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# The Federal Budget Picture

SHAI AKABAS, ASSOCIATE DIRECTOR OF ECONOMIC POLICY

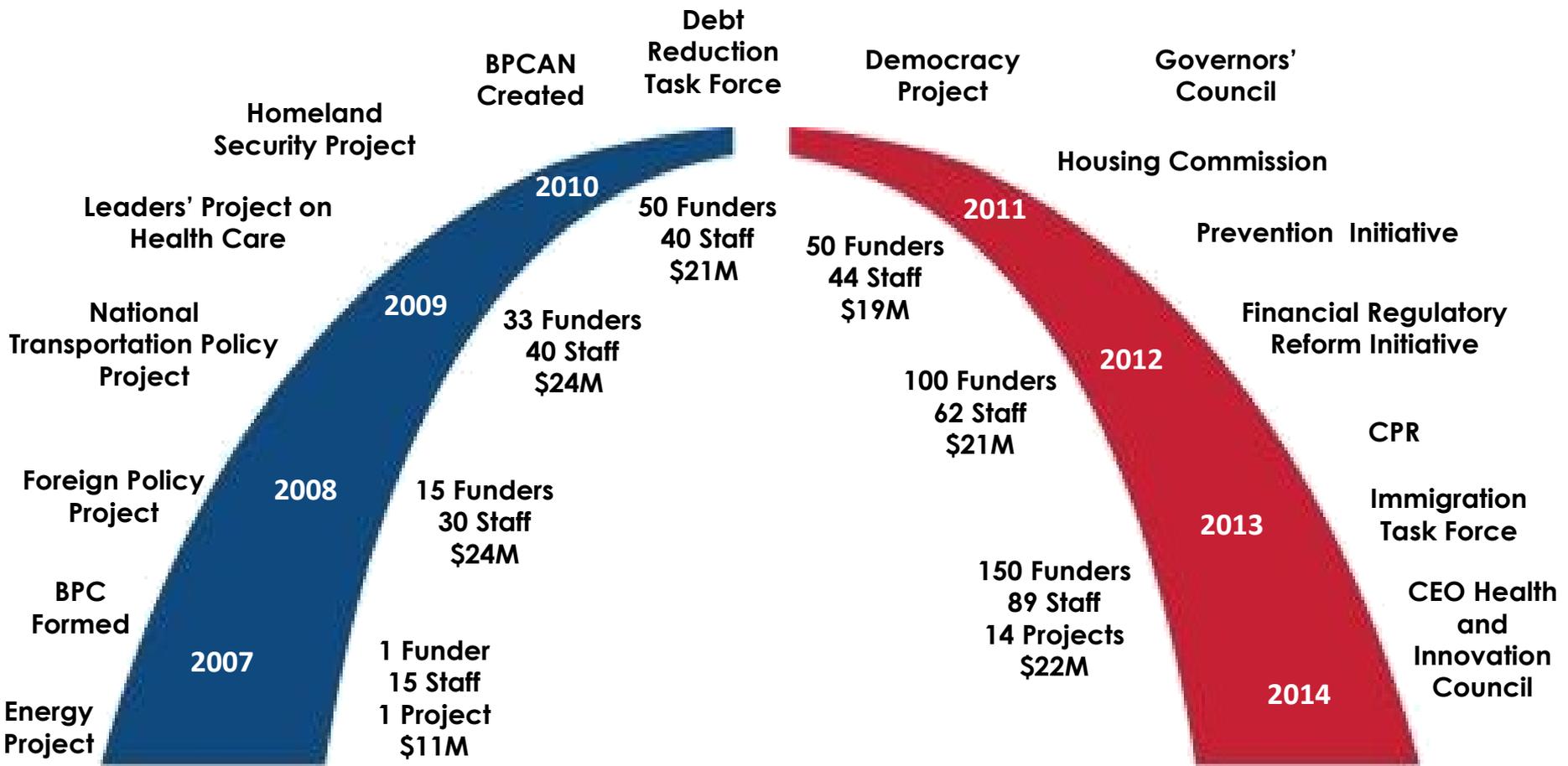
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# A Little About BPC

# BPC has tackled many critical issues over the past seven years





## Economic Policy Program

Economic Policy Project

Financial Regulatory Reform Initiative

Housing Initiative

Immigration Task Force

Retirement Security and Personal Savings

## Governance Program

Commission on Political Reform

Democracy Project

Governors' Council

## National Security Program

Foreign Policy Project

Homeland Security Project

## Health Program

Health Project

Health Innovation Initiative

Nutrition & Prevention Initiative

## Energy and Infrastructure Program

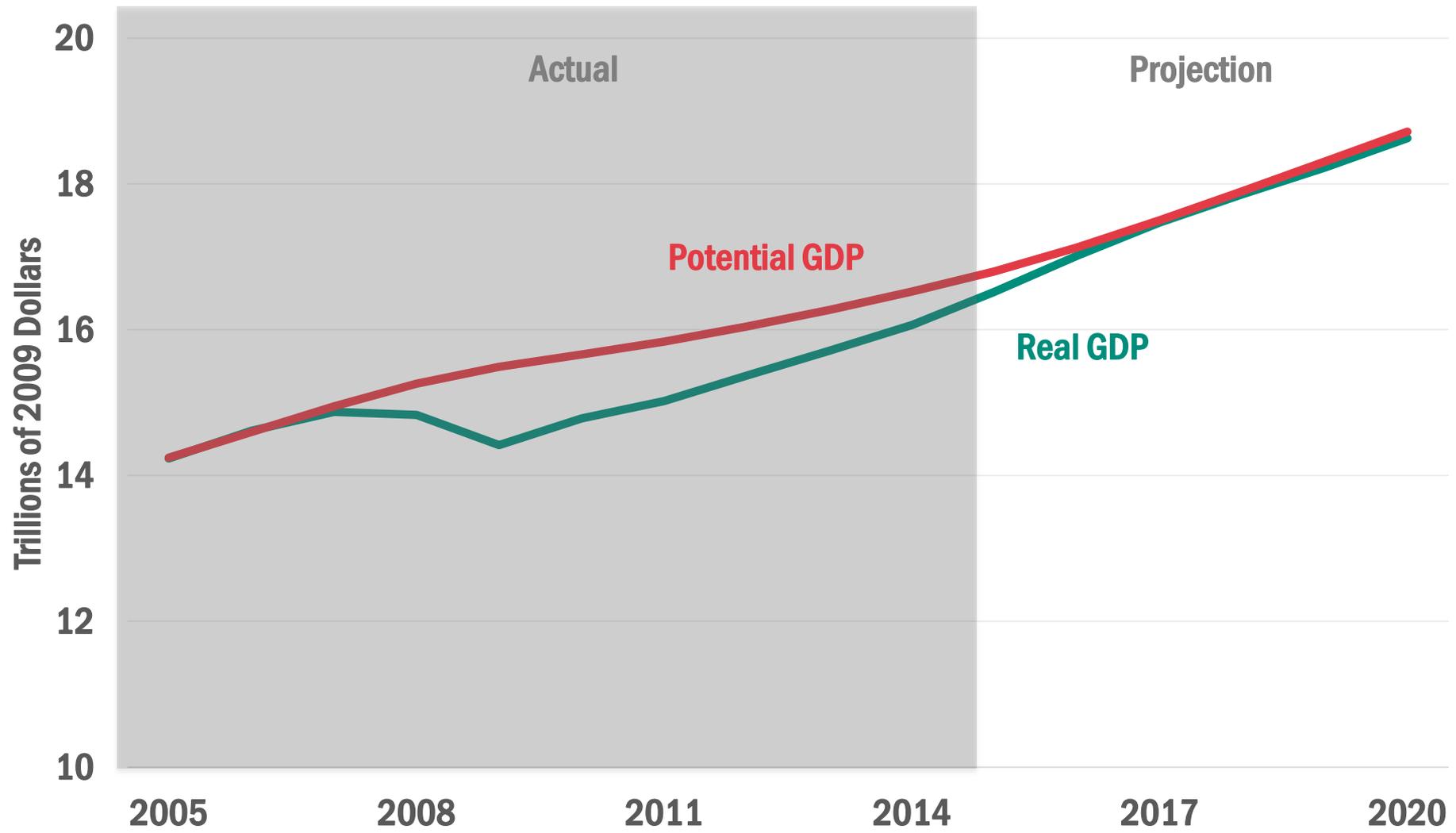
Energy Project



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# The Economy – Not Back Yet

# ECONOMY STILL PERFORMING BELOW POTENTIAL <sup>6</sup>



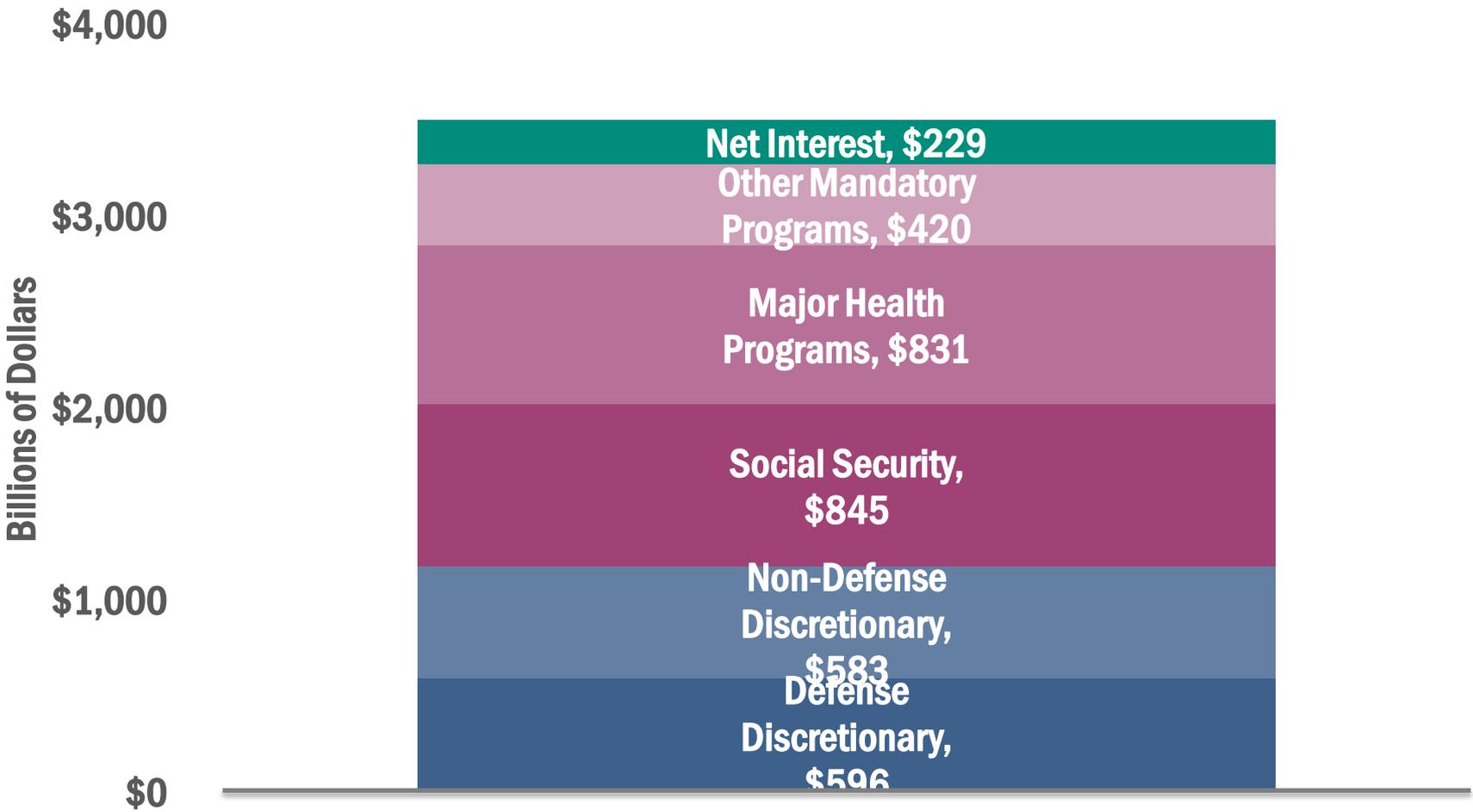
NOTE: Axis does not start at zero.  
SOURCE: CBO Budget and Economic Outlook, 2015



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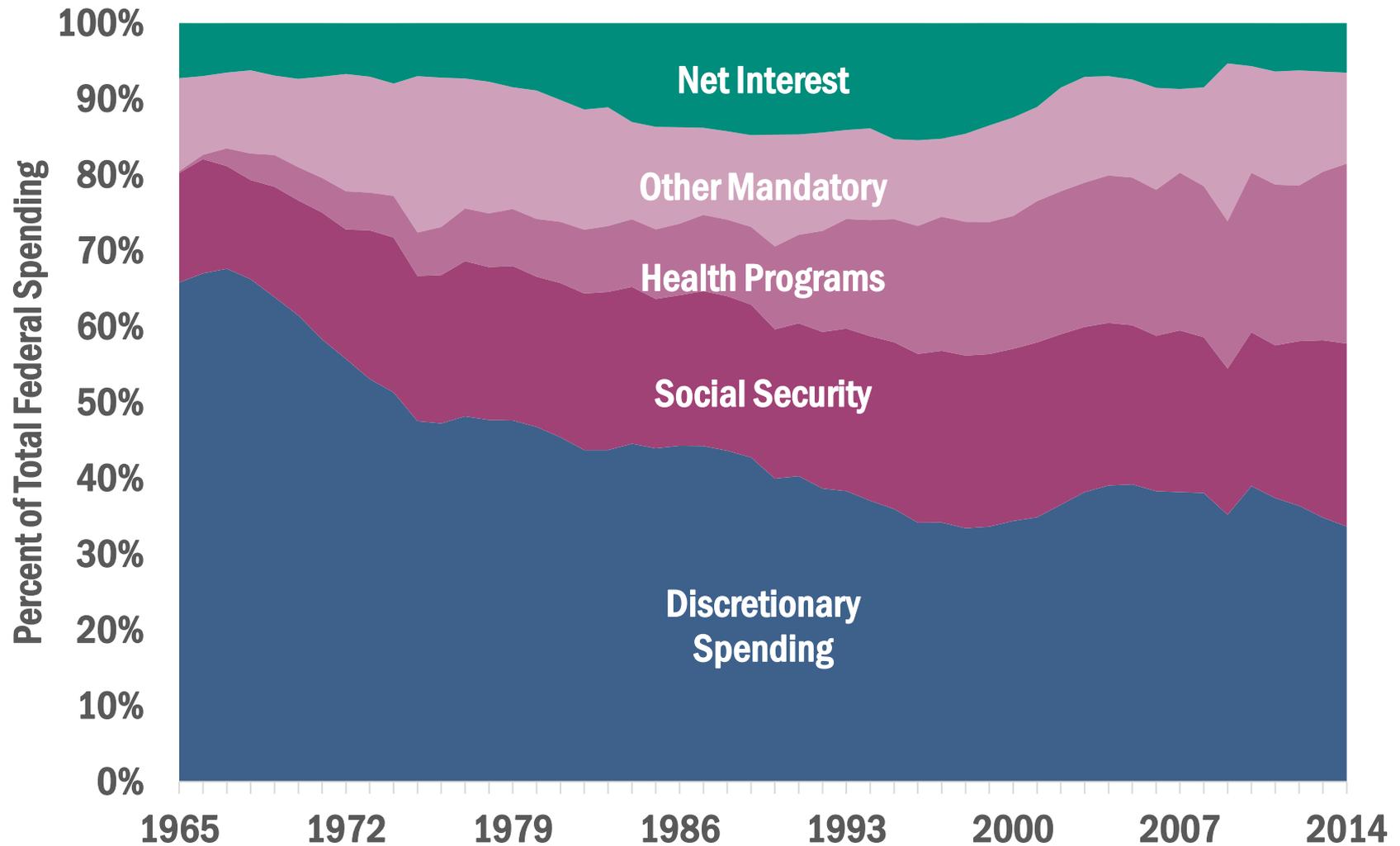
# The Federal Budget – Present, Past, and Future

# FEDERAL SPENDING BY MAJOR CATEGORY, 2014 8



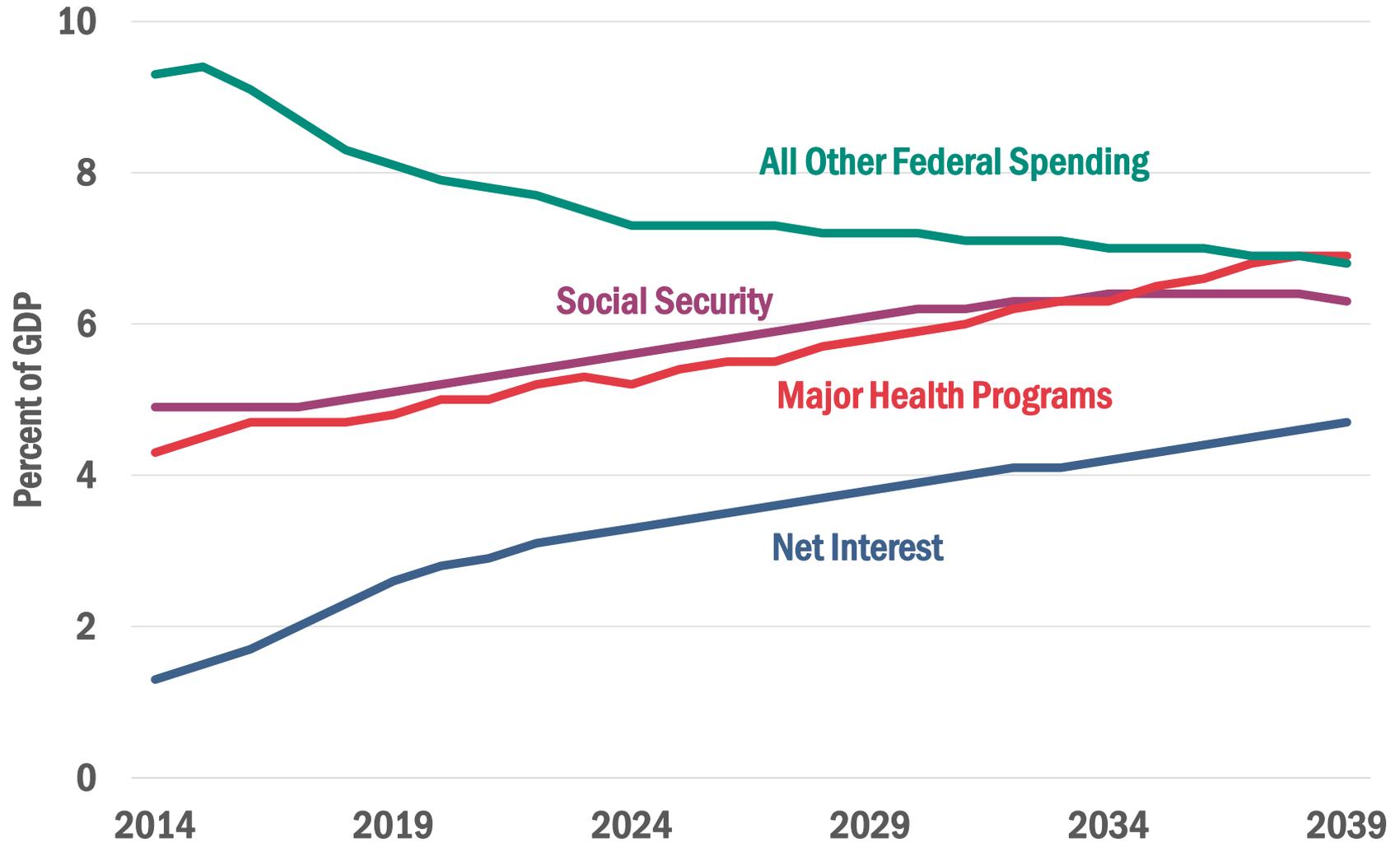
NOTE: Figures are net of offsetting receipts.  
SOURCE: CBO Budget and Economic Outlook, 2015

# HISTORICAL TRENDS IN FEDERAL SPENDING



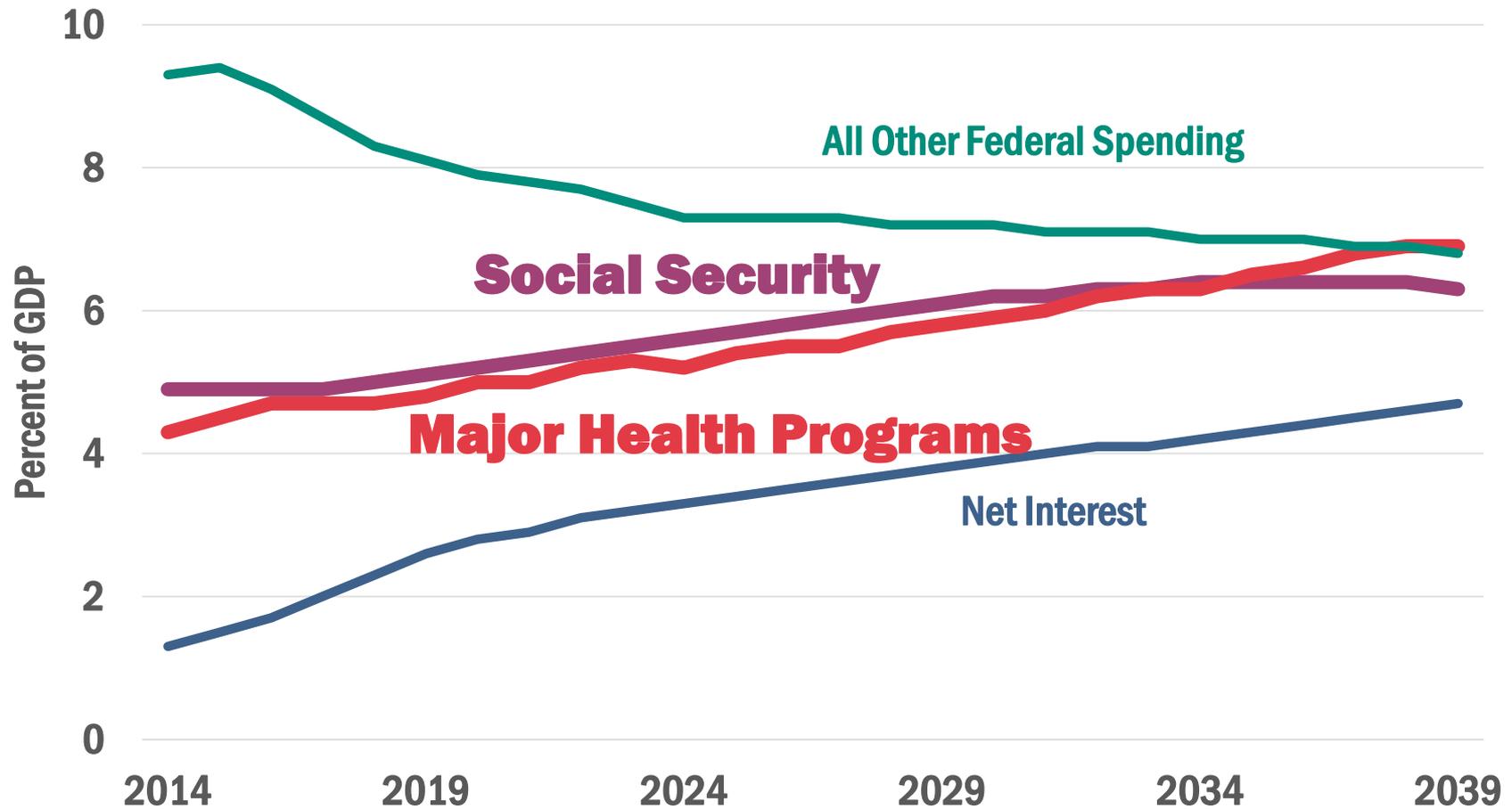
NOTE: Figures are net of offsetting receipts.  
SOURCE: CBO Budget and Economic Outlook, 2015

# PROJECTED FEDERAL SPENDING AS % OF GDP



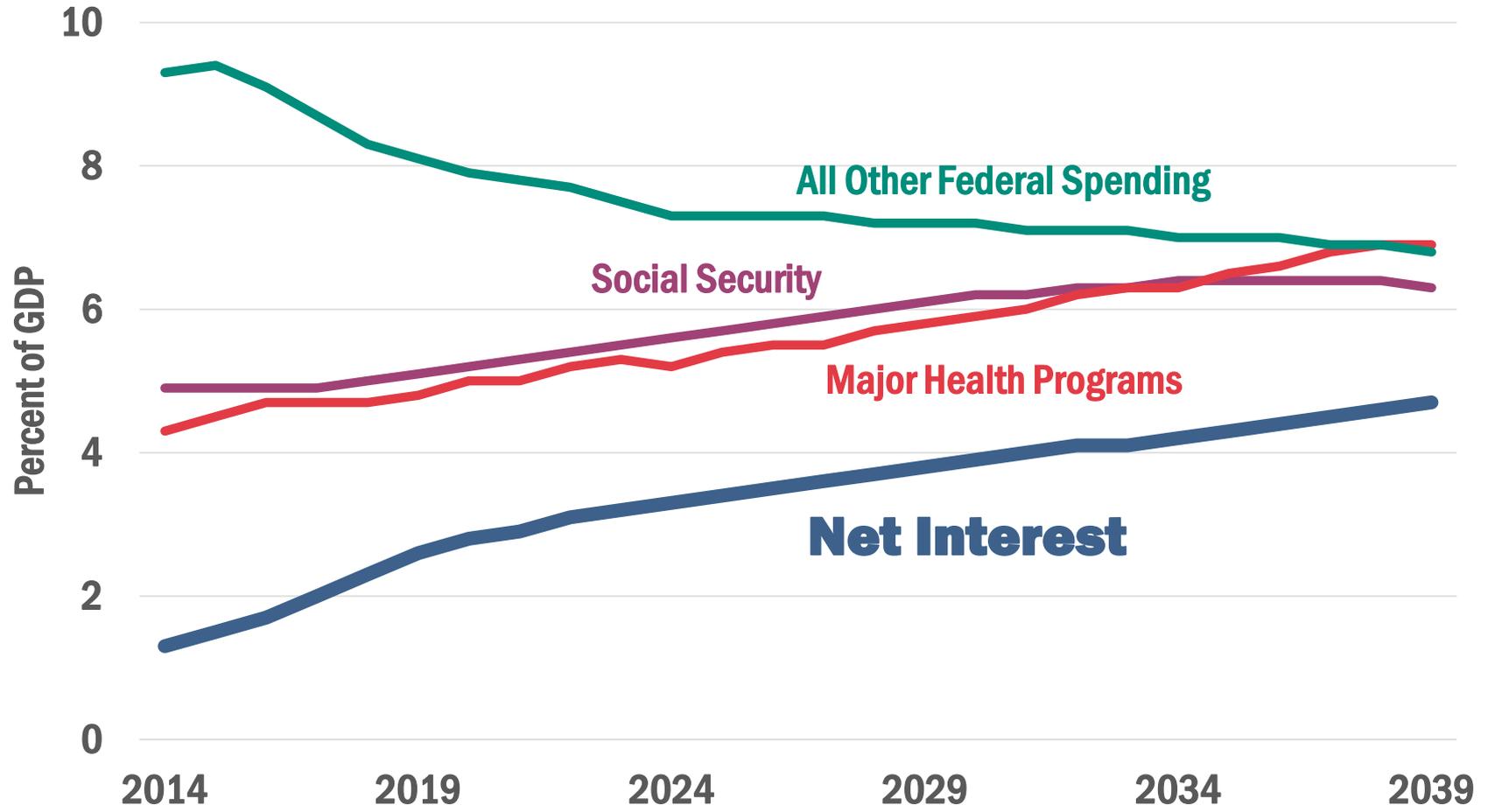
NOTE: Figures are net of offsetting receipts.  
SOURCE: CBO Long Term Budget Outlook, 2014

# HEALTHCARE AND SOCIAL SECURITY GROW QUICKLY BECAUSE OF AGING POPULATION



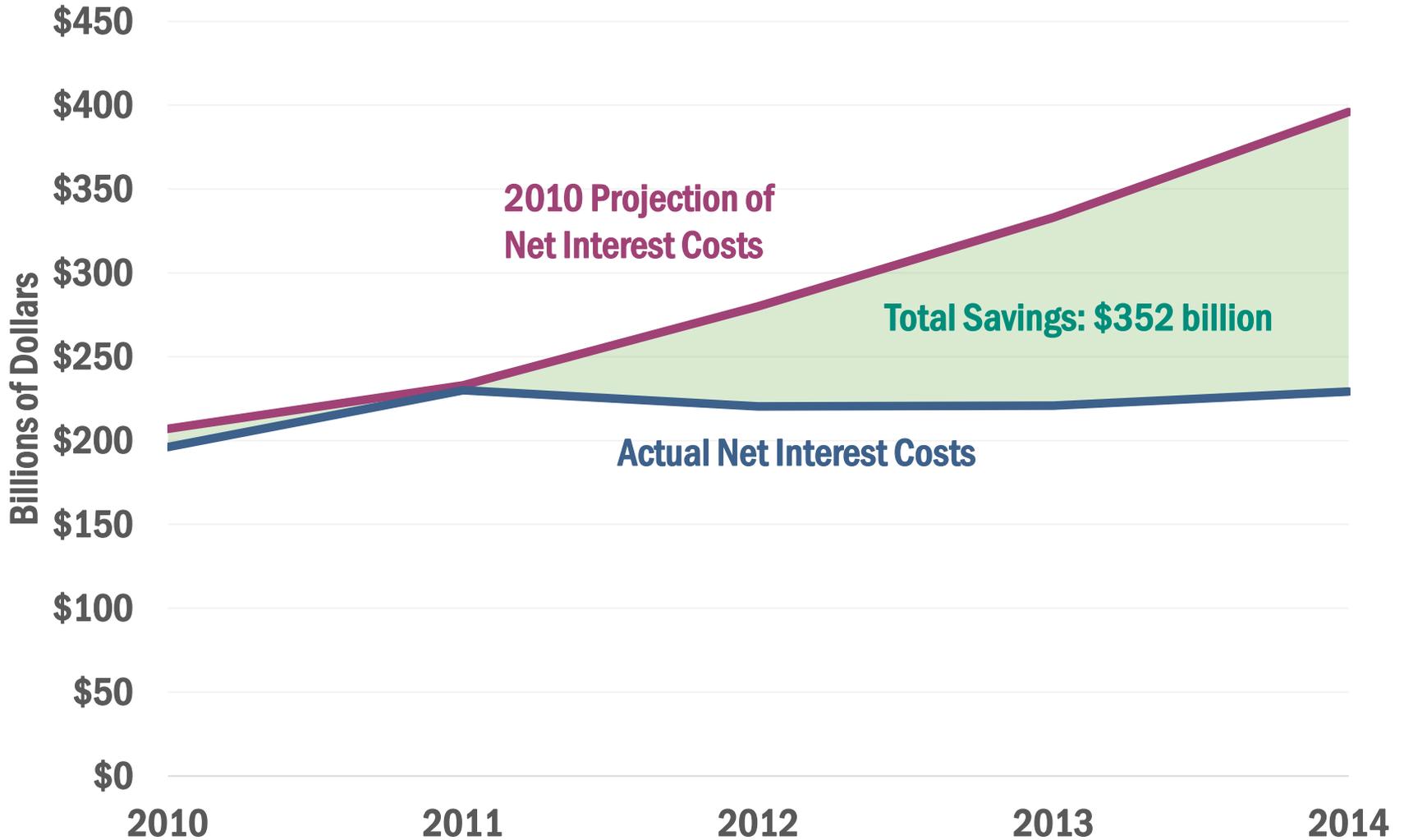
NOTE: Figures are net of offsetting receipts.  
SOURCE: CBO Long Term Budget Outlook, 2014

# NET INTEREST GROWS AS INTEREST RATES RETURN TO NORMAL



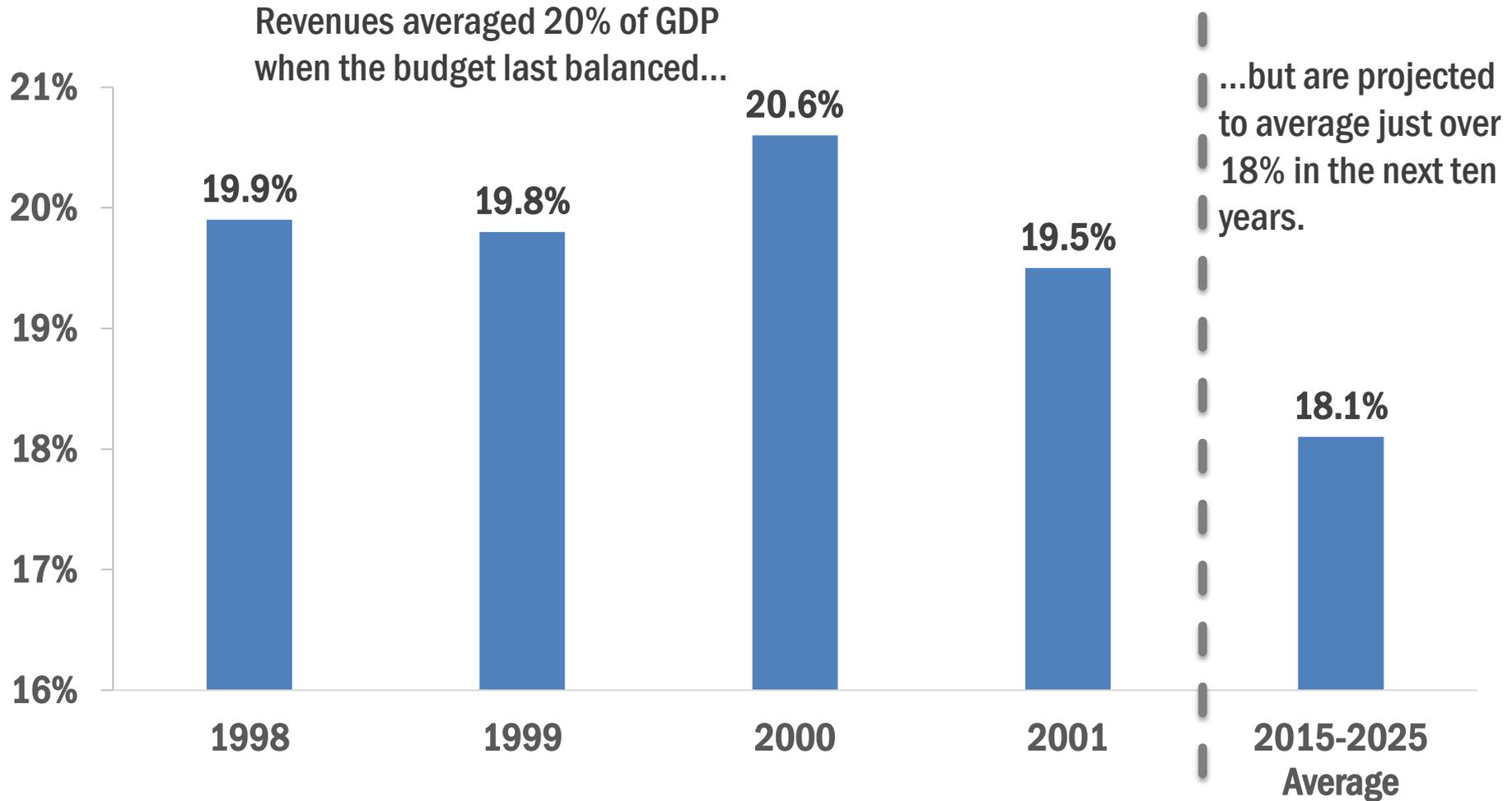
NOTE: Figures are net of offsetting receipts.  
SOURCE: CBO Long Term Budget Outlook, 2014

# PROJECTION ERRORS CAN BE SIGNIFICANT



SOURCE: CBO Budget and Economic Outlooks, 2010 and 2015

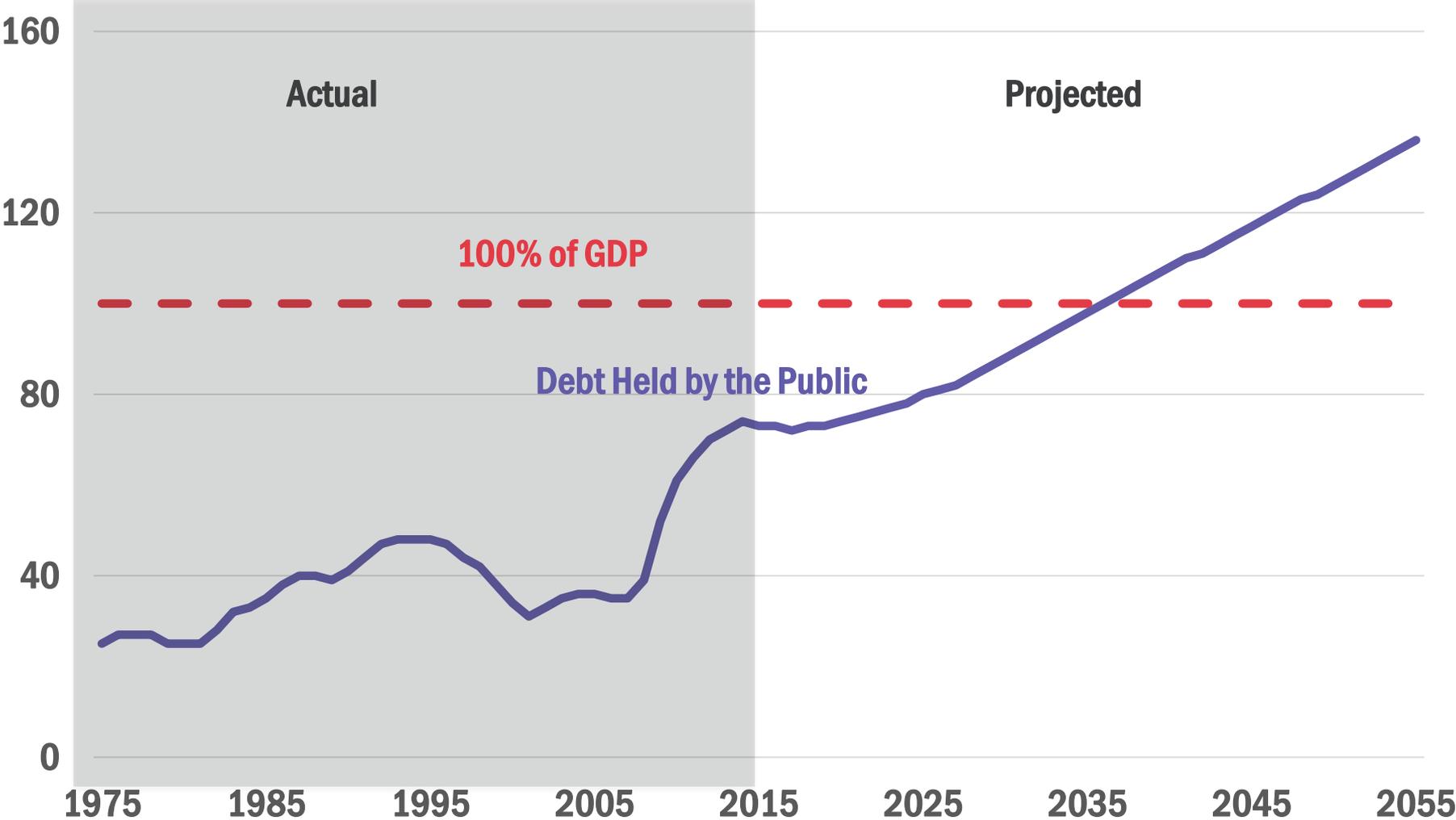
# CURRENT LAW REVENUE WILL BE TOO LOW



NOTE: Axis does not start at zero.

SOURCE: CBO Long Term Budget Outlook, 2015

# THE BOTTOM LINE: GROWING DEBT



SOURCE: CBO Long-Term Budget and Economic Outlook



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# Upcoming Issues: Highway Trust Fund

# OVERVIEW OF HIGHWAY TRUST FUND

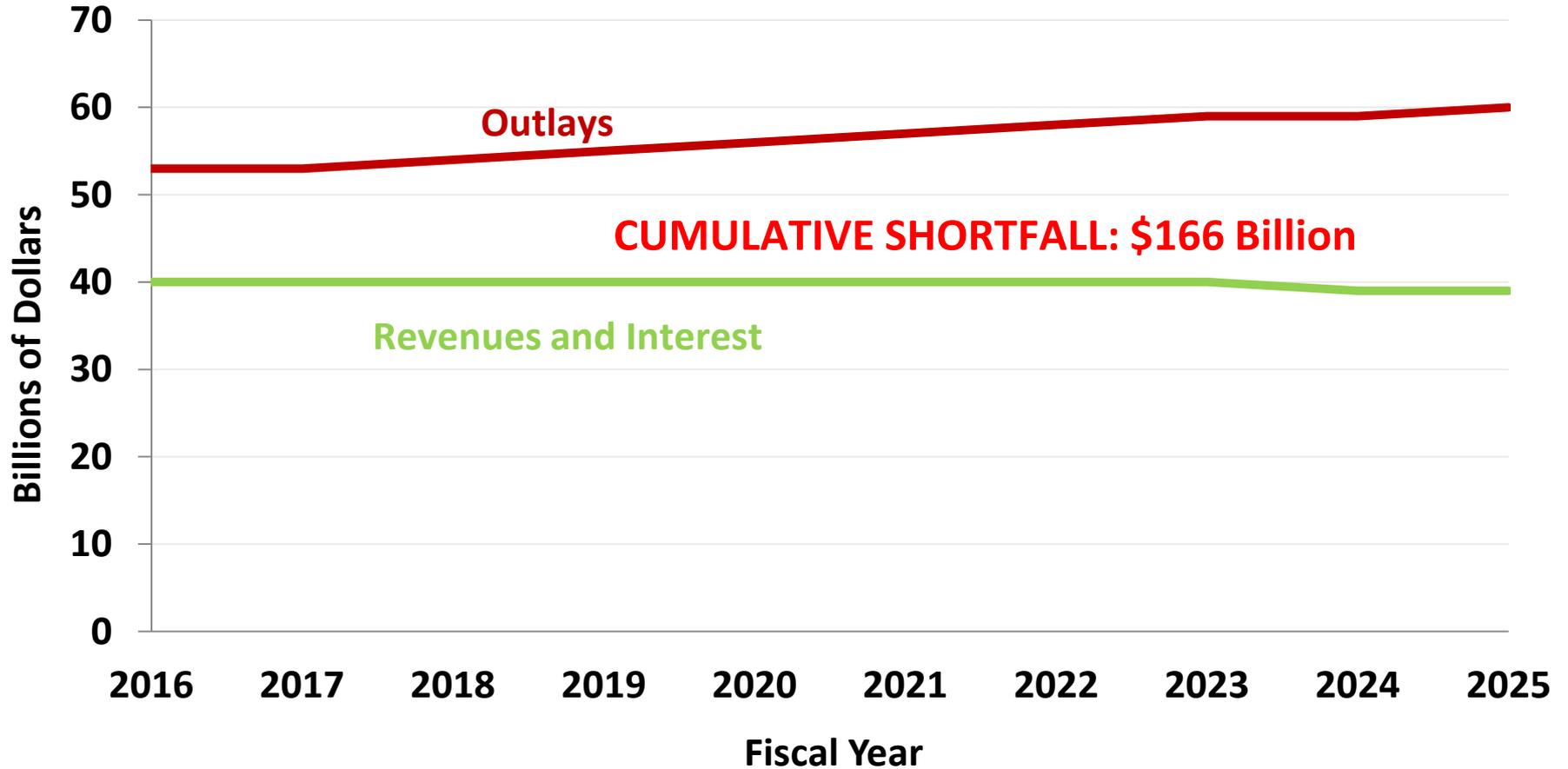
- **Funds infrastructure and construction**
- **Provides funding for highway and transit programs in the form of reimbursements to states**
- **Multiple accounts**
  - Highway Account
  - Mass Transit Account
- **Main source of revenue is the gas tax**

# OVERVIEW OF HIGHWAY TRUST FUND

- **Highway user taxes (e.g., “gas tax”) have been extended through September 30, 2016**
- **Most budget authority in form of contract authority – authority to incur obligations in advance of appropriations**
- **Obligation limits, usually set in the annual appropriations acts, govern how much contract authority can be used in a given year**

# CBO PROJECTS LARGE SHORTFALL

## Projections of Highway Trust Fund



SOURCE: Congressional Budget Office

# WHAT'S CAUSING THE LONG-TERM PROBLEM? <sup>20</sup>

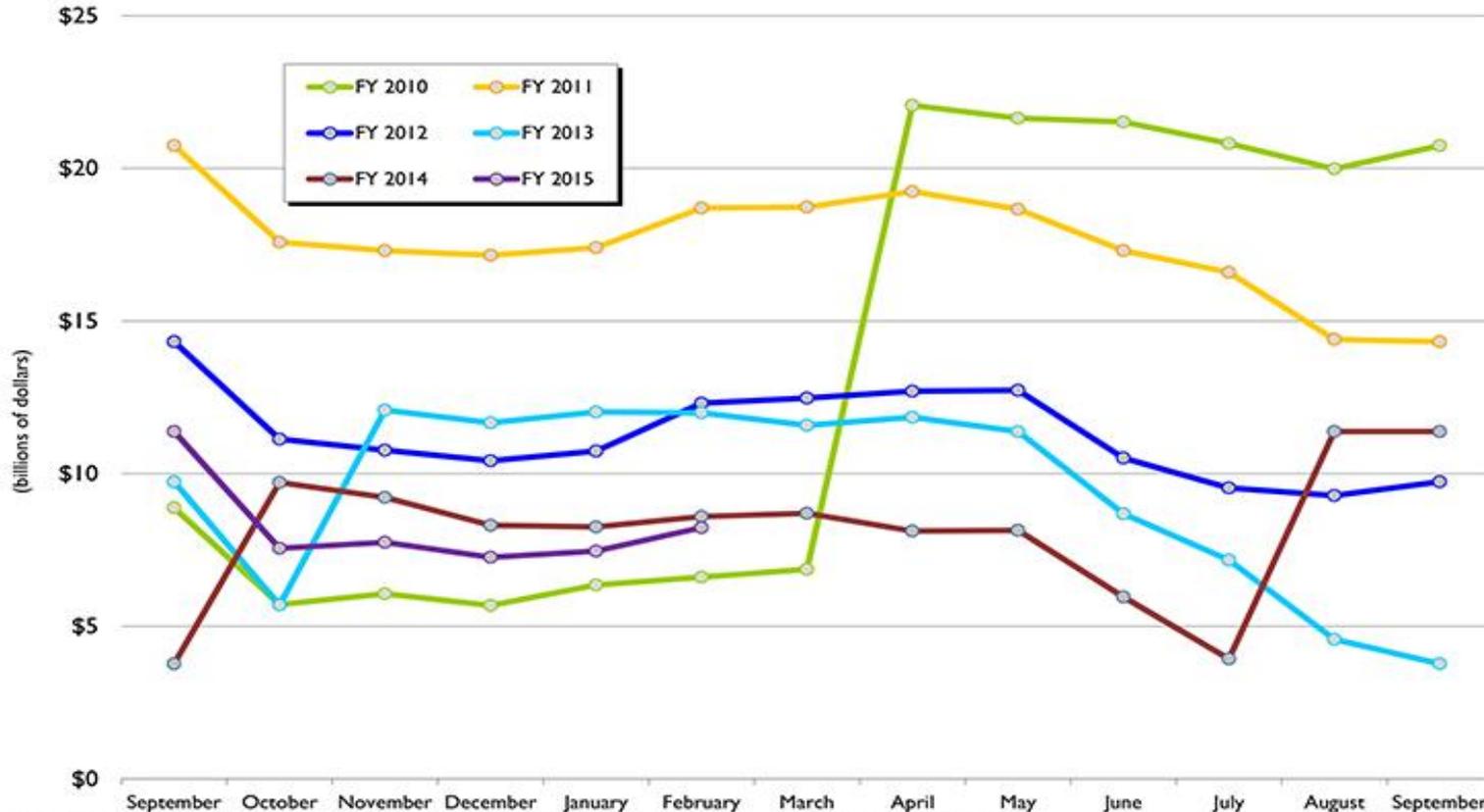
- 1. Gas tax has not increased since 1993**
  - 2. Americans driving less per person**
  - 3. Vehicles becoming more efficient**
- Transfers from general funds have filled the gap**

# IMMEDIATE PROBLEMS

- **Highway bill authorization expires 5/31/2015**
  - No cost to reauthorize
- **Summer FY 2015, HTF insufficient to meet obligations**
  - DoT will reduce reimbursements for state infrastructure projects
- **House and Senate budgets light on solutions for HTF**
  - “Deficit-neutral reserve fund for transportation”
  - Want to stop transfers that close gap in funding

# TRUST FUND NEARING EXHAUSTION

## Highway Account Balance



For FY 2010 includes \$14.7 billion transferred from the General Fund (GF) in April pursuant to Public Law (P.L.) 111-147.  
 For FY 2012 includes \$2.4 billion transferred from the Leaking Underground Storage Tank (LUST) Trust Fund in August pursuant to P. L. 112-141  
 For FY 2013 includes \$6.2 billion transferred from the GF in November pursuant to P.L. 112-141, of which \$316.2 million was sequestered in August.  
 For FY 2014 includes \$10.4 billion transferred from the GF in October pursuant to P.L. 112-121 less sequester of \$748.8 million. Also includes \$7.765 billion transferred from the GF and \$1 billion transferred from the LUST Trust Fund in August pursuant to P.L. 113-159

# PROPOSED SOLUTIONS

- **UPDATE Act (Rep. Blumenauer (D-OR))**
  - Doubles gas tax
- **Gas Tax Replacement Act (Rep. Huffman (D-CA))**
  - Replace with lifecycle carbon emissions tax
- **Grow America 2.0 (President Obama)**
  - Taxes on corporate profits held abroad
- **Repatriation Tax Holiday (Sen. Boxer (D-CA), Sen. Paul (R-KY))**
  - 6.5% corporate tax on money brought home
- **Prominent Republicans against raising gas tax**
  - Including Rep. Ryan (R-WI), Sen. Hatch (R-UT)



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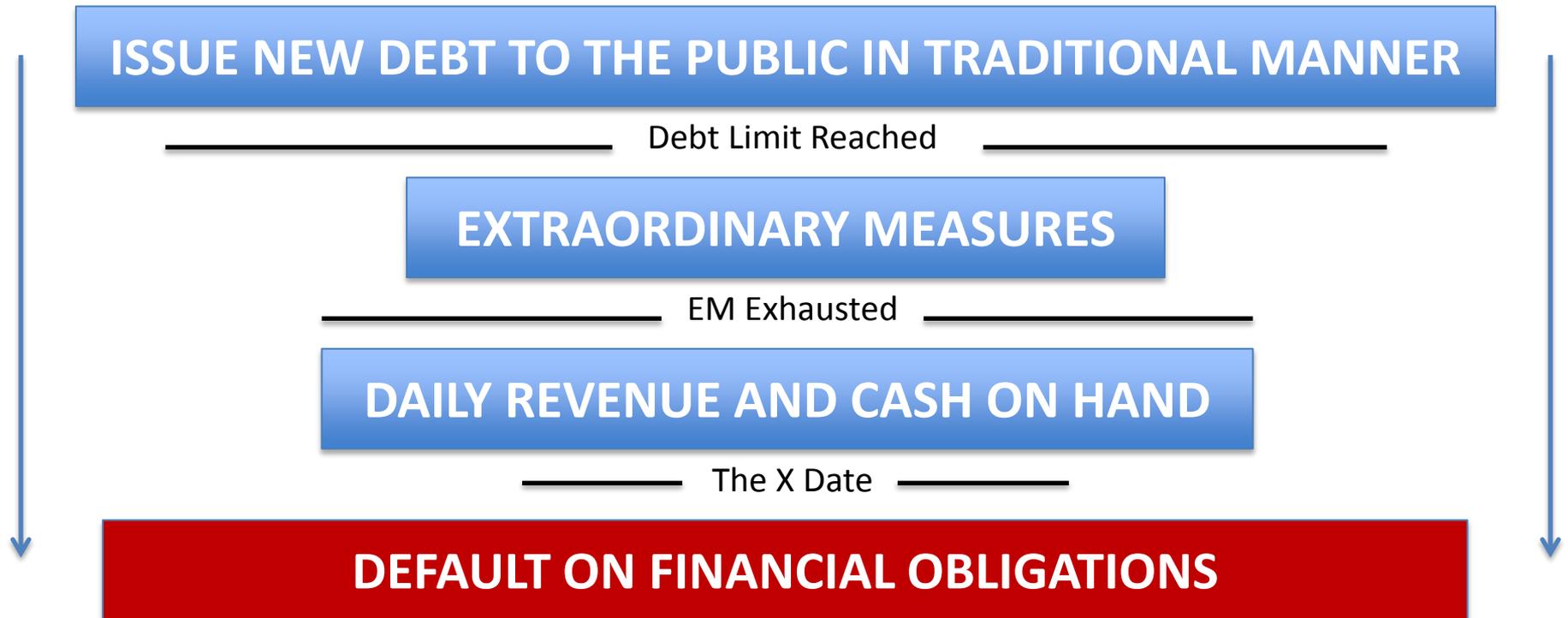
# Upcoming Issues: Debt Limit

- **The debt limit is:**
  - the maximum amount that Treasury is allowed to borrow;
  - set by statute (Congress must act to change it); and
  - covers most debt issued, whether held by the public (such as Treasury bills and savings bonds) or intragovernmental (such as debt held by the Social Security trust funds).
- **The debt limit was temporarily suspended from February 18, 2014 until March 16, 2015, when it will be reinstated at a higher level than before.**
- **Total public debt subject to limit is about \$18.1 trillion.**
  - In comparison, the U.S. gross domestic product (GDP) was \$17.4 trillion at the end of 2014.

Sources: [Daily Treasury Statement](#) and [Bureau of Economic Analysis](#)

## Layers of Defense Against Default

The Treasury Department has multiple means that can be used to pay the nation's bills. If the debt limit is reached and policymakers do not act in time, however, all of these layers of defense will be breached and the nation will default on its obligations.



# WHAT IS THE X DATE?

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- **X Date**: The first day on which Treasury has exhausted its borrowing authority and no longer has sufficient funds to pay all of its bills in full and on time.
  - In other words, if the debt limit has not been raised by the X Date, the federal government will begin defaulting on some of its obligations.
  - After the X Date, bills must be paid solely out of incoming cash flows, which will be insufficient to cover all government spending.
- **BPC estimates that the X Date will most likely occur during the 4<sup>th</sup> quarter of 2015 (between October 1 and December 31).**

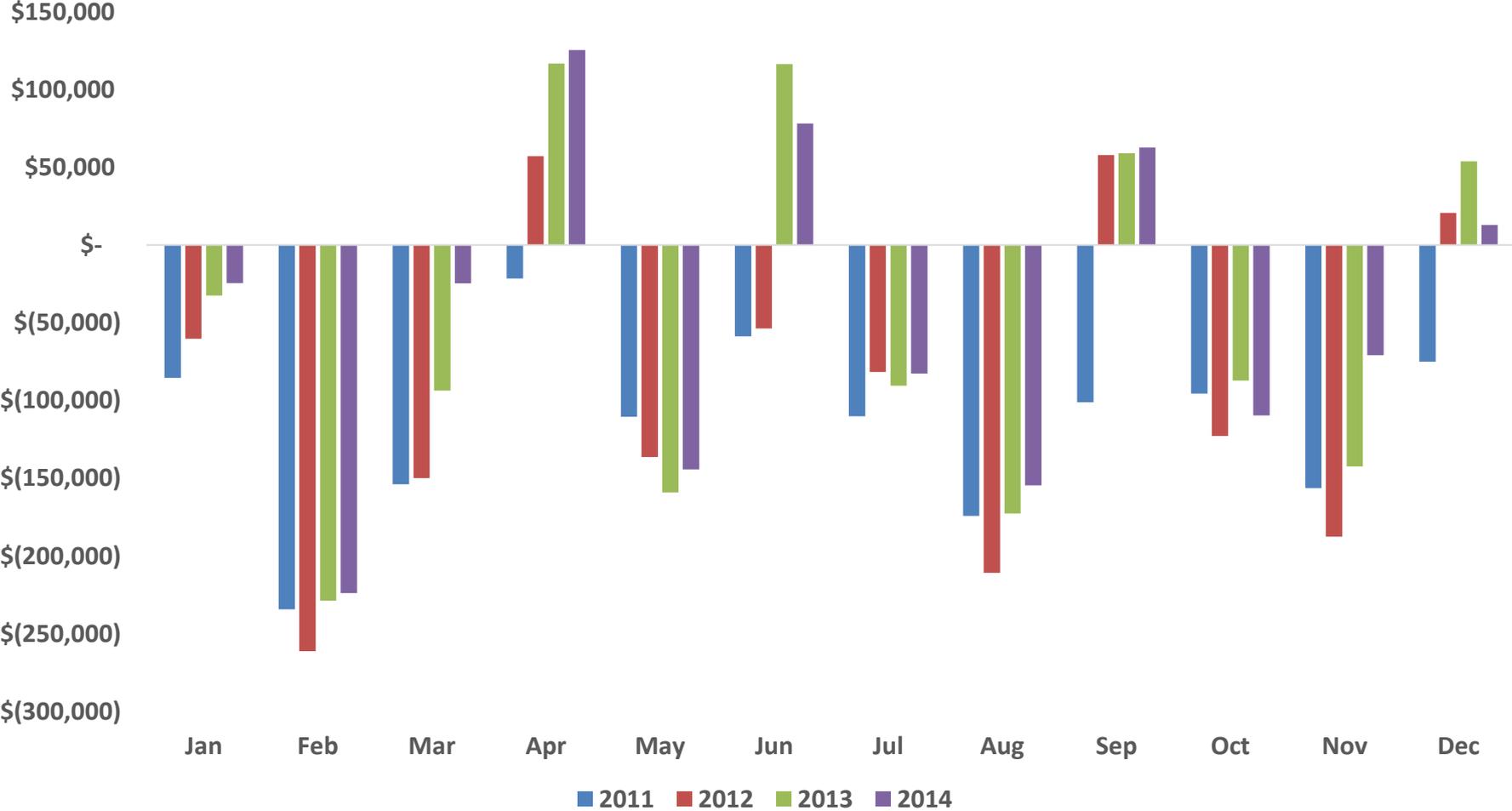
# WHY WILL EXTRAORDINARY MEASURES LAST SO LONG IN 2015?

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- **More extraordinary measures will be available**
  - In June of 2015, securities in the CSRDF (the pension fund for civil servants) are scheduled to mature. During extraordinary measures, Treasury is not required to reinvest these securities or credit interest to the fund, which will reduce debt subject to the limit.
- **The deficit has been decreasing**
  - Revenue growth, in particular, has been strong in recent years as the economic recovery has picked up steam. With lower deficits, extraordinary measures cash-on-hand and last longer.
- **Timing of debt limit reinstatement**
  - Most tax refunds are paid in February and early March. Reinstatement of the debt limit in mid-March avoids depleting extraordinary measures on the heavy cash outflows during the height of tax-refund season.

# THE DEFICIT HAS BEEN DECLINING

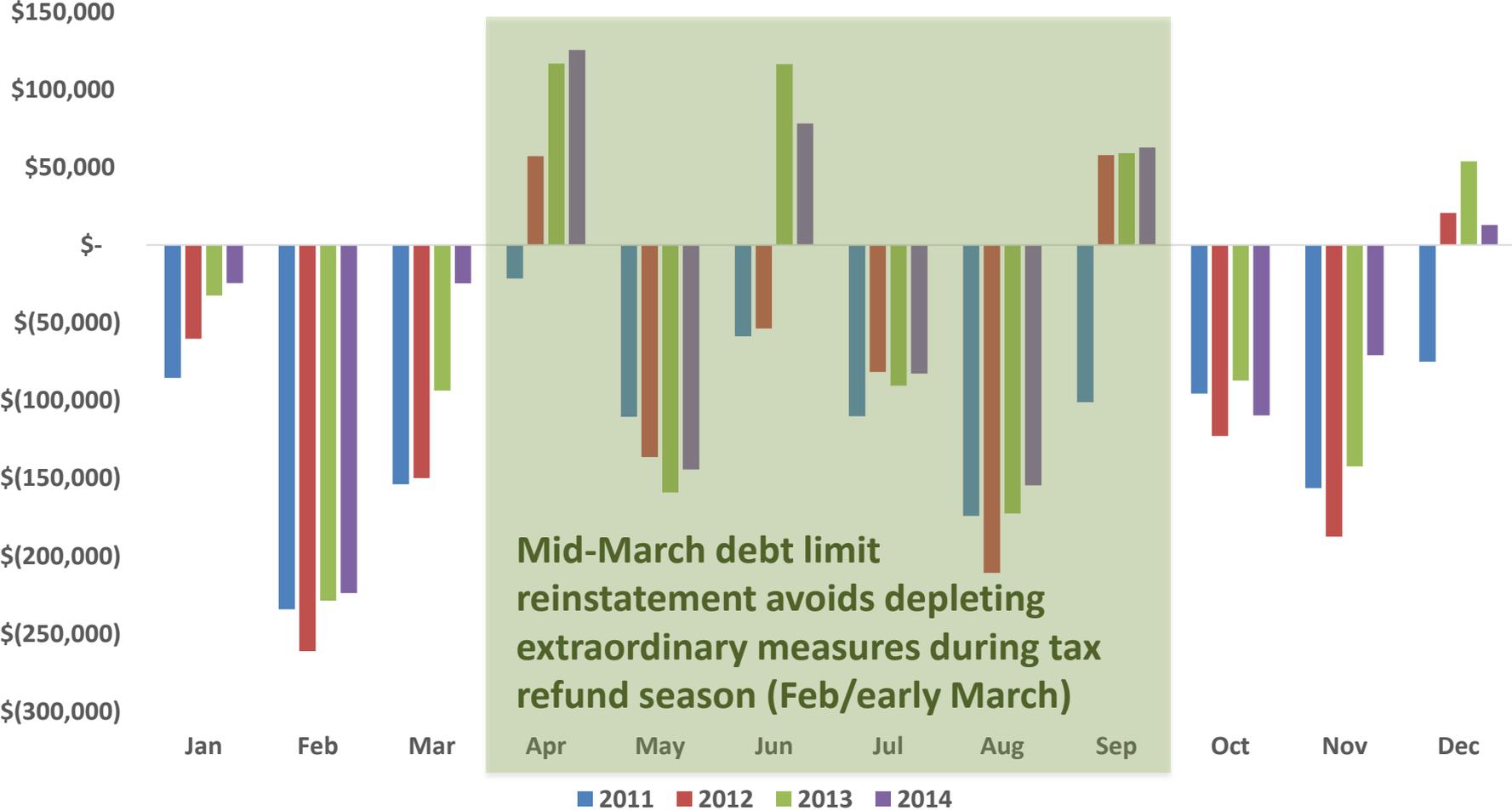
U.S. Treasury - Monthly Net Operating Cash Flow (in millions)



Source: Daily Treasury Statements

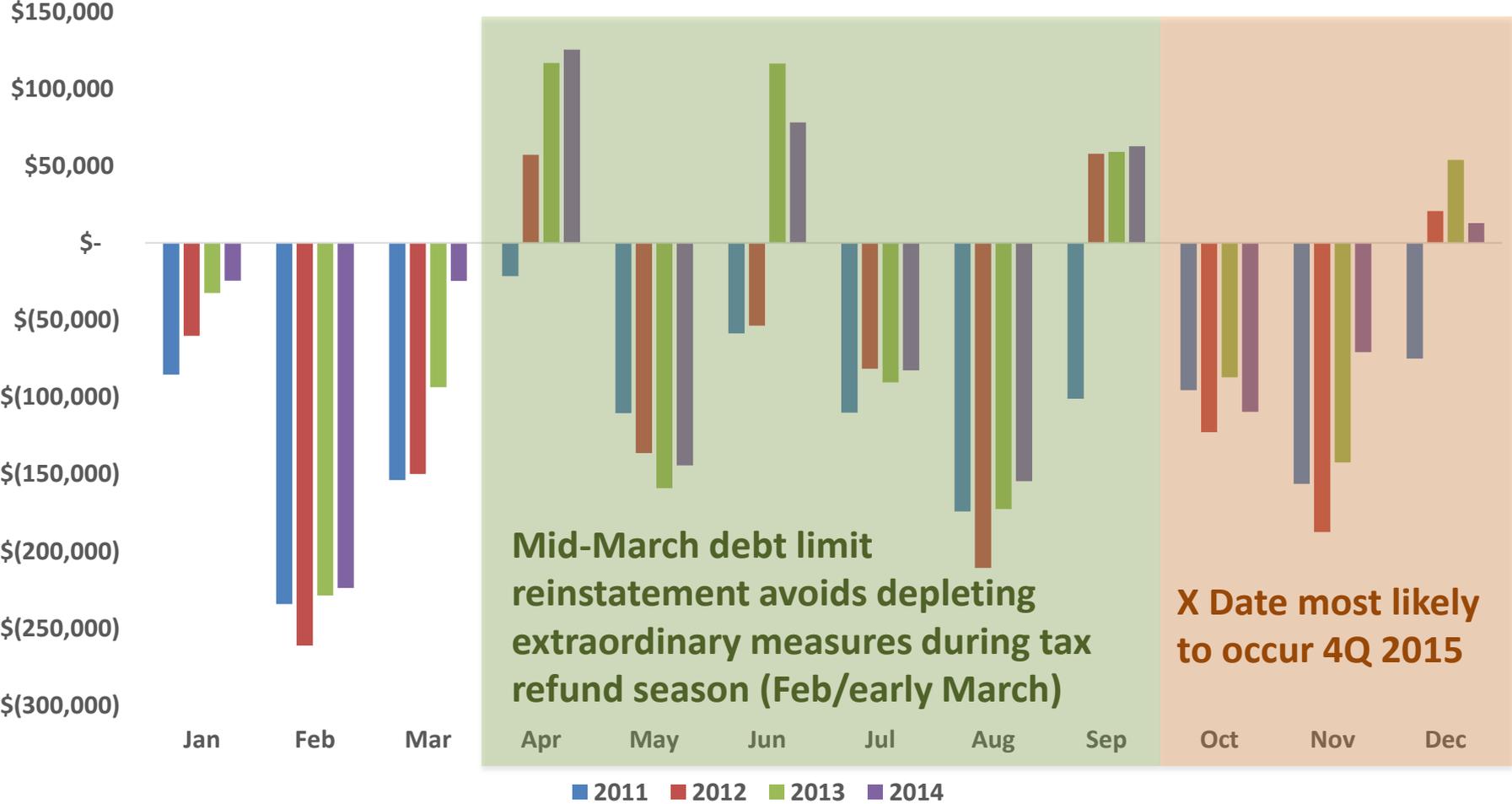
# TIMING IS MORE FAVORABLE

U.S. Treasury - Monthly Net Operating Cash Flow (in millions)



# TIMING IS MORE FAVORABLE

U.S. Treasury - Monthly Net Operating Cash Flow (in millions)



Mid-March debt limit reinstatement avoids depleting extraordinary measures during tax refund season (Feb/early March)

X Date most likely to occur 4Q 2015



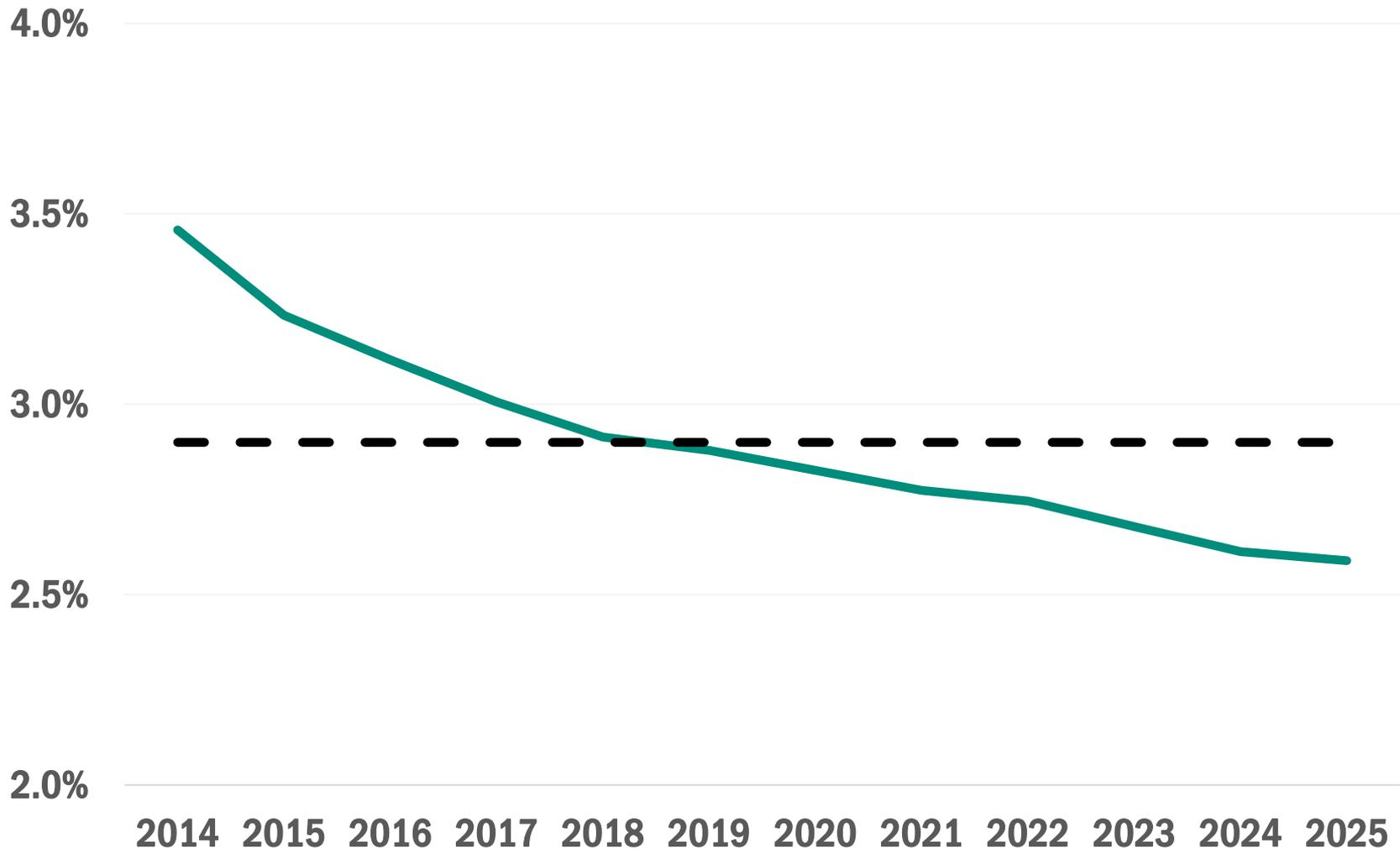
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# Upcoming Issues: Sequestration

# SEQUESTRATION

- **Stemmed from the Budget Control Act of 2011**
- **Across-the-board cuts in first year (2012)**
- **Stringent caps thereafter**
- **Applies to defense & non-defense discretionary and some mandatory programs**
- **Does NOT apply to overseas contingency operations**

# DEFENSE SPENDING TO BE LOWEST SINCE 1965 <sup>34</sup>

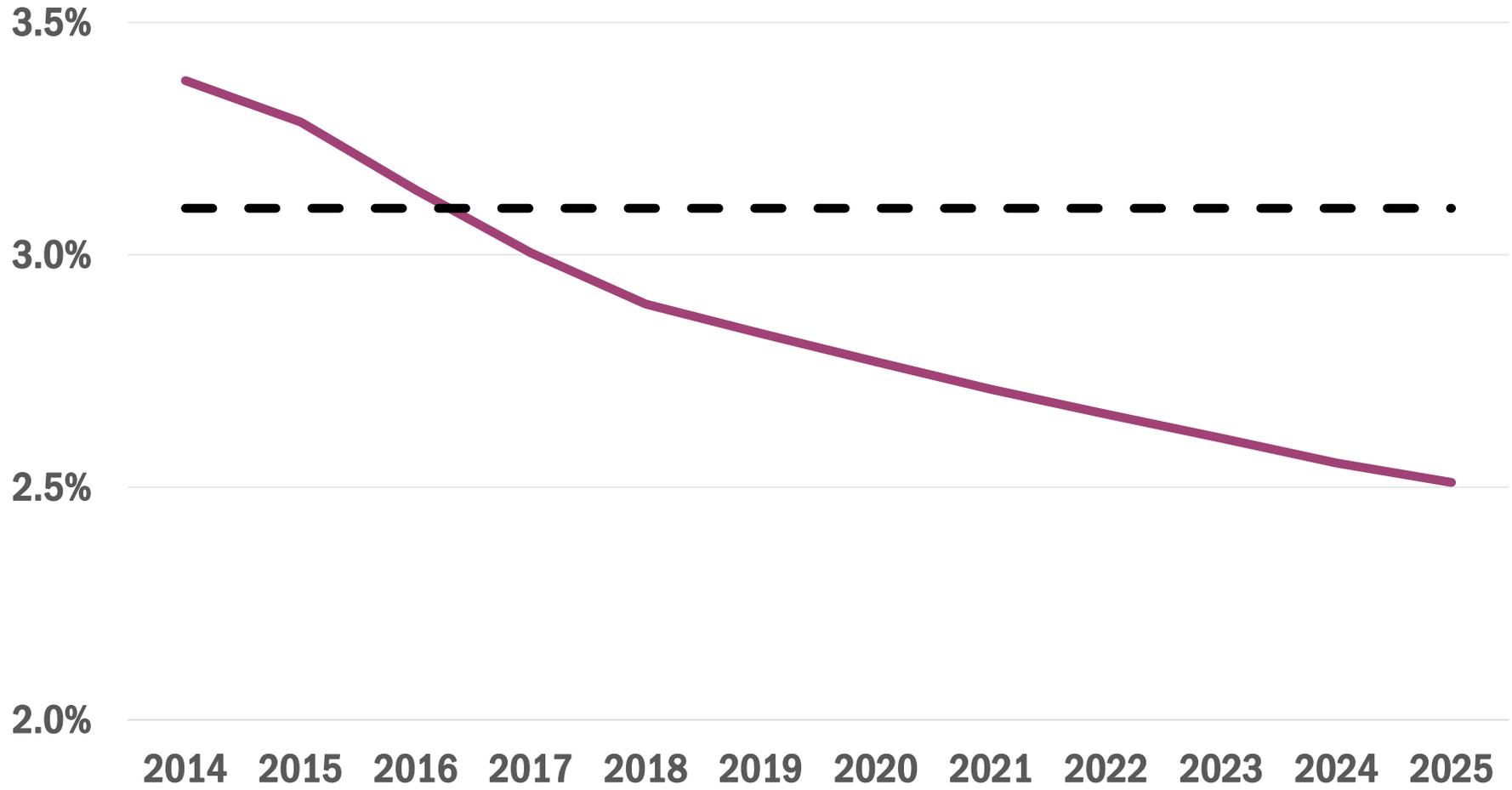


NOTE: Figures are in outlays. Includes costs for Overseas Contingency Operations; does not start at zero.

SOURCE: CBO Budget and Economic Outlooks, 2010 and 2015

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# NON-DEFENSE DISCRETIONARY TO REACH LOWEST LEVEL SINCE 1965



NOTE: Figures are outlays; graph does not start at zero.  
SOURCE: CBO Budget and Economic Outlooks, 2010 and 2015  
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# Where Are We Headed?

# PRESIDENT OBAMA'S FY 2016 BUDGET

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- **Taxes**

- Reform or institute a number of personal income tax credits for education, child care, workers without children, two-earner couples
- Increase the capital gains rate
- Implement a tax on large financial institutions
- Broad reform of business taxation by cutting rate and broadening base and reforming international taxation

- **Repeal mandatory and discretionary sequestration**

- **Provide tuition-free preschool for four-year olds (offset by increased tobacco taxes) & community college**

- **Use transition revenue from business tax reform to fund reauthorization of surface transportation (\$478 billion over six years)**

# REPUBLICAN FY 2016 BUDGETS

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- **Repeal Obamacare**
- **Block grant and reduce funding to Medicaid/food stamps**
- **Comprehensive tax reform that lowers rates**
- **Premium support (House only)**
- **Protect defense spending from sequester through overseas contingency account**
- **Substantial cuts to domestic discretionary below sequester levels**

# DISCRETIONARY SPENDING UNDER VARIOUS SCENARIOS

	Sequester Level	BCA Cap Level	Continuing Resolution	Obama's Request	House Budget
Defense	523	577	521 (64 OCO)	561 (51 OCO)	523 (94 OCO)
Non-Defense	493	530	492	527	493
Total	1017	1107	1013	1088	1017

*NOTE:* Figures are budget authority and, aside from parentheses, include only funding within BCA caps. Also, a technical issue exists on the non-defense side with respect to changes in mandatory program spending – thus, some of the figures presented are interpretations of the actual estimates.

*SOURCE:* CBO Budget and Economic Outlooks, 2010 and 2015; President Obama's FY 2016 Budget; House Republican FY 2016 Budget

# 2015 Budget Deadlines

