MAY | 2023

CBO Explains the Statutory Foundations of Its Budget Baseline

The primary responsibility of the Congressional Budget Office is to assist the House and Senate Budget Committees. By law, CBO is required to regularly prepare a baseline consisting of projections of federal revenues, spending, deficits or surpluses, and debt. Those projections—which are described in detail in another Budget Primer, *CBO Explains How It Develops the Budget Baseline*—provide lawmakers with an indication of the budgetary outlook under current law and a benchmark for assessing the budgetary effects of proposed changes in policy.

The rules that govern how CBO constructs its baseline projections have evolved over time (see Figure 1). Most of them are statutory—they are found in the Congressional Budget and Impoundment Control Act of 1974, the Balanced Budget and Emergency Deficit Control Act of 1985, the Federal Credit Reform Act of 1990, the Budget Control Act of 2011, and other laws. This document chiefly describes the parts of those laws that govern how CBO prepares its baseline projections. Other requirements are contained in budget resolutions, rules of the House and Senate, conference reports accompanying budget legislation, and the *Report of the President's Commission on Budget Concepts*, which was published in 1967.

Note: This document is one in a series of primers explaining various elements of CBO's work to support the budget process and to help the Congress make budget and economic policy. This and other primers in the series are available at www.cbo.gov/topics/budget/budget-concepts-and-process.

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Congressional Budget Act of 1974, as Amended

The Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344; 2 U.S.C. § 601, et seq.), often called the Budget Act, instituted a formal process for the Congress to develop, coordinate, and enforce budgetary priorities. That law created CBO to assist the newly established House and Senate Budget Committees, and it outlines the agency's functions and duties. Among those duties, CBO is required to report projections of revenues, budget authority (that is, authority to incur financial obligations that result in outlays), and outlays. (For definitions of those and other terms, see "Key Budgetary Terms" at the end of this primer.)

> On or before February 15 of each year, the Director shall submit to the Committees on the Budget of the House of Representatives and the Senate a report, for the fiscal year commencing on October 1 of that year, with respect to fiscal policy, including (A) alternative levels of total revenues, total new budget authority, and total outlays (including related surpluses and deficits), (B) the levels of tax expenditures under existing law, taking into account projected economic factors and any changes in such levels based on proposals in the budget submitted by the President for such fiscal year, and (C) a statement of the levels of budget authority and outlays for each program assumed to be extended in the baseline, as provided in section 907(b)(2)(A) of this title and for excise taxes assumed to be extended under section 907(b)(2)(C) of this title. (2 U.S.C. § 602(e))

Subsequent amendments to that law and the Balanced Budget and Emergency Deficit Control Act of 1985, also called the Deficit Control Act, spell out some of the rules for projecting spending and revenues that CBO should use to construct its baseline projections.[1]

Deficit Control Act, as Amended

The Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177; 2 U.S.C. § 901, et seq.) defines the baseline and provides instructions for preparing it:

> For any budget year, the baseline refers to a projection of current-year levels of new budget authority, outlays, revenues, and the surplus or deficit into the budget year and the outyears based on laws enacted through the applicable date. (2 U.S.C. § 907(a))[2]

The Deficit Control Act, which has been amended several times, specifies rules for projecting mandatory spending, revenues, and discretionary spending in the baseline. That law also provides specific instructions for projecting spending for veterans' compensation and pensions, the receipts and disbursements of Medicare's Hospital Insurance Trust Fund, and administrative expenses for certain programs.

Assumptions Related to Projections of Mandatory Spending and Revenues

The Deficit Control Act specifies four assumptions that should underlie CBO's baseline projections of mandatory spending (also referred to in statute as direct spending) and revenues.[3]

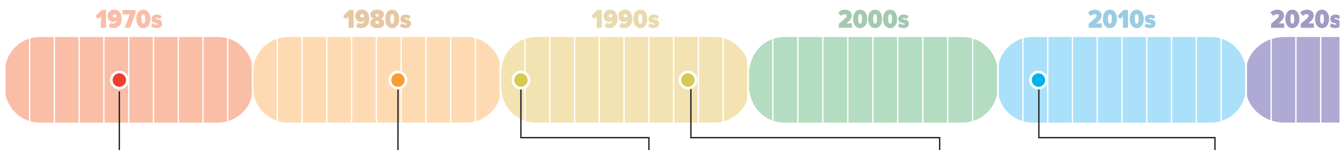
1. The Budget Act includes several additional directives for CBO. For example, it instructs the agency to prepare cost estimates (to the extent practicable) for bills reported by committees and to provide a benchmark against which such estimates should be measured (2 U.S.C. § 653 and 2 U.S.C. § 639); to establish, in accordance with requirements later amended by title V of the Federal Credit Reform Act of 1990, procedures for calculating the budgetary effects of loans and loan guarantees issued under federal credit programs (2 U.S.C. § 661, et seq.); and to include in its cost estimates statements that identify any intergovernmental or private-sector mandates contained in the legislation (2 U.S.C. § 658c).

2. "Budget year" refers to the upcoming fiscal year, which begins on October 1.

3. Mandatory spending consists of spending for most federal benefit programs—Social Security and Medicare, for example—and for certain other payments to people, businesses, nonprofit institutions, and state and local governments. Such spending is generally governed by statutory criteria and is not normally subject to the appropriation process.

Figure 1.

Timeline of Legislation Affecting CBO's Baseline



July 12, 1974

Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344)

Instituted a formal Congressional budget process, established CBO, and outlined the agency's functions and duties, which include preparing the baseline.

December 12, 1985

Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177)

Provided specific rules for projecting mandatory spending, revenues, and discretionary spending in the baseline.

November 5, 1990

Federal Credit Reform Act of 1990 (P.L. 101-508)

Required the costs of all federal direct loans and loan guarantees to be recorded on an accrual, rather than a cash, basis.

August 5, 1997

Balanced Budget Act of 1997 (P.L. 105-33)

Amended the Deficit Control Act to require CBO to consult with the Budget Committees to determine how expiring mandatory programs established after August 1997 should be treated in the baseline.

August 11, 2011

Budget Control Act of 2011 (P.L. 112-25)

Reinstituted procedures set forth in the Deficit Control Act to automatically reduce funding provided for certain mandatory programs.

The rules that govern how CBO constructs its baseline projections have developed over time. Most of them are specifed in law, mainly in the Congressional Budget Act of 1974 and the Deficit Control Act.

Data source: Congressional Budget Office.

Current Laws in Effect Are Assumed to Continue. CBO projects mandatory spending and revenues under the assumption that laws currently in place generally continue:

> For the budget year and each outyear, the baseline shall be calculated using the following assumptions: . . .
>
> Laws providing or creating direct spending and receipts are assumed to operate in the manner specified in those laws for each such year. (2 U.S.C. § 907(b)(1))

Thus, CBO's baseline projections reflect policy changes that would occur under current law as well as changes in the nation's economy and demographics.

Entitlement Authority Is Assumed to Be Fully Funded. The Deficit Control Act directs CBO to assume that entitlement authority (that is, the authority to make payments to people or governments who meet certain statutory requirements and thus are eligible to receive such payments) will be fully funded even if the source of that funding is inadequate:

> Funding for entitlement authority is assumed to be adequate to make all payments required by those laws. (2 U.S.C. § 907(b)(1))

That is, CBO's baseline reflects the assumption that scheduled payments (for Social Security benefits, for example) will continue to be made in full after the funding source—namely, a program's trust fund—has been exhausted, even if there is no legal authority to make such payments. CBO's projections also reflect the assumption that full funding continues for benefits under entitlement programs whose source of funding is not specified.

Certain Expiring Programs Are Assumed to Continue. The Deficit Control Act requires CBO to assume that many expiring programs with annual outlays greater than $50 million will continue to operate throughout the baseline projection period, regardless of their scheduled expiration date:

> No program established by a law enacted on or before August 5, 1997, with estimated current year outlays greater than $50,000,000 shall be assumed to expire in the budget year or the outyears. The scoring of new programs with

> estimated outlays greater than $50,000,000 a year shall be based on scoring by the Committees on Budget or OMB, as applicable. OMB, CBO, and the Budget Committees shall consult on the scoring of such programs where there are differences between CBO and OMB. (2 U.S.C. § 907(b)(2)(A)(i))

That rule, sometimes referred to as the $50 million rule, requires CBO to assume that most large expiring programs will continue to operate as they would immediately before their scheduled expiration (2 U.S.C. § 907(b)(2)(D)). For example, the Supplemental Nutrition Assistance Program (SNAP) is currently scheduled to expire during the baseline projection period, but outlays for the program are projected to be greater than $50 million in the current year. Thus, in CBO's current baseline projections, SNAP outlays continue through the end of the projection period. By contrast, the Abstinence Education Program briefly expired in 2017. At that time, estimated outlays for the program were less than $50 million, so outlays for that program were not projected in the baseline beyond the program's scheduled expiration. (For a discussion of how the requirement that CBO assume that most expiring mandatory programs continue in its baseline projections affects the agency's cost estimates, see Box 1.)

The rule applies automatically to programs established on or before August 5, 1997. For expiring mandatory programs established after that date, the rule, as amended by the Balanced Budget Act of 1997 (P.L. 105-33), requires CBO to consult with the Budget Committees to determine how to treat spending for such a program in the baseline projections after the program's scheduled expiration (2 U.S.C. § 907(b)(2)(A)(i)). By contrast, when taxes are scheduled to expire, those expirations are generally incorporated in the baseline projections.

Taxes Dedicated to Trust Funds Are Assumed to Continue. The general treatment of expiring taxes does not apply to expiring excise taxes whose receipts are credited to a trust fund. The Deficit Control Act requires CBO to assume, when preparing its baseline, that such taxes will continue to be collected after their scheduled expiration:

> Excise taxes dedicated to a trust fund, if expiring, are assumed to be extended at current rates. (2 U.S.C. § 907(b)(2)(C))

Thus, CBO's baseline projections reflect the assumption that such excise taxes are extended permanently at the rate in effect on the date they expire.

Assumptions Related to Projections of Discretionary Spending

The Deficit Control Act also includes rules governing how discretionary spending (that is, spending that is subject to the appropriation process) must be projected in the baseline.

Budget Authority Is Assumed to Equal Amounts Provided in the Current Full-Year Appropriation, With Adjustments for Inflation. When constructing the discretionary spending baseline, CBO is required by the Deficit Control Act to begin with the amount of budget authority for each account provided in the most recently enacted full-year appropriation act and to adjust those amounts for inflation. (The law requires other adjustments, too, to account for such factors as the cost of renewing certain expiring housing contracts and of annualizing adjustments to federal pay.)

> Budgetary resources other than unobligated balances shall be at the level provided for the budget year in full-year appropriation Acts. If for any account a full-year appropriation has not yet been enacted, budgetary resources other than unobligated balances shall be at the level available in the current year, adjusted sequentially and cumulatively for expiring housing contracts as specified in paragraph (2), for social insurance administrative expenses as specified in paragraph (3), to offset pay absorption and for pay annualization as specified in paragraph (4), for inflation as specified in paragraph (5), and to account for changes required by law in the level of agency payments for personnel benefits other than pay. (2 U.S.C. § 907(c)(1))

CBO is required by the Deficit Control Act to begin with the amount appropriated for the current year when projecting discretionary budget authority even if the current appropriation is for an emergency or a onetime purpose—or if a program's annual appropriation varies as part of a multiyear cycle—and the current-year amount is not indicative of the amounts that would be expected to be appropriated in future years. For example, the work of the decennial census fluctuates considerably over any 10-year budget period. Funding for the census ramps up

Box 1.

How Projections of Mandatory Spending in the Baseline Affect CBO's Cost Estimates

The Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177; 2 U.S.C. § 901, et seq.) requires the Congressional Budget Office to assume when preparing its baseline budget projections that most expiring programs will not expire as scheduled under current law but will instead continue to operate as they would immediately before expiring. That requirement can affect CBO's estimates of the budgetary effects of proposed legislation because the agency uses its baseline projections as a benchmark against which to measure those effects.

For a legislative proposal that would make changes to expiring programs whose costs are assumed to continue, CBO's cost estimate must therefore use a benchmark that includes spending not authorized by law. Further, consistent with that rule, CBO assumes that changes made to such programs would continue after the final year of authorization specified in the legislation.

For example, if it had been enacted, H.R. 3298, the Child Care Quality and Access Act of 2019, would have provided a total of $7.8 billion in funding for the Child Care Entitlement program—$3.9 billion annually in fiscal years 2020 and 2021. When CBO estimated the effects of the bill in June 2019, the child care program was authorized only through the end of the month. But the program's budget authority for the year was equivalent to $2.9 billion on an annual basis. Following procedures established by law, CBO's baseline projections for the program reflected the assumption that it would continue to receive annual funding of $2.9 billion through the end of the projection period.

Measured relative to CBO's baseline, H.R. 3298 would therefore have increased annual funding for the child care program by only $1.0 billion, rather than by $3.9 billion. Consistent with the baseline assumption about extending expiring programs, CBO estimated that the bill would have increased funding not just in the two years for which it authorized such funding but over the entire 10-year period. Thus, the bill would have, according to CBO's cost estimate, increased funding by $1.0 billion per year for 10 years—a total increase of $10.0 billion relative to the amounts projected in the baseline.[1]

To provide more information about how the rule affects its baseline projections, CBO regularly shows how those projections would change if the provisions that continue in the baseline only because of that rule were instead assumed to expire.[2] The requirement that CBO's baseline include the costs of most expiring mandatory programs has advantages and disadvantages in estimating the possible budgetary effects of legislation. Because expiring programs are often extended, the rule generally improves the accuracy of CBO's projections of the deficit. Because CBO's cost estimates for legislation affecting mandatory programs are developed in relation to the baseline, reauthorizing an expiring mandatory program often will not be shown as having a "cost"—even though it would have consequences for the program's operation—because the program is already assumed to continue in the baseline.

1. For further details, see Congressional Budget Office, cost estimate for H.R. 3298, Child Care Quality and Access Act of 2019 (June 26, 2019), www.cbo.gov/publication/55399.

2. See, for example, Congressional Budget Office, *The Budget and Economic Outlook: 2022 to 2032* (May 2022), Chapter 3, www.cbo.gov/publication/57950.

through every decade and peaks in years divisible by 10 (2020, for example). Nevertheless, in accordance with the Deficit Control Act, CBO's baseline for that budget account incorporates the appropriated amount for the current year, adjusted for inflation, in each future year, regardless of when in the cycle of the Census Bureau's work the baseline is prepared.

In rare cases, after consulting with the House and Senate Budget Committees, CBO has deviated from that standard procedure when constructing its baseline for discretionary spending. For example, because of the unusual size and nature of the emergency funding provided in legislation enacted in response to the pandemic, the agency did not extrapolate into future years the $184 billion in discretionary budget authority that was provided for that purpose through 2021.

If Full-Year Appropriations Have Not Been Enacted, Budget Authority Is Assumed to Reflect Current-Year Levels. When appropriations have not been enacted by the beginning of a fiscal year, a continuing resolution may be enacted to provide the funding needed to allow the government to continue to operate for a specified period, whether for the full fiscal year or only part of it. If a continuing resolution is in effect for less than the entire fiscal year, the baseline should, according to the Deficit Control Act, reflect the assumption that the amount for the current year is equal to the amount in the continuing resolution extrapolated to a full year:

> If, for any account, a continuing appropriation is in effect for less than the entire current year, then the current-year amount shall be assumed to equal the amount that would be available if that continuing appropriation covered the entire fiscal year. (2 U.S.C. § 907(c)(6))

Budget Authority Is Projected Using Specified Inflators. The Deficit Control Act specifies the measures that should be used to adjust budget authority for inflation:

> The inflator used in paragraph (1) to adjust budgetary resources relating to personnel shall be the percent[age] by which the average of the Bureau of Labor Statistics Employment Cost Index (wages and salaries, private industry workers) for that fiscal year differs from such index for the current year. The inflator used in paragraph (1) to adjust all other budgetary resources shall be the percent[age] by which the average of the estimated gross domestic product chain-type price index for that fiscal year differs from the average of such estimated index for the current year. (2 U.S.C. § 907(c)(5))

Two main price indexes—both forecast by CBO—are used to project budget authority over the 10-year period: Most discretionary funding is adjusted with the gross domestic product price index; discretionary funding related to federal personnel is inflated using the employment cost index for wages and salaries of workers in private industry.

Federal Credit Reform Act of 1990, as Amended

The Federal Credit Reform Act of 1990 (FCRA, P.L. 101-508; 2 U.S.C. § 661, et seq.) requires the costs of student loans and other federal direct loans and loan guarantees to be recorded on an accrual basis (a method of accounting that records the estimated lifetime cost of a loan or loan guarantee when it is disbursed or made) rather than on a cash basis (a method that records costs when payments are made and receipts when they are collected):

> The authority to incur new direct loan obligations, make new loan guarantee commitments, or modify outstanding direct loans (or direct loan obligations) or loan guarantees (or loan guarantee commitments) shall constitute new budget authority in an amount equal to the cost of the direct loan or loan guarantee in the fiscal year in which definite authority becomes available or indefinite authority is used. Such budget authority shall constitute an obligation of the credit program account to pay to the financing account. (2 U.S.C. § 661c(d)(1))

CBO incorporates that budgetary treatment of federal credit programs in its baseline projections.[4] In accordance with FCRA, the estimated net cost of a loan or loan guarantee—that is, the estimated lifetime costs minus estimated receipts, including repayments of principal and payments of interest—is recorded as a single number, called a present value, when the government makes the commitment:

> The cost of a direct loan shall be the net present value, at the time when the direct loan is disbursed, of the following estimated cash flows:
> (i) loan disbursements;
> (ii) repayments of principal; and
> (iii) payments of interest and other payments by or to the Government over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries.
> (2 U.S.C. § 661a(5)(B))

The present value depends on the discount rate, or rate of interest, that is used to translate future cash flows into current dollars. For FCRA estimates, the projected interest rates on Treasury securities with terms to maturity that correspond to the terms of the loans or loan guarantees are used as the discount rates.

Budget Control Act of 2011, as Amended

The Budget Control Act of 2011 (P.L. 112-25; 2 U.S.C. § 901a) reinstituted for the 2013–2021 period expired procedures contained in the Deficit Control Act that automatically reduced funding provided for certain mandatory programs. It also established caps—now expired—that limited funding for discretionary programs.

4. For more information, see Congressional Budget Office, *Estimates of the Cost of Federal Credit Programs in 2023* (June 2022), www.cbo.gov/publication/58031.

The Budget Control Act directed the Office of Management and Budget (OMB) to decide the amount of the reduction each year for defense and nondefense programs through sequestration, a process of across-the-board reductions. (Certain areas of the budget—namely, Social Security benefits, veterans' programs, unemployment benefits and other spending from dedicated revenue sources, and certain refundable tax credits—are exempted from those reductions by the Deficit Control Act.) Subsequent legislation extended the reductions on mandatory spending through 2031 and specified that future reductions would use the same percentages that were calculated for 2021.

To account for sequestration, CBO uses the reductions specified by OMB to adjust its baseline projections of mandatory spending for affected programs. In CBO's February 2023 baseline projections, for example, mandatory defense spending was reduced by 8.3 percent, and mandatory nondefense spending, by 5.7 percent—except for the exempted programs. Separate rules apply to Medicare, the largest program subject to sequestration. Spending for that program was lowered by 2 percent in most years in the February 2023 projections.[5]

5. For more information, see Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033* (February 2023), www.cbo.gov/publication/58848.

Key Budgetary Terms

Below are definitions of key budgetary terms, with an emphasis on how the terms are defined in law. For a fuller explanation of these and other key terms, see *Common Budgetary Terms Explained*; for detailed definitions, see the Congressional Budget Office's *Glossary*.[1]

baseline. A set of projections of federal spending, revenues, deficits or surpluses, and the nation's debt over a specified period, generally 10 years, that reflect the assumption that current laws will generally remain unchanged. The baseline is defined by the Balanced Budget and Emergency Deficit Control Act of 1985 as follows:

> For any budget year, the baseline refers to a projection of current-year levels of new budget authority, outlays, revenues, and the surplus or deficit into the budget year and the outyears based on laws enacted through the applicable date. (2 U.S.C. § 907(a))

budget authority. Authority provided to federal agencies by law that allows them to incur financial obligations that result in outlays. Budget authority is often called funding. It is defined by the Congressional Budget Act of 1974 as

> the authority provided by Federal law to incur financial obligations, as follows:
> (i) provisions of law that make funds available for obligation and expenditure (other than borrowing authority), including the authority to obligate and expend the proceeds of offsetting receipts and collections;
> (ii) borrowing authority, which means authority granted to a Federal entity to borrow and obligate and expend the borrowed funds, including through the issuance of promissory notes or other monetary credits;
> (iii) contract authority, which means the making of funds available for obligation but not for expenditure; and
> (iv) offsetting receipts and collections as negative budget authority, and the reduction thereof as positive budget authority. (2 U.S.C. § 622(2)(A))

budget year. Defined by the Deficit Control Act of 1985 as, "with respect to a session of Congress, the fiscal year of the Government that starts on October 1 of the calendar year in which that session begins." (2 U.S.C. § 900(c)(12))

cost estimates. Detailed assessments of the budgetary effects of proposed legislation that CBO prepares for the Congress.

current year. Defined by the Deficit Control Act of 1985 as, "with respect to a budget year, the fiscal year that immediately precedes that budget year." (2 U.S.C. § 900(c)(13))

debt. The amount borrowed by the government from the public or from government accounts. Debt can be measured in several ways. The measure most commonly used is debt held by the public, which consists mostly of securities that the Treasury issues to raise cash to fund the federal government's activities and to pay off its maturing liabilities.

1. Congressional Budget Office, *Common Budgetary Terms Explained* (December 2021), www.cbo.gov/publication/57420, and *Glossary* (July 2016), www.cbo.gov/publication/42904.

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Key Budgetary Terms

deficit. Defined by the Congressional Budget Act of 1974 as, "with respect to a fiscal year, the amount by which outlays exceeds receipts during that year." (2 U.S.C. § 622(6))

discretionary spending. Refers to budget authority provided and controlled by appropriation acts as well as to the resulting outlays.

entitlement authority. Defined by the Congressional Budget Act of 1974 as

> (A) the authority to make payments (including loans and grants), the budget authority for which is not provided for in advance by appropriation Acts, to any person or government if, under the provisions of the law containing that authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by law; and
> (B) the food stamp program. (2 U.S.C. § 622(9))

fiscal year. Begins on October 1 and ends September 30. Designated by the calendar year in which it ends.

mandatory (or direct) spending. Consists of spending for most federal benefit programs and for certain other payments to people, businesses, nonprofit institutions, and state and local governments. Mandatory spending is generally governed by statutory criteria and is not normally subject to the appropriation process. It is defined by the Balanced Budget and Emergency Deficit Control Act of 1985 as follows:

> The term "direct spending" means—
> (A) budget authority provided by law other than appropriation Acts;
> (B) entitlement authority; and
> (C) the Supplemental Nutrition Assistance Program.
> (2 U.S.C. § 900(c)(8))

obligation. A legally binding commitment by the federal government that will result in outlays.

outlays. Spending—through the issuance of checks, the disbursement of cash, or the electronic transfer of funds—to pay a federal obligation. Defined by the Congressional Budget Act of 1974 as, "with respect to any fiscal year, expenditures and net lending of funds under budget authority during such year." (2 U.S.C. § 622(1))

outyear. Defined by the Deficit Control Act of 1985 as "a fiscal year one or more years after the budget year." (2 U.S.C. § 900(c)(14))

revenues. Governmental receipts. Funds the government collects from the public in the exercise of its sovereign or governmental powers.

Ann E. Futrell and Samantha Riley prepared this document with guidance from Chad Chirico, Theresa Gullo, John McClelland, and Sam Papenfuss. Kate Kelly provided technical assistance. Leigh Angres, Christina Hawley Anthony, Kathleen FitzGerald, Emily Stern, and Susan Willie provided comments. Chayim Rosito fact-checked the document.

Mark Hadley, Jeffrey Kling, and Robert Sunshine reviewed the primer. Bo Peery edited it, and R. L. Rebach created the graphics and prepared the text for publication. The primer is available at www.cbo.gov/publication/58955.

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