

Natural Resources and Environment (Function 300)

Fire Fighting. Several accounts in this function include money for fighting forest and range fires on federal lands. The responsible agencies generally cover their current fire-fighting costs by borrowing from other accounts and repaying the borrowed amount through a supplemental appropriation the following year. The 1986 base levels for these accounts have been increased to reflect the actual cost of fire fighting in 1985. The projections for 1987 through 1991 are based on average fire-fighting costs in the past five years, adjusted for inflation.

Construction Grants. In the 1986 continuing resolution (Public Law 99-190), the Congress appropriated \$2.4 billion for the Environmental Protection Agency's construction grants program. Of that amount, only \$600 million is immediately available for obligation, with the balance requiring release in a subsequent appropriation act. The CBO baseline assumes a base-year program level of \$2.4 billion, reduced as required by the Balanced Budget Act. Outlay estimates assume that the \$1.8 billion in 1986 appropriations not immediately available for obligation will not be obligated this year.

Agriculture (Function 350)

Commodity Credit Corporation. The baseline outlay estimates of activities of the Commodity Credit Corporation (CCC) are estimates of likely expenditures assuming the terms and conditions of the Food Security Act of 1985, expected Administration actions in implementing the legislation, and CBO projections of commodity prices and production. Target prices, loan rates, and terms of acreage reduction programs for the 1986 crops of wheat, feed grains, cotton, and rice have already been announced. Advance deficiency payments, which are required for the 1986 crops and have been set at 40 percent of estimated total deficiency payments, are also assumed to be made for the 1987 through 1991 crops. The milk production termination program, scheduled to begin on April 1, 1986, is assumed to reduce CCC net removals of surplus milk products to between 3.0 billion and 3.5 billion pounds milk-equivalent per year by the end of fiscal year 1987.

Commerce and Housing Credit (Function 370)

Periodic Census and Programs. The baseline is irregular because of the cyclical nature of the activities conducted by the Bureau of the Census. An

adjustment is made to exclude one-time items (generally major capital expenditures) and to include future censuses required by law. The various major components are then adjusted for inflation after the base year.

Patent and Trademark Office. The baseline projection of budget authority is the difference between receipts and operating expenses for the Patent and Trademark Office, as estimated by CBO. The estimate of receipts is based on projected collections from license fees for jukeboxes and cable television. The operating expenses are projected from the 1986 base and assume a constant level of activity.

Transportation (Function 400)

Federal-Aid Highways. The Surface Transportation Assistance Act of 1982 (Public Law 97-424) specifies budget authority for the Interstate highway program at \$4 billion each year through fiscal year 1989, and for the emergency relief program at \$100 million through the projection period. Since budget authority for non-Interstate highway programs is provided by the law only through 1986, the baseline adjusts that level for inflation in future years. In 1986, appropriation action limited obligations to \$12.75 billion; this level was subsequently reduced to \$12.2 billion by the Balanced Budget Act. The baseline assumes that this ceiling is adjusted for inflation after 1986.

Washington Metropolitan Area Transit Authority (WMATA) Interest Payments. The federal government's share of interest payments due on WMATA's outstanding debt issue is projected to remain constant at \$51.7 million through fiscal year 1990, as authorized by Public Law 96-184.

Interstate Transfer Grants. Until the end of fiscal year 1983, state and local governments could request withdrawal of a segment of the Interstate highway system in their area if they determined that it was not essential. If federal officials concurred, the state was then eligible to use the funds that would have been spent on the withdrawn segment for a transit project. The baseline includes the total outstanding cost of approved substitute transit projects--approximately \$870 million at the beginning of fiscal year 1986.

Washington Metro. Public Law 96-184 authorized a total of \$1.7 billion in federal funds for construction of the Washington metrorail system. A total of \$957 million has been appropriated to date (including \$217 million in fiscal year 1986), leaving \$743 million to be appropriated.

Mass Transportation Capital Fund. The Surface Transportation Assistance Act of 1982 set aside one cent of the gasoline and diesel fuel excise tax for mass transportation purposes and provided budget authority for discretionary grants through 1986. The baseline adjusts that level for inflation in future years. The obligation ceiling of \$1.0 billion for 1986 is also adjusted for inflation in the future.

Highway Safety Grants. Budget authority for state and community highway safety grants is established by law through fiscal year 1986 and is adjusted for inflation in the future. The obligation ceiling for 1986 is higher than the budget authority, and the baseline also adjusts that level for inflation. As a result, the obligation ceiling is projected to remain higher than the budget authority throughout the projection period.

Conrail Receipts. The federal government currently owns \$851 million of Conrail debentures and \$2.3 billion of preferred stock. Conrail is required to pay interest, dividends, and principal to the government when its net income reaches a certain level. CBO estimates that, under current law, payments to the federal government will begin in 1988.

Payments to Air Carriers. The Airline Deregulation Act of 1978 (Public Law 95-504) established a program to guarantee air transportation to certain communities by subsidizing air carriers. The Department of Transportation determines the required level of service and compensates the airlines accordingly. The act authorizes this program through October 1988.

Grants-in-Aid for Airports. Budget authority for fiscal years 1986 and 1987 is established for this program in the Airport and Airway Improvement Act of 1982 (Public Law 97-248) and the Surface Transportation Assistance Act of 1982. For fiscal years 1988 through 1991, 1987 budget authority is adjusted for inflation. Outlay estimates are based on obligation ceilings; the 1986 obligation ceiling of \$885 million is adjusted for inflation in future years.

Operating Differential Subsidy. The Maritime Administration's operating differential subsidy program is designed to offset the higher costs of operating U.S.-flag vessels in foreign trade. The projection of budget authority represents the estimate of the federal government's liability under the contracts in force for the projection period, which depends on an assumed ship mix, trade routes, products carried, and number of ship-years.

Community and Regional Development (Function 450)

Disaster Assistance. Three major programs in this function help mitigate the effects of disasters on individuals, businesses, and local governments. Through these programs, the federal government provides flood insurance, loans to help restore damaged property, and grants to assist victims. Because of the unpredictable demand for these programs, baseline projections are based on weighted historical averages, adjusted for inflation and changes in regulations. Should additional funding be required, the Congress has repeatedly shown its willingness to provide needed emergency funds in supplemental appropriation bills.

In fiscal year 1986, disaster loan obligations of the Small Business Administration are capped by law at \$600 million. CBO estimates that demand for these loans, primarily from farmers, exceeds this obligation ceiling. Consequently, loan volume increases sharply in fiscal year 1987 with the expiration of the ceiling. Loans increase again in fiscal year 1988, when new restrictions on eligibility for disaster loans from the Farmer's Home Administration take effect. The 1988 loan level is adjusted for inflation in fiscal years 1989 through 1991.

Education, Training, Employment, and Social Services (Function 500)

Corporation for Public Broadcasting. The Corporation for Public Broadcasting is advance funded; the fiscal year 1986 appropriations act provides funds for 1988. The baseline in 1986-1988 reflects the amount appropriated for those years. After 1988, the baseline is derived by inflating the 1988 appropriation by estimated price changes.

Health (Function 550)

No unusual assumptions apply to this function.

Medicare (Function 570)

Hospital Insurance. The Social Security Amendments of 1983 (Public Law 98-21) instituted a prospective reimbursement system for inpatient hospital services. Under this system, patients are classified into 468 diagnosis-related groups (DRGs). After a three-year phase-in period, hospitals will be

paid a fixed amount per DRG. The Secretary of Health and Human Services has, by regulation, frozen the 1986 reimbursement rates at their 1985 amounts. The President's 1987 budget reflects a 2 percent increase in the DRG rates for 1987. (The final decision on the 1987 increase will be made later this year, after the Secretary has considered the report of the Prospective Payment Assessment Commission.) For 1988 through 1991 the budget assumes that the DRG rates will be increased at the rate of increase of a market basket of goods and services purchased by hospitals. The CBO baseline assumes that the Secretary will implement the policies set forth in the budget.

Income Security (Function 600)

Pension Benefit Guaranty Corporation. The Pension Benefit Guaranty Corporation (PBGC) fund receives premium and interest income and pays benefits and administrative expenses. The net outlays of the fund grow through 1988. After 1988, net outlays are assumed to be negligible because it is assumed that the PBGC's assets are drawn down in an amount sufficient to make income equal expenditure. Alternatively, the PBGC could borrow up to \$100 million from the Treasury or reduce benefit payments below guaranteed levels.

Subsidized Housing Programs. By the end of the projection period, large numbers of existing Section 8 rental assistance contracts will have expired. These are agreements that were made in 1976 and 1977 and were among the first Section 8 contracts written. The baseline contains an estimate of the funding that will be required to keep these assisted housing units under payment for another 15 years. These assumed renewals add about \$20 billion to baseline budget authority in fiscal year 1991.

Nutrition Assistance for Puerto Rico. The Congress appropriated \$820 million for Nutrition Assistance for Puerto Rico in 1986, \$5 million short of the level authorized for the program under the Food Security Act of 1985. The baseline increases the 1986 appropriated amount to keep pace with higher food prices. Baseline levels remain slightly under the amounts authorized for 1987 and 1988 and equal the authorization levels in 1989 and 1990. If the authorization levels were interpreted as mandatory floors as well as ceilings, baseline spending for Nutrition Assistance for Puerto Rico would be \$12 million higher over the 1986-1988 period.

Refugee and Entrant Assistance. The projections for cash and medical assistance to refugees are based on the projected State Department ceiling

of the number of refugees allowed to enter the United States. These costs are projected to decrease because of a decline in the number of refugees entering the country. The other programs of refugee assistance are held constant in real terms.

Social Security (Function 650)

The Balanced Budget and Emergency Deficit Control Act of 1985 removed the receipts and disbursements of the Old-Age and Survivors Insurance and Disability Insurance trust funds from the budget. Payments to the trust funds for such items as military service wage credits, coverage of certain uninsured beneficiaries, Self-Employment Contribution Act tax credits, and income tax liabilities derived from the taxation of Social Security benefits remain on-budget.

Veterans' Benefits and Services (Function 700)

Veterans' Compensation. The veterans' and survivors' compensation program is not indexed for inflation by law, but benefit levels historically have been adjusted through annual legislation to cover increases in the cost of living. The CBO baseline assumes that future increases in compensation will be enacted at the same percentage rate as for Social Security and veterans' pensions and will be effective on December 1 of each year, as they were in 1984 and 1985.

Veterans' Readjustment Benefits. These programs are not indexed by law and receive legislated increases in benefit levels only sporadically. Because the timing and amount of future legislated increases cannot be predicted with any degree of confidence, the baseline for these accounts assumes no change in the current nominal benefit rates. The baseline assumes that the Peacetime Educational Benefits program will expire as scheduled on June 30, 1988, at which time the operation of the Post-Vietnam Era Educational Assistance program will resume.

Loan Guaranty Revolving Fund. This entitlement program guarantees loans made by private lenders to veterans who meet the financial qualifications. The baseline outlays for the fund reflect the net default costs resulting from foreclosures of guaranteed loans. Baseline budget authority projections represent the amounts of any appropriations estimated to be required to ensure the solvency of the fund. Under current law, an origination fee of 1 percent of the loan principal is required on new loans guaranteed for non-service-

disabled veterans. Authority for this fee is scheduled to expire after September 30, 1987. The CBO baseline assumes that the authority to impose this fee will be extended throughout the projection period.

Administration of Justice (Function 750)

The 1987 baseline budget authority for several accounts in this function exceed the 1986 appropriation by more than the rate of inflation because of additional spending requirements imposed by recent legislation, including the Comprehensive Crime Control Act, the Bankruptcy Amendments and Federal Judgeship Act, and the Pretrial Services Act.

General Government (Function 800)

Official Mail Costs. Congressional postage fees are paid out of this account. CBO's projection of mail costs is based on estimated usage and reflects historical patterns.

Federal Buildings Fund. This revolving fund finances the real property operations of the government. Space and services are provided to agencies by the General Services Administration (GSA), which is reimbursed by the agencies. Obligations and disbursements from the fund are subject to limitations on the availability of revenue imposed through the appropriation process. CBO's estimate of outlays is based on the sum of estimated outlays for property management and estimated receipts from the collection of standard-level user charges from agencies. By law, the user charges paid by agencies to GSA are supposed to approximate commercial charges for comparable space and services. Administrative action by the Office of Management and Budget limited user charges in fiscal year 1986 to the rates in effect for 1985. The baseline projections assume that user charges will be set at 85 percent of commercial equivalent rates in 1987 and will increase to 100 percent of commercial equivalent rates by 1989.

Compact of Free Association. The Compact of Free Association provides that the United States will make payments to the Federated States of Micronesia and the Republic of the Marshall Islands over the next 15 years. While the compact was signed into law in January 1986, the President has discretion in determining when the payments will begin. The baseline assumes that the first-year payments required by the compact will be made in a 1986 supplemental appropriation.

General Purpose Fiscal Assistance (Function 850)

Miscellaneous Permanent Appropriations for the Forest Service and Minerals Management Service. Certain percentages of the federal government's receipts from leasing rights and logging on federal land are paid to local units of government. CBO projections for these permanent appropriations are therefore based on estimated timber and mineral receipts, which are recorded in budget function 300.

General Revenue Sharing. Budget authority for payments to local governments under the general revenue sharing program has been authorized at \$4.6 billion annually through 1986, although the 1986 appropriation was lower. The baseline assumes that the program will be continued at the previously authorized level in 1987 through 1991.

Net Interest (Function 900)

The net interest function comprises interest on the public debt, interest received by certain trust funds, and other interest. The methodology for projecting net interest costs is described in a CBO special study, *Federal Debt and Interest Costs* (September 1984).

Allowances (Function 920)

The baseline projections for this function contain budget authority and outlays resulting from assumed pay rate increases for all federal employees of civilian agencies. The projections assume pay rate increases equal to the annual rate of growth in private-sector pay--3.3 percent in October 1986, 5.8 percent in October 1987, 5.9 percent in October 1988, 5.9 percent in October 1989, and 6.1 percent in 1990. CBO assumes that additional appropriations are provided to cover these increases and that federal agencies will not be required to absorb any of the cost.

The baseline projections also assume expiration of Section 301(b) of the Omnibus Budget Reconciliation Act of 1982, which changed the determination of hourly rates for certain white-collar employees for fiscal years 1984 and 1985. Since October 1985, an employee's hourly rate of pay has been derived by dividing the annual rate of pay by 2,080 hours.

Uniformed military employees of the Coast Guard and of other civilian agencies received a pay increase of 3.0 percent in October 1985, and some blue-collar employees received a 3.5 percent increase during the first quarter of fiscal year 1986 (owing to the three-month delay of the 1985 increase). As a result, civilian agencies will incur costs of about \$30 million for the adjustment for uniformed employees and about \$3 million for the carry-over adjustment for blue-collar employees. The baseline does not assume enactment of any supplemental appropriation to cover these increases.

Undistributed Offsetting Receipts (Function 950)

Employer's Share, Employee Retirement. The government's contribution to federal employee retirement plans is assumed to grow in proportion to assumed pay rate increases and scheduled increases in contribution rates.

Outer Continental Shelf Receipts. Outer Continental Shelf (OCS) receipts consist of cash bonus bids from lease sales, annual rental payments, royalties on oil and gas production, and payments to the federal government resulting from the release of disputed OCS receipts from escrow accounts. Bonus receipts for fiscal years 1986 and 1987 are estimated on a sale-by-sale basis, reflecting bonus bids on previous offerings in the area in which a sale will occur, the Minerals Management Service (MMS) estimate of oil and gas reserves in the sale area, and CBO oil and gas price assumptions. Bonus receipts for subsequent years are assumed to remain at the 1987 level. Escrow releases are dependent on resolution of various court cases and negotiations between nonlitigating states and the Secretary of the Interior; timing of those releases is estimated based on information from the Department of the Interior and from the states concerned. Royalty receipt estimates are based on MMS projections of oil production and CBO projections of gas production and oil and gas prices.



APPENDIX B

BASELINE SPENDING AND CREDIT

PROJECTIONS BY BUDGET FUNCTION

Five broad categories of outlays--defense, entitlements and other mandatory spending, nondefense discretionary spending, net interest, and offsetting receipts--used in the body of this report are designed to reflect the way in which the Congress has approached spending decisions in recent budget resolutions. In this appendix, federal spending and credit projections are classified according to 21 budget functions.

The Congressional Budget Act of 1974 requires the Congress to include estimates of budget authority and outlays for each major budget function in its annual budget resolutions. The functional classification is a means of presenting spending estimates in terms of the broad national needs that federal programs are intended to address. Within a function, the programmatic objectives may be achieved in a variety of ways, including spending from Congressional appropriations, loans to private borrowers, and spending from earmarked trust funds.

National needs are grouped into 18 broad budget functions ranging from national defense, international affairs, energy, and agriculture programs to education, health, income security, and general purpose fiscal assistance to state and local governments. The three remaining functions--net interest, allowances, and undistributed offsetting receipts--do not address national needs but are included to make the budget complete.

Some outlays are excluded from the on-budget totals by law. The Balanced Budget and Emergency Deficit Control Act of 1985 provides that the outlays (and revenues) of the Social Security trust funds are to be excluded from the on-budget aggregates. Outlays for the Social Security retirement, survivors, and disability programs are classified in budget function 650. Most spending in this function--representing the outlays of the Old-Age and Survivors Insurance and Disability Insurance trust funds for benefit payments, administrative expenses, and other miscellaneous costs--is treated as off-budget. Off-budget outlays in net interest (function 900) reflect the interest earned by the Social Security trust funds on their investments in Treasury securities, while the off-budget portion of function 950 (undistributed offsetting receipts) reflects the payroll tax paid by federal government agencies on behalf of workers covered under the program.

Since 1980, Congressional budget resolutions have also included a separate credit budget. The spending budget, which generally operates on a cash flow basis, cannot accurately reflect the full impact of federal budgetary policies on the allocation of credit in the U.S. economy. In the spending budget, loans are recorded on a net basis--that is, new loans less repayments. Loan guarantees do not appear at all except in the case of a default. The credit budget remedies some of these shortfalls by presenting the gross amounts of new loans and loan guarantees. Most credit budget activity is concentrated in a few budget functions: international affairs, agriculture, commerce and housing credit, education, and veterans' programs.

The CBO baseline projections for budget authority, outlays, and credit are presented by budget function in Tables B-1, B-2, and B-3, respectively. The projection period is fiscal years 1987 through 1991.

TABLE B-1. CBO BASELINE BUDGET AUTHORITY PROJECTIONS
BY FUNCTION (By fiscal year, in billions of dollars)

Budget Function	1986 Base	Projections				
		1987	1988	1989	1990	1991
050 National Defense	286.8	300.9	314.7	329.5	345.0	361.5
150 International Affairs	18.9	20.2	20.8	24.4	20.9	21.7
250 General Science, Space, and Technology	8.8	9.3	9.7	10.2	10.7	11.2
270 Energy	-1.1	5.2	5.7	6.0	6.3	6.7
300 Natural Resources and Environment	12.6	12.9	13.3	13.7	14.2	14.6
350 Agriculture	31.4	23.8	26.3	25.3	20.4	16.3
370 Commerce and Housing Credit	10.0	10.9	11.3	9.4	11.7	10.5
400 Transportation	28.1	29.1	29.8	30.6	31.3	32.5
450 Community and Regional Development	7.0	6.9	8.4	8.5	9.0	9.0
500 Education, Training, Employment, and Social Services	30.3	31.9	33.3	34.7	36.1	37.7
550 Health	36.4	38.4	41.0	43.6	46.3	49.2
570 Medicare	86.7	83.6	92.2	102.1	112.1	122.3
600 Income Security	156.2	163.9	171.5	176.4	184.7	217.7
650 Social Security						
On-budget	4.8	5.5	6.2	6.9	6.9	6.1
Off-budget	194.7	221.1	250.6	274.0	303.0	332.3
Subtotal	199.5	226.6	256.7	280.9	310.0	338.4
700 Veterans' Benefits and Services	27.3	27.6	28.2	28.5	28.9	29.5
750 Administration of Justice	6.8	6.9	7.1	7.2	7.3	7.5
800 General Government	5.9	5.7	5.9	5.8	6.2	6.3
850 General Purpose Fiscal Assistance	5.4	6.6	6.6	6.7	6.8	6.9
900 Net Interest						
On-budget	142.8	149.5	160.5	166.2	170.5	175.1
Off-budget	-4.2	-4.6	-6.2	-8.6	-11.4	-14.8
Subtotal	138.6	145.0	154.4	157.6	159.1	160.3
920 Allowances	0.0	1.0	3.0	5.1	7.4	9.9
950 Undistributed Offsetting Receipts						
On-budget	-31.3	-32.7	-36.0	-36.8	-37.6	-39.7
Off-budget	-2.9	-3.2	-3.8	-4.3	-5.0	-5.6
Subtotal	-34.2	-35.9	-39.8	-41.1	-42.6	-45.4
ON-BUDGET	873.8	907.2	959.6	1,004.0	1,045.0	1,112.3
OFF-BUDGET	187.6	213.3	240.6	261.1	286.6	311.9
TOTAL	1,061.4	1,120.5	1,200.3	1,265.2	1,331.6	1,424.2

TABLE B-2. CBO BASELINE OUTLAY PROJECTIONS BY FUNCTION
(By fiscal year, in billions of dollars)

Budget Function	1986 Base	Projections				
		1987	1988	1989	1990	1991
050 National Defense	269.5	284.0	296.4	310.9	326.9	343.9
150 International Affairs	17.1	15.3	15.8	15.8	16.0	16.6
250 General Science, Space, and Technology	8.9	9.1	9.4	9.8	10.3	10.8
270 Energy	4.2	5.2	5.3	5.3	5.4	5.6
300 Natural Resources and Environment	12.8	13.1	14.1	13.9	14.0	14.3
350 Agriculture	30.4	23.2	24.7	21.1	15.8	12.9
370 Commerce and Housing Credit	4.2	4.0	5.3	3.6	3.6	2.3
400 Transportation	27.5	27.4	27.4	28.1	28.8	29.6
450 Community and Regional Development	7.9	7.7	7.8	8.0	8.0	8.3
500 Education, Training, Employment, and Social Services	30.8	30.9	32.2	33.4	34.8	36.3
550 Health	35.6	38.5	40.9	43.2	46.0	48.9
570 Medicare	68.4	75.3	84.6	94.8	106.2	119.0
600 Income Security	119.6	124.1	130.6	135.2	140.5	148.2
650 Social Security						
On-budget	8.1	5.5	6.2	6.9	6.9	6.1
Off-budget	191.5	206.0	220.1	234.8	251.3	269.8
Subtotal	199.5	211.6	226.3	241.7	258.2	275.9
700 Veterans' Benefits and Services	26.7	27.0	27.8	28.1	28.5	29.2
750 Administration of Justice	6.8	7.0	7.1	7.3	7.4	7.5
800 General Government	6.0	5.7	5.9	5.9	6.2	6.3
850 General Purpose Fiscal Assistance	5.8	6.2	6.6	6.7	6.8	6.9
900 Net Interest						
On-budget	142.8	149.5	160.5	166.2	170.5	175.1
Off-budget	-4.2	-4.6	-6.2	-8.6	-11.4	-14.8
Subtotal	138.6	145.0	154.4	157.6	159.1	160.3
920 Allowances	0.0	1.1	3.2	5.5	8.0	10.7
950 Undistributed Offsetting Receipts						
On-budget	-31.3	-32.7	-36.0	-36.8	-37.6	-39.7
Off-budget	-2.9	-3.2	-3.8	-4.3	-5.0	-5.6
Subtotal	-34.2	-35.9	-39.8	-41.1	-42.6	-45.4
ON-BUDGET	801.7	827.0	875.7	912.9	952.8	998.5
OFF-BUDGET	184.4	198.3	210.2	221.9	234.9	249.4
TOTAL	986.1	1,025.3	1,085.9	1,134.9	1,187.7	1,247.9

TABLE B-3. CBO BASELINE CREDIT PROJECTIONS BY BUDGET FUNCTION (By fiscal year, in billions of dollars)

Budget Function		1985 Actual	1986 Base	Projections					
				1987	1988	1989	1990	1991	
050	Defense	DL	1.5	0.5	0.0	0.0	0.0	0.0	0.0
150	International Affairs	DL	8.0	8.7	8.7	9.0	9.3	9.6	10.0
		PG	8.2	11.8	12.2	12.8	13.3	13.8	14.4
270	Energy	DL	4.1	2.1	2.1	2.2	2.2	2.3	2.4
		PG	<u>a/</u>	0.0	0.0	0.0	0.0	0.0	0.0
300	Natural Resources and Environment	DL	<u>a/</u>						
		PG	0.0	0.0	0.0	0.0	0.0	0.0	0.0
350	Agriculture	DL	15.2	19.9	14.3	12.0	11.3	10.0	9.4
		PG	3.8	7.1	8.0	8.5	8.6	8.8	8.9
370	Commerce and Housing Credit	DL	5.7	5.0	5.1	5.2	5.6	5.6	5.7
		PG	51.2	57.7	40.5	42.2	43.8	45.6	47.4
400	Transportation	DL	<u>a/</u>	0.7	0.5	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>
		PG	<u>a/</u>						
450	Community and Regional Development	DL	1.3	1.4	1.7	2.3	2.2	2.3	2.4
		PG	0.1	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>
500	Education, Training, Employment, and Social Services	DL	1.3	1.5	1.5	1.5	1.5	1.4	1.4
		PG	8.9	10.0	10.5	10.7	10.9	11.1	11.2
550	Health	DL	<u>a/</u>						
		PG	<u>a/</u>						
600	Income Security	DL	14.1	1.5	1.8	1.9	1.5	1.5	1.3
		PG	0.0	0.0	0.0	0.0	0.0	0.0	0.0
700	Veterans' Benefits and Services	DL	1.1	1.4	1.5	1.4	1.3	1.1	1.0
		PG	<u>12.1</u>	<u>12.1</u>	<u>16.3</u>	<u>16.9</u>	<u>17.5</u>	<u>18.1</u>	<u>15.1</u>
TOTAL		DL	52.8	42.8	37.5	36.1	35.1	34.1	33.9
		PG	84.7	94.4	88.1	91.6	94.7	97.9	97.6

NOTES: DL = Net direct loan obligations.
PG = Primary loan guarantee commitments.

a. Less than \$500 million.



1

APPENDIX C

FEDERAL RECEIPTS AND EXPENDITURES

IN THE NATIONAL INCOME AND

PRODUCT ACCOUNTS

Both the budget and the federal sector of the National Income and Product Accounts (NIPA) measure the receipts and expenditures of the federal government. The national income accounts measure current income and production and are the most widely used indicator of current economic activity. As a rule, the NIPA federal sector is more useful than the budget for analyzing the economic impact of federal government activity. The NIPA estimates of federal government activity differ from those of the budget in four ways: timing of transactions, netting and grossing of receipts against spending, treatment of financial activities, and coverage.

Timing differences occur because the budget records transactions (except interest owed to the public) on a cash-paid or cash-received basis, while the NIPA federal sector may use a cash, accrual, or other basis, depending on the type of transaction. On the receipts side, the most important timing difference is the recording of corporate profit taxes in the NIPA at the time the tax liability is incurred, which may be months (or years) before the money is deposited in the Treasury. On the expenditure side, the only major timing difference is that some large defense purchases are recorded in the NIPA at the time of delivery rather than at the time payment is made. Other timing differences are generally small.

Differences in netting and grossing arise because the budget treats certain types of receipts as offsets to outlays. For example, employing-agency payments to the Civil Service Retirement Trust Fund and other federal employee benefit plans are counted as a negative outlay in the budget, exactly offsetting agency expenditures elsewhere. In the NIPA, this amount is added to both receipts and expenditures in order to provide a more accurate measure of personal income and outlays. In the benchmark revision of the NIPA, government contributions to military retirement are treated the same as contributions for civilian employees. Other netting and grossing adjustments in the NIPA are made for funds collected by the government in the course of business-type transactions--such as veterans' insurance programs, timber sales, and rents and royalties arising from the Outer Continental Shelf leases.

Lending transactions that involve only the transfer of existing assets and liabilities are generally excluded from the NIPA federal sector, since they do not reflect current production of goods or services. For example,

direct lending by the Small Business Administration is reflected in the budget but is excluded from the NIPA. Interest paid or received in the course of financial transactions, though, is reflected in the NIPA federal sector. The NIPA also records nonrecourse agricultural commodity loans as purchases of goods and services rather than loans.

Coverage differences largely reflect the exclusion of Puerto Rico, the Virgin Islands, and other territories for purposes of computing the gross national product and related data series in the NIPA.

The major differences between the budget and the federal sector in the NIPA are detailed in Table C-1. Table C-2 shows estimates of federal-sector receipts and expenditures on a NIPA basis, consistent with the CBO baseline budget projections.

TABLE C-1. RELATIONSHIP OF THE BUDGET TO
THE FEDERAL SECTOR OF THE NATIONAL
INCOME AND PRODUCT ACCOUNTS
(By fiscal year, in billions of dollars)

	1985 Actual	1986 Base	1987	1988	1989	1990	1991
Receipts							
Total Revenues ^{a/}	734	778	844	921	991	1,068	1,144
Government Contributions for Employee Retirement	32	34	35	38	41	44	48
Medicare Premiums	6	6	7	7	8	8	9
Other Netting and Grossing	9	9	10	10	10	10	11
Geographic Exclusions	-2	-2	-2	-2	-2	-2	-2
Other	-6	-2	2	2	2	1	1
Federal Sector NIPA Receipts	773	823	896	976	1,050	1,129	1,209
Expenditures							
Total Outlays ^{a/}	946	986	1,025	1,086	1,135	1,188	1,248
Lending and Financial Transactions	-25	-11	-13	-12	-9	-8	-7
Government Contributions for Employee Retirement	32	34	35	38	41	44	48
Medicare Premiums	6	6	7	7	8	8	9
Other Netting and Grossing	9	9	10	10	10	10	11
Defense Timing Adjustment	1	3	4	4	4	4	4
Bonuses on Outer Continental Shelf Land Leases	2	1	1	3	2	1	1
Geographic Exclusions	-5	-5	-5	-6	-6	-6	-6
Other	-3	-1	0	1	0	0	0
Federal Sector NIPA Expenditures	963	1,022	1,064	1,132	1,185	1,242	1,307

SOURCE: Congressional Budget Office.

a. Includes on-budget and off-budget activities.

TABLE C-2. PROJECTIONS OF BASELINE REVENUES AND EXPENDITURES ON A NATIONAL INCOME AND PRODUCT ACCOUNTS BASIS
(By fiscal year, in billions of dollars)

	1985 Actual	1986 Base	Projections				
			1987	1988	1989	1990	1991
Personal Tax and Nontax Receipts	345	361	391	428	467	507	550
Corporate Profits Tax Accruals	68	86	107	116	124	128	130
Indirect Business Tax and Nontax Accruals	56	54	53	53	54	56	58
Contributions for Social Insurance	<u>304</u>	<u>322</u>	<u>345</u>	<u>379</u>	<u>405</u>	<u>438</u>	<u>472</u>
Total Receipts	773	823	896	976	1,050	1,129	1,209
Purchases of Goods and Services	342	366	375	394	412	434	457
Defense	256	273	288	301	316	332	349
Nondefense	87	93	87	93	96	102	108
Transfer Payments	373	390	411	441	470	502	539
Grants-in-Aid to State and Local Governments	98	102	103	108	112	117	122
Net Interest Paid	129	139	147	157	160	160	161
Subsidies less Current Surplus of Government Enterprises	<u>21</u>	<u>24</u>	<u>27</u>	<u>31</u>	<u>31</u>	<u>29</u>	<u>28</u>
Total Expenditures	963	1,022	1,064	1,132	1,185	1,242	1,307
Deficit	190	199	168	156	135	113	98

SOURCE: Congressional Budget Office.