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Federal Debt and the Statutory Limit, March 2017

The debt limit—commonly referred to as the debt ceiling—is the maximum amount of debt that the Department of the Treasury can issue to the public and to other federal agencies. That amount is set by law and has been increased over the years in order to finance the government's operations. Currently, there is no statutory limit on the issuance of new federal debt because the Bipartisan Budget Act of 2015 (Public Law 114-74), enacted in November 2015, suspended the debt ceiling through March 15, 2017. On March 16, the limit will be reset to reflect cumulative borrowing through the period of suspension.

Absent additional legislation that further suspended or increased the debt limit, existing statutes allow the Treasury to declare a "debt issuance suspension period" on March 16, 2017, and take a number of "extraordinary measures" to borrow additional funds without breaching the new debt ceiling. The Congressional Budget Office projects that if the debt limit remains unchanged, those measures will probably be exhausted and the Treasury will probably run out of cash sometime in the fall of 2017. (The timing and magnitude of revenues and outlays over the next several months could vary noticeably from CBO's projections, so those measures could be exhausted and the Treasury could run out of cash earlier or later.) At such time, the government would be unable to fully pay its obligations, a development that would lead to delays of payments for government activities, a default on the government's debt obligations, or both.

What Is the Current Situation?

The Bipartisan Budget Act of 2015 specifies that the amount of borrowing that occurs while the limit is suspended be added to the previous debt limit of $18.1 trillion. As of February 28, an additional $1.8 trillion had been borrowed, bringing the amount of outstanding debt subject to limit up to $19.9 trillion. On March 16, a new limit will be established, reflecting the additional borrowing through March 15.

If the current suspension is not extended or a higher debt limit is not legislated before March 16, the Treasury will, from that date forward, have no room to borrow under standard operating procedures. Therefore, to avoid breaching the ceiling, the Treasury would begin taking the extraordinary measures that would allow it to continue to borrow for a limited time. Continued use of those measures, along with regular cash inflows, should allow the Treasury to finance the government's activities for the next several months without an increase in the debt ceiling.

What Makes Up the Debt Subject to Limit?

Debt subject to the statutory limit comprises two main components: debt held by the public and debt held by government accounts.[1] Debt held by the public consists mainly of securities that the Treasury issues to raise cash to fund the federal government's operations that revenues are insufficient to cover. Such debt is held by outside investors, including the Federal Reserve System. Debt held by government accounts is debt issued to the federal government's trust funds and other federal accounts for internal transactions of the government; it is not traded in capital markets. Trust funds for Social Security, Medicare, military retirement, and civil service retirement and disability hold most of that debt.

Of the $19.9 trillion in outstanding debt subject to limit, $14.4 trillion is held by the public and $5.5 trillion is held by government accounts.

1. For more information on federal debt, see Congressional Budget Office, *Federal Debt and Interest Costs* (December 2010), www.cbo.gov/publication/21960.

What Measures Will Be Available to the Treasury in March?

Without further legislation, the Treasury will have to take the extraordinary measures available to it to continue funding government activities after March 15, 2017, and even then, it will be able to continue borrowing for only a limited time.

The following measures will be available to the Treasury:

- Suspend the investments of the Thrift Savings Plan's G Fund. (Otherwise rolled over or reinvested daily, such investments totaled $224 billion in Treasury securities as of January 31, 2017.)[2]

- Suspend investments of the Exchange Stabilization Fund. (Otherwise rolled over daily, such investments totaled $22 billion as of January 31, 2017.)[3]

- For the Civil Service Retirement and Disability Fund (CSRDF) and Postal Service Retiree Health Benefits Fund (PSRHBF), suspend the issuance of new securities (which total about $3 billion each month), the reinvestment of maturing securities (expected to amount to about $75 billion on June 30, 2017), semiannual interest payments (expected to total $14 billion on June 30, 2017), and amortization payments (expected to total $38 billion on September 30, 2017).

- Redeem, in advance, securities held by the CSRDF and the PSRHBF in amounts equal in value to benefit payments due in the near future. (Such payments are valued at about $8 billion per month.)

- Suspend the issuance of new State and Local Government Series (SLGS) securities and savings bonds. (Between $5 billion and $12 billion in SLGS securities and savings bonds are generally issued each month.)[4]

- Exchange Federal Financing Bank securities, which do not count against the debt limit, for an equal amount of Treasury securities held by the CSRDF. (Approximately $2 billion in securities could be exchanged as of January 31, 2017.)[5]

Those measures provide the Treasury with additional room to borrow by limiting the amount of debt held by the public or debt held by government accounts that would otherwise be outstanding. By statute, the CSRDF, the PSRHBF, and the G Fund would eventually be made whole (with interest) after the debt limit was raised.[6]

If current laws governing federal taxes and spending remain in place and if full-year appropriations equal the annualized funding provided in the Further Continuing and Security Assistance Appropriations Act, 2017 (P.L. 114-254, the current continuing resolution), the federal government will run a deficit of $559 billion in fiscal year 2017, CBO estimates.[7] However, the government normally runs a large surplus in April, when final payments of individual income taxes for the preceding calendar year are due. Those inflows and other tax receipts due later this year—combined with the measures listed above—should allow the Treasury to finance the government's normal operations for several months without an increase in the debt ceiling.

What Is the Upcoming Schedule for Cash Flows and Debt Issuance?

The amount of debt accumulated over the next several months depends on the size of the deficit during that period (which largely determines how much additional cash the government needs) and on transactions between the Treasury and other parts of the federal government.

2. The Thrift Savings Plan is a retirement program for federal employees and members of the uniformed services similar to a 401(k) plan; the G Fund is one component of the plan and is invested solely in Treasury securities.

3. The Exchange Stabilization Fund is operated by the Department of the Treasury for the purpose of stabilizing exchange rates.

4. The Treasury offers SLGS securities to state and local governments as part of its regulation of their issuance of tax-exempt securities.

5. The Federal Financing Bank (FFB) has the authority to issue up to $15 billion of its own debt securities; that amount does not count against the debt limit. As of January 31, outstanding FFB debt securities totaled approximately $13 billion. The remaining $2 billion that the FFB is authorized to use can be exchanged with Treasury securities held by the CSRDF.

6. For more information on extraordinary measures and actions taken after a debt limit increase, see Government Accountability Office, *Debt Limit: Analysis of 2011–2012 Actions Taken and Effect of Delayed Increase on Borrowing Costs*, GAO-12-701 (July 2012), www.gao.gov/products/GAO-12-701.

7. For more information on CBO's most recent baseline projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2017 to 2027* (January 2017), www.cbo.gov/publication/52370. As of the end of January, the deficit for fiscal year 2017 was $157 billion.

The amounts of cash flowing to and from the government will determine how much needs to be borrowed from the public and when that borrowing must occur. Transactions between the Treasury and other parts of the federal government, described below, will establish the amount of debt held by government accounts.

Federal Cash Flows

Certain large inflows and outflows of cash from the Treasury follow a regular schedule. That schedule directly affects the amount of borrowing from the public, the largest component of debt subject to limit. The following are typical payment dates and amounts for large government expenditures (although the actual date of a disbursement may shift by a day or two in either direction if the normal payment date falls on a weekend or federal holiday):

- Payments to Medicare Advantage and Medicare Part D plans: the first day of the month (about $23 billion);
- Social Security benefits: the third day of the month (about $23 billion), with subsequent smaller payments on three Wednesdays per month (about $15 billion each);
- Pay for active-duty members of the military and benefit payments for civil service and military retirees, veterans, and recipients of Supplemental Security Income: the first day of the month (about $25 billion);
- Interest payments: around the 15th and the last day of the month (amounts vary); and
- Individual income tax refunds: daily (amounts vary but are especially large from February to April), though many refunds will have already been paid out before the end of the current suspension period on March 15.

Deposits (mostly tax revenues) are relatively steady throughout each month except for a few dates on which tax receipts are particularly significant. The largest tax receipts are collected in April, when individual and corporate income tax returns and quarterly estimated tax payments are due. Tax receipts from corporations and individuals are also collected at other times, including June and September. The Treasury will collect the following receipts in those months:

- Individuals' tax payments submitted with income tax returns and for quarterly estimated income taxes in April (about $260 billion last April);
- Corporations' tax payments submitted with income tax returns in mid-April (about $25 billion in mid-March 2016);[8]
- Corporations' quarterly estimated tax payments in April, June, and September (about $35 billion in mid-April 2016 and $60 billion in both mid-June and mid-September 2016); and
- Individuals' quarterly estimated tax payments in June and September (about $70 billion, on average, in those months last year).

Debt Issuance: Treasury Auctions

The Treasury issues numerous securities to obtain funds to pay off maturing securities and to finance government activities. Those securities, which have various maturities, are normally issued in regularly scheduled auctions (although the date of issuance may shift by a day or two in either direction if the normal issuance date falls on a weekend or federal holiday):

- Treasury bills (with maturities of up to 52 weeks) are issued every Thursday. (Sales in recent auctions have ranged from a total of $97 billion to $163 billion.)
- Treasury notes (which currently have maturities of 2 to 10 years and which include inflation-protected securities) are issued on the 15th and on the last day of the month. (Sales in recent auctions on the 15th have totaled about $48 billion, and those on the last day of the month have totaled as much as $127 billion.)
- Treasury bonds (with 30-year maturities) are issued in the middle of each month. (Sales in recent auctions have ranged from $12 billion to $18 billion.) Inflation-protected securities (with 30-year maturities) are issued at the end of the month in February, June, and October. (Sales in recent auctions have ranged from $5 billion to $8 billion.)

8. The Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 (P.L. 114-41) changed the due dates for certain tax returns. Most corporations' income tax returns were due in mid-March in the past but are due in mid-April starting this year.

Debt Issuance: Government Account Series

Debt held by government accounts—in the form of Government Account Series (GAS) securities—is dominated by the transactions of a few large trust funds. When a trust fund receives cash that is not immediately needed to pay benefits or to cover the relevant program's expenses, the Treasury credits the trust fund with that income by issuing GAS securities to the fund. The Treasury then uses the cash to finance the government's ongoing activities. When revenues for a trust fund program fall short of its expenses, the reverse happens: The Treasury redeems some of the GAS securities. The crediting and redemption of securities between the Treasury and trust funds are intragovernmental in nature but directly affect the amount of debt subject to limit.

On many days, the amount of outstanding GAS securities does not change much. However, that amount can fall noticeably when redemptions occur to reflect the payment of benefits for programs such as Social Security and Medicare. The redemption of GAS securities, which reduces the amount of debt subject to limit, is normally offset by additional borrowing from the public to obtain the cash necessary to make actual payments.

The amount of outstanding GAS securities can also rise noticeably when large payments are made from the general fund to trust funds. For example, the Treasury makes annual payments to the Military Retirement Trust Fund to compensate for the difference between the current assets held by the fund and the present value of expected benefit payments. (Those payments amounted to $81 billion on October 3, 2016.) In addition, most GAS securities pay interest to the funds holding them, and those payments are reinvested (if they are not needed to pay current benefits) in the form of additional securities. Many large trust funds—including those associated with the Social Security and Medicare programs—receive interest payments on June 30 and December 31. (Recent payments to trust funds other than the CSRDF amounted to about $50 billion on each of those days; one of the extraordinary measures available to the Treasury is to suspend interest payments to the CSRDF.) Although those transactions are all intragovernmental, they nevertheless increase debt subject to limit.

When Would the Extraordinary Measures and Cash Run Out, and What Would Happen Then?

If the debt limit is not increased (above the amount that will be established on March 16, 2017), the Treasury will not be authorized to issue additional debt that increases the amount outstanding. (It will be able to issue additional debt only in amounts equal to those cleared by taking the extraordinary measures or resulting from maturing debt.) That restriction would ultimately lead to delays of payments for government activities, a default on the government's debt obligations, or both.[9]

When the previous debt limit suspension expired in March 2015, the Treasury employed the same set of extraordinary measures described in this report. Such measures were nearly exhausted when the debt limit was suspended again in early November of that year. As of March 16, 2017, the Treasury will probably have about $30 billion more in extraordinary measures available than it had at the same point in 2015. However, the amount of additional debt subject to limit that can be offset by the use of those extraordinary measures over the next several months is also expected to be somewhat greater than the amount offset during the same period in 2015. As a result, by CBO's estimate, the Treasury would most likely be able to continue borrowing and have sufficient cash to make its usual payments until sometime in the fall of this year without an increase in the debt limit, though an earlier or later date is possible.

The Congressional Budget Office prepared this report in response to interest expressed by the Congress; it is an update to *Federal Debt and the Statutory Limit, October 2015*. In keeping with CBO's mandate to provide objective, impartial analysis, the report contains no recommendations.

Meredith Decker of CBO's Budget Analysis Division prepared the report with guidance from Theresa Gullo and Jeffrey Holland. Robert Sunshine reviewed it. Bo Peery edited it, and Gabe Waggoner prepared it for publication. This report is available on the agency's website (www.cbo.gov/publication/52465).

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9. For more information on debt management challenges and the debt limit, see Government Accountability Office, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches*, GAO-15-476 (July 2015), www.gao.gov/products/GAO-15-476.