MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The FY 2023 *Financial Report* provides the President, Congress, and the American people with a comprehensive view of the federal government's financial position and condition; and discusses important financial issues and significant conditions that may affect future operations, including the need to achieve fiscal sustainability over the long-term.

Pursuant to 31 U.S.C. § 331(e)(1), Treasury, in cooperation with OMB, must submit an audited (by GAO) financial statement for the preceding fiscal year, covering all accounts and associated activities of the executive branch of the U.S. government[1] to the President and Congress no later than six months after the September 30 fiscal year-end.

The *Financial Report* is prepared from the financial information provided by 166 federal consolidation entities (see organizational chart on the next page and Appendix A). As it has for the past 25 years, GAO issued a disclaimer of opinion on the accrual-based, consolidated financial statements for the fiscal years ended September 30, 2023, and 2022. GAO also issued a disclaimer of opinion on the sustainability financial statements, which consist of the 2023 and 2022 SLTFP; the 2023, 2022, 2021, 2020, and 2019 SOSI; and the 2023 and 2022 SCSIA. A disclaimer of opinion indicates that sufficient information was not available for the auditors to determine whether the reported financial statements were fairly presented in accordance with GAAP. In FY 2023, 32[2] of the 40 most significant entities earned unmodified ("clean") opinions on their financial statements.

The FY 2023 *Financial Report* consists of:

- MD&A, which provides management's perspectives on and analysis of information presented in the *Financial Report*, such as financial and performance trends;
- Financial statements and the related notes to the financial statements;
- RSI and Other Information; and
- GAO's audit report.

This *Financial Report* addresses the government's financial activity and results as of and for the fiscal years ended September 30, 2023, and 2022. Note 30—Subsequent Events discusses events that occurred after the end of the fiscal year that may affect the government's financial position and condition.

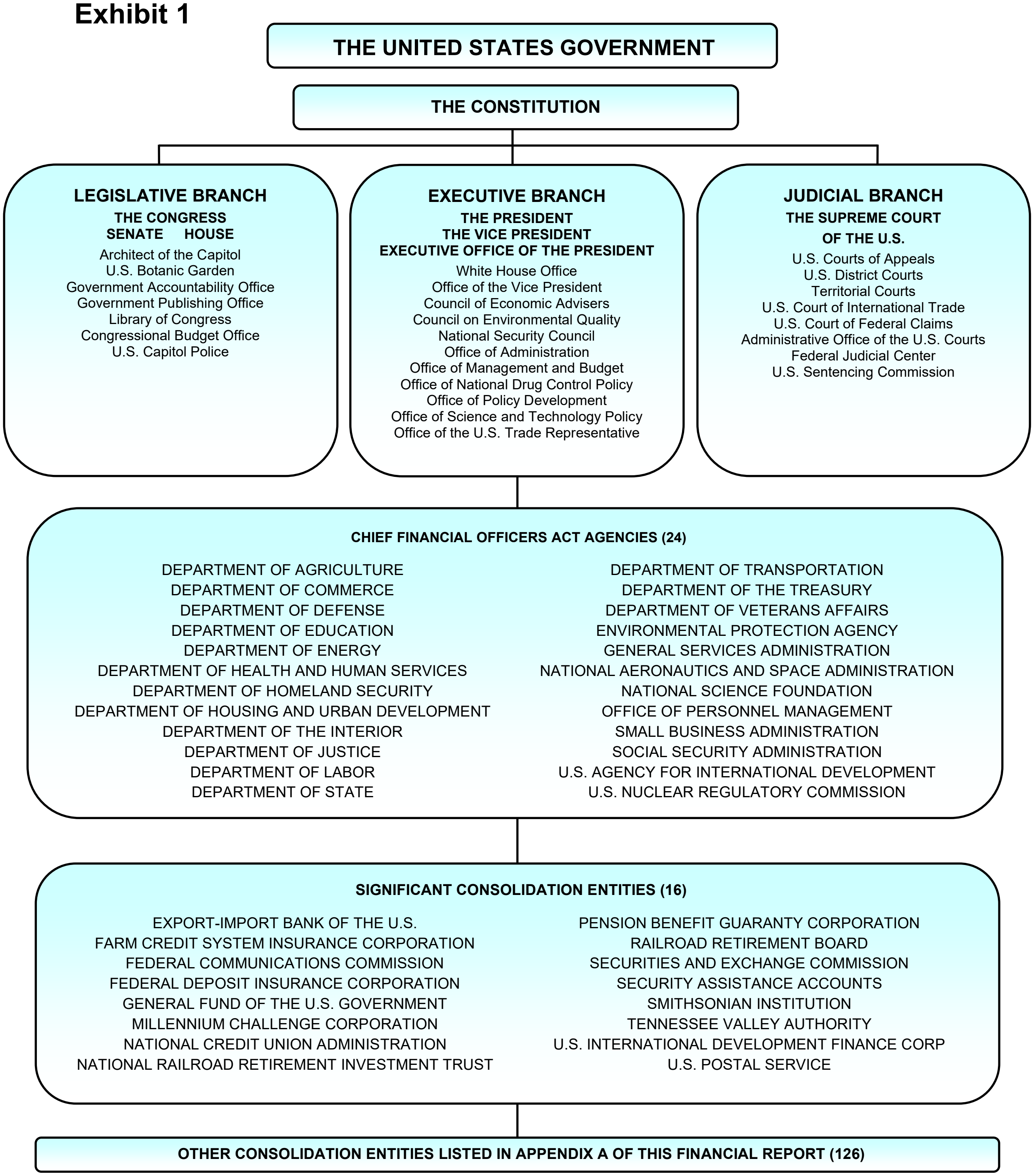
In addition, the Executive Summary to this *Financial Report* provides a quick reference to the key issues in the *Financial Report* and an overview of the government's financial position and condition.

Mission & Organization

The government's fundamental mission is derived from the Constitution: *"…to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare and secure the blessings of liberty to ourselves and our posterity."* The government's functions have evolved over time to include health care, income security, veterans benefits and services, housing and transportation, security, and education. Exhibit 1 provides an overview of how the U.S. government is organized.

[1] The *Government Management Reform Act of 1994* has required such reporting, covering the executive branch of the government, beginning with financial statements prepared for FY 1997. The consolidated financial statements include the legislative and judicial branches.
[2] The 32 entities include the HHS, which received disclaimers of opinion on its 2023, 2022, 2021, 2020, and 2019 SOSI and on its 2023 and 2022 SCSIA.

Exhibit 1


THE UNITED STATES GOVERNMENT
THE CONSTITUTION
LEGISLATIVE BRANCH
THE CONGRESS
SENATE HOUSE
Architect of the Capitol
U.S. Botanic Garden
Government Accountability Office
Government Publishing Office
Library of Congress
Congressional Budget Office
U.S. Capitol Police
EXECUTIVE BRANCH
THE PRESIDENT
THE VICE PRESIDENT
EXECUTIVE OFFICE OF THE PRESIDENT
White House Office
Office of the Vice President
Council of Economic Advisers
Council on Environmental Quality
National Security Council
Office of Administration
Office of Management and Budget
Office of National Drug Control Policy
Office of Policy Development
Office of Science and Technology Policy
Office of the U.S. Trade Representative
JUDICIAL BRANCH
THE SUPREME COURT
OF THE U.S.
U.S. Courts of Appeals
U.S. District Courts
Territorial Courts
U.S. Court of International Trade
U.S. Court of Federal Claims
Administrative Office of the U.S. Courts
Federal Judicial Center
U.S. Sentencing Commission
CHIEF FINANCIAL OFFICERS ACT AGENCIES (24)
DEPARTMENT OF AGRICULTURE
DEPARTMENT OF COMMERCE
DEPARTMENT OF DEFENSE
DEPARTMENT OF EDUCATION
DEPARTMENT OF ENERGY
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DEPARTMENT OF HOMELAND SECURITY
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
DEPARTMENT OF THE INTERIOR
DEPARTMENT OF JUSTICE
DEPARTMENT OF LABOR
DEPARTMENT OF STATE
DEPARTMENT OF TRANSPORTATION
DEPARTMENT OF THE TREASURY
DEPARTMENT OF VETERANS AFFAIRS
ENVIRONMENTAL PROTECTION AGENCY
GENERAL SERVICES ADMINISTRATION
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
NATIONAL SCIENCE FOUNDATION
OFFICE OF PERSONNEL MANAGEMENT
SMALL BUSINESS ADMINISTRATION
SOCIAL SECURITY ADMINISTRATION
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S. NUCLEAR REGULATORY COMMISSION
SIGNIFICANT CONSOLIDATION ENTITIES (16)
EXPORT-IMPORT BANK OF THE U.S.
FARM CREDIT SYSTEM INSURANCE CORPORATION
FEDERAL COMMUNICATIONS COMMISSION
FEDERAL DEPOSIT INSURANCE CORPORATION
GENERAL FUND OF THE U.S. GOVERNMENT
MILLENNIUM CHALLENGE CORPORATION
NATIONAL CREDIT UNION ADMINISTRATION
NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST
PENSION BENEFIT GUARANTY CORPORATION
RAILROAD RETIREMENT BOARD
SECURITIES AND EXCHANGE COMMISSION
SECURITY ASSISTANCE ACCOUNTS
SMITHSONIAN INSTITUTION
TENNESSEE VALLEY AUTHORITY
U.S. INTERNATIONAL DEVELOPMENT FINANCE CORP
U.S. POSTAL SERVICE
OTHER CONSOLIDATION ENTITIES LISTED IN APPENDIX A OF THIS FINANCIAL REPORT (126)

The Government's Financial Position and Condition

This *Financial Report* presents the government's financial position at the end of the fiscal year, explains how and why the financial position changed during the year, and discusses the government's financial condition and how it may change in the future.

Table 1
The Federal Government's Financial Position and Condition

	2023	2022*	Increase / (Decrease) $	Increase / (Decrease) %
FINANCIAL MEASURES (Dollars in Billions)				
Gross Cost	**$ (7,661.7)**	**$ (7,420.1)**	**$ 241.6**	**3.3%**
Less: Earned Revenue	$ 539.5	$ 531.1	$ 8.4	1.6%
Gain/(Loss) from Changes in Assumptions	$ (760.6)	$ (2,207.9)	$ (1,447.3)	(65.6%)
Net Cost	**$ (7,882.8)**	**$ (9,096.9)**	**$ (1,214.1)**	**(13.3%)**
Less: Total Tax and Other Unearned Revenues	**$ 4,465.6**	**$ 4,925.9**	**$ (460.3)**	**(9.3%)**
Net Operating Cost	**$ (3,417.2)**	**$ (4,171.0)**	**$ (753.8)**	**(18.1%)**
Budget Deficit	**$ (1,695.2)**	**$ (1,375.5)**	**$ 319.7**	**23.2%**
Assets:				
Cash & Other Monetary Assets	$ 922.2	$ 877.8	$ 44.4	5.1%
Inventory and Related Property, Net	$ 423.0	$ 406.9	$ 16.1	4.0%
Loans Receivable, Net	$ 1,695.1	$ 1,434.1	$ 261.0	18.2%
General Property, Plant & Equipment, Net	$ 1,235.0	$ 1,197.5	$ 37.5	3.1%
Other	$ 1,143.8	$ 1,046.1	$ 97.7	9.3%
Total Assets	**$ 5,419.1**	**$ 4,962.4**	**$ 456.7**	**9.2%**
Liabilities:				
Federal Debt and Interest Payable	$ (26,347.7)	$ (24,328.0)	$ 2,019.7	8.3%
Federal Employee & Veteran Benefits Payable	$ (14,327.4)	$ (12,811.9)	$ 1,515.5	11.8%
Other	$ (2,223.2)	$ (1,882.4)	$ 340.8	18.1%
Total Liabilities	**$ (42,898.3)**	**$ (39,022.3)**	**$ 3,876.0**	**9.9%**
Unmatched Transactions and Balances[1]	$ -	$ (1.3)	$ (1.3)	(100.0%)
Net Position	**$ (37,479.2)**	**$ (34,061.2)**	**$ 3,418.0**	**10.0%**
SUSTAINABILITY MEASURES (Dollars in Trillions)				
Social Insurance Net Expenditures:				
Social Security (OASDI)	$ (25.2)	$ (23.3)	$ 1.9	8.2%
Medicare (Parts A, B, & D)	$ (53.1)	$ (52.5)	$ 0.6	1.1%
Other	$ (0.1)	$ (0.1)	$ -	0.0%
Total Social Insurance Net Expenditures	**$ (78.4)**	**$ (75.9)**	**$ 2.5**	**3.3%**
Total Federal Non-Interest Net Expenditures	**$ (73.2)**	**$ (79.5)**	**$ (6.4)**	**(8.1%)**
75-Year Fiscal Gap (Percent of Gross Domestic Product)[2]	**(4.5%)**	**(4.9%)**	**(0.4%)**	**(8.2%)**

[1] Unmatched transactions and balances are net adjustments needed to balance the financial statements and are due primarily to unresolved intra-governmental differences.

[2] To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amounts to 4.5 percent of GDP on average is needed (4.9 percent of GDP on average in FY 2022). See Financial Statement Note 24.

* Change in presentation (see Financial Statement Note 1.W).

Table 1 on the previous page and the following summarize the federal government's financial position:

- This *Financial Report* includes discussion and analysis of the effects that the federal government's response to the COVID-19 pandemic continued to have on the government's financial position during FY 2023.
- During FY 2023, the budget deficit increased by $319.7 billion (23.2 percent) to $1.7 trillion. However, net operating cost decreased by $753.8 billion (18.1 percent) to $3.4 trillion.
- Net operating cost decreased due largely to significant decreases in non-cash costs (including decreases in losses stemming from changes in assumptions affecting cost and liability estimates for the government's employee and veteran benefits programs (which do not affect the current year deficit), and reestimates of long-term student loan costs).
- The government's gross costs of $7.7 trillion, less $539.5 billion in revenues earned for goods and services provided to the public (e.g., Medicare premiums, national park entry fees, and postal service fees), plus $760.6 billion in net losses from changes in assumptions (e.g., interest rates, inflation, disability claims rates) yields the government's net cost of $7.9 trillion, a decrease of $1.2 trillion or 13.3 percent compared to FY 2022.
- Total tax and other revenues decreased $460.3 billion to $4.5 trillion. Deducting these revenues from net cost results in a "bottom line" net operating cost of $3.4 trillion for FY 2023, a decrease of $753.8 billion or 18.1 percent compared to FY 2022.
- Comparing total FY 2023 government assets of $5.4 trillion (including $1.7 trillion of loans receivable, net and $1.2 trillion of PP&E) to total liabilities of $42.9 trillion (including $26.3 trillion in federal debt and interest payable[3], and $14.3 trillion of federal employee and veteran benefits payable) yields a negative net position of $37.5 trillion.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2023, debt held by the public, excluding accrued interest, was $26.3 trillion. This amount, plus intra-governmental debt ($6.9 trillion) equals gross federal debt, which, with some adjustments, is subject to the statutory debt limit. As of September 30, 2023, the government's total debt subject to the debt limit was $33.1 trillion. Congress and the President increased the debt limit by $480.0 billion in October 2021 and by $2.5 trillion in December 2021. On June 3, 2023, P.L. 118-5 was enacted, suspending the debt limit through January 1, 2025.

This *Financial Report* also contains information about projected impacts on the government's future financial condition. Under federal accounting rules, social insurance amounts as reported in both the SLTFP and in the SOSI are not considered liabilities of the government. From Table 1:

- The SLTFP shows that the PV[4] of total non-interest spending, including Social Security, Medicare, Medicaid, defense, and education, etc., over the next 75 years, under current policy, is projected to exceed the PV of total receipts by $73.2 trillion (total federal non-interest net expenditures from Table 1).
- The SOSI shows that the PV of the government's expenditures for Social Security and Medicare Parts A, B and D, and other social insurance programs over 75 years is projected to exceed social insurance revenues[5] by about $78.4 trillion, a $2.5 trillion increase over 2022 social insurance projections.
- The Social Insurance and Total Federal Non-Interest Net Expenditures measures in Table 1 differ primarily because total non-interest net expenditures from the SLTFP include the effects of general revenues and non-social insurance spending, neither of which is included in the SOSI.

The government's current financial position and long-term financial condition can be evaluated both in dollar terms and in relation to the economy. GDP is a measure of the size of the nation's economy in terms of the total value of all final goods and services that are produced in a year. Considering financial results relative to GDP is a useful indicator of the economy's capacity to sustain the government's many programs. For example:

- The budget deficit increased from $1.4 trillion in FY 2022 to $1.7 trillion in FY 2023. The deficit-to-GDP ratio also increased from 5.4 percent in FY 2022 to 6.3 percent in 2023.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2023, the $26.3 trillion in debt held by the public, excluding accrued interest, equates to 97 percent of GDP.
- The 2023 SOSI projection of $78.4 trillion net PV excess of expenditures over receipts over 75 years represents about 4.4 percent of the PV of GDP over 75 years. The excess of total projected non-interest spending over receipts of $73.2 trillion from the SLTFP represents 3.8 percent of GDP over 75 years. As discussed in this *Financial Report*, changes in these projections can, in turn, have a significant impact on projected debt as a percent of GDP.
- To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amounts to 4.5 percent of GDP on average is needed (4.9 percent of GDP on

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[3] On the government's Balance Sheet, federal debt and interest payable consists of Treasury securities, net of unamortized discounts and premiums, and accrued interest payable. The "public" consists of individuals, corporations, state and local governments, FRB, foreign governments, and other entities outside the federal government.

[4] PVs recognize that a dollar paid or collected in the future is worth less than a dollar today because a dollar today could be invested and earn interest. To calculate a PV, future amounts are thus reduced using an assumed interest rate, and those reduced amounts are summed.

[5] Social Security is funded by the payroll taxes and revenue from taxation of benefits. Medicare Part A is funded by the payroll taxes, revenue from taxation of benefits, and premiums that support those programs. Medicare Parts B and D are primarily financed by transfers from the General Fund, which are presented, and by accounting convention, eliminated in the SOSI. For the FYs 2023 and 2022 SOSI, the amounts eliminated totaled $48.5 trillion and $47.5 trillion, respectively. In addition, the SOSI programs include DOL's Black Lung Program, the projection period for which is 40 years.

average in the 2022 projections). The fiscal gap in the 2023 projections represents 23.8 percent of 75-year PV receipts and 19.8 percent of 75-year PV non-interest spending.

FY 2023 Financial Statement Audit Results

For FY 2023, GAO issued a disclaimer of audit opinion on the accrual-based, government-wide financial statements, as it has for the past 26 years, due to certain material weaknesses in internal control over financial reporting and other limitations on the scope of its work. In addition, GAO issued a disclaimer of opinion on the sustainability financial statements due to significant uncertainties primarily related to the achievement of projected reductions in Medicare cost growth and certain other limitations. GAO's audit report on page 218 of this *Financial Report*, discusses GAO's findings.

In FY 2023, 19 of the 24 entities required to issue audited financial statements under the CFO Act received unmodified audit opinions, as did 13 of 16 additional significant consolidation entities (see Table 10 and Appendix A).[6]

The Government-wide Reporting Entity

This *Financial Report* includes the financial status and activities of the executive, legislative, and judicial branches of the federal government. SFFAS No. 47, *Reporting Entity*, provides criteria for identifying organizations that are consolidation entities, disclosure entities, and related parties. Such criteria are summarized in Note 1.A, Significant Accounting Policies, Reporting Entity, and in Appendix A, which lists the entities included in this *Financial Report* by these categories. The assets, liabilities, results of operations, and related activity for consolidation entities are consolidated in the financial statements.

Fannie Mae and Freddie Mac meet the criteria for disclosure entities and, consequently, are not consolidated into the government's financial statements. However, the values of the investments in such entities, changes in value, and related activity with these entities are included in the consolidated financial statements. The FR System and the SPVs are disclosure entities and are not consolidated into the government's financial statements. See Note 1.A and Note 27—Disclosure Entities and Related Parties for additional information. In addition, per SFFAS No. 31, *Accounting for Fiduciary Activities*, fiduciary funds are not consolidated in the government financial statements.[7]

Most significant consolidation entities prepare financial statements that include financial and performance related information, as well as Annual Performance Reports. More information may be obtained from entities' websites indicated in Appendix A and at https://www.performance.gov/.

The following pages contain a more detailed discussion of the government's financial results for FY 2023, the *Budget*, the economy, the debt, and a long-term perspective about fiscal sustainability, including the government's ability to meet its social insurance benefits obligations. The information in this *Financial Report*, when combined with the *Budget*, collectively presents information on the government's financial position and condition.

Accounting Differences Between the Budget and the Financial Report

Each year, the administration issues two reports that detail the government's financial results: the *Budget* and this *Financial Report*. The exhibit on the following page provides the key characteristics and differences between the two documents.

Treasury generally prepares the financial statements in this *Financial Report* on an accrual basis of accounting as prescribed by GAAP for federal entities.[8] These principles are tailored to the government's unique characteristics and circumstances. For example, entities prepare a uniquely structured "Statement of Net Cost," which is intended to present net government resources used in its operations. Also, unique to government is the preparation of separate statements to reconcile differences and articulate the relationship between the *Budget* and financial accounting results.

[6] The 19 entities include the HHS, which received disclaimers of opinions on its 2023, 2022, 2021, 2020, and 2019 SOSI and its 2023 and 2022 SCSIA. The 13 entities include the FDIC, the NCUA, and the FCSIC, which operate on a calendar year basis (December 31 year-end). Statistic reflects 2022 audit results for these organizations if 2023 results are not available.

[7] See Note 23—Fiduciary Activities.

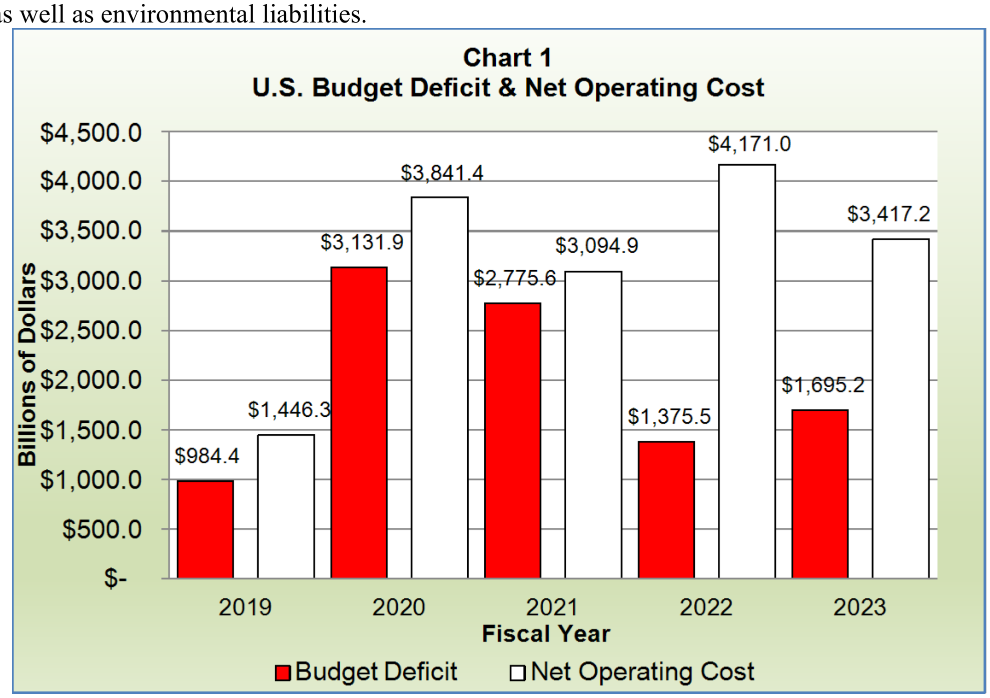
[8] Under GAAP, most U.S. government revenues are recognized on a 'modified cash' basis, (see Financial Statement Note 1.B). The SOSI presents the PV of the estimated future revenues and expenditures for scheduled benefits over the next 75 years for the Social Security, Medicare, RRP; and 25 years for the Black Lung program. The SLTFP presents the 75-year PV of the projected future receipts and non-interest spending for the federal government.

Budget of the U.S. Government	Financial Report of the U.S. Government
<u>Prepared primarily on a "*cash basis*"</u> • Initiative-based and prospective: focus on current and future initiatives planned and how resources will be used to fund them. • Receipts ("cash in"), taxes and other collections recorded when received. • Outlays ("cash out"), largely recorded when payment is made.	<u>Prepared on an "*accrual basis*" and "*modified cash basis*"</u> • Entity-based and retrospective – prior and present resources used to implement initiatives. • Revenue: Tax revenue (more than 90.0 percent of total revenue) recognized on modified cash basis (see Financial Statement Note 1.B). Remainder recognized when earned, but not necessarily received. • Costs: recognized when incurred, but not necessarily paid.

Budget Deficit vs. Net Operating Cost

Three key components of the *Budget* process are: 1) appropriations; 2) obligations; and 3) outlays. An appropriation is a provision of law authorizing the expenditure of funds for a given purpose. Rescissions and cancellations are reductions in law of budgetary resources. They are considered permanent reductions unless legislation clearly indicates that the reduction is temporary. Once funds are appropriated by Congress, Treasury issues warrants that officially establish the amounts available to be obligated and spent (i.e., expended or outlayed) by each agency. An agency's obligation of funds is a binding agreement to outlay funds for a particular purpose immediately or in the future. The budget deficit is measured as the excess of outlays, or payments made by the government, over receipts, or cash received by the government.

Net operating cost, calculated on an accrual basis, is the excess of costs (what the government has incurred but has not necessarily paid) over revenues (what the government has collected and expects to collect but has not necessarily received). As shown in Chart 1, net operating cost typically exceeds the budget deficit due largely to the inclusion of cost accruals associated with increases in estimated liabilities for the government's postemployment benefit programs for its military and civilian employees and veterans as well as environmental liabilities.



The government's primarily cash-based[9] budget deficit increased by $319.7 billion (23.2 percent) from approximately $1.4 trillion in FY 2022 to about $1.7 trillion in FY 2023 due to a $456.8 billion decrease in receipts which more than offset a $137.1 billion decrease in outlays in FY 2023. The decrease in receipts can be attributed to lower individual income tax receipts as capital gains realizations fell and lower deposits of earnings by the Federal Reserve due to higher interest rates. These decreases were partially offset by higher social insurance and retirement receipts due to a strong labor market boosting wages and salaries. The decrease in outlays in part reflects the broad-based student loan debt relief, which increased outlays in FY 2022, and the effect of the reversal of broad-based debt relief in FY 2023 as a result of the Supreme Court's decision in Biden v. Nebraska. It also reflects decreases due to the expiration of the expanded child tax credit as well as reductions in COVID-19 related spending, including spending by Treasury from the Coronavirus Relief Fund and by the Food and Nutrition Service for SNAP and child nutrition programs. Outlays for some other categories of spending increased, including Social Security, Medicare, Medicaid, and net interest.[10]

[9] Interest outlays on Treasury debt held by the public are recorded in the *Budget* when interest accrues, not when the interest payment is made. For federal credit programs, outlays are recorded when loans are disbursed, in an amount representing the PV cost to the government, commonly referred to as credit subsidy cost. Credit subsidy cost excludes administrative costs.

[10] 10/20/23 press release – Joint Statement of Janet L. Yellen, Secretary of the Treasury, and Shalanda D. Young, Director of the Office of Management and Budget, on Budget Results for Fiscal Year 2023. Note that some amounts in this *Financial Report* reflect updates subsequent to publication of the press release.

Treasury's September 2023 MTS provides fiscal year-end receipts, spending, and deficit information for this *Financial Report*. The MTS presents primarily cash-based spending, or outlays, for the fiscal year in a number of ways, including by month, by entity, and by budget function classification. The *Budget* is divided into approximately 20 categories, or budget functions, as a means of organizing federal spending by primary purpose (e.g., National Defense, Transportation, and Health). Multiple entities may contribute to one or more budget functions, and a single budget function may be associated with only one entity. For example, DOD, DHS, DOE, and multiple other entities administer programs that are critical to the broader functional classification of National Defense. DOD, OPM, and many other entities also administer Income Security programs (e.g., retirement benefits, housing, financial assistance). By comparison, the Medicare program is a budget function category unto itself and is administered exclusively at the federal level by HHS. Federal spending information by budget function and other categorizations may be found in the September 2023 MTS.[11]

The government's largely accrual-based net operating cost decreased by $753.8 billion (18.1 percent) to $3.4 trillion during FY 2023. As discussed in this *Financial Report*, as the deficit is affected by changes in both receipts and outlays, so too are the government's net operating costs affected by changes in both revenues and costs.

The *Reconciliation of Net Operating Cost and Budget Deficit* statement articulates the relationship between the government's accrual-based net operating cost and the primarily cash-based budget deficit. The difference between the government's budget deficit and net operating cost is typically impacted by many variables. For example, from Table 2, 88 percent of the $1.7 trillion net difference for FY 2023 is attributable to a $1.5 trillion net increase in liabilities for federal employee and veteran benefits payable (see Note 13—Federal Employee and Veteran Benefits Payable). Other differences include: 1) a $108.1 billion increase in advances from others and deferred revenue (see Note 17—Advances from Others and Deferred Revenue); 2) a $55.0 billion decrease in net taxes receivable (see Note 3—Accounts Receivable, Net); and 3) a $45.4 billion decrease in advances and prepayments made by the federal government (see Note 9—Advances and Prepayments).

Table 2: Net Operating Cost vs. Budget Deficit

Dollars in Billions	2023	2022*
Net Operating Cost	**$ (3,417.2)**	**$ (4,171.0)**
Changes in:		
Federal Employee and Veteran Benefits Payable	$ 1,515.5	$ 2,629.0
Advances from Others and Deferred Revenue	$ 108.1	$ 45.2
Taxes Receivable, Net	$ 55.0	$ 65.5
Advances and Prepayments	$ 45.4	$ 71.3
Other, Net	$ (2.0)	$ (15.5)
Subtotal - Net Difference:	$ 1,722.0	$ 2,795.5
Budget Deficit	**$ (1,695.2)**	**$ (1,375.5)**

*Change in presentation (see Financial Statement Note 1.W).

The Government's Net Position: "Where We Are"

The government's financial position and condition have traditionally been expressed through the *Budget*, focusing on surpluses, deficits, and debt. However, this primarily cash-based discussion of the government's net outlays (deficit) or net receipts (surplus) tells only part of the story. The government's accrual-based net position, (the difference between its assets and liabilities, adjusted for unmatched transactions and balances), and its "bottom line" net operating cost (the difference between its revenues and costs) are also key financial indicators. The following includes brief discussions of some of the diminishing effects of the pandemic on the government's financial results for FY 2023. Please refer to Note 29—COVID-19 Activity and other disclosures in this *Financial Report*, as well as in the individual entities' financial statements for more information.

Costs and Revenues

The government's Statement of Operations and Changes in Net Position, much like a corporation's income statement, shows the government's "bottom line" and its impact on net position (i.e., assets net of liabilities, adjusted for unmatched transactions and balances). To derive the government's "bottom line" net operating cost, the Statement of Net Cost first shows how much it costs to operate the federal government, recognizing expenses when incurred, regardless of when payment is made (accrual basis). It shows the derivation of the government's net cost or the net of: 1) gross costs, or the costs

[11] Final MTS for FY 2023 through September 30, 2023 and Other Periods.

of goods produced and services rendered by the government; 2) the earned revenues generated by those goods and services during the fiscal year; and 3) gains or losses from changes in actuarial assumptions used to estimate certain liabilities. This amount, in turn, is offset against the government's taxes and other revenue reported in the Statement of Operations and Changes in Net Position to calculate the "bottom line" or net operating cost.

Table 3: Gross Cost, Revenues, Net Cost, and Net Operating Cost

Dollars in Billions	2023	2022*	Increase / (Decrease) $	Increase / (Decrease) %
Gross Cost	**$ (7,661.7)**	**$ (7,420.1)**	**$ 241.6**	**3.3%**
Less: Earned Revenue	$ 539.5	$ 531.1	$ 8.4	1.6%
Gain/(Loss) from Changes in Assumptions	$ (760.6)	$ (2,207.9)	$(1,447.3)	(65.6%)
Net Cost	**$ (7,882.8)**	**$ (9,096.9)**	**$(1,214.1)**	**(13.3%)**
Less: Tax and Other Revenues	**$ 4,465.6**	**$ 4,925.9**	**$ (460.3)**	**(9.3%)**
Net Operating Cost	**$ (3,417.2)**	**$ (4,171.0)**	**$ (753.8)**	**(18.1%)**

*Change in presentation (see Financial Statement Note 1.W).

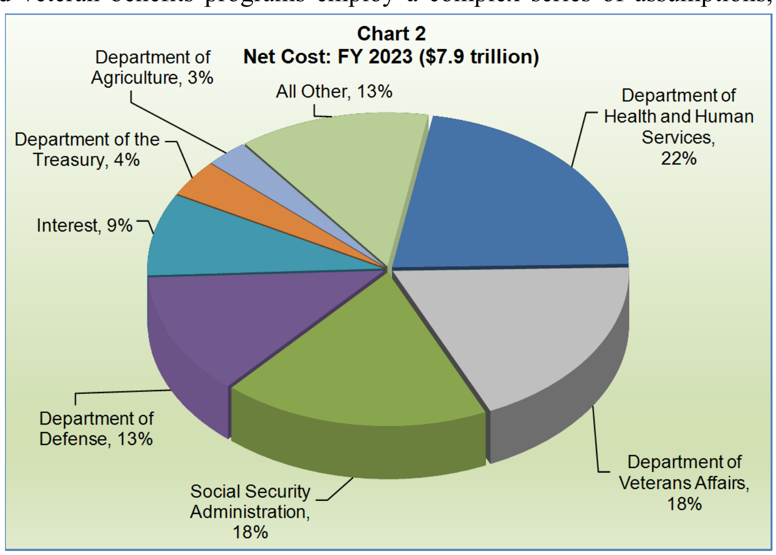
Table 3 shows that the government's "bottom line" net operating cost decreased $753.8 billion (18.1 percent) during 2023 from $4.2 trillion to $3.4 trillion. This decrease is due mostly to a $1.2 trillion (13.3 percent) decrease in net costs, which more than offset a $460.3 billion (9.3 percent) decrease in tax and other revenues over the past fiscal year as discussed in the following.

Gross Cost and Net Cost

The FY 2023 Statement of Net Cost starts with the government's total gross costs of $7.7 trillion, subtracts $539.5 billion in revenues earned for goods and services provided (e.g., Medicare premiums, national park entry fees, and postal service fees), and adjusts the balance for gains or losses from changes in actuarial assumptions used to estimate certain liabilities ($760.6 billion loss), including federal employee and veteran benefits to derive its net cost of $7.9 trillion, a $1.2 trillion (13.3 percent) decrease compared to FY 2022.

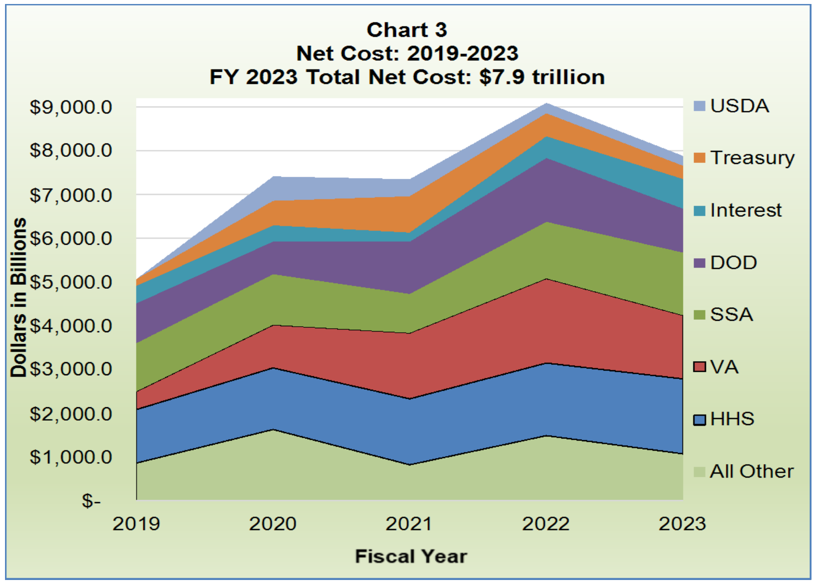
Typically, the annual change in the government's net cost is the result of a variety of offsetting increases and decreases across entities. Offsetting changes in federal entity net cost during FY 2023 included:

- Entities administering federal employee and veteran benefits programs employ a complex series of assumptions, including but not limited to interest rates, beneficiary eligibility, life expectancy, and medical cost levels, to make actuarial projections of their long-term benefits liabilities. Changes in these assumptions can result in either losses (net cost increases) or gains (net cost decreases). Across the government, these net losses from changes in assumptions amounted to $760.6 billion in FY 2023, a net loss (and a corresponding net cost) decrease of $1.4 trillion compared to FY 2022. The primary entities that administer programs impacted by these assumptions – typically federal employee pension and benefit programs – are the VA, DOD, and OPM. All three of these entities recorded losses from changes in assumptions in the amounts of $111.9 billion, $89.3 billion, and $558.8 billion, respectively. These actuarial estimates and the resulting gains or losses from changes in assumptions can sometimes cause significant swings in total entity costs from year to year. For example, for FY 2023, net cost decreases at OPM ($88.5 billion), DOD ($455.6 billion), and VA ($479.6 billion) were significantly impacted by the decreases in losses from assumption changes at these entities.



- A $479.6 billion decrease in VA net cost was impacted largely by a $967.7 billion decrease in losses from changes in assumptions as referenced above, partially offset by an increase in costs as a result of legislation expanding and extending the eligibility for veteran's benefits.
- The $455.6 billion decrease in DOD net cost is primarily due to a $437.7 billion decrease in losses from changes in assumptions referenced above. While losses from changes in assumptions represented the largest decrease, the majority (more than 80 percent) of DOD costs are attributable to a wide range of functions, including military operations, readiness, and support; procurement; military personnel; and R&D.

- The $222.7 billion decrease in Treasury net costs is largely due to a decrease in costs associated with Treasury's pandemic relief programs. As discussed in Note 29—COVID-19 Activity, Treasury's net costs related to COVID-19 relief efforts decreased $105.5 billion, from $164.4 billion to $58.9 billion, during FY 2023, mainly attributed to a reduction in the estimated amount of eligible costs incurred by state and local, territorial, and tribal program recipients of Coronavirus State and Local Fiscal Recovery Funds. In addition, Treasury gross costs reported in this *Financial Report* reflect a decrease in COVID-19 related refunds and other payments, such as EIP and advances for child tax credits, from $89.2 billion to $53.4 billion.
- A $521.0 billion decrease at Education, due largely to the combined effect of: 1) the announced broad-based student loan debt relief in continued response to the pandemic to help borrowers at highest risk of delinquencies or default once payments resumed; and 2) the reversal of the announced broad-based student loan debt relief as a result of the Supreme Court's ruling in Biden v. Nebraska. The combined effect on Education's net cost was: 1) an FY 2022 cost increase of $330.9 billion, due largely to a $337.3 billon upward cost modification to its direct loan program stemming from the announced broad-based relief; and 2) a $319.9 billion downward cost modification in FY 2023 related to the student loan debt relief. Education's FY 2023 costs were also impacted by: 1) a $71.4 billion upward loan reestimate of the costs of its existing loan portfolio; and 2) $115.7 billion in upward modifications related to COVID-19 administrative actions, changes to repayment plans, and other programmatic changes.

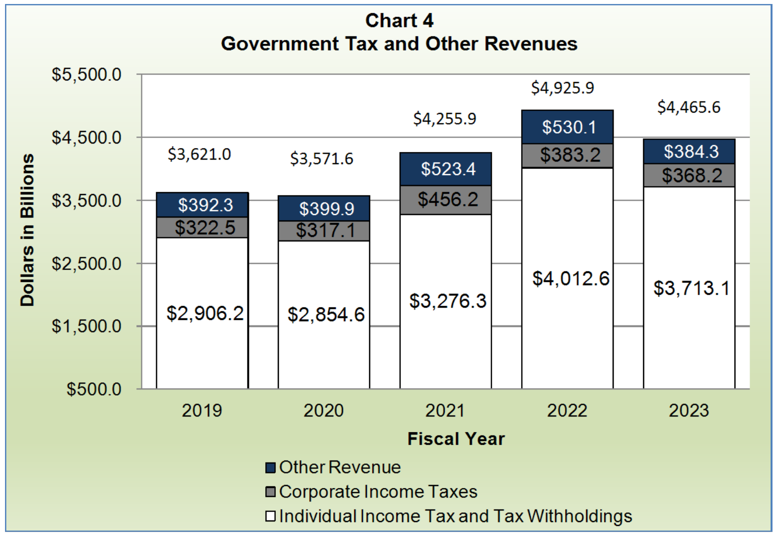


- A $54.1 billion net cost increase at HHS was primarily due to $116.1 billion across the Medicare and Medicaid benefit programs largely associated with increasing benefits. Notably, Medicare HI costs increased due to increases in HI benefit expenses of $26.6 billion and contingent liability of $10.4 billion. Medicaid benefit expense increased $19.1 billion from higher grant awards to the states due to the continuation of the COVID-19 relief, offset by $1.1 billion decrease in contingent liability expenses for the state plan amendments. HHS also experienced a $62.0 billion decrease across all other HHS segments primarily due to decreased COVID-19 costs.
- A $138.8 billion increase at SSA, due to a 2.5 percent increase in the number of OASI beneficiaries, and the 8.7 percent COLA provided to beneficiaries in 2023. The OASI, DI, and SSI net cost increased by 12.0 percent, 6.0 percent, and 0.1 percent respectively. Total benefit expenses increased by $137.8 billion or 10.8 percent.
- A $181.5 billion increase in interest on debt held by the public primarily attributable to an increase in the outstanding debt held by the public and an increase in the average interest rates, which were partially offset by a decrease in inflation adjustments.

Chart 2 shows the composition of the government's net cost for FY 2023, and Chart 3 shows the five-year trend in the largest agency cost components. In FY 2023, approximately 87 percent of the federal government's total net cost came from only six agencies (HHS, VA, SSA, DOD, Treasury, USDA), and interest on the debt. The other 150-plus entities included in the government's FY 2023 Statement of Net Cost accounted for a combined 13 percent of the government's total net cost for FY 2023. HHS and SSA net costs for FY 2023 ($1.7 trillion and $1.4 trillion, respectively) are largely attributable to major social insurance programs administered by these entities. VA net costs of $1.5 trillion support health, education and other benefits programs for our nation's veterans. DOD net costs of $1.0 trillion relate primarily to operations, readiness, and support; personnel; research; procurement; and retirement and health benefits. Treasury net costs of $303.7 billion support a broad array of programs that promote conditions for sustaining economic growth and stability, protecting the integrity of our nation's financial system, and effectively managing the U.S. government's finances and resources. USDA net costs of $226.3 billion support a wide range of programs that provide effective, innovative, science-based public policy leadership in agriculture, food and nutrition, natural resource protection and management, rural development, and related issues with a commitment to deliver equitable and climate-smart opportunities that inspire and help America thrive.

Tax and Other Revenues

As noted earlier, tax and other revenues from the Statement of Operations and Changes in Net Position are deducted from total net cost to derive the government's "bottom line" net operating cost. Chart 4 shows that total tax and other revenue decreased by $460.3 billion or 9.3 percent to $4.5 trillion for FY 2023. This decrease is attributable mainly to an overall decline in income tax collections, primarily from individuals and corporations, coupled with decreased deposits of earnings from the Federal Reserve due to increased interest rates. Earned revenues from Table 3 are not considered "taxes and other revenue" and, thus, are not shown in Chart 4. Individual income tax and tax withholdings and corporate income taxes accounted for about 83.1 percent and 8.2 percent of total revenue, respectively in FY 2023; other revenues from Chart 4 include Federal Reserve earnings, excise taxes, unemployment taxes, and customs duties.



As previously shown in Table 3, the decrease in tax and other revenue was more than offset by the decrease in net cost, yielding a $753.8 billion decrease to the government's bottom line net operating cost to $3.4 trillion for FY 2023.

Tax Expenditures

Tax and other revenues reported reflect the effects of tax expenditures, which are special exclusions, exemptions, deductions, tax credits, preferential tax rates, and tax deferrals that allow individuals and businesses to reduce taxes they may otherwise owe. Tax expenditures may be viewed as alternatives to other policy instruments, such as spending or regulatory programs. For example, the government supports college attendance through both spending programs and tax expenditures. The government uses Pell Grants to help low- and moderate-income students afford college and allows certain funds used to meet college expenses to grow tax free in special college savings accounts. Tax expenditures may include deductions and exclusions which reduce the amount of income subject to tax (e.g., deductions for personal residence mortgage interest). Tax credits, which reduce tax liability dollar for dollar for the amount of credit (e.g., child tax credit), are also considered tax expenditures. Tax expenditures may also allow taxpayers to defer tax liability.

Receipts in the calculation of surplus or deficit, and tax revenues in the calculation of net position, reflect the effect of tax expenditures. As discussed in more detail in the Other Information section of this *Financial Report*, tax expenditures will generally lower federal government receipts although tax expenditure estimates do not necessarily equal the increase in federal revenues (or the change in the *Budget* balance) that would result from repealing these special provisions.

Tax expenditures are reported annually in the Analytical Perspectives of the *Budget*. In addition, current and past tax expenditure estimates and descriptions can be found at the following location from Treasury's Office of Tax Policy: https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures.

Assets and Liabilities

The government's net position at the end of the fiscal year is derived by netting the government's assets against its liabilities, as presented in the Balance Sheet (summarized in Table 4).[12] The Balance Sheet does not include the financial value of the government's sovereign powers to tax, regulate commerce, or set monetary policy or value of nonoperational resources of the government, such as national and natural resources, for which the government is a steward. In addition, as is the case with the Statement of Operations and Changes in Net Position, the Balance Sheet includes a separate presentation of the portion of net position related to funds from dedicated collections. Moreover, the government's exposures are broader than the liabilities presented on the Balance Sheet. The government's future social insurance exposures (e.g., Medicare and Social Security) as well as other fiscal projections, commitments and contingencies, are reported in separate statements and disclosures. This information is discussed later in this MD&A section, the financial statements, and RSI sections of this *Financial Report*.

[12] As shown in Table 4, the government's Balance Sheet includes an adjustment for unmatched transactions and balances, which represent unresolved differences in intra-governmental activity and balances between federal entities. These amounts are described in greater detail in the Other Information section of this *Financial Report*.

Table 4: Assets and Liabilities

Dollars in Billions	2023	2022	Increase / (Decrease) $	%
Assets				
Cash & Other Monetary Assets	$ 922.2	$ 877.8	$ 44.4	5.1%
Inventory and Related Property, Net	$ 423.0	$ 406.9	$ 16.1	4.0%
Loans Receivable, Net	$ 1,695.1	$ 1,434.1	$ 261.0	18.2%
General Property, Plant & Equipment, Net	$ 1,235.0	$ 1,197.5	$ 37.5	3.1%
Other	$ 1,143.8	$ 1,046.1	$ 97.7	9.3%
Total Assets	**$ 5,419.1**	**$ 4,962.4**	**$ 456.7**	**9.2%**
Less: Liabilities, comprised of:				
Federal Debt and Interest Payable	$(26,347.7)	$(24,328.0)	$ 2,019.7	8.3%
Federal Employee & Veteran Benefits Payable	$(14,327.4)	$(12,811.9)	$ 1,515.5	11.8%
Other	$ (2,223.2)	$ (1,882.4)	$ 340.8	18.1%
Total Liabilities	**$(42,898.3)**	**$(39,022.3)**	**$ 3,876.0**	**9.9%**
Unmatched Transactions and Balances[1]	**$ -**	**$ (1.3)**	**$ (1.3)**	**(100.0%)**
Net Position	**$(37,479.2)**	**$(34,061.2)**	**$ 3,418.0**	**10.0%**

[1] Unmatched transactions and balances are net adjustments needed to balance the financial statements and are due primarily to unresolved intra-governmental differences.

Assets

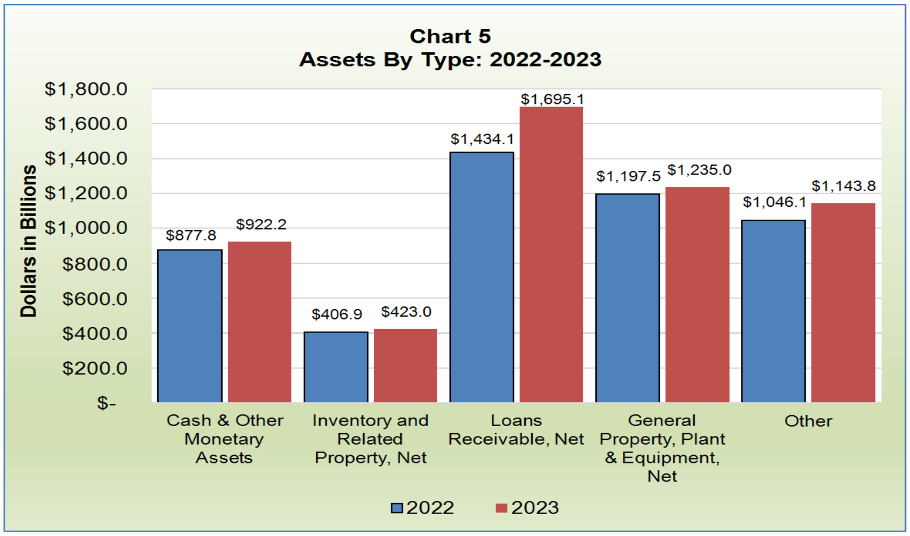
From Table 4, as of September 30, 2023, more than three-fourths of the government's $5.4 trillion in reported assets is comprised of: 1) cash and other monetary assets ($922.2 billion); 2) inventory and related property, net ($423.0 billion); 3) loans receivable, net ($1.7 trillion); and 4) net PP&E ($1.2 trillion).[13] Chart 5 compares the balances of these and other Balance Sheet amounts as of September 30, 2023, and 2022.

Cash and other monetary assets ($922.2 billion) is comprised largely of the operating cash of the U.S. government. Operating cash held by Treasury, which represents balances from tax collections, federal debt receipts, and other various receipts net of cash outflows for federal debt repayments and other payments, increased $21.9 billion (3.5 percent) to $638.9 billion (see Note 2—Cash and Other Monetary Assets).

Inventory and related property is comprised of inventory; OM&S; stockpile materials; commodities; and seized, forfeited, and foreclosed property. Inventory is tangible personal property that is either held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee (e.g., raw materials, finished goods, spare and repair parts, clothing and textiles, and fuels). OM&S consists of tangible personal property to be consumed in normal operations (e.g., spare and repair parts, ammunition, and tactical missiles). Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation, or local/national emergencies. Contributing agencies include DOD, DOE, Treasury, DHS, and HHS (see Note 5—Inventory and Related Property, Net).

[13] For financial reporting purposes, other than multi-use heritage assets, stewardship assets of the government are not recorded as part of PP&E. Stewardship assets are comprised of stewardship land and heritage assets. Stewardship land primarily consists of public domain land (e.g., national parks, wildlife refuges). Heritage assets include national monuments and historical sites that among other characteristics are of historical, natural, cultural, educational, or artistic significance. See Note 26—Stewardship Property, Plant, and Equipment.

The federal government's direct loans and loan guarantee programs are used to promote the nation's welfare by making financing available to segments of the population not served adequately by non-federal institutions, or otherwise providing for certain activities or investments. For those unable to afford credit at the market rate, federal credit programs provide subsidies in the form of direct loans offered at an interest rate lower than the market rate. For those to whom non-federal financial institutions are reluctant to grant credit because of the high risk involved, federal credit programs guarantee the payment of these non-federal loans and absorb the cost of defaults. For example, Education supports individuals engaged in education programs through a variety of student loan, grant and other assistance programs. USDA administers loan programs to support the nation's farming and agriculture community. HUD loan programs support affordable homeownership, as well as the construction and rehabilitation of housing projects for the elderly and persons with disabilities. SBA loan programs enable the establishment and vitality of small businesses and assist in the economic recovery of communities after disasters. Loans receivable consists primarily of direct loans disbursed by the government, receivables related to guaranteed loans that have defaulted, and certain receivables for guaranteed loans that the government has purchased from lenders. The federal government's direct loan portfolio increased by $261.0 billion (18.2 percent) to $1.7 trillion during FY 2023, with Education and SBA together accounting for more than three-fourths of the total.



Loan guarantee programs are another form of federal lending. For those to whom non-federal financial institutions are reluctant to grant credit because of the high risk involved, federal credit programs guarantee the payment of these non-federal loans and absorb the cost of defaults. Significant changes to the federal government's loans receivable, net, and loan guarantee liabilities, as discussed in Note 4, include:

- Education has loan programs that are authorized by Title IV of the *Higher Education Act of 1965*. The William D. Ford Federal Direct Loan Program (referred to as the Direct Loan Program), was established in FY 1994 and offers four types of educational loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students, and consolidation loans. Education's net loans receivable for its Direct Loan Program increased from $816.6 billion to $1.0 trillion (60.8 percent of total loans receivable, net). This increase was largely due to the reversal of the broad-based student loan debt relief as a result of the Supreme Court's ruling in Biden v. Nebraska. Education had announced the broad-based relief during FY 2022 to address the financial harms of the pandemic by smoothing the transition back to repayment and helping borrowers at highest risk of delinquencies or default once payments resumed. In addition, all federal wage garnishments and collections actions for borrowers with federally held loans in default were halted.
- Treasury purchased a $50 billion note issued by a trust created by FDIC in its receivership capacity and backed by a guarantee from the FDIC in its corporate capacity.
- SBA makes loans to microloan intermediaries and provides a direct loan program that assists homeowners, renters and businesses recover from disasters. SBA's Disaster Assistance Loan Program makes direct loans to disaster survivors under four categories: 1) physical disaster loans to repair or replace damaged homes and personal property; 2) physical disaster loans to businesses of any size; 3) EIDLs to eligible small business and nonprofit organizations without credit available elsewhere; and 4) economic injury loans to eligible small businesses affected by essential employees called up to active duty in the military reserves. In FY 2023 SBA's credit program receivables decreased by $49.6 billion from FY 2022 due largely to write-offs of direct disaster loans.
- Fluctuations in loan programs for HUD, DOT, and DFC.

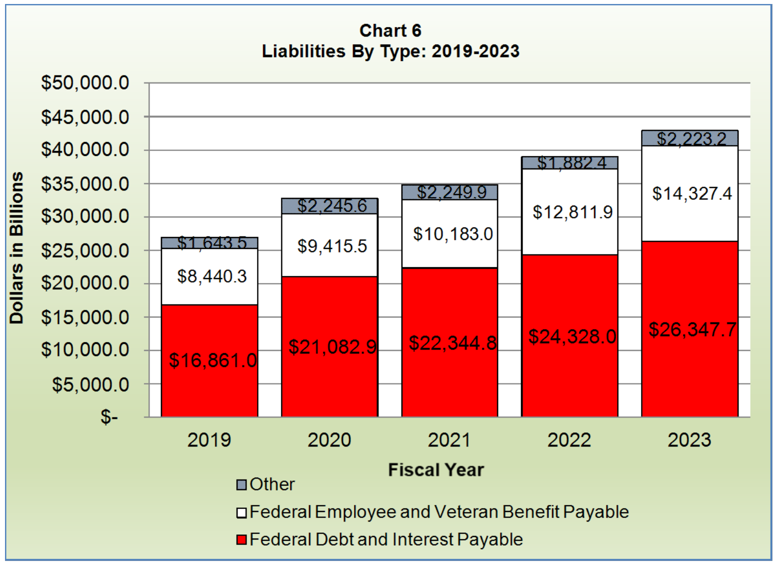
Federal government general PP&E includes many of the physical resources that are vital to the federal government's ongoing operations, including buildings, structures, facilities, equipment, internal use software, and general-purpose land. DOD comprises approximately 67.4 percent of the government's reported general PP&E of $1.2 trillion as of September 30, 2023. See Note 6—General Property, Plant, and Equipment, Net.

"Other" assets of $1.1 trillion in Table 4 and Chart 5 includes: 1) $319.9 billion in accounts receivable, net; 2) $252.7 billion in "Advances and Prepayments"; and 3) $240.4 billion in investments in GSEs. Treasury comprises approximately 57.7 percent of the government's reported accounts receivable, net, mostly in the form of reported taxes receivable, which consist of unpaid assessments due from taxpayers, unpaid taxes related to IRC section 965, and deferred payments for employer's share of FICA taxes pursuant to the CARES Act. Taxes receivable, net, decreased by $55.0 billion during FY

2023, primarily due to the reduction in IRC 965(h) and to payments to Treasury of the deferred employer portion of FICA Social Security taxes. (See Note 3—Accounts Receivable, Net). Advances and Prepayments represent funds disbursed in contemplation of the future performance of services, receipt of goods, the incurrence of expenditures, or the receipt of other assets. The $45.4 billion decrease in this amount was largely attributable to a reduction in the estimated amount of eligible costs incurred by state, local, territorial, and tribal governments pursuant COVID-19 legislation (See Note 9—Advances and Prepayments). Investments in GSEs refers to actions taken by Treasury in the wake of the 2008 financial crisis to maintain the solvency of the GSEs (Fannie Mae and Freddie Mac) so they can continue to fulfill their vital roles in the mortgage market while the administration and Congress determine what structural changes should be made to the housing finance system. (See Note 8—Investment in Government-Sponsored Enterprises).

Liabilities

As indicated in Table 4 and Chart 6, of the government's $42.9 trillion in total liabilities, the largest liability is federal debt and interest payable, the balance of which increased by $2.0 trillion (8.3 percent) to $26.3 trillion as of September 30, 2023.



The other major component of the government's liabilities is federal employee and veteran benefits payable (i.e., the government's pension and other benefit plans for its military and civilian employees), which increased $1.5 trillion (11.8 percent) during FY 2023, to about $14.3 trillion. This total amount is comprised of $3.3 trillion in benefits payable for the current and retired civilian workforce, and $11.1 trillion for the military and veterans. OPM administers the largest civilian pension plan, covering nearly 2.8 million active employees, including the Postal Service, and more than 2.7 million annuitants, including survivors. The DOD military pension plan covers about 2.1 million current military personnel (including active service, reserve, and National Guard) and approximately 2.4 million retirees and survivors.

Federal Debt

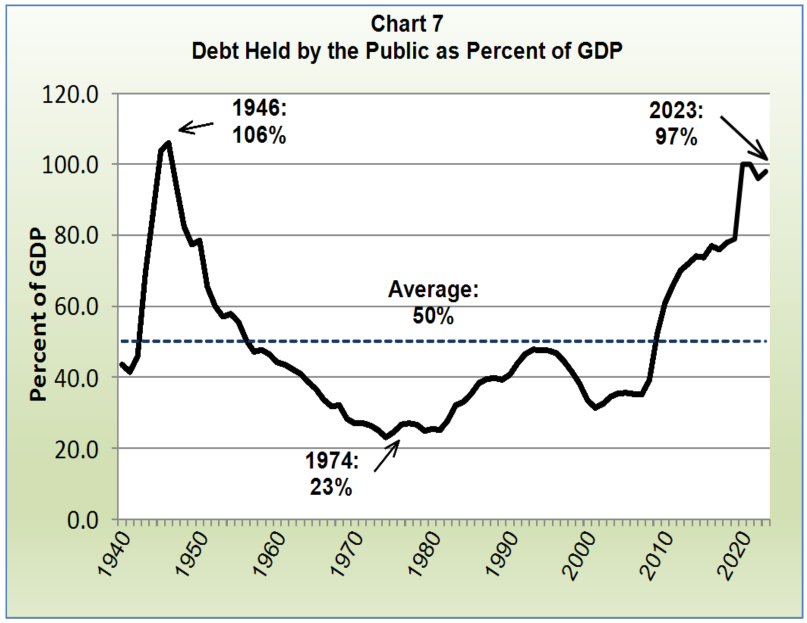
The budget surplus or deficit is the difference between total federal spending and receipts (e.g., taxes) in a given year. The government borrows from the public (increases federal debt levels) to finance deficits. During a budget surplus (i.e., when receipts exceed spending), the government typically uses those excess funds to reduce the debt held by the public. The Statement of Changes in Cash Balance from Budget and Other Activities reports how the annual budget surplus or deficit relates to the federal government's borrowing and changes in cash and other monetary assets. It also explains how a budget surplus or deficit normally affects changes in debt balances.

> Prior to 1917, Congress approved each debt issuance. In 1917, to facilitate planning in World War I, Congress and the President established a dollar ceiling for federal borrowing. With the *Public Debt Act of 1941* (P.L. 77-7), Congress and the President set an overall limit of $65 billion on Treasury debt obligations that could be outstanding at any one time. Since then, Congress and the President have enacted a number of measures affecting the debt limit, including several in recent years. Congress and the President most recently suspended the debt limit from June 3, 2023 through January 1, 2025. It is important to note that increasing or suspending the debt limit does not increase spending or authorize new spending; rather, it permits the U.S. to continue to honor pre-existing commitments to its citizens, businesses, and investors domestically and around the world.

The government's federal debt and interest payable (Balance Sheet liability), which is comprised of publicly-held debt and accrued interest payable, increased $2.0 trillion (8.3 percent) to $26.3 trillion as of September 30, 2023. It is comprised of Treasury securities, such as bills, notes, and bonds, net of unamortized discounts and premiums issued or sold to the public; and accrued interest payable. The "public" consists of individuals, corporations, state and local governments, FRB, foreign governments, and other entities outside the federal government. As indicated above, budget surpluses have typically resulted in borrowing reductions, and budget deficits have conversely yielded borrowing increases. However, the government's debt operations are generally much more complex. Each year, trillions of dollars of debt matures and new debt is issued to take its place. In FY 2023, new borrowings were $20.2 trillion, and repayments of maturing debt held by the public were $18.2 trillion, both increases over FY 2022. The $2.0 trillion increase in publicly held debt and accrued interest payable is largely attributable to the need to finance the government's operations.

In addition to debt held by the public, the government has about $6.9 trillion in intra-governmental debt outstanding, which arises when one part of the government borrows from another. It represents debt issued by Treasury and held by government accounts, including the Social Security ($2.8 trillion) and Medicare ($353.9 billion) Trust Funds. Intra-governmental debt is primarily held in government trust funds in the form of special nonmarketable securities by various parts of the government. Laws establishing government trust funds generally require excess trust fund receipts (including interest earnings) over disbursements to be invested in these special securities. Because these amounts are both liabilities of Treasury and assets of the government trust funds, they are eliminated as part of the consolidation process for the government-wide financial statements (see Financial Statement Note 12). When those securities are redeemed, e.g., to pay Social Security benefits, the government must obtain the resources necessary to reimburse the trust funds. The sum of debt held by the public and intra-governmental debt equals gross federal debt, which (with some adjustments), is subject to a statutory ceiling (i.e., the debt limit). Note that when intra-governmental debt decreases, debt held by the public will increase by an equal amount (if the general account of the U.S. government is in deficit), so that there is no net effect on gross federal debt. At the end of FY 2023, debt subject to the statutory limit was $33.1 trillion.[14]

The federal debt held by the public measured as a percent of GDP (debt-to-GDP ratio) (Chart 7) compares the country's debt to the size of its economy, making this measure sensitive to changes in both. Over time, the debt-to-GDP ratio has varied widely:



- For most of the nation's history, through the first half of the 20th century, the debt-to-GDP ratio has tended to increase during wartime and decline during peacetime.
- Chart 7 shows that wartime spending and borrowing pushed the debt-to-GDP ratio to an all-time high of 106 percent in 1946, soon after the end of World War II, but it decreased rapidly in the post-war years.
- The ratio grew rapidly from the mid-1970s until the early 1990s. Strong economic growth and fundamental fiscal decisions, including measures to reduce the federal deficit and implementation of binding PAYGO rules (which require that new tax or spending laws not add to the deficit), generated a significant decline in the debt-to-GDP ratio, from a peak of 48 percent in FYs 1993-1995, to 31 percent in 2001.
- The debt-to-GDP ratio rose significantly in 2008-2009 during the financial crisis and again in 2020-2021 during the pandemic reflecting the government's responses to both events and the resulting significant spending and deficit increases, as well as the economic challenges experienced during both periods.
- During the first decade of the 21st century, PAYGO rules were allowed to lapse, significant tax cuts were implemented, entitlements were expanded, and spending related to defense and homeland security increased. By September 2008, the debt-to-GDP ratio was 39 percent of GDP.
- PAYGO rules were reinstated in 2010, but the extraordinary demands of the 2008 economic and financial crisis and the consequent actions taken by the federal government, combined with slower economic growth in the wake of the crisis, pushed the debt-to-GDP ratio up to 74 percent by the end of FY 2014.
- The extraordinary demands of the pandemic, the government's response, and pressures on the economy contributed to a rise in the debt-to-GDP ratio to approximately 100 percent during FY 2020 and FY 2021.

[14] Beginning in FY 2021 and continuing into FY 2022 and again in FY 2023, Treasury faced two delays in raising the statutory debt limit that required it to depart from its normal debt management procedures and to invoke legal authorities to avoid exceeding the statutory debt limit. During these periods, extraordinary measures taken by Treasury have resulted in federal debt securities not being issued to certain federal government accounts with the securities being restored including lost interest to the affected federal government accounts subsequent to the end of the delay period. During the first delay, Treasury took extraordinary actions from August 2, 2021, through December 15, 2021. On October 14, 2021, P.L. 117-50 was enacted which raised the statutory debt limit by $480.0 billion, from $28,401.5 billion to $28,881.5 billion. Even with this increase, extraordinary measures continued in order for Treasury to manage below the debt limit. On December 16, 2021, P.L. 117-73 was enacted, increasing the debt limit by $2.5 trillion to $31.4 trillion. Due to a second delay in raising the debt limit, Treasury began taking extraordinary actions from January 19, 2023, through June 2, 2023. On June 3, 2023, P.L. 118-5 was enacted, suspending the debt limit through January 1, 2025. See Note 12—Federal Debt and Interest Payable.

- The debt was approximately 97 percent of GDP at the end of FY 2023. This ratio increased during FY 2023 because debt grew faster than GDP.[15,16] From Chart 7, since 1940, the average debt-to-GDP ratio is 50 percent.

See Note 29—COVID-19 Activity, as well as the referenced agencies' FY 2023 financial statements for additional information about the financial effects of the federal government's response to the pandemic. See Note 30—Subsequent Events for information about events that occurred after the end of the fiscal year that may affect the government's financial results.

The Economy in FY 2023

A consideration of U.S. economic performance provides useful context when evaluating the government's financial statements. In FY 2023, the economy's growth accelerated and yet inflation continued to slow. Payroll job creation remained relatively strong even as the rebalancing of labor demand and supply gained momentum. Personal saving rates ended up higher over the year—though they remained below pre-pandemic levels. In addition, supply chains (which were stressed in FY 2022 due to lingering effects of the pandemic and Russia's invasion of Ukraine) recovered further, lessening inflationary pressures. This significant progress on the inflation front has supported real (inflation-adjusted) income and wage growth.

Table 5: National Economic Indicators*

	2023	2022
Real GDP Growth[1] (4-quarter percent change)	2.9%	1.7%
Real Personal Consumption Expenditures[1] (4-quarter percent change)	2.2%	1.9%
Average monthly payroll job change (thousands)[2]	255	492
Unemployment rate[2] (percent, September of fiscal year shown)	3.8%	3.5%
CPI (12-month percent change)[2] (not seasonally adjusted, NSA)	3.7%	8.2%
CPI, excluding food and energy[2] (12-month percent change, NSA)	4.1%	6.6%
Real Disposable Personal Income[1] (12-month percent change)	3.8%	(2.3%)
Real Average Hourly Earnings[2] Production and Non-Supervisory (12-month percent change)	0.8%	(2.4%)

[1] Source: Bureau of Economic Analysis
[2] Source: Bureau of Labor Statistics
* Some FY 2022 data may differ from the FY 2022 Financial Report due to updates and revisions.

As summarized in Table 5, the real GDP grew by 2.9 percent over the four quarters of FY 2023. PCE and net exports were the largest contributors to economic growth. Over the four quarters of FY 2023, growth of PCE accelerated to 2.2 percent, after growing 1.9 percent in the previous fiscal year; net exports added 0.2 percentage points to growth in FY 2023, stepping up from an 0.1 percentage point contribution in FY 2022. In addition, total government consumption and investment increased in FY 2023. In the previous fiscal year, government spending had declined 0.6 percent as pandemic-related financial support programs unwound, but public expenditures rose 4.8 percent in FY 2023—partly reflecting higher real spending by state and local governments as well as higher federal defense expenditures. Meanwhile, business fixed investment and inventories made positive, though smaller contributions. Business fixed investment expanded by 4.1 percent, slowing from a gain of 5.8 percent over the previous four quarters. Inventory investment contributed 0.2 percentage points to growth in FY 2023, or one-half the 0.4 percentage point addition to growth in FY 2022, as firms built up inventories more slowly. In addition, the drag from residential investment slowed somewhat despite rising mortgage rates: residential investment growth dropped 11.4 percent in FY 2022, but the decline tapered to 7.2 percent in the most recent fiscal year. Notably, the final quarter of FY 2023 saw an upturn in residential investment, after nine consecutive quarters of decline.

Labor markets continued to generate a substantial number of jobs but also showed signs of very gradual easing over the course of FY 2023. On average, employers added 255,000 payroll jobs per month in FY 2023, a relatively rapid pace but about one-half the monthly average of 492,000 generated in FY 2022. Twice during FY 2023 the unemployment rate dropped to a 54-year low of 3.4 percent but climbed to 3.8 percent by the end of the fiscal year, pushed higher by improved labor force participation rates, including participation among older workers and women. In addition to increased labor supply, labor demand gradually eased. From September 2022 to September 2023, the number of job openings fell from 10.9 million to 9.4 million—still elevated but only 1.8 million above the pre-pandemic peak. Moreover, the ratio of vacancies to unemployed persons declined by 0.4 units to 1.5 job openings per unemployed person, suggesting some loosening of conditions but still above the 1.2 vacancies per unemployed person averaged in 2018 and 2019.

Inflation slowed markedly during FY 2023, as supply-chain disruptions receded, demand for goods and services became more balanced, and energy and food prices eased. Nonetheless, shelter price inflation remained very high, partly offsetting progress in reducing other components of core inflation (which excludes good and energy). The CPI rose 3.7 percent over the 12 months of FY 2023, less than half the 8.2 percent pace during the previous fiscal year. Core inflation was 4.1 percent over the fiscal year ending September 2023, decelerating from the 6.6 percent pace during FY 2022.

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[15] GDP, in this context, refers to nominal GDP.
[16] The increase in debt of $2.0 trillion was greater than the FY 2023 deficit of $1.7 trillion primarily because of the budgetary cost reduction relating to the broad-based student loan debt relief reversal resulting from the Supreme Court's determination in Biden v. Nebraska.

Although gains in nominal income and wages slowed to a more normal pace, lower inflation helped to boost purchasing power in real terms. Real disposable personal income increased 3.8 percent over the 12 months of FY 2023, more than recovering from the 2.3 percent decline during the previous fiscal year. Although the pace of nominal average hourly earnings growth for production and non-supervisory workers slowed in FY 2023 to 4.4 percent, it was still relatively strong. Combined with slower inflation, real average hourly earnings rose 0.8 percent during FY 2023, after declining 2.4 percent in the previous fiscal year.

An Unsustainable Fiscal Path

An important purpose of the *Financial Report* is to help citizens understand current fiscal policy and the importance and magnitude of policy reforms necessary to make it sustainable. This *Financial Report* includes the SLTFP and a related note disclosure (Note 24). The Statements display the PV of 75-year projections of the federal government's receipts and non-interest spending[17] for FY 2023 and FY 2022.

Fiscal Sustainability

A sustainable fiscal policy is defined as one where the debt-to-GDP ratio is stable or declining over the long term. The projections based on the assumptions in this *Financial Report* indicate that current policy is not sustainable. This *Financial Report* presents data, including debt, as a percent of GDP to help readers assess whether current fiscal policy is sustainable. The debt-to-GDP ratio was approximately 97 percent at the end of FY 2023, which is similar to (but slightly above) the debt-to-GDP ratio at the end of FY 2022. The long-term fiscal projections in this *Financial Report* are based on the same economic and demographic assumptions that underlie the 2023 SOSI, which is as of January 1, 2023. As discussed below, if current policy is left unchanged and based on this *Financial Report's* assumptions, the debt-to-GDP ratio is projected to exceed 200 percent by 2047 and reach 531 percent in 2098. By comparison, under the 2022 projections, the debt-to-GDP ratio exceeded 200 percent one year earlier in 2046 and reached 566 percent in 2097. Preventing the debt-to-GDP ratio from rising over the next 75 years is estimated to require some combination of spending reductions and revenue increases that amount to 4.5 percent PV of GDP over the period. While this estimate of the "75-year fiscal gap" is highly uncertain, it is nevertheless nearly certain that current fiscal policies cannot be sustained indefinitely.

Delaying action to reduce the fiscal gap increases the magnitude of spending and/or revenue changes necessary to stabilize the debt-to-GDP ratio as shown in Table 6 below.

The estimates of the cost of policy delay assume policy does not affect GDP or other economic variables. Delaying fiscal adjustments for too long raises the risk that growing federal debt would increase interest rates, which would, in turn, reduce investment and ultimately economic growth.

The projections discussed here assume current policy[18] remains unchanged, and hence, are neither forecasts nor predictions. Nevertheless, the projections demonstrate that policy changes must be enacted to move towards fiscal sustainability.

The Primary Deficit, Interest, and Debt

The primary deficit – the difference between non-interest spending and receipts – is the determinant of the debt-to-GDP ratio over which the government has the greatest control (the other determinants include interest rates and growth in GDP). Chart 8 shows receipts, non-interest spending, and the difference – the primary deficit – expressed as a share of GDP. The primary deficit-to-GDP ratio spiked during 2009 through 2012 due to the 2008-09 financial crisis and the ensuing severe recession, as well as the effects of the government's response thereto. These elevated primary deficits resulted in a sharp increase in the ratio of debt to GDP, which rose from 39 percent at the end of 2008 to 70 percent at the end of 2012. As an economic recovery took hold, the primary deficit ratio fell, averaging 2.1 percent of GDP over 2013 through 2019. The primary deficit-to-GDP ratio again spiked in 2020, rising to 13.3 percent of GDP in 2020, due to increased spending to address the COVID-19 pandemic and lessen the economic impacts of stay-at-home and social distancing orders on individuals, hard-hit industries, and small businesses. Spending remained elevated in 2021 due to additional funding to support economic recovery, but increased receipts reduced the primary deficit-to-GDP ratio to 10.8 percent.

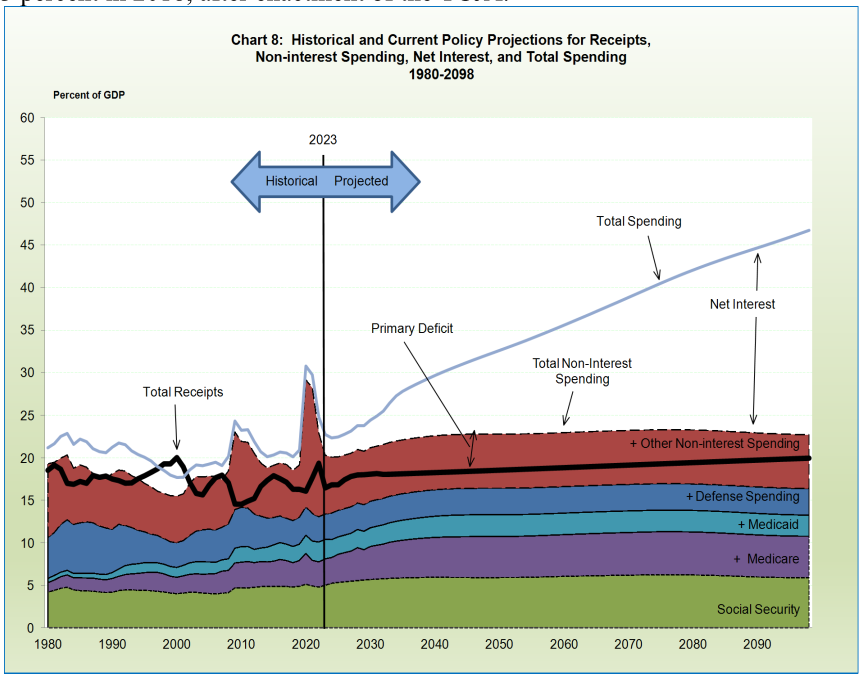
The primary deficit-to-GDP ratio in 2023 was 3.8 percent, increasing by 0.2 percentage points from 2022 primarily due to lower receipts, partially offset by lower non-interest spending. The primary deficit-to-GDP ratio is projected to fall to 3.2

[17] For the purposes of the SLTFP and this analysis, spending is defined in terms of outlays. In the context of federal budgeting, spending can either refer to: 1) budget authority – the authority to commit the government to make a payment; 2) obligations – binding agreements that will result in either immediate or future payment; or 3) outlays, or actual payments made.

[18] Current policy in the projections is based on current law, but includes certain adjustments, such as extension of certain policies that expire under current law but are routinely extended or otherwise expected to continue (e.g., reauthorization of the Supplemental Nutrition Assistance Program). See Note 24 for additional discussion of departures of current policy from current law.

percent in 2024, based on the technical assumptions in this *Financial Report*, and projected changes in receipts and outlays, including an estimated decrease in Medicaid outlays as the expiration of temporary measures related to the COVID-19 pandemic winds down. After 2024, increased spending for Social Security and health programs due to the continued retirement of the baby boom generation, is projected to result in increasing primary deficit ratios that peak at 4.4 percent of GDP in 2043. Primary deficits as a share of GDP gradually decrease beyond that point, as aging of the population continues at a slower pace and reach 2.8 percent of GDP in 2098, the last year of the projection period.

Trends in the primary deficit are heavily influenced by tax receipts. The receipt share of GDP was markedly depressed in 2009 through 2012 because of the recession and tax reductions enacted as part of the ARRA and the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.* The share subsequently increased to nearly 18.0 percent of GDP by 2015, before falling to 16.3 percent in 2018, after enactment of the TCJA.



Receipts reached 19.6 percent of GDP in 2022, the highest share of GDP since 2000, then fell to 16.5 percent of GDP in 2023 due to a decrease in individual income tax receipts and lower deposits of earnings by the Federal Reserve. Receipts are projected to gradually increase to 18.1 percent of GDP in 2033 when corporation income tax and other receipts stabilize as a share of GDP. After 2033, receipts grow slightly more rapidly than GDP over the projection period as increases in real (i.e., inflation-adjusted) incomes cause more taxpayers and a larger share of income to fall into the higher individual income tax brackets.[19]

On the spending side, the non-interest spending share of GDP was 20.3 percent in 2023, 2.9 percentage points below the share of GDP in 2022, which was 23.2 percent. The ratio of non-interest spending to GDP is projected to fall to 20.1 percent in 2024 and then rise gradually, reaching 23.3 percent of GDP in 2076. The ratio of non-interest spending to GDP then declines to 22.7 percent in 2098, the end of the projection period. These increases are principally due to faster growth in Social Security, Medicare, and Medicaid spending (see Chart 8). The aging of the baby boom generation, among other factors, is projected to increase the spending shares of GDP of Social Security and Medicare by about 0.7 and 1.7 percentage points, respectively, from 2024 to 2040. After 2040, the Social Security and Medicare spending shares of GDP continue to increase in most years, albeit at a slower rate, due to projected increases in health care costs and population aging, before declining toward the end of the projection period.

On a PV basis, deficit projections reported in the FY 2023 *Financial Report* decreased in both present-value terms and as a percent of the current 75-year PV of GDP. As shown in the SLTFP, this year's estimate of the 75-year PV imbalance of receipts less non-interest spending is 3.8 percent of the current 75-year PV of GDP ($73.2 trillion), compared to 4.2 percent ($79.5 trillion) as was projected in last year's *Financial Report*. As discussed in Note 24, these decreases are attributable to the net effect of the following factors:

- Changes due to program-specific actuarial assumptions is the effect of new Social Security, Medicare, and Medicaid program-specific actuarial assumptions, which decrease the fiscal imbalance as a share of the 75-year PV of GDP by 0.6 percentage points ($10.6 trillion). This change is primarily attributable to near-term growth rate assumptions for Medicaid. In the 2022 projections, growth rates through 2027 followed projections in the *2018 Medicaid Actuarial Report*. Growth rates for the 2023 projections are based on NHE data and reflect the expiration of temporary measures related to the COVID-19 pandemic.
- Changes due to updated budget data increased the fiscal imbalance by 0.4 percentage points ($7.4 trillion). This change stems from actual budget results for FY 2023 and baseline estimates published in the FY 2024 President's Budget, plus adjustments to discretionary spending and receipts from legislation enacted in the FRA (P.L. 118-5).[20] This deterioration in the fiscal position is largely due to a higher 75-year PV of discretionary spending on defense programs and mandatory spending on programs other than Social Security, Medicare, and Medicaid, and lower

[19] Other possible paths for the receipts-to-GDP ratio and projected debt held by the public are shown in the "Alternative Scenarios" RSI section of this *Financial Report*.
[20] Legislation enacted toward the end of FY 2022 includes: An act making appropriations for Legislative Branch for the fiscal year ending September 30, 2022, and for other purposes (P.L. 117-167); PACT Act (P.L. 117-168); and an act to provide for reconciliation pursuant to title II of S.Con.Res. 14 (P.L. 117-169).

individual income taxes as a share of wages and salaries. That deterioration is partially offset by a lower 75-year PV of spending on non-defense discretionary programs—attributable to the FRA caps—and higher other receipts.

- Changes due to economic and demographic assumptions decreased the fiscal imbalance by 0.3 percentage points ($5.0 trillion). Contributing to this improvement in the imbalance are higher wages that increase receipts and GDP growth rates that lead to reduced spending as a percentage of GDP. The 75-year PV of GDP for this year's projections is $1,919.1 trillion, greater than last year's $1,872.9 trillion.
- Change in reporting period is the effect of shifting calculations from 2023 through 2097 to 2024 through 2098 and increased the imbalance of the 75-year PV of receipts less non-interest spending by $1.9 trillion, which has a negligible effect on the 75-year PV of GDP.

The net effect of the changes in the table above, equal to the penultimate row in the SLTFP, shows that this year's estimate of the overall 75-year PV of receipts less non-interest spending is negative 3.8 percent of the 75-year PV of GDP (negative $73.2 trillion, as compared to a GDP of $1,919.1 trillion).

One of the most important assumptions underlying the projections is that current federal policy does not change. The projections are therefore neither forecasts nor predictions, and do not consider large infrequent events such as natural disasters, military engagements, or economic crises. By definition, they do not build in future changes to policy. If policy changes are enacted, perhaps in response to projections like those presented here, then actual fiscal outcomes will be different than those projected.

Another important assumption is the future growth of health care costs. As discussed in Note 25, these future growth rates – both for health care costs in the economy generally and for federal health care programs such as Medicare, Medicaid, and PPACA exchange subsidies – are highly uncertain. In particular, enactment of the PPACA in 2010 and the MACRA in 2015 lowered payment rate updates for Medicare hospital and physician payments whose long-term effectiveness of which is not yet clear. The Medicare spending projections in the long-term fiscal projections are based on the projections in the 2023 Medicare Trustees Report, which assume the PPACA and MACRA cost control measures will be effective in producing a substantial slowdown in Medicare cost growth.

As discussed in Note 25, the Medicare projections are subject to much uncertainty about the ultimate effects of these provisions to reduce health care cost growth. Certain features of current law may result in some challenges for the Medicare program including physician payments, payment rate updates for most non-physician categories, and productivity adjustments. Payment rate updates for most non-physician categories of Medicare providers are reduced by the growth in economy-wide private nonfarm business total factor productivity although these health providers have historically achieved lower levels of productivity growth. Should payment rates prove to be inadequate for any service, beneficiaries' access to and the quality of Medicare benefits would deteriorate over time, or future legislation would need to be enacted that would likely increase program costs beyond those projected under current law. For the long-term fiscal projections, that uncertainty also affects the projections for Medicaid and exchange subsidies, because the cost per beneficiary in these programs is assumed to grow at the same reduced rate as Medicare cost growth per beneficiary. Other key assumptions, as discussed in greater detail in Note 24—Long-Term Fiscal Projections, include the following:

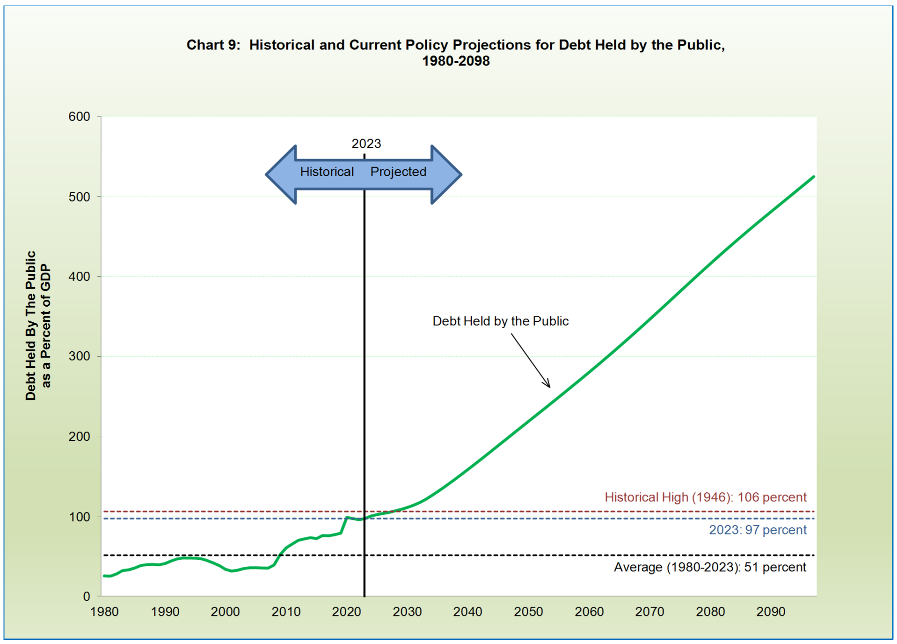
- Medicaid spending projections start with the NHE projections which are based on recent trends in Medicaid spending, as well as Trustees Report assumptions. NHE projections, which end in 2031, are adjusted to accord with the actual Medicaid spending in FY 2023. After 2031, the number of beneficiaries is projected to grow at the same rate as total population. Medicaid cost per beneficiary is assumed to grow at the same rate as Medicare benefits per beneficiary after 2034, after a three-year phase-in to the Medicare per beneficiary growth rate over the period 2032-2034. The most recent Social Security and Medicare Trustees Reports were released in March 2023.
- Other mandatory spending includes federal employee retirement, veterans' disability benefits, and means-tested entitlements other than Medicaid. Current mandatory spending components that are judged permanent under current policy are assumed to increase by the rate of growth in nominal GDP starting in 2024, implying that such spending will remain constant as a percent of GDP.
- Defense and non-defense discretionary spending follows the FRA caps through 2025, then grows with GDP starting in 2026.
- Debt and interest spending is determined by projected interest rates and the level of outstanding debt held by the public. The long-run interest rate assumptions accord with those in the 2023 Social Security Trustees Report. The average interest rate over this year's projection period is 4.5 percent, approximately the same as the 2022 *Financial Report*. Debt at the end of each year is projected by adding that year's deficit and other financing requirements to the debt at the end of the previous year.
- Receipts (other than Social Security and Medicare payroll taxes) is comprised of individual income taxes, corporate income taxes and other receipts.
  - Individual income taxes were based on the share of individual income taxes of salaries and wages in the current law baseline projection in the FY 2024 President's Budget, and the salaries and wages projections from the Social Security 2023 Trustees Report. That baseline accords with the tendency of effective tax rates to increase as growth in income per capita outpaces inflation (also known as "bracket creep") and the expiration dates of individual income and estate and gift tax provisions of the TCJA. Individual income taxes are projected to

increase gradually from 19 percent of wages and salaries in 2024, to 29 percent of wages and salaries in 2098 as real taxable incomes rise over time and an increasing share of total income is taxed in the higher tax brackets.

- o Corporation tax receipts as a percent of GDP reflect the economic and budget assumptions used in developing the FY 2024 President's Budget ten-year baseline budgetary estimates through the first ten projection years, after which they are projected to grow at the same rate as nominal GDP. Corporation tax receipts fall from 1.7 percent of GDP in 2024 to 1.2 percent of GDP in 2033, where they stay for the remainder of the projection period.
- o Other receipts, including excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts, also reflect the FY 2024 President's Budget baseline levels as a share of GDP throughout the budget window, and grow with GDP outside of the budget window. The ratio of other receipts, to GDP is estimated to increase from 1.1 percent in 2024 to 1.2 percent by 2027 where it remains through the projection period.

- Projections for the other categories of receipts and spending are consistent with the economic and demographic assumptions in the Trustees Reports and include updates for actual budget results for FY 2023 or budgetary estimates from the FY 2024 President's Budget.

The primary deficit-to-GDP projections in Chart 8, projections for interest rates, and projections for GDP together determine the debt-to-GDP ratio projections shown in Chart 9. That ratio was approximately 97 percent at the end of FY 2023 and under current policy is projected to exceed the historic high of 106 percent in 2028, rise to 200 percent by 2047 and reach 531 percent by 2098. The change in debt held by the public from one year to the next generally represents the budget deficit, the difference between total spending and total receipts. The debt-to-GDP ratio rises continually in great part because primary deficits lead to higher levels of debt, which lead to higher net interest expenditures, and higher net interest expenditures lead to higher debt.[21] The continuous rise of the debt-to-GDP ratio indicates that current policy is unsustainable.



These debt-to-GDP projections are lower than the corresponding projections in both the 2022 and 2021 *Financial Reports*. For example, the last year of the 75-year projection period used in the FY 2021 *Financial Report* is 2096. In the FY 2023 *Financial Report*, the debt-to-GDP ratio for 2096 is projected to be 518 percent, which compares with 559 and 701 percent for the 2096 projection year in the FY 2022 *Financial Report* and the FY 2021 *Financial Report,* respectively.[22]

The Fiscal Gap and the Cost of Delaying Policy Reform

The 75-year fiscal gap is one measure of the degree to which current policy is unsustainable. It is the amount by which primary surpluses over the next 75 years must, on average, rise above current-policy levels in order for the debt-to-GDP ratio in 2098 to remain at its level in 2023. The projections show that projected primary deficits average 3.8 percent of GDP over the next 75 years under current policy. If policies were adopted to eliminate the fiscal gap, the average primary surplus over the next 75 years would be 0.6 percent of GDP, 4.5 percentage points higher than the projected PV of receipts less non-interest spending shown in the financial statements. Hence, the 75-year fiscal gap is estimated to equal to 4.5 percent of GDP. This amount is, in turn, equivalent to 23.8 percent of 75-year PV receipts and 19.8 percent of 75-year PV non-interest spending. This estimate of the fiscal gap is 0.4 percentage points smaller than was estimated in the FY 2022 *Financial Report* (4.9 percent of GDP).

In these projections, closing the fiscal gap requires running substantially positive primary surpluses, rather than simply eliminating the primary deficit. The primary reason is that the projections assume future interest rates will exceed the growth rate of GDP. Achieving primary balance (that is, running a primary surplus of zero) implies that the debt grows each year by the amount of interest spending, which under these assumptions would result in debt growing faster than GDP.

[21] The change in debt each year is also affected by certain transactions not included in the budget deficit, such as changes in Treasury's cash balances and the nonbudgetary activity of federal credit financing accounts. These transactions are assumed to hold constant at about 0.3 percent of GDP each year, with the same effect on debt as if the primary deficit was higher by that amount.

[22] See the Note 24 of the *FY 2022 Financial Report of the U.S. Government* for more information about changes in the long-term fiscal projections between FYs 2022 and 2021.

Table 6	
Cost of Delaying Fiscal Reform	
Period of Delay	**Change in Average Primary Surplus**
Reform in 2024 (No Delay)	4.5 percent of GDP between 2024 and 2098
Reform in 2034 (Ten-Year Delay)	5.3 percent of GDP between 2034 and 2098
Reform in 2044 (Twenty-Year Delay)	6.5 percent of GDP between 2044 and 2098

Table 6 shows the cost of delaying policy reform to close the fiscal gap by comparing policy reforms that begin in three different years. Immediate reform would require increasing primary surpluses by 4.5 percent of GDP on average between 2024 and 2098 (i.e., some combination of reducing spending and increasing revenue by a combined 4.5 percent of GDP on average over the 75-year projection period). Table 6 shows that delaying policy reform forces larger and more abrupt policy reforms over shorter periods. For example, if policy reform is delayed by 10 years, closing the fiscal gap requires increasing the primary surpluses by 5.3 percent of GDP on average between 2034 and 2098. Similarly, delaying reform by 20 years requires primary surplus increases of 6.5 percent of GDP on average between 2044 and 2098. The differences between the required primary surplus increases that start in 2034 and 2044 (5.3 and 6.5 percent of GDP, respectively) and that which starts in 2024 (4.5 percent of GDP) is a measure of the additional burden that delay would impose on future generations. Future generations are harmed by policy reform delay, because the higher the primary surplus is during their lifetimes the greater the difference is between the taxes they pay and the programmatic spending from which they benefit.

Conclusion

The debt-to-GDP ratio is projected to rise over the 75-year projection period and beyond if current policy is unchanged, based on this *Financial Report's* assumptions, which implies that current policy is not sustainable and must ultimately change. If policy changes are not so abrupt as to slow economic growth, then the sooner policy changes are adopted to avert these trends, the smaller the changes to revenue and/or spending that would be required to achieve sustainability over the long term. While the estimated magnitude of the fiscal gap is subject to a substantial amount of uncertainty, it is nevertheless nearly certain that current fiscal policies cannot be sustained indefinitely.

These long-term fiscal projections and the topic of fiscal sustainability are discussed in further detail in Note 24 and the RSI section of this *Financial Report*. The fiscal sustainability under alternative scenarios for the growth rate of health care costs, interest rates, discretionary spending, and receipts are illustrated in the "Alternative Scenarios" section within the RSI.

Social Insurance

The long-term fiscal projections reflect government receipts and spending as a whole. The SOSI focuses on the government's "social insurance" programs: Social Security, Medicare, Railroad Retirement, and Black Lung.[23] For these programs, the SOSI reports: 1) the actuarial PV of all future program revenue (mainly taxes and premiums) – excluding interest – to be received from or on behalf of current and future participants; 2) the estimated future scheduled expenditures to be paid to or on behalf of current and future participants; and 3) the difference between 1) and 2). Amounts reported in the SOSI and in the RSI section in this *Financial Report* are based on each program's official actuarial calculations.

This year's projections for Social Security and Medicare are based on the same economic and demographic assumptions that underlie the 2023 Social Security and Medicare Trustees Reports and the 2023 SOSI, while comparative information presented from last year's report is based on the 2022 Social Security and Medicare Trustees Reports and the 2022 SOSI. Table 7 summarizes amounts reported in the SOSI, showing that net social insurance expenditures are projected to be $78.4 trillion over 75 years as of January 1, 2023 for the open group, an increase of $2.5 trillion over net expenditures of $75.9 trillion projected in the FY 2022 *Financial Report*.[24] The current-law 2023 amounts reported for Medicare reflect the physician payment levels expected under the MACRA payment rules and the PPACA-mandated reductions in other Medicare payment rates, but not the payment reductions and/or delays that would result from trust fund depletion.[25] Similarly, current-

[23] *The Black Lung Benefits Act* provides for monthly payments and medical benefits to coal miners totally disabled from pneumoconiosis (black lung disease) arising from their employment in or around the nation's coal mines. See https://www.dol.gov/owcp/regs/compliance/ca_main.htm. RRB's projections are based on economic and demographic assumptions that underlie the *28th Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2019 with Technical Supplement* and the 2023 Annual Report on the Railroad Retirement System required by Section 502 of the *Railroad Retirement Solvency Act of 1983* (P.L. 98-76).

[24] Closed group and open group differ by the population included in each calculation. From the SOSI, the closed group includes: 1) participants who have attained eligibility; and 2) participants who have not attained eligibility. The open group adds future participants to the closed group. See 'Social Insurance' in the RSI section in this *Financial Report* for more information.

[25] MACRA permanently replaces the Sustainable Growth Rate formula, which was used to determine payment updates under the Medicare physician fee schedule with specified payment updates through 2025. The changes specified in MACRA also establish differential payment updates starting in 2026 based on practitioners' participation in eligible APM; payments are also subject to adjustments based on the quality of care provided, resource use, use of certified electronic health records, and clinical practice improvement.

law projections for Social Security do not reflect benefit payment reductions and/or delays that would result from fund depletion. By accounting convention, the transfers from the General Fund to Medicare Parts B and D are eliminated in the consolidation of the SOSI at the government-wide level and as such, the General Fund transfers that are used to finance Medicare Parts B and D are not included in Table 7. For the FYs 2023 and 2022 SOSI, the amounts eliminated totaled $48.5 trillion and $47.5 trillion, respectively. SOSI programs and amounts are included in the broader fiscal sustainability analysis in the previous section, although on a slightly different basis (as described in Note 24).

In addition, the Medicare projections have been significantly affected by the enactment of the IRA of 2022. This legislation has wide-ranging provisions, including those that restrain price growth and negotiate drug prices for certain Part B and Part D drugs and that redesign the Part D benefit structure to decrease beneficiary out-of-pocket costs. The law takes several years to implement, resulting in very different effects by year. The total effect of the IRA of 2022 is to reduce government expenditures for Part B, to increase expenditures for Part D through 2030, and to decrease Part D expenditures beginning in 2031.

The amounts reported in the SOSI provide perspective on the government's long-term estimated exposures for social insurance programs. These amounts are not considered liabilities in an accounting context. Future benefit payments will be recognized as expenses and liabilities as they are incurred based on the continuation of the social insurance programs' provisions contained in current law. The social insurance trust funds account for all related program income and expenses. Medicare and Social Security taxes, premiums, and other income are credited to the funds; fund disbursements may only be made for benefit payments and program administrative costs. Any excess revenues are invested in special nonmarketable U.S. government securities at a market rate of interest. The trust funds represent the accumulated value, including interest, of all prior program surpluses, and provide automatic funding authority to pay cover future benefits.

Table 7: Social Insurance Future Expenditures in Excess of Future Revenues

Dollars in Trillions	2023	2022	Increase / (Decrease) $	%
Open Group (Net):				
Social Security (OASDI)	$ (25.2)	$ (23.3)	$ 1.9	8.2%
Medicare (Parts A, B, & D)	$ (53.1)	$ (52.5)	$ 0.6	1.1%
Other	$ (0.1)	$ (0.1)	$ -	0.0%
Total Social Insurance Expenditures, Net (Open Group)	**$ (78.4)**	**$ (75.9)**	$ 2.5	3.3%
Total Social Insurance Expenditures, Net (Closed Group)	**$ (104.2)**	**$ (100.6)**	$ 3.6	3.6%
Social Insurance Net Expenditures as a % of GDP*				
Open Group				
Social Security (OASDI)	(1.4%)	(1.3%)		
Medicare (Parts A, B, & D)	(3.0%)	(3.0%)		
Total (Open Group)	**(4.4%)**	**(4.3%)**		
Total (Closed Group)	**(5.7%)**	**(5.7%)**		

Source: SOSI. Amounts equal estimated present value of projected revenues and expenditures for scheduled benefits over the next 75 years of certain Social Insurance programs (e.g., Social Security, Medicare). Open group totals reflect all current and projected program participants during the 75-year projection period. Closed group totals reflect only current participants.

* GDP values used are from the 2023 & 2022 Social Security and Medicare Trustees Reports and represent the present value of GDP over the 75-year projection period. As the GDP used for Social Security and Medicare differ slightly in the Trustees Reports, the two values are averaged to estimate the Other and Total Net Social Insurance Expenditures as a percent of GDP. As a result, totals may not equal the sum of components due to rounding.

Table 8: Changes in Social Insurance Projections		
Dollars in Trillions	**2023**	**2022**
NPV - Open Group (Beginning of the Year)	**$ (75.9)**	**$ (71.0)**
Changes In:		
Valuation Period	$ (2.0)	$ (1.7)
Demographic data, assumptions, and methods	$ (0.2)	$ (0.8)
Economic data, assumptions, and methods[1]	$ (0.8)	$ (0.2)
Law or policy	$ 1.1	$ -
Methodology and programmatic data[1]	$ (0.3)	$ 0.6
Economic and other healthcare assumptions[2]	$ (2.6)	$ (5.3)
Change in projection base[2]	$ 2.3	$ 2.5
Net Change in Open Group measure	$ (2.5)	$ (4.9)
NPV - Open Group (End of the Year)	**$ (78.4)**	**$ (75.9)**

[1] Relates to Social Security Program.

[2] Relates to Medicare Program.

Table 8 identifies the principal reasons for the changes in projected social insurance amounts during 2023 and 2022.

The following briefly summarizes the significant changes for the current valuation (as of January 1, 2023) as disclosed in Note 25—Social Insurance. Note 25 is compiled from disclosures included in the financial statements of those entities administering these programs, including SSA and HHS. See Note 25 for additional information.

- Change in valuation period (affects both Social Security and Medicare): This change replaces a small negative net cash flow for 2022 with a much larger negative net cash flow for 2097. As a result, the PV of the estimated future net cash flows decreased (became more negative) by $0.7 trillion and $1.3 trillion for Social Security and Medicare, respectively.
- Changes in demographic data, assumptions, and methods (affects both Social Security and Medicare): There was one notable change in demographic methodology. The method for projecting the age distributions of LPR new arrival and adjustment-of-status immigrants was updated reflecting recent data showing a slightly older population at the time of attaining LPR status than had previously been estimated. This change decreased the PV of the estimated future net cash flows. In addition, the starting demographic values and the way these values transition to the ultimate assumptions were changed. Projected birth rates through 2055, during the period of transition to the ultimate level, were slightly lower than in the prior valuation. Updates to near-term mortality assumptions to better reflect the effects of the COVID-19 pandemic led to an increase in death rates through 2024 compared to the prior valuation. Historical population data, other-than-LPR immigration data, and marriage and divorce data were updated since the prior valuation. Overall, changes to these assumptions caused the PV of the estimated future net cash flows to decrease (became more negative) by $0.1 trillion and $0.1 trillion for Social Security and Medicare, respectively.
- Changes in economic data and assumptions (affects Social Security only): Several changes were made to the ultimate economic assumptions since the last valuation period. The annual percentage change in the average OASDI covered wage, adjusted for inflation, is assumed to average 1.14 percentage points over the last 65 years of the 75-year projection period. This is 0.02 percentage point higher than the value assumed for the prior valuation. This change to the wage growth assumptions increased the PV of estimated future net cash flows. In addition to these changes in ultimate economic assumptions, the starting economic values and the way these values transition to the ultimate assumptions were changed. The levels of GDP and labor productivity are assumed to be about 3.0 percent lower by 2026 and for all years thereafter relative to the prior valuation. The assumed real interest rates over the first 10 years of the projection period are generally higher than those assumed for the prior valuation. The changes to the GDP and productivity levels decreased the PV of the estimated future net cash flows, while the change to near-term real interest increased the PV of the estimated future net cash flows. There was one notable change in economic methodology. The method for estimating the level of OASDI taxable wages for historical years 2000-2021 was improved by adopting a more consistent approach for estimating completed values across various types of wages. This change increased the PV of the estimated future net cash flows. Overall, changes to economic data, assumptions, and methods caused the PV of the estimated future net cash flows to decrease (became more negative) by $0.8 trillion for Social Security.
- Changes in law or policy (affects both Social Security and Medicare): The monetary effect of the changes in law or policy caused the PV of the estimated future net cash flows of Medicare to increase by $1.1 trillion; and the effect on the PV of estimated future net cash flows of OASDI was not significant at the consolidated level. Please refer to SSA's and HHS's financial statements for additional information related to the impact of the changes in law or policy on the PV of estimated future net cash flows of the OASDI and Medicare programs.
- Changes in methodology and programmatic data (affects Social Security only). Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2023). The most significant are as follows: Actual disability data for 2022 and slightly lower-near term disability incidence rate assumptions were incorporated. The sample of new beneficiaries used to project average benefits

level was updated from worker beneficiaries newly entitled in 2018 to those newly entitled in 2019. Updates were made to the post-entitlement benefit adjustment factors. These factors are used to account for changes in benefit levels, primarily due to differential mortality by benefit level and earnings after benefit entitlement. Overall, changes to programmatic data and methods caused the PV of the estimated future net cash flows to decrease by $0.3 trillion for Social Security.

- Changes in economic and healthcare assumptions (affects Medicare only): The economic assumptions used in the Medicare projections are the same as those used for the OASDI (described above) and are prepared by the Office of the Chief Actuary at SSA. In addition to the economic assumptions changes described above, the healthcare assumptions are specific to the Medicare projections. Changes to these assumptions in the current valuation include lower projected spending growth because of anticipated effect of negotiating drug prices and other price growth constraints. Overall, these changes decreased the PV of estimated future net cash flow by $2.6 trillion for Medicare.
- Change in Projection Base (affects Medicare only): Actual income and expenditures in 2022 were different than what was anticipated when the 2022 Medicare Trustees Report projections were prepared. For Part A and Part B income and expenditures were lower than estimated based on experience. Part D income and expenditures were higher than estimated based on actual experience. Actual experience of the Medicare Trust Funds between January 1, 2022, and January 1, 2023, is incorporated in the current valuation and is less than projected in the prior valuation. Overall, the net impact of Part A, B, and D projection base change is an increase in the estimated future net cash flows by $2.3 trillion for Medicare.

As reported in Note 25, uncertainty remains about whether the projected cost savings and productivity improvements will be sustained in a manner consistent with the projected cost growth over time. Note 25 includes an alternative projection to illustrate the uncertainty of projected Medicare costs. As indicated earlier, GAO disclaimed opinions on the 2023, 2022, 2021, 2020 and 2019 SOSI because of these significant uncertainties.

Costs as a percent of GDP of both Medicare and Social Security, which are analyzed annually in the Medicare and Social Security Trustees Reports, are projected to increase substantially through the mid-2030s because: 1) the number of beneficiaries rises rapidly as the baby-boom generation retires; and 2) the lower birth rates that have persisted since the baby boom cause slower growth in the labor force and GDP.[26] According to the Medicare Trustees Report, spending on Medicare is projected to rise from its current level of 3.7 percent of GDP in 2022 to 6.0 percent in 2047 and to 6.1 percent in 2097.[27] As for Social Security, combined spending is projected to generally increase from 5.2 percent of GDP in 2023 to a peak of 6.3 percent for 2076, and then decline to 6.0 percent by 2097. The government collects and maintains funds supporting the Social Security and Medicare programs in trust funds. A scenario in which projected funds expended exceed projected funds received, as reported in the SOSI, will cause the balances in those trust funds to deplete over time. Table 9 summarizes additional current status and projected trend information, including years of projected depletion, for the Medicare HI and Social Security Trust Funds.

Table 9: Trust Fund Status

Fund	Projected Depletion	Projected Post-Depletion Trend
Medicare Hospital Insurance *	2031	In 2031, trust fund income is projected to cover 89 percent of benefits, decreasing to 81 percent in 2047, then returning to 96 percent by 2097.
Combined Old-Age Survivors and Disability Insurance **	2034	In 2034, trust fund income is projected to cover 80 percent of scheduled benefits, decreasing to 74 percent by 2097.

* Source: 2023 Medicare Trustees Report ** Source: 2023 OASDI Trustees Report
This Report's projections assume full Social Security and Medicare benefits are paid after fund depletion contrary to current law.

As previously discussed and as noted in the Trustees Reports, these programs are on a fiscally unsustainable path. Additional information from the Trustees Reports may be found in the RSI section of this *Financial Report*.

[26] A Summary of the 2023 Annual Social Security and Medicare Trust Fund Reports, page 8.
[27] Percent of GDP amounts are expressed in gross terms (including amounts financed by premiums and state transfers).

Reporting on Climate Change

The Biden-Harris administration has deployed a whole-of-government approach to respond to the climate crisis. From reducing climate pollution and conserving our lands, waters, and biodiversity to increasing the resilience of federal facilities and operations to the impacts of climate change, federal entities are tackling the climate crisis. The federal government is on a path towards CFE by 2030, a zero-emission vehicles fleet by 2035, and a net-zero building portfolio by 2045.

The $1 trillion IIJA, signed in November 2021, and the IRA, signed in August 2022, included historic climate funding. The IIJA provides funding to protect the country against the detrimental effects of climate change, and the IRA, the largest climate investment in U.S. history, provides tax incentives and other clean energy initiatives to reduce energy costs for consumers and small businesses. These investments have put America on track to decrease GHG emissions by about 40 percent below 2005 levels in 2030.[28]

There is also growing recognition that climate-related events and climate-related financial risks will affect the financial position and condition of the federal government. Many CFO Act entities are engaged in a wide array of climate-related activities and have, per federal reporting guidance, discussed their responses to the climate crisis in their FY 2023 financial reports. The breadth of these important efforts is expansive, and the examples immediately below from financial statements discuss both the physical impacts of climate change on entities (physical risk) and the broader challenges entities face in transitioning to a lower-carbon economy (transition risk). Many entity climate adaptation and resiliency efforts emphasize the federal government's physical assets and infrastructure and discuss transition risks in the context of transitioning their infrastructure so as to reduce GHG emissions. Both of these risks are important and affect government operations in unique ways, which will be discussed below for a select number of federal entities.

The following illustrates the wide range of federal entity efforts to mitigate the risks of climate change on federal entity infrastructure:

- The impact of climate change on DOE and its operations and infrastructure is significant and projected to increase with climate change. In support of the administration's goals of net-zero GHG emissions by 2050, with power sector GHG emissions attaining net-zero by 2035; DOE has continued to develop solar and geothermal sourced energy for heating building space and water. DOE sites have been collaborating with their electricity provider to ensure the availability of CFE. For example, the National Renewable Energy Laboratory, a DOE national lab, has signed the first-ever CFE Memorandum of Agreement between DOE and Xcel Energy, committing to the delivery of 100 percent CFE by 2030 to federal entities served by the utility. In partnership with DOE, DOT has leveraged their newly formed Joint Office of Energy and Transportation to deploy a national network of EV chargers. This supports the President's IIJA goal of installing 500,000 EV chargers.
- GSA is also strategically focused on increasing building resilience, reducing overall GHG emissions, improving energy, water, and waste efficiency, and supporting the transition to CFE. In FY 2023, GSA significantly increased the number of zero-emission vehicles across government, thereby achieving a 37.1 percent increase in miles per gallon for vehicle replacements in the GSA leased fleet. GSA is taking steps to build a climate resilient supply chain by inviting all major Federal Supply Schedule contractors to voluntarily measure, track, and disclose their climate-related risks to the Carbon Disclosure Project, a not-for-profit charity, that runs the global disclosure system for companies to measure environmental risks and opportunities.
- DOD is challenged with absorbing the recovery costs from extreme weather events typical of those fueled by climate change, including: $1 billion to rebuild Offutt Air Force Base, Nebraska after historic floods; $3 billion to rebuild Camp Lejeune, North Carolina after Hurricane Florence; and $5 billion to rebuild Tyndall Air Force Base, Florida after Hurricane Michael. To address transition risk, DOD has identified reducing climate impacts to its installations as an Agency Priority Goal and has invested $35.9 billion in facilities investments, including for Facilities, Sustainment, Restoration and Modernization with a $3.7 billion investment for installation resiliency and adaptation focused on military facilities to withstand harsh weather conditions.
- DOC has been actively engaged in planning efforts with the White House Council on Environmental Quality, OMB, and DOE to identify opportunities to purchase CFE for federal use through federal contracting mechanisms directly with facilities' utility providers.
- SSA noted that a source of funding challenge for the agency includes the loss or replacement of facilities, fleet, and information technology equipment resulting from climate change, as well as the health and safety costs of keeping operations active during severe climate-related events. Its financial risk exposure mainly concerns the impact of energy usage to cool and heat its delegated sites.
- Both State and USAID have advanced international climate programs under the auspice of the FY 2022-2026 State-USAID Joint Strategic Plan with both entities focused on mitigating physical and transition risks. State has more than 25,000 building assets at 287 locations overseas, with a current replacement value for these assets at $75.2 billion. For managing the risk of exposure to natural hazards of these overseas facilities, State uses a portfolio

[28] https://www.energy.gov/articles/doe-projects-monumental-emissions-reduction-inflation-reduction-act

screening tool that assesses risk level for seven natural hazards: flooding, extreme heat, extreme wind, water stress, earthquake, tsunami, and landslide.

In-line with several Biden-Harris administration executive orders, including Executive Order 14008, Tackling the Climate Crisis at Home and Abroad, and other broad performance goals, entities have made strides towards a whole-of-government approach to the climate crisis affecting the nation. This section summarizes some of the actionable plans that federal entities are putting in place, and progress that they have seen. It illustrates the broader programmatic efforts that some entities are undertaking which support the growth of America's clean energy and clean technology industries.

- The economic impacts of positioning the global economy for a clean and sustainable future are a focus at Treasury. Treasury's strategic objectives include aims to promote incentives and policies to encourage the private sector's investment in climate-friendly projects. The IRA of 2022 is the most significant investment in climate and clean energy in U.S. history. As tax incentives deliver most of the law's investment, Treasury is playing a leading role in implementing the law. The IRA of 2022 established or modified approximately 20 clean energy-related tax incentives that will be critical in advancing the nation's climate goals while lowering costs for consumers and creating good-paying jobs.
- DOI is concerned about conserving and protecting its natural and cultural resources. By September 30, 2025, DOI will assist states in reclaiming 1,150 abandoned coal mine lands; and support the plugging of 7,900 identified orphaned oil and gas wells on state, private, tribal, and federal lands. By reducing legacy pollution with IIJA investments, DOI is helping to improve community health and safety, create good paying jobs, and address the climate crisis, all of which is transforming a legacy of pollution into a legacy of environmental stewardship.
- In addition to DOC's efforts to mitigate the effects of climate change on agency operations, DOC's financial statements also references a $799.1 million increase in the entity's gross costs related to National Oceanic and Atmospheric Administration's core mission of enhancing weather forecasting, water quality monitoring, and climate reporting.
- To relay the importance of mitigating climate change for broader economic resiliency, HHS has discussed its efforts at addressing the impact of climate change on the health of the American people by identifying vulnerable communities and populations at risk from climate impacts and fostering climate adaptation and resilience for these communities. This summer HHS launched the Heat-Related Illness Emergency Medical Services Activation Surveillance Dashboard to help communities and officials keep people cool and safe through effective heat mitigation strategies. And its investments into infrastructure and emergency equipment ahead of hurricane season have ensured communities in hurricane-prone areas have continuous access to primary care services.
- In addition to the joint State-USAID effort to address physical and transition risks referenced above, USAID has been at the fore of helping other countries phase out fossil fuels and transition to clean energy usage. The entity has boosted renewable energy through competitive auctions in the Philippines; boosted wind farm generation in South Africa; and secured renewable energy investment in Pakistan.

Readers are encouraged to review both the financial statements and Climate Adaptation Plans of the entities referenced above, as well as others for additional information about efforts being employed across the federal government to address the many risks associated with climate change.

Financial Management

Grants and Cooperative Agreements

In FY 2023, the federal government obligated approximately $1.2 trillion for grants and cooperative agreements, according to USAspending.gov. This figure does not include obligations for other types of financial assistance, such as loans or direct appropriations. A large portion of grant funding was provided under the Bipartisan Infrastructure Law and the IRA of 2022 while additional funding continued to support the nation's response to the pandemic through the ARP, the CARES Act, and other COVID-19 funding. Improving access to key financial assistance data continues to be a priority for OMB.

In 2023, OMB undertook an initiative to update the Guidance on Grants and Agreements published in 2 CFR to reduce the administrative burden for federal agencies and recipients, as well as to clarify the guidance and make it more accessible. These updates will represent the most substantial changes to the guidance since its release in December 2013 and will reduce unnecessary compliance requirements and ensure that assistance is delivered in a more effective and impactful way and to the communities that most need it.

On August 19, 2023, OMB issued M-23-19 Establishment of the COFFA. This council created a leadership body in the federal government for oversight and management of federal financial assistance. The COFFA launched a partnership among federal grant-making agencies, providing a single forum to inform federal financial assistance policy, oversight, and technology activities. The COFFA is also responsible for providing strategic direction, policy recommendations, and priority-setting for other government-wide grant-related activities.

Payment Integrity

Preventing improper payments in the federal government continues to be a management priority. To be successful in preventing improper payments, there must be a focus on systemic enhancements intended to make payments correctly the first time with an emphasis on minimizing monetary loss. An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement. The term "improper payment" consists of two main components: 1) improper payments resulting in a monetary loss to the government; and 2) improper payments that do not result in a monetary loss to the government. Monetary loss occurs when payments are made to the wrong recipient and/or in the wrong amount. Improper payments that do not result in a monetary loss include under payments and payments made to the right recipient for the right amount, but the payment was not made in accordance with statute or regulation. The federal government, through the CFO community, continues to develop strategies to better analyze and prevent monetary loss.

Agencies with programs reporting more than $100.0 million in monetary loss provide a quarterly scorecard at PaymentAccuracy.gov. These scorecards provide information on the actions taken and progress made on preventing improper payments that would result in monetary loss to the federal government. Details, including FY 2023 improper payment data, for programs with at least $100.0 million in monetary loss can also be found at PaymentAccuracy.gov. This website also includes payment integrity information that had previously been reported in agency financial reports, such as information about program compliance, corrective actions, and accountability mechanisms.

OMB will continue to work with agencies, the CFO Council, and other stakeholders to improve the identification of the root causes of improper payments that result in monetary loss and to prevent improper payments from occurring.

Agency Financial Report Audits

Since the passage of the CFO Act, the federal financial community has made significant progress in financial accounting and reporting. As shown in Table 10, for FY 2023, 19 of the 24 CFO Act agencies obtained an unmodified opinion from the independent auditors on their financial statements.[29] In addition, 52 auditor-identified material weaknesses were identified for FY 2023, two more than in FY 2022. Twenty-eight of these are associated with DOD. The other 24 material weaknesses are associated with non-DOD agencies. Although virtually all federal agencies have adopted and maintained disciplined financial reporting operations, implemented effective internal controls over financial reporting, and integrated transaction processing with accounting records, weaknesses in financial management practices continue to prevent the government as a whole from achieving an audit opinion.

[29] The 19 entities include HHS, which received an unmodified ("clean") opinion on all statements except the SOSI and the SCSIA.

Table 10: Agency Audit Results: FY 2023						
	Audit	Auditor-Reported Material Weaknesses				
Agency	Opinion	Beginning	New	Resolved	Consolidated	Ending
Department of Agriculture (USDA)	Qualified	2	1	1	-	2
Department of Commerce (DOC)	Unmodified	-	1	-	-	1
Department of Defense (DOD)	Disclaimer	28	-	-	-	28
Department of Education (Education)	Disclaimer	1	1	-	1	1
Department of Energy (DOE)	Unmodified	-	-	-	-	-
Department of Health and Human Services (HHS)*	Unmodified	-	-	-	-	-
Department of Homeland Security (DHS)	Unmodified	4	1	-	-	5
Department of Housing & Urban Development (HUD)	Unmodified	1	-	1	-	-
Department of the Interior (DOI)	Unmodified	1	2	-	-	3
Department of Justice (DOJ)	Unmodified	1	-	-	-	1
Department of Labor (DOL)**	Qualified	1	-	-	-	1
Department of State (State)	Unmodified	-	-	-	-	-
Department of Transportation (DOT)	Unmodified	-	-	-	-	-
Department of the Treasury (Treasury)	Unmodified	-	-	-	-	-
Department of Veterans Affairs (VA)	Unmodified	3	-	-	-	3
Agency for International Development (USAID)	Unmodified	-	-	-	-	-
Environmental Protection Agency (EPA)	Unmodified	-	-	-	-	-
General Services Administration (GSA)	Unmodified	1	-	1	-	-
National Aeronautics & Space Administration (NASA)	Unmodified	-	-	-	-	-
National Science Foundation (NSF)	Unmodified	-	-	-	-	-
Nuclear Regulatory Commission (NRC)	Unmodified	-	-	-	-	-
Office of Personnel Management (OPM)	Unmodified	1	-	-	-	1
Small Business Administration (SBA)	Disclaimer	6	1	-	1	6
Social Security Administration (SSA)	Unmodified	-	-	-	-	-
Totals		**50**	**7**	**3**	**2**	**52**

* Unmodified opinion on all statements except SOSI and SCSIA, which received a disclaimer.
**Unmodified opinion on the SOSI and SCSIA

Financial Management Systems

Federal agencies improved, but continue to face challenges, in implementing financial management systems that meet federal requirements. The number of CFO Act agencies reporting lack of substantial compliance with one or more of the three Section 803(a) requirements of the FFMIA remained at seven in FY 2023, and the number of auditors reporting lack of substantial compliance with one or more of the three Section 803(a) FFMIA requirements remained at eight in FY 2023.

Because of the federal government's size and diversity, its financial management infrastructure consists of both legacy and modernized systems and standardized and customized systems. Treasury works closely with agencies to manage systems for collecting and disbursing the government's cash and financing disbursements when necessary, recording and reporting on those collections and disbursements, and reporting on all government revenues, expenses, assets, and liabilities.

Treasury was designated as the Financial Management Systems QSMO in 2020 and continues to pursue financial management improvement strategies that have government-wide implications. These strategies include standing up a financial management systems marketplace and developing system standards, standardized processes, system requirements, and system interfaces. These efforts are providing a path to the decommissioning of legacy systems and migration to updated systems, leveraging modernized technologies. In addition, agencies continue to coordinate with the Treasury QSMO to improve their financial management and financial reporting systems as described in their financial reports, congressional budget justifications, and performance plans. DOD continues to address its material weaknesses in financial reporting, and is bringing its financial systems into compliance with federal financial management systems requirements, including the FFMIA.

HHS was designated as the Grants QSMO in 2021 and continues working to modernize and streamline the government's vast and aging legacy grants management systems. The goal of this effort is to allow agencies to successfully manage grants through the entire award cycle and allow grants management systems to interface with agency financial management systems.

Internal Controls

Federal managers are responsible for developing and maintaining effective internal controls. Internal controls help to ensure effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Safeguarding assets is a goal of each of these three objectives.

OMB Circular No. A-123 implements the requirements of 31 U.S.C. 3512 (c) and (d) (commonly known as the *Federal Managers' Financial Integrity Act)* by providing agencies a framework for assessing and managing risks strategically and tactically. The Circular reflects GAO's *Standards for Internal Control in the Federal Government* and contains multiple appendices that address one or more of the objectives of effective internal control.

- Appendix A provides for agencies to use a risk-based approach to assess, document, test, and report on internal controls over reporting and data integrity;
- Appendix B requires agencies to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs;
- Appendix C implements the requirements for effective estimation and remediation of improper payments; and
- Appendix D defines requirements for determining compliance with the FFMIA that are intended to reduce the cost, risk, and complexity of financial system modernizations.

As noted above, the total number of reported material weaknesses for CFO Act agencies was 52 for FY 2023, two more than in FY 2022. Effective internal controls are a challenge at the agency level and at the government-wide level, with GAO reporting that at the government-wide level, material weaknesses resulted in ineffective internal control over financial reporting. While progress is being made at many agencies and across the government in identifying and resolving internal control deficiencies, additional work is needed.

Legal Compliance

Federal agencies are required to comply with a wide range of laws and regulations, including appropriations, employment, and health and safety, among others. Responsibility for compliance rests with agency management and compliance is addressed as part of agency financial statement audits. Agency auditors test for compliance with selected laws and regulations related to financial reporting and certain individual agency audit reports contain instances of noncompliance. None of these instances were material to the government-wide financial statements; however, GAO reported that its work on compliance with laws and regulations was limited by the material weaknesses and scope limitations discussed in its report.

Conclusion

The federal government has seen significant progress in financial management since the passage of the CFO Act more than 30 years ago, but significant challenges remain to realizing the intended financial management reforms of the act. The issues that the federal government faces today require financial managers to improve both the efficiency and effectiveness of financial management activities, which includes moving toward integrated government operations with standardized business processes, systems, and data. Together with Treasury and OMB, agencies are building on tools and capabilities to improve financial accountability and transparency.

Additional Information

This *Financial Report's* Appendix contains the names and websites of the significant government agencies included in the U.S. government's consolidated financial statements. Details about the information in this *Financial Report* can be found in these agencies' financial statements. This *Financial Report*, as well as those from previous years, is also available at Treasury, OMB, and GAO websites at:
https://www.fiscal.treasury.gov/reports-statements/; https://www.whitehouse.gov/omb/management/office-federal-financial-management/; and https://www.gao.gov/federal-financial-accountability respectively. Other related government resources include, but are not limited to the:

- *Budget of the United States Government;*
- *Treasury Bulletin;*
- *Monthly Treasury Statement of Receipts and Outlays of the United States Government;*
- *Monthly Statement of the Public Debt of the United States;*
- *Your Guide to America's Finances;*
- *Economic Report of the President; and*
- *Trustees Reports for the Social Security and Medicare Programs.*