CBO | Frequently Asked Questions About CBO Cost Estimates

http://www.cbo.gov/about/our-products/ce-faq February 20, 2013

Each year, CBO provides the Congress with several hundred formal cost estimates that analyze the likely effects of proposed legislation on the federal budget. The estimates are posted on CBO's website in chronological order, and they are searchable by bill number, title, committee, and program area; each generally includes a description of the legislation, a statement about its estimated budgetary impact, and an explanation of the basis for that estimate.

CBO's analysts also provide Congressional staff with thousands of informal estimates each year, generally to help staff draft proposals early in the legislative process or to indicate the budgetary impact of proposed amendments to pending legislation.

- **Why does CBO prepare cost estimates?**

  Section 402 of the *Congressional Budget and Impoundment Control Act of 1974*, which established the agency, directs CBO to estimate the costs of bills and resolutions approved by Congressional committees other than the House and Senate Appropriations Committees. Such cost estimates are intended to ensure that when the House and Senate consider legislation recommended by committees, Members have information about the budgetary consequences of enacting that legislation that can be used to enforce budgetary rules or targets.

- **What information is included in a formal estimate?**

  Cost estimates show how federal *outlays* and *revenues* would change if legislation was enacted and fully implemented as proposed—compared with what future spending and revenues would be under current law. Each estimate also includes a statement about the costs of any new federal mandates that the legislation would impose on state, local, or tribal governments or on the private sector.

- **What federal budgetary effects are identified?**

  CBO's cost estimates show how new legislation would affect three primary components of the federal budget (see the graphic):

  - *Discretionary spending*—that is, spending stemming from authority provided in annual appropriation acts;
  - *Mandatory, or direct spending*—that is, spending controlled by laws other than appropriation acts; and
  - Federal revenues—effects on federal tax receipts and revenues from other sources (as estimated by the staff of the *Joint Committee on Taxation* for most tax legislation or by CBO for legislation dealing with certain sources of revenue, such as receipts from customs duties, fees, and fines).

- **What is the difference between mandatory and discretionary spending?**

  The authority for discretionary spending stems from annual appropriation acts, which are under the control of the House and Senate Appropriations Committees. Most defense, education, and transportation programs, for example, are funded that way, as are a variety of other federal programs and activities. Those appropriations are subject to a set of budget enforcement rules and processes that differ from those that apply to mandatory spending. As the Congress considers appropriation acts, CBO tallies the *budget authority* those acts would provide and estimates the outlays that would result.

Mandatory—or direct—spending includes spending for *entitlement* programs and certain other payments to people, businesses, and state and local governments. Mandatory spending is generally governed by statutory criteria; it is not normally set by annual appropriation acts. Outlays for the nation's three largest entitlement programs (Social Security, Medicare, and Medicaid) and for many smaller programs (unemployment compensation, retirement programs for federal employees, student loans, and deposit insurance, for example) are mandatory spending. Social Security and some other mandatory spending programs are in effect indefinitely, but some (for example, some agriculture programs) expire at the end of a given period. Roughly 60 percent of federal spending in 2012 (other than for the government's *net interest* costs) was mandatory. Legislation that changed direct spending would, by itself, affect the budget *deficit* because no further legislative action would be required for the change in spending to occur.

- **Does other legislation affect discretionary spending?**

Yes, but not directly. Often, legislation other than an annual appropriation act calls for—or "authorizes"—discretionary spending by extending an agency's authority to operate an existing discretionary program, by authorizing an agency to undertake a new discretionary program or activity, or by changing the way an existing discretionary program is operated. But even when such authorizing legislation is enacted, those potential changes in spending still depend on future appropriation acts. Thus, unlike provisions that affect mandatory spending, provisions that apply to discretionary programs (other than those in an annual appropriation act) do not, by themselves, affect federal spending or the budget deficit.

- **Why do CBO's cost estimates distinguish mandatory from discretionary spending?**

CBO's estimates are tools that the Congress can use to implement its budget enforcement procedures, and Congressional rules and statutory procedures related to budget enforcement recognize the fundamental distinction between the two types of spending.

Legislation that affects mandatory spending—unlike that for discretionary spending—is subject to House and Senate *points of order* (parliamentary objections that legislation violates a certain rule) as well as to procedures specified in the *Statutory Pay-As-You-Go (PAYGO) Act of 2010*.

Discretionary appropriations are subject to a set of budget enforcement rules and processes that differ from those that apply to mandatory spending. Budgetary points of order and PAYGO procedures do not apply to authorizations for new discretionary programs or to legislation that modifies existing discretionary programs or activities as long as the provisions do not provide or change appropriations; in such cases, for a change in spending to occur, lawmakers must take further action. If they do so, by providing funding through an appropriation act, the spending changes are reflected in the budget estimates for that subsequent piece of legislation. The budget authority provided in appropriation acts is currently subject to caps on spending that were set in the *Budget Control Act of 2011*, enforceable through a process of across-the-board reductions called *sequestration*.

- **How do cost estimates distinguish between the two types of spending?**

CBO uses different terms to describe proposed bills' effects on funding: Funding for mandatory activities is called budget authority because it allows an agency to make financial commitments that result in federal outlays. In contrast, possible future changes in appropriations for discretionary programs are labeled *authorization levels* because the amount of any resulting financial commitments will depend on actions by the House or Senate Appropriations Committees. Cost estimates also show CBO's estimate of the outlays that would result from that budget authority or from future appropriations that are consistent with such authorization levels.

- **How does CBO estimate different budgetary effects?**

A key element in every CBO cost estimate is the benchmark—the amount of spending that CBO estimates will occur under current law—against which the estimated changes in spending are measured. In the case of mandatory spending, the benchmark is current law, as reflected in CBO's *baseline*, which is CBO's projection of government spending for the current year and the next decade. (Most mandatory programs continue automatically throughout the 10-year baseline period.)

For discretionary programs the benchmark is also current law, which in this case consists of enacted appropriations for the current year and any amounts appropriated or authorized to be appropriated in the future. Most programs have no authorization after the current year, and lawmakers ordinarily do not provide appropriations beyond the current year. (Thus, a bill that would extend the authorization for an existing discretionary program for another year would be shown as having a cost in that year, even if the authorized funding is the same as the current year's appropriation.)

CBO's baseline generally is not the basis for cost estimates involving discretionary programs because the baseline projections for individual discretionary programs incorporate the assumption that appropriations will continue in future years to provide amounts equal to current-year appropriations, adjusted for anticipated inflation. (CBO's overall baseline projections for discretionary spending are constrained by separate caps on aggregate defense and nondefense spending.) However, because those projections are based on assumptions about future appropriations, they do not constitute the current-law benchmark used to measure the cost of legislation that authorizes discretionary programs.

- **How is discretionary spending authorized?**

Authorizing bills can indicate potential effects on future appropriations with varying degrees of specificity. Some bills, which would extend the authority to operate an existing program, or authorize a new program, name specific amounts that may be appropriated to carry out that program's activities. Other bills authorize the appropriation of "such sums as may be necessary" to carry out the program's activities. And still others set forth programmatic directions that require an agency to undertake new activities but that do not explicitly authorize appropriations for those purposes.

- **How do cost estimates address those authorizations?**

In each instance, CBO estimates authorized funding—the amount (if any) specified in the bill or the funding that would be necessary to implement the bill's directions (under the assumption that appropriations will be made in the future). CBO also estimates the outlays that would result if subsequent appropriations were provided in the amount specifically authorized or estimated to be necessary.

- **What if a bill directs an agency to carry out an activity that CBO believes it will**

perform anyway?

When a bill directs an agency to undertake an activity that CBO judges the agency is performing or will perform under current law, the agency does not estimate that the provision would have a significant additional cost.

- **Does a program's most recent appropriation matter?**

  Because the starting point under current law for assessing changes in most discretionary programs is zero for future years, any new authorization of funding appears in a CBO cost estimate as an increase in potential spending relative to current law, regardless of how the proposed authorization level compares with recently enacted appropriations. However, CBO strives to provide context for such estimates by noting how proposed authorizations compare with actual appropriations for the most recent year. Moreover, if a bill reauthorizes an existing program at "such sums as may be necessary," CBO generally uses the most recent appropriation as the starting point for estimating future spending under that proposed authorization.

- **Why does CBO estimate that a bill would have a cost if it simply requires a federal agency to carry out a new activity but does not increase the agency's authorization of appropriation or change the amount of budget authority available to that agency?**

  When a law imposes a new requirement on an agency (such as preparing a plan or completing a study), complying with that new requirement will entail the use of resources, and the cost of carrying out that requirement is the amount of resources used. In general, in bills that are being considered, such requirements would apply to future fiscal years, for which appropriations have not yet been determined—so the requirements could, in fact, influence the amount of budget authority available to the agency in the future. Even if future funding was not affected, the agency would have to spend appropriated resources on that new activity instead of spending them to carry out other responsibilities. The resources used to carry out the new activity would be a measure of the "opportunity cost" of not carrying out other responsibilities.