

# Budget-Scoring Parameters for Innovative Finance Tools

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How do federal budget-scoring parameters influence the choice and design of innovative finance tools? Or exactly how does the budget-scoring tail wag the innovative finance dog? To answer these questions and better understand the evolution of innovative finance policies, it is useful to bear in mind the following "top ten list" of budget-scoring axioms:

1. *Cash is king.* Unlike governmental and corporate financial reporting, federal budgeting adheres to a cash basis of accounting. Budget controls focus on cash receipts (tax revenues), cash disbursements (outlays or spending), and budget authority. Moreover, financial impact is measured in nominal, not present-value dollars. ("Present value" is the financial tool used to compare cash flows occurring in different time periods. It involves the use of a discount factor to compute the value today of payments and receipts that are expected to occur in future years.) An important exception is credit assistance, which is treated on an accrual basis.

2. *No capital at the Capitol.* As a corollary of the first axiom, budget scoring does not distinguish between capital and operating expenses. Therefore, a dollar spent on current consumption (e.g., crop subsidies, welfare payments, federal salaries) is treated the same as a dollar invested in long-lived capital improvements.

3. *Single-entry accounting.* Budget scoring measures the fiscal impacts of legislation largely by means of single-entry accounting. It accounts for costs, which are relatively direct and measurable, but not benefits, which tend to be indirect and less readily measurable.

4. *Myopic vision.* Budget scoring calculates only the short-term fiscal impacts of legislation, within a 5-year scoring window generally and a 10-year window for the Senate. All subsequent effects are disregarded.

5. *Static-state universe.* Under budget-scoring conventions, the economy is assumed to be static; federal policies do not "expand the pie" (increase aggregate economic activity). Instead, they merely reslice the pie, shifting resources to a favored sector at the expense of one less favored. The effect of federal policies in spurring net economic growth is disregarded.

6. *Discretionary appropriators.* Under the Budget Enforcement Act of 1990 (BEA), discretionary spending (enacted through annual appropriations) is controlled by statutory "caps" that are established for each fiscal year. (Discretionary spending encompasses most of what is commonly considered general government spending, including national defense, transportation, and various other domestic programs. For fiscal year 1999, the President's Budget estimates an outlay cap on all discretionary spending of about \$570 billion, or just one-third of the proposed \$1.7 trillion total federal budget.) If Congress enacts appropriations that exceed those caps, a sequestration (across-the-board cut) is triggered to eliminate the excess. The "core" Federal Highway Administration spending programs, such as the National Highway System and the Surface Transportation Program, are subject to

annual obligation limitations imposed by the appropriators (the House and Senate Committees on Appropriations), and therefore are treated as discretionary spending. Although the appropriators technically still impose annual obligation limitations on the major highway programs under TEA-21, their ability to deviate from spending levels initially established by the authorizers has been significantly curtailed.

7. *Mandatory authorizers.* Under the BEA, mandatory spending (enacted through legislation other than annual appropriations) and tax receipts legislation are controlled by a separate requirement that such legislation enacted for a fiscal year must be deficit-neutral in the aggregate. If Congress enacts mandatory spending or tax receipts legislation that is estimated to cause a net increase in the deficit, Congress must offset that increase by either increasing revenues or decreasing mandatory spending elsewhere in the budget. The two FHWA spending programs that are exempt from annual obligation limitations—Emergency Relief and a portion of the new Minimum Guarantee program—are under the direct purview of the authorizers (the House Transportation and Infrastructure Committee and Senate Environment and Public Works Committee) and therefore are treated as mandatory spending.

8. *Bifurcated budget scoring.* Under the BEA, savings (reductions in spending) on the discretionary ledger generally cannot be used to offset costs (increases in spending or reductions in revenues) on the mandatory ledger, and vice versa. For example, reductions in core FHWA spending programs cannot be used to make room for increases in mandatory programs, even within a single account such as the Highway Trust Fund. This segregated treatment holds appropriators and authorizers accountable for legislative initiatives within their respective domains of the federal budget; however, it does not facilitate the resolution of budget-scoring problems that arise when a program funded from one side of the ledger is scored with costs on the other.

9. *The devil is in the details.* Budget scoring (the "tail") is driven by underlying assumptions (perhaps the "tailbone"?) of the budgeteers regarding disbursement schedules, participation rates, demographic factors, and economic assumptions. These essential but highly technical factors are often quite difficult to ascertain, and so can be somewhat arbitrary and subject to change, depending on the judgments (biases?) of individual scorekeepers. Moreover, there is no real forum for appealing what may appear to be a dubious or illogical scoring decision.

10. *The most important rule: There are no rules.* One last point to keep in mind is that there really is no fixed set of budget-scoring rules. Although a number of guidelines accompanied the original BEA provisions in 1990, the scoring of the federal budget occurs by means of conventions that are continually evolving. As can be seen by examining recent legislative proposals, the evolution of innovative finance is being significantly affected by wigs and wags in the budget-scoring process.