropriate action, consistent with law and policy, to disclose information rapidly in forms that the public can readily find and use. Executive departments and agencies should harness new technologies to publish online information about their operations and decisions in ways that are readily available to the public. Executive departments and agencies also should solicit public feedback to identify information of greatest use to the public.

Technology increasingly allows the Federal Government to provide citizens with improved access to information about the use of their tax dollars and with the opportunity to give feedback. The Administration will continue to innovate in providing better levels of transparency and openness, and in devising new tools to let citizens have their voices heard by those who serve them.

With citizens increasingly interacting with Government agencies through the Internet and agencies more reliant than ever on technology to drive their operations, it is critical that the Government manage its information technology program effectively and securely. This includes the

delivery of services efficiently while reducing redundancy and risk from outdated or overextended computer systems. It also means addressing complications such as privacy concerns that arise with new technologies.

CROSSCUTTING PROGRAMS

3. HOMELAND SECURITY FUNDING ANALYSIS

Section 889 of the Homeland Security Act of 2002 requires a homeland security funding analysis be incorporated in the President's Budget. This analysis addresses that legislative requirement, and covers the homeland security funding and activities of all Federal agencies, not only those carried out by 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. re-

sponse to natural disasters and Coast Guard search and rescue activities), DHS estimates in this section do not encompass the entire DHS budget.

In the coming months, future homeland security budgetary priorities will be informed by the comprehensive National Security Strategy of the Obama Administration, the Quadrennial Homeland Security Review and other related efforts. One principle that will remain constant

Table 3-1. HOMELAND SECURITY FUNDING BY AGENCY
(budget authority in millions of dollars)

Agency	2008 Enacted	2008 Supplemental/ Emergency	2009 Enacted	2009 Supplemental/ Emergency	2010 Request
Department of Agriculture	574.6	.....	507.1	.....	574.7
Department of Commerce	206.9	.....	258.1	12.9	267.5
Department of Defense	17,374.4	657.7	19,413.5	365.0	19,303.3
Department of Education	27.1	.....	31.8	.....	30.6
Department of Energy	1,827.3	.....	1,938.8	.....	2,007.5
Department of Health and Human Services	4,300.6	.....	4,626.8	50.0	4,839.8
Department of Homeland Security	29,755.8	2,730.0	34,350.9	2,509.1	34,731.5
Department of Housing and Urban Development	1.9	.....	4.8	.....	4.9
Department of the Interior	50.2	.....	52.7	.....	54.2
Department of Justice	3,277.5	250.0	3,641.3	46.7	3,973.9
Department of Labor	47.8	.....	48.5	.....	52.7
Department of State	1,719.1	.....	1,809.2	.....	1,767.8
Department of Transportation	205.3	.....	220.9	.....	247.9
Department of the Treasury	120.0	.....	133.7	.....	129.8
Department of Veterans Affairs	308.9	.....	304.6	.....	369.1
Corps of Engineers	42.0	.....	42.0	.....	43.0
Environmental Protection Agency	138.1	.....	157.0	.....	160.1
Executive Office of the President	21.0	.....	19.1	.....	17.0
General Services Administration	143.0	233.0	159.4	369.0	192.0
National Aeronautics and Space Administration	205.2	.....	221.8	.....	220.4
National Science Foundation	365.1	1.0	377.2	29.4	385.5
Office of Personnel Management	2.3	.....	1.9	.....	2.2
Social Security Administration	184.2	.....	214.6	.....	228.8
District of Columbia	3.4	.....	39.0	.....	15.0
Federal Communications Commission	2.3	.....	2.3	.....	3.0
Intelligence Community Management Account	122.0	.....	32.8	.....	15.5
National Archives and Records Administration	17.7	.....	20.7	.....	20.6
Nuclear Regulatory Commission	72.1	.....	72.8	.....	64.6
Securities and Exchange Commission	13.4	.....	14.0	.....	15.0
Smithsonian Institution	91.0	.....	92.3	.....	98.1
United States Holocaust Memorial Museum	8.0	.....	9.0	.....	9.0
Total, Homeland Security Budget Authority	61,227.8	3,871.6	68,818.5	3,382.1	69,845.0
Less Department of Defense	-17,374.4	-657.7	-19,413.5	-365.0	-19,303.3
Non-Defense Homeland Security BA, excluding BioShield	43,853.4	3,213.9	49,405.0	3,017.1	50,541.6
Less Fee-Funded Homeland Security Programs	-4,743.8	.....	-5,478.6	.....	-5,414.5
Less Mandatory Homeland Security Programs	-2,887.0	.....	-2,604.3	-7.9	-2,622.7
Net Non-Defense Discretionary Homeland Security BA, excluding BioShield	36,222.6	3,213.9	41,322.0	3,009.2	42,504.4
Plus BioShield .....	.....	.....	.....	.....	1,264.0
Net Non-Defense Discretionary Homeland Security BA, including BioShield	36,222.6	3,213.9	41,322.0	3,009.2	43,768.4

is that the President’s highest priority is to keep the American people safe.

Data Collection Methodology and Adjustments

The Federal spending estimates in this analysis utilize funding and programmatic information collected on the Executive Branch’s homeland security efforts. Throughout the budget formulation process, the Office of Management and Budget (OMB) collects three-year funding estimates and associated programmatic information from all Federal agencies with homeland security responsibilities. These estimates do not include the efforts of the Legislative or Judicial branches. Information in this chapter is augmented by a detailed appendix of account-level funding estimates, which is available on the *Analytical Perspectives* CD-ROM.

To compile this data, agencies report information using standardized definitions for homeland security.¹ 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

¹ Federal homeland security activities are currently defined by OMB in Circular A–11 as, “activities that focus on combating and protecting against terrorism, and that occur within the United States and its territories (this includes Critical Infrastructure Protection (CIP) and Continuity of Operations (COOP) data), or outside of the United States and its territories if they support domestically-based systems or activities (e.g., visa processing or pre-screening high-risk cargo at overseas ports). Such activities include efforts to detect, deter, protect against, and, if needed, respond to terrorist attacks.”

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 2010, the President’s Budget includes \$69.8 billion of gross budget authority for homeland security activities, a \$1.0 billion (1.5 percent) increase above the 2009 enacted level.² Excluding mandatory spending, fees, and the Department of Defense’s (DOD) homeland security budget, the 2010 Budget proposes a net, non-Defense, discretionary budget authority level of \$42.5 billion, which is an increase of \$1.2 billion (3 percent) above the 2009 level (see Table 3–1).

A total of 31 agency budgets include Federal homeland security funding in 2010. Five agencies—the Departments of Homeland Security, Defense, Health and Human Services (HHS), Justice (DOJ) and Energy (DOE)—account for approximately \$64.9 billion (93 percent) of total Government-wide gross discretionary homeland security funding in 2010.

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 ter-

² The 2010 gross homeland security funding request level excludes \$1.3 billion for BioShield.

Table 3–2. PREVENT AND DISRUPT TERRORIST ATTACKS
(budget authority in millions of dollars)

Agency	2008 Enacted	2008 Supplemental/ Emergency	2009 Enacted	2009 Supplemental/ Emergency	2010 Request
Department of Agriculture	265.1	.....	182.2	.....	206.8
Department of Commerce	3.6	.....	.....	.....	.....
Department of Energy .....	.....	.....	51.2	.....	50.7
Department of Homeland Security	22,254.7	2,670.0	25,575.6	1,799.1	27,550.0
Department of the Interior	0.2	.....	0.2	.....	0.2
Department of Justice	2,809.1	231.7	2,965.7	43.8	3,271.0
Department of Labor .....	.....	.....	0.4	.....	0.4
Department of State	1,659.3	.....	1,738.2	.....	1,686.3
Department of Transportation	38.3	.....	40.3	.....	58.5
Department of the Treasury	66.6	.....	76.2	.....	73.5
General Services Administration	115.0	225.0	110.0	300.0	151.0
Social Security Administration	0.2	.....	.....	.....	.....
Intelligence Community Management Account	76.4	.....	.....	.....	.....
Total, Prevent and Disrupt Terrorist Attacks	27,288.5	3,126.7	30,739.8	2,142.9	33,048.4

rorist 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 2010, funding for intelligence-and-warning is distributed between DHS (53 percent), primarily in the Office of Intelligence and Analysis; and DOJ (43 percent), primarily in the Federal Bureau of Investigation (FBI). The 2010 funding for intelligence and warning activities is 12 percent above the 2009 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 (\$24.6 billion, or 92 percent, in 2010) 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 Departments of State and Justice, also play a significant role. The President’s 2010 request would increase

funding for border and transportation security activities by 8 percent over the 2009 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: DOJ (largely for the FBI) and DHS (largely for ICE), account for 52 and 46 percent of funding for 2010, 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 incapacitation or destruction would have a debilitating effect on security, national economic 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

Table 3–3. PROTECT THE AMERICAN PEOPLE, OUR CRITICAL INFRASTRUCTURE, AND KEY RESOURCES
(budget authority in millions of dollars)

Agency	2008 Enacted	2008 Supplemental/ Emergency	2009 Enacted	2009 Supplemental/ Emergency	2010 Request
Department of Agriculture	255.3	.....	269.7	.....	310.5
Department of Commerce	157.2	.....	203.0	11.0	210.4
Department of Defense	16,881.1	657.7	18,852.7	365.0	18,759.7
Department of Energy	1,666.5	.....	1,721.5	.....	1,786.2
Department of Health and Human Services	2,200.7	.....	2,510.6	50.0	3,861.1
Department of Homeland Security	4,892.5	.....	5,360.9	500.0	3,970.5
Department of Justice	458.6	18.3	666.0	2.9	630.0
Department of Veterans Affairs	236.1	.....	228.2	.....	270.9
National Aeronautics and Space Administration	205.2	.....	221.8	.....	220.4
National Science Foundation	365.1	1.0	377.2	29.4	385.5
Social Security Administration	173.0	.....	213.4	.....	228.2
Other Agencies	681.3	8.0	734.8	69.0	746.9
Total, Protect the American People, Our Critical Infrastructure, and Key Resources	28,172.6	684.9	31,359.8	1,027.3	31,380.2

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: DOD (\$5.0 billion, or 56 percent, of the 2010 total); HHS, largely for research at the National Institutes of Health (NIH) and for advanced development of medical countermeasures (\$2.3 billion, or 26 percent, of the 2010 total); and DHS (\$1.5 billion, or 12 percent, of the 2010 total). The President's 2010 request maintains funding for activities to defend against catastrophic threats. In addition to the 2010 request, DHS will have access to 2009 resources for the deployment of new radiation portal monitor equipment at ports of entry once successful testing and evaluation is completed.

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 (85 percent) 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. DOD continues to report the largest share of funding in this category for 2010 (\$13.7 billion, or 60 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 prioritiz-

ing and executing infrastructure protection activities at the national level and accounts for \$4.5 billion (20 percent) of 2010 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 2010 request increases funding for activities to protect the Nation's people, critical infrastructure and key assets by \$20.3 million. Funding in fiscal year 2009 included a number of one-time non-recurring funding increases. When compared to 2008, the 2010 request represents a \$3.2 billion (11 percent) increase over the two-year period.

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 response 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 the 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

Table 3-4. RESPOND TO AND RECOVER FROM INCIDENTS FUNDING
(budget authority in millions of dollars)

Agency	2008 Enacted	2008 Supplemental/ Emergency	2009 Enacted	2009 Supplemental/ Emergency	2010 Request
Department of Agriculture	54.2	.....	55.2	.....	57.4
Department of Commerce	46.1	.....	51.3	.....	53.1
Department of Defense	493.3	.....	560.7	.....	543.6
Department of Education	0.6	.....	0.4	.....	0.4
Department of Energy	160.8	.....	166.2	.....	170.6
Department of Health and Human Services	2,099.9	.....	2,116.3	.....	2,242.7
Department of Homeland Security	2,425.4	60.0	3,210.0	210.0	2,980.6
Department of Housing and Urban Development	1.9	.....	4.8	.....	4.9
Department of the Interior	2.9	.....	3.7	.....	3.9
Department of Justice	9.8	.....	9.7	.....	8.8
Department of Labor	6.9	.....	14.8	.....	17.6
Department of State	12.3	.....	17.0	.....	24.3
Department of Transportation	17.7	.....	18.8	.....	19.3
Department of the Treasury	38.3	.....	40.1	.....	36.2
Department of Veterans Affairs	72.8	.....	76.4	.....	98.2
Environmental Protection Agency	58.2	.....	70.2	.....	70.6
Executive Office of the President	9.5	.....	8.4	.....	5.2
General Services Administration	3.0	.....	3.0	.....	3.0
Office of Personnel Management	1.7	.....	0.7	.....	0.8
Social Security Administration	11.0	.....	1.2	.....	0.6
District of Columbia	3.4	.....	39.0	.....	15.0
Federal Communications Commission	2.3	.....	2.3	.....	3.0
Intelligence Community Management Account	45.6	.....	32.8	.....	15.5
National Archives and Records Administration	1.1	.....	2.6	.....	1.7
Securities and Exchange Commission	2.1	.....	2.0	.....	2.0
Total, Respond To and Recover From Incidents	5,580.8	60.0	6,507.6	210.0	6,378.9

such as Hurricane Katrina and chemical or oil spills, do not directly fall within the definition of a homeland security activity for funding purposes, as defined by section 889 of the Homeland Security Act of 2002. 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: HHS (\$2.2 billion, or 35 percent, of the 2010 total); and DHS (\$3.0 billion, or 47 percent, of the 2010 total). Twenty-three other agencies include emergency preparedness and response funding. The President's 2010 request would decrease funding by \$128.7 million (2 percent) below the 2009 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.

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. 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 Expenditures³

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 additional spending has been of a one-time nature, such as investment in new security equipment and infrastructure; some additional 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.⁴ The survey's findings were based on the responses from 471 counties (15 percent) nationwide, out of 3,140 counties or equivalents.⁵

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.⁶ 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.⁷ 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.⁸ The report further states that from 2000 - 2007, these states and localities spent \$220 billion on homeland security activities, which includes increases of three to six percent a year for law enforcement and fire services budgets, and received over \$10 billion in federal grants. California, the most populous state, is also the largest recipient of federal homeland security funds, having received almost \$1.5 billion from 2000 - 2007, while spending over \$45 billion in State and local funding. Over the same time period, the top ten most populous states (including California) spent \$148 billion on state and local homeland security related activities.

⁴ Source: National Association of Counties, "Homeland Security Funding—2003 State Homeland Security Grants Programs I and II."

⁵ The National Association of Counties conducted a survey through its various state associations (48), responses were received from 471 counties in 26 states.

⁶ 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.

⁷ 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.

⁸ 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.

³ OMB does not collect detailed homeland security expenditure data from State, local, or private entities directly.

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, 2001.⁹ About 15 percent of the companies surveyed had increased their security spending by 20 percent or more.¹⁰ 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.¹¹ Given the difficulty of obtaining survey results that are representative of the universe of States, localities, and businesses, it is likely that there will be a wide range of estimates of non-Federal security spending for critical infrastructure protection.

Additional Tables

The tables in the Federal expenditures section above present data based on the President's policy for the 2010 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 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."

¹⁰ The Conference Board survey cites the sample size for this statistic was 192 corporate security directors.

¹¹ The Conference Board survey cites the sample size for this statistic was 199 corporate security directors.

Table 3-5. DISCRETIONARY FEE-FUNDED HOMELAND SECURITY ACTIVITIES BY AGENCY
(budget authority in millions of dollars)

Agency	2008 Enacted	2008 Supplemental/ Emergency	2009 Enacted	2009 Supplemental/ Emergency	2010 Request
Department of Energy	15.7	.....	15.7	.....	15.7
Department of Homeland Security	2,532.0	.....	3,411.0	.....	3,315.0
Department of State	1,636.5	.....	1,670.0	.....	1,653.0
General Services Administration	360.0	.....	151.0	.....	184.0
Social Security Administration	184.0	.....	214.6	.....	228.8
Federal Communications Commission	2.3	.....	2.3	.....	3.0
Securities and Exchange Commission	13.4	.....	14.0	.....	15.0
Total, Discretionary Homeland Security Fee-Funded Activities	4,743.8	.....	5,478.6	.....	5,414.5

Table 3-6. MANDATORY HOMELAND SECURITY FUNDING BY AGENCY
(budget authority in millions of dollars)

Agency	2008 Enacted	2008 Supplemental/ Emergency	2009 Enacted	2009 Supplemental/ Emergency	2010 Request
Department of Agriculture	220.1	.....	137.1	.....	162.6
Department of Commerce	19.4	.....	16.7	7.9	16.7
Department of Energy	13.0	.....	13.0	.....	13.0
Department of Health and Human Services	14.3	.....	14.4	.....	24.4
Department of Homeland Security	2,612.2	.....	2,415.1	.....	2,397.9
Department of Labor	8.0	.....	8.1	.....	8.1
Total, Homeland Security Mandatory Programs	2,887.0	.....	2,604.3	7.9	2,622.7

Table 3-7. BASELINE ESTIMATES -- TOTAL HOMELAND SECURITY FUNDING BY AGENCY
(budget authority in millions of dollars)

Agency	2009 Enacted	Baseline				
		2010	2011	2012	2013	2014
Department of Agriculture	507	538	557	575	598	619
Department of Commerce	259	263	268	272	278	286
Department of Defense	19,779	19,976	20,254	20,594	20,968	21,340
Department of Education	32	32	33	33	34	35
Department of Energy	1,939	1,960	1,988	2,024	2,063	2,102
Department of Health and Human Services	4,627	4,696	4,769	4,863	4,964	5,063
Department of Homeland Security	36,643	35,535	36,595	37,582	38,610	39,687
Department of Housing and Urban Development	5	5	5	5	5	5
Department of the Interior	52	53	54	57	59	61
Department of Justice	3,688	3,738	3,842	3,957	4,075	4,198
Department of Labor	48	48	49	50	51	51
Department of State	1,809	1,827	1,852	1,883	1,918	1,953
Department of Transportation	222	229	238	247	254	265
Department of the Treasury	134	137	140	145	149	153
Department of Veterans Affairs	305	309	316	321	330	338
Corps of Engineers	42	42	43	44	45	45
Environmental Protection Agency	158	161	163	168	170	175
Executive Office of the President	19	19	19	20	21	21
General Services Administration	159	160	163	165	168	171
National Aeronautics and Space Administration	221	223	226	230	234	237
National Science Foundation	406	410	415	423	430	438
Office of Personnel Management	2	2	2	2	2	2
Social Security Administration	215	229	231	234	236	238
District of Columbia	39	39	40	41	41	42
Federal Communications Commission	2	2	2	2	2	2
Intelligence Community Management Account	33	33	34	34	35	36
National Archives and Records Administration	21	21	22	22	22	23
Nuclear Regulatory Commission	73	74	77	78	80	83
Securities and Exchange Commission	14	14	14	15	15	15
Smithsonian Institution	93	96	100	105	108	112
United States Holocaust Memorial Museum	9	9	9	9	9	10
Total, Homeland Security Budget Authority	71,555	70,880	72,520	74,200	75,974	77,806
Less Department of	-19,779	-19,976	-20,254	-20,594	-20,968	-21,340
Non-Defense Homeland Security BA, excluding BioShield	51,776	50,904	52,266	53,606	55,006	56,466
Less Fee-Funded Homeland Security	-5,508	-5,542	-5,617	-5,713	-5,813	-5,916
Less Mandatory Homeland Security	-2,604	-2,623	-2,883	-2,987	-3,094	-3,208
Net Non-Defense, Discretionary Homeland Security BA, excluding BioShield	43,664	42,739	43,766	44,906	46,099	47,342
Plus BioShield .....	.....	1,264	.....	.....	.....	.....
Net Non-Defense, Discretionary Homeland Security BA, including BioShield	43,664	44,003	43,766	44,906	46,099	47,342
Obligations Limitations						
Department of Transportation Obligations Limitation	126	127	129	131	133	137

Table 3–8. HOMELAND SECURITY FUNDING BY BUDGET FUNCTION
(budget authority in millions of dollars)

Budget Function	2008 Actual	2009 Enacted	2010 Request
National Defense	22,111	24,387	24,340
International Affairs	1,720	1,809	1,768
General Science Space and Technology	1,323	1,508	1,513
Energy	125	137	127
Natural Resources and the Environment	279	332	323
Agriculture	543	475	542
Commerce and Housing Credit	159	178	203
Transportation	9,695	10,168	11,263
Community and Regional Development	3,506	4,231	3,657
Education, Training, Employment and Social Services	164	171	174
Health	4,320	6,399	4,550
Medicare	14	25	27
Income Security	11	14	14
Social Security	184	215	229
Veterans Benefits and Services	307	305	369
Administration of Justice	19,540	19,786	20,562
General Government	1,215	1,450	1,455
Total, Homeland Security Budget Authority	65,216	71,590	71,116
Less National Defense, DoD	-18,032	-19,779	-19,303
Non-Defense Homeland Security BA	47,184	51,811	51,813
Less Fee-Funded Homeland Security Programs	-4,729	-5,448	-5,383
Less Mandatory Homeland Security Programs	-2,960	-2,604	-2,623
Net Non-Defense, Discretionary Homeland Security BA	39,495	43,759	43,807

Table 3–9. BASELINE ESTIMATES—HOMELAND SECURITY FUNDING BY BUDGET FUNCTION
(budget authority in millions of dollars)

Budget Function	2009 Enacted	Baseline				
		2010	2011	2012	2013	2014
National Defense	24,387	24,616	24,987	25,434	25,922	26,408
International Affairs	1,809	1,827	1,852	1,883	1,918	1,953
General Science Space and Technology	1,508	1,523	1,544	1,570	1,598	1,626
Energy	137	138	141	143	146	150
Natural Resources and the Environment	332	337	342	352	358	368
Agriculture	475	506	524	541	563	584
Commerce and Housing Credit	178	181	184	188	192	196
Transportation	10,168	10,409	10,693	10,985	11,288	11,599
Community and Regional Development	4,231	4,274	4,340	4,416	4,494	4,578
Education, Training, Employment and Social Services	171	174	179	185	190	196
Health	6,399	4,705	4,778	4,873	4,974	5,073
Medicare	25	25	26	26	27	27
Income Security	14	14	15	15	15	15
Social Security	215	229	231	234	236	238
Veterans Benefits and Services	305	309	316	321	330	338
Administration of Justice	19,751	20,161	20,892	21,534	22,198	22,906
General Government	1,450	1,452	1,476	1,500	1,525	1,551
Total, Homeland Security Budget Authority	71,555	70,880	72,520	74,200	75,974	77,806
Less National Defense, DoD	-19,779	-19,976	-20,254	-20,594	-20,968	-21,340
Non-Defense, Discretionary Homeland Security BA, excluding Bioshield	51,776	50,904	52,266	53,606	55,006	56,466
Less Fee-Funded Homeland Security Programs	-5,508	-5,542	-5,617	-5,713	-5,813	-5,916
Less Mandatory Homeland Security Programs	-2,604	-2,623	-2,883	-2,987	-3,094	-3,208
Net Non-Defense, Discretionary Homeland Security BA, excluding Bioshield	43,664	42,739	43,766	44,906	46,099	47,342
Plus BioShield .....	.....	1,264	.....	.....	.....	.....
Net Non-Defense, Discretionary Homeland Security BA, including BioShield	43,664	44,003	43,766	44,906	46,099	47,342
Obligations Limitations						
Department of Transportation Obligations Limitation	126	127	129	131	133	137

4. STRENGTHENING FEDERAL STATISTICS

Federal statistical programs produce key information to inform public and private decision makers about a range of topics of interest, including the economy, the population, agriculture, crime, education, energy, the environment, health, science, and transportation. The ability of governments, businesses, and citizens 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 on alert for opportunities to improve these measures of our Nation's performance. For example, during 2008, Federal statistical agencies: (1) continued development of a health care satellite account that will provide a means to better measure the costs of various health treatments and the sources of changes in health care costs (Bureau of Economic Analysis); (2) released the first multiyear estimates from the 2005–2007 American Community Survey giving communities with populations between 20,000 and 65,000 their first statistical “portrait” since the 2000 census on a wide range of key socioeconomic and housing topics (Census Bureau); (3) published the first-ever estimates of both workplace injury and illness rates by occupation, gender, and age category and labor force estimates for persons with disabilities (Bureau of Labor Statistics); (4) developed a new Business R&D and Innovation Survey that provides the first nationally representative U.S. business data on innovation activities (Division of Science Resources Statistics/National Science Foundation); (5) fully deployed new electronic reporting software with improved functionality, usability, and performance that helped increase the percentage of establishments reporting electronically to 28.6 for the 2007 Census, compared to 10.1 in 2002 (Census Bureau); (6) provided estimates of the macroeconomic impact of increasing food assistance program benefits to the Secretary of Agriculture and the Congress during the development of the recent economic stimulus legislation (Economic Research Service); (7) completed a business process analysis of statistical publications in preparation for tabulating and disseminating data from the Social Security Administration's (SSA's) major administrative data files (Office of Research, Evaluation, and Statistics, SSA); (8) released the 2007 Census of Agriculture providing a comprehensive summary of the number of farms by size and type, inventory and values for crops and livestock, and operator characteristics (National Agricultural Statistics Service); (9) published 2008 preliminary estimates of electronic medical record use by office-based physicians (National Center for Health Statistics); and (10) completed the revised structure of the Standard Occupational Classification for 2010 (the

interagency Standard Occupational Classification Policy Committee, chaired by the Bureau of Labor Statistics).

For Federal statistical programs to effectively benefit their wide range of users, the underlying data systems must be credible. In order 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 and private 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' 2010 budget proposals.

Highlights of 2010 Program Budget Proposals

The programs that provide essential statistical information for use by governments, businesses, researchers, and the public are carried out by more than 80 agencies spread across every department and several independent agencies. Excluding cyclical funding for the Decennial Census, nearly 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 4–1.) The remaining funding supports work in more than 70 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 will be available in OMB's annual report, *Statistical Programs of the United States Government, Fiscal Year 2010*, when it is published later this year. The following highlights elaborate on the Administration's proposals to support the programs of the principal Federal statistical agencies.

Bureau of Economic Analysis (BEA): Funding is requested to continue BEA's core programs, and to: (1) expand BEA's internal research capacity to allow quick response and adaptation to current and future changes in the rapidly evolving service sector (which includes finance, insurance, and real estate), where once tolerable gaps in data now pose significant risks to the Nation's economic indicators; (2) invest in the personnel, data, and information technology required to produce new and expanded GDP-related statistics that uniquely measure the role of innovation, retirement income developments, and energy price pressures on U.S. economic growth as part of an ongoing plan to produce a comprehensive set of real time statistics that are relevant to the most pressing issues facing policy makers today; and (3) reexamine and

redesign surveys of multi-national corporations to maximize their efficiency and improve their usefulness in addressing current needs while restoring the coverage and detail of multi-national corporation data that BEA had collected until 2008 budget constraints required programmatic cuts.

Bureau of Justice Statistics (BJS): Funding is requested for the improvement of BJS' criminal victimization statistics derived from the National Crime Victimization Survey (NCVS), and maintenance of BJS' other core statistical programs, including: (1) cybercrime data on the incidence, magnitude, and consequences to households and businesses of electronic and computer crime; (2) law enforcement data from more than 3,000 local agencies on the organization and administration of police and sheriffs' departments; (3) nationally representative prosecution data on resources, policies, and practices of local prosecutors; (4) court and sentencing statistics, including Federal and State case processing data; and (5) data on correctional populations and facilities from Federal, State, and local governments, including information about prisoner re-entry and recidivism. Within funds sought for the NCVS, BJS will also seek to improve the usefulness of the survey by addressing recommendations of the 2008 National Research Council report, *Surveying Victims: Options for Conducting the National Crime Victimization Survey*.

Bureau of Labor Statistics (BLS): Funding is requested to support ongoing BLS programs to measure the economy, and to: (1) continue the process, begun in 2009, of updating continuously the housing and geographic area samples in the Consumer Price Index (CPI), which will improve the accuracy and timeliness of the CPI; (2) complete the modernization of the computing systems for monthly processing of the Producer Price Index and U.S. Import and Export Price Indexes, which will stabilize the operating environment; (3) publish the first national Survey of Occupational Injuries and Illnesses' estimates of workplace injuries and illnesses incurred by State and local government workers; and (4) begin development of a new data series on "green-collar" jobs that will measure employment and wages for businesses whose primary activities can be defined as "green," and produce information on the occupations involved, in whole or in part, in green economic activities.

Bureau of Transportation Statistics (BTS): Funding is requested to support the development and improvement of transportation system performance measures and for the maintenance of BTS' core statistical programs, including: (1) production of the improved final data products from the Commodity Flow Survey; (2) improvement of the National Census of Ferry Operators used to allocate resources for ferry operations and infrastructure; (3) production of transportation data for enhancing livable communities; (4) release of monthly statistics on the commodities and modes of transportation used in international trade with the United States' major trading part-

ners; (5) production of a core set of transportation performance indicators including the Transportation Services Index; and (6) collection, analysis, and dissemination of airline performance data.

Census Bureau: Funding is requested for the Census Bureau's ongoing economic and demographic programs and for a re-engineered 2010 Census. For the 2010 Census program, funding is requested to conduct the enumeration of the population. Specifically, in 2010 the Census Bureau will carry out the major 2010 Census operations, including mail out, receipt, and processing of returned census forms, and visit households that do not return a census form to collect the necessary information. Other major operations include Group Quarters Enumeration, Update/Leave Final Address Review, Update/Enumerate (in which enumerators both update their address registers and census maps and enumerate the housing unit in a single visit), Military Enumeration, conducting census operations in Puerto Rico and the Island Areas, and numerous other operations. The Census Bureau will also conduct coverage follow-up operations and coverage measurement field operations. The Census Bureau will continue to support these operations through a network of 494 local census offices, 12 regional census centers, a Puerto Rico Area Office, as well as at headquarters. In addition, the Census Bureau will continue data collection for the American Community Survey, and reinstate the Community Address Updating System. For the Census Bureau's other economic and demographic programs, funding is requested to: (1) continue to release data for the 2007 Economic Census and conduct more than 100 annual, quarterly, and monthly surveys that provide key national economic statistics; (2) begin planning for the 2012 Census of Governments; (3) operate the Survey of Income and Program Participation at the traditional sample size and incorporate improvements; and (4) expand the Local Employment Dynamics program, which develops new information about local labor market conditions at low cost, with no added respondent burden.

Economic Research Service (ERS): Funding is requested to continue ERS' core programs, and to support research to develop analytical tools and assessments of the economic implications of how environmental services markets are designed. Given that agriculture plays a major role in domestic cap-and-trade proposals for addressing climate change, the research will emphasize design elements of carbon offset markets that will permit capture of key policy variables critical to providing appropriate guidance for policy makers.

Energy Information Administration (EIA): Funding is requested to: (1) maintain critical energy data coverage, analysis, and forecasting operations; (2) improve energy end use and efficiency data by increasing the sample size and scope of data collected for the Residential Buildings Energy Consumption Survey and the Commercial Buildings Energy Consumption Survey; (3) address energy data scope and quality issues including

collecting export data for products such as diesel; improving the quality, timeliness, and access to integrated State Energy Data products; improving the accuracy/timeliness of data on U.S. oil production; providing analyses of refineries; and improving electricity data by restoring the *Annual Electric Industry Financial Report* (EIA-412); (4) address the role and impact of financial markets on short-term energy prices and price volatility; (5) incorporate ethanol and other biofuels into EIA's monthly and weekly liquid fuel balances; and (6) continue development and testing of the next generation 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.

National Agricultural Statistics Service (NASS): Funding is requested to continue NASS' core programs, and to: (1) complete reinstatement of the NASS Chemical Use Program (Fruit Chemical Use was reinstated in 2009); and (2) provide a data series on bio-energy production and utilization. Within the currently available Census of Agriculture funding, NASS will be able to conduct the Census of Horticulture Specialties follow-on study that will provide more in-depth information on the horticulture industry than is available from the quinquennial Census of Agriculture.

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 2010 national U.S. history, civics, and geography assessments at grades 4, 8, and 12; analysis of a 2009 high school transcript study; and preparation for 2011 Trial Urban District Assessments in 17 districts; (2) continue a new teacher longitudinal study to follow teachers who were in the 2007–2008 Schools and Staffing Survey as first-year teachers; (3) provide technical assistance to State education agencies to improve the use of State longitudinal data systems; (4) prepare for the Programme for the International Assessment of Adult Competencies, an international assessment scheduled for 2011; (5) support future data collections examining participation of preschool children in nonparental education and care arrangements, and (6) provide State-level data for a small number of States for the Early Childhood Longitudinal Study, Kindergarten Class of 2010–2011.

National Center for Health Statistics (NCHS): Funding is requested to continue data collection, analysis, and dissemination activities for key national health data systems, including the National Vital Statistics System, National Health Interview Survey, National Health and Nutrition Examination Survey (NHANES), and National Health Care Surveys, and to: (1) continue providing timely, accurate estimates of high-priority health measures; (2) enhance the quality and usability of data access tools through improved tutorials; (3) use birth and death data collected by the States for tracking priority health initia-

tives in prevention, cancer control, out-of-wedlock births, and teenage pregnancy; (4) continue providing NHANES data on diet and nutrition, blood pressure, chronic diseases, and other health indicators; and (5) provide information annually on the health status of the U.S. civilian non-institutionalized population through confidential household interviews conducted by the National Health Interview Survey.

Office of Research, Evaluation, and Statistics (ORES), SSA: Funding is requested to continue ORES' core programs, and to: (1) further modernize ORES' processes for developing and disseminating data from SSA's major administrative data files for statistical purposes; (2) support outside surveys and linkage of SSA administrative data to surveys; (3) create a new public use file of administrative data on earnings histories and benefits for a sample of Social Security Numbers; (4) strengthen microsimulation models that estimate the distributional effects of alternative Social Security programs; (5) begin development of a topical module for the redesign of the Survey of Income and Program Participation (SIPP) to address Social Security's data needs for microsimulation models, program evaluation, and analysis; and (6) evaluate data from the 1990–1993 and 1996 SIPP panels matched to SSA and IRS administrative data.

Science Resources Statistics Division (SRS), NSF: Funding is requested to implement ongoing programs on the science and engineering enterprise, and to: (1) continue redesign and improvement activities for a broad range of surveys, particularly the 2010 sample frame redesign for the National Survey of College Graduates and the suite of research and development surveys; (2) support the Science of Science and Innovation Policy program's efforts to develop the data, tools, and knowledge needed for a new science of science policy by enhancing the comparability, scope, and availability of international data; (3) develop a pilot data collection on postdocs based on feasibility activities in 2006–2009; (4) develop an innovation module for the Higher Education Research and Development survey; and (5) continue development work on the Microbusiness R&D and Innovation survey.

Statistics of Income Division (SOI), IRS: Funding is requested to continue SOI's core programs, and to: (1) continue to modernize tax data collection systems, particularly to more efficiently assimilate into SOI systems data captured from the electronic filing of tax and information returns; (2) examine means to better mask individual records to minimize the risk of reidentification in the Individual Public Use cross-section file; (3) undertake a feasibility study to develop an Individual Public Use panel data file; (4) develop statistical techniques to identify outliers and edit data in IRS administrative population files; and (5) develop a process for providing relevant statistics needed for the tax-related provisions of the American Recovery and Reinvestment Act of 2009.

Table 4–1. 2008–2010 BUDGET AUTHORITY FOR PRINCIPAL STATISTICAL AGENCIES¹
(in millions of dollars)

	2008 Actual	Estimate	
		2009	2010
Bureau of Economic Analysis	78	87	99
Bureau of Justice Statistics ²	41	52	67
Bureau of Labor Statistics	544	597	611
Bureau of Transportation Statistics	27	27	28
Census Bureau ³	1,467	4,169	7,405
Salaries and Expenses ³	233	264	289
Periodic Censuses and Programs	1,234	3,905	7,116
Economic Research Service	77	80	82
Energy Information Administration	95	111	133
National Agricultural Statistics Service ⁴	162	152	162
National Center for Education Statistics ⁵	208	254	265
Statistics ⁵	104	115	126
Assessment	98	130	130
National Assessment Governing Board	6	9	9
National Center for Health Statistics ⁶	114	125	138
Office of Research, Evaluation, and Statistics, SSA	26	29	26
Science Resources Statistics Division, NSF	36	45	41
Statistics of Income Division, IRS	36	42	43

¹ Reflects any cancellations.

² Includes funds for management and administrative costs of \$6, \$7, and \$7 million in 2008, 2009, 2010, respectively that were previously displayed separately.

³ Salaries and Expenses funds include discretionary and mandatory funds. For the Periodic Censuses and Programs account, the 2008 actual includes \$207 million in supplemental funds and 2009 includes \$1 billion in American Recovery and Reinvestment Act funding.

⁴ Includes funds for the periodic Census of Agriculture of \$52, \$37, and \$37 million in 2008, 2009, and 2010 respectively. 2008 was the peak year of funding for the 2007 Census of Agriculture data collection and processing. 2009 funding was used to summarize and publish the 2007 Census of Agriculture, as well as conduct a follow-on study on Farm and Ranch Irrigation. 2010 funding will be used to continue planned follow-on studies and preparations for the 2012 Census of Agriculture.

⁵ Includes funds for salaries and expenses of \$16, \$16, and \$17 million in 2008, 2009, and 2010, 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 Systems which is funded at \$48, \$65 plus \$250, and \$65 million in 2008, 2009, and 2010, 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.

5. RESEARCH AND DEVELOPMENT

In the past, Federal funding for scientific research has yielded innovations that have improved the landscape of American life—technologies like the Internet, digital photography, bar codes, Global Positioning System technology, laser surgery, and chemotherapy. Today, the United States faces a new set of challenges, and science and technology can be a powerful ally in addressing them.

The President's 2010 Budget proposes \$148 billion for Federal research and development (R&D). This investment reinforces the Administration's commitment to science, technology, and innovation that will help the country make progress toward national goals of a prosperous economy, a clean energy future, a healthy American people, and a safe and secure Nation.

Already in this Administration, the President has signed into law the 2009 Omnibus Appropriations Act (P.L. 111-8) and the American Recovery and Reinvestment Act

(P.L. 111-5). Both boosted the budgets of key science agencies not only for their potential contributions to economic recovery, but also because science and technology can help reorient the U.S. economy through strategic investments in clean energy, broadband communications, health care information technology, and education. These laws are critical down payments in doubling Federal investments in key science agencies, meeting a commitment to invest \$150 billion during the next 10 years in a clean energy future, and restoring America's capabilities for understanding the dimensions of climate change. The 2010 Budget builds on these early accomplishments with continued investments in R&D.

In general, the Budget's priorities align with the conclusions in the report from the National Science and Technology Summit held in August 2008.

I. PRIORITIES FOR FEDERAL RESEARCH AND DEVELOPMENT

The Budget provides support for promising, but exploratory and high-risk, research proposals that could fundamentally improve our understanding of nature, revolutionize fields of science, and lead to radically new technologies.

Investing in the Sciences for a Prosperous America

Federally supported basic research, aimed at understanding many features of nature—from the size of the universe to the nature of subatomic particles, from the chemical reactions that support a living cell to interactions that sustain ecosystems—has been an essential feature of American life and helped to drive our economic success for over 50 years. While the outcomes of specific projects are never predictable, basic research has been a reliable source of new knowledge that has fueled important developments in fields ranging from telecommunications to medicine, yielding positive rates of economic return and creating entirely new industries with high-tech, high-wage jobs.

The President plans to double Federal investment for basic research in key agencies, the National Science Foundation (NSF), the Department of Energy's (DOE's) Office of Science, and the laboratories of the Department of Commerce's (DOC's) National Institute of Standards and Technology, building on down payments in the Recovery Act.

The Budget proposes \$12.6 billion in 2010 for these three agencies. This level is an increase of 6-percent above the 2009 enacted level of \$11.9 billion, which itself was an

11-percent increase from the 2008 enacted level of \$10.7 billion. The Recovery Act provided an additional \$5.2 billion for these agencies. These increases in research funding will help the United States to remain prosperous.

To increase the impacts of these investments, the 2010 Budget also emphasizes support for researchers at the beginning of their careers to sustain and expand the Nation's scientific and technical workforce, including a plan to triple the number of NSF's Graduate Research Fellowships by 2013.

A Clean Energy Future

The Administration envisions a United States that can lead the world in the research, development, demonstration and deployment of clean energy technology. Investments in clean energy R&D will drive a new energy economy that reduces dependence on oil, creates green jobs, and reduces the impact of climate change.

The 2010 Budget builds upon substantial clean energy R&D investments in the Recovery Act to forge a comprehensive approach to transforming our energy supply and slowing global climate change through cutting-edge science and technology. R&D funding will support renewable energy and energy efficiency technologies such as advanced batteries, solid-state lighting, solar, biomass, geothermal, and wind power. The 2010 Budget also supports the development and testing of carbon capture and storage technologies that could reduce carbon emissions from the use of fossil fuels and basic research to support transformational discoveries and accelerate solutions in the development of clean energy.

R&D Funding in the American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (P.L. 111-5) provided Federal R&D funding to spur new discoveries in energy, medicine, climate and technologies for the future.

Within the Department of Health and Human Services, the National Institutes of Health (NIH) received more than \$10 billion for basic biomedical research and laboratory renovation and construction. In addition, \$1 billion was included for comparative effectiveness research at NIH and the Agency for Healthcare Research and Quality.

The Recovery Act included a \$5.2 billion investment in key science agencies, including: \$3 billion at NSF for basic research, education and human resources, research facilities construction, and research instrumentation; \$1.6 billion at DOE's Office of Science for energy frontier research collaborations, and infrastructure improvements at the national laboratories; and \$580 million at DOC's National Institute of Standards and Technology (NIST) for standards research, advanced measurement equipment, and construction of NIST research facilities. This investment by itself is an almost 50-percent increase for these programs over the 2008 enacted level and represents a significant down payment toward the President's plan to double the funding for basic research in these agencies.

The National Aeronautics and Space Administration received \$1 billion for activities such as acceleration of earth science climate research missions, and development of the next generation air transportation system. The National Oceanic and Atmospheric Administration received \$170 million for climate modeling, and \$660 million that includes support for maintenance and construction of research vessels and facilities. The U.S. Geological Survey received \$140 million for facility renovation and construction and for seismic and volcanic monitoring systems.

Healthy Lives for All Americans

Federal R&D investments in health result in knowledge and technologies that promote longer, healthier lives for all Americans. The Administration is committed to funding biomedical and health research and to policies to increase the impact of these investments on health outcomes. The 2010 Budget will emphasize research to promote healthy living and disease prevention.

The 2010 Budget proposes \$30.8 billion for NIH, an increase of \$443 million above the 2009 enacted level of nearly \$30.4 billion. This level includes more than \$6 billion to support cancer research, which is central to the President's multi-year plan to double this area of research.

A Safe and Secure America

New developments in science and technology offer hope of predicting and preventing destabilizing or paralyzing natural and manmade threats, as well as minimizing their impacts and recovering from them as quickly as possible.

The 2010 Budget sustains the Department of Defense's (DOD's) critical role in supporting technological advances with \$3.2 billion for the Defense Advanced Research Projects Agency for its support of longer-term breakthrough research. The Budget also proposes \$1.8 billion for DOD basic research, within a total DOD R&D investment of \$79.7 billion. The Budget maintains scientific and technological preeminence for our Armed Forces.

The Budget accelerates the development of new medicines, vaccines, and production capabilities for biodefense by investing in countermeasures development. The Budget also invests in the technological capabilities necessary to monitor nuclear nonproliferation compliance and to prevent weapons of mass destruction from entering the country.

The Budget also invests in the science and technology needed to combat natural and manmade threats to our Nation's food supply, including \$132 million in the U.S. Department of Agriculture for research associated with the safety of the U.S. food supply.

II. FEDERAL R&D DATA

R&D is the collection of efforts directed towards 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

Basic research is systematic study directed toward a fuller knowledge or understanding of the fundamen-

tal 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.

There are more than 20 Federal agencies that 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 5-1 shows agency-by-agency spending on basic and applied research, development, and R&D equipment and facilities.

III. MULTI-AGENCY R&D ACTIVITIES

A number of research investments are being addressed through multi-agency research activities coordinated through the National Science and Technology Council (NSTC) and other interagency forums. Many of the challenges simply cannot be addressed by a single agency.

Moreover, innovation often arises from combining the tools, techniques, and insights from multiple agencies. Table 5-2 shows details of three such interagency efforts: networking and information technology R&D, nanotechnology R&D, and climate change R&D.

Networking and Information Technology R&D: The Budget provides \$3.9 billion for the multi-agency Networking and Information Technology Research and Development (NITRD) Program, which plans and coordinates agency research efforts in cyber security, high-end computing systems, advanced networking, software development, high-confidence systems, information management, and other information technologies. In 2008, the NITRD agencies addressed the recommendations contained in the President's Council of Advisors on Science and Technology NITRD Program Review by establishing a robust strategic planning activity scheduled to conclude in 2009. The NITRD Subcommittee also published the Federal Plan for Advanced Networking R&D in 2008, and has continued to address cyber security research under the R&D-related components of the Comprehensive National Cyber Security Initiative.

The 2010 Budget retains the important focus on investment in high-end computing research for both national security and large-scale scientific applications, particularly in advanced scalable simulations. The 2010 Budget also emphasizes 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. Reports and general information about NITRD are available at www.nitrd.gov/.

Nanotechnology R&D: The Budget provides \$1.6 billion for the multi-agency National Nanotechnology Initiative (NNI). The 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). The results of NNI-supported R&D can enable breakthroughs in biomedical detection and treatment, manufacturing at

or near the nanoscale, environmental monitoring and protection, energy conversion and storage, and more powerful electronic devices, among many others.

Guided by the NNI Strategic Plan, 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. Reports and general information about the NNI are available at www.nano.gov/.

Climate Change R&D: The U.S. Climate Change Science Program (CCSP) coordinates climate research among the 13 departments and agencies that participate in the CCSP. The 2010 Budget supports research activities including the development of an integrated earth system analysis capability; a focus toward creating a high-quality record of the state of the atmosphere and ocean since 1979; development of an end-to-end hydrologic projection and application capability; enhanced carbon cycle research on high latitude systems; quantification of climate forcing and feedbacks by aerosols, non-carbon dioxide greenhouse gases, water vapor, and clouds; assessment of abrupt change in a warming climate; examination of the feasibility of development of an abrupt change early warning system; understanding climate change impacts on ecosystem functions; and refining ecological forecasting. Reports and general information about the CCSP are available on the program's website: www.climate-science.gov/.

The Climate Change Technology Program (CCTP) provides strategic direction, planning, and analysis to help coordinate and prioritize activities within the portfolio of federally funded climate change technology R&D. Reports and general information about the CCTP are available on the program's website: www.climate-technology.gov/.

Table 5-1. FEDERAL RESEARCH AND DEVELOPMENT SPENDING
(Budget authority, dollar amounts in millions)

	2008 Actual	2009 Estimate ¹	2010 Proposed
By Agency			
Defense	80,278	81,916	79,687
Health and Human Services	29,265	41,518	30,936
NASA	11,182	11,326	11,439
Energy	9,807	13,067	10,740
National Science Foundation	4,580	7,757	5,312
Agriculture	2,336	2,597	2,272
Commerce	1,160	1,703	1,330
Veterans Affairs	960	1,020	1,160
Homeland Security	995	1,096	1,125
Transportation	875	913	939
Interior	683	766	730
Environmental Protection Agency	551	580	619
Other	1,074	1,141	1,331
TOTAL	143,746	165,400	147,620
Basic Research			
Defense	1,599	1,825	1,796
Health and Human Services	15,739	25,035	16,739
NASA	2,182	1,844	1,891
Energy	3,461	4,425	3,813
National Science Foundation	3,704	6,045	4,477
Agriculture	879	888	903
Commerce	98	147	125
Veterans Affairs	384	408	464
Homeland Security	247	268	222
Transportation	0	0	0
Interior	43	47	51
Environmental Protection Agency	95	125	164
Other	182	189	239
SUBTOTAL	28,613	41,246	30,884
Applied Research			
Defense	4,855	5,174	4,236
Health and Human Services	13,349	14,813	14,027
NASA	561	1,044	937
Energy	3,180	3,810	3,093
National Science Foundation	420	400	423
Agriculture	1,146	1,221	1,130
Commerce	835	986	895
Veterans Affairs	520	552	628
Homeland Security	382	413	476
Transportation	667	672	694
Interior	554	644	607
Environmental Protection Agency	377	370	370
Other	567	587	623
SUBTOTAL	27,413	30,686	28,139
Development			
Defense	73,615	74,714	73,603
Health and Human Services	20	20	20
NASA	6,090	6,244	6,246
Energy	2,281	2,945	2,614
National Science Foundation	0	0	0
Agriculture	158	165	189
Commerce	70	83	97
Veterans Affairs	56	60	68
Homeland Security	366	415	427
Transportation	189	220	223
Interior	62	67	70
Environmental Protection Agency	79	85	85
Other	268	277	412
SUBTOTAL	83,254	85,295	84,054

Table 5-1. FEDERAL RESEARCH AND DEVELOPMENT SPENDING —Continued
(Budget authority, dollar amounts in millions)

	2008 Actual	2009 Estimate ¹	2010 Proposed
Facilities and Equipment			
Defense	209	203	52
Health and Human Services	157	1,650	150
NASA	2,349	2,194	2,365
Energy	885	1,887	1,220
National Science Foundation	456	1,312	412
Agriculture	153	323	50
Commerce	157	487	213
Veterans Affairs	0	0	0
Homeland Security	0	0	0
Transportation	19	21	22
Interior	24	8	2
Environmental Protection Agency	0	0	0
Other	57	88	57
SUBTOTAL	4,466	8,173	4,543

¹Amounts for 2009 include funding from P.L. 111-5, the American Recovery and Reinvestment Act of 2009.

Table 5-2. AGENCY DETAIL OF SELECTED INTERAGENCY R&D EFFORTS
(Budget authority, dollar amounts in millions)

	2008 Actual	2009 Estimate ¹	2010 Proposed
Networking and Information Technology R&D			
Defense	1,096	1,281	1,141
National Science Foundation	947	1,344	1,111
Health and Human Services ²	956	981	995
Energy	409	595	485
Commerce	84	291	111
National Aeronautics and Space Administration	69	87	73
Environmental Protection Agency	6	6	6
National Archives and Records Administration	5	5	5
TOTAL	3,572	4,590	3,927
National Nanotechnology Initiative			
National Science Foundation	409	505	423
Defense	460	464	379
Energy	240	357	347
Health and Human Services ³	311	319	338
Commerce (NIST)	86	96	92
Environmental Protection Agency	12	16	18
National Aeronautics and Space Administration	17	17	17
Homeland Security	3	8	12
Agriculture	10	9	8
Transportation	1	3	3
TOTAL	1,549	1,794	1,637
Climate Change Science Program			
National Aeronautics and Space Administration	1,084	1,323	1,071
National Science Foundation	207	315	300
Commerce	272	422	297
Energy	128	233	165
Interior (USGS)	34	45	63
Agriculture	65	56	59
U.S. Agency for International Development	14	17	36
Environmental Protection Agency	17	18	21
Smithsonian Institution	6	6	7
National Institutes of Health	4	4	4
Transportation	1	2	3
TOTAL	1,832	2,441	2,026

¹ Amounts for 2009 include funding from P.L. 111-5, the American Recovery and Reinvestment Act of 2009.

² Includes funds from offsetting collections for the Agency for Healthcare Research and Quality.

³ Includes funds from both NIH and the National Institute of Occupational Safety and Health.

6. FEDERAL INVESTMENT

Investment spending is spending that yields long-term benefits. Its purpose may be to improve the efficiency of internal Federal agency operations or to increase the Nation's overall stock of capital for economic growth. The spending can take the form of direct Federal spending or of grants to State and local governments. It can be for physical capital, which yields a stream of services over a period of years, or for research and development or education and training, which are intangible but also increase income in the future or provide other long-term benefits.

Most presentations in the Federal budget combine investment spending with spending for current use. This chapter focuses solely on Federal and federally financed investment.

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

For almost sixty years, the Federal budget has included a chapter on Federal investment—defined as those outlays that yield long-term benefits—separately from outlays for current use. In recent years the discussion of the composition of investment has displayed estimates of budget authority as well as outlays.

The classification of spending between investment and current outlays is a matter of judgment. The budget has historically employed a relatively broad classification, 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 or education, and all other investments, called “direct Federal programs” in this analysis. This “direct Federal” category consists primarily of spending for assets owned by the Federal Government, such as defense weapons systems and general purpose office 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.

Presentations for particular purposes could adopt different definitions of investment:

- To suit the purposes of a traditional balance sheet, investment might include 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.

- Concern with 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.
- A “social investment” perspective might 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.

The relatively broad 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 6–2 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 involving the treatment of grants to State and local governments and the classification of spending that could be shown in more than one category.

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 in the category where the recipient jurisdictions are expected to spend most 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 in the category that is most commonly recognized as investment. Consequently, outlays for the conduct of research and development do not include outlays for research facilities, because these outlays are included in the category for physical investment. Similarly, spending for physical investment and research and development related to education and training is included in the categories of physical assets and the conduct of research and development.

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 Chapter 7, "Credit and Insurance," 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 6–1. They include major public physical investment, the conduct of research and development, and the conduct of education and training. Defense and nondefense investment outlays were \$459.7 billion in 2008. They are estimated to increase to \$522.5 billion in 2009 and \$596.3 billion in 2010. Roughly 15 percent of investment outlays in 2010 are due to P.L. 111-5, the American Recovery and Reinvestment Act of 2009 (Recovery Act).

Major Federal investment outlays will comprise an estimated 16.6 percent of total Federal outlays in 2010 and 4.0 percent of the Nation's gross domestic product. Greater detail on Federal investment is available in Table 6–2 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 \$307.7 billion in 2010. Physical investment outlays are for construc-

TABLE 6–1. COMPOSITION OF FEDERAL INVESTMENT OUTLAYS
(In billions of dollars)

Federal Investment	Actual	Estimate	
	2008	2009	2010
Major public physical capital investment:			
Direct Federal:			
National defense	126.3	155.7	156.6
Nondefense	34.8	53.9	50.6
Subtotal, direct major public physical capital investment	161.1	209.5	207.2
Grants to State and local governments	72.7	88.3	100.5
Subtotal, major public physical capital investment	233.8	297.8	307.7
Conduct of research and development:			
National defense	79.6	82.3	83.5
Nondefense	55.3	62.2	65.7
Subtotal, conduct of research and development	134.9	144.5	149.3
Conduct of education and training:			
Grants to State and local governments	54.6	65.3	98.6
Direct Federal	36.4	14.9	40.7
Subtotal, conduct of education and training	91.0	80.2	139.3
Total, major Federal investment outlays	459.7	522.5	596.3
MEMORANDUM			
Major Federal investment outlays:			
National defense	205.9	237.9	240.2
Nondefense	253.8	284.5	356.2
Total, major Federal investment outlays	459.7	522.5	596.3
Miscellaneous physical investment:			
Commodity inventories	-0.1	0.2	—*
Other physical investment (direct)	3.0	7.2	4.8
Total, miscellaneous physical investment	2.9	7.4	4.7
Total, Federal investment outlays, including miscellaneous physical investment	462.6	529.8	601.1

* \$50 million or less.

tion 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 \$156.6 billion in 2010. Almost all of these outlays, or an estimated \$140.7 billion, are for the procurement of weapons and other defense equipment, and the remainder is primarily for construction on military bases, family housing for military personnel, and Department of Energy defense facilities.

Outlays for direct physical investment for nondefense purposes are estimated to be \$50.6 billion in 2010. These outlays include \$29.7 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; the proposed National Infrastructure Bank; 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 \$20.4 billion in 2010. The largest amounts are for the air traffic control system; weather and climate monitoring in the National Oceanic and Atmospheric Administration; law enforcement activities, largely in the Department of Homeland Security and the Federal Bureau of Investigation; and information systems in the Department of Veterans Affairs.

Grants to State and local governments for physical investment are estimated to be \$100.5 billion in 2010. Nearly three-quarters of these outlays, or \$72.4 billion, are to assist States and localities with transportation infrastructure, primarily highways. Other major grants for physical investment fund sewage treatment plants, community and regional development, and public housing. Roughly one-fifth of the outlays for physical investment grants in 2010 are due to the Recovery Act, mostly for ground transportation.

Conduct of research and development. Outlays for the conduct of research and development are estimated to be \$149.3 billion in 2010. 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

\$83.5 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 \$65.7 billion in 2010. These are largely for the National Aeronautics and Space Administration, the National Science Foundation, the National Institutes of Health, and the Department of Energy.

A more complete and detailed discussion of research and development funding can be found in Chapter 5, "Research and Development," in this volume.

Conduct of education and training. Outlays for the conduct of education and training are estimated to be \$139.3 billion in 2010. 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 \$98.6 billion in 2010, nearly three-quarters of the total. They include education programs for the disadvantaged and individuals with disabilities, training programs in the Department of Labor, Head Start, the new State Fiscal Stabilization Fund, and other education programs. Direct Federal education and training outlays are estimated to be \$40.7 billion in 2010. Programs in this category primarily consist of aid for higher education through student financial assistance, loan subsidies, the veterans GI bill, and health training programs. Significant downward reestimates of student loan subsidies to be recorded in the current fiscal year reduce net outlays for direct Federal education and training to \$14.9 billion in 2009, leading to a large increase in this category in 2010.

Roughly one-third of the outlays for the conduct of education and training in 2010 are due to the Recovery Act, mostly for the State Fiscal Stabilization Fund.

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 6-1. 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 \$43 million in 2010.

Outlays for other miscellaneous physical investment are estimated to be \$4.8 billion in 2010. This category consists entirely of direct Federal outlays and includes primarily conservation programs.

Detailed Table on Investment Spending

The following table provides data on budget authority as well as outlays for major Federal investment divided

according to grants to State and local governments and direct Federal spending. Miscellaneous investment is not included because it is generally unrelated to improving Government operations or enhancing economic activity.

Table 6–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS
(In millions of dollars)

Description	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
GRANTS TO STATE AND LOCAL GOVERNMENTS						
Major public physical investments:						
Construction and rehabilitation:						
Transportation:						
Highways	38,438	58,338	41,193	36,747	44,622	52,935
Mass transportation	10,316	18,468	10,170	9,846	13,155	14,020
Rail transportation	70	8,115	1,000	.....	209	1,261
Air transportation	3,404	4,920	3,515	3,808	3,608	4,156
Subtotal, transportation	52,228	89,841	55,878	50,401	61,594	72,372
Other construction and rehabilitation:						
Pollution control and abatement	1,962	8,361	4,293	2,484	2,605	3,776
Community and regional development	18,968	10,030	5,542	10,221	10,893	12,312
Housing assistance	6,187	16,066	6,299	7,629	10,937	9,706
Other construction	483	933	578	418	548	735
Subtotal, other construction and rehabilitation	27,600	35,390	16,712	20,752	24,983	26,529
Subtotal, construction and rehabilitation	79,828	125,231	72,590	71,153	86,577	98,901
Other physical assets	1,539	1,854	1,705	1,565	1,678	1,627
Subtotal, major public physical capital	81,367	127,085	74,295	72,718	88,255	100,528
Conduct of research and development:						
Agriculture	308	347	346	320	317	332
Other	255	309	396	279	369	379
Subtotal, conduct of research and development	563	656	742	599	686	711
Conduct of education and training:						
Elementary, secondary, and vocational education	35,740	113,525	39,681	37,453	43,957	76,391
Higher education	438	452	452	519	523	486
Research and general education aids	789	1,100	841	757	797	920
Training and employment	3,496	6,405	3,656	3,293	4,389	5,061
Social services	10,433	15,946	10,836	10,354	12,671	13,156
Agriculture	458	498	512	424	458	547
Other	1,805	2,511	2,107	1,766	2,486	2,088
Subtotal, conduct of education and training	53,159	140,437	58,085	54,566	65,281	98,649
Subtotal, grants for investment	135,089	268,178	133,122	127,883	154,222	199,888
DIRECT FEDERAL PROGRAMS						
Major public physical investment:						
Construction and rehabilitation:						
National defense:						
Military construction and family housing	13,955	18,505	14,606	8,175	12,361	15,750
Atomic energy defense activities and other	351	257	208	381	241	219
Subtotal, national defense	14,306	18,762	14,814	8,556	12,602	15,969
Nondefense:						
International affairs	863	1,857	1,057	601	1,296	1,918
General science, space, and technology	2,855	2,557	2,465	3,189	2,605	2,125
Water resources projects	6,211	10,184	2,995	2,937	6,955	5,628
Other natural resources and environment	877	1,703	792	901	915	1,156
Energy	2,487	10,254	3,047	2,164	4,899	5,691
Federal Housing Administration	391	6,845	9	376	6,851	47
Postal Service	1,425	663	1,028	1,057	946	250
Transportation	393	368	189	118	180	378
National Infrastructure Bank	0	0	5000	0	0	960

Table 6-2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued
(in millions of dollars)

Description	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
Veterans hospitals and other health facilities	4,401	8,042	2,026	3,178	3,942	3,606
Administration of justice	2,262	2,537	1,885	1,566	2,199	2,892
GSA real property activities	1,445	6,747	1,154	1,533	2,383	3,199
Other construction	1,145	3,214	2,357	1,246	1,653	1,848
Subtotal, nondefense	24,755	54,971	24,004	18,866	34,824	29,698
Subtotal, construction and rehabilitation	39,061	73,733	38,818	27,422	47,426	45,667
Acquisition of major equipment:						
National defense:						
Department of Defense	165,097	132,822	131,304	117,480	142,747	140,145
Atomic energy defense activities	406	479	573	327	326	515
Subtotal, national defense	165,503	133,301	131,877	117,807	143,073	140,660
Nondefense:						
General science and basic research	668	1,557	812	622	798	1,176
Space flight, research, and supporting activities	90	193	180	110	148	139
Postal Service	832	1,049	1,496	923	1,132	525
Air transportation	3,535	4,667	3,748	3,398	3,963	4,052
Water transportation (Coast Guard)	927	1,396	1,229	1,034	1,318	1,484
Other transportation (railroads)	1,325	2,790	1,502	1,309	1,860	2,282
Hospital and medical care for veterans	1,480	1,430	1,969	1,273	1,428	1,505
Veterans Information Technology	2,358	2,798	3,307	1,989	2,568	3,141
Law enforcement activities	2,070	2,179	1,963	1,890	1,795	2,093
Department of the Treasury (fiscal operations)	311	279	287	312	243	274
Department of Commerce (NOAA)	978	1,842	1,391	1,074	1,039	1,487
GSA general services funds	823	1,024	1,044	823	1,024	1,044
Other	755	1,503	1,069	816	1,351	1,212
Subtotal, nondefense	16,152	22,707	19,997	15,573	18,667	20,414
Subtotal, acquisition of major equipment	181,655	156,008	151,874	133,380	161,740	161,074
Purchase or sale of land and structures:						
National defense	25	-14	-27	-52	-18	-18
Natural resources and environment	194	201	244	166	183	226
General government	142	150	141	141	151	141
Other	20	141	156	30	31	112
Subtotal, purchase or sale of land and structures	381	478	514	285	347	461
Subtotal, major public physical investment	221,097	230,219	191,206	161,087	209,513	207,202
Conduct of research and development:						
National defense:						
Defense military	80,069	81,713	79,635	75,782	78,782	79,816
Atomic energy and other	3,761	3,544	3,798	3,818	3,487	3,728
Subtotal, national defense	83,830	85,257	83,433	79,600	82,269	83,544
Nondefense:						
International affairs	255	255	255	269	258	233
General science, space, and technology:						
NASA	9,532	8,827	8,567	10,245	10,126	8,652
National Science Foundation	4,124	6,945	4,900	3,781	4,451	5,729
Department of Energy	3,405	4,395	3,788	3,001	3,966	3,968
Other general science, space, and technology	694	802	826	834	809	826
Subtotal, general science, space, and technology	18,010	21,224	18,336	18,130	19,610	19,408
Energy	1,854	3,355	2,073	1,215	1,863	2,977
Transportation:						
Department of Transportation	782	811	832	544	660	649
NASA	633	650	507	637	785	557
Other	25	18	20	13	17	15
Subtotal, transportation	3,294	4,834	3,432	2,409	3,325	4,198
Health:						
National Institutes of Health	28,412	38,515	30,051	28,185	31,936	34,386
All other health	505	1,128	483	431	458	704
Subtotal, health	28,917	39,643	30,534	28,616	32,394	35,090
Agriculture	1,558	1,579	1,489	1,533	1,554	1,510
Natural resources and environment	2,069	2,245	2,218	1,866	1,917	2,070

Table 6-2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued
(in millions of dollars)

Description	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
National Institute of Standards and Technology	393	537	494	418	516	560
Hospital and medical care for veterans	960	1,020	1,160	874	986	1,102
All other research and development	1,018	1,077	1,239	902	1,230	1,098
Subtotal, nondefense	56,219	72,159	58,902	54,748	61,532	65,036
Subtotal, conduct of research and development	140,049	157,416	142,335	134,348	143,801	148,580
Conduct of education and training:						
Elementary, secondary, and vocational education	1,434	1,529	1,505	1,429	1,511	1,502
Higher education	24,616	15,163	15,870	23,758	-79	20,606
Research and general education aids	2,035	2,212	2,296	1,997	2,141	2,229
Training and employment	1,913	3,664	2,673	1,990	2,163	2,821
Health	1,463	1,669	1,649	1,461	1,438	1,615
Veterans education, training, and rehabilitation	3,728	4,814	9,219	3,634	5,151	9,170
General science and basic research	958	1,105	1,066	970	1,055	1,087
International affairs	545	569	664	530	543	615
Other	696	1,000	1,062	629	1,006	1,029
Subtotal, conduct of education and training	37,388	31,725	36,004	36,398	14,929	40,674
Subtotal, direct Federal investment	398,534	419,360	369,545	331,833	368,243	396,456
Total, Federal investment	533,623	687,538	502,667	459,716	522,465	596,344

PART II: FEDERALLY FINANCED CAPITAL STOCKS

Federal investment spending creates a “stock” of capital that is available for future productive use. Each year, Federal investment outlays add to this stock of capital. At the same time, however, wear and tear and obsolescence reduce it. This section presents very rough measures over time of three different kinds of capital stocks financed by the Federal Government: public physical capital, research and development (R&D), and education.

Federal spending for physical assets adds to the Nation’s capital stock of tangible assets, such as roads, buildings, and aircraft carriers. These assets deliver a flow of services over their lifetime. The capital depreciates as the asset ages, wears out, is accidentally damaged, or becomes obsolete.

Federal spending for the conduct of R&D adds to an “intangible” asset, the Nation’s stock of knowledge. Spending for education adds to the stock of human capital by providing skills that help make people more productive. Although financed by the Federal Government, the 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 con-

stant dollars. The methods used to estimate capital stocks are discussed further in the technical note at the end of Chapter 13, "Stewardship," in this volume. Additional detail about these methods appeared in a methodological note in Chapter 7, "Federal Investment Spending and Capital Budgeting," in the *Analytical Perspectives* volume of the 2004 Budget.

The Stock of Physical Capital

This section presents data on stocks of physical capital assets and estimates of the depreciation of these assets.

Trends. Table 6–3 shows the value of the net federally financed physical capital stock since 1960, in constant fiscal year 2000 dollars. The total stock grew at a 2.2 percent average annual rate from 1960 to 2008, with periods of faster growth during the late 1960s and the 1980s. The stock amounted to \$2,398 billion in 2008 and is estimated to increase to \$2,527 billion by 2010. In 2008, the national defense capital stock accounted for \$742 billion, or 31 percent of the total, and nondefense stocks for \$1,657 billion, or 69 percent of the total.

Real stocks of defense and nondefense capital show very different trends. Nondefense stocks have grown consistently since 1970, increasing from \$470 billion in 1970 to \$1,657 billion in 2008. With the investments proposed in the budget, nondefense stocks are estimated to grow to \$1,727 billion in 2010. During the 1970s, the nondefense capital stock grew at an average annual rate of 5.0 per-

cent. 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 in the Vietnam era 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 \$631 billion in 2001 to \$800 billion in 2010.

Another trend in the Federal physical capital stocks is the shift from direct Federal assets to grant-financed assets. In 1960, 39 percent of federally financed nondefense capital was owned by the Federal Government, and 61 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 2008, 26 percent of the nondefense stock was owned by the Federal Government and 74 percent by State and local governments.

Table 6–3. NET STOCK OF FEDERALLY FINANCED PHYSICAL CAPITAL
(In billions of 2000 dollars)

Fiscal Year	Total	National Defense	Total Nondefense	Direct Federal Capital			Capital Financed by Federal Grants				
				Total	Water and Power	Other	Total	Transportation	Community and Regional	Natural Resources	Other
Five year intervals:											
1960	849	608	242	95	59	36	146	89	27	21	10
1965	937	589	348	123	74	49	225	158	32	22	13
1970	1,101	630	470	146	88	58	324	230	47	26	21
1975	1,137	545	592	166	102	64	426	282	76	42	25
1980	1,258	494	763	195	123	72	568	342	121	79	27
1985	1,462	572	890	222	136	86	668	397	146	100	26
1990	1,740	722	1,018	256	147	109	762	462	158	113	28
1995	1,882	714	1,168	297	157	141	871	534	168	123	46
Annual data:											
2000	1,979	635	1,345	337	160	178	1,007	618	183	131	75
2001	2,023	631	1,391	351	163	188	1,040	640	186	132	81
2002	2,078	636	1,442	366	165	201	1,076	666	189	134	87
2003	2,138	646	1,492	380	166	213	1,112	690	193	135	94
2004	2,198	662	1,536	390	168	223	1,146	714	196	136	100
2005	2,256	680	1,575	400	168	232	1,176	736	198	137	105
2006	2,316	701	1,614	410	169	240	1,205	758	199	138	109
2007	2,327	709	1,618	411	170	242	1,206	756	203	138	109
2008	2,398	742	1,657	424	171	253	1,233	778	203	139	113
2009 est.	2,449	765	1,683	440	177	263	1,243	785	204	139	115
2010 est.	2,527	800	1,727	450	178	271	1,277	811	208	141	118

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 sewage treatment facilities. 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 6-4, the R&D capital stock financed by Federal outlays is estimated to be \$1,199 billion in 2008 in constant 2000 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 2008. 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 \$420 billion. Renewed spending for defense R&D in recent years has begun to increase the stock, and it is projected to increase to \$487 billion in 2010.

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 much of the 1980s, and about three-fourths of new outlays went to replacing depreciated R&D. Since 1988, however, nondefense R&D outlays have been on an upward trend while depreciation has edged down. As a result, the net nondefense R&D capital stock has grown more rapidly.

TABLE 6-4. NET STOCK OF FEDERALLY FINANCED RESEARCH AND DEVELOPMENT ¹
(In billions of 2000 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	261	16	245	215	67	148	475	82	393
1975	276	21	255	262	97	165	538	118	421
1980	279	25	255	311	131	179	590	156	434
1985	321	30	291	339	174	165	659	204	455
1990	403	36	366	383	228	154	785	264	521
1995	423	43	380	461	293	168	883	336	548
Annual data:									
2000	423	48	375	542	367	175	965	416	550
2001	421	50	370	563	386	177	984	436	548
2002	419	52	368	587	406	181	1,006	458	549
2003	423	53	370	613	427	186	1,036	480	556
2004	428	54	374	639	449	190	1,067	503	564
2005	442	56	387	660	469	191	1,102	525	578
2006	452	57	395	684	490	194	1,136	547	589
2007	462	58	404	706	510	196	1,168	568	600
2008	470	59	411	729	531	197	1,199	590	608
2009 est.	479	60	418	756	557	199	1,235	617	617
2010 est.	487	61	425	785	584	201	1,272	645	626

¹ Excludes stock of physical capital for research and development, which is included in Table 6-3.

The Stock of Education Capital

This section presents estimates of the stock of education capital financed by the Federal Government.

As shown in Table 6–5, the federally financed education stock is estimated at \$1,591 billion in 2008 in constant 2000 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 percent of

the Nation’s total education stock.¹ 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 5.1 percent from 1970 to 2008. The expansion of the education stock is projected to continue under this budget, with the stock rising to \$1,749 billion in 2010.

¹ For estimates of the total education stock, see table 13–5 in Chapter 13, “Stewardship.”

Table 6–5. NET STOCK OF FEDERALLY FINANCED EDUCATION CAPITAL
(In billions of 2000 dollars)

Fiscal Year	Total Education Stock	Elementary and Secondary Education	Higher Education
Five year intervals:			
1960	71	51	20
1965	102	74	28
1970	234	184	50
1975	349	282	67
1980	482	379	103
1985	577	434	143
1990	733	546	188
1995	878	641	237
Annual data:			
2000	1,135	827	308
2001	1,188	863	325
2002	1,235	898	337
2003	1,277	930	347
2004	1,325	958	367
2005	1,356	990	367
2006	1,432	1,027	405
2007	1,511	1,081	430
2008	1,591	1,142	449
2009 est.	1,629	1,183	446
2010 est.	1,749	1,281	467

7. CREDIT AND INSURANCE

The Federal Government offers direct loans and loan guarantees to support a wide range of activities including housing, education, business and community development, and exports. The Federal Government also permits certain privately owned companies, called Government-Sponsored Enterprises (GSEs), to 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, with private credit markets barely functioning, GSEs have been playing more active roles in the secondary market, Federal credit programs have been endeavoring to accommodate more borrowers, and government guarantees and insurance have been expanded to new areas of the economy.

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 intended to support four sectors: housing, education, business and community development, and exports.
- The third section reviews Federal deposit insurance, pension guarantees, disaster insurance, and insurance against terrorism and other security-related risks.
- The fourth section discusses the Federal response to the recent financial market crisis.

I. THE FEDERAL ROLE

Credit and insurance markets often suffer from market imperfections and can require regulation or other government involvement to function well. Relevant market imperfections include information failures, limited ability to secure resources, insufficient competition, externalities, and economic disequilibrium. 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. Financial intermediaries may fail to allocate credit to credit-worthy borrowers if there is an asymmetry in the information available to different agents in the market place. For example, some groups of borrowers, such as students and start-up businesses, have limited incomes and credit histories, which can make it difficult for financial institutions to distinguish between borrowers who represent good and bad risks. In this circumstance, “adverse selection” can cause the pool of borrowers to disproportionately contain bad risks, thereby causing creditworthy borrowers belonging to these groups to fail to obtain credit or to be forced to pay excessively high interest rates. Government credit programs can sometimes expand the pool of borrowers in such a way that pricing becomes attractive to a wider set of potential borrowers. Another example is caused by “moral hazard” problems, where the borrower or insured could behave so as to take advantage of the lender or insurer. This is the case for pension guarantees, where sponsors might underfund plans, and for deposit insurance, where banks might

take more risk to earn a higher return. In these cases, the Government’s legal and regulatory powers can provide an advantage in comparison with a private insurer.

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. Pollution, in contrast, is a negative externality, from which other people suffer. Without Government intervention, people will engage less than is socially optimal in activities that generate positive externalities and more in activities that generate negative externalities.

Economic Disequilibrium. Another rationale for Federal intervention is economic disequilibrium. This is one rationale for deposit insurance and the recent extension of guarantees to money market funds. If many banks and other financial institutions are hurt simultaneously by an economic shock, such as the one the Nation is currently experiencing, and depositors have a hard time knowing which ones may become insolvent, deposit in-

urance prevents a contagious rush to withdraw deposits that could harm the entire economy.

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. The primary function of housing GSEs is to increase liquidity in the mortgage market.

Federal Housing Administration

The Federal Housing Administration (FHA) guarantees mortgage loans to provide access to homeownership for people who may have difficulty obtaining a conventional mortgage. FHA has been a primary facilitator of mortgage credit for first-time and minority buyers, pioneered products such as the 30-year self-amortizing mortgage, and enhanced 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

Shortly into the new millennium, FHA's market presence diminished greatly as lower interest rates increased the affordability of mortgage finance and as more borrowers used emerging non-prime 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 FHA's market share, reducing it from 10 percent in 2000 to 2 percent in 2005.

Starting at the end of 2007 and continuing through the present day, the availability of FHA and Government National Mortgage Association credit guarantees have been important counter-cyclical responses to the tightening of the private credit markets. With few conventional options, borrowers and lenders have flocked to FHA mortgages which have the advantages of being widely understood in the mortgage market, and offering ready access to the secondary markets through "full faith and credit" securitization by the Government National Mortgage Association. FHA's market share soared to 22 percent at the end of 2008.

FHA's presence has supported the 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—has grown steadily throughout the decade. This program allows elderly homeowners to tap their home equity to help meet their retirement needs. FHA has successfully pioneered an innovative product that has served many borrowers. From a small pilot started in 1990, the program grew into a \$24 billion program annually by 2008. This program growth is attributable to a combination of factors: the sharp growth in home equity attributable to strong housing price appreciation through most of the decade, the growing population of eligible elderly homeowners, and increased marketing efforts by lenders offering the product.

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.

FHA's Budget Costs

Throughout the recent period of stress in the mortgage market and into the Budget's projections for 2010, FHA, like all other mortgage market participants, has faced significant financial risk and incurred large costs associated with defaults. FHA made several improvements to its forecasting abilities and used its analysis to identify particularly high-cost mortgages. The estimates for FHA's budgetary effects have been improved and in doing so additional costs have been identified and reported. Since 1992, the net cost of FHA Mutual Mortgage single-family insurance has been re-estimated and increased by a total of \$29 billion excluding interest.

FHA improved its projections of default claims, correcting a structural under-estimation and producing fine-grained data on the relationship between underwriting variables and subsequent loan performance. These reviews also shed light on the high costs of Seller-Financed Downpayment Assistance Loans that, having both ex-

tremely high claim rates (over 30 percent in some cohorts) and poor recoveries on claims, contributed greatly to the re-estimates. (These loans are distinct from downpayment assistance provided by government agencies.) The upward cost re-estimates occurred even as the housing market in general was prospering through the middle part of this decade and strong house price growth increased the proceeds FHA took in from foreclosure sales. As more borrowers opted for non-prime private products, FHA's market share dwindled and its proportion of borrowers with Seller-Financed Downpayment Assistance grew sharply.

One of the major benefits of an FHA-insured mortgage is that it provides an option for borrowers who only make 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 (most FHA loans have less than five percent down) is that they have little in the way of an equity cushion should house prices decline. When normal income changes from job loss or divorce occur, the limited equity cushion associated with low downpayments make mortgage defaults more likely.

FHA has safeguards (such as documenting income) to protect it from the worst credit-risk exposure, such as that experienced in the subprime and Alt-A markets. All parties that have credit-risk, however, have been significantly hurt by the recent house price depreciation and the prospect of continued weakness in the near-term. FHA's exposure is more limited, however, due to a relatively lower number of mortgages in higher cost markets and historically low levels of originations until 2008. Moreover, even with growing proportions of Seller-Financed Downpayment Assistance Loans in its portfolio, FHA's portfolio performance has experienced lower levels of defaults than the subprime sector, and less significant declines in performance than Alt-A loans. Accordingly, the Budget's re-estimates of FHA costs incorporate prudent projections of risk.

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. The decline in house prices has adversely affected the projected credit performance of HECMs. As a result, in 2010 the program has a positive subsidy rate for the first time and the Budget proposes an indefinite appropriation of credit subsidy to ensure demand for this program is met by FHA.

Combining all these factors, FHA recorded a re-estimate excluding interest of \$9 billion in 2009 in the expected costs of its outstanding portfolio of insurance on forward mortgage activity. In addition, the FHA General and Special Risk Insurance Fund was re-estimated for an additional \$6 billion, excluding interest, the bulk of which was caused by projected HECM losses. Under the

provisions of the Federal Credit Reform Act, these costs are recorded as mandatory outlays in the year the re-estimates are performed and will increase the 2009 deficit. These re-estimate costs are analogous to private lenders increasing their reserves to cover expected losses on their loan portfolio. According to its annual actuarial analysis, despite these estimates, FHA has still maintained adequate capital ratios (a measure of the economic value of the fund relative to mortgage insurance in force), which fell from over 6 percent in 2007 to just over 3 percent in 2008. In these turbulent times it is important to carefully monitor capital adequacy measures, even while recognizing that 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.

Continued short-term weakness in house prices and a long-term expectation that price appreciation will rebound to a modest rate of growth also increases risks on new FHA loan guarantees endorsed in 2010. The cost effects identified in the re-estimates of the existing FHA portfolio also inform the credit subsidy estimates for new activity in both forward mortgages and HECMs.

Recent Program Changes

FHA's authorities and the terms of its loans were significantly amended in 2008 by the Housing and Economic Recovery Act (HERA). The most significant in the near-term is a substantial increase in the overall maximum dollar amount of an individual mortgage from \$362,790 to \$625,000 in higher priced metropolitan areas. (A temporary limit of \$729,750, enacted in response to the financial crisis, is in effect during calendar year 2009.) This increase will enable FHA to continue to offer its insurance to lower and middle-market purchasers in high-priced areas where FHA was previously not a practical option due to the lack of homes priced under the national FHA limit.

HERA also explicitly authorizes FHA to offer risk-based premia that vary with the risk of default, as indicated by the borrower's downpayment percentage and credit history. Though Congress enacted a delay in the implementation of this measure, risk-based pricing holds the potential to create more opportunities for potential homeowners who may face limited mortgage options. For example, first-time buyers with a strong credit record but little savings could finance a higher percent of the purchase than FHA currently allows. Alternatively, a borrower with a poor credit history but who has accumulated savings for a larger downpayment could qualify for more favorable terms with FHA than are available in the conventional market.

Such a flexible premium structure is a way to more fairly price the FHA guarantee to individual borrowers. It creates incentives (lower premium payments) for borrowers to take steps to improve their credit or save more for a downpayment. At the same time it eliminates the current incentive for higher-risk borrowers to use FHA because they are undercharged relative to the risk they pose.

HERA also terminated Seller-Financed Downpayment Assistance mortgages. HUD had found in its actuarial

review that these loans defaulted at a rate exceeding 30 percent. A GAO report also found that such loans were circular financing arrangements that circumvented FHA downpayment requirements by inflating the cost to provide the funds for this “assistance.” Termination of this type of downpayment assistance is beneficial to the credit subsidy effects of FHA, saving over \$1 billion in estimated annual subsidy costs.

In addition, HERA simplified downpayment requirements and created a homeowner minimum cash investment of 3.5 percent. This retention of a downpayment helps protect FHA from defaults. While this is a minimal requirement, the notion of borrowers having “skin in the game” is important. As both the Seller-Financed Downpayment Assistance loans and the recent explosion in loans containing “negative equity” illustrate, the lack of such investment is harmful to loan performance.

Finally, HERA created the Hope for Homeowners program, designed to offer a new FHA product to borrowers paying a very high share of their income on their mortgage and therefore at risk of default. FHA and its partner entities on the program’s board have made strong efforts to implement this program but participation thus far has been minimal. The Administration supports modifications to the program to make it more attractive while retaining important safeguards against excessive risk. These amendments include more underwriting flexibility and lower premia and appreciation sharing assessments.

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 102,306 zero down payment loans in 2008. Both loan volume and the number of borrowers increased significantly in 2008, as the recent tightening of the credit markets made the VA-guaranteed loan program more attractive to eligible homebuyers. VA provided \$36 billion in guarantees to assist 178,945 borrowers in 2008, compared with \$24 billion and 129,216 borrowers in 2007.

To help veterans retain their homes and avoid the expense and damage to their credit resulting from foreclosure, VA intervenes aggressively to reduce the likelihood of foreclosures when loans are referred to VA after missing three payments. VA’s actions resulted in 54 percent of such delinquent loans avoiding foreclosure in 2008.

Rural Housing Service

The U.S. Department of Agriculture’s Rural Housing Service (RHS) offers direct and guaranteed loans and grants to help very low- to moderate-income rural residents buy and maintain adequate, affordable housing. The single-family guaranteed loan program guarantees up to 90 percent of a private loan for low- to moderate-income (115 percent of median income or less) rural residents. In 2008, nearly \$7.3 billion in assistance was provided by

RHS for homeownership loans and loan guarantees; \$6.2 billion in guarantees went to more than 67,000 households.

Historically, RHS has offered both direct and guaranteed homeownership loans. However, the direction of Rural Development’s single-family housing mortgage assistance over the last two decades has been towards guaranteed loans. The single-family housing guaranteed loan program was newly authorized in 1990 at \$100 million and has grown into a \$6 billion plus guaranteed loan program annually. This program allows low- to moderate-income rural residents to buy or refinance a home. The 2010 Budget maintains the approximate 2009 loan level of \$6.2 billion. This level of funding is expected to support about 56,000 homeownership opportunities in 2010.

The 2010 single-family direct loan program will also be maintained at the approximate 2009 loan level of \$1.1 billion. This level of funding is expected to support about 10,000 homeownership opportunities in 2010. There are no Federal single-family direct loan home ownership programs for urban areas. The 502 direct loan program is the only federal program that can provide lower income rural residents with loans at interest rates down to as low as 1 percent. The program has been successful at helping the “on the cusp” borrower obtain a mortgage, yet encourages graduation to private credit as the borrower’s income and equity in their home increase over time.

The American Recovery and Reinvestment Act provided funding for the single-family housing program sufficient to support approximately \$1 billion in direct loans and \$10 billion in guaranteed loans. This level of funding is expected to support about 100,000 homeownership opportunities, beginning in 2009.

The 2010 Budget also supports multifamily housing construction loans, multifamily housing direct loans, farm labor housing direct loans, and multifamily housing loan guarantees. In addition, over \$1 billion is provided in rental assistance grants, which supports the direct loans by ensuring that the rental assistance contracts with the property owners are renewed. This will ensure that rental subsidies continue for the eligible tenants of the USDA financed properties.

Government-Sponsored Enterprises in the Housing Market

Homeownership has long been recognized as an important part of the American economy and part of the American dream. However, it has not always been within reach for the average American. During the Great Depression, housing markets were in turmoil. 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 technology 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 give them competitive advantages when compared with fully private companies.

The Federal Home Loan Bank 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. 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 nearly one half of the \$11-plus trillion residential mortgages outstanding in the U.S. today. Their share of outstanding residential mortgage debt peaked at 54 percent in 2003. Subsequently, originations of subprime and non-traditional mortgages led to a surge of private-label Mortgage-Backed Securities (MBS), reducing Fannie Mae's and Freddie Mac's market share. Recent disruptions in the financial market, however, have led to a resurgence of their market share.

The growing stress in the mortgage markets over the last two years also reduced the GSEs' capital, and responsive legislation enacted last summer strengthened GSE regulation and provided the Treasury Department with authorities to bolster the GSEs' financial condition. In September 2008 their regulator put Fannie Mae and Freddie Mac under Federal conservatorship, and Treasury began to exercise its GSE assistance authorities. The Budget continues to reflect the GSEs as non-budgetary entities, though their status will continue to be reviewed. All of the current federal assistance being provided to Fannie Mae and Freddie Mac, including the Senior Preferred Stock Purchase Agreements and the GSE MBS purchase program, are shown on-budget, and discussed below.

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 ar-

rangements 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 December 31, 2008 they totaled \$3.7 trillion (almost one-third of the mortgage market).

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 to the credit markets. As of December 31, 2008, these retained mortgages, financed largely by GSE debt, totaled \$1.6 trillion.

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) to regulated depository institutions and insurance companies engaged in residential mortgage finance to varying degrees.

The Housing and Economic Recovery Act of 2008 (HERA) expanded direct federal support for affordable housing by authorizing a 4.2 basis point assessment on Fannie Mae and Freddie Mac originations in order to fund a newly authorized Housing Trust Fund and a Capital Magnet Fund, as well as to offset the costs of FHA's Hope for Homeowners program. However, given the current financial situation of the GSEs these assessments have been indefinitely suspended. The Budget proposes funding for both of the new programs that would have been funded through these assessments, as well as legislative expansion of the Hope for Homeowners program.

Regulatory Reform

The Office of Federal Housing Enterprise Oversight (OFHEO) was established in 1992 as an independent agency within the Department of Housing and Urban Development (HUD) to oversee the safety and soundness of Fannie Mae and Freddie Mac, while HUD was responsible for mission oversight and the development of GSE affordable housing goals. The Federal Housing Finance Board (FHFB), established in 1989, oversaw the Federal Home Loan Bank System. 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 the previous three distinct bodies. FHFA has been 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 now required to issue housing goals for each of the regulated enterprises 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. As of March 31, 2009 FHFA had not yet promulgated new housing goals for the enterprises. 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. HERA also provided temporary authority for the U.S. Department of Treasury to purchase securities or other obligations of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks through December 31, 2009, upon a finding that such action is required to preserve the stability of the financial market, prevent disruption to the availability of mortgage finance, and protect taxpayers.

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 preserve 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. FHFA has assumed the powers of the Board and shareholders at Fannie Mae and Freddie Mac and appointed new chief executive officers at the two firms.

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.

1. Senior Preferred Stock Purchase Agreements with Fannie Mae and Freddie Mac

Treasury entered into agreements with Fannie Mae and Freddie Mac to make investments of up to \$100 billion 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. On February 18, 2009 Treasury announced that the funding commitments for these agreements would be increased to \$200 billion each. In total, as of March 31, 2009, \$59.8 billion has been paid to the GSEs, and the redemption face value of Treasury's preferred stock has increased accordingly.

2. GSE MBS Purchase Programs

Treasury initiated a temporary program to purchase MBS issued by Fannie Mae and Freddie Mac, which carry the GSEs' standard guarantee against default. The purpose of the program is to promote liquidity in the mortgage market and, thereby, affordable homeownership by stabilizing the interest rate spreads

between mortgage rates and Treasuries. The Budget estimates that Treasury will purchase \$314 billion in MBS before the authority for this program expires on December 31, 2009. There is no prescribed volume limitation for this program.

3. 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 is intended to serve as an ultimate liquidity backstop to the GSEs if necessary. While there is no prescribed volume limitation for this program, the Budget does not estimate that any loans will be issued through this facility. The authority for Treasury to issue loans expires on December 31, 2009.

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 up to \$500 billion in agency MBS, including Fannie Mae, Freddie Mac, and Ginnie Mae issuances, and up to \$100 billion in direct obligations of the GSEs. On March 18, 2009 the Federal Reserve Board announced that the purchase targets for these program will be increased to up to \$1.25 trillion and \$200 billion respectively. As of March 19, 2009 the Federal Reserve Bank of New York reported \$201.5 billion in net purchases of MBS guaranteed by Fannie Mae or Freddie Mac and \$46.8 billion in GSE debt, including \$11.1 billion from the Federal Home Loan Banks. The goal of these programs is to provide support to mortgage and housing markets and to foster improved conditions in financial markets more generally.

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. On November 11, 2008 the U.S. Department of Treasury, FHFA, Fannie Mae, Freddie Mac, and the mortgage industry's HOPE NOW Alliance jointly 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 have been initiated under the SMP program. The limited success of the SMP program is due in part to restrictions in securitization agreements on mortgage servicers regarding permissible modifications. These restrictions include 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, the Administration announced its Making Home Affordable (MHA) program, which includes the

Home Affordable Modification Program (HMP) and the Home Affordable Refinance Program (HRP). Fannie Mae and Freddie Mac are participating in the HMP both for their own mortgage books and as the Treasury Department's agents. (See Section IV for more information).

Fannie Mae and Freddie Mac are also integral to the HRP. 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 105 percent may be eligible to refinance their mortgage to take advantage of the current low interest rate environment. The previous LTV limit was 80 percent without a credit enhancement such as private mortgage insurance. Declining house prices and capital constraints among the private mortgage insurers have made it difficult for borrowers to obtain such insurance. Under this program, 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 between 80 and 105 percent. The Budget estimates that the Home Affordable Refinance Program will facilitate refinancing at current market interest rates for up to 4 to 5 million borrowers with LTV ratios above 80 percent whose first mortgages are owned or guaranteed by Fannie Mae or Freddie Mac.

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 two years has significantly increased the credit risk for mortgage delinquencies and defaults faced by Fannie Mae and Freddie Mac. 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 huge amounts 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 December 31, 2008 their combined debt and guaranteed MBS totaled \$5.5 trillion, about as large as the total publicly held debt of the United States. 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.

Future of the GSEs

The future of Fannie Mae and Freddie Mac is uncertain. There are a number of options for their reform, ranging from returning to their previous status as GSEs with the paired interests of maximizing returns for private share holders while pursuing public policy home ownership goals, to a gradual wind-down of their operations and liquidation of their assets. Other options for reform include outright nationalization by incorporating the GSEs' functions into a federal agency; a public utility model where the government regulates the GSEs' profit margin, sets guarantee fees and provides explicit backing for GSE commitments; a conversion to providing insurance for covered bonds, debt instruments that are back by expected cash flows similar to MBS, but recorded on the issuer's balance sheet; and the dissolution of Fannie Mae and Freddie Mac into many smaller companies. The Administration looks forward to working with the Congress, the regulatory community, and the mortgage industry to determine the best possible long-term role for Fannie Mae and Freddie Mac.

Education Credit Programs

The Department of Education (ED) helps 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. Eligible institutions of higher education may participate in one or both programs. Loans are available to students regardless of income. However, borrowers with low family incomes are eligible for loans where 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.

Historically, the FFEL program provides loans through an administrative structure involving over 3,600 lenders, 35 State and private guaranty agencies, and over 5,000 participating schools. In the FFEL program, banks and other eligible lenders loan private capital to students and parents, guaranty agencies insure the loans, and the Federal Government reinsures the loans against borrower default. Lenders bear some of the default risk on all new loans, and the Federal Government is responsible for the remainder. ED also makes administrative payments to guaranty agencies and, in specific circumstances, pays interest subsidies on behalf of borrowers to lenders.

The William D. Ford Direct Student 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 nearly 1,100 schools, which then disburse loan funds to students. The program offers a variety of flexible repayment plans including income-contingent 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.

Due to significant disruptions in the credit markets, in early 2008 FFEL lenders expressed concerns that there would be insufficient capital to make FFEL loans to all eligible students in the 2008-2009 academic year. In response, Congress enacted the Ensuring Continued Access to Student Loans Act (ECASLA) which provided ED with the authority to purchase student loans. ED used this authority to establish several temporary programs intended to ensure the availability of student loans. For the 2008-2009 academic year, the Department created a Loan Participation Interest program, where it purchased a 100 percent interest in any eligible FFEL loan originated during the academic year. Once the loan is fully disbursed, or before this program expires at the end of the academic year, the lender can either redeem ED's interest in a loan plus a yield of Commercial Paper plus 50 basis points or pledge the entire loan to ED in return for compensation of incurred expenses (such as origination and servicing) less ED's yield. Between this program and the Direct Loan program, over 75 percent of federal student loan volume in the 2008-2009 academic year will be financed by the Department of Education. The Department established a Purchase Commitment program through which it would commit to purchase any eligible loans originated by a FFEL lender during the 2008-2009 academic year for face value plus any incurred expenses. The Department also established a short-term version of this program to purchase up to \$6 billion in loans originated in the 2007-2008 academic year.

Given the continued concerns about liquidity in the financial market, Congress extended ECASLA through the 2009-2010 academic year. Using this authority, the Department replicated the Loan Participation Interest program and the Loan Purchase Commitment program for the 2009-2010 academic year. In addition, the Department announced that it would use the ECASLA authority to support an Asset-Backed Commercial Paper Conduit. This conduit will facilitate financial transactions similar to those involved in a typical securitization: investors purchase commercial paper (backed by student loan assets) while the conduit uses these proceeds to pay interest to other investors once the commercial paper matures and to purchase additional student loans. Though the hope is that this Conduit will provide liquidity to FFEL lenders without federal intervention, the Department, using its ECASLA authority, will serve as a buyer-of-last-resort in cases where the Conduit is unable to refinance maturing commercial paper. The Department of Education will be conducting a full review of the Conduit, with a full report to be completed by June 30, 2009.

For all subsequent federal student loan originations beginning with the 2010-2011 academic year, the 2010 President's Budget proposes to end subsidies currently paid to FFEL lenders. Enacting this proposal would save taxpayers an estimated \$24 billion over five years and \$48 billion over 10 years. Originating all loans through the Federal Direct Loan program will ensure that student loans will continue to be available to all eligible students

without risk of disruption due to turmoil in the financial markets. ED is already making preparations for this transition by acquiring greater loan servicing capacity that will be in place by the summer of 2009. The 2010 request includes additional administrative funds to pay for these increased servicing costs.

Business and Rural Development Credit Programs and GSEs

The Federal Government guarantees small business loans to promote entrepreneurship. The Government also offers direct loans and loan guarantees to farmers who may have difficulty obtaining credit elsewhere and to rural communities that need to develop and maintain infrastructure. Two GSEs, the Farm Credit System and the Federal Agricultural Mortgage Corporation, increase liquidity in the agricultural lending market.

Small Business Administration

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. Additionally, SBA helps home and business-owners, as well as renters, cover the uninsured costs of recovery from disasters through its direct loan program.

The 2009 Budget requests \$779 million, including administrative funds, for SBA to leverage more than \$29 billion in financing for small businesses and disaster victims. The 7(a) General Business Loan program will support \$17.5 billion in guaranteed loans while the 504 Certified Development Company program will support \$7.5 billion in guaranteed loans for fixed-asset financing. SBA will supplement the capital of Small Business Investment Companies (SBICs) with \$3 billion in long-term, guaranteed loans for venture capital investments in small businesses. At the end of 2008, SBA's outstanding balance of direct and guaranteed loans totaled \$88 billion.

Consistent with the overall credit markets, SBA's guaranteed lending has declined in 2009 as the economy worsened and lending became constricted. The American Recovery and Reinvestment Act provided significant support for small business credit programs, to help spur lending to small businesses. This authority included credit subsidy budget authority (BA) to temporarily raise guarantee percentages on some 7(a) loans, and reduce fees in the 7(a) and 504 programs. SBA estimates the Recovery Act funding will support approximately \$8.7 billion in 7(a) loans and \$3.6 billion in 504 loans.

The Administration has also dedicated significant resources from the Troubled Asset Relief Program (TARP) to ensure a functioning secondary market for small business loans. The Treasury Department plans to make up to \$15 billion in direct purchases to unlock the secondary market for the guaranteed portions of 7(a) loans and the private, first mortgage loan portion of 504 projects. These purchases will provide lenders additional liquidity to extend new credit to small businesses.

The Budget builds on these efforts by providing \$80 million in credit subsidy BA to continue to execute the 7(a) program in Fiscal Year 2010 at the fully authorized level. The Budget also requests \$3 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 \$35,000 to new entrepreneurs. While this program provides borrowers critical start-up financing, the program as structured in the past was expensive to taxpayers. The Administration is committed to implementing reforms to make the program more performance-oriented and ensure borrowers receive the capital they need.

The Budget also proposes to implement a pilot program to test the guaranteed disaster loan program recently authorized in the Food, Conservation, and Energy Act of 2008 (P.L. 110-234). Conducting a small pilot will allow SBA to test procedures and develop systems for future use and partnerships with private lenders in the case of a catastrophic disaster.

Finally, the Budget provides significant resources for core agency operations to accelerate transactions and safeguard taxpayers' exposure. These include continued procurement of a modern loan management and accounting system and additional funds to continue to streamline and automate information technology systems. The Budget also requests funds for additional staffing in loan servicing centers, to handle increased origination, servicing, guarantee purchase, and liquidation activities.

USDA Rural Infrastructure and Business Development Programs

USDA provides grants, loans, and loan guarantees to communities for constructing facilities such as health-care clinics, day-care centers, and water systems. Direct loans are available at lower interest rates for the poorest communities. These programs have very low default rates. The cost associated with them is due primarily to subsidized interest rates that are below the prevailing Treasury rates.

The program level for the Water and Wastewater treatment facility loan and grant program in the 2010 President's Budget is \$1.6 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 \$546 million in 2010. These program levels are maintained at the approximately 2009 levels. In addition, the Recovery Act provided funding for about \$3.7 billion in Water and Wastewater and an estimated \$1.2 billion in the Community Facility program.

USDA also provides grants, direct loans, and loan guarantees to assist rural businesses, cooperatives, nonprofits, and farmers in creating new community infrastructures, and to diversify the rural economy and employment opportunities. In 2010, USDA proposes to provide over \$1 billion in loan guarantees and direct loans to entities that serve communities of 50,000 or less through the Business and Industry (B&I) guaranteed loan program

and Intermediary Relending program. These loans are structured to save/create jobs in rural economies. The American Recovery and Reinvestment Act provided funding for an estimated \$2.99 billion in B&I loan guarantees and \$20 million in Rural Business Enterprise grants, beginning in 2009.

The 2008 Farm Bill created or modified five rural renewable energy and small business programs. The Budget includes \$122 million to support over \$430 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. The discretionary funding in the Budget is in addition to the \$364 million to support \$1.02 billion in loans and grants in mandatory funds provided by the Farm Bill in 2010.

Electric and Telecommunications Loans

USDA's Rural Utilities Service (RUS) programs provide loans for rural electrification, telecommunications, distance learning, telemedicine, and broadband, and also provide grants for distance learning and telemedicine (DLT).

The Recovery Act provided USDA \$2.5 billion to support broadband loans and grants for fiscal years 2009 and 2010. This funding is expected to provide new and improved access to broadband services throughout rural America, based on the most appropriate technology for specific areas.

The Budget includes \$6.6 billion in direct electric loans for distribution, transmission, and improvements to existing generation facilities, \$688 million in direct telecommunications loans, \$532 million in broadband loans, \$13 million in broadband grants, and \$30 million in DLT grants.

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 have been fluctuating over the past several years. These fluctuations are mainly due to the interest component of the subsidy rate.

The number of loans provided by these programs has varied over the past several years. In 2008, FSA provided loans and loan guarantees to approximately 26,000 family farmers totaling \$3.4 billion. The average size for farm ownership loans continues to increase, with new customers receiving the bulk of the benefits furnished, while the majority of assistance provided in the operating loan program is to existing FSA farm borrowers. The demand for FSA direct and guaranteed loans continues to be high. More conservative credit standards and reduced profit margins 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 that they may not have in the past. In 2010, FSA proposes to make \$4.1 billion in direct and guaranteed loans through discretionary programs.

Lending to beginning farmers was above target during 2008, especially in the direct farm ownership program, which demonstrated a six-percent increase compared to 2007. In addition, commercial lending to beginning farmers in the guaranteed ownership program also increased dramatically by 20 percent over 2007. Overall, lending to beginning farmers was 12 percent above the 2007 level. Lending to minority and women farmers was a significant portion of overall assistance, totaling \$379 million in loans and loan guarantees. Outreach efforts by FSA field offices to promote and inform beginning and minority farmers of available FSA funding have resulted in increased lending to these groups.

In 2009, FSA received funding through the American Recovery and Reinvestment Act to provide a total of \$173 million in direct farm operating loans. These loans are used to purchase items such as farm equipment, feed, seed, fuel and other operating expenses and will stimulate rural economies by providing American farmers funds to operate.

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), including the Federal Agricultural Mortgage Corporation (Farmer Mac), is a Government-Sponsored Enterprise (GSE) that enhances credit availability for the agricultural sector. The FCS banks and associations provide production, equipment, and mortgage lending to farmers and

ranchers, aquatic producers, their cooperatives, related businesses, and rural homeowners, while Farmer Mac provides a secondary market for agricultural real estate and rural housing mortgages. Because Farmer Mac is governed by laws and regulations that are different from those governing the banks, associations, and service entities that comprise the rest of the System, Farmer Mac is discussed separately below.

The Farm Credit System (Banks and Associations)

The financial condition of the System's banks and associations remains sound. The ratio of capital to assets decreased to 13.4 percent as of September 30, 2008, from 14.8 percent as of September 30, 2007, as asset growth outpaced capital growth. Capital consisted of \$2.8 billion in restricted capital held by the Farm Credit System Insurance Corporation (FCSIC) and \$25 billion of unrestricted capital—in terms of amount, a record level. For the first nine months of calendar 2008, net income equaled \$2.37 billion compared with \$2.02 billion for the same period of the previous year, primarily due to growth in the loan portfolio and higher average earnings on assets. Between September 30, 2007 and September 30, 2008, non-performing loans as a percentage of total loans outstanding increased from 0.43 percent to 0.65 percent, primarily due to deterioration in the credit quality of certain loans and a more volatile agricultural economic environment. Assets have grown at a 12.5 percent annual rate over the past five years, while the number of FCS institutions has decreased due to consolidation. As of September 30, 2008, the System consisted of five banks and 93 associations compared with seven banks and 104 associations in September 2002. Of the 98 FCS banks and associations, 93 had one of the top two examination ratings (1 or 2 in a 1-5 scale), while 5 FCS institutions had a rating of 3.

The FCSIC ensures the timely payment of principal and interest on FCS obligations on which the System banks are jointly and severally liable. FCSIC manages the Insurance Fund, which supplements the System's capital and the joint and several liability of the System banks. On September 30, 2008, the assets in the Insurance Fund totaled \$2.84 billion. Of that amount \$40 million was allocated to the Allocated Insurance Reserve Accounts (AIRAs). As of September 30, 2008, the Insurance Fund as a percentage of adjusted insured debt was 1.74 percent in the unallocated Insurance Fund and 1.77 percent including the AIRAs. This was below the statutory Secure Base amount of 2 percent. During 2008 growth in System debt has outpaced the capitalization of the Insurance Fund that occurs through investment earnings and premiums.

Over the 12-month period ending September 30, 2008, the System's loans outstanding grew by \$23.0 billion, or 17.0 percent, while over the past five years they grew by \$66.7 billion, or 73.1 percent. As required by law, borrowers are also stockholders of System banks and associations. As of September 30, 2008, the System had 472,066 stockholders. Loans to young, beginning, and small farmers and ranchers represented 11.6 percent, 19.7 percent, and 26.6 percent, respectively, of the total dollar volume

of farm loans outstanding at the end of calendar 2007. The percentage of loans made to beginning farmers in calendar 2007 increased slightly, compared with calendar 2006, while percentages of loans made to young and small farmers were slightly lower. 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 the agricultural sector is currently healthy, it has become more risky with the recent instability in the global financial markets, the fluctuations in the value of the dollar, a recession, the decline in commodity prices (including ethanol), and the rapid rise in input costs. This sector is also subject to possible new risks such as a reversal in the rapid rise in farmland values, weather-related catastrophes, environmental risks related to global warming, and costly regulations.

Farmer Mac

Farmer Mac was established in 1988 as a federally chartered institution belonging in the FCS to facilitate a secondary market for farm real estate and rural housing loans. 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, 2008, Farmer Mac's total program activity (loans purchased and guaranteed, AgVantage bond assets, and real estate owned) amounted to \$9.8 billion, which represents an increase of 17 percent from the level a year ago. Of total program activity, \$2.8 billion were on-balance sheet loans and agricultural mortgage-backed securities, and \$7 billion were off-balance sheet obligations. Total assets were \$4.7 billion, with nonprogram investments accounting for \$1.5 billion of those assets. Farmer Mac's net loss for first three quarters of calendar 2008 was \$93 million, a significant decline from the same period in 2007 during which the reported net income was \$13.7 million.

The reported year-to-date loss amount is primarily due to \$102 million in other-than-temporary impairment charges on securities held in Farmer Mac's nonprogram investment portfolio. These writedowns included an other-than-temporary impairment of \$50 million on a Fannie Mae floating rate preferred stock investment after it was placed in conservatorship and an other-than-temporary impairment of \$52.4 million in a senior debt security from Lehman Brothers Holdings Inc. after it declared bank-

ruptcy. Current losses are not the result of negative developments in Farmer Mac's program loan portfolio. Also contributing to the net loss were fluctuations in the market value of financial derivatives and trading assets that are now recognized in the income statement. The latter losses are due to a change in accounting policy that was instituted in November 2006, when Farmer Mac opted to remove the impact of accounting for derivatives used as hedges against interest rate movements.

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

In today's global economy, the health and prosperity of the American economy depend importantly on the stability of the global financial system and the economic health of our major trading partners. The United States contributes to orderly exchange arrangements and a stable system of exchange rates through the International

Monetary Fund and through financial support provided by the Exchange Stabilization Fund (ESF).

The ESF provides “bridge loans” to other countries in times of short-term liquidity problems and financial crises. 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 the loan or credit be for more than six months.

In September 2008, Treasury opened a temporary money market mutual fund guarantee program, which guarantees the share price of any publicly offered eligible money market mutual fund—both retail and institutional—that applies for and pays a fee to participate in the program. President George W. Bush approved the use of existing authorities by Secretary Henry M. Paulson, Jr. to make available as necessary the assets of the ESF to guarantee the payment. (See Section IV for additional information.)

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. While there is clear demand for DCA’s facilities in some emerging economies, the utilization rate for these facilities is still very low.

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 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 Poorest 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. The 2010 Budget continues to support debt reduction for countries that qualify under the HIPC Initiative.

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 small 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 December 31, 2008, the FDIC insured \$4.76 trillion of deposits at 8,315 commercial banks and thrifts, and the NCUA insured \$610 billion of shares at 7,967 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 (approximately \$41 billion as of 2008). Historically, however, Congress has set the CLF borrowing limit for loans to credit unions (\$1.5 billion) through annual appropriations acts.

Since its creation, the system has undergone a series of reforms. More recently, the Deposit Insurance Reform Act of 2005 allows the FDIC to better manage the DIF. For example, the Act authorizes the FDIC to charge premiums for deposit insurance on a risk-adjusted basis, and ensures that all financial institutions pay premiums for Federal insurance on their insured deposits regardless of the level of the DIF. The Act allows the FDIC additional authority to set a reserve ratio (ratio of the deposit insurance fund to total insured deposits) within a range of 1.15 percent and 1.5 percent. Should the reserve ratio fall below 1.15 percent, the FDIC is allowed additional time to restore the DIF, and when it rises to 1.35 percent the FDIC is required to rebate half of the premiums it collects.

Last year, the Emergency Economic Stabilization Act of 2008 temporarily increased the insured deposit level from \$100,000 per account to \$250,000, until December 31, 2009. Additionally, the 2009 Omnibus Appropriations Act removed the \$1.5 billion appropriations limit on the use of NCUA's Central Liquidity Facility (CLF), effectively raising the CLF's lending limit to \$41 billion under the statutory formula.

Emergency Programs

Responding to the stress among financial institutions, the FDIC and the NCUA have committed resources towards new programs that are intended to increase access to credit, strengthen financial institutions, and restore confidence in the housing sector (see Section IV for additional programmatic detail). These programs include:

FDIC:

- 3-year guarantee of qualifying bank and bank holding company senior unsecured debt issued prior to October 31, 2009;
- Removal of the insurance limit on participating banks' non-interest bearing transaction account deposits thru December 31, 2009;

NCUA:

- Guarantee of certain unsecured debt of participating corporate credit unions issued from October 16, 2008 thru June 30, 2009;
- Corporate credit union stabilization programs, including lending programs designed to increase liquidity at corporate credit unions.

Recent Performance of the Federal Deposit Insurance Funds

There has been significant deterioration of conditions in the banking industry since summer 2007. As of December 31, 2008, the FDIC classified 252 institutions with \$159 billion in aggregate assets as "problem institutions" (institutions with the highest risk ratings), a level of problem assets almost four times higher than that in December 2007. As of December 31, 2008, the DIF reserve ratio stood at 0.40 percent, or \$40.6 billion below the level that would meet the target reserve ratio of 1.25 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 2008 with assets of \$7.2 billion and an equity ratio of 1.28 percent, below the NCUA-set target ratio of 1.30 percent. Recent market volatility has seen an increase in observed losses in the credit union industry. The number of problem institutions reported by the NCUA has steadily risen since 2007, and the SIF has set aside more than \$6 billion to cover potential insurance losses, significantly more than the \$290 million in loss expenses incurred in calendar year 2008.

Restoration Plans

On September 30, 2008, the FDIC reported that the DIF reserve ratio had fallen below the minimum level of 1.15 percent. Pursuant to 12 U.S.C. 1817(b), the FDIC proposed a plan to restore the DIF to 1.15 percent within 5 years (i.e., prior to October 5, 2013) by increasing annual insurance premiums to an effective rate of 13.5 basis points. Citing the significant strains on banks, on February 27, 2009, the FDIC extended the restoration plan horizon to seven years (October 5, 2015) for restoring the DIF. The FDIC also announced both an increase to the regular assessment from 13.5 basis points to an average assessment of 15 basis points, and a one-time special assessment on the banking industry of 20 basis points in order to increase the resources available to the DIF for resolving bank failures.

The Budget proposes to increase the FDIC's borrowing authority from \$30 billion to \$100 billion. By enhancing the FDIC's ability to finance expenses for resolving failed institutions, it would allow the FDIC to grant a deposit insurance premium reprieve in the near term when bank capital is already strained. This temporary reprieve would be followed by steady increases in insurance premium assessments as the economy and bank health recover. The Budget projects the DIF reserve ratio will return to 1.15 percent in 2015 and 1.25 percent in 2016.

On September 30, 2008, the NCUA reported that the Share Insurance Fund (SIF) reserve ratio had fallen below the NCUA-set target ratio of 1.30 percent. Pursuant to section 202(c)(2) of the Federal Credit Union Act, the NCUA is required to assess a premium charge on member institutions if the equity ratio in the SIF falls below 1.2 percent, which it is projected to do in 2009.

The Budget reflects a proposal to both increase the borrowing authority of the NCUA and permit a 7-year restoration period to return the SIF equity ratio to 1.2 percent. The Budget proposal projects the NCUA levying lower premiums in the near term and steadily increasing premiums through 2015. Under the proposal, the SIF equity ratio would return to 1.2 percent in 2015 and 1.3 percent in 2016.

Pension Guarantees

The Pension Benefit Guaranty Corporation (PBGC) insures pension benefits of workers and retirees in covered defined-benefit pension plans sponsored by private-sector employers. PBGC pays benefits, up to a guaran-

teed level, when a company with an underfunded pension plan meets the legal criteria to transfer its obligations to the pension insurance program. 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.

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.

The program currently has a \$10.7 billion deficit in assets necessary to satisfy all claims made through 2008. (Claims are the net cost of terminating a pension plan—the gap between its assets and liabilities.) This is compared to a \$9.7 billion surplus at 2000 year-end. The current shortfall is actually a \$2.4 billion improvement from 2007, due largely to an increase in discount rates that reduced the present value of PBGC's benefit liabilities and the absence of major new terminations of underfunded plans. PBGC's operating results are subject to significant

fluctuation from year to year, depending on the severity of losses from plan terminations, changes in the interest factors used to discount future benefit payments, investment performance, general economic conditions and other factors such as changes in law. While the improvement may give the impression that PBGC's financial condition has improved, in fact its long-term loss exposure and flawed funding system continue to threaten its financial sustainability.¹

PBGC estimates its loss exposure to reasonably possible terminations (e.g., underfunded plans sponsored by companies with credit ratings below investment grade) at approximately \$47 billion on September 30, 2008. For FY 2008, this exposure was concentrated in the following sectors: manufacturing (primarily automobile/auto parts, and primary and fabricated metals), transportation (primarily airlines), and wholesale and retail trade.

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 enforced appropriate flood plain management measures.

¹ In addition, the airline relief provisions in the Pension Protection Act of 2006, which resulted in large plans previously classified as probable terminations being changed to the reasonably possible classification in FY 2006, likely postponed rather than eliminated losses, as it is likely that the airlines will eventually relapse and present a claim to the PBGC. If PBGC's deficit were calculated without regard to PPA airline provisions, PBGC estimates that its net deficit shown in this report would be approximately \$8 billion higher (assuming 2006 underfunding levels for the specific airline plans remained constant).

Table 7-1. LARGEST 10 CLAIMS AGAINST THE PBGC'S SINGLE-EMPLOYER INSURANCE PROGRAM 1975-2007

Top 10 Firms		Fiscal Years of Plan Terminations	Claims (by firm)	Percent of Total Claims (1975-2007)
1	United Airlines	2005	\$7,503,711,171	21.50%
2	Bethlehem Steel	2003	3,654,380,116	10.50%
3	US Airways	2003, 2005	2,684,542,754	7.70%
4	LTV Steel*	2002, 2003, 2004	2,134,985,884	6.10%
5	Delta Airlines	2006	1,740,482,711	5.00%
6	National Steel	2003	1,275,628,286	3.70%
7	Pan American Air	1991, 1992	841,082,434	2.40%
8	Trans World Airlines	2001	668,377,106	1.90%
9	Weirton Steel	2004	640,480,970	1.80%
10	Kaiser Aluminum	2004, 2007	602,132,764	1.70%
Top 10 Total			21,745,804,196	62.20%
All Other Total			13,193,241,357	37.80%
TOTAL			\$32,626,780,271	100.00%

Sources: PBGC Fiscal Year Closing File (9/30/07), PBGC Case Administration System, and PBGC Participant System (PRISM).

Due to rounding, percentages may not add up to 100 percent.

Data in this table have been calculated on a firm basis and include all 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.

Coverage is limited to buildings and their contents. By the end of 2008, 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 the geographic 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.

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 expand the flood-insurance business to the private insurers that sell and service flood policies for the Federal Government.
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 2008 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.

The program's reserve account, which is a cash fund, has sometimes had expenses greater than its revenue, forcing the NFIP to borrow funds from the Treasury in order to meet claims 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 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, based on the following principles: protecting the NFIP's integrity by covering existing commitments; phasing out subsidized premiums in order to charge fair and actuarially sound premiums; increasing program participation incentives and improving enforcement of mandatory participation in the program; increasing risk awareness by educating property owners; and reducing future risks by implementing and enhancing mitigation measures. The Administration looks forward to working with the Congress to enact program reforms that further mitigate the impact of flood damages and losses.

Crop Insurance

Subsidized Federal crop insurance administered by USDA's Risk Management Agency (RMA) assists farmers in managing yield and revenue shortfalls due to bad weather or other natural disasters. The program is a cooperative effort between the Federal Government and the private insurance industry. Private insurance companies sell and service crop insurance policies. These companies rely on reinsurance provided by the Federal Government and also by the commercial reinsurance market to manage their individual risk portfolio. The Federal Government reimburses private companies for a portion of the administrative expenses associated with providing crop insurance and reinsures the private companies for excess insurance losses on all policies. The Federal Government also subsidizes premiums for farmers.

The Administration's 2010 Budget reflects specific legislative proposals that would reduce the Federal subsidy to both farmers and the insurance companies in the following three ways:

- Reduce premium subsidies on buy-up coverage by 5 percentage points.
- Increase the government's share on underwriting gains to 20 percent from 5 percent.
- Reduce the face value premium on Catastrophic Crop Insurance (CAT) by 25 percent and charge an administrative fee on CAT equal to the greater of \$300 or 25 percent of the (restated) CAT premium, subject to a maximum fee of \$5,000.

In addition to these changes, the Farm Bill authorized the Federal Crop Insurance Corporation (FCIC) to have the option of renegotiating the financial terms and conditions of the Standard Reinsurance Agreement with the crop insurance companies during FY 2010. If the FCIC exercises this authority, it could result in more efficiency for risk sharing between the government and the crop insurance companies.

There are various types of insurance programs. The most basic type of coverage is 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 coverage, 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 ten principal crops, which accounted for about 80 percent of total liability in 2008, the most recent data show that over 79 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. One of the innovative products being refined for 2009 is the Biotech Endorsement (BE) for non-irrigated corn intended to be harvested for grain, including an extension of the endorsement to irrigated corn. This product allows producers that plant with qualifying biotech seed corn to receive discounts on their crop insurance premiums. The BE was originally tested in the 2008 crop year in four states and is being expanded to eleven states for the 2009 crop year. The premium rate reduction was determined to be actuarially sound based on data demonstrating that non-irrigated corn with specific bioengineered traits having a significantly lower risk of yield loss in comparison to non-traited corn. During 2009 RMA intends to publish a final regulation, effective for the 2011 crop year, implementing the "Combo" policy. The Combo policy combines 5 existing policies into a single plan of insurance that would streamline the insurance process for RMA, the approved insurance providers, and producers. It would offer producers a choice of revenue protection

(against a loss of revenue caused by low prices, low yields or a combination of both) or yield protection (for production losses only), all within the same policy. RMA also continues to pursue a number of avenues to increase program participation among underserved States and commodities by working on declining yield issues and looking at discount programs for good producers who pose less risk.

Insurance against Security-Related Risks

Terrorism Risk Insurance

The Terrorism Risk Insurance Program (TRIP), authorized under P.L. 107-297, helped stabilize the insurance industry during a time of significant transition 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), that narrowed the Government's role by increasing the private sector's share of losses, reducing lines of insurance covered by the program, and adding an event trigger amount for Federal payments.

In December 2007, Congress passed a seven-year extension (P.L. 110-318) that broadened the program to include losses from domestic as well as foreign acts of terrorism. For all seven extension years, it maintains an 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. It changed mandatory recoupment provisions, requiring Treasury to collect 133 percent of the Federal payments made under the program, and accelerated time horizons 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. Using market driven data, the Budget projects annual outlays and recoupment for TRIP. These estimates represent the weighted average of TRIP payments over a full range of scenarios, most of which include no terrorist attacks (and therefore no TRIP payments), and some of which include terrorist attacks of varying magnitudes. On this basis, the Budget projects net spending of \$2.160 billion over the 2010-2014 period and \$3.069 billion over the 2010-2019 period.

The Administration proposes to lessen Federal intervention in this insurance market and reduce the subsidy to private insurers (i.e., increase the private sector's share of losses). Beginning in 2011, when the economy is expected to have stabilized, and then again in 2013, the proposal would increase the insurer deductible and co-payment, and the event trigger amount for Federal payments. The proposal would also remove coverage for domestic terrorism. Prior to the 2007 reauthorization, coverage of domestic terrorism was widely available even in the ab-

sence of Government support. The proposal would sunset TRIP in 2014 consistent with current law. By reducing an insurance market subsidy, the proposal would encourage the private sector to mitigate terrorism risk through other means, such as developing alternative reinsurance options prior to the 2014 program termination date and by building safer buildings. Beginning in 2010, the Budget proposal amends TRIP to allow insurers additional time to remit policyholder surcharges to Treasury and to require commercial property and casualty insurance policyholders to collectively pay back only 100 percent rather than 133 percent of the Federal payments made under the program. In so doing, the proposal would allow Treasury to assess a surcharge (recoup Federal payments) only after the economy begins to recover following a terrorist attack.

The Budget projects savings from this proposal of \$263 million over the 2010-2014 period and \$644 million over the 2010-2019 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 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 Federal Aviation Administration Extension Act of 2009 (P.L. 111-12) further extended the requirement to provide insurance coverage through September 30, 2009. 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 before September 11, 2001; 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 for occurrences involving weapons of mass destruction is more limited.

Currently 62 air carriers are insured by Department of Transportation. Coverage for individual carriers ranges from \$80 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 2008, the Fund earned approximately \$166 million in premiums for insurance provided by DOT. At the end of 2008, the balance in the Aviation Insurance Revolving Fund available for payment of future claims was \$1,146 million. Although no claims have been paid by the Fund since 2001, 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.

IV. FINANCIAL CRISIS AND GOVERNMENT RESPONSE

Technological advances and the removal of regulatory barriers over the last few decades have transformed the financial markets. By facilitating the gathering and processing of information and lowering transaction costs, technological advances have spurred competition and enabled markets to reach previously underserved populations. However, the crisis of the past 18 months has exposed critical gaps and weaknesses in the Nation's financial system.

Though the origins of the financial crisis are complex, there is general agreement that suboptimal mortgage-underwriting standards, complex mortgage securitization, poor disclosure, poor risk assessment, antiquated regulation, and the combination of low interest rates and an abundance of liquidity have all contributed to the current financial crisis.

Attractive interest rates combined with less than adequate underwriting standards in the late 1990s and early 2000s led many Americans to take on larger mortgages

than their incomes could absorb. Financial institutions had underwritten a meaningful portion of these mortgages through a combination of lax standards and subprime or "Alt-A" products. These mortgages were then pooled into securities, sliced into tranches, and then sold and re-sold into the marketplace with little understanding or disclosure of the underlying risks. Credit ratings of these securities were proven to be overly optimistic or at worst, unfounded. In 2007, the housing bubble burst, and in a declining home price environment, many of these assets were proven to have much less value than anticipated, which drove significant losses on investor and bank balance sheets. Both banks and investors, in their need to reduce the risk of further losses, began selling these assets with significant price reductions. At the same time, the economy was left exposed by financial regulations that were out of date and regulators that were not equipped to properly oversee the financial institutions and the marketplace as a whole.

As the marketplace, financial institutions, and regulators came to terms with the systemic risk underlying the financial system, investors began to lose confidence, the credit markets froze, and companies were unable to identify and secure sources of financing, which intensified the severity of liquidity problems.

Government Response

The U.S. Government has taken unprecedented action to stem the negative effects of the financial crisis, assuming both the risk and return associated with being the lender and investor of last resort. The Department of the Treasury, the Federal Reserve (The Fed), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Securities and Exchange Commission (SEC), and the Commodity Futures Trading Commission (CFTC) 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; and
- restore confidence in the financial market and stabilize the housing sector.

Below is a summary of key government programs followed by an analysis of the budgetary effects of Treasury's Troubled Asset Relief Program (TARP), as required by Section 203 of the Emergency Economic Stabilization Act of 2008.

Federal Reserve Programs

The Federal Reserve has responded to the crisis by extending its existing credit programs, creating new credit programs, directly purchasing assets for its System Open Market Account (SOMA) portfolio, and providing direct financial support to systemically significant financial institutions. Beginning in early August of 2007, the Federal Reserve began pumping liquidity into the system to offset the precipitous decline in interbank lending. However, interbank liquidity concerns continued to persist, which led to the creation of the Term Auction Facility (TAF) in December 2007. This facility allowed banks to access Federal Reserve funds through an auction process. As of April 1, 2009, banks have borrowed \$60 billion. Soon thereafter, the Federal Reserve provided numerous swap agreements with foreign central banks, allowing the Federal Reserve to address liquidity problems related to a shortage of U.S. dollars around the world.

Throughout 2008, the Fed continued to create new programs designed to improve funding market conditions. The Term Securities Lending Facility (TSLF), introduced in March 2008, allowed institutions to pledge an array of collateral (all investment grade debt and securities) in return for risk-free Treasury collateral. Second, in the wake of the Bear Stearns failure in 2008, the Fed opened the discount window for broker-dealers, giving these institutions a critical source of short-term liquidity; in the past, only depository institutions had access to the discount window. The Fed also created the Asset-Backed Securities

Money Market Mutual Fund Loan Facility, the Money Market Investor Funding Facility, and the Commercial Paper Funding Facility. Each of these programs increases sources of liquidity for different participants in the money markets, which has had the effect of stabilizing broader financial markets. The Fed has committed up to \$540 billion through these three facilities and extended credit equal to \$244 billion as of April 1, 2009.

Addressing the frozen consumer and business credit markets, the Fed announced on November 25, 2008 that in conjunction with the Treasury Department it would lend up to \$200 billion to holders of newly issued "triple A" asset-backed securities through the Term Asset Backed Security Loan Facility (TALF). Qualifying assets include student loans, auto loans, credit cards, and Small Business Administration guaranteed loans. As part of the program, the Treasury provides protection to the Fed by covering the first \$20 billion in losses. As of April 1, 2009, subscriptions of qualified securities total \$4.7 billion. The Fed and Treasury subsequently announced that this program may be extended to up to \$1 trillion and include a broader array of eligible assets.

To prevent system-wide failures posed by specific institutions, the Fed has taken several important actions. First, the Fed agreed in March 2008 to purchase \$29 billion of illiquid assets from the Bear Stearns Company, which allowed JP Morgan Chase & Co. to acquire remaining Bear Stearns assets and liabilities. The Fed established a limited liability corporation ("Maiden Lane") to hold the assets, which were valued at \$26 billion as of April 1, 2009. In another action designed to prevent systemic failure, the Fed provided up to approximately \$60 billion in loans to the American International Group (AIG) at a rate of 300 basis points above LIBOR, collateralized by the assets of AIG. The Fed received warrants allowing it to buy 77.9 percent of AIG shares, which the Fed transferred to an independent trust for the benefit of the US Treasury. The Fed also provided \$50 billion in additional loans to finance both a portfolio of collateralized default swaps, and a portfolio of residential mortgage backed securities. The Fed has also provided financing to other financial institutions (e.g., Citigroup) as a backstop on a pool of mortgage-backed securities and other financial instruments held by the institutions (see section titled "Troubled Asset Relief Program" for more information). By taking each of these steps, the Fed has sought to prevent a system wide failure that may have occurred as a result of the complex and interconnected relationships these institutions have with the broader financial industry.

To support mortgage lending and housing markets, the Fed began purchasing up to \$200 billion of Government Sponsored Entity (GSE) debt and up to \$1.25 trillion of GSE mortgage-backed securities (MBS) beginning in December 2008. As of April 1, 2009 the Fed has purchased \$51 billion in GSE debt and \$236 billion in GSE MBS. Purchasing GSE debt and MBS is intended to provide liquidity to the mortgage industry and facilitate the issuance of new mortgage loans to homebuyers at affordable interest rates. More recently, the Fed has begun purchasing up to \$300 billion in longer-term Treasury securities

to improve interest rate conditions in mortgage and other private credit markets.

To help manage its growing balance sheet, the Fed has pursued several different options. First, pursuant to the Emergency Economic Stabilization Act of 2008 (P.L. 110-343), the Federal Reserve can pay interest on the required and excess reserve balances depository institutions hold at the Fed and in their vaults. Paying interest on these reserves increases a depository institution's (bank's) incentives to keep the funds in the Federal Reserve System. As of April 1, 2009, banks had \$270 billion in reserve deposits at the Fed. Treasury has also helped the Fed manage its balance sheet through the Supplementary Financing Program (SFP). Through this program, the Treasury sells Government securities to the public to deposit the proceeds at the Federal Reserve. Down from its peak level of \$559 billion in November 2008, Treasury's SFP deposits at the Fed were \$200 billion as of April 1, 2009.

Federal Deposit Insurance Corporation (FDIC) Programs

On October 14, 2008, using its existing authority, the FDIC created the Temporary Liquidity Guarantee Program (TLGP), aimed at restoring confidence in banks and preventing large scale deposit flight. For the first time ever, the FDIC guaranteed bank and bank holding company debt. Under the guarantee, if there is default on the debt, the FDIC will make required principal and interest payments to unsecured senior debt holders. The FDIC charges additional premiums for any banks that voluntarily opt into this program. The program has been designed to promote liquidity by allowing banks to roll-over new debt. The guarantee was originally limited to unsecured debt issued on or before June 30, 2009, expiring June 30, 2012. As of March 31, 2009, the program guaranteed nearly \$300 billion of debt. On March 17, 2009, the FDIC extended the eligible period to issue debt through October 31, 2009, and levied a surcharge on debt issued between April 1, 2009 and October 31, 2009, which will be transferred to Deposit Insurance Fund. The Budget projects that the program will guarantee approximately \$600 billion in bank loans over the life of the program.

As another component of the TLGP, the FDIC covers without limit any losses that uninsured depositors incur within non-interest bearing deposits. This program was intended to promote funding stability and would have the effect of protecting small business payrolls held at banks. FDIC charges additional premiums for any banks that voluntarily opt into this program. This guarantee was designed to protect small business payrolls held at small and medium sized banks. This new guarantee expires December 31, 2009.

The FDIC has also collaborated with the Treasury Department and the Federal Reserve to provide assistance to systemically significant failing institutions such as Citigroup and Bank of America. For its part, the FDIC has guaranteed up to \$10 billion of a \$301 billion portfolio of residential and commercial MBS at Citigroup. The FDIC has also announced that it would guarantee up to \$2.5 billion on a \$108 billion portfolio of derivatives and

cash instruments at Bank of America.

In addition to the liquidity programs, the Emergency Economic Stabilization Act of 2008 temporarily increased the deposit and share insurance level from \$100,000 per account to \$250,000 through December 31, 2009. This increase applies to insured accounts of both the FDIC and the National Credit Union Administration (NCUA). A more detailed analysis of these programs is provided in the section titled, "Deposit Insurance" and below in the subsection, "Troubled Asset Relief Program."

National Credit Union Administration Programs

On October 16, 2008, the NCUA announced a Temporary Corporate Credit Union Liquidity Guarantee Program. Under this program, the NCUA Share Insurance Fund will guarantee certain unsecured debt of participating corporate credit unions issued from October 16, 2008 through June 30, 2009. Similar to the FDIC, for the first time ever, if a corporate credit union fails, NCUA will cover any losses of unsecured debt holders. On December 9, 2008, the NCUA also announced two new programs: the Credit Union Homeowners Affordability Relief Program (HARP) and the System Investment Program (SIP). Both programs are designed to increase liquidity at corporate credit unions, which currently act as a banker's bank for regular credit unions that do not have access to NCUA's credit advances.

Under HARP, NCUA's Central Liquidity Facility (CLF) will make two-year secured advances of credit up to \$2 billion invested through a special corporate credit union note. Credit unions that reduce mortgage rates within program guidelines qualify for a bonus payment from the corporate credit union, which shares mortgage loan modification costs. The NCUA will guarantee the special corporate credit union debt, including the bonus payment. To date, advances of \$164 million have been made.

Under SIP, NCUA's CLF will extend 1-year credit advances to credit unions, who will in turn invest those funds in corporate credit unions, providing a low cost source of liquidity for corporate credit unions. To date, actual advances have been close to \$5 billion. The Budget projects advances of \$12 billion for 2009.

The NCUA has also announced two actions to further stabilize corporate credit unions. On January 28, 2009, the NCUA deposited a note of \$1 billion at U.S. Central Federal Credit Union, a corporate credit union headquartered in Kansas. The Budget projects the full loss of this note. On March 19, 2009, NCUA announced that it was placing two corporate credit unions, U.S. Central and Western Corporate, into conservatorship. As a result of this action the NCUA's increased its overall loss reserve level related to expected losses for corporate guarantees to \$6 billion.

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

During the financial crisis, the SEC and CFTC have continued identifying, investigating, and prosecut-

ing fraud in securities, futures, and options markets. Enforcement cases have targeted illegal activity ranging from the manipulation of markets to multi-billion dollar Ponzi schemes. Starting in 2007 through February 2009, and on an ongoing basis, the SEC has issued rules to increase the transparency of the credit rating methodologies, strengthen the disclosures of ratings performance, prohibit ratings agencies from engaging in certain practices that create conflicts of interest, and enhance the recordkeeping and reporting obligations that assist the SEC in performing its regulatory and oversight functions. Under the rules credit rating agencies are also required to differentiate the ratings they issue on structured products (such as mortgage-backed securities) from those they issue on bonds, in order to increase investors' understanding of the different risks of the two securities. The SEC has several other pending proposals to further promote accountability, transparency, and competition in the rating industry. On a temporary basis, in July 2008, the SEC restricted "naked" short selling in the stocks of 19 financial companies, and in September 2008, halted short-selling altogether in the stocks of approximately 1,000 financial companies, with the goal of mitigating exceptionally volatile trading that posed a threat to fair and orderly markets. The SEC also took steps to strengthen prohibitions on manipulative "naked" short selling (the illegal practice of selling shares that the seller does not own or has not arranged to borrow and intentionally fails to deliver in time for settlement) including issuing new rules, and is looking into other measures surrounding short sales that will promote market stability and restore investor confidence. Last, the SEC has worked with the Financial Accounting Standards Board to issue industry guidance on implementing fair value accounting standards.

The CFTC has implemented new regulations to oversee exempt commercial markets for the first time, specifically for contracts that serve a significant price discovery function (SPDCs). The CFTC Reauthorization Act of 2008 authorized the CFTC to adopt position limits and accountability level provisions for SPDCs traded on exempt commercial markets. The bill also established core principles governing exempt commercial markets with SPDCs, particularly with respect to position limits and accountability level provisions. The goal of the CFTC's new rules is to provide consistent transparency and accountability between markets that serve significant price discovery functions. The regulations will cover contracts that have grown in volume and activity and now have a significant effect on futures markets that are subject to CFTC oversight. These rules are consistent with other initiatives that the CFTC protect consumers and ensure the integrity of the core risk management and price discovery functions of the energy and agricultural futures markets. These initiatives have expanded international surveillance information for crude oil trading, reporting and classifications of index traders and swap dealers, and risk management choices for farmers and agri-businesses. These initiatives are in addition to the CFTC's publicly-disclosed nationwide crude oil and cotton market enforce-

ment investigations and its creation of a new Energy and Environmental Markets Advisory Committee.

In December 2008, the CFTC accepted the Chicago Mercantile Exchange's certification of plans to provide clearing services for certain credit default swap contracts through its clearinghouse, which is registered with the CFTC as a derivatives clearing organization. The advent of clearing solutions for the credit default swap market will enhance transparency, reduce counterparty credit risk, and improve the quantity and quality of information provided to federal regulators regarding these over-the-counter derivative instruments.

Housing Market Programs

To preserve the safety and soundness of the housing market and particularly the Government Sponsored Enterprises (GSE), the Federal Housing Finance Authority (FHFA) placed Fannie Mae and Freddie Mac into conservatorship on September 6, 2008. On the same day, the U.S. Treasury launched three new programs to provide temporary financial support to the GSEs and to stabilize the housing market under the broad authority provided in Housing and Economic Recovery Act of 2008 (P.L. 110-289). First, Treasury announced Preferred Stock Purchase Agreements to ensure that GSEs maintain positive net position (i.e. assets are greater than or equal to liabilities). As of April 1, 2009, Treasury has announced a funding commitment of up to \$200 billion to each of the GSEs under these agreements. The 2010 Budget projects Treasury's purchases under this program will total \$171 billion. Second, Treasury established a line of credit for the GSEs to ensure they have adequate funding on a short-term, as-needed basis. As of April 1, 2009, this line of credit has not been used. Last, Treasury initiated purchases of GSE guaranteed mortgage-backed securities (MBS) in the open market (separate from the Fed's MBS purchase program above), with the goal of increasing liquidity in the mortgage market. The Budget projects Treasury will purchase \$314 billion of GSE MBS. A more detailed analysis of these programs is provided in the section titled, "Government Sponsored Enterprises in the Housing Market."

In addition, significant assistance has been provided to the mortgage market through the Federal Housing Administration (see discussion above), and through the Department of the Treasury, as described below.

Treasury Programs

The Emergency Economic Stabilization Act of 2008 (P.L. 110-343) authorized Treasury to purchase or guarantee troubled assets and other financial instruments, with a total outstanding not to exceed \$700 billion at any one time. Treasury implemented the Troubled Asset Relief Program (TARP) under this authority to provide capital to and restore confidence in the strength of U.S. financial institutions, restart markets critical to financing American households and businesses, and address housing market problems and the foreclosure crisis. TARP authority expires December 31, 2009, although the Treasury Secretary can certify to Congress that an extension is

necessary, in which case authority expires no later than October 2010. TARP agreements in place upon the authority's expiration will continue until they are dissolved. A more detailed analysis of specific TARP programs is provided below.

In addition, in 2008 the President approved Treasury's request to use the Exchange Stabilization Fund to guarantee money market mutual funds. Treasury's Temporary Guarantee Program for Money Market Funds guarantees that individual investors will receive the stable share price for each share held in a participating money market fund (typically \$1 per share) in the event that the fund "breaks the buck," i.e. liquidates investor holdings at less than \$1 per share. As of April 1, 2009, there have been no claims on this guarantee program. Although not a claim under the program, in early 2009, due to unique and extraordinary circumstances, Treasury purchased \$3.6 billion in assets (GSE debt) to assist with the liquidation of a money market mutual fund.

The Troubled Asset Relief Program and Financial Stability Plan

i. Capital Purchase Program

Treasury created the Capital Purchase Program (CPP) in October 2008 to stabilize the financial system by providing capital to viable financial institutions of all sizes throughout the Nation. With a strengthened capital base, financial institutions have an increased capacity to lend to U.S. businesses and consumers and to support the U.S. economy. Under the Capital Purchase Program (CPP), Treasury purchases senior preferred stock in U.S. financial institutions that meet established criteria and are recommended by their regulator. As of April 1, 2009, Treasury has purchased \$198.8 billion in preferred stock from 532 institutions. The Budget projects Treasury will make \$218 billion in purchases through 2009.

On February 27, 2009 Treasury announced its intent to convert \$25 billion in Citigroup preferred stock purchased through the CPP into common stock in Citigroup equivalent to a 36 percent stake. The conversion is intended to increase the tangible common equity at Citigroup and will be completed later this year.

ii. Systemically Significant Failing Institutions Program

The goal of the Systemically Significant Failing Institutions Program (SSFI) is to provide stability to financial institutions whose financial difficulties could cause disruption to financial markets, in order to limit the impact on the economy as a whole, and to protect American jobs, savings and retirement. Treasury provides capital on a case-by-case basis to systemically significant financial institutions that are at substantial risk of failure. To date, the Treasury has purchased \$40 billion in preferred shares from the American International Group (AIG). It has also created an equity capital facility, which will allow AIG to draw up to \$29.8 billion as needed in exchange for preferred stock.

iii. Targeted Investment Program

Treasury created the Targeted Investment Program (TIP) to stabilize the financial system by making investments in institutions that are critical to the functioning of the financial system. This program focuses on the complex relationships and reliance of institutions within the financial system. Investments made through the TIP seek 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.

As of April 1, 2009, Treasury has purchased \$20 billion in preferred stock from Citigroup, and \$20 billion in preferred stock from Bank of America. Both preferred stock agreements pay a dividend of 8 percent per annum.

iv. Asset Guarantee Program

Under the Asset Guarantee Program (AGP), Treasury guarantees the value of certain assets held by the qualifying financial institution. The set of insured assets is selected by the Treasury and its agents in consultation with the financial institution receiving the guarantee. In accordance with EESA's section 102(a), assets to be guaranteed must have been originated before March 14, 2008. Treasury determines the eligibility of participants and the allocation of resources on a case-by-case basis. The program is meant for systemically significant institutions, and could be used in coordination with other programs. Treasury may, on a case-by-case basis, use this program in coordination with a broader guarantee involving other agencies of the United States Government.

As of April 1, 2009, Treasury has announced two guarantees under the AGP: Citigroup and Bank of America. Treasury has committed up to \$5 billion towards any potential losses incurred on a \$301 billion portfolio of loans, mortgage-backed securities, and other assets held by Citigroup. Treasury absorbs 90 percent of losses after Citigroup absorbs the first \$39.5 billion in losses. (Citigroup continues to share 10 percent of losses after the \$39.5 billion deductible.) The FDIC absorbs the next \$10 billion in losses (again, via a 90/10 loss share with Citigroup), and the Fed has agreed to finance the remaining portfolio on a non-recourse basis. Treasury receives \$4.034 billion in preferred stock with an 8 percent dividend from Citigroup as a fee, and the FDIC receives \$3 billion of identical preferred stock. Treasury also receives warrants to purchase 66,531,728 shares of Citigroup common stock at a strike price of \$10.61. The Fed receives an interest rate of the Overnight Indexed Swap (OIS) rate plus 300 basis points. The guarantee was signed and executed January 16th, 2009.

Treasury also may guarantee up to \$7.5 billion on a \$118 billion portfolio of derivatives, collateralized debt obligations, mortgage-backed securities, and commercial and corporate loans owned by Bank of America. Treasury and the FDIC would absorb losses after Bank of America absorbs the first \$10 billion in losses. Treasury would receive \$3 billion in preferred stock with an 8 percent dividend from Bank of America as a fee, as well as warrants

to purchase common shares. The guarantee has not been signed or executed as of April 1, 2009.

v. Automotive Industry Financing Program

The goal of the Automotive Industry Financing Program (AIFP) is to prevent a significant disruption of the domestic automotive industry. The Treasury provides both loans and equity to participating domestic automotive manufacturers, finance companies, and suppliers. Through April 1, 2009, Treasury had financed a total of \$24.8 billion under the AIFP. Specifically, Treasury has purchased \$5 billion in GMAC Equity, lent \$0.9 billion to GM for rights to GMAC, \$13.4 billion to General Motors (GM), \$4 billion to Chrysler, and \$1.5 billion to Chrysler's finance subsidiary. Treasury had also committed another \$5 billion to domestic automotive suppliers. Under the terms of the assistance, both GM and Chrysler are required to submit restructuring plans to the U.S. Government. On March 30, 2009, the President indicated that working capital loans would be provided to both GM and Chrysler as they worked under a 60-day and a 30-day deadline, respectively, toward long-term viability plans. At the same time, the President announced the Warrantee Commitment program, which covers all warranties on new vehicles purchased from automotive manufacturers during the period in which those manufacturers are restructuring.

vi. Home Affordable Modification Program

In early March 2009, Treasury committed up to \$50 billion to the Home Affordable Modification Program (HMP). The HMP, which is part of the larger "Making Home Affordable" program, is intended to bring relief to up to 3 million to 4 million "at-risk" homeowners struggling to make their mortgage payments, while preventing neighborhoods and communities from suffering the negative spillover effects of foreclosures.

This program, implemented in collaboration with Fannie Mae and Freddie Mac, will reduce the payment on mortgages to an affordable level for qualifying borrowers, as well as provide incentive payments for lenders and servicers to complete sustainably affordable modifications. The program encourages meaningful modifications by providing success payments to both the borrower and the servicer. Because loan modifications are more likely to succeed if they are made before a borrower misses a payment, the program also includes an incentive payment of \$1,500 to mortgage holders and \$500 to servicers for modifications made while borrowers are still current on their payments. The HMP will be complemented by a second lien program, which will improve loan performance and help prevent foreclosures by lowering total debt burden and providing homeowners with additional equity in their homes.

vii. Consumer and Business Lending Initiative

The Consumer and Business Lending Initiative (CBLI) is an effort to jumpstart the credit markets that support lending to families and small businesses. The CBLI broadens and expands the resources of the Term Asset-Backed

Securities Loan Facility (TALF), a joint initiative with the Federal Reserve that provides financing to private investors to help unfreeze markets for various types of credit, including auto, student, small business, and credit card loans. Recently, Treasury and the Federal Reserve expanded TALF to include newly or recently issued AAA-rated ABS backed by four additional types of consumer and business loans—mortgage servicing advances, loans or leases relating to business equipment, leases of vehicle fleets, and floor plan loans. Immediately, Treasury will use \$20 billion to provide credit protection for \$200 billion of lending from the Federal Reserve, with a significant further expansion of resources provided under the Financial Stability Plan.

viii. A Program to Unlock Lending for Small Businesses

In March, Treasury announced a program to unlock credit for small businesses as part of the Consumer and Business Lending Initiative. In recent years, securitization has supported over 40 percent of lending guaranteed by the Small Business Administration. As a result of the severe dislocations in the credit markets that began in October 2008, however, both lenders that originate loans under SBA programs and the "pool assemblers" that package such loans for securitization have experienced significant difficulty in selling those loans or securities in the secondary market. This, in turn, has significantly reduced the ability of lenders and pool assemblers to make new small business loans. As a result, while the SBA guaranteed about \$18 billion in 2008 (excluding secondary market guarantees), new lending was trending below \$10 billion earlier this year.

As part of this program, Treasury will make up to \$15 billion available for direct purchases to unlock the secondary market for the government-guaranteed portion of SBA 7(a) loans as well as first-lien mortgages made through the 504 program. These purchases, combined with higher loan guarantees and reduced fees implemented under the American Recovery and Reinvestment Act of 2009, will help provide lenders with the confidence that they need to extend credit, knowing that if they make an SBA loan, they will be able to sell it and access the liquidity necessary to do further lending.

ix. Public Private Investment Program

Treasury introduced the Public Private Investment Program to address the vicious market cycle affecting troubled "legacy" assets clogging the balance sheets of financial institutions. Using \$75 billion to \$100 billion in capital from EESA and capital from private investors—as well as funding enabled by the Federal Reserve and FDIC—PPIP will generate up to \$500 billion in purchasing power to buy legacy securities and legacy loans, with the potential to expand to \$1 trillion over time.

PPIP ensures that private sector participants invest alongside the taxpayer, with the private sector investors standing to lose their entire investment in a downside scenario and the taxpayer sharing in profitable returns. To reduce the likelihood that the government will overpay

for these assets, private sector investors competing with one another will establish the price of the loans and securities purchased under the program.

x. Capital Assistance Program

Treasury launched the Capital Assistance Program (CAP) as the next phase of its effort to ensure that institutions have enough capital to lend, even under a more severe recession. The CAP was announced in conjunction with the commencement of a supervisory capital assessment process, commonly referred to as the “stress test.” At the time of this writing, bank supervisors are conducting reviews of major banks to determine whether these institutions would require an additional capital buffer in a severe economic scenario. Many banks will not need additional capital, but in cases where an additional buffer is needed, Treasury intends to make government capital available as a bridge to private capital through CAP.

TARP Program Costs

This section provides the special analysis required by Section 203 of the Emergency Economic Stabilization Act of 2008 (EESA), including estimates of the cost to taxpayers and the current value and budgetary effects of TARP transactions as reflected in the Budget², consistent with the requirements of Section 123 of the EESA. It also includes analysis of the budgetary effects had all transactions been reflected on a cash basis. While Section 203 requires explanation of the effects due to reestimates and prior year impacts, because the law was enacted in fiscal year 2009, there are no prior-year budgetary impacts to report in the 2010 Budget. Reestimates on the TARP portfolio will be calculated and incorporated into the 2011 Budget. The information below reflects the estimates of actual and anticipated use of TARP authority as of April 1, 2009.

Current Value of Assets

Under TARP, the Secretary of the Treasury has purchased equity capital under a number of programs, including the Capital Purchase Program, the Systemically Significant Failing Institutions Program, the Targeted Investment Program, and the Automotive Industry Financing Program. The Secretary has also made direct loans through the Automotive Industry Financing Program, and further direct loans and asset-backed security purchases are anticipated under the Term Asset-Backed Securities Loan Facility in partnership with the Federal Reserve, and the Consumer and Business Lending Initiative. Purchases of asset-backed securities, like securities backed by Small Business Administration 7(a) loans, are considered direct loans, because the Government is purchasing or participating in a loan made by another lender. The equity purchases and direct loans under these programs result in the Government acquiring assets, because the transactions result in obligations

on the part of financial institutions or borrowers to repay principal and interest on the loans.

In addition, the Secretary has guaranteed assets under the Asset Guarantee program. Loan guarantee transactions may represent an asset or a liability to the Government based on whether the expected value of loan guarantee fees and other cash inflows exceed claim payouts and other cash outflows. Where default claims exceed anticipated inflows to the Government on a net present value basis, the guarantee results in a positive subsidy cost. Likewise, if expected premiums are greater than the estimated claim payouts on a present value basis, the loan guarantee has value to the Government. Section 102 of the EESA requires that premiums for any TARP guarantee transactions be set at a minimum to cover default claims and protect the taxpayer. Below is a table summarizing the current and anticipated activity under TARP, and the budgetary costs through 2019.³

Equity purchases, direct loans, and loan guarantees are accounted for on a credit basis per the Federal Credit Reform Act of 1990, as amended (FCRA), and Section 123 of EESA. 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.⁴ Consistent with Section 123 of the EESA, the net present value is calculated using the discount rate under FCRA, adjusted for market risk.

Because equity purchases, direct loans, and loan guarantee transactions follow the FCRA budgetary accounting structure, the value of future cash flows related to these transactions can be measured by the balances in non-budgetary credit financing accounts. 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 Treasury to disburse a loan to a borrower. Inflows from the public—such as payments of principal and interest—are used to repay borrowing, and reduce the balance in the financing account as the value is realized. Therefore, the non-subsidy balance that the account owes to Treasury represents the present value of future anticipated cash flows to and from the public related to outstanding loans. 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.⁵

Table 7-3 shows the projected balances of TARP financing accounts as of the end of 2009, and for the end of each year in the 10-year budget window for the 2010 Budget. Estimates reflect actual and anticipated transactions.

³ Anticipated activity under TARP is included under Direct loan transactions, though future activity could take the form of equity purchases, direct loans, asset guarantees, or other financial instrument purchases.

⁴ Section 123 of the EESA provides the Administration the authority to record TARP equity purchases pursuant to the FCRA, with adjustments to the discount rate for market risks. The Home Affordable Modification Program involves the purchase of financial instruments which have no provision for repayment or other return on investment, and therefore these purchases are recorded on a cash basis. Administrative expenses are recorded for all of TARP under the Office of Financial Stability on a cash basis, consistent with other Federal administrative costs.

⁵ As an extreme example, a 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 Treasury. In this case, the loan would be estimated to have a zero asset value.

² The analysis does not assume the effects of a recoupment proposal under Section 134 of the EESA.

Table 7-2. BUDGETARY COSTS OF TROUBLED ASSET RELIEF PROGRAM ACTIONS (EXCLUDING DEBT SERVICE)
(In billions of dollars)

TARP Action	Face Value	Estimated Cost(+)/ Savings(-)
Equity purchases	333.0	141.6
Direct loan transactions	329.5	114.7
<i>Guarantees under the Troubled Asset Insurance Fund (non-add)</i>	419.0	
Guaranteed portion	12.5	-0.8
Home Affordable Modification Program ¹	50.0	50.0
TARP administrative expenses ¹	N/A	2.0
Special Inspector General for TARP ¹	N/A	*
Total ²	725.0	307.5

* \$50 million or less.

¹ Estimated costs through 2019, on a cash basis.

² Total reflects \$700 billion limitation, plus additional \$25 billion of redeemed equity expected to be available for reuse in the program.

TARP financing accounts are estimated to have balances of \$366 billion as of the end of 2009, indicating that—as of the end of 2009—the Government is holding assets with a net expected value of \$366 billion in future cash flows. The balance of the financing accounts is estimated to fall in 2010 and to continue to fall in the subsequent years, as the assets and loans acquired under the TARP program are repaid or sold, and asset guarantees wind down.

The figures in Table 7-3 are consistent with the estimating assumptions in the 2010 Budget. They do not reflect any future changes in estimates for the cash flows of these assets subsequent to the point of the Government's obligation of the assistance provided for each transaction under TARP.⁶ The subsidy costs of equity purchases, direct loan, and loan guarantee activity under TARP will be reestimated on an annual basis. Actual cash flows and changes in future activity could result in increases or decreases to the estimated value of TARP assets.

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 2010 Budget reflect the impact of TARP as estimated under FCRA and

⁶ These transactions include modification costs, or the estimated cost of Government actions subsequent to origination that changed the expected value of future cash flows. Please see the Treasury section of the Budget Appendix for additional information.

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 deficit due to TARP is \$242 billion in 2009, counting both direct program costs and other effects. On net, TARP is estimated to reduce the deficit by \$19 billion in 2010 and to have only small effects in later years.

The estimates of debt due to TARP include borrowing to finance both the deficit impact of TARP activity and the financing requirements of non-budgetary financing accounts. These estimates are shown in Table 7-4. Debt due to TARP is \$608 billion as of the end of 2009 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 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, private-sector securities, or equities held by the Government. The specific effects of TARP on these estimates are displayed below in Table 7-4. Accounting for the financial assets acquired through TARP, the impact of the program on net debt is \$242 billion as of the end of 2009. This amount falls to \$223 billion as of the end of 2010 but re-

Table 7-3. TROUBLED ASSET RELIEF PROGRAM CURRENT VALUE AS REFLECTED IN THE BUDGET ¹
(In billions of dollars)

	Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Financing Account Balances:											
Troubled Asset Relief Program Equity Purchase Financing Account	166.4	156.8	146.5	132.8	118.4	94.1	79.5	69.1	60.0	50.9	45.1
Troubled Asset Relief Program Direct Loan Financing Account	198.6	187.1	177.0	159.2	147.2	135.3	122.5	108.6	93.2	76.3	57.8
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account ..	0.5	0.4	1.0	-0.1	-0.4	0.3	0.6	0.2	-0.2	-0.5	-0.7
Total Financing Account Balances	365.5	344.3	324.5	291.9	265.2	229.7	202.6	177.8	153.1	126.8	102.1

¹ Table does not include financial instrument purchases under the Home Affordable Modification Program. These assets have no future value, and outlays are reflected on a cash basis.

mains roughly stable for the remainder of the 10-year budget window.

Estimate of the current value on a cash basis

Section 203 of EESA requires the Budget to report an estimate of the current value of all assets purchased, sold, and guaranteed under EESA as calculated on a cash basis. However, the value of the assets does not depend on whether the costs of acquiring or purchasing the assets are recorded in the budget on a cash or a credit basis. As noted above, the budget records the cost of equity purchases, direct loans, and guarantees as the net present

value cost to the Government, discounted at the rate required under the FCRA, and adjusted for market risks as required under Section 123 of EESA. Therefore, the net present value cost of the assets is reflected on the budgetary side, and the value of the assets is reflected in the financing accounts for equity purchases, direct loans and loan guarantees.⁷ 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

⁷ For the Home Affordable Modification Program, while Treasury does purchase financial instruments, these financial instruments do not result in the acquisition of an asset with potential for future returns.

Table 7-4. TROUBLED ASSET RELIEF PROGRAM EFFECTS ON THE DEFICIT AND DEBT AS REFLECTED IN THE BUDGET¹
(Dollar amounts in billions)

	Actual 2008	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Deficit Effect of TARP Program:												
Programmatic and administrative expenses:												
Programmatic expenses:												
Equity purchases	141.6	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Direct loan transactions	114.7	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Guarantees of troubled assets	-0.8	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Home Affordable Modification Program	4.1	8.1	9.9	10.3	8.0	6.0	2.6	1.0	0.1	.....	.....
Subtotal, programmatic expenses	259.6	8.1	9.9	10.3	8.0	6.0	2.6	1.0	0.1	.....	.....
Administrative expenses	0.2	0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1
Special Inspector General for TARP	*	*
Subtotal, programmatic & administrative expenses	259.8	8.4	10.1	10.6	8.2	6.2	2.7	1.1	0.2	0.1	0.1
Interest effects:												
Interest transactions with credit financing accounts ²	-18.8	-33.0	-31.2	-29.1	-26.5	-24.2	-21.1	-18.6	-16.4	-14.1	-11.7
Debt service ³	1.2	5.5	16.5	21.1	21.2	20.0	18.7	17.7	16.6	15.6	14.6
Subtotal, interest effects	-17.5	-27.5	-14.7	-7.9	-5.3	-4.2	-2.3	-0.9	0.2	1.5	2.9
Total deficit impact due to TARP	242.3	-19.1	-4.6	2.6	2.9	2.1	0.4	0.2	0.4	1.6	3.0
Other TARP transactions affecting borrowing from the public—net disbursements of credit financing accounts:												
Troubled Asset Relief Program Equity Purchase Financing Account	166.4	-9.5	-10.3	-13.7	-14.4	-24.3	-14.6	-10.4	-9.1	-9.1	-5.8
Troubled Asset Relief Program Direct Loan Financing Account	198.6	-11.5	-10.1	-17.8	-12.0	-11.9	-12.8	-14.0	-15.3	-16.9	-18.6
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.5	-0.1	0.6	-1.0	-0.3	0.7	0.3	-0.4	-0.4	-0.3	-0.3
Total, other transactions affecting borrowing from the public	365.5	-21.2	-19.8	-32.6	-26.7	-35.6	-27.1	-24.8	-24.8	-26.3	-24.6
Change in debt held by the public due to TARP	607.8	-40.3	-24.4	-30.0	-23.8	-33.5	-26.7	-24.5	-24.3	-24.7	-21.6
Debt held by the public due to TARP	607.8	567.5	543.1	513.1	489.4	455.8	429.1	404.6	380.3	355.6	333.9
As a percent of GDP	4.3%	3.8%	3.4%	3.1%	2.8%	2.5%	2.2%	2.0%	1.8%	1.6%	1.5%
Debt Held by the Public Net of Financial Assets:												
Debt held by the public due to TARP	607.8	567.5	543.1	513.1	489.4	455.8	429.1	404.6	380.3	355.6	333.9
Less financial assets net of liabilities -- credit financing account balances:												
Troubled Asset Relief Program Equity Purchase Financing Account	166.4	156.8	146.5	132.8	118.4	94.1	79.5	69.1	60.0	50.9	45.1
Troubled Asset Relief Program Direct Loan Financing Account	198.6	187.1	177.0	159.2	147.2	135.3	122.5	108.6	93.2	76.3	57.8
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.5	0.4	1.0	-0.1	-0.4	0.3	0.6	0.2	-0.2	-0.5	-0.7
Total, financial assets net of liabilities	365.5	344.3	324.5	291.9	265.2	229.7	202.6	177.8	153.1	126.8	102.1
Debt held by the public due to TARP net of TARP financial assets	242.3	223.2	218.6	221.2	224.1	226.2	226.5	226.8	227.2	228.8	231.8
As a percent of GDP	1.7%	1.5%	1.4%	1.3%	1.3%	1.2%	1.2%	1.1%	1.1%	1.0%	1.0%

* \$50 million or less.

¹ Table reflects deficit effect of budgetary costs.

² Treasury interest transactions with credit financing accounts are based on the market-risk adjusted rates.

³ Includes debt service effects of all TARP transactions affecting borrowing from the public.

(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. Even with this change in budgetary treatment, the assets held or guaranteed by the Government, and their value, would be the same as under a credit basis.

Revised estimate of the deficit, debt held by the public, and gross Federal debt based on the cash-basis valuation

Section 203 of EESA requires that this analysis report estimates of the deficit and debt attributable to TARP with TARP transactions calculated on a cash basis, for comparison to those estimates 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 no impact until there were fees, claim payouts, or other cash transactions associated with the guarantee.

Table 7-5 shows that if TARP transactions were reported on a cash basis, the increase in the deficit for 2009 due to TARP would be an estimated \$608 billion, or \$366 billion higher than reported in the 2010 Budget. The reason for the increase is that \$366 billion of outlays would be reported for transactions that are now included in non-budgetary financing accounts for TARP.

Estimates of debt held by the public would be identical if TARP transactions were reported on a cash basis. This is because the cash flows from the Government, and

Table 7-5. TROUBLED ASSET RELIEF PROGRAM EFFECTS ON THE DEFICIT AND DEBT CALCULATED ON A CASH BASIS ¹
(Dollar amounts in billions)

	Actual 2008	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Deficit Effect of TARP Program:												
Programmatic and administrative expenses:												
Programmatic expenses:												
Equity purchases	300.1	-22.9	-23.0	-25.6	-25.1	-33.8	-22.1	-16.7	-14.6	-13.9	-9.8
Direct loan transactions	302.4	-31.1	-28.6	-35.0	-27.8	-26.6	-26.3	-26.2	-26.2	-26.2	-26.2
Guarantees of troubled assets	-0.3	-0.1	0.6	-1.0	-0.3	0.7	0.3	-0.4	-0.4	-0.3	-0.3
Home Affordable Modification Program	4.1	8.1	9.9	10.3	8.0	6.0	2.6	1.0	0.1	.....	.....
Subtotal, programmatic expenses	606.3	-46.0	-41.1	-51.4	-45.2	-53.8	-45.6	-42.3	-41.0	-40.4	-36.3
Administrative expenses	0.2	0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1
Special Inspector General for TARP	---	*	*
Subtotal, programmatic & administrative expenses	606.5	-45.8	-40.9	-51.1	-45.0	-53.5	-45.4	-42.2	-40.9	-40.3	-36.2
Debt service ²	1.2	5.5	16.5	21.1	21.2	20.0	18.7	17.7	16.6	15.6	14.6
Total deficit impact due to TARP	607.8	-40.3	-24.4	-30.0	-23.8	-33.5	-26.7	-24.5	-24.3	-24.7	-21.6
Change in debt held by the public due to TARP	607.8	-40.3	-24.4	-30.0	-23.8	-33.5	-26.7	-24.5	-24.3	-24.7	-21.6
Debt held by the public due to TARP	607.8	567.5	543.1	513.1	489.4	455.8	429.1	404.6	380.3	355.6	333.9
As a percent of GDP	4.3%	3.8%	3.4%	3.1%	2.8%	2.5%	2.2%	2.0%	1.8%	1.6%	1.5%
Debt Held by the Public Net of Financial Assets:												
Debt held by the public due to TARP	607.8	567.5	543.1	513.1	489.4	455.8	429.1	404.6	380.3	355.6	333.9
Less financial assets net of liabilities -- credit financing account balances:												
Troubled Asset Relief Program Equity Purchase Financing Account	166.4	156.8	146.5	132.8	118.4	94.1	79.5	69.1	60.0	50.9	45.1
Troubled Asset Relief Program Direct Loan Financing Account	198.6	187.1	177.0	159.2	147.2	135.3	122.5	108.6	93.2	76.3	57.8
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.5	0.4	1.0	-0.1	-0.4	0.3	0.6	0.2	-0.2	-0.5	-0.7
Total, financial assets net of liabilities	365.5	344.3	324.5	291.9	265.2	229.7	202.6	177.8	153.1	126.8	102.1
Debt held by the public due to TARP net of TARP financial assets	242.3	223.2	218.6	221.2	224.1	226.2	226.5	226.8	227.2	228.8	231.8
As a percent of GDP	1.7%	1.5%	1.4%	1.3%	1.3%	1.2%	1.2%	1.1%	1.1%	1.0%	1.0%

* \$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 debt service on all TARP transactions affecting borrowing from the public.

therefore the debt needed to finance them, would be the same regardless of how TARP costs are reported in the deficit. Likewise, estimates of debt net of financial assets would be unchanged because the value of TARP assets would be the same regardless of how the budget reported the costs of acquiring them.

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 7-4 above shows the portion of the deficit attributable to actions taken by the Treasury Secretary under the authorities of TARP. The largest effects are for TARP equity purchases and direct loans. The specific effects are as follows:

- Equity purchases under the Capital Purchase Program and other TARP authorities are estimated to result in \$142 billion in outlays in 2009. TARP equity purchases are not expected after 2009 and therefore no outlays are estimated in these years.
- Direct loans under TARP, including loans to the auto industry, the Term Asset-Backed Securities Loan Facility, purchases of asset-backed securities, and future actions, are estimated to result in \$115 billion in outlays in 2009. No direct loans are expected to be disbursed after 2009 and therefore no outlays are estimated in these years.
- Loan guarantees under TARP are estimated to reduce outlays on net by \$1 billion in 2009, because the Asset Guarantee program is estimated to result in greater receipts from fees than estimated default claims on a net present value basis. No loan guarantee commitments are expected to be entered into after 2009.
- Outlays for the Home Affordable Modification Program are estimated at \$4 billion in 2009. Outlays for this program are estimated to rise in 2010 and following years to a peak of \$10 billion in 2012 and then fall to zero by 2018.
- Administrative expenses for the TARP program are estimated at \$0.3 billion in 2009, remaining at that level through 2014.
- 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 account transactions are non-budgetary, Treasury payment and receipt of interest are budgetary transactions and therefore affect net outlays and the deficit. For TARP financing accounts, interest transactions are based on the market-risk adjusted rates used to discount the cashflows. The net financing account interest paid to Treasury is expected to be \$19 billion in 2009 and to reach \$33 billion in 2010, and then to decline over time as the financing accounts repay borrowing from Treasury through proceeds and repayments on

TARP equity purchases and direct loans.

- The full impact of TARP on the deficit includes the cost of Treasury borrowing from the public—debt service—for the higher outlays listed above. Debt service reaches \$21 billion in 2012, and then falls to \$20 billion in 2014 and \$15 billion in 2019.

The figures shown in Table 7-4 do not incorporate any re-estimates of subsidy costs for TARP programs implemented to date. The costs of credit programs are reestimated annually by updating cash flows for actual experience and new assumptions, and adjusting for any change in estimates by either recording additional subsidy costs (an upward reestimate) or by reducing subsidy costs (a downward reestimate). Reestimates will be calculated over the coming months, and incorporated into the 2011 Budget.

Comparison with Congressional Budget Office Estimates

While CBO's March analysis of the President's Budget provides its most recent estimate of the total cost of the TARP program, its January report on the cost of the TARP program provides more extensive transaction-by-transaction detail and describes the methods that CBO uses. To clarify the differences between the OMB and the CBO estimation approach, this analysis uses the older estimate (and its backup data) as a point of comparison.

The cost estimates in the President's Budget are higher than estimates made by the Congressional Budget Office (CBO) in its January report because they were made after a significant drop in the prices of publicly-traded securities of banks participating in the Treasury program in January 2009. Like the CBO model, OMB's models derive estimated costs of the TARP transactions from market prices, particularly through the market adjustment to the discount rate required by EESA.

Table 7-6 below shows OMB's estimates of the cost of the transactions alongside CBO's. To facilitate the comparison, the table presents OMB's estimates of the cost of the transactions before some of the terms of purchases were modified. Since those modifications were made after CBO's report, CBO's estimates do not reflect them. The comparison is also limited to only those transactions that are included in the CBO report. OMB's estimated 39 percent subsidy rate for those transactions is substantially higher than the 26 percent rate estimated by CBO.

The difference is due almost wholly to the date of valuation. CBO valued the transactions using market data as of December 31, 2008, while OMB used market data from the end of January, 2009. When OMB values the transactions using market data as of the December 31 valuation date that CBO used for its report, the result is an almost identical total subsidy rate to CBO for the transactions, and the subsidy rates for individual transactions are very similar as well.

This comparison suggests that CBO's March estimates were higher than those in their January re-

Table 7-6. COMPARISON OF OMB'S COST ESTIMATES WITH CBO'S FOR TRANSACTIONS INCLUDED IN THE CBO JANUARY TARP REPORT

(Dollar amounts in billions)

	# of Institutions	Disbursement	Estimated Subsidy CBO (12/31/08)	Estimated Subsidy OMB (12/31/08)	Estimated Subsidy OMB (1/31/09)
Equity Purchases:					
Capital Purchase Program	214	178	32	32	54
American International Group	1	40	21	23	28
Citigroup	1	20	5	4	9
GMAC	1	5	3	3	3
Total Equity Purchases	217	243	61	62	94
Loans to Automobile Companies	1	4	3	3	3
Total	218	247	64	65	97
Subsidy Rate			26%	26%	39%

port and OMB's estimates in the President's Budget, partly because they reflect market prices at the end of February, and thus an even further decline in bank stock prices. CBO's March analysis also might make different assumptions about transactions that have yet to be completed.

Future Government Actions

The Administration will continue to develop new programs to mitigate the effects of the financial crisis, while it will also take steps to prevent future financial crises. The Budget provides increased resources for financial regulators to ensure that institutions are complying with existing laws and regulations, and thereby prevent misconduct and fraud.

The President's comprehensive regulatory reform is aimed at reforming and modernizing our financial regulatory system for the 21st century, providing stronger tools to prevent and manage future crises, and rebuilding confidence in the basic integrity of our financial system—for sophisticated investors and working families alike. The reform has four components:

Addressing Systemic Risk. This crisis—and the cases of firms like Lehman Brothers and AIG—has made clear that certain large, interconnected firms and markets need to be under a more consistent and more conservative reg-

ulatory regime. It is not enough to address the potential insolvency of individual institutions—regulators must also ensure the stability of the system itself.

Protecting Consumers and Investors. It is crucial that when households make choices to invest their savings they benefit from clear rules of the road that prevent manipulation and abuse. While outright fraud like that perpetrated by Bernie Madoff is already illegal, these cases highlight the need to strengthen enforcement and improve transparency for all investors. Lax regulation also left too many households exposed to deception and abuse when taking out home mortgage loans.

Eliminating Gaps in Our Regulatory Structure. The Nation's regulatory structure must assign clear authority, resources, and accountability for each of its key functions. Turf wars or concerns about the shape of organizational charts must not prevent the establishment of a substantive system of regulation that meets the needs of the American people.

Fostering International Coordination. To keep pace with increasingly global markets, regulators must ensure that international rules for financial regulation are consistent with the high standards we will be implementing in the United States. Additionally, the Administration will launch a new, three-pronged initiative to address prudential supervision, tax havens, and money laundering issues in weakly-regulated jurisdictions.

Chart 7-1. Face Value of Federal Credit Outstanding

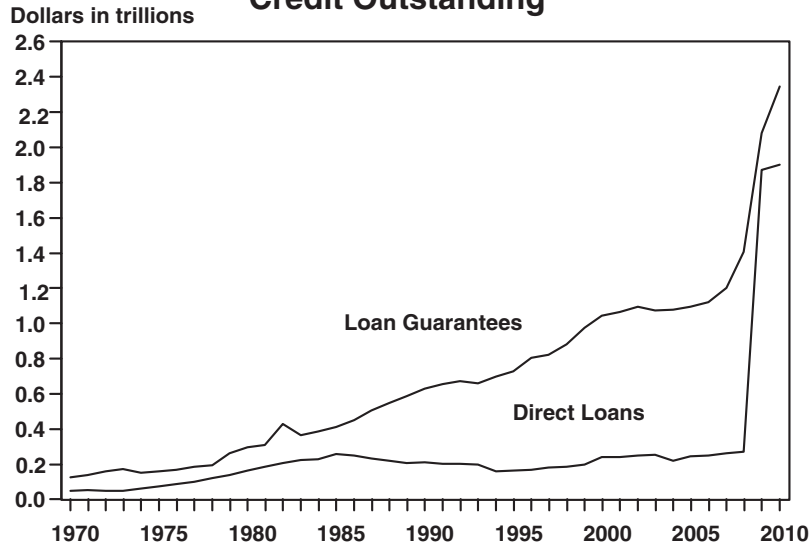


Table 7-7. ESTIMATED FUTURE COST OF OUTSTANDING FEDERAL DIRECT LOANS AND LOAN GUARANTEES
(In billions of dollars)

Program	Outstanding 2007	Estimated Future Costs of 2007 Outstanding ¹	Outstanding 2008	Estimated Future Costs of 2008 Outstanding ¹
Direct Loans:²				
Federal Student Loans	124	15	148	22
Farm Service Agency (excl. CCC), Rural Development, Rural Housing	44	10	45	9
Rural Utilities Service and Rural Telephone Bank	40	1	42	2
Housing and Urban Development	10	3	9	3
Export-Import Bank	6	2	5	2
Public Law 480	8	4	7	3
Agency for International Development	6	2	6	2
Commodity Credit Corporation	1	.....	1	.....
Disaster Assistance	10	2	10	3
GSE Mortgage-Backed Securities Purchase Program .....	.....	.....	3	*
VA Mortgage	1	(1)	1	(1)
Other Direct Loan Programs	10	6	9	4
Total Direct Loans	260	44	286	49
Guaranteed Loans:²				
FHA-Mutual Mortgage Insurance Fund	322	7	448	17
VA Mortgage	232	4	232	4
Federal Student Loans	363	51	415	43
FHA-General and Special Risk Insurance Fund	108	.....	128	2
Small Business ³	72	2	75	2

Table 7—7. ESTIMATED FUTURE COST OF OUTSTANDING FEDERAL DIRECT LOANS AND LOAN GUARANTEES—Continued
(In billions of dollars)

Program	Outstanding 2007	Estimated Future Costs of 2007 Outstanding ¹	Outstanding 2008	Estimated Future Costs of 2008 Outstanding ¹
Export-Import Bank	39	1	40	1
International Assistance	22	2	22	2
Farm Service Agency (excl. CCC), Rural Development, Rural Housing	32	.....	37	1
Commodity Credit Corporation	3	.....	4	.....
Maritime Administration	3	.....	2	.....
Government National Mortgage Association (GNMA) ³ .....	.....	*	.....	*
Other Guaranteed Loan Programs	6	2	4	2
Total Guaranteed Loans	1,202	69	1,407	74
Total Federal Credit	1,462	113	1,693	123

* \$500 million or less.

¹ Direct loan future costs are the financing account allowance for subsidy cost and the liquidating account allowance for estimated uncollectible principal and interest. Loan guarantee future costs are estimated liabilities for loan guarantees.

² Excludes loans and guarantees by deposit insurance agencies and programs not included under credit reform, such as CCC commodity price supports. Defaulted guaranteed loans which become loans receivable are accounted for as direct loans.

³ 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 7-8. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992-2008 ¹
(Budget authority and outlays, in millions of dollars)

Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
DIRECT LOANS:												
Agriculture:												
Agriculture Credit Insurance Fund	23	.....	331	-656	921	10	-701	-147	-2	-14	-251	-478
Farm Storage Facility Loans	-1	-7	-8	7	-1	.....	50	-47
Apple Loans	-2	1	.....	*	*	*	*	-1
Emergency Boll Weevil Loans	1	*	*	3	.....	*	*
Distance Learning, Telemedicine and Broadband Loans	1	-1	-1	1	7	1	3	-3
Rural Electrification and Telecommunications Loans	-39	.....	-17	-42	101	265	143	-197	-108	-149	329
Rural Telephone Bank	-9	.....	-1	.....	-3	-7	-6	-17	-48	-22	36
Rural Housing Insurance Fund	71	.....	19	-29	-435	-64	-200	109	.....	-13	-405
Rural Economic Development Loans	-1	*	.....	-1	-1	.....	-2	*	-3	3	-1
Rural Development Loan Program	-6	.....	.....	-1	-3	.....	-3	-2	-7	*	-4
Rural Community Advancement Program ²	5	.....	37	3	-1	-84	-34	-73	-77	-31	144
P.L. 480	-23	65	-348	33	-43	-239	-26	44	-163
P.L. 480 Title I Food for Progress Credits	-112	-44	.....	.....	.....	.....	.....
Commerce:												
Fisheries Finance	-19	-1	-3	.....	1	-15	-12	11	-16
Defense:												
Military Housing Improvement Fund	*	-4	-1	-8	-2
Education:												
Federal Direct Student Loan Program: ³
Volume reestimate	22	.....	-6	.....	43	.....	.....	.....	.....	.....	.....
Other technical reestimate	172	-383	-2,158	560	.....	3,678	1,999	855	2,827	2,674	408	-45
Temporary Student Loan Purchase Authority: ³
Volume reestimate	418
Other technical reestimate	444
College Housing and Academic Facilities Loans	-1	.....	.....	.....	.....	.....	*	*	*
Historically Black Colleges and Universities	11	-16	-24
Homeland Security:												
Disaster Assistance	47	36	-7	-6	*	4	*	*	*	-20
Interior:												
Bureau of Reclamation Loans	3	3	-9	-14	.....	17	1	1	5	-3
Bureau of Indian Affairs Direct Loans	1	5	-1	-1	2	*	*	*	1	-1	1
Assistance to American Samoa	*	*	2	.....	-2
Transportation:												
High Priority Corridor Loans	-3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Alameda Corridor Loan	-58	.....	.....	.....	-12	.....	.....	.....	.....	.....
Transportation Infrastructure Finance and Innovation	18	.....	.....	.....	3	-11	7	11	-163
Railroad Rehabilitation and Improvement Program	-5	-14	-11	-1	15	-8
Treasury:												
GSE Mortgage-Backed Securities Purchase Program	25
Community Development Financial Institutions Fund	1	.....	.....	*	-1	*	-1	1	*	.....
Veterans Affairs:												
Veterans Housing Benefit Program Fund	465	-111	-52	-107	-697	17	-178	987	-44	-76	-402	20
Native American Veteran Housing	-3	*	*	*	1	1	*
Vocational Rehabilitation Loans	*	*	*	-1	1	-1	1
Environmental Protection Agency:												
Abatement, Control and Compliance	3	-1	*	-3	*	*	*	*	*
International Assistance Programs:												
Foreign Military Financing	4	1	152	-166	119	-397	-64	-41	-7	-6	7	78
U.S. Agency for International Development:												
Micro and Small Enterprise Development	*	*

Table 7-8. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992-2008¹—Continued
(Budget authority and outlays, in millions of dollars)

Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Overseas Private Investment Corporation:												
OPIC Direct Loans	-4	-21	3	-7	72	31	-15
Debt Reduction	36	-4	.....	*	-47	-104	54	-3	.....	.....
Small Business Administration:												
Business Loans	1	-2	1	25	.....	-16	-4	4	6
Disaster Loans	-193	246	-398	-282	-14	266	589	196	61	258	-109	134
Other Independent Agencies:												
Export-Import Bank Direct Loans	-177	157	117	-640	-305	111	-257	-227	-120	8
Federal Communications Commission	4,592	980	-1,501	-804	92	346	380	732	-24	11	.....	10
LOAN GUARANTEES:												
Agriculture:												
Agriculture Credit Insurance Fund	96	.....	-31	205	40	-36	-33	-22	-162	20	-36	-47
Agriculture Resource Conservation Demonstration	2	.....	1	-1	*	*	.....	.....	.....
Commodity Credit Corporation Export Guarantees	-1,410	.....	-13	-230	-205	-366	-232	-225	-38
Rural Electrification and Telecommunications Loans	*	*	*
Rural Housing Insurance Fund	109	.....	152	-56	32	50	66	44	.....	-19	-24
Rural Community Advancement Program ²	41	.....	63	17	91	15	29	-64	-16	-10	2
Renewable Energy	*	*
Commerce:												
Fisheries Finance	-2	.....	.....	-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
Defense Export Loan Guarantee	-5	.....	.....	.....	.....
Arms Initiative Guaranteed Loan Program	20	2
Education:												
Federal Family Education Loan Program: ³
Volume reestimate	-13	-60	-42	.....	277	.....	.....	.....	.....	.....	.....
Other technical reestimate	-140	667	-3,484	.....	-2,483	-3,278	1,348	6,837	-3,399	-189	-13,463
Health and Human Services:												
Health Center Loan Guarantees	3	.....	*	*	.....	1	*	*	-1	-2
Health Education Assistance Loans	-5	-37	-33	-18	-20	*	-15
Housing and Urban Development:												
Indian Housing Loan Guarantee	-6	*	-1	*	-3	-1	*	-5	-7
Title VI Indian Guarantees	-1	1	4	*	-4	-3	-1
Community Development Loan Guarantees	19	-10	-2	4	1	-2
FHA-Mutual Mortgage Insurance	3,789	.....	2,413	-1,308	1,100	5,947	1,979	2,842	636	3,923	9,331
FHA-General and Special Risk	743	79	.....	-217	-403	77	352	507	238	-1,254	-362	6,086
Interior:												
Bureau of Indian Affairs Guaranteed Loans	-14	-1	-2	-2	*	15	5	-30	-3
Transportation:												
Maritime Guaranteed Loans (Title XI)	-71	30	-15	187	27	-16	4	-76	-11	-51	23
Minority Business Resource Center	1	.....	*	*	.....	*	*	.....
Treasury:												
Air Transportation Stabilization Program	113	-199	292	-109	-95	.....	.....
Veterans Affairs:												
Veterans Housing Benefit Fund Program	38	492	229	-770	-163	-184	-1,515	-462	-842	-525	182	-71

Table 7-8. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992-2008¹—Continued
(Budget authority and outlays, in millions of dollars)

Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
International Assistance Programs:												
U.S. Agency for International Development:												
Development Credit Authority .....	.....	.....	.....	.....	-1	.....	1	-3	-2	2	11	5
Micro and Small Enterprise Development .....	.....	.....	.....	.....	.....	.....	2	-2	.....	-3	*	.....
Urban and Environmental Credit	-14	.....	.....	.....	-4	-15	48	-2	-5	-11	-22	7
Assistance to the New Independent States of the Former Soviet Union .....	.....	.....	.....	.....	-34	.....	.....	.....	.....	.....	.....	.....
Loan Guarantees to Israel .....	.....	.....	.....	.....	.....	.....	-76	-111	188	34	-16	-46
Loan Guarantees to Egypt .....	.....	.....	.....	.....	.....	.....	.....	.....	7	14	-12	12
Overseas Private Investment Corporation:												
OPIC Guaranteed Loans .....	.....	.....	.....	.....	5	77	60	-212	-21	-149	-268	-26
Small Business Administration:												
Business Loans	-279	-545	-235	-528	-226	304	1,750	1,034	-390	-268	-140	931
Other Independent Agencies:												
Export-Import Bank Guarantees .....	.....	.....	-191	-1,520	-417	-2,042	-1,133	-655	-1,164	-579	-174	23
Total	5,642	4,518	-3,357	-6,427	-1,854	-142	3,468	6,008	9,003	-3,441	2,044	2,876

* \$500,000 or less.

¹ Excludes interest on reestimates. Additional information on credit reform subsidy reestimates is contained in the Federal Credit Supplement.

² Includes Rural Water and Waste Disposal, Rural Community Facilities, and Rural Business and Industry programs.

³ Volume reestimates in mandatory programs represent a change in volume of loans disbursed in the prior years.

Table 7-9. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2008-2010
(Dollar amounts in millions)

Agency and Program	2008 Actual			2009 Enacted			2010 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	8.77	102	1,162	9.77	107	1,103	3.99	51	1,290
Farm Storage Facility Loans Program Account	1.01	1	148	6.11	9	153	-0.98	-2	153
Rural Electrification and Telecommunications Loans Program Account	-0.60	-46	7,774	-2.13	-155	7,290	-1.21	-89	7,290
Distance Learning, Telemedicine, and Broadband Program ..	2.15	10	452	3.88	56	1,428	7.24	485	6,692
Rural Water and Waste Disposal Program Account	10.42	132	1,271	14.62	538	3,678	7.54	77	1,022
Rural Community Facilities Program Account	5.55	21	386	5.72	94	1,639	1.31	4	295
Farm Labor Program Account	43.26	13	31	42.14	14	32	36.14	8	22
Multifamily Housing Revitalization Program Account	65.11	20	31	60.35	25	41	27.89	2	6
Rural Housing Insurance Fund Program Account	11.66	144	1,240	7.95	221	2,792	5.03	63	1,246
Rural Microenterprise Investment Program Account .....	.....	.....	.....	34.03	3	9	21.35	14	66
Rural Development Loan Fund Program Account	42.89	14	34	41.85	14	34	25.24	8	34
Rural Economic Development Loans Program Account	22.59	7	32	20.88	7	35	13.05	4	33
Commerce:									
Fisheries Finance Program Account	-5.88	-2	38	-7.19	-5	67	-8.91	-6	67
Defense—Military:									
Defense Family Housing Improvement Fund	20.64	28	137	31.31	54	171	8.14	38	471
Education:									
College Housing and Academic Facilities Loans Program Account .....	.....	.....	.....	16.31	10	61	11.35	20	178
TEACH Grant Program Account	13.03	2	13	-3.63	-2	42	-3.67	-2	67
Federal Perkins Loan Program Account .....	.....	.....	.....	.....	.....	.....	-14.32	-498	3,476
Federal Family Education Loan Program Account ²	-2.21	-498	22,528	-8.23	-4,760	57,841	-13.70	-3,350	24,442
Federal Direct Student Loan Program Account	-1.97	-652	33,175	-16.30	-6,713	41,175	-16.99	-13,847	81,491
Energy:									
Title 17 Innovative Technology Program .....	.....	.....	.....	6.75	945	14,000	7.72	3,437	44,500
Advanced Technology Vehicles Manufacturing Loan Program Account .....	.....	.....	.....	21.74	2,196	10,100	17.43	2,598	14,900
Homeland Security:									
Disaster Assistance Direct Loan Program Account .....	.....	.....	.....	1.04	.....	25	-0.36	.....	25
Housing and Urban Development:									
FHA-Mutual Mortgage Insurance Program Account .....	.....	.....	.....	.....	.....	50	.....	.....	50
Green Retrofit Program for Multifamily Housing, Recovery Act .....	.....	.....	.....	89.82	83	92	82.30	83	101
State:									
Repatriation Loans Program Account	60.22	1	1	59.77	1	1	58.05	1	1
Transportation:									
Federal-Aid Highways	15.10	154	1,019	10.44	186	1,781	12.03	100	831
Railroad Rehabilitation and Improvement Program .....	.....	.....	.....	0.00	.....	600	0.00	.....	600
Treasury:									
GSE Mortgage-Backed Securities Purchase Program Account	-1.62	-81	5,000	-2.36	-5,876	249,000	-3.73	-2,238	60,000
Financial Stabilization Reserve ³ .....	.....	.....	.....	33.33	250,000	750,000	.....	.....	.....
Troubled Asset Relief Program Account ⁴ .....	.....	.....	.....	34.81	114,686	329,500	.....	.....	.....
Troubled Asset Relief Program Equity Purchase Program ⁴ ..	.....	.....	.....	41.91	139,556	333,000	.....	.....	.....
Community Development Financial Institutions Fund Program Account	37.52	1	4	.....	.....	.....	.....	.....	.....
Veterans Affairs:									
Housing Program Account	2.66	3	130	-2.81	-31	1,077	-4.86	-54	1,110
Native American Veteran Housing Loan Program Account ..	-14.48	-1	6	-10.07	-2	15	-32.78	-4	11

Table 7-9. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2008-2010—Continued
(Dollar amounts in millions)

Agency and Program	2008 Actual			2009 Enacted			2010 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
General Operating Expenses	2.16	.....	2	1.93	.....	3	1.27	.....	2
International Assistance Programs:									
Overseas Private Investment Corporation Program Account	3.87	5	124	2.34	7	300	2.57	13	500
Small Business Administration:									
Disaster Loans Program Account	16.27	124	763	14.92	158	1,061	10.73	117	1,100
Business Loans Program Account	10.12	2	20	0.34	6	1,717	0.15	6	4,050
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account	-10.06	-6	56	6.11	17	270	33.13	17	50
National Infrastructure Bank:									
National Infrastructure Bank Program Account .....	.....	.....	.....	.....	.....	.....	50.72	863	1,701
Total	N/A	-502	75,577	N/A	491,449	1,810,183	N/A	-12,081	257,873

N/A = Not applicable.

¹ Additional information on credit subsidy rates is contained in the Federal Credit Supplement.

² Includes Temporary Student Loan Purchase programs authorized by the Ensuring Continued Access to Student Loans Act. Consolidated loans are not eligible for purchase.

³ Table includes \$750 billion in potential activity associated with a \$250 billion Financial Stability Reserve. Funding has not been requested, but serves as a reserve should additional amounts be necessary for financial stabilization efforts.

⁴ As authorized by the Emergency Economic Stabilization Act (EESA), table includes equity purchases under the Troubled Asset Relief Program. Subsidy costs for equity purchases and direct loan transactions under the Troubled Asset Relief Program are calculated using the discount rate required by the Federal Credit Reform Act adjusted for market risks, as authorized by the EESA.

Table 7-10. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2008-2010
(Dollar amounts in millions)

Agency and Program	2008 Actual			2009 Enacted			2010 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 ..	2.02	46	2,252	2.61	67	2,587	1.85	53	2,869
Commodity Credit Corporation Export Loans Program Account	3.05	87	2,854	0.91	50	5,475	-0.99	-54	5,500
Rural Water and Waste Disposal Program Account	-0.82	.....	18	-0.82	-1	75	-0.82	-1	75
Rural Community Facilities Program Account	3.68	9	245	3.08	12	400	3.21	7	210
Rural Housing Insurance Fund Program Account	1.35	96	7,111	1.31	248	18,919	1.44	91	6,333
Rural Business Program Account	4.33	60	1,391	4.35	194	4,483	5.33	53	993
Renewable Energy Program Account	9.69	2	16	9.69	30	312	13.64	64	466
Biorefinery Assistance Program Account .....	.....	.....	.....	33.34	75	225	35.47	262	740
Education:									
Federal Family Education Loan Program Account	-0.01	-4	73,097	-1.59	-1,219	76,845	1.34	620	46,347
Health and Human Services:									
Health Resources and Services	3.41	.....	8	4.50	.....	12	4.97	.....	12
Housing and Urban Development:									
Indian Housing Loan Guarantee Fund Program Account	2.42	7	307	2.52	11	420	0.68	6	919
Native Hawaiian Housing Loan Guarantee Fund Program Account	2.42	1	41	2.52	1	42	2.52	1	42
Native American Housing Block Grant	12.12	2	13	12.34	2	17	11.18	2	18
Community Development Loan Guarantees Program Account	2.25	4	160	2.26	7	307	0.00	.....	275
FHA-Mutual Mortgage Insurance Program Account	-0.25	-435	171,875	-0.17	-525	315,000	-0.28	-912	330,000
FHA-General and Special Risk Program Account	-1.58	-603	38,072	-2.08	-145	6,980	-2.54	-184	7,287
Home Ownership Preservation Equity Fund Program Account .....	.....	.....	.....	23.27	209	900	22.72	1,250	5,500
Interior:									
Indian Guaranteed Loan Program Account	6.53	5	84	7.73	11	146	7.13	11	155
Transportation:									
Minority Business Resource Center Program	2.03	.....	3	1.86	.....	18	1.86	.....	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 .....	.....	.....	.....	6.26	60	958	.....	.....	.....
Treasury:									
Troubled Asset Relief Program Account ² .....	.....	.....	.....	-0.18	-752	419,000	.....	.....	.....
Veterans Affairs:									
Housing Program Account	-0.36	-129	36,231	-0.60	-277	46,339	-0.12	-55	47,233
International Assistance Programs:									
Loan Guarantees to Israel Program Account .....	.....	.....	.....	0.00	.....	900	0.00	.....	900
Development Credit Authority Program Account	6.00	14	244	3.17	19	590	4.27	16	364
Overseas Private Investment Corporation Program Account	-0.68	-8	1,248	-0.84	-11	1,400	-0.75	-13	1,850
Small Business Administration:									
Disaster Loans Program Account .....	.....	.....	.....	.....	.....	.....	2.26	1	71
Business Loans Program Account	0.00	.....	18,115	1.17	392	21,710	0.72	303	30,145
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account	-0.68	-98	14,343	-2.04	-359	17,534	-1.27	-205	16,092
Total	N/A	-944	367,728	N/A	-1,881	941,894	N/A	1,336	504,714

Table 7-10. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2008-2010—Continued
(Dollar amounts in millions)

Agency and Program	2008 Actual			2009 Enacted			2010 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	-0.21	-463	220,605	-0.21	-632	300,900	-0.24	-733	305,500
SBA:									
Secondary Market Guarantee Program .....	.....	.....	4,138	.....	.....	12,000	.....	.....	12,000
Total, secondary guaranteed loan commitments.....	N/A	-463	224,743	N/A	-632	312,900	N/A	-733	317,500

N/A=Not applicable

¹ Additional information on credit subsidy rates is contained in the Federal Credit Supplement.

² The subsidy costs for Troubled Asset Relief Program asset guarantees are calculated using the discount rate under the Federal Credit Reform Act adjusted for market risks, as authorized by the Emergency Economic Stabilization Act.

Table 7-11. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES
(In billions of dollars)

	Actual								Estimate ¹	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Direct Loans:										
Obligations	39.1	43.7	45.4	42.0	56.3	57.8	42.5	75.6	1,810.2	257.9
Disbursements	37.1	39.6	39.7	38.7	50.6	46.6	41.7	41.1	1,788.9	200.7
New subsidy budget authority ²	0.3	*	0.7	0.4	2.1	4.7	1.4	3.7	493.5	-12.1
Reestimated subsidy budget authority ³	-1.8	0.5	2.9	2.6	3.8	3.1	3.4	-0.8	*	.....
Total subsidy budget authority	-1.5	0.5	3.5	3.0	6.0	7.8	4.8	-1.3	493.5	-12.1
Loan guarantees:										
Commitments ⁴	256.4	303.7	345.9	300.6	248.5	280.7	270.2	367.7	941.9	504.7
Lender disbursements ⁴	212.9	271.4	331.3	279.9	221.6	256.0	251.2	354.6	926.3	496.8
New subsidy budget authority ²	2.3	2.9	3.8	7.3	10.1	17.2	5.7	-1.4	-5.0	-2.0
Reestimated subsidy budget authority ³	-7.1	-2.4	-3.5	2.0	3.5	7.0	-6.8	3.6	0.5	.....
Total subsidy budget authority	-4.8	0.5	0.3	9.3	13.6	24.2	-1.1	2.2	-4.5	-2.0

* \$50 million or less.

¹ Table includes Troubled Asset Relief Program equity purchases under the authority of the Emergency Economic Stabilization Act, and \$750 billion in potential activity associated with the \$250 billion Financial Stability Reserve. Funding for the latter has not been requested, but serves as a reserve should additional amounts be necessary for financial stabilization efforts.

² Troubled Asset Relief Program credit subsidy costs calculated using the discount rate required under the Federal Credit Reform Act adjusted for market risks, as authorized by the Emergency Economic Stabilization Act.

³ Includes interest on reestimate.

⁴ To avoid double-counting, totals exclude GNMA secondary guarantees of loans that are guaranteed by FHA, VA, and RHS, and SBA's guarantee of 7(a) loans sold in the secondary market.

Table 7-12. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS

Agency and Program	In millions of dollars			As a percentage of outstanding loans ¹		
	2008 actual	2009 estimate	2010 estimate	2008 actual	2009 estimate	2010 estimate
DIRECT LOAN WRITE-OFFS						
Agriculture:						
Agricultural Credit Insurance Fund	63	72	67	1.00	1.15	1.06
Rural Community Facility	13	.....	.....	0.56	.....	.....
Rural Business and Industry Program	14	3	3	27.45	8.57	10.34
Rural Electrification and Telecommunications Loans	5	.....	.....	0.01	.....	.....
Rural Development Loan Fund .....	.....	1	1	.....	0.06	0.07
Rural Housing Insurance Fund	55	72	76	0.22	0.29	0.29
Defense—Military:						
Family Housing Improvement Fund .....	.....	.....	1	.....	.....	0.19
Education:						
Student Financial Assistance	7	7	7	2.23	2.25	2.26
Housing and Urban Development:						
Revolving Fund (Liquidating Programs) .....	.....	1	1	.....	16.66	25.00
Guarantees of Mortgage-backed Securities	2	.....	.....	28.57	.....	.....
Interior:						
Revolving Fund for Loans .....	.....	1	.....	.....	10.00	.....
Treasury:						
Troubled Asset Relief Program Direct Loans .....	.....	6,750	2,020	.....	2.03	0.65
Troubled Assets Relief Program Equity Purchases .....	.....	64,502	26,432	.....	8.60	10.84
Veterans Affairs:						
Miscellaneous Veterans Housing Loans .....	.....	4	1	.....	80.00	100.00
Veterans Housing Benefit Program	32	96	64	3.69	13.55	9.69
International Assistance Programs:						
Debt Restructuring	29	.....	.....	10.17	.....	.....
Overseas Private Investment Corporation	14	15	15	1.76	1.96	2.01
Small Business Administration:						
Disaster loans	329	309	157	3.58	3.56	1.89
Business loans .....	.....	4	4	.....	2.72	2.98
Other Independent Agencies:						
Debt Reduction (Export-Import Bank)	1	27	582	0.33	9.24	68.87
Export-Import Bank	6	10	10	0.11	0.22	0.25
Spectrum Auction Program	163	111	47	43.23	52.85	47.47
Tennessee Valley Authority Fund	8	1	.....	15.09	2.12	.....
Total, direct loan write-offs	741	71,986	29,488	0.32	28.59	1.57
GUARANTEED LOAN TERMINATIONS FOR DEFAULT						
Agriculture:						
Agricultural Credit Insurance Fund	58	57	58	0.57	0.56	0.56
Commodity Credit Corporation Export Loans	41	22	27	1.21	0.60	0.40
Rural Community Facility	22	24	24	3.36	79.24	81.35
Rural Business and Industry Program	59	28	32	1.61	0.75	0.60
Rural Housing Insurance Fund	131	140	227	0.75	0.64	0.64

Table 7–12. 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		
	2008 actual	2009 estimate	2010 estimate	2008 actual	2009 estimate	2010 estimate
Defense—Military:						
Family Housing Improvement Fund .....	.....	7	7	.....	1.42	1.45
Education:						
Federal Family Education Loans	9,948	10,598	8,942	2.73	2.55	1.97
Health and Human Services:						
Health Education Assistance Loans	12	16	15	1.06	1.63	1.62
Health Center Loan Guarantees	1	1	1	1.58	1.44	1.33
Housing and Urban Development:						
Indian Housing Loan Guarantee	4	6	7	0.68	0.73	0.58
Native Hawaiian Housing Loan Guarantees .....	.....	1	1	.....	1.25	0.86
Native American Housing Block Grant .....	.....	2	2	.....	2.02	1.86
Community Development Loan Guarantees .....	.....	.....	-2	.....	.....	-0.09
FHA Mutual Mortgage Insurance	6,717	13,625	17,394	2.08	3.04	2.74
FHA General and Special Risk Insurance	1,035	1,958	2,198	0.96	1.53	2.07
Home Ownership Preservation Entity Fund .....	.....	1	40	.....	.....	4.48
Interior:						
Indian Guaranteed Loans .....	.....	2	2	.....	0.55	0.47
Transportation:						
Maritime Guaranteed Loan (Title XI) .....	.....	192	73	.....	7.93	2.93
Treasury:						
Troubled Assets Insurance Financing Fund Guaranteed Loans .....	.....	.....	1,096	.....	.....	0.27
Veterans Affairs:						
Veterans Housing Benefit Program	1,136	1,744	1,841	0.48	0.75	0.68
International Assistance Programs:						
Urban and Environmental Credit Program	17	22	23	1.22	1.76	2.07
Development Credit Authority	2	2	2	0.78	0.75	0.68
Overseas Private Investment Corporation	51	150	150	1.12	2.87	2.58
Small Business Administration:						
Business loans	2,268	2,663	1,620	3.17	3.54	2.00
Other Independent Agencies:						
Export-Import Bank	203	202	202	0.52	0.50	0.45
Total, guaranteed loan terminations for default	21,705	31,463	33,982	1.33	1.58	1.22
Total, direct loan write-offs and guaranteed loan terminations	22,446	103,449	63,470	1.20	4.62	1.36
ADDENDUM: WRITE-OFFS OF DEFAULTED GUARANTEED LOANS THAT RESULT IN LOANS RECEIVABLE						
Agriculture:						
Agricultural Credit Insurance Fund	6	6	6	8.57	8.95	9.37
Education:						
Federal Family Education Loans	1,444	1,652	1,606	4.80	4.81	4.70
Housing and Urban Development:						
FHA Mutual Mortgage Insurance .....	.....	4	4	.....	0.76	0.64
FHA General and Special Risk Insurance	186	22	19	4.36	0.43	0.30

Table 7–12. 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		
	2008 actual	2009 estimate	2010 estimate	2008 actual	2009 estimate	2010 estimate
Interior:						
Indian Guaranteed Loans .....	.....	2	.....	.....	25.00	.....
Veterans Affairs:						
Veterans Housing Benefit Program	25	16	9	8.92	3.97	2.30
International Assistance Programs:						
Overseas Private Investment Corporation	51	81	70	38.05	36.65	29.16
Small Business Administration:						
Business loans	1,416	279	277	23.15	5.11	4.96
Total, write-offs of loans receivable	3,128	2,062	1,991	7.15	4.29	4.04

¹ Average of loans outstanding for the year.

Table 7-13. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS ¹
(In millions of dollars)

Agency and Program	2008 Actual	2009 Actual	2010 Estimate
DIRECT LOAN OBLIGATIONS			
Agriculture:			
Agricultural Credit Insurance Fund Direct Loan Financing Account	1,199	1,053	1,340
Rural Economic Development Direct Loan Financing Account	32	35	33
Commerce:			
Fisheries Finance Direct Loan Financing Account	38	67	67
Education:			
Historically Black College and University Capital Financing Direct Loan Financing Account .....	.....	61	178
Energy:			
Title 17 Innovative Technology Direct Loan Financing Account .....	.....	47,000	.....
Homeland Security:			
Disaster Assistance Direct Loan Financing Account .....	.....	25	25
Housing and Urban Development:			
FHA-General and Special Risk Direct Loan Financing Account	50	50	20
FHA-Mutual Mortgage Insurance Direct Loan Financing Account	50	50	50
State:			
Repatriation Loans Financing Account	1	1	1
Transportation:			
Transportation Infrastructure Finance and Innovation Program Line of Credit Financing Account .....	.....	200	200
Railroad Rehabilitation and Improvement Direct Loan Financing Account .....	.....	.....	600
Treasury:			
Community Development Financial Institutions Fund Direct Loan Financing Account	10	16	.....
Veterans Affairs:			
Vocational Rehabilitation Direct Loan Financing Account	2	3	2
Total, limitations on direct loan obligations	1,382	48,561	2,516
LOAN GUARANTEE COMMITMENTS			
Agriculture:			
Agricultural Credit Insurance Fund Guaranteed Loan Financing Account	2,277	2,481	2,869
Health and Human Services:			
Health Center Guaranteed Loan Financing Account	8	12	12
Housing and Urban Development:			
Indian Housing Loan Guarantee Fund Financing Account	367	420	919
Title VI Indian Federal Guarantees Financing Account	17	17	18
Native Hawaiian Housing Loan Guarantee Fund Financing Account ...	41	42	42
Community Development Loan Guarantees Financing Account	200	265	275
FHA-general and Special Risk Guaranteed Loan Financing Account ...	45,000	45,000	15,000
FHA-mutual Mortgage Insurance Guaranteed Loan Financing Account	185,000	315,000	400,000

Table 7-13. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS ¹—Continued
(In millions of dollars)

Agency and Program	2008 Actual	2009 Actual	2010 Estimate
Interior:			
Indian Guaranteed Loan Financing Account	84	146	155
Transportation:			
Minority Business Resource Center Guaranteed Loan Financing Account	18	18	18
RRIF Guaranteed Loan Financing Account .....	.....	.....	100
International Assistance Programs:			
Development Credit Authority Guaranteed Loan Financing Account	700	700	700
Small Business Administration:			
Business Guaranteed Loan Financing Account	18,115	29,210	30,145
Disaster Loans Guaranteed Loan Financing Account .....	.....	.....	71
Total, limitations on loan guarantee commitments	251,827	393,311	450,324
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS			
Housing and Urban Development:			
Guarantees of Mortgage-Backed Securities Financing Account	200,000	300,000	500,000
Small Business Administration:			
Secondary Market Guarantees	4,138	12,000	12,000
Total, limitations on secondary guaranteed loan commitments	204,138	312,000	512,000

¹ Data represents 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 "Direct Loan Subsidy Rates, Budget Authority, and Loan Levels 2008-2010" and "Loan Guarantee Subsidy Rates, Budget Authority, and Loan Levels 2008-2010".

Table 7-14. FACE VALUE OF GOVERNMENT-SPONSORED LENDING¹
(In billions of dollars)

	Outstanding	
	2007	2008
Government Sponsored Enterprises:		
Fannie Mae ²	2,658	2,955
Freddie Mac ³	1,969	2,135
Federal Home Loan Banks	824	1,012
Farm Credit System	132	156
Total	5,583	6,258

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 Finance Agency (FHFA).

³ Data for Freddie Mac is net of purchases of federally guaranteed loans and Fannie Mae issuances, as reported by the Federal Housing Finance Agency (FHFA).

Table 7-15. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs)¹
(In millions of dollars)

Enterprise	2008
LENDING	
Federal National Mortgage Association:	
Portfolio programs:	
Net change	38,588
Outstandings	767,166
Mortgage-backed securities:	
Net change	274,788
Outstandings	2,278,170
Federal Home Loan Mortgage Corporation:	
Portfolio programs:	
Net change	23,712
Outstandings	736,876
Mortgage-backed securities:	
Net change	150,611
Outstandings	1,459,462
Farm Credit System:	
Agricultural credit bank:	
Net change	6,771
Outstandings	43,110
Farm credit banks:	
Net change	15,987
Outstandings	103,382
Federal Agricultural Mortgage Corporation:	
Net change	1,448
Outstandings	9,810
Federal Home Loan Banks:	
Net change	182,661
Outstandings	1,099,624
Less federally guaranteed loans purchased by:	
Federal National Mortgage Association:	
Net change	14,283
Outstandings	56,805
Federal Home Loan Mortgage Corporation:	
Net change	(382)
Outstandings	5,117
Federal Home Loan Banks:	
Net change	(852)
Outstandings	8,690
Other:	
Net change	N/A
Outstandings	N/A
Less purchase of mortgage securities issued by other GSEs: ²	
Net change	58,248
Outstandings	185,096
BORROWING	
Federal National Mortgage Association:	
Portfolio programs:	
Net change	69,545
Outstandings	831,310

Table 7–15. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs)¹—Continued
(In millions of dollars)

Enterprise	2008
Mortgage-backed securities:	
Net change	274,788
Outstandings	2,278,170
Federal Home Loan Mortgage Corporation:	
Portfolio programs:	
Net change	57,039
Outstandings	783,950
Mortgage-backed securities:	
Net change	150,691
Outstandings	1,459,462
Farm Credit System:	
Agricultural credit bank:	
Net change	10,963
Outstandings	53,412
Farm credit banks:	
Net change	16,692
Outstandings	122,653
Federal Agricultural Mortgage Corporation:	
Net change	737
Outstandings	4,307
Federal Home Loan Banks: ³	
Net change	186,757
Outstandings	1,323,417
DEDUCTIONS⁴	
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	13,049
Outstandings	70,612
Less borrowing to purchase mortgage securities issued by other GSEs: ²	
Net change	58,248
Outstandings	185,096

N/A = Not available.

¹ Data does not reflect an official view of future GSE activity, nor is the data reviewed by the President. The data for all years include programs of mortgage-backed securities. In cases where a GSE owns securities issued by the same GSE, including mortgage-backed securities, the borrowing and lending data for that GSE are adjusted to remove double-counting. Data for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks as reported by the Federal Housing Finance 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 the difference in borrowings between 2008 and the Federal Home Loan Banks' audited financial statements of 2007.

⁴ Where totals and subtotals have not been calculated, a portion of the total is unavailable.

8. AID TO STATE AND LOCAL GOVERNMENTS

State and local governments have a vital role in providing government services. They play the major part in providing domestic public services, such as public education, law enforcement, roads, water supply, and sewage treatment. The Federal Government contributes to that role by promoting a healthy economy. It also provides grants, loans, and tax subsidies to State and local governments.

Federal grants help State and local governments finance programs covering most areas of domestic public spending, including income support, infrastructure, education, and social services. Federal grant outlays were \$461.3 billion in 2008 and are estimated to be \$567.8 billion in 2009 and \$652.2 billion in 2010. These amounts include grant funding provided by P.L. 111–5, the American Recovery and Reinvestment Act of 2009 (Recovery Act). The \$106.5 billion increase in grant outlays estimated for 2009, and the further \$84.4 billion increase in 2010, stem largely from funding provided in the Recovery Act, along with increases in Medicaid spending apart from the increased funding provided in the Recovery Act.

Grant outlays to State and local governments for payments for individuals, such as Medicaid payments, are estimated to be 62 percent of total grants in 2010; grant outlays for physical capital investment, 15 percent; and grant outlays for all other purposes, largely education, training, and social services, 23 percent. Roughly one-fifth of federal grant outlays in 2010 are due to the Recovery Act.

Grant outlays include the value of subsidies for loans to State and local governments, such as Rural Business and Community Facilities loans.

Some tax expenditures also constitute Federal aid to State and local governments. Tax expenditures stem from special exclusions, exemptions, deductions, credits, deferrals, or tax rates in the Federal tax laws. The deductibility of State and local personal income and property taxes from gross income for Federal income tax purposes and the exclusion of interest on State and local bonds from Federal taxation comprise the two largest categories of tax expenditures benefiting State and local governments. In 2010, these provisions are estimated to be worth \$80.3 billion. Chapter 19 of this volume, “Tax Expenditures,” provides a detailed discussion of the measurement and definition of tax expenditures and a complete list of the estimated costs of specific tax expenditures. Tax expenditures that especially aid State and local governments are displayed separately at the end of Tables 19–1 and 19–2.

An Appendix to this chapter includes State-by-State estimates of major grant programs, including major programs funded by the Recovery Act.

Table 8–1 shows the distribution of grants by agency. Grant outlays by the Department of Health and Human Services are estimated to be \$367.5 billion in 2010, 56 percent of total grant outlays. Most of the remaining grant spending is in the Departments of Agriculture, Education,

TABLE 8–1. FEDERAL GRANT OUTLAYS BY AGENCY
(In billions of dollars)

Agency	2008 Actual	2009 Estimate	2010 Proposed
Department of Agriculture	28.4	32.0	35.3
Department of Commerce	0.4	1.3	1.0
Department of Education.....	40.8	47.8	80.3
Department of Energy	*	0.8	8.2
Department of Health and Human Services.....	267.2	337.9	367.5
Department of Homeland Security	8.9	11.0	7.8
Department of Housing and Urban Development.....	38.4	39.6	45.3
Department of the Interior	4.9	5.0	5.0
Department of Justice	3.8	5.9	4.8
Department of Labor	7.2	10.2	11.7
Department of Transportation.....	51.2	62.7	73.5
Department of the Treasury.....	1.9	3.9	0.8
Department of Veterans Affairs.....	0.7	0.8	0.9
Environmental Protection Agency	3.9	3.9	5.4
Other agencies	3.8	5.0	4.6
Total	461.3	567.8	652.2

* \$50 million or less.

Housing and Urban Development, and Transportation, which account for another 36 percent of grant outlays.

The Departments of Energy, Commerce, and Education are estimated to have the largest annual percentage increases in grant outlays between 2008 and 2010. The

estimated increases in the Departments of Energy and Education are largely due to the Recovery Act, while the estimated increase in the Department of Commerce is largely due to the Digital Television Transition and Public Safety Fund.

HIGHLIGHTS OF THE FEDERAL AID PROGRAM

Several proposals in the 2010 Budget affect Federal aid to State and local governments and the important relationships between the levels of government. Highlights of these proposals are presented below.

Natural Resources and Environment

Grant outlays for natural resources and environment programs are estimated to be \$7.8 billion in 2010.

The Budget includes \$3.9 billion for the Clean Water and Drinking Water State Revolving Funds (SRFs). With this historic increase, the program will fund over 1,000 Clean Water and nearly 700 Drinking Water projects annually in the Nation's States, Tribes, and territories, based on average project costs. The SRF programs provide grants to States to capitalize their own revolving funds, which finance wastewater and drinking water treatment systems. The SRFs use the Federal capitalization, State matches (20 percent), State leveraging, interest, and loan repayments to make low-interest loans to communities. Because repayments and interest are recycled back into the program, SRFs generate funding for loans (revolve) even without Federal capitalization. The Environmental Protection Agency (EPA) estimates that for every Federal dollar invested, at least two dollars in financing is provided to municipalities. In conjunction with the dramatic increase in Federal funding for local water infrastructure needs, the Administration will pursue program reforms that will put resources for these ongoing needs on a firmer foundation. EPA will work with State and local partners to develop a sustainability policy including management and pricing for future infrastructure funded through SRFs to encourage conservation and to provide adequate long-term funding for future capital needs.

The Budget also proposes a new \$475 million inter-agency initiative to address regional issues that affect the Great Lakes, such as invasive species, non-point source pollution, and contaminated sediment. A significant portion of this initiative will be carried out through State and local governments. This initiative will use outcome-oriented performance goals and measures to target the most significant problems and track progress in addressing them. EPA and its Federal partners will coordinate State, tribal, local, and industry actions to protect, maintain, and restore the chemical, biological, and physical integrity of the Great Lakes.

Climate change poses a threat to America's fish and wildlife, as natural habitats change more rapidly than plants and animals can adjust. Scientific analyses are needed to understand the breadth of these changes.

Federal land management agencies, States, and Tribes all need to update land management and species recovery plans to reflect the impacts of climate change on wildlife. They also need to monitor how wildlife is adapting and accelerate projects, such as protecting migration corridors, to help wildlife adjust. The Budget includes \$40 million in funding for States for wildlife adaptation efforts.

The Administration seeks to create a broad coalition to address great conservation challenges, recognizing the important part played by America's hunters and anglers. To help preserve the national traditions of hunting and fishing shared by families across the country, the Budget provides \$30 million for grants and technical assistance to help States establish creative programs and strategies to encourage young people and minority populations to responsibly hunt and fish.

The Budget also includes an increase of approximately \$25 million to States and territories for actions to conserve threatened and endangered species living on non-Federal lands. Activities include habitat acquisition, conservation planning, habitat restoration, population surveys, research, and education.

The Budget proposes funding in 2010 for a western water conservation initiative to support the development, management and restoration of water and related natural resources in 17 Western States and tribal lands while balancing competing uses of water. The goal of this effort is to improve the availability of water in local communities by encouraging voluntary water banks, wastewater treatment, and other market-based conservation measures. The Bureau of Reclamation's water reuse and recycling (Title XVI) program is included in this proposal.

Transportation

Federal grants support State and local highway, transit, and airport construction programs. For 2010, grant outlays are estimated to be \$73.4 billion for transportation programs.

To provide Americans a 21st Century transportation system, the Budget proposes a five-year \$5 billion high-speed rail State grant program. Building on the \$8 billion down-payment in the Recovery Act, this proposal marks a new Federal commitment to give the traveling public a practical and environmentally sustainable alternative to flying or driving. Directed by the States, this investment will lead to the creation of several high-speed rail corridors across the country linking regional population centers.

Community and Regional Development

Grant outlays for community and regional development programs are estimated to be \$20.3 billion in 2010.

The Budget provides \$4.5 billion for 2010 for the Community Development Block Grant (CDBG) to fulfill the President's promise to fully fund the program. This funding will ensure that communities continue to invest in and expand economic opportunities for low-income families. In addition to the significant funding increase, the Budget will modernize the program through statutory reforms. Through a more effective formula, appropriate incentives and accountability measures, and a new Sustainable Communities Initiative, the Administration will revamp the CDBG program to better target funds to distressed communities and promote sustainable and economically viable communities.

The Budget proposes to eliminate funding for the Section 108 Community Development Loan Guarantees Program (Section 108) and Brownfields Economic Development Initiative (BEDI). The Administration has proposed a fee schedule to offset the subsidy cost of the loan guarantees for the Section 108 program. BEDI is proposed to be eliminated because it is duplicative of larger programs that achieve similar results, such as the Community Development Block Grant. By eliminating separate funding for these programs, the Department of Housing and Urban Development will streamline its resources and focus its efforts on programs that are more successful.

Making the Federal Government a better partner to States and localities on key homeland security initiatives is an Administration priority. For 2010, the Administration has targeted additional funds to those programs which incorporate a sound risk-based methodology for grant awards while reducing or eliminating ineffectiveness or heavily earmarked programs. Additional funding of \$53 million is provided to improve coordination among all levels of government and create more effective emergency response plans. The request also includes \$42 million in risk-based exercise assistance to help State, local, and tribal partners offset costs of critical homeland security activities and establishes a new \$40 million program to expand medical surge capacity by providing necessary assistance with planning, coordination, and commodity storage. Funding of \$260 million within the existing Homeland Security Grant program can be used to fortify the Nation's intelligence system by improving information sharing and analysis and by potentially adding thousands more State and local-level intelligence analysts.

The Recovery Act provided \$7.2 billion for extending broadband service to help build the communications infrastructure needed for long-term economic competitiveness. Competitive grants and loans will be issued by the Department of Commerce and the Department of Agriculture, with at least one grant being awarded in each State. States and territories may be consulted in identifying unserved or underserved areas, and the allocation of grant funds within each State.

Education, Training, Employment, and Social Services

Grant outlays for education, training, employment, and social service programs are estimated to be \$103.3 billion in 2010.

Students must attain high levels of achievement to be successful in the global economy. Assessments must accurately measure students' knowledge and skills, including critical thinking skills. Building on the Recovery Act, the Administration will help States increase their standards so they better prepare students for success in college and a career. The Budget provides \$411 million to improve the quality of assessments, including assessments for students with disabilities and English language learners. Such reforms will lay the groundwork for reauthorizing the Elementary and Secondary Education Act.

The Budget builds on the investments funded under the Recovery Act designed to significantly upgrade the skills and effectiveness of the education workforce. The Administration will invest in efforts to strengthen and increase transparency of results for teacher and principal preparation programs, including programs in schools of education, alternative certification programs, and teacher and principal residency programs. The Budget supports an additional \$420 million, for a total of \$517 million, for investments in State and local efforts, developed in consultation with teachers and other stakeholders, to implement systems that reward strong teacher performance and help less effective teachers improve or, if they do not improve, exit the classroom. The additional resources also include funding to develop better systems and strategies for recruiting, evaluating, and supporting teachers and other educators to provide a better supply and distribution of a well-prepared and effective education workforce.

The Budget also builds on the Recovery Act's focus on strategic investments in scaling up educational practices that show results and cultivating promising new practices. The Budget commits \$1.5 billion, in addition to the \$3 billion provided in the Recovery Act, to turn around high-need, low-performing schools with strong supports, not just sanctions. The Administration's new strategy will support State efforts to diagnose and address the root causes of schools' low performance. In addition, the Budget increases funding by \$52 million, for a total of \$268 million, for the Charter School program to support the expansion of successful charter school models, while increasing State oversight to monitor and shut down low-performing charter schools.

The Recovery Act made a down payment on the President's comprehensive Zero to Five plan, providing \$1.1 billion to double the number of children served by Early Head Start over two years, an additional \$1 billion to expand and improve Head Start, and an additional \$2 billion in funding for the Child Care and Development Block Grant. The Budget sustains critical support for young children and their families by building on these investments and providing funding to States to support evidence-based home visitation programs that help give

children a healthy start in life, as explained in the next section.

Decades of rigorous research demonstrates that high-quality early childhood education programs help children succeed in school and throughout their lives. Building on strong investments in the Recovery Act, the Budget also includes \$800 million for new initiatives aimed at ensuring that early childhood programs yield strong results for children. These funds will be used to encourage State and local investment in early childhood education; support coordination among local, State, and Federal partners to provide a seamless delivery of services; and provide better information to parents about program options and quality.

The Administration supports the principle of tribal self-determination and will work to improve tribal education. The Budget increases funding for tribal colleges and scholarships by \$10 million and provides a one-time \$50 million increase earlier in the fiscal year to give the colleges greater financial security to plan for the upcoming academic year.

Health

Grant outlays for health related programs are estimated to be \$310.7 billion in 2010.

Medicaid is a means-tested health care entitlement program financed jointly by States and the Federal Government. On average, the Federal Government pays 57 percent of Medicaid costs. The Recovery Act protects health care coverage for millions of Americans during the recession by temporarily increasing Federal Medicaid funding to help States facing budget shortfalls maintain their current programs. In addition, the Children's Health Insurance Program Reauthorization Act of 2009, signed by the President on February 4, 2009, extends the program through 2013 and provides an additional \$44 billion in allotments, for a total of \$69 billion in funding over the five-year period 2009–2013. This funding will provide access to approximately four million more children by 2013.

The Budget includes funding of \$124 million in 2010 and \$2.2 billion over five years for a new home visitation program that provides funds to States for evidence-based home visitation programs for low-income families. The program will provide States with funding primarily to support home visitation models that have been rigorously evaluated and shown to have positive effects on critical outcomes for children and families. A smaller portion of funds will be available for other promising models that will be rigorously tested to assess their impact. Research including several randomized control studies showed one particular model of nurse home visitation resulted in Medicaid savings from reductions in preterm births, emergency room use, and subsequent births. Expanding proven effective home visitation programs is estimated to save Medicaid \$664 million over ten years, including \$189 million in 2019 after full implementation.

Teen pregnancy rates have increased for two consecutive years, after falling for the previous decade. The Administration is committed to addressing this issue and

has provided \$178 million for teen pregnancy prevention and related efforts. A new \$110 million initiative provides funds for grants to community-based and faith-based organizations to implement evidence-based and promising models to prevent teen pregnancy. Funds will also support rigorous scientific evaluation to identify effective program models.

Income Security

Grant outlays for income security programs are estimated to be \$113.8 billion in 2010.

The HOME Investment Partnerships Program continues to be the largest Federal block grant to State and local governments designed exclusively to create affordable housing. Annually, it receives an appropriation of almost \$2 billion that is distributed by formula to communities that often partner with local nonprofit groups to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people.

The Budget requests \$1 billion in funding for the Housing Trust Fund, also known as the Affordable Housing Trust Fund. The Housing Trust Fund was originally authorized in the Housing and Economic Recovery Act of 2008, with a dedicated funding stream from assessments on Fannie Mae and Freddie Mac. However, given the financial difficulties of the two government-sponsored enterprises, the Federal Housing Finance Agency has indefinitely suspended these assessments. The Budget's \$1 billion request restores funding for the Housing Trust Fund to finance the development, rehabilitation, and preservation of affordable housing for very low income residents.

A robust Housing Choice Voucher program will provide \$17.8 billion to help more than two million extremely low-to low-income families with rental assistance to live in decent housing in neighborhoods of their choice. To further improve the program, the Administration will propose legislative reforms to help fully utilize available funding, alleviate the administrative burdens on the Public Housing Authorities, and establish a funding mechanism that is transparent and predictable in order to serve more needy families.

The Budget strongly supports the Public Housing program, which provides housing for approximately 1.1 million low-income households. The Budget includes \$4.6 billion to fund 100 percent of Public Housing Authorities' estimated eligibility for operating subsidies under the Public Housing Operating Fund formula. This funding will allow Public Housing Authorities to effectively operate and manage their public housing portfolios. Funding of \$2.2 billion is also provided for the Public Housing Capital Fund to support capital and management improvement activities.

Funding of \$8.1 billion for the Project-Based Rental Assistance program will preserve approximately 1.3 million affordable rental units through increased funding for contracts with owners of multifamily properties. This critical investment will assist low- and very low-income house-

holds in obtaining decent, safe, and sanitary housing in private accommodations.

The Budget also supports a strong reauthorization package for the Child Nutrition program and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) that will ensure that low-income children receive the nutrition assistance they need and help fulfill the President's pledge to end childhood hunger by 2015. The Budget provides an increase of \$1 billion annually for program reforms aimed at improving program access, enhancing the nutritional quality of school meals, expanding nutrition research and evaluation, and improving program oversight. Funding is also provided to support over 9.8 million participants in the WIC program, which is critical to the health of pregnant women, new mothers, and their infants.

Despite the efforts of States to reduce improper benefit payments, over \$3.9 billion in Unemployment Insurance (UI) benefits were erroneously paid in 2008. The Administration will tackle this problem by increasing funding for program integrity and proposing legislative changes that would reduce UI improper payments by \$3.9 billion and employer tax evasion by almost \$300 million over 10 years. The pro-

posal would, among other things, collect benefit overpayments through garnishment of Federal income tax refunds and boost States' resources to recover benefit overpayments and UI tax evasion by allowing them to use a portion of recovered funds on fraud and error reduction.

Administration of Justice

Grant outlays for administration of justice programs are estimated to be \$5.3 billion in 2010.

The Budget provides \$298 million to begin hiring 50,000 additional police officers by expanding Community Oriented Policing Services Hiring Grants. Supporting the hiring of police nationwide will help States and communities minimize the growth of crime during the economic downturn.

The Administration also supports the principle of tribal self-determination and will work to improve tribal law enforcement. The Budget provides an increase of approximately \$30 million that will strengthen tribal courts, detention centers, and police programs to help Native Americans protect their communities.

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 the present grant programs. Federal aid was later initiated for agriculture, highways, vocational education and rehabilitation, forestry, and public health. In the depression years, Federal aid was extended to meet income security and other social welfare needs. However, Federal grants did not become a significant factor in Federal Government expenditures until after World War II.

Table 8-2 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 grants are shown separately. Grants for the national defense, energy, social security, and veterans benefits and services functions are combined in the "other functions" line in the table.

Federal grants for transportation increased to \$3.0 billion, or 43 percent of all Federal grants, in 1960 after initiation of aid to States to build the Interstate Highway System in the late 1950s.

By 1970 there had been significant increases in the relative amounts for education, training, employment, social services, and health (largely Medicaid).

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 the late 1970s changes in the relative amounts among functions reflect steady growth of grants for health (Medicaid) and income security. The functions with the largest amount of grants are health; income security; education, training, employment, and social services; and transportation, with combined estimated grant outlays of \$601.2 billion, or more than 92 percent of total grant outlays in 2008.

The increase in total outlays for grants overall since 1990 has been driven by increases in grants for health, which have increased nearly five-fold, from \$43.9 billion in 1990 to \$218.0 billion in 2008. The income security; education, training, employment, and social services; and transportation functions also increased substantially, but at a slower rate than for health.

Section B of the table distributes grants between mandatory and discretionary spending.

Funding for grant programs classified as mandatory is determined in authorizing legislation. Funding levels for 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. Outlays for mandatory grant programs were \$274.5 billion in 2008. The three largest mandatory grant programs are Medicaid, with outlays of \$201.4 billion in 2008; Temporary Assistance for Needy Families, \$17.5 billion; and child nutrition programs, \$13.8 billion.

The funding level for discretionary grant programs is determined annually through appropriations acts. Outlays for discretionary grant programs were \$186.9 billion in

2008. The largest four discretionary programs in 2008 were Federal-aid Highways, \$35.4 billion; Tenant Based Rental Assistance, \$15.7 billion; Education for the Disadvantaged, \$14.8 billion; and Special Education, \$12.1 billion.

Table 8–3 at the end of this chapter identifies discretionary and mandatory grant programs separately. For more information on these categories, see Chapter 25, “The Budget System and Concepts” in this volume.

Section C of Table 8–2 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 then.

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.

Table 8–2. 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	2008	2009	2010
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	5.9	6.2	7.8
Agriculture	0.2	0.5	0.6	0.4	0.6	2.4	1.3	0.8	0.7	0.9	0.9	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	51.2	62.7	73.5
Community and regional development	0.1	0.6	1.8	2.8	6.5	5.2	5.0	7.2	8.7	20.2	19.2	21.8	20.3
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	58.9	69.6	103.3
Health	0.2	0.6	3.8	8.8	15.8	24.5	43.9	93.6	124.8	197.8	218.0	281.2	310.7
Income security	2.6	3.5	5.8	9.4	18.5	27.9	36.8	58.4	68.7	90.9	96.1	108.9	113.8
Administration of Justice .....	.....	.....	*	0.7	0.5	0.1	0.6	1.2	5.3	4.8	4.2	6.4	5.3
General government	0.2	0.2	0.5	7.1	8.6	6.8	2.3	2.3	2.1	4.4	4.1	4.7	4.7
Other	*	0.1	0.1	0.2	0.7	0.8	0.8	0.8	2.1	2.6	2.7	5.1	12.0
Total	7.0	10.9	24.1	49.8	91.4	105.9	135.3	225.0	285.9	428.0	461.3	567.8	652.2
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	186.9	219.1	273.2
Mandatory	N/A	8.0	13.9	28.8	38.1	50.4	72.0	131.0	169.2	246.3	274.5	348.7	379.0
Total	7.0	10.9	24.1	49.8	91.4	105.9	135.3	225.0	285.9	428.0	461.3	567.8	652.2
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	300.8	371.7	404.5
Physical capital ¹	3.3	5.0	7.1	10.9	22.6	24.9	27.2	39.6	48.7	60.8	72.7	88.3	100.5
Other grants	1.2	2.2	8.3	22.2	36.2	30.9	30.9	41.0	54.6	93.3	87.8	107.9	147.1
Total	7.0	10.9	24.1	49.8	91.4	105.9	135.3	225.0	285.9	428.0	461.3	567.8	652.2
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%	65.2%	65.5%	62.0%
Physical capital ¹	47.3%	45.7%	29.3%	21.9%	24.7%	23.5%	20.1%	17.6%	17.0%	14.2%	15.8%	15.5%	15.4%
Other grants	17.4%	20.2%	34.5%	44.5%	39.6%	29.2%	22.8%	18.2%	19.1%	21.8%	19.0%	19.0%	22.6%
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 2000) dollars:													
Payments for individuals ¹	12.0	16.9	33.5	48.0	63.9	75.0	96.6	157.6	182.6	245.8	244.3	304.5	326.8
Physical capital ¹	17.0	24.2	27.2	26.0	38.9	34.2	32.6	43.3	48.7	51.9	51.6	61.6	68.0
Other grants	10.0	15.6	44.6	83.8	89.9	53.9	42.9	47.0	54.6	75.8	61.5	74.3	98.2
Total	39.0	56.7	105.3	157.7	192.6	163.1	172.1	247.9	285.9	373.6	357.3	440.4	493.0
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%	15.5%	14.2%	18.2%
Domestic programs ²	18.0%	18.3%	23.2%	21.7%	22.2%	18.2%	17.1%	21.6%	22.0%	23.5%	21.2%	17.6%	23.5%
State and local expenditures	14.8%	15.5%	20.1%	24.0%	27.4%	22.0%	18.9%	22.8%	22.2%	24.7%	22.0%	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%	3.5%	3.2%	4.0%	4.4%

Table 8–2. TRENDS IN FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—Continued
(Outlays; in billions of dollars)

	Actual											Estimate	
	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2008	2009	2010
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%	21.9%	21.5%	20.6%	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%	78.1%	78.5%	79.4%	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

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 2008, grants for physical capital were \$72.7 billion, 16 percent of total grants.

The other grants are primarily for education, training, employment, and social services. These grants were 19 percent of total grants in 2008.

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 15 percent in 2008. Grants as a percentage of domestic programs were 21 percent in 2008. As a percentage of total State and local expenditures, grants have increased from 19 percent in 1990 to 22 percent in 2008.

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 2008.

DETAILED FEDERAL AID TABLE

Table 8–3, “Federal Grants to State and Local Governments-Budget Authority and Outlays,” provides detailed budget authority and outlay data for grants, in-

cluding proposed legislation. This table displays discretionary and mandatory grant programs separately.

Table 8–3. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS
(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
National Defense						
Discretionary:						
Department of Defense—Military:						
Research, Development, Test, and Evaluation:						
Research, Development, Test, and Evaluation, Air Force .....	.....	.....	.....	1	.....	.....
Energy						
Discretionary:						
Department of Energy:						
Energy Programs:						
Energy Efficiency and Renewable Energy	44	11,800	295	34	828	8,210
Department of Housing and Urban Development:						
Housing Programs:						
Energy Innovation Fund .....	.....	.....	100	.....	.....	.....

Table 8-3. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
Total, discretionary	44	11,800	395	34	828	8,210
Mandatory:						
Tennessee Valley Authority Fund	490	627	669	490	627	669
Total, Energy	534	12,427	1,064	524	1,455	8,879
Natural Resources and Environment						
Discretionary:						
Department of Agriculture:						
Farm Service Agency:						
Grassroots Source Water Protection Program	4	5	5	4	5	5
Natural Resources Conservation Service:						
Watershed Rehabilitation Program	11	23	53	7	7	39
Watershed and Flood Prevention Operations	83	181	.....	83	81	112
Forest Service:						
State and Private Forestry	259	257	280	292	330	266
Management of National Forest Lands for Subsistence Uses	5	5	3	5	7	3
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Operations, Research, and Facilities	11	286	168	9	182	108
Pacific Coastal Salmon Recovery	67	80	.....	69	76	61
Procurement, Acquisition and Construction	1	1	1	1	1	1
Department of the Interior:						
Office of Surface Mining Reclamation and Enforcement:						
Regulation and Technology	64	66	69	63	63	66
Abandoned Mine Reclamation Fund	25	27	12	145	137	44
United States Geological Survey:						
Surveys, Investigations, and Research	6	6	6	6	6	7
United States Fish and Wildlife Service:						
State and Tribal Wildlife Grants	74	75	115	74	76	89
Cooperative Endangered Species Conservation Fund	74	75	100	79	76	81
Landowner Incentive Program .....	.....	.....	.....	20	20	20
National Park Service:						
Urban Park and Recreation Fund .....	.....	-1	.....	5	-1	.....
National Recreation and Preservation	67	60	54	59	61	57
Land Acquisition and State Assistance	23	19	30	69	44	27
Historic Preservation Fund	71	84	78	83	92	80
Environmental Protection Agency:						
State and Tribal Assistance Grants	2,924	9,295	5,181	3,761	3,720	5,223
Hazardous Substance Superfund	25	40	40	25	23	53
Leaking Underground Storage Tank Trust Fund	54	295	94	68	115	167
Total, discretionary	3,848	10,879	6,289	4,927	5,121	6,509
Mandatory:						
Department of the Interior:						
Bureau of Land Management:						
Miscellaneous Permanent Payment Accounts	19	112	101	133	108	102
Minerals Management Service:						
National Forests Fund, Payment to States	14	9	7	14	9	8
Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes	7	3	3	7	3	3
States Share from Certain Gulf of Mexico Leases .....	.....	26	30	.....	26	30
Coastal Impact Assistance	250	250	250	12	64	212
Office of Surface Mining Reclamation and Enforcement:						
Payments to States in Lieu of Coal Fee Receipts .....	.....	21	.....	.....	21	.....
Abandoned Mine Reclamation Fund	94	91	152	23	42	78
Bureau of Reclamation:						
Bureau of Reclamation Loan Program Account	19	6	.....	19	6	.....
United States Fish and Wildlife Service:						

Table 8-3. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
Federal Aid in Wildlife Restoration	340	368	394	290	318	347
Cooperative Endangered Species Conservation Fund	52	55	55	52	55	55
Sport Fish Restoration	491	497	484	420	462	483
National Park Service:						
Land Acquisition and State Assistance .....	.....	8	10	.....	.....	1
Department of the Treasury:						
Financial Management Service:						
Payment to Terrestrial Wildlife Habitat Restoration Trust Fund	5	5	5	5	5	5
Total, mandatory	1,291	1,451	1,491	975	1,119	1,324
Total, Natural Resources and Environment	5,139	12,330	7,780	5,902	6,240	7,833
Agriculture						
Discretionary:						
Department of Agriculture:						
National Institute of Food and Agriculture:						
Extension Activities	458	498	512	424	458	547
Outreach for Socially Disadvantaged Farmers	7	15	20	7	4	12
Research and Education Activities	267	282	283	294	274	285
Integrated Activities	38	63	62	23	40	45
Agricultural Marketing Service:						
Payments to States and Possessions	22	2	1	11	15	5
Farm Service Agency:						
State Mediation Grants	4	4	4	4	4	5
Total, discretionary	796	864	882	763	795	899
Mandatory:						
Department of Agriculture:						
Agricultural Marketing Service:						
Payments to States and Possessions .....	.....	49	55	.....	.....	16
Farm Service Agency:						
Aquaculture Assistance .....	.....	50	.....	.....	50	.....
Commodity Credit Corporation Fund	99	171	83	99	171	83
Total, mandatory	99	270	138	99	221	99
Total, Agriculture	895	1,134	1,020	862	1,016	998
Commerce and Housing Credit						
Mandatory:						
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Promote and Develop Fishery Products and Research Pertaining to American Fisheries ...	8	29	9	6	23	16
National Telecommunications and Information Administration:						
Digital Television Transition and Public Safety Fund .....	.....	.....	.....	1	590	348
Federal Communications Commission:						
Universal Service Fund	1,489	2,222	1,810	1,489	2,222	1,810
Total, Commerce and Housing Credit	1,497	2,251	1,819	1,496	2,835	2,174
Transportation						
Discretionary:						
Department of Transportation:						
Federal Aviation Administration:						
Grants-in-aid for Airports .....	.....	1,100	.....	3,808	3,608	4,156
Grants-in-aid for Airports (non-add obligation limitations) ¹	3,515	3,515	3,515	.....	.....	.....
Federal Highway Administration:						
Emergency Relief Program	1,045	.....	.....	1,092	1,048	954

Table 8-3. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
Highway Infrastructure Investment .....	.....	27,500	.....	.....	5,500	11,825
Federal-Aid-Highways, General Fund Share .....	.....	.....	36,107	.....	.....	9,749
State Infrastructure Banks .....	.....	.....	.....	.....	1	.....
Appalachian Development Highway System	16	10	.....	61	55	38
Federal-aid Highways .....	.....	.....	.....	35,429	37,887	30,246
<i>Federal-aid Highways (non-add obligation limitations) ¹</i>	40,208	40,700	5,000	.....	.....	.....
Miscellaneous Appropriations	10	167	.....	89	108	111
Miscellaneous Highway Trust Funds	-1	.....	.....	142	84	73
Federal Motor Carrier Safety Administration:						
Motor Carrier Safety Grants .....	.....	.....	.....	256	400	308
<i>Motor Carrier Safety Grants (non-add obligation limitations) ¹</i>	300	307	310	.....	.....	.....
National Highway Traffic Safety Administration:						
Highway Traffic Safety Grants .....	.....	.....	.....	467	642	669
<i>Highway Traffic Safety Grants (non-add obligation limitations) ¹</i>	599	620	626	.....	.....	.....
Federal Railroad Administration:						
Emergency Railroad Rehabilitation and Repair	20	.....	.....	.....	20	.....
Intercity Passenger Rail Grant Program	30	90	.....	.....	6	18
Rail Line Relocation and Improvement Program	20	25	.....	.....	23	23
Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail Service .....	.....	8,000	1,000	.....	160	1,220
Alaska Railroad Rehabilitation .....	.....	.....	.....	1	1	.....
Federal Transit Administration:						
Transit Capital Assistance .....	.....	6,900	.....	.....	1,518	2,070
Fixed Guideway Infrastructure Investment .....	.....	750	.....	.....	165	225
Job Access and Reverse Commute Grants .....	.....	.....	.....	54	41	18
Interstate Transfer Grants-transit .....	.....	.....	.....	.....	1	1
Formula Grants .....	.....	.....	.....	1,330	1,008	581
Formula and Bus Grants, General Fund Share .....	.....	.....	3,343	.....	.....	735
Capital Investment Grants	1,569	2,557	1,827	2,473	2,744	2,505
Discretionary Grants (Highway Trust Fund, Mass Transit Account) .....	.....	.....	.....	21	20	20
Formula and Bus Grants .....	.....	.....	.....	5,969	7,659	7,865
<i>Formula and Bus Grants (non-add obligation limitations) ¹</i>	8,776	8,261	5,000	.....	.....	.....
Pipeline and Hazardous Materials Safety Administration:						
Pipeline Safety	23	35	39	23	35	40
Total, discretionary	2,732	47,134	42,316	51,215	62,734	73,450
<i>Total, obligation limitations (non-add) ¹</i>	53,398	53,403	14,451	.....	.....	.....
Mandatory:						
Department of Transportation:						
Federal Aviation Administration:						
Grants-in-aid for Airports (Airport and Airway Trust Fund) ¹	3,404	3,820	3,515	.....	.....	.....
Federal Highway Administration:						
Federal-aid Highways ¹	37,446	30,747	5,179	.....	.....	.....
Miscellaneous Appropriations	1	1	.....	1	1	.....
Federal Motor Carrier Safety Administration:						
Motor Carrier Safety Grants ¹	289	300	310	.....	.....	.....
National Highway Traffic Safety Administration:						
Highway Traffic Safety Grants ¹	570	542	608	.....	.....	.....
Federal Transit Administration:						
Formula and Bus Grants ¹	8,747	8,261	5,000	.....	.....	.....
Total, mandatory	50,457	43,671	14,612	1	1	.....
Total, Transportation	53,189	90,805	56,928	51,216	62,735	73,450
Community and Regional Development						
Discretionary:						
Department of Agriculture:						
Rural Development:						
Rural Community Advancement Program .....	.....	.....	.....	5	.....	.....

Table 8-3. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
Rural Utilities Service:						
Distance Learning, Telemedicine, and Broadband Program	57	331	43	44	54	83
Rural Water and Waste Disposal Program Account	659	1,920	546	585	863	990
Rural Housing Service:						
Rural Community Facilities Program Account	78	298	48	96	230	111
Rural Business—Cooperative Service:						
Rural Business Program Account	97	256	87	105	151	140
Department of Commerce:						
Economic Development Administration:						
Economic Development Assistance Programs	743	375	246	238	366	458
Department of Homeland Security:						
Federal Emergency Management Agency:						
State and Local Programs	4,255	4,756	3,867	2,870	3,331	5,554
United States Fire Administration and Training	4	4	4	3	3	5
Mitigation Grants	-2	.....	.....	33	.....	.....
Disaster Relief	10,059	956	1,505	5,724	7,263	2,075
Department of Housing and Urban Development:						
Community Planning and Development:						
Community Development Fund	17,207	6,897	4,450	8,935	8,010	8,307
Urban Development Action Grants	-1	.....	.....	3	.....	.....
Community Development Loan Guarantees Program Account	5	6	.....	5	7	.....
Brownfields Redevelopment	-1	10	.....	19	27	32
Empowerment Zones/enterprise Communities/renewal Communities .....	.....	.....	.....	17	17	17
Office of Lead Hazard Control and Healthy Homes:						
Lead Hazard Reduction	142	240	140	149	171	194
Department of the Interior:						
Bureau of Indian Affairs and Bureau of Indian Education:						
Operation of Indian Programs	258	157	157	250	188	163
Indian Guaranteed Loan Program Account	15	19	8	13	18	16
Appalachian Regional Commission	65	66	67	69	64	65
Delta Regional Authority	12	13	13	8	13	13
Denali Commission	22	12	12	46	42	78
Total, discretionary	33,674	16,316	11,193	19,217	20,818	18,301
Mandatory:						
Department of Housing and Urban Development:						
Community Planning and Development:						
Community Development Loan Guarantees Program Account	4	3	.....	4	3	.....
Neighborhood Stabilization Program .....	.....	.....	.....	.....	980	1,960
Community Development Loan Guarantees Liquidating Account	1	.....	.....	.....	.....	.....
Total, mandatory	5	3	.....	4	983	1,960
Total, Community and Regional Development	33,679	16,319	11,193	19,221	21,801	20,261
Education, Training, Employment, and Social Services						
Discretionary:						
Department of Commerce:						
National Telecommunications and Information Administration:						
Public Telecommunications Facilities, Planning and Construction	19	19	.....	24	29	23
Information Infrastructure Grants .....	.....	.....	.....	2	2	2
Department of Education:						
Office of Elementary and Secondary Education:						
Indian Education	116	118	118	113	112	116
Impact Aid	1,236	1,361	1,261	1,243	1,558	1,180
Education for the Disadvantaged	14,892	25,807	16,382	14,799	15,720	21,845
School Improvement Programs	5,173	5,703	5,051	5,208	5,087	5,593
State Fiscal Stabilization Fund .....	.....	53,542	100	.....	5,354	26,781
Office of Innovation and Improvement:						

Table 8-3. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
Innovation and Improvement	639	833	1,096	577	813	774
Office of Safe and Drug-Free Schools:						
Safe Schools and Citizenship Education	614	639	388	682	663	625
Office of English Language Acquisition:						
English Language Acquisition	658	686	686	557	833	700
Office of Special Education and Rehabilitative Services:						
Special Education	10,348	22,831	12,366	12,078	11,452	16,633
Rehabilitation Services and Disability Research	141	739	146	142	372	458
American Printing House for the Blind	22	23	23	20	27	23
Office of Vocational and Adult Education:						
Career, Technical and Adult Education	1,920	1,923	1,996	1,871	2,064	1,935
Office of Postsecondary Education:						
Higher Education	341	353	353	418	424	387
Office of Federal Student Aid:						
Student Financial Assistance	64	64	64	68	64	64
Institute of Education Sciences	43	310	59	28	52	118
Hurricane Education Recovery .....	.....	.....	.....	177	181	.....
Department of Health and Human Services:						
Administration for Children and Families:						
Promoting Safe and Stable Families	62	62	62	62	62	62
Children and Families Services Programs	8,650	13,507	9,090	8,633	10,563	11,163
Administration on Aging:						
Aging Services Programs	1,393	1,569	1,470	1,383	1,487	1,500
Department of the Interior:						
Bureau of Indian Affairs and Bureau of Indian Education:						
Operation of Indian Programs	99	103	158	96	102	138
Department of Labor:						
Employment and Training Administration:						
Training and Employment Services	3,236	5,889	2,970	3,052	4,072	4,593
Community Service Employment for Older Americans	109	419	299	84	161	272
State Unemployment Insurance and Employment Service Operations	89	92	75	148	103	95
Unemployment Trust Fund	951	1,364	970	996	1,411	971
Corporation for National and Community Service:						
Domestic Volunteer Service Programs, Operating Expenses .....	.....	.....	.....	85	11	.....
National and Community Service Programs, Operating Expenses .....	.....	.....	.....	140	89	.....
VISTA Advance Payments Revolving Fund .....	.....	.....	.....	.....	.....	3
Operating Expenses	360	464	493	141	315	320
Corporation for Public Broadcasting	448	461	481	448	461	481
District of Columbia:						
District of Columbia General and Special Payments:						
Federal Payment for Resident Tuition Support	33	35	35	33	35	35
Federal Payment to Jump Start Public School Reform .....	.....	20	.....	.....	20	.....
Federal Payment for School Improvement	41	54	74	41	54	74
National Endowment for the Arts:						
National Endowment for the Arts: Grants and Administration	48	71	53	43	48	66
Institute of Museum and Library Services:						
Office of Museum and Library Services: Grants and Administration	250	258	248	238	236	255
Total, discretionary	51,995	139,319	56,567	53,630	64,037	97,285
Mandatory:						
Department of Education:						
Office of Special Education and Rehabilitative Services:						
Rehabilitation Services and Disability Research	2,874	2,975	3,085	2,841	3,007	3,053
Department of Health and Human Services:						
Administration for Children and Families:						
Promoting Safe and Stable Families	358	372	372	349	357	371
Payments to States for Home Visitation .....	.....	.....	124	.....	.....	87
Social Services Block Grant	2,300	1,700	1,700	1,843	1,909	2,009

Table 8–3. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
Department of Labor:						
Employment and Training Administration:						
Federal Unemployment Benefits and Allowances	260	516	686	241	317	468
Total, mandatory	5,792	5,563	5,967	5,274	5,590	5,988
Total, Education, Training, Employment, and Social Services	57,787	144,882	62,534	58,904	69,627	103,273
Health						
Discretionary:						
Department of Agriculture:						
Food Safety and Inspection Service:						
Salaries and Expenses	49	50	51	49	50	51
Department of Health and Human Services:						
Health Resources and Services Administration	2,847	2,847	2,847	3,110	3,060	2,987
Centers for Disease Control and Prevention:						
Disease Control, Research, and Training	2,374	2,358	2,358	2,344	2,331	2,335
Substance Abuse and Mental Health Services Administration	2,832	2,902	2,958	2,847	2,877	2,919
Departmental Management:						
Public Health and Social Services Emergency Fund	398	863	2,223	654	569	1,017
Prevention and Wellness Fund .....	.....	700	.....	.....	154	420
General Departmental Management	124	146	147	160	239	255
Department of Labor:						
Occupational Safety and Health Administration:						
Salaries and Expenses	99	106	116	99	103	116
Mine Safety and Health Administration:						
Salaries and Expenses	9	9	9	9	9	9
Total, discretionary	8,732	9,981	10,709	9,272	9,392	10,109
Mandatory:						
Department of Health and Human Services:						
Centers for Medicare and Medicaid Services:						
Grants to States for Medicaid	206,886	257,148	292,563	201,426	262,389	289,664
Children's Health Insurance Fund	6,640	13,832	12,565	6,900	8,466	9,895
State Grants and Demonstrations	764	633	657	427	897	816
Child Enrollment Contingency Fund .....	.....	2,164	68	.....	100	200
Total, mandatory	214,290	273,777	305,853	208,753	271,852	300,575
Total, Health	223,022	283,758	316,562	218,025	281,244	310,684
Income Security						
Discretionary:						
Department of Agriculture:						
Food and Nutrition Service:						
Commodity Assistance Program	214	384	234	221	345	298
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	6,170	7,360	7,777	6,160	6,972	7,506
Department of Health and Human Services:						
Administration for Children and Families:						
Low Income Home Energy Assistance	2,570	5,100	3,200	2,663	4,334	3,403
Refugee and Entrant Assistance	408	450	541	471	501	569
Payments to States for the Child Care and Development Block Grant	2,056	4,120	2,120	2,067	2,883	3,287
Department of Homeland Security:						
Federal Emergency Management Agency:						
Emergency Food and Shelter	153	300	100	154	300	100
Department of Housing and Urban Development:						
Public and Indian Housing Programs:						

Table 8-3. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
Public Housing Operating Fund	4,200	4,455	4,600	4,113	4,391	4,559
Revitalization of Severely Distressed Public Housing (HOPE VI)	99	120	.....	526	428	278
Native Hawaiian Housing Block Grant	9	10	10	7	7	7
Tenant Based Rental Assistance	15,555	16,217	17,836	15,741	16,152	17,764
Project-based Rental Assistance	239	222	232	261	269	277
Public Housing Capital Fund	2,423	6,435	2,244	2,895	3,039	4,251
Native American Housing Block Grant	624	1,155	645	572	678	785
Choice Neighborhoods .....	.....	.....	250	.....	.....	7
Community Planning and Development:						
Homeless Assistance Grants	1,539	3,174	1,794	1,440	1,551	2,422
Home Investment Partnership Program	1,696	4,071	1,825	1,969	2,244	2,927
Housing Opportunities for Persons with AIDS	299	308	310	314	289	300
Rural Housing and Economic Development	13	26	.....	17	24	26
Permanent Supportive Housing	73	.....	.....	.....	33	10
Housing Programs:						
Homeownership and Opportunity for People Everywhere Grants (HOPE Grants)	-1	.....	.....	.....	.....	.....
Housing for Persons with Disabilities	231	248	114	321	292	225
Housing for the Elderly	721	763	522	1,008	973	746
Housing for Persons with Disabilities Contract Renewals and Amendments .....	.....	.....	136	.....	.....	50
Housing for the Elderly Contract Renewals and Amendments .....	.....	.....	243	.....	.....	94
Department of Labor:						
Employment and Training Administration:						
Unemployment Trust Fund	2,386	3,324	3,257	2,551	3,288	3,194
Total, discretionary	41,677	58,242	47,990	43,471	48,993	53,085
Mandatory:						
Department of Agriculture:						
Agricultural Marketing Service:						
Funds for Strengthening Markets, Income, and Supply (section 32)	491	631	1,346	690	631	1,346
Food and Nutrition Service:						
Food Stamp Program	4,891	5,256	5,469	4,935	5,238	5,454
Commodity Assistance Program	21	21	21	9	9	9
Child Nutrition Programs	13,757	15,002	17,735	13,761	15,381	17,414
Department of Health and Human Services:						
Administration for Children and Families:						
Payments to States for Child Support Enforcement and Family Support Programs	4,273	4,317	4,575	4,283	4,472	4,591
Low Income Home Energy Assistance .....	.....	.....	450	.....	.....	329
TANF Contingency Fund .....	.....	5,000	.....	348	1,660	1,400
Payments to States for Foster Care and Adoption Assistance	6,877	7,188	7,335	6,750	7,079	7,198
Child Care Entitlement to States	2,917	2,917	2,917	2,910	2,927	2,938
Temporary Assistance for Needy Families	17,059	17,059	17,059	17,532	18,623	18,047
Department of Labor:						
Employment and Training Administration:						
Unemployment Trust Fund .....	.....	723	1,947	.....	723	1,947
Department of the Treasury:						
Departmental Offices:						
Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credit Allocations .....	.....	2,930	.....	.....	2,930	.....
Internal Revenue Service:						
Payments to Territories in Lieu of Recovery Rebates	1,413	276	.....	1,413	276	.....
Total, mandatory	51,699	61,320	58,854	52,631	59,949	60,673
Total, Income Security	93,376	119,562	106,844	96,102	108,942	113,758
Social Security						
Mandatory:						
Social Security Administration:						
Federal Disability Insurance Trust Fund	39	34	29	23	21	32

Table 8-3. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
Veterans Benefits and Services						
Discretionary:						
Department of Veterans Affairs:						
Veterans Health Administration:						
Medical Services	548	679	739	548	679	739
Departmental Administration:						
Grants for Construction of State Extended Care Facilities	165	325	85	116	99	148
Grants for the Construction of State Veterans Cemeteries	40	42	42	31	29	30
Total, Veterans Benefits and Services	753	1,046	866	695	807	917
Administration of Justice						
Discretionary:						
Department of Housing and Urban Development:						
Fair Housing and Equal Opportunity:						
Fair Housing Activities	50	54	72	54	47	52
Department of Justice:						
Legal Activities and U.S. Marshals:						
Assets Forfeiture Fund	21	21	21	21	21	21
Office of Justice Programs:						
Justice Assistance	131	153	171	250	225	185
State and Local Law Enforcement Assistance	1,111	4,291	686	1,497	3,356	1,664
Juvenile Justice Programs	313	333	287	323	341	333
Community Oriented Policing Services	246	1,178	721	310	393	945
Violence against Women Prevention and Prosecution Programs	351	583	394	337	378	498
Equal Employment Opportunity Commission:						
Salaries and Expenses	28	26	26	28	26	26
Federal Drug Control Programs:						
High-intensity Drug Trafficking Areas Program	208	234	220	209	227	193
State Justice Institute:						
State Justice Institute: Salaries and Expenses	4	4	5	4	4	5
Total, discretionary	2,463	6,877	2,603	3,033	5,018	3,922
Mandatory:						
Department of Justice:						
Legal Activities and U.S. Marshals:						
Assets Forfeiture Fund	555	580	567	453	535	520
Office of Justice Programs:						
Crime Victims Fund	739	599	664	611	638	680
Department of the Treasury:						
Departmental Offices:						
Treasury Forfeiture Fund	130	208	67	104	187	164
Total, mandatory	1,424	1,387	1,298	1,168	1,360	1,364
Total, Administration of Justice	3,887	8,264	3,901	4,201	6,378	5,286
General Government						
Discretionary:						
Department of Health and Human Services:						
Administration for Children and Families:						
Disabled Voter Services .....	.....	.....	.....	2	1	.....
Department of the Interior:						
United States Fish and Wildlife Service:						
National Wildlife Refuge Fund	14	14	14	14	14	14
Insular Affairs:						

Table 8-3. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued
(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2008 Actual	2009 Estimate	2010 Estimate	2008 Actual	2009 Estimate	2010 Estimate
Assistance to Territories	48	50	52	54	50	52
Trust Territory of the Pacific Islands .....	.....	.....	.....	.....	1	1
Department-Wide Programs:						
Payments in Lieu of Taxes	229	.....	.....	229	.....	.....
District of Columbia:						
District of Columbia Courts:						
Federal Payment to the District of Columbia Courts	224	248	249	216	246	249
Defender Services in District of Columbia Courts	48	52	52	41	52	52
District of Columbia General and Special Payments:						
Federal Support for Economic Development and Management Reforms in the District	37	54	63	37	54	63
Election Assistance Commission:						
Election Reform Programs	115	106	52	2	107	105
Election Data Collections Grants	10	.....	.....	2	6	4
Total, discretionary	725	524	482	597	531	540
Mandatory:						
Department of Agriculture:						
Forest Service:						
Forest Service Permanent Appropriations	78	550	495	437	617	495
Department of Energy:						
Energy Programs:						
Payments to States under Federal Power Act	3	8	8	3	8	8
Department of Homeland Security:						
Customs and Border Protection:						
Refunds, Transfers, and Expenses of Operation, Puerto Rico	90	92	92	84	92	92
Department of the Interior:						
Minerals Management Service:						
Mineral Leasing and Associated Payments	2,460	2,048	2,187	2,460	2,048	2,187
National Petroleum Reserve, Alaska	5	8	14	5	8	14
Geothermal Lease Revenues, Payment to Counties	9	10	.....	9	10	.....
Office of Surface Mining Reclamation and Enforcement:						
Payments to States in Lieu of Coal Fee Receipts	187	187	85	16	162	82
United States Fish and Wildlife Service:						
National Wildlife Refuge Fund	11	12	12	12	12	12
Insular Affairs:						
Assistance to Territories	28	28	28	16	24	25
Payments to the United States Territories, Fiscal Assistance	129	148	129	129	148	129
Department-Wide Programs:						
Payments in Lieu of Taxes	139	378	390	.....	517	390
Department of the Treasury:						
Alcohol and Tobacco Tax and Trade Bureau:						
Internal Revenue Collections for Puerto Rico	373	491	486	373	491	486
Internal Revenue Service:						
Build American Bond Payments .....	.....	50	192	.....	50	192
Corps of Engineers-Civil Works:						
Permanent Appropriations	4	4	4	4	4	4
Total, mandatory	3,516	4,014	4,122	3,548	4,191	4,116
Total, General Government	4,241	4,538	4,604	4,145	4,722	4,656
Total, Grants	478,038	697,350	575,144	461,317	567,823	652,201
Discretionary	147,439	302,982	180,292	186,855	219,074	273,227
<i>Transportation obligation limitations (non-add)</i> ¹	<i>53,398</i>	<i>54,403</i>	<i>14,451</i>	.....	.....	.....
Mandatory	330,599	394,368	394,852	274,462	348,749	378,974

¹ Mandatory contract authority provides budget authority for these programs, but program levels are set by discretionary obligation limitations in appropriations bills and outlays are recorded as discretionary. This table shows the obligation limitations as non-additive items to avoid double counting. For all surface transportation programs subject to reauthorization, the Budget includes placeholder funding levels for FY 2010 that do not represent Administration policy.

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 6, “Federal Investment.”

Data for summary and detailed 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 Investment: Major 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 these sources, a number of other sources of information are available that use slightly different concepts of grants, provide State-by-State information, provide information on how to apply for Federal aid, or display information about audits.

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 monthly. 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 14, “National Income and Product Accounts.”

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 the selected 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. Both of these tables combine funding provided in the Recovery Act with funding provided through other authority.

The third summary table, “Summary of Recovery Act Grants by Agency, Bureau, and Program” shows obligations made from funding provided by the Recovery Act for the grant programs from the first summary table. For those grant programs created by the Recovery Act, such as the State Fiscal Stabilization Fund, the amounts in this table are the same as in the first table. The fourth summary table, “Summary of Recovery Act Grants by State” shows the amounts for each State from funding provided by the Recovery Act.

The individual program tables display obligations for each program on a State-by-State basis, consistent with the estimates in this Budget. These tables combine 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 2008 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 2009 obligations by State from previous budget authority and from new budget authority, including new authority provided by the Recovery Act.
- Estimates of 2010 obligations by State, which are based on the 2010 Budget request, unless otherwise noted.
- The percentage share of 2010 estimated program funds distributed to each State.

Table 8-4. SUMMARY OF PROGRAMS BY AGENCY, BUREAU, AND PROGRAM
(obligations in millions of dollars)

Agency, Bureau, and Program	FY 2008 (actual)	Estimated FY 2009 obligations from:			FY 2010 (estimated)
		Previous authority	New authority	Total	
Department of Agriculture, Food and Nutrition Service:					
School Breakfast Program (10.553)	2,393	.....	2,633	2,633	2,867
National School Lunch Program (10.555)	8,365	255	8,817	9,072	9,821
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557)	6,371	13	7,258	7,272	7,793
Child and Adult Care Food Program (10.558)	2,245	.....	2,514	2,514	2,687
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Food Stamps) (10.561)	2,620	.....	2,894	2,894	2,986
Department of Education, Office of Elementary and Secondary Education:					
Title I Grants to Locational Agencies (84.010)	13,899	.....	24,492	24,492	12,992
Improving Teacher Quality State Grants (84.367)	2,935	.....	2,948	2,948	2,948
Education State Grants, State Fiscal Stabilization Fund (84.394) .....	.....	.....	39,743	39,743	.....
Government Services, State Fiscal Stabilization Fund (84.397) .....	.....	.....	8,843	8,843	.....
Department of Education, Office of Special Education and Rehabilitative Services:					
Vocational Rehabilitation State Grants (84.126)	2,874	.....	3,515	3,515	3,085
IDEA Part B: Grants to States & Grants to States Recovery Act (84.323)	10,948	.....	22,805	22,805	11,505
Department of Energy, Energy Programs:					
State Energy Program (81.041)	44	.....	1,600	1,600	1,625
Weatherization Assistance for Low-Income Persons (81.042)	227	.....	2,950	2,950	2,720
Energy Efficiency and Conservation Block Grant (81.043) .....	.....	.....	1,600	1,600	1,600
Department of Health and Human Services, Centers for Medicare and Medicaid Services:					
Children's Health Insurance Program (93.767)	6,047	.....	10,562	10,562	12,520
Grants to States for Medicaid (93.778)	214,015	.....	266,611	266,611	293,225
Department of Health and Human Services, Administration for Children and Families:					
Temporary Assistance for Needy Families (TANF) - Family Assistance Grants (93.558)	17,041	.....	17,059	17,059	17,059
Child Support Enforcement - Federal Share of State and Local Administrative Costs and Incentives (93.563)	4,542	.....	4,482	4,482	4,638
Low Income Home Energy Assistance Program (93.568)	1,980	.....	4,510	4,510	2,410
Child Care and Development Block Grant (93.575)	2,062	.....	4,127	4,127	2,127
Child Care and Development Fund - Mandatory (93.596a)	1,240	.....	1,240	1,240	1,240
Child Care and Development Fund - Matching (93.596b)	1,677	.....	1,677	1,677	1,677
Head Start (93.600)	6,877	.....	9,113	9,113	7,235
Foster Care - Title IV-E (93.658)	4,525	.....	4,660	4,660	4,681
Adoption Assistance (93.659)	2,038	.....	2,371	2,371	2,462
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)	1,150	.....	1,115	1,115	1,209
Department of Housing and Urban Development, Public and Indian Housing Programs:					
Public Housing Operating Fund (14.850)	4,200	.....	4,455	4,455	4,600
Section 8 Housing Choice Vouchers (14.871)	15,552	356	16,217	16,573	17,836
Public Housing Capital Fund (14.872)	2,497	94	6,434	6,528	2,244
Department of Housing and Urban Development, Community Planning and Development:					
Community Development Block Grants and Neighborhood Stabilization Program (14.218)	4,855	8,341	4,909	13,250	6,404
Emergency Shelter Grant, Homelessness Prevention and Rapid-Re-housing Program (14.231)	160	.....	1,652	1,652	150
HOME Investment Partnership Program (14.258)	1,704	.....	1,825	1,825	1,825
Tax Credit Assistance Program (14.258) .....	.....	.....	2,250	2,250	.....
Department of Justice, Office of Justice Programs:					
Edward Byrne Memorial Justice Assistance Grant Program (16.738)	168	.....	2,512	2,512	519
Department of Labor, Employment and Training Administration:					
Unemployment Insurance (17.225)	2,564	65	2,822	2,887	.....
WIA Youth Activities (17.259)	875	.....	2,112	2,112	924
WIA Dislocated Workers (17.260)	1,005	.....	2,429	2,429	1,188
Department of Transportation, Federal Aviation Administration:					
Airport Improvement Program (20.106)	3,557	.....	4,493	4,493	3,384
Department of Transportation, Federal Highway Administration:					
Highway Planning and Construction (20.205)	37,362	.....	54,105	54,105	54,512
Department of Transportation, Federal Transit Administration:					
Federal Transit Formula Grants Programs (20.507)	8,217	1,207	11,793	13,000	10,139
Environmental Protection Agency, Office of Water:					
Capitalization Grant for Clean Water State Revolving Funds (66.458)	542	147	4,658	4,806	2,373
Capitalization Grant for Drinking Water State Revolving Funds (66.468)	756	138	2,504	2,642	939
Total	401,828	10,616	587,009	597,627	525,046

Table 8-5. SUMMARY OF PROGRAMS BY STATE
(obligations in millions of dollars)

State or Territory	All programs FY 2008 (actual)	Programs distributed in all years				FY 2010 (estimated)	FY 2010 Percentage of distributed total
		FY 2008 (actual)	Estimated FY 2009 obligations from:				
			Previous authority	New authority	Total		
Alabama	5,644	5,644	28	7,687	7,715	6,389	1.61
Alaska	1,783	1,783	6	2,272	2,278	1,974	0.31
Arizona	8,266	8,266	58	11,736	11,795	10,455	1.81
Arkansas	4,263	4,263	31	5,948	5,980	5,256	1.06
California	48,691	48,691	231	67,416	67,647	57,626	10.99
Colorado	4,028	4,028	21	6,182	6,202	4,862	1.20
Connecticut	4,562	4,562	111	6,907	7,018	5,802	0.95
Delaware	1,096	1,096	16	1,678	1,694	1,563	0.31
District of Columbia	2,217	2,217	4	2,676	2,680	2,408	0.28
Florida	16,864	16,864	86	25,559	25,645	20,353	4.97
Georgia	10,647	10,647	59	15,243	15,302	12,551	3.11
Hawaii	1,572	1,572	15	2,244	2,260	1,823	0.34
Idaho	1,728	1,728	4	2,491	2,494	2,143	0.41
Illinois	13,767	13,767	103	20,057	20,160	16,159	4.30
Indiana	7,347	7,347	194	10,253	10,448	8,791	1.96
Iowa	3,431	3,431	224	4,870	5,094	4,172	0.78
Kansas	2,922	2,922	13	4,153	4,166	3,334	0.81
Kentucky	6,119	6,119	17	8,348	8,364	7,198	1.49
Louisiana	8,589	8,589	2,474	10,153	12,626	9,053	1.94
Maine	2,323	2,323	4	3,122	3,126	2,669	0.43
Maryland	6,097	6,097	53	9,193	9,246	7,751	1.50
Massachusetts	10,581	10,581	53	14,889	14,941	12,358	2.02
Michigan	11,878	11,878	26	17,436	17,463	14,287	3.68
Minnesota	6,798	6,798	40	9,376	9,416	8,232	1.29
Mississippi	5,212	5,212	23	6,793	6,816	6,070	1.25
Missouri	8,116	8,116	83	11,118	11,202	9,870	1.77
Montana	1,402	1,402	4	1,905	1,909	1,610	0.34
Nebraska	1,990	1,990	22	2,908	2,930	2,433	0.54
Nevada	1,976	1,976	20	3,007	3,027	2,356	0.61
New Hampshire	1,335	1,335	22	1,969	1,990	1,626	0.35
New Jersey	9,990	9,990	23	14,721	14,744	12,381	2.47
New Mexico	3,714	3,714	13	5,030	5,043	4,567	0.81
New York	40,347	40,347	152	55,938	56,090	49,943	7.77
North Carolina	11,355	11,355	84	15,930	16,014	13,822	2.66
North Dakota	995	995	6	1,383	1,389	1,177	0.27
Ohio	14,932	14,932	115	21,379	21,495	18,388	3.78
Oklahoma	4,702	4,702	19	6,625	6,645	5,568	1.19
Oregon	4,248	4,248	8	6,126	6,134	5,127	1.02
Pennsylvania	16,974	16,974	52	23,935	23,987	20,501	3.87
Rhode Island	1,790	1,790	14	2,557	2,571	2,187	0.38
South Carolina	5,331	5,331	23	7,476	7,500	6,133	1.47
South Dakota	1,097	1,097	4	1,541	1,545	1,274	0.31
Tennessee	8,237	8,237	45	10,959	11,004	9,514	1.96
Texas	28,124	28,124	1,458	39,261	40,719	32,520	8.93
Utah	2,362	2,362	8	3,565	3,573	2,873	0.69
Vermont	1,196	1,196	13	1,632	1,645	1,435	0.26
Virginia	6,295	6,295	65	9,347	9,413	7,520	2.01
Washington	7,320	7,320	34	10,721	10,756	9,168	1.63
West Virginia	3,118	3,118	10	4,067	4,078	3,590	0.67
Wisconsin	6,212	6,212	65	9,041	9,106	7,549	1.62
Wyoming	822	822	¹	1,104	1,105	938	0.26
American Samoa	57	57	*	101	101	89	0.07
Guam	191	191	*	250	250	224	0.11
Northern Mariana Islands	48	48	¹	83	84	73	0.03
Puerto Rico	2,928	2,928	91	5,026	5,117	3,334	2.53
Freely Associated States	46	46	.....	61	61	45	0.03
Virgin Islands	158	158	¹	216	217	182	0.08
Indian Tribes	874	874	*	1,271	1,271	1,060	0.71
Total, programs distributed by State in all years	394,710	394,710	6,350	556,941	563,292	472,355	100.00
MEMORANDUM:							
Not distributed by State in all years ¹	7,118	7,118	4,267	30,067	34,335	52,691	N/A
Total, including undistributed	401,828	401,828	10,616	587,009	597,627	525,046	N/A

* \$500,000 or less or 0.005 percent or less.

¹ The sum of programs not distributed by State in all years.

Table 8-6. SUMMARY OF RECOVERY ACT GRANTS BY AGENCY, BUREAU, AND PROGRAM
(obligations in millions of dollars)

Agency, Bureau, and Program	FY 2008 (actual)	Estimated FY 2009 obligations from:			FY 2010 (estimated)
		Previous authority	New authority	Total	
Department of Agriculture, Food and Nutrition Service:					
State Administrative Matching Grants for Supplemental Nutrition Assistance Program (Food Stamps) (10.561)	144	144	146
Department of Education, Office of Elementary and Secondary Education:					
Title I Grants to Locational Agencies (84.01)	10,000	10,000	.....
Education State Grants, State Fiscal Stabilization Fund (84.394)	39,743	39,743	.....
Government Services, State Fiscal Stabilization Fund (84.397)	8,843	8,843	.....
Department of Education, Office of Special Education and Rehabilitative Services:					
Vocational Rehabilitation State Grants, Recovery Act (84.126)	540	540	.....
IDEA Part B: Grants to States - Recovery Act (84.391)	11,300	11,300	.....
Department of Energy, Energy Programs:					
State Energy Program (81.041)	1,550	1,550	1,550
Weatherization Assistance for Low-Income Persons (81.042)	2,364	2,364	2,364
Energy Efficiency and Conservation Block Grants (81.043)	1,600	1,600	1,600
Department of Health and Human Services, Centers for Medicare and Medicaid Services:					
Grants to States for Medicaid (93.778)	36,715	36,715	43,122
Department of Health and Human Services, Administration for Children and Families:					
Temporary Assistance for Needy Families (TANF) - Family Assistance Grants (93.558)	5,000	5,000	319
Child Care and Development Block Grant (93.575)	2,000	2,000	.....
Head Start (93.600)	2,100	2,100	.....
Department of Housing and Urban Development, Public and Indian Housing Programs:					
Public Housing Capital Fund (14.885)	3,984	3,984	5
Department of Housing and Urban Development, Community Planning and Development:					
Community Development Block Grant and Neighborhood Stabilization Program (14.256)	1,045	1,045	1,955
Homelessness Prevention and Rapid Re-Housing Program (14.257)	1,500	1,500	.....
Tax Credit Assistance Program (14.258)	2,250	2,250	.....
Department of Justice, Office of Justice Programs:					
Edward Byrne Memorial Justice Assistance Grant Program (16.803)	2,000	2,000	.....
Department of Labor, Employment and Training Administration:					
WIA Youth Activities (17.259)	1,188	1,188	.....
WIA Dislocated Workers (17.260)	1,241	1,241	.....
Department of Transportation, Federal Aviation Administration:					
Airport Improvement Program (20.106)	1,098	1,098	.....
Department of Transportation, Federal Highway Administration:					
Highway Planning and Construction (20.205)	13,405	13,405	13,405
Department of Transportation, Federal Transit Administration:					
Transit Capital Assistance and Fixed Guideway Infrastructure Investment (20.507)	5,624	5,624	1,883
Environmental Protection Agency, Office of Water:					
Capitalization Grant for Clean Water State Revolving Funds (66.458)	3,969	3,969	.....
Capitalization Grant for Drinking Water State Revolving Funds (66.468)	1,980	1,980	8
Total	161,183	161,183	66,357

Table 8-7. SUMMARY OF RECOVERY ACT GRANTS BY STATE
(obligations in millions of dollars)

State or Territory	All programs FY 2008 (actual)	Programs distributed in all years				FY 2010 (estimated)	FY 2010 Percentage of distributed total
		FY 2008 (actual)	Estimated FY 2009 obligations from:				
			Previous authority	New authority	Total		
Alabama	2,145	2,145	712	1.30
Alaska	571	571	223	0.41
Arizona	2,894	2,894	1,212	2.22
Arkansas	1,380	1,380	493	0.90
California	17,582	17,582	6,794	12.45
Colorado	1,972	1,972	633	1.16
Connecticut	1,854	1,854	749	1.37
Delaware	514	514	232	0.42
District of Columbia	555	555	232	0.43
Florida	7,899	7,899	2,864	5.25
Georgia	4,271	4,271	1,377	2.52
Hawaii	647	647	236	0.43
Idaho	692	692	258	0.47
Illinois	6,373	6,373	2,108	3.86
Indiana	2,936	2,936	1,025	1.88
Iowa	1,317	1,317	457	0.84
Kansas	1,214	1,214	382	0.70
Kentucky	2,046	2,046	694	1.27
Louisiana	2,280	2,280	870	1.60
Maine	715	715	286	0.52
Maryland	2,588	2,588	945	1.73
Massachusetts	3,689	3,689	1,465	2.69
Michigan	4,874	4,874	1,589	2.91
Minnesota	2,648	2,648	1,196	2.19
Mississippi	1,550	1,550	587	1.08
Missouri	2,852	2,852	1,070	1.96
Montana	526	526	214	0.39
Nebraska	815	815	277	0.51
Nevada	1,077	1,077	368	0.68
New Hampshire	572	572	169	0.31
New Jersey	4,079	4,079	1,388	2.54
New Mexico	1,019	1,019	397	0.73
New York	12,804	12,804	5,715	10.47
North Carolina	4,079	4,079	1,527	2.80
North Dakota	395	395	161	0.30
Ohio	5,465	5,465	1,864	3.42
Oklahoma	1,776	1,776	670	1.23
Oregon	1,651	1,651	577	1.06
Pennsylvania	6,148	6,148	2,321	4.25
Rhode Island	692	692	307	0.56
South Carolina	2,011	2,011	654	1.20
South Dakota	446	446	168	0.31
Tennessee	2,892	2,892	1,088	1.99
Texas	11,216	11,216	3,790	6.95
Utah	1,098	1,098	303	0.56
Vermont	401	401	184	0.34
Virginia	3,082	3,082	1,046	1.92
Washington	2,933	2,933	1,099	2.01
West Virginia	912	912	319	0.58
Wisconsin	2,410	2,410	769	1.41
Wyoming	347	347	140	0.26
American Samoa	42	42	19	0.03
Guam	70	70	32	0.06
Northern Mariana Islands	34	34	19	0.03
Puerto Rico	1,960	1,960	224	0.41
Freely Associated States	16	16	0	*
Virgin Islands	65	65	26	0.05
Indian Tribes	310	310	32	0.06
Other
Total, programs distributed by State in all years	149,398	149,398	54,559	100.00
MEMORANDUM:							
Not distributed by State in all years ¹	11,785	11,785	11,798	N/A
Total, including undistributed	161,183	161,183	66,357	N/A

* \$500,000 or less or 0.005 percent or less.

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 8-8. SCHOOL BREAKFAST PROGRAM (10.553)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	47,136	.....	52,629	52,629	57,299	2.00
Alaska	5,361	.....	5,986	5,986	6,517	0.23
Arizona	49,386	.....	55,141	55,141	60,034	2.09
Arkansas	34,165	.....	38,146	38,146	41,531	1.45
California	290,359	.....	324,195	324,195	352,962	12.31
Colorado	20,507	.....	22,897	22,897	24,928	0.87
Connecticut	14,871	.....	16,604	16,604	18,077	0.63
Delaware	5,992	.....	6,690	6,690	7,284	0.25
District of Columbia	4,453	.....	4,972	4,972	5,413	0.19
Florida	131,484	.....	146,807	146,807	159,832	5.58
Georgia	121,569	.....	135,737	135,737	147,780	5.16
Hawaii	8,006	.....	8,939	8,939	9,732	0.34
Idaho	13,004	.....	14,519	14,519	15,808	0.55
Illinois	65,942	.....	73,626	73,626	80,159	2.80
Indiana	43,812	.....	48,917	48,917	53,258	1.86
Iowa	15,076	.....	16,833	16,833	18,326	0.64
Kansas	18,471	.....	20,623	20,623	22,453	0.78
Kentucky	48,580	.....	54,241	54,241	59,054	2.06
Louisiana	50,608	.....	56,505	56,505	61,519	2.15
Maine	7,015	.....	7,832	7,832	8,527	0.30
Maryland	27,966	.....	31,225	31,225	33,996	1.19
Massachusetts	31,210	.....	34,847	34,847	37,939	1.32
Michigan	54,326	.....	60,657	60,657	66,039	2.30
Minnesota	25,852	.....	28,865	28,865	31,426	1.10
Mississippi	46,605	.....	52,036	52,036	56,653	1.98
Missouri	46,315	.....	51,712	51,712	56,301	1.96
Montana	5,135	.....	5,733	5,733	6,242	0.22
Nebraska	10,215	.....	11,405	11,405	12,417	0.43
Nevada	13,897	.....	15,516	15,516	16,893	0.59
New Hampshire	3,455	.....	3,858	3,858	4,200	0.15
New Jersey	38,051	.....	42,485	42,485	46,255	1.61
New Mexico	27,180	.....	30,347	30,347	33,040	1.15
New York	130,241	.....	145,419	145,419	158,321	5.52
North Carolina	82,066	.....	91,629	91,629	99,760	3.48
North Dakota	3,307	.....	3,692	3,692	4,020	0.14
Ohio	68,748	.....	76,759	76,759	83,570	2.92
Oklahoma	41,904	.....	46,787	46,787	50,939	1.78
Oregon	27,115	.....	30,275	30,275	32,961	1.15
Pennsylvania	58,824	.....	65,679	65,679	71,507	2.49
Rhode Island	5,917	.....	6,607	6,607	7,193	0.25
South Carolina	54,020	.....	60,315	60,315	65,667	2.29
South Dakota	5,419	.....	6,050	6,050	6,587	0.23
Tennessee	58,605	.....	65,434	65,434	71,240	2.49
Texas	320,010	.....	357,301	357,301	389,005	13.57
Utah	12,747	.....	14,232	14,232	15,495	0.54
Vermont	3,498	.....	3,906	3,906	4,252	0.15
Virginia	44,400	.....	49,574	49,574	53,973	1.88
Washington	35,639	.....	39,792	39,792	43,323	1.51
West Virginia	18,054	.....	20,158	20,158	21,946	0.77
Wisconsin	25,095	.....	28,019	28,019	30,506	1.06
Wyoming	2,531	.....	2,826	2,826	3,077	0.11
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam	1,780	.....	1,987	1,987	2,164	0.08
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico	31,325	.....	34,975	34,975	38,079	1.33
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	975	.....	1,089	1,089	1,185	0.04
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed	34,788	.....	.....	.....	.....	.....
DoD/USAF/USMC/USN	16	.....	18	18	19	*
Total	2,393,028	.....	2,633,048	2,633,048	2,866,683	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 8-9. NATIONAL SCHOOL LUNCH PROGRAM (10.555)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	157,397	4,869	168,415	173,284	187,602	1.91
Alaska	24,249	750	25,947	26,697	28,902	0.29
Arizona	188,331	5,826	201,514	207,340	224,472	2.29
Arkansas	100,499	3,109	107,534	110,643	119,785	1.22
California	1,110,177	34,344	1,187,889	1,222,233	1,323,220	13.47
Colorado	88,360	2,733	94,546	97,279	105,316	1.07
Connecticut	65,898	2,039	70,510	72,549	78,544	0.80
Delaware	19,460	602	20,822	21,424	23,194	0.24
District of Columbia	15,045	465	16,099	16,564	17,932	0.18
Florida	465,736	14,408	498,338	512,746	555,111	5.65
Georgia	351,313	10,868	375,905	386,773	418,730	4.26
Hawaii	29,415	910	31,474	32,384	35,060	0.36
Idaho	37,680	1,166	40,317	41,483	44,911	0.46
Illinois	311,769	9,645	333,592	343,237	371,598	3.78
Indiana	168,598	5,216	180,399	185,615	200,952	2.05
Iowa	69,837	2,160	74,726	76,886	83,239	0.85
Kansas	71,162	2,201	76,144	78,345	84,818	0.86
Kentucky	137,594	4,257	147,225	151,482	163,998	1.67
Louisiana	154,480	4,779	165,293	170,072	184,125	1.87
Maine	25,088	776	26,844	27,620	29,902	0.30
Maryland	101,421	3,137	108,521	111,658	120,884	1.23
Massachusetts	116,329	3,599	124,472	128,071	138,653	1.41
Michigan	210,897	6,524	225,660	232,184	251,368	2.56
Minnesota	107,414	3,323	114,933	118,256	128,027	1.30
Mississippi	130,222	4,028	139,338	143,366	155,212	1.58
Missouri	145,513	4,501	155,699	160,200	173,437	1.77
Montana	19,290	597	20,640	21,237	22,992	0.23
Nebraska	46,122	1,427	49,350	50,777	54,973	0.56
Nevada	57,534	1,780	61,561	63,341	68,575	0.70
New Hampshire	17,099	529	18,296	18,825	20,380	0.21
New Jersey	161,703	5,002	173,022	178,024	192,734	1.96
New Mexico	69,789	2,159	74,674	76,833	83,182	0.85
New York	509,874	15,773	545,565	561,338	607,719	6.19
North Carolina	264,467	8,181	282,980	291,161	315,218	3.21
North Dakota	13,361	413	14,297	14,710	15,925	0.16
Ohio	244,628	7,568	261,751	269,319	291,572	2.97
Oklahoma	117,028	3,620	125,220	128,840	139,486	1.42
Oregon	79,125	2,448	84,663	87,111	94,309	0.96
Pennsylvania	247,912	7,669	265,266	272,935	295,486	3.01
Rhode Island	23,175	717	24,797	25,514	27,622	0.28
South Carolina	143,838	4,450	153,906	158,356	171,441	1.75
South Dakota	20,837	645	22,295	22,940	24,836	0.25
Tennessee	182,110	5,634	194,857	200,491	217,057	2.21
Texas	943,657	29,192	1,009,714	1,038,906	1,124,744	11.45
Utah	64,062	1,982	68,546	70,528	76,356	0.78
Vermont	10,518	325	11,255	11,580	12,536	0.13
Virginia	153,524	4,749	164,271	169,020	182,985	1.86
Washington	131,501	4,068	140,706	144,774	156,736	1.60
West Virginia	49,755	1,539	53,238	54,777	59,303	0.60
Wisconsin	112,152	3,469	120,003	123,472	133,674	1.36
Wyoming	10,293	318	11,014	11,332	12,268	0.12
American Samoa	.....	.....	.....	.....	.....	.....
Guam	5,502	170	5,887	6,057	6,558	0.07
Northern Mariana Islands	.....	.....	.....	.....	.....	.....
Puerto Rico	124,360	3,847	133,065	136,912	148,225	1.51
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	4,688	145	5,016	5,161	5,588	0.06
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	125,042	.....	.....	.....	.....	.....
DoD/USAF/USMC/USN	8,285	256	8,865	9,121	9,875	0.10
Total	8,365,115	254,907	8,816,876	9,071,783	9,821,347	¹ 100.00

¹ Excludes undistributed obligations.

Department of Agriculture, Food and Nutrition Service

12-3510-0-1-605

Table 8-10. SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC) (10.557)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	112,737	237	124,550	124,787	137,910	1.77
Alaska	24,133	51	26,661	26,712	29,522	0.38
Arizona	120,977	254	133,653	133,907	147,990	1.90
Arkansas	69,895	147	77,219	77,366	85,502	1.10
California	1,040,884	2,183	1,149,954	1,152,137	1,273,300	16.34
Colorado	67,242	141	74,288	74,429	82,256	1.06
Connecticut	45,327	95	50,077	50,172	55,448	0.71
Delaware	15,586	33	17,219	17,252	19,066	0.24
District of Columbia	13,374	28	14,775	14,803	16,360	0.21
Florida	348,243	731	384,734	385,465	426,001	5.47
Georgia	230,255	483	254,382	254,865	281,668	3.61
Hawaii	34,547	73	38,166	38,239	42,261	0.54
Idaho	27,821	58	30,737	30,795	34,033	0.44
Illinois	214,219	450	236,666	237,116	262,051	3.36
Indiana	105,726	222	116,804	117,026	129,333	1.66
Iowa	51,499	108	56,895	57,003	62,998	0.81
Kansas	47,054	99	51,984	52,083	57,561	0.74
Kentucky	103,388	217	114,221	114,438	126,473	1.62
Louisiana	112,414	236	124,193	124,429	137,515	1.76
Maine	18,583	39	20,530	20,569	22,732	0.29
Maryland	92,218	194	101,880	102,074	112,809	1.45
Massachusetts	88,203	185	97,445	97,630	107,898	1.38
Michigan	175,690	369	194,099	194,468	214,919	2.76
Minnesota	99,245	208	109,645	109,853	121,405	1.56
Mississippi	86,937	182	96,047	96,229	106,349	1.36
Missouri	95,227	200	105,205	105,405	116,490	1.50
Montana	15,261	32	16,860	16,892	18,669	0.24
Nebraska	29,824	63	32,949	33,012	36,483	0.47
Nevada	37,924	80	41,897	41,977	46,392	0.60
New Hampshire	13,621	29	15,048	15,077	16,662	0.21
New Jersey	117,868	247	130,219	130,466	144,186	1.85
New Mexico	44,373	93	49,023	49,116	54,281	0.70
New York	401,170	842	443,207	444,049	490,746	6.30
North Carolina	183,149	384	202,340	202,724	224,044	2.88
North Dakota	10,582	22	11,691	11,713	12,945	0.17
Ohio	198,101	416	218,858	219,274	242,335	3.11
Oklahoma	67,890	142	75,004	75,146	83,049	1.07
Oregon	71,959	151	79,499	79,650	88,027	1.13
Pennsylvania	171,411	360	189,372	189,732	209,685	2.69
Rhode Island	19,621	41	21,677	21,718	24,002	0.31
South Carolina	91,885	193	101,513	101,706	112,402	1.44
South Dakota	14,371	30	15,877	15,907	17,580	0.23
Tennessee	127,945	269	141,351	141,620	156,514	2.01
Texas	588,662	1,235	650,345	651,580	720,102	9.24
Utah	41,290	87	45,616	45,703	50,510	0.65
Vermont	13,646	29	15,076	15,105	16,693	0.21
Virginia	100,291	210	110,800	111,010	122,685	1.57
Washington	132,670	278	146,572	146,850	162,294	2.08
West Virginia	37,428	79	41,349	41,428	45,785	0.59
Wisconsin	80,598	169	89,043	89,212	98,595	1.27
Wyoming	8,298	17	9,168	9,185	10,151	0.13
American Samoa	7,245	15	8,004	8,019	8,863	0.11
Guam	8,281	17	9,149	9,166	10,130	0.13
Northern Mariana Islands	4,304	9	4,755	4,764	5,265	0.07
Puerto Rico	221,061	464	244,224	244,688	270,421	3.47
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	6,940	15	7,667	7,682	8,490	0.11
Indian Tribes	60,581	127	66,929	67,056	74,108	0.95
Undistributed	1,118	2	221,235	221,237	1,368	.....
Total	6,370,792	13,370	7,258,346	7,271,716	7,793,312	¹ 100.00

¹ Excludes undistributed obligations.

Department of Agriculture, Food and Nutrition Service

12-3539-0-1-605

Table 8-11. CHILD AND ADULT CARE FOOD PROGRAM (10.558)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	36,306	.....	39,427	39,427	42,135	1.57
Alaska	7,517	.....	8,163	8,163	8,724	0.32
Arizona	44,752	.....	48,599	48,599	51,937	1.93
Arkansas	32,856	.....	35,680	35,680	38,131	1.42
California	258,057	.....	280,242	280,242	299,491	11.15
Colorado	20,336	.....	22,084	22,084	23,601	0.88
Connecticut	12,205	.....	13,254	13,254	14,165	0.53
Delaware	11,181	.....	12,142	12,142	12,976	0.48
District of Columbia	3,718	.....	4,038	4,038	4,315	0.16
Florida	130,453	.....	141,667	141,667	151,398	5.64
Georgia	91,238	.....	99,081	99,081	105,887	3.94
Hawaii	5,354	.....	5,814	5,814	6,214	0.23
Idaho	6,103	.....	6,628	6,628	7,083	0.26
Illinois	106,203	.....	115,333	115,333	123,255	4.59
Indiana	37,802	.....	41,052	41,052	43,871	1.63
Iowa	23,779	.....	25,823	25,823	27,597	1.03
Kansas	31,447	.....	34,150	34,150	36,496	1.36
Kentucky	27,561	.....	29,930	29,930	31,986	1.19
Louisiana	60,362	.....	65,551	65,551	70,053	2.61
Maine	9,710	.....	10,545	10,545	11,269	0.42
Maryland	35,253	.....	38,283	38,283	40,913	1.52
Massachusetts	48,188	.....	52,330	52,330	55,925	2.08
Michigan	56,897	.....	61,788	61,788	66,032	2.46
Minnesota	57,913	.....	62,891	62,891	67,211	2.50
Mississippi	30,373	.....	32,984	32,984	35,250	1.31
Missouri	42,489	.....	46,141	46,141	49,311	1.84
Montana	9,304	.....	10,104	10,104	10,798	0.40
Nebraska	25,741	.....	27,954	27,954	29,874	1.11
Nevada	3,896	.....	4,231	4,231	4,522	0.17
New Hampshire	3,425	.....	3,719	3,719	3,975	0.15
New Jersey	57,687	.....	62,646	62,646	66,949	2.49
New Mexico	33,901	.....	36,815	36,815	39,344	1.46
New York	167,943	.....	182,380	182,380	194,907	7.26
North Carolina	76,052	.....	82,590	82,590	88,263	3.29
North Dakota	9,873	.....	10,722	10,722	11,458	0.43
Ohio	74,098	.....	80,468	80,468	85,995	3.20
Oklahoma	52,119	.....	56,599	56,599	60,487	2.25
Oregon	25,470	.....	27,659	27,659	29,559	1.10
Pennsylvania	70,502	.....	76,563	76,563	81,822	3.05
Rhode Island	6,842	.....	7,430	7,430	7,941	0.30
South Carolina	24,282	.....	26,369	26,369	28,181	1.05
South Dakota	7,514	.....	8,160	8,160	8,720	0.32
Tennessee	43,796	.....	47,561	47,561	50,828	1.89
Texas	216,611	.....	235,232	235,232	251,389	9.36
Utah	18,827	.....	20,445	20,445	21,850	0.81
Vermont	4,088	.....	4,439	4,439	4,744	0.18
Virginia	31,484	.....	34,190	34,190	36,539	1.36
Washington	40,853	.....	44,365	44,365	47,412	1.76
West Virginia	14,006	.....	15,210	15,210	16,255	0.61
Wisconsin	38,372	.....	41,671	41,671	44,533	1.66
Wyoming	4,706	.....	5,111	5,111	5,462	0.20
American Samoa	.....	.....	.....	.....	.....	.....
Guam	290	.....	315	315	337	0.01
Northern Mariana Islands	.....	.....	.....	.....	.....	.....
Puerto Rico	24,431	.....	26,531	26,531	28,354	1.06
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	692	.....	751	751	803	0.03
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	-69,663	.....	.....	.....	.....	.....
Total	2,245,195	.....	2,513,852	2,513,852	2,686,523	¹ 100.00

¹ Excludes undistributed obligations.

Department of Agriculture, Food and Nutrition Service

12-3505-0-1-605

Table 8-12. STATE ADMINISTRATIVE MATCHING GRANTS FOR THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (FOOD STAMPS) (10.561)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	33,251	.....	34,708	34,708	35,786	1.20
Alaska	10,715	.....	10,597	10,597	10,938	0.37
Arizona	42,740	.....	44,708	44,708	46,096	1.54
Arkansas	25,852	.....	26,419	26,419	27,252	0.91
California	448,917	.....	445,060	445,060	459,383	15.38
Colorado	34,108	.....	34,212	34,212	35,304	1.18
Connecticut	27,227	.....	27,597	27,597	28,472	0.95
Delaware	9,461	.....	9,531	9,531	9,835	0.33
District of Columbia	14,401	.....	14,457	14,457	14,918	0.50
Florida	83,684	.....	91,088	91,088	93,844	3.14
Georgia	68,459	.....	71,385	71,385	73,605	2.46
Hawaii	13,270	.....	13,386	13,386	13,811	0.46
Idaho	10,918	.....	11,093	11,093	11,444	0.38
Illinois	107,214	.....	109,748	109,748	113,205	3.79
Indiana	39,528	.....	41,287	41,287	42,570	1.43
Iowa	21,112	.....	21,751	21,751	22,433	0.75
Kansas	16,989	.....	17,285	17,285	17,832	0.60
Kentucky	37,837	.....	39,456	39,456	40,684	1.36
Louisiana	66,561	.....	67,055	67,055	69,191	2.32
Maine	11,541	.....	12,078	12,078	12,453	0.42
Maryland	38,587	.....	39,395	39,395	40,638	1.36
Massachusetts	44,864	.....	46,727	46,727	48,182	1.61
Michigan	114,001	.....	116,467	116,467	120,140	4.02
Minnesota	51,694	.....	51,393	51,393	53,044	1.78
Mississippi	27,590	.....	28,578	28,578	29,471	0.99
Missouri	45,705	.....	47,454	47,454	48,934	1.64
Montana	8,098	.....	8,167	8,167	8,427	0.28
Nebraska	13,663	.....	13,662	13,662	14,099	0.47
Nevada	13,764	.....	14,183	14,183	14,628	0.49
New Hampshire	6,384	.....	6,527	6,527	6,733	0.23
New Jersey	92,424	.....	91,642	91,642	94,592	3.17
New Mexico	26,436	.....	26,683	26,683	27,532	0.92
New York	326,196	.....	327,687	327,687	338,141	11.32
North Carolina	74,889	.....	77,060	77,060	79,479	2.66
North Dakota	7,154	.....	7,125	7,125	7,354	0.25
Ohio	113,491	.....	115,305	115,305	118,955	3.98
Oklahoma	38,006	.....	38,414	38,414	39,634	1.33
Oregon	48,698	.....	49,908	49,908	51,479	1.72
Pennsylvania	147,521	.....	148,352	148,352	153,080	5.13
Rhode Island	7,545	.....	7,770	7,770	8,014	0.27
South Carolina	17,798	.....	20,075	20,075	20,668	0.69
South Dakota	8,117	.....	8,113	8,113	8,372	0.28
Tennessee	48,425	.....	51,308	51,308	52,888	1.77
Texas	166,916	.....	175,310	175,310	180,739	6.05
Utah	23,267	.....	23,193	23,193	23,937	0.80
Vermont	8,431	.....	8,460	8,460	8,730	0.29
Virginia	84,068	.....	83,941	83,941	86,630	2.90
Washington	51,390	.....	53,136	53,136	54,799	1.84
West Virginia	15,966	.....	16,668	16,668	17,186	0.58
Wisconsin	37,965	.....	39,039	39,039	40,265	1.35
Wyoming	4,216	.....	4,167	4,167	4,302	0.14
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam	1,899	.....	1,924	1,924	1,984	0.07
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	.....	.....	.....	.....	.....	.....
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	3,839	.....	3,766	3,766	3,888	0.13
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed	-223,088	.....	.....	.....	.....	.....
Total	2,619,701	.....	2,894,500	2,894,500	2,986,000	¹ 100.00

¹ Excludes undistributed obligations.

Department of Education, Office of Elementary and Secondary Education

91-0900-0-1-501

Table 8-13. TITLE I GRANTS TO LOCATIONAL AGENCIES (84.010)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	215,192	.....	401,581	401,581	215,426	1.66
Alaska	38,846	.....	67,768	67,768	34,085	0.26
Arizona	274,777	.....	485,405	485,405	260,544	2.01
Arkansas	144,268	.....	275,329	275,329	148,454	1.14
California	1,698,808	.....	2,761,201	2,761,201	1,457,618	11.23
Colorado	135,392	.....	271,300	271,300	142,308	1.10
Connecticut	115,562	.....	184,007	184,007	99,142	0.76
Delaware	38,380	.....	73,523	73,523	36,442	0.28
District of Columbia	47,295	.....	86,607	86,607	44,785	0.34
Florida	656,255	.....	1,165,435	1,165,435	604,252	4.65
Georgia	446,271	.....	847,717	847,717	447,974	3.45
Hawaii	44,337	.....	76,524	76,524	38,746	0.30
Idaho	46,663	.....	85,165	85,165	44,381	0.34
Illinois	593,980	.....	1,055,489	1,055,489	561,056	4.32
Indiana	247,109	.....	430,003	430,003	230,529	1.78
Iowa	72,717	.....	129,950	129,950	68,742	0.53
Kansas	95,359	.....	175,231	175,231	92,851	0.72
Kentucky	208,551	.....	381,286	381,286	204,204	1.57
Louisiana	294,843	.....	487,177	487,177	278,096	2.14
Maine	51,525	.....	90,510	90,510	47,384	0.36
Maryland	192,239	.....	327,324	327,324	170,076	1.31
Massachusetts	233,354	.....	408,316	408,316	217,097	1.67
Michigan	527,255	.....	946,855	946,855	501,442	3.86
Minnesota	126,936	.....	235,648	235,648	123,700	0.95
Mississippi	187,346	.....	331,574	331,574	179,893	1.39
Missouri	225,205	.....	382,636	382,636	207,406	1.60
Montana	43,555	.....	80,400	80,400	41,302	0.32
Nebraska	60,246	.....	115,636	115,636	60,075	0.46
Nevada	80,755	.....	162,968	162,968	83,050	0.64
New Hampshire	38,198	.....	70,812	70,812	35,154	0.27
New Jersey	286,765	.....	469,835	469,835	252,000	1.94
New Mexico	113,156	.....	198,928	198,928	106,927	0.82
New York	1,226,786	.....	2,151,450	2,151,450	1,133,339	8.73
North Carolina	358,570	.....	629,235	629,235	334,043	2.57
North Dakota	33,742	.....	63,034	63,034	31,737	0.24
Ohio	511,797	.....	921,056	921,056	490,833	3.78
Oklahoma	148,406	.....	271,710	271,710	145,923	1.12
Oregon	139,987	.....	232,875	232,875	123,494	0.95
Pennsylvania	565,518	.....	979,518	979,518	519,729	4.00
Rhode Island	52,978	.....	88,145	88,145	46,752	0.36
South Carolina	205,597	.....	353,421	353,421	188,737	1.45
South Dakota	41,539	.....	78,397	78,397	39,681	0.31
Tennessee	239,072	.....	470,397	470,397	250,289	1.93
Texas	1,299,356	.....	2,317,240	2,317,240	1,232,115	9.49
Utah	60,019	.....	118,665	118,665	60,737	0.47
Vermont	32,862	.....	59,359	59,359	29,984	0.23
Virginia	226,096	.....	413,645	413,645	219,873	1.69
Washington	191,853	.....	334,778	334,778	176,300	1.36
West Virginia	99,607	.....	154,850	154,850	83,789	0.65
Wisconsin	199,030	.....	362,781	362,781	190,573	1.47
Wyoming	31,516	.....	60,020	60,020	30,073	0.23
American Samoa	9,525	.....	16,864	16,864	8,816	0.07
Guam	11,478	.....	20,795	20,795	10,299	0.08
Northern Mariana Islands	3,460	.....	6,126	6,126	3,202	0.02
Puerto Rico	510,525	.....	920,798	920,798	495,377	3.82
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	12,799	.....	22,660	22,660	11,846	0.09
Indian Tribes	96,688	.....	173,440	173,440	90,722	0.70
Undistributed	8,930	.....	9,000	9,000	9,000	.....
Total	13,898,875	.....	24,492,401	24,492,401	12,992,401	¹ 100.00

¹ Excludes undistributed obligations.

Department of Education, Office of Elementary and Secondary Education

91-1000-0-1-501

Table 8-14. IMPROVING TEACHER QUALITY STATE GRANTS (84.367)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	47,018	.....	47,445	47,445	47,663	1.63
Alaska	13,987	.....	13,986	13,986	14,049	0.48
Arizona	48,635	.....	49,231	49,231	49,508	1.69
Arkansas	28,693	.....	29,160	29,160	29,299	1.00
California	332,855	.....	327,274	327,274	328,739	11.21
Colorado	32,975	.....	33,871	33,871	34,039	1.16
Connecticut	26,680	.....	26,587	26,587	26,686	0.91
Delaware	13,987	.....	13,986	13,986	14,049	0.48
District of Columbia	13,987	.....	13,986	13,986	14,049	0.48
Florida	133,957	.....	132,654	132,654	133,267	4.54
Georgia	79,402	.....	80,698	80,698	81,119	2.77
Hawaii	13,987	.....	13,986	13,986	14,049	0.48
Idaho	13,987	.....	13,986	13,986	14,049	0.48
Illinois	117,680	.....	118,637	118,637	119,125	4.06
Indiana	50,369	.....	50,655	50,655	50,892	1.74
Iowa	22,318	.....	22,468	22,468	22,560	0.77
Kansas	22,706	.....	22,859	22,859	22,952	0.78
Kentucky	45,108	.....	45,504	45,504	45,692	1.56
Louisiana	65,226	.....	63,944	63,944	64,174	2.19
Maine	13,987	.....	13,986	13,986	14,049	0.48
Maryland	41,357	.....	41,195	41,195	41,354	1.41
Massachusetts	51,794	.....	51,863	51,863	52,058	1.77
Michigan	112,110	.....	112,630	112,630	113,045	3.85
Minnesota	38,483	.....	38,915	38,915	39,067	1.33
Mississippi	42,782	.....	42,815	42,815	42,986	1.47
Missouri	50,978	.....	50,725	50,725	50,947	1.74
Montana	13,987	.....	13,986	13,986	14,049	0.48
Nebraska	14,264	.....	14,263	14,263	14,326	0.49
Nevada	15,524	.....	15,809	15,809	15,901	0.54
New Hampshire	13,987	.....	13,986	13,986	14,049	0.48
New Jersey	65,311	.....	64,978	64,978	65,232	2.22
New Mexico	23,044	.....	22,956	22,956	23,053	0.79
New York	227,484	.....	227,464	227,464	228,224	7.78
North Carolina	68,094	.....	67,862	67,862	68,228	2.33
North Dakota	13,987	.....	13,986	13,986	14,049	0.48
Ohio	107,784	.....	108,359	108,359	108,802	3.71
Oklahoma	33,970	.....	34,232	34,232	34,390	1.17
Oregon	28,900	.....	28,644	28,644	28,774	0.98
Pennsylvania	115,223	.....	115,070	115,070	115,490	3.94
Rhode Island	13,987	.....	13,986	13,986	14,049	0.48
South Carolina	37,979	.....	37,791	37,791	37,977	1.29
South Dakota	13,987	.....	13,986	13,986	14,049	0.48
Tennessee	51,217	.....	52,219	52,219	52,484	1.79
Texas	247,416	.....	247,764	247,764	248,974	8.49
Utah	19,075	.....	19,403	19,403	19,496	0.66
Vermont	13,987	.....	13,986	13,986	14,049	0.48
Virginia	52,503	.....	52,711	52,711	52,948	1.81
Washington	48,000	.....	48,045	48,045	48,258	1.65
West Virginia	23,713	.....	23,382	23,382	23,454	0.80
Wisconsin	46,372	.....	46,890	46,890	47,072	1.60
Wyoming	13,987	.....	13,986	13,986	14,049	0.48
American Samoa	3,481	.....	3,498	3,498	3,498	0.12
Guam	5,135	.....	5,155	5,155	5,155	0.18
Northern Mariana Islands	1,639	.....	1,646	1,646	1,646	0.06
Puerto Rico	92,534	.....	92,389	92,389	92,793	3.16
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	4,348	.....	4,365	4,365	4,365	0.15
Indian Tribes	14,603	.....	14,665	14,665	14,665	0.50
Undistributed	14,676	.....	27,239	27,239	14,739	.....
Total	2,935,248	2,947,749	2,947,749	2,947,749	¹ 100.00

¹ Excludes undistributed obligations.

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Table 8-15. EDUCATION STATE GRANTS, STATE FISCAL STABILIZATION FUND (84.394)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	596,356	596,356	.....	.....
Alaska	93,043	93,043	.....	.....
Arizona	831,869	831,869	.....	.....
Arkansas	363,053	363,053	.....	.....
California	4,875,499	4,875,499	.....	.....
Colorado	621,878	621,878	.....	.....
Connecticut	443,252	443,252	.....	.....
Delaware	110,320	110,320	.....	.....
District of Columbia	73,110	73,110	.....	.....
Florida	2,208,839	2,208,839	.....	.....
Georgia	1,260,799	1,260,799	.....	.....
Hawaii	157,202	157,202	.....	.....
Idaho	201,700	201,700	.....	.....
Illinois	1,681,131	1,681,131	.....	.....
Indiana	823,661	823,661	.....	.....
Iowa	386,374	386,374	.....	.....
Kansas	367,423	367,423	.....	.....
Kentucky	532,798	532,798	.....	.....
Louisiana	579,592	579,592	.....	.....
Maine	158,250	158,250	.....	.....
Maryland	719,677	719,677	.....	.....
Massachusetts	813,303	813,303	.....	.....
Michigan	1,302,369	1,302,369	.....	.....
Minnesota	667,888	667,888	.....	.....
Mississippi	392,068	392,068	.....	.....
Missouri	753,172	753,172	.....	.....
Montana	121,628	121,628	.....	.....
Nebraska	233,956	233,956	.....	.....
Nevada	324,405	324,405	.....	.....
New Hampshire	164,244	164,244	.....	.....
New Jersey	1,088,336	1,088,336	.....	.....
New Mexico	260,436	260,436	.....	.....
New York	2,468,558	2,468,558	.....	.....
North Carolina	1,161,932	1,161,932	.....	.....
North Dakota	85,644	85,644	.....	.....
Ohio	1,463,710	1,463,710	.....	.....
Oklahoma	472,821	472,821	.....	.....
Oregon	466,462	466,462	.....	.....
Pennsylvania	1,558,798	1,558,798	.....	.....
Rhode Island	134,912	134,912	.....	.....
South Carolina	567,741	567,741	.....	.....
South Dakota	104,293	104,293	.....	.....
Tennessee	775,135	775,135	.....	.....
Texas	3,250,272	3,250,272	.....	.....
Utah	392,582	392,582	.....	.....
Vermont	77,150	77,150	.....	.....
Virginia	983,866	983,866	.....	.....
Washington	819,947	819,947	.....	.....
West Virginia	217,971	217,971	.....	.....
Wisconsin	717,337	717,337	.....	.....
Wyoming	67,620	67,620	.....	.....
American Samoa	1	1	.....	.....
Guam	1	1	.....	.....
Northern Mariana Islands	1	1	.....	.....
Puerto Rico	529,742	529,742	.....	.....
Freely Associated States
Virgin Islands	1	1	.....	.....
Indian Tribes
Undistributed	¹ 219,224	219,224	.....	.....
Total	39,743,348	39,743,348	.....	.....

¹ A maximum of \$219,224,000 is available for distribution among the Outlying Areas.

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91-1909-0-1-501

Table 8-16. GOVERNMENT SERVICES, STATE FISCAL STABILIZATION FUND (84.397)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	132,686	132,686	.....	.....
Alaska	20,702	20,702	.....	.....
Arizona	185,086	185,086	.....	.....
Arkansas	80,777	80,777	.....	.....
California	1,084,769	1,084,769	.....	.....
Colorado	138,364	138,364	.....	.....
Connecticut	98,621	98,621	.....	.....
Delaware	24,546	24,546	.....	.....
District of Columbia	16,267	16,267	.....	.....
Florida	491,453	491,453	.....	.....
Georgia	280,520	280,520	.....	.....
Hawaii	34,976	34,976	.....	.....
Idaho	44,877	44,877	.....	.....
Illinois	374,041	374,041	.....	.....
Indiana	183,260	183,260	.....	.....
Iowa	85,966	85,966	.....	.....
Kansas	81,749	81,749	.....	.....
Kentucky	118,544	118,544	.....	.....
Louisiana	128,956	128,956	.....	.....
Maine	35,210	35,210	.....	.....
Maryland	160,124	160,124	.....	.....
Massachusetts	180,955	180,955	.....	.....
Michigan	289,769	289,769	.....	.....
Minnesota	148,601	148,601	.....	.....
Mississippi	87,233	87,233	.....	.....
Missouri	167,576	167,576	.....	.....
Montana	27,062	27,062	.....	.....
Nebraska	52,054	52,054	.....	.....
Nevada	72,178	72,178	.....	.....
New Hampshire	36,543	36,543	.....	.....
New Jersey	242,148	242,148	.....	.....
New Mexico	57,946	57,946	.....	.....
New York	549,239	549,239	.....	.....
North Carolina	258,523	258,523	.....	.....
North Dakota	19,055	19,055	.....	.....
Ohio	325,667	325,667	.....	.....
Oklahoma	105,200	105,200	.....	.....
Oregon	103,785	103,785	.....	.....
Pennsylvania	346,823	346,823	.....	.....
Rhode Island	30,017	30,017	.....	.....
South Carolina	126,319	126,319	.....	.....
South Dakota	23,204	23,204	.....	.....
Tennessee	172,463	172,463	.....	.....
Texas	723,166	723,166	.....	.....
Utah	87,347	87,347	.....	.....
Vermont	17,165	17,165	.....	.....
Virginia	218,904	218,904	.....	.....
Washington	182,433	182,433	.....	.....
West Virginia	48,497	48,497	.....	.....
Wisconsin	159,603	159,603	.....	.....
Wyoming	15,045	15,045	.....	.....
American Samoa	1	.....	.....	.....
Guam	1	.....	.....	.....
Northern Mariana Islands	1	.....	.....	.....
Puerto Rico	117,864	117,864	.....	.....
Freely Associated States
Virgin Islands	1	.....	.....	.....
Indian Tribes
Undistributed	¹ 48,776	48,776	.....	.....
Total	8,842,652	8,842,652	.....	.....

¹ A maximum of \$48,776,000 is available for distribution among the Outlying Areas.

Department of Education, Office of Special Education and Rehabilitative Services

91-0301-0-1-506

Table 8-17. VOCATIONAL REHABILITATION STATE GRANTS (84.126)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	57,286	.....	67,341	67,341	59,738	1.94
Alaska	9,475	.....	11,595	11,595	10,157	0.33
Arizona	57,950	.....	74,420	74,420	64,455	2.09
Arkansas	36,246	.....	43,622	43,622	38,232	1.24
California	276,152	.....	341,271	341,271	290,100	9.40
Colorado	36,084	.....	45,070	45,070	39,946	1.29
Connecticut	20,156	.....	23,783	23,783	20,994	0.68
Delaware	9,477	.....	11,595	11,595	10,157	0.33
District of Columbia	12,641	.....	14,869	14,869	13,344	0.43
Florida	156,443	.....	191,023	191,023	160,629	5.21
Georgia	91,919	.....	115,176	115,176	103,495	3.36
Hawaii	11,053	.....	13,631	13,631	11,438	0.37
Idaho	15,904	.....	19,953	19,953	17,306	0.56
Illinois	105,462	.....	128,528	128,528	112,928	3.66
Indiana	66,660	.....	81,121	81,121	74,034	2.40
Iowa	32,052	.....	37,789	37,789	33,868	1.10
Kansas	26,929	.....	32,904	32,904	29,184	0.95
Kentucky	51,743	.....	62,788	62,788	56,093	1.82
Louisiana	43,078	.....	67,839	67,839	57,193	1.85
Maine	15,107	.....	17,980	17,980	16,128	0.52
Maryland	39,640	.....	46,058	46,058	40,346	1.31
Massachusetts	45,813	.....	53,734	53,734	48,070	1.56
Michigan	97,537	.....	118,078	118,078	109,180	3.54
Minnesota	43,124	.....	52,222	52,222	47,213	1.53
Mississippi	41,647	.....	49,684	49,684	43,509	1.41
Missouri	62,159	.....	75,420	75,420	67,930	2.20
Montana	11,071	.....	13,246	13,246	11,445	0.37
Nebraska	17,801	.....	21,077	21,077	19,065	0.62
Nevada	16,280	.....	23,240	23,240	19,235	0.62
New Hampshire	10,755	.....	12,959	12,959	11,649	0.38
New Jersey	55,267	.....	65,923	65,923	57,884	1.88
New Mexico	22,734	.....	27,921	27,921	24,461	0.79
New York	148,275	.....	176,933	176,933	149,176	4.84
North Carolina	92,813	.....	115,179	115,179	102,902	3.34
North Dakota	9,464	.....	11,595	11,595	10,157	0.33
Ohio	118,728	.....	145,210	145,210	131,448	4.26
Oklahoma	41,092	.....	49,682	49,682	42,125	1.37
Oregon	35,383	.....	43,661	43,661	39,066	1.27
Pennsylvania	123,532	.....	145,176	145,176	128,870	4.18
Rhode Island	10,428	.....	11,989	11,989	10,506	0.34
South Carolina	50,841	.....	62,640	62,640	55,600	1.80
South Dakota	9,479	.....	11,595	11,595	10,157	0.33
Tennessee	65,576	.....	80,521	80,521	72,499	2.35
Texas	218,217	.....	272,299	272,299	232,470	7.54
Utah	28,030	.....	35,795	35,795	31,668	1.03
Vermont	9,476	.....	11,595	11,595	10,157	0.33
Virginia	63,382	.....	75,864	75,864	66,138	2.14
Washington	51,125	.....	63,615	63,615	54,426	1.76
West Virginia	25,313	.....	30,225	30,225	26,576	0.86
Wisconsin	55,648	.....	67,090	67,090	60,799	1.97
Wyoming	9,058	.....	11,595	11,595	10,157	0.33
American Samoa	929	.....	1,242	1,242	1,082	0.04
Guam	2,052	.....	3,547	3,547	3,117	0.10
Northern Mariana Islands	1,160	.....	1,497	1,497	1,299	0.04
Puerto Rico	71,531	.....	85,723	85,723	75,345	2.44
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	1,974	.....	2,394	2,394	2,101	0.07
Indian Tribes	34,892	.....	36,113	36,113	37,449	1.21
Undistributed	.....	.....	.....	.....	.....	.....
Total	2,874,043	.....	3,514,635	3,514,635	3,084,696	¹ 100.00

¹ Excludes undistributed obligations.

Department of Education, Office of Special Education and Rehabilitative Services

91-0300-0-1-501

Table 8-18. IDEA PART B: GRANTS TO STATES & GRANTS TO STATES RECOVERY ACT (84.323)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	172,827	.....	362,616	362,616	180,751	1.57
Alaska	34,370	.....	69,185	69,185	36,229	0.32
Arizona	172,909	.....	362,787	362,787	184,311	1.60
Arkansas	106,603	.....	223,669	223,669	111,491	0.97
California	1,165,973	.....	2,446,375	2,446,375	1,219,431	10.61
Colorado	144,091	.....	302,323	302,323	153,593	1.34
Connecticut	126,364	.....	265,129	265,129	132,157	1.15
Delaware	31,680	.....	66,470	66,470	33,770	0.29
District of Columbia	15,929	.....	33,421	33,421	16,979	0.15
Florida	598,437	.....	1,255,606	1,255,606	628,343	5.47
Georgia	303,971	.....	637,774	637,774	324,016	2.82
Hawaii	37,941	.....	79,606	79,606	39,681	0.35
Idaho	51,586	.....	108,236	108,236	54,988	0.48
Illinois	481,311	.....	1,009,858	1,009,858	503,378	4.38
Indiana	243,042	.....	509,937	509,937	256,402	2.23
Iowa	116,028	.....	243,443	243,443	121,347	1.06
Kansas	101,561	.....	213,089	213,089	106,217	0.92
Kentucky	150,013	.....	314,747	314,747	157,178	1.37
Louisiana	179,912	.....	376,910	376,910	188,160	1.64
Maine	52,005	.....	107,553	107,553	54,389	0.47
Maryland	190,291	.....	399,257	399,257	199,016	1.73
Massachusetts	269,787	.....	562,708	562,708	282,156	2.46
Michigan	380,700	.....	798,763	798,763	398,155	3.47
Minnesota	180,405	.....	378,516	378,516	188,677	1.64
Mississippi	113,101	.....	237,301	237,301	119,465	1.04
Missouri	215,886	.....	452,959	452,959	225,784	1.97
Montana	35,120	.....	73,687	73,687	36,979	0.32
Nebraska	70,966	.....	148,897	148,897	74,220	0.65
Nevada	65,026	.....	136,433	136,433	69,314	0.60
New Hampshire	45,103	.....	94,632	94,632	47,171	0.41
New Jersey	343,528	.....	719,970	719,970	359,278	3.13
New Mexico	86,618	.....	181,737	181,737	90,589	0.79
New York	721,466	.....	1,513,738	1,513,738	754,544	6.57
North Carolina	304,602	.....	639,099	639,099	324,689	2.83
North Dakota	25,724	.....	53,973	53,973	27,421	0.24
Ohio	415,983	.....	872,792	872,792	435,056	3.79
Oklahoma	140,574	.....	294,944	294,944	147,019	1.28
Oregon	122,570	.....	257,169	257,169	128,190	1.12
Pennsylvania	405,950	.....	851,741	851,741	424,562	3.69
Rhode Island	41,561	.....	87,201	87,201	43,466	0.38
South Carolina	166,466	.....	349,270	349,270	176,030	1.53
South Dakota	30,644	.....	64,296	64,296	32,665	0.28
Tennessee	221,642	.....	465,036	465,036	235,422	2.05
Texas	916,138	.....	1,922,188	1,922,188	976,551	8.50
Utah	102,249	.....	214,532	214,532	108,991	0.95
Vermont	24,803	.....	52,040	52,040	26,439	0.23
Virginia	267,684	.....	561,639	561,639	280,224	2.44
Washington	210,357	.....	441,359	441,359	220,002	1.91
West Virginia	72,178	.....	151,439	151,439	75,487	0.66
Wisconsin	197,854	.....	415,125	415,125	206,925	1.80
Wyoming	26,021	.....	53,523	53,523	27,737	0.24
American Samoa	6,297	.....	6,527	6,527	6,297	0.05
Guam	13,962	.....	14,473	14,473	13,962	0.12
Northern Mariana Islands	4,785	.....	4,960	4,960	4,785	0.04
Puerto Rico	105,695	.....	221,764	221,764	112,665	0.98
Freely Associated States	8,874	.....	9,199	9,199	8,874	0.08
Virgin Islands	6,579	.....	6,579	6,579	6,579	0.06
Indian Tribes	88,767	.....	92,012	92,012	92,012	0.80
Undistributed	15,000	.....	15,000	15,000	15,000	.....
Total ¹	10,947,512	.....	22,805,211	22,805,211	11,505,211	² 100.00

¹ In addition to CFDA 84.323, this table also reflects funds in CFDA 84.396.² Excludes undistributed obligations.

Department of Energy, Energy Programs

89-0321-0-1-272

Table 8-19. STATE ENERGY PROGRAM (81.041)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	531	.....	28,158	28,158	28,464	1.75
Alaska	258	.....	14,292	14,292	14,461	0.89
Arizona	489	.....	28,060	28,060	28,400	1.75
Arkansas	416	.....	20,009	20,009	20,190	1.24
California	2,223	.....	114,616	114,616	115,810	7.13
Colorado	530	.....	25,002	25,002	25,212	1.55
Connecticut	506	.....	19,660	19,660	19,742	1.21
Delaware	231	.....	12,276	12,276	12,412	0.76
District of Columbia	219	.....	11,166	11,166	11,280	0.69
Florida	1,168	.....	63,860	63,860	64,586	3.97
Georgia	753	.....	41,770	41,770	42,256	2.60
Hawaii	241	.....	13,132	13,132	13,282	0.82
Idaho	269	.....	14,472	14,472	14,635	0.90
Illinois	1,435	.....	51,788	51,788	51,898	3.19
Indiana	823	.....	34,930	34,930	35,148	2.16
Iowa	485	.....	20,639	20,639	20,768	1.28
Kansas	434	.....	19,463	19,463	19,610	1.21
Kentucky	556	.....	26,670	26,670	26,908	1.66
Louisiana	642	.....	36,284	36,284	36,723	2.26
Maine	308	.....	13,878	13,878	13,986	0.86
Maryland	631	.....	26,362	26,362	26,519	1.63
Massachusetts	774	.....	28,060	28,060	28,126	1.73
Michigan	1,211	.....	41,972	41,972	42,020	2.59
Minnesota	734	.....	27,659	27,659	27,748	1.71
Mississippi	391	.....	20,483	20,483	20,703	1.27
Missouri	676	.....	29,204	29,204	29,398	1.81
Montana	252	.....	13,106	13,106	13,244	0.81
Nebraska	332	.....	15,696	15,696	15,833	0.97
Nevada	287	.....	17,549	17,549	17,781	1.09
New Hampshire	288	.....	13,126	13,126	13,230	0.81
New Jersey	989	.....	37,590	37,590	37,722	2.32
New Mexico	308	.....	16,126	16,126	16,300	1.00
New York	1,987	.....	63,156	63,156	63,059	3.88
North Carolina	772	.....	38,548	38,548	38,922	2.40
North Dakota	241	.....	12,462	12,462	12,592	0.77
Ohio	1,349	.....	49,094	49,094	49,216	3.03
Oklahoma	481	.....	23,697	23,697	23,923	1.47
Oregon	441	.....	21,410	21,410	21,606	1.33
Pennsylvania	1,373	.....	50,911	50,911	51,060	3.14
Rhode Island	267	.....	12,175	12,175	12,273	0.76
South Carolina	476	.....	25,608	25,608	25,893	1.59
South Dakota	233	.....	12,020	12,020	12,144	0.75
Tennessee	647	.....	31,708	31,708	32,004	1.97
Texas	1,938	.....	110,687	110,687	112,064	6.90
Utah	337	.....	17,918	17,918	18,113	1.11
Vermont	233	.....	11,168	11,168	11,268	0.69
Virginia	760	.....	35,560	35,560	35,856	2.21
Washington	607	.....	30,901	30,901	31,217	1.92
West Virginia	376	.....	16,653	16,653	16,773	1.03
Wisconsin	761	.....	28,336	28,336	28,422	1.75
Wyoming	223	.....	12,622	12,622	12,776	0.79
American Samoa .....	.....	.....	9,388	9,388	9,502	0.58
Guam	173	.....	9,667	9,667	9,782	0.60
Northern Mariana Islands	166	.....	9,438	9,438	9,554	0.59
Puerto Rico	424	.....	18,859	18,859	18,996	1.17
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	179	.....	10,459	10,459	10,592	0.65
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
Washington HQ	10,261	.....	35,500	35,500	47,000	2.89
NREL .....	.....	.....	2,500	2,500	3,000	0.18
ORNL .....	.....	.....	2,500	2,500	3,000	0.18
Total	¹ 44,095	.....	² 1,600,000	² 1,600,000	² 1,625,000	³ 100.00

¹ Actual obligations for FY 2008 and estimated obligations from previous authority for FY 2009 were not available - values for both are estimated.

² The timeline for obligations are illustrative estimates - the timeline for actual obligations will depend on state compliance with program milestones and requirements

³ Excludes undistributed obligations.

Department of Energy, Energy Programs

89-0321-0-1-272

Table 8-20. WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS (81.042)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	2,396	.....	41,359	41,359	38,206	1.40
Alaska	1,673	.....	11,625	11,625	10,694	0.39
Arizona	1,353	.....	32,591	32,591	29,805	1.10
Arkansas	2,061	.....	28,089	28,089	26,042	0.96
California	6,266	.....	107,067	107,067	98,943	3.64
Colorado	5,454	.....	48,888	48,888	45,051	1.66
Connecticut	2,495	.....	37,470	37,470	34,568	1.27
Delaware	572	.....	8,050	8,050	7,422	0.27
District of Columbia	646	.....	5,044	5,044	4,672	0.17
Florida	1,948	.....	97,877	97,877	89,823	3.30
Georgia	2,915	.....	70,673	70,673	65,177	2.40
Hawaii	204	.....	2,415	2,415	2,218	0.08
Idaho	1,964	.....	18,537	18,537	17,075	0.63
Illinois	13,785	.....	145,333	145,333	134,585	4.95
Indiana	6,521	.....	78,266	78,266	72,230	2.66
Iowa	4,966	.....	48,996	48,996	45,224	1.66
Kansas	2,519	.....	33,223	33,223	30,655	1.13
Kentucky	4,499	.....	43,098	43,098	39,809	1.46
Louisiana	1,723	.....	28,952	28,952	26,972	0.99
Maine	3,054	.....	25,893	25,893	23,927	0.88
Maryland	2,640	.....	36,001	36,001	33,272	1.22
Massachusetts	6,518	.....	72,834	72,834	67,343	2.48
Michigan	15,119	.....	147,649	147,649	136,332	5.01
Minnesota	9,809	.....	81,942	81,942	75,474	2.77
Mississippi	1,641	.....	28,455	28,455	26,289	0.97
Missouri	5,975	.....	75,640	75,640	69,847	2.57
Montana	2,508	.....	17,032	17,032	15,704	0.58
Nebraska	2,483	.....	25,194	25,194	23,226	0.85
Nevada	832	.....	21,189	21,189	19,445	0.71
New Hampshire	1,502	.....	14,143	14,143	13,064	0.48
New Jersey	5,079	.....	69,536	69,536	64,316	2.36
New Mexico	1,901	.....	16,652	16,652	15,269	0.56
New York	20,076	.....	233,997	233,997	216,739	7.97
North Carolina	4,139	.....	75,744	75,744	69,963	2.57
North Dakota	2,485	.....	16,312	16,312	15,043	0.55
Ohio	13,677	.....	158,565	158,565	146,611	5.39
Oklahoma	2,580	.....	35,602	35,602	32,938	1.21
Oregon	2,808	.....	23,819	23,819	21,977	0.81
Pennsylvania	14,638	.....	151,798	151,798	140,549	5.17
Rhode Island	1,151	.....	12,060	12,060	11,152	0.41
South Carolina	1,767	.....	33,688	33,688	31,144	1.15
South Dakota	1,908	.....	15,264	15,264	14,093	0.52
Tennessee	4,162	.....	58,127	58,127	53,577	1.97
Texas	5,549	.....	183,282	183,282	168,776	6.20
Utah	2,068	.....	22,767	22,767	20,952	0.77
Vermont	1,272	.....	10,442	10,442	9,654	0.35
Virginia	3,998	.....	55,093	55,093	50,927	1.87
Washington	4,519	.....	37,017	37,017	34,152	1.26
West Virginia	3,197	.....	23,610	23,610	21,887	0.80
Wisconsin	8,529	.....	85,717	85,717	79,010	2.90
Wyoming	1,169	.....	6,816	6,816	6,255	0.23
American Samoa .....	.....	.....	557	557	539	0.02
Guam .....	.....	.....	759	759	744	0.03
Northern Mariana Islands .....	.....	.....	595	595	578	0.02
Puerto Rico .....	.....	.....	24,886	24,886	25,233	0.93
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	.....	.....	908	908	896	0.03
Indian Tribes .....	.....	.....	5,012	5,012	5,012	0.18
Undistributed .....	.....	.....	.....	.....	.....	.....
HQ Other Grants .....	.....	.....	9,000	9,000	.....	.....
Washington HQ T&TA	4,509	.....	144,855	144,855	138,145	5.08
NREL T&TA .....	.....	.....	1,000	1,000	280	0.01
ORNL T&TA .....	.....	.....	3,000	3,000	500	0.02
Total	1 227,222	1	2 2,950,000	2 2,950,000	2 2,720,000	3 100.00

¹ Actual obligations for FY 2008 and estimated obligations from previous authority for FY 2009 were not available - values for both are estimated.

² The timeline for obligations are illustrative estimates - the timeline for actual obligations will depend on state compliance with program milestones and requirements

³ Excludes undistributed obligations.

Department of Energy, Energy Programs

89-0321-0-1-272

Table 8-21. ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT (81.043)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	15,789	15,789	15,789	0.99
Alaska	6,985	6,985	6,985	0.44
Arizona	31,909	31,909	31,909	1.99
Arkansas	10,059	10,059	10,059	0.63
California	175,829	175,829	175,829	10.99
Colorado	21,309	21,309	21,309	1.33
Connecticut	12,261	12,261	12,261	0.77
Delaware	7,959	7,959	7,959	0.50
District of Columbia	4,797	4,797	4,797	0.30
Florida	84,322	84,322	84,322	5.27
Georgia	33,594	33,594	33,594	2.10
Hawaii	7,534	7,534	7,534	0.47
Idaho	8,478	8,478	8,478	0.53
Illinois	56,088	56,088	56,088	3.51
Indiana	21,190	21,190	21,190	1.32
Iowa	10,552	10,552	10,552	0.66
Kansas	11,823	11,823	11,823	0.74
Kentucky	12,691	12,691	12,691	0.79
Louisiana	16,812	16,812	16,812	1.05
Maine	5,641	5,641	5,641	0.35
Maryland	26,148	26,148	26,148	1.63
Massachusetts	21,115	21,115	21,115	1.32
Michigan	38,301	38,301	38,301	2.39
Minnesota	18,680	18,680	18,680	1.17
Mississippi	8,487	8,487	8,487	0.53
Missouri	21,890	21,890	21,890	1.37
Montana	6,986	6,986	6,986	0.44
Nebraska	9,405	9,405	9,405	0.59
Nevada	15,992	15,992	15,992	1.00
New Hampshire	6,261	6,261	6,261	0.39
New Jersey	37,734	37,734	37,734	2.36
New Mexico	10,304	10,304	10,304	0.64
New York	87,561	87,561	87,561	5.47
North Carolina	29,025	29,025	29,025	1.81
North Dakota	6,405	6,405	6,405	0.40
Ohio	42,092	42,092	42,092	2.63
Oklahoma	13,586	13,586	13,586	0.85
Oregon	16,751	16,751	16,751	1.05
Pennsylvania	51,254	51,254	51,254	3.20
Rhode Island	7,261	7,261	7,261	0.45
South Carolina	15,725	15,725	15,725	0.98
South Dakota	6,584	6,584	6,584	0.41
Tennessee	21,122	21,122	21,122	1.32
Texas	104,380	104,380	104,380	6.52
Utah	13,889	13,889	13,889	0.87
Vermont	5,162	5,162	5,162	0.32
Virginia	30,360	30,360	30,360	1.90
Washington	28,050	28,050	28,050	1.75
West Virginia	7,002	7,002	7,002	0.44
Wisconsin	18,579	18,579	18,579	1.16
Wyoming	6,010	6,010	6,010	0.38
American Samoa	4,797	4,797	4,797	0.30
Guam	4,797	4,797	4,797	0.30
Northern Mariana Islands	4,797	4,797	4,797	0.30
Puerto Rico	16,988	16,988	16,988	1.06
Freely Associated States
Virgin Islands	4,797	4,797	4,797	0.30
Indian Tribes	27,418	27,418	27,418	1.71
Undistributed	248,687	248,687	248,687	15.54
Total	¹ 1,600,000	¹ 1,600,000	¹ 1,600,000	² 100.00

¹ The timeline for obligations are illustrative estimates - the timeline for actual obligations will depend on state and local compliance with program milestones and requirements

² Excludes undistributed obligations.

Department of Health and Human Services, Centers for Medicare and Medicaid Services

75-0515-0-1-551

Table 8-22. CHILDREN'S HEALTH INSURANCE PROGRAM (93.767)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	72,328	.....	140,301	140,301	140,301	1.48
Alaska	11,187	.....	24,565	24,565	24,565	0.26
Arizona	142,957	.....	171,080	171,080	171,080	1.80
Arkansas	47,544	.....	133,750	133,750	133,750	1.41
California	789,164	.....	1,552,910	1,552,910	1,552,910	16.36
Colorado	71,545	.....	100,696	100,696	100,696	1.06
Connecticut	38,810	.....	45,645	45,645	45,645	0.48
Delaware	12,760	.....	15,096	15,096	15,096	0.16
District of Columbia	12,057	.....	14,180	14,180	14,180	0.15
Florida	301,724	.....	356,091	356,091	356,091	3.75
Georgia	167,924	.....	302,054	302,054	302,054	3.18
Hawaii	15,243	.....	20,887	20,887	20,887	0.22
Idaho	23,803	.....	44,515	44,515	44,515	0.47
Illinois	208,344	.....	344,562	344,562	344,562	3.63
Indiana	97,385	.....	137,585	137,585	137,585	1.45
Iowa	33,177	.....	65,255	65,255	65,255	0.69
Kansas	36,635	.....	57,164	57,164	57,164	0.60
Kentucky	68,237	.....	126,014	126,014	126,014	1.33
Louisiana	84,083	.....	207,403	207,403	207,403	2.18
Maine	15,450	.....	39,272	39,272	39,272	0.41
Maryland	72,403	.....	194,774	194,774	194,774	2.05
Massachusetts	73,335	.....	321,659	321,659	321,659	3.39
Michigan	147,082	.....	221,124	221,124	221,124	2.33
Minnesota	48,613	.....	83,960	83,960	83,960	0.88
Mississippi	60,989	.....	192,939	192,939	192,939	2.03
Missouri	77,618	.....	158,829	158,829	158,829	1.67
Montana	15,922	.....	32,989	32,989	32,989	0.35
Nebraska	21,377	.....	41,955	41,955	41,955	0.44
Nevada	51,072	.....	61,368	61,368	61,368	0.65
New Hampshire	10,657	.....	14,844	14,844	14,844	0.16
New Jersey	105,519	.....	505,395	505,395	505,395	5.32
New Mexico	52,045	.....	280,720	280,720	280,720	2.96
New York	328,680	.....	433,473	433,473	433,473	4.57
North Carolina	136,117	.....	241,660	241,660	241,660	2.55
North Dakota	7,889	.....	15,822	15,822	15,822	0.17
Ohio	157,858	.....	285,275	285,275	285,275	3.00
Oklahoma	70,828	.....	151,400	151,400	151,400	1.59
Oregon	60,116	.....	100,198	100,198	100,198	1.06
Pennsylvania	168,758	.....	310,309	310,309	310,309	3.27
Rhode Island	13,958	.....	69,525	69,525	69,525	0.73
South Carolina	71,017	.....	106,863	106,863	106,863	1.13
South Dakota	10,504	.....	20,656	20,656	20,656	0.22
Tennessee	99,842	.....	156,629	156,629	156,629	1.65
Texas	556,191	.....	867,350	867,350	867,350	9.14
Utah	41,292	.....	65,264	65,264	65,264	0.69
Vermont	5,637	.....	9,490	9,490	9,490	0.10
Virginia	90,339	.....	175,860	175,860	175,860	1.85
Washington	79,883	.....	94,284	94,284	94,284	0.99
West Virginia	25,666	.....	43,263	43,263	43,263	0.46
Wisconsin	69,563	.....	204,276	204,276	204,276	2.15
Wyoming	6,373	.....	11,327	11,327	11,327	0.12
American Samoa	630	.....	1,886	1,886	1,886	0.02
Guam	1,838	.....	3,777	3,777	3,777	0.04
Northern Mariana Islands	578	.....	1,789	1,789	1,789	0.02
Puerto Rico	48,090	.....	112,003	112,003	112,003	1.18
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	1,365	.....	2,289	2,289	2,289	0.02
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed	1,007,052	.....	1,067,754	1,067,754	3,025,754	.....
Total	6,047,052	.....	10,562,000	10,562,000	1 12,520,000	2 100.00

¹ Estimates will be increased according to growth factors in the Children's Health Insurance Program Reauthorization Act of 2009 (P.L. 111-3)² Excludes undistributed obligations.

Department of Health and Human Services, Centers for Medicare and Medicaid Services

75-0512-0-1-551

Table 8-23. GRANTS TO STATES FOR MEDICAID (93.778)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	2,933,298	.....	3,012,424	3,012,424	3,170,548	1.08
Alaska	693,060	.....	798,022	798,022	848,087	0.29
Arizona	5,241,442	.....	6,409,014	6,409,014	6,878,380	2.35
Arkansas	2,608,079	.....	2,990,829	2,990,829	3,199,082	1.09
California	22,901,995	.....	28,390,714	28,390,714	29,368,072	10.02
Colorado	1,714,405	.....	2,215,648	2,215,648	2,241,806	0.76
Connecticut	2,333,440	.....	3,293,162	3,293,162	3,239,545	1.10
Delaware	597,728	.....	748,323	748,323	929,881	0.32
District of Columbia	1,099,879	.....	1,298,150	1,298,150	1,316,685	0.45
Florida	8,458,589	.....	10,837,964	10,837,964	10,564,602	3.60
Georgia	5,235,411	.....	5,975,139	5,975,139	6,162,106	2.10
Hawaii	722,263	.....	913,753	913,753	867,644	0.30
Idaho	885,347	.....	1,077,845	1,077,845	1,175,495	0.40
Illinois	6,214,988	.....	6,990,705	6,990,705	7,368,001	2.51
Indiana	4,092,440	.....	4,468,291	4,468,291	4,884,752	1.67
Iowa	1,771,595	.....	2,121,295	2,121,295	2,282,465	0.78
Kansas	1,464,864	.....	1,637,856	1,637,856	1,631,522	0.56
Kentucky	3,581,586	.....	3,997,622	3,997,622	4,148,728	1.41
Louisiana	4,574,560	.....	5,179,171	5,179,171	5,562,554	1.90
Maine	1,518,266	.....	1,782,635	1,782,635	1,751,560	0.60
Maryland	3,081,523	.....	3,943,487	3,943,487	4,144,026	1.41
Massachusetts	6,313,281	.....	7,736,916	7,736,916	7,275,508	2.48
Michigan	6,088,555	.....	7,535,642	7,535,642	7,728,651	2.64
Minnesota	3,763,920	.....	4,674,179	4,674,179	5,040,801	1.72
Mississippi	3,161,235	.....	3,385,595	3,385,595	3,660,881	1.25
Missouri	4,809,741	.....	5,509,576	5,509,576	6,057,919	2.07
Montana	618,669	.....	663,198	663,198	675,511	0.23
Nebraska	1,012,736	.....	1,165,013	1,165,013	1,232,644	0.42
Nevada	745,911	.....	936,238	936,238	1,007,799	0.34
New Hampshire	690,611	.....	794,644	794,644	849,990	0.29
New Jersey	5,057,379	.....	5,882,319	5,882,319	6,210,589	2.12
New Mexico	2,319,457	.....	2,578,072	2,578,072	2,741,928	0.94
New York	24,442,430	.....	31,166,299	31,166,299	32,190,544	10.98
North Carolina	6,758,759	.....	7,946,996	7,946,996	8,450,197	2.88
North Dakota	401,451	.....	433,946	433,946	458,823	0.16
Ohio	8,280,589	.....	9,973,509	9,973,509	10,582,491	3.61
Oklahoma	2,543,972	.....	2,962,718	2,962,718	2,987,294	1.02
Oregon	2,141,336	.....	2,710,755	2,710,755	2,783,514	0.95
Pennsylvania	9,393,774	.....	11,402,051	11,402,051	11,875,203	4.05
Rhode Island	996,847	.....	1,209,306	1,209,306	1,237,689	0.42
South Carolina	3,078,094	.....	3,441,966	3,441,966	3,443,670	1.17
South Dakota	457,444	.....	506,011	506,011	505,998	0.17
Tennessee	4,984,871	.....	5,319,105	5,319,105	5,690,759	1.94
Texas	14,979,886	.....	16,267,411	16,267,411	16,940,954	5.78
Utah	1,125,224	.....	1,317,364	1,317,364	1,430,564	0.49
Vermont	660,848	.....	787,399	787,399	806,697	0.28
Virginia	2,889,595	.....	3,105,271	3,105,271	3,340,665	1.14
Washington	3,688,210	.....	4,976,351	4,976,351	5,299,604	1.81
West Virginia	1,785,678	.....	2,020,068	2,020,068	2,117,311	0.72
Wisconsin	3,288,507	.....	3,905,755	3,905,755	4,088,361	1.39
Wyoming	274,064	.....	305,629	305,629	341,498	0.12
American Samoa	8,620	.....	12,017	12,017	12,017	*
Guam	12,748	.....	18,503	18,503	18,503	0.01
Northern Mariana Islands	4,779	.....	6,600	6,600	6,600	*
Puerto Rico	280,612	.....	406,464	406,464	406,464	0.14
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	15,006	.....	18,901	18,901	18,901	0.01
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	.....	.....	.....	.....	.....	.....
Survey & Certification	207,370	.....	226,791	226,791	230,646	0.08
Fraud Control Units	186,000	.....	195,300	195,300	205,065	0.07
Vaccines for Children	2,719,702	.....	3,377,911	3,377,911	3,323,770	1.13
Medicare Part B Transfer	396,612	.....	475,000	475,000	562,500	0.19
Incurred but not Reported	2,405,387	.....	3,747,000	3,747,000	2,899,000	0.99
VFC Collection	105	.....	.....	.....	.....	.....
Adjustments	-700,036	.....	9,425,225	9,425,225	26,751,939	9.12
Total	214,014,737	.....	266,611,063	266,611,063	293,225,003	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 8-24. TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) - FAMILY ASSISTANCE GRANTS (93.558)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	104,408	.....	104,408	104,408	104,408	0.61
Alaska	53,620	.....	53,309	53,309	53,309	0.31
Arizona	225,308	.....	224,158	224,158	224,158	1.31
Arkansas	62,951	.....	62,951	62,951	62,951	0.37
California	3,663,130	.....	3,659,873	3,659,873	3,659,873	21.45
Colorado	149,626	.....	149,626	149,626	149,626	0.88
Connecticut	266,788	.....	266,788	266,788	266,788	1.56
Delaware	30,824	.....	32,291	32,291	32,291	0.19
District of Columbia	92,595	.....	92,610	92,610	92,610	0.54
Florida	622,746	.....	622,746	622,746	622,746	3.65
Georgia	368,025	.....	368,025	368,025	368,025	2.16
Hawaii	98,905	.....	98,905	98,905	98,905	0.58
Idaho	33,911	.....	33,911	33,911	33,911	0.20
Illinois	585,057	.....	585,057	585,057	585,057	3.43
Indiana	206,799	.....	206,799	206,799	206,799	1.21
Iowa	130,994	.....	131,030	131,030	131,030	0.77
Kansas	101,931	.....	101,931	101,931	101,931	0.60
Kentucky	181,270	.....	181,288	181,288	181,288	1.06
Louisiana	180,999	.....	180,999	180,999	180,999	1.06
Maine	78,121	.....	78,121	78,121	78,121	0.46
Maryland	229,098	.....	229,098	229,098	229,098	1.34
Massachusetts	459,371	.....	459,371	459,371	459,371	2.69
Michigan	775,353	.....	775,353	775,353	775,353	4.55
Minnesota	263,434	.....	263,434	263,434	263,434	1.54
Mississippi	95,803	.....	95,803	95,803	95,803	0.56
Missouri	217,052	.....	217,052	217,052	217,052	1.27
Montana	39,172	.....	39,172	39,172	39,172	0.23
Nebraska	57,026	.....	57,514	57,514	57,514	0.34
Nevada	47,641	.....	47,641	47,641	47,641	0.28
New Hampshire	38,521	.....	38,521	38,521	38,521	0.23
New Jersey	404,035	.....	404,035	404,035	404,035	2.37
New Mexico	117,131	.....	117,131	117,131	117,131	0.69
New York	2,442,931	.....	2,442,931	2,442,931	2,442,931	14.32
North Carolina	338,350	.....	338,350	338,350	338,350	1.98
North Dakota	26,400	.....	26,400	26,400	26,400	0.15
Ohio	727,968	.....	727,968	727,968	727,968	4.27
Oklahoma	145,860	.....	145,281	145,281	145,281	0.85
Oregon	166,799	.....	166,799	166,799	166,799	0.98
Pennsylvania	719,499	.....	719,499	719,499	719,499	4.22
Rhode Island	95,022	.....	95,022	95,022	95,022	0.56
South Carolina	99,968	.....	99,968	99,968	99,968	0.59
South Dakota	21,280	.....	21,280	21,280	21,280	0.12
Tennessee	213,089	.....	213,089	213,089	213,089	1.25
Texas	538,965	.....	538,965	538,965	538,965	3.16
Utah	84,314	.....	84,314	84,314	84,314	0.49
Vermont	47,353	.....	47,353	47,353	47,353	0.28
Virginia	158,285	.....	158,285	158,285	158,285	0.93
Washington	380,954	.....	380,740	380,740	380,740	2.23
West Virginia	110,176	.....	110,176	110,176	110,176	0.65
Wisconsin	314,499	.....	314,499	314,499	314,499	1.84
Wyoming	18,501	.....	18,501	18,501	18,501	0.11
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam	2,599	.....	3,465	3,465	3,465	0.02
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico	71,562	.....	71,563	71,563	71,563	0.42
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	2,847	.....	2,847	2,847	2,847	0.02
Indian Tribes	174,273	.....	179,746	179,746	179,746	1.05
Undistributed .....	.....	.....	.....	.....	.....	.....
Tribal New Program	7,558	.....	7,633	7,633	7,633	0.04
Healthy Marriage & Responsible Fatherhood	149,949	.....	150,000	150,000	150,000	0.88
Contingency Fund .....	.....	.....	.....	.....	.....	.....
ARRA Supplemental Grants .....	.....	.....	.....	.....	.....	.....
ARRA Emergency Contingency Fund for State TANF programs .....	.....	.....	.....	.....	.....	.....
Matching Grants to territories .....	.....	.....	15,000	15,000	15,000	0.09
Total	17,040,646	.....	17,058,625	17,058,625	17,058,625	1 100.00

¹ Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1501-0-1-609

Table 8-25. CHILD SUPPORT ENFORCEMENT - FEDERAL SHARE OF STATE AND LOCAL ADMINISTRATIVE COSTS AND INCENTIVES (93.563)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	49,141	.....	48,345	48,345	50,049	1.08
Alaska	17,811	.....	17,522	17,522	18,140	0.39
Arizona	65,681	.....	64,616	64,616	66,895	1.44
Arkansas	38,196	.....	37,577	37,577	38,902	0.84
California	1,038,146	.....	1,021,318	1,021,318	1,057,333	22.80
Colorado	59,841	.....	58,872	58,872	60,948	1.31
Connecticut	57,561	.....	56,628	56,628	58,625	1.26
Delaware	19,191	.....	18,880	18,880	19,546	0.42
District of Columbia	17,171	.....	16,893	16,893	17,489	0.38
Florida	205,118	.....	201,794	201,794	208,910	4.50
Georgia	87,358	.....	85,942	85,942	88,972	1.92
Hawaii	11,701	.....	11,511	11,511	11,917	0.26
Idaho	34,881	.....	34,316	34,316	35,526	0.77
Illinois	129,407	.....	127,310	127,310	131,799	2.84
Indiana	59,302	.....	58,341	58,341	60,398	1.30
Iowa	39,637	.....	38,995	38,995	40,370	0.87
Kansas	60,395	.....	59,416	59,416	61,511	1.33
Kentucky	40,671	.....	40,012	40,012	41,423	0.89
Louisiana	66,663	.....	65,582	65,582	67,895	1.46
Maine	10,368	.....	10,200	10,200	10,560	0.23
Maryland	96,140	.....	94,582	94,582	97,917	2.11
Massachusetts	100,590	.....	98,959	98,959	102,449	2.21
Michigan	145,731	.....	143,369	143,369	148,425	3.20
Minnesota	102,146	.....	100,490	100,490	104,034	2.24
Mississippi	46,345	.....	45,594	45,594	47,201	1.02
Missouri	42,333	.....	41,647	41,647	43,116	0.93
Montana	11,793	.....	11,602	11,602	12,011	0.26
Nebraska	31,785	.....	31,270	31,270	32,373	0.70
Nevada	34,784	.....	34,220	34,220	35,427	0.76
New Hampshire	29,537	.....	29,058	29,058	30,083	0.65
New Jersey	152,869	.....	150,392	150,392	155,695	3.36
New Mexico	74,914	.....	73,699	73,699	76,298	1.65
New York	270,719	.....	266,331	266,331	275,723	5.95
North Carolina	78,388	.....	77,118	77,118	79,837	1.72
North Dakota	35,508	.....	34,933	34,933	36,164	0.78
Ohio	184,648	.....	181,656	181,656	188,061	4.06
Oklahoma	45,955	.....	45,211	45,211	46,805	1.01
Oregon	74,656	.....	73,446	73,446	76,036	1.64
Pennsylvania	135,746	.....	133,546	133,546	138,255	2.98
Rhode Island	5,195	.....	5,111	5,111	5,291	0.11
South Carolina	50,903	.....	50,078	50,078	51,844	1.12
South Dakota	45,754	.....	45,012	45,012	46,599	1.00
Tennessee	60,096	.....	59,122	59,122	61,207	1.32
Texas	167,964	.....	165,241	165,241	171,068	3.69
Utah	46,509	.....	45,755	45,755	47,368	1.02
Vermont	48,085	.....	47,306	47,306	48,974	1.06
Virginia	57,383	.....	56,453	56,453	58,444	1.26
Washington	78,109	.....	76,843	76,843	79,552	1.72
West Virginia	21,618	.....	21,268	21,268	22,018	0.47
Wisconsin	65,280	.....	64,222	64,222	66,487	1.43
Wyoming	8,759	.....	8,617	8,617	8,921	0.19
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam	8,170	.....	8,038	8,038	8,321	0.18
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico	40,899	.....	40,236	40,236	41,655	0.90
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	12,609	.....	12,404	12,404	12,842	0.28
Indian Tribes	21,612	.....	35,000	35,000	34,000	0.73
Undistributed .....	.....	.....	.....	.....	.....	.....
Total	4,541,772	.....	4,481,899	4,481,899	4,637,709	¹ 100.00

¹ Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1502-0-1-609

Table 8-26. LOW INCOME HOME ENERGY ASSISTANCE PROGRAM (93.568)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	16,994	.....	59,716	59,716	31,340	1.30
Alaska	7,504	.....	16,333	16,333	8,463	0.35
Arizona	7,648	.....	26,844	26,844	14,088	0.58
Arkansas	13,057	.....	36,497	36,497	21,644	0.90
California	91,022	.....	223,979	223,979	125,107	5.19
Colorado	31,729	.....	63,474	63,474	31,729	1.32
Connecticut	41,754	.....	95,783	95,783	51,495	2.14
Delaware	5,542	.....	17,384	17,384	10,209	0.42
District of Columbia	6,484	.....	14,653	14,653	7,809	0.32
Florida	27,068	.....	95,013	95,013	49,864	2.07
Georgia	21,407	.....	75,141	75,141	39,435	1.64
Hawaii	2,137	.....	4,652	4,652	2,410	0.10
Idaho	11,776	.....	25,632	25,632	13,281	0.55
Illinois	114,565	.....	237,236	237,236	118,935	4.94
Indiana	51,865	.....	103,602	103,602	51,865	2.15
Iowa	36,762	.....	67,803	67,803	36,762	1.53
Kansas	16,989	.....	45,270	45,270	26,242	1.09
Kentucky	27,230	.....	68,353	68,353	38,567	1.60
Louisiana	17,494	.....	57,196	57,196	32,226	1.34
Maine	25,835	.....	47,649	47,649	25,835	1.07
Maryland	31,971	.....	101,296	101,296	58,895	2.44
Massachusetts	82,764	.....	162,916	162,916	82,764	3.43
Michigan	107,943	.....	221,244	221,244	109,697	4.55
Minnesota	78,363	.....	144,528	144,528	78,363	3.25
Mississippi	14,643	.....	38,937	38,937	22,585	0.94
Missouri	45,762	.....	103,541	103,541	54,939	2.28
Montana	11,979	.....	26,075	26,075	13,510	0.56
Nebraska	18,165	.....	39,558	39,558	20,489	0.85
Nevada	3,887	.....	13,643	13,643	7,160	0.30
New Hampshire	15,672	.....	34,112	34,112	17,675	0.73
New Jersey	76,865	.....	166,690	166,690	86,165	3.58
New Mexico	9,535	.....	22,919	22,919	12,645	0.52
New York	250,569	.....	475,382	475,382	250,541	10.40
North Carolina	37,059	.....	121,051	121,051	68,269	2.83
North Dakota	12,542	.....	27,299	27,299	14,144	0.59
Ohio	101,350	.....	220,588	220,588	114,288	4.74
Oklahoma	14,286	.....	44,572	44,572	26,342	1.09
Oregon	24,022	.....	44,640	44,640	24,022	1.00
Pennsylvania	134,810	.....	274,925	274,925	136,369	5.66
Rhode Island	13,590	.....	30,123	30,123	15,786	0.66
South Carolina	13,590	.....	47,702	47,702	25,035	1.04
South Dakota	10,531	.....	22,921	22,921	11,876	0.49
Tennessee	27,584	.....	73,723	73,723	42,862	1.78
Texas	45,044	.....	158,110	158,110	82,979	3.44
Utah	14,452	.....	31,596	31,596	16,269	0.68
Vermont	11,747	.....	25,568	25,568	13,248	0.55
Virginia	38,944	.....	118,084	118,084	71,741	2.98
Washington	38,800	.....	71,568	71,568	38,800	1.61
West Virginia	17,935	.....	40,584	40,584	21,586	0.90
Wisconsin	70,538	.....	130,096	130,096	70,538	2.93
Wyoming	5,693	.....	12,640	12,640	6,448	0.27
American Samoa	44	.....	100	100	53	*
Guam	97	.....	220	220	117	*
Northern Mariana Islands	34	.....	76	76	41	*
Puerto Rico	2,414	.....	5,465	5,465	2,905	0.12
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	92	.....	208	208	111	*
Indian Tribes	21,530	.....	47,462	47,462	26,137	1.08
Undistributed	.....	.....	.....	.....	.....	.....
Discretionary Funds	.....	.....	27,000	27,000	27,000	1.12
Technical Assistance	292	.....	300	300	300	0.01
Total	1,980,000	.....	4,509,672	4,509,672	2,410,000	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 8-27. CHILD CARE AND DEVELOPMENT BLOCK GRANT (93.575)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	39,938	.....	79,171	79,171	40,700	1.91
Alaska	4,064	.....	8,306	8,306	4,270	0.20
Arizona	51,631	.....	104,701	104,701	53,824	2.53
Arkansas	25,551	.....	51,724	51,724	26,590	1.25
California	229,338	.....	453,308	453,308	233,035	10.96
Colorado	23,919	.....	50,033	50,033	25,721	1.21
Connecticut	13,742	.....	28,164	28,164	14,478	0.68
Delaware	4,554	.....	9,355	9,355	4,809	0.23
District of Columbia	2,885	.....	5,527	5,527	2,841	0.13
Florida	112,313	.....	216,764	216,764	111,433	5.24
Georgia	80,270	.....	170,493	170,493	87,646	4.12
Hawaii	7,269	.....	13,271	13,271	6,822	0.32
Idaho	12,026	.....	24,585	24,585	12,639	0.59
Illinois	75,188	.....	151,819	151,819	78,046	3.67
Indiana	42,047	.....	88,006	88,006	45,242	2.13
Iowa	18,275	.....	37,292	37,292	19,171	0.90
Kansas	18,834	.....	37,897	37,897	19,482	0.92
Kentucky	35,714	.....	71,819	71,819	36,920	1.74
Louisiana	42,649	.....	82,346	82,346	42,332	1.99
Maine	6,834	.....	13,907	13,907	7,149	0.34
Maryland	24,755	.....	49,473	49,473	25,433	1.20
Massachusetts	25,113	.....	49,322	49,322	25,355	1.19
Michigan	57,162	.....	120,762	120,762	62,081	2.92
Minnesota	26,031	.....	53,706	53,706	27,609	1.30
Mississippi	32,362	.....	63,761	63,761	32,778	1.54
Missouri	38,962	.....	79,605	79,605	40,923	1.92
Montana	5,943	.....	11,827	11,827	6,080	0.29
Nebraska	11,733	.....	24,282	24,282	12,483	0.59
Nevada	14,789	.....	29,460	29,460	15,145	0.71
New Hampshire	4,723	.....	9,747	9,747	5,011	0.24
New Jersey	35,243	.....	70,188	70,188	36,082	1.70
New Mexico	18,456	.....	36,666	36,666	18,849	0.89
New York	103,991	.....	199,179	199,179	102,393	4.81
North Carolina	67,494	.....	138,999	138,999	71,456	3.36
North Dakota	3,784	.....	7,499	7,499	3,855	0.18
Ohio	67,654	.....	140,229	140,229	72,088	3.39
Oklahoma	31,683	.....	62,065	62,065	31,906	1.50
Oregon	22,582	.....	46,324	46,324	23,814	1.12
Pennsylvania	62,022	.....	123,778	123,778	63,631	2.99
Rhode Island	5,383	.....	10,751	10,751	5,527	0.26
South Carolina	36,809	.....	74,736	74,736	38,420	1.81
South Dakota	5,514	.....	11,236	11,236	5,776	0.27
Tennessee	45,692	.....	86,295	86,295	44,362	2.09
Texas	221,872	.....	442,150	442,150	227,298	10.69
Utah	22,898	.....	46,027	46,027	23,661	1.11
Vermont	2,936	.....	5,810	5,810	2,987	0.14
Virginia	38,813	.....	77,979	77,979	40,087	1.88
Washington	33,657	.....	68,634	68,634	35,283	1.66
West Virginia	13,562	.....	26,850	26,850	13,803	0.65
Wisconsin	30,024	.....	62,753	62,753	32,260	1.52
Wyoming	2,765	.....	5,323	5,323	2,736	0.13
American Samoa	2,536	.....	5,495	5,495	2,832	0.13
Guam	4,023	.....	7,720	7,720	3,979	0.19
Northern Mariana Islands	1,887	.....	3,762	3,762	1,939	0.09
Puerto Rico	33,311	.....	68,771	68,771	35,353	1.66
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	1,865	.....	3,659	3,659	1,886	0.09
Indian Tribes	41,255	.....	82,542	82,542	42,542	2.00
Undistributed	.....	.....	.....	.....	.....	.....
Other	15,762	.....	21,228	21,228	16,228	0.77
Total	2,062,087	.....	4,127,081	4,127,081	2,127,081	¹ 100.00

¹ Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1550-0-1-609

Table 8-28. CHILD CARE AND DEVELOPMENT FUND - MANDATORY (93.596a)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	16,442	.....	16,442	16,442	16,442	1.33
Alaska	3,545	.....	3,545	3,545	3,545	0.29
Arizona	19,827	.....	19,827	19,827	19,827	1.60
Arkansas	5,300	.....	5,300	5,300	5,300	0.43
California	85,590	.....	85,590	85,590	85,590	6.90
Colorado	10,174	.....	10,174	10,174	10,174	0.82
Connecticut	18,738	.....	18,738	18,738	18,738	1.51
Delaware	5,179	.....	5,179	5,179	5,179	0.42
District of Columbia	4,567	.....	4,567	4,567	4,567	0.37
Florida	43,027	.....	43,027	43,027	43,027	3.47
Georgia	36,548	.....	36,548	36,548	36,548	2.95
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	4.59
Indiana	26,182	.....	26,182	26,182	26,182	2.11
Iowa	8,508	.....	8,508	8,508	8,508	0.69
Kansas	9,812	.....	9,812	9,812	9,812	0.79
Kentucky	16,702	.....	16,702	16,702	16,702	1.35
Louisiana	13,865	.....	13,865	13,865	13,865	1.12
Maine	3,019	.....	3,019	3,019	3,019	0.24
Maryland	23,301	.....	23,301	23,301	23,301	1.88
Massachusetts	44,973	.....	44,973	44,973	44,973	3.63
Michigan	32,082	.....	32,082	32,082	32,082	2.59
Minnesota	23,368	.....	23,368	23,368	23,368	1.89
Mississippi	6,293	.....	6,293	6,293	6,293	0.51
Missouri	24,669	.....	24,669	24,669	24,669	1.99
Montana	3,191	.....	3,191	3,191	3,191	0.26
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	2.13
New Mexico	8,308	.....	8,308	8,308	8,308	0.67
New York	101,984	.....	101,984	101,984	101,984	8.23
North Carolina	69,639	.....	69,639	69,639	69,639	5.62
North Dakota	2,506	.....	2,506	2,506	2,506	0.20
Ohio	70,125	.....	70,125	70,125	70,125	5.66
Oklahoma	24,910	.....	24,910	24,910	24,910	2.01
Oregon	19,409	.....	19,409	19,409	19,409	1.57
Pennsylvania	55,337	.....	55,337	55,337	55,337	4.46
Rhode Island	6,634	.....	6,634	6,634	6,634	0.54
South Carolina	9,867	.....	9,867	9,867	9,867	0.80
South Dakota	1,711	.....	1,711	1,711	1,711	0.14
Tennessee	37,702	.....	37,702	37,702	37,702	3.04
Texas	59,844	.....	59,844	59,844	59,844	4.83
Utah	12,592	.....	12,592	12,592	12,592	1.02
Vermont	3,945	.....	3,945	3,945	3,945	0.32
Virginia	21,329	.....	21,329	21,329	21,329	1.72
Washington	41,883	.....	41,883	41,883	41,883	3.38
West Virginia	8,727	.....	8,727	8,727	8,727	0.70
Wisconsin	24,511	.....	24,511	24,511	24,511	1.98
Wyoming	2,815	.....	2,815	2,815	2,815	0.23
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	.....	.....	.....	.....	.....	.....
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	.....	.....	.....	.....	.....	.....
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	.....	.....	.....	.....	.....	.....
Indian Tribes	58,340	.....	58,340	58,340	58,340	4.71
Undistributed .....	.....	.....	.....	.....	.....	.....
Technical Assistance	3,780	.....	3,792	3,792	3,792	0.31
Total	1,239,645	.....	1,239,657	1,239,657	1,239,657	¹ 100.00

¹ Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1550-0-1-609

Table 8-29. CHILD CARE AND DEVELOPMENT FUND - MATCHING (93.596b)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	25,166	.....	25,166	25,166	25,166	1.50
Alaska	4,048	.....	4,048	4,048	4,048	0.24
Arizona	37,889	.....	37,884	37,884	37,884	2.26
Arkansas	15,747	.....	15,747	15,747	15,747	0.94
California	217,403	.....	217,404	217,404	217,404	12.96
Colorado	26,995	.....	26,991	26,991	26,991	1.61
Connecticut	18,143	.....	18,140	18,140	18,140	1.08
Delaware	4,616	.....	4,616	4,616	4,616	0.28
District of Columbia	2,647	.....	2,647	2,647	2,647	0.16
Florida	90,967	.....	90,955	90,955	90,955	5.42
Georgia	56,397	.....	56,397	56,397	56,397	3.36
Hawaii	6,822	.....	6,821	6,821	6,821	0.41
Idaho	9,026	.....	9,025	9,025	9,025	0.54
Illinois	73,397	.....	73,387	73,387	73,387	4.38
Indiana	35,858	.....	35,853	35,853	35,853	2.14
Iowa	15,959	.....	15,957	15,957	15,957	0.95
Kansas	15,861	.....	15,861	15,861	15,861	0.95
Kentucky	22,728	.....	22,725	22,725	22,725	1.35
Louisiana	24,731	.....	24,727	24,727	24,727	1.47
Maine	6,084	.....	6,084	6,084	6,084	0.36
Maryland	30,504	.....	32,568	32,568	32,568	1.94
Massachusetts	32,568	.....	30,500	30,500	30,500	1.82
Michigan	55,142	.....	55,142	55,142	55,142	3.29
Minnesota	28,338	.....	28,338	28,338	28,338	1.69
Mississippi	17,219	.....	17,216	17,216	17,216	1.03
Missouri	31,910	.....	31,905	31,905	31,905	1.90
Montana	4,819	.....	4,818	4,818	4,818	0.29
Nebraska	10,153	.....	10,152	10,152	10,152	0.61
Nevada	14,719	.....	14,717	14,717	14,717	0.88
New Hampshire	6,488	.....	6,488	6,488	6,488	0.39
New Jersey	47,173	.....	47,167	47,167	47,167	2.81
New Mexico	11,547	.....	11,547	11,547	11,547	0.69
New York	101,483	.....	101,483	101,483	101,483	6.05
North Carolina	49,409	.....	49,402	49,402	49,402	2.95
North Dakota	3,244	.....	3,243	3,243	3,243	0.19
Ohio	62,226	.....	62,217	62,217	62,217	3.71
Oklahoma	20,465	.....	20,462	20,462	20,462	1.22
Oregon	19,334	.....	19,334	19,334	19,334	1.15
Pennsylvania	61,891	.....	61,883	61,883	61,883	3.69
Rhode Island	5,278	.....	5,278	5,278	5,278	0.31
South Carolina	23,374	.....	23,374	23,374	23,374	1.39
South Dakota	4,399	.....	4,398	4,398	4,398	0.26
Tennessee	32,765	.....	32,765	32,765	32,765	1.95
Texas	151,191	.....	151,191	151,191	151,191	9.01
Utah	18,835	.....	18,835	18,835	18,835	1.12
Vermont	2,875	.....	2,875	2,875	2,875	0.17
Virginia	41,129	.....	41,123	41,123	41,123	2.45
Washington	34,303	.....	34,303	34,303	34,303	2.05
West Virginia	8,717	.....	8,715	8,715	8,715	0.52
Wisconsin	29,249	.....	29,245	29,245	29,245	1.74
Wyoming	2,724	.....	2,723	2,723	2,723	0.16
American Samoa	.....	.....	.....	.....	.....	.....
Guam	.....	.....	.....	.....	.....	.....
Northern Mariana Islands	.....	.....	.....	.....	.....	.....
Puerto Rico	.....	.....	.....	.....	.....	.....
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	.....	.....	.....	.....	.....	.....
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	.....	.....	.....	.....	.....	.....
Technical Assistance	3,501	.....	3,501	3,501	3,501	0.21
Total	¹ 1,677,456	.....	1,677,343	1,677,343	1,677,343	² 100.00

¹ FY 2008 includes reappropriated Matching funds from prior years (2006).

² Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1536-0-1-506

Table 8-30. HEAD START (93.600)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	106,911	.....	142,473	142,473	112,148	1.55
Alaska	12,506	.....	15,955	15,955	13,118	0.18
Arizona	103,774	.....	145,274	145,274	108,858	1.50
Arkansas	64,697	.....	87,790	87,790	67,866	0.94
California	833,854	.....	1,054,256	1,054,256	874,724	12.09
Colorado	68,519	.....	93,267	93,267	71,876	0.99
Connecticut	52,035	.....	64,555	64,555	54,584	0.75
Delaware	13,271	.....	17,615	17,615	13,921	0.19
District of Columbia	25,174	.....	30,202	30,202	26,407	0.36
Florida	263,829	.....	355,430	355,430	276,754	3.83
Georgia	168,952	.....	234,337	234,337	177,229	2.45
Hawaii	22,946	.....	27,682	27,682	24,071	0.33
Idaho	22,874	.....	31,516	31,516	23,995	0.33
Illinois	271,477	.....	348,175	348,175	284,776	3.94
Indiana	96,454	.....	132,712	132,712	101,179	1.40
Iowa	51,685	.....	67,043	67,043	54,217	0.75
Kansas	51,061	.....	67,772	67,772	53,562	0.74
Kentucky	108,130	.....	141,263	141,263	113,427	1.57
Louisiana	146,287	.....	187,309	187,309	153,453	2.12
Maine	27,684	.....	34,841	34,841	29,040	0.40
Maryland	78,240	.....	97,856	97,856	82,073	1.13
Massachusetts	108,636	.....	134,135	134,135	113,958	1.58
Michigan	235,168	.....	297,068	297,068	246,689	3.41
Minnesota	72,193	.....	93,717	93,717	75,730	1.05
Mississippi	162,116	.....	198,819	198,819	170,058	2.35
Missouri	119,305	.....	156,284	156,284	125,150	1.73
Montana	21,004	.....	26,456	26,456	22,033	0.30
Nebraska	36,154	.....	47,004	47,004	37,925	0.52
Nevada	24,344	.....	35,350	35,350	25,536	0.35
New Hampshire	13,421	.....	17,294	17,294	14,079	0.19
New Jersey	129,353	.....	162,480	162,480	135,690	1.88
New Mexico	52,437	.....	69,146	69,146	55,006	0.76
New York	434,333	.....	546,086	546,086	455,611	6.30
North Carolina	141,647	.....	196,945	196,945	148,586	2.05
North Dakota	17,220	.....	20,824	20,824	18,064	0.25
Ohio	247,547	.....	321,511	321,511	259,674	3.59
Oklahoma	81,263	.....	110,743	110,743	85,244	1.18
Oregon	59,626	.....	80,166	80,166	62,547	0.86
Pennsylvania	228,773	.....	292,245	292,245	239,981	3.32
Rhode Island	22,073	.....	27,677	27,677	23,154	0.32
South Carolina	82,719	.....	113,445	113,445	86,772	1.20
South Dakota	18,875	.....	24,082	24,082	19,800	0.27
Tennessee	119,654	.....	162,483	162,483	125,516	1.73
Texas	479,971	.....	681,099	681,099	503,485	6.96
Utah	37,864	.....	51,353	51,353	39,719	0.55
Vermont	13,595	.....	16,389	16,389	14,261	0.20
Virginia	99,359	.....	130,783	130,783	104,226	1.44
Washington	100,627	.....	131,091	131,091	105,556	1.46
West Virginia	50,776	.....	64,552	64,552	53,264	0.74
Wisconsin	91,117	.....	117,728	117,728	95,581	1.32
Wyoming	12,404	.....	15,106	15,106	13,012	0.18
American Samoa	2,156	.....	2,854	2,854	2,261	0.03
Guam	2,169	.....	2,469	2,469	2,276	0.03
Northern Mariana Islands	1,669	.....	1,929	1,929	1,750	0.02
Puerto Rico	249,974	.....	312,194	312,194	262,220	3.62
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	8,018	.....	11,490	11,490	8,411	0.12
Indian Tribes	183,471	.....	246,745	246,745	203,133	2.81
Undistributed .....	.....	.....	.....	.....	.....	.....
Migrant Program	291,133	.....	381,302	381,302	315,325	4.36
Palau	1,337	.....	1,599	1,599	1,402	0.02
Unallocated .....	.....	.....	20,000	20,000	2,000	0.03
Technical Assistance	174,928	.....	315,820	315,820	180,820	2.50
Research/Evaluation	19,752	.....	20,000	20,000	20,000	0.28
Program Support	38,590	.....	75,000	75,000	42,000	0.58
Centers of Excellence .....	.....	.....	2,000	2,000	.....	.....
Total	6,877,131	.....	9,112,786	9,112,786	7,234,783	1 100.00

¹ Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1545-0-1-506

Table 8-31. FOSTER CARE - TITLE IV-E (93.658)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	38,130	.....	39,239	39,239	39,188	0.84
Alaska	13,445	.....	13,836	13,836	13,818	0.30
Arizona	81,803	.....	84,181	84,181	84,072	1.80
Arkansas	40,596	.....	41,776	41,776	41,722	0.89
California	1,318,927	.....	1,357,277	1,357,277	1,355,520	28.96
Colorado	63,538	.....	65,385	65,385	65,303	1.40
Connecticut	67,296	.....	69,253	69,253	69,163	1.48
Delaware	3,980	.....	4,096	4,096	4,091	0.09
District of Columbia	15,477	.....	15,927	15,927	15,906	0.34
Florida	161,979	.....	166,689	166,689	166,473	3.56
Georgia	87,130	.....	89,664	89,664	89,548	1.91
Hawaii	21,661	.....	22,291	22,291	22,262	0.48
Idaho	9,364	.....	9,636	9,636	9,624	0.21
Illinois	182,838	.....	188,154	188,154	187,911	4.01
Indiana	51,840	.....	53,347	53,347	53,278	1.14
Iowa	25,848	.....	26,600	26,600	26,565	0.57
Kansas	19,146	.....	19,703	19,703	19,677	0.42
Kentucky	56,455	.....	58,097	58,097	58,022	1.24
Louisiana	55,959	.....	57,586	57,586	57,512	1.23
Maine	14,179	.....	14,592	14,592	14,573	0.31
Maryland	119,508	.....	122,983	122,983	122,824	2.62
Massachusetts	66,166	.....	68,090	68,090	68,002	1.45
Michigan	77,484	.....	79,737	79,737	79,634	1.70
Minnesota	45,903	.....	47,237	47,237	47,176	1.01
Mississippi	9,012	.....	9,274	9,274	9,262	0.20
Missouri	60,914	.....	62,685	62,685	62,604	1.34
Montana	13,297	.....	13,683	13,683	13,666	0.29
Nebraska	20,853	.....	21,460	21,460	21,432	0.46
Nevada	25,655	.....	26,401	26,401	26,367	0.56
New Hampshire	15,795	.....	16,254	16,254	16,233	0.35
New Jersey	53,474	.....	55,029	55,029	54,958	1.17
New Mexico	25,633	.....	26,378	26,378	26,344	0.56
New York	394,122	.....	405,582	405,582	405,058	8.65
North Carolina	77,755	.....	80,016	80,016	79,913	1.71
North Dakota	10,288	.....	10,588	10,588	10,574	0.23
Ohio	174,094	.....	179,156	179,156	178,924	3.82
Oklahoma	44,225	.....	45,511	45,511	45,452	0.97
Oregon	47,935	.....	49,329	49,329	49,265	1.05
Pennsylvania	304,012	.....	312,852	312,852	312,447	6.67
Rhode Island	13,333	.....	13,721	13,721	13,703	0.29
South Carolina	26,271	.....	27,035	27,035	27,000	0.58
South Dakota	4,745	.....	4,883	4,883	4,877	0.10
Tennessee	44,636	.....	45,934	45,934	45,874	0.98
Texas	214,447	.....	220,683	220,683	220,398	4.71
Utah	18,987	.....	19,539	19,539	19,514	0.42
Vermont	11,085	.....	11,408	11,408	11,393	0.24
Virginia	80,644	.....	82,989	82,989	82,882	1.77
Washington	90,909	.....	93,552	93,552	93,431	2.00
West Virginia	25,007	.....	25,735	25,735	25,701	0.55
Wisconsin	61,507	.....	63,296	63,296	63,214	1.35
Wyoming	1,229	.....	1,264	1,264	1,263	0.03
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	.....	.....	.....	.....	.....	.....
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	.....	.....	.....	.....	.....	.....
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	.....	.....	.....	.....	.....	.....
Indian Tribes .....	.....	.....	.....	.....	27,000	0.58
Undistributed .....	.....	.....	.....	.....	.....	.....
Technical Assistance	16,927	.....	20,387	20,387	20,387	0.44
Total	4,525,443	.....	4,660,000	4,660,000	4,681,000	¹ 100.00

¹ Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1545-0-1-506

Table 8-32. ADOPTION ASSISTANCE (93.659)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	9,120	.....	10,612	10,612	11,019	0.45
Alaska	8,349	.....	9,714	9,714	10,087	0.41
Arizona	56,422	.....	65,651	65,651	68,171	2.77
Arkansas	11,788	.....	13,716	13,716	14,243	0.58
California	372,213	.....	433,093	433,093	449,715	18.27
Colorado	20,855	.....	24,266	24,266	25,198	1.02
Connecticut	27,631	.....	32,150	32,150	33,384	1.36
Delaware	1,806	.....	2,101	2,101	2,182	0.09
District of Columbia	12,793	.....	14,885	14,885	15,457	0.63
Florida	73,167	.....	85,135	85,135	88,402	3.59
Georgia	41,888	.....	48,740	48,740	50,611	2.06
Hawaii	14,171	.....	16,489	16,489	17,121	0.70
Idaho	4,429	.....	5,154	5,154	5,351	0.22
Illinois	88,567	.....	103,054	103,054	107,009	4.35
Indiana	35,585	.....	41,405	41,405	42,995	1.75
Iowa	33,261	.....	38,702	38,702	40,187	1.63
Kansas	14,741	.....	17,152	17,152	17,810	0.72
Kentucky	35,965	.....	41,848	41,848	43,454	1.76
Louisiana	15,986	.....	18,600	18,600	19,314	0.78
Maine	15,249	.....	17,743	17,743	18,424	0.75
Maryland	21,963	.....	25,555	25,555	26,536	1.08
Massachusetts	31,644	.....	36,820	36,820	38,233	1.55
Michigan	111,507	.....	129,746	129,746	134,726	5.47
Minnesota	23,041	.....	26,810	26,810	27,839	1.13
Mississippi	4,937	.....	5,745	5,745	5,965	0.24
Missouri	33,732	.....	39,249	39,249	40,756	1.66
Montana	7,441	.....	8,659	8,659	8,991	0.37
Nebraska	9,063	.....	10,546	10,546	10,950	0.44
Nevada	10,772	.....	12,534	12,534	13,015	0.53
New Hampshire	4,139	.....	4,816	4,816	5,001	0.20
New Jersey	37,695	.....	43,860	43,860	45,544	1.85
New Mexico	11,475	.....	13,352	13,352	13,864	0.56
New York	226,926	.....	264,045	264,045	274,179	11.14
North Carolina	35,583	.....	41,404	41,404	42,993	1.75
North Dakota	3,806	.....	4,429	4,429	4,599	0.19
Ohio	161,408	.....	187,809	187,809	195,017	7.92
Oklahoma	23,522	.....	27,369	27,369	28,420	1.15
Oregon	32,643	.....	37,982	37,982	39,440	1.60
Pennsylvania	89,286	.....	103,891	103,891	107,878	4.38
Rhode Island	7,895	.....	9,187	9,187	9,539	0.39
South Carolina	15,332	.....	17,840	17,840	18,525	0.75
South Dakota	2,934	.....	3,414	3,414	3,545	0.14
Tennessee	37,578	.....	43,725	43,725	45,403	1.84
Texas	64,838	.....	75,443	75,443	78,339	3.18
Utah	7,778	.....	9,050	9,050	9,398	0.38
Vermont	7,531	.....	8,763	8,763	9,099	0.37
Virginia	17,641	.....	20,527	20,527	21,314	0.87
Washington	39,632	.....	46,115	46,115	47,885	1.94
West Virginia	15,447	.....	17,974	17,974	18,664	0.76
Wisconsin	45,771	.....	53,258	53,258	55,302	2.25
Wyoming	750	.....	873	873	907	0.04
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	.....	.....	.....	.....	.....	.....
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	.....	.....	.....	.....	.....	.....
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	.....	.....	.....	.....	.....	.....
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
Total	2,037,696	.....	2,371,000	2,371,000	2,462,000	¹ 100.00

¹ Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1534-0-1-506

Table 8-33. SOCIAL SERVICES BLOCK GRANT (93.667)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	25,968	.....	25,938	25,938	25,938	1.53
Alaska	3,783	.....	3,831	3,831	3,831	0.23
Arizona	34,817	.....	35,527	35,527	35,527	2.09
Arkansas	15,871	.....	15,888	15,888	15,888	0.93
California	205,854	.....	204,874	204,874	204,874	12.05
Colorado	26,839	.....	27,248	27,248	27,248	1.60
Connecticut	19,789	.....	19,630	19,630	19,630	1.15
Delaware	4,819	.....	4,847	4,847	4,847	0.29
District of Columbia	3,284	.....	3,297	3,297	3,297	0.19
Florida	102,142	.....	102,294	102,294	102,294	6.02
Georgia	52,872	.....	53,496	53,496	53,496	3.15
Hawaii	7,258	.....	7,193	7,193	7,193	0.42
Idaho	8,280	.....	8,404	8,404	8,404	0.49
Illinois	72,454	.....	72,035	72,035	72,035	4.24
Indiana	35,648	.....	35,564	35,564	35,564	2.09
Iowa	16,838	.....	16,747	16,747	16,747	0.99
Kansas	15,607	.....	15,559	15,559	15,559	0.92
Kentucky	23,749	.....	23,772	23,772	23,772	1.40
Louisiana	24,210	.....	24,062	24,062	24,062	1.42
Maine	7,462	.....	7,383	7,383	7,383	0.43
Maryland	31,708	.....	31,489	31,489	31,489	1.85
Massachusetts	36,347	.....	36,149	36,149	36,149	2.13
Michigan	57,004	.....	56,450	56,450	56,450	3.32
Minnesota	29,175	.....	29,131	29,131	29,131	1.71
Mississippi	16,434	.....	16,359	16,359	16,359	0.96
Missouri	32,990	.....	32,947	32,947	32,947	1.94
Montana	5,334	.....	5,369	5,369	5,369	0.32
Nebraska	9,985	.....	9,946	9,946	9,946	0.59
Nevada	14,091	.....	14,378	14,378	14,378	0.85
New Hampshire	7,424	.....	7,375	7,375	7,375	0.43
New Jersey	49,262	.....	48,682	48,682	48,682	2.86
New Mexico	11,036	.....	11,041	11,041	11,041	0.65
New York	109,010	.....	108,159	108,159	108,159	6.36
North Carolina	50,007	.....	50,785	50,785	50,785	2.99
North Dakota	3,590	.....	3,585	3,585	3,585	0.21
Ohio	64,809	.....	64,269	64,269	64,269	3.78
Oklahoma	20,210	.....	20,274	20,274	20,274	1.19
Oregon	20,896	.....	21,004	21,004	21,004	1.24
Pennsylvania	70,244	.....	69,683	69,683	69,683	4.10
Rhode Island	6,028	.....	5,929	5,929	5,929	0.35
South Carolina	24,399	.....	24,704	24,704	24,704	1.45
South Dakota	4,415	.....	4,463	4,463	4,463	0.26
Tennessee	34,097	.....	34,507	34,507	34,507	2.03
Texas	132,734	.....	133,978	133,978	133,978	7.88
Utah	14,399	.....	14,826	14,826	14,826	0.87
Vermont	3,523	.....	3,482	3,482	3,482	0.20
Virginia	43,155	.....	43,224	43,224	43,224	2.54
Washington	36,113	.....	36,254	36,254	36,254	2.13
West Virginia	10,268	.....	10,156	10,156	10,156	0.60
Wisconsin	31,374	.....	31,396	31,396	31,396	1.85
Wyoming	2,908	.....	2,930	2,930	2,930	0.17
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	1,700,000	.....	1,700,000	1,700,000	1,700,000	1 100.00

* \$500 or less or 0.005 percent or less.

† Excludes undistributed obligations.

Department of Health and Human Services, HIV/AIDS Bureau

75-0350-0-1-551

Table 8-34. RYAN WHITE HIV/AIDS TREATMENT MODERNIZATION ACT PART B HIV CARE GRANTS (93.917)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	19,771	.....	17,617	17,617	.....	.....
Alaska	1,133	.....	1,077	1,077	.....	.....
Arizona	13,543	.....	13,340	13,340	.....	.....
Arkansas	7,901	.....	7,419	7,419	.....	.....
California	122,935	.....	128,263	128,263	.....	.....
Colorado	13,393	.....	12,712	12,712	.....	.....
Connecticut	14,968	.....	14,961	14,961	.....	.....
Delaware	5,231	.....	5,272	5,272	.....	.....
District of Columbia	18,815	.....	18,841	18,841	.....	.....
Florida	117,255	.....	116,269	116,269	.....	.....
Georgia	40,849	.....	37,857	37,857	.....	.....
Hawaii	3,237	.....	3,296	3,296	.....	.....
Idaho	1,254	.....	1,115	1,115	.....	.....
Illinois	36,398	.....	38,136	38,136	.....	.....
Indiana	12,994	.....	11,356	11,356	.....	.....
Iowa	2,881	.....	2,685	2,685	.....	.....
Kansas	3,435	.....	3,647	3,647	.....	.....
Kentucky	7,600	.....	8,075	8,075	.....	.....
Louisiana	25,158	.....	21,402	21,402	.....	.....
Maine	1,399	.....	1,621	1,621	.....	.....
Maryland	35,073	.....	36,483	36,483	.....	.....
Massachusetts	19,567	.....	19,889	19,889	.....	.....
Michigan	16,953	.....	17,346	17,346	.....	.....
Minnesota	7,090	.....	7,363	7,363	.....	.....
Mississippi	13,997	.....	14,305	14,305	.....	.....
Missouri	13,787	.....	14,030	14,030	.....	.....
Montana	865	.....	804	804	.....	.....
Nebraska	2,382	.....	2,251	2,251	.....	.....
Nevada	8,010	.....	8,483	8,483	.....	.....
New Hampshire	1,501	.....	1,503	1,503	.....	.....
New Jersey	45,926	.....	45,581	45,581	.....	.....
New Mexico	4,061	.....	4,066	4,066	.....	.....
New York	168,963	.....	167,972	167,972	.....	.....
North Carolina	29,521	.....	31,201	31,201	.....	.....
North Dakota	344	.....	350	350	.....	.....
Ohio	23,339	.....	21,023	21,023	.....	.....
Oklahoma	9,083	.....	8,308	8,308	.....	.....
Oregon	6,830	.....	6,056	6,056	.....	.....
Pennsylvania	38,671	.....	28,561	28,561	.....	.....
Rhode Island	3,357	.....	3,480	3,480	.....	.....
South Carolina	28,880	.....	25,597	25,597	.....	.....
South Dakota	806	.....	830	830	.....	.....
Tennessee	18,359	.....	18,592	18,592	.....	.....
Texas	89,739	.....	78,534	78,534	.....	.....
Utah	4,285	.....	3,822	3,822	.....	.....
Vermont	902	.....	913	913	.....	.....
Virginia	29,021	.....	25,352	25,352	.....	.....
Washington	11,760	.....	13,214	13,214	.....	.....
West Virginia	2,456	.....	2,457	2,457	.....	.....
Wisconsin	9,476	.....	8,469	8,469	.....	.....
Wyoming	680	.....	693	693	.....	.....
American Samoa	52	.....	30	30	.....	.....
Guam	291	.....	238	238	.....	.....
Northern Mariana Islands	54	.....	45	45	.....	.....
Puerto Rico	32,320	.....	30,878	30,878	.....	.....
Freely Associated States ¹	55	.....	39	39	.....	.....
Virgin Islands	1,141	.....	1,145	1,145	.....	.....
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	.....	.....	.....	.....	1,209,487	.....
Marshall Islands	53	.....	27	27	.....	.....
Republic of Palau	50	.....	44	44	.....	.....
Total	1,149,851	.....	1,114,936	² 1,114,936	³ 1,209,487	.....

¹ Micronesia² Total includes AIDS Drug Assistance Program (ADAP) and Base Formula awards, and Competitive ADAP Supplemental and Minority AIDS Initiative (MAI) award amounts.³ FY 2010 data will be available in March 2010.

Department of Housing and Urban Development, Public and Indian Housing Programs

86-0163-0-1-604

Table 8-35. PUBLIC HOUSING OPERATING FUND (14.850)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	129,829	.....	137,730	137,730	142,219	3.09
Alaska	9,101	.....	9,655	9,655	9,970	0.22
Arizona	35,294	.....	37,442	37,442	38,662	0.84
Arkansas	19,715	.....	20,915	20,915	21,597	0.47
California	127,400	.....	135,154	135,154	139,559	3.03
Colorado	25,186	.....	26,719	26,719	27,590	0.60
Connecticut	66,520	.....	70,568	70,568	72,868	1.58
Delaware	10,740	.....	11,394	11,394	11,765	0.26
District of Columbia	46,771	.....	49,617	49,617	51,234	1.11
Florida	127,867	.....	135,649	135,649	140,070	3.04
Georgia	146,891	.....	155,831	155,831	160,910	3.50
Hawaii	18,619	.....	19,752	19,752	20,396	0.44
Idaho	1,478	.....	1,568	1,568	1,619	0.04
Illinois	249,413	.....	264,592	264,592	273,215	5.94
Indiana	47,518	.....	50,410	50,410	52,053	1.13
Iowa	7,229	.....	7,669	7,669	7,919	0.17
Kansas	18,944	.....	20,097	20,097	20,752	0.45
Kentucky	56,794	.....	60,250	60,250	62,214	1.35
Louisiana	66,027	.....	70,045	70,045	72,328	1.57
Maine	14,274	.....	15,143	15,143	15,637	0.34
Maryland	93,270	.....	98,946	98,946	102,171	2.22
Massachusetts	145,703	.....	154,571	154,571	159,609	3.47
Michigan	58,176	.....	61,717	61,717	63,728	1.39
Minnesota	49,914	.....	52,952	52,952	54,678	1.19
Mississippi	38,228	.....	40,555	40,555	41,877	0.91
Missouri	40,521	.....	42,987	42,987	44,388	0.96
Montana	5,152	.....	5,466	5,466	5,644	0.12
Nebraska	13,756	.....	14,593	14,593	15,069	0.33
Nevada	16,189	.....	17,174	17,174	17,734	0.39
New Hampshire	12,090	.....	12,826	12,826	13,244	0.29
New Jersey	167,571	.....	177,769	177,769	183,563	3.99
New Mexico	10,906	.....	11,570	11,570	11,947	0.26
New York	930,337	.....	986,957	986,957	1,019,120	22.15
North Carolina	122,755	.....	130,226	130,226	134,470	2.92
North Dakota	3,604	.....	3,823	3,823	3,948	0.09
Ohio	185,609	.....	196,905	196,905	203,322	4.42
Oklahoma	33,709	.....	35,761	35,761	36,926	0.80
Oregon	17,328	.....	18,383	18,383	18,982	0.41
Pennsylvania	273,528	.....	290,175	290,175	299,632	6.51
Rhode Island	34,591	.....	36,696	36,696	37,892	0.82
South Carolina	45,496	.....	48,265	48,265	49,838	1.08
South Dakota	2,916	.....	3,093	3,093	3,194	0.07
Tennessee	104,158	.....	110,497	110,497	114,098	2.48
Texas	174,685	.....	185,316	185,316	191,356	4.16
Utah	4,783	.....	5,074	5,074	5,239	0.11
Vermont	4,639	.....	4,921	4,921	5,081	0.11
Virginia	71,459	.....	75,808	75,808	78,279	1.70
Washington	40,463	.....	42,926	42,926	44,325	0.96
West Virginia	18,645	.....	19,780	19,780	20,425	0.44
Wisconsin	22,656	.....	24,035	24,035	24,818	0.54
Wyoming	1,608	.....	1,706	1,706	1,762	0.04
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam	3,932	.....	4,171	4,171	4,307	0.09
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico	201,439	.....	213,699	213,699	220,664	4.80
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	18,397	.....	19,517	19,517	20,153	0.44
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
Asset Management Transition	5,940	.....	5,940	5,940	5,940	0.13
Total	4,199,763	.....	4,455,000	4,455,000	4,600,000	¹ 100.00

¹ Excludes undistributed obligations.

Department of Housing and Urban Development, Public and Indian Housing Programs

86-0302-0-1-604

Table 8-36. SECTION 8 HOUSING CHOICE VOUCHERS (14.871)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	139,360	631	142,411	143,042	158,908	0.89
Alaska	30,483	138	31,150	31,288	34,759	0.19
Arizona	139,780	633	142,840	143,473	159,387	0.89
Arkansas	93,719	424	95,770	96,195	106,864	0.60
California	2,856,359	12,931	2,918,889	2,931,820	3,257,011	18.26
Colorado	207,462	939	212,003	212,942	236,562	1.33
Connecticut	308,771	1,398	315,531	316,929	352,082	1.97
Delaware	34,467	156	35,222	35,378	39,302	0.22
District of Columbia	151,476	686	154,792	155,478	172,723	0.97
Florida	733,103	3,319	749,152	752,470	835,933	4.69
Georgia	396,948	1,797	405,637	407,434	452,626	2.54
Hawaii	98,420	446	100,574	101,020	112,225	0.63
Idaho	34,749	157	35,510	35,667	39,624	0.22
Illinois	770,942	3,490	787,819	791,309	879,079	4.93
Indiana	181,371	821	185,342	186,163	206,812	1.16
Iowa	88,311	400	90,244	90,644	100,698	0.56
Kansas	56,290	255	57,522	57,777	64,185	0.36
Kentucky	164,748	746	168,355	169,101	187,857	1.05
Louisiana	193,200	875	197,430	198,304	220,300	1.24
Maine	74,334	337	75,961	76,298	84,761	0.48
Maryland	383,800	1,737	392,202	393,939	437,634	2.45
Massachusetts	766,926	3,472	783,715	787,187	874,501	4.90
Michigan	307,758	1,393	314,496	315,889	350,927	1.97
Minnesota	199,067	901	203,424	204,326	226,989	1.27
Mississippi	99,311	450	101,485	101,935	113,241	0.63
Missouri	214,124	969	218,812	219,781	244,159	1.37
Montana	26,043	118	26,613	26,731	29,696	0.17
Nebraska	55,477	251	56,692	56,943	63,259	0.35
Nevada	96,832	438	98,952	99,390	110,414	0.62
New Hampshire	71,955	326	73,531	73,856	82,048	0.46
New Jersey	599,001	2,712	612,114	614,826	683,021	3.83
New Mexico	71,641	324	73,209	73,533	81,689	0.46
New York	1,802,420	8,160	1,841,877	1,850,037	2,055,239	11.52
North Carolina	314,547	1,424	321,433	322,857	358,668	2.01
North Dakota	28,603	129	29,229	29,359	32,615	0.18
Ohio	500,939	2,268	511,905	514,173	571,204	3.20
Oklahoma	125,176	567	127,917	128,483	142,734	0.80
Oregon	189,786	859	193,941	194,800	216,407	1.21
Pennsylvania	519,000	2,350	530,362	532,711	591,799	3.32
Rhode Island	64,942	294	66,364	66,658	74,051	0.42
South Carolina	124,925	566	127,660	128,225	142,448	0.80
South Dakota	23,896	108	24,419	24,527	27,247	0.15
Tennessee	169,249	766	172,954	173,721	192,989	1.08
Texas	874,765	3,960	893,915	897,875	997,465	5.59
Utah	63,769	289	65,165	65,453	72,713	0.41
Vermont	37,924	172	38,754	38,925	43,243	0.24
Virginia	310,433	1,405	317,228	318,634	353,976	1.98
Washington	350,964	1,589	358,647	360,236	400,193	2.24
West Virginia	60,441	274	61,764	62,038	68,919	0.39
Wisconsin	132,553	600	135,455	136,055	151,146	0.85
Wyoming	10,998	50	11,239	11,289	12,541	0.07
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam	31,483	143	32,172	32,315	35,899	0.20
Northern Mariana Islands	3,259	15	3,331	3,345	3,717	0.02
Puerto Rico	155,711	705	159,119	159,824	177,552	1.00
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	9,612	44	9,822	9,866	10,960	0.06
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
Disaster Assistance .....	.....	85,000	.....	85,000	.....	.....
Competitive .....	.....	200,977	325,000	525,977	103,000	0.58
Total	15,551,625	356,380	16,217,071	16,573,451	17,836,000	1 100.00

¹ Excludes undistributed obligations.

Department of Housing and Urban Development, Public and Indian Housing Programs

86-0304-0-1-604

Table 8-37. PUBLIC HOUSING CAPITAL FUND (14.872)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	75,600	2,854	166,006	168,860	67,937	3.03
Alaska	3,604	136	6,843	6,979	3,239	0.14
Arizona	10,983	415	22,844	23,259	9,870	0.44
Arkansas	22,933	866	51,518	52,384	20,609	0.92
California	98,715	3,727	214,772	218,499	88,710	3.95
Colorado	16,884	637	34,169	34,806	15,173	0.68
Connecticut	29,597	1,117	64,783	65,900	26,597	1.19
Delaware	5,584	211	12,547	12,758	5,018	0.22
District of Columbia	23,889	902	50,459	51,361	21,468	0.96
Florida	70,757	2,671	154,929	157,600	63,585	2.83
Georgia	91,567	3,457	202,516	205,973	82,286	3.67
Hawaii	13,275	501	29,270	29,771	11,930	0.53
Idaho	1,467	55	2,929	2,984	1,318	0.06
Illinois	177,878	6,716	396,023	402,739	158,850	7.08
Indiana	31,899	1,204	68,174	69,378	28,665	1.28
Iowa	6,311	238	13,807	14,045	5,671	0.25
Kansas	13,423	507	29,699	30,206	12,063	0.54
Kentucky	45,399	1,714	96,586	98,300	40,798	1.82
Louisiana	73,900	2,790	145,400	148,190	66,410	2.96
Maine	8,000	302	16,181	16,483	7,189	0.32
Maryland	48,757	1,841	96,040	97,881	43,816	1.95
Massachusetts	71,717	2,708	152,252	154,960	64,449	2.87
Michigan	43,639	1,648	96,283	97,931	39,216	1.75
Minnesota	37,427	1,413	83,966	85,379	33,633	1.50
Mississippi	26,302	993	58,202	59,195	23,636	1.05
Missouri	38,917	1,469	85,868	87,337	34,972	1.56
Montana	3,817	144	8,174	8,318	3,430	0.15
Nebraska	10,854	410	23,715	24,125	9,754	0.43
Nevada	8,210	310	18,190	18,500	7,378	0.33
New Hampshire	7,210	272	14,800	15,072	6,479	0.29
New Jersey	86,305	3,258	188,843	192,101	77,557	3.46
New Mexico	7,626	288	16,796	17,084	6,853	0.31
New York	404,256	15,265	898,973	914,238	362,284	16.14
North Carolina	74,396	2,809	156,420	159,229	66,856	2.98
North Dakota	3,312	125	6,684	6,809	2,977	0.13
Ohio	103,976	3,926	230,341	234,267	93,438	4.16
Oklahoma	20,409	771	45,149	45,920	18,341	0.82
Oregon	11,972	452	26,112	26,564	10,758	0.48
Pennsylvania	171,854	6,488	380,768	387,256	153,436	6.84
Rhode Island	15,773	595	34,333	34,928	14,174	0.63
South Carolina	29,280	1,105	64,607	65,712	26,312	1.17
South Dakota	2,419	91	5,118	5,209	2,173	0.10
Tennessee	65,620	2,477	144,687	147,164	58,969	2.63
Texas	110,037	4,154	227,752	231,906	97,884	4.36
Utah	3,312	125	7,373	7,498	2,977	0.13
Vermont	2,816	106	6,139	6,245	2,530	0.11
Virginia	50,685	1,914	100,683	102,597	45,548	2.03
Washington	34,205	1,291	73,811	75,102	30,738	1.37
West Virginia	10,776	407	23,779	24,186	9,684	0.43
Wisconsin	21,299	804	46,902	47,706	19,140	0.85
Wyoming	1,070	40	2,405	2,445	961	0.04
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam	1,568	59	3,522	3,581	1,409	0.06
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico	138,170	5,217	310,143	315,360	123,166	5.49
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	7,439	281	16,715	16,996	6,685	0.30
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	¹ 995,000	¹ 995,000	.....	.....
Other Expenses .....	.....	.....	3,636	3,636	5,455	0.24
Total ²	2,497,090	94,276	6,433,636	6,527,912	2,244,454	³ 100.00

¹ Public Housing Capital Fund, Recovery Act Funded (Competitive)—14.884; To be distributed by September 30, 2009, in accordance with the American Recovery and Reinvestment Act (ARRA), 2009.

² Other CFDA program numbers are: 14.884 - Public Housing Capital Fund, Recovery Act Funded (Competitive) and 14.885 - Public Housing Capital Fund, Recovery Act Funded (Formula).

³ Excludes undistributed obligations.

Department of Housing and Urban Development, Community Planning and Development

86-0162-0-1-451

Table 8-38. COMMUNITY DEVELOPMENT BLOCK GRANTS AND NEIGHBORHOOD STABILIZATION PROGRAM (14.218)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	48,334	.....	62,106	62,106	55,707	1.25
Alaska	4,624	.....	5,942	5,942	5,330	0.12
Arizona	53,174	.....	68,333	68,333	61,286	1.38
Arkansas	26,999	¹ 25,043	34,691	59,734	31,117	0.70
California	455,284	.....	584,772	584,772	524,733	11.79
Colorado	37,300	¹ 590	47,930	48,520	42,990	0.97
Connecticut	40,837	.....	52,472	52,472	47,067	1.06
Delaware	7,034	.....	9,039	9,039	8,107	0.18
District of Columbia	18,033	.....	23,173	23,173	20,784	0.47
Florida	157,225	¹ 17,457	202,047	219,504	181,208	4.07
Georgia	80,962	¹ 4,571	104,034	108,605	93,312	2.10
Hawaii	14,887	.....	19,130	19,130	17,157	0.39
Idaho	11,972	.....	15,383	15,383	13,798	0.31
Illinois	170,630	¹ 59,325	219,261	278,586	196,657	4.42
Indiana	68,342	¹ 162,056	87,814	249,870	78,767	1.77
Iowa	² 125,288	¹ 196,988	51,765	248,753	46,433	1.04
Kansas	27,329	.....	35,116	35,116	31,498	0.71
Kentucky	44,683	¹ 3,218	57,415	60,633	51,499	1.16
Louisiana	² 1,063,990	¹ 2,438,223	82,227	2,520,450	73,751	1.66
Maine	19,400	¹ 2,187	24,927	27,114	22,360	0.50
Maryland	53,953	.....	69,333	69,333	62,183	1.40
Massachusetts	107,289	.....	137,860	137,860	123,655	2.78
Michigan	127,951	.....	164,355	164,355	147,469	3.31
Minnesota	56,695	¹ 926	72,851	73,777	65,343	1.47
Mississippi	34,623	¹ 8,564	44,487	53,051	39,905	0.90
Missouri	65,645	¹ 25,012	84,353	109,365	75,658	1.70
Montana	8,984	¹ 667	11,544	12,211	10,355	0.23
Nebraska	18,954	¹ 5,558	24,354	29,912	21,846	0.49
Nevada	19,864	.....	25,527	25,527	22,894	0.51
New Hampshire	12,951	.....	16,640	16,640	14,926	0.34
New Jersey	98,526	.....	126,603	126,603	113,555	2.55
New Mexico	20,673	.....	26,564	26,564	23,827	0.54
New York	340,515	.....	437,546	437,546	392,456	8.82
North Carolina	70,015	.....	89,965	89,965	80,696	1.81
North Dakota	6,218	.....	7,989	7,989	7,166	0.16
Ohio	158,082	.....	203,131	203,131	182,195	4.09
Oklahoma	29,611	¹ 1,794	38,049	39,843	34,128	0.77
Oregon	35,894	.....	46,123	46,123	41,369	0.93
Pennsylvania	216,663	.....	278,408	278,408	249,712	5.61
Rhode Island	16,801	.....	21,588	21,588	19,363	0.44
South Carolina	38,016	.....	48,848	48,848	43,814	0.98
South Dakota	7,835	¹ 1,987	10,067	12,054	9,030	0.20
Tennessee	48,866	¹ 20,636	62,790	83,426	56,320	1.27
Texas	250,335	¹ 1,314,990	321,520	1,636,510	288,521	6.48
Utah	20,246	.....	26,016	26,016	23,334	0.52
Vermont	8,184	.....	10,515	10,515	9,433	0.21
Virginia	59,736	.....	76,733	76,733	68,848	1.55
Washington	60,072	.....	77,192	77,192	69,235	1.56
West Virginia	24,556	¹ 3,128	31,552	34,680	28,301	0.64
Wisconsin	64,856	¹ 49,097	83,335	132,432	74,749	1.68
Wyoming	4,137	.....	5,315	5,315	4,768	0.11
American Samoa	964	.....	1,928	1,928	964	0.02
Guam	2,850	.....	5,700	5,700	2,850	0.06
Northern Mariana Islands	1,375	.....	2,750	2,750	1,375	0.03
Puerto Rico	108,357	¹ 17,983	139,237	157,220	124,885	2.81
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	1,811	.....	3,622	3,622	1,811	0.04
Indian Tribes	56,000	.....	66,000	66,000	65,000	1.46
Undistributed .....	.....	3,980,575	³ 55,000	³ 4,035,575	³ 1,955,000	.....
Set-asides ⁴	121,000	.....	166,000	166,000	244,000	5.48
Total ⁵	4,855,430	8,340,575	⁶ 4,908,967	13,249,542	6,404,500	⁷ 100.00

¹ Disaster funds allocated to these states (both obligated and projections)² The FY08 obligation includes disaster funding to these States³ Neighborhood Stabilization Program - Competitive Grants (PL 110-5); also includes \$30m in administrative transfers for CDBG and NSP⁴ Set-asides include Congressional earmarks and technical assistance; 2010 estimates also include competitive grant funds⁵ In addition to CFDA 14.218, this table also reflects funds in CFDA 14.225, 14.227, 14.228 and 14.256.⁶ Estimated obligations from Omnibus Appropriations Act of 2009 (PL 110-8) and Recovery Act (PL 110-5)⁷ Excludes undistributed obligations.

Department of Housing and Urban Development, Community Planning and Development

86-0192-0-1-604

Table 8-39. EMERGENCY SHELTER GRANT, HOMELESSNESS PREVENTION AND RAPID-RE-HOUSING PROGRAM (14.231)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	2,147	.....	22,221	22,221	2,013	1.34
Alaska	205	.....	2,125	2,125	192	0.13
Arizona	2,353	.....	24,437	24,437	2,206	1.47
Arkansas	1,197	.....	12,410	12,410	1,122	0.75
California	20,336	.....	209,423	209,423	19,065	12.71
Colorado	1,662	.....	17,153	17,153	1,558	1.04
Connecticut	1,816	.....	18,776	18,776	1,703	1.14
Delaware	314	.....	3,235	3,235	294	0.20
District of Columbia	809	.....	8,298	8,298	758	0.51
Florida	7,008	.....	72,306	72,306	6,570	4.38
Georgia	3,581	.....	37,206	37,206	3,357	2.24
Hawaii	662	.....	6,845	6,845	621	0.41
Idaho	529	.....	5,501	5,501	496	0.33
Illinois	7,630	.....	78,495	78,495	7,153	4.77
Indiana	3,056	.....	31,439	31,439	2,865	1.91
Iowa	1,792	.....	18,524	18,524	1,680	1.12
Kansas	1,215	.....	12,565	12,565	1,139	0.76
Kentucky	1,984	.....	20,541	20,541	1,860	1.24
Louisiana	2,705	.....	29,281	29,281	2,536	1.69
Maine	861	.....	8,918	8,918	807	0.54
Maryland	2,417	.....	24,825	24,825	2,266	1.51
Massachusetts	4,775	.....	49,334	49,334	4,477	2.98
Michigan	5,736	.....	58,876	58,876	5,378	3.59
Minnesota	2,527	.....	26,073	26,073	2,369	1.58
Mississippi	1,531	.....	15,911	15,911	1,435	0.96
Missouri	2,935	.....	30,198	30,198	2,752	1.83
Montana	400	.....	4,131	4,131	375	0.25
Nebraska	844	.....	8,716	8,716	791	0.53
Nevada	881	.....	9,131	9,131	826	0.55
New Hampshire	575	.....	5,954	5,954	539	0.36
New Jersey	4,394	.....	45,314	45,314	4,119	2.75
New Mexico	916	.....	9,502	9,502	859	0.57
New York	15,208	.....	156,629	156,629	14,258	9.51
North Carolina	3,099	.....	32,177	32,177	2,905	1.94
North Dakota	277	.....	2,860	2,860	260	0.17
Ohio	7,055	.....	72,709	72,709	6,614	4.41
Oklahoma	1,317	.....	13,615	13,615	1,235	0.82
Oregon	1,595	.....	16,502	16,502	1,495	1.00
Pennsylvania	9,665	.....	99,649	99,649	9,061	6.04
Rhode Island	746	.....	7,724	7,724	699	0.47
South Carolina	1,691	.....	17,480	17,480	1,585	1.06
South Dakota	348	.....	3,602	3,602	326	0.22
Tennessee	2,179	.....	22,474	22,474	2,043	1.36
Texas	11,105	.....	115,073	115,073	10,411	6.94
Utah	894	.....	9,302	9,302	838	0.56
Vermont	363	.....	6,066	6,066	340	0.23
Virginia	2,667	.....	25,172	25,172	2,500	1.67
Washington	2,675	.....	27,624	27,624	2,508	1.67
West Virginia	1,093	.....	11,292	11,292	1,025	0.68
Wisconsin	2,908	.....	29,844	29,844	2,726	1.82
Wyoming	183	.....	1,901	1,901	172	0.11
American Samoa	44	.....	457	457	41	0.03
Guam	130	.....	1,352	1,352	122	0.08
Northern Mariana Islands	63	.....	652	652	59	0.04
Puerto Rico	4,819	.....	49,821	49,821	4,518	3.01
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	83	.....	859	859	78	0.05
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	.....	.....	.....	.....	.....	.....
Total ¹	160,000	.....	1,652,500	1,652,500	150,000	² 100.00

¹ In addition to CFDA 14.231, this table also reflects funds in CFDA 14.257.

² Excludes undistributed obligations.

Department of Housing and Urban Development, Community Planning and Development

86-0205-0-1-604

Table 8-40. HOME INVESTMENT PARTNERSHIP PROGRAM (14.258)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	23,218	.....	25,635	25,635	25,865	1.42
Alaska	3,987	.....	4,405	4,405	4,445	0.24
Arizona	23,495	.....	25,920	25,920	26,153	1.43
Arkansas	14,868	.....	16,417	16,417	16,565	0.91
California	236,616	.....	261,448	261,448	263,793	14.45
Colorado	19,906	.....	21,942	21,942	22,139	1.21
Connecticut	19,024	.....	20,997	20,997	21,185	1.16
Delaware	4,796	.....	5,302	5,302	5,349	0.29
District of Columbia	8,453	.....	9,342	9,342	9,426	0.52
Florida	73,529	.....	81,139	81,139	81,867	4.49
Georgia	39,616	.....	43,710	43,710	44,102	2.42
Hawaii	7,170	.....	7,912	7,912	7,982	0.44
Idaho	6,359	.....	7,023	7,023	7,086	0.39
Illinois	68,808	.....	75,958	75,958	76,640	4.20
Indiana	27,674	.....	30,526	30,526	30,800	1.69
Iowa	13,798	.....	15,226	15,226	15,363	0.84
Kansas	12,455	.....	13,736	13,736	13,860	0.76
Kentucky	22,971	.....	25,365	25,365	25,593	1.40
Louisiana	28,594	.....	31,597	31,597	31,880	1.75
Maine	7,764	.....	8,577	8,577	8,654	0.47
Maryland	23,070	.....	25,434	25,434	25,662	1.41
Massachusetts	43,306	.....	47,821	47,821	48,250	2.64
Michigan	46,496	.....	51,326	51,326	51,787	2.84
Minnesota	20,683	.....	22,812	22,812	23,017	1.26
Mississippi	15,886	.....	17,556	17,556	17,713	0.97
Missouri	28,131	.....	31,038	31,038	31,317	1.72
Montana	5,679	.....	6,273	6,273	6,329	0.35
Nebraska	8,284	.....	9,131	9,131	9,212	0.50
Nevada	11,040	.....	12,183	12,183	12,291	0.67
New Hampshire	6,012	.....	6,635	6,635	6,695	0.37
New Jersey	44,502	.....	49,135	49,135	49,576	2.72
New Mexico	10,077	.....	11,133	11,133	11,233	0.62
New York	183,342	.....	202,706	202,706	204,526	11.21
North Carolina	37,929	.....	41,842	41,842	42,217	2.31
North Dakota	3,536	.....	3,900	3,900	3,935	0.22
Ohio	60,696	.....	66,979	66,979	67,580	3.70
Oklahoma	18,698	.....	20,638	20,638	20,823	1.14
Oregon	19,879	.....	21,938	21,938	22,135	1.21
Pennsylvania	69,040	.....	76,258	76,258	76,943	4.22
Rhode Island	8,671	.....	9,574	9,574	9,660	0.53
South Carolina	18,452	.....	20,366	20,366	20,549	1.13
South Dakota	3,931	.....	4,336	4,336	4,376	0.24
Tennessee	28,379	.....	31,315	31,315	31,596	1.73
Texas	107,858	.....	119,023	119,023	120,092	6.58
Utah	8,464	.....	9,338	9,338	9,421	0.52
Vermont	3,932	.....	4,346	4,346	4,385	0.24
Virginia	32,176	.....	35,499	35,499	35,818	1.96
Washington	31,285	.....	34,507	34,507	34,816	1.91
West Virginia	12,001	.....	13,271	13,271	13,390	0.73
Wisconsin	25,899	.....	28,557	28,557	28,813	1.58
Wyoming	3,517	.....	3,889	3,889	3,924	0.22
American Samoa	307	.....	341	341	340	0.02
Guam	1,267	.....	1,406	1,406	1,406	0.08
Northern Mariana Islands	583	.....	647	647	648	0.04
Puerto Rico	30,795	.....	34,214	34,214	34,522	1.89
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	1,131	.....	1,256	1,256	1,256	0.07
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
Other activities	¹ 65,965	.....	¹ 16,200	¹ 16,200	.....	.....
Total ²	1,704,000	.....	1,825,000	1,825,000	1,825,000	³ 100.00

¹ FY 2008 and FY 2009 include set-asides for technical assistance and transfer to Working Capital Fund. FY 2008 includes a set-aside for the Housing Counseling program.² While the TCAP program and HOME program both appear under CFDA 14.258, they are two distinct programs and reflected as such, with the TCAP representing funds obligated through the American Recovery and Reinvestment Act (ARRA) and the HOME program representing the non-ARRA portion of this account.³ Excludes undistributed obligations.

Department of Housing and Urban Development, Community Planning and Development

86-0205-0-1-604

Table 8-41. TAX CREDIT ASSISTANCE PROGRAM (14.258)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	31,952	31,952	.....	.....
Alaska	5,491	5,491	.....	.....
Arizona	20,463	20,463	.....	.....
Arkansas	32,308	32,308	.....	.....
California	325,876	325,876	.....	.....
Colorado	27,350	27,350	.....	.....
Connecticut	26,171	26,171	.....	.....
Delaware	11,644	11,644	.....	.....
District of Columbia	6,609	6,609	.....	.....
Florida	101,134	101,134	.....	.....
Georgia	54,482	54,482	.....	.....
Hawaii	9,862	9,862	.....	.....
Idaho	8,754	8,754	.....	.....
Illinois	94,676	94,676	.....	.....
Indiana	38,048	38,048	.....	.....
Iowa	18,979	18,979	.....	.....
Kansas	17,121	17,121	.....	.....
Kentucky	31,616	31,616	.....	.....
Louisiana	39,383	39,383	.....	.....
Maine	10,691	10,691	.....	.....
Maryland	31,702	31,702	.....	.....
Massachusetts	59,606	59,606	.....	.....
Michigan	63,975	63,975	.....	.....
Minnesota	28,434	28,434	.....	.....
Mississippi	21,882	21,882	.....	.....
Missouri	38,687	38,687	.....	.....
Montana	7,818	7,818	.....	.....
Nebraska	11,381	11,381	.....	.....
Nevada	15,185	15,185	.....	.....
New Hampshire	8,270	8,270	.....	.....
New Jersey	61,244	61,244	.....	.....
New Mexico	13,877	13,877	.....	.....
New York	252,659	252,659	.....	.....
North Carolina	52,153	52,153	.....	.....
North Dakota	4,861	4,861	.....	.....
Ohio	83,485	83,485	.....	.....
Oklahoma	25,724	25,724	.....	.....
Oregon	27,344	27,344	.....	.....
Pennsylvania	95,049	95,049	.....	.....
Rhode Island	11,933	11,933	.....	.....
South Carolina	25,385	25,385	.....	.....
South Dakota	5,405	5,405	.....	.....
Tennessee	39,033	39,033	.....	.....
Texas	148,354	148,354	.....	.....
Utah	11,639	11,639	.....	.....
Vermont	5,417	5,417	.....	.....
Virginia	44,248	44,248	.....	.....
Washington	43,010	43,010	.....	.....
West Virginia	16,542	16,542	.....	.....
Wisconsin	35,595	35,595	.....	.....
Wyoming	4,847	4,847	.....	.....
American Samoa
Guam
Northern Mariana Islands
Puerto Rico	42,646	42,646	.....	.....
Freely Associated States
Virgin Islands
Indian Tribes
Undistributed
Total ¹	2,250,000	2,250,000	.....	.....

¹ While the TCAP program and HOME program both appear under CFDA 14.258, they are two distinct programs and reflected as such, with the TCAP only representing funds obligated through the American Recovery and Reinvestment Act of 2009 (ARRA) and the HOME program representing the non-ARRA portion of this account.

Department of Justice, Office of Justice Programs

15-0404-0-1-754

Table 8-42. EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM (16.738)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	2,377	.....	38,080	38,080	.....	.....
Alaska	764	.....	12,085	12,085	.....	.....
Arizona	3,234	.....	52,769	52,769	.....	.....
Arkansas	1,760	.....	27,905	27,905	.....	.....
California	19,384	.....	283,365	283,365	.....	.....
Colorado	2,374	.....	37,544	37,544	.....	.....
Connecticut	1,683	.....	25,894	25,894	.....	.....
Delaware	853	.....	13,713	13,713	.....	.....
District of Columbia	1,165	.....	14,764	14,764	.....	.....
Florida	12,124	.....	169,901	169,901	.....	.....
Georgia	4,557	.....	74,245	74,245	.....	.....
Hawaii	857	.....	13,463	13,463	.....	.....
Idaho	909	.....	14,430	14,430	.....	.....
Illinois	9,676	.....	105,199	105,199	.....	.....
Indiana	2,832	.....	44,506	44,506	.....	.....
Iowa	1,491	.....	23,517	23,517	.....	.....
Kansas	1,529	.....	25,119	25,119	.....	.....
Kentucky	1,890	.....	30,240	30,240	.....	.....
Louisiana	2,781	.....	44,379	44,379	.....	.....
Maine	772	.....	12,081	12,081	.....	.....
Maryland	3,589	.....	55,201	55,201	.....	.....
Massachusetts	3,302	.....	51,295	51,295	.....	.....
Michigan	7,863	.....	84,254	84,254	.....	.....
Minnesota	2,318	.....	36,663	36,663	.....	.....
Mississippi	1,462	.....	23,129	23,129	.....	.....
Missouri	3,218	.....	50,695	50,695	.....	.....
Montana	398	.....	6,253	6,253	.....	.....
Nebraska	1,055	.....	16,503	16,503	.....	.....
Nevada	1,748	.....	28,848	28,848	.....	.....
New Hampshire	793	.....	12,291	12,291	.....	.....
New Jersey	3,908	.....	60,040	60,040	.....	.....
New Mexico	1,675	.....	23,012	23,012	.....	.....
New York	8,983	.....	139,060	139,060	.....	.....
North Carolina	4,405	.....	70,849	70,849	.....	.....
North Dakota	398	.....	6,253	6,253	.....	.....
Ohio	4,982	.....	77,513	77,513	.....	.....
Oklahoma	2,093	.....	32,923	32,923	.....	.....
Oregon	1,746	.....	27,746	27,746	.....	.....
Pennsylvania	5,837	.....	91,003	91,003	.....	.....
Rhode Island	770	.....	11,901	11,901	.....	.....
South Carolina	2,998	.....	47,762	47,762	.....	.....
South Dakota	379	.....	6,253	6,253	.....	.....
Tennessee	3,938	.....	63,350	63,350	.....	.....
Texas	11,704	.....	185,508	185,508	.....	.....
Utah	1,259	.....	20,427	20,427	.....	.....
Vermont	398	.....	6,253	6,253	.....	.....
Virginia	3,186	.....	50,065	50,065	.....	.....
Washington	2,887	.....	46,156	46,156	.....	.....
West Virginia	1,059	.....	16,521	16,521	.....	.....
Wisconsin	2,885	.....	37,794	37,794	.....	.....
Wyoming	381	.....	6,253	6,253	.....	.....
American Samoa	398	.....	4,190	4,190	.....	.....
Guam	398	.....	6,253	6,253	.....	.....
Northern Mariana Islands	373	.....	2,063	2,063	.....	.....
Puerto Rico	1,764	.....	27,269	27,269	.....	.....
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	398	.....	6,253	6,253	.....	.....
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	10,996	¹ 10,996	519,000	.....
Total	167,960	.....	2,512,000	2,512,000	519,000	.....

¹ Undistributed includes \$10M for National Institute of Justice and \$1M for Bureau of Justice Statistics.

Department of Labor, Employment and Training Administration

16-0179-0-1-504

Table 8-43. UNEMPLOYMENT INSURANCE (17.225)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	30,059	1,269	34,566	35,835	.....	.....
Alaska	21,734	9	24,934	24,942	.....	.....
Arizona	29,080	1,299	31,539	32,838	.....	.....
Arkansas	22,365	232	23,849	24,080	.....	.....
California	379,024	17,931	417,871	435,803	.....	.....
Colorado	34,223	456	37,488	37,945	.....	.....
Connecticut	51,625	1,575	55,561	57,136	.....	.....
Delaware	9,532	188	11,163	11,351	.....	.....
District of Columbia	10,328	259	10,919	11,178	.....	.....
Florida	87,828	7,004	89,503	96,507	.....	.....
Georgia	58,505	2,387	64,836	67,223	.....	.....
Hawaii	14,804	645	15,824	16,469	.....	.....
Idaho	16,922	201	17,475	17,676	.....	.....
Illinois	130,396	1,299	147,130	148,429	.....	.....
Indiana	41,528	1,512	41,732	43,244	.....	.....
Iowa	24,633	175	29,014	29,189	.....	.....
Kansas	17,970	380	19,766	20,146	.....	.....
Kentucky	27,983	989	28,641	29,630	.....	.....
Louisiana	23,778	839	29,012	29,851	.....	.....
Maine	13,446	1	15,195	15,196	.....	.....
Maryland	52,749	1,674	61,760	63,435	.....	.....
Massachusetts	63,463	105	72,851	72,955	.....	.....
Michigan	129,323	2,132	144,665	146,797	.....	.....
Minnesota	44,773	386	47,272	47,659	.....	.....
Mississippi	21,654	329	24,332	24,662	.....	.....
Missouri	37,968	774	44,838	45,612	.....	.....
Montana	9,356	2	10,449	10,451	.....	.....
Nebraska	13,562	1	15,068	15,069	.....	.....
Nevada	27,803	1,579	28,611	30,190	.....	.....
New Hampshire	11,893	392	12,476	12,868	.....	.....
New Jersey	101,810	1,149	108,338	109,487	.....	.....
New Mexico	12,736	407	14,638	15,045	.....	.....
New York	176,962	1,732	193,652	195,385	.....	.....
North Carolina	53,650	2,072	61,026	63,097	.....	.....
North Dakota	6,775	8	7,490	7,498	.....	.....
Ohio	98,531	3,285	103,630	106,914	.....	.....
Oklahoma	18,450	154	22,053	22,207	.....	.....
Oregon	47,727	1,228	52,997	54,225	.....	.....
Pennsylvania	132,793	816	140,831	141,647	.....	.....
Rhode Island	15,283	474	15,408	15,881	.....	.....
South Carolina	31,799	1,135	32,703	33,838	.....	.....
South Dakota	5,099	41	5,710	5,752	.....	.....
Tennessee	33,678	848	37,173	38,022	.....	.....
Texas	114,010	3,086	132,627	135,713	.....	.....
Utah	24,778	726	25,254	25,979	.....	.....
Vermont	7,388	25	8,310	8,334	.....	.....
Virginia	39,726	577	46,902	47,479	.....	.....
Washington	80,561	88	88,365	88,453	.....	.....
West Virginia	13,216	4	14,353	14,357	.....	.....
Wisconsin	61,448	239	70,744	70,983	.....	.....
Wyoming	6,907	29	7,423	7,452	.....	.....
American Samoa	.....	.....	.....	.....	.....	.....
Guam	.....	.....	.....	.....	.....	.....
Northern Mariana Islands	.....	.....	.....	.....	.....	.....
Puerto Rico	18,897	562	20,108	20,670	.....	.....
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	1,716	56	2,031	2,087	.....	.....
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	.....	.....	.....	.....	3,195,645	.....
Health and Human Services	1,887	.....	2,040	2,040	.....	.....
Total	2,564,134	64,765	2,822,145	2,886,910	3,195,645	.....

Department of Labor, Employment and Training Administration

16-0174-0-1-504

Table 8-44. WIA YOUTH ACTIVITIES (17,259)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	9,534	.....	20,707	20,707	9,060	0.98
Alaska	3,277	.....	6,998	6,998	3,062	0.33
Arizona	10,712	.....	31,700	31,700	13,869	1.50
Arkansas	10,057	.....	21,451	21,451	9,385	1.02
California	128,095	.....	331,782	331,782	145,161	15.71
Colorado	8,155	.....	21,112	21,112	9,237	1.00
Connecticut	7,291	.....	19,618	19,618	8,583	0.93
Delaware	2,211	.....	5,188	5,188	2,270	0.25
District of Columbia	2,693	.....	7,058	7,058	3,088	0.33
Florida	24,126	.....	76,221	76,221	33,348	3.61
Georgia	19,549	.....	55,756	55,756	24,394	2.64
Hawaii	2,307	.....	5,188	5,188	2,270	0.25
Idaho	2,225	.....	5,188	5,188	2,270	0.25
Illinois	39,903	.....	110,587	110,587	48,384	5.24
Indiana	18,164	.....	42,095	42,095	18,417	1.99
Iowa	3,806	.....	9,195	9,195	4,023	0.44
Kansas	5,825	.....	12,662	12,662	5,540	0.60
Kentucky	13,968	.....	31,485	31,485	13,775	1.49
Louisiana	16,560	.....	35,578	35,578	15,566	1.68
Maine	3,281	.....	7,634	7,634	3,340	0.36
Maryland	9,696	.....	20,598	20,598	9,012	0.98
Massachusetts	21,105	.....	44,158	44,158	19,320	2.09
Michigan	57,152	.....	131,470	131,470	57,521	6.22
Minnesota	10,910	.....	31,626	31,626	13,837	1.50
Mississippi	15,032	.....	33,222	33,222	14,535	1.57
Missouri	19,196	.....	45,157	45,157	19,757	2.14
Montana	2,206	.....	5,188	5,188	2,270	0.25
Nebraska	2,328	.....	5,235	5,235	2,290	0.25
Nevada	4,457	.....	13,458	13,458	5,888	0.64
New Hampshire	2,212	.....	5,188	5,188	2,270	0.25
New Jersey	15,553	.....	37,040	37,040	16,206	1.75
New Mexico	3,777	.....	11,086	11,086	4,850	0.52
New York	52,348	.....	127,162	127,162	55,636	6.02
North Carolina	18,487	.....	44,572	44,572	19,501	2.11
North Dakota	2,166	.....	5,188	5,188	2,270	0.25
Ohio	46,312	.....	99,841	99,841	43,682	4.73
Oklahoma	4,350	.....	15,481	15,481	6,773	0.73
Oregon	12,504	.....	26,788	26,788	11,720	1.27
Pennsylvania	31,482	.....	72,265	72,265	31,617	3.42
Rhode Island	3,261	.....	9,976	9,976	4,365	0.47
South Carolina	20,712	.....	43,934	43,934	19,222	2.08
South Dakota	1,966	.....	5,188	5,188	2,270	0.25
Tennessee	16,548	.....	44,622	44,622	19,523	2.11
Texas	68,588	.....	145,784	145,784	63,783	6.90
Utah	3,957	.....	9,008	9,008	3,941	0.43
Vermont	2,226	.....	5,188	5,188	2,270	0.25
Virginia	9,183	.....	23,081	23,081	10,098	1.09
Washington	19,907	.....	41,682	41,682	18,237	1.97
West Virginia	4,506	.....	9,499	9,499	4,156	0.45
Wisconsin	11,832	.....	24,550	24,550	10,741	1.16
Wyoming	2,158	.....	5,188	5,188	2,270	0.25
American Samoa	132	.....	302	302	132	0.01
Guam	1,073	.....	2,457	2,457	1,073	0.12
Northern Mariana Islands	390	.....	909	909	397	0.04
Puerto Rico	35,944	.....	75,482	75,482	33,025	3.57
Freely Associated States	75	.....	162	162	75	0.01
Virgin Islands	633	.....	1,450	1,450	633	0.07
Indian Tribes	9,382	.....	31,681	31,681	13,861	1.50
Undistributed .....	.....	.....	.....	.....	.....	.....
Total	875,485	.....	2,112,069	2,112,069	924,069	¹ 100.00

¹ Excludes undistributed obligations.

Department of Labor, Employment and Training Administration

16-0174-0-1-504

Table 8-45. WIA DISLOCATED WORKERS (17.260)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	7,352	.....	25,816	25,816	12,622	1.06
Alaska	4,890	.....	6,939	6,939	3,393	0.29
Arizona	6,318	.....	34,051	34,051	16,648	1.40
Arkansas	8,172	.....	14,710	14,710	7,192	0.61
California	136,429	.....	434,198	434,198	212,289	17.88
Colorado	7,951	.....	28,303	28,303	13,838	1.17
Connecticut	8,818	.....	29,123	29,123	14,239	1.20
Delaware	1,533	.....	3,990	3,990	1,951	0.16
District of Columbia	3,841	.....	7,421	7,421	3,628	0.31
Florida	23,520	.....	157,611	157,611	77,059	6.49
Georgia	22,986	.....	85,705	85,705	41,903	3.53
Hawaii	1,674	.....	4,228	4,228	2,067	0.17
Idaho	2,079	.....	5,543	5,543	2,710	0.23
Illinois	46,440	.....	134,096	134,096	65,562	5.52
Indiana	21,556	.....	51,290	51,290	25,077	2.11
Iowa	5,915	.....	10,225	10,225	4,999	0.42
Kansas	3,462	.....	10,182	10,182	4,978	0.42
Kentucky	25,868	.....	36,615	36,615	17,902	1.51
Louisiana	15,841	.....	18,116	18,116	8,857	0.75
Maine	3,564	.....	8,946	8,946	4,374	0.37
Maryland	11,213	.....	22,022	22,022	10,767	0.91
Massachusetts	24,368	.....	41,526	41,526	20,303	1.71
Michigan	97,806	.....	153,502	153,502	75,050	6.32
Minnesota	11,106	.....	41,017	41,017	20,054	1.69
Mississippi	29,085	.....	27,804	27,804	13,594	1.14
Missouri	21,510	.....	50,542	50,542	24,711	2.08
Montana	1,707	.....	3,436	3,436	1,680	0.14
Nebraska	2,115	.....	5,070	5,070	2,479	0.21
Nevada	4,604	.....	28,003	28,003	13,691	1.15
New Hampshire	2,363	.....	4,895	4,895	2,393	0.20
New Jersey	27,199	.....	63,994	63,994	31,288	2.63
New Mexico	1,896	.....	5,794	5,794	2,833	0.24
New York	29,431	.....	129,858	129,858	63,490	5.35
North Carolina	26,986	.....	86,912	86,912	42,493	3.58
North Dakota	973	.....	1,793	1,793	877	0.07
Ohio	51,591	.....	114,485	114,485	55,974	4.71
Oklahoma	3,138	.....	11,785	11,785	5,762	0.49
Oregon	16,696	.....	33,580	33,580	16,418	1.38
Pennsylvania	33,472	.....	83,122	83,122	40,640	3.42
Rhode Island	4,762	.....	15,547	15,547	7,601	0.64
South Carolina	32,910	.....	48,339	48,339	23,634	1.99
South Dakota	972	.....	1,866	1,866	912	0.08
Tennessee	19,645	.....	55,514	55,514	27,142	2.29
Texas	77,506	.....	105,205	105,205	51,437	4.33
Utah	2,438	.....	6,920	6,920	3,383	0.28
Vermont	1,190	.....	3,422	3,422	1,673	0.14
Virginia	7,776	.....	27,618	27,618	13,503	1.14
Washington	23,327	.....	43,324	43,324	21,182	1.78
West Virginia	4,780	.....	7,004	7,004	3,424	0.29
Wisconsin	18,934	.....	31,423	31,423	15,363	1.29
Wyoming	730	.....	1,142	1,142	558	0.05
American Samoa	201	.....	440	440	222	0.02
Guam	1,634	.....	3,253	3,253	1,644	0.14
Northern Mariana Islands	525	.....	1,203	1,203	608	0.05
Puerto Rico	50,966	.....	57,768	57,768	28,244	2.38
Freely Associated States	133	.....	440	440	222	0.02
Virgin Islands	1,016	.....	1,920	1,920	970	0.08
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
Total	1,004,913	.....	2,428,596	2,428,596	1,187,507	¹ 100.00

¹ Excludes undistributed obligations.

Department of Transportation, Federal Aviation Administration

69-8106-0-7-402

Table 8-46. AIRPORT IMPROVEMENT PROGRAM (20.106)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	62,022	.....	79,370	79,370	59,007	1.74
Alaska	218,953	.....	293,740	293,740	208,310	6.16
Arizona	74,795	.....	93,835	93,835	71,159	2.10
Arkansas	36,915	.....	47,168	47,168	35,121	1.04
California	295,684	.....	366,991	366,991	281,312	8.31
Colorado	90,226	.....	125,837	125,837	85,840	2.54
Connecticut	16,557	.....	22,024	22,024	15,752	0.47
Delaware	8,945	.....	11,675	11,675	8,510	0.25
District of Columbia	155	.....	8,273	8,273	148	*
Florida	163,137	.....	208,282	208,282	155,207	4.59
Georgia	97,062	.....	127,139	127,139	92,344	2.73
Hawaii	38,798	.....	40,091	40,091	36,912	1.09
Idaho	28,490	.....	34,433	34,433	27,105	0.80
Illinois	140,891	.....	183,412	183,412	134,043	3.96
Indiana	63,026	.....	83,616	83,616	59,963	1.77
Iowa	42,657	.....	51,849	51,849	40,584	1.20
Kansas	34,073	.....	40,585	40,585	32,416	0.96
Kentucky	81,567	.....	103,491	103,491	77,602	2.29
Louisiana	68,595	.....	89,787	89,787	65,261	1.93
Maine	21,086	.....	26,272	26,272	20,061	0.59
Maryland	40,993	.....	52,042	52,042	39,000	1.15
Massachusetts	52,220	.....	68,622	68,622	49,682	1.47
Michigan	111,128	.....	137,276	137,276	105,727	3.12
Minnesota	67,091	.....	86,239	86,239	63,830	1.89
Mississippi	59,558	.....	76,429	76,429	56,663	1.67
Missouri	85,532	.....	120,247	120,247	81,375	2.40
Montana	35,205	.....	42,295	42,295	33,494	0.99
Nebraska	25,971	.....	30,765	30,765	24,709	0.73
Nevada	58,216	.....	72,624	72,624	55,386	1.64
New Hampshire	29,263	.....	40,371	40,371	27,841	0.82
New Jersey	46,028	.....	53,400	53,400	43,791	1.29
New Mexico	23,418	.....	25,257	25,257	22,279	0.66
New York	136,736	.....	165,027	165,027	130,090	3.84
North Carolina	80,644	.....	92,503	92,503	76,724	2.27
North Dakota	21,989	.....	26,006	26,006	20,920	0.62
Ohio	91,036	.....	121,656	121,656	86,611	2.56
Oklahoma	43,073	.....	52,869	52,869	40,979	1.21
Oregon	39,151	.....	47,568	47,568	37,248	1.10
Pennsylvania	114,038	.....	138,239	138,239	108,495	3.21
Rhode Island	19,055	.....	26,572	26,572	18,129	0.54
South Carolina	35,709	.....	39,723	39,723	33,974	1.00
South Dakota	26,926	.....	32,414	32,414	25,617	0.76
Tennessee	66,698	.....	74,411	74,411	63,456	1.88
Texas	252,463	.....	308,299	308,299	240,193	7.10
Utah	38,880	.....	53,230	53,230	36,990	1.09
Vermont	7,086	.....	7,707	7,707	6,742	0.20
Virginia	71,946	.....	79,834	79,834	68,448	2.02
Washington	96,679	.....	141,129	141,129	91,980	2.72
West Virginia	31,457	.....	39,325	39,325	29,928	0.88
Wisconsin	57,170	.....	64,399	64,399	54,391	1.61
Wyoming	22,947	.....	29,736	29,736	21,832	0.65
American Samoa	7,424	.....	9,902	9,902	7,063	0.21
Guam	15,505	.....	19,971	19,971	14,751	0.44
Northern Mariana Islands	8,972	.....	10,655	10,655	8,536	0.25
Puerto Rico	12,155	.....	13,308	13,308	11,564	0.34
Freely Associated States	37,244	.....	51,398	51,398	35,433	1.05
Virgin Islands	3,760	.....	3,589	3,589	3,578	0.11
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
Total	3,557,000	.....	4,492,907	4,492,907	3,384,106	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 8-47. HIGHWAY PLANNING AND CONSTRUCTION (20.205)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	734,095	.....	921,028	921,028	944,160	1.99
Alaska	396,929	.....	378,448	378,448	394,223	0.83
Arizona	691,464	.....	933,354	933,354	955,533	2.01
Arkansas	412,971	.....	586,619	586,619	601,956	1.27
California	3,854,261	.....	4,287,562	4,287,562	4,390,839	9.26
Colorado	604,493	.....	653,027	653,027	669,326	1.41
Connecticut	491,850	.....	573,856	573,856	590,292	1.24
Delaware	125,504	.....	190,812	190,812	196,079	0.41
District of Columbia	131,924	.....	188,526	188,526	193,065	0.41
Florida	1,698,100	.....	2,363,476	2,363,476	2,422,144	5.11
Georgia	1,253,200	.....	1,609,636	1,609,636	1,649,113	3.48
Hawaii	181,653	.....	198,884	198,884	204,809	0.43
Idaho	308,836	.....	335,807	335,807	344,892	0.73
Illinois	1,222,871	.....	1,589,509	1,589,509	1,630,370	3.44
Indiana	888,357	.....	1,181,483	1,181,483	1,210,819	2.55
Iowa	454,068	.....	563,514	563,514	577,836	1.22
Kansas	426,389	.....	501,488	501,488	514,317	1.08
Kentucky	545,081	.....	778,643	778,643	799,094	1.68
Louisiana	653,437	.....	770,505	770,505	790,333	1.67
Maine	185,794	.....	207,198	207,198	206,453	0.44
Maryland	516,488	.....	734,061	734,061	752,720	1.59
Massachusetts	591,283	.....	750,827	750,827	771,204	1.63
Michigan	1,070,258	.....	1,350,580	1,350,580	1,385,369	2.92
Minnesota	929,458	.....	774,591	774,591	794,044	1.67
Mississippi	492,047	.....	566,495	566,495	581,001	1.22
Missouri	975,558	.....	1,080,585	1,080,585	1,107,835	2.34
Montana	360,911	.....	421,715	421,715	433,341	0.91
Nebraska	261,995	.....	362,370	362,370	371,452	0.78
Nevada	309,683	.....	356,774	356,774	366,985	0.77
New Hampshire	156,214	.....	210,872	210,872	216,522	0.46
New Jersey	786,650	.....	1,185,629	1,185,629	1,215,737	2.56
New Mexico	339,493	.....	436,507	436,507	447,637	0.94
New York	1,551,799	.....	2,010,498	2,010,498	2,066,953	4.36
North Carolina	1,018,654	.....	1,298,386	1,298,386	1,330,316	2.80
North Dakota	246,116	.....	292,411	292,411	300,043	0.63
Ohio	1,233,538	.....	1,615,200	1,615,200	1,655,303	3.49
Oklahoma	610,827	.....	737,115	737,115	754,756	1.59
Oregon	459,484	.....	539,514	539,514	554,002	1.17
Pennsylvania	1,609,937	.....	1,957,137	1,957,137	2,011,586	4.24
Rhode Island	192,487	.....	232,358	232,358	227,272	0.48
South Carolina	546,505	.....	780,510	780,510	799,795	1.69
South Dakota	257,026	.....	308,888	308,888	317,457	0.67
Tennessee	792,320	.....	990,559	990,559	1,015,868	2.14
Texas	2,985,532	.....	3,993,616	3,993,616	4,090,292	8.62
Utah	307,411	.....	366,200	366,200	376,434	0.79
Vermont	160,801	.....	197,012	197,012	202,455	0.43
Virginia	863,535	.....	1,206,762	1,206,762	1,236,057	2.61
Washington	777,282	.....	802,574	802,574	822,169	1.73
West Virginia	443,862	.....	455,493	455,493	468,585	0.99
Wisconsin	762,835	.....	907,210	907,210	930,254	1.96
Wyoming	294,760	.....	294,303	294,303	301,885	0.64
American Samoa	5,640	.....	4,874	4,874	4,990	0.01
Guam	45,690	.....	39,485	39,485	40,425	0.09
Northern Mariana Islands	7,983	.....	6,899	6,899	7,063	0.01
Puerto Rico	116,109	.....	164,933	164,933	167,248	0.35
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	20,878	.....	18,043	18,043	18,472	0.04
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	7,840,639	7,840,639	7,082,817	.....
Total ¹	37,362,325	.....	54,105,000	54,105,000	² 54,512,000	³ 100.00

¹ This table also includes Budget account number 69-0504-0-1-401² For all surface transportation programs subject to reauthorization, the Budget includes placeholder funding levels for FY 2010 that do not represent Administration policy.³ Excludes undistributed obligations.

Department of Transportation, Federal Transit Administration

69-8350-0-7-1

Table 8-48. FEDERAL TRANSIT FORMULA GRANTS PROGRAMS (20.507)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	28,980	17,831	68,311	86,142	59,390	0.59
Alaska	61,876	4,539	74,634	79,173	67,693	0.67
Arizona	84,573	49,741	148,546	198,287	123,963	1.23
Arkansas	39,322	1,671	41,386	43,057	35,659	0.35
California	1,466,564	160,062	1,706,324	1,866,386	1,469,646	14.59
Colorado	85,956	15,091	156,195	171,286	132,340	1.31
Connecticut	66,057	96,858	217,181	314,039	183,423	1.82
Delaware	1,666	15,094	25,461	40,555	22,281	0.22
District of Columbia	344,343	1,982	243,011	244,993	222,066	2.20
Florida	351,002	40,571	485,957	526,528	413,414	4.10
Georgia	164,132	35,761	235,439	271,200	207,961	2.06
Hawaii	33,431	7,242	64,279	71,522	54,549	0.54
Idaho	15,066	2,196	26,463	28,659	22,466	0.22
Illinois	438,696	21,648	753,668	775,316	646,707	6.42
Indiana	81,055	23,432	129,734	153,166	112,078	1.11
Iowa	37,940	4,306	53,073	57,379	44,030	0.44
Kansas	29,382	9,714	44,115	53,830	37,723	0.37
Kentucky	40,422	5,402	72,770	78,172	60,575	0.60
Louisiana	66,093	6,899	98,539	105,439	85,654	0.85
Maine	19,294	453	19,797	20,250	16,597	0.16
Maryland	195,549	43,971	278,595	322,565	239,346	2.38
Massachusetts	311,161	42,650	502,076	544,726	421,749	4.19
Michigan	124,412	14,243	198,500	212,743	168,232	1.67
Minnesota	97,059	32,695	144,624	177,319	124,197	1.23
Mississippi	18,810	8,459	37,037	45,495	33,820	0.34
Missouri	82,203	15,488	130,233	145,721	111,745	1.11
Montana	13,749	2,588	21,848	24,436	18,609	0.18
Nebraska	19,346	6,341	33,158	39,499	28,734	0.29
Nevada	101,152	7,869	70,694	78,563	58,848	0.58
New Hampshire	18,420	5,046	19,486	24,532	17,415	0.17
New Jersey	517,308	10,438	803,120	813,558	671,029	6.66
New Mexico	35,146	6,192	39,883	46,075	33,952	0.34
New York	1,345,271	109,974	1,978,015	2,087,989	1,693,887	16.82
North Carolina	113,476	41,309	149,534	190,843	134,930	1.34
North Dakota	12,952	1,435	15,986	17,421	14,119	0.14
Ohio	173,581	34,862	271,061	305,923	233,173	2.32
Oklahoma	28,924	6,579	56,757	63,336	48,166	0.48
Oregon	108,209	2,470	117,270	119,740	98,981	0.98
Pennsylvania	345,447	34,274	549,801	584,075	473,770	4.70
Rhode Island	26,790	7,341	42,950	50,291	35,699	0.35
South Carolina	30,860	15,798	60,976	76,774	52,921	0.53
South Dakota	8,897	1,364	16,057	17,421	14,146	0.14
Tennessee	68,660	14,082	105,915	119,997	91,064	0.90
Texas	332,132	69,502	564,938	634,440	485,185	4.82
Utah	48,817	4,966	85,917	90,883	71,877	0.71
Vermont	14,022	874	8,800	9,674	8,150	0.08
Virginia	122,575	56,641	188,564	245,205	164,600	1.63
Washington	202,342	27,099	291,163	318,262	253,548	2.52
West Virginia	17,522	4,957	29,243	34,200	26,954	0.27
Wisconsin	71,369	10,335	119,622	129,957	102,859	1.02
Wyoming	9,284	529	13,080	13,609	11,045	0.11
American Samoa .....	.....	382	578	960	667	0.01
Guam	888	.....	1,416	1,416	1,201	0.01
Northern Mariana Islands .....	.....	519	1,745	2,264	1,562	0.02
Puerto Rico	94,446	44,994	109,318	154,312	105,221	1.04
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	2,026	595	2,003	2,598	1,787	0.02
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed	¹ 48,391	.....	² 68,019	68,019	³ 67,301	.....
Total ⁴	8,217,044	1,207,352	11,792,867	13,000,219	⁵ 10,138,704	⁶ 100.00

¹ FY 2008 Includes section 5327 Oversight takedown \$48,391² FY 2009 Includes section 5327 Oversight takedown \$68,019³ FY 2010 Includes Estimated Section 5327 oversight takedown \$67,301⁴ In addition to CFDA 20.507 and budget account 69-8350-0-7-1, this table also reflects funds in CFDA 20.509, 20.500, 20.516, 20.513, 20.521 and 20.505 and in budget accounts 69-1129-0-1-1, 69-1134-0-1-1, 69-1134-0-1-1, 69-1125-0-1-1, 69-1137-0-1-1, 69-0910-1101-0-1, 69-0910-1102-0-1 and 69-1130-0-1.⁵ For all surface transportation programs subject to reauthorization, the Budget includes placeholder funding levels for FY 2010 that do not represent Administration policy.⁶ Excludes undistributed obligations.

Environmental Protection Agency, Office of Water

68-0103-0-1-304

Table 8-49. CAPITALIZATION GRANT FOR CLEAN WATER STATE REVOLVING FUNDS (66.458)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	7,686	.....	51,950	51,950	26,306	1.11
Alaska	4,114	.....	27,806	27,806	14,080	0.59
Arizona	4,643	.....	31,380	31,380	15,890	0.67
Arkansas	4,496	.....	30,392	30,392	15,389	0.65
California	49,159	.....	332,276	332,276	168,254	7.09
Colorado	5,499	.....	37,163	37,163	18,818	0.79
Connecticut	8,421	.....	56,916	56,916	28,820	1.21
Delaware	3,374	.....	22,808	22,808	11,549	0.49
District of Columbia	3,374	.....	22,808	22,808	11,549	0.49
Florida	23,202	.....	156,825	156,825	79,411	3.35
Georgia	11,622	.....	78,552	78,552	39,776	1.68
Hawaii	.....	5,324	35,982	41,306	18,220	0.77
Idaho	3,374	.....	22,808	22,808	11,549	0.49
Illinois	31,087	.....	210,120	210,120	109,398	4.61
Indiana	16,565	.....	111,967	111,967	56,696	2.39
Iowa	.....	9,303	62,879	72,182	31,840	1.34
Kansas	6,204	.....	41,936	41,936	21,235	0.89
Kentucky	8,748	.....	59,130	59,130	29,942	1.26
Louisiana	.....	7,556	51,073	58,629	25,862	1.09
Maine	5,321	.....	35,964	35,964	18,211	0.77
Maryland	16,624	.....	112,366	112,366	56,899	2.40
Massachusetts	23,337	.....	157,738	157,738	79,874	3.37
Michigan	29,555	.....	199,766	199,766	101,155	4.26
Minnesota	12,634	.....	85,392	85,392	43,240	1.82
Mississippi	6,193	.....	41,858	41,858	21,195	0.89
Missouri	.....	19,056	128,794	147,850	65,217	2.75
Montana	3,374	.....	22,808	22,808	11,549	0.49
Nebraska	3,516	.....	23,763	23,763	12,033	0.51
Nevada	3,374	.....	22,808	22,808	11,549	0.49
New Hampshire	.....	6,869	46,429	53,298	23,510	0.99
New Jersey	28,088	.....	189,853	189,853	96,135	4.05
New Mexico	.....	3,374	22,808	26,182	11,549	0.49
New York	75,867	.....	512,801	512,801	259,668	10.94
North Carolina	12,405	.....	83,849	83,849	42,458	1.79
North Dakota	.....	3,374	22,808	26,182	11,549	0.49
Ohio	.....	38,695	261,547	300,242	132,439	5.58
Oklahoma	.....	5,553	37,535	43,088	19,007	0.80
Oregon	7,765	.....	52,483	52,483	26,576	1.12
Pennsylvania	27,226	.....	184,033	184,033	93,188	3.93
Rhode Island	.....	4,615	31,196	35,811	15,797	0.67
South Carolina	7,042	.....	47,595	47,595	24,101	1.02
South Dakota	3,374	.....	22,808	22,808	11,549	0.49
Tennessee	9,985	.....	67,491	67,491	34,175	1.44
Texas	.....	31,417	212,348	243,765	107,526	4.53
Utah	3,622	.....	24,480	24,480	12,396	0.52
Vermont	.....	3,374	22,808	26,182	11,549	0.49
Virginia	14,067	.....	95,080	95,080	48,146	2.03
Washington	11,953	.....	80,794	80,794	10,911	0.46
West Virginia	10,715	.....	72,424	72,424	36,673	1.55
Wisconsin	18,582	.....	125,601	125,601	63,600	2.68
Wyoming	3,374	.....	22,808	22,808	11,549	0.49
American Samoa	617	.....	4,171	4,171	12,554	0.53
Guam	447	.....	3,018	3,018	9,084	0.38
Northern Mariana Islands	287	.....	1,939	1,939	5,835	0.25
Puerto Rico	.....	8,965	60,595	69,560	30,684	1.29
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	358	.....	2,421	2,421	7,286	0.31
Indian Tribes	10,335	.....	70,336	70,336	48,000	2.02
Undistributed	.....	.....	.....	.....	.....	.....
Total	541,605	147,475	4,658,087	4,805,562	2,373,000	1 100.00

¹ Excludes undistributed obligations.

Environmental Protection Agency, Office of Water

68-0103-0-1-304

Table 8-50. CAPITALIZATION GRANT FOR DRINKING WATER STAFF REVOLVING FUNDS (66.468)
(obligations in thousands of dollars)

State or Territory	FY 2008 Actual	Estimated FY 2009 obligations from:			FY 2010 (estimated)	FY 2010 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	4,203	.....	24,632	24,632	11,463	1.22
Alaska	13,765	.....	24,632	24,632	9,248	0.98
Arizona	11,387	.....	69,904	69,904	18,574	1.98
Arkansas	8,738	.....	30,929	30,929	13,995	1.49
California	67,105	.....	200,855	200,855	86,510	9.21
Colorado	14,114	.....	43,392	43,392	16,404	1.75
Connecticut	14,983	8,146	24,632	32,778	9,248	0.98
Delaware	14,235	.....	24,632	24,632	9,248	0.98
District of Columbia	13,889	.....	24,632	24,632	9,248	0.98
Florida	23,799	.....	111,253	111,253	30,197	3.21
Georgia	22,644	.....	69,191	69,191	21,853	2.33
Hawaii	8,229	.....	24,632	24,632	9,248	0.98
Idaho	8,146	.....	24,632	24,632	9,248	0.98
Illinois	33,226	.....	100,470	100,470	34,909	3.72
Indiana .....	*	.....	34,373	34,373	15,426	1.64
Iowa	2,869	10,148	30,686	40,834	15,788	1.68
Kansas	3,528	.....	24,632	24,632	11,315	1.20
Kentucky	14,946	.....	25,832	25,832	13,350	1.42
Louisiana	11,290	11,540	34,896	46,436	17,477	1.86
Maine	8,146	.....	24,632	24,632	9,248	0.98
Maryland	6,260	.....	33,894	33,894	14,350	1.53
Massachusetts	20,342	.....	65,958	65,958	17,241	1.84
Michigan	8,226	.....	85,206	85,206	28,092	2.99
Minnesota	3,289	.....	44,350	44,350	15,520	1.65
Mississippi	2,357	.....	24,632	24,632	9,625	1.02
Missouri	15,524	15,816	47,826	63,642	17,876	1.90
Montana	2,430	.....	24,632	24,632	9,248	0.98
Nebraska	8,139	8,146	24,632	32,778	9,248	0.98
Nevada	8,146	8,146	24,632	32,778	9,248	0.98
New Hampshire	5,919	8,146	24,632	32,778	9,248	0.98
New Jersey	17,176	.....	54,511	54,511	19,757	2.10
New Mexico	8,229	.....	24,632	24,632	9,248	0.98
New York	35,899	.....	109,658	109,658	60,936	6.49
North Carolina	24,206	27,414	82,896	110,310	24,253	2.58
North Dakota	1	.....	24,632	24,632	9,248	0.98
Ohio	24,421	24,421	73,845	98,266	29,716	3.16
Oklahoma	1,698	.....	39,766	39,766	11,491	1.22
Oregon .....	.....	.....	36,020	36,020	9,248	0.98
Pennsylvania	28,462	.....	82,966	82,966	27,097	2.88
Rhode Island	8,229	.....	24,632	24,632	9,248	0.98
South Carolina	8,031	.....	24,632	24,632	9,248	0.98
South Dakota	8,146	.....	24,632	24,632	9,248	0.98
Tennessee	7,745	.....	25,564	25,564	10,278	1.09
Texas	126,097	.....	202,937	202,937	58,775	6.26
Utah	8,085	.....	24,632	24,632	9,248	0.98
Vermont	1,868	8,146	24,632	32,778	9,248	0.98
Virginia	2,005	.....	26,225	26,225	15,678	1.67
Washington	32,313	.....	52,808	52,808	23,611	2.51
West Virginia	8,174	.....	24,632	24,632	9,248	0.98
Wisconsin	2,623	.....	47,685	47,685	15,944	1.70
Wyoming	8,146	.....	24,632	24,632	9,248	0.98
American Samoa .....	*	.....	610	610	.....	.....
Guam	1,180	.....	2,683	2,683	.....	.....
Northern Mariana Islands .....	*	.....	2,310	2,310	.....	.....
Puerto Rico	8,472	8,146	24,632	32,778	9,248	0.98
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands	2,548	.....	2,525	2,525	.....	.....
Indian Tribes	2,536	.....	37,834	37,834	20,400	2.17
Undistributed .....	.....	.....	.....	.....	.....	.....
Administrative Set Aside .....	.....	.....	3,000	3,000	8,000	0.85
Total	756,164	138,215	2,504,028	2,642,243	939,367	¹ 100.00

* \$500 or less or 0.005 percent or less.

¹ Excludes undistributed obligations.

9. LEVERAGING THE POWER OF TECHNOLOGY TO TRANSFORM THE FEDERAL GOVERNMENT

Greater transparency, accountability, and public participation are central to the President's open Government agenda. These principles will allow the American people to have a stronger role in how their Government addresses the challenges we confront as a Nation. New technology has the potential to drive innovation in Government by making it possible to connect Government employees to one another and to the American people, thereby enabling the sharing of information and expertise, and the solving of problems in new and more effective ways.

The President's Budget invests resources to support these goals, coordinated with policies that emphasize sound investments of taxpayer dollars, assure information security, and protect individual privacy. As such, Federal information policies will focus on:

- Fulfilling the President's pledge for a more transparent, participatory, and collaborative Government through the adoption of innovative web 2.0 technologies;
- Modernizing and improving the effectiveness of Government services through the adoption of modern information technology (IT) systems;

- Securing Federal systems and national information infrastructure against natural and malicious threats;
- Saving taxpayer dollars by improving the IT investment planning process through leveraging investments for wider use across Federal agencies, eliminating duplicative and poorly managed projects, and streamlining IT procurement.

The 2010 Budget reflects the growing responsibilities for Federal IT management. Leadership for IT management is assigned to the Federal Chief Information Officer (CIO) in the Office of Management and Budget (OMB). The history of this position goes back to the Information Technology Management Reform Act of 1996 (Clinger-Cohen Act), which created Federal department and agency chief information officers to plan and manage agency information resources and better achieve program missions. The Paperwork Reduction Act of 1980, Federal Information Security Management Act of 2002 (FISMA), E-Government Act of 2002, and the Federal Funding Accountability and Transparency Act of 2006 (FFATA) all contribute to the requirements for managing Federal IT.

GOVERNMENT 2.0

Transparency—The Administration is dedicated to making more Federal data available to the public in more usable forms. To further this priority, *USASpending.gov* is being reoriented, and the *Data.gov* initiative will be launched.

USASpending.gov. On his first full day in office, the President issued a memorandum to the heads of Federal agencies emphasizing that greater openness and transparency is critical to strengthening our democracy and promoting efficiency and effectiveness in Government. Full implementation of the Federal Funding Accountability and Transparency Act of 2006 ("Transparency Act") is a cornerstone of these efforts, and the Administration is committed to achieving the Act's goals.

At *USASpending.gov*, citizens will be able to see how, when, with whom, and on what the Government is spending taxpayer funds, and whether or not that money is delivering results. Visitors to the site will be able to download data and related information from *USASpending.gov* to combine into different data sets, conduct analysis and research, or power new information-based products and businesses. In sum, citizens will be able to track spending and results, participate in holding the Government and

recipients of funding accountable for performance, and use the resulting information to create value for themselves and others.

Data.gov. The Federal CIO Council is creating *Data.gov*, an online repository for access to Government data (not otherwise subject to valid privacy, security, or privilege restrictions, consistent with Federal law). Through information presented in downloadable formats on topics such as the environment, energy, health care, and the operations of Government, *Data.gov* has the potential to drive innovation in the public and private sector. Just as Internet mapping industries developed from the release of public geographic locational information, data transparency can spur economic, scientific, and educational innovation.

Recovery.gov. The American Recovery and Reinvestment Act (Recovery Act) is an extraordinary effort to jumpstart our economy, create and save millions of jobs, and put a down payment on addressing long-neglected challenges so the country can thrive. To give the public a thorough understanding of how and where Recovery Act funds are invested, the Act itself provides for unprecedented levels of transparency and accountability so that citizens will

be able to know how, when, and where their tax dollars are being spent. *Recovery.gov* is the main vehicle for that transparency, giving people the tools to monitor the progress of the Recovery Act, track contracts and Federal grants to an unprecedented degree, and provide feedback on the status and results of those investments at the community level. At the continually evolving website, citizens have the opportunity to download program data and related information, conduct analysis and research, or power new information-based products and businesses.

Participation and Collaboration—The Administration believes that public engagement enhances the Government’s effectiveness and improves the quality of its decisions. Knowledge is widely dispersed throughout society, and the Nation benefits when all levels of government have access to that dispersed knowledge. To offer Americans increased opportunities to participate in policymaking and to provide their Government with the benefits of the public’s collective expertise and informa-

tion, the Federal IT agenda is focused on helping agencies use developing technologies to inform the work of Government.

Web 2.0 in Government. Agencies will be called upon to take creative action in developing new approaches to citizen involvement, including the utilization of social and visual technologies, such as Web 2.0 tools. Existing Government websites need to be revitalized with community-driven features and functionality. Opportunities for engagement can be developed through context-driven tools that push opportunities for participation to people on the websites and in other daily contexts. This will enable interactions and applications that were never before possible. Through social media, individuals will be able to increase collaboration on web content to create, organize, edit or comment, combine, and share information using Web 2.0 technologies and forms, including syndicated web feeds, video-sharing, podcasts, social networking and bookmarking, widgets, virtual worlds, and micro-blogs.¹

INFORMATION TECHNOLOGY POLICY

Government IT Workforce—With rapid advances in IT, improved program performance depends heavily on those who manage the IT projects. Qualified project managers and an IT workforce with the necessary competencies are needed for agency investments to be well planned and managed. In 2009, an IT Workforce Assessment Survey will be developed from which a gap analysis will evolve, and agencies can adjust plans to improve their workforce staffing and skills. The table below provides a summary of the latest available data on agency progress toward hiring goals.

Policies in agencies seeking to increase the assignment of qualified project managers to major IT investments continue to be in effect. In the 2009 Budget, as reported on agencies’ Exhibit 53 IT spending summaries, 88 percent of major IT investments have qualified project managers, an increase from approximately 83 percent in the prior year. Going forward, agency performance in addressing skill gaps will continue to be important contributors to the success of Federal IT investments, meaning that recruitment and training will need to be enhanced, through enhancements in IT systems and programs of recruitment, innovative and flexible training arrangements, and other programs addressing the need to bring the best IT ideas

and expertise to bear on how Federal IT systems are designed and managed

Securing Government Systems—As the Federal Information Security Management Act of 2002 enters its seventh year, it is clear that agencies and departments are not yet secure. The Government Accountability Office (GAO) continues to find security weaknesses at agencies.² The Nation cannot continue to ignore this threat. In response, the President initiated a 60-day review of the plans, programs, and activities underway throughout the Government that address our communications and information infrastructure. The purpose of the review is to develop a strategic framework to integrate, resource, and coordinate initiatives in this area both within the Executive Branch and with Congress and the private sector.

OMB will work with agencies, IGs, CIOs, Senior Agency Officials for Privacy, GAO, and the Congress to strengthen the Federal Government’s IT security and privacy programs. As part of those activities, OMB will:

Review Agency Business Cases. Part 7 (Exhibit 300) of OMB Circular A-11 requires agencies to submit a Capital Asset Plan and Business Case Justification for major information technology investments. In their justification, agencies must answer a series of security questions and describe how the investment meets the requirements of the FISMA, OMB policy, and NIST guidelines. The justifications are then evaluated against specific criteria to determine whether the system’s cyber-security, planned or in place, is appropriate.

Table 9–1. THE FEDERAL IT WORKFORCE

	Positions Filled	
	30-Jun-08	Current
Enterprise Architecture	1,670	1,673
Solutions Architecture	1,472	1,457
IT Security	8,449	8,407
IT Project Management	6,061	6,248
Total	17,652	17,785

¹ See Godwin, Bev, “Matrix of Web 2.0 Technology and Government,” USA.gov and Web Best Practices, GSA Office of Citizen Services, http://www.usa.gov/webcontent/documents/Web_Technology_Matrix.pdf.

² GAO, *High Risk Update*, GAO-08-271.

Evaluate Reported Security Metrics. OMB will review the security metrics provided by agencies in their quarterly and annual reports for FISMA compliance. Modifications in metrics may be necessary to improve security. One goal for new metrics would be to move beyond periodic compliance reporting to more continuous approach.

Review Current Cyber-Security Activities. The President has requested a 60-day review of all cyber-security activities within the Federal Government.

Homeland Security Presidential Directive 12 (HSPD-12)—This directive, issued August 27, 2004, and entitled “Policy for a Common Identification Standard for Federal Employees and Contractors,” addressed the recommendation of the September 11th Commission to improve the security of Federal facilities and information systems. In accordance with HSPD-12, agencies are required to follow specific technical standards and business processes for the issuance of Federal credentials including a standardized background investigation to verify employees’ and contractors’ identities. The directive applies to individuals with long-term access to Federal facilities and information systems.

HSPD-12 credentials provide for digital signature, encryption, archiving of documents, multi-factor authentication, and reduced sign-on to improve security and facilitate information sharing. They also provide for a very high level of trust in identity credentials during disaster response, disaster recovery, and reconstitution of Government scenarios.

As of March 1, 2009, more than 2.7 million credentials (48 percent) have been issued to the Federal workforce and 3.3 million background investigations (58 percent) have been completed. Additionally, 20 credential issuance infrastructures are in operation nationwide to issue credentials, and 37 providers and 416 products are on the Approved Products and Services list maintained by GSA. The current focus of agencies is on completing the issuance of credentials to their remaining employees and contractors, and implementing plans to leverage the electronic capabilities of the credentials.

To support this effort, the Federal Identity, Credential, and Access Management (ICAM) segment architecture provides Federal agencies with a consistent approach for managing the vetting and credentialing of individuals requiring access to Federal information systems and facilities. By using enterprise architecture techniques this alignment will provide clarity and interoperability to eliminate redundancies across agency ICAM initiatives.

Current efforts are underway to develop the ICAM segment architecture to unify Federal Public Key Infrastructure

(PKI), the E-Authentication program, and HSPD-12 implementation into a single program activity, while reducing or eliminating duplicative efforts related to identity vetting and credentialing. One of the major outcomes of this effort is to allow agencies to create and maintain information systems that deliver more convenience, appropriate security, and privacy protection, with less effort and at a lower cost.

The ICAM segment architecture will serve as an important tool for providing awareness to external mission partners and drive the development and implementation of interoperable solutions. ICAM solutions will leverage the existing investments in the Federal Government while promoting efficient use of tax dollars when designing, deploying, and operating ICAM systems.

Securing the National Information Infrastructure—The Government’s security concerns extend beyond Federal systems. The Federal Government has the responsibility to protect and defend the country and ensure the well-being of the citizens. However, approximately 85 percent of critical information infrastructure in the United States is owned by interests other than the Federal Government. Therefore, industry and Government share the responsibility for the security and reliability of the Nation’s information infrastructure. The Government Accountability Office has raised concerns about the implementation of protection of the national critical information infrastructure.³ The Federal Government must review the current structure of public-private partnerships and determine what is working and why. As part of the 60-day cyber review ordered by the President, the characteristics of successful public-private partnerships are being evaluated.

Protecting Privacy—Federal agencies are tasked to implement breach notification plans, eliminate unnecessary collection and use of Social Security numbers in agency programs, reduce unnecessary holdings of personally identifiable information, and develop policies outlining rules of behavior and identifying consequences and corrective actions to address non-compliance.⁴ Agencies are expected to demonstrate progress in all aspects of privacy protection.

The Federal Government must continue to improve information security for Federal systems and the information sector overall. This focus, along with a commitment to ensuring privacy as investments are made in the widespread implementation of electronic health records, must be leveraged to set a high bar for the goal of protecting the personal information of all Americans.

IMPROVING INNOVATION, EFFICIENCY AND EFFECTIVENESS IN FEDERAL IT

Businesses facing market pressures from which the Government is more insulated are forced to innovate, adopting emerging technologies with agility, to achieve maximum efficiency. Where appropriate, the Government needs to adopt innovations with the same agility.

Optimizing Common Services and Solutions/Cloud-Computing Platform—The Federal technol-

ogy environment requires a fundamental reexamination of investments in technology infrastructure. The Infrastructure Modernization Program will be taking on

³ GAO, *National Cybersecurity Strategy: Key Improvements are Needed to Strengthen the Nation’s Posture*, GAO-09-432T.

⁴ OMB Memorandum M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*.

new challenges and responsibilities. Pilot projects will be implemented to offer an opportunity to utilize more fully and broadly departmental and agency architectures to identify enterprise-wide common services and solutions, with a new emphasis on cloud-computing. The pilots will test a variety of services and delivery modes, provisioning approaches, options, and opportunities that cloud-computing brings to Federal Government. Additionally, the multiple approaches will focus on measuring service, cost, and performance; refining and scaling pilots to full capabilities; and providing financial support to accelerate migration. These projects should lead to significant savings, achieved through basic changes in future Federal information infrastructure investment strategies and elimination of duplicative operations at the agency level.

Cloud-computing is a convenient, on-demand model for network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, services) that can be rapidly provisioned and released with minimal management effort or service provider interaction. The cloud element of cloud-computing derives from a metaphor used for the Internet, from the way it is often depicted in computer network diagrams. Conceptually it refers to a model of scalable, real-time, internet-based information technology services and resources, satisfying the computing needs of users, without the users incurring the costs of maintaining the underlying infrastructure. Examples in the private sector involve providing common business applications online, which are accessed from a web browser, with software and data stored on the “cloud” provider’s servers.

Implementing a cloud-computing platform incurs different risks than dedicated agency data centers. Risks associated with the implementation of a new technology service delivery model include policy changes, implementation of dynamic applications, and securing the dynamic environment. The mitigation plan for these risks depends on establishing a proactive program management office to implement industry best practices and government policies in the management of any program. In addition, the Federal community will need to actively put in place new security measures which will allow dynamic application use and information-sharing to be implemented in a secure fashion. In order to achieve these goals, pilot programs will provide a model for scaling across the Government.

Pilots supporting the implementation of a cloud-computing environment include:

- End-user communications and computing—secure provisioning, support (help desk), and operation of end-user applications across a spectrum of devices; addressing telework and a mobile workforce.
- Secure virtualized data centers, with Government-to-Government, Government-to-Contractor, and Contractor-to-Contractor modes of service delivery.
- Portals, collaboration and messaging—secure data dissemination, citizen and other stakeholder engagement, and workforce productivity.

- Content, information, and records management—delivery of services to citizens and workforce productivity.
- Workflow and case management—delivery of services to citizens and workforce productivity.
- Data analytics, visualization, and reporting—transparency and management.
- Enterprise Software-as-a-Service—for example, in financial management.

Cloud-computing will help to optimize the Federal data facility environment and create a platform to provide services to a broader audience of customers. Another new program, the “work-at-a-distance” initiative, will leverage modern technologies to allow Federal employees to work in real time from remote locations, reducing travel costs and energy consumption, and improving the Government’s emergency preparedness capabilities.

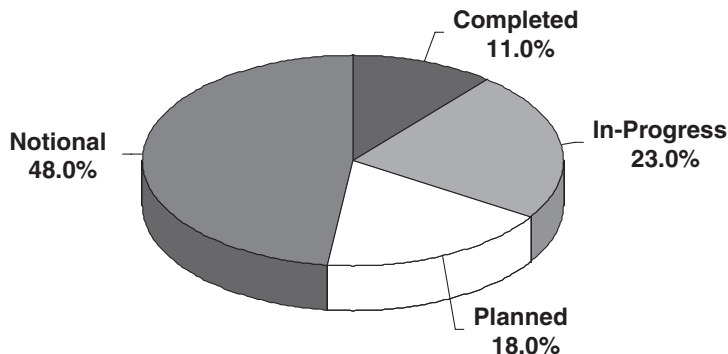
Cloud-computing and “work-at-a-distance” represent major new Government-wide initiatives, supported by the CIO Council under the auspices of the Federal CIO (OMB’s E-Government Administrator), and funded through the General Services Administration (GSA) as the service-provider.

Of the investments that will involve up-front costs to be recouped in outyear savings, cloud-computing is a prime case in point. The Federal Government will transform its Information Technology Infrastructure by virtualizing data centers, consolidating data centers and operations, and ultimately adopting a cloud-computing business model. Initial pilots conducted in collaboration with Federal agencies will serve as test beds to demonstrate capabilities, including appropriate security and privacy protection at or exceeding current best practices, developing standards, gathering data, and benchmarking costs and performance. The pilots will evolve into migrations of major agency capabilities from agency computing platforms to base agency IT processes and data in the cloud. Expected savings in the outyears, as more agencies reduce their costs of hosting systems in their own data centers, should be many times the original investment in this area.

Similarly, investments to extend the use of collaborative computing technologies across the Federal Government, including online meeting capabilities and an increased capacity for telework, will contribute to more efficient, effective service for the American people. Inter-agency collaboration will be enhanced as will the President’s goal of opening governmental business to the public. Energy savings and environmental benefits will be important byproducts of reduced travel, and the Government will be better able to function smoothly in emergencies, as remote work capabilities are made more robust.

The Federal Government also is leveraging its buying power through the SmartBUY program, achieving cost savings through blanket agreements with commercial

Chart 9-1. Maturity of Segment Architectures -- Major Agencies (*)



(*) 86% of segments reported from major agencies.

software providers. The GSA manages the agreements and investigates new programs.

Federal Enterprise Architecture (FEA). Working cooperatively with agency CIOs, the FEA program helps agencies to improve their enterprise architectures. These architectures describe the agency mission and the resources needed to achieve satisfactory program performance and/or cost savings. The Federal architecture needs to mature through the definition, development, and implementation of segment architectures. In February 2009, major agencies identified a total of 566 discrete segments in varying levels of maturity ranging from Completed, In-progress, Planned, or Notional.

A “segment” is a discreet portion of an overall enterprise, whether mission critical (e.g., law enforcement), business services (e.g., financial management) or an infrastructure-related segment. By focusing on priority segments, agencies should produce actionable architectures that improve performance, reduce redundancies and costs, improve information sharing, and streamline business processes.

The National Information Exchange Model (NIEM). NIEM is designed to develop, disseminate, and support enterprise-wide information sharing standards and processes across the justice, public safety, emergency and disaster management, intelligence, and homeland security enterprise at all levels and across all branches of Government. Currently, 42 States have adopted NIEM, mostly in law enforcement and justice-orientated applications. It is anticipated that all 50 States will participate in NIEM in less than 18 months. Due to the success of NIEM with state and local justifications, the program has been adopted by the Program Manager for the Information Sharing Environment (PM-ISE) as the basis for its work to promote law enforcement, homeland security, and counter-terrorism information sharing. The collaboration and extension of the NIEM environment

demonstrates significant progress for standardized, reusable information exchanges across Federal agencies.

OVERVIEW OF FEDERAL IT SPENDING

The Fiscal Year 2010 estimate of total Federal IT spending represents a more complete accounting of IT investments than presented in previous Budgets. The most current 2010 estimate represents a seven percent increase from the 2009 Budget. Forthcoming agency summaries of IT spending will provide more complete information.

TABLE 9-2. FEDERAL IT SPENDING, BUDGETS OF 2008-2010 INCLUDING MAJOR FEDERAL IT INVESTMENTS
(investment counts, spending in millions of dollars)

	2008	2009	2010
Number of Major IT Investments	830	801	785
All IT Investments	6,267	6,566	7,165
Major IT Investment Spending	35,510	36,746	40,587
All IT Investment Spending	66,405	70,716	75,829

New directions for Federal information technology in 2009, as well as final determinations on investments funded in the American Recovery and Reinvestment Act, mean that estimates for spending on IT systems over 2009–2010 will likely change as firm plans are made to address the Administration’s goals of greater openness in Government, wider participation by citizens in Government, and a more collaborative, cost-effective Federal IT enterprise.

As final plans on new IT initiatives and investments funded by the Recovery Act are implemented, new oversight approaches will be introduced to see that Federal IT dollars are spent effectively. The need for more effec-

tive high-level engagement in early strategic planning processes across agencies, and early articulation of fundamental architecture and design considerations as part of planning decisions, will be expressed in new policies on the management of agency IT spending. These changes will be complemented by continued agency reporting on major project justifications and implementation, and improvements to the process for the Federal CIO to intercede where projects are not meeting initial objectives, in order to quickly implement remedial actions which are timely and appropriate.

CONCLUSION

The Administration will continue to work with agencies, Inspectors General, Chief Information Officers, the GAO, and the Congress to strengthen the Federal Government's

IT investment planning and project execution and provide accountability for spending on information technology. The President's 60-day review of all cyber-security activities within the Federal Government and a planned directive on Open Government are part of how the new Administration will seek to transform the management of Federal data and information systems.

The path forward for Federal IT will make the process of Government more transparent and accountable. At the same time, Americans will know that information technology investments by their Government are being leveraged to produce maximum value, and that the security of information systems nationally, and the privacy of Americans, are being protected. Strategic investments in IT are at the heart of the efforts to make Government services more effective, accessible, and transparent.

10. FEDERAL DRUG CONTROL FUNDING

Table 10-1. FEDERAL DRUG CONTROL FUNDING, 2008-2010 ¹
(budget authority, in millions of dollars)

Department/Agency	Enacted		2010 Request
	2008	2009	
Department of Defense: ²	1,242.7	1,425.9	1,383.6
Department of Education:	429.8	431.7	238.6
Department of Health and Human Services:			
Centers for Medicare and Medicaid Services ³	170.0	220.0	240.0
Indian Health Service	87.5	93.6	98.8
National Institute on Drug Abuse	1,006.0	1,032.8	1,045.4
Substance Abuse and Mental Health Services Administration ⁴	2,445.8	2,494.1	2,538.9
Total HHS	3,709.3	3,840.5	3,923.1
Department of Homeland Security:			
Counternarcotics Enforcement	2.7	3.7	3.9
Customs and Border Protection	1,544.7	2,101.0	2,103.5
Immigration and Customs Enforcement	397.9	427.7	455.6
U.S. Coast Guard	989.5	1,202.4	1,253.5
Total DHS	2,934.8	3,734.8	3,816.5
Department of the Interior:			
Bureau of Indian Affairs	6.3	6.3	8.3
Department of Justice:			
Bureau of Prisons	67.2	79.2	80.8
Drug Enforcement Administration	2,126.7	2,183.5	2,266.5
Interagency Crime and Drug Enforcement	497.9	515.0	537.5
Office of Justice Programs	229.3	235.5	278.0
Total DOJ	2,921.1	3,013.2	3,162.8
Office of National Drug Control Policy:			
Operations	26.4	27.2	27.6
Counterdrug Technology Assessment Center	1.0	3.0	1.0
High Intensity Drug Trafficking Area Program	230.0	234.0	220.0
Other Federal Drug Control Programs	164.3	174.7	174.0
Total ONDCP	421.7	438.9	422.6
Department of State/International Affairs: ⁵			
Bureau of International Narcotics and Law Enforcement Affairs	791.5	1,095.5	1,190.5
Economic Support and Development Assistance	334.2	357.5	365.1
Total Department of State/International Affairs	1,125.7	1,453.0	1,555.6
Department of the Treasury:			
Internal Revenue Service	57.3	59.2	60.3
Department of Veterans Affairs:			
Veterans Health Administration	423.3	437.5	450.0
Other Priorities: ⁶	3.7	3.7	3.7
Total Federal Drug Budget	13,275.8	14,844.7	15,025.1

¹ Detail may not add due to rounding.

² DOD amounts include supplemental funding. The 2009 enacted includes the pending 2009 war supplemental request. The 2010 request includes the war funding amount.

³ Baseline outlays estimated by HHS actuaries based on projected State Medicaid program participation.

⁴ 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: \$101.3 million in 2008, \$110.5 million in 2009, and \$110.5 million in 2010.

⁵ State/International Affairs amounts include supplemental funding. The 2009 enacted includes the pending 2009 war supplemental request.

⁶ Includes (1) the Small Business Administration's Drug-Free Workplace grants, and (2) the Department of Transportation National Highway Traffic Safety Administration's Drug Impaired Driving Program.

11. 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 extensive development of the area's water resources has significantly 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 through 2010, 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 Budget includes a crosscut of estimated Federal funding by each of the CALFED agencies, fulfilling the reporting requirements of P.L. 108-361. Detailed tables can be found in the CD-ROM included with the *Analytical Perspectives*, as well as an explanation of budget crosscut methodology.

In addition to the funds shown in the table, some agencies will be allocating funding from the American Recovery and Reinvestment Act of 2009 toward CALFED activities, which will augment funding provided in 2009 and 2010. Agencies' final allocations of Recovery Act funds to CALFED activities were not available at the time of Budget production.

CALFED-RELATED FEDERAL FUNDING BUDGET CROSSCUT
(In millions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 ¹
Bureau of Reclamation	153.37	114.67	138.51	79.75	103.32	74.21	75.74	81.10	99.83	101.34	66.05	111.04	69.96
Corps of Engineers	100.67	103.34	93.79	54.19	58.22	57.83	72.64	52.31	91.29	87.44	51.20	46.54	79.98
Natural Resources Conservation Service	0.00	14.54	12.85	16.95	39.08	38.40	48.75	36.39	34.64	26.86	40.90	26.00	21.50
NOAA Fisheries	0.30	0.38	0.45	0.55	0.58	0.78	0.78	0.78	0.78	0.50	0.53	0.53	0.53
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	3.73
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	2.02	2.02
Environmental Protection Agency	3.20	3.05	57.26	53.38	54.26	20.69	62.78	97.65	36.56	36.13	68.34	0.63	0.63
Total:	261.64	240.28	310.83	228.42	266.16	208.01	279.26	282.56	279.02	263.88	252.78	190.49	178.35

¹ Reflects proposed 2010 Budget.

ECONOMIC ASSUMPTIONS AND ANALYSES

12. ECONOMIC ASSUMPTIONS

In April, the U.S. economy was in the sixteenth month of a deep recession. In its early stages, the recession was relatively mild, but in the last quarter of 2008, real gross domestic product (GDP) fell at an annualized rate of 6.3 percent.¹ Unemployment has also risen sharply in recent months. The latest data suggest another large decline in output occurred in the first quarter of 2009, which could make for the deepest drop in economic activity since World War II.

The recession is not limited to the United States. Other industrial countries are experiencing similar declines in output and employment, and world trade is contracting. Meanwhile, financial institutions around the world have been seized by paralyzing uncertainty about the underlying value of the assets they hold, crippling lending and contributing to further declines in asset prices. Falling asset prices have hammered household wealth and caused consumers to reduce spending.

The Federal Government has adopted fiscal and monetary policies to counter the downward drag from private reductions in spending and investment. In February, the Congress and the President enacted the American Recovery and Reinvestment Act, an economic stimulus measure, which will replace demand withdrawn by the private sector. This Budget extends and strengthens

several key measures in the Recovery Act. Meanwhile, monetary policy has effectively lowered short-term interest rates to zero and the Federal Reserve has expanded its balance sheet in novel ways so as to support continued lending in the private sector. The Administration is also taking steps to buttress the financial system and the housing sector.

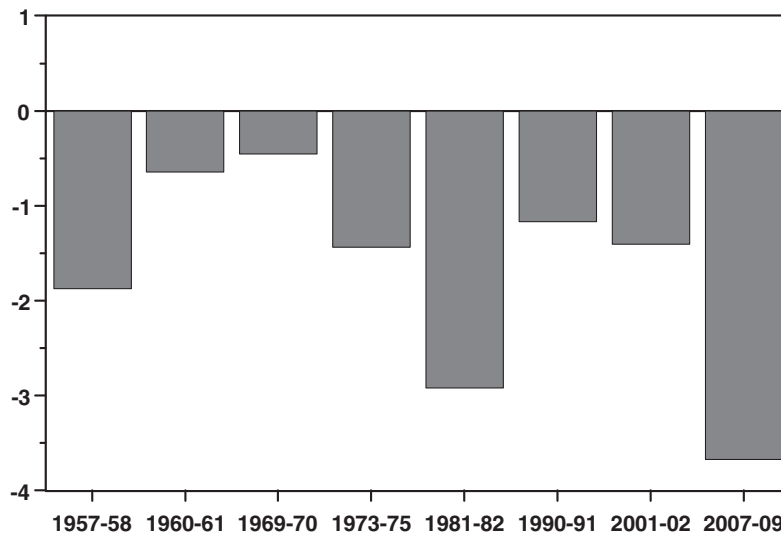
These policies are expected to stabilize the economy and stimulate a recovery by the end of 2009. The recovery is projected to gain momentum in 2010 and to strengthen further in 2011-2012. By the end of 2013, the unemployment rate is projected to fall to 5 percent, which is a sustainable level, and real GDP is projected to be growing at its potential, around 2.6 percent per year.

Recent Economic Performance

According to the business cycle's unofficial scorekeeper, the National Bureau of Economic Research (NBER), the most recent economic expansion ended more than a year ago in December 2007. The economy has been in recession since then. In May, it will be the longest recession since before World War II. The contraction has also been unusually deep as measured by the decline in payroll employment (see Chart 12-1). Other measures such as the rise in the unemployment rate also imply that this is one of the most severe recessions since the Great Depression.

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

**Chart 12-1. Percentage Decline in Payroll Employment
Business Cycle Downturns since 1955**



Housing Markets: The downturn had its origin in the housing market. In hindsight, it is clear that by the early years of this decade, housing prices had become caught up in a speculative bubble that finally burst. Housing prices have fallen sharply since 2006, and investment in housing has plummeted, reducing the annual average rate of real GDP growth by an average of 1 percentage point per quarter since mid-2006. Initially, it appeared as if the decline in housing might be contained within that industry and throughout 2006-2007 the broader economy continued to expand despite the drag from declining residential investment.

In August 2007, however, the accumulating problems in the housing market led to a worldwide crisis of confidence in the banks and credit markets, and through that channel the housing crisis initiated a widespread economic contraction. Although much of the needed adjustment in relative housing prices appears to have occurred (see chart below), further price declines may yet occur in response to the continuing economic downturn. Monthly housing starts were running at less than a 600,000 annual rate in early 2009. This is the lowest level ever recorded for this series, which dates from 1959. In normal times, at least 1-1/2 million starts a year are needed to accommodate the needs of an expanding population and to replace older units as they wear out. The Administration expects housing starts to reach bottom this year and to begin a robust recovery as relative housing prices stabilize. Even so, it will take time to work off the accumulated inventory of unsold homes and for existing homeowners to see the equity value of their property begin to rise again.

The Rise and Fall of World Oil Prices: In the winter of 2006-2007, world oil prices were around \$60/barrel for light crude, and regular gasoline was selling for around \$2.25/gallon. Then oil prices began to spike upward as surging

worldwide demand came up against limited worldwide production capacity. Over the next 18 months, oil prices shot up to over \$140/barrel and gasoline prices briefly topped \$4/gallon. This price increase had a depressing effect on sales of motor vehicles, especially popular but less fuel-efficient sport utility vehicles (SUVs) and light trucks. In July 2008, at the peak of the oil price spike, total vehicle sales were down 19 percent from the previous year. Higher fuel costs also shook consumer confidence and hurt retail sales of other products. Since the 1970s, oil price spikes have often contributed to the swings in the U.S. business cycle, and that appears to have happened again last year as the fall-off in motor vehicle demand cut sharply into consumer spending.

As the world economy has weakened, energy prices have reversed direction and returned to lower levels. In early April 2009, light crude oil was selling for around \$50 per barrel and regular gasoline was selling for around \$2 per gallon. The unwinding of the energy shock should contribute to the expected recovery this year. With lower fuel prices, motor vehicle sales are expected to begin to recover.

The Financial Crisis: In August 2007, the United States subprime mortgage market became the focal point for a worldwide financial crisis. Subprime mortgages are classified as mortgages going to borrowers who do not meet the standard criteria for borrowing at the lowest prevailing interest rate, either 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 in such mortgages, and with house prices falling many of these mortgages were on the brink of default.

As banks and other investors suddenly lost confidence in the value of these high-risk mortgages and the securities based on them, banks became much less willing to

Chart 12-2. Relative House Prices Have Fallen Substantially

Case-Shiller National Home Price Index Divided by the CPI Rent Component, 1987=100

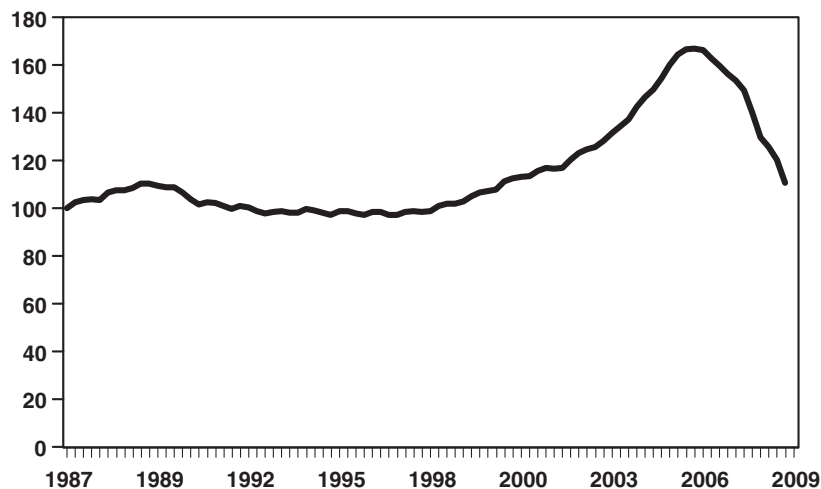
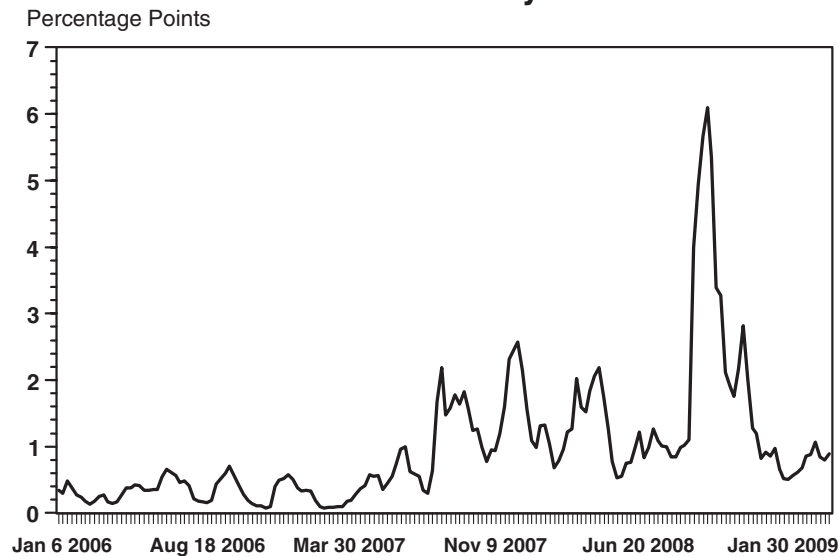


Chart 12-3. One-Month LIBOR Spread over One-Month Treasury Yield



lend to each another. Money market participants outside the banks became unwilling to lend to one another as well. 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, which are regarded as free of default risk, and 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 charge to one another for short-term lending in dollars. Historically, this differential has amounted to only 30 or 40 basis points. In August 2007, it shot up to over 2 percent, and it has remained elevated since then (see chart above).

The credit crunch that began in August 2007 quickly extended throughout the world's financial markets. At the time the threat appeared severe but limited. The problem was perceived to be with the relatively new and unusually risky mortgages that had spread throughout the financial system through the use of mortgage-backed securities, and other sophisticated financial products based on them. Conventional home mortgages along with other forms of consumer and business credit were not seen as being at special risk. Even so, by December 2007, the six-year old economic expansion had run its course. The combination of negative shocks in housing, energy markets, banking and finance brought it to a close. As 2008 began, payroll employment started to decline, and the unemployment rate, which had already reached bottom in March 2007, continued to rise.

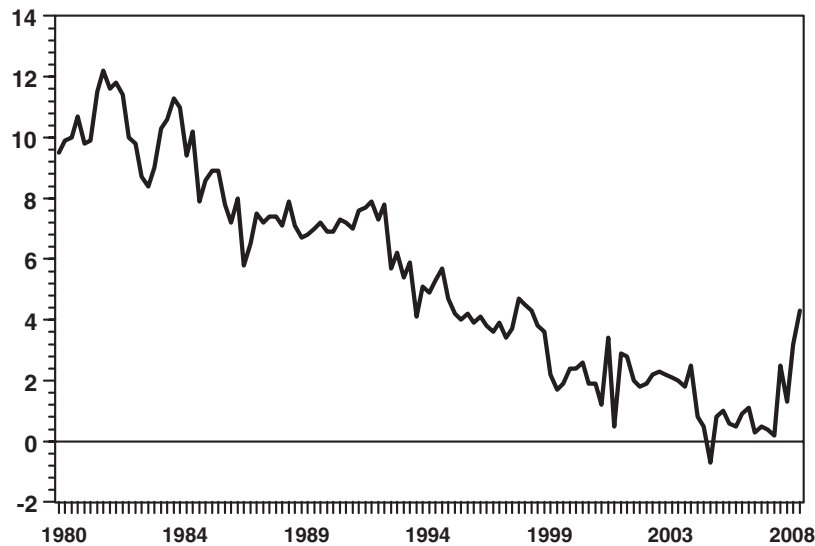
Throughout 2008, employment was falling but until mid-year real GDP continued to expand. A stimulus package of income tax rebates and business tax cuts passed early in the year helped postpone the worst ef-

fects of the recession for several months. However, in September 2008, the long-established investment banking firm of Lehman Brothers failed and that failure reignited the credit crunch, pushing yield spreads to new and dizzying heights. Two days following the failure of Lehman Brothers, the Federal Government stepped in to prevent the failure of the insurance giant American International Group (AIG), seeking to avoid an even wider spread financial panic. The value of other asset-backed securities came into question, and even money market mutual funds experienced large withdrawals. Since then finance ministries and central banks around the world have tried with some success to contain the damage from the spreading crisis, and risk spreads are narrower today than they were six months ago. Nevertheless, uncertainty remains high, and the repercussions from the financial crisis have deepened the recession in the broader world economy, which in turn has fed back to weaken financial institutions further.

Negative Wealth Effects and Consumption: Between the third quarter of 2007 and the fourth quarter of 2008, the net worth of American households declined by \$13 trillion, or 20 percent. The decline in the stock market and falling house prices were the main reasons for the drop in household wealth. Americans reacted to this massive loss of wealth by trying to save more. The household saving rate, which had been declining since the 1980s and had fallen to just 0.6 percent in 2007, shot up to over 4 percent in January and February, to reach its highest level in over a decade. In the long-run, increased saving is desirable because it raises 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 has had a devastating effect on the economy. In last year's third quarter, real consumer spending fell for the first time since 1991, and it fell even more in the

Chart 12-4. The Personal Saving Rate

Percent of Disposable Personal Income



fourth quarter. As of January 2009, the monthly level of real consumer spending was exactly where it had been two years earlier at the beginning of 2007. These sharp declines helped to push down overall real GDP growth to -6.3 percent at an annual rate in the fourth quarter, while raising the personal saving rate to heights not seen since the 1990s.

Policy Background

The Administration and the Federal Reserve have taken a series of actions to reverse the decline in demand that caused the recession. On the fiscal side, the most important step was the passage in February of the American Recovery and Reinvestment Act. This bill will dispense \$825 billion in tax reductions and new spending, most of it within the next eighteen months, and it is expected to have a major effect on employment and economic growth. The 2010 Budget will extend these actions through tax reduction for middle-class families and through investments in health care, energy, education, and our armed forces. These measures will provide for a sustained recovery with enhanced security and improved productivity. Meanwhile, the Federal Reserve has lowered interest rates and made credit widely available to stimulate the economy.

Fiscal Policy: The Federal budget affects the economy through many diverse channels. For an economy in a deep recession, the most important of these is the budget's effect on aggregate demand. In a slumping economy, the level of aggregate demand is the main determinant of how much is produced and how many workers will be employed. Federal 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. The American Recovery and Reinvestment Act bolsters aggregate

demand in several ways while laying the foundation for a sustained recovery. It increases spending on goods and services at the Federal level; it provides assistance to State Governments; it includes large tax reductions for middle-class families; and it extends unemployment and other benefits which will allow people to maintain spending levels.

Key provisions of the Act include:

- The Making Work Pay tax credit, which extends tax relief to 95 percent of workers and their families.
- A total of \$308 billion in tax relief.
- A \$111 billion investment in infrastructure and science.
- A doubling of renewable energy production capacity over the three years through 2011.
- Subsidized health insurance coverage for unemployed workers, which acts like a tax reduction by allowing families to continue paying their other bills while avoiding reductions in consumption.
- The largest Federal investment in education in history.
- A total of about \$180 billion in State and local fiscal relief.
- An increase of \$81 billion in funding for unemployment insurance and other programs to protect the most vulnerable.

The Recovery Act was designed to go into effect quickly, so that the money will be spent when it can do the most good in stimulating real economic growth and reducing unemployment as the economy begins to recover from the recession.

The 2010 Budget necessarily increases the deficit in the near term to deal with the recession and get the economy growing again, but in the medium term as the economy recovers, the Budget provides a path to lower deficits and a more stable ratio of Federal debt to GDP. The increase in the deficit is an extraordinary but necessary response to an inherited crisis. It is also temporary. If the 2010 Budget is adopted, the deficit will be cut in half by 2012.

In the long run, the most important macroeconomic effects of the Federal budget are on the allocation of saving and the level of private investment. Large budget deficits become harmful in a long-run context because they entail some combination of reduced funds available to finance domestic investment or increased borrowing from abroad to finance that domestic investment. Either way, budget deficits reduce future national income—either because the nation does not have as much productivity-enhancing capital in the future or because we owe larger liabilities to foreign creditors. In the extreme, sustained deficits could seriously harm the economy. Large deficits would also limit the Government's maneuvering room to handle crises in the future.

Health Reform Is Needed for Long-Run Fiscal Stability: The health reforms proposed in this budget are the key to achieving long-run fiscal stability. Without significant health reform it will be impossible to rein in Federal spending as required for fiscal stabilization, since in the absence of reform the Government's major health programs – Medicare and Medicaid – are projected to be the most rapidly growing programs in the budget by a large margin. A successful health reform that slows the growth of per capita health care costs is also the essential ingredient for expanding health insurance coverage without permanently adding to the projected level of long-run spending.

Monetary Policy: The Federal Reserve is responsible for monetary policy. Traditionally, it has acted cautiously, but in the current crisis the Fed has boldly proceeded to create new institutions and open new channels for monetary policy. The reason for departing from past practice is that the traditional tool of monetary policy – adjusting short-term interest rates – has proved insufficient in stimulating growth and preventing unemployment in the current recession. Short-term interest rates in the United States have been reduced from 5-1/4 percent in July 2007 to near zero in December 2008, and it is not possible for them to go any lower.

In light of the floor on short-term interest rates, the Federal Reserve has sought to increase credit availability in several novel ways. First, it has taken action to make sure that financial institutions have access to short-term credit. The financial crisis has been marked by a reluctance of financial institutions to lend to one another. The Federal Reserve has tried to counter that reluctance by making credit directly available to institutions that need liquidity.

The Federal Reserve has been willing to lend generously to banks, but that lending by itself does not necessarily induce the banks to lend to their customers, and the Federal Reserve's bank lending does not provide liquid-

ity to nonbank financial markets such as the commercial paper market. To address these problems, the Federal Reserve has created facilities to provide credit to the commercial paper market directly and to provide backup liquidity for money market mutual funds, in a way taking the place of private banks which have been crippled by the financial crisis. The Federal Reserve together with Treasury has expanded another facility to lend against AAA-rated asset-backed securities collateralized by student loans, auto loans, credit card loans, and business loans guaranteed by the Small Business Administration (SBA). The Federal Reserve has also decided to buy longer-term securities for its portfolio. Traditionally, the Federal Reserve has limited its open market operations to short-term Government securities, but it will now begin to acquire long-term debt including the debt of the government-sponsored enterprises (GSEs) and mortgage-backed securities guaranteed by Federal agencies. In this way, the Federal Reserve is acting to bring downward pressure on long-term interest rates which have not fallen as much as the short-term rates traditionally targeted by monetary policy.

The Federal Reserve's actions have helped ease the credit crisis as evidenced by a decline in the interest rate spread between U.S. Treasuries and other securities. Although the LIBOR spread remains elevated, it has declined from around 4 percent late last year to under 1 percent in early April. The expanded credit facilities have caused a huge increase in the Federal Reserve's balance sheet. Federal Reserve assets have increased from around \$1 trillion to over \$2 trillion. This large increase holds the potential for an explosive increase in the Nation's money supply. So far that has not occurred, because much of the increase in Federal Reserve liabilities has gone into idle reserves of the banks. Because of this and because the weaknesses in the economy are expected to dampen future price increases, current inflation risks are low. The Federal Reserve is prepared to reduce the assets on its balance sheet promptly as the economy recovers from the current recession and the crisis in the financial sector eases, as a result, future inflation risks should be manageable.

Financial Stabilization Policies: In the past 100 days, the administration has moved aggressively to remedy the problems plaguing financial markets. The Administration is implementing a Financial Stability Plan which is designed to clean up and strengthen the nation's banking system by bringing in private capital to restart lending, and get credit flowing again to consumers and businesses. This plan began with a forward-looking capital assessment exercise for the 19 U.S. banking institutions with assets in excess of \$100 billion. The exercise was designed to ensure that these institutions have sufficient capital to withstand more stressful economic conditions, should such conditions arise.

The second component of the Financial Stability Plan is aimed at starting a market for the troubled real-estate related assets that are at the center of the current crisis. The plan includes provisions for the Federal Government to join private investors in buying mortgage-backed

Table 12-1. ECONOMIC ASSUMPTIONS¹
(Calendar years; dollar amounts in billions)

	2007 Actual	Projections											
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Gross Domestic Product (GDP):													
Levels, dollar amounts in billions:													
Current dollars	13,808	14,281	14,291	14,902	15,728	16,731	17,739	18,588	19,415	20,279	21,181	22,124	23,108
Real, chained (2000) dollars	11,524	11,671	11,527	11,893	12,372	12,937	13,474	13,870	14,231	14,601	14,981	15,371	15,771
Chained price index (2000 = 100), annual average	119.8	122.4	124.0	125.3	127.1	129.3	131.6	134.0	136.41	138.87	141.37	143.91	146.51
Percent change, fourth quarter over fourth quarter:													
Current dollars	4.9	1.7	1.4	4.8	6.0	6.5	5.6	4.5	4.5	4.4	4.4	4.5	4.4
Real, chained (2000) dollars	2.3	-0.2	0.3	3.5	4.4	4.6	3.8	2.6	2.6	2.6	2.6	2.6	2.6
Chained price index (2000 = 100)	2.6	1.9	1.0	1.2	1.5	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Percent change, year over year:													
Current dollars	4.8	3.4	0.1	4.3	5.5	6.4	6.0	4.8	4.5	4.4	4.4	4.4	4.4
Real, chained (2000) dollars	2.0	1.3	-1.2	3.2	4.0	4.6	4.2	2.9	2.6	2.6	2.6	2.6	2.6
Chained price index (2000 = 100)	2.7	2.2	1.2	1.1	1.5	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Incomes, billions of current dollars:													
Corporate profits before tax	1,886	1,609	1,588	1,708	1,821	1,945	2,081	2,157	2,224	2,308	2,427	2,574	2,716
Employee compensation	7,812	8,048	8,102	8,441	8,931	9,493	10,049	10,549	11,040	11,554	12,086	12,623	13,199
Wages and salaries	6,362	6,543	6,575	6,838	7,236	7,692	8,142	8,548	8,941	9,347	9,778	10,207	10,671
Other taxable income ²	3,096	3,177	3,194	3,423	3,669	3,872	4,021	4,168	4,323	4,484	4,658	4,857	5,070
Consumer Price Index (all urban):³													
Level (1982-84 = 100), annual average	207.3	215.2	214.0	217.5	221.3	225.8	230.5	235.3	240.3	245.3	250.5	255.7	261.1
Percent change, fourth quarter over fourth quarter	4.0	1.5	0.8	1.6	1.8	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Percent change, year over year	2.9	3.8	-0.6	1.6	1.8	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Unemployment rate, civilian, percent:													
Fourth quarter level	4.8	6.9	8.1	7.7	6.8	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Annual average	4.6	5.8	8.1	7.9	7.1	6.0	5.2	5.0	5.0	5.0	5.0	5.0	5.0
Federal pay raises, January, percent:													
Military ⁴	2.7	3.5	3.4	2.9	NA	NA	NA	NA	NA	NA	NA	NA	NA
Civilian ⁵	2.2	3.5	2.9	2.0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Interest rates, percent:													
91-day Treasury bills ⁶	4.4	1.4	0.2	1.6	3.4	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0
10-year Treasury notes	4.6	3.7	2.8	4.0	4.8	5.1	5.2	5.2	5.2	5.2	5.2	5.2	5.2

NA = Not Available

¹ Based on information available as of end of January 2009.

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 2010 have not yet been determined.

⁵ Overall average increase, including locality pay adjustments. Percentages to be proposed for years after 2010 have not yet been determined.

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

securities. Removing these assets from the banks' balance sheets is a key step to restoring the financial system to normal functioning. The final component of the Financial Stability Plan aims to unfreeze secondary markets for loans to consumers and businesses using public resources to leverage private investors through the Term Asset-Backed Securities Loan Facility of the Federal Reserve. The Administration has also undertaken a Homeowner Affordability and Stability Plan to help millions of Americans refinance their mortgages at lower interest rates. This initiative aims to reach borrowers who are current on their mortgages and have played by the

rules but who are at high risk of foreclosure if prices fall further. Many of these borrowers live in communities where home values have fallen 20 percent or more and who find themselves unable to refinance at today's low interest rates because their loan-to-value ratio is above 80 percent. For the 4 to 5 million such homeowners with conforming loans either owned or guaranteed by Freddie Mac and Fannie Mae, this initiative will allow these borrowers to refinance at today's low rates, reducing the chance that they will default if prices fall further.

A second part of this plan would reach out to an additional 3 to 4 million American families who, because

they have high mortgage-debt to income ratios or because their mortgage exceeds their home value, are at high risk of default. This component of the plan will provide incentive payments to owners, servicers, and lenders to make loan modifications to bring down interest rates so that the borrower’s monthly mortgage payment is no greater than 31 percent of his or her income. A final part of the Homeowner Affordability and Stability Plan increases the Government’s funding commitment to support Fannie Mae and Freddie Mac as they work to keep mortgage rates down and increase the size of their loan portfolios.

Economic Projections

The Administration’s economic projections underlying the Budget estimates are summarized in Table 12–1. The assumptions are based on information available as of late January 2009. 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.

Real GDP and the Unemployment Rate: Real GDP is now estimated to have fallen 0.8 percent from the fourth quarter of 2007 through the end of 2008. This was the first four-quarter decline in real GDP since 1991. The year ended on an especially weak note with real GDP dropping at a 6.3 percent annual rate in the fourth quarter, the largest decline in a single quarter since 1982. Payroll employment has declined every month since December 2007, and the unemployment rate has risen substantially. In March, the national unemployment rate reached 8.5 percent, the highest it has been since 1983. Broader measures of labor underutilization record a similar increase. The broadest measure of unemployment and underemployment reported by the Bureau of Labor Statistics has

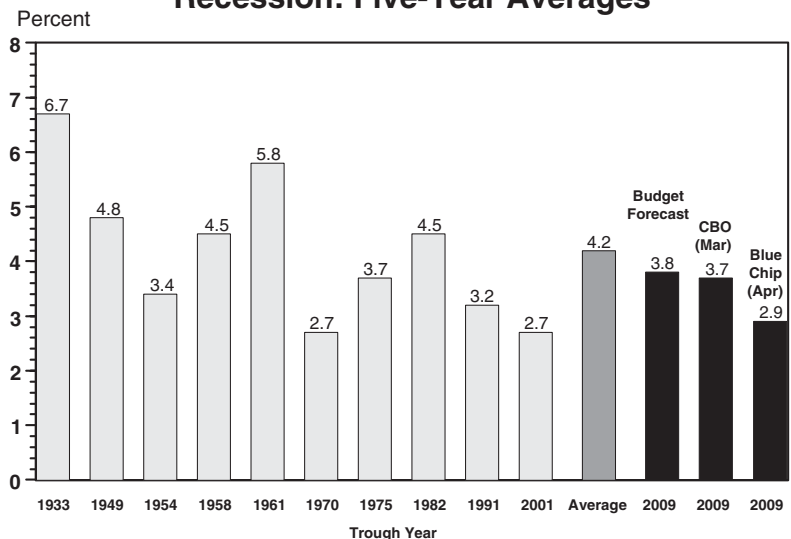
increased from 7.9 percent in December 2006 to 15.6 percent in March.

The Administration projects an economic recovery will begin in the second half of the year sparked by the American Recovery and Reinvestment Act. By the end of the year, real growth is expected to have reached 3-1/2 percent at an annual rate, a pace that is maintained through 2010. In 2011-2013, the rate of growth in real GDP is projected to accelerate to around 4-1/2 percent annually for several quarters. This rapid growth is expected to push down the unemployment rate, which is projected to return to 5.0 percent by the end of 2013.

As shown in the chart below, the Administration’s projections for real GDP growth over the next five years imply a recovery that is a bit below average. It is true that recent recoveries have been somewhat weaker, but the last two expansions were preceded by very mild recessions, which left less pent-up demand when conditions improved. Some analysts believe the recovery from the current recession will be weak, because it will be crippled by continuing problems in the financial sector. The Administration takes the view that the steps it has already taken along with future actions will resolve those financial problems in a timely manner. Although the economic downturn so far in 2009 has been more severe than the Administration expected when the forecast was finalized, if the financial system begins to function more normally, there is every reason to expect a somewhat stronger recovery given the depth of the current recession.

Estimate of Jobs Saved or Created: The President’s Council of Economic Advisers has estimated that the Recovery Act will create or save 3-1/2 million jobs by the end of 2010. This estimate is based on “multipliers” from standard macroeconomic models which suggest that extra

Chart 12-5. Economic Growth Following a Recession: Five-Year Averages



government spending on goods and services leads to a total increment in aggregate demand equal to 1.6 times the increase in Federal spending, while a tax reduction has a multiplier of 1.0 for a permanent reduction (one-time tax rebates have a much smaller multiplier).

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 growth is assumed to hold to its recent trend of around 2.3 percent per year, while nonfarm labor supply grows at a rate of around 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 2.6 percent. That is markedly slower than the average growth rate of real GDP since 1947 – 3.3 percent per year. In the 21st century, economic 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 is expected to occur beginning with the retirement of the post-World War II “baby boom” generation.

Is Real GDP a Random Walk? Not Exactly: The Administration forecast reflects traditional business cycle analysis in which a period of weak or negative growth is followed by a recovery and expansion during which real GDP grows above trend for a time. This is consistent with the natural rate hypothesis and Okun’s Law. Okun’s Law holds that faster than normal growth is needed to reduce unemployment from an elevated level to its long-run value. Alternatively, some economists believe that real GDP behaves more like a random walk (with drift) in which the best possible projection of future growth is simply the long-run average growth rate observed in the past. On this view, there would be no reason to project above-normal growth at any time.

It has proven difficult to resolve this issue empirically. Official statistics for real GDP extend back to 1947 on a quarterly basis, but that is not long enough to settle the issue definitively. Furthermore, the right answer could well be a blend of the two views, in which real GDP grows at an above-normal rate following a recession but does not return to the previous trend level, but to a somewhat lower level. There also appear to be breaks in the data where the long-run average growth rate shifts up or down, which complicates the statistical testing for randomness. Indeed, the Administration forecast includes such a break in the growth trend because of the expected slowdown in labor force growth.

Unemployment: In the forecast, the unemployment rate converges on 5.0 percent, which the Administration believes is a rate consistent with stable price inflation. When the forecast was finalized in early February, the unemployment rate was expected to peak at an annual average over 8 percent, but economic developments since the forecast was made suggest that unemployment may peak at an even higher rate, even on an annual average basis.

The decline in unemployment projected for 2010-2013 is consistent with the Okun’s Law relationship mentioned above and the Administration’s assumption for potential growth in real GDP. As the official unemployment rate declines, so should the broader measures of labor underutilization.

Inflation: Inflation was volatile in 2008, in large part because of fluctuations in energy prices. Over the 12 months of the year, the CPI fell by 0.1 percent, but during the course of the year, the monthly inflation rate varied between 0.9 percent and -1.7 percent (not annualized). The price declines at the end of the year were the steepest in the post World War II period. The inflation rate is expected to remain subdued over the next few years, mainly because of economic weakness which has depressed the labor market and suppressed producers’ pricing power. With the recovery path assumed in the Administration forecast, the risk of outright deflation appears minimal. In the long-run, 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. These values are within the Federal Reserve’s comfort zone for inflation.

Interest Rates: Interest rates on Treasury securities fell sharply in late 2008, which brought both short-term and long-term rates to their lowest levels in decades. So far in 2009, short-term Treasury rates have remained near zero, and the ten-year yield remains near 3 percent. Investors have sought the security of Treasury debt during the heightened financial uncertainty of the last several months. In the projection period, interest rates are expected to rise as financial concerns are alleviated and the economy recovers from recession. The 91-day Treasury bill rate is projected to reach 4.0 percent and the 10-year rate 5.2 percent by 2013, at which point unemployment will have reached its long-run value and the annual growth rate of real GDP will have stabilized at 2.6 percent. 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 low by historical standards in 2008 and is expected to rise over the forecast period. As a share of GDP employee compensation was 56.4 percent in 2008 and it is expected to rise to around 57.1 percent toward the end of the 10-year forecast horizon. In the expansion that ended in 2007, labor compensation tended to lag behind the growth in productivity. Output per hour in nonfarm business grew at an average annual rate of 2.3 percent, while real hourly compensation adjusted for the increase in product prices was increasing at a rate of only 1.6 percent. In 2008 the differential narrowed from 0.6 percent to 0.2 percent, and in the forecast, the Administration assumes that compensation will keep pace with productivity.

While the overall share of labor compensation is expected to increase, the wage share is expected to remain roughly flat. The share of employee fringe benefits which

supplement taxable wages and salaries takes up most of the increase in compensation. Rising health insurance costs will put upward pressure on the share of fringe benefits.

The share of corporate profits was 12.9 percent of GDP in the third quarter of 2006 prior to the recession, which was near an all-time high. Since then profits have dropped sharply. They are forecast to be only 9.5 percent of GDP in 2009. As the economy recovers, the profit share is expected to rebound. In the forecast, the ratio of profits to GDP reaches 10-1/2 percent in 2011 and remains roughly stable at that level.

Comparison with CBO and Private-Sector Forecasts

Table 12–2 compares the economic assumptions for the 2010 Budget with projections by the Congressional Budget Office (CBO) and by the Blue Chip Consensus, an average of about 50 private-sector economic forecasts. These other economic projections differ in some respects from the Administration's projections, but the forecast differences are relatively small compared with the margin of error in all economic forecasts, and in broad outline, the three forecasts are similar. All three agree that the recession is likely to end in 2009 and that the economy will begin to recover showing positive growth in 2010

Table 12–2. COMPARISON OF ECONOMIC ASSUMPTIONS
(Calendar years)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Nominal GDP:												
2010 Budget	14,281	14,291	14,902	15,728	16,731	17,739	18,588	19,415	20,279	21,181	22,124	23,108
Congressional Budget Office (March 2009)	14,257	14,047	14,576	15,233	15,950	16,684	17,421	18,138	18,873	19,624	20,381	21,164
April Blue Chip Consensus ¹	14,263	14,080	14,524	15,304	16,172	17,024	17,903	18,779	19,672	20,607	21,587	22,613
Real GDP (year-over-year):												
2010 Budget	1.3	-1.2	3.2	4.0	4.6	4.2	2.9	2.6	2.6	2.6	2.6	2.6
Congressional Budget Office (March 2009)	1.1	-3.0	2.9	4.0	4.1	4.0	3.5	2.7	2.5	2.4	2.3	2.2
April Blue Chip Consensus ¹	1.1	-2.6	1.8	3.4	3.4	3.0	2.9	2.7	2.6	2.6	2.6	2.6
Real GDP (fourth-quarter-over-fourth-quarter):												
2010 Budget	-0.2	0.3	3.5	4.4	4.6	3.8	2.6	2.6	2.6	2.6	2.6	2.6
Congressional Budget Office (March 2009)	-0.9	-1.5	4.1	4.1	4.1	3.9	3.2	2.6	2.4	2.3	2.2	2.2
April Blue Chip Consensus ¹	-0.8	-1.3	2.7	3.6	3.3	2.9	2.9	2.6	2.6	2.6	2.6	2.6
GDP Price Index:²												
2010 Budget	2.2	1.2	1.1	1.5	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Congressional Budget Office (March 2009)	2.2	1.5	0.8	0.5	0.6	0.6	0.9	1.4	1.5	1.6	1.6	1.6
April Blue Chip Consensus ¹	2.2	1.4	1.3	1.7	1.9	2.2	2.2	2.3	2.3	2.3	2.3	2.3
Consumer Price Index (CPI-U):²												
2010 Budget	3.8	-0.6	1.6	1.8	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Congressional Budget Office (March 2009)	3.8	-0.7	1.4	1.2	1.0	1.0	1.2	1.6	1.9	1.9	1.9	1.9
April Blue Chip Consensus ¹	3.8	-0.8	1.7	2.1	2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.5
Unemployment Rate:³												
2010 Budget	5.8	8.1	7.9	7.1	6.0	5.2	5.0	5.0	5.0	5.0	5.0	5.0
Congressional Budget Office (March 2009)	5.8	8.8	9.0	7.7	6.6	5.6	5.1	4.9	4.8	4.8	4.8	4.8
April Blue Chip Consensus ¹	5.8	8.9	9.5	8.1	7.1	6.4	5.9	5.7	5.6	5.5	5.5	5.5
Interest Rates:³												
91-Day Treasury Bills (discount basis):												
2010 Budget	1.4	0.2	1.6	3.4	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Congressional Budget Office (March 2009)	1.4	0.3	0.9	1.8	3.0	3.9	4.4	4.7	4.7	4.8	4.8	4.8
April Blue Chip Consensus ¹	1.4	0.3	0.9	2.8	3.6	4.0	4.2	4.3	4.2	4.2	4.2	4.2
10-Year Treasury Notes:												
2010 Budget	3.7	2.8	4.0	4.8	5.1	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Congressional Budget Office (March 2009)	3.7	2.9	3.4	4.0	4.6	5.0	5.3	5.4	5.5	5.6	5.6	5.6
April Blue Chip Consensus ¹	3.7	2.9	3.5	4.5	4.9	5.2	5.4	5.4	5.4	5.4	5.4	5.4

Sources: Administration; CBO, *A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook*, March 2009; April 2009 *Blue Chip Economic Indicators*, Aspen Publishers, Inc.

¹ The Blue Chip forecast was extended to 2011-2019 using the March long-run Blue Chip projections, quarterly growth rates for 2011-2019 were interpolated.

² Year-over-year percent change.

³ Annual averages, percent.

and beyond. They are agreed that inflation will be at a low rate in 2009-2010, but outright deflation is avoided. They agree that after peaking at a relatively high rate, unemployment gradually declines and interest rates also return to more normal levels.

The three sets of economic assumptions are based on different underlying assumptions concerning economic policies. The Administration forecast assumes that the President's Budget proposals will be enacted and that the Financial Stability Plan and Homeowner Affordability and Stability Plan will be fully implemented. In contrast, the CBO baseline projection assumes that current law as of the time the estimates were made in March remains unchanged. The 50 or so private forecasters in the Blue Chip Consensus make differing policy assumptions, but none would necessarily assume that the Budget and financial rescue plans are adopted in full. Sometimes these policy differences have relatively little effect on the forecast outcomes, but that is not so in the current environment. The fiscal changes proposed in the budget and the related plans for financial stabilization are large enough to have a major effect on the macroeconomic outlook.

The forecasts also differ because they were made on different dates. Usually a several week difference in forecast dates has little impact on economic forecasts, but in the weeks since the Administration forecast was made, economic data have appeared showing that the economy was much weaker at the end of 2008 and beginning of 2009 than was apparent earlier. Because the CBO and Blue Chip Consensus forecasts were made several weeks later, they reflect the more recent data and consequently offer a somewhat more pessimistic economic outlook.

Real GDP Growth: In analyzing forecast differences with respect to real GDP growth, it is useful to consider two questions separately: how deep will the current recession be and what type of recovery is likely once the recession ends? The Administration's real GDP projections are more optimistic than CBO and the private consensus on

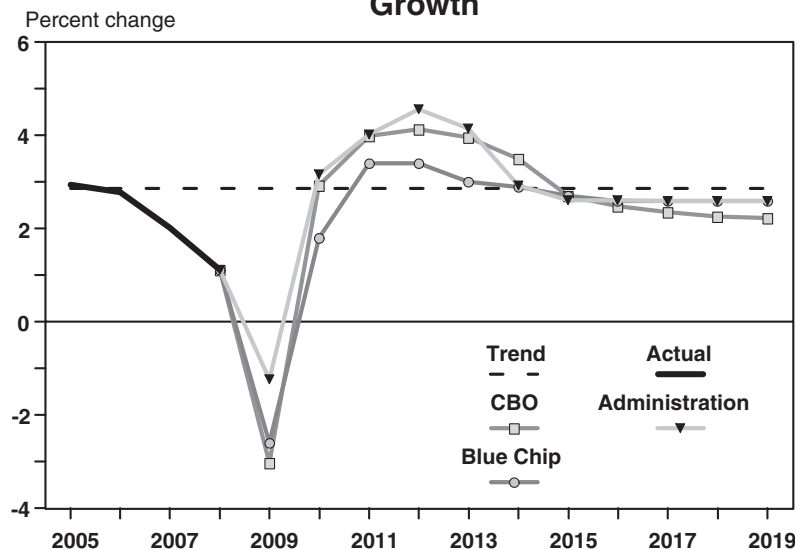
both points, but the second is much more important for the budget outlook than the first.

Between the end of World War II and 2008, there were ten recessions in the United States. The average decline, from the peak quarter for real GDP to the trough, was 2.0 percent during those ten recessions. The Administration assumes that the current recession will be somewhat worse than this average experience. Meanwhile, CBO and the Blue Chip consensus both expect the recession to be much deeper than average. Nevertheless all three forecasts expect the recession to end in 2009. None anticipates a repeat of the four-year decline from 1929 to 1933, so the difference is mainly a question of when in 2009 the recession will end and how low real GDP will sink before reaching that point.

Naturally, there is great concern about these questions since they bear on how long the current period of mounting job losses will continue, but even were the recession to turn out deeper than the Administration originally forecast, it would not necessarily have a large permanent effect on the budget projections—provided the recovery from the recession adjusts in an offsetting way. The Administration's forecast assumption is that the depth of the recession does not affect the long-run level of real GDP, which is instead tied to potential output and is not affected by the business cycle. Unless a deeper recession affects the projection of the underlying trend for real GDP, it would have only a modest effect on the medium-term budget.

Differences in the potential rate of real GDP growth do have a profound effect on the budget projections, and these are the most important differences separating the Administration's forecast from those of CBO and the Blue Chip. As shown in the chart below, the Administration assumes that real GDP will grow rapidly in the years ahead as it recovers from the 2008-2009 recession. CBO and the Blue Chip are more pessimistic about the long-run outlook. CBO has relatively rapid growth beginning in 2011,

Chart 12-6. Alternative Projections of Real GDP Growth



but not rapid enough to offset the loss expected from the recession, and in the final years of the projection period, CBO has real growth sinking to 2.2 percent. Since 1947, U.S. real GDP has grown at an average rate of 3.3 percent, although the average growth rate over the last 35 years has averaged only 2.8 percent. The Blue Chip consensus is somewhat more optimistic than CBO about the final years of the forecast as its long-run growth rate is 2.6 percent, the same as the Administration assumes, but the Blue Chip has the smallest expected recovery from the current recession in 2010-2013.

A deep recession does not necessarily imply a slow recovery; if anything, it implies the opposite. The historical record points in the other direction with deeper recessions being followed by stronger recoveries. The strongest recovery since 1929 was during the five years following the Great Contraction of 1929-1933. Two important factors could contribute to a weaker than normal expansion: (1) a protracted credit crunch in which the problems in the financial markets are not resolved in 2009 and (2) a deeper world-wide slump that holds down U.S. exports and offsets the effects of fiscal stimulus on domestic demand. Both are possible, but the Administration believes that the credit market problems will be resolved in a timely fashion, and that the United States will once again lead the world out of recession as it has in the past.

It is worth remembering that all economic forecasts are subject to error, and the forecast errors are usually much larger than the forecast differences discussed above. Past forecast errors among the Administration, CBO, and the Blue Chip have been roughly similar.

Unemployment: The near-term differences in the unemployment rate forecasts track the differences in expected real GDP growth. Unemployment rises higher in the CBO and Blue Chip forecasts, because they both expect a deeper and somewhat longer recession than the Administration does. Unemployment peaks at 9.1 percent in 2010 according to the Consensus forecast, while it reaches 9.0 percent in the CBO forecast. In the long run, CBO expects unemployment to return to 4.8 percent, while the Blue Chip only sees it returning to 5.5 percent. The Administration's long-run projection for the unemployment rate is 5.0 percent.

Inflation: The three inflation forecasts are much closer. All three forecasts anticipate a slowdown in inflation in 2009-2010 followed by a gradual return of inflation to the range of 1.6 to 2.3 percent as measured by the GDP price index and between 1.9 and 2.5 percent as measured by the CPI. CBO has the lowest inflation forecast while the Consensus is the highest with the Administration in the middle. None of the forecasters expects the slowdown in inflation to turn into deflation although that risk would appear to be greater in the two forecasts with the slower real growth projections. The Blue Chip projection is somewhat puzzling in that its very weak recovery might have been expected to produce a larger permanent change in the inflation rate. CBO, by contrast, has five consecutive years of less than 1-percent inflation.

Interest Rates: The three forecasts are also similar in their projections for interest rates. They anticipate that

interest rates will rise between 2009 and 2012 converging on stable higher levels in 2013 and beyond. CBO projects that the long-run yield on 10-year Treasury notes will be 5.6 percent and Blue Chip projects 5.4 percent. The Administration projects a long-run value of 5.2 percent. Short-term rates are expected to be near zero in 2009, but then to increase reaching a long-run rate of 4.0 percent in the Administration projections, 4.2 percent in the Blue Chip Consensus, and 4.8 percent in the CBO projections. The principal difference between CBO and the Administration projections is that the Administration anticipates a gradual restoration of a yield curve spread between long-term and short-term interest rates that is closer to the historical average.

Changes in Economic Assumptions

The economic assumptions underlying this Budget have changed compared with those used by the previous Administration for the 2009 Budget, although more in the short run than in the long run, as shown in Table 12-3. The previous Administration's final Budget did not anticipate the 2008-2009 recession. Consequently, the projected growth rates for 2008-2009 turned out to be far above those in the current Budget. For the same reason, the strong economic recovery projected for 2010-2013 was not anticipated in the previous Budget and real growth rates for those years are lower than in the current Budget. Finally, the long-run growth trend was pegged at 2.7 percent per year in the previous Budget and that has been revised down slightly to 2.6 percent per year in the current Budget.

The long-run unemployment rate projection is raised from 4.8 percent in the previous Budget to 5.0 percent in the current Budget, while near-term unemployment has been increased substantially as a result of the recession. Inflation was projected to be quite stable in the 2009 Budget at 2.0 percent for the GDP price index and 2.3 percent in most years for the CPI. In the current Budget, inflation is more subdued in 2009, but it rises subsequently reaching its long-run levels in 2013. These long-run stable values for inflation have been marked down by 0.2 percentage point for both the GDP price index and the CPI. Interest rates were much lower in 2008 than expected in the previous Budget and the current forecast has rates for several years that are below those projected in the 2009 Budget. The long-term values, however, for the 3-month Treasury bill rate and the 10-year Treasury note are close to those in the previous Budget.

Sensitivity of the Budget to Economic Assumptions

Both receipts and outlays are affected by changes in economic conditions. 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

Table 12-3. COMPARISON OF ECONOMIC ASSUMPTIONS IN THE 2009 AND 2010 BUDGETS
(Calendar years; dollar amounts in billions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal GDP:											
2009 Budget Assumptions ¹	14,456	15,190	15,961	16,754	17,574	18,432	19,320	20,241	21,206	22,220	23,288
2010 Budget Assumptions	14,281	14,291	14,902	15,728	16,731	17,739	18,588	19,415	20,279	21,181	22,124
Real GDP (2000 dollars):											
2009 Budget Assumptions ¹	11,846	12,203	12,572	12,938	13,305	13,681	14,059	14,440	14,831	15,236	15,653
2010 Budget Assumptions	11,671	11,527	11,893	12,372	12,937	13,474	13,870	14,231	14,601	14,981	15,371
Real GDP (percent change):²											
2009 Budget Assumptions	2.7	3.0	3.0	2.9	2.8	2.8	2.8	2.7	2.7	2.7	2.7
2010 Budget Assumptions	1.3	-1.2	3.2	4.0	4.6	4.2	2.9	2.6	2.6	2.6	2.6
GDP Price Index (percent change):²											
2009 Budget Assumptions	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
2010 Budget Assumptions	2.2	1.2	1.1	1.5	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Consumer Price Index (all-urban; percent change):²											
2009 Budget Assumptions	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
2010 Budget Assumptions	1.5	0.8	1.6	1.8	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Civilian Unemployment Rate (percent):³											
2009 Budget Assumptions	4.9	4.9	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
2010 Budget Assumptions	5.8	8.1	7.9	7.1	6.0	5.2	5.0	5.0	5.0	5.0	5.0
91-day Treasury bill rate (percent):³											
2009 Budget Assumptions	3.7	3.8	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
2010 Budget Assumptions	1.4	0.2	1.6	3.4	3.9	4.0	4.0	4.0	4.0	4.0	4.0
10-year Treasury note rate (percent):³											
2009 Budget Assumptions	4.6	4.9	5.1	5.2	5.3	5.3	5.3	5.3	5.3	5.3	5.3
2010 Budget Assumptions	3.7	2.8	4.0	4.8	5.1	5.2	5.2	5.2	5.2	5.2	5.2

¹ Adjusted for July 2008 NIPA revisions.

² Year-over-year.

³ Calendar year average.

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; they are not a forecast of how receipts or outlays would actually change if there were a change in economic conditions. 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. This is especially true for inflation. Spending for indexed programs, like Social Security, does respond to changes in inflation, but only with a lag. Annually appropriated (“discretionary”) spending is specified in nominal dollars, and therefore does not vary when there is a change in the projected rate of inflation. Congress would have to act to maintain unchanged purchasing power in discretionary appropriations. Also, the rules of thumb for receipts changes reported here reflect

how Treasury’s receipts estimates would shift with certain economic changes, but they do not capture associated “technical” changes that often accompany a shift in the economic outlook. There is, for example, no rule of thumb for the receipts effect of large changes in capital gains tax realizations that often occur when the economic outlook changes.

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. This is the Okun’s Law relationship discussed above. In the long run, however, changes in the average rate of growth of real GDP are mainly due to changes in the rates of growth of productivity and the labor force, and are not necessarily associated with changes in the average rate of unemployment. Inflation and interest rates are also closely interrelated: a higher expected rate of inflation increases interest rates, while lower expected inflation reduces 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. Highlights of the budgetary effects of these rules of thumb are shown in Table 12–4.

For real growth and employment:

- The first block shows the effect of a temporary reduction in real GDP growth by one percentage point sustained for one year, followed by a recovery of GDP to the base-case level (the Budget assumptions) over the ensuing two years. In this case, the unemployment rate is assumed to rise by one-half percentage point relative to the Budget assumptions by the end of the first year, then return to the base case rate over the ensuing two years. After real GDP and the unemployment rate have returned to their base case levels, most budget effects vanish except for persistent out-year interest costs associated with larger near-term deficits.
- The second block shows the effect of a temporary reduction in real GDP growth by one percentage point sustained for one year along with a permanent increase in the unemployment rate of one-half percentage point relative to 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 slightly 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 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 levels. Receipts increase by about twice as much as 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 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 about double 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 the GDP price index and in CPI inflation decreases cumulative deficits substantially. The separate effects of higher inflation and higher interest rates do not sum to the effects for simultaneous changes in both. The gains in budget receipts due to higher inflation result in higher debt service savings when interest rates are also assumed to be higher (the combined case) than when interest rates are assumed to be unchanged (the separate case).
- 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.

Alternative Scenarios

The economic outlook is always uncertain, but it is especially uncertain at present. The rules-of-thumb described above can be used in combination to show the effect on the budget of alternative economic projections. Alternative scenarios can be used to gauge some of the risks to the current budget projections. For example, since the budget assumptions were formulated in late January, there has been further deterioration in economic conditions making a deeper recession a likely possibility. That possibility is explored in the two alternative scenarios presented in this section. Both alternatives allow for the same pattern of growth over the course of 2009-2010 as in the latest Blue Chip forecast (April). The only difference in these scenarios is how strong the recovery is.

Table 12-4. SENSITIVITY OF THE BUDGET TO ECONOMIC ASSUMPTIONS
(In billions of dollars)

Budget effect	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total of Effects, 2009-2019
Real Growth and Employment												
Budgetary effects of 1 percent lower real GDP growth:												
(1) For calendar year 2009 only, with real GDP recovery in 2010-11: ¹												
Receipts	-14.1	-21.9	-10.3	-1.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	-45.8
Outlays	2.7	6.3	5.0	2.8	2.6	2.6	2.7	2.8	2.8	3.0	3.1	36.4
Increase in deficit (+)	16.7	28.2	15.3	4.0	2.4	2.4	2.5	2.5	2.6	2.7	2.8	82.2
(2) For calendar year 2009 only, with no subsequent recovery: ¹												
Receipts	-14.1	-29.3	-34.7	-37.8	-40.0	-41.9	-44.2	-46.5	-48.7	-51.0	-53.5	-441.6
Outlays	2.7	7.6	10.1	13.2	16.4	19.0	21.6	24.5	27.6	31.0	34.5	208.3
Increase in deficit (+)	16.8	36.9	44.8	50.9	56.4	60.9	65.8	71.0	76.3	82.0	88.0	649.9
(3) Sustained during 2009 - 2019, with no change in unemployment:												
Receipts	-14.2	-44.8	-84.8	-130.7	-180.4	-233.8	-291.9	-353.7	-418.4	-488.0	-562.6	-2,803.3
Outlays	-0.4	-0.8	1.9	6.5	12.8	20.6	30.4	42.5	57.0	74.3	94.4	339.2
Increase in deficit (+)	13.8	44.0	86.7	137.2	193.2	254.4	322.4	396.1	475.4	562.3	657.1	3,142.5
Inflation and Interest Rates												
Budgetary effects of 1 percentage point higher rate of:												
(4) Inflation and interest rates during calendar year 2009 only:												
Receipts	17.6	37.6	38.0	37.0	39.7	42.1	44.5	47.0	49.3	51.7	54.1	458.4
Outlays	13.1	26.7	16.0	19.8	20.2	20.4	18.5	18.2	16.2	15.6	15.2	199.8
Decrease in deficit (-)	-4.5	-10.9	-22.0	-17.2	-19.4	-21.7	-26.1	-28.8	-33.1	-36.1	-38.9	-258.6
(5) Inflation and interest rates, sustained during 2009 - 2019:												
Receipts	17.6	58.9	107.2	164.0	212.1	261.9	322.9	388.5	457.9	533.7	615.8	3,140.6
Outlays	13.5	54.1	78.4	111.1	137.3	162.0	185.0	210.0	232.9	254.9	283.1	1,722.2
Decrease in deficit (-)	-4.0	-4.9	-28.8	-53.0	-74.8	-99.9	-137.9	-178.4	-225.1	-278.8	-332.7	-1,418.3
(6) Interest rates only, sustained during 2009 - 2019:												
Receipts	3.9	15.3	24.7	37.1	36.3	33.1	35.6	37.9	40.2	42.4	44.6	351.2
Outlays	8.8	42.6	63.1	77.6	87.9	98.8	108.8	119.1	129.7	140.5	152.5	1,029.4
Increase in deficit (+)	4.9	27.4	38.3	40.5	51.5	65.7	73.2	81.1	89.5	98.0	107.9	678.2
(7) Inflation only, sustained during 2009 - 2019:												
Receipts	13.6	43.6	82.4	126.8	175.6	228.5	287.0	350.1	417.2	490.6	570.4	2,785.7
Outlays	4.7	11.7	16.3	35.3	52.6	67.9	83.2	100.7	116.3	131.8	152.9	773.4
Decrease in deficit (-)	-8.9	-31.9	-66.1	-91.5	-123.0	-160.6	-203.8	-249.4	-300.9	-358.8	-417.4	-2,012.3
Interest Cost of Higher Federal Borrowing												
(8) Outlay effect of \$100 billion increase in borrowing in 2009	0.2	1.0	3.1	4.3	4.7	4.9	5.1	5.3	5.6	5.8	6.0	45.9

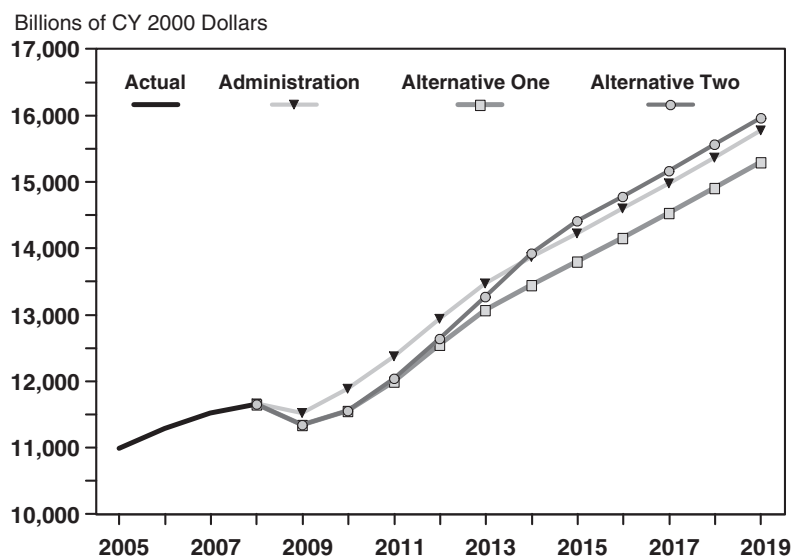
* \$50 million or less.

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

In the first scenario, growth in 2011-2014 is the same as in the current Administration forecast. In this case, there is a permanent loss of output from the recession that is never made up in the subsequent recovery. The loss is less than in the latest Blue Chip projections, which only show a modest and very partial recovery from the

recession, but there is a substantial loss compared with the Budget as shown in Chart 12-7.

The second alternative scenario makes a different assumption about the recovery period. It assumes that over the five years from 2009 through 2014, growth is equal to the average growth rate achieved in the ex-

Chart 12-7. Alternative Scenarios for Real GDP

pansions that followed most of the recessions since the Great Depression as reflected in Chart 12-7. The average real growth rate following the trough of these recessions has been 4.2 percent. With that type of recovery, the level of real GDP would be higher in 2014 than in the Administration projections and budget deficits after 2014 would be lower than under the Administration's projections as shown in Table 12-5.

Many other scenarios are possible of course, but the point is that the most important influence on the budget projections beyond the next year or two is the rate of growth achieved once the recession has ended and the expansion has begun.

Structural and Cyclical Deficits

An alternative measure of the budget deficit is called the adjusted structural deficit. It provides a useful perspective on the stance of fiscal policy compared with the unadjusted unified budget deficit. The unadjusted deficit is affected by 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 (or the surplus smaller) than it would be otherwise.

The portion of the deficit (or surplus) 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 (or structural surplus). Further adjustments are made to remove the effects of transitory financial transactions, such as outlays for bank closings under deposit insurance and the outlays made through the Troubled Asset Relief Program (TARP). Other financial stabilization outlays have also been removed from this adjusted structural deficit including GSE equity purchase programs. The adjusted 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 and temporary financial transactions.

Estimates of the structural deficit are based on the historical relationship between changes in the unemployment rate and real GDP growth, known as "Okun's Law,"

Table 12-5. BUDGET EFFECTS OF ALTERNATIVE SCENARIOS
(In billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Alternative Budget Deficit Projections:											
Administration Economic Assumptions	1,841	1,258	929	557	512	536	528	645	675	688	779
Percent of GDP	12.9	8.9	6.5	3.7	3.2	3.1	2.9	3.5	3.5	3.4	3.7
Alternative Scenario 1	1,879	1,346	1,014	670	640	673	678	810	852	879	985
Percent of GDP	13.2	9.6	7.1	4.4	4.0	3.9	3.8	4.3	4.4	4.3	4.6
Alternative Scenario 2	1,879	1,346	1,006	651	593	542	470	574	597	605	689
Percent of GDP	13.2	9.6	7.0	4.3	3.7	3.1	2.5	2.9	2.9	2.8	3.1

which has been discussed above, 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 will pull down capital gains-related receipts and increase the deficit. Some of this decline is cyclical in nature, but economists have not pinned down the cyclical component of the stock market exactly, 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 underestimate 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 current recession has added substan-

tially to the cyclical component of the deficit, but for the reasons stated here, the cyclical component is probably understated. As the economy recovers, the cyclical deficit is projected to decline and when unemployment reaches 5 percent, the level assumed to be consistent with stable inflation, the cyclical component vanishes leaving only the structural deficit, although some cyclical effects would arguably still be present.

Despite these limitations, the distinction between cyclical and structural deficits is helpful in understanding the path of fiscal policy. The large increase in the deficit in 2009 and 2010 is due to combination of all three 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 current recession, but that is not the only reason for the increase in the deficit. There is also a large increase in the temporary financial component because of the financial stabilization measures undertaken by the Federal Government. Finally, there is a large increase in the adjusted 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 hasten economic recovery. In 2011-2014, the cyclical component declines sharply as the economy recovers. The temporary financial measures lead to an expected inflow of funds and the adjusted structural deficit shrinks as the temporary spending and tax measures in the Recovery Act end.

Table 12-6. ADJUSTED STRUCTURAL BALANCE

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
In billions of dollars:												
Unadjusted deficit	377.6	412.7	318.3	248.2	162.0	458.6	1,841.2	1,258.4	929.4	557.4	512.3	535.9
Less cyclical component	106.4	61.8	14.7	-23.5	-10.5	49.2	297.8	350.9	300.8	185.5	57.9	1.7
Structural deficit	271.2	350.9	303.7	271.7	172.5	409.4	1,543.4	907.6	628.6	372.0	454.4	534.2
Less financial stabilization and deposit insurance	-1.4	-2.0	-1.4	-1.1	-1.5	18.7	727.0	68.9	9.6	-42.5	-53.1	-58.5
Adjusted structural deficit	272.6	352.9	305.0	272.8	174.0	390.7	816.4	838.7	619.0	414.4	507.6	592.7
As a percent of GDP:												
Unadjusted deficit	3.5	3.6	2.6	1.9	1.2	3.2	12.9	8.5	6.0	3.4	2.9	2.9
Less cyclical component	1.0	0.5	0.1	-0.2	-0.1	0.3	2.1	2.4	1.9	1.1	0.3	0.0
Structural deficit	2.5	3.1	2.5	2.1	1.3	2.9	10.8	6.2	4.1	2.3	2.6	2.9
Less financial stabilization and deposit insurance	-0.0	-0.0	-0.0	-0.0	-0.0	0.1	5.1	0.5	0.1	-0.3	-0.3	-0.3
Adjusted structural deficit	2.5	3.1	2.5	2.1	1.3	2.7	5.7	5.7	4.0	2.5	2.9	3.2

NOTE: The NAIRU is assumed to be 5.0%.

13. STEWARDSHIP

Introduction

The budget is an essential tool for allocating resources within the Federal Government and between the public and private sectors, but current outlays, receipts, and the deficit give only a partial picture of the Government's financial condition. For example, the temporary shift from annual deficits to surpluses in the late 1990s did little to slow the long-term growth rate of the Government's major health programs, which is a major reason for the long-run shortfall in Federal finances. As important as the current budget surplus or deficit is, other indicators are also needed to judge the Government's fiscal condition.

For the Federal Government, there is no single number that corresponds to the bottom line in a business balance sheet. The Government is judged by how its actions affect the country's well-being over time, and that cannot easily be summed up with a single statistic. Furthermore, the Government is not expected to earn a profit, so its financial performance cannot be directly compared to that of a business.

One measure of the Government's financial performance is the extent to which it collects the taxes that are owed to it, and another is whether it delivers value in spending the taxes that it collects. Both of those questions are addressed below. In general, the Government's financial status is best evaluated using a broad range of data and several complementary perspectives. This chapter presents a framework for such analysis. Because there are serious limitations on the available data and the fu-

ture is uncertain, this chapter's findings and conclusions should be interpreted as tentative and subject to revision.

The chapter consists of four parts:

- Part I explains how the separate pieces of analysis link together. Chart 13-1 is a schematic diagram showing the linkages.
- Part II presents estimates of the Government's assets and liabilities, which are shown in Table 13-1. This table is similar to a business balance sheet, but for that reason it cannot reveal some of the Government's unique financial features and is necessarily supplemented by the information in Parts III and IV.
- Part III shows a number of long-run paths for the Federal budget. These projections depend on alternative assumptions. The projections are summarized in Table 13-2 and in a related set of charts. Table 13-3 presents the financial outlook for Medicare and Social Security. All these data provide information concerning the scope of the Government's future responsibilities and the resources it will have available to discharge them.
- Part IV presents a summary of national wealth and a small sample of statistical indicators of economic and social conditions. These various measures reflect the outcomes of Government policies, among other factors. It also analyzes tax compliance.

PART I—A FRAMEWORK TO EVALUATE FEDERAL FINANCES

No single framework can encompass all of the factors that affect the financial condition of the Federal Government, but the framework presented here is comprehensive. It includes information about Government assets and liabilities as well as long-run projections of the entire budget showing where future fiscal strains are most likely to appear. The framework includes an analysis of the Government's potential revenue derivable from today's tax structure and what can be done realistically, through better education and more rigorous enforcement of the tax law, to reach that potential. Measures of national wealth, which support future income and tax receipts, are presented along with an array of economic and social indicators.

The Government's binding obligations—its liabilities—include Treasury debt. Accrued obligations for Government insurance policies and the estimated present value of failed loan guarantees and deposit insurance claims also have analogues in the private sector. The

pensions and medical benefits owed to retired Federal employees and veterans are sometimes considered binding liabilities as well. These employee obligations can be thought of as a form of deferred compensation; they have counterparts in the business world and would appear as liabilities on a business balance sheet.¹ These Government liabilities are discussed in Part II along with the Government's financial and physical assets. These liabilities are only a subset of the Government's overall financial responsibilities. Indeed, the full extent of the Government's fiscal exposure through programmatic commitments dwarfs the outstanding total of Federal liabilities. The present value of commitments to Medicare,

¹ The benefits promised to federal retirees and veterans are a step removed from legally enforceable liabilities such as debt and also a step removed from private-sector retiree and health commitments, which are frequently contractual and so legally enforceable. In contrast, the promises to federal retirees and veterans can be, and occasionally have been, reduced by statute. Thus, the analogy to debt, insurance contracts, loan guarantee contracts, and private-sector deferred compensation contracts is not exact.

Medicaid, and Social Security, for example, amount to many times the value of Federal debt held by the public.

The Government offers a broad range of programs that dispense cash and other benefits to individual recipients. In addition to Medicare, Medicaid, and Social Security there are supplemental nutrition assistance program benefits (formerly food stamps), veterans' benefits, unemployment insurance, and Head Start among many others. The Government also provides a wide range of public services that must be financed through the tax system. These programs may be modified or even ended at any time by the Congress and the President, and changes in the laws governing these programs are a regular part of the legislative cycle. For this reason, these programmatic commitments do not constitute "liabilities." They are Federal responsibilities, however, and will have a claim on budgetary resources for the foreseeable future unless the law is changed. Moreover, federal responsibilities that are not cash or in-kind benefits to individuals – such as the need for a Department of Justice, Defense, or State – will surely have a claim on budgetary resources for the foreseeable future. All of the Government's existing programs are reflected in the long-run budget projections in Part III.

The Federal Government has many assets that would also appear on a business balance sheet. These include financial assets, such as loans and mortgages which have been acquired through various credit programs. In recent months, the Government has acquired a wide variety of new financial assets as a result of the programs created to address the current financial crisis. Most of these assets were acquired in 2009, so they do not show up on the table of net assets, which ends in 2008. Other Federal assets include the plant and equipment used to produce Government services. The Government also owns a substantial amount of land. All these assets would be expected to appear on a conventional balance sheet. The Government has other resources in addition to these. These additional resources include most importantly the Government's sovereign power to tax, which would not normally appear on a balance sheet but may be of greater value than all the balance-sheet items combined.

Because of its unique responsibilities and resources, the most revealing way to analyze the future strains on the Government's fiscal position is to make a long-run projection of the entire Federal budget. Part III of this chapter presents a set of such projections under different assumptions. Over long periods of time, the spending of the Government must be financed by the taxes and other receipts it collects. Although the Government can borrow for temporary periods, it must pay interest on any such borrowing, which adds to future spending. In the long run, a solvent Government must pay for its programmatic spending out of its receipts. This is not a normative statement but rather a simple economic fact. The projections in Part III show that under current policies, long-run balance in this sense is not achieved, mostly or entirely because projected spending for Medicare and Medicaid grows faster than the Federal tax base.

The table of assets and liabilities and the long-run budget projections are silent on the questions of whether the

Government is collecting the full amount of taxes owed, whether the public is receiving value for its taxes paid, and whether Federal resources are being used effectively. Information on those points requires performance measures for Government programs supplemented by appropriate information about the condition of the economy and society. This Stewardship chapter complements the detailed exploration of Government performance discussed in Chapter 2 with general measures of economic and social well-being as shown in Table 13–6.

Relationship with FASAB Objectives

The framework presented here meets the stewardship objective for Federal financial reporting recommended by the Federal Accounting Standards Advisory Board (FASAB) and adopted for use by the Federal Government in September 1993.²

Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the Nation's financial conditions have changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine:

- 3a. *Whether the government's financial position improved or deteriorated over the period.*
- 3b. *Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.*
- 3c. *Whether government operations have contributed to the nation's current and future well-being.*

The presentation in this chapter shows one way to meet this objective at the Government-wide level. It is intended for economists and others interested in evaluating trends over time. The annual *Financial Report of the United States Government* presents related information from an accounting perspective. The *Financial Report* includes a balance sheet for the Federal Government. The assets and liabilities on that balance sheet are all based on transactions and other events that have already occurred. (For example, the cost of future retiree and health benefits for federal employees is based on employment that has already occurred.) In some cases, the assets and liabilities in the *Financial Report* are evaluated differently than those reported in this chapter. This chapter's estimates rely more on the replacement cost value of assets instead of historical cost. The *Financial Report* also includes a statement of social insurance that reviews information on the condition and sustainability of some of the Government's largest benefit programs. This year, for the second time, the *Financial Report* includes a brief discussion of the long-run budget outlook for the Government as

² Statement of Federal Financial Accounting Concepts, Number 1, Objectives of Federal Financial Reporting, September 2, 1993. Other objectives are budgetary integrity, operating performance, and systems and controls.

a whole, which is similar to the long-run budget projections discussed in this chapter.

Connecting the Dots: The presentation that follows is constructed around a series of tables and charts. The schematic diagram, Chart 13-1, shows how the different pieces fit together. The tables and charts should be viewed as an ensemble, the main elements of which are grouped in two broad categories—assets/resources and liabilities/responsibilities.

- The left-hand side of Chart 13-1 shows the full range of Federal resources, including assets the Government owns, tax receipts it can expect to collect based on current and proposed laws, the tax gap,

and national wealth, including the trained skills of the national work force, that provide the base for Government revenues.

- The right-hand side reveals the full range of Federal obligations and responsibilities, beginning with the Government's acknowledged liabilities arising from past actions, but also including projected budget outlays needed to maintain present policies and trends. This column ends with a set of indicators highlighting areas where Government activity affects society or the economy.

Chart 13-1. The Financial Condition of the Federal Government and the Nation

Assets/Resources		Liabilities/Responsibilities	
Federal Assets Financial Assets Monetary Assets Mortgages and Other Loans Other Financial Assets Less Expected Loan Losses Physical Assets Fixed Reproducible Capital Defense Nondefense Inventories Non-reproducible Capital Land Mineral Rights	Federal Government Assets and Liabilities (Table 13-1)	Federal Liabilities Financial Liabilities Debt Held by the Public Guarantees and Insurance Deposit Insurance Pension Benefit Guarantees Loan Guarantees Other Insurance Federal Retiree Pension and Health Insurance Liabilities Miscellaneous Net Balance	
Resources/Receipts Projected Receipts	Long-Run Federal Budget Projections (Table 13-2)	Responsibilities/Outlays Projected Outlays Surplus/Deficit Actuarial Deficiencies in Social Security and Medicare	Actuarial Deficiencies in Social Security and Medicare (Table 13-3)
The Federal Tax Gap	Sources of the Tax Gap Table 13.4	National Needs/Conditions Indicators of economic, social, educational, and environmental conditions	
National Assets/Resources Federally Owned Physical Assets State & Local Govt. Physical Assets Federal Contribution Privately Owned Physical Assets Education Capital R&D Capital	National Wealth (Table 13-5)		Social Indicators (Table 13-6)

QUESTIONS AND ANSWERS ABOUT THE GOVERNMENT'S STEWARDSHIP

1. According to Table 13-1, the Government's liabilities exceed its assets. No business could operate in such a fashion. Why does the Government not manage its finances more like a business?

The Federal Government has different objectives from a business firm. For the vast bulk of the Federal Government's operations, it would be difficult or impossible to charge prices that would cover expenses. The Government undertakes these activities not to improve its balance sheet, but to benefit the Nation.

For example, the Government invests in education and research, but it earns no direct return from these investments. People are enriched by these investments, but the returns do not show up as an increase in Government assets but rather as an increase in the general state of knowledge and in the capacity of the country's citizens to earn a living and lead a fuller life. Business investment motives are quite different; business invests to earn a profit for itself, not others, and if its investments are successful, their value will be reflected in its balance sheet. Because the Federal Government's objectives are different, its balance sheet behaves differently, and should be interpreted differently.

The test of the Government's solvency is not the bottom line of a table like Table 13-1, but whether it can meet its ongoing responsibilities and deal with future emergencies or other needs that might arise.

2. Table 13–1 seems to imply that the Government is insolvent. Is it?

No. Just as the Federal Government's responsibilities are different from those of private business, so are its resources. Government solvency must be evaluated in different terms.

What Table 13–1 shows is that those Federal obligations that are most comparable to the liabilities of a business corporation exceed the estimated value of the assets actually owned by the Federal Government. The Government, however, has access to other resources through its sovereign powers. These powers, which include taxation, will allow the Government to meet its present obligations and those that are anticipated from future operations even though the Government's current assets are less than its current liabilities.

Private financial markets clearly recognize this reality. Lenders are willing to lend considerable amounts of money to the Government at interest rates substantially below those charged to private borrowers. In effect, government bonds are extremely highly rated; they are often referred to as "risk free." This would not be true if the Government were really insolvent or likely to become so in the future. Where governments totter on the brink of insolvency, lenders are either unwilling to lend them money, or do so only in return for a substantial interest premium.

Market participants seem to expect that the Federal Government will eventually address the long-run fiscal problems addressed in this chapter and preserve its high credit rating.

3. Why are Medicare, Medicaid, and Social Security not shown as Government liabilities in Table 13–1?

Future Medicare, Medicaid, and Social Security benefits may be considered as obligations of the Federal Government, but these benefits are not a liability in a legal or accounting sense. The Government has unilaterally decreased as well as increased these benefits in the past, and future reforms could alter them again. These benefits are reflected in this presentation of the Government's finances in two ways: as part of the overall budget projections in Table 13–2, and, for the two programs with dedicated income streams, in the actuarial estimates in Table 13–3.

The government has many other long-term fiscal responsibilities – for example to continue to spend sufficient resources on national security. Few have suggested counting future defense spending as Federal liabilities; yet there is no logical justification for a different accounting treatment for them. There is no bright line dividing Medicare, Medicaid, and Social Security from other programs that promise benefits to people, and all the Government programs that do so should be accounted for similarly.

Another reason for not counting future Medicare and Social Security benefits as liabilities is that doing so would imply that payroll tax receipts earmarked to finance those benefits ought to be treated as assets. This treatment would be essential to gauge the size of the future claim. Tax receipts, however, are not generally considered to be Government assets, and for good reason: the Government does not own the wealth on which future taxes depend. Including taxes on the balance sheet would be wrong for this reason, but excluding taxes from the balance sheet would overstate the drain on net assets from Medicare and Social Security benefits. Treating taxes for Medicare and Social Security differently from other taxes would be highly questionable.

Finally, under Generally Accepted Accounting Principles (GAAP), Social Security is not considered to be a liability, so not counting it as such in this chapter is consistent with accounting standards.

4. Why doesn't the Federal Government follow normal business practice in its bookkeeping?

The Government is not a business, and accounting standards designed to illuminate how much a business earns and how much equity it has could provide misleading information if applied naively to the Government. The Government does not have a "bottom line" comparable to that of a business corporation, but the Federal Accounting Standards Advisory Board (FASAB) has developed, and the Government has adopted, a conceptual accounting framework that reflects the Government's distinct functions and answers many of the questions for which Government should be accountable. This framework addresses budgetary integrity, operating performance, stewardship, and systems and controls. FASAB has also developed, and the Government has adopted, a full set of accounting standards. Federal agencies now issue audited financial reports that follow these standards, and an audited Government-wide financial report is issued as well. In short, the Federal Government does follow generally accepted accounting principles (GAAP) just as businesses and State and local governments do, although the relevant principles differ depending on the circumstances. This chapter is intended to address the "stewardship objective"—assessing the inter-related condition of the Federal Government and the Nation.

PART II—THE FEDERAL GOVERNMENT’S ASSETS AND LIABILITIES

Table 13-1 provides a retrospective summary of the Government’s assets and liabilities, showing what it owes as a result of past operations and what it owns as of the end of 2008. The table provides perspective by showing those figures for a number of years going back to 1960. To assure comparability across time, the assets and liabilities are measured in terms of constant 2008 dollars and the balance of net liabilities is shown as a percentage of GDP. Government liabilities have exceeded the value of assets over this entire period, but there was a substantial increase in net liabilities in the 1980s and early 1990s as a result of the large budget deficits in those years (see chart 13-2). 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 was reduced. Since 2001, the ratio has increased again, and in 2008 it reached a new high surpassing slightly the previous peak level reached in 1993. The ratio will increase further over the next few years because of the deep recession the nation is currently experiencing, the corresponding need to increase aggregate demand through the Recovery Act, and the costs associated with financial stabilization. Partially offsetting the direct costs of the Recovery Act and financial stabilization will be the relative improvement in GDP they help cause.

Currently, the total real value of Federal assets is estimated to be 83 percent greater than it was in 1960. Meanwhile, Federal liabilities have increased by 292 percent in real terms. The decline in the Federal net asset position has been partly due to persistent Federal budget deficits that have boosted debt held by the public in most years since 1960. Other factors have also been important, such as large increases in the cost of health benefits promised for Federal retirees and the sharp rise

in veterans’ disability compensation. The relatively slow growth in most Federal asset values has also reduced the Government’s net asset position.

The net excess of liabilities over assets reached 58.3 percent of GDP last year, an all-time high that reversed a small decline from 2005. The average since 1960 has been 45 percent (see Table 13–1).

Assets

Table 13–1 offers a comprehensive list of the financial and physical resources owned by the Federal Government.

Financial Assets: The Federal Government’s holdings of financial assets as reported in the Federal Reserve’s Flow-of-Funds Accounts amounted to over \$1 trillion at the end of 2008. There was a large jump in Treasury’s operating cash balance last year that added over \$300 billion to this total. The increase was mainly due to the Supplementary Financing Program, which was created to assist the Federal Reserve in its efforts to stabilize financial markets (for more about this program and its effect on Federal finances see Chapter 16, “Federal Borrowing and Debt”). Government holdings of loans and mortgages have been relatively stable (measured in constant dollars) since the mid-1990s following the end of the Savings and Loan crisis. The face value of Government loans overstates their economic worth. OMB estimates that the discounted present value of future losses and interest subsidies on these loans was around \$49 billion as of year-end 2008. These estimated losses are subtracted from the face value of outstanding loans to obtain a better estimate of their economic worth. The net value of loans and monetary assets was \$957 billion.

Chart 13-2. Net Federal Liabilities

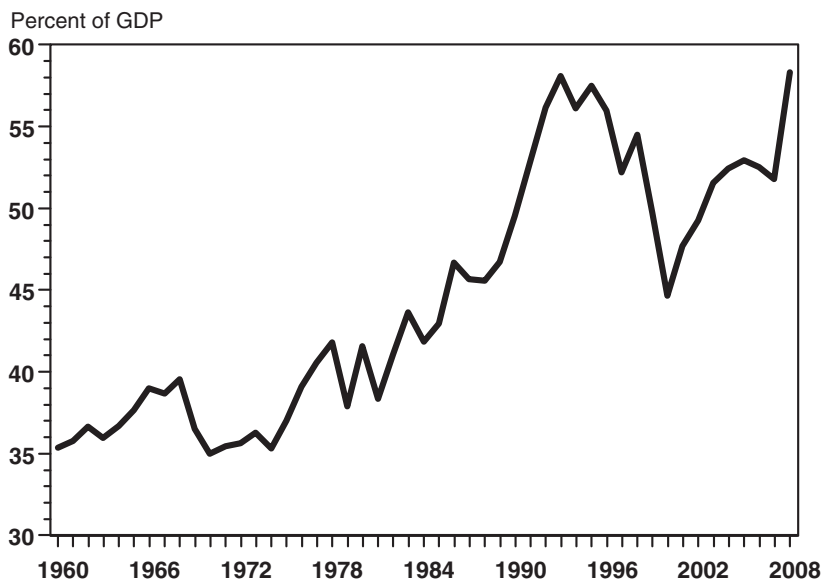


Table 13–1. GOVERNMENT ASSETS AND LIABILITIES*
(As of the end of the fiscal year, in billions of 2008 dollars)

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006	2007	2008
ASSETS													
Financial Assets:													
Cash and Checking Deposits	51	73	46	37	57	37	50	52	68	38	54	79	372
Other Monetary Assets	2	1	1	2	2	2	2	1	8	2	5	1	3
Mortgages	33	31	47	49	91	93	119	82	94	83	85	85	85
Other Loans	121	166	208	210	270	351	249	201	230	216	211	211	211
less Expected Loan Losses	-1	-3	-5	-11	-21	-20	-23	-29	-45	-44	-49	-45	-49
Other Treasury Financial Assets	73	91	80	72	102	150	239	288	307	327	318	319	336
Subtotal	278	361	377	359	501	612	635	594	662	622	623	651	957
Nonfinancial Assets:													
Fixed Reproducible Capital	1,218	1,208	1,257	1,219	1,069	1,242	1,292	1,350	1,185	1,139	1,156	1,179	1,173
Defense	1,050	986	997	910	768	901	930	958	789	717	729	747	747
Nondefense	168	222	260	309	300	341	362	392	396	422	427	433	426
Inventories	318	276	257	230	284	325	288	222	227	295	296	284	290
Nonreproducible Capital	157	208	248	404	588	686	583	439	736	1,356	1,386	1,382	1,188
Land	112	155	195	309	395	410	422	315	518	998	1,025	1,025	767
Mineral Rights	45	53	53	95	193	275	160	124	219	358	361	357	421
Subtotal	1,693	1,692	1,762	1,853	1,941	2,253	2,162	2,011	2,148	2,790	2,838	2,846	2,650
Total Assets	1,971	2,052	2,138	2,212	2,442	2,865	2,798	2,604	2,810	3,412	3,461	3,497	3,607
LIABILITIES													
Debt held by the Public	1,389	1,428	1,271	1,292	1,606	2,656	3,619	4,809	4,189	4,983	5,077	5,167	5,803
Insurance and Guarantee Liabilities:													
Deposit Insurance	0	0	0	0	2	11	87	24	1	1	1	2	34
Pension Benefit Guarantee	0	0	0	52	38	53	53	25	50	89	78	85	74
Loan Guarantees	0	1	3	8	15	13	19	36	45	52	50	71	74
Other Insurance	38	34	27	24	33	20	24	21	20	44	21	17	25
Subtotal	38	35	29	84	88	97	183	106	116	186	150	175	207
Pension and Post-Employment Health Liabilities:													
Civilian and Military Pensions	1,049	1,319	1,577	1,787	2,197	2,179	2,130	2,066	2,165	2,354	2,435	2,479	2,609
Retiree Health Insurance Benefits	215	270	323	366	450	446	436	432	480	1,220	1,191	1,178	1,162
Veterans Disability Compensation	231	290	347	384	394	325	293	356	679	1,218	1,213	1,157	1,467
Subtotal	1,494	1,879	2,246	2,536	3,041	2,951	2,860	2,853	3,323	4,792	4,839	4,813	5,238
Environmental and Disposal Liabilities	82	101	122	138	166	197	232	303	370	282	321	351	343
Other Liabilities:													
Trade Payables and Miscellaneous	33	41	52	64	99	131	179	148	128	245	253	267	277
Benefits Due and Payable	25	30	40	42	54	60	72	83	96	127	136	137	144
Subtotal	58	70	92	106	153	190	251	232	224	372	389	405	421
Total Liabilities	3,062	3,514	3,760	4,156	5,055	6,091	7,144	8,304	8,222	10,614	10,776	10,911	12,012
Net Liabilities (Liabilities Minus Assets)	1,091	1,461	1,622	1,944	2,613	3,226	4,347	5,700	5,412	7,202	7,315	7,414	8,404
Addenda:													
Net Liabilities Per Capita (in 2008 dollars)	6,048	7,533	7,922	9,016	11,455	13,508	17,346	21,347	19,137	24,302	24,452	24,543	27,567
Ratio to GDP (in percent)	35.3	37.7	35.0	37.0	41.6	43.0	49.5	57.5	44.7	52.9	52.5	51.8	58.3

Reproducible Capital: The Federal Government is a major investor in physical capital and computer software. Government-owned stocks of such capital have remained fairly stable measured in constant (year 2008) dollars for most of the last 45 years (OMB estimate) at around \$1.2 trillion. This capital consists of defense equipment and structures, including weapons systems, as well as nonde-

fense capital goods. Currently, 64 percent of the capital is defense equipment or structures. In 1960, defense capital was 86 percent of the total. In the 1970s, there was a substantial decline in the real value of U.S. defense capital and there was another large decline in the 1990s after the end of the Cold War. Meanwhile, nondefense Federal capital has increased at an average annual rate of around

2.0 percent. The Government also holds inventories of defense goods and other items that in 2008 amounted to about 25 percent of the value of its fixed reproducible capital.

Nonreproducible Capital: The Government owns significant amounts of land and mineral deposits. There are no official estimates of the market value of these holdings (and of course, in a realistic sense, many of these resources would never be sold). After rising rapidly for several years, private land values fell 23 percent in 2008. It is assumed here that Federal land shared in the previous increase and the recent decline. Oil prices have been on a roller coaster since the mid-1990s. They declined sharply in 1997–1998, rebounded in 1999–2000, fell again in 2001, rose substantially from 2002 through mid-year 2008, and then they tumbled. These fluctuations have caused the estimated market value of Federally owned proved reserves of oil and natural gas to fluctuate as well. In 2009, as estimated here, the combined real value of Federal land and mineral rights was \$1.2 trillion compared with \$1.5 trillion in Federal fixed capital and inventories.

These estimates omit some valuable assets owned by the Federal Government—such as works of art and historical artifacts—partly because there is no comprehensive inventory or realistic basis for valuing them.

Total Assets: The total value of Government assets measured in constant dollars has risen substantially in the past ten years, and reached an all-time high in 2008. The Government's asset holdings are vast. As of the end of 2008, Government assets were estimated to be worth about \$3.6 trillion or 25 percent of GDP.

Liabilities

Table 13–1 includes all Federal liabilities that would normally be listed on a balance sheet. All the various forms of publicly held Federal debt are counted. So are Federal pension and health insurance obligations to civilian and military retirees including the disability compensation that is owed the Nation's veterans, although these are not strictly binding in a contractual sense. These pension and health insurance liabilities can be thought of as a form of deferred compensation. The estimated liabilities stemming from Federal insurance programs and loan guarantees are shown. The benefits that are due and payable under various Federal programs are also included, but these liabilities reflect only binding short-term obligations, not the Government's full commitment under these programs. The Government also has a responsibility to repair environmental damage that resulted primarily from nuclear weapons production, and that cost has been included in the Table as well.

Future benefit payments that are promised through Social Security and other Federal income transfer programs are not Federal liabilities in a legal or accounting sense. They are Federal responsibilities, and it is important to gauge their size, but they are not binding in the same way as a legally enforceable claim would be. The budget projections and other data in Part III are designed

to provide a sense of these broader responsibilities and their claim on future budgets.

Debt Held by the Public: The Federal Government's largest single financial liability is the debt owed to the public. It amounted to about \$5.8 trillion at the end of 2008. Publicly held debt declined for several years in the late 1990s to a recent low of \$3.3 trillion because of the unified budget surpluses at that time, but as deficits returned, publicly held debt began to increase again, and it increased very substantially in 2008 as Government borrowed to obtain the financial resources needed to address the worldwide financial crisis.

Insurance and Guarantee Liabilities: The Federal Government has contingent liabilities arising from the loan guarantees it has made and from its insurance programs. When the Government guarantees a loan or offers insurance, cash disbursements are often small initially, and if a fee is charged the Government may even collect money; but the risk of future cash payments associated with such commitments can be large. The figures reported in Table 13–1 are estimates of the current discounted value of prospective future losses on outstanding guarantees and insurance contracts. The single largest insurance obligation is for veterans' life insurance. Flood and crop insurance are also included as is Federal terrorism insurance. The present value of all such insurance liabilities taken together is about \$200 billion. As is true elsewhere in this chapter, this estimate does not incorporate the market value of the risk associated with these contingent liabilities; it merely reflects the present value of expected losses. Although individually many of these programs are large and potential losses are a serious concern, these insurance and guarantee liabilities are fairly small relative to total Federal liabilities or even the total debt held by the public. They were less than 2 percent of total liabilities in 2008.

Pension and Post-Employment Health Liabilities: The Federal Government owes pension benefits as a form of deferred compensation to retired workers and to current employees who will eventually retire. It also provides civilian retirees with subsidized health insurance through the Federal Employees Health Benefits program and military retirees receive similar benefits. Veterans are owed compensation for their service-related disabilities. 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 all these benefits was estimated to be around \$5.2 trillion at the end of 2008, up from \$3.3 trillion in 2000 (a large expansion in Federal military retiree health benefits was legislated in 2001).

Environmental and Disposal Liabilities: During World War II and the Cold War, the Federal Government constructed a vast industrial complex to study, produce, and test nuclear weapons. Environmental contamination occurred at these sites. The estimated liability shown here is based on the cleanup costs required by Federal, State, and local laws and regulations reported in the 2008 *Financial Report of the United States Government*. The Department of Energy is responsible for managing this

cleanup. The Department of Defense is also charged with cleaning up contamination from its waste disposal practices, leaks, spills, and other risky activities. Together the cleanup costs are estimated to amount to around \$340 billion in present value.

The Balance of Net Liabilities

The Government need not maintain a positive balance of net assets to assure its fiscal solvency, and the buildup in net liabilities since 1960 has not significantly affected Federal creditworthiness. Long-term Government interest rates in late 2008 reached their lowest levels in 50

years. Despite historically low interest rates, there are limits to how much debt the Government can assume without putting its finances in jeopardy. Over an extended time horizon, the Federal Government must take in enough revenue to cover all of its noninterest spending and also cover enough of its interest expenses to keep the deficit and debt from growing faster than the economy. The Government's ability to service its debt in the long run cannot be gauged from a balance sheet alone. It is necessary to project the budget and the size of the economy into the future to judge the prospects for long-run solvency. That is the subject of the next section.

PART III—THE LONG-RUN BUDGET OUTLOOK

A balance sheet, with its focus on obligations arising from past transactions, can show only so much information. For the Government, it is also important to anticipate what future budgetary requirements might flow from current laws and policies. Despite the uncertainty surrounding the assumptions needed for such estimates, very long-run budget projections can be useful in drawing attention to potential problems. Federal responsibilities extend well beyond the next five or ten years, and problems that may be small in that time frame can become much larger if allowed to grow. To assess the overall financial condition of the Government, it is necessary to examine the future prospects for all Government programs and for the revenue sources that support Government spending.

The long-run budget projections in this section extend the particular policies proposed in the 2010 Budget, but do not reflect the long-term impacts from slowing health care cost growth. Although the Budget offers major initiatives in many areas that are needed to put the economy on a sounder long-run footing, the Administration recognizes that not all of the needed policy initiatives have been formulated. In particular, the Administration's plans for health reform are still under development in consultation with Congress. The budget projections in this chapter reflect the fact that simply extending current laws and policies would leave the budget in an unsustainable position. Reforms are also needed to make sure that programs like Social Security, which are expected to be financed from dedicated revenue sources, remain self-sustaining. The Administration intends to work with Congress to develop policies that will prevent the outcomes shown in many of the charts below.

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

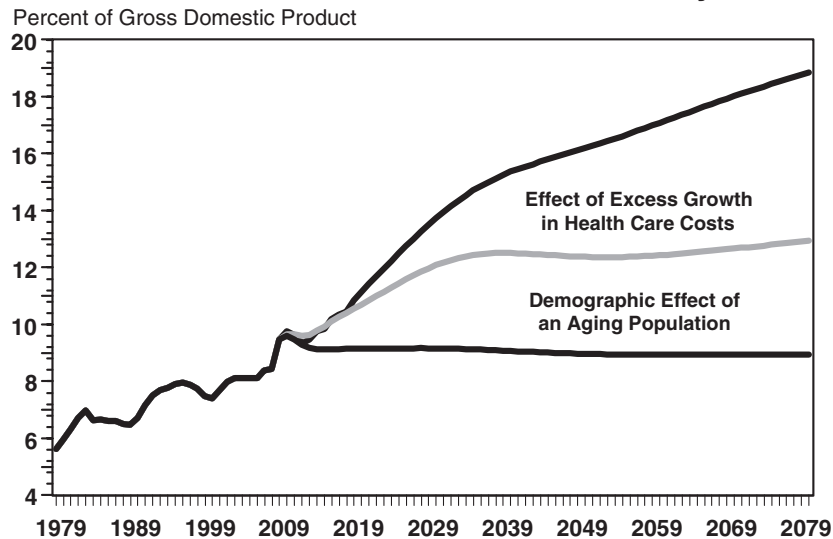
- Medicare finances health insurance for most of the Nation's seniors and many individuals with disabilities. Medicare's growth has exceeded that of other Federal spending for decades, tracking the rapid growth in overall health care costs. If anything like this growth trend were to continue for several more decades, the budgetary strain would be insupportable.

- Medicaid provides medical assistance, including acute and long-term care to low-income persons including families with dependent children, as well as the aged, the blind, and persons with disabilities. It has grown more rapidly than the economy for several decades, and if that growth were to continue indefinitely it would put unsustainable pressure on future budget deficits for State Governments as well as the Federal Government.
- Social Security provides retirement benefits, disability benefits, and survivors' insurance for the Nation's workers. Social Security benefits will outpace the growth of its dedicated revenue stream over the next quarter century, putting some pressure on the budget.

Each of these programs is expected to continue indefinitely. Long-range projections for Medicare and Social Security have been prepared for decades, and Medicaid is planning to produce such projections in the near future. Budget projections for individual programs, however, even important ones such as Medicare and Social Security, cannot reveal the Government's overall budgetary position, which is why the projections in this chapter are a useful complement to the long-run projections of 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 long-run budget projections respond to changes in some of key economic and demographic assumptions.

Chart 13-3. Sources of Projected Growth in Medicare, Medicaid, and Social Security



An Unsustainable Path

Increasing health costs and the aging of the population will place the budget on an unsustainable course without changes in policy to address these challenges. Medicare and Medicaid have grown faster than the economy for decades, and if they continue to do so will exert tremendous pressures on the budget. Additionally, the first members of the huge generation born after World War II, the so-called baby boomers, reached age 62 in 2008 and became eligible for early retirement under Social Security. In 2011, they turn 65 and become eligible for Medicare. In the years that follow, the elderly population will steadily increase, putting serious strains on the budget.

Sources of Increased Spending for Medicare, Medicaid, and Social Security: The most important factor driving the long-run budget outlook is the excess growth of health care costs. Health care spending in the United States has been outpacing the growth in total output since the 1950s (detailed national health expenditure data extend back to 1960). In the long-run projections in this chapter, the growth rate of health care costs slows, but it still exceeds the rate of growth in GDP, so that spending on the Federal health programs continues to rise as a share of GDP. These projections follow the Medicare trustees' projections for future obligations under the Medicare program, adjusted for the Administration's different projected path for general price inflation and GDP.

Population aging also poses a long-run budgetary challenge. 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, because of lower fertility and improved longevity, the ratio is expected to continue to decline slowly. With fewer workers to pay the taxes needed to support the retired

population, budgetary pressures will continue to grow without reforms to the programs

The chart above shows how these assumptions affect the growth of the three major entitlement programs: Medicare, Medicaid, and Social Security. Over the next two decades both increasing numbers of beneficiaries and rapid health cost growth contribute to the increase in the share of GDP devoted to these programs.³ In the very long run, without successful health care cost reform, the continued rise in health care costs would be the main contributor to the continued rise in the share of GDP devoted to these programs.

Long-Run Budget Projections: In 2008, the three major entitlement programs—Social Security, Medicare, and Medicaid—accounted for 44 percent of non-interest Federal spending, up from 30 percent in 1980. By 2030, when the surviving baby boomers will all be 65 or older, these three programs could account for more than 60 percent of non-interest Federal spending unless there is a break in the trend of health care costs or other major changes to the programs. At the end of the projection period, in 2080, the figure could rise to 70 percent of non-interest spending, again assuming current trends were to continue. In other words, without reforms, most 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.

The overall budget cannot sustain the projected increase in these major programs without policy changes. The budget projections shown in Table 13–2 illustrate that point. The budget deficit is expected to stabilize at around 3 percent of GDP in 2013 and to remain close to that ratio through 2019, but without changes in the health programs and Social Security, the deficit is pro-

³ In this chart, the interactive effect of higher health care costs on an increased population is shown as a health care effect.

Table 13–2. LONG-RUN BUDGET PROJECTIONS
(Receipts, Outlays, Surplus or Deficit, and Debt as a Percent of GDP)

	1980	1990	2000	2010	2020	2030	2040	2060	2080
Receipts	19.0	18.0	20.9	15.8	19.4	19.9	20.3	21.5	22.6
Outlays:									
Discretionary	10.1	8.7	6.3	9.6	6.2	6.2	6.2	6.2	6.2
Mandatory:									
Social Security	4.3	4.3	4.2	4.7	5.1	5.8	5.8	5.7	6.0
Medicare	1.1	1.7	2.0	3.1	4.0	5.6	6.8	8.3	9.6
Medicaid	0.5	0.7	1.2	2.0	2.1	2.4	2.8	3.1	3.3
Other	3.7	3.2	2.4	4.1	2.7	2.4	2.2	2.0	2.0
Subtotal, mandatory	9.6	9.9	9.8	13.9	13.8	16.2	17.6	19.1	20.8
Net Interest	1.9	3.2	2.3	0.9	2.9	3.5	4.8	7.7	11.2
Total outlays	21.7	21.8	18.4	24.4	22.9	25.9	28.5	33.0	38.2
Surplus or Deficit (+)	2.7	3.9	-2.4	8.5	3.5	6.0	8.2	11.5	15.5
Primary Surplus or Deficit (+)	0.8	0.6	-4.7	7.6	0.6	2.5	3.5	3.8	4.4
Federal Debt Held by the Public	26.1	42.0	35.1	67.1	70.7	87.5	118.7	191.0	275.0

Note: The figures shown in this table for 2020 and beyond are the product of a long-range forecasting model maintained by the Office of Management and Budget. The model extends the Budget policy beyond the normal 10-year budget horizon. This model is separate from models and capabilities used to produce detailed programmatic estimates in the Budget. The model is based on additional assumptions regarding growth of the population and 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. The projections in this table do not reflect the likely effects of health reform on future program costs for Medicare, Medicaid and other programs. The health assumptions are derived from the 2008 Medicare trustees' report assumptions.

jected to resume a steady increase. These rising deficits would drive publicly held Federal debt as a ratio to GDP to levels well above the previous peak level reached at the end of World War II and beyond. Before the debt reaches the levels shown in the table, there would likely be a financial crisis that would force budgetary changes, although the timing of such a crisis and its resolution are impossible to predict. Timely reforms, especially those that lowered the trend of health care costs, could go far to avoid such a crisis.

Projected revenues in these long-run budget projections start with the estimated receipts under the Administration's proposals in the 2010 Budget. In the absence of further policy changes, the ratio of taxes to GDP is assumed to increase somewhat over time. There is a tendency for individual income taxes to rise because the assumed rate of real income growth implies some "real bracket creep." The tax code is indexed for inflation, but not for increases in real income. Eventually, a larger percentage of taxpayers will be in higher tax brackets and this will raise the ratio of taxes to income. The projections assume that the Alternative Minimum Tax (AMT) is indexed, so the AMT is not a reason for the rise in the ratio of receipts to GDP. Some Federal taxes tend to decline in real terms in the absence of policy changes. Many excise taxes are set in nominal terms, so collections decline as a share of GDP when there is inflation. Overall, Federal receipts are projected to rise by about 3 percentage point of GDP in the very long run.

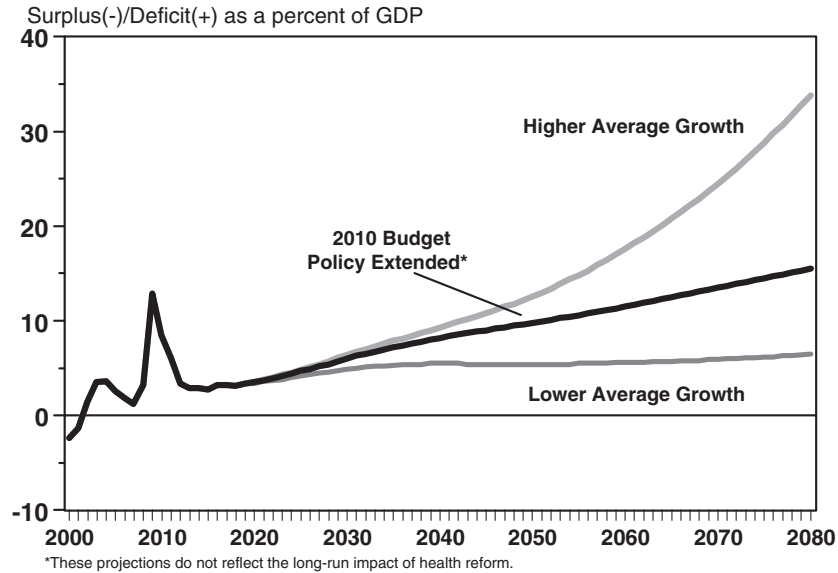
There is no simple natural assumption for projecting discretionary spending, because discretionary spending is determined annually through the legislative process, and no simple formula can anticipate the direction of future legislation. Different assumptions have been used in past budgets. Holding discretion-

ary spending unchanged in real terms is the "current services" assumption used for baseline budget projections when there is no legislative guidance on future spending levels. Extending this assumption over many decades, however, is not realistic. When the population and economy grow, as assumed in these projections, the demand for public services is very likely to expand as well. 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. Under this assumption, discretionary spending grows faster than if it only kept pace with inflation and a growing population.

The long-run budget outlook is highly uncertain. With pessimistic assumptions, the fiscal picture deteriorates even sooner than in the base projection. More optimistic assumptions imply a longer period before the pressures of rising health care spending overwhelm the budget. But despite the uncertainty, these projections show that under a wide range of forecasting assumptions, overall budgetary resources will not be sufficient to support all future projected needs. These projections highlight the need for future policy action to address the main drivers of future budgetary costs, especially health reform. (For a further discussion of the forecasting assumptions used to make these budget projections, see the technical note at the end of this chapter.)

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 dis-

Chart 13-4. Health Care Cost Alternatives

cussed below. Mounting deficits result for most plausible projections of the budget.

1. Health Spending: The projections for Medicare over the next 75 years are based on an extension of the Budget's estimates for Medicare and Medicaid. For Medicare, the extension relies on the actuarial projections in the 2008 Medicare trustees' report. After a transition period, the Medicare trustees assume that growth in spending per beneficiary begins to slow in the early 2030s, but that it will continue to grow faster than GDP per capita. The year-by-year growth assumptions are determined such that the 75-year actuarial balance for the HI trust fund is consistent with that generated by a "GDP plus 1 percent" assumption. Medicaid growth also holds to the GDP plus 1 percent assumption. Although rising faster than GDP, under these assumptions, Medicare and Medicaid grow less rapidly than they have historically, so that even without explicit reforms the programs' growth is assumed to be reduced. An alternative approach would be to assume that these programs grow at a rate more similar to their historic growth rates.

Eventually, the rising trend in health care costs will have to end, but it is hard to know when and how that will happen. Improved health and increased longevity are highly valued, and society has shown that as its income rises, it is willing to spend a larger share of income on them than it did in the past. The alternatives highlight the effect of raising or lowering the projected growth rate in per capita health care costs. The higher alternative would show excess cost growth of 2 percent per year in the outyears, which is closer to the historical average of 2.4 percent for Medicare. The low alternative shows the effects of even more effective cost control than assumed in the base projections, holding the excess cost growth to 0.5 percent per year on average. The low alternative would still allow for some increase in health costs relative to

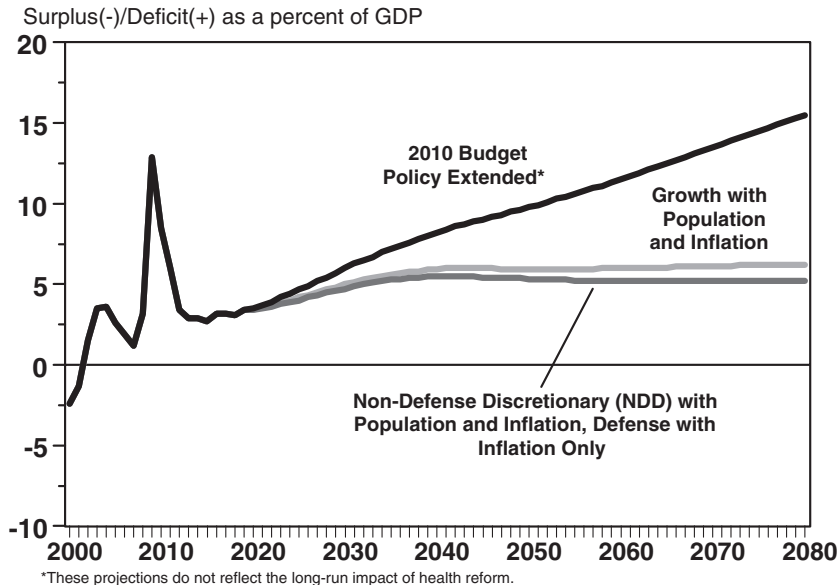
other goods, reflecting the strong demand for health improvements.

2. Discretionary Spending: Discretionary spending is determined annually through the legislative process, and no formula can dictate future spending in the absence of legislation. While discretionary spending is sure to continue, its magnitude is free to vary. Alternative assumptions have been made for discretionary spending in past budgets. Holding discretionary spending unchanged in real terms is the "current services" assumption used for baseline budget projections when there is no legislative guidance on future spending levels. Extending this assumption over many decades is not realistic. When the population and economy are expected to grow, as assumed in these projections, the demand for public services will expand. The current base projection assumes that after 2019, discretionary spending keeps pace with the growth in GDP. An alternative assumption would be to allow discretionary spending to increase only for inflation and population growth. In this case, discretionary spending would remain constant in inflation adjusted per capita terms. Yet another possible assumption is to allow non-defense discretionary spending to grow with population and inflation, but to increase defense spending only for inflation. Defense needs are not necessarily proportional to population in the same way that many other public services are.

3. Alternative Revenue Shares: In the base projection, tax receipts rise relative to GDP, reflecting "real bracket creep." The chart below shows alternative receipts assumptions. Allowing receipts to rise over time by 1 percentage point of GDP more than in the base case would lower the long-run budget deficit, while reducing taxes by 1 percentage point of GDP would have the opposite effect.

4. Productivity: The rate of future productivity growth has a major effect on the long-run budget outlook. It is also highly uncertain. Over the next few decades, an

Chart 13-5. Alternative Discretionary Projections



increase in productivity growth would reduce projected budget deficits appreciably. 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. In the latter half of the 1990s, after two decades of much slower growth, the rate of productivity growth increased markedly. How permanent that increase in productivity growth will be remains uncertain, but these projections assume that real GDP per hour worked grows at an aver-

age annual rate of 2.0 percent per year. This is higher than in the 1970s and 1980s, but not as high as in the 1950s and 1960s. The alternatives highlight the effect of raising and lowering the projected productivity growth rate by 1/2 percentage point.

5. *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 wom-

Chart 13-6. Alternative Revenue Projections

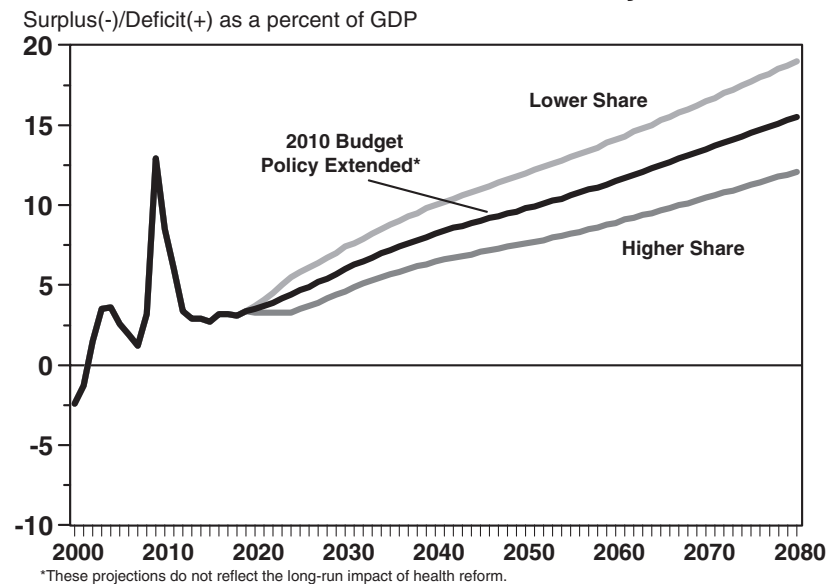
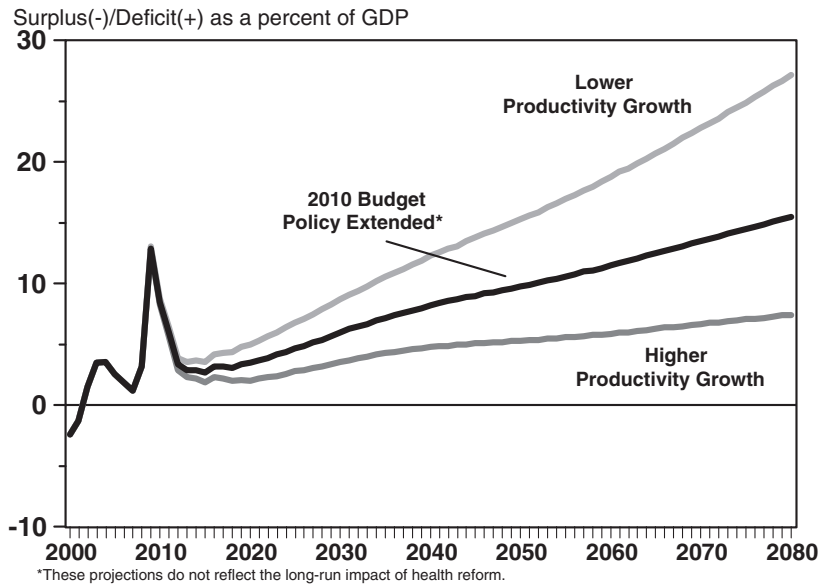


Chart 13-7. Alternative Productivity Assumptions



an 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. 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. Higher immigration relieves some of the downward pressure on population growth from low fertility and allows total population to expand

throughout the projection period, although at a much slower rate than has prevailed historically. The alternatives are taken from the Social Security trustees’ Report (0.8 million and 1.375 million immigrants per year).

- Mortality is projected to decline as people live longer in the future. The average female lifespan is projected to rise from 79.9 years in 2007 to 85.6 years in 2080, and the average male lifespan is expected to increase from 75.2 years in 2007 to 82.4 years in 2080. A tech-

Chart 13-8. Alternative Fertility Assumptions

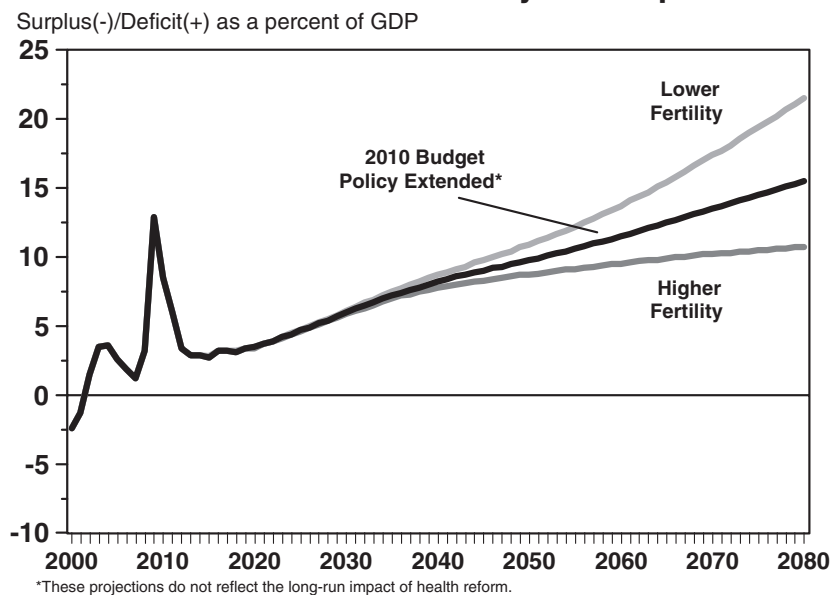
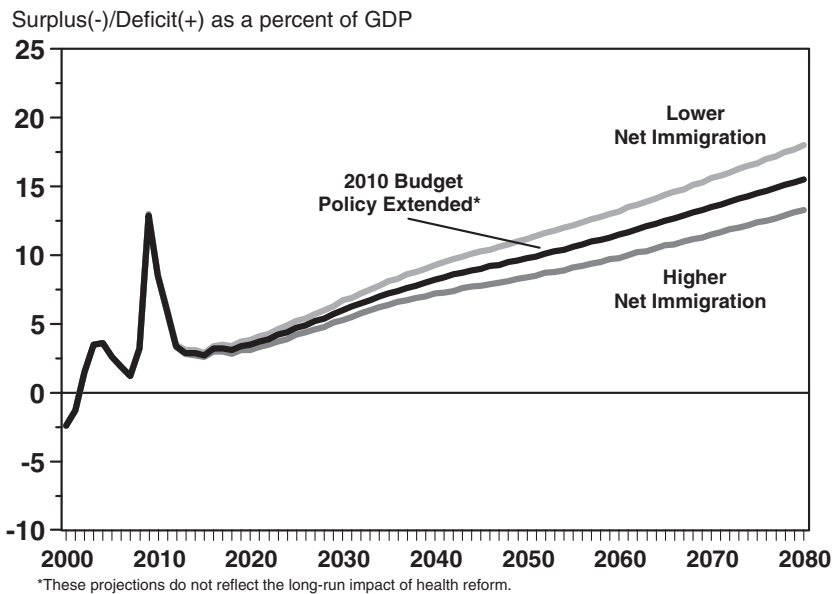


Chart 13-9. Alternative Immigration Assumptions

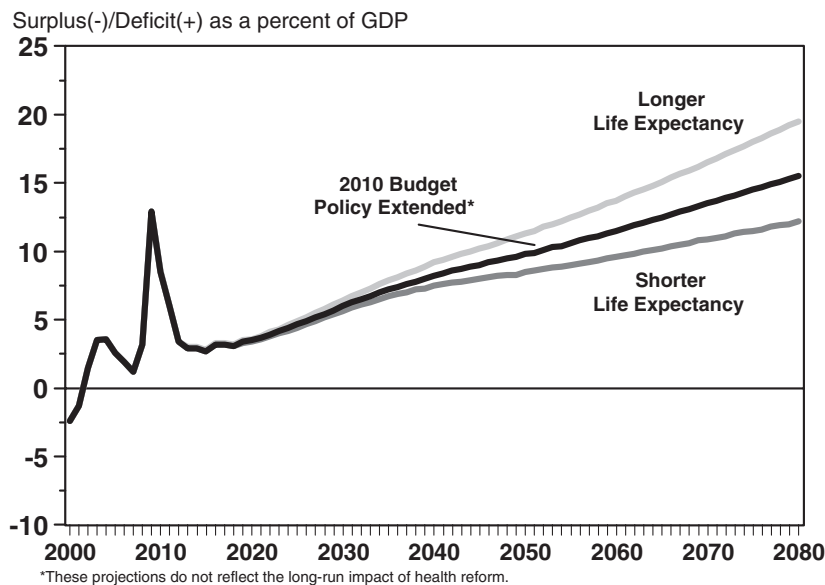


nical panel advising the Social Security trustees has reported that the improvement in longevity might even be greater than assumed here. The variations show the high and low alternatives from the latest trustees' report (average female and male life expectancy reaching 82.3 and 78.7 in the low cost alternative and 89.0 and 86.3 in the high cost alternative).

Actuarial Projections for Medicare and Social Security

The Trustees for the Hospital Insurance 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

Chart 13-10. Alternative Mortality Assumptions



methods and assumptions than the long-run budget projections presented above. Even with these differences, the message is similar: the retirement of the baby-boom generation coupled with expected high rates of growth in per capita health care costs will exhaust the trust funds unless further remedial 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 10 to 75 years. It is important to interpret these actuarial estimates carefully. They show what it would take to achieve a positive trust fund balance at the end of a specified period of time, but not necessarily 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 or any shorter interval when the annual balance in the program is negative at the end of the time period, as it is expected to be for Medicare and Social Security without future programmatic reforms.

Table 13-3 shows the projected income rate, cost rate, and annual balance for the Medicare and OASDI Trust Funds at selected dates under the Trustees' intermediate assumptions. Costs as a percentage of Medicare covered payroll are projected to rise from 3.3 percent today to 5.8 percent of projected payroll in 2030 and 11.6 percent of payroll in 2085. Income rises only slightly, from 3.1 percent of payroll today to 3.4 percent of payroll in 2080. Thus the annual balance moves from a small 0.2 percent of payroll deficit today to 2.5 percent in 2030 and 8.2 percent in 2085. On a 75-year basis, the HI actuarial deficit is 3.5 percent of payroll, more than twice that of Social Security.

Social Security is currently running a surplus, with income exceeding costs. Over time, as the ratio of workers to retirees falls, costs are projected to rise from 11.4

percent of Social Security covered payroll today to 14.1 percent of payroll in 2020, 16.5 percent of payroll in 2050, and 17.6 percent of payroll in 2085. Revenues are projected to rise only slightly, from 12.8 percent of payroll today to 13.3 percent in 2085. Thus the annual balance is projected to switch from surplus to deficit in 2017, with the deficit rising to 1.1 percent of payroll in 2020, 3.2 percent of payroll in 2040, and 4.3 percent of payroll in 2085. On a 75-year basis, the actuarial deficit is projected to be 1.7 percent of payroll.

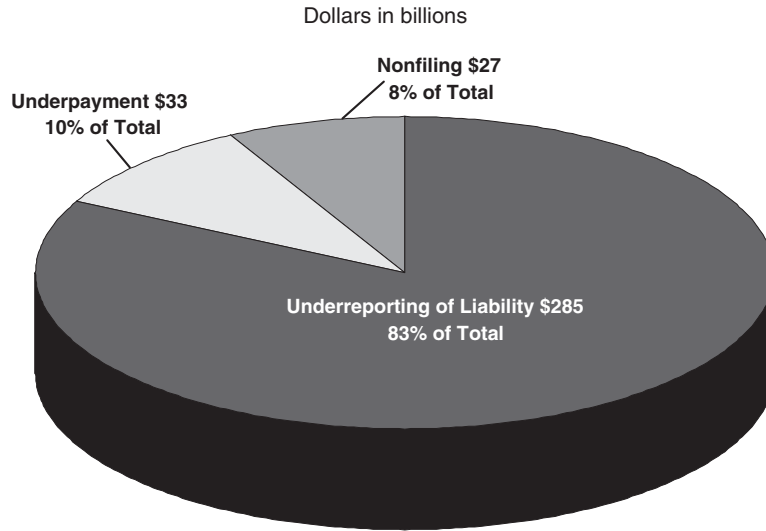
Medicare Funding Warning: Under the Medicare Modernization Act (MMA) of 2003, the Medicare Trustees must issue a "warning" when, in two consecutive Trustees reports, they project that the share of Medicare funded by general revenues will exceed 45 percent in the current year or any of the subsequent six years. General revenue funding is defined as total Medicare outlays minus Medicare payroll taxes, taxes on Social Security benefits, beneficiary premiums, and state transfers under the prescription drug program. In 2008, the Trustees projected that the general revenue share of Medicare funding will exceed 45 percent in 2014 and issued a funding warning.

When a warning is issued, the MMA requires that the President submit legislation, within 15 days of submitting the Budget, which will reduce general revenue funding to 45 percent of overall Medicare outlays or lower in the immediate seven-fiscal-year window. In accordance with the Recommendations Clause of the Constitution, the President considers this requirement to be advisory and not binding. Nevertheless, the President has put forth Budget proposals that would save Medicare \$92.3 billion over five years and \$287.5 billion over ten years. They would also save about \$49.9 billion in 2014 and bring the share of Medicare funded by general revenues below 45 percent. These savings would be set aside in a reserve fund that will finance fundamental health care reform; the proposals would also encourage high-quality and efficient care and reduce excessive payments in Medicare.

Table 13-3. INTERMEDIATE ACTUARIAL PROJECTIONS FOR HI AND OASDI

	2010	2020	2030	2050	2085
	Percent of Payroll				
Medicare Hospital Insurance (HI):					
Income Rate	3.1	3.3	3.3	3.3	3.4
Cost Rate	3.3	4.2	5.8	8.4	11.6
Annual Balance	-0.2	-1.0	-2.5	-5.0	-8.2
Projection Interval:			25 years	50 years	75 years
Actuarial Balance			-1.2	-2.5	-3.5
	Percent of Payroll				
Old Age Survivors and Disability Insurance (OASDI):					
Income Rate	12.8	13.0	13.2	13.2	13.3
Cost Rate	11.4	14.1	16.4	16.5	17.6
Annual Balance	1.5	-1.1	-3.2	-3.3	-4.3
Projection Interval:			25 years	50 years	75 years
Actuarial Balance			0.4	-1.1	-1.7

Chart 13-11. Sources of the Gross Tax Gap



The President believes that enactment of these submitted measures would address the warning conditions.

There are a number of limitations to the measure of Medicare’s budgetary effects stipulated under the MMA. First, the Medicare funding warning uses a metric for Medicare that misleadingly frames the program’s problems in terms of the share of Medicare funded by par-

ticular funding sources. A more significant measure than the share of funding sources would be the overall financial burden of the program on the U.S. economy. Likewise, more meaningful metrics may be the number of workers for each Medicare beneficiary or Medicare spending as a percentage of GDP, as used in this chapter.

PART IV—TAX COMPLIANCE, NATIONAL WEALTH, AND SOCIAL INDICATORS

To obtain a full picture of the Government’s financial condition, it is necessary to examine a broad range of additional information beyond the narrow list of Government-owned assets and liabilities. It is even necessary to consider more information than is contained in the long-term projections of the budget. This final section presents a sample of such additional information. It is intended to provide insight into the full range of resources the Government can draw upon to meet its long-term obligations and also to indicate in a summary way what the

Nation obtains in exchange for the resources it provides the Government.

The first piece of additional information is analysis of compliance with the nation’s tax laws, the so-called “tax gap.” The Government does not collect in a timely manner all of the taxes it is legally owed, as explained in detail below (along with some proposals to narrow the gap). That discussion is followed by an investigation of national wealth and the contributions the Federal Government has made to the wealth of private persons and other lev-

Table 13-4. SOURCES OF THE TAX GAP FROM INCOME UNDERREPORTING

	Contribution to the Tax Gap in billions of dollars	Percent Share of the Overall Tax Gap
Business income underreported by individuals	148	43
Non-business income underreporting and improper deductions and credits.	88	26
Corporate income underreporting.	30	9
Other underreporting.	19	6
Total underreporting	285	83

els of government. The final section discusses a range of economic and social indicators.

Improving Tax Fairness and Federal Finances through Better Tax Compliance

The Internal Revenue Service (IRS) collects over 95 percent of total Federal receipts, including \$2.5 trillion in 2008. However, not every dollar of tax legally owed is actually paid. The great majority of taxpayers comply with the law by filing returns and paying their taxes on time, but some do not comply, either because they do not understand their obligations due to the complexity of the tax law or because they seek to avoid those obligations.

Tax Compliance: In 2006, the IRS released updated results of its first large study in two decades of the difference between taxes owed and taxes actually paid—the “tax gap.” The IRS estimated that taxpayers initially underpaid by \$345 billion in 2001. This equates to a voluntary compliance rate of 84 percent. Late payments and IRS enforcement action reduced this to a net tax gap of \$290 billion, raising the net compliance rate to 86 percent. The Department of the Treasury does not have es-

timates of the tax gap for the years after 2001, though current efforts are underway to provide a new estimate and subsequently update it annually.

Due to changes in methodologies, comparisons between the 2001 estimates and those from earlier studies should be made cautiously. However, it does appear that the voluntary compliance rate has not changed much since the 1980s. The IRS previously reported voluntary compliance rates of 87 percent in 1988, 86 percent in 1985, and 84 percent in 1983. While the overall compliance rate seems to have moved relatively little over time, each one percentage point change significantly impacts revenue. A one percentage point improvement would increase revenue by nearly \$30 billion per year, based on recent revenue numbers.

The IRS compliance estimates, primarily based on random audits of individuals and businesses, are not precise, but give a good general sense of the size of the tax gap and patterns in compliance. This sort of information is critical for effectively targeting IRS enforcement programs to yield the greatest improvement with the smallest cost and burden on taxpayers. The IRS’ estimates are most accurate for underpayments of known taxes as recorded

Table 13-5. NATIONAL WEALTH
(As of the end of the fiscal year, in trillions of 2008 dollars)

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006	2007	2008
ASSETS													
Publicly Owned Physical Assets:													
Structures and Equipment	2.4	2.7	3.4	4.1	4.3	4.6	5.0	5.6	6.4	7.7	8.2	8.7	8.7
Federally Owned or Financed	1.4	1.5	1.6	1.8	1.7	2.1	2.2	2.3	2.4	2.5	2.6	2.7	2.8
Federally Owned	1.2	1.2	1.3	1.2	1.1	1.2	1.3	1.4	1.2	1.1	1.2	1.2	1.2
Grants to State & Local Gov'ts	0.2	0.3	0.4	0.6	0.6	0.8	0.9	1.0	1.2	1.4	1.4	1.5	1.6
Funded by State & Local Gov'ts	1.0	1.3	1.7	2.3	2.6	2.5	2.8	3.2	4.0	5.2	5.6	6.0	5.9
Other Federal Assets	0.5	0.5	0.5	0.6	0.9	1.0	0.9	0.7	1.0	1.7	1.7	1.7	1.5
Subtotal	2.9	3.2	3.9	4.8	5.2	5.6	5.9	6.2	7.3	9.4	9.9	10.4	10.2
Privately Owned Physical Assets:													
Reproducible Assets	8.1	9.3	11.4	14.7	19.1	20.3	23.1	25.6	31.1	38.0	39.6	40.2	40.2
Residential Structures	3.2	3.7	4.4	5.6	7.7	7.9	9.1	10.3	12.9	17.4	18.2	18.3	17.6
Nonresidential Plant & Equipment	3.2	3.6	4.6	6.1	7.8	8.6	9.6	10.5	12.7	14.6	15.3	15.7	16.1
Inventories	0.8	0.9	1.0	1.3	1.6	1.5	1.6	1.7	1.9	2.0	2.0	2.1	2.2
Consumer Durables	1.0	1.1	1.4	1.7	2.0	2.2	2.8	3.1	3.6	4.0	4.1	4.1	4.1
Land	2.4	2.9	3.3	4.3	6.6	7.5	7.8	5.8	9.5	18.3	18.8	18.8	14.1
Subtotal	10.6	12.2	14.8	19.0	25.7	27.8	30.9	31.4	40.6	56.3	58.4	59.0	54.2
Education Capital:													
Federally Financed	0.1	0.1	0.3	0.4	0.6	0.7	0.9	1.1	1.4	1.7	1.8	1.9	1.9
Financed from Other Sources	6.7	9.1	12.2	15.5	19.8	23.1	28.5	33.6	43.0	48.6	50.5	52.9	55.2
Subtotal	6.8	9.2	12.5	15.9	20.3	23.8	29.4	34.7	44.4	50.3	52.2	54.8	57.2
Research and Development Capital:													
Federally Financed R&D	0.2	0.4	0.6	0.7	0.7	0.8	1.0	1.1	1.2	1.3	1.4	1.4	1.5
R&D Financed from Other Sources	0.2	0.2	0.3	0.5	0.6	0.8	1.0	1.3	1.8	2.2	2.3	2.4	2.5
Subtotal	0.4	0.6	0.9	1.1	1.3	1.6	2.0	2.4	2.9	3.5	3.7	3.8	3.9
Total Assets	20.6	25.3	32.0	40.8	52.6	58.8	68.2	74.7	95.3	119.5	124.3	128.0	125.5
Net Claims of Foreigners on U.S. (+)	-0.1	-0.2	-0.2	-0.1	-0.4	0.0	0.9	1.7	3.4	6.1	6.4	8.2	7.2
Net Wealth	20.7	25.5	32.2	40.9	53.0	58.7	67.3	73.0	91.9	113.4	117.8	119.8	118.3
ADDENDA:													
Per Capita Wealth (thousands of 2008 dollars)	114.9	131.3	157.4	189.7	232.3	246.0	268.4	273.3	324.9	382.6	393.9	396.5	388.1
Ratio of Wealth to GDP (in percent)	671.3	656.6	694.8	778.5	842.6	782.2	766.2	735.8	758.5	833.6	845.8	836.7	821.0
Total Federally Funded Capital (trillions of 2008 dollars)	2.1	2.5	3.0	3.5	3.9	4.6	4.9	5.2	5.9	7.1	7.4	7.7	7.7
Percent of National Wealth	10.3	9.7	9.3	8.6	7.3	7.8	7.3	7.1	6.4	6.3	6.3	6.4	6.5

in IRS financial systems, and for individual income tax compliance studied through the recent National Research Program (NRP) random study. Non-filing estimates come from studies of census data and are somewhat less precise. The weakest portions of the IRS' estimates are in areas where no recent studies have been completed and the IRS is relying on older data (e.g., for partnerships and corporations).

Of the total tax gap, 83 percent comes from underreporting of tax liability (see chart). A significant portion of the gap also comes from underpayment of known tax debts and people who fail to file returns. Individual income taxes, the largest source of Federal receipts, account for 71 percent of the tax gap.

The highest compliance rates come in areas where the IRS has good information about income because it is reported by third parties (e.g., Form W-2, which reports wage income from employers, and Form 1099, which reports various third-party payments, including interest from banks). The IRS estimates that 95 percent of income with third-party reporting but no tax withholding (e.g., interest income, dividends) is declared on taxpayer returns. Where there is tax withholding, as in the case of most wages, nearly 99 percent of the amounts reported by payers is declared on taxpayer returns.

Conversely, the rate of underpaid taxes is high for income with little or no third-party reporting. For example, an estimated 43 percent of the tax gap comes from business income that should be reported on individual returns (Forms 1040) but goes unreported to the IRS (see Table 13-4).

Improving Tax Compliance: While the tax gap can likely never be entirely eliminated, reducing the gap by improving compliance is important because non-compliant taxpayers impose unacceptable burdens on other taxpayers and on Federal finances, as well as undermine the integrity of the tax system.

The Administration proposes to reduce U.S. tax evasion and avoidance through a series of legislative reforms and enforcement actions. In addition to the legislative reforms described in Chapter 17, the 2010 Budget provides \$332 million for a robust set of IRS initiatives to implement more vigorously this key compliance strategy, particularly in the international tax area. These targeted investments will help IRS enforce the law to ensure everyone meets the obligation to pay taxes, as well as reduce the tax gap. With these resources, IRS will pursue four key initiatives: 1) Reduce the tax gap attributable to international activities; 2) Improve reporting compliance of small business and high income taxpayers; 3) Expand document matching for business taxpayers; and 4) Address nonfiling/underpayment and collection coverage. Together, these compliance initiatives will bring in over \$2 billion in additional revenues once the resources reach full potential in 2012. The legislative reforms would bring in much more.

Though there have been targeted compliance investments in past Budgets, the 2010 Budget goes further than before to address the wide array of international tax compliance challenges. We have witnessed unprec-

edented growth in international entities, transactions, and complexity over the past two decades and IRS will now be able to catch up to the challenges it faces. Over \$128 million of the initiative total will specifically address international issues, and will generate an estimated \$740 million in additional revenues in 2012, when the newly hired staff reaches its full capacity.

Collectively these efforts will reduce the tax gap and improve the fiscal situation of the Government. Equally important, better compliance will improve the fairness of the tax system by ensuring all taxpayers pay their fair share. Implementation depends on effective IRS leadership to improve factors such as technology investments and reengineering processes, as well as on the active support of the Congress to implement tax law changes and provide needed funding for these improvements.

National Wealth

The Government relies on private wealth to support its activities. It also contributes to that wealth. Unlike a private corporation, the Federal Government routinely invests in ways that do not add directly to its assets. For example, Federal grants are frequently used to fund capital projects by State or local governments for highways and other purposes. Such investments are valuable, but they are not owned by the Federal Government and would not show up on a balance sheet for the Federal Government. It is true, of course, that to the extent these investments encourage economic growth, they augment future tax receipts. The return on investment that comes back to the Government in the form of higher taxes, however, is far less than what a private investor would require before undertaking a similar investment.

The Federal Government also supports education and research and development (R&D). These investments contribute to future productivity and are analogous to investments in physical capital. Indeed, economists have computed stocks of human and knowledge capital to reflect the accumulation of such investments. Nonetheless, such hypothetical capital stocks are obviously not owned by the Federal Government, nor would they appear on a balance sheet.

To show the importance of these kinds of issues, Table 13-5 presents a national balance sheet. It includes estimates of national wealth classified into three categories: physical assets, education capital, and R&D capital. The Federal Government has made contributions to each of these types of capital, and these contributions are shown separately in the table. At the same time, the private wealth shown in Table 13-5 generates future income and tax receipts, which finance future public activities. The Nation's wealth sets the ultimate limit on the resources available to the Government.

The table shows that Federal investments are responsible for about 6 percent of total national wealth, including education and research and development. This may seem like a small fraction, but it represents a large volume of capital: \$7.7 trillion. The Federal contribution is down from 10 percent in 1960. Much of this decline re-

fects the relative shrinkage in the stock of defense capital, which has fallen from around 35 percent of GDP in 1960 to about 5 percent in 2008.

Physical Assets: The physical assets in the table include private stocks of plant and equipment, office buildings, residential structures, land, and the Government's physical assets such as military hardware and highways. Automobiles and consumer appliances are also included in this category. The total amount of such capital is vast, \$64 trillion in 2008, consisting of \$54 trillion in private physical capital and \$10 trillion in public physical capital (including capital funded by State and local governments); by comparison, GDP was around \$14 trillion in 2008. There was a drop in the value of physical capital in 2008 because of a decline in estimated land values. This is further fallout from the bursting of the housing bubble. In the table, land is valued at market prices.

The Federal Government's contribution to this stock of capital includes its own investment in structures and equipment of \$1.2 trillion plus \$1.6 trillion in accumulated grants to State and local governments for capital projects. The Federal Government has financed over 20 percent of all the physical capital held by other levels of government. The Federal Government is also estimated to own \$1.5 trillion worth of inventories, mineral rights, and land.

Education Capital: Economists have developed the concept of human capital to reflect the notion that individuals and society invest in people as well as in physical assets. Investment in education is a good example of how human capital is accumulated. Table 13–5 includes an estimate of the stock of capital represented by the Nation's investment in formal education and training. The estimate is based on the cost of replacing the years of schooling embodied in the U.S. population aged 15 and over; in other words, the goal is to measure how much it would cost to reeducate the U.S. workforce at today's prices (rather than at the original cost). This is more meaningful economically than the historical cost of schooling, and is comparable to the methods used to estimate the physical capital stocks presented earlier.

Although this is a relatively crude measure, it does provide a rough order of magnitude for the current value of the investment in education. According to this measure, the stock of education capital amounted to \$55 trillion in 2008, of which about 3 percent was financed by the Federal Government. The total stock of education capital was slightly larger in value than the Nation's private stock of physical capital. The main investors in education capital have been State and local governments, parents, and students themselves.

Even broader concepts of human capital have been proposed. Not all useful training occurs in a schoolroom or in formal training programs at work. Much informal learning occurs within families or on the job, but measuring its value is very difficult. Labor compensation, however, amounts to about two-thirds of national income, with the other third attributed to capital. Viewing total labor income as the product of human capital suggests that the total value of human capital would be twice the value of

physical capital, assuming that human capital earns a similar rate of return. Thus, the estimates offered here are in a sense conservative, because they reflect only the costs of acquiring formal education and training, which is why they are referred to as education capital rather than human capital. They constitute that part of total human capital that can be attributed to formal education and training.

Research and Development Capital: Research and development can also be thought of as an investment, because R&D represents a current expenditure that is made in the expectation of earning a future return. After adjusting for depreciation, the flow of R&D investment can be added up to provide an estimate of the current R&D stock.⁴ That stock is estimated to have totaled \$3.9 trillion in 2008. Although this represents a large amount of research, it is a relatively small portion of total National wealth. Of this stock, 37 percent was funded by the Federal Government.

Liabilities: When considering how much the United States owes as a Nation, the debts that Americans owe to one another cancel out. Table 13–5 only shows net totals for the Nation. Gross debt is important even though it does not appear in Table 13–5. The amount of debt owed by Americans to other Americans can exert both positive and negative effects on the economy. Americans' willingness and ability to borrow have made possible consumption and housing purchases that would not have been possible without access to credit. The unsound lending practices of recent years and the decline in housing prices, however, have combined to produce a worldwide credit crisis in which many traditional sources of credit have dried up for American consumers and investors. The Government and the Federal Reserve System have taken aggressive action to restore liquidity to the Nation's credit markets, and these measures have helped stabilize financial markets (for more detail about the financial crisis and the economic outlook, see Chapter 12, "Economic Assumptions.")

Because internal debts net out, the only debts that show up in Table 13–5 are the debts Americans owe to foreigners as a result of investments that foreigners have made in the United States. America's net foreign debt has been increasing rapidly in recent years because of the imbalance in the U.S. current account. The current account deficit, however, has declined from a maximum of 6.6 percent in the fourth quarter of 2005 to 3.7 percent in the fourth quarter of 2008. It remains high relative to historical experience, but it ended the year lower than at any time since 2001. The size of the net foreign debt remains relatively small compared with the total stock of U.S. assets. In 2008, it amounted to 6 percent of total assets including education and R&D capital.

Federal debt does not appear explicitly in Table 13–5 because much of it consists of claims held by Americans; only that portion of the Federal debt held by foreign-

⁴ R&D depreciates in the sense that the economic value of applied research and development tends to decline with the passage of time, as still newer ideas move the technological frontier.

Table 13-6. ECONOMIC AND SOCIAL INDICATORS

Calendar Years	1960	1970	1980	1990	1995	2000	2006	2007	2008
Economic:									
Living Standards:									
Real GDP per person (2000 dollars)	13,840	18,392	22,666	28,429	30,128	34,761	37,798	38,192	38,265
average annual percent change (5-year trend)	0.6	2.3	2.6	2.3	1.2	2.9	1.7	1.8	1.6
Real Disposable Income Per Capita Average (2000 dollars)	9,735	13,563	16,940	21,281	22,153	25,473	28,134	28,648	28,754
average annual percent change (5-year trend)	1.2	3.2	2.1	1.8	0.8	2.8	1.8	1.8	1.6
Median Income: All Households (2007 dollars)	NA	41,620	42,429	46,049	46,034	50,557	49,568	50,233	NA
average annual percent change (5-year trend)	NA	NA	0.5	1.2	-0.0	1.9	0.0	0.5	NA
Poverty Rate (%) (a)	22.2	12.6	13.0	13.5	13.8	11.3	12.3	12.5	NA
Income Inequality:									
Income Share of top 1% of All Taxpayers	8.4	7.8	8.2	13.0	13.5	16.5	18.0	NA	NA
Income Share of Lower 60% of All Households	31.8	32.3	31.2	29.3	28.0	27.3	26.5	26.9	NA
Economic Security:									
Civilian Unemployment (%)	5.5	4.9	7.1	5.5	5.6	4.0	4.6	4.6	5.8
CPI-U (% Change)	1.7	5.9	13.5	5.4	2.8	3.4	3.2	2.9	3.8
Payroll Employment Increase (millions)	-0.4	-0.4	0.3	0.3	2.2	2.0	2.1	1.2	-3.1
Managerial or Professional Jobs (% of civilian employment)	NA	NA	NA	29.2	32.0	33.8	34.9	35.5	36.3
Wealth Creation:									
Net National Saving Rate (% of GDP) (b)	10.6	8.3	7.4	4.4	4.1	5.9	3.1	1.7	-0.9
Innovation:									
Patents Issued to U.S. Residents (thousands)	42.3	50.6	40.8	52.8	64.4	96.9	102.2	93.7	NA
Multifactor Productivity (average 5 year percent change)	1.0	0.8	0.8	0.6	0.5	1.1	1.7	1.5	NA
Nonfarm Output per Hour (average 5 year percent change)	1.8	2.1	1.1	1.6	1.5	2.5	2.6	2.1	1.9
Environment:									
Air Quality:									
Nitrogen Oxide Emissions (millions of tons)	18.2	26.9	27.1	25.5	25.0	22.6	17.7	17.0	NA
Sulfur Dioxide Emissions (millions of tons)	22.3	31.2	25.9	23.1	18.6	16.3	13.5	12.9	NA
Carbon Monoxide (millions of tons)	NA	204.0	185.4	154.2	126.8	114.5	92.1	88.3	NA
Lead Emissions (thousands of tons)	NA	220.9	74.2	5.0	3.9	2.8	1.0	1.0	NA
Greenhouse Gas Emissions (tetragrams CO2 equivalent)	NA	NA	NA	5,202.2	5,625.4	6,227.2	5,963.0	6,047.6	NA
Water Quality:									
Population Served by Secondary Treatment or Better (mils) (c)	57.2	85.7	117.9	146.5	161.1	189.1	NA	NA	NA
Social:									
Families:									
Children Living with Mother Only (% of all children)	9.2	11.6	18.6	21.6	24.0	22.3	24.0	24.1	NA
Safe Communities:									
Violent Crime Rate (per 100,000 population) (d)	160.0	364.0	597.0	729.6	684.5	506.5	473.6	466.9	NA
Murder Rate (per 100,000 population) (d)	5.1	7.8	10.2	9.4	8.2	5.5	5.7	5.6	NA
Murders (per 100,000 Persons Age 14 to 17) (d)	NA	NA	5.9	9.8	11.0	4.8	NA	NA	NA
Health:									
Infant Mortality (per 1000 Live Births)	26.0	20.0	12.6	9.2	7.6	6.9	6.6	6.6	NA
Low Birthweight [<2,500 gms] Babies (%)	7.7	7.9	6.8	7.0	7.3	7.6	8.3	8.2	NA
Life Expectancy at birth (years)	69.7	70.8	73.7	75.4	75.8	77.0	78.1	NA	NA
Cigarette Smokers (% population 18 and older) (e)	NA	39.2	33.0	25.3	24.6	23.2	20.8	19.7	20.8
Overweight (% population with Body-Mass Index>25.0)	NA	NA	NA	NA	52.1	56.9	61.8	63.0	NA
Learning:									
High School Graduates (% of population 25 and older)	44.6	55.2	68.6	77.6	81.7	84.1	85.5	85.7	NA
College Graduates (% of population 25 and older)	8.4	11.0	17.0	21.3	23.0	25.6	28.0	28.7	NA
National Assessment of Educational Progress (c)									
Reading 17-year olds	NA	NA	285.0	290.0	288.0	287.4	NA	NA	NA
Mathematics 17-year olds	NA	NA	299.0	305.0	306.5	307.8	NA	NA	NA
Participation:									
Individual Charitable Giving per Capita (2007 dollars)	294.7	421.4	449.9	514.1	486.7	744.0	767.3	759.0	NA
(by election year)	(1960)	(1972)	(1980)	(1988)	(1992)	(1996)	(2000)	(2004)	(2008)
Voting for President (% eligible population) (f)	63.8	56.2	54.2	52.8	58.1	51.7	54.2	60.1	61.7

(a) The poverty rate does not reflect noncash government transfers.

(b) 2008 through Q3 only.

(c) Data interpolated in some years.

(d) Not all crimes are reported, and the fraction that go unreported may have varied over time, preliminary data for 2006.

(e) Data for 2008 covers only January-June.

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

ers is included, along with the other debts to foreigners. Comparing the Federal Government's net liabilities with total national wealth, however, does provide another indication of the relative magnitude of the imbalance in the Government's accounts. Federal net liabilities, as reported in Table 13-1, amounted to 7 percent of net U.S. wealth, as shown in Table 13-5. Prospectively, however, Federal liabilities are a much larger share of national wealth, as indicated by the long-run projections in Part III.

Social Indicators

There are certain broad responsibilities that are unique to the Federal Government. Especially important are preserving national security, fostering healthy economic conditions including sound economic growth, promoting health and social welfare, and protecting the environment. Table 13-6 offers a rough cut of information that can be useful in assessing how well the Federal Government has been doing in promoting the domestic portion of these general objectives.

The indicators shown in Table 13-6 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 is given to measures that are consistently available over an extended period. Such indicators make it easier to draw comparisons and establish trends. In some cases, however, this means choosing indicators with significant limitations.

The individual measures in this table 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 generally 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 goals that Government policy is intended to promote.

Such a table can serve two functions. First, it highlights areas where the Federal Government might need to modify its current practices or consider new approaches. Where there are clear signs of deteriorating conditions, corrective action might be appropriate. Second, the table provides a context for evaluating other data on Government activities. For example, Government actions that weaken its own financial position may be appropriate when they promote a broader social objective. The Government cannot avoid making such trade-offs because of its size and the broad-ranging effects of its actions. Monitoring these effects and incorporating them in the Government's policy making is a major challenge.

Despite a general pattern of progress in economic and social conditions since the 1960s, not all of the indicators in the table show improvement. The poverty rate fell sharply from 1960 to 1970 but since then the poverty rate has shown no further sustained improvement. Income inequality, which was unchanging in the 1960s, began to rise in the 1970s and by the early years of this century had reached levels not seen since before the Great Depression. Some of the trends in these indicators turned around in the 1990s. Perhaps most notable has been the turnaround in the crime rate. After reaching a peak in the early 1990s, violent crime fell by a third. The turnaround was especially dramatic in the murder rate, which has been lower since 1998 than at any time since the 1960s, although the last three years have seen an uptick. The current recession has had a negative effect on some of these indicators: the unemployment rate has increased, and real GDP has declined. Further deterioration is expected in 2009, but the Government has acted decisively to address the economic and financial crisis.

TECHNICAL NOTE: SOURCES OF DATA AND METHODS OF ESTIMATING

Long-Range Budget Projections

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 2009-2019, the assumptions are drawn from the Administration's economic projections used for the 2010 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 2008 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 is assumed to equal the average rate of growth in the Budget's economic assumptions. Over the long term—

- CPI inflation holds stable at 2.1 percent per year; the unemployment rate is constant at 5.0 percent; and the yield on 10-year Treasury notes is steady at 5.2 percent.
- Real GDP per hour, a measure of productivity, grows at the same average rate as in the Administration's medium-term projections—2.0 percent per year.
- 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 declines because of the slowdown in population growth and the increase in the population over age 65, who supply less work effort than younger people do. Historically, real GDP has grown at an average yearly rate of 3.3 percent. In these projections, average real GDP growth declines to around 2.4 percent per year.

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 2019, receipts follow the budget's policy projections. After 2019, tax receipts rise relative to GDP, reflecting "real bracket creep." Discretionary spending follows the policies in the Budget over the next ten 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 the estimates in the 2008 Medicare trustees' report, adjusted for differences in the assumed inflation rate and the growth rate in real GDP per capita, and further adjusted for the estimated long-run effects of the Administration's policy proposals. Federal pensions are drawn from the 2008 *Financial Report of the United States Government* and previous reports. 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.

Federally Owned Assets and Liabilities

Financial Assets: The principal source of data is the Federal Reserve Board's Flow-of-Funds Accounts.

Fixed Reproducible Capital: Estimates were developed from the OMB historical data base for physical capital outlays and software purchases. The data base extends back to 1940 and was supplemented by data from other selected sources for 1915–1939. The source data are in current dollars. To estimate investment flows in constant dollars, it was necessary to deflate the nominal investment series. This was done using chained price indexes for Federal investment from the National Income and Product Accounts. The resulting capital stocks were aggregated into nine categories and depreciated using geometric rates roughly following those used by the Bureau of Economic Analysis in its estimates of physical capital stocks.

Fixed Nonreproducible Capital: Historical estimates for the value of Federal land holdings in the period 1960–1985 were drawn from estimates in Michael J. Boskin, Marc S. Robinson, and Alan M. Huber, "Government Saving, Capital Formation and Wealth in the United States, 1947–1985," published in *The Measurement of Saving, Investment, and Wealth*, edited by Robert E.

Lipsey and Helen Stone Tice (The University of Chicago Press, 1989). Estimates were updated using changes in the value of private land from the Flow-of-Funds Balance Sheets and from the Agriculture Department for farm land. The value of Federal proven reserves of oil and natural gas deposits were based on data from the Department of Energy and valued at contemporary market prices for oil and gas.

Inventories: Recent years' data are from the *Financial Report of the United States Government*. For the period prior to 1995, data are from the Bureau of Economic Analysis.

Debt Held by the Public: Treasury data.

Insurance and Guarantee Liabilities: Sources of data are the OMB Pension Guarantee Model and OMB estimates based on program data. Historical data on liabilities for deposit insurance were also drawn from CBO's study, *The Economic Effects of the Savings and Loan Crisis*, issued January 1992.

Pension and Post-Employment Health Liabilities: The accrued liabilities for Federal retiree pensions and retiree health insurance along with the liability for Veterans disability compensation were derived from the *Financial Report of the United States Government* (and the Consolidated Financial Statement for some earlier years). Prior to 1976, the values were extrapolated.

Other Liabilities: The source of data for trade payables and miscellaneous liabilities is the Federal Reserve's Flow-of-Funds Accounts. The *Financial Report of the United States Government* was the source for benefits due and payable.

Environmental Liabilities: The source of data for environmental liabilities was the *Financial Report of the United States Government*. Prior to 1994, the estimates were extrapolated assuming a constant ratio to GDP.

National Balance Sheet

Publicly Owned Physical Assets: Basic sources of data for the federally owned or financed stocks of capital are the Federal investment flows described in Chapter 6. Federal grants for State and local government capital are added, together with adjustments for inflation and depreciation in the same way as described above for direct Federal investment. Data for total State and local government capital come from the revised capital stock data prepared by the Bureau of Economic Analysis extrapolated for 2008.

Privately Owned Physical Assets: Data are from the Flow-of-Funds national balance sheets and from the private net capital stock estimates prepared by the Bureau of Economic Analysis extrapolated for 2008 using investment data from the National Income and Product Accounts.

Education Capital: The stock of education capital is computed by valuing the cost of replacing the total years of education embodied in the U.S. population 15 years of age and older at the current cost of providing schooling. The estimated cost includes both direct expenditures in the private and public sectors and an estimate of students' forgone earnings, i.e., it reflects the opportunity

cost of education. Estimates of students' forgone earnings are based on the minimum wage for high-school students and year-round, full-time earnings of 18–24 year olds for college students. These year-round earnings are reduced by 25 percent because students are usually out of school three months of the year. Yearly earnings by age and educational attainment are from the Bureau of the Census.

For this presentation, Federal investment in education capital is a portion of the Federal outlays included in the conduct of education and training. This portion includes direct Federal outlays and grants for elementary, secondary, and vocational education and for higher education. The data exclude Federal outlays for physical capital at educational institutions because these outlays are classified elsewhere as investment in physical capital. The data also exclude outlays under the GI Bill; outlays for graduate and post-graduate education spending in HHS, Defense and Agriculture; and most outlays for vocational training. The Federal share of the total education stock in each year is estimated by averaging the prior years' shares of Federal education outlays in total education costs.

Data on investment in education financed from other sources come from educational institution reports on the sources of their funds, published in U.S. Department of Education, Digest of Education Statistics. Nominal expenditures were deflated by the implicit price deflator for GDP to convert them to constant dollar values. Education capital is assumed not to depreciate, but to be retired when a person dies. An education capital stock computed using this method with different source data can be found in Walter McMahon, "Relative Returns to Human and Physical Capital in the U.S. and Efficient Investment Strategies," *Economics of Education Review*, Vol. 10, No. 4, 1991. The method is described in detail in Walter McMahon, *Investment in Higher Education*, Lexington Books, 1974.

Research and Development Capital: The stock of R&D capital financed by the Federal Government was developed from a data base that measures the conduct of R&D. The data exclude Federal outlays for physical capital used in R&D because such outlays are classified elsewhere as investment in federally financed physical capital. Nominal outlays were deflated using the GDP deflator to convert them to constant dollar values.

Federally funded capital stock estimates were prepared using the perpetual inventory method, in which

annual investment flows are cumulated to arrive at a capital stock. This stock was adjusted for depreciation by assuming an annual rate of depreciation of 10 percent on the estimated stock of applied research and development. Basic research is assumed not to depreciate. These are the same assumptions used in a study published by the Bureau of Labor Statistics estimating the R&D stocks financed by private industry (U.S. Department of Labor, Bureau of Labor Statistics, "The Impact of Research and Development on Productivity Growth," Bulletin 2331, September 1989). Chapter 6 of this volume contains additional details on the estimates of the total federally financed R&D stock, as well as its national defense and nondefense components.

A similar method was used to estimate the stock of R&D capital financed from sources other than the Federal Government. The component financed by universities, colleges, and other nonprofit organizations is estimated based on data from the National Science Foundation, Surveys of Science Resources. The industry-financed R&D stock component is estimated from that source and from the U.S. Department of Labor, "The Impact of Research and Development on Productivity Growth," Bulletin 2331, September 1989.

Experimental estimates of R&D capital stocks have been prepared by BEA. The results are described in "A Satellite Account for Research and Development," *Survey of Current Business*, November 1994. These BEA estimates are lower than those presented here primarily because BEA assumes that the stock of basic research depreciates, while the estimates in Table 13–5 assume that basic research does not depreciate. BEA also assumed a slightly higher rate of depreciation for applied research and development, 11 percent, compared with the 10 percent rate used here.

Sources of Data and Assumptions for Estimating Social Indicators

The main sources for the data in this table are the Government statistical agencies. The data are all publicly available, and can be found in such general sources as the annual *Economic Report of the President* and the *Statistical Abstract of the United States* or from the respective agencies' web sites.

14. 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 product 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 and gift tax receipts) that are recorded in the budget. NIPA concepts also differ in many other ways from budget concepts, and therefore the NIPA presentation of Federal finances is significantly different from that of the budget.

Differences between the NIPAs and the Budget

Federal transactions in the NIPAs are measured according to NIPA accounting concepts and as a result they differ from the budget in netting and grossing, timing, and coverage. These differences cause current receipts and expenditures in the NIPAs to differ from total receipts and outlays in the budget, albeit by relatively small

amounts.² Differences in timing and coverage also cause the NIPA measure of net Federal Government saving to differ from the budget surplus or deficit. Unlike timing and coverage differences, netting and grossing differences have equal effects on receipts and expenditures and thus have no effect on net Government saving. The NIPAs also combine transactions into different categories from those used in the budget.

Netting and grossing differences arise because the budget records certain transactions as offsets to outlays that are recorded as current receipts in the NIPAs (or vice versa). The budget treats as governmental receipts all income that comes to the Government due to its sovereign powers—mainly, but not exclusively, taxes. The budget offsets against outlays any income that arises from voluntary business-type transactions with the public. The NIPAs generally follow this concept as well, and income to Government revolving accounts (such as the Government Printing Office) is offset against their expenditures. However, the NIPAs have a narrower definition of "business-type transactions" than does the budget. Rents and royalties, and some regulatory or inspection fees, which are classified as offsets to outlays in the budget, are recorded in the NIPAs as Government receipts (income receipts on assets and current transfer receipts, respectively). The NIPAs include Medicare premiums as Government receipts, while the budget classifies them as business-type transactions (offsetting receipts). In addition, the NIPAs treat the net surplus of Government enterprises, such as the Postal Service, as a component of current receipts.

In the budget, any intragovernmental income paid from one account to another is offset against outlays rather than being recorded as a receipt so that total outlays and receipts measure only transactions with the public. For example, Government contributions for Federal employee social insurance (such as Social Security) are offset against outlays. In contrast, the NIPAs treat the Federal Government like any other employer and show contributions for Federal employee social insurance as expenditures by the employing agencies and as current receipts, rather than offsets against outlays. The NIPAs also display certain transactions that are not recorded explicitly in the budget. For example, unemployment benefits for Federal employees are financed by direct appropriations rather than social insurance contributions. The NIPAs 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,

¹ The NIPA government sector consists of the Federal subsector and a State and local subsector that is a single set of transactions for all U.S. State and local units of government, treated as a consolidated entity.

² Over the period 1994–2008, NIPA current expenditures averaged 3.6 percent higher than budget outlays, while NIPA current receipts averaged 2.6 percent higher than budget receipts.

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. Also unlike the budget, the NIPAs currently exclude transactions with U.S. territories.³

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, 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 gives rise to the largest difference between budget and NIPA expenditures totals in 2009.

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 creates a particularly large difference in 2009, because of anticipated large outlays to liquidate failed bank deposits. In a similar episode in 1991, this exclusion was the largest difference between the NIPAs and the budget and made NIPA net Government saving a significantly smaller negative number than the budget deficit that year. In subsequent years, as assets acquired from failed financial institutions were sold, these collections tended to make the budget deficit a smaller negative figure than NIPA net Federal Government saving.

³ Beginning with the NIPA comprehensive revisions scheduled for July 2009, government transactions with U.S. territories will be included in transactions with the rest of the world.

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, all 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 scored 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 TARP, 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 as if it were a non-Federal entity; thus, those financial stabilization efforts undertaken by the Federal Reserve (assistance to AIG and Bear Stearns, for example) are not scored 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.

Federal Sector Current Receipts

Table 14–1 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 pre-

miums 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) and rents and royalties on Outer Continental Shelf oil leases. The current transfer receipts category consists primarily of deposit insurance premiums, fees, fines and other receipts from both individuals and businesses, less insurance settlements from the National Flood Insurance Program—virtually all of which are netted against outlays in the budget. The current surplus (or deficit) of Government enterprises category is the profit or loss of "Government enterprises," such as the Postal Service, which are business-type operations of Government that usually appear in the budget as public enterprise revolving funds. Depreciation (consumption of enterprise fixed capital) is netted in calculating the current surplus of Government enterprises.

Table 14–1. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 1999-2010
(In billions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Estimate	
											2009	2010
CURRENT RECEIPTS												
Current tax receipts	1165.2	1305.6	1266.9	1089.7	1065.9	1113.8	1344.5	1530.8	1634.5	1553.0	1244.4	1425.8
Personal current taxes	868.5	987.4	993.8	851.1	781.7	778.7	914.8	1033.6	1142.1	1110.0	924.8	1067.5
Taxes on production and imports	82.5	87.8	86.4	86.4	89.1	93.2	98.9	98.3	97.6	100.8	103.8	108.9
Taxes on corporate income	207.9	223.5	179.5	144.7	186.8	232.7	318.8	387.2	380.2	327.5	199.2	232.9
Taxes from the rest of the world	6.2	6.8	7.1	7.4	8.3	9.3	12.0	11.6	14.5	14.8	16.5	16.5
Contributions for Government social insurance	642.2	687.8	713.8	729.6	749.9	795.1	842.1	889.8	934.1	970.4	989.2	1025.8
Income receipts on assets	20.9	24.3	26.4	21.3	21.4	23.7	24.5	24.9	27.9	32.1	130.6	169.8
Current transfer receipts	21.8	24.9	26.5	25.5	24.7	27.7	14.3	35.1	36.8	42.5	73.1	73.0
Current surplus of Government enterprises	0.3	-1.3	-6.5	-1.1	2.5	0.2	-5.5	-4.1	-2.6	-3.1	-7.0	-11.0
Total current receipts	1850.3	2041.2	2027.1	1865.0	1864.4	1960.6	2220.0	2476.6	2630.8	2594.8	2430.4	2683.4
CURRENT EXPENDITURES												
Consumption expenditures	469.5	496.0	519.7	575.5	648.0	706.6	758.4	798.5	837.3	915.0	1025.0	1087.5
Defense	307.2	321.2	335.7	368.4	424.5	470.4	508.9	532.1	566.9	624.1	684.7	712.5
Nondefense	162.3	174.8	184.0	207.1	223.5	236.2	249.5	266.4	270.5	290.9	340.3	375.0
Current transfer payments	976.3	1023.2	1108.0	1216.6	1308.9	1377.5	1459.1	1545.1	1643.4	1783.4	2063.8	2226.2
Government social benefits	733.0	762.7	823.6	900.9	956.3	1005.1	1068.1	1151.7	1240.8	1359.6	1545.8	1622.2
Grants-in-aid to State and local governments	227.7	244.1	268.2	296.7	329.3	347.6	359.4	360.3	370.4	388.2	481.1	558.1
Other transfers to the rest of the world	15.7	16.4	16.3	19.0	23.2	24.7	31.7	33.1	32.2	35.6	36.9	45.9
Interest payments	285.9	283.3	267.9	234.9	214.6	216.8	242.8	284.5	305.2	314.2	357.6	407.0
Subsidies	36.1	49.6	53.7	37.9	46.1	43.5	55.4	53.3	45.6	51.2	56.3	68.6
Wage disbursements less accruals .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total current expenditures	1767.8	1852.0	1949.3	2064.9	2217.6	2344.4	2515.8	2681.4	2831.5	3063.8	3502.7	3789.3
Net Federal Government saving	82.4	189.2	77.8	-199.9	-353.2	-383.8	-295.8	-204.8	-200.7	-469.0	-1072.3	-1105.9
ADDENDUM: TOTAL RECEIPTS AND EXPENDITURES												
Current receipts	1850.3	2041.2	2027.1	1865.0	1864.4	1960.6	2220.0	2476.6	2630.8	2594.8	2430.4	2683.4
Capital transfer receipts	27.6	28.8	28.2	26.4	21.7	24.7	24.6	27.7	25.8	28.6	26.1	19.6
Total receipts	1877.9	2070.1	2055.3	1891.3	1886.1	1985.3	2244.5	2504.3	2656.6	2623.5	2456.5	2703.0
Current expenditures	1767.9	1852.0	1949.3	2064.9	2217.6	2344.4	2515.8	2681.4	2831.5	3063.8	3502.7	3789.3
Net investment:												
Gross government investment:												
Defense	46.5	48.5	49.9	54.5	59.0	65.1	72.2	77.1	81.8	91.2	104.8	107.6
Nondefense	31.9	32.2	30.3	32.6	33.3	33.6	35.2	40.6	40.5	43.8	46.3	49.0
Less: Consumption of fixed capital:												
Defense	59.7	60.2	60.3	60.4	61.4	63.4	67.0	71.2	75.5	80.0	84.3	87.7
Nondefense	24.5	26.5	27.7	28.2	28.7	29.3	30.8	32.8	34.8	37.2	40.1	40.8
Capital transfer payments	31.3	39.3	39.8	44.3	62.0	62.9	66.0	69.7	76.8	90.4	341.6	157.0
Net purchases of nonproduced assets	-1.7	-0.2	-0.9	0.3	*	0.1	-0.7	-0.3	-13.9	-10.2	-17.3	-0.9
Total expenditures	1791.8	1885.1	1980.3	2108.0	2281.9	2413.5	2590.6	2764.5	2906.5	3161.9	3853.7	3973.4
Net lending or net borrowing (-)	86.1	185.0	75.0	-216.7	-395.8	-428.1	-346.1	-260.2	-249.9	-538.4	-1397.3	-1270.5

* \$50 million or less.

Federal Sector Current Expenditures

Table 14–1 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 14–1) 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, waste-water treatment plants, and mass transit are excluded). "Current transfer payments to the rest of the world (net)" consists mainly of grants to foreign governments.

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.

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

Table 14-2. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPAs

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Estimate	
											2009	2010
RECEIPTS												
Budget receipts	1827.6	2025.5	1991.4	1853.4	1782.5	1880.3	2153.9	2407.3	2568.2	2524.3	2156.7	2332.6
Contributions to Government employee retirement plans	-4.5	-4.8	-4.7	-4.6	-4.6	-4.6	-4.5	-4.4	-4.3	-4.2	-4.5	-4.3
Capital transfers received	-27.6	-28.8	-28.2	-26.3	-21.7	-24.7	-24.6	-27.7	-25.8	-28.6	-26.1	-19.6
Other coverage differences	-7.0	-8.0	-7.9	-8.9	-9.0	-10.4	-11.2	-11.8	-11.9	-13.1	-13.3	-13.6
Netting and grossing differences	65.7	70.6	69.9	77.0	85.1	89.7	77.4	108.5	116.5	128.9	259.0	298.2
Timing differences	-3.9	-13.2	6.7	-25.6	32.1	30.3	28.9	4.7	-12.0	-12.6	58.5	90.0
NIPA current receipts	1850.3	2041.2	2027.1	1865.0	1864.4	1960.6	2220.0	2476.6	2630.8	2594.8	2430.4	2683.4
EXPENDITURES												
Budget outlays	1702.0	1789.2	1863.2	2011.2	2160.1	2293.0	2472.2	2655.4	2728.9	2982.9	3997.8	3591.1
Government employee retirement plan transactions	32.1	31.7	31.5	33.7	33.1	33.5	39.8	42.1	40.5	53.0	43.6	69.1
Deposit insurance and other financial transactions	-6.1	-9.0	-6.2	-6.7	2.1	0.4	0.9	-9.1	-12.2	-56.9	-1400.6	-74.8
Capital transfer payments	-31.3	-35.1	-39.8	-44.1	-45.4	-46.4	-47.8	-51.3	-52.8	-55.8	-307.8	-119.9
Net purchases of nonproduced assets	1.7	0.3	0.9	-0.3	*	-0.1	0.7	0.3	13.9	10.2	17.3	0.9
Net investment	5.7	6.0	7.9	1.4	-2.3	-6.1	-9.6	-13.7	-12.1	-17.9	-26.8	-28.1
Other coverage differences	2.7	4.0	7.9	-0.6	-13.5	-21.3	-26.5	-38.3	-6.4	5.4	916.3	46.7
Netting and grossing differences	65.7	70.6	69.9	77.0	85.1	89.7	77.4	108.5	116.5	128.9	259.0	298.2
Timing differences	-4.7	-5.6	14.3	-6.7	-1.6	1.6	8.6	-12.5	15.1	14.1	3.9	6.2
NIPA current expenditures	1767.8	1852.0	1949.3	2064.9	2217.6	2344.4	2515.8	2681.4	2831.5	3063.8	3502.7	3789.3
ADDENDUM												
Budget surplus or deficit (-)	125.6	236.2	128.2	-157.8	-377.6	-412.7	-318.3	-248.2	-160.7	-458.6	-1841.2	-1258.4
NIPA net Federal Government saving	82.4	189.2	77.8	-199.9	-353.2	-383.8	-295.8	-204.8	-200.7	-469.0	-1072.3	-1105.9

* \$50 million or less.

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 1976–1992, the budget deficit showed a larger imbalance than the amount of (negative) net Federal Government saving as measured in the NIPAs. The largest difference, \$78.8 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 \$190.5 billion. Beginning in 1993, deposit insurance and other financial transactions caused the relationship to change, and in 1993–2002, 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. This also was the case in 2007 and 2008 due to unusual swings in timing differences and financial transactions those years, and sales of nonproduced assets. For 2003–2006, and for 2009–2010, however, the NIPA net Federal Government saving is once again smaller than the budget deficit, largely due to timing differences and financial transactions. For 2009, the difference is expected to be historically high, over three-fourths of a trillion dollars, due primarily to differing treatment of the TARP and other financial stabilization measures (see text box); and it is expected to remain high in 2010.

Table 14–1 displays Federal transactions using NIPA concepts with actual data for 1999–2008 and estimates for 2009 and 2010 consistent with the Administration's Budget proposals. Table 14–2 summarizes the reasons for differences between the NIPA and budget measures. Annual NIPA data for 1948–2010 are published in Section 14 of a separate budget volume, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2010*.

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.

BUDGET REFORM PROPOSALS

15. BUDGET REFORM PROPOSALS

We are emerging from an era of fiscal irresponsibility, in which the process by which budget decisions were made and the ways in which they were presented helped expand deficits by trillions of dollars. The President's Budget represents a break from these process and presentational choices. For instance, where the prior Administration turned its back on certain budget enforcement principles that had fostered surpluses during the 1990s, this Administration will reinstate and improve upon those rules. And where the prior Administration presented budgets and budget baselines that failed to reflect the true year-to-year costs of, for example, overseas military operations or responding to natural disasters, this Administration employs a baseline and presents a Budget that more accurately reflects the costs of current or proposed policy going into the future.

The President's budget reform proposals can be grouped into three categories: First, we will adopt certain changes in the budget process, such as a statutory Pay-As-You-Go rule and a proposal for an optional, fast-track procedure for Congress to consider certain rescission requests, that will together help to impose greater discipline on revenue and spending policies. Second, we have made several changes in the display of the budget, such as emphasizing the metric of "debt net of financial assets" and reflecting the true up-front cost to the Government in its Troubled Asset Relief Program (TARP) transactions through net present value accounting, that will offer a clearer window into the liabilities and costs that the Government has and will incur. Finally, we have presented a revised baseline, which includes full-year rather than partial-year costs for overseas military operations as well as a statistical estimate of annual Federal costs for natural disasters, to better capture the likely costs of operating the Federal Government under current policy going forward.

Taken together, these reforms generate a Budget that is more transparent, comprehensive, and accurate, and is thus a better guidepost for citizens and their Government representatives in making decisions about the key fiscal policy issues we confront as a Nation.

Changes in the Budget Process

The Administration supports four proposals that would update the budget process laid out in the Congressional Budget Act of 1974: a renewed statutory Pay-As-You-Go rule, limits on the use of advance appropriations for discretionary programs, allocation adjustments that support the cost-efficient administration of mandatory programs and tax collection, and an option for the expedited consideration of certain rescission proposals.

Statutory Pay-As-You-Go.—The Administration supports a statutory approach to the Pay-As-You-Go or

PAYGO rule, to complement and reinforce the point-of-order constraints agreed to by the House and the Senate in 2007.

The PAYGO principle requires that legislation increasing mandatory spending must be fully offset, or "paid for," by legislation reducing mandatory spending or increasing revenues. Likewise, legislation reducing revenues must be fully offset by legislation raising revenues or reducing mandatory spending. In short, the net of all tax and mandatory spending legislation must be budget neutral.

Drawing closely on the PAYGO law enacted in 1990, the Administration suggests that the requirement of budget neutrality be enforced by an automatic reduction or "sequestration" of selected mandatory programs if legislation is enacted that violates the PAYGO rule. If triggered, such a penalty would restore budget neutrality. But the real purpose of such a penalty is to discourage the enactment, or even the consideration, of legislation that would violate the PAYGO rule. During the 1990s, the rule was adhered to without a sequestration having to be employed.

The Administration's PAYGO proposal differs in a few ways from the House and Senate PAYGO rules. First, the Administration believes that compliance with PAYGO is better measured relative to a baseline that makes budget projections based on current policies—policies in effect in 2009—rather than on policies scheduled (but unlikely) to be in effect in later years (see the discussion of baselines in this section). Second, the Administration would enforce the statute year by year rather than bill by bill (thereby allowing costs in one bill to be offset by savings in another). Third, the Administration would require the total cost of PAYGO legislation to be budget neutral in each year 2010-2013, rather than over a period of years. In contrast, the House and Senate rules each require budget neutrality only over a six-year and an 11-year period.

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.

Program integrity funding.—As explained on pages 40-41 of the Budget document, *A New Era of Responsibility: Renewing America's Promise*, the Administration requests discretionary budget authority of \$1,911 million for program integrity purposes—funds that increase agencies' ability to ensure that entitlement benefits go to the proper benefi-

ciaries in the proper amounts, and that taxes are collected on the same basis. These initiatives have been demonstrated to save more than they cost, and the savings are reflected in the Budget totals. The Administration requests that these amounts be allocated to the Appropriations Committees in a separate category, available only for the specified purposes.

Limit on advance appropriations.—An advance appropriation first becomes available one or more fiscal years beyond the year for which the appropriations act was 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, education grants are sometimes funded as advance appropriations to provide certainty of funding for an entire school year, since school years straddle Federal fiscal years. However, advance appropriations can also be used in situations that lack a programmatic justification, simply to make room for expanded spending within the spending allocations set under the congressional budget resolution. This frees up room in the budget year but exerts pressure for increased spending in later years. To curtail these impacts, congressional budget resolutions since the 2001 Resolution have set limits on the amount of advance appropriations. The Administration proposes a limit on advance appropriations of \$28,857 million for 2011 and freezes them at this level in subsequent years.

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. The Administration will work with the Congress to develop a specific advance appropriations proposal for the Department of Veterans Affairs Medical Care program.

Expedited process for considering rescission requests.—The President and Congress can and do use the normal legislative process to consider requests for the rescission or cancellation of funds that were previously appropriated but have, for example, proven to be in excess of amounts actually needed or of lower-than-expected value. However, there would be a benefit to establishing the option of an additional procedure in those cases where the President finds a need for a rapid, up-or-down vote on a package of rescission proposals.

Under this new proposal, the President can choose to send a limited number of packages of rescission requests to Congress for fast-track procedure. If he chooses to send a package under this special procedure, then the rescission proposals can only reduce or eliminate funding for budget accounts, programs, projects, or activities; the President could not redirect funds or change their allowable uses. The House would be required to vote on that package as transmitted, without amendment, within 15 days. If the package passes the House, the Senate would consider the same package, again without amendment, within 8 days.

Changes in Budget Display

The Budget and supporting material include a more insightful display of publicly held debt and the TARP, the International Monetary Fund, Pell Grants, and transportation programs related to aviation and the highway trust fund.

Debt Held by the Public Net of Financial Assets.—In the *Updated Summary Tables* 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. Some transactions that increase the Federal debt also increase the financial assets held by the Government. For example, when the Government loans 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 is borrowing 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 current and 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.

TARP transactions.—The President's Budget reflects costs for the TARP on a net present value basis, with adjustments to the discount rate for market risk, pursuant to the authority in the 2008 Emergency Economic Stabilization Act (EESA). Net present value budgeting for TARP equity purchases captures the lifetime expected net cost of the program up front, rather than reflecting the cash impact in each year. (Programmatic and interest costs of a transaction sum to the same total over time whether they are shown on a present value basis or a cash basis; under neither approach do any costs to the Government disappear from the budget. The advantage of net present value scorekeeping in TARP and similar cases where financial assets are acquired is that the net costs to the Government appear at the time the transaction actually occurs.)

Full cash flows to and from the Government are still reported as a means of financing in the Budget and the Monthly Treasury Statement. The Budget would have shown a much higher cost in 2009 and large offsetting receipts in subsequent years—producing a steeper trajectory of falling deficits—if TARP had been shown on a cash basis. Such a cash portrayal would therefore have made it appear that the Administration was even more successful at bringing down deficits from year to year. But cash scor-

ing for equity purchases, though perhaps advantageous for cosmetic reasons in this case, does not do as good a job as present value scoring in reflecting the expected costs of these transactions. Chapter 7, “Credit and Insurance,” includes the analysis required under EESA, including the cost of TARP activities substituting cash-based estimates for transactions reflected on a credit basis in the budget.

IMF quota subscription and increase in the New Arrangements to Borrow.—The Administration supports a set of reforms being undertaken at the International Monetary Fund (IMF), including a realignment of country voting weights, which requires the United States to increase its quota subscription in order to maintain its current voting share of 16.7 percent. In addition, the G-20 has called for a very substantial increase in the New Arrangements to Borrow (NAB). Because these are exchanges of financial assets, the Administration does not score them as budget authority or outlays, and they are not included in the total funding requested by the Administration. The treatment of such increases as budget authority is analytically incorrect. Budget authority is the authority to enter into obligations that are liquidated by outlays. These transactions do not result in outlays, undercutting any rationale for scoring the transaction as budget authority. The Administration’s position follows the recommendation made by the 1967 President’s Commission on Budget Concepts that “Subscriptions, drawings, and other transactions reflecting net changes in the U.S. position with the International Monetary Fund should be excluded from budget receipts and expenditures.”¹ There is little or no conceptual basis for treating IMF quota subscriptions or NAB increases

differently from other financial asset exchanges, such as deposits of cash in Treasury’s accounts at the Federal Reserve Bank or purchases of gold, which are not recorded as either budget authority or outlays.

Pell Grants.—The Administration requests that Pell Grants be converted to a mandatory program for 2010 and that benefits be substantially increased. Therefore, the 2010 request of \$1,263 billion in discretionary budget authority includes no funding for Pell Grants. For year-to-year comparability, Summary Tables S-3, S-4, and S-7 in the *Updated Summary Tables* volume also treat existing Pell Grant funding and expenditures for 2008 and 2009 as mandatory. Classifying Pell spending consistently in all years in the baseline and the policy estimates makes it easier to understand the budget impact of the policy proposal. If these tables had instead shown Pell Grants as discretionary through 2009 and as mandatory in subsequent years, it would have been harder to understand the proposal for Pell Grants and harder to interpret the total level of year-by-year funding for other nondefense discretionary programs. Had the Budget not requested the conversion of Pell Grants to a mandatory program, it would have requested an additional \$17.223 billion in discretionary budget authority for 2010.

Aviation user charges.—Beginning with 2011, the Budget assumes that certain aviation excise taxes will be replaced with user charges that would offset discretionary budget authority and outlays. The Administration believes that the Federal Aviation Administration’s (FAA) financing system should move toward a model where charges are based on their costs, system users pay their “fair share,” and FAA utilizes the funds directly to pay for the services that the users need and want. While these effects are largely offsetting, they appear in two

¹ Report of the President’s Commission on Budget Concepts, Washington, D.C., October 1967, p.31.

Table 15–1. PROPOSED BUDGET AUTHORITY AND OUTLAYS FOR PELL GRANTS
(In millions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-19
Baseline:											
Budget Authority	21,322	20,795	23,056	18,435	22,965	23,396	23,938	24,586	24,941	25,301	228,735
Outlays	26,190	26,638	21,487	21,786	19,705	23,037	23,539	24,109	24,676	25,035	236,202
Policy:											
Budget Authority	21,131	30,857	32,328	33,569	35,418	37,234	39,157	41,182	43,255	45,598	359,729
Outlays	26,104	29,216	31,234	32,649	34,056	35,890	37,734	39,684	41,722	43,867	352,156
Change:											
Budget Authority	-191	10,062	9,272	15,134	12,453	13,838	15,219	16,596	18,314	20,297	130,994
Outlays	-86	2,578	9,747	10,863	14,351	12,853	14,195	15,575	17,046	18,832	115,954
Memorandum: Effect of Proposed Reclassification											
Discretionary:											
Remove Pell Grants from appropriated category ¹	-23,304	-22,998	-17,860	-18,091	-18,417	-18,748	-19,086	-19,430	-19,779	-20,135	-197,848
Mandatory:											
Add Pell Grants to mandatory category	23,304	22,998	17,860	18,091	18,417	18,748	19,086	19,430	19,779	20,135	197,848
College Cost Reduction and Access Act	2,886	3,640	3,627	3,695	1,288	4,289	4,453	4,679	4,897	4,900	38,354
Make Pell Grant funding mandatory and increase and index maximum awards	-86	2,578	9,747	10,863	14,351	12,853	14,195	15,575	17,046	18,832	115,954
Total Pell Outlays	26,104	29,216	31,234	32,649	34,056	35,890	37,734	39,684	41,722	43,867	352,156

¹ Includes outlays from unobligated balances of budget authority provided in the American Recovery and Reinvestment Act.

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 Treasury disburses cash (makes a direct loan) to a borrower (e.g., students, farmers, small businesses, 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 costs 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 25, “The Budget System and Concepts,” discusses this subject in more detail and Chapter 7, “Credit and Insurance,” provides more information on credit programs.

Two other, similar examples are the 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 legislated scorekeeping methods that do not show the purchase prices as an outlay.

Budget scorekeeping rules have not, however, fully incorporated the broad principle that the value of an acquired financial asset should be 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 has been recorded as a pure outlay (and increase in the deficit) with no recognition at the point of purchase that the stock has some positive, offsetting value. Dividends projected to be paid by the two entities will appear as cash inflows and reduce the deficit in later years. Likewise, if and when that stock is later sold to the public, the cash received in return will look like a reduction in the deficit. 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.

For this reason, the Administration plans a comprehensive review of these types of transactions, with the goal of making the scorekeeping more consistent across the Government. Doing so may necessitate imposing controls or limits that may not now exist, so that the purchase of assets will occur only for the policy reasons and in the magnitude that the Government believes is appropriate, and so that future cash flows are estimated using sound methods that appropriately account for risk.

places in budget figures for technical reasons; as a revenue reduction shown in Summary Table S-11, and as a decrease between 2010 and 2011 in discretionary budget authority for the Transportation Department shown in Summary Table S-12. Had estimates associated with new user charges not been included, the amount of discretionary budget authority in Summary Table S-12 would have been higher by the following amounts (in millions of dollars):

2011	2012	2013	2014	2015	2016	2017	2018	2019
9,634	10,131	10,639	11,013	11,411	11,824	12,254	12,701	13,165

Highway Trust Fund.—The Administration is working to develop a comprehensive approach for surface transportation reauthorization. Consequently, the Budget contains no policy recommendations in this area, but rather displays baseline funding and current law revenues for surface transportation programs—most of which are funded through the Highway Trust Fund (HTF). To reflect the growing imbalance between projected HTF revenues and baseline spending in the most transparent manner, the Budget shows only the level of HTF funding that can be supported while maintaining positive annual cash balances in the trust fund. The additional funding for HTF programs is shown as discretionary budget authority from the

General Fund. Specifically, for 2010 the Budget includes \$5 billion in contract authority and obligation limitation and \$36 billion in discretionary Budget Authority for the Federal-Aid Highways program. This approach is used for both highway and transit programs over the 10-year budget horizon. Again, this presentation does not represent the ultimate funding levels or budgeting approach that the Administration and Congress necessarily should or will adopt for the upcoming reauthorization. Rather, its purpose is to accurately depict the condition of the HTF and recognize that, under current law, maintaining baseline spending would require support from the General Fund.

Improved Definition of Baseline

The Administration also suggests improving a few of the concepts used in formulating baseline projections to make the resulting product of more use to the public and to policymakers. Because the baseline sometimes plays a part in budget enforcement (as when PAYGO legislation is measured relative to a baseline), these suggestions would both improve the display of budget material and improve the budget process.

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, often referred to as the Budget Enforcement Act (BEA) baseline. However, the BEA baseline does not accurately reflect a continuation of current policy. The Administration built its budget proposals starting from a baseline that adjusts the BEA baseline to better represent current policy, 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-6 of the *Updated Summary Tables* volume of the Budget. The adjustments are described below. Further detail about the adjusted baseline is provided in Chapter 24, “Current Services Estimates,” of this document.

Shift Pell grants from discretionary to mandatory.—The baseline used by the Administration reflects the reclassification of projected Pell Grants from discretionary to mandatory. Beginning in 2010, the baseline includes mandatory budget authority for Pell Grants equal to the amounts that would be shown as discretionary using the BEA rules for projecting the cost of discretionary programs. The resulting outlays are also classified as mandatory. These amounts are in addition to the mandatory funding provided by the College Cost Reduction and Access Act, which provides increases in the maximum award above the appropriated level. The policy estimates reflect the baseline costs plus the expansion in benefits that is proposed by the Administration.

By itself, the reclassification does not increase total spending. The increase in mandatory outlays is matched by an equal reduction in the baseline level of discretionary spending. The reclassification simply makes it easier to understand the budgetary impact of the policy of increasing the maximum award and the costs associated with that increase.

Adjustments to reflect current 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 baseline assumes extension of these policies to represent the policies previously in place: continuing the 2001 and 2003 tax cuts, extending and indexing for inflation the 2009 parameters of the Alternative Minimum Tax, accounting for additional expected Medicare physician payments, continuing the Transitional Medical Assistance and Qualified Individuals programs, and continuing mandatory diabetes funding in the National Institutes of Health and the Indian Health Service.

Overseas, 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 out for the next 10 years; at other times it extends very little. The current-policy baseline includes adjustments to account for these swings.

- *Overseas Contingency Operations.* Enacted 2009 supplementals are extended and inflated in the BEA baseline. However, since the enacted supplementals fund only a fraction of the 2009 costs for overseas contingency operations in Iraq and Afghanistan and other recurring international activities, the BEA baseline significantly understates those costs. To provide a better approximation of current services for these costs, the current policy baseline removes the enacted 2009 funding and inserts the 2008 full-year amounts, adjusted for inflation.
- *Non-recurring emergency costs.* The current policy baseline removes from 2010 and beyond those items designated as “emergency” requirements that are clearly one-time in nature. These appropriations include \$7.5 billion for the Advanced Technology Vehicles Loan Manufacturing Loan Program, \$5.8 billion for rebuilding levees in New Orleans, and \$0.2 billion for the Filipino Veterans Equity Compensation Fund. There is no obvious reason that those particular one-time costs should be continued in a current-policy baseline. The Administration recognizes, however, that the baseline could be understated by including *no* one-time expenditures, which is why a final adjustment for disaster costs (described below) is included.
- *Disaster costs.* The Administration’s baseline projection of current policies includes an allowance for “disaster costs.” This entry represents the statistical probability that there will be major natural or man-made disasters during the remainder of 2009 and in subsequent years—major earthquakes, hurricanes, catastrophic floods, infrastructure collapses, and so on. The estimates are not a five- or 10-year historical average, but rather a representation of the small probability of very large costs. The figure is not a “reserve fund,” nor is it a request for discretionary

budget authority or congressional legislation of any kind.² Instead, it is a placeholder for potential future emergency needs. Consequently, these major disaster costs are not included in the request for \$1,263 billion in discretionary budget authority.³

Including a placeholder for 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 probabilistic estimates of future costs. A budget plan that omits these costs is not “calling for less spending,” rather, it is

unrealistically pretending that there will be no future disasters.

Pay raises and certain administrative expenses.—The baseline projection of current policy modifies the BEA baseline growth rates to remove an erroneous overstatement of the cost of the annual pay raise for Federal employees and to remove the special adjustment for caseload growth for certain social insurance programs. The BEA baseline rules presume that Federal pay raises take effect on October 1, at the start of each fiscal year, when in fact, the effective date for pay raises is now permanently set by law as the first pay period in January. This causes the BEA baseline to overstate the cost of providing a constant level of services.

The BEA baseline also adjusts the administrative expenses for certain social insurance programs by the change in the beneficiary population. There is no reason to make adjustments for a small subgroup of discretionary administrative costs when other discretionary administrative costs—and other discretionary programs providing benefits and services, as well—are not so adjusted.

² 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 probabilistic estimate of disaster costs within the outlay totals for convenience.

³ The request for discretionary appropriations includes amounts that can reasonably be budgeted to cover the ongoing and inevitable costs of wildfires, FEMA preparedness and response, etc.

FEDERAL BORROWING AND DEBT

16. FEDERAL BORROWING AND DEBT

Debt is the largest legally binding obligation of the Federal Government. At the end of 2008, the Government owed \$5,803 billion of principal to the individuals and in-

stitutions who had loaned it the money to fund past deficits. During that year, the Government paid the public approximately \$260 billion of interest on this debt.

Table 16-1. 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	2008 dollars ¹	GDP	Credit market debt ²	Total outlays	GDP
1946	241.9	2,232.2	108.6	N/A	7.4	1.8
1950	219.0	1,642.1	80.2	53.3	11.4	1.8
1955	226.6	1,491.8	57.2	43.2	7.6	1.3
1960	236.8	1,382.5	45.6	33.7	8.5	1.5
1965	260.8	1,423.4	37.9	26.9	8.1	1.4
1970	283.2	1,284.2	28.0	20.8	7.9	1.5
1975	394.7	1,317.1	25.3	18.4	7.5	1.6
1980	711.9	1,643.1	26.1	18.5	10.6	2.3
1985	1,507.3	2,652.9	36.3	22.3	16.2	3.7
1990	2,411.6	3,637.6	42.0	22.6	16.1	3.5
1995	3,604.4	4,792.2	49.2	26.7	15.8	3.3
1996	3,734.1	4,871.2	48.5	26.3	15.8	3.2
1997	3,772.3	4,836.6	46.1	25.3	15.7	3.1
1998	3,721.1	4,713.7	43.1	23.4	15.1	2.9
1999	3,632.4	4,541.9	39.8	21.4	13.8	2.6
2000	3,409.8	4,179.0	35.1	19.0	13.0	2.4
2001	3,319.6	3,974.7	33.0	17.5	11.6	2.1
2002	3,540.4	4,159.5	34.1	17.5	8.9	1.7
2003	3,913.4	4,506.6	36.2	17.8	7.5	1.5
2004	4,295.5	4,821.1	37.3	18.0	7.3	1.5
2005	4,592.2	4,994.0	37.5	17.6	7.7	1.6
2006	4,829.0	5,079.3	37.1	16.9	8.9	1.8
2007	5,035.1	5,154.9	36.9	16.2	9.2	1.8
2008	5,802.7	5,802.7	40.8	17.6	8.7	1.8
2009 estimate	8,531.4	8,408.3	59.9	N/A	5.2	1.5
2010 estimate	9,881.9	9,643.0	67.1	N/A	7.2	1.7
2011 estimate	10,873.1	10,465.8	70.1	N/A	10.5	2.4
2012 estimate	11,468.4	10,858.3	69.6	N/A	13.1	2.9
2013 estimate	12,027.1	11,185.9	68.7	N/A	14.1	3.1
2014 estimate	12,594.8	11,506.8	68.5	N/A	14.6	3.2

N/A = Not available.

¹ Debt in current dollars deflated by the GDP chain-type price index with fiscal year 2008 equal to 100.

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

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

The deficit was \$459 billion in 2008. This \$459 billion deficit and other financing transactions totaling \$309 billion required the Government to increase its borrowing from the public by \$768 billion last year. Debt held by the public increased from 36.9 percent of Gross Domestic

Product (GDP) at the end of 2007 to 40.8 percent of GDP at the end of 2008. Largely as a result of the Government's actions to stabilize the financial markets and restore economic growth, the deficit is estimated to increase to \$1,841 billion in 2009 and then begin to fall. Debt as a

percentage of GDP is estimated to increase in 2009–2011, reaching 70.1 percent of GDP, and is projected to remain relatively stable in subsequent years.

Trends in Debt Since World War II

Table 16–1 depicts trends in Federal debt held by the public from World War II to the present and estimates from the present through 2014. (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 108.6 percent of GDP in 1946, just after the end of the war. From then until the 1970s, because of relatively small deficits, an expanding economy, and inflation, Federal debt as a percentage of GDP decreased almost every year. 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.

Since the 1970s, Federal debt relative to GDP has been 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 substantial reductions in domestic spending. The resulting deficits were large enough to drive 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 decelerating by the mid-1990s, however, as two major budget agreements enacting spending cuts and tax increases reduced deficits to sustainable levels, and the debt declined markedly relative to both GDP and total credit market debt. The decline accelerated as surpluses emerged from 1997 to 2001. Debt fell steadily from 49.4 percent of GDP in 1993 to 33.0 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 in a similar proportion.

An upward trend in debt relative to GDP began in 2002. The decline in the stock market, the recession, and the initially slow recovery 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. However, economic growth led to a revival of receipt growth and deficits and Federal debt as a share of GDP fell in 2006 and 2007.

As a result of the massive financial and economic challenges now facing the Nation, the deficit began increasing rapidly in 2008. The deficit will increase more substantially in 2009 as the Government takes aggressive steps to restore the health of the Nation's economy and financial markets. Deficits are projected to begin to decrease in 2010, roughly stabilizing as a percent of GDP in the outyears. Although debt in nominal dollars is estimated to continue to increase through 2019, debt as a percent of GDP is anticipated to increase noticeably in 2009 through 2011 and then to remain fairly level from 2012 through 2019.

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, that accumulate surpluses. By law, trust fund surpluses must generally be invested in Federal securities. The gross Federal debt is defined to consist of both the debt held by the public and the debt held by Government accounts. Nearly all the Federal debt has been issued by the Treasury and is sometimes called "public debt," but a small portion has been issued by other Government agencies and is called "agency debt."²

Borrowing from the public, whether by the Treasury or by some other Federal agency, is important because it represents the Federal demand on credit markets. Regardless of whether the proceeds are used for tangible or intangible investment 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 credit market sectors 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 However, borrowing from the public is an

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 16–4, but also the debt of the Government-sponsored enterprises listed in Table 7–9 at the end of Chapter 7 of this volume and certain Government-guaranteed securities.

³ The Federal subsector of the national income and product accounts provides a measure of "net government saving" (based on current expenditures and current receipts) that can be used to analyze the effect of Federal fiscal policy on national saving within the framework of an integrated set of measures of aggregate U.S. economic activity. The Federal subsector and its differences from the budget are discussed in Chapter 14 of this volume, "National Income and Product Accounts."

incomplete measure of Federal impact on credit markets. Different types of Federal activities can affect the credit markets in different ways. With the Federal Government's recent extraordinary efforts to stabilize credit markets, borrowing from the public is not a good measure of the Government's net effect on the credit markets, because the Government is using the borrowed funds to acquire financial assets that would otherwise require financing in the credit markets directly. (For more information on other ways in which Federal activities impact the credit market, see the discussion at the end of this chapter.)

Issuing debt securities to Government accounts performs an essential function in accounting for the operation of these funds. The balances of debt represent the cumulative surpluses of these funds due to the excess of their tax receipts, interest receipts, and other collections compared to 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 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 accounting 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. It 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; it does not provide the account with resources other than a legal claim on the U.S. Treasury, which itself obtains real resources by taxation and borrowing; and its current interest does not have 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 represent the actuarial present value of estimated future benefits (or future benefits less taxes) for the current participants in the program; nor does it 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 92 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 13 of this volume, "Stewardship," projects Social Security and Medicare outlays to the year 2080 relative to GDP. It also discusses the actuarial projections prepared for the Social Security and Medicare trustees' reports, which evaluate the long-run outlook for these programs. The excess of future Social Security and Medicare benefits relative to their dedicated income is very different in concept and much larger in size than the amount of Treasury debt that these programs hold.

For all these reasons, debt held by the public is a better gauge of the effect of the budget on the credit markets than gross Federal debt.

Government Deficits or Surpluses and the Change in Debt

Table 16–2 summarizes Federal borrowing and debt from 2008 through 2019. In 2008 the Government borrowed \$768 billion, increasing the debt held by the public from \$5,035 billion at the end of 2007 to \$5,803 billion at the end of 2008. The debt held by Government accounts increased \$267 billion, and gross Federal debt increased by \$1,035 billion to \$9,986 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.⁵ Table 16–2 shows the relationship between the Federal deficit or surplus and the change in debt held by the public. The borrowing or debt repayment depends on the Federal Government's expenditure programs and tax laws, on the economic conditions that influence tax receipts and outlays, and on debt management policy. The sensitivity of the budget to economic conditions is analyzed in Chapter 12 of this volume, "Economic Assumptions."

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.⁶ The on-budget and off-budget surpluses or deficits are added together to determine the Government's financing needs.

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.

⁵ Treasury debt held by the public is measured as the sales price plus the amortized discount (or less the amortized premium). At the time of sale, the book value equals the sales price. Subsequently, it equals the sales price plus the amount of the discount that has been amortized up to that time. In equivalent terms, the book value of the debt equals the principal amount due at maturity (par or face value) less the unamortized discount. (For a security sold at a premium, the definition is symmetrical.) For inflation-indexed notes and bonds, the book value includes a periodic adjustment for inflation. Agency debt is generally recorded at par.

⁶ For further explanation of the off-budget Federal entities, see Chapter 22 of this volume, "Off-Budget Federal Entities and Non-Budgetary Activities."

Table 16-2. FEDERAL GOVERNMENT FINANCING AND DEBT
(In billions of dollars)

	Actual	Estimate										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Financing:												
Unified budget deficit	458.6	1,841.2	1,258.4	929.4	557.4	512.3	535.9	527.7	645.4	674.5	687.7	778.7
Other transactions affecting borrowing from the public:												
Changes in financial assets and liabilities: ¹												
Change in Treasury operating cash balance	296.4	-301.6	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Net disbursements of credit financing accounts:												
Direct loan accounts	27.2	567.4	128.3	91.1	69.9	82.2	80.4	78.1	73.4	70.4	68.6	65.2
Guaranteed loan accounts	5.6	4.4	-5.5	4.6	7.1	6.5	6.5	6.3	5.3	5.3	3.1	1.1
Troubled Asset Relief Program (TARP) equity purchase accounts .....	.....	166.4	-9.5	-10.3	-13.7	-14.4	-24.3	-14.6	-10.4	-9.1	-9.1	-5.8
Financing accounts for potential additional financial stabilization efforts .....	.....	459.9	-19.8	-21.7	-23.9	-26.3	-28.9	-31.8	-35.0	-38.5	-42.3	-51.2
Subtotal, net disbursements	32.9	1,198.0	93.6	63.6	39.4	48.1	33.7	38.0	33.3	28.1	20.2	9.2
Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust (NRRIT)	-7.1	-8.4	-0.9	-1.3	-0.9	-1.0	-1.1	-1.3	-1.6	-1.4	-1.5	-1.4
Net change in other financial assets and liabilities ²	-12.4	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Subtotal, changes in financial assets and liabilities	309.8	888.0	92.7	62.3	38.5	47.1	32.6	36.7	31.7	26.6	18.7	7.8
Seigniorage on coins	-0.7	-0.6	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Total, other transactions affecting borrowing from the public	309.0	887.5	92.1	61.7	37.9	46.4	31.9	36.0	31.0	25.9	18.0	7.1
Total, requirement to borrow from the public (equals change in debt held by the public)	767.6	2,728.6	1,350.5	991.2	595.3	558.7	567.8	563.7	676.4	700.5	705.8	785.8
Changes in Debt Subject to Statutory Limitation:												
Change in debt held by the public	767.6	2,728.6	1,350.5	991.2	595.3	558.7	567.8	563.7	676.4	700.5	705.8	785.8
Change in debt held by Government accounts	267.4	153.1	238.3	226.4	296.5	315.8	342.1	361.8	303.5	292.1	293.9	256.8
Less: change in debt not subject to limit and other adjustments	3.5	1.8	0.7	1.6	1.6	2.1	1.3	1.8	1.7	2.4	2.2	1.2
Total, change in debt subject to statutory limitation	1,038.5	2,883.5	1,589.5	1,219.1	893.5	876.5	911.2	927.3	981.6	995.0	1,001.8	1,043.9
Debt Subject to Statutory Limitation, End of Year:												
Debt issued by Treasury	9,960.6	12,842.5	14,431.6	15,649.7	16,541.8	17,417.0	18,326.8	19,253.2	20,233.6	21,227.9	22,229.2	23,272.4
Less: Treasury debt not subject to limitation (-) ³	-14.5	-12.9	-12.5	-11.4	-10.1	-8.8	-7.4	-6.4	-5.2	-4.5	-4.0	-3.4
Agency debt subject to limitation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Adjustment for discount and premium ⁴	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7
Total, debt subject to statutory limitation ⁵	9,959.8	12,843.3	14,432.9	15,652.0	16,545.5	17,422.0	18,333.2	19,260.5	20,242.1	21,237.1	22,238.9	23,282.8
Debt Outstanding, End of Year:												
Gross Federal debt: ⁶												
Debt issued by Treasury	9,960.6	12,842.5	14,431.6	15,649.7	16,541.8	17,417.0	18,326.8	19,253.2	20,233.6	21,227.9	22,229.2	23,272.4
Debt issued by other agencies	25.2	25.0	24.7	24.2	23.9	23.1	23.2	22.3	21.8	20.1	18.5	17.9
Total, gross Federal debt	9,985.8	12,867.5	14,456.3	15,673.9	16,565.7	17,440.2	18,350.0	19,275.5	20,255.4	21,248.0	22,247.7	23,290.3
Held by:												
Debt held by Government accounts	4,183.0	4,336.1	4,574.4	4,800.8	5,097.3	5,413.1	5,755.2	6,116.9	6,420.4	6,712.6	7,006.5	7,263.3
Debt held by the public ⁷	5,802.7	8,531.4	9,881.9	10,873.1	11,468.4	12,027.1	12,594.8	13,158.6	13,835.0	14,535.4	15,241.2	16,027.0

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 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. Also includes the impact of changes to the U.S. quota and U.S. participation in the New Arrangements to Borrow at the International Monetary Fund.

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

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

⁵ The statutory debt limit is \$12,104 billion, enacted on February 17, 2009.

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

⁷ At the end of 2008, the Federal Reserve Banks held \$491.1 billion of Federal securities and the rest of the public held \$5,311.6 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

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 are currently resulting in dramatic increases in borrowing from the public. The other transactions affecting borrowing from the public are presented in Table 16–2 (an increase in the need to borrow is represented by a positive sign, like the deficit).

In 2008 the deficit was \$459 billion while these other factors—primarily an increase in the Government’s cash balances—increased the need to borrow by \$309 billion. As a result, the Government borrowed \$768 billion from the public. The large impact of the other factors in 2008 was primarily due to the record \$296 billion increase in the cash balance, which was nearly entirely the result of Treasury’s creation of the Supplementary Financing Program (SFP). Under this temporary program, 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.

Largely as a result of the Government’s continued efforts to restore the health of the Nation’s financial markets and economy—including the Troubled Asset Relief Program (TARP), purchases of mortgage-backed securities issued or guaranteed by the Government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac, and other financial stabilization activities—the other factors are estimated to increase borrowing by \$887 billion in 2009. In 2010–2019, these other factors are expected to increase borrowing by annual amounts ranging from \$7 billion to \$92 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 over 40 percent of the total increase in borrowing from the public for 2008 and are projected to result in 33 percent of the increase for 2009.

Three specific factors presented in Table 16–2 are especially important.

Change in Treasury operating cash balance.—The cash balance increased by a record \$296 billion in 2008. As noted above, this increase was more than accounted for by Treasury’s creation of the SFP. In the preceding 10 years, 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 estimated to decrease by \$302 billion by the end of 2009, as the SFP winds down, and then to remain essentially lev-

el. 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 those costs 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.⁷

The financing accounts also include several types of intragovernmental transactions. In particular, they receive payment from the credit program accounts for the costs of new direct loans and loan guarantees; they also receive payment for any upward reestimate of the costs of direct loans and loan guarantees outstanding. These collections are offset against the gross disbursements of the financing accounts in determining the accounts’ total net cash flows. The gross disbursements include outflows to the public—such as of loan funds or default payments—as well as the payment of any downward reestimate of costs to budgetary receipt accounts. The total net cash flows of the financing accounts, consisting of transactions with both the public and the budgetary accounts, are called “net financing disbursements.” They occur in the same way as the “outlays” of a budgetary account 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

⁷ The Federal Credit Reform Act of 1990 (sec. 505(b)) requires that the financing accounts be non-budgetary. As explained in Chapter 22 of this volume, “Off-Budget Federal Entities and Non-Budgetary Activities,” they are non-budgetary in concept because they do not measure cost. For additional discussion of credit reform, see Chapter 7 of this volume, “Credit and Insurance,” Chapter 25, “The Budget System and Concepts,” and the other references cited in Chapter 22 of this volume.

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 2008 and 2009, the downward reestimates in some accounts largely cancelled out the upward reestimates in other accounts, for a net upward reestimate of \$2.8 billion in 2008 and \$0.5 billion in 2009.

The financing accounts are estimated to increase the need for borrowing by a record \$1,198 billion in 2009, far exceeding the largest previous increase of \$33 billion in 2008. Borrowing related to the financing accounts in 2009 is largely driven by credit market stabilization efforts, including a net \$365 billion for the various components of the Troubled Asset Relief Program, \$251 billion for purchases of mortgage-backed securities issued or guaranteed by the GSEs, and \$460 billion for additional potential financial stabilization activities.⁸ After 2009, the credit financing accounts are expected to increase borrowing by much smaller amounts ranging from \$9 billion to \$94 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 new 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, 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 2008, net reductions in the value of NRRIT's portfolio were \$7 billion, due primarily to losses rather than redemptions, for little net impact on borrowing from the public. The net reductions are expected to be \$8 billion in 2009 and then to be smaller amounts in future years.⁹

Debt held by Government accounts.—The amount of Federal debt issued to Government accounts depends largely on the surpluses of the trust funds, both on-budget and off-budget, which owned 93 percent of the total Federal debt held by Government accounts at the end of 2008. In 2008, the total trust fund surplus was \$266 billion, and trust funds invested \$258 billion in Federal secu-

rities. 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 16–5.

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 balanced understanding of the Government's financial condition.

One transaction that can increase both borrowing and assets is an increase to the Treasury operating cash balance. For example, in 2008, under the Supplementary Financing Program, the Government borrowed nearly \$300 billion to increase the Treasury operating cash balance held with the Federal Reserve, to assist the Fed in its actions to stabilize the financial markets; the cash balance created by the program represents an asset that is available to the Federal Government. Looking at both sides of this transaction—the borrowing to obtain the cash and the asset of the cash holdings—provides much more 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 magnitude and the significance of the Government's financial assets has begun to increase greatly since the later part of 2008, as the Government takes actions, such as implementing the Troubled Asset Relief Program, to address the challenges facing the Nation's financial markets and economy.¹⁰

Table 16–3 presents debt held by the public net of the Government's financial assets and liabilities, or "net debt." At the end of 2008, debt held by the public was \$5,803 billion, or 40.8 percent of GDP. The Government held \$505 billion in net financial assets, including a cash balance of \$372 billion, net credit financing account balances of \$153 billion,¹¹ and other assets and liabilities that aggregated

⁸ For further discussion of these programs, see Chapter 7 of this volume, "Credit and Insurance."

⁹ The budget treatment of this fund is further discussed in Chapter 25 of this volume, "The Budget System and Concepts."

¹⁰ For more information on the specific actions that the Government is taking, see Chapter 7 of this volume, "Credit and Insurance."

¹¹ Consistent with the presentation in the *Monthly Treasury Statement of Receipts and Outlays of the United States Government (Monthly Treasury Statement)*, Table 16-3 presents the net financial assets associated with direct and guaranteed loans in the financing accounts created

Table 16-3. DEBT HELD BY THE PUBLIC NET OF FINANCIAL ASSETS AND LIABILITIES
(Dollar amounts in billions)

	Actual 2008	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Debt Held by the Public:												
Debt held by the public	5,802.7	8,531.4	9,881.9	10,873.1	11,468.4	12,027.1	12,594.8	13,158.6	13,835.0	14,535.4	15,241.2	16,027.0
As a percent of GDP	40.8%	59.9%	67.1%	70.1%	69.6%	68.7%	68.5%	68.5%	69.0%	69.4%	69.6%	70.1%
Financial Assets Net of Liabilities:												
Treasury operating cash balance	371.6	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Credit financing account balances:												
Direct loan accounts	195.8	763.2	891.5	982.6	1,052.5	1,134.7	1,215.2	1,293.2	1,366.6	1,437.0	1,505.6	1,570.9
Guaranteed loan accounts	-42.4	-38.0	-43.4	-38.8	-31.8	-25.2	-18.7	-12.4	-7.1	-1.8	1.2	2.3
TARP equity purchase accounts .....	.....	166.4	156.8	146.5	132.8	118.4	94.1	79.5	69.1	60.0	50.9	45.1
Financing accounts for potential .....	.....	459.9	440.1	418.4	394.5	368.2	339.3	307.5	272.5	234.0	191.6	140.4
additional financial stabilization efforts .....	.....	459.9	440.1	418.4	394.5	368.2	339.3	307.5	272.5	234.0	191.6	140.4
Subtotal, credit financing account .....	.....	459.9	440.1	418.4	394.5	368.2	339.3	307.5	272.5	234.0	191.6	140.4
balances	153.4	1,351.4	1,445.0	1,508.6	1,548.0	1,596.1	1,629.8	1,667.8	1,701.1	1,729.2	1,749.4	1,758.7
Government-sponsored enterprise preferred stock	2.0	107.9	149.2	172.9	172.9	172.9	172.9	172.9	172.9	172.9	172.9	172.9
Non-Federal securities held by NRRIT	24.8	16.4	15.5	14.2	13.4	12.4	11.3	10.0	8.4	6.9	5.4	4.0
Other assets net of liabilities	-46.4	-46.4	-46.4	-46.4	-46.4	-46.4	-46.4	-46.4	-46.4	-46.4	-46.4	-46.4
Total, financial assets net of liabilities	505.4	1,499.4	1,633.3	1,719.4	1,758.0	1,805.0	1,837.6	1,874.3	1,906.0	1,932.7	1,951.4	1,959.3
Debt Held by the Public Net of Financial Assets and Liabilities:												
Debt held by the public net of financial assets	5,297.3	7,032.0	8,248.5	9,153.6	9,710.4	10,222.0	10,757.2	11,284.3	11,928.9	12,602.7	13,289.8	14,067.8
As a percent of GDP	37.2%	49.4%	56.0%	59.1%	59.0%	58.4%	58.5%	58.8%	59.5%	60.1%	60.7%	61.5%

to a net liability of \$20 billion. Therefore, net debt was \$5,297 billion, or 37.2 percent of GDP. As shown in Table 16-3, the value of the Government's net financial assets is projected to nearly triple in 2009, from \$505 billion to \$1,499 billion, due nearly entirely to the Government's credit market stabilization efforts. As a result of increasing Federal financial assets, while debt held by the public is expected to increase by more than 19 percent of GDP, from 40.8 percent to 59.9 percent, net debt is expected to increase by only 12 percent of GDP, from 37.2 percent to 49.4 percent.

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 liabilities for future pension and retiree health payments are incurred as part of the current compensation for the services performed by Federal civilian and military employees in producing Government outputs. 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 the "Stewardship" chapter of 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.

Agency Debt

Some Federal agencies, shown in Table 16-4, 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. At the end of 2008, total agency debt remained nearly unchanged at the end-of-2007 level of \$25.2 billion. Agency debt is less than one-half of one percent of Federal debt held by the public. Agencies are estimated to repay small amounts of debt in 2009 and 2010.

The predominant agency borrower is the TVA, which had borrowed \$24.7 billion from the public as of the end of 2008, or 98 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

under the Federal Credit Reform Act of 1990. Therefore, the figures differ by relatively small amounts from the figures in the "Stewardship" Chapter of this volume, which reflect all loans made or guaranteed by the Federal Government, including loans originated prior to implementation of the FCRA.

Table 16–4. AGENCY DEBT
(In millions of dollars)

	Borrowing or repayment (-) of debt			Debt end of 2010 estimate
	2008 actual	2009 estimate	2010 estimate	
Borrowing from the public:				
Housing and Urban Development:				
Federal Housing Administration	-16	-*	.....	69
Architect of the Capitol	-2	-6	-5	139
National Archives	-11	-11	-13	180
Tennessee Valley Authority:				
Bonds and notes	173	-13	-107	22,554
Lease/leaseback obligations	-41	-41	-48	941
Prepayment obligations	-106	-105	-105	823
Total, borrowing from the public	-2	-177	-278	24,706
Borrowing from other funds:				
Tennessee Valley Authority .....	-*	.....	.....	6
Total, borrowing from other funds .....	-*	.....	.....	6
Total, agency borrowing	-2	-177	-278	24,712

* \$500,000 or less.

number of years. TVA retains substantially all of the economic benefits and risks related to ownership of the assets.¹² 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 (OMB) determined that each of these alternative financing methods is a means of financing the acquisition of assets owned and used by the Government, or of refinancing debt previously incurred to finance such assets. They are equivalent in concept to other forms of borrowing from the public, although under different terms and conditions. The budget therefore records the upfront cash proceeds from these methods as borrowing from the public, not offsetting collections.¹³ The obligations under these methods are reported as liabilities on TVA's balance sheet under generally accepted accounting principles. Table 16–4 presents these alternative financing methods separately from TVA bonds and notes to distinguish between the types of borrowing. At the end of 2008, obligations were \$1.0 billion

¹² 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.

¹³ 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 factor is adjustments for the timing of the reporting of Federal debt held by the National Railroad Retirement Investment Trust.

for lease/leasebacks and \$1.0 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.

The FHA has for many years issued both checks and debentures as means of paying claims to the public that arise from defaults on FHA-insured mortgages. 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

Table 16-5. DEBT HELD BY GOVERNMENT ACCOUNTS¹
(In millions of dollars)

Description	Investment or Disinvestment (-)			Holdings end of 2010 estimate
	2008 actual	2009 estimate	2010 estimate	
Investment in Treasury debt:				
Legislative Branch: Payments to copyright owners	64	*	.....	1,192
Energy:				
Nuclear waste disposal fund ¹	560	1,252	2,341	24,200
Uranium enrichment decontamination fund	87	148	325	5,183
Health and Human Services:				
Federal hospital insurance trust fund	-636	-11,322	-14,883	292,536
Federal supplementary medical insurance trust fund	19,842	5,416	-1,717	62,789
Vaccine injury compensation fund	42	130	134	2,932
Homeland Security:				
Aquatic resources trust fund	100	33	70	2,050
Oil spill liability trust fund	204	156	110	1,390
Housing and Urban Development:				
Federal Housing Administration mutual mortgage fund	-3,320	-9,752	1,710	11,043
Guarantees of mortgage-backed securities	512	267	381	9,919
Interior:				
Abandoned mine reclamation fund	66	-63	26	2,393
Bureau of Land Management permanent operating funds	-248	-120	-130	1,692
Environmental improvement and restoration fund	31	6	19	1,145
Justice: Assets forfeiture fund	278	217	175	2,000
Labor:				
Unemployment trust fund	-2,491	-44,432	-6,000	22,000
Pension Benefit Guaranty Corporation ¹	-1,375	1,323	-75	14,398
State: Foreign service retirement and disability trust fund	478	448	129	15,432
Transportation:				
Airport and airway trust fund	-257	-154	-601	6,919
Highway trust fund	607	-8,731	-1,835	2,245
Aviation insurance revolving fund	189	224	188	1,490
Treasury:				
Exchange stabilization fund	411	-827	1,080	17,100
Federal Financing Bank	30	463	1,259	1,752
Veterans Affairs:				
National service life insurance trust fund	-480	-582	-627	8,063
Veterans special life insurance fund	13	1	-9	1,991
Corps of Engineers: Harbor maintenance trust fund	782	401	442	5,340
Other Defense-Civil:				
Military retirement trust fund	25,717	54,951	52,193	323,093
Medicare-eligible retiree health care fund	20,534	18,644	19,965	151,335
Education benefits fund	309	106	87	1,908
Environmental Protection Agency:				
Leaking underground storage tank trust fund	228	227	199	3,591
Hazardous substance trust fund	141	141	135	3,160
International Assistance Programs:				
Overseas Private Investment Corporation	214	164	121	4,976
Office of Personnel Management:				
Civil service retirement and disability trust fund	27,186	34,219	33,904	796,973
Postal Service retiree health benefits fund	6,802	6,926	7,180	46,400
Employees life insurance fund	1,432	1,265	1,189	36,851
Employees health benefits fund	-327	-377	82	15,270
Social Security Administration:				
Federal old-age and survivors insurance trust fund ²	182,389	148,061	150,218	2,448,930
Federal disability insurance trust fund ²	2,657	-8,294	-12,089	196,104
District of Columbia: Federal pension fund	-7	168	135	3,942
Farm Credit System Insurance Corporation:				
Farm Credit System Insurance fund	249	388	458	3,458
Federal Communications Commission:				
Universal service fund	710	-*	.....	5,741

Table 16-5. DEBT HELD BY GOVERNMENT ACCOUNTS¹—Continued
(In millions of dollars)

Description	Investment or Disinvestment (-)			Holdings end of 2010 estimate
	2008 actual	2009 estimate	2010 estimate	
Federal Deposit Insurance Corporation:				
Federal deposit insurance fund	-17,578	-29,937	.....	.....
FSLIC resolution fund	137	34	48	3,402
National Credit Union Administration:				
Share insurance fund	107	-6,512	1,636	2,369
Postal Service fund ²	626	-1,605	.....	.....
Railroad Retirement Board trust funds	-166	177	79	2,086
United States Enrichment Corporation fund	40	69	73	1,684
Other Federal funds	203	-326	135	3,679
Other trust funds	-5	63	60	4,086
Unrealized discount ¹	328	.....	.....	-1,830
Total, investment in Treasury debt¹	267,417	153,056	238,320	4,574,402
Investment in agency debt:				
Railroad Retirement Board:				
National Railroad Retirement Investment Trust .....	-*	.....	.....	6
Total, investment in agency debt¹ .....	-*	.....	.....	6
Total, investment in Federal debt¹	267,416	153,056	238,320	4,574,408
MEMORANDUM				
Investment by Federal funds (on-budget)	8,696	-17,241	37,050	320,493
Investment by Federal funds (off-budget)	626	-1,605	.....	.....
Investment by trust funds (on-budget)	72,719	32,135	63,141	1,610,711
Investment by trust funds (off-budget)	185,047	139,767	138,129	2,645,034
Unrealized discount ¹	328	.....	.....	-1,830

* \$500 thousand or less.

¹Debt 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 2008 the debt figures would be \$22.0 billion higher for the Nuclear waste disposal fund and \$3.6 billion higher for PBGC than recorded in this table.

²Off-budget Federal entity.

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.

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.

After increasing for several consecutive years, investment by trust funds and other Government accounts fell from \$293 billion in 2007 to \$267 billion in 2008, due in part to the effects of worsening economic and financial conditions on the collections and expenditures of Government accounts that invest in Treasury securities. Investment by Government accounts is estimated to be \$153 billion in 2009 and \$238 billion in 2010, as shown in Table 16-5. The holdings of Federal securities by Government accounts are estimated to grow to \$4,574 billion by the end of 2010, or 32 percent of the gross Federal debt. The percentage is estimated to remain relatively stable over the next 10 years.

The large investment by Government accounts is concentrated among a few funds: the Social Security Old-Age and Survivors Insurance (OASI) and Disability Insurance 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 2010, these Social Security, Medicare, and Federal employee retirement funds are estimated to own 94 percent of the total debt held by Government accounts. During 2008-2010, the Social Security OASI fund has a large surplus and is estimated to invest a total of \$481 billion, 73 percent of total net investment by Government accounts. Over this period, the military retirement trust fund is projected to invest \$133 billion, another 20 percent of the total. As a result of the economic and financial challenges facing the Nation and other factors, some Government accounts reduce their investments in Federal securities during 2008-2010. During these years, the Unemployment Trust Fund's investments are ex-

pected to fall by \$53 billion—about two thirds—and the Federal Deposit Insurance Fund is expected to entirely disinvest its holdings of Federal securities.

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 16–5 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 \$25.6 billion at the end of 2008.

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 16–5 it is shown as a separate item at the end of the table and not distributed by account. The amount was \$1.8 billion at the end of 2008.

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 16–2 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.

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. Treasury issued \$30 million in Hope Bonds in 2008. Outstanding Hope Bonds are projected to be \$0.5 billion at the end of 2009, \$1.8 billion at the end of 2010, and \$2.5 billion at the end of 2011, and then to increase by small amounts in subsequent years.

The other Treasury debt not subject to the general limit consists almost entirely of silver certificates and other currencies no longer being issued. It was \$494 million at the end of 2008 and is projected to gradually decline over time.

The sole agency debt currently subject to the general limit, \$51 million at the end of 2008, is certain debentures issued by the Federal Housing Administration.¹⁴

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 is relatively small: \$13.7 billion at the end of 2008 compared to the total unamortized discount (less premium) of \$64.1 billion on all Treasury securities.

Changes in the debt limit.—The statutory debt limit has been changed many times. Since 1960, Congress has passed 76 separate acts to raise the limit, extend the duration of a temporary increase, or revise the definition.¹⁵

During the 1990s, the debt limit was increased three times 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. Since 2002, the debt limit has been raised eight times.

In five instances of increases to the debt limit since 2002, the debt reached or neared the ceiling prior to the increase, and the ceiling was raised by an amount sufficient to last less than two years. 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.

¹⁴ At the end of 2008, \$18 million of FHA debentures was not subject to limit.

¹⁵ The Acts and the statutory limits since 1940 are listed in *Historical Tables, Budget of the United States Government, Fiscal Year 2010*, Table 7.3.

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. 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.

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 will begin to mature in June 2009.

Because the September 29, 2007, increase was enacted before the limit was reached, it was not necessary to take any of these actions. However, prior to the enactment, on September 21, as the anticipated reaching of the limit approached, Treasury announced that it would discontinue the acceptance of subscriptions to the State and local government series of securities, beginning on September 27. On September 28, following Congressional passage of the debt limit increase, Treasury reinstated acceptance of these subscriptions.

Since July 2008, the debt limit has been 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

Table 16-6. FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO STATUTORY LIMIT
(In billions of dollars)

Description	Actual 2008	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Change in Gross Federal Debt:												
Federal funds deficit (+)	724.6	1,977.8	1,437.1	1,130.1	818.9	795.5	805.7	805.7	897.1	920.8	933.8	986.5
Other transactions affecting borrowing from the public -- Federal funds ¹	316.1	895.8	93.0	63.0	38.8	47.4	33.0	37.3	32.6	27.4	19.5	8.5
Increase (+) or decrease (-) in Federal debt held by Federal funds	9.3	-18.8	37.0	25.8	35.1	32.6	72.3	83.8	51.8	45.8	47.8	49.0
Adjustments for trust fund surplus not invested in Federal securities ²	-15.4	26.9	21.7	-1.3	-0.9	-1.0	-1.1	-1.3	-1.6	-1.4	-1.5	-1.4
Change in unrealized discount on Federal debt held by Government accounts	0.3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total financing requirements	1,035.0	2,881.7	1,588.8	1,217.6	891.8	874.4	909.9	925.5	979.9	992.6	999.7	1,042.7
Change in Debt Subject to Limit:												
Change in gross Federal debt	1,035.0	2,881.7	1,588.8	1,217.6	891.8	874.4	909.9	925.5	979.9	992.6	999.7	1,042.7
Less: increase (+) or decrease (-) in Federal debt not subject to limit	*	-1.8	-0.7	-1.6	-1.6	-2.1	-1.3	-1.8	-1.7	-2.4	-2.2	-1.2
Less: change in adjustment for discount and premium ³	-3.5	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total, change in debt subject to limit	1,038.5	2,883.5	1,589.5	1,219.1	893.5	876.5	911.2	927.3	981.6	995.0	1,001.8	1,043.9
ADDENDUM												
Debt subject to statutory limit ⁴	9,959.8	12,843.3	14,432.9	15,652.0	16,545.5	17,422.0	18,333.2	19,260.5	20,242.1	21,237.1	22,238.9	23,282.8

* \$50 million or less.

¹ Includes Federal fund transactions that correspond to those presented in Table 16-2, 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 \$12,104 billion.

\$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. Therefore, it was not necessary for Treasury to take any administrative actions to stay below the ceiling.

Methods of changing the debt limit.—The statutory limit is usually changed by normal legislative procedures. Under the rules adopted by the House of Representatives, it can also be changed as a consequence of the annual Congressional budget resolution, which is not itself a law. The budget resolution includes a provision specifying the appropriate level of the debt subject to limit at the end of each fiscal year. The rule provides that, when the budget resolution is adopted by both Houses of the Congress, the vote in the House of Representatives is deemed to have been a vote in favor of a Joint Resolution setting the statutory limit at the level specified in the budget resolution. The Joint Resolution is transmitted to the Senate for further action, where it may be amended to change the debt limit provision or in any other way. If it passes both Houses of the Congress, it is sent to the President for signature. The House of Representatives first adopted this rule for 1980, although it was not included in the rules for several years before 2003. The rule was last used for the 2007 debt limit increase.

Federal funds financing and the change in debt subject to limit.—The change in debt held by the public, as shown in Table 16–2, is 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 16–2. The change in debt held by Government accounts results in 23 percent of the estimated total increase in debt subject to limit from 2009 through 2019.

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 earmarked by law for specified purposes, such as paying Social Security benefits or making grants to State governments for highway construction.¹⁶

A Federal funds deficit must generally be financed by borrowing, which can be done either by selling securities to the public or by issuing securities to Government accounts that are not within the Federal funds group. Federal funds borrowing consists almost entirely of Treasury securities that are subject to the statutory debt limit. Very little debt subject to statutory limit has been issued for reasons except to finance the Federal funds deficit. The change in debt subject to limit is therefore determined primarily by

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

Table 16–6 derives the change in debt subject to limit. In 2008 the Federal funds deficit was \$725 billion, and other factors increased financing requirements by \$316 billion. The rise in the Treasury operating cash balance increased financing requirements by \$296 billion and the net financing disbursements of credit financing accounts increased financing requirements by \$33 billion. These increases were partly offset by other factors, which reduced financing requirements by \$13 billion. In addition, special funds and revolving funds, which are part of the Federal funds group, invested a net of \$9 billion in Treasury securities. An adjustment is also made for the difference between the trust fund surplus and the trust funds' investment 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, \$1,035 billion in financing was required, increasing gross Federal debt by that amount. Since Federal debt not subject to limit increased by \$37 million and the adjustment for discount and premium changed by \$3.5 billion, the debt subject to limit increased by \$1,039 billion, while debt held by the public increased by \$768 billion.

The debt subject to limit is estimated to increase to \$12,843 billion by the end of 2009, above the current limit of \$12,104 billion. The estimated increases in the debt subject to limit are caused by the continued Federal funds deficit, supplemented by the other factors shown in Table 16–6. While debt held by the public increases by \$6,792 billion from the end of 2008 through 2014, debt subject to limit increases by \$8,373 billion.

Debt Held by Foreign Residents

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. 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 16–7. At the end of 2008, foreign holdings of Treasury debt were \$2,802 billion, which was 48 percent of the total debt held by the public.¹⁷ Foreign central banks owned 67 per-

¹⁶ For further discussion of the trust funds and Federal funds groups, see Chapter 22 of this volume, "Trust Funds and Federal Funds."

¹⁷ The debt calculated by the Bureau of Economic Analysis, Department of Commerce, is different,

cent of the Federal debt held by foreign residents; private investors owned nearly all the rest. The percentage held by foreign central banks is down from 69 percent at the end of 2007. All the Federal debt held by foreign residents is denominated in dollars.

Although the amount of Federal debt held by foreign residents has grown greatly over this period, the proportion that foreign residents 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 and foreign holdings increased from 19 percent at the end of 1994 to 33 percent at the end of 1997. Federal debt held by foreign residents resumed growth in the early part of the current decade, increasing

from 34 percent at the end of 2002 to 42 percent at the end of 2004. Foreign holdings increased to 44 percent in 2007 and 48 percent in 2008. The increase in foreign holdings was about 74 percent of total Federal borrowing from the public in 2008 and about 71 percent over the last five years.

Foreign holdings of Federal debt are around 15–20 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.

though similar in size, because of a different method of valuing securities.

Table 16–7. 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
1991	2,689.0	506.3	18.8	277.4	42.5
1992	2,999.7	562.8	18.8	310.7	56.5
1993	3,248.4	619.1	19.1	248.7	56.3
1994	3,433.1	682.0	19.9	184.7	62.9
1995	3,604.4	820.4	22.8	171.3	138.4
1996	3,734.1	993.4	26.6	129.7	173.0
1997	3,772.3	1,230.5	32.6	38.3	237.1
1998	3,721.1	1,224.2	32.9	-51.2	-6.3
1999	3,632.4	1,281.4	35.3	-88.7	57.2
2000	3,409.8	1,057.9	31.0	-222.6	-223.5
2001	3,319.6	1,005.5	30.3	-90.2	-52.3
2002	3,540.4	1,200.8	33.9	220.8	195.3
2003	3,913.4	1,454.2	37.2	373.0	253.4
2004	4,295.5	1,798.7	41.9	382.1	344.5
2005	4,592.2	1,930.6	42.0	296.7	131.9
2006	4,829.0	2,027.3	42.0	236.8	96.7
2007	5,035.1	2,237.2	44.4	206.2	209.9
2008	5,802.7	2,801.9	48.3	767.6	564.7

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 March 2000, and annual June benchmark revisions for 2002-2008.

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.

Federal, Federally Guaranteed, and Other Federally Assisted Borrowing

The effect of the Government on borrowing in the credit market arises not only from its own borrowing to finance Federal operations but also from its 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. 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 7 of this volume, “Credit and Insurance.” Detailed data are presented in tables at the end of that chapter.

FEDERAL RECEIPTS AND COLLECTIONS

17. FEDERAL RECEIPTS

After years of large tax reductions that have disproportionately benefited high-income Americans, the country has been left with a tax code that is unbalanced and insufficient to meet national needs. The Administration's agenda represents a change in course, providing tax relief to 95 percent of working Americans while asking corporations and high-income families making more than \$250,000 to pay more after the recession ends.

Within one month of taking office, the Administration took action to jumpstart the economy and provide immediate tax relief to 95 percent of working Americans by enacting the making work pay tax credit in the American Recovery and Reinvestment Act (ARRA). This is a refundable tax credit that, for the next two years, provides annual tax relief of up to \$400 for working individuals and \$800 for working families. ARRA also includes a number of other tax measures that will, for instance, increase educational opportunity by helping students pay for higher education expenses, provide support to families with children most in need, and give relief to small businesses that are hurting in these hard economic times.

The tax proposals in this Budget would build on what was accomplished in ARRA. The Budget proposes to make permanent making work pay and other provisions in ARRA that would provide tax relief to working families and increase educational opportunity. It also seeks to rebalance the tax code by 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. The Budget further proposes to reform the international tax code by reducing incentives for U.S.-based multinational corporations to invest abroad rather than in the United States and also proposes enforcement measures that will cut into the gap between what is owed under the tax law and what is paid.

In addition, the President has asked the President's Economic Recovery Advisory Board, led by Paul Volcker, to identify further options for simplifying the tax system, increasing tax compliance, and closing tax loopholes and has requested that the Board report back with such options by December 4, 2009.

ESTIMATES OF FEDERAL RECEIPTS

Receipts (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 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 receipts in 2009 are estimated to be \$2,156.7 billion, a reduction of \$367.7 billion or 14.6 percent from 2008. The estimated decline in receipts in 2009 is in large part attributable to the effects of the current recession on

Table 17-1. RECEIPTS BY SOURCE—SUMMARY
(in billions of dollars)

	2008 Actual	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Individual income taxes	1,145.7	953.0	1,051.4	1,211.4	1,381.2	1,500.9	1,612.7	1,710.8	1,809.3	1,916.1	2,028.9	2,146.6
Corporation income taxes	304.3	146.8	178.9	305.8	377.8	417.1	420.2	450.3	467.9	487.1	511.1	536.2
Social insurance and retirement receipts	900.2	899.2	940.4	994.8	1,052.0	1,114.6	1,166.6	1,212.6	1,267.5	1,314.7	1,367.5	1,429.0
(On-budget)	(242.1)	(244.3)	(257.1)	(275.7)	(294.4)	(310.6)	(322.8)	(332.6)	(340.4)	(350.4)	(361.4)	(379.2)
(Off-budget)	(658.0)	(654.9)	(683.2)	(719.1)	(757.6)	(804.0)	(843.8)	(880.0)	(927.1)	(964.2)	(1,006.2)	(1,049.7)
Excise taxes	67.3	66.3	74.7	73.4	76.6	77.8	79.0	80.1	81.2	81.9	82.7	83.2
Estate and gift taxes	28.8	26.3	19.8	21.2	22.5	24.2	25.0	26.7	28.5	30.5	32.7	35.0
Customs duties	27.6	23.9	23.9	28.5	33.6	37.4	40.3	43.2	45.8	47.7	49.0	50.5
Miscellaneous receipts	50.3	41.1	43.4	50.3	54.9	56.2	59.0	61.0	62.7	64.6	66.6	68.6
Climate revenues .....	.....	.....	.....	.....	76.7	76.9	77.2	77.7	78.3	78.6	79.1	79.5
Total receipts	2,524.3	2,156.7	2,332.6	2,685.4	3,075.3	3,305.1	3,480.1	3,662.3	3,841.3	4,021.1	4,217.7	4,428.5
(On-budget)	(1,866.3)	(1,501.8)	(1,649.4)	(1,966.3)	(2,317.7)	(2,501.2)	(2,636.3)	(2,782.3)	(2,914.2)	(3,056.9)	(3,211.5)	(3,378.8)
(Off-budget)	(658.0)	(654.9)	(683.2)	(719.1)	(757.6)	(804.0)	(843.8)	(880.0)	(927.1)	(964.2)	(1,006.2)	(1,049.7)
Total receipts as a percentage of GDP	17.7	15.1	15.8	17.3	18.7	18.9	18.9	19.1	19.1	19.2	19.3	19.4

personal income and corporate profits, which reduce payroll taxes and individual and corporation income taxes, the three largest sources of receipts. Tax relief enacted in ARRA and additional relief proposed in the Budget also contribute to this decline. These provisions will counteract the negative effects of the current economic downturn by boosting household income and business cash flow, but they also have the effect of reducing Federal receipts. Overall, receipts in 2009 are estimated to be 15.1 percent of Gross Domestic Product (GDP), the lowest share since 1950, when receipts were 14.4 percent of GDP.

As the economy begins to recover from the recession, receipts are estimated to rise to \$2,332.6 billion in 2010, an increase of \$176.0 billion or 8.2 percent relative to 2009. Receipts are projected to grow at an average annual rate

of 10.5 percent between 2010 and 2014, rising to \$3,480.1 billion. Receipts are projected to rise to \$4,428.5 billion in 2019, growing at an average annual rate of 4.9 percent between 2014 and 2019. This growth in receipts 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 subsidies to special interests contribute to the growth in receipts, beginning in 2011.

As a share of GDP, receipts are projected to increase from 15.1 percent in 2009 to 15.8 percent in 2010, and to rise to 19.4 percent in 2019. However, as a share of GDP, receipts would still be lower than during the latter half of the 1990s when the receipts share of GDP reached 20 percent.

LEGISLATION ENACTED IN 2009 THAT AFFECTS GOVERNMENTAL RECEIPTS

In one of his first official acts, President Obama signed into law the reauthorization of the Children's Health Insurance Program (CHIP) on February 4, 2009. This Act provides the support, options and incentives for States to provide coverage for an additional four million children on average in CHIP and Medicaid who were previously uninsured. Shortly thereafter, on February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009, the most ambitious effort to stimulate the economy in the Nation's history. The provisions of this Act provide a direct fiscal boost to help lift our Nation from the most significant economic crisis since the Great Depression and lay the foundation for further growth. President Obama also signed into law the Federal Aviation Administration Extension Act of 2009, which extended the authority to collect taxes that fund the Airport and Airway Trust Fund.

The major provisions of these three Acts that affect governmental receipts are described below.¹

CHILDREN'S HEALTH INSURANCE PROGRAM REAUTHORIZATION ACT OF 2009

Increase excise tax rates on tobacco products and make administrative improvements.—Tobacco products (cigars, cigarettes, cigarette papers and tubes, snuff, chewing tobacco, pipe tobacco and roll-your-own tobacco) manufactured in the United States or imported into the United States are subject to Federal excise taxes. This Act increased the Federal excise tax on cigarettes, which was 39 cents per pack under prior law, to \$1.01 per pack; excise taxes on other tobacco products were increased in a generally proportionate manner. The definition of "roll-your-own tobacco" was expanded to include any tobacco used for making cigars, or for use as wrappers for making cigars. In addition, a tax was imposed on floor stocks of tobacco products (other than certain cigars and cigarette

papers and tubes), reduced by a \$500 tax credit. These changes in tobacco excise taxes were effective for articles removed from the factory or released from customs custody after March 31, 2009.

Strengthen regulatory and enforcement authority.—This Act also strengthened regulatory and enforcement authority over the production and importation of tobacco by: (1) subjecting manufacturers and importers of "processed tobacco" to current law permit, inventory, reporting, and recordkeeping requirements; (2) broadening the authority of the Department of the Treasury to deny, suspend, and revoke tobacco permits for holders that fail to comply with the tax code and related regulations; (3) clarifying that the three-year statute of limitations for assessment of taxes applies to taxes on imported alcohol, tobacco products, and cigarette papers and tubes; (4) imposing a tax on the unlawful manufacture of tobacco products and cigarette papers and tubes; and (5) making certain tax return information related to civil actions against tobacco companies available to the Department of Justice. These changes generally were effective on February 4, 2009.

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 2013 by corporations with assets of at least \$1 billion to 120.5 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

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

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Tax Relief for Individuals and Families

Increase and extend the alternative minimum tax (AMT) exemption amounts.—A temporary provision of prior law increased the AMT exemption amounts to \$46,200 for single taxpayers, \$69,950 for married taxpayers filing a joint return and surviving spouses, and \$34,975 for married taxpayers filing a separate return and for estates and trusts. These temporary increases were effective for taxable years beginning after December 31, 2007 and before January 1, 2009. This Act increased the AMT exemption amounts, effective for taxable years beginning after December 31, 2008 and before January 1, 2010, 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.

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, 2009. This Act extended minimum tax relief for nonrefundable personal tax credits for one year, to apply to taxable years beginning before January 1, 2010. The extension does not apply to the child credit, the new saver's credit, the earned income tax credit (EITC), or the adoption credit, which were provided AMT relief through December 31, 2010 under the 2001 tax cut. The refundable portion of the child credit and the earned income tax credit are also allowed against the AMT through December 31, 2010. In addition, the extension does not apply to the residential energy efficient property credit or the new qualified plug-in electric drive motor vehicle credit, both of which are allowed against the AMT under prior law.

Provide making work pay tax credit.—A refundable tax credit equal to 6.2 percent of earned income, up to a maximum of \$400 for working single taxpayers and \$800 for working married taxpayers filing a joint return, was provided under this Act for taxable years 2009 and 2010. The credit is phased out at a rate of two percent for taxpayers with modified adjusted gross income (AGI) in excess of \$75,000 (\$150,000 for married taxpayers filing a joint return). Payments will be made to each possession of the United States with a mirror tax system (U.S. Virgin Islands, Guam, and the Commonwealth of the Northern Mariana Islands) in an amount equal to the loss in receipts to that possession attributable to the credit provided in this Act. Payments will be made to each possession that does not have a mirror tax system (Puerto Rico and American Samoa) in an amount estimated by the Secretary of the Treasury as being equal to the aggregate credits that would have been allowed to residents of that possession if a mirror tax system had been in effect.

Increase the EITC.—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. Under prior law, for taxable year 2009, taxpayers with more than one qualifying child were provided a credit of 40 percent on up to \$12,570 in earnings, for a maximum credit of \$5,028. The credit was reduced at the rate of 21.06 percent of earnings in excess of \$16,420 for single taxpayers (\$19,540 for married taxpayers filing a joint return). Effective for taxable years 2009 and 2010, this Act increased the credit percentage for families with three or more qualifying children to 45 percent, thereby creating a fourth credit schedule with a maximum credit of \$5,656.50. This Act also provided marriage penalty relief to married couples filing a joint return (regardless of the number of qualifying children) by increasing the income thresholds for the phaseout of the EITC to \$5,000 above the income thresholds for the phaseout for other taxpayers for 2009, and indexed this amount for 2010.

Increase refundable portion of the child tax credit.—Taxpayers are provided a nonrefundable tax credit of up to \$1,000 for each qualifying child under the age of 17. The credit is reduced by \$50 for each \$1,000 (or fraction thereof) of modified AGI over \$75,000 for single taxpayers (\$110,000 for married taxpayers filing a joint return). If the credit exceeds the taxpayer's individual income tax liability, the taxpayer is eligible for a refundable credit (the additional child credit) equal to the lesser of: (1) 15 percent of earned income in excess of a threshold dollar amount (\$12,550 for 2009), indexed annually for inflation; or (2) any child credit unclaimed due to insufficient tax liability. Taxpayers with three or more qualifying children may determine the additional child credit using an alternative formula. Under this Act, effective for taxable years 2009 and 2010, the refundable tax credit was increased by reducing the threshold dollar amount to \$3,000.

Provide American opportunity tax credit.—Taxpayers are provided a nonrefundable tax credit of up to \$1,800 (for 2009) per eligible student per year for qualified tuition and related expenses paid for the first two years of the student's post-secondary education in a degree or certificate program. Students must attend at least half time to be eligible for the credit. This credit, called the Hope Scholarship Credit, is equal to 100 percent of the first \$1,200 in qualified tuition and related expenses and 50 percent of the next \$1,200 of qualified tuition and related expenses for 2009; these amounts are indexed annually for inflation and rounded down to the next lowest multiple of \$100. The credit is phased out ratably for single taxpayers with modified AGI between \$50,000 and \$60,000 (\$100,000 and \$120,000 for married taxpayers filing a joint return) for 2009. The income thresholds for these phase-out ranges are indexed annu-

ally for inflation, with the amount rounded down to the next lowest multiple of \$1,000.

ARRA created the American opportunity tax credit to replace the Hope Scholarship Credit for taxable years 2009 and 2010. The new tax credit is partially refundable, has a higher maximum credit amount, is available for the first four years of postsecondary education, and has higher phase-out limits. Under the American opportunity tax credit, taxpayers are provided 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 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).

Extend and modify the refundable tax credit for first-time homebuyers.—A temporary provision of prior law provided a refundable tax credit to first-time homebuyers who purchased a home on or after April 9, 2008 and before July 1, 2009, without regard to whether or not there was a binding contract to purchase prior to April 9, 2008. A first-time homebuyer is an individual who had no ownership interest in a principal residence in the United States during the three-year period prior to the purchase of the home to which the credit applies. The credit, which is equal to 10 percent of the purchase price of the home, up to a maximum credit of \$7,500, is phased out for taxpayers with modified AGI between \$75,000 and \$95,000 (\$150,000 and \$170,000 for married taxpayers filing a joint return). Taxpayers receiving the credit must repay the amount received in equal installments over a 15-year period beginning two years after the purchase of the home. This Act extended the credit to apply to qualifying home purchases before December 1, 2009, waived the recapture of the credit for qualifying home purchases after December 31, 2008 and before December 1, 2009, and increased the maximum credit to \$8,000.

Exclude a portion of unemployment compensation from taxation.—Unemployment compensation received under the laws of the United States or a State, is subject to individual income tax under current law. Under this Act, for taxable year 2009, a taxpayer may exclude up to \$2,400 of such compensation from gross income for Federal individual income tax purposes.

Provide an additional deduction for taxes on the purchase of certain motor vehicles.—Taxpayers who itemize deductions are allowed to elect to deduct State and local general sales taxes in lieu of State and local income taxes. If a taxpayer itemizes deductions and elects to deduct State and local general sales taxes, the taxpay-

er may substantiate the sales taxes paid with receipts or may deduct an amount determined from Internal Revenue Service (IRS) tables plus the amount of general State and local sales taxes paid on the purchase of a motor vehicle, boat or certain other items. Taxpayers who claim the standard deduction or who itemize deductions and deduct State and local income taxes are not allowed to deduct State and local taxes paid on the purchase of a motor vehicle. Under this Act, taxpayers who claim the standard deduction or itemize deductions but elect to deduct State and local income taxes, instead of general sales taxes, are also allowed to deduct State and local sales or excise taxes paid or accrued on the purchase of a qualified motor vehicle after February 16, 2009 and before January 1, 2010. A qualified motor vehicle is a passenger automobile, light truck or motorcycle that has a gross vehicle weight rating of not more than 8,500 pounds, or a motor home acquired for use by the taxpayer, the original use of which commences with the taxpayer. The deduction is limited to the tax on up to \$49,500 of the purchase price and is phased out for single taxpayers with modified AGI over \$125,000 (\$250,000 for married taxpayers filing a joint return).

Tax Incentives for Business

Extend temporary bonus depreciation for certain property.—Taxpayers are allowed to recover the cost of certain property used in a trade or business or for the production of income through annual depreciation deductions. The amount of the allowable depreciation deduction for a taxable year is generally determined under the modified accelerated cost recovery system (MACRS), which assigns applicable recovery periods and depreciation methods to different types of property. Under a temporary provision of prior law, 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 before January 1, 2009. Qualifying property included tangible property that had a recovery period not exceeding 20 years, purchased computer software, water utility property and qualified leasehold improvement property. A one-year extension of the placed-in-service date, through calendar year 2009, was provided for certain longer-lived property and certain transportation property. 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 placed in service after March 31, 2008 and before January 1, 2009. This Act extended the additional first-year depreciation deduction for one year, to apply to qualifying property acquired and placed in service in calendar year 2009 (through 2010 for certain longer-lived and transportation property). The election to claim additional research or AMT tax credits in lieu of the additional first-year depreciation was also extended for one year.

Extend temporary increase in expensing for small business.—Business taxpayers are allowed to expense up to \$125,000 in annual investment expenditures for quali-

fy property (including off-the-shelf computer software) placed in service in taxable years beginning after 2006 and before 2011. The maximum amount that can be expensed is reduced by the amount by which the taxpayer's cost of qualifying property exceeds \$500,000. Both the deduction and annual investment limit are indexed annually for inflation, effective for taxable years beginning after 2007 and before 2011. A temporary provision of prior law increased the expensing and annual investment limits to \$250,000 and \$800,000, respectively, effective for taxable years beginning in 2008. This Act extended the \$250,000 expensing and \$800,000 annual investment limits for one year, through taxable years beginning in 2009.

Allow five-year carryback of net operating losses (NOLs).—In general, an NOL may be carried back two years and carried forward 20 years to offset taxable income in such years. However, different rules apply with respect to NOLs arising in certain circumstances. This Act provided eligible small businesses (a business meeting a \$15 million gross receipts test) the election to increase the carryback period for applicable NOLs from two years to any whole number of years elected by the taxpayer that is more than two and less than six. An applicable NOL is the taxpayer's NOL for any taxable year ending in 2008, or, if elected by the taxpayer, the NOL for any taxable year beginning in 2008. However, any election may be made only with respect to one taxable year.

Clarify and modify regulations related to limitations on certain built-in losses following an ownership change.—The extent to which a "loss corporation" may offset taxable income in taxable years after an "ownership change" by net operating losses, certain built-in losses, and deductions attributable to taxable years prior to the ownership change is limited under current law. This Act repealed prospectively a notice issued by the Department of the Treasury in 2008, which liberalized these rules with respect to an ownership change by a bank. This Act also provided an exception from the application of the limitation in the case of an ownership change that occurs after February 17, 2009, pursuant to a restructuring plan required under a loan agreement or commitment for a line of credit entered into with the Department of the Treasury under the Emergency Economic Stabilization Act of 2008.

Allow deferral of certain income from the discharge of indebtedness.—Gross income generally includes income realized by a debtor from the discharge of indebtedness, subject to certain exceptions. In cases involving discharges of indebtedness that are excluded from gross income under the exceptions to the general rule, taxpayers generally are required to reduce certain tax attributes by the amount of the discharge of indebtedness. The amount of discharge of indebtedness generally equals the excess of the adjusted issue price of the indebtedness being satisfied over the amount paid (or deemed paid) to satisfy such indebtedness. This rule generally applies to: (1) the acquisition by the debtor of its

debt instrument in exchange for cash; (2) the issuance of a debt instrument by the debtor in satisfaction of its indebtedness, including a modification of indebtedness that is treated as an exchange (a debt-for-debt exchange); (3) the transfer by a debtor corporation of stock, or a debtor partnership of a capital or profits interest in such partnership, in satisfaction of its indebtedness (an equity-for-debt exchange); and (4) the acquisition by a debtor corporation of its indebtedness from a shareholder as a contribution to capital. This Act allowed a taxpayer to elect to defer the recognition of income from the cancellation of indebtedness associated with the "reacquisition" of "an applicable debt instrument" after December 31, 2008 and before January 1, 2011. Income deferred pursuant to the election must be included in the gross income of the taxpayer ratably in the five taxable years beginning with: (1) the fifth taxable year following the taxable year in which the repurchase occurs, for repurchases in 2009; and (2) the fourth taxable year following the taxable year in which the repurchase occurs, for repurchases in 2010.

Reduce capital gains taxation on small businesses.—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. This Act increased the exclusion to 75 percent, effective for stock issued after February 17, 2009 and before January 1, 2011.

Modify other provisions regarding the taxation of businesses.—Other provisions in this Act affecting businesses: (1) modified the amount of estimated tax payments by small businesses for any taxable year beginning in 2009; (2) temporarily expanded the targeted groups eligible for the work opportunity tax credit to include unemployed veterans and disconnected youth who begin work in taxable years 2009 and 2010; (3) provided a temporary exemption from tax on built-in gains of S corporations recognized during taxable years 2009 and 2010 if the seventh taxable year of the recognition period preceded such taxable year; and (4) temporarily liberalized the eligibility requirements for tax-exempt small issue bonds for manufacturing facilities issued after February 17, 2009 and before January 1, 2011 to include certain high-technology facilities and certain functionally related and subordinate facilities.

Relief for State and Local Governments

Modify tax-exempt interest expense allocation rules for financial institutions.—Under current law, a deduction generally is not allowed for interest expenses incurred by a financial institution to purchase obligations the interest on which is exempt from tax. The amount of interest disallowed is an amount that bears the same ratio to such interest expense as the taxpayer's average adjusted bases of tax-exempt obligations acquired after

August 7, 1986 bears to the average adjusted bases for all assets of the taxpayer. This rule does not apply to “qualified tax-exempt obligations;” instead, only 20 percent of the interest expense allocable to “qualified tax-exempt obligations” is disallowed. A “qualified tax-exempt obligation” is a tax-exempt obligation that: (1) is issued after August 7, 1986 by a qualified small issuer (one that reasonably anticipates that the amount of tax-exempt obligations that it will issue during the year will be \$10 million or less); (2) is not a private activity bond; and (3) is designated by the issuer as qualifying for the exception from the general rule. However, the amount allowable as a deduction with respect to any financial institution preference item is reduced by 20 percent. Financial institution preference items include interest on debt to carry tax-exempt obligations acquired after December 31, 1982 and before August 8, 1986; because qualified tax-exempt obligations are treated as if they were acquired on August 7, 1986 under current law, the amount allowable as a deduction by a financial institution with respect to interest incurred to carry a qualified tax-exempt obligation is reduced by 20 percent. Effective for tax-exempt obligations issued after December 31, 2008 and before January 1, 2011, and held by a financial institution, this Act provided that: (1) such obligations held in an amount not to exceed two percent of the adjusted basis of the financial institution’s assets would not be taken into account for purposes of determining the portion of the financial institution’s interest expenses subject to the pro rata interest disallowance rule; (2) such obligations would be treated as preference items, thereby reducing the amount allowable as a deduction with respect to interest incurred to carry such obligations by 20 percent; and (3) the annual limit for qualified small issuers would be increased from \$10 million to \$30 million.

Authorize the issuance of qualified school construction bonds.—This Act created a new category of taxable tax credit bonds, called qualified school construction bonds, which provide a Federal subsidy through tax credits to investors in an amount equal to 100 percent of the interest on eligible bonds. All of the proceeds from the issuance of such bonds must be used for the construction, rehabilitation, or repair of a public school facility or for the acquisition of land on which such a bond-financed facility is to be constructed. Up to \$11 billion in qualified school construction bonds may be issued in each year, 2009 and 2010.

Extend and expand the issuance of qualified zone academy bonds.—Under prior law, State and local governments were allowed to issue taxable tax credit bonds, called qualified zone academy bonds, which provided a Federal subsidy through tax credits to investors in an amount equal to 100 percent of the interest on the bonds. This authorization was for \$400 million in each calendar year, 1998 through 2009. At least 95 percent of the proceeds of such bonds were required to be used for teacher and other personnel training, purchases of equipment, curriculum development, or renovations

and repairs at a qualified zone academy. This Act provided that an additional \$1.4 billion in qualified zone academy bonds could be issued in each of calendar year 2009 and 2010.

Authorize the issuance of build America bonds.—This Act allowed State and local governments to issue two types of taxable tax credit bonds in 2009 and 2010, called build America bonds, with Federal subsidies for a portion of the borrowing costs. One type of build America bond provides a Federal tax credit to investors equal to 35 percent of the interest payable by the issuer of the bond (net of the tax credit), which represents a Federal subsidy of approximately 25 percent of the total borrowing cost. This type of build America bond may be issued for any purpose for which governmental tax-exempt bonds (excluding private activity bonds) can be issued under current law. The credit, which is included in gross income, is allowed against the regular tax and the AMT. Unused credits may be carried forward to succeeding taxable years. A second type of build America bond provides a refundable credit or direct payment from the Department of the Treasury to eligible State or local government issuers equal to 35 percent of the total interest payable to investors on eligible taxable bonds. This second type of build America bond may be used to finance only capital expenditures.

Authorize the issuance of recovery zone economic development bonds and recovery zone facility bonds.—This Act allowed State and local governments to issue recovery zone economic development bonds and recovery zone facility bonds, which are two new types of tax-preferred bonds. Recovery zone economic development bonds are a modified type of taxable build America bond that are eligible for a deeper Federal subsidy in the form of a refundable credit or direct payment to State and local government issuers in an amount equal to 45 percent of the interest payable on the bond. Recovery zone facility bonds are a modified type of tax-exempt private activity bond. Nationwide, up to \$10 billion of recovery zone economic development bonds and up to \$15 billion of recovery zone facility bonds may be issued in 2009 and 2010. This total authorization is allocated among States and localities based on relative declines in employment. The proceeds of recovery zone economic development bonds must be used for purposes of promoting development or other economic activity in a recovery zone, including capital expenditures paid or incurred with respect to property located in such zones and expenditures for public infrastructure and construction of public facilities located in such zones. At least 95 percent of the proceeds of recovery zone facility bonds must be used for specific types of recovery zone property. Areas designated by the issuer as recovery zones must have significant poverty, unemployment, general distress, or home foreclosures; be any area for which a designation as an empowerment zone or renewal community is in effect; or be economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990.

Modify 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. Under prior law, the maximum amount of annual qualifying equity investment is capped at \$2.0 billion for calendar years 2004 and 2005, and \$3.5 billion for calendar years 2006 through 2009. This Act increased the cap on annual qualifying investment to \$5 billion for 2008 and 2009.

Provide other relief for State and local governments.—This Act also: (1) provided that tax-exempt interest on certain private activity bonds issued in 2009 and 2010 is not an item of tax preference for purposes of the AMT; (2) modified the speed requirement for high-speed intercity rail facility bonds; (3) allowed Indian tribal governments to issue \$2 billion in tribal economic development bonds; (4) provided procedures for the pass-through of credits on tax credit bonds held by regulated investment companies; and (5) delayed for one year the withholding of tax on certain payments to government contractors.

Energy Incentives

Extend the tax credit for energy produced from certain renewable sources.—Taxpayers are allowed a tax credit for electricity produced from wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower, and marine and hydrokinetic renewable energy at qualified facilities (the renewable electricity production credit). The credit rate is 1.5 cents per kilowatt hour for electricity produced from wind, closed-loop biomass, geothermal, and solar power, and 0.75 cents per kilowatt hour for electricity produced from open-loop biomass, small irrigation power, municipal solid waste, and qualified hydropower (both rates are adjusted for inflation since 1992). To qualify for the credit, electricity generally must be produced at qualified facilities placed in service by a specific date and must be sold by the taxpayer to an unrelated person. This Act extended the placed-in-service date for: (1) qualified facilities producing electricity from closed-loop biomass, open-loop biomass, geothermal energy, municipal solid waste, and qualified hydropower for three years through December 31, 2013; (2) qualified wind facilities for three years through December 31, 2012; and (3) qualified marine and hydrokinetic renewable energy facilities for two years through December 31, 2013.

Modify business energy credit.—A nonrefundable tax credit is allowed for certain qualifying energy property placed in service by a taxpayer (the energy credit). Qualifying energy property includes solar energy property, fuel cell power plants, microturbines, geothermal power production property, geothermal heat pump property, small wind energy property and combined heat and pow-

er system property. Depending on the type of property placed in service, the credit rate may be 10 or 30 percent of the property's basis, and the credit may be limited by an annual cap. This Act repealed a prior law rule that reduced the basis of property for purposes of the credit computation when the property was financed by subsidized energy financing or with proceeds from private activity bonds. This Act also eliminated the prior law rule limiting the credit with respect to small wind energy property to \$4,000 per year.

This Act also allowed taxpayers to elect to treat certain qualified facilities as qualifying energy property eligible for a credit equal to 30 percent of the property's basis. The facilities eligible for this treatment are facilities that would otherwise qualify for the tax credit for electricity produced from wind, closed-loop biomass, open-loop biomass, geothermal energy, small irrigation power, municipal solid waste, qualified hydropower, and marine and hydrokinetic renewable energy. A taxpayer making the election with respect to a facility may not claim the renewable electricity production credit for electricity produced at the facility. This Act also allowed taxpayers to elect to receive a grant from the Department of the Treasury in lieu of the energy credit or the renewable electricity production credit for these facilities and for other qualifying energy property. The election and 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.

Extend and modify the credit for nonbusiness energy property.—Under prior law, a nonrefundable 10-percent credit was provided for the purchase of qualified energy efficiency improvements (insulation, exterior windows and doors, roofs) to existing homes located in the United States and owned and used by the taxpayer as the taxpayer's principal residence. Specified credits also were provided: (1) \$50 for each qualified advanced main air circulating fan; (2) \$150 for each qualified natural gas, propane, or oil furnace or hot water boiler; and (3) \$300 for each item of qualified energy efficient property (any of the following meeting specified standards: an electric heat pump; an electric heat pump water heater; a central air conditioner; a natural gas, propane, or oil water heater; and biomass fuel property). These credits, which applied to expenditures after December 31, 2008, for property placed in service after December 31, 2008 and before January 1, 2010, were subject to an aggregate lifetime cap of \$500 for each taxpayer with respect to a specific dwelling; no more than \$200 of the credits could be attributable to expenditures on windows. This Act: (1) increased the credit rate to 30 percent and extended it to apply to the energy property otherwise eligible for the \$50, \$150 and \$300 credits of prior law; (2) extended the

credits for one year, to apply to property purchased and placed in service prior to January 1, 2011; (3) replaced the \$500 lifetime cap (\$200 for windows) with an aggregate cap of \$1,500 for property placed in service during the period 2009 through 2010; (4) modified the efficiency standards for qualifying property; and (5) eliminated the rule that reduced the credit for property purchased with subsidized energy financing.

Modify credits for alternative fuel and plug-in electric drive motor vehicles.—A tax credit (the alternative motor vehicle credit) is provided for each new qualified fuel cell, hybrid, advanced lean burn technology and alternative fuel vehicle placed in service by the taxpayer. The credit varies depending on the weight class of the vehicle, the type of technology used, the amount by which the vehicle exceeds fuel economy standards, and, in some cases, the estimated lifetime fuel savings of the vehicle. The credit is available for vehicles purchased after 2005 and, under prior law, was scheduled to expire after 2009, 2010 or 2014, depending on the type of vehicle. In addition, the credit for hybrid and advanced lean burn technology vehicles phases out with respect to a manufacturer's vehicles after the manufacturer has sold at least 60,000 of those vehicles.

A credit also is available for each qualified plug-in electric drive motor vehicle (a vehicle that has at least four wheels, is manufactured for use on public roads, meets certain emissions standards, draws propulsion using a traction battery with at least four kilowatt-hours of capacity, and is capable of being recharged from an external source of electricity) placed in service. Under prior law, the base amount of the credit for plug-in electric drive motor vehicles was \$2,500, plus \$417 for each kilowatt-hour of battery capacity in excess of four kilowatt-hours. The maximum credit varied by weight of the vehicle, ranging from \$7,500 for a vehicle weighing less than 10,000 pounds to \$15,000 for a vehicle weighing more than 26,000 pounds. Under prior law, the credit was scheduled to phase out over the four calendar quarters beginning in the second quarter following the quarter in which a total of 250,000 credit-eligible vehicles were sold for use in the United States; in addition, the credit was not available for purchases after December 31, 2014.

This Act modified the alternative motor vehicle credit by making it a personal credit allowed against the AMT, effective for taxable years beginning after December 31, 2008. This Act also made the following modifications to the plug-in electric drive motor vehicle credit, effective for vehicles acquired after December 31, 2009: (1) the credit was capped at \$7,500 per vehicle, regardless of the weight of the vehicle; (2) the credit was eliminated for low-speed vehicles and vehicles weighting 14,000 pounds or more; and (3) the prior law phaseout after the sale of 250,000 credit-eligible vehicles was replaced with separate phaseouts for each manufacturer; with the phaseout for each manufacturer's vehicles beginning after the sale of 200,000 of the manufacturer's credit-eligible vehicles. In addition, this Act provided: (1) a new 10-percent credit capped at \$2,500 per vehicle for low-speed vehicles, mo-

torcycles, and three-wheeled vehicles purchased after February 17, 2009 and before January 1, 2012; and (2) a new 10-percent credit capped at \$4,000 per vehicle for the cost of converting any motor vehicle into a qualified plug-in electric drive motor vehicle that is placed in service after February 17, 2009 and before January 1, 2012.

Provide a credit for investment in qualified property used in a qualified advanced energy manufacturing project.—This Act provided a 30-percent credit for investment in qualified 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; or (6) other advanced energy property designed to reduce greenhouse gas emissions as may be determined by the Secretary of the Treasury. Qualified 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 Secretary of the Treasury (in consultation with the Secretary of Energy). The total amount of credits certified by the Secretary of the Treasury may not exceed \$2.3 billion. The Secretary of the Treasury is required to establish a certification program no later than 180 days after February 17, 2009.

Provide other incentives for energy.—This Act also: (1) removed the prior law caps on the credit for the purchase of residential solar hot water, geothermal, and wind property and eliminated the reduction in credits for property using subsidized energy financing; (2) temporarily increased the rate for the credit for alternative fuel vehicle refueling property to 50 percent (except for hydrogen refueling property) and increased the maximum credit per taxable year per location to \$50,000 for qualified business property (\$200,000 for qualified hydrogen refueling property) and to \$2,000 for nonbusiness property; and (3) equalized tax-free transit and parking benefits through 2010, setting both at \$230 in 2009.

This Act also authorized the issuance of: (1) an additional \$1.6 billion of taxable tax credit bonds, called new clean renewable energy bonds, which are used to finance qualified renewable energy facilities; and (2) an additional \$2.4 billion of taxable tax credit bonds, called qualified energy conservation bonds, which are used to finance qualified energy conservation purposes and, as clarified by this Act, may be used to make loans and grants for

capital expenditures to implement green community programs. Both types of bonds provide a Federal subsidy through tax credits to investors equal to 70 percent of the interest on the bond.

Other Provisions

Provide assistance for COBRA continuation coverage.—Under current law, certain group health plans are required to offer qualified beneficiaries the opportunity to continue to participate in the group health plan for a specified period of time after the occurrence of certain events that otherwise would have terminated such participation. Qualified beneficiaries may be required to pay a premium for continuation coverage. The continuation coverage rules, which were enacted in the Consolidated Omnibus Budget Reconciliation Act of 1985, are often referred to as “COBRA.” Under this Act, qualified beneficiaries electing COBRA continuation coverage as a result of an involuntary termination occurring on or after September 1, 2008 and before January 1, 2010 are provided a premium subsidy for up to 9 months of COBRA continuation coverage. The subsidy is 65 percent of the premium for a period of coverage; the qualified beneficiary electing COBRA continuation coverage is responsible for the remaining 35 percent. Single taxpayers with modified AGI in excess

of \$145,000 (\$290,000 for married taxpayers filing a joint return) do not qualify for the subsidy. A special 60-day election period is provided to individuals who did not have a COBRA election in effect as of February 17, 2008, but would otherwise be eligible for the premium subsidy. The entity to which premiums are payable is reimbursed by the amount of the premium for COBRA continuation coverage that is not paid on account of the premium subsidy. These entities will treat the reimbursement as a credit against the employee income tax withholding and the employee and employer social security tax liability otherwise deposited in the Treasury. To the extent that the amount of the reimbursement exceeds the amount of the entity’s liability for these taxes, the entity will be reimbursed directly by the Treasury. Transfers of social security tax liability to the social security trust funds will not be affected by the credits.

FEDERAL AVIATION ADMINISTRATION EXTENSION ACT OF 2009

This Act, which was signed into law by President Obama on March 30, 2009, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through September 30, 2009. These taxes had been scheduled to expire after March 31, 2009 under prior law.

LEGISLATION ENACTED IN 2008 THAT AFFECTS GOVERNMENTAL RECEIPTS

A number of laws were enacted in 2008 that affect governmental receipts, beginning with the Economic Stimulus Act of 2008, which was signed on February 13, 2008, and ending with the Worker, Retiree, and Employer Recovery Act of 2008, which was signed on December 23, 2008. The major legislative changes enacted in 2008 that affect governmental receipts are described below.

ECONOMIC STIMULUS ACT OF 2008

Provide recovery payments for individuals.—Eligible individuals were provided a basic credit equal to the greater of: (1) net individual income tax liability, up to a maximum of \$600 for single taxpayers and \$1,200 for married couples filing a joint return; or (2) \$300 for a single individual and \$600 for a married couple. To be eligible for the basic credit, an individual was required to have: (1) net income tax liability of at least \$1 and AGI greater than the sum of the basic standard deduction plus the exemption amount (twice the exemption amount in the case of a joint return); or (2) qualifying income of at least \$3,000, defined as the sum of earned income, social security benefits, and veterans’ disability and death benefits. Eligible individuals were allowed an additional \$300 credit for each qualifying child under the age of 17. The amount of the credit received by a taxpayer (the basic credit plus the child credit) was reduced by five percent of the amount of the taxpayer’s AGI in excess of \$75,000 (\$150,000 for joint returns). An eligible individual was

anyone other than a nonresident alien, a dependent or an estate or trust. The credit, which was refundable, was computed based on tax returns filed for taxable year 2007 and was provided to individuals in the form of a check issued by the Department of the Treasury between April and December 2008. Payments also were made to each possession of the United States with a mirror tax system (U.S. Virgin Islands, Guam, and the Commonwealth of the Northern Mariana Islands) in an amount equal to the loss in receipts to that possession attributable to the recovery payments provided in this Act. Payments were made to each possession that does not have a mirror tax system (Puerto Rico and American Samoa) in an amount estimated by the Department of the Treasury as being equal to the aggregate recovery payments that would have been allowed to residents of that possession if a mirror tax code system had been in effect.

Provide temporary increase in expensing for small business.—Business taxpayers are allowed to expense up to \$125,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning after 2006 and before 2011. The maximum amount that can be expensed is reduced by the amount by which the taxpayer’s cost of qualifying property exceeds \$500,000. Both the deduction and annual investment limit are indexed annually for inflation, effective for taxable years beginning after 2007 and before 2011. This Act temporar-

ily increased the expensing and annual investment limits to \$250,000 and \$800,000, respectively, effective for taxable years beginning in 2008.

Provide temporary bonus depreciation for certain property.—Taxpayers are allowed to recover the cost of certain property used in a trade or business or for the production of income through annual depreciation deductions. The amount of the allowable depreciation deduction for a taxable year is generally determined under MACRS, which assigns applicable recovery periods and depreciation methods to different types of property. Effective for qualifying property acquired and placed in service in calendar year 2008, this Act allowed an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of the property. Qualifying property included tangible property that had a recovery period not exceeding 20 years, purchased computer software, water utility property and qualified leasehold improvement property.

AIRPORT AND AIRWAY EXTENSION ACT OF 2008

This Act extended the authority to collect taxes that fund the Airport and Airway Trust Fund through June 30, 2008. These taxes had been scheduled to expire after February 29, 2008 under prior law.

ANDEAN TRADE PREFERENCE EXTENSION ACT OF 2008

The Andean Trade Preference Act (ATPA), which was scheduled to expire after February 29, 2008, was designed to provide economic alternatives for Bolivia, Columbia, Ecuador, and Peru in their fight against narcotics production and trafficking. This Act extended the provisions of the ATPA for ten months, through December 31, 2008. This Act also increased the estimated tax payments due in July through September of 2013 by corporations with assets of at least \$1 billion to 101 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

HEROES EARNINGS ASSISTANCE AND RELIEF TAX ACT OF 2008

Tax Benefits for the Military, Veterans and Others

Permanently extend the qualified mortgage revenue bond (MRB) first-time homebuyer exception for veterans.—State and local governments may issue tax-exempt MRBs to provide low-interest rate financing to qualified individuals for the purchase, improvement, or rehabilitation of owner-occupied residences. Several restrictions, including purchase price limitations, mortgage income, and the first-time homebuyer requirement apply to the financing of mortgages with MRBs. Under prior law, effective for bonds issued after December 20, 2006 and before January 1, 2008, the first-time homebuyer requirement was waived with respect to financing for

veterans who served in the active military. This Act permanently extended the exception to the first-time homebuyer requirement for MRBs for veterans.

Modify veterans' mortgage bond volume limitation and eligibility rules for certain States.—Tax-exempt qualified veterans' mortgage bonds provide low interest rate mortgage loan financing to certain veterans in five States. The five States eligible to issue such bonds are Alaska, Oregon, Wisconsin, Texas and California. Under prior law, mortgage bonds issued by Texas and California were restricted to loans made to veterans who had served on active duty before 1977 and who had applied for the financing before the date 30 years after their last day of active service. In addition, the annual volume of qualified veterans' mortgage bonds that could be issued in California or Texas was based on the average amount of bonds issued in the respective State between 1979 and 1984. Such bonds issued by Oregon, Alaska and Wisconsin under prior law were restricted to loans to veterans who applied for financing before the date 25 years after their last day of active service. In addition, after 2009, these three States were each subject to a \$25 million annual volume limit on the issuance of such bonds. This Act increased the annual limit on qualified veterans' mortgage bonds that can be issued in Alaska, Oregon and Wisconsin after 2009 to \$100 million. In addition, with regard to Texas and California, this Act repealed the pre-1977 service requirement and reduced the eligibility period to 25 years after the last day of active service.

Provide other benefits.—Other provisions of this Act: (1) clarified the rules for members of the active military regarding valid identification numbers for purposes of eligibility for the recovery payments provided in the Economic Stimulus Act of 2008; (2) made permanent the election to treat combat pay as earned income for purposes of the earned income tax credit; (3) treated differential wages paid by an employer to an employee called up to active military duty as wages for withholding, permitted benefits for individuals on active military duty under certain retirement plans to be based on differential wages, and permitted certain retirement plans to make distributions to individuals on active duty and receiving differential pay; (4) made permanent the rules applicable to distributions from a qualified retirement plan to reservists ordered or called to active duty for at least 180 days; (5) allowed recipients of military death benefits to rollover (within certain time limits) the amounts received, tax free, to a Roth IRA or an education savings account; (6) required certain retirement plans to provide survivors of deceased individuals serving in the military with death benefits (not including benefit accruals) as if the individuals had returned to pre-military service before death; (7) permitted certain retirement plans to provide benefit accruals on behalf of disabled or deceased individuals serving in the military as if the individuals had returned to pre-military service before death; (8) created an election to suspend the application of the five-

year requirement for the exclusion of gain on the sale of a principal residence by a Peace Corps volunteer; (9) provided a tax credit for small employers with respect to differential wage payments to employees who are on active military duty; (10) clarified the exclusion from gross income of State payments to service members; (11) made permanent the special provision relating to exclusion of gain from the sale of a principal residence by certain employees of the intelligence community; (12) permitted members of the reserves called to active duty to withdraw amounts held in a health flexible spending arrangement without penalty; (13) modified the rules regarding contributions of military death gratuities to tax-favored accounts; and (14) clarified that certain property tax rebates and other benefits made with respect to volunteer firefighters and excluded from gross income are not subject to unemployment taxes or social security and Medicare payroll taxes.

Offsets

Modify the taxation of U.S. citizens and permanent residents who relinquish their citizenship or residency.—Under this Act, individuals who meet an income tax liability or net worth test and who lose U.S. citizenship or terminate long-term residency on or after June 17, 2008, generally would be treated as if they sold all of their property for its fair market value on the day before the loss of citizenship or termination of residency. Any loss from the deemed sale generally would be taken into account to the extent otherwise provided in the Internal Revenue Code and any net gain on the deemed sale would be recognized to the extent it exceeded \$600,000, indexed annually after 2008. This mark-to-market tax treatment would apply to most types of property interest held by the individual, with certain exceptions. This Act also imposed a transfer tax on certain transfers to U.S. persons from certain U.S. citizens who relinquished their U.S. citizenship and certain long-term U.S. residents who terminated their U.S. residency, or from their estates.

Require some U.S.-based contractors to pay employment taxes on certain employees of their foreign subsidiaries.—Effective for services performed in calendar months beginning more than 30 days after June 17, 2008, foreign subsidiaries of parent U.S. corporations performing services under a contract with the U.S. government (or any instrumentality thereof) would be treated as American employers for employment tax purposes. The parent U.S. corporation would be jointly liable for the employment taxes imposed on the foreign subsidiary, as well as any penalties with respect to failure to pay the tax or to file any return or statement with respect to such tax.

Increase the penalty for failure to file an income tax return.—Effective for returns required to be filed after December 31, 2008, this Act increased the minimum penalty for failure to file a tax return within 60 days of the due date to the lesser of \$135 or 100 percent of the amount of tax required to be shown on the return.

FOOD, CONSERVATION, AND ENERGY ACT OF 2008

Conservation Provisions

Modify treatment of certain conservation reserve program payments for payroll tax purposes.—Net earnings from self-employment generally are subject to social security and Medicare payroll taxes under the Self-Employment Contributions Act (SECA). This Act excluded conservation reserve program payments to individuals receiving social security retirement or disability benefits from self-employment income for purposes of SECA payroll taxes, effective for such payments received after December 31, 2007.

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 enhanced under the Pension Protection Act of 2006, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2005 and before January 1, 2008. These special rules: (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, applicable for qualified conservation contributions made in taxable years beginning before January 1, 2010.

Provide deduction for endangered species recovery expenditures.—A taxpayer engaged in the business of farming may deduct expenses for soil or water conservation or for the prevention of erosion of land used in farming. For any given taxable year, such deductions may not exceed 25 percent of the gross income derived from farming; any excess above such percentage is deductible in succeeding taxable years. This Act expanded the deduction to apply to the costs incurred to implement site-specific management measures included in species recovery plans approved pursuant to the Endangered Species Act of 1973, effective for such costs incurred after December 31, 2008.

Modify taxation of qualified timber gains.—A taxpayer may elect to treat gains on the sale or exchange of cut standing timber as capital gains. The fair market value of the timber on the first day of the taxable year in which the timber is cut is used to determine the gain attributable to such cutting. This Act provided an alternative maximum tax rate of 15 percent for gain on the sale or exchange of timber held for at least 15 years. This alternative rate, which applies to both the regular tax and the alternative minimum tax, is effective for taxable years ending after June 18, 2008 and beginning on or before June 18, 2009. This Act also modified and clarified the rules regarding the taxation of timber property sales by timber real estate investment trusts (timber REITs).

Establish qualified forestry conservation bonds.—This Act provided for the issuance of up to \$500 million in new taxable tax credit bonds, called qualified forestry conservation bonds, with Federal subsidies through special refundable tax credits to finance qualified forestry conservation projects.

Energy Provisions

Provide a tax credit for the production of cellulosic biofuels.—This Act created a nonrefundable income tax credit for qualified cellulosic biofuel produced after December 31, 2008. Cellulosic biofuel is any liquid fuel that is produced in the United States and used as fuel in the United States, is derived from any lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis, and meets the registration requirements for fuels and fuel additives established by the Environmental Protection Agency. The credit is \$1.01 per gallon, reduced as follows: (1) in the case of cellulosic biofuel that is alcohol, by the credit amount applicable for such alcohol under the alcohol mixture credit in effect at the time cellulosic biofuel is produced; and (2) in the case of cellulosic biofuel that is ethanol produced by a small producer, by the credit amount for small ethanol producers in effect at the time the cellulosic biofuel is produced.

Modify incentives related to the production of alcohol fuels.—Under prior law, taxpayers were provided an income tax credit of 51 cents per gallon of ethanol (60 cents in the case of alcohol other than ethanol) used in the production of a qualified mixture of alcohol and gasoline (or of alcohol and a special fuel) that was either sold by the taxpayer as fuel or used by the taxpayer producing the mixture. This Act reduced the credit for ethanol to 45 cents per gallon beginning in calendar year 2009, unless it is determined that the amount of ethanol (including cellulosic ethanol) produced in or imported into the United States in 2008 was less than 7.5 billion gallons. If that production level is not reached in 2008, the reduction in the credit would be delayed until the calendar year following the calendar year in which production reaches 7.5 billion gallons.

Modify the calculation of the volume of alcohol for purposes of the alcohol fuels credits.—Under prior law, for purposes of determining the number of gallons of alcohol eligible for alcohol fuel credits, the volume of alcohol included any denaturant, including gasoline, but denaturants were not permitted to exceed five percent of the volume of the alcohol (including denaturants). This Act reduced the amount of allowable denaturant to two percent of the volume of alcohol, effective for fuel sold or used after December 31, 2008.

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, 2011. Under prior law the tariff had been scheduled to expire with respect to such imports entering the United States after December 31, 2009.

Agriculture Provisions

Modify depreciation of certain race horses.—Under prior law, race horses that were two years old or younger at the time they were placed in service were depreciated over a seven-year recovery period; race horses that were more than two years old at the time they were placed in service were depreciated over a three-year recovery period. This Act reduced the recovery period for race horses two years old or younger at the time they were placed in service to three years, effective for such horses placed in service after December 31, 2008 and before January 1, 2014.

Limit farming losses of certain taxpayers.—Taxpayers who materially participate in a farming activity may report net farming losses in full as a reduction to income from both passive and nonpassive sources. Taxpayers who do not materially participate in a farming activity are limited in their ability to use such losses to reduce income from nonpassive sources. This Act limited the farming losses of a taxpayer (other than a C corporation) receiving any direct or counter-cyclical payments under Title I of the Food, Conservation, and Energy Act of 2008 (or any payment elected in lieu of any such payment), or any Commodity Credit Corporation (CCC) loan. Specifically, for any taxable year beginning after December 31, 2009, in which any applicable subsidies are received, the loss will be limited to the greater of \$300,000 or the taxpayer's total net farm income from the prior five taxable years. Net farm income is the aggregation of all income and loss from farming businesses for the prior five taxable years. Losses that are limited in a particular year may be carried forward to subsequent years. In addition, losses resulting from disease or drought, or from a fire, storm, or other casualty, are disregarded for purposes of calculating the limitation.

Trade Provisions

Extend Caribbean Basin Initiative (CBI).—The trade programs known collectively as the CBI, which are intended to facilitate the economic development and export diversification of the Caribbean Basin economies, provide 19 beneficiary countries with duty-free access to the U.S. market for most goods. This Act extended the CBI, which had been scheduled to expire on September 30, 2008, through September 30, 2010.

Other Provisions

Provide temporary tax relief for Kiowa County, Kansas and the surrounding area (the Kansas Disaster Zone).—This Act provided temporary tax relief to taxpayers who incurred casualty losses attributable to storms and tornados in Kiowa County, Kansas and the surrounding area by: (1) suspending certain limitations on personal casualty losses; (2) extending the replacement period for nonrecognition of gain; (3) providing a retention credit to employers; (4) providing an additional first-year depreciation deduction for qualified recovery assistance property; (5) increasing expensing for small businesses; (6) allowing expensing of certain demolition and clean-up costs; (7) modifying the treatment of public utility property disaster losses; (8) modifying the treatment of net operating losses attributable to storm losses; (9) modifying requirements with regard to income representations of prospective tenants for purposes of determining eligibility for qualified residential rental projects; and (10) providing exceptions to certain rules regarding distributions from retirement plans.

Modify methods for determining net income from self-employment.—Net earnings from self-employment are subject to social security and Medicare payroll taxes. A self-employed individual may elect to use the generally applicable rule to determine net earnings from self-employment or one of two optional methods: the farm optional method or the nonfarm optional method. Effective for taxable years beginning after December 31, 2007, this Act modified the farm optional method and the nonfarm optional method so that electing taxpayers would be eligible for four credits of social security benefit coverage each taxable year.

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 2012 by corporations with assets of at least \$1 billion to 125 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

FEDERAL AVIATION ADMINISTRATION EXTENSION ACT OF 2008

This Act extended the authority to collect taxes that fund the Airport and Airway Trust Fund through September 30, 2008. These taxes had been scheduled to expire after June 30, 2008, under prior law.

RENEWAL OF IMPORT RESTRICTIONS ON BURMA

This Act extended for one year, through July 28, 2009, the ban on all imports from Burma. This Act also increased the estimated tax payments due in July through September by corporations with assets of at least \$1 billion to 101.25 percent of the amount otherwise due in 2013. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

TOM LANTOS BLOCK BURMESE JADE (JUNTA'S ANTI-DEMOCRATIC EFFORTS) ACT OF 2008

This Act expanded existing financial and diplomatic restrictions against government officials from Burma and placed import sanctions on gemstones mined or extracted from Burma and on jewelry containing such gemstones.

HOUSING AND ECONOMIC RECOVERY ACT OF 2008

Housing-Related Provisions

Provide a refundable tax credit to first-time homebuyers.—A refundable tax credit was provided to first-time homebuyers who purchased a home on or after April 9, 2008 and before July 1, 2009, without regard to whether or not there was a binding contract to purchase prior to April 9, 2008. The credit, which is equal to 10 percent of the purchase price of the home, up to a maximum credit of \$7,500, is phased out for taxpayers with modified AGI between \$75,000 and \$95,000 (\$150,000 and \$170,000 for married taxpayers filing a joint return). Taxpayers receiving the credit must repay the amount received in equal installments over a 15-year period beginning two years after the purchase of the home.

Provide an above-the-line deduction for State and local real property taxes.—A taxpayer's taxable income is computed by reducing AGI either by a standard deduction or, if the taxpayer elects, by the taxpayer's itemized deductions. An above-the-line deduction of up to \$500 (\$1,000 for married taxpayers filing a joint return) for State and local real property taxes was provided to homeowners who do not itemize their Federal tax deductions. The deduction is effective for taxable years beginning after December 31, 2007 and before January 1, 2009.

Modify the low-income housing credit.—A low-income housing credit is provided to owners of qualified

low-income rental units under current law. The credit may be claimed over a 10-year period for a portion of the cost of rental housing occupied by tenants having incomes below specified levels. The credit percentage for newly constructed or substantially rehabilitated housing that is not federally subsidized is adjusted monthly by the IRS so that the 10 annual credit amounts have a present value of 70 percent of the qualified basis of the structure. The credit percentage for newly constructed or substantially rehabilitated housing that is federally subsidized is calculated to have a present value of 30 percent of the qualified basis of the structure. A low-income housing credit is allowable only if the owner of a qualified building receives a housing credit allocation from the State or local housing credit agency; such allocations are limited by the aggregate credit authority provided to each State. Generally, under prior law, the aggregate credit authority provided to each State for calendar year 2008 was \$2.00 per resident, with a minimum annual cap of \$2,325,000 for certain small population states; these amounts were indexed annually for inflation. This Act temporarily increased the aggregate credit authority provided to each State for calendar years 2008 and 2009 to \$2.20 per resident, with a minimum annual cap of \$2,557,500. This Act also established a temporary minimum credit percentage for newly constructed non-federally subsidized buildings placed in service after the date of enactment and before December 31, 2013, of nine percent. Other changes to the low-income housing credit included modifications to the definition of a federally subsidized building, modifications to the definition of eligible basis, coordination of certain rules applicable to the credit with those applicable to qualified residential rental project exempt facility bonds, and several other simplifications and reforms.

Temporarily increase the dollar value of tax-exempt qualified private activity bonds issued by State housing authorities.—Interest on bonds issued by State and local governments to finance activities carried out and paid for by private persons (private activity bonds) generally is taxable except in the case of certain qualified private activity bonds for specified purposes. Tax-exempt qualified private activity bonds generally are subject to an annual State bond volume cap based on population. The definition of qualified private activity bonds includes, but is not limited to, qualified mortgage bonds, qualified veterans' mortgage bonds, and bonds for qualified residential rental projects. Qualified mortgage bonds and bonds for qualified residential rental projects are subject to annual State volume limitations. Under prior law, the State volume cap for 2008 was \$85 per resident of the State or \$262,090,000, if greater. This Act authorized the issuance of an additional \$11 billion of qualified mortgage bonds and bonds for qualified residential rental projects in 2008. Qualified mortgage bonds issued with respect to the additional volume cap could be used to finance new mortgages or to refinance qualified subprime loans.

Modify AMT treatment of interest on certain bonds, the low-income housing credit, and the rehabilitation credit.—Under prior law the low-income housing credit and the rehabilitation credit could not be used to offset AMT liability. In addition, interest on tax-exempt housing bonds (qualified mortgage bonds, qualified veterans' mortgage bonds and bonds for qualified residential rental projects) was an item of tax preference for AMT purposes. This Act allowed taxpayers to offset their AMT liability with the low-income housing credit and the rehabilitation credit, effective with respect to buildings placed in service and qualified rehabilitation expenditures incurred, respectively, after December 31, 2007. This Act also excluded interest on tax-exempt housing bonds from the AMT, effective with respect to such interest earned after July 30, 2008.

Other housing-related provisions.—Other housing-related provisions provided in this Act: (1) reformed certain rules related to real estate investment trusts (REITs); (2) relaxed mortgage revenue bond limitations in Presidentially-declared disaster areas; (3) modified refunding treatment for certain multifamily housing bonds; (4) expanded certain Gulf Opportunity Zone incentives; (5) modified the rehabilitation credit tax-exempt use safe harbor; (6) allowed bonds guaranteed by the Federal home loan banks to be treated as tax-exempt bonds; and (7) allowed taxpayers to elect to claim additional AMT or research credits in lieu of bonus depreciation.

Offsets

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. For corporations with assets of at least \$1 billion, prior legislation increased the estimated tax payments due in July through September of 2012 to 125 percent of the amount otherwise due and increased the estimated tax payments due in July through September of 2013 to 101.25 percent of the amount otherwise due, with the next required payment adjusted accordingly. This Act reduced the estimated tax payments due in July through September of 2012 to 100 percent of the amount otherwise due and increased the estimated tax payments due in July through September of 2013 to 118 percent of the amount otherwise due.

Delay implementation of the world-wide interest allocation rules.—Subject to various limitations, U.S. taxpayers may credit foreign 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 their interest expenses between U.S.-source and foreign-source income (“worldwide affiliated group election”), effective for taxable years beginning after December 31, 2008. This Act 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 of the rule for the first year the election is in effect.

Modify the exclusion of gain on the sale of a principal residence in certain circumstances.—Taxpayers generally are allowed to exclude from tax up to \$250,000 (\$500,000 for married taxpayers filing a joint return) of gain realized on the sale or exchange of a principal residence. To be eligible for the exclusion, the taxpayer generally must have owned and used the residence as a principal residence for at least two of the five years ending on the sale or exchange. A taxpayer who fails to meet these requirements by reason of a change of place of employment, health, or, to the extent provided under regulations, unforeseen circumstances, is able to exclude an amount equal to the fraction of the \$250,000 (\$500,000 for married taxpayers filing a joint return) that is equal to the fraction of the two years that the ownership and use requirements are met. Special elections related to sales by members of the uniformed services, the Foreign Service, and certain employees of the intelligence community are also provided. Under this Act, effective for sales or exchanges after December 31, 2008, gain from the sale or exchange of a principal residence allocated to periods of nonqualified use (use as a second home or rental property) cannot be excluded from gross income. A period of nonqualified use would be any period after December 31, 2008, during which the property was not used by the taxpayer or the taxpayer’s spouse or former spouse as a principal residence.

Require information reporting of payments made in settlement of payment card and third-party network transactions.—A variety of information reporting requirements are imposed on participants in certain transactions. These requirements are intended to assist taxpayers in preparing their income tax returns and to help the IRS determine whether such returns are correct and complete. Under this Act, merchant acquiring banks, third party settlement organizations, and other entities that handle credit, debit, and similar payments are required to report to the IRS and to each payee the gross amount of such payments made to each payee for each calendar year in settlement of payment card transactions and third party settlement transactions occurring in that calendar year. These information reporting requirements generally are effective for reportable payments made in calendar years beginning after December 31, 2010. The reportable payment transactions are also subject to backup withholding, effective for amounts paid after December 31, 2011.

FEDERAL AVIATION ADMINISTRATION EXTENSION ACT OF 2008, PART II

This Act extended the authority to collect taxes that fund the Airport and Airway Trust Fund through March 31, 2009. These taxes had been scheduled to expire after September 30, 2008, under prior law

FOSTERING CONNECTIONS TO SUCCESS AND INCREASING ADOPTIONS ACT OF 2008

This Act reauthorized the Adoption Incentives Program for five years and increased incentives for special needs and older child adoptions. The major provision of this Act that affected governmental receipts clarified the uniform definition of a qualifying child for Federal income tax purposes.

ANDEAN TRADE PREFERENCE ACT EXTENSION

This Act extended both the Andean Trade Preference Act and the Generalized System of Preferences through December 31, 2009, and made other changes to existing trade law. This Act also increased the estimated tax payments due in July through September of 2013 by corporations with assets of at least \$1 billion to 120 percent of the amount otherwise due. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

EMERGENCY ECONOMIC STABILIZATION ACT OF 2008, ENERGY IMPROVEMENT AND EXTENSION ACT OF 2008, AND TAX EXTENDERS AND ALTERNATIVE MINIMUM TAX RELIEF ACT OF 2008

AMT Relief

Increase and extend AMT exemption amounts.—A temporary provision of prior law increased the AMT exemption amounts to \$44,350 for single taxpayers, \$66,250 for married taxpayers filing a joint return and surviving spouses, and \$33,125 for married taxpayers filing a separate return and estates and trusts. These temporary increases were effective for taxable years beginning after December 31, 2006 and before January 1, 2008. This Act increased the AMT exemption amounts, effective for taxable years beginning after December 31, 2007 and before January 1, 2009, to \$46,200 for single taxpayers, \$69,950 for married taxpayers filing a joint return and surviving spouses, and \$34,975 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, 2008. This Act extended minimum tax relief for nonrefundable personal tax credits for one year, to apply to taxable years beginning before January 1, 2009. The extension does not apply to the child credit, the new saver’s credit, the EITC,

or the adoption credit, which were provided AMT relief through December 31, 2010, under the 2001 tax cut. The refundable portion of the child credit and the earned income tax credit are also allowed against the AMT through December 31, 2010. In addition, the extension does not apply to the residential energy efficient property credit or the new qualified plug-in electric drive motor vehicle credit, both of which are allowed against the AMT.

Increase refundable AMT credit amount for certain individuals with long-term unused credits for prior year minimum tax liability.—Under prior law, an individual was allowed a refundable AMT credit amount that was the greater of: (1) the lesser of \$5,000 or the unused AMT credit amount, or (2) 20 percent of the unused AMT credit amount. The AMT credit amount was reduced for those with AGI above \$100,000 (\$150,000 for married taxpayers filing a joint return), and was refunded in equal installments over five years. This Act allowed 50 percent of long-term unused AMT tax credits to be refunded over each of two years instead of 20 percent over each of five years, eliminated the income phaseout, and, effective October 3, 2008, abated any underpayment of tax outstanding related to incentive stock options and the AMT, including interest.

Disaster Relief

Provide temporary tax relief to victims of Midwestern severe storms, tornados, and flooding in 2008.—This Act provided tax relief for victims of the severe storms, tornados, and floods that took place in the Midwestern disaster area. The Midwestern disaster area is that area with respect to which: (1) a major disaster was declared by the President on or after May 20, 2008 and before August 1, 2008, by reason of severe storms, tornados, or flooding occurring in any of the States of Arkansas, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska and Wisconsin; and (2) determined by the President to warrant individual or individual and public assistance with respect to damages attributable to such severe storms, tornados, or flooding. The major tax relief provided included the following: (1) expanded tax-exempt private activity bond financing authority subject to a volume cap; (2) an increase in the otherwise applicable aggregate low-income housing credit authority; (3) partial expensing for certain demolition and clean-up costs; (4) expensing of certain environmental remediation costs; (5) an increase in the rehabilitation tax credit; (6) the five-year carryback of certain net operating losses; (7) the issuance of Midwestern tax credit bonds; (8) expansion of the Hope Scholarship Credit and Lifetime Learning Credit; (9) a temporary income exclusion for employer-provided lodging; (10) special rules for penalty-free distributions from qualified retirement funds; (11) an employee retention credit; (12) temporary suspension of the limitations on qualified charitable contributions; (13) suspension of limitations on personal casualty losses; (14) adjustments regarding taxpayer and dependency status; (15) an additional personal exemption for providing housing to displaced individuals;

(16) an increase in the standard mileage rate for charitable use of a vehicle; (17) an exclusion from taxable income of mileage reimbursements received by charitable volunteers; (18) an exclusion from taxable income of certain cancellations of indebtedness; (19) an extended replacement period for non-recognition of gain on principal residences and business property; and (20) special look-back rules for determining eligibility for the refundable earned income credit and the refundable child credit.

Extend certain tax relief to victims of Hurricane Katrina.—This Act extended the work opportunity tax credit provided for wages paid to eligible individuals in the Hurricane Katrina core disaster area to apply to individuals hired after August 27, 2007 and before August 29, 2009. This Act also extended the increased rehabilitation credits for qualified rehabilitation expenditures for structures in the Gulf Opportunity Zone to apply to expenditures paid or incurred after December 31, 2008 and before January 1, 2010.

Provide temporary tax relief to victims of Hurricane Ike.—This Act provided temporary expanded tax-exempt private activity bond financing authority subject to a volume cap and an increase in the otherwise applicable low-income housing tax credit authority for areas in Texas and Louisiana damaged by Hurricane Ike.

Provide temporary tax relief to victims of all Federally-declared disasters.—This Act provided the following tax relief to victims of all Federally-declared disasters occurring after December 31, 2007 and before January 1, 2010: (1) reform of the rules regarding the deductibility of casualty losses; (2) expensing of qualified disaster expenses; (3) five-year carryback of net operating losses; (4) tax-exempt bond financing; (5) bonus depreciation for qualified disaster property; and (6) increased expensing for qualified disaster property.

Other Tax Relief

Temporarily modify the income threshold used to calculate the refundable portion of the child tax credit.—The child tax credit is refundable to the extent of the lesser of: (1) 15 percent of the taxpayer's earned income in excess of an earned income threshold of \$10,000, indexed annually for inflation beginning in 2002; or (2) any child credit unclaimed due to insufficient tax liability. This Act temporarily reduced the earned income threshold, which was \$12,050 for taxable years beginning in 2008, to \$8,500 for taxable years beginning in 2008.

Provide other tax relief.—Other tax relief provided in this Act: (1) modified the domestic production activities deduction for film and television productions; (2) exempted certain wooden arrows designed for use by children from the current law excise tax on the first sale by the manufacturer, producer, or imported of any shaft of a type used to produce certain types of arrows; (3) allowed income averaging for amounts received in connection with the Exxon Valdez litigation; (4) reduced the recovery

period for certain farming business machinery or equipment from seven to five years; and (5) modified the penalty levied on the understatement of a taxpayer's liability by a tax return preparer.

Mental Health Parity

Establish new mental health parity requirements.—This Act contained the Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008, which established new mental health parity requirements applicable to group health plans and health insurance coverage offered in connection with such plans. Group health plans that provide both medical and surgical benefits and mental health and substance use disorder benefits would be required to ensure that the financial requirements, treatment limitations, and out-of-network coverage limitations applicable to mental health benefits and substance use disorder benefits were no more restrictive than those applicable to substantially all medical and surgical benefits covered by the plan (or under health insurance coverage offered in connection with the plan). As under prior law, group health plans would not be required to provide mental health or substance use disorder benefits, and group health plans would be allowed to define what mental health or substance use disorder benefits would be offered. Group health plans would be allowed to file for a one-year exemption to the parity requirements if, after six months of implementation, the actual total costs of coverage increased by more than one percent (two percent for the initial year). These requirements generally were effective for plan years beginning after October 16, 2009. Additionally, this Act removed the annual sunset on the prohibition of annual and lifetime limits on mental health benefits that are more restrictive than medical and surgical benefits.

Energy Tax Incentives

Extend and modify the tax credit for energy produced from certain renewable sources.—Taxpayers are allowed a tax credit for electricity produced from wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, and qualified hydropower. The credit rate is 1.5 cents per kilowatt hour for electricity produced from wind, closed-loop biomass, geothermal, and solar power, and 0.75 cent per kilowatt hour for electricity produced from open-loop biomass, small irrigation power, municipal solid waste, and qualified hydropower (both rates are adjusted for inflation since 1992). A credit is also provided for the production of refined coal and Indian coal at qualified facilities. The credit for refined coal is \$4.375 per ton (adjusted for inflation since 1992) and the credit for Indian coal is \$1.50 per ton for coal produced after December 31, 2005 and before January 1, 2010, and \$2.00 per ton for coal produced after December 31, 2009 and before January 1, 2013. To qualify for the credit under prior law, electricity generally had to be produced at a facility placed in service before January 1, 2009 (January 1, 2006,

in the case of solar facilities). This Act extended the placed in service date for qualified facilities producing electricity from closed-loop biomass, open-loop biomass, geothermal energy, small irrigation power, municipal solid waste, and qualified hydropower for two years through December 31, 2010; the placed-in-service date for qualified wind facilities and refined coal facilities was extended for one year through December 31, 2009. This Act also expanded the credit to apply to marine and hydrokinetic renewable energy produced at qualified facilities placed in service after October 2, 2008 and before January 1, 2012.

Extend and modify business energy credit.—Prior law provided a 10-percent business energy tax credit for the cost of new property that either: (1) uses solar energy to generate electricity, to heat or cool a structure, or to provide solar process heat; or (2) is used to produce, distribute, or use energy derived from a geothermal deposit, but only, in the case of electricity generated by geothermal power, up to the electric transmission stage. Property used to generate energy for the purpose of heating a swimming pool and public utility property generally were not eligible for the credit. For equipment purchased after December 31, 2005 and before January 1, 2009, prior law also provided: (1) an increase in the credit rate for solar energy property to 30 percent; (2) a 30-percent credit for equipment using fiber-optic distributed sunlight to illuminate the inside of a structure; (3) a 30-percent credit for qualified fuel cell power plants (limited to \$500 for each 0.5 kilowatt of capacity); and (4) a credit for qualified stationary microturbine power plants equal to the lesser of 10 percent of the basis of the property or \$200 for each kilowatt of capacity. This Act: (1) extended the otherwise expiring credits and credit rates for eight years, through December 31, 2016; (2) provided, through December 31, 2016, a new 30-percent credit for small wind energy property (limited to \$4,000 per year) and new 10-percent credits for combined heat and power (CHP) property and geothermal heat pump systems; and (3) increased the credit limitation for fuel cell property to \$1,500 for each 0.5 kilowatt of capacity. This Act also allowed the credit against the AMT and repealed the prior law restriction on public utility property.

Extend and modify credit for residential energy efficient property.—A personal tax credit, equal to 30 percent of qualified expenditures, is provided for the purchase of qualified solar electric property and qualified solar water heating property used for purposes other than heating swimming pools and hot tubs. The maximum credit for each of these systems of property is \$2,000. A 30-percent credit (not to exceed \$500 for each 0.5 kilowatt of capacity) is also provided for the purchase of qualified fuel cell power plants. This Act: (1) extended these credits, which had been scheduled to expire with respect to property placed in service after December 31, 2008, to apply to property placed in service before January 1, 2017; (2) removed the \$2,000 cap for solar electric property placed in service after October 3, 2008; (3) provided a 30-percent credit (limited to \$500 per half kilowatt of

capacity and \$4,000 per year) for qualified small wind energy property placed in service after December 31, 2007 and before January 1, 2017; and (4) provided a 30-percent credit (not to exceed \$2,000) for qualified geothermal heat pump property placed in service after December 31, 2007 and before January 1, 2017.

Modify the advanced coal project investment credit.—Under prior law, a 20-percent credit was available for investment in power generation projects that use integrated gasification combined cycle (IGCC) technologies and a 15-percent credit was available for investment in other advanced coal-based electricity generation technologies. The credits were available only for projects certified by the Secretary of the Treasury. The Secretary of the Treasury was allowed to allocate \$800 million of credits to projects using IGCC technologies and \$500 million to projects using other advanced coal-based electricity generation technologies. Applications for credits were required to be submitted during the three-year period ending on March 12, 2009. This Act: (1) increased the credit rate for advanced coal-based electricity generation projects to 30 percent; (2) allowed the Secretary of the Treasury to allocate an additional \$1.25 billion of credits for advanced coal-based electricity generation projects; (3) modified the definition of qualifying projects to require that projects include equipment that separates and sequesters at least 65 percent of the project's total carbon dioxide emissions (70 percent if the credits are later reallocated); and (4) required that the highest priority be given to projects with the greatest separation and sequestration percentage of total carbon dioxide emissions. Applications for the additional credit are required to be submitted during a three-year period beginning no later than March 13, 2009.

Modify the coal gasification investment credit.—This Act increased from 20 percent to 30 percent the investment tax credit available for investment in certain qualifying coal gasification projects. This Act also allowed the Secretary of the Treasury to allocate an additional \$250 million in credits (the credit is available only for projects certified by the Secretary of the Treasury and, under prior law, the Secretary was allowed to allocate \$350 million in credits). This Act required that the additional credits be allocated to projects that include equipment that separates and sequesters at least 75 percent of total carbon dioxide emissions and that the highest priority be given to projects with the greatest separation and sequestration percentage of total carbon dioxide emissions.

Provide tax credits for carbon capture and sequestration.—This Act provided tax credits of \$20 per metric ton of qualified carbon dioxide captured at a qualified facility and disposed of in secure geological storage and \$10 per metric ton of qualified carbon dioxide captured at a qualified facility and used as a tertiary injectant in a qualified enhanced oil or natural gas recovery project. The credits are indexed annually for inflation

beginning in 2010 and apply to carbon dioxide captured after October 3, 2008, and before the end of the calendar year in which the Secretary of the Treasury certifies that 75 million metric tons of qualified carbon dioxide have been captured and disposed of or used as a tertiary injectant.

Provide a credit for plug-in electric drive vehicles.—This Act provided a tax credit for each qualified plug-in electric drive motor vehicle (a vehicle that has at least four wheels, is manufactured for use on public roads, meets certain emissions standards, draws propulsion using a traction battery with at least four kilowatt-hours of capacity, and is capable of being recharged from an external source of electricity) placed in service by a taxpayer. The base amount of the credit is \$2,500, plus \$417 for each kilowatt-hour of battery capacity in excess of four kilowatt-hours. The maximum credit varies by weight of the vehicle, ranging from \$7,500 for a vehicle weighing less than 10,000 pounds to \$15,000 for a vehicle weighing more than 26,000 pounds. The credit is scheduled to phase out over the four calendar quarters beginning in the second quarter following the quarter in which a total of 250,000 credit-eligible vehicles are sold for use in the United States; the credit is not available for purchases after December 31, 2014.

Authorize the issuance of a new category of clean renewable energy bonds.—This Act authorized the issuance of \$800 million of taxable tax credit bonds, called new clean renewable energy bonds, which provide a Federal subsidy through tax credits to investors equal to 70 percent of the interest on the bonds. Such bonds are used to finance capital expenditures incurred by governmental bodies, public power providers, or cooperative electric companies for qualified renewable energy facilities. The Secretary of the Treasury is required to allocate 1/3 of the national bond authorization to eligible projects for each of the following types of beneficiaries: public power providers, governmental bodies, and cooperative electric companies.

Extend and modify credits for renewable diesel and biodiesel fuels.—An excise tax credit of 50 cents is provided for each gallon of biodiesel (\$1.00 for each gallon of 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 credit is the sum of three credits: (1) the biodiesel mixture credit, which is 50 cents for each gallon of biodiesel (\$1.00 for each gallon of agri-diesel) used by the taxpayer in the production of a qualified biodiesel mixture; (2) the biodiesel credit, which is 50 cents per gallon for each gallon of biodiesel (\$1.00 for each gallon of 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 one year, through December 31, 2009, the income and excise tax credits provided to biodiesel (including agri-biodiesel) and renewable diesel, and increased the credit rate for biodiesel to \$1.00 per gallon.

Provide other incentives for energy production and conservation.—This Act also: (1) authorized the issuance of \$800 million of qualified energy conservation bonds to finance one or more qualified conservation purposes; (2) reduced the recovery period for the depreciation of smart electric meters and smart electric grid equipment from 20 years to 10 years; (3) modified and reinstated for 2009 the credit for energy efficiency improvements to existing homes; (4) extended the deduction for energy-efficient commercial buildings for five years through December 31, 2013; (5) extended the credit for energy-efficient new homes through December 31, 2009; (6) modified and extended through December 31, 2010, the credit for the production of energy-efficient appliances; (7) extended the authority to issue qualified green building and sustainable design project bonds through December 31, 2012; (8) allowed taxpayers to claim an additional first-year depreciation allowance equal to 50 percent of the cost of certain reuse and recycling property; (9) reinstated the suspension of 100-percent-of-net-income limitation on percentage depletion for oil and natural gas from marginal properties for 2009; and (10) modified and extended through December 31, 2013, the election to expense refineries.

Expiring Provisions

Extend the ability to exclude discharges of indebtedness on principal residences from gross income.—Gross income generally includes income realized by a debtor from the discharge of indebtedness, subject to certain exceptions (debtors in Title 11 bankruptcy cases, insolvent debtors, certain student loans, certain farm indebtedness, and certain real property business indebtedness). In cases involving discharges of indebtedness excluded from gross income under the exceptions to the general rule, taxpayers generally must reduce certain tax attributes, including basis in the property, by the amount of the discharge of indebtedness. However, the amount of discharge of indebtedness excluded from gross income by an insolvent debtor not in a Title 11 bankruptcy case cannot exceed the amount by which the debtor is insolvent. The amount of discharge of indebtedness generally is equal to the difference between the amount of debt being cancelled and the amount used to satisfy the debt. Prior law expanded the types of discharges of indebtedness excluded from gross income to include up to \$2 million (or up to \$1 million per spouse, if a married couple files separately) of qualified principal residence indebtedness discharged on or after January 1, 2007 and before January 1, 2010. The exclusion does not apply to discharges on account of services performed for the lender or any other factor not directly related to a decline in the value of the

residence or to the financial condition of the taxpayer; in addition, the basis in the principal residence must be reduced by the amount of discharge of indebtedness excluded from gross income. This Act extended the exclusion to apply to qualified principal residence indebtedness discharged before January 1, 2013.

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, 2008, 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, 2010.

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, 2007, to apply to expenses incurred in taxable years beginning before January 1, 2010.

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 above-the-line in 2005, 2006, and 2007. Expenses claimed as an above-the-line deduction could not be claimed as an itemized deduction. This Act extended this above-the-line deduction to apply to expenses incurred before January 1, 2010.

Extend the above-the-line deduction for State and local real property taxes.—An individual taxpayer's taxable income is computed by reducing AGI either by a standard deduction or, if the taxpayer elects, by the taxpayer's itemized deductions. An above-the-line deduction of up to \$500 (\$1,000 for married taxpayers filing a joint return) for State and local real property taxes was provided to homeowners who do not itemized their Federal

tax deductions under prior law. This Act extended the deduction, which was effective for taxable years beginning after December 31, 2007 and before January 1, 2009, to apply to taxable years beginning before January 1, 2010.

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, 2008, to apply to distributions made in taxable years beginning before January 1, 2010. 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 the research and experimentation (R&E) tax credit.—This Act extended the 20-percent tax credit for qualified research and experimentation expenditures above a base amount, which had expired with respect to expenditures incurred in taxable years beginning after December 31, 2007, for two years to apply to expenditures incurred in taxable years beginning before January 1, 2010. This Act also increased the alternative simplified credit from 12 percent to 14 percent for taxable years ending after 2008 and repealed the alternative incremental research credit for taxable years beginning after 2008.

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, and \$3.5 billion for calendar years 2006 through 2008. This Act extended the credit to apply to 2009.

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, 2009, 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), 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). This Act extended both the Subpart F active financing and look-through exceptions to apply to taxable years beginning before January 1, 2010.

Extend modified recovery period for qualified leasehold improvements and qualified restaurant 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. 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. Under prior law, the recovery period for qualified leasehold improvement property and qualified restaurant property was temporarily reduced from 39 years to 15 years, effective for such property placed in service before January 1, 2008. This Act extended the 15-year recovery period applicable to qualified leasehold improvement property and qualified restaurant property, effective for such property placed in service before January 1, 2010. This Act also modified the definition of qualified restaurant property and removed qualified restaurant property from eligibility for an additional first-year depreciation allowance.

Allow temporary 15-year recovery period for 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. This Act allowed a 15-year recovery period and the straight-line method to be used for qualified retail improvement property placed in service after December 31, 2008 and before January 1, 2010. Such property includes certain improvements made to an interior portion of a building, provided such portion is used in the retail trade or business of selling tangible personal property to the general public. Such property is not quali-

fied property for purposes of the additional first-year depreciation allowance.

Extend authority to issue qualified zone academy bonds.—State and local governments are allowed to issue taxable tax credit bonds, called qualified zone academy bonds, which provide a Federal subsidy through tax credits to investors equal to 100 percent of the interest on the bonds. The proceeds of the bonds must be used for teacher and other personnel training, purchases of equipment, curriculum development, or renovation and repairs at certain public school facilities. A nationwide total of \$400 million of qualified zone academy bonds were authorized to be issued in each of calendar years 1998 through 2007 under prior law. In addition, unused authority arising in 1998 and 1999 could be carried forward for up to three years and unused authority arising in 2000 to 2007 could be carried forward for up to two years. This Act provided an addition \$400 million for qualified zone academy bonds to be issued in each of calendar years 2008 and 2009. Unused authority arising in 2008 and 2009 can be carried forward for up to two years.

Extend tax incentives for employment and investment on Indian reservations.—This Act extended, for two years, through December 31, 2009, 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 expensing of brownfields remediation costs.—Taxpayers may 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 applied to expenses incurred before January 1, 2008, under prior law, to apply to expenses incurred before January 1, 2010.

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, 2007, to apply to donations made in taxable years beginning after December 31, 2007 and before January 1, 2010.

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, 2009.

A one-time nonrefundable \$5,000 credit is available to purchasers of a principal residence in the District of Columbia who have not owned a residence in the District 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, 2007 and before January 1, 2010.

Permanently extend provisions permitting disclosure of tax return information relating to terrorist activity.—The disclosure of tax return information relating to terrorism is permitted in two situations. The first is when an executive of a Federal law enforcement or intelligence agency has reason to believe that the return information is relevant to a terrorist incident, threat or activity and submits a written request. The second is when the IRS wishes to apprise a Federal law enforcement agency of a terrorist incident, threat or activity. This Act permanently extended this disclosure authority, which had expired on December 31, 2007.

Permanently extend IRS authority to fund undercover operations.—The IRS is permitted to fund certain necessary and reasonable expenses of undercover operations, placing it on equal footing with other Federal law enforcement agencies. These undercover operations include international and domestic money laundering and narcotics operations. This Act permanently extended this funding authority, which had expired on December 31, 2007.

Extend unemployment insurance surtax.—Under prior law the Federal unemployment tax on employers was scheduled to drop from 0.8 percent to 0.6 percent with respect to wages paid after December 31, 2008. This Act extended the 0.8 percent rate for one year, through December 31, 2009.

Extend and increase excise taxes deposited in the Oil Spill Liability Trust Fund.—A five-cent-per-barrel tax is imposed on: (1) crude oil received at a U.S. refinery; (2) imported petroleum products received 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 is suspended for a calendar quarter if, at the close of the preceding quarter, the unobligated balance in the fund exceeds \$2.7 billion. This Act extended these taxes, which were scheduled to expire after September 30, 2014, through December 31, 2017. This Act also increased the tax imposed on crude oil and imported petroleum products to eight cents per barrel, effective for amounts received in the U.S. after December 31, 2008 and before January 1, 2017, and to nine cents per barrel, effective for amounts received in the U.S. after December 31, 2016. The provision suspending collections when trust fund balances exceed \$2.7 billion was repealed.

Extend excise tax on coal at current rates.—Excise taxes levied on coal mined and sold for use in the United States are deposited in the Black Lung Disability Trust Fund. Amounts deposited in the trust fund are used to cover the cost of program administration and to pay compensation, medical, and survivor benefits to eligible miners and their survivors when mine employment terminated prior to 1970 or when no mine operator can be assigned liability. Tax rates on coal sold by a producer are \$1.10 per ton of coal from underground mines and \$0.55 per ton of coal from surface mines; however, these rates may not exceed 4.4 percent of the price at which the coal is sold. Under prior law, effective for coal sold after December 31, 2013, the tax rates on coal from underground mines and surface mines were scheduled to decline to \$0.50 per ton and \$0.25 per ton, respectively, and were to be capped at 2 percent of the price at which the coal is sold. This Act postponed the reduction in these tax rates until January 1, 2019.

Extend other expiring provisions.—This Act also extended, through December 31, 2009, the following provisions that had expired on December 31, 2007, under prior law: (1) the ability of regulated investment companies (RICs) to designate all or a portion of a dividend as an “interest-related dividend;” (2) the estate tax look-through rule for certain RIC stock; (3) the treatment of RICs as “qualified investment entities;” (4) the exclusion from unrelated business income of certain payments to controlling exempt organizations; (5) the ability of shareholders to adjust their basis in the stock of S corporations making charitable contributions; (6) the economic development credit provided to domestic corporations operating in American Samoa; (7) the domestic production activi-

ties deduction for activities in Puerto Rico; (8) the credit for certain expenditures for maintaining railroad tracks; (9) the seven-year recovery period for property used for land improvement and support facilities at motorsports entertainment complexes; (10) the enhanced deduction for contributions of books to public schools; and (11) the enhanced deduction for contributions of food inventory.

This Act also extended, through December 31, 2009, the following provisions that were scheduled to expire on December 31, 2008, under prior law: (1) the credit for training mine rescue teams; (2) the election to expense advanced mine safety equipment; and (3) special expensing rules for certain film and television production costs.

This Act extended for five years, through December 31, 2014, reduced import duties on a limited quantity of imported wool fabrics and the deposit of duties otherwise collected on the import of certain wool production in the Wool Trust Fund.

Other Tax Provisions

Modify treatment of gain or loss from the sale or exchange of certain preferred stock by applicable financial institutions.—Under prior law, a financial institution that held preferred stock issued by the Federal National Mortgage Corporation (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) as a capital asset generally recognized capital gain or loss on the sale or taxable exchange of that stock. A financial institution generally included: (1) any bank, mutual savings bank, cooperative bank, domestic building and loan association, and other savings institution chartered and supervised as a savings and loan or similar association under Federal or State law; (2) any small business investment company operating under the Small Business Investment Act of 1958; and (3) any business development corporation created by or pursuant to an act of a State legislature for purposes of promoting, maintaining, and assisting the economy and industry within such State, on a regional or statewide basis, by making loans to be used in trades and businesses that would generally not be made by banks within such region or State in the ordinary course of their business, and which is operated primarily for such purposes. Under this Act, gain or loss recognized by a financial institution or a depository institution holding company from the sale or exchange of preferred stock issued by Fannie Mae or Freddie Mac that was held by the financial institution on September 6, 2008, or was sold or exchanged by the financial institution on or after January 1, 2008 and before September 7, 2008, is treated as ordinary gain or loss for tax purposes.

Accelerate the payment of interest on the balances of depository institutions by the Federal Reserve System.—Under prior law, the Federal Reserve System was authorized to pay interest on the balances maintained at a Federal Reserve Bank by or on behalf of a depository institution beginning October 1, 2011. This Act accelerated the effective date of the payment of interest on such balances to October 1, 2008.

Offsets

Provide special rule for the taxation of executive compensation of employers participating in the Troubled Asset Relief Program (TARP).—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. A covered employee is defined as the chief executive officer of the corporation (or someone acting in that capacity) as of the close of the taxable year and the four other most highly compensated officers for the taxable year. Unless specifically excluded, the deduction limitation applies to all remuneration for services, including cash and the cash value of all non-cash remuneration (including benefits). The \$1 million cap is reduced by excess parachute payments that are not deductible by the corporation. Certain types of compensation, including remuneration payable on a commission basis, remuneration payable solely on account of the attainment of one or more performance goals, and payments to a tax-qualified retirement plan, are not subject to the deduction limit and are not taken into account in determining whether other compensation exceeds \$1 million. This Act reduced the compensation limit to \$500,000 in the case of otherwise deductible compensation of a covered executive for any applicable taxable year of an applicable employer. An applicable employer generally is any employer from which one or more troubled assets are acquired under TARP if the aggregate amount of the assets so acquired for all taxable years exceeds \$300 million. An applicable taxable year with respect to an applicable employer means the first taxable year that includes any portion of the period during which the authorities for the TARP established under the Act are in effect (the “authorities period”) if the aggregate amount of troubled assets acquired from the employer under that authority during the taxable year (when added to the aggregate amount so acquired for all preceding taxable years) exceeds \$300 million and includes any subsequent taxable year that includes any portion of the authorities period.

Modify taxation of deferred compensation paid by certain tax indifferent parties.—Executives and other employees generally are allowed to defer paying tax on compensation until the compensation is paid. This deferral is made possible by rules that require the corporation paying the deferred compensation to defer the deduction that relates to the compensation until the compensation is paid. In the case of a taxpayer receiving deferred compensation from a tax indifferent party (such as a company incorporated in a low- or no-tax foreign jurisdiction), there is little or no offsetting deduction that can be deferred. This Act eliminated this benefit by taxing deferred compensation from a tax indifferent party as current income, effective with respect to deferred compensation for services performed after December 31, 2008.

Limit the deduction for domestic manufacturing.—The American Jobs Creation Act of 2004 provided a deduction equal to a portion of a taxpayer’s qualified production activities income, phased in over six years. When fully effective for taxable years beginning after 2009, the deduction is nine percent (three percent for taxable years 2005 and 2006 and six percent for taxable years 2007, 2008, and 2009) of the lesser of: (1) qualified production activities income for the taxable year; or (2) taxable income (determined without regard to the deduction) for the year. However, the deduction for a taxable year generally is limited to an amount equal to 50 percent of W-2 wages of the employer for the taxable year. In general, qualified production activities income equals domestic production gross receipts in excess of: (1) the cost of goods sold that are allocable to such receipts; (2) other deductions, expenses, or losses directly allocable to such receipts; and (3) a proper share of other deductions, expenses, and losses that are not directly allocable to such receipts or another class of income. Domestic production gross receipts generally are gross receipts derived from: (1) any sale, lease, rental, license, exchange, or other disposition of (a) qualifying production property (generally any tangible personal property, computer software or sound recordings) manufactured, produced, grown, or extracted by the taxpayer in whole or in significant part within the United States; (b) any qualified film produced by the taxpayer (generally any motion picture film or videotape for which 50 percent or more of the total compensation relating to the production of such film is for specified services performed in the United States); and (c) electricity, natural gas, or potable water produced by the taxpayer in the United States; (2) construction activities performed in the United States; or (3) engineering or architectural services performed in the United States for construction projects in the United States. In general, domestic production gross receipts do not include any receipts derived from: (1) the sale of food or beverages prepared at a retail establishment; (2) the transmission or distribution of electricity, natural gas, or potable water; or (3) the leasing, licensing, or rental of property used by a related person. This Act reduced the deduction for taxpayers with oil related qualified production activities income for taxable years beginning after 2009 to six percent of the lesser of: (1) oil related qualified production activities income for the taxable year; (2) qualified production activities income for the taxable year; or (3) taxable income (determined without regard to the deduction) for the year. Oil related qualified production activities income means qualified production activities income for any taxable year that is attributable to the production, refining, processing, transportation, or distribution of oil, gas or any primary product thereof.

Apply special foreign tax credit limitation rules with regard to certain foreign oil and gas income.—U.S. taxpayers may credit foreign taxes paid or accrued against U.S. tax on foreign-source income, subject to various limitations. The foreign tax credit generally is limited to the U.S. tax liability on a taxpayer’s foreign-

source income, and is calculated separately for various categories of income. In addition to these general limitations, a special limitation is placed on foreign income taxes on foreign oil and gas extraction income (FOGEI). Specifically, amounts claimed as taxes paid on FOGEI qualify as creditable taxes only to the extent they do not exceed the product of the highest marginal U.S. tax rate on corporations (currently 35 percent) multiplied by such extraction income. Foreign taxes paid in excess of that amount are, in general, neither creditable nor deductible; however, taxes paid in excess of the FOGEI limitation may be carried back to the immediately preceding taxable year and carried forward 10 taxable years and credited to the extent that the taxpayer otherwise has excess FOGEI limitation for those years. A limitation also applies to foreign taxes paid on foreign oil related income (FORI) in certain cases where the foreign law imposing such amount of tax is structured, or in fact operates, so that the amount of tax imposed with respect to foreign oil related income will generally be “materially greater” over a reasonable period of time than the amount generally imposed on income that is neither FORI nor FOGEI. Effective for taxable years beginning after December 31, 2008, this Act expanded the scope of FOGEI rules to apply to all foreign income from the production and other activities related to the sale of oil and gas products (that is, the sum of FOGEI and FORI as classified under prior law).

Require broker reporting of a customer’s basis in securities transactions.—Information reporting requirements are imposed on participants in certain transactions under current law. These requirements are intended to assist taxpayers in preparing their tax returns and to assist the IRS in determining whether the taxpay-

er’s tax return is accurate and complete. Under current law, brokers are required to report annually to the IRS and to customers the gross proceeds realized by customers from various sale transactions. Under this Act, brokers required to report gross proceeds from the sale of a covered security must also report the customer’s adjusted basis in the security and whether any gain or loss with respect to the security is long-term or short-term. This change begins to take effect for securities transactions after December 31, 2010; however, this Act also extended the deadline from January 31 to February 15 for furnishing certain information statements to customers, effective for statements required to be furnished after December 31, 2008.

WORKER, RETIREE, AND EMPLOYER RECOVERY ACT OF 2008

The provision of this Act that had the greatest effect on governmental receipts temporarily waived required minimum distribution rules for certain retirement plans and accounts with respect to distributions required for calendar year 2009. Other provisions that affected governmental receipts: (1) increased the penalty for failure to file a partnership or S Corporation return; (2) modified the maximum benefit limitation for certain small pension plans; (3) modified the method for determining the fair market value of plan assets for pension plan funding purposes; (4) provided transition relief for the minimum funding requirements for single employer defined benefit plans; (5) provided for an optional delay in improvement in funded status for multiemployer plans; and (6) allowed amounts received in an airline bankruptcy to be contributed to a Roth IRA.

ADJUSTMENTS TO THE BUDGET ENFORCEMENT ACT (BEA) BASELINE TO REFLECT CURRENT POLICY

The first step in addressing the nation’s fiscal problems is to be upfront about them – and to establish an honest baseline that measures where we are before new policies are enacted. This Budget does so by adjusting the BEA baseline to reflect the true cost of the current policy path. The BEA baseline, which is commonly used in budgeting and is defined in a now expired statute, with some exceptions reflects the projected receipts level under current law. But, under current law, relief from the AMT would expire at the end of this year, causing millions of Americans to begin paying this additional tax, and, furthermore, the 2001 and 2003 tax cuts would expire entirely at the end of 2010. These expirations were not written into law for policy reasons; instead, they reflect decisions made to artificially reduce the cost estimates of AMT relief and the 2001 and 2003 tax cuts to fit these policies within certain budget process rules. Because of this, the BEA’s “current law” baseline is not an accurate reflection of what it would mean to continue forward with current policies. This Budget uses an adjusted baseline that continues AMT relief and the 2001 and 2003 tax cuts, so as to project future receipts un-

der current policy and to better measure the effects of the Administration’s proposed policy changes.

Index to inflation the 2009 parameters of the AMT as enacted in the American Recovery and Reinvestment Act of 2009.—The Administration’s baseline projection of current policy reflects annual indexation of the AMT exemption amounts in effect for taxable year 2009 (\$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); the income thresholds for the 28-percent rate (\$87,500 for married taxpayers filing a separate return and \$175,000 for all other taxpayers); and the income thresholds for the phaseout of the exemption amounts (\$150,000 for married taxpayers filing a joint return and surviving spouses, \$112,500 for single taxpayers, and \$75,000 for married taxpayers filing a separate return). The baseline projection of current policy also extends AMT relief for nonrefundable personal credits.

Table 17-2. ADJUSTMENTS TO THE BUDGET ENFORCEMENT ACT (BEA) BASELINE ESTIMATES OF RECEIPTS TO REFLECT CURRENT POLICY ¹
(in billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
BEA baseline receipts	2,184.8	2,392.4	2,893.5	3,215.0	3,471.0	3,674.3	3,887.2	4,088.8	4,290.3	4,510.3	4,743.4	15,646.1	37,166.0
Adjustments to reflect current policy:													
Index to inflation the 2009 parameters of the AMT as enacted in the American Recovery and Reinvestment Act .....	.....	-14.1	-69.1	-33.9	-39.4	-46.4	-54.6	-63.5	-73.3	-84.7	-97.2	-202.8	-576.1
Continue the 2001 and 2003 tax cuts:													
Dividends tax rate structure	0.3	-5.5	-27.8	-6.6	-18.3	-30.9	-38.1	-39.6	-41.1	-42.7	-44.4	-89.0	-295.0
Capital gains tax rate structure .....	.....	-2.0	-8.9	-3.0	-5.8	-9.1	-11.1	-12.1	-13.3	-14.2	-14.7	-28.7	-94.1
Expensing for small businesses .....	.....	.....	-2.5	-5.4	-4.3	-3.5	-3.0	-2.6	-2.2	-1.8	-1.7	-15.7	-27.1
Marginal individual income tax rate reductions .....	.....	.....	-90.9	-143.3	-155.5	-165.1	-175.1	-185.4	-195.9	-207.0	-218.4	-554.7	-1,536.6
Child tax credit ¹ .....	.....	.....	-3.3	-13.1	-13.3	-13.5	-13.6	-13.6	-13.7	-13.7	-13.7	-43.2	-111.5
Marriage penalty relief ¹ .....	.....	.....	-16.5	-26.2	-27.9	-29.4	-30.5	-31.8	-33.1	-34.4	-35.9	-99.9	-265.7
Education incentives .....	.....	*	-0.7	-1.3	-1.4	-1.5	-1.6	-1.6	-1.7	-1.8	-1.9	-5.0	-13.6
Other incentives for families and children .....	.....	*	-0.5	-1.0	-1.1	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2	-3.7	-9.5
Estate, generation-skipping transfer taxes, and gift taxes at 2009 parameters	-0.5	3.1	1.1	-13.5	-16.9	-19.9	-21.7	-23.4	-24.9	-26.5	-28.3	-46.3	-171.1
Subtotal, continue the 2001 and 2003 tax cuts	-0.2	-4.3	-149.9	-213.5	-244.5	-274.0	-295.8	-311.3	-327.1	-343.3	-360.4	-886.2	-2,524.1
Total, adjustments to reflect current policy	-0.2	-18.4	-218.9	-247.4	-283.8	-320.4	-350.4	-374.8	-400.4	-428.0	-457.5	-1,089.0	-3,100.2
Baseline projection of current policy receipts	2,184.7	2,374.0	2,674.5	2,967.5	3,187.1	3,353.9	3,536.8	3,713.9	3,889.9	4,082.3	4,285.9	14,557.1	34,065.9

*\$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:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
Child tax credit	*	14.5	14.4	14.4	14.4	14.6	14.7	14.8	15.0	43.4	116.9
Marriage penalty relief	-0.6	2.0	1.9	1.8	1.8	1.8	1.8	1.8	1.8	5.1	14.2
Total, outlay effects of adjustments to reflect current policy	-0.5	16.5	16.3	16.2	16.2	16.4	16.5	16.6	16.8	48.5	131.1

Continue the 2001 and 2003 tax cuts.—Most of the tax reductions enacted in 2001 and 2003 expire on December 31, 2010. The Administration's baseline projection of current policy continues all of these expiring provisions except for repeal of estate and generation-skipping

transfer taxes. Estate and gift taxes are assumed to be extended at parameters in effect for calendar year 2009 (a top rate of 45 percent and an exemption amount of \$3.5 million).

PROPOSALS

The Administration proposes to restore balance to the tax code by returning to the pre-2001 ordinary income tax rates for families making more than a quarter of a million dollars a year, giving 95 percent of working families a tax cut, closing loopholes, and eliminating subsidies to special interests. These proposals are described below.

Tax Cuts for Families and Individuals

Provide making work pay tax credit.—A refundable tax credit equal to 6.2 percent of earned income, up to a maximum of \$400 for working single taxpayers and \$800 for working married taxpayers filing a joint return, was provided for taxable years 2009 and 2010 under ARRA. The credit is phased out at a rate of two percent for taxpayers with modified AGI in excess of \$75,000 (\$150,000

for married taxpayers filing a joint return). Payments will be made to each possession of the United States with a mirror tax system (U.S. Virgin Islands, Guam, and the Commonwealth of the Northern Mariana Islands) in an amount equal to the loss in receipts to that possession attributable to the credit provided in this Act. Payments will be made to each possession that does not have a mirror tax system (Puerto Rico and American Samoa) in an amount estimated by the Department of the Treasury as being equal to the aggregate credits that would have been allowed to residents of that possession if a mirror tax system had been in effect. Effective for taxable years beginning after December 31, 2010, the Administration proposes to make the credit permanent. The Administration would also decrease the rate at which the credit phases out from two percent to 1.6 percent as of taxable year 2011. The income thresholds for the phaseout of the cred-

it, but not the value of the credit, would be indexed annually for inflation beginning in taxable year 2011.

Expand EITC.—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. Under prior law, for taxable year 2009, taxpayers with more than one qualifying child were provided a credit of 40 percent on up to \$12,570 in earnings, for a maximum credit of \$5,028. The credit was reduced at the rate of 21.06 percent of earnings in excess of \$16,420 for single taxpayers (\$19,540 for married taxpayers filing a joint return). Effective for taxable years 2009 and 2010, ARRA increased the credit percentage for families with three or more qualifying children to 45 percent, thereby creating a fourth credit schedule with a maximum credit of \$5,656.50. This Act also provided marriage penalty relief to married couples filing a joint return (regardless of the number of qualifying children) by increasing the income thresholds for the phaseout of the EITC to \$5,000 above the income thresholds for the phaseout for other taxpayers for 2009, and indexed this amount for 2010. Effective for taxable years beginning after December 31, 2010, the Administration proposes to permanently extend: (1) the 45-percent credit percentage for families with three or more qualifying children; and (2) the increase in the income thresholds for the phaseout of the EITC for married taxpayers filing a joint return (regardless of the number of children) above the income thresholds for the phaseout of the EITC for other taxpayers. The increase would be indexed annually for inflation from its \$5,000 value in 2009.

Expand refundability of the child tax credit.—Taxpayers are provided a nonrefundable tax credit of up to \$1,000 for each qualifying child under the age of 17. The credit is reduced by \$50 for each \$1,000 (or fraction thereof) of modified AGI over \$75,000 for single taxpayers (\$110,000 for married taxpayers filing a joint return). If the credit exceeds the taxpayer's individual income tax liability, the taxpayer is eligible for a refundable credit (the additional child credit) equal to 15 percent of earned income in excess of a threshold dollar amount (\$12,550 for 2009) for any child credit unclaimed due to insufficient income tax liability. The income threshold is indexed annually for inflation. Families with three or more children may use an alternative formula for calculating this benefit. Under ARRA, effective for taxable years 2009 and 2010, the refundable tax credit was increased to 15 percent of earned income in excess of \$3,000. The Administration proposes to make the \$3,000 threshold permanent, effective for taxable years beginning after December 31, 2010.

Expand saver's credit and provide automatic enrollment in IRAs.—Under current law, taxpayers age

18 or older who are not dependents or full-time students may receive a nonrefundable credit (the saver's credit) on up to \$2,000 of their compensation contributed to employer-sponsored qualified retirement plans and IRAs. The credit ranges between 10 and 50 percent of the amount contributed, depending on the taxpayer's filing status and AGI (adjusted for inflation). In determining the credit, qualified contributions are reduced by distributions from qualified plans and IRAs during the current tax year, the two preceding tax years, and the following year, up to the due date of the return, including extensions. Effective for taxable years beginning after December 31, 2010, the Administration proposes to modify the existing credit by: (1) making it refundable; and (2) converting it to a 50-percent match on up to \$500 in qualified retirement savings per individual per year (indexed annually for inflation beginning with taxable year 2011). The amount of savings that could be matched would phase out at a rate of five percent for AGI in excess of \$32,500 for single taxpayers (\$65,000 for married taxpayers filing a joint return); the AGI thresholds would be indexed annually for inflation beginning with taxable year 2011. The Administration also proposes to require employers who do not currently offer a retirement plan to offer automatic enrollment in an IRA to all of their employees, effective for taxable years beginning after December 31, 2011. Small employers (those with less than 10 employees) would be exempt. An employee not providing a written participation election would be enrolled in an IRA at a default rate of three percent of the employee's compensation. Employees would always have the option of opting out. Employers that offer an automatic IRA would be entitled to a temporary business tax credit.

Provide American opportunity tax credit.—Taxpayers are provided a nonrefundable tax credit of up to \$1,800 (for 2009) per eligible student per year for qualified tuition and related expenses paid for the first two years of the student's post-secondary education in a degree or certificate program. To be eligible for the credit, the student must be enrolled at least half-time in a degree or certificate program. This credit, called the Hope Scholarship Credit, is equal to 100 percent of the first \$1,200 of qualified tuition and related expenses and 50 percent of the next \$1,200 of qualified tuition and related expenses; these amounts are indexed annually for inflation and rounded down to the next lowest multiple of \$100. The credit is phased out ratably for single taxpayers with modified AGI between \$50,000 and \$60,000 (\$100,000 and \$120,000 for married taxpayers filing a joint return) for 2009. The income thresholds for the phaseout of the credit are indexed annually for inflation, with the amount rounded down to the next lowest multiple of \$1,000.

ARRA created the American opportunity tax credit to replace the Hope Scholarship Credit for taxable years 2009 and 2010. The new tax credit is partially refundable, has a higher maximum credit amount, is available for the first four years of postsecondary education, and has higher phase-out limits. Under the American opportunity tax credit, taxpayers are provided 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).

The Administration proposes to permanently extend the American opportunity tax credit and index the expense amounts and phase-out limits, effective for taxable years beginning after December 31, 2010.

Tax Cuts for Businesses

Eliminate capital gains taxation on small businesses.—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 Administration proposes to increase the exclusion to 100 percent, effective for qualified small business stock issued after February 17, 2009; reporting requirements would be tightened to improve compliance.

Make research and experimentation (R&E) tax credit permanent.—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, 2009, are proposed to be permanently extended.

Expand net operating loss (NOL) carryback.—In general, an NOL may be carried back two years and carried forward 20 years to offset taxable income in such years. However, different rules apply with respect to NOLs arising in certain circumstances. ARRA expanded NOL carrybacks for eligible small businesses (a business meeting a \$15 million gross receipts test), allowing these businesses to carry back applicable NOLs to any whole number of years greater than two and less than six. An applicable NOL is the taxpayer's NOL for any taxable year ending in 2008, or, if elected by the taxpayer, the NOL for any taxable year beginning in 2008. The Administration looks forward to working with the Congress to make the expanded NOL carryback period available to more taxpayers.

Modify Federal Aviation Administration (FAA) Financing

Starting in 2011, the Budget assumes the air traffic control system would be paid for by direct charges levied on users of the system. The FAA's current excise tax system is largely based on the price of airline tickets, and does not have a direct relationship between the taxes paid by users and the air traffic control services provided by the FAA. The Administration believes that the financing system should move toward a model where FAA's charges are based on their costs, system users pay their "fair share," and the FAA utilizes the funds directly to pay for the services that the users need and want. The Administration recognizes that there are alternative ways to achieve these objectives. Accordingly, the Administration will work with stakeholders and Congress to enact legislation that moves toward such a system. Under the potential scenario displayed in the budget, FAA would reduce aviation excise taxes and collect discretionary user charges for air traffic services. Note that, because of scoring conventions, the reduction in excise taxes reduces receipts, while the discretionary user charge offsets discretionary spending and is not counted toward receipts.

Continue Certain Expiring Provisions Through Calendar Year 2010

A number of temporary tax provisions that have been routinely extended are scheduled to expire before December 31, 2010. The Administration proposes to extend these provisions through December 31, 2010. These provisions include the optional deduction for State and local general sales taxes, Subpart F "active financing" and "look-through" exceptions, the exclusion from unrelated business income of certain payments to controlling exempt organizations, the new markets tax credit, the modified recovery period for qualified leasehold improvements and qualified restaurant property, incentives for empowerment and community renewal zones, credits for biodiesel and renewable diesel fuels, and several trade agreements, including the Generalized System of Preferences and the Caribbean Basin Initiative.

Other Revenue Changes and Loophole Closers

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 financed the cleanup of the nation's worst hazardous waste sites, are proposed to be reinstated effective January 1, 2011, and include the following: (1) a 9.7-cents-per-barrel excise tax on domestic and imported crude oil and petroleum products; (2) excise taxes on listed hazardous chemicals at rates that vary from 22 cents to \$4.87 per ton; (3) excise taxes on imported substances that use as materials in their manufacture one or more of the listed hazardous chemicals; and (4) the 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.

Tax carried interest as ordinary income.—A partnership does not pay income tax; instead, the income or loss flows through to the partners who must include such items on their individual income tax return. 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, if the interest is only in future profits, as if its value were 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 interest 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 any carried interest as a “services partnership interest” (SPI) and to tax a partner’s share of 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.

Codify “economic substance” doctrine.—The economic substance doctrine is a judicial rather than statutory tax doctrine that has been used by the 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. The Administration proposes to create a new provision in the tax code clarifying that a transaction must have both objective economic substance and a business purpose to satisfy the judicial economic substance doctrine. The new provision would address what constitutes objective economic effects and a substantial nontax business purpose. A 30-percent penalty would be imposed on any understatement of tax resulting from a transaction lacking economic substance, even when the taxpayer has reasonable cause for the understatement. The penalty would be reduced to 20 percent for transactions that are adequately disclosed on the tax return or a statement attached to the return. These proposed changes would be effective for transactions entered into after the date of enactment.

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, 2011. 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. Upon enactment, taxpayers required to change from the LIFO method also would be required to report their existing 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 eight years.

Reform U.S. international tax system.—The Administration proposes to reduce U.S. tax evasion and avoidance through a series of legislative reforms and enforcement measures, as described below:

Reform business entity classification rules.—The business entity classification rules as applied to foreign entities may be used to avoid U.S. tax, particularly in the case of a foreign entity that is disregarded for U.S. tax purposes as a result of those rules. Under the proposal, a disregarded entity election for a foreign entity would be available only if that entity has an owner that is not disregarded for U.S. tax purposes and that is organized under the laws of the same foreign country under the laws of which the foreign entity is created or organized.

Defer deduction of expenses, except R&E expenses, related to deferred income.—Under current law, a U.S. person that incurs expenses properly allocable and apportioned to foreign-source income may be able to deduct those expenses 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 deductions and recognition of income, the proposal would defer foreign-source deductions, other than research and experimentation expenditures, of a U.S. person to the extent the U.S. taxation of foreign-source income associated with those deductions is deferred.

Reform foreign tax credit.—Under the proposal, a taxpayer would be required to determine foreign tax credits and earnings and profits on a consolidated basis for all controlled foreign corporations (CFCs). Taxpayers would be subject to a limitation on foreign tax credits based on an average foreign tax rate imposed on the sum of the foreign-source income of the taxpayer and the unrepatriated income earned by the taxpayer’s CFCs. In addition, separation of foreign tax and income would be prevented through the adoption of a matching rule.

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)) and the allocation of income and deductions among taxpayers (section 482) would be clarified to prevent inappropriate shifting of income outside the United States.

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 debt to reduce inappropriately the U.S. tax on income earned from their U.S. operations.

Prevent repatriation of earnings in certain cross-border reorganizations.—A limitation on recognition of gain for certain qualified corporate reorganizations (section 356(a)(1)) can permit U.S. shareholders to repatriate previously-untaxed earnings and profits of foreign subsidiaries with minimal U.S. tax consequences. The proposal would repeal this limitation in reorganization transactions in which the acquiring corporation is foreign and the shareholder's exchange has the effect of the distribution of a dividend (within the meaning of section 356(a)(2)).

Repeal 80/20 company rules.—Under current law, if a U.S. corporation derives at least 80 percent of its gross income from an active foreign business (commonly referred to as an "80/20 company"), then all or a portion of the interest and dividends paid by the 80/20 company are treated as foreign-source and therefore are not subject to U.S. withholding tax. Because the rules that apply to 80/20 companies are subject to manipulation, they are proposed to be repealed.

Prevent the use of equity swaps to avoid dividend withholding taxes.—Income earned by foreign persons with respect to equity swaps that reference U.S. equities would be treated as arising from U.S. sources to the extent that the income is attributable to (or calculated by reference to) dividends paid by a domestic corporation. This proposal would provide clarity and would ensure that economically equivalent transactions are subject to the same tax treatment.

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.

Combat under-reporting of income through use of accounts and entities in offshore jurisdictions.—The Administration is concerned about the use of offshore accounts and entities by U.S. and foreign persons to evade U.S. tax. To reduce such evasion, the Administration proposes 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.

Require information reporting for rental property expense payments.—The Administration proposes to subject recipients of rental income from real estate to the same information reporting requirements applicable to taxpayers engaged in a trade or business. Under the proposal, 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 would be required to send an information return to the IRS and to the service provider. Exceptions to the reporting requirement would be made for particularly burdensome situations, such as for taxpayers (including members of the military) who rent their principal residence on a temporary basis, or for those who receive only small amounts of rental income per year.

Eliminate oil and gas company preferences.—Beginning in 2011, the Administration proposes to levy a tax on offshore oil and gas production and to repeal a number of existing tax preferences for domestic oil and gas producers, as described below:

Levy tax on certain offshore oil and gas production.—According to the Government Accountability Office, the return to the taxpayer from Outer Continental Shelf production is among the lowest in the world, despite other factors that make the U.S. a comparatively good place to invest in oil and gas development. In the interest of advancing important policy objectives, such as providing a more level playing field among producers, raising the return to the taxpayer, and encouraging sustainable domestic oil and gas production, the Administration is developing a proposal to impose an excise tax on certain oil and gas produced offshore in the future. The Administration looks forward to working with Congress to develop this proposal's details and enact it into law.

Repeal existing oil and gas preferences.—Current law provides a number of credits and deductions that are targeted towards certain oil and gas activities. The Administration proposes to repeal the following tax preferences available for oil and gas activities: (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 producer's geological and geophysical expenditures, instead allowing amortization over the same seven-year period as for integrated oil and gas producers.

Eliminate advanced EITC.—Under current law, taxpayers eligible for the refundable EITC who have one or more qualifying children may elect to receive advanced

payment of the credit through their employer. Since advance payments have been unpopular among eligible taxpayers and since recent research shows evidence of extensive non-compliance by employers and workers, the Administration proposes that effective for taxable years beginning after December 31, 2009, taxpayers would no longer be able to receive an advance against their expected EITC through their employer. Taxpayers with positive tax liability could, however, continue to receive any non-refundable portion of the EITC during the year by adjusting their withholding.

Upper-Income Tax Provisions Dedicated to Deficit Reduction

Reinstate the 36-percent and 39.6-percent rates for those taxpayers with income over \$250,000 (married filing a joint return) and \$200,000 (single).—The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) split the 15-percent statutory individual income tax rate bracket of prior law into two tax rate brackets of 10 and 15 percent, and replaced the four remaining statutory individual income tax rate brackets of 28, 31, 36 and 39.6 percent with statutory tax rate brackets of 25, 28, 33 and 35 percent. When the tax rate brackets provided under EGTRRA expire on December 31, 2010, the Administration proposes to extend the tax rate brackets of 10, 15, 25 and 28 percent; to eliminate the tax rate brackets of 33 and 35 percent; and to reinstate the prior law tax rate brackets of 36 and 39.6 percent. These rate increases would apply to single taxpayers with income over \$200,000 and to married taxpayers filing a joint return with income over \$250,000 (at 2009 levels). The 28-percent tax rate bracket would be expanded so that taxpayers earning less than these amounts would not see their taxes rise as a result of the increased tax rate brackets.

Reinstate the personal exemption phaseout and limitation on itemized deductions for those taxpayers with income over \$250,000 (married filing a joint return) and \$200,000 (single).—Prior to the enactment of EGTRRA, the deduction for personal exemptions for the taxpayer and his or her dependents was phased out for taxpayers with AGI in excess of certain thresholds. In addition, the amount of otherwise allowable itemized deductions (other than medical expenses, investment interest, theft and casualty losses, and wagering losses) were reduced by three percent of AGI in excess of certain thresholds, but not by more than 80 percent. EGTRRA phased in the repeal of the phaseout of personal exemptions and the limitation on itemized deductions over a five-year period, 2006 through 2010. The Administration proposes to reinstate the limitations on personal exemptions and itemized deductions for single taxpayers with income over \$200,000 and married taxpayers filing joint returns with income over \$250,000 (at 2009 levels), effective for taxable years beginning after December 31, 2010.

Impose a 20-percent tax rate on capital gains and dividends for those taxpayers with income

over \$250,000 (married filing a joint return) and \$200,000 (single).—Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), the maximum tax rate on long-term capital gains was reduced from 20 percent to 15 percent for taxpayers in individual income tax rate brackets exceeding 15 percent, and from 10 percent to 5 percent (zero beginning in 2008) for lower-income taxpayers. JGTRRA also reduced the maximum tax rate on qualified dividends received by an individual shareholder 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. Dividends had been taxed as ordinary income under prior law. The Administration proposes to increase the tax rate on qualified dividends and long-term capital gains to 20 percent for single taxpayers with income over \$200,000 and for married taxpayers filing a joint return with income over \$250,000 (at 2009 levels). The proposal would be effective for taxable years beginning after December 31, 2010. Lower-income taxpayers would be taxed at the rates in effect in 2009.

Climate Revenues

Climate revenues dedicated to climate policy (clean energy technologies) and to making work pay.—The Administration is developing a comprehensive energy and climate change plan to invest in clean energy, end the nation's addiction to oil, address the global climate crisis, and create new American jobs that cannot be outsourced. This program will be implemented through a cap-and-trade system, a policy approach that was used successfully to implement the acid rain program at much lower cost than the traditional government regulations and mandates of the past. Through a 100-percent auction to ensure that the biggest polluters do not enjoy wind-fall profits, this program will fund vital investments in clean energy research and development, adaptation and climate science of \$15 billion per year beginning in 2012. Auction revenues also will be dedicated to covering the cost of permanently extending the making work pay tax credit, which provides tax relief to about 95 percent of all American workers and their families. Any additional revenues generated from an emission allowance auction will be used to compensate vulnerable households, communities and businesses for increased energy costs.

User Fees

Preserve cost-sharing of inland waterways capital costs.—In 1986, the Congress provided that commercial traffic on the inland waterways would be responsible for 50 percent of the capital costs of the locks and dams and other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on fuel used in inland waterway transportation is not generating enough revenue to cover the required 50 percent of these costs. The Administration proposes to phase out this excise tax in stages and replace it with a lock usage fee. This fee is designed to improve

economic efficiency and preserve the landmark cost-sharing reform established by the Congress in 1986, while supporting investments in inland waterways construction, replacement, expansion, and rehabilitation.

Trade Initiatives

Promote trade.—The Administration is currently developing a plan of action to address the pending free trade agreements (FTAs), in consultation with Congress and our trading partners. Depending on progress, one or more of the pending FTAs could be implemented in 2010. Additionally, the President has announced his intention to establish Reconstruction Opportunity Zones (ROZs) in Afghanistan and the border regions of Pakistan. ROZs are a critical part of the Administration's broader counterterrorism strategy in these areas, designed to connect isolated regions to the global economy, create vital employment opportunities in territories prone to extremism and strengthen the rule of law. The creation of ROZs will encourage investment and economic development in these areas by granting duty-free entry to the United States for certain goods produced in designated territories under a framework that creates maximum opportunity and strengthens the rule of law. The Administration will work closely with Congress and private sector stakeholders to implement these important trade initiatives.

Other Initiatives

Implement unemployment insurance integrity legislation.—The Administration has a multi-part proposal to strengthen the financial integrity of the unemployment insurance (UI) system and to encourage the early reemployment of UI beneficiaries. The Administration's 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; require States to charge employers found to be at fault when their actions lead to overpayments; expand collection of delinquent UI overpayments and employer taxes through garnishment of Federal tax refunds; and improve the accuracy of hiring data in the National Directory of New Hires, which would reduce benefit overpayments. 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.

Revise terrorism risk insurance program.—The terrorism risk insurance program (TRIP), which was established under the Terrorism Risk Insurance Act of 2002, was expanded and extended through December 31, 2014 under the Terrorism Risk Insurance Program Reauthorization Act of 2007. The reauthorization expanded coverage to include acts of domestic terrorism and

set up a mechanism for the Federal government to recoup 133 percent of Federal payments under the program, up to a maximum of \$27.5 billion, through a surcharge imposed on insurance premiums. The Administration proposes to lessen Federal intervention in this insurance market and reduce the subsidy to private insurers (that is, increase the private sector share of losses). Beginning in 2011, after the economy is expected to stabilize, and then again in 2013, the proposal would increase the private insurer's deductible and co-payment, and the minimum qualifying size of a terrorist attack. The proposal removes coverage for acts of domestic terrorism and requires insurers to pay back only 100 percent rather than 133 percent of the Federal payments made under the program. Under the proposal TRIP expires December 31, 2014, consistent with current law.

Levy payments to Federal contractors with delinquent tax debt.—The Budget proposes two changes to the Department of the Treasury's debt collection procedures that will increase the amount of delinquent taxes collected from Federal contractors. While the IRS can initiate enforcement proceedings against delinquent tax filers in order to collect taxes owed, Treasury can also reduce a Government payment owed to a contractor to collect unpaid taxes. However, Treasury generally must wait until all debt collection administrative procedures are complete before reducing a Government payment. Typically, by the time this lengthy process is finished, Treasury has already paid the Federal contractor, thus resulting in a lost opportunity to collect taxes owed. Under the first proposal, Treasury will be allowed to reduce payments before all debt collection administrative procedures are complete, and will therefore collect more unpaid taxes. Further, pursuant to the American Jobs Creation Act of 2004, Treasury is authorized to levy 100 percent of Federal contractor payments in order to collect delinquent debt. However, the language contains a technical imperfection that has the unintended effect of limiting the levy to 15 percent of a payment. The second proposal will allow Treasury to levy up to 100 percent of a Federal contractor payment.

Implement program integrity allocation adjustments - IRS.—The Administration proposes a program integrity allocation adjustment of \$890 million for the IRS. Allocation adjustments have been used by past administrations and Congresses to help protect increases above a base level for certain activities that generate benefits beyond programmatic costs. The adjustment permits specified program increases above the ceiling, or allocation limit, provided in the annual congressional appropriations process, but these increases are granted only if appropriations bills increase funding for the specified integrity purposes.

In previous years, the allocation adjustment applied to the total enforcement activity level, which included the entirety of the Enforcement account and over half of the Operations Support account. For 2010, the Administration proposes to apply the allocation adjust-

ment separately to the Enforcement account base (\$600 million of the allocation adjustment) and the proportion of the Operations Support appropriation that directly supports Enforcement account activities (\$290 million of the allocation adjustment). The Administration proposes this adjusted structure because it mitigates budget execution problems that may arise independent of the Administration's request. Further, the structure applies the allocation adjustment to the enforcement resources most directly involved in generating return-on-investment in the form of additional receipts.

Within the enforcement activity funding, IRS will continue initiatives implemented with 2009 appropriations and establish new initiatives that will bring in at least an additional \$2 billion in receipts for each year of work, once new hires reach full productivity in 2012. Not only will these resources help the IRS continue to increase the roughly \$55 billion in enforcement receipts each year, but they will also help close the tax gap, defined as the difference between taxes owed and those paid on time. The 2010 allocation adjustment will be used to target international tax compliance and help the IRS reduce that specific portion of the tax gap.

Health Reform Reserve Fund

The Administration proposes to set aside a reserve fund of more than \$630 billion over 10 years dedicated to financing reforms to the American health care system. The Administration recognizes that this is not sufficient to fully fund comprehensive reform, but it is a crucial first step in the effort. The proposed reserve fund would be financed by a combination of specific health care savings and a rebalancing of the tax code as described below:

Limit the tax rate at which itemized deductions reduce tax liability to 28 percent.—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 single taxpayers with income over \$200,000 and married taxpayers filing a joint return with income over \$250,000 (at 2009 levels). The proposed limitation would be effective for taxable years beginning after December 31, 2010.

Reduce the tax gap/improve compliance and make reforms to close tax loopholes.—The Administration has a number of legislative proposals intended to reduce the tax gap/improve compliance and make certain reforms in domestic tax laws to close tax loopholes, as described below:

Reduce the tax gap/improve compliance.—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 proposals that would expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

Information reporting proposals would apply to certain life insurance contracts, to payments to cor-

porations, and to payments from Government entities. Additional proposals would require a certified Taxpayer Identification Number (TIN) from contractors and would increase penalties with respect to information returns.

Proposals to improve compliance by businesses would require electronic filing by certain large organizations and implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.

Tax administration proposals would: (1) expand IRS access to information in the National Directory of New Hires for tax administration purposes; (2) make repeated willful failure to file a tax return a felony; (3) facilitate tax compliance with local jurisdictions; (4) extend statutes of limitations where State tax adjustments affect Federal tax liability; (5) improve the investigative disclosure statute; (6) expand electronic filing requirements for tax return preparers; (7) repeal the requirement of a partial payment with an application for an offer-in-compromise; and (8) allow assessment of criminal restitution as tax.

Proposals to expand penalties would impose a penalty on failure to comply with electronic filing requirements and clarify that the bad check penalty applies to electronic checks and other forms of payment.

Make reforms to close tax loopholes.—The Administration also proposes to make certain reforms in domestic tax laws to close loopholes in the following areas: (1) financial institutions and products; (2) insurance companies and products; (3) tax accounting methods; and (4) estate and gift taxation. The first category of proposals would require accrual of income on forward sale of corporate stock, require ordinary treatment of income from day-to-day dealer activities, and modify the definition of "control" for purposes of the limit on deductions related to a repurchase of debt. The second category would modify rules that apply to sales of life insurance contracts, modify the dividends-received deduction for life insurance company separate accounts, and expand the pro rata interest expense disallowance. Proposals in the third category would repeal the lower of cost or market inventory accounting method and deny the deduction for punitive damages. The fourth category of proposals would require consistent valuation for transfer and income tax purposes, modify rules on valuation discounts, and require a minimum term for grantor retained annuity trusts.

Modify alternative fuel mixture credit.—Current law provides a credit for alternative fuels sold for use or used as fuel in a motor vehicle or motorboat 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). A person with insufficient tax liability may file a claim for a payment equal to the credit. Alternative fuels include liquid byproducts derived from the processing of paper or pulp (known as "black liquor" when derived from the kraft process), which paper companies burn to produce

energy in their mills. Certain paper companies, to take advantage of the alternative fuel mixture credit, have recently begun mixing diesel with black liquor, burning the mixture, and claiming the alternative fuel mixture credit (this being a mix of an alternative fuel, black liquor, and diesel, a taxable fuel). If this is allowed to continue, it would result in substantial revenue losses and represent

a windfall to the paper industry. The Administration proposes to limit the credit for mixtures containing alternative fuel derived from the processing of paper or pulp to mixtures that are sold for use or used as fuel in a motor vehicle or motorboat, which would exclude black liquor burned in the paper mills from eligibility. The change would be effective on the date of enactment.

Table 17-3. EFFECT OF PROPOSALS
(in millions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
Tax Cuts for Families and Individuals:													
Provide making work pay tax credit ¹			-31,080	-61,668	-61,949	-62,233	-62,658	-63,256	-63,626	-64,052	-64,488	-216,930	-535,010
Expand earned income tax credit ¹			-17	-2,666	-2,601	-2,575	-2,610	-2,659	-2,708	-2,762	-2,821	-7,859	-21,419
Expand refundability of the child tax credit ¹				-8,822	-8,707	-8,674	-8,766	-8,859	-8,944	-9,039	-9,142	-26,203	-70,953
Expand saver's credit and provide automatic enrollment in IRAs ¹			-232	-3,153	-5,054	-6,366	-7,451	-8,363	-9,083	-9,689	-10,226	-14,805	-59,617
Provide American opportunity tax credit ¹			-594	-4,350	-4,931	-5,526	-5,879	-6,316	-6,689	-6,985	-7,246	-15,401	-48,516
Total, tax cuts for families and individuals			-31,923	-80,659	-83,242	-85,374	-87,364	-89,453	-91,050	-92,527	-93,923	-281,198	-735,515
Tax Cuts for Businesses:													
Eliminate capital gains taxation on small businesses						-134	-344	-700	-1,187	-1,562	-1,908	-134	-5,835
Make research and experimentation tax credit permanent		-3,111	-5,486	-6,142	-6,785	-7,384	-7,960	-8,530	-9,103	-9,680	-10,281	-28,908	-74,462
Expand net operating loss carryback	-27,800	-35,700	10,700	10,200	7,900	5,600	3,900	2,700	1,800	1,300	900	-1,300	9,300
Total, tax cuts for businesses	-27,800	-38,811	5,214	4,058	1,115	-1,918	-4,404	-6,530	-8,490	-9,942	-11,289	-30,342	-70,997
Modify Federal Aviation Administration Financing ^{2, 3}													
			-7,225	-7,599	-7,980	-8,260	-8,559	-8,869	-9,190	-9,527	-9,873	-31,064	-77,082
Continue Certain Expiring Provisions Through Calendar Year 2010 ^{1, 3}													
	-28	-6,402	-5,449	-668	-593	-617	-782	-860	-588	-595	-689	-13,729	-17,243
Other Revenue Changes and Loophole Closers:													
Reinstate Superfund taxes ³			1,197	1,632	1,755	1,834	1,905	1,979	2,056	2,149	2,250	6,418	16,757
Tax carried interest as ordinary income			2,585	3,811	3,860	3,463	2,899	2,345	1,869	1,479	1,167	13,719	23,478
Codify "economic substance" doctrine	5	58	112	202	308	426	546	642	724	809	901	1,106	4,728
Repeal LIFO method of accounting for inventories				2,992	6,748	8,082	8,431	8,590	8,545	8,630	9,036	17,822	61,054
Reform U.S. international tax system:													
Reform business entity classification rules			4,932	8,556	9,147	9,597	9,917	10,267	10,741	11,352	12,000	32,232	86,509
Defer deduction of expenses, except R&E expenses, related to deferred income			3,754	6,321	6,434	6,545	6,731	6,992	7,311	7,732	8,230	23,054	60,050
Reform foreign tax credit: Determine the foreign tax credit on a pooling basis			1,531	2,578	2,624	2,669	2,745	2,852	2,982	3,154	3,357	9,402	24,492
Reform foreign tax credit: Prevent splitting of foreign income and foreign taxes			999	1,792	1,968	2,095	2,194	2,277	2,348	2,408	2,461	6,854	18,542
Limit shifting of income through intangible property transfers			37	102	169	240	314	391	471	556	644	548	2,924
Limit earnings stripping by expatriated entities			70	120	126	132	139	146	153	161	169	448	1,216
Prevent repatriation of earnings in certain cross-border reorganizations			19	31	32	33	34	35	36	38	39	115	297
Repeal 80/20 company rules			86	121	129	135	139	144	151	160	169	471	1,234
Prevent the use of equity swaps to avoid dividend withholding taxes			373	281	126	99	100	101	104	109	114	879	1,407
Modify tax rules for dual capacity taxpayers			260	449	471	492	515	538	562	588	615	1,672	4,490
Combat under-reporting of income through use of accounts and entities in offshore jurisdictions		2,482	1,617	-53	-115	449	769	843	876	914	953	4,380	8,735
Subtotal, reform U.S. international tax system		2,482	13,678	20,298	21,111	22,486	23,597	24,586	25,735	27,172	28,751	80,055	209,896
Require information reporting for rental property expense payments		175	265	280	290	305	315	330	340	360	375	1,315	3,035
Eliminate oil and gas company preferences:													
Levy tax on certain offshore oil and gas production			500	500	500	600	600	600	600	700	700	2,100	5,300
Repeal enhanced oil recovery credit ⁴													
Repeal credit for oil and gas produced from marginal wells ⁴													
Repeal expensing of intangible drilling costs			347	595	526	395	269	226	237	266	488	1,863	3,349
Repeal deduction for tertiary injectants			5	9	9	8	7	6	6	6	6	31	62
Repeal exception to passive loss limitations for working interests in oil and natural gas properties			2	5	6	6	6	6	6	6	6	19	49
Repeal percentage depletion for oil and natural gas wells			316	752	925	960	996	1,033	1,065	1,091	1,113	2,953	8,251
Repeal domestic manufacturing deduction for oil and natural gas companies			757	1,310	1,392	1,464	1,531	1,600	1,670	1,745	1,823	4,923	13,292
Increase geological and geophysical amortization period for independent producers to seven years			41	154	240	233	187	140	91	56	47	668	1,189
Subtotal, eliminate oil and gas company preferences			1,968	3,325	3,598	3,666	3,596	3,611	3,675	3,870	4,183	12,557	31,492

Table 17-3. EFFECT OF PROPOSALS—Continued
(in millions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
Eliminate advanced earned income tax credit ¹ ...	.....	125	76	77	78	81	83	85	87	89	91	437	872
Total, other revenue changes and loophole closers	5	2,840	19,881	32,617	37,748	40,343	41,372	42,168	43,031	44,558	46,754	133,429	351,312
Upper-Income Tax Provisions Dedicated to Deficit Reduction:													
Reinstate the 36-percent and 39.6-percent rates for those taxpayers with income over \$250,000 (married) and \$200,000 (single) .....	.....	.....	14,584	27,625	30,798	33,769	36,489	39,312	42,366	45,502	49,115	106,776	319,560
Reinstate the personal exemption phaseout and limitation on itemized deductions for those taxpayers with income over \$250,000 (married) and \$200,000 (single) .....	.....	.....	6,958	15,241	17,428	19,101	20,682	22,264	23,850	25,432	27,071	58,728	178,027
Impose a 20-percent tax rate on capital gains and dividends for those taxpayers with income over \$250,000 (married) and \$200,000 (single)	-182	600	6,641	3,672	7,412	12,060	14,832	15,970	17,495	18,873	20,235	30,385	117,790
Total, upper-income tax provisions dedicated to deficit reduction	-182	600	28,183	46,538	55,638	64,930	72,003	77,546	83,711	89,807	96,421	195,889	615,377
Climate Revenues:													
Dedicated to climate policy (clean energy technologies) .....	.....	.....	.....	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	45,000	120,000
Dedicated to making work pay tax credit .....	.....	.....	.....	61,668	61,949	62,233	62,658	63,256	63,626	64,052	64,488	185,850	503,930
Total, climate revenues ⁵ .....	.....	.....	.....	76,668	76,949	77,233	77,658	78,256	78,626	79,052	79,488	230,850	623,930
User Fees:													
Preserve cost-sharing of inland waterways capital costs ³ .....	.....	75	100	68	79	89	156	155	183	182	180	411	1,267
Trade Initiatives:													
Promote trade ³ .....	.....	.....	-2	-5	-9	-13	-18	-25	-30	-35	-37	-29	-174
Other Initiatives:													
Implement unemployment insurance integrity legislation ^{3 6} .....	.....	.....	34	29	-20	-4	-166	-168	-174	-1,023	-413	39	-1,905
Revise terrorism risk insurance program ⁶ .....	.....	.....	-39	-493	-150	-317	-511	-576	-522	-416	-285	-999	-3,309
Levy payments to Federal contractors with delinquent tax debt:													
Improve debt collection administrative procedures .....	.....	77	115	119	124	109	113	118	122	127	132	544	1,156
Increase levy authority to 100 percent for vendor payments .....	.....	61	87	86	90	78	82	85	88	92	96	402	845
Subtotal, levy payments to Federal contractors with delinquent tax debt. ⁶ .....	.....	138	202	205	214	187	195	203	210	219	228	946	2,001
Implement program integrity allocation adjustments - IRS ⁶ .....	.....	290	1,119	2,348	3,864	5,729	1,460	617	462	371	380	13,350	16,640
Total, other initiatives .....	.....	428	1,316	2,089	3,908	5,595	978	76	-24	-849	-90	13,336	13,427
Total, effect of proposals	-28,005	-41,270	10,095	73,107	83,613	92,008	91,040	92,464	96,179	100,124	106,942	217,553	704,302
HEALTH REFORM RESERVE FUND													
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
Limit the tax rate at which itemized deductions reduce tax liability to 28 percent .....	.....	.....	9,241	24,945	27,687	29,647	31,386	33,091	34,911	36,873	38,878	91,520	266,659
Reduce the tax gap/improve compliance and make reforms to close tax loopholes:													
Reduce the tax gap/improve compliance:													
Expand information reporting .....	.....	139	758	948	1,054	1,108	1,173	1,222	1,282	1,347	1,414	4,007	10,445
Improve compliance by businesses .....	.....	3	5	5	5	6	6	6	7	7	7	24	57
Strengthen tax administration .....	.....	8	13	15	17	17	19	20	22	22	22	70	175
Expand penalties .....	.....	1	2	2	2	4	4	4	5	6	6	11	36
Make reforms to close tax loopholes:													
Financial institutions and products	59	254	383	341	367	395	425	455	483	512	542	1,740	4,157
Insurance companies and products .....	.....	318	758	1,156	1,302	1,370	1,422	1,492	1,566	1,638	1,707	4,904	12,729
Tax accounting methods .....	.....	.....	27	984	1,914	1,196	1,207	268	279	292	304	4,121	6,471
Modify estate and gift tax valuation discounts and other reforms .....	.....	736	1,615	1,837	2,065	2,303	2,556	2,822	3,103	3,403	3,718	8,556	24,158
Subtotal, reduce the tax gap/improve compliance and make reforms to close tax loopholes	59	1,459	3,561	5,288	6,726	6,399	6,812	6,289	6,747	7,227	7,720	23,433	58,228
Modify alternative fuel mixture credit ³	533	702	.....	.....	.....	.....	.....	.....	.....	.....	.....	702	702
Total, health reform reserve fund	592	2,161	12,802	30,233	34,413	36,046	38,198	39,380	41,658	44,100	46,598	115,655	325,589

Table 17-3. EFFECT OF PROPOSALS—Continued
(in millions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
¹ This proposal affects both receipts and outlays. Both effects are shown here. The outlay effects included in these estimates are listed below:													
Provide making work pay tax credit	703	20,749	20,448	20,214	20,194	20,267	20,204	20,239	20,295	62,114	163,313
Expand earned income tax credit	2,599	2,536	2,510	2,547	2,596	2,644	2,697	2,755	7,645	20,884
Expand refundability of the child tax credit	8,822	8,707	8,674	8,766	8,859	8,944	9,039	9,142	26,203	70,953
Expand saver's credit and automatic enrollment in IRAs	89	748	835	837	859	890	913	932	956	2,509	7,059
Provide American opportunity tax credit	1,860	1,939	2,018	2,162	2,335	2,434	2,489	2,673	5,817	17,910
Continue certain expiring provisions through calendar year 2010	62	21	.....	.....	.....	.....	.....	.....	.....	.....	83	83
Eliminate advanced earned income tax credit	-125	-76	-77	-78	-81	-83	-85	-87	-89	-91	-437	-872
Total, outlay effects of receipt proposals	-63	737	34,701	34,387	34,172	34,445	34,862	35,052	35,307	35,730	103,934	279,330

² The Budget assumes that some aviation excise taxes are modified and replaced with direct user charges. The estimated cost of reducing the excise taxes is reflected here. The user charges would be considered discretionary and offset the discretionary budget authority and outlays.

³ Net of income offsets.

⁴ This provision is estimated to have zero receipt effect under the Administration's current projections for energy prices.

⁵ Shown here are those proceeds from auctioning emission allowances that are reserved for clean energy technology initiatives and to compensate families through the making work pay tax credit. These proceeds are classified as receipts, though they could alternatively be considered offsets to outlays. Any additional revenue will be used to compensate vulnerable households, communities and businesses for increased energy costs.

⁶ The receipt effect of a spending initiative.

TABLE 17-4. RECEIPTS BY SOURCE
(In millions of dollars)

Source	2008 Actual	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Individual income taxes:												
Federal funds	1,145,747	953,075	1,050,455	1,210,363	1,372,339	1,483,646	1,586,447	1,684,023	1,780,366	1,883,374	1,992,023	2,104,583
Legislative proposal, not subject to PAYGO .....	.....	.....	290	1,119	2,348	3,864	5,729	1,460	617	462	371	380
Legislative proposal, subject to PAYGO .....	.....	-69	686	-81	6,507	13,370	20,496	25,313	28,346	32,271	36,542	41,665
Total, Individual income taxes	1,145,747	953,006	1,051,431	1,211,401	1,381,194	1,500,880	1,612,672	1,710,796	1,809,329	1,916,107	2,028,936	2,146,628
Corporation income taxes:												
Federal funds:												
Federal funds	304,346	174,687	220,547	288,363	347,295	384,914	388,772	419,872	438,018	457,123	480,507	504,327
Legislative proposal, subject to PAYGO .....	.....	-27,929	-41,614	16,654	29,499	31,061	30,270	29,190	28,611	28,610	29,208	30,415
Total, Federal funds	304,346	146,758	178,933	305,017	376,794	415,975	419,042	449,062	466,629	485,733	509,715	534,742
Trust funds:												
Legislative proposal, subject to PAYGO .....	.....	.....	.....	754	1,024	1,130	1,196	1,247	1,297	1,352	1,419	1,490
Total, Corporation income taxes	304,346	146,758	178,933	305,771	377,818	417,105	420,238	450,309	467,926	487,085	511,134	536,232
Social insurance and retirement receipts (trust funds):												
Employment and general retirement:												
Old-age survivors insurance (off-budget)	562,519	559,822	584,103	614,077	646,954	686,543	720,596	751,425	791,658	823,410	859,102	896,401
Legislative proposal, subject to PAYGO .....	.....	.....	-46	625	686	727	754	805	831	863	1,005	956
Disability insurance (off-budget)	95,527	95,048	99,174	104,277	109,860	116,583	122,365	127,601	134,432	139,824	145,886	152,219
Legislative proposal, subject to PAYGO .....	.....	.....	-8	106	116	123	128	136	141	146	171	162
Hospital insurance	193,980	191,535	196,163	209,902	222,265	235,436	247,275	257,893	271,710	282,687	295,076	307,986
Legislative proposal, subject to PAYGO .....	.....	.....	-13	173	188	200	207	220	229	236	275	262
Railroad retirement:												
Social security equivalent account	2,029	1,962	1,958	1,996	2,050	2,093	2,134	2,171	2,211	2,251	2,293	2,339
Rail pension & supplemental annuity	2,404	2,359	2,338	2,357	2,566	2,790	2,878	2,933	2,982	3,037	3,231	3,471
Total, Employment and general retirement	856,459	850,726	883,669	933,513	984,685	1,044,495	1,096,337	1,143,184	1,204,194	1,252,454	1,307,039	1,363,796
On-budget	198,413	195,856	200,446	214,428	227,069	240,519	252,494	263,217	277,132	288,211	300,875	314,058
Off-budget	658,046	654,870	683,223	719,085	757,616	803,976	843,843	879,967	927,062	964,243	1,006,164	1,049,738
Unemployment insurance:												
Deposits by States ¹	32,217	36,721	44,897	50,584	55,570	56,775	55,878	54,833	51,147	50,247	50,820	53,911
Legislative proposal, not subject to PAYGO .....	.....	.....	.....	2	-7	-53	-118	-234	-234	-194	-357	-141
Legislative proposal, subject to PAYGO .....	.....	.....	.....	40	43	28	27	26	24	23	23	24
Federal unemployment receipts ¹	7,216	7,217	6,068	5,876	7,604	9,419	10,660	11,159	8,834	8,712	7,560	8,445
Legislative proposal, not subject to PAYGO .....	.....	.....	.....	.....	.....	.....	87	.....	.....	-46	-944	-399
Legislative proposal, subject to PAYGO .....	.....	.....	1,296	530	.....	.....	.....	.....	.....	.....	.....	.....
Railroad unemployment receipts ¹	94	92	103	130	153	138	89	75	111	143	133	106
Total, Unemployment insurance	39,527	44,030	52,364	57,162	63,363	66,307	66,623	65,859	59,882	58,885	57,235	61,946
Other retirement:												
Federal employees retirement-employee share	4,125	4,435	4,311	4,132	3,940	3,771	3,630	3,489	3,391	3,311	3,255	3,213
Non-Federal employees retirement ²	44	26	26	23	20	19	19	19	19	19	19	19
Total, Other retirement	4,169	4,461	4,337	4,155	3,960	3,790	3,649	3,508	3,410	3,330	3,274	3,232
Total, Social insurance and retirement receipts	900,155	899,217	940,370	994,830	1,052,008	1,114,592	1,166,609	1,212,551	1,267,486	1,314,669	1,367,548	1,428,974
On-budget	242,109	244,347	257,147	275,745	294,392	310,616	322,766	332,584	340,424	350,426	361,384	379,236
Off-budget	658,046	654,870	683,223	719,085	757,616	803,976	843,843	879,967	927,062	964,243	1,006,164	1,049,738

TABLE 17-4. RECEIPTS BY SOURCE—CONTINUED
(In millions of dollars)

Source	2008 Actual	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Excise taxes:												
Federal funds:												
Alcohol taxes	9,283	9,091	9,699	9,808	9,815	9,764	9,794	9,837	9,878	9,913	10,030	10,121
Legislative proposal, subject to PAYGO .....	.....	.....	-62	-21	.....	.....	.....	.....	.....	.....	.....	.....
Tobacco taxes	7,639	12,709	18,613	18,381	18,173	17,972	17,812	17,632	17,467	17,301	17,132	16,928
Transportation fuels tax	-5,127	-5,981	-5,647	-1,580	213	224	228	227	230	230	231	231
Legislative proposal, subject to PAYGO .....	.....	.....	-1,094	-234	.....	.....	.....	.....	.....	.....	.....	.....
Telephone and teletype services	1,048	1,020	705	439	273	153	116	109	104	102	101	101
Other Federal fund excise taxes	2,883	-703	242	1,376	1,437	1,509	1,577	1,644	1,715	1,780	1,847	1,913
Legislative proposal, subject to PAYGO .....	.....	.....	-89	471	500	500	600	600	600	600	700	700
Total, Federal funds	15,726	16,136	22,367	28,640	30,411	30,122	30,127	30,049	29,994	29,926	30,041	29,994
Trust funds:												
Highway	36,385	35,998	37,535	38,236	38,954	39,880	40,620	41,431	42,153	42,519	42,843	43,256
Airport and airway	11,992	11,282	11,697	12,414	13,424	14,490	15,345	16,062	16,775	17,511	18,261	18,986
Legislative proposal, subject to PAYGO .....	.....	.....	.....	-9,634	-10,131	-10,639	-11,013	-11,411	-11,824	-12,254	-12,701	-13,165
Sport fish restoration and boating safety	595	574	587	602	618	633	648	664	681	701	718	736
Tobacco assessments	1,140	960	960	960	960	960	960	960	960	960	960	960
Black lung disability insurance	653	371	670	678	687	691	695	701	711	714	722	461
Inland waterway	88	84	86	87	88	90	90	91	92	92	94	96
Legislative proposal, subject to PAYGO .....	.....	.....	.....	.....	-44	-45	-90	-91	-92	-92	-94	-96
Hazardous substance superfund (Legislative proposal, subject to PAYGO) .....	.....	.....	.....	591	810	834	852	877	910	939	972	1,014
Oil spill liability	333	463	412	373	352	339	332	335	346	388	415	439
Vaccine injury compensation	251	228	238	243	248	250	253	256	259	261	264	266
Leaking under ground storage tank	171	184	193	194	197	200	202	204	206	209	211	210
Total, Trust funds	51,608	50,144	52,378	44,744	46,163	47,683	48,894	50,079	51,177	51,948	52,665	53,163
Total, Excise taxes	67,334	66,280	74,745	73,384	76,574	77,805	79,021	80,128	81,171	81,874	82,706	83,157
Estate and gift taxes:												
Federal funds:												
Federal funds	28,844	26,341	19,809	21,189	22,488	24,221	25,045	26,671	28,549	30,537	32,688	35,002
Legislative proposal, subject to PAYGO .....	.....	.....	-1	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total, Estate and gift taxes	28,844	26,341	19,808	21,189	22,488	24,221	25,045	26,671	28,549	30,537	32,688	35,002
Customs duties:												
Federal funds:												
Federal funds	26,029	22,802	23,515	27,493	32,118	35,733	38,530	41,239	43,761	45,535	46,849	48,206
Legislative proposal, subject to PAYGO .....	.....	-7	-753	-324	-6	-11	-17	-24	-34	-41	-47	-50
Total, Federal funds	26,029	22,795	22,762	27,169	32,112	35,722	38,513	41,215	43,727	45,494	46,802	48,156
Trust funds:												
Trust funds	1,539	1,147	1,149	1,341	1,537	1,683	1,812	1,945	2,065	2,156	2,244	2,349
Total, Customs duties	27,568	23,942	23,911	28,510	33,649	37,405	40,325	43,160	45,792	47,650	49,046	50,505
Miscellaneous receipts:												
Federal funds:												
Miscellaneous taxes	559	563	567	572	577	582	587	592	598	604	611	616
Deposit of earnings, Federal Reserve System	33,598	24,894	27,533	33,961	38,209	39,148	41,713	43,570	45,214	46,938	48,890	50,735
Fees for permits and regulatory and judicial services	10,864	10,933	11,330	11,687	12,512	12,441	12,790	13,081	13,233	13,235	13,206	13,193
Legislative proposal, subject to PAYGO .....	.....	.....	.....	-39	-493	-150	-317	-511	-576	-522	-416	-285
Fines, penalties, and forfeitures	4,201	3,953	3,248	3,356	3,356	3,356	3,356	3,356	3,356	3,356	3,356	3,356
Gifts and contributions	13	3	3	3	3	3	3	3	3	3	3	3
Refunds and recoveries	-47	-42	-75	-106	-80	-51	-33	-32	-32	-32	-32	-32
Total, Federal funds	49,188	40,304	42,606	49,434	54,084	55,329	58,099	60,059	61,796	63,582	65,618	67,586

TABLE 17-4. RECEIPTS BY SOURCE—CONTINUED
(In millions of dollars)

Source	2008 Actual	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Trust funds:												
United Mine Workers of America, combined benefit fund	76	69	47	28	26	23	21	19	17	15	13	12
Defense cooperation	4	35	35	35	35	35	35	35	35	35	35	35
Inland waterway (Legislative proposal, subject to PAYGO) .....	.....	.....	75	100	100	112	156	224	224	252	252	252
Fines, penalties, and forfeitures	742	456	455	457	460	461	459	461	461	462	462	462
Gifts and contributions	314	240	223	213	218	218	205	206	206	207	208	209
Refunds and recoveries	8	6	6	6	6	6	6	6	6	6	6	6
Total, Trust funds	1,144	806	841	839	845	855	882	951	949	977	976	976
Total, Miscellaneous receipts	50,332	41,110	43,447	50,273	54,929	56,184	58,981	61,010	62,745	64,559	66,594	68,562
Climate revenues (Legislative proposal, subject to PAYGO) 3 .....	.....	.....	.....	.....	76,668	76,949	77,233	77,658	78,256	78,626	79,052	79,488
Total, budget receipts	2,524,326	2,156,654	2,332,645	2,685,358	3,075,328	3,305,141	3,480,124	3,662,283	3,841,254	4,021,107	4,217,704	4,428,548
On-budget	1,866,280	1,501,784	1,649,422	1,966,273	2,317,712	2,501,165	2,636,281	2,782,316	2,914,192	3,056,864	3,211,540	3,378,810
Off-budget	658,046	654,870	683,223	719,085	757,616	803,976	843,843	879,967	927,062	964,243	1,006,164	1,049,738

¹ Deposits by States cover the benefit part of the program. Federal unemployment receipts cover administrative costs at both the Federal and State levels. Railroad unemployment receipts cover both the benefits and administrative costs of the program for the railroads.

² Represents employer and employee contributions to the civil service retirement and disability fund for covered employees of Government-sponsored, privately owned enterprises and the District of Columbia municipal government.

³ Shown here are those proceeds from auctioning emission allowances that are reserved for clean energy technology initiatives and to compensate families through the making work pay tax credit. These proceeds are classified as receipts, though they could alternatively be considered offsets to outlays. Any additional revenue will be used to compensate vulnerable households, communities and businesses for increased energy costs.

18. USER CHARGES AND OTHER COLLECTIONS

In addition to collecting taxes and other receipts by exercising its sovereign power, as discussed in Chapter 17 of this volume, “Federal Receipts,” the Federal Government collects income from the public from market-oriented activities and regulatory activities. These collections are classified as user charges or user fees¹, and include the sale of postage stamps and electricity, charges for admission to national parks, premiums for deposit insurance, and proceeds from the sale of assets, such as the right to extract oil from the Outer Continental Shelf.

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 are classified as “offsetting collections” or “offsetting receipts,” as shown in Table 18–1. The budget refers to these amounts as “offsetting” because they are subtracted from gross outlays rather than added to taxes on the receipts side of the budget. The purpose of this treatment is to produce budget totals for receipts, outlays, and budget authority that reflect the amount of resources allocated by the Government directly, through collective political choice, rather than through the market.² As also shown in Table

18–1, some user charges are classified as governmental receipts and are on the receipts side of the budget.

Offsetting collections are credited to expenditure accounts and offsetting receipts are credited to receipt accounts. Offsetting collections are usually authorized to be spent for the purposes of the account without further action by the Congress. Offsetting receipts may or may not be designated for a specific purpose, depending on the legislation that authorizes them. When designated for a particular purpose, the authorizing legislation may either authorize the offsetting receipts to be spent without further action by the Congress or require the offsetting receipts to be appropriated in annual appropriations acts before being spent. When not designated for a particular purpose, offsetting receipts are credited to the general fund and cannot be spent without further action by the Congress.

Offsetting collections and offsetting receipts include most user charges as well as some amounts that are not user charges, such as interest income. As shown in Tables 18–1 and 18–2, total offsetting collections and offsetting receipts from the public are estimated to be \$608.9 billion in 2010, and total user charges are estimated to be \$366.4 billion.

The first section of this chapter discusses user charges and the Administration’s user charge proposals. The second section displays more information on offsetting collections and offsetting receipts.

¹ The term “user charge” is used in OMB Circular No. A–11, “Preparation, Submission, and Execution of the Budget;” OMB Circular No. A–25, “User Charges;” and Chapter 25 of the volume, “The Budget System and 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. The term “user charge” is generally used throughout this chapter and has the same meaning as the term “user fee.”

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 26 of this volume: “The Budget System and Concepts.”

Table 18–1. TOTAL USER CHARGES
(in billions)

	Actual 2008	Estimate	
		2009	2010
Total user charges:			
Offsetting collections and offsetting receipts from the public	243.6	344.5	362.9
Governmental receipts	3.6	3.1	3.4
Total, User charges	247.3	347.6	366.4

USER CHARGES

I. Introduction and Background

The Federal Government often assesses user charges on those who benefit directly from a particular activity or those subject to regulation. Based on the definition used in this chapter, Table 18–3 shows that user charges were \$247.3 billion in 2008, and are estimated to increase to \$347.6 billion in 2009 and \$366.4 billion in 2010, and average \$381.0 billion per year from 2011–19, including the user charge proposals that are shown in Table 18–4. Table 18–4 shows that the Administration’s user charge proposals would decrease user charges by an estimated \$14.7 billion in 2010 (because of deposit and credit union share insurance proposals, discussed below) and increase user charges by an average of \$18.2 billion per year from 2011–19.

Definition. User charges are fees, charges, and assessments levied on individuals or organizations directly benefiting from or subject to regulation by a Government program or activity. In addition, the payers of the charge must be limited to those benefiting from or subject to regulation by the program or activity, and may not include the general public. Generally, user charges do not apply to 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 include charges for the sale of postal services (e.g., stamps) and electricity sold by the Tennessee Valley Authority, proceeds from the sale of goods by defense commissaries, payments for Medicare voluntary supplemental medical insurance, life insurance premiums for veterans, recreation fees for parks, and proceeds from the sale of assets (e.g., property, plant, and equipment) and natural resources (e.g., timber, oil, and minerals).

Examples of regulatory and licensing user charges include charges for regulating the nuclear energy industry, bankruptcy filing fees, immigration fees, food inspection fees, passport fees, and patent and trademark fees.

User charges do not include all offsetting collections and offsetting receipts from the public, such as repayments received from credit programs, interest or dividends, payments from one part of the Federal Government to another or cost-sharing contributions. In addition, user charges do not include dedicated taxes (such as taxes paid to social insurance programs or excise taxes on gasoline), or customs duties, fines, penalties, or forfeitures.

Alternative definitions. The definition used in this chapter is useful because it is similar to 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. The user charge definition could be broader than the one used in this chapter by including beneficiary- or liability-based excise taxes, such as gasoline taxes.³

What is the purpose of user charges? User charges are intended to improve the efficiency and equity of certain Government activities. User charges reduce the

³ 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. In addition to gasoline taxes, examples of beneficiary-based taxes include taxes on airline tickets, which finance air traffic control activities and airports. 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 18–2. GROSS OUTLAYS, USER CHARGES, OTHER OFFSETTING COLLECTIONS, AND OFFSETTING RECEIPTS FROM THE PUBLIC, AND NET OUTLAYS
(in billions)

	Actual	Estimate	
	2008	2009	2010
Gross outlays	3,316.3	4,608.3	4,200.0
Offsetting collections and offsetting receipts from the public:			
User charges	243.6	344.5	362.9
Other	89.8	265.9	246.0
Subtotal, offsetting collections and offsetting receipts from the public	333.4	610.5	608.9
Net outlays	2,982.9	3,997.8	3,591.1

TABLE 18-3. TOTAL USER CHARGE COLLECTIONS
(in millions of dollars)

	Actual 2008	Estimates										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Receipts												
Judicial Branch: Filing fees, U. S. courts	224	232	276	285	301	306	316	314	330	330	330	341
Department of Agriculture: Agricultural quarantine inspection fees	541	484	488	516	546	578	611	647	684	724	766	810
Department of the Interior: Abandoned Mine Reclamation Fund	286	274	276	283	286	253	255	255	257	258	261	261
Department of State: Immigration, passport, and consular fees	738	655	830	870	910	932	955	977	1,000	1,022	1,045	1,067
Department of the Treasury: Premiums for Terrorism Insurance Program .....	.....	.....	74	270	867	637	823	965	942	782	588	397
Corps of Engineers: Harbor maintenance fees	1,467	1,089	1,092	1,281	1,473	1,616	1,742	1,873	1,990	2,078	2,165	2,269
Other	349	330	413	404	-88	274	112	-10	-69	21	132	270
Subtotal, receipts	3,605	3,064	3,449	3,909	4,295	4,596	4,814	5,021	5,134	5,215	5,287	5,415
Offsetting Collections and Offsetting Receipts from the Public												
Discretionary:												
Department of Agriculture: Food safety inspection and other charges	344	319	322	325	328	331	336	343	351	360	367	377
Department of Commerce: Patent and trademark, weather services, and other charges	1,998	2,039	2,071	2,167	2,290	2,408	2,522	2,670	2,825	2,990	3,163	3,350
Department of Defense: Commissary and other charges	10,797	10,517	11,490	10,401	10,415	10,443	10,477	10,513	10,551	10,591	10,630	10,670
Department of Energy: Federal Energy Regulation Commission, power marketing, and other charges	1,223	1,624	1,841	1,866	1,882	1,899	1,917	1,968	2,016	2,069	2,124	2,181
Department of Health and Human Services: Food and Drug Administration, Centers for Medicare and Medicaid Services, and other charges	1,743	1,247	1,451	1,465	1,479	1,494	1,509	1,545	1,580	1,618	1,655	1,696
Department of Homeland Security: Border and transportation security, and other charges	2,202	2,482	2,411	2,436	3,299	4,197	5,130	5,241	5,357	5,475	5,595	5,719
Department of the Interior: Minerals Management Service and other charges	873	842	740	806	820	809	830	853	852	886	909	909
Department of Justice: Charges for bankruptcy oversight and other charges	394	354	269	227	231	235	239	244	248	253	257	262
Department of State: Passport and other charges	1,807	2,446	1,845	1,864	1,882	1,901	1,920	1,966	2,012	2,060	2,111	2,161
Department of Transportation: Pipeline safety, aviation and other charges	180	211	223	9,859	10,359	10,869	11,246	11,648	12,066	12,503	12,955	13,427
Department of the Treasury: Sale of commemorative coins and other charges	2,588	2,736	2,753	2,798	2,826	2,854	2,882	2,950	3,019	3,089	3,161	3,237
Department of Veterans Affairs: Medical care and other charges	2,598	2,686	3,036	3,070	3,134	3,187	3,370	3,480	3,594	3,711	3,833	3,959
General Services Administration: Federal Buildings Fund and other charges	124	37	31	31	32	32	32	33	34	35	35	36
Social Security Administration: State supplemental fees for Supplemental Security Income	139	145	165	187	167	192	201	211	241	233	224	255
Federal Communications Commission: Regulatory fees	410	426	420	424	429	433	436	448	458	469	480	493
Federal Trade Commission: Regulatory fees	135	189	129	130	132	133	134	137	141	144	148	151
Nuclear Regulatory Commission: Regulatory fees	764	871	887	895	905	914	923	944	967	990	1,014	1,040
Securities and Exchange Commission: Regulatory fees	984	1,332	1,520	1,755	1,757	1,759	1,760	1,762	1,764	1,766	1,775	1,777
All other agencies, discretionary user charges	287	74	66	66	67	63	60	58	60	61	63	64
Subtotal, discretionary user charges	29,590	30,577	31,670	40,772	42,434	44,153	45,924	47,014	48,136	49,303	50,499	51,764
Mandatory:												
Department of Agriculture: Crop insurance and other charges	2,869	3,808	3,685	3,538	7,455	3,630	3,740	3,796	3,837	3,897	3,951	4,004
Department of Defense: Commissary surcharge and other charges	2,327	1,898	1,898	1,858	1,831	1,831	1,769	1,732	1,717	1,717	1,704	1,704
Department of Energy: Proceeds from the sale of energy, nuclear waste disposal, and other charges	4,303	4,853	5,181	5,636	5,466	5,683	5,740	5,792	5,843	5,898	5,952	6,005
Department of Health and Human Services: Medicare Part B and Part D insurance premiums and other charges	59,435	62,333	64,868	69,359	75,789	83,430	91,145	95,521	101,451	109,110	117,687	126,945
Department of Homeland Security: Customs, immigration, and other charges	8,609	6,931	9,082	7,885	7,983	8,016	8,040	8,057	7,928	7,883	5,521	4,403
Department of the Interior: Recreation and other charges	6,187	5,191	5,613	6,221	6,604	6,885	7,214	7,956	7,708	8,014	8,196	8,672
Department of Justice: Federal Prison Commissary fees and other charges	536	554	564	606	620	635	650	665	681	697	714	731
Department of Labor: Insurance premiums to guaranty private pensions and other charges	3,753	4,616	5,492	7,946	9,945	10,523	10,683	10,954	11,270	11,671	12,083	12,991
Department of the Treasury: Bank regulation and other charges	1,170	1,173	1,164	1,289	1,334	1,382	1,433	1,486	1,547	1,603	1,666	1,732
Department of Veterans Affairs: Veterans life insurance and other charges	2,358	2,241	1,850	1,691	1,670	1,693	1,677	1,652	1,631	1,606	1,588	1,572
Office of Personnel Management: Federal employee health and life insurance fees	12,110	13,061	14,101	15,153	16,075	17,173	18,348	19,575	20,934	22,318	23,839	25,470
Federal Deposit Insurance Corporation: Deposit insurance fees and recoveries	2,922	95,242	119,489	108,011	99,872	85,789	76,796	74,817	33,872	22,496	19,626	17,869
National Credit Union Administration: Credit union share insurance and other fees	551	1,062	1,991	2,439	2,884	3,235	3,540	3,844	2,336	1,475	1,427	1,811
Postal Service: Fees for postal services	75,129	73,073	73,275	74,515	77,706	80,338	82,025	83,747	85,506	87,301	89,135	91,007
Tennessee Valley Authority: Proceeds from the sale of energy	10,307	13,442	13,754	12,933	12,949	12,892	13,519	13,971	14,260	14,759	14,936	15,344
Undistributed Offsetting Receipts												
Department of Commerce: Digital Television Transition and Public Safety Fund	1,779	17,091	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Federal Communications Commission: Spectrum auction receipts .....	.....	100	850	175	225	200	200	200	200	200	200	200
Outer Continental Shelf receipts and other collections	18,285	6,309	7,331	9,127	10,793	10,810	10,527	10,427	10,536	10,311	10,196	10,085
All other agencies, mandatory user charges	1,427	965	1,087	1,104	1,111	1,157	1,195	1,231	1,288	1,315	1,346	1,405
Subtotal, mandatory user charges	214,057	313,943	331,275	329,486	340,312	335,302	338,241	345,423	312,545	312,271	319,767	331,550
Subtotal, user charges that are offsetting collections and offsetting receipts from the public	243,647	344,520	362,945	370,258	382,746	379,455	384,165	392,437	360,681	361,574	370,266	383,314
Total, User charges	247,252	347,584	366,394	374,167	387,041	384,051	388,979	397,458	365,815	366,789	375,553	388,729

burden on taxpayers by financing activities that benefit a relatively limited number of people and by financing regulatory activities.

User charges that are set to cover the costs of production of goods and services can provide efficiency in the allocation of resources within the economy. Such charges allocate goods and services to those who value them the most and signal 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 allowing those who do not benefit from an activity to not 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 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. Where a fee may be appropriate to finance all or part of an activity, some consideration must be given to the ease of administering the fee.

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 (i.e., leasing or selling goods, services, or resources), market price is generally the basis for establish-

ing the fee.⁴ 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 Table 18-1, 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 \$3.4 billion in 2010 of user charges are classified on the receipts side and are included in the totals described in Chapter 17, "Federal Receipts." They are classified as receipts because they are regulatory charges collected by the Federal Government by the exercise of its sovereign powers. Examples include filing fees in the United States courts, agricultural quarantine inspection fees, and passport fees. These regulatory charges are unlike those user charges that are classified as offsets to outlays, which are normally for identifiable goods or services that benefit primarily the party paying the charge and for which alternatives may exist in the private sector or State and local government sectors.

The remaining user charges, an estimated \$362.9 billion in 2010, are classified as offsetting collections and offsetting receipts on the spending side of the budget. Some of these are collected by the Federal Government by the exercise of its sovereign powers and conceptually would appear on the receipts side of the budget, but are required by law to be classified on the spending side as offsetting collections or offsetting receipts. Examples of these charges include immigration examination fees, U. S. customs processing fees, and nuclear regulatory fees.

As shown in Table 18-5, an estimated \$271.2 billion of user charges for 2010 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 \$91.7 billion of user charges for 2010 will be deposited in offsetting receipt accounts and will be available to be spent only according to the legislation that established the charges.

As a further classification, the accompanying Tables 18-3 and 18-4 identify the user charges as discretionary or mandatory. These classifications are terms from the Budget Enforcement Act of 1990 as amended and are used frequently in the analysis of the budget. "Discretionary" refers to user charges generally controlled through annual appropriations acts and 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 classifications are discussed further in this volume in Chapter 25, "The Budget System and Concepts."

⁴ Policies for setting user charges are promulgated in OMB Circular No. A-25: "User Charges" (July 8, 1993).

II. TOTAL USER CHARGES

As shown in Table 18–3, total user charge collections (including those proposed in this Budget) are estimated to be \$366.4 billion in 2010 and average \$381.0 billion from 2011–19. Collections by the Postal Service and for Medicare premiums are the largest user charge collections, accounting for more than half of total user charge collections in 2008 and more than 40 percent over the coming decade. Collections by the Federal Deposit Insurance

Corporation (FDIC) are expected to increase significantly from 2008 to 2009 as a result of bank failures, and the subsequent takeover and sale of the banks' assets by the FDIC. Under the Administration's policies, collections by the FDIC for deposit insurance premiums are projected to increase beginning in 2011, as the insurance fund is replenished after the expected end of the current economic downturn.

III. USER CHARGE PROPOSALS

As shown in Table 18–4, the Administration is proposing new, increased and, in the case of deposit and credit union share insurance, modified user charges that would, in the aggregate, decrease collections by an estimated \$14.7 billion in 2010 and increase collections by an average of \$ 18.2 billion per year from 2011–19. These amounts are offsetting collections, offsetting receipts and governmental receipts only; they do not include related spending.

A. Discretionary User Charge Proposals

1. Offsetting collections

Department of Health and Human Services: Food and Drug Administration (FDA)

The Budget includes a number of FDA proposals, which are discussed below, and reflects an exact estimate for increased collections for these proposals for 2010 only. The precise amount of collections for the various proposals for each subsequent year will be negotiated with Congress and other interested parties during FDA's authorization process.

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.

Generic biologics user charges. The Administration proposes to establish a new regulatory pathway for FDA to approve follow-on biologics, which are generic versions of therapies that contain proteins derived from living cells. The Administration proposal would accelerate the production of affordable generic biologic drugs, protect patient safety, promote innovation, and include a financing structure to cover the costs of this activity.

Reinspection and export certification fees. FDA conducts post-market inspections of manufacturers of food, human drugs, biologics, animal drugs, animal feed, and medical drugs to assess their compliance with Good

Manufacturing Practice requirements. The Budget includes a proposal to enable FDA to assess fees for follow-up re-inspections that are required when violations of Good Manufacturing Practices are found during initial inspections. In addition, FDA collects user charges for the issuance of export certifications for human drugs, animal drugs, and medical devices. The Budget includes a proposal to expand FDA's authority to collect fees for issuing export certifications for food and animal feed.

Food inspection and food facility registration fees. The Budget includes two new user charges designed to improve and support additional inspections and enforcement activities, and to establish and maintain a food facility registration system.

Department of Homeland Security

Aviation passenger security fee: 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 increase by \$1.00 per year the aviation passenger security fee beginning in fiscal year 2012 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 more closely allocating the cost of aviation security services to 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 86 percent of the discretionary costs of the Transportation Security Administration's Aviation Security Program in fiscal year 2014, compared to approximately 40 percent currently.

Department of the Interior

Bureau of Land Management (BLM): Onshore oil and gas permit fees. The 2005 Energy Policy Act prohibits BLM from implementing new user charges for oil and gas permit processing, and requires that existing rental receipts, which are classified as mandatory, make up for the lost program funding. The Administration proposes to perma-

Table 18-4. USER CHARGE PROPOSALS IN THE FY 2010 BUDGET ¹
(estimated collections in millions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2014	2010-2019
OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS													
DISCRETIONARY:													
1. <i>Offsetting collections</i>													
Department of Health and Human Services:													
Food and Drug Administration:													
Generic drug review activities fees	--	36	**	**	**	**	**	**	**	**	**	**	**
Generic biologics user charges	--	**	**	**	**	**	**	**	**	**	**	**	**
Reinspection and export certification fees	--	30	**	**	**	**	**	**	**	**	**	**	**
Food inspection and food facility registration fees	--	75	**	**	**	**	**	**	**	**	**	**	**
Department of Homeland Security:													
Aviation passenger security fee	--	---	---	840	1,713	2,621	2,673	2,727	2,781	2,837	2,894	5,174	19,086
Department of the Interior:													
Bureau of Land Management: Onshore oil and gas permit fees	--	46	46	46	46	46	46	46	46	46	46	228	455
Minerals Management Service: Outer Continental Shelf inspection fees	--	10	10	10	10	10	10	10	10	10	10	50	100
Department-wide: Working Capital Fund fee	--	*	*	*	*	*	*	*	*	*	*	*	1
Department of Transportation:													
Federal Aviation Administration: Air traffic user charge	--	---	9,634	10,131	10,639	11,013	11,410	11,824	12,254	12,700	13,165	41,417	102,770
Department of the Treasury:													
Alcohol and Tobacco Tax and Trade Bureau regulatory fee	--	80	98	99	100	101	102	103	103	104	105	478	995
2. <i>Offsetting receipts</i>													
Department of Energy:													
Environmental cleanup fee	--	200	203	207	212	216	221	225	230	235	240	1,038	2,189
Subtotal, discretionary user charge proposals	--	476	9,991	11,333	12,720	14,007	14,462	14,935	15,424	15,932	16,460	48,385	125,596
MANDATORY:													
1. <i>Offsetting collections</i>													
Department of Health and Human Services:													
Centers for Medicare and Medicaid Services: Survey and certification user charges .	--	9	46	72	101	106	108	111	114	117	121	335	906
Federal Deposit Insurance Corporation:													
Deposit insurance premium reprieve proposal	-7,500	-10,763	-6,833	-2,392	2,731	8,504	14,330	-7	15	-5	2	-8,753	5,582
National Credit Union Administration:													
Share insurance premium reprieve proposal	--	-5,166	170	461	901	1,481	2,064	770	35	37	39	-2,153	793
2. <i>Offsetting receipts</i>													
Department of Agriculture:													
Food Safety and Inspection Service user charges	--	4	4	4	4	4	4	5	5	5	5	20	44
Grain, Inspection, Packers, and Stockyards Administration user charges	--	27	30	30	31	31	31	32	32	32	33	149	309
Animal and Plant Health Inspection Service user charges	--	20	27	27	28	29	30	31	32	33	34	131	291
Crop insurance subsidies	--	---	429	427	595	599	610	620	627	634	642	2,050	5,184
Department of Homeland Security:													
Customs and Border Patrol inspection fees	--	124	124	124	124	124	124	124	124	71	---	620	1,063
Department of the Interior:													
Fee on nonproducing Gulf of Mexico oil and gas leases	--	122	121	115	107	109	112	114	116	119	121	574	1,156
Environmental Protection Agency:													
Pesticide user charges	--	48	48	47	59	61	61	63	63	65	65	263	580
Pre-manufacture notice user charges	--	4	8	8	8	8	8	8	8	8	8	36	76
Federal Communications Commission:													
Spectrum license fee authority	50	200	300	425	550	550	550	550	550	550	550	2,025	4,775
Extend spectrum auction authority	---	---	---	---	200	200	200	200	200	200	200	400	1,400
Domestic satellite spectrum auctions	---	100	75	25	---	---	---	---	---	---	---	200	200
Subtotal, mandatory user charge proposals	-7,450	-15,270	-5,451	-627	5,439	11,806	18,232	2,621	1,921	1,867	1,820	-4,103	22,359
Subtotal, user charge proposals that are offsetting collections and offsetting receipts.....	-7,450	-14,794	4,539	10,706	18,158	25,813	32,694	17,555	17,345	17,799	18,280	44,281	148,094
GOVERNMENTAL RECEIPTS													
Corps of Engineers - Civil Works:													
Preserving cost-sharing of inland waterways capital costs	---	75	100	68	79	89	156	155	183	182	180	411	1,267
Subtotal, governmental receipts user charge proposals	---	75	100	68	79	89	156	155	183	182	180	411	1,267
Total, user charge proposals	-7,450	-14,719	4,639	10,774	18,237	25,902	32,850	17,710	17,528	17,981	18,460	44,692	149,361

* \$500 thousand or less

** The estimates reflect collections for 2010 only, but precise collection levels for each year will be negotiated during the authorization process. Since the Generic Biologics fee is a completely new activity for the Food and Drug Administration, precise collection levels will be negotiated for each year, including 2010.

¹ A negative sign indicates a decrease in collections.

nently repeal these changes and substitute user charges for the mandatory funding provided by the Act. The proposed fees are expected to generate \$46 million per year, thereby reducing the cost to taxpayers of operating a program that benefits specific users. Notwithstanding the fee prohibition, a comparable oil and gas permitting fee was enacted as part of both the 2008 and 2009 Interior appropriations laws, but this fee is in place only through fiscal year 2009. The Administration is proposing to increase this permitting fee in the 2010 Interior appropriations language, while seeking a more permanent solution for 2011 and beyond through a repeal of the Energy Policy Act fee prohibition. Once the fee prohibition is removed, BLM will use its normal cost recovery authority to put in place comparable fees through regulation.

Minerals Management Service (MMS): Outer Continental Shelf (OCS) Inspection Fees. The Budget includes appropriations language to begin charging OCS inspection fees to oil and gas facilities that are subject to inspection by MMS. 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, MMS currently spends more than \$44 million on compliance inspections. Inspection costs include, among other things, the cost of approximately 60 inspectors and nearly \$20 million in helicopter costs. Inspection costs rise as energy development companies extend 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 fee will generate approximately \$10 million in 2010, thereby requiring OCS energy developers to fund roughly 25 percent of compliance inspection costs.

Working Capital Fund fee: The Budget includes a proposal to allow the National Indian Program Training Center to extend services to State and local governments and Native American Tribes. The services include both training courses and use of the Center's facilities. Currently, the Center is only authorized to collect fees for services on a reimbursable basis from Federal agencies, leaving State and local governments, and Tribes unable to use the Center's services. Estimates of the new collections resulting from this proposal are less than \$500,000 per year.

Department of Transportation: Federal Aviation Administration (FAA)

Air traffic user charges. Starting in 2011, the Budget assumes that the air traffic control system will be funded with direct charges levied on users of the system. The FAA's current excise tax system, which generated \$12.4 billion in 2008, is largely based on taxes that depend on the price of customers' airline tickets, not FAA's cost for moving flights through the system. The Administration believes that the FAA should move toward a model whereby FAA's funding is related to its costs, the financing burden is distributed more equitably, and funds are used to pay directly for services the users need. The Administration recognizes that there are alternative ways to achieve

these objectives. Accordingly, the Administration will work with stakeholders and the Congress to enact legislation that moves toward such a system. The Budget reflects such a reform being in place starting in 2011, with a user charge collecting \$9.6 billion in that year and with aviation excise taxes being commensurately reduced.

Department of the Treasury

Alcohol and Tobacco Tax and Trade Bureau (TTB) regulatory fees. The TTB ensures that alcohol products are labeled, advertised, and marketed in accordance with Federal law. TTB has the authority to inspect places of business associated with alcohol production and distribution, and to assess fines for unlawful activity. The Administration proposes to charge businesses a fee to cover the costs of TTB's regulatory activities.

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. 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.

B. Mandatory User Charge Proposals

1. Offsetting collections

Department of Health and Human Services: Centers for Medicare and Medicaid Services (CMS)

Survey and certification user charges. The Budget proposes two user charges for the survey and certification program within CMS. CMS would charge facilities participating in Medicare and Medicaid a fee for follow-up surveys, which are required to determine whether facilities have taken corrective action to comply with specific Federal health, safety, and quality standards. The agency would also charge a fee to health care facilities to recover part of the cost of all recertification surveys required for participation in the Medicare program.

Federal Deposit Insurance Corporation (FDIC)

Premium reprieve proposal. The FDIC is required to maintain a reserve equal to 1.15 percent to 1.5 percent of insured deposits, but the reserve ratio has been below 1.15 percent since June 30, 2008. By law, the FDIC is required to raise deposit insurance premiums significantly to restore the reserve ratio within five years (or within a longer period of time if "extraordinary circumstances"

exist). To prevent premiums from increasing in 2009 and 2010, when banks' earnings may be strained, the Budget includes a proposal to increase the FDIC's borrowing authority from \$30 billion to \$100 billion. In addition, under the proposal, premiums would increase steadily beginning in 2011. The reserve ratio is projected to be restored to 1.15 percent in 2015 and to reach 1.25 percent in 2016. The effect of this proposal will be to shift some collections from 2009 through 2012 into subsequent years.

National Credit Union Administration (NCUA)

Premium proposal. The Federal Credit Union Act requires the NCUA to increase premiums charged to member institutions if the equity ratio in the Share Insurance Fund (SIF) falls below 1.2 percent, as it is projected to do in 2009. The Budget includes a proposal to restore the SIF equity ratio over a seven-year period by allowing the NCUA to increase premiums gradually, rather than immediately as required by current law. Under the proposal, the SIF equity ratio is projected to return to 1.2 percent in 2015 and to reach the NCUA-set target ratio of 1.3 percent in 2016. The effect of this proposal will be to shift some collections from 2010 into subsequent years.

2. Offsetting receipts

Department of Agriculture

Food Safety and Inspection Service (FSIS) 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. This Budget includes a proposal for a new performance user charge. The fee would be charged to those facilities that have product recalls, are linked to an outbreak of foodborne illness, or require resampling and retesting because of positive samples. The fee would be charged each time one of these incidents occurs.

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) 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.

Federal Crop Insurance fees: The Budget includes a proposal to lower the Federal crop insurance subsidy provided to both farmers and insurance companies. The proposal would reduce premium subsidies by five percentage points for all coverage levels, increase the Government's

share of underwriting gains from five percent to 20 percent, reduce the premium on Catastrophic Crop Insurance (CAT) by 25 percent and charge a sliding scale fee for CAT coverage from \$300 up to \$5,000 depending on the crop value.

Department of Homeland Security

Customs and Border Protection (CBP) inspection user charges. The Budget includes a proposal to consolidate two existing fee accounts into a new CBP inspection user charge account. The two existing fee accounts support CBP's passenger and property inspections at U.S. ports of entry. The new single fee will continue to support these activities and will streamline both collection and administrative activities.

Department of the Interior: Minerals Management Service

Fee on non-producing Gulf of Mexico 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 Outer Continental Shelf (OCS) leases in the Gulf of Mexico 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 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.

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 2010.

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.

Federal Communications Commission (FCC)

Spectrum license fee authority. To promote efficient use of the electromagnetic spectrum, the Administration proposes to provide the FCC with new authority to use other economic mechanisms, such as fees, as a spectrum management tool. The Commission would be authorized to set 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.

Extend spectrum auction authority. The Administration proposes to extend indefinitely the authority of the FCC to auction spectrum licenses, which expires on September 30, 2012.

Domestic satellite spectrum auctions. The Administration proposes to ensure that spectrum licenses for predominantly domestic satellite services are assigned efficiently and effectively through competitive bidding. Services such as Direct Broadcast Satellite and Satellite Digital Audio Radio Services were assigned by auction prior to a 2005 court decision. The Administration proposes to authorize through legislation auctions of licenses for these and similar domestic satellite services.

C. User Charge Proposals that are Governmental Receipts

Corps of Engineers—Civil Works

Preserving cost-sharing of inland waterways capital costs. In 1986, the Congress mandated that commercial traffic on the inland waterways would be responsible for 50 percent of the capital costs of the locks, dams, and other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on diesel fuel is not generating enough revenue to cover the required 50 percent of these costs.

The Administration proposes to phase out this excise tax in stages and replace it with a lock usage fee. The lock usage fee is designed to improve economic efficiency and preserve the landmark cost-sharing reform established in 1986, while also supporting investments in inland waterways construction, replacement, expansion, and rehabilitation work.

OTHER OFFSETTING COLLECTIONS AND RECEIPTS

Table 18–5 shows the distribution of user charges and other collections from the public according to whether they are offsetting collections credited to expenditure accounts or offsetting receipts credited to receipt account. The table shows that total offsetting collections and offsetting receipts from the public are estimated to be \$610.5 billion in 2009. Of these, an estimated \$292.4 billion are offsetting collections and an estimated \$318.1 billion are offsetting receipts.

Information on the user charges presented in Table 18–5 is available in Tables 18–3 and 18–4 and the discussion that accompanies those tables. Major offsetting collections deposited in expenditure accounts that are not user charges include collections by the Commodity Credit Corporation fund in the Department of Agriculture, which are related to loans, collections from States to supplement payments in the Supplemental Security Income program, and pre-credit reform loan repayments. Major offsetting receipts that are not user charges include military assistance program sales and interest income.

Table 18–6 includes all offsetting receipts deposited in receipt accounts. These include offsetting receipts from the public (as summarized in Table 18–5) and also payments from one part of the Government to another, called intragovernmental transactions. These receipts are offset or deducted from outlays in the Federal budget. In total, offsetting receipts are estimated to be \$958.7 billion in 2010: \$672.6 billion are intragovernmental transactions and \$286.0 billion are from the public. The \$286.0 billion in offsetting receipts from the public consist of proprietary receipts from the public (\$278.4 billion) and offsetting governmental receipts (\$7.6 billion).

Table 18-5. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC
(in billions of dollars)

	Actual 2008	Estimate	
		2009	2010
Offsetting collections (credited to expenditure accounts):			
User charges:			
Postal service stamps and other USPS fees (off-budget)	75.1	73.1	73.3
Defense Commissary Agency	5.9	5.8	5.8
Employee contributions for employees and retired employees health benefits funds	9.8	10.7	11.6
Sale of energy:			
Tennessee Valley Authority	10.3	13.4	13.8
Bonneville Power Administration	3.0	3.5	3.9
Federal Deposit Insurance Corporation: Deposit insurance fees and recoveries	2.9	95.2	119.5
All other user charges	38.4	39.3	43.3
Subtotal, user charges	145.4	241.0	271.2
Other collections credited to expenditure accounts:			
Commodity Credit Corporation fund	9.9	10.7	10.7
Supplemental Security Income (collections from the States)	4.4	4.5	4.6
Other collections	15.1	36.2	36.5
Subtotal, other collections	29.4	51.4	51.7
Subtotal, offsetting collections	174.7	292.4	322.9
Offsetting receipts (deposited in receipt accounts):			
User charges:			
Medicare premiums	54.3	57.3	59.6
Outer Continental Shelf rents, bonuses, and royalties	18.3	6.3	7.1
Digital Television Transition and Public Safety Fund	1.8	17.1	0.0
All other user charges	23.9	22.9	25.0
Subtotal, user charges deposited in receipt accounts	98.3	103.5	91.7
Other collections deposited in receipt accounts:			
Military assistance program sales	21.8	24.0	21.6
Interest received from credit financing accounts	11.1	129.3	126.4
Other Interest income	-5.0	-0.4	8.3
All other collections deposited in receipt accounts	32.5	61.7	38.0
Subtotal, other collections deposited in receipt accounts	60.4	214.6	194.6
Subtotal, offsetting receipts	158.7	318.1	286.0
Total, offsetting collections and offsetting receipts from the public	333.4	610.5	608.9
Total, offsetting collections and offsetting receipts excluding off-budget	258.2	537.3	535.6
ADDENDUM:			
User charges that are offsetting collections and offsetting receipts ¹	243.6	344.5	362.9
Other offsetting collections and offsetting receipts from the public	89.8	265.9	246.0
Total, offsetting collections and offsetting receipts from the public	333.4	610.5	608.9

¹ Excludes user charges that are classified on the receipts side of the budget. For total user charges, see Table 18-1.

Table 18-6. OFFSETTING RECEIPTS BY TYPE
(In Millions of Dollars)

Source	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Intragovernmental Receipts							
On Budget							
Interfund Receipts							
Federal Fund Payments to Trust Funds							
Distributed by Agency							
Contributions to insurance programs							
Military retirement fund	46,187	51,125	58,605	60,823	63,104	65,471	67,926
Proposed Legislation (Non-PAYGO) .....	.....	.....	402	417	433	449	609
Supplementary medical insurance	180,435	195,406	206,725	222,907	237,771	269,675	295,425
Hospital insurance	12,553	14,353	15,978	18,062	19,157	20,828	22,938
Railroad social security equivalent benefit fund	126	121	157	171	181	198	209
Civilian supplementary retirement contributions	31,252	31,805	32,380	32,899	33,702	34,704	35,506
Unemployment insurance	722	13,731	14,154	1,228	953	895	872
Other contributions	1,154	817	846	853	806	788	780
Rail industry pension fund	233	200	314	322	331	342	352
Subtotal, Contributions to insurance programs	272,662	307,558	329,561	337,682	356,438	393,350	424,617
Other miscellaneous transactions							
Miscellaneous payments	9,257	8,780	1,694	1,698	1,708	1,720	1,732
Subtotal, Distributed by Agency	281,919	316,338	331,255	339,380	358,146	395,070	426,349
Undistributed by Agency							
Employer share, employee retirement (on-budget)							
Civil service retirement and disability insurance	15,678	15,748	16,569	17,253	17,816	18,475	19,218
Hospital insurance (contribution as employer)	2,922	3,106	3,219	3,314	3,380	3,532	3,664
Military retirement fund	19,034	19,880	25,007	24,762	25,657	26,582	27,472
Proposed Legislation (Non-PAYGO) .....	.....	.....	370	381	394	407	421
Other federal employees retirements	223	229	238	246	255	265	274
Postal Service contributions to FHI	788	814	825	853	889	928	968
CSRDI from Postal Service	2,892	3,591	3,886	4,166	4,425	4,707	5,007
Subtotal, Employer share, employee retirement (on-budget)	41,537	43,368	50,114	50,975	52,816	54,896	57,024
Other miscellaneous transactions							
Interest received by on-budget trust funds	77,821	67,960	80,515	82,541	84,755	86,735	89,090
Proposed Legislation (Non-PAYGO) .....	.....	.....	12	65	168	350	399
Subtotal, Federal Fund Payments to Trust Funds	401,277	427,666	461,896	472,961	495,885	537,051	572,862
Trust fund Payments to Federal Funds							
Distributed by Agency							
Other miscellaneous transactions							
Other	1,961	1,288	1,250	1,337	1,418	1,473	1,524
Repayment of loans or advances to trust funds .....	.....	2,496	.....	.....	.....	.....	.....
Subtotal, Trust fund Payments to Federal Funds	1,961	3,784	1,250	1,337	1,418	1,473	1,524
Subtotal, Interfund Receipts	403,238	431,450	463,146	474,298	497,303	538,524	574,386
Federal Intrafund Receipts							
Distributed by Agency							
General fund payments to retirement and health benefits funds							
DOD retiree health care fund	20,775	19,790	21,532	23,390	25,393	27,730	30,077
Employees health benefits fund	5,600	5,400	5,500	5,500	5,600	5,600	5,700
Miscellaneous Federal retirement funds	340	402	500	463	467	450	450
Subtotal, General fund payments to retirement and health benefits funds	26,715	25,592	27,532	29,353	31,460	33,780	36,227
Interest							
Interest on Government capital in enterprises	1,331	1,269	957	1,159	1,232	1,292	1,387
Interest from the Federal Financing Bank	775	904	2,103	3,697	4,878	5,584	5,864

Table 18-6. OFFSETTING RECEIPTS BY TYPE—Continued
(In Millions of Dollars)

Source	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Proposed Legislation (Non-PAYGO) .....	.....	.....	5	25	44	123	109
Interest received by retirement and health benefits funds	142	165	177	191	207	217	237
Subtotal, Interest	2,248	2,338	3,242	5,072	6,361	7,216	7,597
Other miscellaneous transactions:							
Other	2,607	4,538	4,909	5,456	5,989	6,527	7,487
Subtotal, Distributed by Agency	31,570	32,468	35,683	39,881	43,810	47,523	51,311
Undistributed by Agency							
Employing agency contributions							
DOD retiree health care fund	11,496	10,645	11,056	11,729	12,482	13,251	14,072
Subtotal, Undistributed by Agency	11,496	10,645	11,056	11,729	12,482	13,251	14,072
Subtotal, Federal Intrafund Receipts	43,066	43,113	46,739	51,610	56,292	60,774	65,383
Trust Intrafund Receipts							
Distributed by Agency							
Personnel benefits							
Payment to railroad retirement (from off-budget)	5,348	5,662	6,188	6,479	6,063	6,163	6,324
Other miscellaneous transactions							
Other	1	6	10	10	10	10	10
Subtotal, Trust Intrafund Receipts	5,349	5,668	6,198	6,489	6,073	6,173	6,334
Subtotal, On Budget	451,653	480,231	516,083	532,397	559,668	605,471	646,103
Off Budget							
Interfund Receipts							
Federal Fund Payments to Trust Funds							
Distributed by Agency							
Personnel benefits							
Old-age, survivors and disability, insurance	17,813	20,845	24,551	27,155	28,954	31,888	34,549
Undistributed by Agency							
Personnel benefits							
Employer share, employee retirement (off-budget)	13,145	14,168	14,905	15,533	16,081	17,115	17,976
Other miscellaneous transactions							
Interest received by off-budget trust funds	113,718	117,844	117,100	121,058	128,277	137,246	147,654
Subtotal, Undistributed by Agency	126,863	132,012	132,005	136,591	144,358	154,361	165,630
Subtotal, Federal Fund Payments to Trust Funds	113,718	117,844	117,100	121,058	128,277	137,246	147,654
Subtotal, Interfund Receipts	144,676	152,857	156,556	163,746	173,312	186,249	200,179
Subtotal, Off Budget	144,676	152,857	156,556	163,746	173,312	186,249	200,179
Subtotal, Intragovernmental Receipts	596,329	633,088	672,639	696,143	732,980	791,720	846,282
Receipts from the Public							
On Budget Source							
Proprietary Receipts							
Federal Fund Receipts							
Distributed by Agency							
Fees and other charges for services and special benefits							
Nuclear waste disposal revenues	763	769	766	762	764	767	769
Other	4,152	4,021	4,381	4,439	4,463	4,565	4,753
Proposed Legislation (Non-PAYGO) .....	.....	.....	.....	46	46	46	46
Proposed Legislation (PAYGO) .....	.....	.....	1,217	1,271	1,311	1,347	1,394
Subtotal, Fees and other charges for services and special benefits	4,915	4,790	6,364	6,518	6,584	6,725	6,962

Table 18-6. OFFSETTING RECEIPTS BY TYPE—Continued
(In Millions of Dollars)

Source	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Interest							
Interest on foreign loans and deferred foreign collections	59	130	130	130	130	130	130
Interest on deposits and loan accounts	604	632	632	632	632	632	632
Other interest	11,399	129,542	126,678	123,512	120,543	117,136	114,137
Dividends and other earnings .....	.....	4,421	6,680	6,680	6,680	6,680	6,680
Subtotal, Interest	12,062	134,725	134,120	130,954	127,985	124,578	121,579
Realization upon loans and investments							
Negative and downward reestimates	13,462	41,566	13,480	4,777	1,866	1,340	1,250
Proposed Legislation (PAYGO) .....	.....	2	4,130	4,558	3,089	1,611	1,496
Repayment of loans to foreign nations	1	.....	.....	.....	.....	.....	.....
Other	49	62	62	62	62	62	62
Subtotal, Realization upon loans and investments	13,512	41,630	17,672	9,397	5,017	3,013	2,808
Sale of Government property							
Sale of land and other real property	166	172	176	167	203	212	223
Other sales of government property	219	200	196	150	115	115	71
Subtotal, Sale of Government property	385	372	372	317	318	327	294
Sale of products							
Sale of timber and other natural land products	233	236	241	249	262	336	367
Sale of minerals and mineral products	58	18	17	17	17	15	15
Sale of power and other utilities	634	699	517	605	548	617	628
Other	150	122	98	112	118	100	115
Subtotal, Sale of products	1,075	1,075	873	983	945	1,068	1,125
Other miscellaneous transactions							
Royalties and rents	5,433	4,365	4,620	5,245	5,582	5,827	6,114
Proposed Legislation (PAYGO) .....	.....	.....	-51	-50	-49	-49	-49
Recoveries and refunds	4,935	5,334	5,148	4,921	5,043	5,179	5,302
Proposed Legislation (PAYGO) .....	.....	.....	.....	3	4	4	4
Miscellaneous receipt accounts	1,444	1,795	1,734	1,738	1,719	1,731	1,746
Proposed Legislation (PAYGO) .....	.....	.....	23	23	23	23	23
Subtotal, Other miscellaneous transactions	11,812	11,494	11,474	11,880	12,322	12,715	13,140
Subtotal, Distributed by Agency	43,761	194,086	170,875	160,049	153,171	148,426	145,908
Undistributed by Agency							
Outer Continental Shelf							
Outer Continental Shelf escrow account	10	.....	.....	.....	.....	.....	.....
Outer Continental Shelf rents and bonuses	9,850	1,520	877	555	522	384	196
Proposed Legislation (PAYGO) .....	.....	.....	122	121	115	107	109
Outer Continental Shelf royalties	8,435	4,739	6,082	8,101	9,358	9,719	9,622
Proposed Legislation (PAYGO) .....	.....	.....	50	50	50	50	50
Subtotal, Outer Continental Shelf	18,295	6,259	7,131	8,827	10,045	10,260	9,977
Other miscellaneous transactions							
Sale of major assets .....	.....	.....	.....	.....	323	.....	.....
Subtotal, Undistributed by Agency	18,295	6,259	7,131	8,827	10,368	10,260	9,977
Subtotal, Federal Fund Receipts	62,056	200,345	178,006	168,876	163,539	158,686	155,885
Trust Fund Receipts							
Distributed by Agency							
Fees and other charges for services and special benefits							
Medicare premiums and other charges	54,266	57,269	59,645	63,948	70,202	77,714	85,324
Veterans life insurance (trust funds)	135	123	110	98	86	74	65
Other	8,045	8,489	9,118	9,645	10,233	10,897	11,609
Subtotal, Fees and other charges for services and special benefits	62,446	65,881	68,873	73,691	80,521	88,685	96,998
Interest							
Other interest	604	603	79	1,098	1,337	1,016	717
Dividends and other earnings	-6,606	-6,492	506	613	607	583	535
Subtotal, Interest	-6,002	-5,889	585	1,711	1,944	1,599	1,252

Table 18-6. OFFSETTING RECEIPTS BY TYPE—Continued
(In Millions of Dollars)

Source	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Realization upon loans and investments							
Negative and downward reestimates .....	.....	164	.....	.....	.....	.....	.....
Other	1	1	1	1	1	1	1
Subtotal, Realization upon loans and investments	1	165	1	1	1	1	1
Sale of Government property							
Military assistance program sales (trust funds)	21,831	24,014	21,613	19,300	18,700	17,350	16,120
Subtotal, Sale of Government property	21,831	24,014	21,613	19,300	18,700	17,350	16,120
Other miscellaneous transactions							
Recoveries and refunds	8,954	8,854	9,154	9,454	9,754	9,954	10,154
Proposed Legislation (Non-PAYGO) .....	.....	.....	.....	70	134	133	134
Proposed Legislation (PAYGO) .....	.....	.....	.....	415	410	271	263
Miscellaneous receipt accounts	51	54	56	59	63	10	70
Subtotal, Other miscellaneous transactions	9,005	8,908	9,210	9,998	10,361	10,368	10,621
Subtotal, Distributed by Agency	87,281	93,079	100,282	104,701	111,527	118,003	124,992
Subtotal, Trust Fund Receipts	87,281	93,079	100,282	104,701	111,527	118,003	124,992
Subtotal, Proprietary Receipts	149,337	293,424	278,288	273,577	275,066	276,689	280,877
Offsetting Governmental Receipts							
Federal Fund Receipts							
Distributed by Agency							
Other miscellaneous transactions							
Regulatory Fees	7,280	7,180	7,434	7,631	7,784	7,932	8,084
Proposed Legislation (PAYGO) .....	.....	.....	-1,013	-1,053	-1,096	-1,140	-1,186
Other	165	163	163	164	165	167	168
Subtotal, Other miscellaneous transactions	7,445	7,343	6,584	6,742	6,853	6,959	7,066
Subtotal, Distributed by Agency	7,445	7,343	6,584	6,742	6,853	6,959	7,066
Undistributed by Agency							
Other miscellaneous transactions							
Spectrum auction proceeds	1,779	17,191	750	100	200	.....	.....
Proposed Legislation (PAYGO) .....	.....	50	300	375	450	750	750
Subtotal, Other miscellaneous transactions	1,779	17,241	1,050	475	650	750	750
Subtotal, Undistributed by Agency	1,779	17,241	1,050	475	650	750	750
Subtotal, Federal Fund Receipts	9,224	24,584	7,634	7,217	7,503	7,709	7,816
Trust Fund Receipts							
Distributed by Agency							
Other miscellaneous transactions							
Regulatory Fees	6	11	7	7	7	7	7
Subtotal, Trust Fund Receipts	6	11	7	7	7	7	7
Subtotal, Offsetting Governmental Receipts	9,230	24,595	7,641	7,224	7,510	7,716	7,823
Subtotal, On Budget	158,567	318,019	285,929	280,801	282,576	284,405	288,700
Off Budget							
Proprietary Receipts							
Trust Fund Receipts							
Distributed by Agency							
Fees and other charges for services and special benefits							
Other	21	23	25	26	27	26	27

Table 18-6. OFFSETTING RECEIPTS BY TYPE—Continued
(In Millions of Dollars)

Source	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Other miscellaneous transactions							
Recoveries and refunds	82	57	57	57	57	57	57
Subtotal, Off Budget	103	80	82	83	84	83	84
Subtotal, Receipts from the Public	158,670	318,099	286,011	280,884	282,660	284,488	288,784
Grand Total Offsetting Receipts	754,999	951,187	958,650	977,027	1,015,640	1,076,208	1,135,066

19. 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 2008–2014 using two methods of accounting: current revenue effects and present value effects. The present value approach provides estimates of the revenue effects for tax expenditures that generally involve deferrals of tax payments into the future.

A discussion of performance measures and economic effects related to the assessment of the effect of tax expenditures on the achievement of program performance goals is presented in Appendix A. This section is a complement to the Government-wide performance plan required by the Government Performance and Results Act of 1993.

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

All tax expenditure estimates presented here are based upon current tax law enacted as of December 31, 2008. Expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity occurring before fiscal year 2008. The estimates reflect preliminary 2010 Budget economic assumptions. Legislation enacted in 2009 is not reflected in the current exercise.

The total revenue effects for tax expenditures for fiscal years 2008–2014 are displayed according to the Budget’s functional categories in Table 19–1. 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 19–2 reports the respective portions of the total revenue effects that arise under the individual and corporate income taxes separately. The location of the esti-

mates under the individual and corporate headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these breakdowns show the specific tax accounts through which the various provisions are cleared. The ultimate beneficiaries of corporate tax expenditures could be shareholders, employees, customers, or other providers of capital, depending on economic forces.

Table 19–3 ranks the major tax expenditures by the size of their 2010–2014 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 19–1 and 19–2, as well as to the descriptions below. Outlay Equivalent Estimates of Income Tax Expenditures, which were included in the 2007 and prior volumes of *Analytical Perspectives*, are no longer included in this chapter.

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 under the normal tax baseline. 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. The estimate of other tax expenditures related to saving and retirement plans were also affected by this change in methodology. The Administration plans a review of tax expenditures for future *Analytical Perspectives* volumes. In anticipation of that review, this chapter shows supple-

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.

mental estimates in Table 19-4 of the full tax expenditure for capital gains and dividends under the pre-2005 methodology.

Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 19-1, 19-2, and 19-3 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 19-1 are the totals of individual and corporate income tax revenue effects reported in Table 19-2 and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 19-1 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 19-5. 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. Present-value estimates, which are a useful complement to the cash-basis estimates for provisions involving deferrals, are discussed below.

Discounted present-value estimates of revenue effects are presented in Table 19-5 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 2008 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2008 would cause a deferral of tax payments on wages in 2008 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2008 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. An exception is provided for the lower tax rate on dividends and capital gains on corporate shares as discussed below. 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 in the Tax Code that serve programmatic functions. 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

Table 19–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2008–2014—Continued
(In millions of dollars)

		Total from corporations and individuals							
		2008	2009	2010	2011	2012	2013	2014	2010–14
Commerce and housing:									
Financial institutions and insurance:									
50	Exemption of credit union income	1140	1190	1230	1280	1330	1380	1430	6,650
51	Exclusion of interest on life insurance savings	21,190	22,790	24,450	26,770	29,830	32,580	34,860	148,490
52	Special alternative tax on small property and casualty insurance companies	40	40	40	40	50	50	60	240
53	Tax exemption of certain insurance companies owned by tax-exempt organizations	190	190	200	200	210	210	220	1,040
54	Small life insurance company deduction	50	50	50	50	50	50	50	250
55	Exclusion of interest spread of financial institutions	270	220	240	280	290	310	320	1,930
Housing:									
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	460	990	1,030	1,110	1,180	1,220	1,270	5,810
57	Exclusion of interest on rental housing bonds	410	890	930	1,000	1,060	1,090	1,120	5,200
58	Deductibility of mortgage interest on owner-occupied homes	88,500	97,280	107,980	119,750	131,230	139,990	147,130	646,080
59	Deductibility of State and local property tax on owner-occupied homes	29,130	20,850	14,980	24,550	30,630	31,870	32,540	134,570
60	Deferral of income from installment sales	1,230	1,250	1,370	1,500	1,650	1,810	1,950	8,280
61	Capital gains exclusion on home sales	30,090	27,980	30,460	39,530	49,550	54,720	60,440	234,700
62	Exclusion of net imputed rental income	-1,720	-5,850	-2,200	2,230	3,680	4,390	5,720	13,820
63	Exception from passive loss rules for \$25,000 of rental loss	8,430	8,840	9,160	9,580	10,090	10,240	10,620	49,690
64	Credit for low-income housing investments	3,210	3,750	4,340	4,920	5,520	6,130	6,730	27,640
65	Accelerated depreciation on rental housing (normal tax method)	9,690	10,150	10,770	13,620	14,610	15,770	17,090	71,860
66	Discharge of mortgage indebtedness	310	330	260	190	140	80	0	670
67	Credit for first-time homebuyer	9,530	1,230	-1,350	-1,400	-1,400	-1,060	-910	-6,120
Commerce:									
68	Cancellation of indebtedness	60	30	20	40	50	40	30	180
69	Exceptions from imputed interest rules	50	50	50	50	50	50	50	250
70	Capital gains (except agriculture, timber, and coal) ³	24,240	23,640	28,920	24,840	23,890	27,270	30,480	135,400
71	Capital gains exclusion of small corporation stock	60	60	60	200	340	350	370	1,320
72	Step-up basis of capital gains at death	21,590	19,530	20,830	25,210	31,720	34,100	36,650	148,510
73	Carryover basis of capital gains on gifts	670	730	710	2,370	1,030	1,370	1,470	6,950
74	Ordinary income treatment of loss from small business corporation stock sale	50	50	60	60	60	60	60	300
75	Accelerated depreciation of buildings other than rental housing (normal tax method)	-6,640	-6,640	-6,560	-7,370	-7,360	-7,360	-7,340	-35,990
76	Accelerated depreciation of machinery and equipment (normal tax method)	55,890	-11,140	-3,820	-1,190	6,010	10,940	15,130	27,070
77	Expensing of certain small investments (normal tax method)	930	90	910	-3,400	-1,680	-850	-260	-5,280
78	Graduated corporation income tax rate (normal tax method)	2,460	2,460	2,880	3,090	3,120	3,300	3,310	15,700
79	Exclusion of interest on small issue bonds	140	320	330	350	380	390	400	1,850
80	Deduction for U.S. production activities	10,660	10,820	14,140	16,890	17,910	19,010	20,010	87,960
81	Special rules for certain film and TV production	70	60	-50	-100	-80	-50	-40	-320
Transportation:									
82	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100
83	Exclusion of reimbursed employee parking expenses	2,920	3,000	3,120	3,270	3,400	3,520	3,630	16,940
84	Exclusion for employer-provided transit passes	480	500	530	570	600	630	660	2,990
85	Tax credit for certain expenditures for maintaining railroad tracks	180	180	70	20	10	10	0	110
86	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	80	90	100	100	90	60	60	410
Community and regional development:									
87	Investment credit for rehabilitation of structures (other than historic)	40	40	40	40	40	50	50	220
88	Exclusion of interest for airport, dock, and similar bonds	380	820	850	920	990	1,020	1,050	4,830
89	Exemption of certain mutuals' and cooperatives' income	70	70	70	70	70	80	80	370
90	Empowerment zones and renewal communities	-1,650	-1,960	-1,150	-420	-680	-830	-940	-4,020
91	New markets tax credit	990	1,110	1,050	920	810	580	300	3,660
92	Expensing of environmental remediation costs	590	290	20	-140	-140	-140	-130	-530
93	Credit to holders of Gulf Tax Credit Bonds	10	30	80	80	70	50	50	330
Education, training, employment, and social services:									
Education:									
94	Exclusion of scholarship and fellowship income (normal tax method)	2,000	2,080	2,160	2,250	2,340	2,440	2,540	11,730
95	HOPE tax credit	3,770	3,800	3,890	4,650	5,100	5,340	5,580	24,560
96	Lifetime Learning tax credit	2,470	2,460	2,510	2,980	3,260	3,410	3,570	15,730
97	Education Individual Retirement Accounts	30	40	60	70	80	80	90	380
98	Deductibility of student-loan interest	1,250	1,260	1,270	1,220	970	980	990	5,430

Table 19–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2008–2014—Continued
(In millions of dollars)

		Total from corporations and individuals							
		2008	2009	2010	2011	2012	2013	2014	2010–14
153	Deductibility of casualty losses	540	580	620	690	740	780	810	3,640
154	Earned income tax credit ⁷	5,380	5,740	6,130	6,390	8,530	8,790	9,140	38,980
155	Additional exemption for housing Hurricane Katrina displaced individuals	20	10	0	0	0	0	0	0
Social Security:									
Exclusion of social security benefits:									
156	Social Security benefits for retired workers	19,700	20,610	19,330	20,420	23,130	25,350	25,750	113,980
157	Social Security benefits for disabled	5,420	5,770	5,840	6,230	6,750	7,090	7,140	33,050
158	Social Security benefits for dependents and survivors	3,570	3,610	3,280	3,350	3,670	3,880	3,800	17,980
Veterans benefits and services:									
159	Exclusion of veterans death benefits and disability compensation	3,870	3,950	4,140	4,480	4,850	5,260	5,690	24,420
160	Exclusion of veterans pensions	180	180	180	190	220	220	220	1,030
161	Exclusion of GI bill benefits	280	280	290	300	330	330	340	1,590
162	Exclusion of interest on veterans housing bonds	10	20	30	30	30	30	30	150
General purpose fiscal assistance:									
163	Exclusion of interest on public purpose State and local bonds	11,110	24,610	25,730	27,820	29,810	30,700	31,620	145,680
164	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	49,140	36,270	30,290	48,750	60,350	63,330	65,390	268,110
Interest:									
165	Deferral of interest on U.S. savings bonds	1,310	1,320	1,330	1,380	1,470	1,490	1,500	7,170
Addendum: Aid to State and local governments:									
Deductibility of:									
	Property taxes on owner-occupied homes	29,130	20,850	14,980	24,550	30,630	31,870	32,540	134,570
	Nonbusiness State and local taxes other than on owner-occupied homes	49,140	36,270	30,290	48,750	60,350	63,330	65,390	268,110
Exclusion of interest on State and local bonds for:									
	Public purposes	11,110	24,610	25,730	27,820	29,810	30,700	31,620	145,680
	Energy facilities	10	20	20	30	30	30	30	140
	Water, sewage, and hazardous waste disposal facilities	170	370	390	410	450	460	470	2,180
	Small-issues	140	320	330	350	380	390	400	1,850
	Owner-occupied mortgage subsidies	460	990	1,030	1,110	1,180	1,220	1,270	5,810
	Rental housing	410	890	930	1,000	1,060	1,090	1,120	5,200
	Airports, docks, and similar facilities	380	820	850	920	990	1,020	1,050	4,830
	Student loans	210	470	490	530	560	590	600	2,770
	Private nonprofit educational facilities	860	1,870	1,960	2,110	2,260	2,320	2,390	11,040
	Hospital construction	1,350	2,940	3,070	3,310	3,530	3,640	3,750	17,300
	Veterans' housing	10	20	30	30	30	30	30	150
	GO Zone and GO Zone mortgage	0	10	10	10	10	10	20	60
	Credit for holders of zone academy bonds	160	170	170	170	160	140	130	770

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.

¹ In addition, the alcohol fuel credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2008 \$4,410; 2009 \$4,730; 2010 \$5,230; 2011 \$1,630; 2012 \$0; 2013 \$0; 2014 \$0.

² In addition, the bio-diesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2008 \$940; 2009 \$780; 2010 \$70; 2011 \$60; 2012 \$40; 2013 \$40; 2014 \$10.

³ An alternative calculation for this tax expenditure based on pre-2005 methodology is shown in Table 19-4.

⁴ 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: 2008 \$34,020; 2009 \$26,940; 2010 \$17,230; 2011 \$16,740; 2012 \$1,510; 2013 \$1,490; and 2014 \$1,480.

⁵ 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: 2008 \$83,150; 2009 \$86,490; 2010 \$91,460; 2011 \$97,820; 2012 \$104,660; 2013 \$111,000; and 2014 \$117,560.

⁶ The figures in the table indicate the effect of the health insurance tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2007 \$100; 2008 \$110; 2009 \$120; 2010 \$130; 2011 \$140; 2012 \$150; and 2013 \$160.

⁷ 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: 2008 \$45,282; 2009 \$42,271; 2010 \$49,733; 2011 \$50,954; 2012 \$45,837; 2013 \$46,667; and 2014 \$47,974.

Table 19–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2008-2014
(In millions of dollars)

	Corporations								Individuals							
	2008	2009	2010	2011	2012	2013	2014	2010–14	2008	2009	2010	2011	2012	2013	2014	2010–14
National Defense																
1 Exclusion of benefits and allowances to Armed Forces personnel									11,190	11,710	10,210	10,550	10,900	11,270	11,660	54,590
International affairs:																
2 Exclusion of income earned abroad by U.S. citizens									5,070	5,320	5,590	5,870	6,160	6,470	6,790	30,880
3 Exclusion of certain allowances for Federal employees abroad.....									880	920	970	1020	1070	1120	1180	5,360
4 Inventory property sales source rules exception	2,200	2,440	2,640	2,860	3,100	3,360	3,640	15,600								
5 Deferral of income from controlled foreign corporations (normal tax method)	31,580	30,960	32,720	33,870	34,490	33,930	34,130	169,140								
6 Deferred taxes for financial firms on certain income earned overseas.....	5,570	5,460	5,770	5,980	6,090	5,990	6,020	29,850								
General science, space, and technology:																
7 Expensing of research and experimentation expenditures (normal tax method)	4,930	3,560	3,220	4,250	5,390	6,330	6,550	25,740	250	260	280	310	330	360	380	1,660
8 Credit for increasing research activities	7,080	7,620	5,760	3,850	3,080	2,460	1,960	17,110	360	390	120	0	0	0	0	120
Energy:																
9 Expensing of exploration and development costs, fuels	1,380	2,070	1,990	1,540	1,320	1,050	780	6,680	270	410	400	310	260	210	160	1,340
10 Excess of percentage over cost depletion, fuels	830	1,230	1,220	1,240	1,250	1,260	1,270	6,240	90	130	130	130	130	130	130	650
11 Alternative fuel production credit	570	70	80	10	10	0	0	100	20	0	0	0	0	0	0	0
12 Exception from passive loss limitation for working interests in oil and gas properties									10	10	10	10	10	10	10	50
13 Capital gains treatment of royalties on coal									110	110	140	110	110	130	140	630
14 Exclusion of interest on energy facility bonds	0	10	10	10	10	10	10	50	10	10	10	20	20	20	20	90
15 Energy production credit.....	840	1,030	1,070	1,070	1,050	1,040	1,020	5,250	80	100	110	110	100	100	100	520
16 Energy investment credit.....	30	30	30	30	30	30	30	150	20	20	20	20	20	20	20	100
17 Alcohol fuel credits ¹	40	50	70	160	320	160	0	710	10	10	20	30	70	70	0	190
18 Bio-Diesel and small agri-biodiesel producer tax credits ²	30	20	20	0	0	0	0	20	10	10	0	0	0	0	0	0
19 Tax credit and deduction for clean-fuel burning vehicles.....	60	30	50	10	-20	10	40	90	110	60	30	30	30	50	60	200
20 Exclusion of utility conservation subsidies.....	0	0	0	0	0	0	0	0	120	120	110	110	110	110	110	550
21 Credit for holding clean renewable energy bonds	10	20	20	20	20	20	20	100	30	50	50	50	50	50	50	250
22 Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	-30	-50	-120	-320	-400	-480	-490	-1,810								
23 Credit for investment in clean coal facilities.....	30	200	290	260	240	230	210	1,230								
24 Temporary 50% expensing for equipment used in the refining of liquid fuels.....	350	750	890	900	800	700	630	3,920								
25 Natural gas distribution pipelines treated as 15-year property	80	90	110	120	110	100	90	530								
26 Amortize all geological and geophysical expenditures over 2 years	20	70	100	100	70	50	30	350	0	20	30	20	20	10	10	90
27 Allowance of deduction for certain energy efficient commercial building property.....	130	150	160	130	130	10	40	470	40	50	50	60	70	10	20	210
28 Credit for construction of new energy efficient homes.....	20	20	10	0	0	0	0	10	10	0	0	0	0	0	0	0
29 Credit for energy efficiency improvements to existing homes..									230	380	150	0	0	0	0	150
30 Credit for energy efficient appliances	120	130	130	50	0	0	0	180								
31 Credit for residential energy efficient property									20	30	20	0	0	0	0	20
32 Partial expensing for advanced mine safety equipment	20	0	0	0	0	0	0	0								
33 Qualified energy conservation bonds	0	0	0	10	10	10	10	40	0	0	10	20	30	30	30	120
Natural resources and environment:																
34 Expensing of exploration and development costs, nonfuel minerals	210	220	230	230	240	250	250	1,200								0
35 Excess of percentage over cost depletion, nonfuel minerals ..	700	720	750	770	790	820	830	3,960	20	20	20	20	20	30	30	120
36 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	70	120	130	130	140	140	140	680	100	250	260	280	310	320	330	1,500
37 Capital gains treatment of certain timber income									110	110	140	110	110	130	140	630
38 Expensing of multiperiod timber growing costs	180	180	190	190	200	210	210	1,000	110	110	120	120	120	130	130	620
39 Tax incentives for preservation of historic structures	380	390	410	430	460	480	500	2,280	100	110	110	120	120	130	140	620
40 Expensing of capital costs with respect to complying with EPA sulfur regulations.....	30	50	30	-10	0	0	0	20	0	0	0	0	0	0	0	0
41 Exclusion of gain or loss on sale or exchange of certain brownfield sites	20	30	30	30	20	20	20	120	10	10	10	10	10	10	10	50
42 Industrial CO ₂ capture and sequestration tax credit.....	0	0	0	40	130	240	290	700								
43 Deduction for endangered species recovery expenditures.....	0	10	20	20	30	30	30	130								
Agriculture:																
44 Expensing of certain capital outlays	10	10	10	10	10	10	10	50	100	100	100	110	110	110	110	540
45 Expensing of certain multiperiod production costs	10	10	10	10	10	10	10	50	70	70	70	70	80	80	80	380
46 Treatment of loans forgiven for solvent farmers.....									10	10	10	20	20	20	20	90
47 Capital gains treatment of certain income									1,160	1,130	1,390	1,190	1,140	1,300	1,460	6,480
48 Income averaging for farmers.....									80	80	80	80	80	80	80	400
49 Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100								

Table 19–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2008–2014—Continued
(In millions of dollars)

	Corporations								Individuals							
	2008	2009	2010	2011	2012	2013	2014	2010–14	2008	2009	2010	2011	2012	2013	2014	2010–14
Commerce and housing:																
Financial institutions and insurance:																
50 Exemption of credit union income	1140	1190	1230	1280	1330	1380	1430	6,650								
51 Exclusion of interest on life insurance savings	2660	2830	3010	3160	3380	3630	3880	17,060	18530	19960	21440	23610	26450	28950	30980	131,430
52 Special alternative tax on small property and casualty insurance companies	40	40	40	40	50	50	60	240								
53 Tax exemption of certain insurance companies owned by tax-exempt organizations	190	190	200	200	210	210	220	1,040								
54 Small life insurance company deduction	50	50	50	50	50	50	50	250								
55 Exclusion of interest spread of financial institutions									270	220	240	280	290	310	320	1,930
Housing:																
56 Exclusion of interest on owner-occupied mortgage subsidy bonds	200	330	340	350	360	370	390	1,810	260	660	690	760	820	850	880	4,000
57 Exclusion of interest on rental housing bonds	180	300	310	320	320	330	340	1,620	230	590	620	680	740	760	780	3,580
58 Deductibility of mortgage interest on owner-occupied homes									88,500	97,280	107,980	119,750	131,230	139,990	147,130	646,080
59 Deductibility of State and local property tax on owner-occupied homes									29,130	20,850	14,980	24,550	30,630	31,870	32,540	134,570
60 Deferral of income from installment sales	310	320	320	320	330	330	330	1,630	920	930	1,050	1,180	1,320	1,480	1,620	6,650
61 Capital gains exclusion on home sales									30,090	27,980	30,460	39,530	49,550	54,720	60,440	234,700
62 Exclusion of net imputed rental income									-1,720	-5,850	-2,200	2,230	3,680	4,390	5,720	13,820
63 Exception from passive loss rules for \$25,000 of rental loss									8,430	8,840	9,160	9,580	10,090	10,240	10,620	49,690
64 Credit for low-income housing investments	2,960	3,480	4,050	4,620	5,210	5,800	6,390	26,070	250	270	290	300	310	330	340	1,570
65 Accelerated depreciation on rental housing (normal tax method)	600	620	640	730	770	820	880	3,840	9,090	9,530	10,130	12,890	13,840	14,950	16,210	68,020
66 Discharge of mortgage indebtedness									310	330	260	190	140	80	0	670
67 Credit for first-time homebuyer									9,530	1,230	-1,350	-1,400	-1,400	-1,060	-910	-6,120
Commerce:																
68 Cancellation of indebtedness									60	30	20	40	50	40	30	180
69 Exceptions from imputed interest rules									50	50	50	50	50	50	50	250
70 Capital gains (except agriculture, timber, and coal) ³									24,240	23,640	28,920	24,840	23,890	27,270	30,480	135,400
71 Capital gains exclusion of small corporation stock									60	60	60	200	340	350	370	1,320
72 Step-up basis of capital gains at death									21,590	19,530	20,830	25,210	31,720	34,100	36,650	148,510
73 Carryover basis of capital gains on gifts									670	730	710	2,370	1,030	1,370	1,470	6,950
74 Ordinary income treatment of loss from small business corporation stock sale									50	50	60	60	60	60	60	300
75 Accelerated depreciation of buildings other than rental housing (normal tax method)	-2,390	-2,380	-2,330	-2,430	-2,430	-2,440	-2,440	-12,070	-4,250	-4,260	-4,230	-4,940	-4,930	-4,920	-4,900	-23,920
76 Accelerated depreciation of machinery and equipment (normal tax method)	39,090	-14,300	-8,170	-3,610	610	3,970	6,930	-270	16,800	3,160	4,350	2,420	5,400	6,970	8,200	27,340
77 Expensing of certain small investments (normal tax method)	200	60	180	-800	-440	-250	-120	-1,430	730	30	730	-2600	-1240	-600	-140	-3,850
78 Graduated corporation income tax rate (normal tax method)	2,460	2,460	2,880	3,090	3,120	3,300	3,310	15,700								
79 Exclusion of interest on small issue bonds	60	110	110	110	120	120	120	580	80	210	220	240	260	270	280	1,270
80 Deduction for U.S. production activities	8,630	8,760	11,380	13,560	14,380	15,260	16,070	70,650	2,030	2,060	2,760	3,330	3,530	3,750	3,940	17,310
81 Special rules for certain film and TV production	60	50	-40	-80	-60	-40	-30	-250	10	10	-10	-20	-20	-10	-10	-70
Transportation:																
82 Deferral of tax on shipping companies	20	20	20	20	20	20	20	100								
83 Exclusion of reimbursed employee parking expenses									2,920	3,000	3,120	3,270	3,400	3,520	3,630	16,940
84 Exclusion for employer-provided transit passes									480	500	530	570	600	630	660	2,990
85 Tax credit for certain expenditures for maintaining railroad tracks	160	160	60	20	10	10	0	100	20	20	10	0	0	0	0	10
86 Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	20	20	30	30	20	10	10	100	60	70	70	70	70	50	50	310
Community and regional development:																
87 Investment credit for rehabilitation of structures (other than historic)	20	20	20	20	20	20	20	100	20	20	20	20	20	30	30	120
88 Exclusion of interest for airport, dock, and similar bonds	160	280	280	290	300	310	320	1,500	220	540	570	630	690	710	730	3,330
89 Exemption of certain mutuals' and cooperatives' income	70	70	70	70	70	80	80	370								
90 Empowerment zones and renewal communities	-400	-470	-200	-50	-120	-150	-180	-700	-1,250	-1,490	-950	-370	-560	-680	-760	-3,320
91 New markets tax credit	250	280	260	230	200	140	70	900	740	830	790	690	610	440	230	2,760
92 Expensing of environmental remediation costs	490	240	20	-120	-120	-120	-110	-450	100	50	0	-20	-20	-20	-20	-80
93 Credit to holders of Gulf Tax Credit Bonds	0	0	20	20	20	10	10	80	10	30	60	60	50	40	40	250
Education, training, employment, and social services:																
Education:																
94 Exclusion of scholarship and fellowship income (normal tax method)									2,000	2,080	2,160	2,250	2,340	2,440	2,540	11,730
95 HOPE tax credit									3,770	3,800	3,890	4,650	5,100	5,340	5,580	24,560
96 Lifetime Learning tax credit									2,470	2,460	2,510	2,980	3,260	3,410	3,570	15,730
97 Education Individual Retirement Accounts									30	40	60	70	80	80	90	380

Table 19–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2008–2014—Continued
(In millions of dollars)

	Corporations								Individuals							
	2008	2009	2010	2011	2012	2013	2014	2010–14	2008	2009	2010	2011	2012	2013	2014	2010–14
153									540	580	620	690	740	780	810	3,640
154									5,380	5,740	6,130	6,390	8,530	8,790	9,140	38,980
155									20	10	0	0	0	0	0	0
Social Security:																
156									19,700	20,610	19,330	20,420	23,130	25,350	25,750	113,980
157									5,420	5,770	5,840	6,230	6,750	7,090	7,140	33,050
158									3,570	3,610	3,280	3,350	3,670	3,880	3,800	17,980
Veterans benefits and services:																
159									3,870	3,950	4,140	4,480	4,850	5,260	5,690	24,420
160									180	180	180	190	220	220	220	1,030
161									280	280	290	300	330	330	340	1,590
162									0	10	10	10	10	10	10	100
General purpose fiscal assistance:																
163									4,190	7,100	7,320	7,540	7,760	7,990	8,230	38,840
164									6,920	17,510	18,410	20,280	22,050	22,710	23,390	106,840
									49,140	36,270	30,290	48,750	60,350	63,330	65,390	268,110
Interest:																
165									1,310	1,320	1,330	1,380	1,470	1,490	1,500	7,170
Addendum: Aid to State and local governments:																
									29,130	20,850	14,980	24,550	30,630	31,870	32,540	134,570
									49,140	36,270	30,290	48,750	60,350	63,330	65,390	268,110
									4,190	7,100	7,320	7,540	7,760	7,990	8,230	38,840
									0	10	10	10	10	10	10	90
									70	120	130	130	140	140	140	1,500
									60	110	110	110	120	120	120	1,270
									200	330	340	350	360	370	390	4,000
									180	300	310	320	320	330	340	3,580
									160	280	280	290	300	310	320	3,330
									90	160	160	170	170	180	180	1,910
									370	630	650	670	690	710	730	7,590
									580	990	1020	1050	1080	1110	1150	11,890
									0	10	10	10	10	10	10	100
									0	0	0	0	0	0	0	50
									160	170	170	170	160	140	130	770

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.

¹In addition, the alcohol fuel credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2008 \$4,410; 2009 \$4,730; 2010 \$5,230; 2011 \$1,630; 2012 \$0; 2013 \$0; 2014 \$0.

²In addition, the bio-diesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2008 \$940; 2009 \$780; 2010 \$70; 2011 \$60; 2012 \$40; 2013 \$40; 2014 \$10.

³An alternative calculation for this tax expenditure based on pre-2005 methodology is shown in Table 19-4.

⁴The 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: 2008 \$34,020; 2009 \$26,940; 2010 \$17,230; 2011 \$16,740; 2012 \$1,510; 2013 \$1,490; and 2014 \$1,480.

⁵The 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: 2008 \$83,150; 2009 \$86,490; 2010 \$91,460; 2011 \$97,820; 2012 \$104,660; 2013 \$111,000; and 2014 \$117,560.

⁶The figures in the table indicate the effect of the health insurance tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2008 \$100; 2009 \$100; 2010 \$110; 2011 \$110; 2012 \$120; 2013 \$140; and 2014 \$150.

⁷The 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: 2008 \$45,280; 2009 \$42,270; 2010 \$49,730; 2011 \$50,950; 2012 \$45,840; 2013 \$46,670; and 2014 \$47,970.

tax. For example, under the normal and reference tax baselines:

- Income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as a tax expenditure. Accrued income would be taxed under a comprehensive income tax.
- There is a separate corporate income tax. Under a comprehensive income tax, corporate income would be taxed only once – at the shareholder level, whether or not distributed in the form of dividends.
- Noncorporate tax rates vary by level of income.
- Individual tax rates, including brackets, standard deduction, and personal exemptions, are allowed to vary with marital status.
- Values of assets and debt are not generally adjusted for inflation. A comprehensive income tax would adjust the cost basis of capital assets and debt for changes in the general price level. Thus, under a comprehensive income tax baseline, the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure (i.e., a tax penalty), and failure to take account of inflation in measuring interest costs would be regarded as a positive tax expenditure (i.e., a tax subsidy).

Although the reference law and normal tax baselines are generally similar, areas of difference include:

Tax rates. The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The normal tax baseline is similar, except that, by convention, it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first \$10 million of corporate income are thus regarded as a tax expenditure under the normal tax. By convention, the Alternative Minimum Tax is treated as part of the baseline rate structure under both the reference and normal tax methods.

Income subject to the tax. Income subject to tax is defined as gross income less the costs of earning that income. Under the reference tax rules, gross income does not include gifts defined as receipts of money or property that are not consideration in an exchange nor does gross income include most transfer payments from the Government.² The normal tax baseline also excludes gifts between individuals from gross income. Under the normal tax baseline, however, all cash transfer payments from the Government to private individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining tax-

able 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. The latter represents a change in the calculation of the tax expenditure under normal law first made in the 2004 Budget.

Treatment of foreign income. Both the normal and reference tax baselines allow a tax credit for foreign income taxes paid (up to the amount of U.S. income taxes that would otherwise be due), which prevents double taxation of income earned abroad. Under the normal tax method, however, controlled foreign corporations (CFCs) are not regarded as entities separate from their controlling U.S. shareholders. Thus, the deferral of tax on income received by CFCs is regarded as a tax expenditure under this method. In contrast, except for tax haven activities, the reference law baseline follows current law in treating CFCs as separate taxable entities whose income is not subject to U.S. tax until distributed to U.S. taxpayers. Under this baseline, deferral of tax on CFC income is not a tax expenditure because U.S. taxpayers generally are not taxed on accrued, but unrealized, income.

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this chapter follow. These descriptions relate to current law as of December 31, 2008, and do not reflect proposals made elsewhere in the Budget. Legislation enacted in 2008, such as the Energy Improvement and Extension Act of 2008, the Tax Extenders and Alternative Minimum Tax Relief Act of 2008, the Emergency Economic Stabilization Act of 2008, the Economic Stimulus Act of 2008, the Heroes Earnings Assistance and Relief Tax Act of 2008, the Food, Conservation, and Energy Act of 2008, and the Housing and Economic Recovery Act of 2008 introduced many changes which for the most part expanded the scope of a number of existing provisions in the Tax Code.

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

² Gross income does, however, include transfer payments associated with past employment, such as Social Security benefits.

³ In the case of individuals who hold “passive” equity interests in businesses, the pro-rata shares of sales and expense deductions reportable in a year are limited. A passive business activity is defined generally to be one in which the holder of the interest, usually a partnership interest, does not actively perform managerial or other participatory functions. The taxpayer may generally report no larger deductions for a year than will reduce taxable income from such activities to zero. Deductions in excess of the limitation may be taken in subsequent years, or when the interest is liquidated. In addition, costs of earning income may be limited under the Alternative Minimum Tax.

Table 19-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2010–2014 PROJECTED REVENUE EFFECT
(In millions of dollars)

Provision	2010	2010–14
126 Exclusion of employer contributions for medical insurance premiums and medical care	155,050	923,740
58 Deductibility of mortgage interest on owner-occupied homes	107,980	646,080
142 401(k) plans	53,000	343,000
120 Deductibility of charitable contributions, other than education and health	46,980	273,990
164 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	30,290	268,110
61 Capital gains exclusion on home sales	30,460	234,700
141 Employer plans	44,370	214,240
5 Deferral of income from controlled foreign corporations (normal tax method)	32,720	169,140
72 Step-up basis of capital gains at death	20,830	148,510
51 Exclusion of interest on life insurance savings	24,450	148,490
163 Exclusion of interest on public purpose State and local bonds	25,730	145,680
70 Capital gains (except agriculture, timber, and coal)	28,920	135,400
59 Deductibility of State and local property tax on owner-occupied homes	14,980	134,570
156 Social Security benefits for retired workers	19,330	113,980
80 Deduction for U.S. production activities	14,140	87,960
145 Keogh plans	14,000	87,000
143 Individual Retirement Accounts	13,500	79,000
117 Child credit	27,032	76,054
129 Deductibility of medical expenses	10,760	74,160
65 Accelerated depreciation on rental housing (normal tax method)	10,770	71,860
1 Exclusion of benefits and allowances to Armed Forces personnel	10,210	54,590
63 Exception from passive loss rules for \$25,000 of rental loss	9,160	49,690
154 Earned income tax credit	6,130	38,980
127 Self-employed medical insurance premiums	6,020	37,540
157 Social Security benefits for disabled	5,840	33,050
137 Exclusion of workers' compensation benefits	6,010	31,020
131 Deductibility of charitable contributions (health)	5,300	30,900
2 Exclusion of income earned abroad by U.S. citizens	5,590	30,880
106 Deductibility of charitable contributions (education)	5,270	30,660
6 Deferred taxes for financial firms on certain income earned overseas	5,770	29,850
64 Credit for low-income housing investments	4,340	27,640
7 Expensing of research and experimentation expenditures (normal tax method)	3,500	27,400
76 Accelerated depreciation of machinery and equipment (normal tax method)	-3,820	27,070
95 HOPE tax credit	3,890	24,560
159 Exclusion of veterans death benefits and disability compensation	4,140	24,420
158 Social Security benefits for dependents and survivors	3,280	17,980
130 Exclusion of interest on hospital construction bonds	3,070	17,300
8 Credit for increasing research activities	5,880	17,230
83 Exclusion of reimbursed employee parking expenses	3,120	16,940
96 Lifetime Learning tax credit	2,510	15,730
78 Graduated corporation income tax rate (normal tax method)	2,880	15,700
4 Inventory property sales source rules exception	2,640	15,600
151 Additional deduction for the elderly	1,940	15,000
62 Exclusion of net imputed rental income	-2,200	13,820
105 Parental personal exemption for students age 19 or over	1,660	12,900
146 Premiums on group term life insurance	2,320	12,260
94 Exclusion of scholarship and fellowship income (normal tax method)	2,160	11,730
128 Medical Savings Accounts / Health Savings Accounts	2,030	11,220
102 Exclusion of interest on bonds for private nonprofit educational facilities	1,960	11,040
149 Special ESOP rules	1,800	10,600
100 State prepaid tuition plans	1,480	9,250
118 Credit for child and dependent care expenses	2,070	8,820
60 Deferral of income from installment sales	1,370	8,280
9 Expensing of exploration and development costs, fuels	2,390	8,020
112 Employer provided child care exclusion	1,480	7,840
165 Deferral of interest on U.S. savings bonds	1,330	7,170
73 Carryover basis of capital gains on gifts	710	6,950
10 Excess of percentage over cost depletion, fuels	1,350	6,890
50 Exemption of credit union income	1,230	6,650
47 Capital gains treatment of certain income	1,390	6,480
116 Exclusion of employee meals and lodging (other than military)	1,060	5,870
56 Exclusion of interest on owner-occupied mortgage subsidy bonds	1,030	5,810
15 New technology credit	1,180	5,770
98 Deductibility of student-loan interest	1,270	5,430

Table 19-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2010–2014 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

Provision	2010	2010–14
3 Exclusion of certain allowances for Federal employees abroad	970	5,360
57 Exclusion of interest on rental housing bonds	930	5,200
144 Low and moderate income savers credit	1,050	4,970
88 Exclusion of interest for airport, dock, and similar bonds	850	4,830
35 Excess of percentage over cost depletion, nonfuel minerals	770	4,080
24 Temporary 50% expensing for equipment used in the refining of liquid fuels	890	3,920
91 New markets tax credit	1,050	3,660
153 Deductibility of casualty losses	620	3,640
122 Exclusion of parsonage allowances	620	3,510
138 Exclusion of public assistance benefits (normal tax method)	620	3,480
133 Special Blue Cross/Blue Shield deduction	650	3,350
84 Exclusion for employer-provided transit passes	530	2,990
39 Tax incentives for preservation of historic structures	520	2,900
101 Exclusion of interest on student-loan bonds	490	2,770
114 Assistance for adopted foster children	480	2,740
121 Exclusion of certain foster care payments	480	2,400
110 Work opportunity tax credit	790	2,380
132 Tax credit for orphan drug research	360	2,310
36 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	390	2,180
55 Exclusion of interest spread of financial institutions	240	1,930
135 Distributions from retirement plans for premiums for health and long-term care insurance	310	1,910
79 Exclusion of interest on small issue bonds	330	1,850
136 Exclusion of railroad retirement system benefits	370	1,820
147 Premiums on accident and disability insurance	330	1,740
38 Expensing of multiperiod timber growing costs	310	1,620
161 Exclusion of GI bill benefits	290	1,590
99 Deduction for higher education expenses	1,430	1,430
71 Capital gains exclusion of small corporation stock	60	1,320
115 Adoption credit and exclusion	500	1,260
23 Credit for investment in clean coal facilities	290	1,230
34 Expensing of exploration and development costs, nonfuel minerals	230	1,200
140 Exclusion of military disability pensions	150	1,130
53 Tax exemption of certain insurance companies owned by tax-exempt organizations	200	1,040
160 Exclusion of veterans pensions	180	1,030
17 Alcohol fuel credits	90	900
103 Credit for holders of zone academy bonds	170	770
107 Exclusion of employer-provided educational assistance	710	750
42 Industrial CO ₂ capture and sequestration tax credit	0	700
27 Allowance of deduction for certain energy efficient commercial building property	210	680
66 Discharge of mortgage indebtedness	260	670
13 Capital gains treatment of royalties on coal	140	630
37 Capital gains treatment of certain timber income	140	630
44 Expensing of certain capital outlays	110	590
20 Exclusion of utility conservation subsidies	110	550
25 Natural gas distribution pipelines treated as 15-year property	110	530
26 Amortize all geological and geophysical expenditures over 2 years	130	440
45 Expensing of certain multiperiod production costs	80	430
86 Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	100	410
48 Income averaging for farmers	80	400
97 Education Individual Retirement Accounts	60	380
89 Exemption of certain mutuals' and cooperatives' income	70	370
21 Credit for holding clean renewable energy bonds	70	350
93 Credit to holders of Gulf Tax Credit Bonds	80	330
74 Ordinary income treatment of loss from small business corporation stock sale	60	300
19 Tax credit and deduction for clean-fuel burning vehicles	80	290
16 Energy investment credit	50	250
54 Small life insurance company deduction	50	250
69 Exceptions from imputed interest rules	50	250
52 Special alternative tax on small property and casualty insurance companies	40	240
148 Income of trusts to finance supplementary unemployment benefits	40	230
87 Investment credit for rehabilitation of structures (other than historic)	40	220
150 Additional deduction for the blind	30	220
139 Exclusion of special benefits for disabled coal miners	40	200
30 Credit for energy efficient appliances	130	180

Table 19-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2010–2014 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

Provision	2010	2010–14
68 Cancellation of indebtedness	20	180
41 Exclusion of gain or loss on sale or exchange of certain brownfield sites	40	170
33 Qualified energy conservation bonds	10	160
108 Special deduction for teacher expenses	160	160
29 Credit for energy efficiency improvements to existing homes	150	150
119 Credit for disabled access expenditures	30	150
162 Exclusion of interest on veterans housing bonds	30	150
14 Exclusion of interest on energy facility bonds	20	140
124 Exclusion for benefits provided to volunteer EMS and firefighters	80	140
43 Deduction for endangered species recovery expenditures	20	130
85 Tax credit for certain expenditures for maintaining railroad tracks	70	110
11 Alternative fuel production credit	80	100
49 Deferral of gain on sale of farm refiners	20	100
82 Deferral of tax on shipping companies	20	100
104 Exclusion of interest on savings bonds redeemed to finance educational expenses	20	100
109 Discharge of student loan indebtedness	20	100
46 Treatment of loans forgiven for solvent farmers	10	90
12 Exception from passive loss limitation for working interests in oil and gas properties	10	50
134 Tax credit for health insurance purchased by certain displaced and retired individuals	10	50
152 Tax credit for the elderly and disabled	10	50
111 Welfare-to-work tax credit	20	40
113 Employer-provided child care credit	30	40
123 Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma	40	40
18 Bio-Diesel and small agri-biodiesel producer tax credits	20	20
31 30% credit for residential purchases/installations of solar and fuel cells	20	20
40 Expensing of capital costs with respect to complying with EPA sulfur regulations	30	20
28 Credit for construction of new energy efficient homes	10	10
32 Partial expensing for advanced mine safety equipment	0	0
125 Temporary income exclusion for employer provided lodging in Midwestern disaster area	0	0
155 Additional exemption for housing Hurricane Katrina displaced individuals	0	0
81 Special rules for certain film and TV production	-50	-320
92 Expensing of environmental remediation costs	20	-530
22 Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	-120	-1,810
90 Empowerment zones, Enterprise communities, and Renewal communities	-1,150	-4,020
77 Expensing of certain small investments (normal tax method)	910	-5,280
67 Credit for first-time homebuyer	-1,350	-6,120
75 Accelerated depreciation of buildings other than rental housing (normal tax method)	-6,560	-35,990

Table 19-4. ALTERNATIVE ESTIMATES FOR CAPITAL GAINS AND DIVIDENDS, PRE-2005 METHODOLOGY
(In millions of dollars)

	2008	2009	2010	2011	2012	2013	2014	2010-14
Capital Gains *.....	59,230	57,760	70,640	60,690	58,380	66,600	74,450	330,760
Qualified Dividends.....	21,400	23,110	45,390	18,750	.....	.....	.....	64,140

* This is an alternative estimate for tax expenditure provision number 70. It does not include tax expenditures for capital gains from agriculture, timber, and coal. These are listed separately in tables 19-1 and 19-2.

Table 19-5. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2008
(In millions of dollars)

Provision	2008 Present Value of Revenue Loss
5 Deferral of income from controlled foreign corporations (normal tax method)	19,100
6 Deferred taxes for financial firms on income earned overseas	3,370
7 Expensing of research and experimentation expenditures (normal tax method)	2,750
21 Credit for holding clean renewable energy bonds	360
9 Expensing of exploration and development costs - fuels	510
34 Expensing of exploration and development costs - nonfuels	40
38 Expensing of multiperiod timber growing costs	190
45 Expensing of certain multiperiod production costs - agriculture	150
44 Expensing of certain capital outlays - agriculture	200
51 Deferral of income on life insurance and annuity contracts	19,310
65 Accelerated depreciation on rental housing	7,290
75 Accelerated depreciation of buildings other than rental	-3,720
76 Accelerated depreciation of machinery and equipment	18,600
77 Expensing of certain small investments (normal tax method)	504
82 Deferral of tax on shipping companies	20
103 Credit for holders of zone academy bonds	160
64 Credit for low-income housing investments	5,020
100 Deferral for State prepaid tuition plans	7,400
141 Exclusion of pension contributions - employer plans	71,270
142 Exclusion of 401(k) contributions	132,000
143 Exclusion of IRA contributions and earnings	4,900
143 Exclusion of Roth earnings and distributions	500
143 Exclusion of non-deductible IRA earnings	9,200
145 Exclusion of contributions and earnings for Keogh plans	8,290
163 Exclusion of interest on public-purpose bonds	24,920
Exclusion of interest on non-public purpose bonds	8,930
165 Deferral of interest on U.S. savings bonds	330

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.

International Affairs

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 deduct against their U.S. taxes that portion of such expenses that exceeds one-sixth the salary of a civil servant at grade GS-14, step 1 (\$81,093 in 2008).

3. *Exclusion of certain allowances for Federal employees abroad.*—In general, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as an allowance for the high cost of living abroad. In contrast to this treatment, U.S. Federal civilian employees and Peace Corps members who work outside the continental United States are allowed to exclude from U.S. taxable income certain special allowances they receive to compensate them for the relatively high costs associated with living overseas. The allowances supplement wage income and cover expenses such as rent, education, and the cost of travel to and from the United States.

4. *Sales source rule exceptions.*—The United States generally taxes the worldwide income of U.S. persons, with taxpayers receiving a credit for foreign taxes paid, limited to the pre-credit U.S. tax on the foreign source income. In contrast, the sales source rules for inventory property allow U.S. exporters to use more foreign tax credits by allowing the exporters to attribute a larger portion of their earnings abroad than would be the case if the allocation of earnings was based on actual economic activity.

5. *Income of U.S.-controlled foreign corporations.*—The United States generally taxes the worldwide income of U.S. persons and business entities. In contrast, certain active income of foreign corporations controlled by U.S. shareholders is not subject to U.S. taxation when it is earned. The income becomes taxable only when the controlling U.S. shareholders receive dividends or other distributions from their foreign stockholding. The reference law tax baseline reflects this tax treatment where only realized income is taxed. Under the normal tax method, however, the currently attributable foreign source pre-tax income from such a controlling interest is considered to be subject to U.S. taxation, whether or not distributed. Thus,

the normal tax method considers the amount of controlled foreign corporation income not yet distributed to a U.S. shareholder as tax-deferred income.

6. *Exceptions under subpart F for active financing income.*—The United States generally taxes the worldwide income of U.S. persons and business entities. It would not allow the deferral of tax or other relief targeted at particular industries or activities. In contrast, under current law, financial firms may defer taxes on income earned overseas in an active business.

General Science, Space, and Technology

7. *Expensing R&E expenditures.*—Research and experimentation (R&E) projects can be viewed as investments because, if successful, their benefits accrue for several years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Because of this ambiguity, the reference law baseline tax system would allow of expensing of R&E expenditures. In contrast, under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years.

8. *R&E credit.*—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows an R&E credit of 20 percent of qualified research expenditures in excess of a base amount.

The base amount is generally determined by multiplying a “fixed-base percentage” by the average amount of the company’s gross receipts for the prior four years. The taxpayer’s fixed base percentage generally is the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers can elect the alternative simplified credit regime, which is equal to 14 percent (12 percent prior to 2009) of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years. Prior to January 1, 2009, taxpayers could also elect an alternative incremental credit regime. Under the alternative incremental credit regime the taxpayer was assigned a three-tiered fixed base percentage that is lower than the fixed-base percentage that would otherwise apply, and the credit rate was reduced. The rates for the alternative incremental credit ranged from 3 percent to 5 percent. The research credit expires 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 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 2008, 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.

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, invest-

ments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows an income tax credit for bio-diesel used or sold and for bio-diesel derived from virgin sources. In lieu of the bio-diesel credit, the taxpayer may claim a refundable excise tax credit. In addition, small agri-biodiesel producers are eligible for a separate income tax credit for ethanol production and a separate credit is available for qualified renewable diesel fuel mixtures.

19. Credit and deduction for clean-fuel vehicles and property and alternative motor vehicle credits.—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 and deductions for certain types of vehicles. These are available for the purchase of hybrid vehicles, fuel cell vehicles, alternative fuel vehicles and advanced lean burn vehicles and the installing of refueling property.

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.

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. Expensing for advanced mine safety equipment.—The baseline tax system generally allows depreciation deductions based on estimates of the decline in the value of an asset as it ages. It would not allow faster write-offs for a particular class of assets or industries. In contrast, the Tax Code allows qualified mine safety equipment placed in service before 2009 to be expensed (deducted immediately) rather than depreciated over time.

33. 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.

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 2008, 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 allows the taxpayer to deduct the decline in the economic value of an investment over time. 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. Expensing of capital costs with respect to complying with EPA sulfur regulations.—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. However, the Tax Code allows small refiners to deduct 75 percent of qualified capital costs incurred during the taxable year, thereby accelerating cost recovery relative to economic depreciation.

41. Exclusion of gain or loss on sale or exchange of certain brownfield sites.—In general, a tax-exempt organization must pay taxes on income from activities unrelated to its nonprofit status. The Tax Code, however, provides a special exclusion from unrelated business taxable income of the gain or loss from the sale or exchange of certain qualifying brownfield properties.

42. Industrial CO₂ capture and sequestration tax credit.—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows a credit of \$20 per metric ton for qualified carbon dioxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit of \$10 per metric ton of qualified carbon dioxide that is captured at a qualified facility and as a tertiary injectant in a qualified enhanced oil or natural gas recovery project.

43. Deduction for endangered species recovery expenditures.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, under current law farmers can deduct up to 25 percent of their gross income for expenses incurred as a result of site and habitat improvement activities that will benefit endangered species on their farm land, in accordance with site specific management actions included in species recovery plans approved pursuant to the Endangered Species Act of 1973.

Agriculture

44. Expensing certain capital outlays.—The baseline tax system allows the taxpayer to deduct the de-

cline in the economic value of an investment over time. However, farmers may expense certain expenditures for feed and fertilizer as well as for soil and water conservation measures as well as other capital improvements under current law.

45. **Expensing multi-period livestock and crop production costs.**—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. However, the production of livestock and crops with a production period greater than two years (e.g., establishing orchards or constructing barns) is exempt from the uniform cost capitalization rules, thereby accelerating cost recovery.

46. **Loans forgiven solvent farmers.**—The baseline tax system requires debtors to include the amount of loan forgiveness as income or else reduce their recoverable basis in the property related to the loan. If the amount of forgiveness exceeds the basis, the excess forgiveness is taxable. However, for bankrupt debtors, the amount of loan forgiveness reduces carryover losses, unused credits, and then basis, with the remainder of the forgiven debt excluded from taxation.

47. **Capital gains treatment of certain income.**—For individuals in 2008, 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.

48. **Income averaging for farmers.**—The baseline tax system generally taxes all earned income each year at the rate determined by the income tax. However, taxpayers may average their taxable income from farming and fishing over the previous three years.

49. **Deferral of gain on sales of farm refiners.**—The baseline tax system generally subjects capital gains to taxes the year that they are realized. However, the Tax Code allows a taxpayer who sells stock in a farm refiner to a farmers' cooperative to defer recognition of the gain if the proceeds are re-invested in a qualified replacement property.

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.**—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 non-profit organizations pay for some deposit-linked services, such as check cashing, by accepting a below-market interest rate on their demand deposits. If they received a

market rate of interest on those deposits and paid explicit fees for the associated services, they would pay taxes on the full market rate and (unlike businesses) could not deduct the fees. The Government thus foregoes tax on the difference between the risk-free market interest rate and below-market interest rates on demand deposits, which under competitive conditions should equal the value added of deposit services.

56. Mortgage housing bonds.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance homes purchased by first-time, low-to-moderate-income buyers to be exempt. These bonds are generally subject to the State private-activity-bond annual volume cap.

57. Rental housing bonds.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local government bonds used to finance multifamily rental housing projects to be tax-exempt.

58. Interest on owner-occupied homes.—The baseline tax system would allow the write-off of expenses incurred in earning income. It would not allow the deductibility of expenses when income or the return on investments are not taxed. In contrast, the Tax Code provides that owner-occupants of homes may deduct mortgage interest on their primary and secondary residences as itemized nonbusiness deductions even though the value of owner-occupied housing services is not included in a taxpayer's taxable income. 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 debt does not exceed the fair market value of the residence.

59. Taxes on owner-occupied homes.—The Tax Code allows owner-occupants of homes to deduct property taxes on their primary and secondary residences even though they are not required to report the value of owner-occupied housing services as gross income.

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 includable in the total. The payment of a market rate of interest eliminates the benefit of the tax deferral. The tax exemp-

tion 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 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, 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.—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, the implicit rental value of home ownership, net of expenses such as mortgage interest and depreciation, is excluded from income.

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 working interests in rental real estate activities are exempt from "passive income" limitations. The exemption is limited to \$25,000 in losses.

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 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 refer-

ence law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

66. Discharge of mortgage indebtedness.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from the income of a taxpayer any discharge of indebtedness of a qualified principal residence. The provision sunsets on December 31, 2009.

67. Credit for first-time 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 of \$7,500 for first time home buyers on purchases on or after April 9, 2008 and before July 1, 2009. The credit will be repaid by the homeowner over time.

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. Capital gains (other than agriculture, timber, and coal).—For individuals in 2008, 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. Table 19-4 shows the full tax expenditure from taxing capital gains (other than capital gains from agriculture, timber, and coal) at a preferential rate. Tables 19-1 to 19-3 show the tax expenditure limited only to capital gains that have not been previously taxed under the corporate income tax.

71. Capital gains exclusion for small business stock.—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 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 in 2009 and 2010. A qualified small business is a corporation whose gross assets do not exceed \$50 million as of the date of issuance of the stock.

72. Step-up in basis of capital gains at death.—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, 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 upward to the market value at the owner's date of death.

73. Carryover basis of capital gains on gifts.—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 tax deferral to apply to certain types or sources of income. In contrast, when a gift of appreciated asset is made under current law, the donor's basis in the transferred property (the cost that was incurred when the transferred property was first acquired) carries over to the donee. The carryover of the donor's basis allows a continued deferral of unrealized capital gains.

74. Ordinary income treatment of losses from sale of small business corporate stock shares.—The baseline tax system limits to \$3,000 the write-off of losses from capital assets, with carryover of the excess to future years. In contrast, the Tax Code allows up to \$100,000 in losses from the sale of small business corporate stock (capitalization less than \$1 million) to be treated as ordinary losses and fully deducted.

75. Accelerated 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 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.

76. Accelerated depreciation of machinery and equipment.—Under an economic income tax, the costs of acquiring machinery and equipment are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the 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.

77. Expensing of certain small investments.—Under the reference law baseline, the costs of acquiring tangible property and computer software would be depreciated using the Tax Code's depreciation provisions. Under the normal tax baseline, depreciation allowances are estimates of economic depreciation. However, the Tax Code allows qualifying investments by small businesses in tangible property and certain computer software to be expensed rather than depreciated over time.

78. Graduated corporation income tax rate schedule.—Because the corporate rate schedule is part of reference tax law, it is not considered a tax expenditure under the reference method. A flat corporation income tax rate is taken as the baseline under the normal tax method; therefore the lower rate is considered a tax expenditure under this concept.

79. Small issue industrial development bonds.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on small issue industrial development bonds (IDBs) issued by State and local governments to finance manufacturing facilities to be tax exempt. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The annual volume of small issue IDBs is subject to the unified volume cap discussed in the mortgage housing bond section above.

80. Deduction for U.S. production activities.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows for a deduction equal to a portion of taxable income attributable to domestic production.

81. Special rules for certain film and TV production.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law taxpayers may deduct up to \$15 million per production (\$20 million in certain distressed areas) in non-capital expenditures incurred during the year.

Transportation

82. Deferral of tax on U.S. shipping companies.—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows certain companies that operate U.S. flag vessels to defer income taxes on that portion of their income used for shipping purposes, primarily construction, modernization and major repairs to ships, and repayment of loans to finance these investments.

83. Exclusion of employee parking expenses.—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, under current law employee parking expenses that are paid for by the employer or that are received in lieu of wages are excludable from the income of the employee. In 2008, the maximum amount of the parking exclusion is \$220 (indexed) per month. The tax expenditure estimate does not include parking at facilities owned by the employer.

84. Exclusion of employee transit pass expenses.—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, under current law transit passes, tokens, fare cards, and vanpool expenses paid for by an employer or provided in lieu of wages to defray an employee's commuting costs are excludable from the employee's income. In 2008, the maximum amount of the exclusion is \$115 (indexed) per month.

85. 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.

86. 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

87. 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.

88. 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.

89. **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.

90. **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.

91. **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 \$3.5 billion in 2008.

92. **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.

93. **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.

Education, Training, Employment, and Social Services

94. **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).

95. **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 \$1,100 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 2008, the credit is phased out ratably for taxpayers with modified AGI between \$96,000 and \$116,000 (\$48,000 and \$58,000 for singles), indexed.

96. **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 \$96,000 and \$116,000 (\$48,000 and \$58,000 for singles) (indexed beginning in 2002). The credit applies to both undergraduate and graduate students.

97. **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 tuition and fees. The maximum contribution to an education IRA in 2008 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).

98. **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 2008, the maximum deduction is phased down ratably for taxpayers with modified AGI between \$110,000 and \$140,000 (\$55,000 and \$70,000 for singles), indexed.

99. **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 2008 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. No deduction is allowed for expenses paid after December 31, 2008.

100. **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 is not taxed when earned, and is tax-exempt when withdrawn to pay for qualified expenses.

101. **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.

102. **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.

103. **Credit for holders of zone academy bonds.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. The total amount of zone academy bonds that may be issued is limited to \$400 million in each year.

104. **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 \$100,650 and \$130,650 (\$67,100 and \$81,100 for singles) in 2008.

105. **Dependent students age 19 or older.**—The tax rate schedule, including personal exemptions and the standard deduction, are part of the baseline tax system. Additional exemptions to targeted groups are not allowed. In contrast, the Tax Code provides taxpayers 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. However, under current law, the dependent/student is not eligible to claim a personal exemption on his or her own tax return.

106. **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.

107. **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.

108. **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 at end of December 31, 2008.

109. **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, and as a consequence get their student loans discharged, not to recognize such discharge as income.

110. **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.

111. **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.

112. *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.

113. *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.

114. *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.

115. *Adoption credit and exclusion.*—The baseline tax system would not allow credits for particular activities. Instead, taxpayers can receive a nonrefundable tax credit for qualified adoption expenses under current law. The maximum credit is \$11,650 per child for 2008, and is phased-out ratably for taxpayers with modified AGI between \$174,730 and \$214,630. 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.

116. *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.

117. *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).

118. *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 2008, 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.

119. *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.

120. *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.

121. *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.

122. *Parsonage allowances.*—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, the value of a clergyman's housing allowance and the rental value of parsonages are not included in a minister's taxable income under current law.

123. *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.

124. Exclusion for benefits provided to volunteer EMS and firefighters.—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 provides that certain benefits received by volunteer EMS and firefighters excluded from income.

125. Temporary income exclusion for employer provided lodging in Midwestern disaster area.—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 in disaster areas are excluded from an employee's gross income even though the employer's costs for these items are a deductible business expense.

Health

126. 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. The self-employed also may deduct part of their family health insurance premiums.

127. 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 a percentage of their family health insurance premiums. Taxpayers without self-employment income are not eligible for the special percentage deduction. The deductible percentage is 60 percent in 2001, 70 percent in 2002, and 100 percent in 2003 and thereafter.

128. 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 2008, \$2900 for taxpayers with individual coverage and \$5,800 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

129. 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.

130. 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.

131. 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.

132. 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.

133. 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 (or zero) 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 (or even eliminate) their tax liabilities.

134. 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.

135. 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

136. **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.

137. **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 provides payments to disabled workers. These benefits, although income to the recipients, are not subject to the income tax under current law.

138. **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.

139. **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.

140. **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.

141. **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 the pension plans is deferred until the money is withdrawn.

142. **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 2008, an employee could exclude up to \$15,500 (indexed) of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude an additional \$5,000 "catch-up" contribution (indexed). The tax on the investment income earned by 401(k)-type plans is deferred until withdrawn.

143. **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 several different IRAs to defer or otherwise reduce the tax on the return to their retirement savings. These arrangements include deductible IRAs, nondeductible IRAs and Roth IRAs. The IRA contribution limit is \$5,000 in 2008 (indexed thereafter) and allows taxpayers over age 50 to make additional "catch-up" contributions of \$1,000. Taxpayers can make a deductible IRA contribution only up to certain levels of AGI. Above those AGI limits, the amount that may be deducted is reduced and eventually phased out. There is no income limit for nondeductible IRA contributions, which 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. AGI limits also apply to Roth IRA contributions.

144. **Low and moderate-income savers' credit.**—The baseline tax system would not allow credits for particular activities or targeted at specific group. 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 \$52,000 for joint filers and \$26,000 for single filers.

145. **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 \$46,000 in 2008. 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.

146. **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.

147. **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.

148. **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 ben-

efits to employees separated from employment. Interest payments to such trusts are exempt from taxation.

149. 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. 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; (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.

150. Additional deduction for the blind.—The tax rate schedule, including personal exemptions and the standard deduction, are part of the baseline tax system. Additional exemptions to targeted groups are not allowed. In contrast, the Tax Code provides taxpayers who are blind an additional \$1,350 standard deduction if single, or \$1,050 if married in 2008.

151. Additional deduction for the elderly.—The tax rate schedule, including personal exemptions and the standard deduction, are part of the baseline tax system. Additional exemptions to targeted groups are not allowed. In contrast, the Tax Code provides taxpayers who are 65 years or older an additional \$1,350 standard deduction if single, or \$1,050 if married in 2008.

152. Tax credit for the elderly and disabled.—The baseline tax system would not allow credits for particular activities or targeted at specific group. Under current law, however, individuals who are 65 years of age or older, or who are permanently disabled, can take a tax credit equal to 15 percent of the sum of their earned and retirement income. Income 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.

153. 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 reportable as a part of gross income and uninsured losses not deductible. In contrast, the Tax Code provides a deduction for uninsured casualty and theft losses of more than \$100 each, but only to the extent that total losses during the year exceed 10 percent of AGI.

154. 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 40 percent of income. For a family with one qualifying child, the credit is 34 percent of the first \$8,580 of earned income in 2008. The credit is 40 percent of the first \$12,060 of income for a family with two or more qualifying children. 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.

155. Additional exemption for housing natural disaster displaced individuals.—The tax rate schedule, including personal exemptions and the standard deduction, are part of the baseline tax system. Additional exemptions to targeted groups are not allowed. In contrast, the Tax Code provides additional exemption to persons displaced by natural disasters such as hurricane Katrina.

Social Security

156. Social Security benefits for retired workers.—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, the Tax Code may not tax all of the Social Security benefits that exceed the beneficiary's contributions out of taxed income. These additional retirement benefits are paid for partly by employers' contributions that were not included in employees' taxable compensation and partly by earnings on employee and employer contributions. Portions of benefits (reaching as much as 85 percent) of recipients' Social Security and tier 1 railroad retirement benefits are included in (phased-in) the income tax base, however, if the recipient's provisional income exceeds certain base amounts. Provisional income is equal to adjusted gross income plus foreign or U.S. possession income and tax-exempt interest, and one half of Social Security and tier 1 railroad retirement benefits. The tax expenditure is limited to the portion of the benefits received by taxpayers who are below the income amounts at which 85 percent of the benefits are taxable.

157. 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 156, Social Security benefits for retired workers.)

158. 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

159. **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.

160. **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.

161. **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.

162. **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

163. **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.

164. **Deductibility of certain nonbusiness State and local taxes.**—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers who itemize a deduction for State and local income taxes and property taxes (or at the taxpayer's election state and local sales taxes) even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible.

Interest

165. **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 A

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, however, may also contribute to achieving these goals. This Appendix responds to the report of the Senate Governmental Affairs Committee on GPRA⁴ calling on the Executive Branch to undertake a series of analyses to assess the effect of specific tax expenditures on the achievement of agencies' performance objectives.

Comparison of tax expenditure, spending, and regulatory policies. 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.⁵ Because there is an ex-

isting public administrative and private compliance structure for the tax system, the incremental administrative and compliance costs for a tax expenditure may be low in many cases. 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. 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.

⁴ Committee on Government Affairs, United States Senate, "Government Performance and Results Act of 1993" (Report 103-58, 1993).

⁵ Although this chapter focuses upon tax expenditures under the income tax, tax expendi-

tures 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 an excise tax exemption for certain types of consumption deemed meritorious.

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. These features may reduce the effectiveness of tax expenditures for addressing socioeconomic disparity. 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 direct Government service provision is particularly warranted such as equipping and providing 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 including 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, such as direct Government service provision may rely less directly on economic incentives and private-market provision than tax incentives, which may reduce the relative efficiency of spending programs for some goals. Finally, spending programs, particularly on the discretionary side, may respond less readily to changing activity levels and economic conditions than tax expenditures.

Regulations 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. However, major regulations are subjected to a formal regulatory

analysis that goes well beyond the analysis required for outlays and tax-expenditures. To some extent, the GPRA requirement for performance evaluation will address this lack of formal analysis.

Some policy objectives are achieved using multiple approaches. For example, minimum wage legislation, the earned income tax credit, and the food stamp program are regulatory, tax expenditure, and direct outlay programs, respectively, all having the objective of improving the economic welfare of low-wage workers.

Tax expenditures, like spending and regulatory programs, have a variety of objectives and effects. When measured against a comprehensive income tax, for example, 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); reducing private compliance costs and Government administrative costs (e.g., the exclusion for up to \$500,000 of capital gains on home sales); and promoting tax neutrality (e.g., accelerated depreciation in the presence of inflation). Some of these objectives are well suited to quantitative measurement, while others are less well suited. Also, many tax expenditures, including those cited above, may have more than one objective. For example, accelerated depreciation may encourage investment. In addition, the economic effects of particular provisions can extend beyond their intended objectives (e.g., a provision intended to promote an activity or raise certain incomes may have positive or negative effects on tax neutrality).

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.

Thus, for a provision that reduces taxes on certain investment activity, an increase in the amount of investment would likely be a key output. The resulting production from that investment, and, in turn, the associated improvements in national income, welfare, or security, could be the outcomes of interest. For other provisions, such as those designed to address a potential inequity or unintended consequence in the Tax Code, an important performance measure might be how they change effective tax rates (the discounted present value of taxes owed on new investments or incremental earnings) or excess burden (an economic measure of the distortions caused by taxes). Effects on the incomes of members of particular groups may be an important measure for certain provisions.

An Overview of Evaluation Issues by Budget Function.

The discussion below considers the types of measures that might be useful for some major programmatic groups of tax expenditures. The discussion is intended to be illustrative and not all encompassing. However, it is premised

on the assumption that the data needed to perform the analysis are available or can be developed. In practice, data availability is likely to be a major challenge, and data constraints may limit the assessment of the effectiveness of many provisions. In addition, such assessments can raise significant challenges in economic modeling.

National defense. Some tax expenditures are intended to assist governmental activities. For example, tax preferences for military benefits reflect, among other things, the view that benefits such as housing, subsistence, and moving expenses are intrinsic aspects of military service, and are provided, in part, for the benefit of the employer, the U.S. Government. Tax benefits for combat service are intended to reduce tax burdens on military personnel undertaking hazardous service for the Nation. A portion of the tax expenditure associated with foreign earnings is targeted to benefit U.S. Government civilian personnel working abroad by offsetting the living costs that can be higher than those in the United States. These tax expenditures should be considered together with direct agency budget costs in making programmatic decisions.

International affairs. Tax expenditures are also aimed at goals such as tax neutrality. These include the exclusion for income earned abroad by nongovernmental employees and exclusions for income of U.S.-controlled foreign corporations. Measuring the effectiveness of these provisions raises challenging issues.

General science, space and technology, energy, natural resources and the environment, agriculture, and commerce and housing. A series of tax expenditures reduces the cost of investment, both in specific activities such as research and experimentation, extractive industries, and certain financial activities and more generally, through accelerated depreciation for plant and equipment. These provisions can be evaluated along a number of dimensions. For example, it could be useful to consider the strength of the incentives by measuring their effects on the cost of capital (the interest rate 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).

Housing investment also benefits from tax expenditures. The imputed net rental income from owner-occupied housing is excluded from the tax base. The mortgage interest deduction and property tax deduction on personal residences also are reported as tax expenditures because the value of owner-occupied housing services is not included in a taxpayer's taxable income. Taxpayers also may exclude up to \$500,000 of the capital gains from the sale of personal residences. Measures of the effectiveness of these provisions could include their effects on increasing the extent of home ownership and the quality of housing. Similarly, analysis of the extent of accumulated inflationary gains is likely to be relevant to evaluation of the capital gains for home sales. Deductibility of State and local property taxes assists with making housing more affordable as well as easing the cost of providing community services through these taxes. Provisions intended to promote investment in rental housing could be evaluated for their effects on making such housing more available and affordable. These provisions should then be compared with alternative programs that address housing supply and demand.

Transportation. Employer-provided parking is a fringe benefit that, for the most part, is excluded from taxation. The tax expenditure estimates reflect the cost of parking that is leased by employers for employees; an estimate is not currently available for the value of parking owned by employers and provided to their employees. The exclusion for employer-provided transit passes is intended to promote use of this mode of transportation, which has environmental and congestion benefits. The tax treatments of these different benefits could be compared with alternative transportation policies.

Community and regional development. A series of tax expenditures is intended to promote community and regional development by reducing the costs of financing specialized infrastructure, such as airports, docks, and stadiums. Empowerment zone and enterprise community provisions are designed to promote activity in disadvantaged areas. These provisions can be compared with grants and other policies designed to spur economic development.

Education, training, employment, and social services. Major provisions in this function are intended to promote post-secondary education, to offset costs of raising children, and to promote a variety of charitable activities. The education incentives can be compared with loans, grants, and other programs designed to promote higher education and training. The child credits are intended to adjust the tax system for the costs of raising children; as such, they could be compared to other Federal tax and spending policies, including related features of the tax system, such as personal exemptions (which are not defined as a tax expenditure). Evaluation of charitable activities requires consideration of the beneficiaries of these activities, who are generally not the parties receiving the tax reduction.

Health. Individuals also benefit from favorable treatment of employer-provided health insurance. Measures of these benefits could include increased coverage and pooling of risks. The effects of insurance coverage on final outcome measures of actual health (e.g., infant mortality, days of work lost due to illness, or life expectancy) or intermediate outcomes (e.g., use of preventive health care or health care costs) could also be investigated.

Income security, Social Security, and veterans benefits and services. Major tax expenditures in the income security function benefit retirement savings, through employer-provided pensions, individual retirement accounts, and Keogh plans. These provisions might be evaluated in terms of their effects on boosting retirement incomes, private savings, and national savings (which would include the effect on private savings as well as public savings or deficits). Interactions with other programs, including Social Security, also may merit analysis. As in the case of employer-provided health insurance, analysis of employer-provided pension programs requires imputing the value of benefits funded at the firm level to individuals.

Other provisions principally affect the incomes of members of certain groups, rather than affecting incentives. For example, tax-favored treatment of Social Security benefits, certain veterans' benefits, and deductions for the blind and elderly provide increased incomes to eligible parties. The earned-income tax credit, in contrast, should be evaluated for its effects on labor force participation as well as the income it provides lower-income workers.

General purpose fiscal assistance and interest. The tax-exemption for public purpose State and local bonds reduces the costs of borrowing for a variety of purposes (borrowing for non-public purposes is reflected under other budget functions). The deductibility of certain State and local taxes reflected under this function primarily relates to personal income taxes (property tax deductibility is reflected under the commerce and housing function). Tax preferences for Puerto Rico and other U.S. possessions are also included here. These provisions can be compared with other tax and spending policies as means of benefiting fiscal and economic conditions in the States, localities, and possessions. Finally, the tax deferral for interest on U.S. savings bonds benefits savers who invest in these instruments. The extent of these benefits and any effects on Federal borrowing costs could be evaluated.

The above illustrative discussion, although broad, is nevertheless incomplete, omitting important details both for the provisions mentioned and the many that are not explicitly cited. Developing a framework that is sufficiently comprehensive, accurate, and flexible to reflect the objectives and effects of the wide range of tax expenditures will be a significant challenge. OMB, Treasury, and other agencies will work together, as appropriate, to address this challenge. As indicated above, over the next few years the Executive Branch's focus will be on the availability of the data needed to assess the effects of the tax expenditures designed to increase savings.

DIMENSIONS OF THE BUDGET

20. 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 re-

sults for 2008 with the current services estimates shown in the 2008 Budget, published in February 2007.

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 2008

This part of the chapter compares the actual receipts, outlays, and deficit for 2008 with the current services estimates shown in the 2008 Budget, published in February 2007.¹ 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 2008 previously published by the Department of the Treasury.

Receipts

Actual receipts for 2008 were \$2,524 billion, \$190 billion less than the \$2,714 billion current services estimate in the 2008 Budget (February 2007). As shown in Table

20–1, this increase 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 collection patterns and effective tax rates than had been assumed.

Policy differences. Several laws were enacted after February 2007 that reduced 2008 receipts by a net \$140 billion. The provisions of the Tax Increase Prevention Act of 2007 (TIPRA), which provided alternative minimum tax (AMT) relief for calendar year 2007, reduced 2008 receipts by \$59 billion. Enactment of the Economic Stimulus Act of 2008, which provided tax rebates to individuals and incentives for business investment, reduced 2008 receipts by \$83 billion. The effects of other legislative and administrative changes on 2008 receipts were largely offsetting.

Economic differences. Differences between the economic assumptions upon which the current services estimates were based and actual economic performance

¹ The current services concept is discussed in Chapter 24, “Current Services Estimates.” For mandatory programs and receipts, the February 2007 current services estimate was based on laws then in place, adjusted to reflect extension of certain expiring provisions in the 2001 and 2003 tax acts. For discretionary programs the current services estimate was based on the current year estimates, excluding one-time emergency appropriations, adjusted for inflation.

Table 20–1. COMPARISON OF ACTUAL 2008 RECEIPTS WITH THE INITIAL CURRENT SERVICES ESTIMATES
(In billions of dollars)

	February 2007 estimate	Changes				Actual
		Policy	Economic	Technical	Total changes	
Individual income taxes	1,295	-132	-67	50	-149	1,146
Corporation income taxes	319	-10	2	-6	-14	304
Social insurance and retirement receipts	926	1	-26	-1	-26	900
Excise taxes	69	*	-3	1	-2	67
Estate and gift taxes	26	1	*	2	3	29
Customs duties	30	*	-1	-1	-2	28
Miscellaneous receipts	51	.....	-8	7	*	50
Total Receipts	2,714	-140	-102	53	-190	2,524

* \$500 million or less.

reduced 2008 receipts by a net \$102 billion below the February 2007 estimate. Lower-than-anticipated wages and salaries and non-wage sources of personal income were in large part responsible for the reduction in individual income taxes of \$67 billion. Lower-than-anticipated wages and salaries and proprietors' income – the tax base for Social Security and Medicare payroll taxes—are in large part responsible for the reduction in social insurance and retirement receipts of \$26 billion. Reductions in deposits of earnings by the Federal Reserve System, attributable in large part to lower-than-expected interest rates, are responsible for the \$8 billion reduction in miscellaneous receipts. Differences between anticipated and actual economic performance reduced other sources of receipts by a net \$2 billion.

Technical factors. Technical factors increased receipts by a net \$53 billion above the February 2007 current services estimate. This net increase was in large part attributable to higher-than-expected collections of individual income taxes and miscellaneous receipts that were only partially offset by lower-than-anticipated collections of corporation income taxes. Different collection patterns and effective tax rates than assumed in February 2007 were primarily responsible for the higher-than-expected collections of individual income taxes of \$50 billion and the lower-than-expected collections of corporation income taxes of \$6 billion. Higher-than-expected earnings on foreign currency holdings by the Federal Reserve System were in large part responsible for the \$7 billion increase in miscellaneous receipts relative to the February 2007 estimate. Technical factors had a much smaller effect on the remaining sources of receipts (social insurance and retirement receipts, excise taxes, estate and gift taxes and customs duties) relative to the February 2007 estimates.

Outlays

Outlays for 2008 were \$2,983 billion, \$231 billion more than the \$2,752 billion current services estimate in the 2008 Budget (February 2007).

Table 20–2 distributes the \$231 billion net increase in outlays among discretionary and mandatory programs and net interest.² The table also makes 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 2008, policy changes increased outlays by an estimated \$226 billion relative to the initial current services estimates.

Policy changes increased discretionary outlays by \$174 billion. Defense discretionary outlays increased by \$135 billion and nondefense discretionary outlays increased by \$39 billion. A significant portion of both defense and nondefense outlay increases resulted from enactment of emergency supplemental appropriation acts for combat operations in Iraq and Afghanistan, veterans' care, and hurricane recovery in 2007 and 2008. The February 2007 current services estimates assumed no funding for these supplemental appropriations. Policy changes increased mandatory outlays by a net \$43 billion above current law. This increase largely reflects a \$33 billion increase in outlays for tax rebates to individuals, enacted in the Economic Stimulus Act of 2008; a \$7 billion increase in Medicare and Medicaid outlays, enacted in the Medicare, Medicaid, and SCHIP Extension

² Discretionary programs are controlled by annual appropriations, while mandatory programs are generally controlled by authorizing legislation. Mandatory programs are mostly formula benefit or entitlement programs with permanent spending authority that depend on eligibility criteria, benefit levels, and other factors.

Table 20–2. COMPARISON OF ACTUAL 2008 OUTLAYS WITH THE INITIAL CURRENT SERVICES ESTIMATES
(In billions of dollars)

	Current Services (Feb. 2007)	Changes				Actual
		Policy	Economic	Technical	Total changes	
Discretionary:						
Defense	466	135	.....	12	147	612
Nondefense	496	39	.....	-13	27	522
Subtotal, discretionary	961	174	.....	-*	174	1,135
Mandatory:						
Social Security	608	.....	4	1	4	612
Medicare and Medicaid	595	7	-1	-13	-7	587
Other programs	335	36	4	21	61	396
Subtotal, mandatory	1,537	43	7	8	58	1,595
Net interest	254	9	-11	1	-1	253
Total outlays	2,752	226	-4	9	231	2,983

* \$500 million or less.

Table 20–3. COMPARISON OF THE ACTUAL 2008 DEFICIT WITH THE INITIAL CURRENT SERVICES ESTIMATE
(In billions of dollars)

	Current Services (Feb. 2007)	Changes				Actual
		Policy	Economic	Technical	Total changes	
Receipts	2,714	-140	-102	53	-190	2,524
Outlays	2,752	226	-4	9	231	2,983
Deficit	38	366	98	-44	420	459

Note: Deficit changes are outlays minus receipts. For these changes, a positive number indicates an increase in the deficit.

Act of 2007 and the Medicare Improvements for Patients and Providers Act of 2008; and a \$5 billion increase in emergency unemployment compensation outlays, enacted in the Supplemental Appropriations Act of 2008. Debt service costs associated with the policy receipt and outlay changes were \$9 billion.

Economic conditions that differed from those forecast in February 2007 resulted in a net decrease in outlays of \$4 billion. This change largely reflects a \$4 billion increase in Social Security benefits due to higher cost-of-living adjustments and a \$4 billion increase in food and nutrition assistance and unemployment compensation due to higher-than-expected unemployment rates, which are more than offset by a \$11 billion decrease in net interest due to lower-than-expected interest rates.

Technical estimating factors resulted in a net increase in outlays of \$9 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 slightly, because budget authority for defense programs was spent faster than expected, which was slightly more than offset by slower-than-expected spending of nondefense programs. Outlays for mandatory programs increased a net \$8 billion, largely due to higher-than-anticipated outlays for deposit insurance and other mandatory programs, which were partially offset by lower-than-anticipated outlays for Medicare and Medicaid. Net interest outlays also increased by \$1 billion due to technical factors compared to the February 2007 estimates.

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 2008. This section combines these effects to show the net deficit impact of these differences.

As shown in Table 20–3, the 2008 current services deficit was initially estimated to be \$38 billion. The actual deficit was \$459 billion, which was a \$420 billion increase from the initial estimate. Receipts were \$190 billion less than the initial estimate and outlays were \$231 billion more. 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 \$366 billion. Economic conditions that differed from the initial assumptions in February 2007 accounted for an estimated \$98 billion increase in the deficit. Technical factors reduced the deficit by an estimated \$44 billion.

Comparison of the Actual and Estimated Outlays for Mandatory and Related Programs for 2008

This section compares the original 2008 outlay estimates for mandatory and related programs under current law in the 2008 Budget (February 2007) with the actual outlays. Major examples of these programs include Social Security and Medicare benefits, agricultural price support payments to farmers, and deposit insurance for banks and thrift institutions. This category also includes net interest outlays and undistributed offsetting receipts.

A number of factors may cause differences between the amounts estimated in the budget and the actual mandatory outlays. For example, legislation may change benefit rates or coverage; the actual number of beneficiaries may differ from the number estimated; or economic conditions (such as inflation or interest rates) may differ from what was assumed in making the original estimates.

Table 20–4 shows the differences between the actual outlays for these programs in 2008 and the amounts originally estimated in the 2008 Budget, based on laws in effect at that time. Actual outlays for mandatory spending and net interest in 2008 were \$1,848 billion, which was \$57 billion more than the initial estimate of \$1,791 billion, based on existing law in February 2007.

As Table 20–4 shows, actual outlays for mandatory human resources programs were \$1,650 billion, \$44 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 the other income security function increased by \$37 billion, largely due to the tax rebates to individuals enacted in the Economic Stimulus Act of 2008. Outlays for programs in other functions were \$14 billion more than originally estimated, largely due to higher-than-expected outlays for deposit insurance. Undistributed offsetting receipts were essentially unchanged from the original estimate.

Table 20-4. COMPARISON OF ACTUAL AND ESTIMATED OUTLAYS FOR MANDATORY AND RELATED PROGRAMS UNDER CURRENT LAW
(In billions of dollars)

	2008		
	Feb. 2007 estimate	Actual	Change
Mandatory outlays:			
Human resources programs:			
Education, training, employment, and social services	10	9	-1
Health:			
Medicaid	204	201	-2
Other	24	25	1
Total, health	228	227	-1
Medicare	391	386	-5
Income security:			
Retirement and disability	118	117	—*
Unemployment compensation	34	43	9
Food and nutrition assistance	52	54	2
Other	122	159	37
Total, income security	325	373	48
Social security	608	612	4
Veterans benefits and services:			
Income security for veterans	42	41	-1
Other	3	2	-1
Total, veterans benefits and services	45	44	-2
Total, mandatory human resources programs	1,606	1,650	44
Other functions:			
Agriculture	14	10	-4
International	-2	-9	-7
Deposit insurance	-3	19	22
Other functions	8	11	3
Total, other functions	17	31	14
Undistributed offsetting receipts:			
Employer share, employee retirement	-65	-66	-1
Rents and royalties on the outer continental shelf	-9	-18	-9
Other undistributed offsetting receipts	-12	-2	10
Total, undistributed offsetting receipts	-86	-86	—*
Total, mandatory	1,537	1,595	58
Net interest:			
Interest on Treasury debt securities (gross)	462	451	-11
Interest received by trust funds	-192	-192	1
Other interest	-16	-7	9
Total, net interest	254	253	-1
Total, outlays for mandatory and net interest	1,791	1,848	57

* \$500 million or less.

Outlays for net interest were \$253 billion or \$1 billion less than the original estimate. As shown on Table 20-4, interest payments on Treasury debt securities decreased by \$11 billion due to economic and technical factors, which was partially offset by a \$9 billion decrease in other interest receipts. This decrease was largely due to unantic-

pated losses from investment on non-Federal securities by the National Railroad Retirement Investment Trust (NRRIT). Gains on investments by the NRRIT are recorded as offsetting collections, which reduce outlays, and losses on investments, as occurred in 2008, are recorded as negative offsetting collections, which increase outlays.

Reconciliation of Differences with Amounts Published by the Treasury for 2008

Table 20–5 provides a reconciliation of the receipts, outlays, and deficit totals published by the Department of the Treasury in the September 2008 Monthly Treasury Statement (MTS) and those published in this Budget. The Department of the Treasury made adjustments to the estimates for the Combined Statement of Receipts, Outlays, and Balances, which decreased receipts by \$221 million and decreased outlays by \$231 million. Additional adjustments for this Budget increased receipts by \$689 million and increased outlays by \$4,448 million. Several financial transactions that are not reported to the Department of the Treasury, including

those for the Affordable Housing Program, the Public Company Accounting Oversight Board, the Electric Reliability Organization, and the United Mine Workers of America benefit funds, are included in the Budget. Reporting for these programs adds roughly equivalent amounts to outlays and receipts, with little impact on the deficit. Another significant conceptual difference in reporting is for the 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 2007 through August 2008. The budget has been adjusted to reflect transactions that occurred during the actual fiscal year, which begins in October.

Table 20–5. RECONCILIATION OF FINAL AMOUNTS FOR 2008
(In millions of dollars)

	Receipts	Outlays	Deficit
Totals published by Treasury (September 30 MTS)	2,523,858	2,978,664	454,806
Miscellaneous Treasury adjustments	-221	-231	-10
Totals published by Treasury in Combined Statement	2,523,637	2,978,433	454,796
National Railroad Retirement Investment Trust .....	.....	3,856	3,856
Affordable Housing Program	354	354	.....
Public Company Accounting Oversight Board	134	128	-6
Electric Reliability Organization	100	100	.....
United Mine Workers of America benefit funds	76	-8	-84
Other	25	18	-7
Total adjustments, net	689	4,448	3,759
Totals in the budget	2,524,326	2,982,881	458,555
MEMORANDUM:			
Total change since year-end statement	468	4,217	3,749

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 20–6 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 2008 differs from that shown in Table 20–3, 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 20–6 are on this basis.

On average, the estimates for the budget year underestimated actual deficits (or overestimated actual surpluses) by \$19 billion over the 27-year period. Policy outcomes that differed from the original proposals increased the deficit by an average of \$41 billion. Differences between economic assumptions and actual economic performance increased the deficit an average of \$14 billion. Differences due to these two factors were partly offset by technical revisions, which reduced the deficit an average of \$35 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 \$389 billion underestimate of the deficit to a \$192 billion overestimate. The \$389 billion underestimate, in the 2002 Budget, was due largely to receipt shortfalls related to the 2001 recession and associated weak stock market performance. About a quarter of the underestimate was due to increased spending for recovery from the

Table 20-6. COMPARISON OF ESTIMATED AND ACTUAL SURPLUSES OR DEFICITS SINCE 1982
(In billions of dollars)

Budget	Surplus (-) or deficit (+) estimated for budget year ¹	Differences due to			Total difference	Actual surplus (-) or deficit(+)
		Enacted legislation	Economic factors	Technical factors		
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
Average		41	14	-35	19	
Absolute average ²		44	40	76	107	
Standard deviation		52	57	102	143	

* \$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.

September 11, 2001 terrorist attacks, homeland security measures, and the wars in Iraq and Afghanistan, along with lower receipts due to tax relief in the March 2002 economic stimulus act. 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 overestimation 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 \$107 billion.

Another measure of variability is the standard deviation. This statistic measures the dispersion of the data around the average value. The standard deviation of the deficit differences since 1982 is \$143 billion. Like the average absolute difference, this measure illustrates 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 huge, such as additional appropriations for disaster recovery, homeland security, and war efforts in response to the terrorist attacks of September 11, 2001, which were obviously not envisioned in the President's Budget submitted the previous February. 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 12 of this volume, "Economic Assumptions."

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

Table 20-7. 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 (BY+1)	Two years (BY+2)	Three years (BY+3)	Four years (BY+4)
Average difference ¹	-28	19	62	94	126	152
Average absolute difference ²	59	107	152	198	234	269
Standard deviation	70	143	201	242	261	278

¹ A positive figure represents an underestimate of the deficit or an overestimate of the surplus.

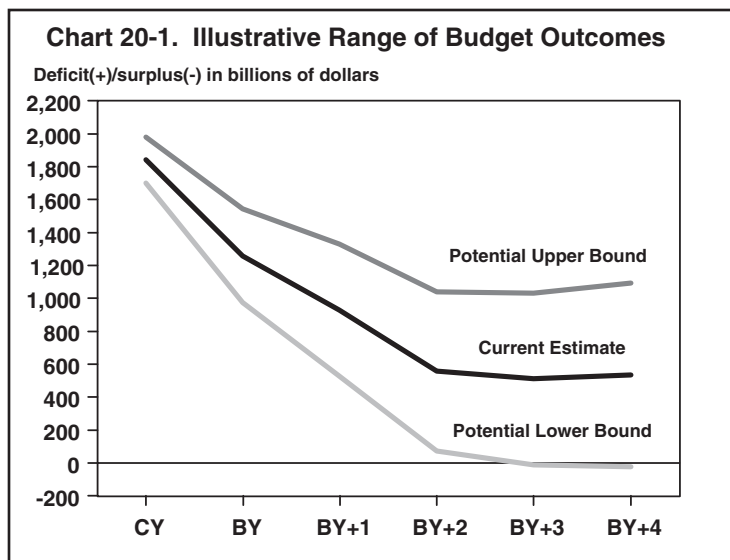
² Average absolute difference is the difference without regard to sign.

variability for estimates of years beyond the budget year. Table 20-7 shows the summary statistics for the differences for the current year (CY), budget year (BY), and the four succeeding years (BY+1 through BY+4). 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 CY by \$28 billion, but underestimated the deficit in the BY by \$19 billion. The budget estimates understated the deficit in the years following, by amounts growing from \$62 billion for BY+1 to \$152 billion for BY+4. 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.

The estimates of variability in the difference between estimated and actual deficits can be used to construct a range of uncertainty around a given set of estimates. Statistically, if these differences are normally distributed, the actual deficit will be within a range of two standard deviations above or below the estimate about 90 percent of the time. Chart 20-1 shows this range of two standard deviations applied to the deficit estimates in this Budget. This chart illustrates that unforeseen economic developments, policy outcomes, or other factors could give rise to large swings in the deficit estimates.



21. TRUST FUNDS AND FEDERAL FUNDS

When money is received by the Federal Government, it is credited to a budget account, and when money is spent by the Government, it reduces the balances of a budget account. All budget accounts belong to one of two groups of funds: Federal funds and trust funds. This section presents summary information about the transactions of each of these two fund groups. Information is provided 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 accounts for a larger share of the budget than the trust funds group, and includes all transactions that are not required by law to pass through trust funds.

The Federal funds group includes the “general fund,” which is the largest fund in the Government and used for the general purposes of Government rather than being restricted by law to a specific program. The general fund receives all collections not dedicated for some other fund; it includes virtually all income taxes and many excise taxes. The general fund is used for all programs not supported by trust, special, or revolving funds.

The Federal funds group also includes special funds and revolving funds, both of which receive dedicated collections for spending on 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. 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 that are credited to special funds are 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 funds, which are expenditure accounts. The proceeds collected in this way are generally available without further legislative action for obligation and expenditure. Outlays for programs with revolving funds are reported net of these

proceeds. Because the proceeds of these programs offset outlays rather than being recorded as governmental receipts, they 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 dedicated collections for spending on 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, as noted below, 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.¹

The meaning of the term “trust” in the Federal Government budget differs significantly from the private sector’s usage. 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 contrast, the Federal Government owns and manages the assets and the earn-

¹ Another example is the Violent Crime Reduction Trust Fund, established pursuant to the Violent Crime Control and Law Enforcement Act of 1994. Because the Fund is not required by law to be classified as a trust fund, it is classified as a Federal fund, notwithstanding the presence of the words “Trust Fund” in its official name. In addition, the Fund is substantively a means of accounting for general fund appropriations and does not contain any dedicated receipts.

ings of most Federal trust funds, and can unilaterally raise or lower future trust fund collections and payments or change the purpose for which the collections are used by changing existing law. 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.

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, considerably 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 to authorize future expenditures. The balances are generally required by law to be invested in Federal securities issued by the Department of the Treasury.² The National Railroad Retirement Investment Trust is a rare example of a 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

² 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 16 of this volume, "Federal Borrowing and Debt."

Table 21-1. RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT BY FUND GROUP
(In billions of dollars)

	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Receipts:							
Federal funds cash income:							
From the public	1,641.2	1,430.3	1,523.5	1,818.9	2,144.8	2,305.6	2,424.4
From trust funds	2.0	3.8	1.2	1.3	1.4	1.5	1.5
Total, Federal funds cash income	1,643.1	1,434.1	1,524.8	1,820.3	2,146.2	2,307.1	2,426.0
Trust funds cash income:							
From the public	1,041.8	1,044.5	1,095.1	1,147.3	1,213.2	1,284.0	1,344.5
From Federal funds:							
Interest	191.5	185.8	197.6	203.7	213.2	224.3	237.1
Other	354.4	394.7	420.8	433.0	456.0	499.0	535.9
Total, trust funds cash income	1,587.8	1,625.0	1,713.6	1,784.0	1,882.4	2,007.3	2,117.5
Offsetting receipts	-706.6	-902.4	-905.7	-918.9	-953.3	-1,009.3	-1,063.3
Total, unified budget receipts	2,524.3	2,156.7	2,332.6	2,685.4	3,075.3	3,305.1	3,480.1
Outlays:							
Federal funds cash outgo	2,367.7	3,411.9	2,961.9	2,950.3	2,965.1	3,102.6	3,231.7
Trust funds cash outgo	1,321.7	1,488.4	1,534.9	1,583.4	1,621.0	1,724.2	1,847.7
Offsetting receipts	-706.6	-902.4	-905.7	-918.9	-953.3	-1,009.3	-1,063.3
Total, unified budget outlays	2,982.9	3,997.8	3,591.1	3,614.8	3,632.7	3,817.5	4,016.0
Surplus or deficit(-):							
Federal funds	-724.6	-1,977.8	-1,437.1	-1,130.1	-818.9	-795.5	-805.7
Trust funds	266.1	136.6	178.7	200.6	261.4	283.2	269.8
Total, unified surplus/deficit(-)	-458.6	-1,841.2	-1,258.4	-929.4	-557.4	-512.3	-535.9

Note: Receipts include governmental, interfund, and proprietary, and exclude intrafund receipts (which are offset against intrafund payments so that cash income and cash outgo are not overstated).

outgo. Trust revolving funds are used to conduct a cycle of business-type operations; offsetting collections are credited to the funds (which are also expenditure accounts) and the funds' outlays are displayed net of the offsetting collections.

Income and Outgo by Fund Group

Table 21–1 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--and gifts). Income also consists of offsetting receipts, which include proprietary receipts (derived from business-like transactions with the public) and interfund collections (derived from payments from a fund in one fund group to a fund in the other fund group). 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.³ These intrafund transactions constitute outgo and income for the individual funds that make and collect the payments, but they are offsetting for 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, income is calculated net of the collections that are offset against outgo in expenditure accounts.⁴ These two types of offsetting collections are offset against outgo in Table 21–1 and are not shown separately.

Some funds in the Federal funds group and some trust funds are authorized to borrow from the general fund of

³ 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 21–1 so that the total trust fund income and outgo shown in the table reflect disbursements to the public and to Federal funds.

⁴ 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 21–1 is disbursements net of collections.

Table 21–2. INCOME, OUTGO, AND BALANCES OF TRUST FUNDS GROUP
(in billions of dollars)

	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Total Trust Funds							
Balance, start of year	3,687.0	3,953.1	4,089.7	4,283.9	4,484.6	4,746.0	5,029.2
Income:							
Governmental receipts	954.4	951.3	994.7	1,042.5	1,101.6	1,165.9	1,219.4
Proprietary receipts	101.9	108.4	116.7	122.2	130.0	137.6	145.8
Receipts from Federal funds:							
Interest	193.3	187.4	199.1	205.2	214.9	226.1	239.2
Other	393.7	432.9	462.2	477.9	503.1	549.1	589.4
Subtotal, income	1,643.3	1,680.1	1,772.7	1,847.8	1,949.6	2,078.7	2,193.8
Outgo:							
To the public	1,375.3	1,539.7	1,592.8	1,645.9	1,686.8	1,794.1	1,922.5
Payments to Federal funds	2.0	3.8	1.2	1.3	1.4	1.5	1.5
Subtotal, outgo	1,377.2	1,543.4	1,594	1,647.2	1,688.2	1,795.5	1,924.0
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	72.7	-50.8	-20.4	-4.6	46.5	57.1	30.6
Interest	193.3	187.4	199.1	205.2	214.9	226.1	239.2
Subtotal, surplus or deficit(-)	266.1	136.6	178.7	200.6	261.4	283.2	269.8
Adjustments:							
Transfers/lapses (net)	*	*	0.1	.....	.....	.....	.....
Other adjustments	-*	-*	15.5	.....	.....	.....	.....
Total, change in fund balance	266.1	136.6	194.2	200.6	261.4	283.2	269.8
Balance, end of year	3,953.1	4,089.7	4,283.9	4,484.6	4,746.0	5,029.2	5,299.0

* \$50 million or less

the Treasury.⁵ Borrowed funds are not recorded as receipts of the fund or included in the income of the fund. 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.

Some income in both Federal funds and trust funds consists of offsetting receipts.⁶ For most budget purposes, 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.

⁵ 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.

⁶ Interest on borrowed funds is an example of an offsetting receipt.

Because the income for Federal funds and for trust funds recorded in Table 21–1 includes offsetting receipts, those 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 for trust funds in Table 21–1 consists of outlays gross of offsetting receipts, the amount of the offsetting receipts must be deducted from the sum of the Federal funds' and the trust funds' gross outgo in order to reconcile to total (net) unified budget outlays. Table 21–3 reconciles, for fiscal year 2008, the gross total of all trust fund and Federal fund receipts with the net total of the Federal fund group's and the trust fund group's cash income (as shown in Table 21–1), and with the unified budget's receipt total.

Income, Outgo, and Balances of Trust Funds

Table 21–2 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 21–1 in one important way. Trust fund collections that are offset against outgo (as offsetting collections) within expenditure accounts instead of being

Table 21–3. COMPARISON OF TOTAL FEDERAL FUND AND TRUST FUND RECEIPTS TO UNIFIED BUDGET RECEIPTS, FISCAL YEAR 2008
(In billions of dollars)

Gross trust fund receipts	1,593.1
Gross Federal fund receipts	1,686.2
Total, gross receipts	3,279.3
Deduct intrafund receipts (from funds within the same fund group):	
Trust intrafund receipts	–5.3
Federal intrafund receipts	–43.1
Subtotal, intrafund receipts	–48.4
Total trust funds and Federal funds cash income	3,230.9
Deduct offsetting receipts:	
Trust fund receipts from Federal funds:	
Interest in receipt accounts	–191.5
General fund payment to Medicare Parts B and D	–180.4
Employing agencies' payments for pensions, Social Security, and Medicare	–54.7
General fund payments for unfunded liabilities of Federal employees retirement funds	–77.4
Transfer of taxation of Social Security and RRB benefits to OASDI, HI, and RRB	–29.9
Other receipts from Federal funds	–12.0
Subtotal, trust fund receipts from Federal funds	–546.0
Federal fund receipts from trust funds	–2.0
Proprietary receipts	–158.7
Subtotal, offsetting receipts	–706.6
Unified budget receipts	2,524.3

Note: Offsetting receipts are included in cash income for each fund group, but are deducted from outlays in the unified budget.

deposited in separate receipt accounts are classified as income in this table, but not in Table 21–1. 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 \$56 billion in 2008. Table 21–2, therefore, provides a more transparent 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 two decades. The size of the anticipated balances is unprecedented and results mainly from changes in the way some trust funds are financed.

Primarily because of these changes, but also because of the impact of real growth and inflation, trust fund balances increased tenfold from 1982 to 2000, from \$205 billion to \$2.1 trillion. The current balances, of \$4.0 trillion, are estimated to increase by more than 30 percent by the year 2014, 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 taxes and user fees that have been received by the Government and dedicated to particular programs but have not yet been spent.

Until the 1980s, most trust funds operated on a pay-as-you-go 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 expenditures, as a cushion. 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. In 1984, a new system was set up to finance 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 program changes require Federal agencies and employees together to make payments to the Federal employees' and military retirement trust funds in an amount equal to the accruing retirement benefits. Since many years will pass between the time when benefits are earned and when they are paid, the trust funds will accumulate substantial balances over time.

These balances are available for future benefit payments and other trust fund expenditures, but only in a bookkeeping sense. The holdings of the trust funds are not assets of the Government as a whole that can

be drawn down in the future to fund benefits. Instead, they are claims on the Treasury. From a cash perspective, when trust fund holdings are redeemed to authorize 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 or by borrowing from the public.⁷ The existence of large trust fund balances, therefore, does not, by itself, increase the Government's ability to pay benefits. Put differently, these trust fund balances are assets of the program agencies and corresponding liabilities of the Treasury, netting to zero for the Government as a whole.

From an economic standpoint, the Government is able to prefund benefits only by increasing saving and investment in the economy as a whole. This can be fully accomplished only by simultaneously running trust fund surpluses equal to the actuarial present value of the accumulating benefits while maintaining an unchanged Federal fund deficit, so that the trust fund surplus reduces the unified budget deficit or increases the unified budget surplus. This would reduce Federal borrowing by the amount of the trust funds surplus and increase the amount of national saving available to finance investment. As long as the increase in Government saving is not offset by a reduction in private saving, greater investment would increase future national income, which would yield greater tax revenue to support the benefits.

Table 21–4 shows estimates of income, outgo, and balances for 2008 through 2014 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 21–2 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. Additional information for these and other trust funds can be found in the Status of Funds tables in the *Budget Appendix*.

Table 21–5 shows income, outgo, and balances of five Federal funds—three revolving funds and two special funds. All these funds are similar to trust funds in that they are financed by dedicated receipts, the excess of income over outgo is invested in Treasury securities, the interest earnings add to fund balances, and the balances remain available to cover future expenditures. The table is illustrative of the Federal funds group, which includes many other revolving funds and special funds.

⁷ Trust fund balances cover obligations that will later be incurred. When Treasury liquidates these obligations, it must use cash that it either has on hand or acquires by borrowing from the public. To avoid borrowing from the public, Treasury must have sufficient cash on hand. Sufficient cash can be on hand if the economy grows sufficiently to generate adequate tax receipts. Alternatively, changes in tax laws or other spending may be necessary to ensure that Treasury has adequate cash on hand when the trust fund holdings are redeemed.

Table 21-4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS
(In billions of dollars)

	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Airport and Airway Trust Fund							
Balance, start of year	10.1	9.7	9.5	8.8	5.9	4.7	4.9
Income:							
Governmental receipts	12.0	11.3	11.7	2.8	3.3	3.9	4.3
Proprietary receipts	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Receipts from Federal funds:							
Interest	0.4	0.3	0.3	0.2	0.2	0.2	0.3
Other	*	0.1	0.1	0.1	0.1	0.1	0.1
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income	12.5	11.7	12.1	3.2	3.7	4.3	4.8
Outgo:							
To the public	12.9	11.9	12.9	6.0	5.0	4.0	3.6
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	12.9	11.9	12.9	6.0	5.0	4.0	3.6
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	-0.8	-0.5	-1.0	-3.1	-1.5	-*	0.9
Interest	0.4	0.3	0.3	0.2	0.2	0.2	0.3
Subtotal, surplus or deficit(-)	-0.4	-0.2	-0.8	-2.8	-1.3	0.2	1.2
Adjustments:							
Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	-0.4	-0.2	-0.8	-2.8	-1.3	0.2	1.2
Balance, end of year	9.7	9.5	8.8	5.9	4.7	4.9	6.1
Civil Service Retirement and Disability Fund							
Balance, start of year	701.7	728.9	757.3	785.6	814.4	843.6	872.9
Income:							
Governmental receipts	4.1	4.4	4.3	4.1	3.9	3.7	3.6
Proprietary receipts .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Federal funds:							
Interest	37.2	40.4	41.3	42.6	43.7	44.8	46.1
Other	49.5	50.9	52.5	54.0	55.7	57.6	59.4
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income	90.9	95.7	98.2	100.7	103.3	106.2	109.2
Outgo:							
To the public	63.7	67.2	69.9	71.9	74.1	76.9	79.9
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	63.7	67.2	69.9	71.9	74.1	76.9	79.9
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	-10.0	-11.9	-13.1	-13.8	-14.5	-15.5	-16.9
Interest	37.2	40.4	41.3	42.6	43.7	44.8	46.1
Subtotal, surplus or deficit(-)	27.2	28.5	28.3	28.8	29.2	29.3	29.2
Adjustments:							
Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	27.2	28.5	28.3	28.8	29.2	29.3	29.2
Balance, end of year	728.9	757.3	785.6	814.4	843.6	872.9	902.1

Table 21-4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Federal Employees Health Benefits Fund							
Balance, start of year	15.8	15.5	15.4	15.6	16.2	16.5	16.8
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts	9.8	10.7	11.6	12.6	13.5	14.5	15.6
Receipts from Federal funds:							
Interest	0.6	0.5	0.4	0.5	0.6	0.7	0.8
Other	25.0	26.4	28.6	31.1	33.1	35.5	38.2
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income	35.3	37.6	40.6	44.2	47.2	50.7	54.5
Outgo:							
To the public	35.6	37.7	40.5	43.7	46.8	50.5	54.1
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	35.6	37.7	40.5	43.7	46.8	50.5	54.1
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	-0.9	-0.6	-0.3	*	-0.3	-0.5	-0.3
Interest	0.6	0.5	0.4	0.5	0.6	0.7	0.8
Subtotal, surplus or deficit(-)	-0.3	-0.1	0.2	0.6	0.4	0.2	0.4
Adjustments:							
Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	-0.3	-0.1	0.2	0.6	0.4	0.2	0.4
Balance, end of year	15.5	15.4	15.6	16.2	16.5	16.8	17.2
Foreign Military Sales Trust Fund							
Balance, start of year	9.5	14.2	18.5	18.6	17.3	17.2	17.3
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts	21.8	24.0	21.6	19.3	18.7	17.4	16.1
Receipts from Federal funds:							
Interest .....	.....	.....	.....	.....	.....	.....	.....
Other .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income	21.8	24.0	21.6	19.3	18.7	17.4	16.1
Outgo:							
To the public	17.2	19.6	21.6	20.6	18.8	17.2	16.0
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	17.2	19.6	21.6	20.6	18.8	17.2	16.0
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	4.7	4.4	*	-1.3	-0.1	0.1	0.1
Interest .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, surplus or deficit(-)	4.7	4.4	*	-1.3	-0.1	0.1	0.1
Adjustments:							
Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	4.7	4.4	*	-1.3	-0.1	0.1	0.1
Balance, end of year	14.2	18.5	18.6	17.3	17.2	17.3	17.4

Table 21-4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Highway Trust Fund ¹							
Balance, start of year	15.4	16.8	5.4	3.0	8.7	10.3	11.1
Income:							
Governmental receipts	36.4	36.0	37.5	38.2	39	39.9	40.6
Proprietary receipts	*	0.2	*	*	*	*	*
Receipts from Federal funds:							
Interest .....	.....	.....	.....	.....	.....	.....	.....
Other	8.1	0.2	0.2	0.2	0.2	0.2	0.2
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income	44.5	36.4	37.8	38.5	39.2	40.1	40.9
Outgo:							
To the public	43.1	47.8	40.2	32.7	37.7	39.3	39.3
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	43.1	47.8	40.2	32.7	37.7	39.3	39.3
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	1.4	-11.4	-2.4	5.8	1.6	0.9	1.6
Interest .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, surplus or deficit(-)	1.4	-11.4	-2.4	5.8	1.6	0.9	1.6
Adjustments:							
Transfers/lapses (net) .....	*	.....	.....	.....	.....	.....	.....
Other adjustments .....	-*	.....	.....	.....	.....	.....	.....
Total, change in fund balance	1.4	-11.4	-2.4	5.8	1.6	0.9	1.6
Balance, end of year	16.8	5.4	3.0	8.7	10.3	11.1	12.7
Medicare: Hospital Insurance (HI) Trust Fund							
Balance, start of year	310.9	318.9	307.4	292.4	270.6	251.3	219.7
Income:							
Governmental receipts	194.5	191.8	196.4	210.4	222.7	235.9	247.8
Proprietary receipts	8.1	8.2	8.5	8.9	9.3	9.6	10.0
Receipts from Federal funds:							
Interest	15.9	15.8	14.7	13.8	12.7	11.3	9.2
Other	16.3	18.5	20.2	22.5	23.6	25.5	27.8
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income	234.8	234.3	239.9	255.5	268.4	282.3	294.8
Outgo:							
To the public	226.8	245.8	254.9	277.4	287.6	313.9	348.0
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	226.8	245.8	254.9	277.4	287.6	313.9	348.0
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	-7.9	-27.4	-29.7	-35.7	-32.0	-42.9	-62.4
Interest	15.9	15.8	14.7	13.8	12.7	11.3	9.2
Subtotal, surplus or deficit(-)	8.0	-11.5	-15.0	-21.9	-19.3	-31.6	-53.2
Adjustments:							
Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	8.0	-11.5	-15.0	-21.9	-19.3	-31.6	-53.2
Balance, end of year	318.9	307.4	292.4	270.6	251.3	219.7	166.5

Table 21-4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Medicare: Supplementary Medical Insurance SMI Trust Fund							
Balance, start of year	47.6	59.1	64.5	62.8	55.0	62.2	69.6
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts	62.1	65.6	68.5	73.3	80.0	88.1	96.2
Receipts from Federal funds:							
Interest	3.2	3.0	3.0	2.9	3.0	3.5	3.8
Other	184.3	195.4	206.7	222.9	237.8	269.7	295.4
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income	249.6	264.0	278.2	299.0	320.8	361.2	395.5
Outgo:							
To the public	238.0	258.6	279.9	306.8	313.7	353.8	394.0
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	238.0	258.6	279.9	306.8	313.7	353.8	394.0
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	8.4	2.3	-4.7	-10.7	4.1	4.0	-2.3
Interest	3.2	3.0	3.0	2.9	3.0	3.5	3.8
Subtotal, surplus or deficit(-)	11.6	5.4	-1.7	-7.8	7.2	7.5	1.5
Adjustments:							
Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	11.6	5.4	-1.7	-7.8	7.2	7.5	1.5
Balance, end of year	59.1	64.5	62.8	55.0	62.2	69.6	71.1
Military Retirement Fund							
Balance, start of year	216.0	250.9	277.2	330.0	386.1	446.9	511.5
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Federal funds:							
Interest	15.5	4.0	18.0	20.0	22.2	24.1	26.2
Other	65.2	71.0	84.4	86.4	89.6	92.9	96.4
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income	80.8	75.0	102.4	106.4	111.8	117.0	122.6
Outgo:							
To the public	45.8	48.7	49.7	50.3	51.0	52.5	54.0
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	45.8	48.7	49.7	50.3	51.0	52.5	54.0
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	19.4	22.3	34.7	36.1	38.6	40.4	42.4
Interest	15.5	4.0	18.0	20.0	22.2	24.1	26.2
Subtotal, surplus or deficit(-)	34.9	26.3	52.8	56.1	60.8	64.6	68.6
Adjustments:							
Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	34.9	26.3	52.8	56.1	60.8	64.6	68.6
Balance, end of year	250.9	277.2	330.0	386.1	446.9	511.5	580.1

Table 21-4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Railroad Retirement Trust Funds							
Balance, start of year	30.7	23.3	15.3	14.0	12.8	11.8	10.6
Income:							
Governmental receipts	4.4	4.3	4.3	4.4	4.6	4.9	5.0
Proprietary receipts	-6.0	-5.9	0.6	0.7	0.7	0.7	0.6
Receipts from Federal funds:							
Interest	0.1	0.1	*	0.1	0.1	0.1	0.1
Other	0.5	0.4	0.6	0.6	0.6	0.7	0.7
Receipts from Trust funds	4.0	4.0	4.3	4.5	4.5	4.5	4.6
Subtotal, income	3.0	2.9	9.8	10.2	10.5	10.7	10.9
Outgo:							
To the public	10.2	10.8	11.0	11.2	11.4	11.7	12.0
Payments to Federal funds	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Subtotal, outgo	10.4	10.9	11.1	11.3	11.6	11.9	12.2
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	-7.5	-8.1	-1.3	-1.2	-1.1	-1.2	-1.3
Interest	0.1	0.1	*	0.1	0.1	0.1	0.1
Subtotal, surplus or deficit(-)	-7.4	-8.0	-1.3	-1.1	-1.1	-1.1	-1.3
Adjustments:							
Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Other adjustments .....	*	-*	-*	.....	.....	.....	.....
Total, change in fund balance	-7.4	-8.0	-1.3	-1.1	-1.1	-1.1	-1.3
Balance, end of year	23.3	15.3	14.0	12.8	11.8	10.6	9.3
Social Security: Old-Age, Survivors and Disability Insurance (OASDI) Trust Funds							
Balance, start of year	2,180.8	2,366.4	2,506.9	2,645.0	2,800.0	2,974.0	3,166.7
Income:							
Governmental receipts	658.0	654.9	683.2	719.1	757.6	804.0	843.8
Proprietary receipts	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Receipts from Federal funds:							
Interest	113.7	117.8	117.1	121.1	128.3	137.2	147.7
Other	31.0	35.0	39.5	42.7	45.0	49.0	52.5
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income	802.8	807.8	839.9	882.9	931.0	990.3	1,044.1
Outgo:							
To the public	612.1	662.2	696.3	722.3	751.3	791.9	839.7
Payments to Federal funds	5.1	5.1	5.5	5.6	5.7	5.7	5.9
Subtotal, outgo	617.2	667.4	701.7	727.9	757.0	797.6	845.6
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	71.9	22.6	21.0	33.9	45.7	55.4	50.9
Interest	113.7	117.8	117.1	121.1	128.3	137.2	147.7
Subtotal, surplus or deficit(-)	185.7	140.5	138.1	155.0	174.0	192.7	198.5
Adjustments:							
Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	185.7	140.5	138.1	155.0	174.0	192.7	198.5
Balance, end of year	2,366.4	2,506.9	2,645.0	2,800.0	2,974.0	3,166.7	3,365.2

Table 21-4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Unemployment Trust Fund							
Balance, start of year	76.3	73.5	29.8	23.6	8.9	14.1	29.5
Income:							
Governmental receipts	39.5	44.0	52.4	57.2	63.4	66.3	66.6
Proprietary receipts	*	*	*	1.5	1.8	1.4	1.1
Receipts from Federal funds:							
Interest	3.6	2.3	1.0	0.8	0.7	0.8	1.3
Other	0.7	13.7	14.2	1.2	1.0	0.9	0.9
Receipts from Trust funds							
Subtotal, income	43.9	60.0	67.5	60.7	66.8	69.3	69.9
Outgo:							
To the public	46.7	103.8	89.2	75.4	61.6	53.9	52.5
Payments to Federal funds							
Subtotal, outgo	46.7	103.8	89.2	75.4	61.6	53.9	52.5
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	-6.5	-46.0	-22.7	-15.5	4.5	14.7	16.1
Interest	3.6	2.3	1.0	0.8	0.7	0.8	1.3
Subtotal, surplus or deficit(-)	-2.8	-43.8	-21.7	-14.7	5.2	15.5	17.4
Adjustments:							
Transfers/lapses (net)							
Other adjustments			15.5				
Total, change in fund balance	-2.8	-43.8	-6.2	-14.7	5.2	15.5	17.4
Balance, end of year	73.5	29.8	23.6	8.9	14.1	29.5	47.0
Veterans Life Insurance Funds							
Balance, start of year	11.9	11.5	10.9	10.3	9.6	8.9	8.1
Income:							
Governmental receipts	*	*	*	*	*	*	*
Proprietary receipts	0.5	0.4	0.4	0.4	0.3	0.3	0.3
Receipts from Federal funds:							
Interest	0.7	0.6	0.6	0.5	0.5	0.4	0.4
Other	*	*	*	*	*	*	*
Receipts from Trust funds							
Subtotal, income	1.2	1.1	1.0	0.9	0.8	0.7	0.7
Outgo:							
To the public	1.6	1.7	1.6	1.6	1.6	1.5	1.4
Payments to Federal funds							
Subtotal, outgo	1.6	1.7	1.6	1.6	1.6	1.5	1.4
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	-1.1	-1.2	-1.2	-1.2	-1.2	-1.2	-1.1
Interest	0.7	0.6	0.6	0.5	0.5	0.4	0.4
Subtotal, surplus or deficit(-)	-0.5	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8
Adjustments:							
Transfers/lapses (net)							
Other adjustments							
Total, change in fund balance	-0.5	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8
Balance, end of year	11.5	10.9	10.3	9.6	8.9	8.1	7.3

Table 21-4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued
(In billions of dollars)

	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Other Trust Funds							
Balance, start of year	60.3	64.4	71.5	74.4	79.1	84.6	90.5
Income:							
Governmental receipts	5.4	4.6	4.9	6.4	7.1	7.4	7.6
Proprietary receipts	5.4	5.1	5.2	5.4	5.5	5.6	5.8
Receipts from Federal funds:							
Interest	2.4	2.6	2.6	2.7	2.9	3.0	3.3
Other	13.0	21.2	15.2	16.2	16.5	17.0	17.7
Receipts from Trust funds	*	*	*	*	*	*	*
Subtotal, income	26.2	33.4	27.9	30.7	31.9	32.9	34.4
Outgo:							
To the public	21.4	26.2	25.1	26.0	26.4	27.1	28.0
Payments to Federal funds	0.7	*	.....	.....	.....	.....	.....
Subtotal, outgo	22.1	26.3	25.1	26.0	26.4	27.1	28.0
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	1.7	4.6	0.2	2.0	2.7	2.9	3.1
Interest	2.4	2.6	2.6	2.7	2.9	3.0	3.3
Subtotal, surplus or deficit(-)	4.1	7.2	2.7	4.7	5.6	5.9	6.5
Adjustments:							
Transfers/lapses (net)	*	*	0.1	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	4.1	7.2	2.8	4.7	5.6	5.9	6.5
Balance, end of year	64.4	71.5	74.4	79.1	84.6	90.5	96.9

* \$50 million or less.

Note: Balances shown include committed and uncommitted cash balances.

¹ See Chapter 15 of this volume, "Budget Reform Proposals," for a discussion of the Budget treatment of Highway Trust Fund balances.

Table 21-5. INCOME, OUTGO, AND BALANCES OF SELECTED FEDERAL FUNDS
(In billions of dollars)

	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Abandoned Mine Reclamation Fund							
Balance, start of year	2.4	2.4	2.5	2.6	2.7	2.8	2.9
Income:							
Governmental receipts	0.3	0.3	0.3	0.3	0.3	0.3	0.3
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	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Outgo:							
To the public	0.3	0.3	0.2	0.3	0.3	0.3	0.4
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	0.3	0.3	0.2	0.3	0.3	0.3	0.4
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	-*	*	*	-*	-*	-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	0.1	0.1	*	*
Adjustments:							
Transfers/lapses (net) .....	.....	-*	.....	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	0.1	0.1	0.1	0.1	0.1	*	*
Balance, end of year	2.4	2.5	2.6	2.7	2.8	2.9	2.9
National Credit Union Share Insurance Fund							
Balance, start of year	7.0	7.2	6.1	1.1	1.4	2.3	3.8
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts	0.3	0.8	1.8	2.2	2.6	2.9	3.2
Receipts from Federal funds:							
Interest	0.2	0.2	0.3	0.1	0.1	0.1	0.2
Other .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income	0.6	1.0	2.0	2.2	2.7	3.0	3.4
Outgo:							
To the public	0.4	2.1	7.0	2.0	1.7	1.5	1.4
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	0.4	2.1	7.0	2.0	1.7	1.5	1.4
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	-0.1	-1.3	-5.3	0.2	0.9	1.4	1.9
Interest	0.2	0.2	0.3	0.1	0.1	0.1	0.2
Subtotal, surplus or deficit(-)	0.1	-1.1	-5.0	0.3	1.0	1.5	2.1
Adjustments:							
Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	0.1	-1.1	-5.0	0.3	1.0	1.5	2.1
Balance, end of year	7.2	6.1	1.1	1.4	2.3	3.8	5.9

Table 21-5. INCOME, OUTGO, AND BALANCES OF SELECTED FEDERAL FUNDS—Continued
(In billions of dollars)

	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Department of Defense Medicare-Eligible Retiree Health Care Fund							
Balance, start of year	108.5	132.8	154.5	178.0	203.3	230.5	259.8
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Federal funds:							
Interest	7.8	9.1	10.5	11.9	13.5	15.4	17.3
Other	24.4	21.3	22.1	23.2	24.4	25.6	26.9
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income	32.3	30.4	32.6	35.1	37.9	41.0	44.1
Outgo:							
To the public	7.9	8.7	9.1	9.8	10.7	11.6	12.6
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	7.9	8.7	9.1	9.8	10.7	11.6	12.6
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	16.5	12.6	13.0	13.4	13.7	14.0	14.3
Interest	7.8	9.1	10.5	11.9	13.5	15.4	17.3
Subtotal, surplus or deficit(-)	24.4	21.7	23.5	25.3	27.2	29.3	31.5
Adjustments:							
Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	24.4	21.7	23.5	25.3	27.2	29.3	31.5
Balance, end of year	132.8	154.5	178.0	203.3	230.5	259.8	291.4
Overseas Private Investment Corporation							
Balance, start of year	4.4	4.6	4.8	4.9	5.1	5.2	5.4
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	0.3	0.2	0.2	0.2	0.3	0.3
Outgo:							
To the public	*	0.1	0.1	0.1	0.1	0.1	0.1
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	*	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
Adjustments:							
Transfers/lapses (net)	-0.1	-0.1	-0.1	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Balance, end of year	4.6	4.8	4.9	5.1	5.2	5.4	5.6

Table 21-5. INCOME, OUTGO, AND BALANCES OF SELECTED FEDERAL FUNDS—Continued
(In billions of dollars)

	2008 Actual	Estimate					
		2009	2010	2011	2012	2013	2014
Pension Benefit Guaranty Corporation Fund							
Balance, start of year	14.6	13.2	13.5	13.6	14.6	15.8	16.2
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts	3.8	4.6	5.5	7.9	9.9	10.5	10.7
Receipts from Federal funds:							
Interest	-0.4	1.0	1.0	1.1	1.1	1.2	1.2
Other .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income	3.3	5.6	6.5	9.0	11.1	11.7	11.8
Outgo:							
To the public	4.7	5.4	6.4	8.0	9.8	11.3	12.6
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo	4.7	5.4	6.4	8.0	9.8	11.3	12.6
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest	-0.9	-0.7	-0.9	-0.1	0.1	-0.8	-2.0
Interest	-0.4	1.0	1.0	1.1	1.1	1.2	1.2
Subtotal, surplus or deficit(-)	-1.4	0.2	0.1	1.0	1.2	0.4	-0.8
Adjustments:							
Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Other adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance	-1.4	0.2	0.1	1.0	1.2	0.4	-0.8
Balance, end of year	13.2	13.5	13.6	14.6	15.8	16.2	15.4

* \$50 million or less.

Note: Balances shown include committed and uncommitted cash balances.

22. OFF-BUDGET FEDERAL ENTITIES AND NON-BUDGETARY ACTIVITIES

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 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 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 loan programs, it does not include the other cash flows of these programs that do not involve an allocation of resources by the Government. 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.

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. In addition, the term off-budget is used colloquially to refer to ongoing costs such as relief from the Alternative Minimum Tax (AMT) that were omitted entirely from, or shown for only one year in, past budgets. The term is also used colloquially to refer to emergency funding or supplemental appropriations for war costs because these items have been outside the normal budget enforcement procedures used by the Congress. Despite the colloquial usage of the term off-budget, AMT relief, emergency aid, and war costs are all on-budget; outlays and reduced receipts for these items are recorded in the budget along with all other Government outlays and receipts. In contrast, off-budget amounts are required by law to be recorded separately in the budget. Also in contrast, non-budgetary transactions are correctly viewed as not being in the budget under any circumstances because they do not impose direct costs on the Treasury.

Off-Budget Federal Entities

The Federal Government has used the unified budget concept as the foundation for its budgetary analysis and presentation since the 1969 Budget, following a recommendation made by the President's Commission on Budget Concepts in 1967. It calls for the budget to include the financial transactions of all of the Federal Government's programs and agencies.

Every year since 1971, however, at least one Federal entity that would otherwise be included in the budget has been declared to be off-budget by law. Such off-budget Federal entities are federally owned and controlled, but their transactions are excluded from the on-budget totals by law. When a Federal entity is off-budget by law, its receipts, budget authority, outlays, and surplus or deficit are separated from the on-budget receipts, budget authority, outlays, and surplus or deficit. 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 basic activities of government 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. 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 1990.² A number of 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 22-1 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 comprise a significant part of total Federal spending and receipts. In 2010, off-budget receipts are an estimated 29.3 percent of total receipts,

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

² See 42 U.S.C. § 911 and 39 U.S.C. § 2009a.

Table 22–1. COMPARISON OF TOTAL, ON-BUDGET, AND OFF-BUDGET TRANSACTIONS¹
(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	666.5	500.4	166.1	851.9	685.7	166.2	–185.4	–185.3	–0.1
1985	734.1	547.9	186.2	946.4	769.4	176.9	–212.3	–221.5	9.2
1986	769.2	569.0	200.2	990.4	806.9	183.5	–221.2	–237.9	16.7
1987	854.4	641.0	213.4	1,004.1	809.3	194.8	–149.7	–168.4	18.6
1988	909.3	667.8	241.5	1,064.5	860.1	204.4	–155.2	–192.3	37.1
1989	991.2	727.5	263.7	1,143.8	932.9	210.9	–152.6	–205.4	52.8
1990	1,032.1	750.4	281.7	1,253.1	1,028.1	225.1	–221.0	–277.6	56.6
1991	1,055.1	761.2	293.9	1,324.3	1,082.6	241.7	–269.2	–321.4	52.2
1992	1,091.3	788.9	302.4	1,381.6	1,129.3	252.3	–290.3	–340.4	50.1
1993	1,154.5	842.5	311.9	1,409.5	1,142.9	266.6	–255.1	–300.4	45.3
1994	1,258.7	923.7	335.0	1,461.9	1,182.5	279.4	–203.2	–258.8	55.7
1995	1,351.9	1,000.9	351.1	1,515.9	1,227.2	288.7	–164.0	–226.4	62.4
1996	1,453.2	1,085.7	367.5	1,560.6	1,259.7	300.9	–107.4	–174.0	66.6
1997	1,579.4	1,187.4	392.0	1,601.3	1,290.7	310.6	–21.9	–103.2	81.4
1998	1,722.0	1,306.2	415.8	1,652.7	1,336.1	316.6	69.3	–29.9	99.2
1999	1,827.6	1,383.2	444.5	1,702.0	1,381.3	320.8	125.6	1.9	123.7
2000	2,025.5	1,544.9	480.6	1,789.2	1,458.5	330.8	236.2	86.4	149.8
2001	1,991.4	1,483.9	507.5	1,863.2	1,516.4	346.8	128.2	–32.4	160.7
2002	1,853.4	1,338.1	515.3	2,011.2	1,655.5	355.7	–157.8	–317.4	159.7
2003	1,782.5	1,258.7	523.8	2,160.1	1,797.1	363.0	–377.6	–538.4	160.8
2004	1,880.3	1,345.5	534.7	2,293.0	1,913.5	379.5	–412.7	–568.0	155.2
2005	2,153.9	1,576.4	577.5	2,472.2	2,070.0	402.2	–318.3	–493.6	175.3
2006	2,407.3	1,798.9	608.4	2,655.4	2,233.4	422.1	–248.2	–434.5	186.3
2007	2,568.2	1,933.2	635.1	2,728.9	2,275.3	453.6	–160.7	–342.2	181.5
2008	2,524.3	1,866.3	658.0	2,982.9	2,508.1	474.8	–458.6	–641.8	183.3
2009 estimate	2,156.7	1,501.8	654.9	3,997.8	3,479.6	518.2	–1,841.2	–1,977.8	136.6
2010 estimate	2,332.6	1,649.4	683.2	3,591.1	3,041.9	549.1	–1,258.4	–1,392.5	134.1
2011 estimate	2,685.4	1,966.3	719.1	3,614.8	3,047.4	567.4	–929.4	–1,081.1	151.7
2012 estimate	3,075.3	2,317.7	757.6	3,632.7	3,047.5	585.3	–557.4	–729.8	172.4
2013 estimate	3,305.1	2,501.2	804.0	3,817.5	3,205.6	611.8	–512.3	–704.5	192.2
2014 estimate	3,480.1	2,636.3	843.8	4,016.0	3,370.7	645.3	–535.9	–734.4	198.5

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

and off-budget outlays are a smaller, but still significant, percentage of total outlays at 15.3 percent. The estimated unified budget deficit in 2010 is \$1,258 billion—a \$1,393 billion on-budget deficit partly offset by a \$134 billion off-budget surplus. The off-budget surplus consists entirely of the Social Security surplus.³ Social Security had small deficits or surpluses from its inception through the early 1980s, but since the middle 1980s it has had a large and growing surplus. However, under present law, the surplus is eventually estimated to decline, turn into a deficit, and never reach balance again. The long-term challenge of Social Security is discussed in Chapter 13 of this volume, “Stewardship.”

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. Some of the Government’s major non-budgetary activities are discussed below. 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. The Federal Credit Reform Act of 1990 changed how the costs of credit programs are recorded in the budget by defining as budgetary the subsidy cost of the credit programs and classifying the other credit program cash flows as non-budgetary.

One way to view the budgetary and non-budgetary components of a credit program is to consider a portfolio of new direct loans made to a cohort of students. The loan terms may include deferrals of interest while the students are in school, and some of the students will default on their loans; over time the Government will likely not be repaid the full amount it loaned to the students. Under credit reform, the estimated cash flows over time are discounted to the point of the loan disbursement, and the present value of the net cash flows, or the subsidy, is recorded as an outlay or cost when the loan is disbursed. In other words, the difference between the amount disbursed by the Government and the value of the loan assets the Government ultimately receives in return, the cash value of the students’ promissory notes, is the subsidy. Because the loan assets have value, the remainder of the transaction (beyond the amount correctly recorded as a subsidy) is simply an exchange of financial assets of equal value, and does not result in a cost to the Government or the taxpayer. That remaining portion of the loan transaction, the cash flows apart from the subsidies, is correctly classified as non-budgetary.

Since the adoption of credit reform, the budget outlays of credit programs reflect only the subsidy costs of Government credit and show this cost when the credit assistance is provided, reflecting more accurately the cost

³ The 2008 off-budget surplus reflects a \$185.7 billion surplus for Social Security and a \$2.4 billion deficit for Postal Service. The estimated 2009 off-budget surplus reflects a \$140.5 billion surplus for Social Security and a \$3.8 billion deficit for Postal Service, and the projected 2010 off-budget surplus reflects a \$138.1 billion surplus for Social Security and a \$4.0 billion deficit for Postal Service.

of credit decisions. This enables the budget to fulfill its purpose of being 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.⁴ Credit programs are discussed in more detail in Chapter 7 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. 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 transactions of the Government itself and are therefore non-budgetary.⁵ 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. The GSEs are excluded from the budget because, although federally chartered, they are privately owned. However, because they were established by the Federal Government to serve public-policy purposes and because they still serve such purposes to some extent, estimates of their activities are reported in a separate chapter of the *Budget Appendix* and their activities are analyzed in Chapter 7 of this volume, “Credit and Insurance.”

On September 6, 2008, the director of the Federal Housing Finance Agency (FHFA)⁶ placed Fannie Mae

⁴ 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 25 of this volume, “The Budget System and 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. 223–26. 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. 142–44. 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.

⁵ The administrative functions of the Federal Retirement Thrift Investment Board are carried out by Government employees, and are, therefore, included in the budget.

⁶ 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 Govern-

and Freddie Mac into conservatorship for the purpose of preserving the assets and restoring the solvency of these two GSEs. FHFA will control and direct the operations of these GSEs as long as the conservatorship remains in place.

This Budget continues to treat these two GSEs as private entities in conservatorship rather than as Government agencies. By contrast, the Congressional Budget Office (CBO) has reached the opposite conclusion:

[B]ecause of the extraordinary degree of management and financial control that the government has now exercised, CBO concludes that the entities should now be considered federal operations. Although the GSEs are not legally government agencies and their employees are not civil servants, CBO believes it is appropriate and useful to policymakers to account for and display the GSEs' financial transactions alongside all other federal activities in the budget.

CBO goes on to cite the 1967 President's Commission on Budget Concepts to the effect that borderline cases should be recorded as Government agencies.⁷

The two different treatments of these GSEs each include both 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, because the GSEs are currently operating at a loss and are expected to do so for an additional period of time, the GSEs require payments of cash from the Treasury to continue operating. These payments from the U.S. Treasury to the GSEs are recorded as budgetary outlays and add to the budget deficit.⁸ Under CBO's approach, which treats these GSEs as Federal agencies, the subsidy costs, or expected losses over time, of the GSEs' past credit activities have already been recorded in CBO's budget estimates and the subsidy costs of future credit activities will be recorded when the activities occur. Cash transactions between the GSEs and the public apart from the subsidy costs are treated as non-budgetary by CBO, and the Treasury cash payments to the GSEs are intragovernmental (transfers from the Treasury to the GSEs) and 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 and as increasing Government deficits. The two approaches, however, reflect those losses as budget costs at different times.⁹ Further consideration and evaluation of which approach better fits both legal considerations and goals of budgetary accounting are warranted.

Regulation.—Government regulation often requires the private sector to make expenditures for specified purposes, 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 the 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.¹⁰

Although not included in the budget, the estimated costs and benefits of Federal regulation have been published annually by the Office of Management and Budget (OMB) since 1997. The latest report was released in January 2009.¹¹ OMB reports that the estimated annual benefits of Federal regulations it reviewed from October 1, 1997, to September 30, 2007, range from \$122 billion to \$656 billion, while the estimated annual costs range from \$46 to \$54 billion. In its report, OMB discusses the impact of Federal regulation on State, local, and tribal governments, and agency compliance with the Unfunded Mandates Reform Act of 1995.

Monetary policy.—As 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 economic growth. In the United States, monetary policy is conducted by the Federal Reserve System, which is comprised of a Board of Governors and 12 regional Federal Reserve Banks. The Federal Reserve Act says 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." The dual goals of full employment and price stability were reaffirmed by the Full Employment and Balanced Growth Act of 1978, known as the Humphrey-Hawkins Act.

By law, the Federal Reserve System is a self-financing entity that is independent of the other branches of Government. Consistent with the recommendations of the 1967 President's Commission on Budget Concepts, the effects of monetary policy and the actions of the Federal Reserve System are, with one rather limited exception, non-budgetary. That is, the actions the Federal Reserve takes to affect the economy, including but not limited to the purchase or sale of Treasury securities and, more recently, of other public and private-sector financial instruments, are not reflected as outlays or offsetting receipts. Thus, the recent substantial increase in the Federal Reserve's balance sheet, while having important macro-

ment-sponsored enterprise mission team.

⁷ Congressional Budget Office, *The Budget and Economic Outlook: Fiscal years 2009 to 2019*, January 2009, page 26.

⁸ For a discussion of an alternative treatment of financial asset acquisitions, which the Treasury payments reflect, see Chapter 15 of this volume, "Budget Reform Proposals."

⁹ This conclusion—that the two approaches are the same over time—is accurate only under the assumption that the Government maintains its current relationship with the two GSEs indefinitely.

¹⁰ 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 November 24, 2008. Both the Regulatory Plan and Unified Agenda are available on-line at www.reginfo.gov and at www.gpoaccess.gov.

¹¹ Office of Information and Regulatory Affairs, Office of Management and Budget, 2008 Draft Report to Congress on the Costs and Benefits of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities (2008). The Report is available at www.whitehouse.gov/omb/infoereg_regpol_reports_congress/.

economic consequences, is not recorded as affecting the Federal deficit.

The exception to the treatment of Federal Reserve transactions as non-budgetary involves 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 \$34 billion in 2008.

The Board of Governors is a Federal Government agency, but because of its independent status, its budget is not subject to Executive Branch review. Its budget is included in the *Budget Appendix* for informational purposes. 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.

Credit market stabilization activity.—Since late 2007, the Federal Reserve System, Executive Branch agencies, and the GSEs Fannie Mae and Freddie Mac have engaged in a variety of activities designed to stabilize the financial markets and restore economic growth. The actions taken by the Federal Reserve System¹² 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 2010 Budget. However, as with other transactions between non-budgetary entities and the Government, the transactions of the GSEs with the Government, cash payments from the Treasury, are included in the budget.

¹² Examples of Federal Reserve actions include the creation of the following liquidity facilities: 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 Asset-Backed Securities Loan Facility, the Term Auction Facility, and the Term Securities Lending Facility.

Executive Branch activities 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). Treasury activities include the Capital Purchase Program, which was created in 2008, and the Capital Assistance Program, which was created in 2009 by the current Administration.¹³ Actions by the FDIC include the Temporary Liquidity Guarantee Program and actions by the NCUA include the Temporary Corporate Credit Union Liquidity Guarantee Program, the Credit Union Homeowners Affordability Relief Program, and the Credit Union System Investment Program. Actions by the FHFA include the placement of the GSEs into conservatorship in 2008, and the subsequent and ongoing management of the GSEs.

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. Most of these activities, including all asset acquisitions, loans, and loan guarantees under the Troubled Asset Relief Program (TARP), are reported in the budget on a credit basis.¹⁴ As discussed above in the section on “Federal credit programs,” this 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 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.

A very limited portion of credit market stabilization activities resulted in outlays in 2008; most activities will result in outlays in 2009. The total budget impact of all of the credit market stabilization efforts undertaken by Treasury, other Executive Branch agencies, the GSEs, and the Federal Reserve may not be known with certainty for several years. Nevertheless, actual and estimated outlays and receipts are included in the 2010 Budget. In addition, the actual and estimated impacts of credit market stabilization efforts on the debt held by the public are included in the 2010 Budget.¹⁵

¹³ These Treasury activities were authorized by TARP. Other Treasury activities, some of which were also authorized by TARP, include the Asset Guarantee Program, the Auto Industry Financing Program, the Auto Supplier Support Program, the GSE Credit Facility, the Homeowner Affordability and Stability Plan, the Public Private Partnership Investment Program, the Systemically Failing Institutions Program, the Targeted Investment Program, the acquisition of GSE mortgage-backed securities, and the supplementary financing program.

¹⁴ The Emergency Economic Stabilization Act (EESA) requires that the discount rate used for recording costs of transactions under TARP on a credit basis reflect market risk, which is in contrast to the risk-free discount rate required under the Federal Credit Reform Act for calculating the costs of loans and loan guarantees not authorized by EESA.

¹⁵ For an analysis of the Government’s response to the financial crisis, see Chapter 7 of this volume, “Credit and Insurance.”

23. FEDERAL EMPLOYMENT AND COMPENSATION

This section provides information on civilian and military employment in the Executive, Legislative, and Judicial branches. It also provides information on personnel compensation and benefits and on overseas staffing presence.

Measuring Federal Employment

For budgetary purposes, civilian employment is measured on the basis of full-time equivalents (FTE). One FTE is equal to one work year (see OMB Circular A-11, Section 85). Put simply, one full-time employee counts as one FTE, and two half-time employees also count as one FTE.

Significant Changes in Employment

Table 23-1 shows Executive Branch civilian FTE (excluding the U.S. Postal Service) growing by 16 percent between 2006 and 2010. The primary reason for this growth is the hiring of over 100 thousand temporary staff to perform the 2010 census. In addition, there continue to be mission increases for homeland security and enforcing immigration laws. Chart 23-1 shows the trend in Executive Branch civilian FTE over the last several years. Table 23-2 shows FTE totals Government-wide, to include military. For the 2010 Budget, additional significant changes by agency are discussed below.

The *Department of Commerce's* FTE increase by over 104 thousand from 2008 to 2010. Of this amount, 102,473 can be attributed to the ramp up for the 2010 Decennial Census. The remaining 1,649 are distributed throughout the Department and constitute an increase of less than one percent.

Since 2001, *Department of Defense* support service contractors grew to 39 percent of the Pentagon's civilian and service contractor workforce. The Department is embarking on a five year plan to return to the 2000, or pre-war level, of 26 percent of these services being provided by contractors. In 2010, the Department plans to insource 13,800 contractors, 2,500 of whom will be in the acquisition workforce. Additionally, the Department will hire 1,600 more acquisition personnel to increase acquisition management oversight capabilities.

Within the *Department of Energy*, FTE growth is a result of the Department's increased investment in research and development efforts, and early deployment of clean sources of energy. FTE will provide increased levels of management and oversight of all federally-funded projects, including additional audits and on-site monitoring of expanding technology programs, Weatherization Assistance, State Energy Program grants, and Loan Guarantee Programs that have grown in loan guaran-

tee authority from \$4 billion in 2007 to an estimated level of about \$100 billion in 2009 (including American Reinvestment and Recovery Act (ARRA) funds).

In 2009 and 2010 the *Department of Health and Human Services* will increase its staffing levels to support activities such as: expanding health care access and quality; uncovering new knowledge that will lead to better health for everyone; and improving food and medical product safety. The Department's operating divisions will also experience an increase in personnel to support the ARRA, including implementation of the health information technology initiative, expansion of health centers, increased Federal Medicaid funding to States, and oversight of ARRA activities.

Within the *Department of Homeland Security*, Immigration and Customs Enforcement and Customs and Border Protection have seen significant growth in their workforces as a part of the Administration's efforts to increase border security and to improve interior enforcement of our Nation's immigration laws. Citizenship and Immigration Services grew significantly due to new positions added as a part of the 2008 fee rule that established new application fees. There have also been increases for aviation and transportation security.

The *Department of Housing and Urban Development* (HUD) is preparing to confront the challenges caused by the collapse of the housing market. In 2010, the Department will add FTE to combat abusive and fraudulent mortgage activities and conduct core research and evaluation activities, particularly Transformation initiatives. HUD will also restore most of the FTE cuts in the 2009 Budget that were required to fully fund the 2009 pay raise.

The *Department of Justice (DOJ)* requests an FTE increase to address the national security and crime fighting programs in the FBI and other DOJ components, to enhance resources for combating financial fraud and civil rights enforcement, for prosecutorial resources along the U.S. Southwest border, and to accommodate the growing Federal prisoner population.

Within the *Department of Labor*, the Employment and Training Administration is responsible for the oversight of integral portions of the Nation's training and income maintenance programs. As these safety net programs are expanding during challenging economic times, the Employment and Training Administration is expanding FTE to maintain oversight of these programs.

In the *Department of Labor* worker protection agencies—the Employment Standards Administration, the Occupational Safety and Health Administration, the Mine Safety and Health Administration, and the Office of the Solicitor—the Department requests additional FTE for vigorous enforcement of current laws protecting the rights

and safety of American workers. The Employee Benefits Security Administration requests additional FTE for its enforcement work in the area of pension and health benefits for workers. The Bureau of Labor Statistics requests additional FTE for updates to the Current Population Survey.

To achieve both new and ongoing foreign policy priorities, the *Department of State* seeks to significantly increase Foreign Service positions between 2009 and 2013, accompanied by a smaller increase in civil service positions. The increase in 2010 will allow the Department to pursue proactive diplomatic solutions worldwide, provide more in-depth Foreign Service training, expand inter-agency collaboration, and enhance security for diplomatic personnel.

Within *International Assistance Programs*, the U.S. Agency for International Development (USAID) and Peace Corps account for the substantial bulk of the overall FTE increase in the 2010 Budget. USAID requests additional FTE to support the National Security Strategy by improving the management and stewardship of foreign assistance programs and establishing the capacity to respond to emerging and critical priorities overseas. Peace Corps needs additional FTE to adjust for lapsed positions left vacant in 2008, a decision to in-source some contracted-for information technology staffing, and to position the Peace Corps for future growth.

The *Department of the Treasury's* budget supports significant staffing increases in 2009 and 2010, primarily for expanded compliance work at the Internal Revenue Service (IRS) that will help reduce the tax gap. In particular, additional staffing will allow the IRS to address underreporting of tax associated with international activities and reduce noncompliance among businesses and high-income taxpayers. Treasury is also increasing staffing to implement recently enacted legislation, including the Troubled Asset Relief Program (TARP) and the ARRA.

The *Department of Veterans Affairs* plans to increase its FTE to 279 thousand in 2010. This increase in the Department's staff will support increased medical care services to veterans, and continue improvements in the administration and processing of veterans' disability benefits.

The *General Services Administration* requests additional FTE to meet increased demand for GSA products and services. Over 92 percent of GSA FTE are financed from cost-reimbursable agreements to provide other Federal agencies with real and personal property, related services, and office space. GSA received increased volumes of reimbursable work in 2008 and anticipates continued growth in both 2009 and 2010. GSA requests increased staffing in order to meet increased demand and to continue to deliver best value solutions to the Government.

The *National Science Foundation* (NSF) requests additional FTE to meet the increased workload demands resulting from the increased number of research awards the agency expects to support in the next few years. The Recovery Act will increase the projected number of NSF research awards by an estimated 33 percent, to about 13 thousand in 2009 compared to approximately 10 thou-

sand funded in 2008. The increased workload will continue in 2010 and beyond because the agency's budget is on a doubling path through 2016 under the President's Plan for Science and Innovation.

The projected variance in the *Office of Personnel Management's* (OPM) FTE levels is primarily related to growth within two OPM programs. First, OPM's Office of Inspector General's appropriations significantly increased in 2009 from 2008 levels to enable them to increase oversight of the Government-wide earned benefit programs administered by OPM. This increase in appropriations carries forward into 2010. Second, OPM's revolving fund programs, primarily the Investigative Services Division, anticipate an increase in staffing to meet customer demands.

Decreases in the *Small Business Administration's* FTE levels stem from temporary Disaster Loan Program employees brought on for disaster response related to the Midwest Floods and Hurricane Ike.

The *Social Security Administration* is preparing for an expected increase in retirement and disability claims associated with the aging "baby boomer" generation and the recent economic downturn. In 2010, the agency will hire staff to work in field offices, teleservice centers, processing centers, hearings offices, and State Disability Determination Services. These additional employees will improve service to the public and allow the agency to process the growing workloads at all stages of the disability claims process.

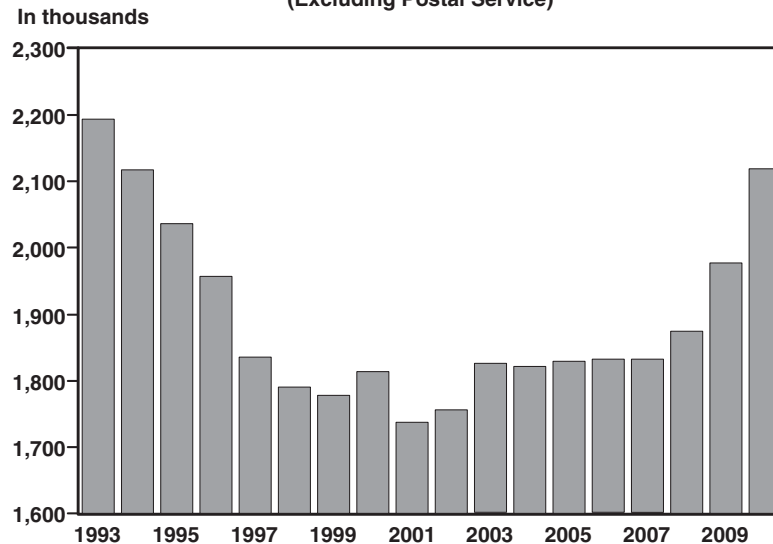
The *Consumer Product Safety Commission* (CPSC) is expanding its staff in order to implement and enforce its recent reauthorization, the Consumer Product Safety Improvement Act of 2008. The majority of the increase will be for developing and implementing safety standards, and enforcing compliance with regulations.

The *Court Services and Offender Supervision Agency* requests additional staff to support increased supervision of high-risk offenders and defendants within the District of Columbia and support full operation of the Agency's Re-entry and Sanctions Center.

In recent years, the *Equal Employment Opportunity Commission* (EEOC) has experienced significant staff reductions coupled with an increase in charge filings which have contributed to the current backlog of unresolved charge activity. In addition, it anticipates additional growth in the number of charges filed during 2009 and beyond due to the recent passage of the American with Disabilities Act (ADA) Amendments Act of 2008, the Genetic Information Non-Discrimination Act (GINA) of 2008, and the Lilly Ledbetter Fair Pay Act of 2009. The EEOC is requesting additional FTE to help decrease the processing time for investigating charges, thereby reducing the pending charge inventory.

Responding to the financial crisis, the *Federal Deposit Insurance Corporation* (FDIC) has substantially increased its resolution and receivership activity as a result of the increase in bank failures. The FDIC has also increased available liquidity and strengthened confidence in the banking industry by creating a new Temporary Liquidity Guarantee Program (TLGP). To accomplish the FDIC's

Chart 23-1. 2010 Budget Executive Branch Civilian FTE
(Excluding Postal Service)



broader responsibilities, the FDIC has increased its staffing by 550 full-time positions.

Increases in the *National Archives and Records Administration's* (NARA) FTE are dedicated to the establishment of the George W. Bush Library, the operations of the Richard Nixon Library, and the processing of Presidential records. The increases will also support responsibilities given to NARA under the Controlled Unclassified Information initiative, the creation of an Office of Government Information Services to improve government Freedom of Information Act processes, and development of the Electronic Records Archives to store electronic records and automate record management processes and oversight by the Office of the Inspector General. Finally, NARA is also increasing archival staff to account for temporary decreases in 2006 and 2007 due to a hiring freeze.

The *National Credit Union Administration's* budget requests additional FTE to support increased activity associated with the financial crisis, including increased monitoring and examination of credit unions and work associated with additional borrowing activity.

The *Pension Benefit Guaranty Corporation* is requesting additional FTE for increased activities in at-risk defined benefit plans and portfolio management as a result of the financial situation.

The *Securities and Exchange Commission* will use additional staff primarily to respond to the current financial crisis. In the coming years, additional staff will be utilized to pursue potential violations of the Federal securities laws and enhance fraud detection as well as risk-based oversight of investment advisers, broker-dealers, and other market participants.

The *Smithsonian Institution and National Gallery of Art* are also requesting FTE increases. In 2009, the Smithsonian Institution will hire additional security guards for the National Museum of the American

Indian and the National Portrait Gallery. The Smithsonian American Art Museum adds maintenance staff to address facilities maintenance issues across the Institution. The Institution will also hire additional staff in the Office of the Inspector General and the Office of the Chief Financial Officer to address issues identified by its Independent Review Committee regarding the governance of the Institution. The National Gallery of Art also plans to increase their security guard force and maintenance staff.

Personnel Compensation and Benefits

Table 23-3 displays personnel compensation and benefits (in millions of dollars) for Federal civilian and military personnel of all branches of Government. At the time of this publication, the Department of Defense was not able to provide detailed totals for 2010 compensation and benefits.

Direct compensation of the Federal civilian work force includes base pay and premium pay, such as overtime. In addition, it includes other cash components, such as geographic and other pay differentials (e.g., locality pay, and special pay adjustments for law enforcement officers), recruitment and relocation bonuses, retention allowances, performance awards, and cost-of-living and overseas allowances. Military personnel compensation also includes special and incentive pays (e.g., enlistment and reenlistment bonuses), and allowances for clothing, housing, and subsistence.

Personnel benefits for current employees consists of the cost to Government agencies for health insurance, life insurance, Social Security (old age, survivors, disability, and health insurance) contributions to the retirement funds to finance future retirement benefits, and other items. Compensation for former personnel includes obli-

gations for retirement pay benefits and the Government’s share of the cost of health and life insurance.

The U.S. Overseas Staffing Presence

There are approximately 68,300 permanent American and locally hired staff overseas under the authority of Chiefs of Mission (COM) (e.g., Ambassadors or Charge d’ Affairs at U.S. embassies worldwide). The average estimated cost to support an American position overseas in 2010 is projected to be \$589,000, as reported by agencies with personnel overseas. This total includes direct costs,

such as salary, benefits, and overseas allowances, and also support costs, such as housing, travel, administrative support, Capital Security Cost Sharing charges, and other benefits.

The Administration continues to work to improve the safety, efficiency, and accountability in U.S. Government staffing overseas. To this end, the Administration is committed to developing transparent data on overseas staffing, including the cost of maintaining positions overseas, and incorporating this data in the budget process to better inform decision makers on overseas staffing levels.

OVERSEAS STAFFING UNDER CHIEF OF MISSION AUTHORITY*

Total Personnel Under COM Authority (including American and locally engaged staff) projected for 2010	Total American Personnel Under COM Authority projected for 2010	Average Cost of an American Position Overseas Estimated for 2010
68,300	16,050	\$589,000

* As reported by agencies in their 2010 Overseas Staffing and Cost submissions

Table 23–1. 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: 2006 to 2010	
	2006	2007	2008	2009	2010	FTE's	Percent
Cabinet agencies:							
Agriculture	97.0	94.8	93.9	96.1	95.3	-1.7	-1.8%
Commerce	36.0	36.3	37.5	52.5	141.4	105.4	292.8%
Defense	661.8	658.8	671.2	689.0	708.0	46.2	7.0%
Education	4.2	4.1	4.1	4.1	4.3	0.1	2.4%
Energy	14.7	14.6	14.7	16.1	16.9	2.2	15.0%
Health and Human Services	59.1	58.8	59.8	62.6	65.0	5.9	10.0%
Homeland Security	144.4	148.1	158.2	169.1	176.1	31.7	22.0%
Housing and Urban Development	9.6	9.5	9.4	9.5	9.7	0.1	1.0%
Interior	68.7	67.4	67.4	68.0	70.1	1.4	2.0%
Justice	104.2	105.0	106.0	116.4	119.4	15.2	14.6%
Labor	15.8	15.9	16.0	16.6	18.0	2.2	13.9%
State	30.0	30.1	30.4	32.2	33.6	3.6	12.0%
Transportation	53.3	53.4	54.7	56.4	57.0	3.7	6.9%
Treasury	107.7	107.7	106.7	111.8	113.0	5.3	4.9%
Veterans Affairs	222.6	230.4	249.5	269.4	279.2	56.6	25.4%
Other agencies—excluding Postal Service:							
Agency for International Development	2.4	2.4	2.4	2.7	3.1	0.7	29.2%
Broadcasting Board of Governors	2.1	2.0	2.0	2.0	2.1	0.0	0.0%
Corps of Engineers—Civil Works	22.1	21.2	21.1	21.6	21.7	-0.4	-1.8%
Environmental Protection Agency	17.3	17.0	16.8	17.4	17.5	0.2	1.2%
Equal Employment Opportunity Comm	2.2	2.2	2.2	2.6	2.6	0.4	18.2%
Federal Deposit Insurance Corporation	4.5	4.5	4.6	5.9	6.0	1.5	33.3%
General Services Administration	12.3	11.9	11.8	12.4	12.6	0.3	2.4%
National Aeronautics and Space Admin	18.3	18.2	18.4	18.7	18.7	0.4	2.2%
National Archives and Records Administration	2.8	2.8	2.8	3.0	3.0	0.2	7.1%
National Labor Relations Board	1.8	1.7	1.6	1.6	1.7	-0.1	-5.6%
National Science Foundation	1.3	1.3	1.3	1.4	1.4	0.1	7.7%
Nuclear Regulatory Commission	3.2	3.5	3.7	3.9	4.0	0.8	25.0%
Office of Personnel Management	4.3	4.6	4.7	5.0	5.0	0.7	16.3%
Peace Corps	1.1	1.1	1.0	1.1	1.2	0.1	9.1%
Railroad Retirement Board	1.0	1.0	1.0	1.0	1.0	0.0	0.0%
Securities and Exchange Commission	3.7	3.5	3.5	3.7	3.7	0.0	0.0%
Small Business Administration	5.9	4.4	3.6	4.0	3.2	-2.7	-45.8%
Smithsonian Institution	5.0	5.0	5.1	5.3	5.4	0.4	8.0%
Social Security Administration	63.7	61.7	61.3	65.1	68.3	4.6	7.2%
Tennessee Valley Authority	13.1	11.3	11.6	12.3	12.4	-0.7	-5.3%
All other small agencies	15.4	15.6	15.2	16.8	17.1	1.7	11.0%
Total, Executive Branch civilian employment *	1,832.8	1,831.6	1,875.3	1,977.3	2,118.6	285.8	15.6%
Subtotal, Defense	661.8	658.8	671.2	689.0	708.0	46.2	7.0%
Subtotal, Non-Defense	1,171.0	1,172.8	1,204.1	1,288.3	1,410.6	239.6	20.5%

* Totals may not add due to rounding.

Table 23–2. TOTAL FEDERAL EMPLOYMENT

(As measured by Full-Time Equivalents)					
Description	2008 Actual	Estimate		Change: 2008 to 2010	
		2009	2010	FTE's	Percent
Executive branch civilian personnel:					
All agencies except Postal Service and Defense	1,204,089	1,288,364	1,410,531	206,442	17.1%
Defense-Military functions (civilians)	671,217	688,952	708,046	36,829	5.5%
Subtotal, excluding Postal Service	1,875,306	1,977,316	2,118,577	243,271	13.0%
Postal Service ¹	774,802	710,314	656,788	-118,014	-15.2%
Subtotal, Executive Branch civilian personnel	2,650,108	2,687,630	2,775,365	125,257	4.7%
Executive branch uniformed personnel:					
Department of Defense ²	1,495,034	1,521,089	1,517,591	22,557	1.5%
Department of Homeland Security (USCG)	41,825	43,015	43,241	1,416	3.4%
Commissioned Corps (Commerce, HHS, EPA)	6,388	6,529	6,609	221	3.5%
Subtotal, uniformed military personnel	1,543,247	1,570,633	1,567,441	24,194	1.6%
Subtotal, Executive Branch	4,193,355	4,258,263	4,342,806	149,451	3.6%
Legislative Branch: Total FTE ³	31,265	33,121	33,601	2,336	7.5%
Judicial branch: Total FTE	33,714	34,431	35,029	1,315	3.9%
Grand total	4,258,334	4,325,815	4,411,436	153,102	3.6%

¹ Includes Postal Rate Commission.

² Does not include Full-Time Support (Active Guard and Reserve (AGRs)) paid from Reserve Component Appropriations.

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

Table 23–3. PERSONNEL COMPENSATION AND BENEFITS ¹
(In millions of dollars)

Description	2008 Actual	2009 Estimate	2010 Request	Change: 2008 to 2010	
				Dollars	Percent
Civilian personnel costs:					
Executive Branch (excluding Postal Service):					
Direct compensation:					
DOD—military functions	45,241	49,348	N/A	N/A	N/A
All other executive branch	96,900	106,303	115,622	18,722	19.3%
Subtotal, direct compensation	142,141	155,651	N/A	N/A	N/A
Personnel benefits:					
DOD—military functions	12,831	14,250	N/A	N/A	N/A
All other executive branch	39,665	42,136	44,162	4,497	11.3%
Subtotal, personnel benefits	52,496	56,386	N/A	N/A	N/A
Subtotal, Executive Branch	194,637	212,037	N/A	N/A	N/A
Postal Service:					
Direct compensation	42,548	40,432	42,405	-143	-0.3%
Personnel benefits	18,424	18,494	18,847	423	2.3%
Subtotal	60,972	58,926	61,252	280	0.5%
Legislative Branch: ²					
Direct compensation	1,978	2,116	2,269	291	14.7%
Personnel benefits	560	608	683	123	22.0%
Subtotal	2,538	2,724	2,952	414	16.3%
Judicial Branch:					
Direct compensation	2,866	3,000	3,240	374	13.0%
Personnel benefits	877	930	1,011	134	15.3%
Subtotal	3,743	3,930	4,251	508	13.6%
Total, civilian personnel costs	261,890	277,617	N/A	N/A	N/A
Military personnel costs:					
DOD—Military Functions:					
Direct compensation	89,226	94,730	N/A	N/A	N/A
Personnel benefits	45,075	45,828	N/A	N/A	N/A
Subtotal	134,301	140,558	N/A	N/A	N/A
All other executive branch, uniformed personnel:					
Direct compensation	2,676	2,894	2,883	207	7.7%
Personnel benefits	1,021	1,045	1,077	56	5.5%
Subtotal	3,697	3,939	3,960	263	7.1%
Total, military personnel costs ³	137,998	144,497	N/A	N/A	N/A
Grand total, personnel costs	399,888	422,114	N/A	N/A	N/A
ADDENDUM					
Former Civilian Personnel:					
Retired pay for former personnel	65,066	68,925	71,473	6,407	9.8%
Government payment for annuitants:					
Employee health benefits	8,734	9,262	10,084	1,350	15.5%
Employee life insurance	44	46	48	4	9.1%
Former Military personnel:					
Retired pay for former personnel	45,649	48,875	49,835	4,186	9.2%
Military annuitants health benefits	7,786	8,706	9,104	1,318	16.9%

¹ DOD compensation and benefits not available at time of printing.

² Excludes members and officers of the Senate.

³ Amounts in this table for military compensation reflect direct pay and benefits for all service members, including active duty, guard, and reserve members.

CURRENT SERVICES ESTIMATES

24. CURRENT SERVICES ESTIMATES

Current services or “baseline” estimates are designed to provide a benchmark against which policy proposals can be measured. 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 (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 technical flaws, which compromise its ability to serve as an appropriate measure. This section provides detailed estimates of a baseline that corrects 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. Moreover, it is important to discuss what a baseline is not. The baseline is not a prediction of the final outcome of the annual budget process, nor is it a proposed budget.

The current services baseline is used in a variety of ways: It can warn of future problems, either for Government fiscal policy as a whole or for individual tax and spending programs. It is also a benchmark against which the President’s Budget and other budget proposals can be compared to measure the magnitude of the proposed changes. The Administration believes adjustments to the BEA baseline are needed to better represent the

Table 24–1. CATEGORY TOTALS FOR THE BASELINE PROJECTION OF CURRENT POLICY
(in billions of dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Receipts	2,524	2,185	2,374	2,675	2,968	3,187	3,354	3,537	3,714	3,890	4,082	4,286
Outlays:												
Discretionary:												
Defense	612	726	755	753	766	783	800	821	841	862	884	906
Non-defense	522	604	683	627	595	586	587	599	612	627	641	655
Subtotal, discretionary	1,135	1,331	1,437	1,380	1,361	1,369	1,388	1,420	1,454	1,489	1,525	1,562
Mandatory:												
Social Security	612	675	696	722	750	791	839	892	948	1,009	1,073	1,141
Medicare	386	425	452	497	507	565	631	650	720	751	780	871
Medicaid and CHIP	208	271	300	287	297	318	336	359	386	414	444	477
Other mandatory	389	929	572	534	419	422	424	433	482	493	500	528
Subtotal, mandatory	1,595	2,300	2,020	2,038	1,973	2,097	2,230	2,334	2,536	2,666	2,798	3,018
Disaster costs ¹ .....	.....	4	11	16	18	20	23	25	26	27	29	30
Net interest	253	167	176	283	376	445	501	555	605	657	708	762
Total, outlays	2,983	3,801	3,644	3,718	3,729	3,930	4,142	4,333	4,621	4,839	5,060	5,372
Unified deficit(+)/surplus(-)	459	1,617	1,270	1,043	761	743	788	797	907	949	977	1,086
On-budget	642	1,753	1,405	1,195	933	935	986	992	1,108	1,141	1,162	1,260
Off-budget	-183	-137	-134	-152	-172	-192	-198	-195	-200	-192	-185	-174
Memorandum:												
BEA baseline deficit	459	1,535	1,122	661	300	208	185	129	183	169	134	168
Adjustments to reflect current policies .....	.....	*	28	239	291	336	375	407	429	448	473	505
Adjustments to reflect costs of overseas contingency operations and disasters .....	.....	81	119	130	137	142	148	153	158	163	167	172
Related debt service .....	.....	*	2	13	34	57	81	108	138	169	203	241
Baseline projection of current policy deficit	459	1,617	1,270	1,043	761	743	788	797	907	949	977	1,086

* \$500 million or less.

¹ These amounts represent the statistical probability of a major disaster requiring federal assistance for relief and reconstruction. Such assistance might be provided in the form of discretionary or mandatory outlays or tax relief. These amounts are included as outlays for convenience.

deficit outlook under current policy. For example, an appropriate benchmark should include the future costs of extending temporary tax cuts and spending programs that have been extended routinely in the past. Omitting these costs would make the deficit outlook appear more favorable than it actually is, masking future problems and providing an inappropriate benchmark for measuring budget proposals.

Table 24–1 shows estimates of receipts, outlays, and surpluses under the Administration’s baseline projection of current policy for 2008 through 2019. 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 24–2 shows the changes proposed in the President’s Budget relative to the baseline projection of current policy.

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, Food Stamps and other means-tested entitlements. 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 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 projection of current policy generally—but not always—assumes that receipts and direct spending programs continue in the future as specified by current law. The budgetary impact 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 provisions affecting excise taxes dedicated to a trust fund are assumed to be extended at current rates. During the projection period of 2009 through 2019, the only taxes affected by this exception are taxes deposited in the Airport and Airway Trust Fund, which expire on September 30, 2009; 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; and taxes deposited in the Oil Spill Liability Trust Fund, which expire on December 31, 2017.
- Consistent with the BEA, direct spending programs that will expire under current law are assumed to be extended if their 2009 outlays exceed \$50 million. For example, under the Child Nutrition Programs, the State administrative expenses and the Summer Food Service Program are scheduled to expire at the

TABLE 24–2. IMPACT OF BUDGET POLICY
(in billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010–2014	2010–2019
Baseline projection of current policy deficit	1,617	1,270	1,043	761	743	788	797	907	949	977	1,086	4,606	9,323
Proposals:													
Revenue proposals ¹	28	42	-8	-72	-86	-98	-101	-107	-116	-125	-137	-222	-809
Discretionary policy:													
Defense	-40	-49	-104	-148	-171	-187	-202	-217	-233	-249	-267	-659	-1,827
Non-defense	3	22	15	29	43	52	61	68	74	79	85	160	528
Subtotal, discretionary	-37	-27	-89	-119	-128	-135	-141	-149	-159	-170	-181	-498	-1,300
Mandatory proposals:													
Placeholder for potential additional financial stabilization efforts	251	2	8	11	12	12	13	13	14	14	15	45	114
Other proposals	-17	-29	-24	-23	-29	-32	-39	-19	-14	-9	-4	-137	-221
Subtotal, mandatory	233	-27	-16	-13	-17	-19	-26	-5	0	5	11	-92	-107
2010 Budget deficit	1,841	1,258	929	557	512	536	528	645	675	688	779	3,793	7,108

Note: Each line includes debt service.

¹ Includes outlay impact of revenue proposals.

end of 2009. The baseline estimates provided here assume continuation of these programs through the projection period. However, programs enacted after the enactment of the Balanced Budget Act of 1997 that are explicitly temporary in nature expire in the baseline even if their current year outlays exceed the \$50 million threshold. For example, the Department of the Interior's Coastal Impact Assistance Program is assumed to expire as scheduled in 2010 even though outlays are estimated to be \$64 million in the current year.

- Most of the tax reductions enacted in 2001 and 2003 are scheduled to expire on December 31, 2010. The Administration's baseline projection of current policy continues most of these tax cuts past their expiration date except for the repeal of estate and generation-skipping transfer taxes, which are assumed to be extended at their 2009 parameters (maximum rate of 45 percent and exemption amount of \$3.5 million). The baseline projections also reflect annual indexation of the alternative minimum tax (AMT) exemption amounts in effect for taxable year 2009, the income thresholds for the 28 percent rate, and the income thresholds for the phaseout of the exemption amounts. The baseline projection of current policy also extends AMT relief for nonrefundable personal credits. Unlike the extension of excise taxes dedicated to a trust fund mentioned above, the BEA baseline definitions, developed before the enactment of the 2001 and 2003 tax cuts, do not provide for extension of these provisions.
- Medicare physician payments are constrained under current law by a "sustainable growth rate" formula, but Congress has frequently overridden the reductions required by the formula. The Administration believes that the current Medicare physician payment system, while having served to limit spending to a degree, needs to be reformed to give physicians incentives to improve quality and efficiency. As part of health care reform, the Administration would support comprehensive, but fiscally responsible, reforms to this payment formula. Consistent with this goal, the Administration will explore the options available under current authority to facilitate such reforms including a legal and substantive assessment of whether physician-administered drugs should be covered under the payment formula. The baseline projection of current policy reflects the costs of this action, along with the additional costs of expected Medicare physician payments.
- Similarly, the baseline projection of current policy extends the Transitional Medical Assistance and Qualified Individuals programs, which govern eligibility under Medicare and Medicaid, even though these programs expire under current law. The baseline also extends the mandatory diabetes funding for the National Institutes of Health (NIH) and Indian Health Services (IHS), which expires under current law. In recent years, as with Medicare physician pay-

ment relief, Congress has repeatedly extended these provisions or programs, so not extending them would significantly underestimate the baseline deficits.

- The Administration requests that Pell Grants be converted from a discretionary program to a mandatory program starting in 2010 and the benefits be substantially increased. Accordingly, starting in 2010, its baseline projection of current policy reflects the reclassification from discretionary to mandatory of the amount of Pell Grants that would have been discretionary using the BEA rules for projecting the cost of discretionary programs. Reclassifying Pell spending in the baseline provides an appropriate benchmark for assessing the budget impact of the policy proposal to expand benefits.

Discretionary spending.—Discretionary programs differ in one important aspect from direct spending programs: 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 exist after existing balances were spent. If the baseline was intended to reflect current law, then a baseline would only reflect the expenditure of remaining balances from appropriations laws already enacted. Instead the BEA baseline provides a mechanical definition for discretionary programs that is somewhat arbitrary. Under the BEA, the baseline estimates for discretionary programs in the current year are equal to enacted appropriations. For the budget year and beyond, the spending authority enacted in the current year is adjusted for inflation, using specified inflation rates. The definition used in the Administration's baseline projection of current policy attempts to keep discretionary spending level in real terms. The Administration's baseline projection includes the following assumptions, which differ from the BEA baseline:

- The inflation rates used are similar to those required by the BEA but adjusted to remove the overcompensation for federal pay inherent in the BEA definition. Unlike the BEA requirements, the baseline projection of current policy reflects the fact that federal pay raises are effective in January, as required under current law. At the time the BEA was enacted, it ignored 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. The inflation rates also exclude the special adjustment for administrative expenses for certain benefit programs required by the BEA. This provision is inconsistent with the baseline rules for other accounts that fund administrative costs.
- For overseas contingency operations in Iraq and Afghanistan and related international activities, the baseline projection of current policy removes the enacted 2009 part-year funding and inserts the 2008 full-year amounts, adjusted for inflation, in order to

provide a better approximation of current services for these costs. Under the BEA baseline, enacted 2009 supplementals are extended and inflated; however, since the enacted supplemental funds only a part of the 2009 costs, the BEA baseline significantly understates these costs.

- The baseline projection of current policy removes from 2010 and beyond the extension and inflation of items designated as “emergency” requirements that are clearly one-time in nature. There is no obvious reason that non-recurring emergency costs should be continued in the baseline as required by the BEA. On the other hand, including no adjustment for one-time expenditures could understate the baseline costs, and therefore, the Administration’s baseline projection includes a disaster cost allowance as explained above.

Disaster funding.—An allowance for the statistical probability that there will be major natural or man-made disasters during the remainder of 2009 and in subsequent years is assumed in the baseline projection of current policy in order to make budget totals more honest and 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 probabilistic estimates of future costs.

Alternative Formulations of Baseline

Throughout much of U.S. history, budget proposals were often compared to 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 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 parts of mandatory programs.* Currently, mandatory programs that have current year outlays of over \$50 million are generally assumed to continue. While the baseline projection of current policy continues expected Medicare physician payments, the Transitional Medical Assistance and the Qualified Individual programs, and diabetes funding for NIH and IHS, other provisions of law that affect parts of mandatory programs are assumed to expire as scheduled.
- *Do not extend any authorizing laws that expire.* If all mandatory programs were assumed to expire as scheduled, deficits for 2010 through 2019 would be \$1,106 billion lower than in the baseline projection of current policy. (See the section below on major program assumptions for details on mandatory program extensions assumed in the estimates.) If excise taxes were allowed to expire, the deficit would be \$514 billion higher over the period 2010 through 2019. If certain provisions of the 2001 and 2003 Tax Acts were assumed to expire, the deficit would be \$3,154 billion lower over the 10-year period. If the AMT relief were assumed to expire, the deficit would be \$687 billion lower over the 10-year period.
- *Straightline appropriations.* If all discretionary budgetary resources in the current year that are inflated in the baseline projection of current policy

TABLE 24-3. ALTERNATIVE BASELINE ASSUMPTIONS
(in billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2014	2010-2019
Baseline project of current policy deficit	1,617	1,270	1,043	761	743	788	797	907	949	977	1,086	4,606	9,323
Alternative assumptions (“+” represents deficit increase):													
Extend provisions affecting parts of mandatory programs ¹ .....	.....	*	*	-.*	1	1	1	1	2	2	2	2	10
Do not extend any authorizing laws:													
Mandatory spending .....	.....	-20	-33	-42	-119	-131	-141	-145	-150	-156	-169	-344	-1,106
Trust fund excise taxes .....	.....	11	12	47	51	55	59	63	68	72	76	176	514
Certain provisions of the 2001 and 2003 Tax Acts ....	.....	-.*	-4	-152	-241	-284	-326	-362	-394	-427	-463	-1,007	-3,154
AMT relief .....	.....	-14	-71	-38	-46	-55	-65	-77	-91	-106	-124	-223	-687
Straightline appropriations .....	.....	-15	-38	-67	-100	-136	-175	-217	-262	-309	-360	-357	-1,680
Do not extend any appropriations .....	.....	-752	-1,172	-1,362	-1,495	-1,609	-1,720	-1,833	-1,949	-2,071	-2,199	-6,390	-16,162

* \$500 million or less.

¹ Estimates provided here are the totals for the illustrative provisions shown in Table 24-6. This is not a complete listing of all provisions that expire.

are frozen throughout the projection period, total outlays would be \$15 billion lower in 2010 and \$1,680 billion lower over the period 2010 through 2019. This calculation excludes the extension of the Recovery Act and other emergency resources, which are not extended in the baseline projection of current policy.

- *Do not extend any appropriations.* The current treatment of expiring provisions 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 the current year budgetary resource. If this rule were followed, outlays in 2010 would be reduced by \$752 billion relative to the baseline projection of current policy. However, clearly this would provide an unrealistic estimate of future spending and the Government’s future fiscal position.

Table 24–3 provides estimates for a variety of changes in baseline definitions that could be considered.

Economic Assumptions

The estimates for the baseline projection of current policy are prepared using the same economic assumptions as the President’s Budget. These assumptions are based on enactment of the President’s Budget proposals. The economy and the budget interact. Changes in economic conditions significantly alter the estimates of tax receipts, unemployment benefits, entitlement payments that are automatically adjusted for changes in cost-of-living (COLAs), income support programs for low-income individuals, and interest on the Federal debt. In turn, Government tax and spending policies influence prices, economic growth, consumption, savings, and investment. Because of these interactions, it would be reasonable, from an economic perspective, to assume different economic paths for the baseline projection and the President’s Budget. However, this would diminish the value of the baseline estimates as a benchmark for measuring proposed policy changes, because it would 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 baseline projection of current policy are summarized in Table 24–4. The economic outlook underlying these assumptions is discussed in greater detail in Chapter 12 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 benefi-

Table 24–4. SUMMARY OF ECONOMIC ASSUMPTIONS
(Fiscal years; dollar amounts in billions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Gross Domestic Product (GDP):											
Levels, dollar amounts in billions:											
Current dollars	14,240	14,729	15,500	16,470	17,498	18,386	19,205	20,060	20,952	21,884	22,858
Real, chained (2000) dollars	11,518	11,791	12,239	12,793	13,350	13,781	14,140	14,508	14,886	15,273	15,670
Percent change, year over year:											
Current dollars	0.1	3.4	5.2	6.3	6.2	5.1	4.5	4.5	4.4	4.4	4.5
Real, chained (2000) dollars	-1.4	2.4	3.8	4.5	4.4	3.2	2.6	2.6	2.6	2.6	2.6
Inflation measures (percent change, year over year):											
GDP chained price index	1.5	1.0	1.4	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Consumer price index (all urban)	-0.4	1.4	1.7	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Unemployment rate, civilian (percent)	7.7	8.0	7.4	6.3	5.3	5.0	5.0	5.0	5.0	5.0	5.0
Interest rates (percent):											
91-day Treasury bills	0.3	1.1	3.1	3.8	4.0	4.0	4.0	4.0	4.0	4.0	4.0
10-year Treasury notes	2.9	3.6	4.7	5.0	5.2	5.2	5.2	5.2	5.2	5.2	5.2
MEMORANDUM:											
Related program assumptions:											
Automatic benefit increases (percent):											
Social security and veterans pensions	5.8	0.0	0.0	0.5	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Federal employee retirement	5.8	0.0	0.0	0.5	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Food stamps	8.5	6.4	1.3	1.7	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Insured unemployment rate	3.7	3.7	3.2	2.8	2.4	2.2	2.2	2.1	2.1	2.1	2.1

TABLE 24-5. BASELINE BENEFICIARY PROJECTIONS FOR MAJOR BENEFIT PROGRAMS
(Annual average, in thousands)

	Actual 2008	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Farmers receiving Federal payments	1,556	1,548	1,540	1,532	1,524	1,516	1,508	1,500	1,493	1,486	1,479	1,472
Federal family education loans	6,633	7,097	7,504	7,797	8,103	8,422	8,756	9,106	9,471	9,854	10,254	10,673
Federal direct student loans	2,443	3,179	3,365	3,537	3,706	3,873	4,037	4,210	4,391	4,581	4,780	4,988
Medicaid/Children's Health Insurance Program ¹	52,277	56,090	58,870	60,430	61,580	62,720	61,130	60,340	61,170	62,000	62,820	63,610
Medicare-eligible military retiree health benefits	1,845	1,876	1,900	1,929	1,978	2,034	2,079	2,116	2,154	2,192	2,231	2,271
Medicare:												
Hospital insurance	44,625	45,387	46,248	47,303	48,665	50,209	51,748	53,289	54,859	56,482	58,162	59,901
Supplementary medical insurance:												
Part B	41,669	42,340	43,049	43,845	44,972	46,323	47,637	48,963	50,313	51,717	53,177	54,694
Part D	31,784	32,880	33,993	35,233	36,699	37,954	39,089	40,227	41,385	42,583	43,824	45,108
Prescription Drug Plans and Medicare Advantage:												
Prescription Drug Plans	25,302	26,450	27,575	28,802	30,218	31,403	32,475	33,554	34,655	35,795	36,975	38,197
Retiree Drug Subsidy	6,482	6,430	6,418	6,431	6,481	6,550	6,614	6,672	6,730	6,788	6,849	6,911
Managed Care Enrollment ²	9,657	10,745	11,615	11,960	12,270	12,814	13,339	13,830	14,290	14,725	15,152	15,580
Railroad retirement	562	556	550	545	541	537	533	530	526	522	518	512
Federal civil service retirement	2,491	2,512	2,535	2,559	2,584	2,607	2,629	2,650	2,669	2,687	2,704	2,720
Military retirement	2,171	2,191	2,205	2,214	2,221	2,243	2,245	2,245	2,246	2,246	2,246	2,247
Unemployment insurance	8,762	11,934	11,334	10,561	9,677	8,828	8,511	8,507	8,545	8,592	8,637	8,679
Supplemental Nutrition Assistance Program (formerly Food Stamps)	28,408	32,603	34,972	37,111	35,660	33,493	31,305	30,116	29,649	29,129	28,729	28,362
Child nutrition	30,940	31,624	32,130	32,548	32,873	33,169	33,435	33,702	33,972	34,243	34,517	34,794
Commodity Supplemental Food Program	475	473	473	473	473	473	473	473	473	473	473	473
Foster care and adoption assistance	597	607	609	616	627	638	654	665	681	700	721	741
Supplemental security income (SSI):												
Aged	1,103	1,100	1,095	1,095	1,103	1,118	1,134	1,152	1,172	1,195	1,221	1,250
Blind/disabled	6,014	6,222	6,452	6,661	6,856	6,991	7,050	7,101	7,148	7,193	7,245	7,296
Total, SSI	7,117	7,322	7,547	7,756	7,959	8,109	8,184	8,253	8,321	8,388	8,466	8,547
Child care and development fund ³	2,500	2,500	2,500	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300
Social security (OASDI):												
Old age and survivor insurance	41,154	41,926	42,872	43,886	45,015	46,340	47,790	49,262	50,781	52,342	53,926	55,541
Disability insurance	8,985	9,364	9,763	10,232	10,593	10,764	10,830	10,924	11,051	11,198	11,338	11,466
Total, OASDI	50,139	51,290	52,635	54,118	55,608	57,104	58,620	60,186	61,832	63,540	65,264	67,007
Veterans compensation:												
Veterans	2,901	3,015	3,154	3,280	3,401	3,518	3,630	3,739	3,845	3,948	4,047	4,143
Survivors (non-veterans)	337	342	348	355	363	372	381	391	401	413	424	436
Total, Veterans compensation	3,238	3,357	3,503	3,635	3,764	3,889	4,011	4,130	4,247	4,360	4,471	4,580
Veterans pensions:												
Veterans	319	312	303	296	288	281	274	267	260	253	247	240
Survivors (non-veterans)	194	192	188	183	178	174	170	165	161	157	154	150
Total, Veterans pensions	514	504	491	479	467	455	443	432	421	411	400	390

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 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.

ciaries who will receive payments from the major benefit programs. Assumptions about various automatic cost-of-living-adjustments are shown in Table 24-4, and assumptions on baseline caseload projections for the major benefit programs are shown in Table 24-5.

It is also necessary to make assumptions about the continuation of expiring programs and provisions. As explained above, in the estimates of the baseline projection of current policy provided here, expiring excise taxes dedicated to a trust fund are extended at current rates. Certain tax reductions enacted in 2001 and 2003 and AMT relief are assumed to be permanent for purposes of calculating revenue estimates. In general, mandatory

programs with current year spending of at least \$50 million are also assumed to continue. In addition, the baseline projection of current policy incorporates additional expected costs for Medicare physician payments, and assumes permanent extension of the Transitional Medical Assistance and the Qualified Individuals programs, and the mandatory diabetes funding for NIH and IHS, which have been repeatedly extended in recent years. However, other specific provisions of law that affect mandatory programs (but are not necessary for program operation) are allowed to expire as scheduled. For example, under the Energy Policy Act of 2005, the Coastal Impact Assistance Program will expire at the end of 2010. The baseline

Table 24–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE
(In millions of dollars)

	Estimate											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
REGULATIONS												
<i>Finalized</i>												
Old Age and Survivors Insurance (OASI), Disability Insurance (DI) and Supplemental Security Income (SSI):												
Reduction of Title II Benefits Under Family Max in Cases of Dual Entitlement (OASDI)	20	21	23	23	23	23	23	23	23	23	23	23
Trial Work Period (OASDI)	1	1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Title XVI Cross Program Recovery (SSI)	-15	-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	5
Continuing Disability Review Failure to Cooperate Process (OASDI)	-12	-12	-13	-14	-15	-16	-17	-17	-17	-17	-17	-17
Exemption of Work Activity as a Basis for a Continuing Disability Review (OASDI and SSI):												
OASDI	39	54	70	87	105	124	142	142	142	142	142	142
SSI	1	2	2	2	3	3	3	3	3	3	3	3
Amendments to the Quick Disability Determination Process (OASDI and SSI):												
OASDI .....	.....	1	-4	-5	-8	-9	-12	-16	-1	-1	-1	-1
SSI .....	.....	.....	-1	-1	-1	-2	-2	-2	.....	.....	.....	.....
Revised Medical Criteria for Evaluating Digestive Disorders (OASDI and SSI):												
OASDI	-19	-27	-35	-42	-50	-58	-67	-75	-83	-83	-83	-83
SSI	-3	-5	-8	-8	-11	-12	-14	-17	-17	-17	-17	-17
Attorney Advisors (OASDI and SSI):												
OASDI	-17	-28	12	11	11	10	9	9	8	8	8	8
SSI	-15	4	4	4	4	3	3	3	3	3	3	3
60 Month Government Pension Offset Exemption (OASDI)	-4	-5	-7	-8	-10	-10	-10	-10	-10	-10	-10	-10
Revised Criteria for Evaluating Immune System Disorders (OASDI and SSI):												
OASDI	2	3	5	6	7	9	10	11	12	12	12	12
SSI	1	1	1	1	2	2	2	2	2	2	2	2
Ticket to Work (OASDI and SSI):												
OASDI	7	29	92	134	174	189	195	173	158	134	134	134
SSI	5	4	-11	-3	-8	-11	-8	-20	-13	-4	-4	-4
<i>Not Finalized</i>												
Medicare: Allocation for administrative actions ¹ .....	.....	-3,797	-2,822	-1,921	-2,160	-2,317	-2,471	-2,759	-2,873	-2,968	-3,331	-3,331
Onshore Oil and Gas Leasing Reforms .....	.....	.....	.....	.....	-30	-70	-150	-200	-250	-350	-450	-450
EXPIRING AUTHORIZATIONS												
<i>Provisions Extended in the Baseline Projection of Current Policy</i>												
Spending:												
Child Nutrition Programs:												
State Administrative Expenses .....	.....	193	211	228	236	239	246	251	259	268	276	276
Summer Food Service Program .....	.....	378	396	415	436	459	482	507	534	561	590	590
Commodity Supplemental Food Program .....	.....	.....	.....	.....	163	163	163	163	163	163	163	163
Farm Service Agency (FSA) Programs:												
Agricultural Commodity Marketing Loans .....	.....	.....	.....	.....	16	136	112	86	71	71	60	60
Sugar Program Loans .....	.....	.....	.....	.....	.....	143	191	155	127	127	128	128
Dairy Price Support Program .....	.....	.....	.....	.....	99	93	81	55	43	43	43	43
Agricultural Commodity Counter-Cyclical Program .....	.....	.....	.....	.....	.....	.....	415	372	331	297	264	264
Average Crop Revenue Election (ACRE) Program .....	.....	.....	.....	.....	.....	.....	200	124	101	126	136	136
Direct Crop Payments .....	.....	.....	.....	.....	.....	4,897	4,897	4,897	4,897	4,897	4,897	4,897
Conservation Reserve Program .....	.....	.....	.....	.....	12	88	388	617	789	1,012	1,145	1,145
Milk Income Loss Contract Program .....	.....	.....	.....	.....	177	162	151	139	120	110	105	105
Medicaid:												
Transitional Medical Assistance ²	580	600	635	650	675	705	730	760	790	825	855	855
Medicare Low-Income Premium Assistance ²	475	563	710	935	880	925	995	1,090	1,205	1,330	1,470	1,470
Medicare physician payments:												
Administrative adjustments to payment formula for physician-administered drugs ³ .....	.....	2,030	4,990	9,620	14,070	18,880	21,860	20,460	14,630	11,870	11,210	11,210

TABLE 24-6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—CONTINUED
(In millions of dollars)

	Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Baseline estimate	387	450	113	.....	.....	.....	.....	.....	.....	.....	.....
Wyoming Family Planning:											
Baseline estimate	33	35	37	39							
Pharmacy Plus:											
Wisconsin Pharmacy Plus:											
Demonstration estimate	62	18	.....	.....	.....	.....	.....	.....	.....	.....	.....
Children's Health Insurance Program (Title XXI) ¹⁵											
Alaska Denali KidCare:											
Demonstration estimate	11	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Hawaii QUEST:											
Demonstration estimate	2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
New Jersey FamilyCare ¹⁶ :											
Demonstration estimate	173	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Oregon Health Plan 2:											
Demonstration estimate	43	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Wisconsin BadgerCare:											
Demonstration estimate	68	35	.....	.....	.....	.....	.....	.....	.....	.....	.....
CHIP/Medicaid Demonstrations ¹⁵ :											
Arizona:											
Demonstration estimate	24	26	28	.....	.....	.....	.....	.....	.....	.....	.....
Arkansas:											
Demonstration estimate (CHIP funds)	13	24	31	.....	.....	.....	.....	.....	.....	.....	.....
Baseline estimate (Medicaid funds)	1,813	2,049	2,318	.....	.....	.....	.....	.....	.....	.....	.....
Colorado:											
Demonstration estimate	18	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Idaho:											
Demonstration estimate (CHIP funds)	11	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Michigan ¹⁶ :											
Demonstration estimate (CHIP funds)	24	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Nevada:											
Demonstration estimate (CHIP funds)	19	21	17	.....	.....	.....	.....	.....	.....	.....	.....
New Mexico:											
Demonstration estimate (CHIP funds)	27	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Oklahoma Sooner Care Demo:											
Baseline estimate	1,137	289	.....	.....	.....	.....	.....	.....	.....	.....	.....
Virginia:											
Demonstration estimate (CHIP funds)	10	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

* \$500,000 or less.

¹ Medicare regulations reflect gross outlays.

² Current law expires December 31, 2010.

³ Preliminary estimates.

⁴ Current law expires September 30, 2011.

⁵ Implementation of these regulations was prohibited in 2009, but not subsequent years, by the American Recovery and Reinvestment Act of 2009.

⁶ 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 2010 President's Budget.

⁷ Excludes demonstration authorized under Section 135 of the Medicare Improvement for Patients and Providers Act of 2008 to assess appropriate use of imaging services by Medicare providers.

⁸ Costs of this demonstration are offset annually by a reduction to inpatient hospital prospective payment rates.

⁹ Medicaid demonstration estimates do not reflect temporary FMAP adjustments included in the American Recovery and Reinvestment Act, P.L. 111-5.

¹⁰ Baseline estimate is 2008 estimate carried forward while demonstration has been operating on temporary extensions (Oct 08 - March 09).

¹¹ Arkansas expired on January 31, 2009 and Illinois expired on March 31, 2009. Both demonstrations are on temporary extension until April 30, 2009.

¹² The Federal Government does not have current estimates for California; the State has been operating under a temporary extension for four years.

¹³ Consumer directed program in which "plan of care" is converted to a cash allotment. It is expected that these will convert to DRA State Plan option upon expiration.

¹⁴ Demonstration is currently operating on temporary extensions and not approved for renewal.

¹⁵ The Children's Health Insurance Program Reauthorization Act (CHIPRA) (P.L. 111-3) authorized childless adults through December 31, 2009.

¹⁶ New Jersey and Michigan 2010 and 2011 estimates are based on 2009 estimates due to automatic extensions under CHIPRA.

does not assume additional spending under this authority beyond that point. Table 24–6 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 2008 full-year 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 24–6 lists many of these assumptions and their impact 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 24-7 shows the baseline projection of current policy receipts by major source. Total receipts are projected to increase by \$189 billion from 2009 to 2010, by \$980 billion from 2010 to 2014, and by \$932 billion from 2014 to 2019. 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 \$97 billion from 2009 to 2010, by \$536 billion from 2010 to 2014, and by \$518 billion from 2014 to 2019 under baseline assumptions. This average annual rate of growth of 8.0 percent between 2010 and 2019 is primarily the effect

Table 24–7. RECEIPTS BY SOURCE IN THE BASELINE PROJECTION OF CURRENT POLICY
(in billions of dollars)

	2008 Actual	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Individual income taxes	1,146	953	1,050	1,210	1,372	1,484	1,586	1,684	1,780	1,883	1,992	2,105
Corporation income taxes	304	175	221	288	347	385	389	420	438	457	481	504
Social insurance and retirement receipts	900	899	939	993	1,051	1,114	1,166	1,212	1,266	1,314	1,367	1,428
On-budget	242	244	256	275	294	310	323	333	340	350	362	379
Off-budget	658	655	683	718	757	803	843	879	926	963	1,005	1,049
Excise taxes	67	66	76	82	85	87	89	90	92	93	94	95
Estate and gift taxes	29	26	20	21	22	24	25	27	29	31	33	35
Other receipts	78	65	68	79	89	94	99	104	109	113	116	119
Total, receipts	2,524	2,185	2,374	2,675	2,968	3,187	3,354	3,537	3,714	3,890	4,082	4,286
On-budget	1,866	1,530	1,691	1,956	2,211	2,384	2,511	2,658	2,788	2,927	3,077	3,237
Off-budget	658	655	683	718	757	803	843	879	926	963	1,005	1,049

of increased collections resulting from rising personal incomes.

Corporation income taxes are estimated to increase by \$46 billion from 2009 to 2010, by \$168 billion from 2010 to 2014, and by \$116 billion from 2014 to 2019 under baseline assumptions. This average annual rate of growth of 9.6 percent between 2010 and 2019 is primarily attributable to growth in corporate profits.

Social insurance and retirement receipts are estimated to increase by \$40 billion from 2009 to 2010, by an additional \$226 billion between 2010 and 2014, and by an additional \$263 billion between 2014 and 2019. These baseline estimates reflect increases in total wages and salaries paid and scheduled increases in the social security taxable earnings base from \$106,800 in 2009 to \$125,400 in 2014 and to \$152,700 in 2019, as shown in Table 24-8.

Excise taxes increase by \$10 billion from 2009 to 2010, in large part due to increased economic activity and

legislated increases in excise taxes on tobacco products provided in the Children's Health Insurance Program Reauthorization Act of 2009. Excise taxes increase by an additional \$19 billion from 2010 to 2019. Estate and gift taxes decline by \$7 billion from 2009 to 2010, in large part due to the scheduled increase in the exemption amount from \$2 million to \$3.5 million for tax year 2009. Estate and gift taxes grow annually thereafter, rising to \$35 billion in 2019. Other baseline receipts (customs duties and miscellaneous receipts) are projected to increase by \$3 billion between 2009 and 2010, and to rise annually thereafter to \$119 billion in 2019.

Outlays.—Outlays in the baseline projection of current policy are estimated to decline from \$3,801 billion in 2009 to \$3,644 billion in 2010, a 4.1 percent decrease. Between 2009 and 2014, the baseline outlays are projected to increase at an average annual rate of 1.7 percent and between 2009 and 2019, the baseline outlays are projected to increase at an annual rate of 3.5 per-

Table 24–8. EFFECT ON RECEIPTS OF CHANGES IN THE SOCIAL SECURITY TAXABLE EARNINGS BASE
(In billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019
Social security (OASDI) taxable earnings base increases:								
\$106,800 to \$114,600 on Jan 1, 2012 ¹	4.1	10.9	12.0	13.1	14.5	15.8	17.3	18.8
\$114,600 to \$119,700 on Jan 1, 2013	2.6	6.9	7.6	8.3	9.1	10.0	10.9
\$119,700 to \$125,400 on Jan 1, 2014	2.9	7.7	8.5	9.1	10.1	11.0
\$125,400 to \$130,800 on Jan 1, 2015	2.7	7.2	8.0	8.6	9.5
\$130,800 to \$136,200 on Jan 1, 2016	2.8	7.2	8.0	8.5
\$136,200 to \$141,600 on Jan 1, 2017	2.8	7.2	8.0
\$141,600 to \$147,000 on Jan 1, 2018	2.8	7.2
\$147,000 to \$152,700 on Jan 1, 2019	3.0

¹ The taxable earnings base remains at \$106,800 for 2009, 2010 and 2011.

cent. Table 24–9 shows the growth from 2009 to 2010 and average annual growth over the five-year and ten-year periods for certain discretionary and major mandatory programs.

While most discretionary spending is assumed to grow with inflation, outlays for discretionary programs grow by 8.0 percent from \$1,331 billion in 2009 to \$1,437 billion in 2010, largely due to an increase in outlay estimates from the Recovery Act. Excluding the outlay impact of the Recovery Act, outlays increase each year after 2010, largely reflecting increases in resources to keep pace with inflation, reaching \$1,562 billion in 2019. Entitlement and other mandatory programs are estimated to decline

from \$2,300 billion in 2009 to \$2,020 billion in 2010, largely due to the outlay estimates for the Troubled Asset Relief Program in 2009. Outlays generally increase after 2010, reaching \$3,018 billion in 2019, due in large part to changes in the number of beneficiaries and to automatic cost-of-living adjustments and other adjustments for inflation. Social Security outlays grow from \$675 billion in 2009 to \$1,141 billion in 2019, an average annual rate of 5.4 percent. Medicare and Medicaid outlays are projected to grow at annual average rates of 7.4 and 6.0 percent over the 10-year period, respectively, outpacing inflation. Other areas of high growth include veterans programs (6.9 percent) and other health care programs (5.2 percent).

Table 24–9. CHANGE IN OUTLAY ESTIMATES BY CATEGORY IN THE BASELINE PROJECTION OF CURRENT POLICY
(Dollar amounts in billions)

	2009	2010	2014	2019	Change 2009 to 2010		Change 2009 to 2014		Change 2009 to 2019	
					Amount	Percent	Amount	Annual average rate	Amount	Annual average rate
Outlays:										
Discretionary:										
Defense	726	755	800	906	28	3.9%	74	2.0%	180	2.2%
Non-defense	604	683	587	655	79	13.0%	-17	-0.6%	51	0.8%
Subtotal, discretionary	1,331	1,437	1,388	1,562	107	8.0%	57	0.8%	231	1.6%
Mandatory:										
Farm programs	14	19	15	14	5	36.8%	1	1.8%	*	0.3%
Medicaid	262	290	327	471	27	10.4%	64	4.5%	209	6.0%
Other health care	31	32	37	51	2	5.3%	6	3.6%	20	5.2%
Medicare	425	452	631	871	27	6.4%	206	8.2%	446	7.4%
Federal employee retirement and disability	116	119	133	155	4	3.2%	18	2.9%	39	3.0%
Unemployment compensation	103	89	48	57	-15	-14.2%	-56	-14.3%	-46	-5.8%
Other income security programs	236	268	232	250	33	13.9%	-4	-0.3%	15	0.6%
Social Security	675	696	839	1,141	21	3.1%	164	4.5%	466	5.4%
Veterans programs	50	57	75	98	6	12.9%	24	8.3%	48	6.9%
Other mandatory programs	480	81	-8	34	-399	-83.2%	-488	-143.9%	-446	-23.2%
Undistributed offsetting receipts	-92	-83	-98	-126	8	-9.0%	-7	1.4%	-34	3.2%
Subtotal, mandatory	2,300	2,020	2,230	3,018	-280	-12.2%	-70	-0.6%	718	2.8%
Disaster costs ¹	4	11	23	30	7	204.8%	19	44.6%	26	23.7%
Net interest	167	176	501	762	9	5.4%	334	24.6%	595	16.4%
Total, outlays	3,801	3,644	4,142	5,372	-157	-4.1%	341	1.7%	1,570	3.5%

* \$500 million or less.

¹ These amounts represent the statistical probability of a major disaster requiring federal assistance for relief and reconstruction. Such assistance might be provided in the form of discretionary or mandatory outlays or tax relief. These amounts are included as outlays for convenience.

cent). Outlays in the allowance for future disaster costs are projected to increase from \$4 billion in 2009 (reflecting a part-year allowance only) to \$30 billion in 2019 at an average annual rate of 23.7 percent. Net interest payments are projected to increase from \$167 billion in 2009 to \$762 billion in 2019 at an average annual rate of 16.4 percent.

Tables 24–10 and 24–11 show the baseline projection of current policy outlays by function and by agency, respectively. A more detailed presentation of outlays (by func-

tion, category, subfunction, and program) is available as Table 24-14 on the Internet and on the CD-ROM enclosed with the printed version of this document.

Budget authority.—Tables 24–12 and 24–13 show estimates of budget authority in the baseline projection of current policy by function and by agency, respectively. A more detailed presentation of budget authority with program level estimates is available as Table 24-15 on the Internet and on the CD-ROM enclosed with the printed version of this document.

Table 24–10. OUTLAYS BY FUNCTION IN THE BASELINE PROJECTION OF CURRENT POLICY

Function	2008 Actual	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(in billions of dollars)												
National Defense:												
Department of Defense—Military	594.7	705.1	733.0	731.0	744.4	762.5	779.9	800.0	820.1	840.8	862.2	884.0
Other	21.4	25.2	27.5	27.2	26.6	25.6	26.0	26.5	27.1	27.6	28.2	28.8
Total, National Defense	616.1	730.2	760.5	758.2	771.0	788.0	805.9	826.5	847.2	868.5	890.3	912.8
International Affairs	28.9	32.1	43.6	46.0	45.0	45.2	45.6	46.7	47.7	48.7	49.7	50.8
General Science, Space, and Technology	27.8	31.2	32.1	31.4	31.2	31.6	32.0	32.5	33.1	33.8	34.5	35.2
Energy	0.6	8.8	22.6	13.5	7.2	6.1	5.9	4.4	4.6	3.5	3.9	5.2
Natural Resources and Environment	31.9	42.0	43.1	39.4	38.3	37.5	37.3	37.6	39.2	39.9	41.6	42.1
Agriculture	18.4	20.4	25.5	24.8	17.4	22.8	22.2	21.5	21.5	21.6	21.9	22.3
Agriculture	18.4	20.4	25.5	24.8	17.4	22.8	22.2	21.5	21.5	21.6	21.9	22.3
Commerce and Housing Credit	27.9	500.4	64.7	13.3	-35.0	-41.1	-40.7	-40.3	-14.1	-4.3	-4.0	-4.1
On-Budget	(25.5)	(496.6)	(60.7)	(10.0)	(-36.6)	(-41.6)	(-40.7)	(-40.3)	(-14.1)	(-4.3)	(-4.0)	(-4.1)
Off-Budget	(2.4)	(3.8)	(4.0)	(3.3)	(1.7)	(0.5)	(*)	(*)	(*)	(-*)	(-*)	(-*)
Transportation	77.6	94.3	106.1	97.2	95.9	95.3	92.1	93.9	96.3	98.7	100.7	102.3
Community and Regional Development	24.0	28.0	25.1	24.6	20.8	18.3	16.7	16.5	16.3	16.6	16.9	17.1
Health	280.6	353.4	388.7	371.5	381.5	405.1	425.0	450.6	481.2	517.4	552.6	590.4
Medicare	390.8	430.8	457.9	502.3	512.5	570.9	637.0	656.6	726.7	757.1	787.0	877.8
Income Security	431.3	519.3	545.8	527.3	481.1	478.4	480.6	487.3	502.7	509.6	518.7	536.3
Social Security	617.0	680.5	701.9	727.6	756.3	797.1	845.5	898.2	954.7	1,015.4	1,079.8	1,148.6
On-Budget	(17.8)	(34.1)	(25.2)	(27.6)	(29.1)	(31.9)	(34.6)	(37.4)	(40.4)	(43.7)	(46.6)	(49.6)
Off-Budget	(599.2)	(646.4)	(676.8)	(700.0)	(727.3)	(765.3)	(811.0)	(860.8)	(914.2)	(971.7)	(1,033.2)	(1,099.0)
Veterans Benefits and Services	84.7	96.7	105.2	113.7	111.8	121.6	127.9	133.8	144.9	146.2	146.7	159.6
Administration of Justice	47.1	53.3	55.9	54.6	54.8	55.6	57.1	58.6	60.3	61.9	65.0	66.9
General Government	20.3	21.8	23.7	24.1	25.4	25.4	25.1	26.0	26.9	27.4	28.4	29.7
Net Interest	252.8	166.9	176.0	283.0	376.0	444.7	501.3	555.1	605.0	657.1	707.8	761.9
On-Budget	(366.5)	(284.8)	(293.1)	(404.0)	(504.3)	(582.0)	(649.0)	(713.2)	(773.5)	(836.4)	(899.3)	(964.2)
Off-Budget	(-113.7)	(-117.8)	(-117.1)	(-121.1)	(-128.3)	(-137.2)	(-147.7)	(-158.2)	(-168.5)	(-179.3)	(-191.5)	(-202.3)
Allowances .....	.....	3.6	10.9	15.9	18.3	20.4	22.6	24.8	26.2	27.5	28.8	30.1
Undistributed Offsetting Receipts:												
Employer share, employee retirement (on-budget)	-53.0	-54.0	-60.8	-62.3	-64.9	-67.7	-70.7	-73.7	-76.9	-86.3	-90.1	-94.1
Employer share, employee retirement (off-budget)	-13.1	-14.2	-14.9	-15.5	-16.1	-17.1	-18.0	-18.9	-19.9	-20.7	-21.5	-22.5
Rents and royalties on the Outer Continental Shelf ...	-18.3	-6.3	-7.0	-8.7	-9.9	-10.1	-9.8	-9.8	-9.9	-9.6	-9.5	-9.4
Sale of major assets .....	.....	.....	.....	.....	-0.3	.....	.....	.....	.....	.....	.....	.....
Other undistributed offsetting receipts	-1.8	-17.2	-0.8	-0.1	-0.2	.....	.....	.....	.....	.....	.....	.....
Total, Undistributed Offsetting Receipts	-86.2	-91.6	-83.4	-86.6	-91.4	-95.0	-98.5	-102.3	-106.7	-116.7	-121.1	-126.1
On-Budget	(-73.1)	(-77.5)	(-68.5)	(-71.1)	(-75.3)	(-77.8)	(-80.5)	(-83.5)	(-86.7)	(-96.0)	(-99.7)	(-103.5)
Off-Budget	(-13.1)	(-14.2)	(-14.9)	(-15.5)	(-16.1)	(-17.1)	(-18.0)	(-18.9)	(-19.9)	(-20.7)	(-21.5)	(-22.5)
Total	2,982.9	3,801.4	3,644.4	3,717.8	3,728.6	3,930.4	4,142.3	4,333.4	4,621.2	4,839.2	5,059.7	5,371.6
On-Budget	(2,508.1)	(3,283.2)	(3,095.6)	(3,151.1)	(3,144.1)	(3,319.0)	(3,496.9)	(3,649.7)	(3,895.4)	(4,067.5)	(4,239.5)	(4,497.5)
Off-Budget	(474.8)	(518.2)	(548.8)	(566.7)	(584.6)	(611.4)	(645.3)	(683.8)	(725.8)	(771.7)	(820.2)	(874.1)

* \$50 million or less.

Table 24–11. OUTLAYS BY AGENCY IN THE BASELINE PROJECTION OF CURRENT POLICY
(in billions of dollars)

Agency	2008 Actual	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Legislative Branch	4.4	4.8	5.3	5.1	5.3	5.4	5.5	5.7	5.9	6.0	6.2	6.4
Judicial Branch	6.3	6.8	6.9	7.1	7.3	7.6	7.8	8.0	8.2	8.5	8.8	9.0
Agriculture	90.8	115.9	131.7	135.6	126.9	129.5	126.4	126.3	128.6	130.9	133.6	136.2
Commerce	7.7	11.8	12.4	12.7	12.1	10.5	10.6	10.8	11.1	11.4	11.6	11.9
Defense—Military	594.7	705.1	733.0	731.1	744.5	762.5	779.9	800.0	820.2	840.9	862.2	884.1
Education	66.0	49.7	104.9	103.3	80.9	74.7	73.2	76.6	78.2	79.4	80.2	81.9
Energy	21.4	29.3	46.8	36.6	29.5	27.5	26.7	26.2	26.5	27.0	27.5	28.0
Health and Human Services	700.5	817.8	881.2	904.3	921.4	1,001.2	1,086.4	1,129.9	1,229.5	1,289.9	1,352.5	1,478.0
Homeland Security	40.7	49.1	46.9	45.4	44.7	45.0	45.5	46.7	48.0	49.3	52.0	53.5
Housing and Urban Development	49.1	64.9	51.5	50.1	48.0	45.1	44.4	44.6	44.5	45.0	45.7	46.1
Interior	9.9	11.5	12.8	12.7	12.2	11.7	11.8	11.6	12.1	12.3	13.0	13.3
Justice	26.5	29.0	30.8	30.3	30.1	30.2	31.0	31.8	32.7	33.5	34.4	35.4
Labor	58.8	121.9	106.2	77.7	68.7	63.6	63.6	66.4	69.4	72.3	75.1	77.4
State	17.5	21.1	25.2	25.7	25.7	26.3	26.8	27.4	28.0	28.6	29.2	29.8
Transportation	64.9	79.7	90.4	82.8	81.1	80.0	76.3	77.6	79.5	81.4	82.9	83.9
Treasury	548.8	806.6	538.3	638.0	685.7	764.7	835.2	900.1	964.5	1,031.3	1,100.2	1,171.3
Veterans Affairs	84.8	96.5	105.0	113.5	111.5	121.3	127.6	133.5	144.5	145.8	146.3	159.2
Corps of Engineers—Civil Works	5.1	12.6	9.5	6.8	6.4	5.7	5.8	6.0	6.2	6.3	6.5	6.7
Other Defense Civil Programs	45.8	48.5	48.4	48.1	48.0	48.5	49.2	49.8	50.4	51.0	51.8	52.4
Environmental Protection Agency	7.9	8.4	10.3	9.9	9.2	8.8	8.1	8.4	8.7	8.8	9.1	9.4
Executive Office of the President	1.2	0.8	0.7	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
General Services Administration	0.3	1.4	2.3	1.6	1.7	1.8	0.8	0.7	0.7	0.7	0.7	0.7
International Assistance Programs	11.4	12.4	18.9	19.7	18.6	18.1	18.0	18.4	18.8	19.2	19.5	20.0
National Aeronautics and Space Administration	17.8	19.6	18.0	18.4	18.5	18.9	19.3	19.7	20.1	20.6	21.0	21.5
National Science Foundation	5.8	6.7	8.0	7.5	7.1	7.1	7.1	7.1	7.3	7.4	7.5	7.7
Office of Personnel Management	64.4	68.5	71.5	73.7	76.4	79.7	82.4	85.7	89.0	99.2	103.4	107.9
Small Business Administration	0.5	2.3	1.2	0.8	0.8	0.7	0.7	0.7	0.7	0.8	0.8	0.8
Social Security Administration	657.8	725.0	748.7	780.9	803.9	850.6	900.7	955.2	1,017.0	1,075.0	1,136.6	1,211.9
On-Budget	(58.6)	(78.6)	(71.9)	(80.9)	(76.6)	(85.3)	(89.8)	(94.4)	(102.7)	(103.2)	(103.4)	(112.8)
Off-Budget	(599.2)	(646.4)	(676.8)	(700.0)	(727.3)	(765.3)	(811.0)	(860.8)	(914.2)	(971.7)	(1,033.2)	(1,099.0)
Other Independent Agencies	49.6	147.6	47.9	12.5	-12.0	-18.0	-16.2	-15.8	11.8	19.1	20.3	21.9
On-Budget	(47.2)	(143.8)	(43.9)	(9.2)	(-13.6)	(-18.5)	(-16.2)	(-15.8)	(11.8)	(19.1)	(20.3)	(21.9)
Off-Budget	(2.4)	(3.8)	(4.0)	(3.3)	(1.7)	(0.5)	(*)	(*)	(*)	(-*)	(-*)	(-*)
Allowances .....	.....	3.6	10.9	15.9	18.3	20.4	22.6	24.8	26.2	27.5	28.8	30.1
Undistributed Offsetting Receipts	-277.8	-277.4	-281.0	-290.2	-304.5	-319.1	-335.4	-351.0	-367.5	-390.1	-408.2	-425.0
On-Budget	(-150.9)	(-145.4)	(-149.0)	(-153.6)	(-160.1)	(-164.7)	(-169.7)	(-174.0)	(-179.1)	(-190.0)	(-195.2)	(-200.2)
Off-Budget	(-126.9)	(-132.0)	(-132.0)	(-136.6)	(-144.4)	(-154.4)	(-165.6)	(-177.0)	(-188.4)	(-200.0)	(-213.0)	(-224.9)
Total	2,982.9	3,801.4	3,644.4	3,717.8	3,728.6	3,930.4	4,142.3	4,333.4	4,621.2	4,839.2	5,059.7	5,371.6
On-Budget	(2,508.1)	(3,283.2)	(3,095.6)	(3,151.1)	(3,144.1)	(3,319.0)	(3,496.9)	(3,649.7)	(3,895.4)	(4,067.5)	(4,239.5)	(4,497.5)
Off-Budget	(474.8)	(518.2)	(548.8)	(566.7)	(584.6)	(611.4)	(645.3)	(683.8)	(725.8)	(771.7)	(820.2)	(874.1)

* \$50 million or less.

Table 24–12. BUDGET AUTHORITY BY FUNCTION IN THE BASELINE PROJECTION OF CURRENT POLICY
(in billions of dollars)

Function	2008 Actual	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
National Defense:												
Department of Defense—Military	674.7	713.8	722.0	737.6	755.3	773.9	793.2	813.0	833.4	854.3	875.9	898.2
Other	21.6	29.7	24.6	24.9	25.3	25.8	26.2	26.7	27.3	27.8	28.4	29.0
Total, National Defense	696.3	743.5	746.6	762.4	780.5	799.7	819.4	839.8	860.7	882.2	904.3	927.2
International Affairs	48.0	37.5	41.6	44.2	44.3	45.4	47.5	48.7	49.8	50.8	51.9	53.2
General Science, Space, and Technology	27.7	35.0	29.9	30.4	31.0	31.6	32.2	32.9	33.5	34.2	34.9	35.6
Energy	4.2	43.9	5.1	4.7	4.9	5.1	5.6	4.9	6.0	4.7	4.5	6.5
Natural Resources and Environment	37.2	56.1	35.2	35.2	36.4	36.6	37.5	37.9	39.3	40.3	42.0	42.5
Agriculture	17.4	21.4	24.2	24.3	17.3	23.3	22.5	21.9	22.0	22.1	22.5	22.8
Commerce and Housing Credit	218.2	553.7	25.1	-7.4	-31.6	-34.6	4.3	6.4	7.9	10.5	10.5	10.5
On-Budget	(208.6)	(546.2)	(21.1)	(-10.7)	(-33.3)	(-37.6)	(1.3)	(3.4)	(4.9)	(7.5)	(7.5)	(7.5)
Off-Budget	(9.7)	(7.5)	(4.0)	(3.3)	(1.7)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Transportation	81.5	124.6	88.7	82.6	85.0	88.5	92.4	94.7	97.0	99.4	101.8	104.3
Community and Regional Development	41.5	23.9	15.2	15.2	15.5	15.7	16.0	16.3	16.7	17.0	17.4	17.7
Education, Training, Employment, and Social Services	91.4	176.0	92.1	99.2	103.1	100.3	106.2	107.2	109.5	111.4	112.6	114.9
Health	285.3	370.9	385.2	373.1	386.0	411.8	426.1	455.7	486.5	523.0	558.6	596.5
Medicare	406.6	431.2	457.6	502.4	512.7	570.5	636.8	656.6	726.5	757.2	787.1	877.6
Income Security	426.2	579.8	533.4	518.9	473.4	475.1	478.8	488.4	505.8	511.8	521.1	539.3
Social Security	619.7	686.4	703.6	729.2	758.8	800.8	849.6	902.7	959.5	1,020.6	1,085.3	1,154.5
On-Budget	(17.8)	(35.2)	(24.6)	(27.2)	(29.0)	(31.9)	(34.6)	(37.4)	(40.4)	(43.7)	(46.6)	(49.6)
Off-Budget	(601.8)	(651.2)	(679.0)	(702.0)	(729.8)	(768.9)	(815.1)	(865.3)	(919.1)	(976.9)	(1,038.7)	(1,104.9)
Veterans Benefits and Services	88.3	97.4	105.6	110.9	117.0	122.9	129.2	135.2	141.2	147.6	154.2	161.2
Administration of Justice	49.1	55.6	54.2	53.0	54.4	55.9	57.5	59.1	60.7	62.4	65.5	67.4
General Government	21.6	28.8	23.3	24.4	25.2	25.3	26.1	27.0	27.7	28.5	29.4	30.4
Net Interest	252.7	166.9	176.0	283.0	376.0	444.7	501.3	555.1	605.0	657.1	707.8	761.9
On-Budget	(366.4)	(284.8)	(293.1)	(404.0)	(504.3)	(582.0)	(649.0)	(713.2)	(773.5)	(836.4)	(899.3)	(964.2)
Off-Budget	(-113.7)	(-117.8)	(-117.1)	(-121.1)	(-128.3)	(-137.2)	(-147.7)	(-158.2)	(-168.5)	(-179.3)	(-191.5)	(-202.3)
Allowances .....	.....	14.3	20.7	21.8	23.2	24.6	25.9	27.0	28.2	29.5	30.8	32.1
Undistributed Offsetting Receipts:												
Employer share, employee retirement (on-budget)	-53.0	-54.0	-60.8	-62.3	-64.9	-67.7	-70.7	-73.7	-76.9	-86.3	-90.1	-94.1
Employer share, employee retirement (off-budget)	-13.1	-14.2	-14.9	-15.5	-16.1	-17.1	-18.0	-18.9	-19.9	-20.7	-21.5	-22.5
Rents and royalties on the Outer Continental Shelf	-18.3	-6.3	-7.0	-8.7	-9.9	-10.1	-9.8	-9.8	-9.9	-9.6	-9.5	-9.4
Sale of major assets .....	.....	.....	.....	.....	-0.3	.....	.....	.....	.....	.....	.....	.....
Other undistributed offsetting receipts	-1.8	-17.2	-0.8	-0.1	-0.2	.....	.....	.....	.....	.....	.....	.....
Total, Undistributed Offsetting Receipts	-86.2	-91.6	-83.4	-86.6	-91.4	-95.0	-98.5	-102.3	-106.7	-116.7	-121.1	-126.1
On-Budget	(-73.1)	(-77.5)	(-68.5)	(-71.1)	(-75.3)	(-77.8)	(-80.5)	(-83.5)	(-86.7)	(-96.0)	(-99.7)	(-103.5)
Off-Budget	(-13.1)	(-14.2)	(-14.9)	(-15.5)	(-16.1)	(-17.1)	(-18.0)	(-18.9)	(-19.9)	(-20.7)	(-21.5)	(-22.5)
Total	3,326.6	4,155.1	3,480.0	3,621.0	3,722.0	3,948.2	4,216.7	4,415.0	4,676.8	4,893.6	5,121.0	5,429.9
On-Budget	(2,842.0)	(3,628.5)	(2,928.9)	(3,052.3)	(3,134.8)	(3,330.6)	(3,564.2)	(3,723.8)	(3,943.1)	(4,113.7)	(4,292.3)	(4,546.9)
Off-Budget	(484.6)	(526.6)	(551.1)	(568.7)	(587.1)	(617.6)	(652.5)	(691.2)	(733.7)	(779.9)	(828.7)	(883.0)
MEMORANDUM												
Discretionary budget authority:												
National defense	685.9	740.5	741.4	757.3	775.3	794.4	813.9	834.1	854.8	876.2	898.1	920.8
International	43.2	42.3	44.8	45.5	46.4	47.3	48.2	49.1	50.1	51.1	52.2	53.2
Domestic	450.6	726.1	442.6	452.5	463.6	475.0	486.4	498.2	510.3	522.8	535.8	549.1
Total	1,179.7	1,508.9	1,228.8	1,255.3	1,285.3	1,316.7	1,348.6	1,381.4	1,415.3	1,450.1	1,486.1	1,523.1

Table 24–13. BUDGET AUTHORITY BY AGENCY IN THE BASELINE PROJECTION OF CURRENT POLICY
(in billions of dollars)

Agency	2008 Actual	Estimate										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Legislative Branch	4.5	4.9	5.0	5.1	5.3	5.5	5.6	5.8	6.0	6.2	6.3	6.5
Judicial Branch	6.5	6.7	7.0	7.2	7.4	7.6	7.9	8.1	8.4	8.7	8.9	9.2
Agriculture	93.0	123.9	133.0	137.1	129.1	131.5	128.9	129.0	131.4	133.9	136.6	139.2
Commerce	9.6	17.4	9.8	10.0	10.2	10.5	10.7	11.0	11.3	11.6	11.9	12.2
Defense—Military	674.7	713.9	722.0	737.6	755.3	774.0	793.2	813.1	833.4	854.4	876.0	898.2
Education	65.4	134.8	63.4	70.2	75.5	72.2	77.7	78.1	79.9	81.2	81.9	83.6
Energy	22.7	70.0	24.7	25.1	25.7	26.2	26.6	27.0	27.4	27.9	28.5	29.0
Health and Human Services	721.7	840.8	872.0	905.3	925.3	1,007.6	1,087.0	1,134.9	1,235.9	1,294.9	1,358.1	1,484.0
Homeland Security	50.6	45.1	41.3	42.5	43.6	44.8	46.1	47.4	48.6	50.0	52.7	54.2
Housing and Urban Development	50.9	61.8	43.0	44.0	45.1	46.1	47.1	48.0	48.9	49.9	51.0	52.1
Interior	10.6	14.3	11.7	11.4	11.6	11.5	11.6	11.5	11.9	12.2	13.0	13.3
Justice	26.4	31.8	31.1	28.9	29.7	30.4	31.2	32.1	32.9	33.8	34.7	35.6
Labor	58.0	126.3	104.4	77.6	69.6	64.1	62.9	64.7	66.8	69.2	71.5	74.0
State	23.1	23.6	25.3	25.7	26.2	26.7	27.3	27.8	28.4	29.0	29.6	30.2
Transportation	68.0	109.4	74.5	68.0	70.0	72.9	76.4	78.2	80.0	81.9	83.8	85.7
Treasury	751.2	948.3	491.5	606.1	676.9	758.5	831.1	899.4	965.2	1,033.2	1,102.1	1,172.9
Veterans Affairs	88.4	97.2	105.4	110.7	116.7	122.6	128.8	134.8	140.8	147.2	153.8	160.8
Corps of Engineers—Civil Works	9.1	15.8	5.5	5.6	5.7	5.9	6.0	6.2	6.3	6.5	6.7	6.9
Other Defense Civil Programs	45.4	48.6	48.4	48.3	48.2	48.7	49.4	50.0	50.6	51.3	52.0	52.6
Environmental Protection Agency	7.4	14.8	7.7	7.8	8.0	8.2	8.4	8.7	8.9	9.1	9.3	9.6
Executive Office of the President	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
General Services Administration	0.3	6.6	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.0
International Assistance Programs	24.1	13.1	14.8	16.8	16.4	16.9	18.4	19.0	19.4	19.8	20.2	20.9
National Aeronautics and Space Administration	17.2	18.8	18.0	18.3	18.7	19.1	19.5	19.9	20.3	20.8	21.2	21.7
National Science Foundation	6.3	9.6	6.7	6.8	6.9	7.0	7.2	7.3	7.4	7.6	7.7	7.8
Office of Personnel Management	66.0	70.1	73.1	75.6	78.2	81.5	84.5	87.9	91.5	101.5	105.6	109.9
Small Business Administration	1.3	2.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8
Social Security Administration	660.3	729.7	750.3	782.2	806.8	854.3	904.9	959.7	1,021.5	1,080.2	1,142.5	1,217.8
On-Budget	(58.5)	(78.6)	(71.3)	(80.1)	(76.9)	(85.3)	(89.8)	(94.4)	(102.4)	(103.2)	(103.8)	(112.9)
Off-Budget	(601.8)	(651.2)	(679.0)	(702.0)	(729.8)	(768.9)	(815.1)	(865.3)	(919.1)	(976.9)	(1,038.7)	(1,104.9)
Other Independent Agencies	41.4	118.1	49.2	13.5	-10.8	-13.7	25.8	27.6	30.9	30.3	30.5	32.7
On-Budget	(31.7)	(110.6)	(45.1)	(10.2)	(-12.5)	(-16.7)	(22.8)	(24.6)	(27.8)	(27.3)	(27.5)	(29.7)
Off-Budget	(9.7)	(7.5)	(4.0)	(3.3)	(1.7)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Allowances .....	.....	14.3	20.7	21.8	23.2	24.6	25.9	27.0	28.2	29.5	30.8	32.1
Undistributed Offsetting Receipts	-277.8	-277.4	-281.0	-290.2	-304.5	-319.1	-335.4	-351.0	-367.5	-390.1	-408.2	-425.0
On-Budget	(-150.9)	(-145.4)	(-149.0)	(-153.6)	(-160.1)	(-164.7)	(-169.7)	(-174.0)	(-179.1)	(-190.0)	(-195.2)	(-200.2)
Off-Budget	(-126.9)	(-132.0)	(-132.0)	(-136.6)	(-144.4)	(-154.4)	(-165.6)	(-177.0)	(-188.4)	(-200.0)	(-213.0)	(-224.9)
Total	3,326.6	4,155.1	3,480.0	3,621.0	3,722.0	3,948.2	4,216.7	4,415.0	4,676.8	4,893.6	5,121.0	5,429.9
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Off-Budget	(484.6)	(526.6)	(551.1)	(568.7)	(587.1)	(617.6)	(652.5)	(691.2)	(733.7)	(779.9)	(828.7)	(883.0)

THE BUDGET SYSTEM AND CONCEPTS

25. THE BUDGET SYSTEM AND CONCEPTS

The budget system of the United States Government provides the means for the President and 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 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 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 Congress needs to make appropriations, in this case 2010. (Fiscal year 2010 will begin on October 1, 2009, and end on September 30, 2010.) 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 2009, so that the reader can compare the President's Budget proposals to the most recently enacted levels, and it includes data on the most recently completed fiscal year, in this case 2008, 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 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 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. So 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 the President and White House policy officials. 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 billions of dollars. (Chapter 12, "Economic Assumptions,"

Congressional Action¹

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.

Budget Calendar

The following timetable highlights the scheduled dates for significant budget events during a normal budget year:

Between the 1st Monday in January and the 1st Monday in February	President transmits the budget
Six weeks later	Congressional committees report budget estimates to Budget Committees
April 15	Action to be completed on congressional budget resolution
May 15	House consideration of annual appropriations bills may begin even if the budget resolution has not been agreed to.
June 10	House Appropriations Committee to report the last of its annual appropriations bills.
June 15	Action to be completed on reconciliation
June 30	Action on appropriations to be completed by House
July 15	President transmits Mid-Session Review of the Budget
October 1.....	Fiscal year begins

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 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 Congress on the first Monday in February, giving Congress eight months to act on the budget before the fiscal year begins.

The outgoing President is not required to transmit a budget and it is impractical for an incoming President to complete a budget within a few days of taking office on January 20th. President George W. Bush submitted a report to Congress on February 28, 2001, describing his economic plan and containing summary budget information. President Barack Obama similarly submitted an initial document, *A New Era of Responsibility—Renewing America's Promise*, to Congress on February 26, 2009, and is submitting the *Budget of the United States for Fiscal Year 2010* in May 2009.

Congress does not enact a budget as such. Through the process of adopting a planning document called a budget resolution (described below), 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. Congress provides spending authority 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, Congress does not vote on the level of outlays (spending) directly, but rather on budget authority, which is the authority provided by law to incur financial obligations that will result in outlays. In a separate process, prior to making appropriations, Congress usually enacts legislation that authorizes an agency to carry out particular programs and, in some cases, limits the amount that can be appropriated for the programs. Some authorizing legislation expires after one

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

year, some expires after a specified number of years, and some are permanent. Congress may enact appropriations for a program even though there is no specific authorization for it or its authorization has expired

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, Congress decides on budget targets before completing action on individual appropriations. The Act requires each standing committee of the House and Senate to recommend budget levels and report legislative plans concerning matters within the committee's jurisdiction to the Budget Committee in each body. The House and Senate Budget Committees then each design and report, and each body then considers, a concurrent resolution on the budget—a congressional budget plan, or budget resolution. The budget resolution sets targets for total receipts and for budget authority and outlays, both in total and by functional category (see "Functional Classification" below). 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 provided 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 Congress resolves differences between the House and Senate and agrees to a budget resolution, the Appropriations Committees are required to divide their allocations of budget authority and outlays among their subcommittees. Congress is not allowed to consider appropriations bills (so-called "discretionary" spending) that would breach or further breach an Appropriations subcommittee's target. The other committees with jurisdiction over spending (so-called "mandatory" spending) may make allocations among their subcommittees but are not required to do so. 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, 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 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 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 Members of both bodies) 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, 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 Congress agreed to every appropriations bill by that date. When one or more appropriations bill has not been agreed to by this date, Congress usually enacts a joint resolution called a "continuing resolution," (CR) which is an interim or stop-gap appropriations bill that provides authority for the affected agencies to continue operations at some specified level up to a specific date or until the regular appropriations are enacted. In some years, a CR has funded a portion or all of the Government for the entire year.

Most CRs instruct the Administration to take the most limited funding action permitted by the CR, so as not to impinge on the final funding prerogatives of the Congress. Congress must present these resolutions 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 Congress passed a CR the President would approve. Shutdowns have lasted for periods of a day to several weeks.

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 38 percent 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 and mandatory spending. The budget resolution directs each designated committee to report amendments to the laws under the committee’s jurisdiction that would achieve changes in the levels of receipts and reductions in mandatory spending controlled by those laws. The 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 in order to achieve budgetary savings. 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 or amendment to the bill that is not germane, 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. In addition, the reconciliation bill as a whole is not permitted to increase projected deficits or reduce projected surpluses.

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, was an example of a law designed to enforce an overall budget agreement negotiated between the President and Congress; the purpose of the law was to reassure both the President and Congress that neither would work to unravel the budget agreement they had reached. Most aspects of the BEA expired in 2002, and its principal enforcement provisions were ignored by the President and Congress in its last few years. However, one of those provisions—a pay-as-you-go rule for tax and mandatory spending legislation—is part of House and Senate rules in a modified form and continues to govern congressional consideration of such legislation. In addition, the possibility of reinstating caps on discretionary spending and a statutory pay-as-you-go rule continues to prompt much discussion and so these provisions are discussed in this section.

The BEA divided spending into two types—*discretionary spending* and *direct or mandatory spending*. As noted above, discretionary spending is controlled through annual appropriations acts and mandatory spending is controlled by authorizing laws.

The BEA defined categories of discretionary spending (such as “defense” and “non-defense” spending) and set forth dollar limits known as *caps* on the amount of spending in each category. If the amount of budget authority provided in appropriations acts for a given year exceeded the budget authority cap for that category, or if the estimated outlays exceeded the outlay cap for that category, the BEA triggered an automatic procedure, called *sequestration*, for reducing the spending in the category down to the level of the cap.

The BEA did not cap mandatory spending, in large part because much mandatory spending, such as unemployment compensation, is supposed to fluctuate automatically with economic conditions. Instead, it required that all proposed legislation that affected mandatory spending or receipts be enacted on a *pay-as-you-go* (PAYGO) basis. If such a law increased the projected deficit or reduced a projected surplus in the budget year or any of the four following years, another law had to be enacted with an offsetting reduction in mandatory spending or increase in receipts for each such year. In short, the PAYGO rule prohibited the enactment of new legislation that, on net, would cost money in any of the years covered by a budget agreement between the President and Congress. (In 1990, 1993, and 1997, the agreements each covered five years.) If the net of all tax and mandatory spending legislation enacted since the start of the most recent five-year agreement was a cost for the budget year, a sequestration would be triggered to offset that net cost.

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 Administration proposes to extend the BEA’s pay-as-you-go mechanisms, with some modifications. This proposal is discussed in more detail in Chapter 15 of this volume, “Budget Reform Proposals.”

Budget Execution

Government agencies may not spend or obligate more than 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 are available to cover operations for the entire year.

During the budget execution phase, the Government sometimes finds that it needs more funding than 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, 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 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 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

Table 25-1 TOTALS FOR THE BUDGET AND THE FEDERAL GOVERNMENT
(In billions of dollars)

	2008 Actual	Estimate	
		2009	2010
Budget authority:			
Unified	3,327	4,346	3,425
On-budget	2,842	3,820	2,873
Off-budget	485	527	551
Receipts:			
Unified	2,524	2,157	2,333
On-budget	1,866	1,502	1,649
Off-budget	658	655	683
Outlays:			
Unified	2,983	3,998	3,591
On-budget	2,508	3,480	3,042
Off-budget	475	518	549
Surplus:			
Unified	-459	-1,841	-1,258
On-budget	-642	-1,978	-1,393
Off-budget	183	137	134

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, 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.

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 \$3.3 billion to the AHP funds, of which \$2.4 billion has been spent. The unspent funds represent 2008 contributions that will be committed in 2009 and the undisbursed portion of funds already committed to specific projects. Although the funds remain in the possession of the FHLBs, the deposit of specific amounts into the AHP funds is compulsory, and the expenditures are to meet specific governmental purposes.

In contrast, the budget excludes tribal trust funds that are owned by Indian tribes and held and managed by the Government in a fiduciary capacity on the tribes' behalf. These funds are not owned by the Government, the Government is not the source of their capital, and the Government's control is limited to the exercise of fiduciary duties. Similarly, the transactions of Government-sponsored enterprises, such as the FHLBs, are not included in the on-budget or off-budget totals. Federal laws established these enterprises for public policy purposes, but they are privately owned and operated corporations. Nevertheless, because of their public charters, the budget discusses them and reports summary financial data in the budget Appendix and in some detailed tables.

The 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 22 of this volume, "Off-Budget Federal Entities and Non-Budgetary Activities," provides more information on this subject.

Functional Classification

The functional classification arrays 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 in the printed document (Tables 26–1 and 26–2).

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 are available on the Internet and as a CD-ROM in the printed document (Table 27–1). 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 appropriation 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 earmarked for specific purposes and the associated appropriation accounts for the expenditure of those receipts. **Public enterprise funds**

are revolving funds used for programs authorized by law to conduct a cycle of business-type operations, primarily with the public, in which outlays generate collections.

Intragovernmental funds are revolving funds that conduct business-type operations primarily within and between Government agencies. The collections and the outlays of revolving funds are recorded in the same budget account.

Trust funds account for the receipt and expenditure of monies by the Government for carrying out specific purposes and programs in accordance with the terms of a statute that designates the fund as a trust fund (such as the Highway Trust Fund) or for carrying out the stipulations of a trust where the Government itself is the beneficiary (such as any of several trust funds for gifts and donations for specific purposes). **Trust revolving funds** are trust funds credited with collections earmarked by law to carry out a cycle of business-type operations.

The Federal budget meaning of the term “trust,” as applied to trust fund accounts, differs significantly from its private-sector usage. In the private sector, the beneficiary of a trust usually owns the trust’s assets, which are managed by a trustee who must follow the stipulations of the trust. In contrast, the Federal Government owns the assets of most Federal trust funds, and it can raise or lower future trust fund collections and payments, or change the purposes for which the collections are used, by changing existing laws. There is no substantive difference between a trust fund and a special fund or between a trust revolving fund and a public enterprise revolving fund.

However, in some instances, the Government does act as a true trustee of assets that are owned or held for the benefit of others. For example, it maintains accounts on behalf of individual Federal employees in the Thrift Savings Fund, investing them as directed by the individual employee. The Government accounts for such funds in **deposit funds**, which are not included in the budget. (Chapter 21 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 benefit, 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 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 6 of this volume, “Federal Investment,” provides more information on capital investment.)

RECEIPTS, OFFSETTING COLLECTIONS, AND OFFSETTING RECEIPTS

In General

The budget records money 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 and from gifts of money to the Government. 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 25–1, “Totals for the Budget and the Federal Government,” which appears earlier in this chapter.) Chapter 17 of this volume, “Federal 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 one of the following types of transactions:

- ***Business-like transactions or market-oriented activities with the public***—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. 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 governmental receipts, budget authority, and outlays 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***—Newly authorized gifts and donations are treated as offsets to budget authority and outlays. Existing gifts and donations are reported as Governmental receipts, but are expected to be reclassified for the 2011 Budget.
- ***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 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 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 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 earmarked for 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 18, "User Charges and Other Collections," for more information on the classification of user charges.

BUDGET AUTHORITY AND OTHER BUDGETARY RESOURCES, OBLIGATIONS, AND OUTLAYS

Budget authority, obligations, and outlays are the primary benchmarks and measures of the budget control system. Congress enacts laws that provide agencies with spending authority in the form of budget authority. Before agencies can use the resources, 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 has been for the highway and mass transit programs financed by the Highway Trust Fund, where budget authority has been 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 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 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 annually enacted 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 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 their receipts 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. Only another law can extend a limited period of availability (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 year. The sum of such amounts constitutes the account’s **unobligated balance**. Most of this budget authority is earmarked for specific uses and is 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 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 cancels the obligated balances of budget authority that was made available for a definite period 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.²

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 2008 appropriations act extends the availability of unobligated budget authority that expired at the end of 2007, new budget authority would be recorded for 2008. This scorekeeping is used because a reappropriation has exactly the same effect as allowing the earlier appropriation to expire at the end of 2007 and enacting a new appropriation for 2008.

For purposes of the Congressional Budget Act (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 effectively determines the amount of budget authority required,

² A separate report, “Balances of Budget Authority,” provides additional information on balances. The National Technical Information Service, Department of Commerce, makes the report available shortly after the budget is transmitted.

even though the payments are funded by a subsequent appropriation.

Sometimes, budget authority is characterized as current or permanent. Current authority requires 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 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 an amount not to be exceeded). 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 certain exchanges of financial instruments, of which the repayment of debt is the prime example). The budget records outlays when obligations are paid, in the amount that is paid.

Agency, function and subfunction, and Government-wide outlay totals are stated net of offsetting collections

and offsetting receipts for most budget presentations. (Offsetting receipts from a few sources do not offset any specific function, subfunction, or agency, as explained previously, but only offset Government-wide totals.) Outlay totals for accounts with offsetting collections are stated both gross and net of the offsetting collections credited to the account. However, the outlay totals for special and trust funds with offsetting receipts are not stated net of the offsetting receipts; like other offsetting receipts, these offset the agency, function, and subfunction totals but do not offset account-level outlays.

The Government usually makes outlays in the form of cash (currency, checks, or electronic fund transfers). However, in some cases agencies pay obligations without disbursing cash, and the budget nevertheless records outlays for the equivalent method. For example, the budget records outlays for the full amount of Federal employees' salaries, even though the cash disbursed to employees is net of Federal and State income taxes withheld, retirement contributions, life and health insurance premiums, and other deductions. (The budget also records receipts for the amounts withheld from Federal employee paychecks for Federal income taxes and other payments to the Government.) When debt instruments (bonds, debentures, notes, or monetary credits) are used in place of cash to pay obligations, the budget records outlays financed by an increase in agency debt. For example, the budget records the acquisition of physical assets through certain types of lease-purchase arrangements as though a cash disbursement were made for an outright purchase. The transaction creates a Government debt, and the cash lease payments are treated as repayments of principal and interest.

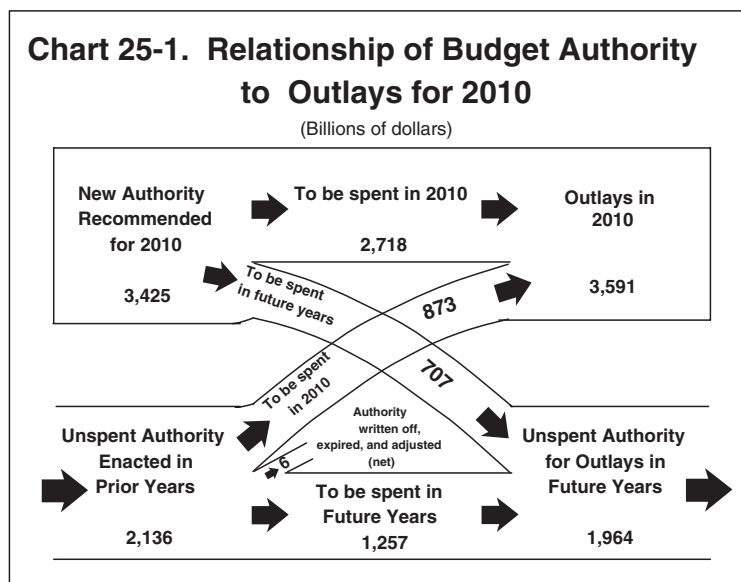
The measurement of interest varies. The budget records outlays for the interest on the public issues of Treasury debt securities as the interest accrues, not when the cash is paid. A small portion of Treasury debt consists of inflation-indexed securities, which feature monthly adjustments to principal for inflation and semiannual

payments of interest on the inflation-adjusted principal. As with fixed-rate securities, the budget records interest outlays as the interest accrues. The monthly adjustment to principal is recorded, simultaneously, as an increase in debt outstanding and an outlay of interest.

Most Treasury debt securities held by trust funds and other Government accounts are in the Government account series (special issues). 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 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. However, two trust funds in the Department of Defense, the Military Retirement Trust Fund and the Education Benefits Trust Fund, routinely have relatively large differences between purchase price and par. For these funds, the budget records the holdings of debt at par but records the differences between purchase price and par as adjustments to the assets of the funds that are amortized over the life of the security. The budget records interest as the amortization occurs.

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 all of the new budget authority for 2010 will be obligated or spent in 2010. 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 in 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, \$2,718 billion of outlays in 2010 (76 percent of the outlay total) will be made from that year's \$3,425 billion total of proposed new budget authority (a first-year spendout rate of 79 percent). Thus, the remaining \$873 billion of outlays in 2010 (24 percent of the outlay total) will be made from budget authority enacted in previous years. At the same time, \$707 billion of the new budget authority proposed for 2010 (21 percent of the total amount proposed) will not lead to outlays until future years. In general, the total budget authority for a particular year is not directly indicative of that year's outlays since it combines budget authority having different short-term and long-term implications for budget obligations and outlays.

As described earlier, the budget classifies budget authority and outlays as discretionary or mandatory for the purposes of the Congressional Budget Act. This classification of outlays measures the extent to which actual spending is controlled through the annual appropriations process. Almost 40 percent of total outlays in 2008 (\$1,135 billion) are discretionary and the remaining 60 percent (\$1,848 billion in 2008) are mandatory spending and net interest. Such a large portion of total spending is mandatory because authorizing rather than appropriations legislation determines net interest (\$253 billion in 2008) and the spending for a few programs with large amounts of spending each year, such as Social Security (\$612 billion in 2008) and Medicare (\$386 billion in 2008).

The bulk of mandatory outlays flow from budget authority recorded in the same fiscal year. This is not 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 (FCRA) prescribes the budget treatment for Federal credit programs. Under this treatment, the budget records the net cost to the Government (subsidy cost) when the loans are disbursed, rather than the cash flows year by year over the term of the loan, so 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.³ As for most other kinds of programs, agencies can make loans or guarantee loans only if Congress has ap-

propriated 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 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 collections exceeds the present value of expected payments from the Government 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 earmarked in 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

³ 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 in the present than the same sum would be worth in the future because interest can be earned on money held in the present. That is why future sums are discounted.

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 Congress has appropriated funds to cover them. A modification may also reduce costs, in which case the financing account makes a payment to the program's receipt account.

Credit financing accounts record all cash flows to and from the Government arising from direct loan obligations and loan guarantee commitments. These cash flows consist mainly of direct loan disbursements and repayments, loan guarantee default payments, fees and interest from the public, the receipt of subsidy cost payments from program accounts, and interest paid to or received from the Treasury. Separate financing accounts record the cash flows of direct loans and of loan guarantees 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 cash flows to and from the Government, 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, which was enacted in 1990, grandfathered direct loan obligations and loan guarantee commitments made prior to 1992. The budget records these on a cash basis in *credit liquidating accounts*, the same as they were recorded before FCRA was enacted. However, this exception ceases to apply if the direct loans or loan guarantees are modified as described above. In that case, the budget records the subsidy cost or savings of the modification, as appropriate, and begins to account for the associated transactions as the FCRA prescribes for direct loan obligations and loan guarantee commitments made in 1992 or later.

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 December 31, 2009, unless extended upon a written certification by the Secretary of the Treasury. Under the TARP, Treasury has purchased preferred stock (equity interests) in financial institutions. Section 123 of the EESA provides the Administration the authority to treat these equity investments pursuant to the FCRA, recording outlays on a subsidy cost basis 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 also requires adjustments to the discount rate otherwise prescribed by FCRA to account for market risk.

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 under this heading. 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 2008, the net effect may be significant, as explained later in this chapter.

Borrowing and Debt Repayment

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

In 2008, the Government borrowed \$768 billion from the public, bringing debt held by the public to \$5,803 billion. This borrowing financed the \$459 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. The main reason that borrowing from the public was so much larger than the deficit in 2008 was that Treasury borrowed from the public to accumulate \$299 billion in cash balances under the new Supplementary Financing Program, through which Treasury holds cash balances with the Federal Reserve to provide liquidity for the Federal Reserve to conduct efforts to stabilize the financial markets.

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 16 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 adds to the Government’s cash balance, but, 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 profits resulting 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 new equity purchase programs under TARP that are recorded on a credit basis, consistent with Section 123 of EESA, as explained above. These accounts are excluded from the budget because they are not allocations of resources by the Government (see “Federal Credit” above). 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.

Exchanges with the International Monetary Fund (IMF)

Under the terms of its participation in the IMF, the United States transfers dollars to the IMF and receives Special Drawing Rights (SDRs) in return. The SDRs are interest-bearing monetary assets and may be exchanged for foreign currency at any time. These transfers are like bank deposits and withdrawals, where the government exchanges one type of financial asset (cash) for another (bank deposit), with no change in total financial assets. Consistent with the budgetary treatment recommended by the President’s Commission on Budget Concepts in 1967, the U.S. transactions with the IMF under the quota subscriptions are exchanges of financial assets that would not increase the deficit in any year, and the budget excludes these transfers from budget outlays and receipts. Beginning this year, the budget also excludes increases in the government’s quota subscription to the IMF from budget authority totals. In contrast, the budget records interest paid by the IMF on U.S. deposits as an offsetting receipt in the general fund of the Treasury. It also records outlays for foreign currency exchanges to the extent there is a realized loss in dollars terms and offsetting receipts to the extent there is a realized gain in dollar terms.

Investments of the National Railroad Retirement Investment Trust

Under longstanding rules, the budget has generally treated investments in non-Federal 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 securities consume cash, fund balances (of funds available for obligation) are normally reduced by the value of these purchases. 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 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 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 additional returns that these assets have received in the past are known, it is quite possible that these 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 sug-

gests, 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. Following through on this insight, the best way to project the rate of return on the Fund's balances is to use a Treasury rate. As a result, the Budget treats equivalently, assets 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 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 23 of this volume, "Federal Employment and Compensation," pro-

vides 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 compensable work hours in a fiscal year.

BASIS FOR BUDGET FIGURES

Data for the Past Year

The past year column (2008) 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 20 of this volume, "Comparison of Actual to Estimated Totals," for a summary of these differences).

Data for the Current Year

The current year column (2009) includes estimates of transactions and balances based on the amounts of bud-

getary resources that were available when the budget was transmitted, including amounts appropriated for the year.

Data for the Budget Year

The budget year column (2010) 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 (2011 through 2019) 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 reflects the statistical probability that disasters will occur in the future that necessitate federal assistance.

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.

The baseline represents the amount of resources, in real terms, 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 are scheduled to expire at the end of 2010; relief from the Alternative Minimum Tax enacted on a one-year basis in virtually every year of the last decade is scheduled to expire at the end of 2009; and relief from very deep cuts to Medicare physician reimbursement rates is scheduled to expire at the end of 2009. Because the expiration of these laws would create significant differences between the baseline as specified in the Budget Enforcement Act (BEA) of 1990 and policies in effect this year or last, the Administration also issues a baseline projection of current policy that, unlike the BEA baseline, assumes such scheduled changes in current law will not occur. (Chapter 24 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 baseline projection of current policy 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.

GLOSSARY OF BUDGET TERMS

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 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 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 pro-

grams) provided in appropriations acts. (Cf. mandatory spending.)

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.

Emergency appropriation means an appropriation that the Congress has designated as an emergency requirement. Under terms of most recent budget resolutions, such spending is not subject to the limits on discretionary spending, if it is discretionary spending, or the pay-as-you-go rules, if it is mandatory.

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 Budget Enforcement Act used the term direct spending to mean this, mandatory spending is commonly used instead. (Cf. discretionary spending.)

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

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

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

Off-budget refers to transactions of the Federal Government that would be treated as budgetary had 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 Congress. They result from business-like transactions or market-oriented activities with the public and 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 and 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 Budget Enforcement Act that would have resulted in a sequestration if the estimated combined result of legislation affecting mandatory spending or receipts is a net cost for a fiscal year. Similarly, it refers to current House and Senate rules requiring that legislation affecting mandatory spending or receipts not have net costs over either a 6-year or an 11-year period starting with the current fiscal year.

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 and gifts of money to the Government. 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 Congress, as through agreement to a Budget Resolution.

Sequestration means the cancellation of budgetary resources provided by discretionary appropriations or mandatory spending legislation, following various procedures prescribed by the Budget Enforcement Act. Under that Act, a sequestration could have occurred in response to a discretionary appropriation that causes discretionary spending to exceed the discretionary spending caps set by the Act or in response to net costs resulting from the combined result of legislation affecting mandatory spending or receipts (referred to as a “pay-as-you-go” sequestration).

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 earmarked for specific purposes and the expenditure of these receipts. Some revolving funds are designated as trust funds, and these are called trust revolving funds. (Cf. special fund and revolving fund.)

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

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

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

Unobligated balance means the cumulative amount of budget authority that 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).

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