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Federal Debt and the Statutory Limit, November 2017

The debt limit—commonly called the debt ceiling—is the maximum amount of debt that the Department of the Treasury can issue to the public or to other federal agencies. The amount is set by law and has been increased over the years to finance the government's operations. Currently, there is no statutory limit on the issuance of new federal debt because the Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017 (Public Law 115-56), enacted in September 2017, suspended the limit through December 8, 2017. On December 9, 2017, however, the limit will be reset to reflect cumulative borrowing through the period of suspension. Unless additional legislation either extends the suspension or increases the limit, existing statutes then will allow the Treasury to declare a "debt issuance suspension period" and to take "extraordinary measures" to borrow additional funds without breaching the debt ceiling.

The Congressional Budget Office projects that if the debt limit remains unchanged, the ability to borrow using extraordinary measures will be exhausted and the Treasury will most likely run out of cash by late March or early April 2018. If that occurred, the government would be unable to pay its obligations fully, and it would delay making payments for its activities, default on its debt obligations, or both. (The timing and size of revenue collections and of outlays over the next few months could differ noticeably from CBO's projections, however, so the extraordinary measures could be exhausted and the Treasury could run out of cash either earlier or later than CBO projects.)

What Is the Current Situation?

P.L. 115-56 specifies that the amount of borrowing that occurs during the suspension of the debt limit will be added to the previous ceiling of $19.8 trillion. As of November 17, 2017, an additional $0.7 trillion had been borrowed, bringing the amount of outstanding debt subject to limit up to $20.5 trillion. The new debt limit that will be established on December 9, 2017, will reflect additional borrowing through December 8.

If the current suspension is not extended or if a higher debt limit is not legislated before December 9, from that date forward, under standard procedures, the Treasury will have no room to borrow other than to replace maturing debt. To avoid breaching the limit, the Treasury would then begin to take the extraordinary measures that allow it to continue to borrow additional amounts for a limited time. Continued use of those measures, along with regular cash inflows over the next few months, should allow the Treasury to finance the government's activities for that period without an increase in the debt ceiling.

What Makes Up Debt Subject to Limit?

Debt subject to the statutory limit consists of debt held by the public and debt held by government accounts.[1] Debt held by the public consists mostly of securities that the Treasury issues to raise cash to fund operations that cannot be covered by federal revenues. Such debt is held by outside investors, including the Federal Reserve System. Debt held by government accounts is issued to the federal government's trust funds and other federal accounts for internal transactions; it is not traded in capital markets (see "Debt Issuance: Government Account Series"). Trust funds for Social Security, Medicare,

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

Note: Unless otherwise indicated, all years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end. Numbers may not sum to totals because of rounding.

military retirement, and civil service retirement and disability hold most of that debt.

As of November 17, 2017, $14.9 trillion of the $20.5 trillion in outstanding debt subject to limit was held by the public; $5.7 trillion was held by government accounts.

What Extraordinary Measures Are Still Available to the Treasury?

Without further legislation, the Treasury will have to take extraordinary measures to continue funding government activities after December 8, 2017. Even then, it will be able to continue borrowing for only a limited time.

During the next few months, the Treasury could take the following measures:

- Suspend the investments of the Thrift Savings Plan's G Fund. Otherwise rolled over or reinvested daily, as of October 31, 2017, those investments totaled $222 billion in Treasury securities.

- Suspend the investments of the Exchange Stabilization Fund.[2] Otherwise rolled over daily, as of October 31, 2017, such investments totaled $22 billion.

- Suspend the issuance of new securities for the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBF), which total about $3 billion each month, and suspend semiannual interest payments, which are expected to total $15 billion on December 29, 2017.

- Redeem, in advance, securities held by the CSRDF and the PSRHBF in amounts equal in value to benefit payments that are 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. In general, SLGS securities and savings bonds valued between $5 billion and $12 billion are issued each month.[3]

- Exchange Federal Financing Bank securities, which do not count against the debt limit, for Treasury securities held by the CSRDF.[4] Approximately $3.5 billion in securities was available to be exchanged as of October 31, 2017.

Those measures provide the Treasury with additional room to borrow by limiting the amount of debt 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.[5]

Under current law, according to CBO's baseline projections, the federal government's deficit would be $563 billion in fiscal year 2018.[6] The government normally runs a deficit in the first and second quarters of the fiscal year. Nevertheless, inflows and tax receipts due in December and January—combined with the measures listed above—should allow the Treasury to finance the government's normal operations for a few months without an increase in the debt ceiling.

What Is the Schedule for Cash Flows and Debt Issuance?

Over the next few months, the size and timing of governmental cash flows and transactions between the Treasury and other parts of the government will determine the point at which the extraordinary measures will be exhausted.

Federal Cash Flows

Certain large flows of cash into and out of the Treasury follow a regular schedule that directly affects the amount of federal borrowing from the public, the largest

2. The Exchange Stabilization Fund is operated by the Treasury to stabilize exchange rates.

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

4. The Federal Financing Bank (FFB), a government corporation under the general supervision of the Secretary of the Treasury, can issue up to $15 billion of its own debt securities; that amount does not count against the debt limit. As of October 31, 2017, such outstanding debt securities totaled approximately $11.5 billion. The remaining $3.5 billion that the FFB could issue can be exchanged for Treasury securities held by the CSRDF.

5. 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.

6. For more information on CBO's most recent baseline projections, see Congressional Budget Office, An Update to the Budget and Economic Outlook: 2017 to 2027 (June 2017), www.cbo.gov/publication/52801. For the first month of fiscal year 2018, the federal deficit was $63 billion.

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 a normal payment date falls on a weekend or federal holiday):

- Payments to Medicare Advantage and Medicare Part D plans are made on the first day of the month (about $24 billion).
- Social Security benefits are disbursed on the third day of the month (about $23 billion), with subsequent smaller payments on three Wednesdays each month (about $16 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 are disbursed on the first day of the month (about $25 billion).
- Interest payments are made around the 15th and the last day of the month (amounts vary).
- Most refunds are typically made to individual taxpayers during February and March (about $211 billion in 2016, including outlays for refundable tax credits), with lesser amounts refunded in April and May.

Deposits into the Treasury (mostly in the form of tax revenues) are relatively steady throughout each month except for a few dates on which tax receipts are particularly large. The largest upcoming quarterly deposits are for corporate taxes in December and for individual taxes in January. For example, corporate income tax payments totaled about $70 billion in mid-December 2016, and individual income tax payments were about $60 billion in mid-January 2017. Large deposits of corporate and individual taxes also occur in mid-April, but CBO does not anticipate that the extraordinary measures would allow the Treasury to finance the government's activities until then unless the debt ceiling is increased.

Debt Issuance: Treasury Auctions

The Treasury issues numerous securities to obtain funds to pay off maturing securities and 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 typically issued every Thursday. Sales in recent auctions have ranged from a total of $113 billion to $148 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 averaged about $50 billion, and those on the last day of the month have totaled as much as $123 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 $20 billion. Inflation-protected securities with 30-year maturities also are issued at the end of February, June, and October; sales in recent auctions have ranged from $5 billion to $8 billion.

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 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 expenses, the reverse happens: The Treasury redeems some of the GAS securities. The crediting and redemption of securities are intragovernmental transactions between the Treasury and trust funds, but both 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 as a result of the payment of benefits under programs such as Social Security and Medicare. The Treasury normally offsets the redemption of GAS securities, which reduces the amount of debt subject to limit, by additional borrowing from the public to obtain the cash necessary to make benefit payments. 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 for Social Security and Medicare—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 extraordinary measure 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 raised above the amount established on December 9, 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 resulting from maturing debt or cleared by taking the extraordinary measures.) That restriction would ultimately lead to delays of payments for government activities, a default on the government's debt obligations, or both.[7]

CBO estimates that unless the debt limit is increased, by using all available extraordinary measures, the Treasury will probably have sufficient cash to make its usual payments until late March or early April 2018, although an earlier or later date is possible.

7. 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.

The Congressional Budget Office prepared this report in response to interest expressed by the Congress; it updates *Federal Debt and the Statutory Limit, June 2017*. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Meredith Decker prepared the report with guidance from Theresa Gullo and Christina Hawley Anthony.

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