Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

Adding Debt-Service Effects to CBO's Cost Estimates

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In its report on the fiscal year 2024 appropriation bill for the legislative branch, the House Committee on Appropriations requested information from the Congressional Budget Office about the impacts of adding debt-service effects to CBO's cost estimates.[1] This report, prepared in coordination with the staff of the Joint Committee on Taxation, provides that information.

Background and Feasibility

The Congressional Budget Act of 1974 directs CBO to estimate the costs of legislation at certain points in the legislative process. Those estimates are intended to ensure that when the House and Senate consider legislation, Members have the information they need to enforce budgetary rules or targets. CBO transmits about 900 cost estimates each year for authorizing legislation, including measures considered under suspension of the rules.

By long-standing convention, CBO's cost estimates do not account for the cost of servicing the additional federal debt attributable to a piece of legislation. That is, estimates do not include any increases or decreases in interest payments on the federal debt that would arise from an estimated net increase or decrease in budget deficits or from a bill's other effects on federal borrowing. In many cases, adding debt-service effects to cost estimates would be feasible and would require CBO to expend few additional resources.

CBO provides a tool that the staff of the House and Senate Committees on the Budget use to calculate debt-service costs for proposed legislation. Since 2020, that calculator also has been available on CBO's website.[2]

CBO expects that if the Congress asked the agency to add debt-service information to cost estimates, the change would affect between 100 and 120 estimates each year. Most would be for bills that have been ordered reported by a Congressional committee—at which point CBO is statutorily required to provide an estimate. (Providing information on debt-service costs in the course of producing the thousands of preliminary estimates that are prepared while legislation is being developed probably would not be feasible, although Congressional staff could still use the debt-service calculator.)

Most CBO cost estimates would not require debt-service calculations at all because they concern provisions of legislation that authorize discretionary funding to be provided in subsequent appropriation acts. Those provisions, unlike those that affect mandatory spending or revenues, do not by themselves affect the budget deficit. Between 80 percent and 90 percent of CBO's estimates over the past four years have been for legislation that would affect mandatory spending or revenues by less than $500,000 over a 10-year period, or would not affect them at all.

Calculating debt-service effects would be less straightforward for some kinds of legislation, such as that affecting a credit program, than it would be for others. Under the Federal Credit Reform Act of 1990, the subsidy costs of the government's direct loans and loan guarantees, rather than the cash flows associated with those activities, are recorded in the federal budget for purposes of calculating

1. U.S. House of Representatives, *Legislative Branch Appropriations Bill, 2024, Report to Accompany H.R. 4364, Together With Minority Views,* House Report 118-120 (June 27, 2023), p. 17, https://tinyurl.com/3cdnn8ws.

2. See, for example, Congressional Budget Office, "How Changes in Revenues and Outlays Would Affect Debt-Service Costs, Deficits, and Debts" (interactive workbook, February 2024), www.cbo.gov/publication/59937.

the deficit.[3] The Treasury has created financing accounts to track those cash flows and reconcile them with subsidy costs; those accounts influence the Treasury's borrowing requirements. CBO's cost estimates for legislation affecting credit programs show only the estimated changes in associated subsidy costs. Thus, in some cases, in order to assess the legislation's effects on the amount and cost of federal borrowing, CBO would need to perform additional analysis to identify effects on the cash flows of those financing accounts. That analysis could add substantial time to the cost-estimating process—and in some cases would not be practicable, given the tight time constraints typically associated with producing cost estimates.

CBO anticipates that debt-service effects would be calculated by using the total effects on the deficit of estimated changes in mandatory outlays and revenues from the proposed legislation—rather than for each provision separately. In general, debt-service effects would depend on the timing, over a 10-year period, of the change in deficits resulting from the legislation. The closer the change was to the beginning of the period, the larger the effect would be on the debt-service costs.

For example, on the basis of CBO's February 2024 economic forecast, increasing deficits (and therefore debt) by $100 million in fiscal year 2025 would increase projected outlays for interest by $40 million over a 10-year period. By contrast, increasing deficits by $10 million annually over the 2025–2034 period, for a total of $100 million, would be projected to increase those outlays by $18 million over the same period.

Budget Enforcement

The Budget Act designates the House and Senate Budget Committees as the principal scorekeepers for the Congress. They provide each chamber's presiding officer with the estimates needed to inform decisions about how to enforce budgetary rules or targets. Any change to incorporate debt-service effects into CBO's cost estimates, and how they would be presented, would be subject to review by the Budget Committees. For example, debt-service effects might be displayed in the table showing the estimated budgetary effects of a piece of legislation, or those effects could be displayed in a memorandum showing all other budgetary effects.

Moreover, the Statutory Pay-As-You-Go Act of 2010 (PAYGO), which establishes budget-reporting and enforcement procedures for legislation affecting mandatory spending or revenues, excludes debt-service costs from the assessment of the budgetary effects of legislation. Therefore, the tables that CBO prepares in its estimates of PAYGO effects would not show the costs of debt service.

3. The subsidy cost is the discounted present value of all future cash flows associated with a loan or loan guarantee. A present value is a single number that expresses the flow of current and future payments in terms of an equivalent lump sum received or paid at a specific time. See Congressional Budget Office, *Estimate of the Cost of Federal Credit Programs in 2024* (August 2023), www.cbo.gov/publication/59232.

The Congressional Budget Office prepared this document in fulfillment of its requirement to report on the feasibility of adding debt-service effects to its cost estimates. In keeping with CBO's mandate to provide objective, impartial analysis, the report contains no recommendations.

Leigh Angres and Christina Hawley Anthony prepared the report with contributions from the staff of the Joint Committee on Taxation. Comments were provided by Barry Blom, Megan Carroll, Ann E. Futrell, Justin Humphrey, Avi Lerner, and John McClelland.

Jeffrey Kling and Robert Sunshine reviewed the report, Kate Kelly edited it, and R. L. Rebach prepared the text for publication. This document is available on the agency's website at www.cbo.gov/publication/60277.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.

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