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# Manual on the Federal Budget Process

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## ABSTRACT

This manual provides a comprehensive explanation of the federal budget process, including an overview and separate chapters on the framework for budget enforcement; the President's budget; the congressional budget resolution and reconciliation; revenues and borrowing; authorizations and direct spending; annual appropriations; and the implementation of spending laws. It is intended to assist users of federal budget information in understanding how the process works and how data are to be interpreted. Excerpts from legislation, standard forms, and other documentation developed at each stage of the budget process are exhibited. Appended material includes a listing of milestones in the federal budget process, citations to major budgetary laws, and a glossary of budgetary terms. The manual is not expected to be updated. (A much shorter explanation of the federal budget process—28 pages—is provided in CRS Report 98-721, *Introduction to the Federal Budget Process*.)

# Manual on the Federal Budget Process


## Summary

Budgeting for the federal government is an enormously complex process. It entails dozens of subprocesses, countless rules and procedures, the efforts of tens of thousands of staff persons in the executive and legislative branches, millions of work hours each year, and the active participation of the President and congressional leaders, as well as other Members of Congress and executive officials.

The enforcement of budgetary decisions involves a complex web of procedures that encompasses both congressional and executive actions. These procedures are rooted principally in two statutes—the Congressional Budget Act of 1974 and the Budget Enforcement Act (BEA). The 1974 act established a congressional budget process in which budget policies are enforced by Congress during the consideration of individual measures. The BEA is the current embodiment of additional enforcement procedures, first established in the Balanced Budget and Emergency Deficit Control Act of 1985 and renewed with substantial modification in 1990 and 1997, that are used mainly by the Executive to enforce budget policies after congressional action for a session has ended.

The President's budget, officially referred to as the *Budget of the United States Government*, is required by law to be submitted to Congress early in the legislative session. The President's budget is only a request to Congress. Nevertheless, the power to formulate and submit the budget is a vital tool in the President's direction of the executive branch and of national policy. The President's proposals often influence congressional revenue and spending decisions, though the extent of the influence varies from year to year and depends more on political and fiscal conditions than on the legal status of the budget.

The Congressional Budget Act of 1974 establishes the congressional budget process as the means by which Congress coordinates the various budget-related actions (such as the consideration of appropriations and revenue measures) taken by it during the course of the year. The process is centered around an annual concurrent resolution on the budget that sets aggregate budget policies and functional spending priorities for at least the next five fiscal years. Because a concurrent resolution is not a law—it cannot be signed or vetoed by the President—the budget resolution does not have statutory effect; no money can be raised or spent pursuant to it. Revenue and spending amounts set in the budget resolution establish the basis for the enforcement of congressional budget policies through points of order.

Congress implements budget resolution policies through action on individual revenue and debt-limit measures, annual appropriations acts, and direct spending legislation. In some years, Congress considers reconciliation legislation pursuant to reconciliation instructions in the budget resolution.

The federal government has a decentralized system of expenditure management. The Office of Management and Budget has year-round responsibility in overseeing the expenditure of funds, but agencies have primary responsibility to ensure the legality and propriety of expenditure.

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# Manual on the Federal Budget Process

## Chapter 1. Overview of the Federal Budget Process

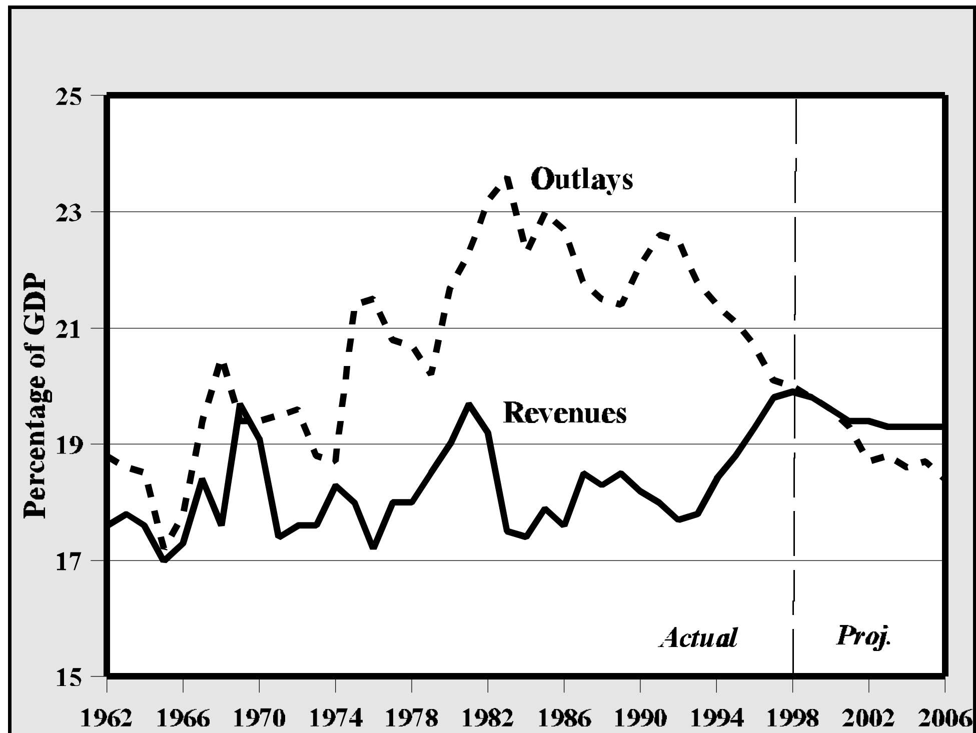
Budgeting for the federal government is an enormously complex process. It entails dozens of subprocesses, countless rules and procedures, the efforts of tens of thousands of staff persons in the executive and legislative branches, millions of work hours each year, and the active participation of the President and congressional leaders, as well as other Members of Congress and executive officials. It could hardly be otherwise, because so much is at stake when budget decisions are made.

Since 1962, as **Exhibit 1-A** shows, federal spending—as measured in outlays—has amounted to between 17% and 24% of the Gross Domestic Product (GDP) of the United States. Federal revenues have hovered between 17% and 20% of GDP during the same period. The deficit, which has resulted from the imbalance between revenues and spending, accounts for the largest single source of borrowing in capital markets. Although the deficit declined markedly during most of this decade and surpluses are projected for the near term, federal outlays and revenues as a share of GDP will remain significant. The deficit is expected to recur, and rise sharply, in a couple of decades as retirement and health costs for the "baby-boomer" generation escalate.

The trend of federal revenues and spending relative to GDP is only one of the ways of measuring the impact of the budget. Trends also can be measured in terms of real spending (*i.e.*, inflation-adjusted spending), or in terms of the shares of the budget allocated to major national priorities, such as defense, aid to state and local governments, and health care. One of the useful ways of measuring trends is to examine how the composition of federal spending has changed over time. **Exhibit 2-B**, which is discussed later, reveals the growth in the share of the budget spent on various entitlement programs. This exhibit suggests still another perspective: the growth in the numbers of persons receiving various types of federal payments.

The budget is, however, much more than a matter of numbers. It finances federal programs and assists many households in meeting basic expenses. It provides a safety net for persons facing illness or old age. It is the means by which the United States invests in its future through both physical improvements, such as highway construction, and human improvements, such as training and education. The budget pays for national defense and signals to allies and adversaries the role of the United States on the world scene. It is one of the principal instruments available to the federal government for regulating economic activity and for stabilizing household incomes.

**Exhibit 1-A.**
**Outlays and Revenues as a Percentage of GDP:**
**Fiscal Years 1962-2006**




(1) *During the period from FY1962-2006, actual and projected revenues (shown by the solid line) fluctuate within a narrow range, from 17.0% to 19.9% of Gross Domestic Product (GDP).*

(2) *Actual and projected outlays (shown by the dashed line) fluctuate within a wider range during the same period, from 17.2% to 23.2% of GDP.*

(3) *The actual deficit reached a high of 6.1% of GDP in FY1983.*

(4) *In January 1998, CBO projected (as shown here) that favorable economic developments, the enactment of deficit-reduction legislation, and other factors would cause the deficit to be eliminated by FY2001. Within a couple of months, CBO projected that a surplus would occur as early as FY1998.*

(5) *The percentages shown here are on a "total budget" basis; they include the transactions of the off-budget entities, which are the Social Security trust funds and the Postal Service fund.*

**Source**: Chart prepared by the Congressional Research Service based on data in: Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1999-2008*, January 1998, Summary Table 2, page xviii, and Table E-5, page 113.

With so much at stake, it should not be surprising that budgeting often is a difficult and contentious process. Allocating over a trillion-and-a-half dollars is anything but a routine task, for as big as the budget is, there is never enough money to satisfy all the claims on it. To budget is to fight over money. The conflict sprawls between the two parties and between the executive and legislative branches. There often is friction among congressional committees and between those who make tax policy and those who control spending. The scope of conflict has expanded as the size of the budget has grown and become even more prominent in the economic life of the country.

The procedures described in this manual are the means devised over the years to channel conflict in ways that enable the numerous participants to work their way toward agreement each year. In this sense, the rules affect outcomes. How much is taxed and spent and who gets what depend in substantial measure on the rules and procedures of federal budgeting. In studying the budget process, therefore, one gains an understanding not only of the roles of participants and the many steps that they must take each year, but also of the interaction between budgetary procedures and policy. (**Appendix A** explains how to obtain publications cited in this report.)

## The Evolution of Federal Budgeting

The "power of the purse" is a legislative power. The Constitution lists the power to lay and collect taxes and the power to borrow as powers of Congress; further, it provides that funds may be drawn from the Treasury only pursuant to appropriations made by law (see **Box 1-A**). The Constitution does not state how these legislative powers are to be exercised, nor does it expressly provide for the President to have a role in the management of the nation's finances. During the nation's early years, the House and Senate devised procedures for the enactment of spending and revenue legislation. As these procedures evolved during the 19th century and the first decades of the 20th century, they led to highly fragmented legislative actions. In the course of each session, Congress passed many separate appropriations bills and other measures affecting the financial condition of the federal government. Neither the Constitution nor the procedures adopted by the House and Senate provided for a budget system (that is, for a coordinated set of actions covering all federal spending and revenues). As long as the federal government was small and its spending and revenues were stable, such a budget system was not considered necessary.

**Box 1-A.**
**Congress's "Power of the Purse"**

**U.S. Constitution**

***Article I, Section 8***

The Congress shall have Power
To lay and collect Taxes, Duties, Imposts, and Excises ...
To borrow Money on the credit of the United States ...

***Article I, Section 9***

No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law ...

Legislative fragmentation was mirrored by fragmentation in the executive branch. The President had a limited role in overseeing financial operations, and most agencies submitted their spending estimates to relevant congressional committees without having their requests reviewed by the President. Early in this century, however, the incessant rise in federal spending and the recurrence of deficits (spending exceeded revenues in half of the 20 years preceding FY1920) led Congress to seek a more coordinated means of making financial decisions. The key legislation was the Budget and Accounting Act of 1921, which established the executive budget process.

The 1921 Budget and Accounting Act did not directly alter the procedures by which Congress makes revenue and spending decisions. The main impact was in the executive branch. The President was required to submit his budget recommendations to Congress each year, and the Bureau of the Budget—renamed the Office of Management and Budget (OMB) in 1970—was created to assist him in carrying out his budgetary responsibilities (see **Box 1-B** for an identification of key budgetary agencies). Congress, it was expected, would be able to coordinate its revenue and spending decisions if it received comprehensive budget recommendations from the President. In line with this expectation, the House and Senate changed their rules to consolidate the jurisdiction of the Appropriations Committees over spending. The 1921 act also established the General Accounting Office (GAO), headed by the comptroller general, and made it the principal auditing arm of the federal government. The 1921 act, as amended, remains the statutory basis for the presidential budget system.

**Box 1-B.**
**Key Budgetary Agencies**

**Congressional Budget Office (CBO)**
Created by the 1974 Congressional Budget Act, CBO serves as Congress's independent, nonpartisan agency for budgetary information and analysis.

**General Accounting Office (GAO)**
Created by the 1921 Budget and Accounting Act, GAO conducts audits and evaluations of federal programs for Congress, as well as many other types of budgetary activity.

**Office of Management and Budget (OMB)**
Established by the 1921 Budget and Accounting Act as the Bureau of the Budget, and renamed in 1970, OMB coordinates the preparation and implementation of the President's budget.

After World War II, the belief that the presidential budget sufficed to maintain fiscal control gave way to the view that Congress needed its own budget process. Some Members of Congress feared that dependence on the executive budget had bolstered the President's fiscal powers at the expense of Congress's; others felt that as long as its financial decisions were fragmented, Congress could not effectively control expenditures. Some efforts were made in the late 1940s to create a congressional budget, but it was not until the 1970s that a durable process was established.

The Congressional Budget and Impoundment Control Act of 1974 established a congressional budget process centered around a concurrent resolution on the budget, scheduled for adoption prior to legislative consideration of revenue or spending bills. The congressional budget

process initiated in the 1970s did not replace the preexisting revenue and spending processes. Instead, it provided an overall legislative framework within which the many separate measures affecting the budget would be considered. The central purpose of the budget process established by the 1974 act is to coordinate the various revenue and spending decisions that are made in separate revenue, appropriations, and other budgetary measures. To assist Congress in making budget decisions, the 1974 act established the Congressional Budget Office (CBO) and directed it to provide data on and analyses of the federal budget.

During the years that the congressional budget process has been in operation, its procedures have been adapted by Congress to changing circumstances. Following a decade of experience with the 1974 Congressional Budget Act, Congress made further changes in the budget process by enacting the Balanced Budget and Emergency Deficit Control Act in 1985 (also known as the Gramm-Rudman-Hollings Act), the Budget Enforcement Act in 1990, and the Line Item Veto Act in 1996, among other laws.

The 1985 act prescribed declining deficit targets intended to achieve balance in FY1991; the targets were enforced by sequestration, a process involving automatic, across-the-board cuts in nonexempt spending programs if the targets were expected to be exceeded. The 1990 act replaced the deficit targets with caps on discretionary spending and a pay-as-you-go requirement for revenue and direct spending legislation; sequestration was retained as the means of enforcing the two new mechanisms. Finally, the 1996 act authorized the President to cancel discretionary spending in appropriation acts, as well as new direct spending and limited tax benefits in other legislation, subject to expedited legislative procedures by which Congress could overturn the cancellations. (The Supreme Court struck down the Line Item Veto Act in June 1998 as unconstitutional.) Other, less extensive changes have been made from time to time. The various modifications made by these and other laws are discussed in appropriate sections of the manual.

**Box 1-C** identifies some of the major laws affecting the congressional budget process in the last quarter century. **Appendix B** summarizes the major milestones in the development of the federal budget process. **Appendix C** provides citations to major budgetary laws.

## The Budget Cycle

Federal budgeting is a cyclical activity that begins with the formulation of the President's annual budget and concludes with the audit and review of expenditures. The process spreads over a multi-year period. The main stages are formulation of the President's budget, congressional budget actions, implementation of the budget, and audit and review. While the basic steps continue from year to year, particular procedures often vary in accord with the style of the President, the economic and political considerations under which the budget is prepared and implemented, and other factors.

**Box 1-C.**
**Major Laws Affecting Congressional Budgeting: 1974-1998**

**Congressional Budget and Impoundment Control Act of 1974**
Established the congressional budget process, including the budget resolution and reconciliation, created House and Senate Budget Committees and CBO, and set forth impoundment control procedures.

**Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings Act)**
Established declining deficit targets, leading to balance in FY1991, and the sequestration process; also, modified the congressional budget process extensively.

**Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987**
Placed the sequester "trigger" in the hands of the OMB director and revised and extended the deficit targets, aiming at balance in FY1993.

**Budget Enforcement Act of 1990**
Replaced deficit targets with discretionary spending limits and a pay-as-you-go (PAYGO) process through FY1995, both enforced by sequestration; also, modified the congressional budget process extensively. Included the Federal Credit Reform Act of 1990.

**Omnibus Budget Reconciliation Act of 1993**
Extended the discretionary spending limits and PAYGO process through FY1998.

**Line Item Veto Act (1996)**
Granted the President special authority from 1997 through 2004 to cancel discretionary spending, new direct spending, or limited tax benefits in legislation. (Struck down by the Supreme Court in June 1998.)

**Budget Enforcement Act of 1997**
Extended the discretionary spending limits and PAYGO process through FY2002 and made changes (mostly minor or technical) in the congressional budget process.

The activities related to a single fiscal year usually stretch over a period of two-and-a-half calendar years (or longer). As the budget is being considered, federal agencies must deal with three different fiscal years at the same time: implementing the budget for the current fiscal year; seeking funds from Congress for the next fiscal year; and planning for the fiscal year after that.

**Formulation of the President's Budget.** No later than early February of each year, the President must submit to Congress a budget for the fiscal year starting on October 1. Preparation of the President's budget begins in the spring of the preceding year, about ten months before it is submitted to Congress. At the time the

budget is being considered, federal agencies must deal concurrently with three fiscal years: they are implementing the budget for the current fiscal year, seeking funds from Congress for the fiscal year starting on October 1 (the *budget year*), and preparing for the fiscal year after that. Understandably, therefore, budgets are formulated with a great deal of uncertainty about the conditions to which they will apply.

Before it examines detailed spending and program requests, OMB reviews the major policy issues for the next budget and updates the long-term forecast of revenues and spending. Together with the Council of Economic Advisers (CEA), it reviews the economic outlook and presents the President with a projection of future economic conditions. The President often issues (through OMB) policy directives and planning guidelines to be used by agencies in preparing their budget requests. The extent to which these guidelines limit the amounts that agencies may request varies from year to year.

The summer months and the early fall are an intensive period for preparation of detailed budget requests by federal agencies. These requests are reviewed by OMB, which notifies agencies of the spending levels recommended by it for their programs. Agencies have a brief period during which they may appeal to the President for higher levels than were recommended by OMB. Some recent Presidents (particularly Nixon, Reagan, and Bush) delegated much of the "appeals" function to senior White House staff; others (such as Ford, Carter, and Clinton) had a more direct role in resolving budget appeals. The appeals often involve policy issues as well as budget levels. After the appeals have been decided, budget preparation is completed, but changes may be made right up to the deadline for printing the budget.

The budget submitted by the President contains a report for the upcoming fiscal year, indicating whether the President's recommendations are consistent with the discretionary spending limits and pay-as-you-go requirement established under the Budget Enforcement Act of 1990, as amended.

**Congressional Action on the Budget.** Congressional budget actions may be classified according to three distinct types of measures involved: (1) adoption of a budget resolution; the steps associated with this action commonly are referred to as the "congressional budget process"; (2) passage of the annual appropriations bills, including regular, supplemental, and continuing appropriations measures; and (3) passage of other legislation affecting the federal budget, such as authorizing legislation, reconciliation bills, and measures changing tax law, modifying entitlement programs, or adjusting the debt limit. The budget resolution is Congress's main procedure for linking these different types of measures.

***The Budget Resolution.*** The congressional budget process begins early each year after the President submits his annual budget. Congress is not bound by the President's recommendations. When it develops a budget resolution, Congress may use different policy, economic, and technical assumptions than those presented in the executive budget. When it enacts legislation to carry out the budget plan, it may provide more or less funds than the President has requested for particular programs, or make different changes in tax laws than the President has recommended.

Under the 1974 Congressional Budget Act, each House and Senate committee is required to issue a "views and estimates" report on the budget matters in its jurisdiction within six weeks after the President submits his budget. The Budget Committees use these reports, along with CBO analyses, to prepare the budget resolution for the coming fiscal year. The Budget Committees use baseline projections of revenues, spending, and the surplus or deficit to estimate the impact of proposed policy changes.

The budget resolution, which is supposed to be adopted by April 15, contains total revenue and spending levels for at least five fiscal years. These totals generally are binding for the first year and the sum of all five years. Because it is a concurrent resolution (which is not presented to the President for his signature or veto), the budget resolution does not have statutory effect. No taxes can be levied or funds spent pursuant to a budget resolution.

The budget resolution consists of three main sections: aggregates, functional allocations of spending, and (optionally) reconciliation instructions. The aggregates include total revenues, and the amount by which total revenues should be changed; total new budget authority; total outlays; the surplus or deficit; and the debt limit. The new budget authority and outlay levels are allocated among 20 functional categories, such as National Defense, International Affairs, Energy, or Agriculture. Reconciliation instructions direct designated House and Senate committees to report legislation conforming spending, revenue, or debt-limit levels under existing law to current budget policies. These instructions are included when Congress seeks to make changes in revenue or direct spending laws.

The budget resolution does not mention specific programs or accounts, but the aggregates, functional allocations, and reconciliation instructions typically are predicated on assumptions about particular programs. These assumptions sometimes are set forth in the reports of the Budget Committees accompanying the budget resolution, but they are not binding on Congress when it considers revenue or spending legislation.

To ensure that the budget resolution serves as a guideline for subsequent action on budget-related measures, Congress is supposed to adopt it before turning to the consideration of revenue, spending, or debt-limit measures for the next fiscal year. However, Congress often fails to adopt the budget resolution by the April 15 deadline specified in the 1974 Congressional Budget Act. The rules of the House permit it to consider regular appropriations bills after May 15 even if the budget resolution has not yet been adopted.

***Annual Appropriations Measures.*** The rules of the House and (to a lesser extent) the Senate require that agencies and programs be authorized in law before an appropriation is made for them. An authorizing act is a law that: (1) establishes a program or agency and the terms and conditions under which it operates; and (2) authorizes the enactment of appropriations for that program or agency. Authorizing legislation may originate in either the House or the Senate and may be considered any time during the year. Many agencies and programs have temporary authorizations that have to be renewed annually or every few years.

Action on appropriations measures sometimes is delayed by the failure of Congress to enact necessary authorizing legislation. The House and Senate often waive or disregard their rules against unauthorized appropriations for ongoing programs that have not yet been reauthorized.

The budgetary impact of authorizing legislation depends on whether it contains only discretionary authorizations (for which funding is provided in annual appropriations acts) or direct spending, which itself enables an agency to enter into obligations.

Annual appropriations are provided in 13 regular appropriations bills, each one under the jurisdiction of parallel House and Senate Appropriations subcommittees that recommend spending levels to the full committees. These bills come to the House and Senate individually as do other measures (such as revenue and entitlement legislation) affecting overall budget levels. When Congress fails to enact all of the regular appropriations bills by the start of the fiscal year, it provides interim funding in *continuing resolutions*. In some years, these measures have provided appropriations for the full fiscal year, not just for a month or two. Congress also enacts supplemental appropriations measures to provide additional funding to federal agencies or programs or to finance spending not covered in the regular appropriations bills.

Regular, continuing, and supplemental appropriations measures (as well as other spending legislation) are linked to the budget resolution through the "Section 302" procedures established in those sections of the 1974 Congressional Budget Act. After a budget resolution has been adopted, the spending totals are allocated to the House and Senate Appropriations Committees (and to other committees with spending jurisdiction). The Appropriations Committees then subdivide their spending amounts among their 13 subcommittees. When an appropriations measure is considered by the House or Senate, the spending provided in it is compared to the amount subdivided to the pertinent subcommittee. In some circumstances, consideration of an appropriations measure may be barred by a point order on the grounds that budget resolution levels or the Section 302 amounts would be breached. In most instances, however, the appropriations bill is consistent with the Section 302 subdivision.

***Reconciliation Bills and Other Measures Affecting the Budget.*** Annual appropriations are enacted for only about half of total federal spending; the remainder is determined largely by permanent appropriations and other funding devices that do not require annual action by Congress. In addition, the amount of revenue generated each year is determined principally by existing law. This means that Congress cannot enforce its budget decisions merely by comparing the amounts in new legislation with its budgeted levels. The portions of the budget governed by existing law are controlled primarily through the reconciliation procedures mentioned earlier. These procedures are triggered by reconciliation instructions in the budget resolution that direct designated committees to change revenue or spending laws by specified amounts. In most instances, committees subject to reconciliation instructions are given a deadline by which they are to report changes in existing laws. The recommendations of the instructed committees usually are consolidated into an omnibus reconciliation bill.

Congressional committees also can report legislation changing revenue or spending laws (such as entitlements) on their own initiative. When they do so, the amounts of revenue or spending estimated to result from enactment of the measure are compared to the budget resolution or the Section 302 allocations. Under some circumstances, variance from the budgeted levels can lead to a point of order barring consideration of the legislation.

**Implementation of the Budget.** Although they are bound by congressional decisions, agencies typically have some spending discretion because appropriations are made in broad categories. Agencies generally conform to the financial and program plans they submit to congressional committees, but they sometimes *reprogram* funds (shift them from one use to another within an account) or use other devices to meet unanticipated needs or changing conditions. Some reprogrammings require approval by the Appropriations Committees or legislative committees.

Agencies cannot spend appropriations until OMB apportions those funds. The Antideficiency Act requires that OMB apportion funds to prevent the necessity for deficiency or supplemental appropriations or to achieve the most effective and economical use of funds. OMB apportions available funds among time periods (such as quarters or months) or projects, then agencies allot their apportioned funds among their administrative units. Agencies generally are not permitted to spend in excess of their apportionments.

When the President or another executive official withholds funds provided by Congress, he uses the procedures set forth in the Impoundment Control Act of 1974. If the President wants to delay obligations or expenditures, he proposes a deferral, but may do so only for the reasons authorized in the Antideficiency Act. He cannot defer funds for policy reasons. If the President wants to cancel an appropriation, he must propose a rescission. If Congress fails to rescind the funds within a 45-day waiting period, the President must release the funds. The comptroller general oversees compliance with the Impoundment Control Act.

In 1996, Congress gave the President special authority for 1997-2004 to cancel discretionary spending, items of new direct spending, and limited tax benefits under the Line Item Veto Act. President Clinton exercised this authority in 1997 in the case of two reconciliation acts and nine regular appropriations acts for FY1998. However, the Supreme Court struck down the act in June 1998.

The final phase of the budget process is review and audit. Under the principle of *internal control*, agencies have the primary responsibility for ensuring the propriety and efficiency of their expenditures. Agencies are required to maintain accounting systems and to audit their expenditures in accordance with standards promulgated by GAO. Two laws passed in recent years, the Chief Financial Officers Act of 1990 and the Government Performance and Results Act of 1993, seek to strengthen financial management and reporting in the federal government.

## Roles of the Participants

Budgeting cannot be an isolated activity, conducted solely by a small number of financial experts. Because the stakes in budgeting radiate to all sectors of public policy, the participants come from all parts of the federal government. Some budget-makers are program specialists; others are fiscal experts. Some occupy central roles in government; some participate from the limited perspective of a particular program or organization. The division of budgetary labor is essentially political in character: there are program advocates and fiscal guardians, legislative controllers and executive bargainers, presidential agents and agency managers.

The existence of parallel legislative and executive processes adds significantly to the number and diversity of budget participants. The executive branch has its own budget experts; so too does Congress. There are program experts in all executive agencies as well as in most congressional committees. Congress, in exercise of its budgetary independence, has developed its own databases, so as to avoid undue dependence on executive sources.

There is much greater budgetary heterogeneity in Congress than in the executive branch, however. As an institution that represents a diversity of interests and perspectives, Congress has diversified its budgetary processes to allow a multiplicity of participants. When it comes to public money, no one in Congress is fully in charge, but just about every Member and committee has some role in shaping revenue or spending legislation.

The principal roles and functions of the participants in the budget process are summarized in the next three boxes and discussed in more detail below.

**Executive Roles.** There are three main participants in executive budgeting; arrayed in hierarchical order, they are the President, OMB, and the executive agencies (see **Box 1-D**). In addition to these, various executive units have specialized roles. The Treasury Department maintains governmentwide accounts, manages federal cash and debt, issues periodic statements on the condition of the budget, and has the lead role (on the executive side) in tax policy. The Council of Economic Advisers prepares the annual *Economic Report*, forecasts economic trends, and advises the President (along with others) on economic policy, and the National Economic Council coordinates policy advice for the White House.

Budget roles cannot be considered independently of the participants. As the interests, skills, and relationships among participants change, so too do the roles they play. Some presidents take an active interest in budget policy; but few of them get involved in specific budget decisions.

The manner in which the President uses OMB (and its director) varies from administration to administration. In some years, OMB has the dominant role in budget policy; in other seasons, it faces tough competition from other presidential agencies and advisors.

Yet there must be a measure of stability to budgetary roles, if only because of the urgent need to produce a budget each year. If some participants were to behave

**Box 1-D.**
**Principal Budgetary Entities of the Executive Branch**

| President | Office of Management and Budget (OMB) | Federal agencies |
|---|---|---|
| Establishes executive budget policy and submits budget to Congress.<br><br>Submits supplemental requests, budget amendments, and updates to Congress.<br><br>Signs (or vetoes) revenue, appropriation, and other budget-related measures passed by Congress.<br><br>Notifies Congress of proposed rescissions and deferrals.<br><br>Issues sequestration orders to cancel budgetary resources. | Operates executive budget system and advises President.<br><br>Issues budget targets and "passbacks" to agencies.<br><br>Prepares budget options and recommendations for President.<br><br>Issues sequestration reports.<br><br>Reviews proposed legislation and testimony to determine whether it conforms to the President's policies.<br><br>Apportions funds and oversees execution of the budget.<br><br>Conducts management activities to improve efficiency of federal expenditures.<br><br>Scores the budgetary impact of enacted legislation. | Submit budget requests to OMB; appeal to President for more funds.<br><br>Justify President's budget recommendations before congressional committees.<br><br>Request apportionment from OMB and allot funds among subunits.<br><br>Maintain accounting systems and systems of internal control.<br><br>Obligate funds and pre-audit expenditures.<br><br>Carry out the activities for which funds were provided.<br><br>Develop strategic plans, performance measures, and other material on program objectives and results. |

differently each year, others might not know what to expect of them or how to adjust their own roles. Budgeting is a process that depends on reciprocal expectations. It is expected that agencies will seek more funds for programs in their jurisdiction and that OMB will seek to constrain budgetary growth. It is expected that the President will try to push his budget through Congress and that legislators will try to exercise some independence in budget policy, but it is also expected that both sides will compose their differences without going to the brink. When one side is more adamant than usual, this pattern of expectations can break down, leading to protracted conflict, as happened in the mid-1990s.

**Box 1-E.**
**Principal Budgetary Functions of Congressional Committees**

| Authorizing Committees | Appropriations Committees | Revenue Committees | Budget Committees |
|---|---|---|---|
| Report authorizing and direct spending legislation.<br><br>Oversee executive agencies.<br><br>Submit views and estimates to Budget Committees on matters in their jurisdiction.<br><br>Recommend changes in laws pursuant to reconciliation instructions.<br><br>Include CBO cost estimates in reports on their legislation. | Report regular, supplemental, and continuing appropriation bills.<br><br>Review proposed rescissions and deferrals.<br><br>Submit views and estimates to Budget Committees on federal spending.<br><br>Provide guidance, directives, and earmarks in reports accompanying the appropriation bills.<br><br>Establish rules for reprogramming.<br><br>Establish account structure for federal agencies. | Report revenue legislation.<br><br>Report legislation on public debt limit, Social Security, and certain other entitlements.<br><br>Submit views and estimates to Budget Committees on matters in their jurisdiction.<br><br>Recommend changes in laws pursuant to reconciliation instructions. | Report budget resolutions.<br><br>Draft reconciliation instructions and compile reconciliation bill.<br><br>Allocate new budget authority and outlays to committees.<br><br>Monitor budget and advise Congress on its status.<br><br>Score the budgetary impact of revenue and direct spending legislation. |

**Legislative Roles.** Legislative roles encompass the activities of congressional leaders, House and Senate committees (see **Box 1-E**), and congressional support agencies (see **Box 1-F**). In recent years, legislative budgetary roles have been less stable than in the past. Several explanations can be offered for this, beginning with the fact, already noted, that there is considerable diversity in legislative budgetary roles. However, the congressional budget process, other changes in budgetary procedure, and political differences between the two branches have been of greater importance.

The 1974 Congressional Budget Act introduced new participants in the legislative process, but it also retained the old ones. On paper, the roles of the revenue, authorizing, and appropriating committees were hardly changed, but the establishment of the Budget Committees inevitably altered expectations and behavior.

Even before the budget process was established, Congress was experiencing considerable budgetary turbulence. As many authorizing committees moved from permanent to periodic authorizations, they became more active in proposing spending levels for specific programs. Moreover, entitlements (as well as other forms of direct spending) became more prevalent. These changes affected the jurisdiction and role of the Appropriations Committees.

**Box 1-F.**
**Principal Budgetary Functions of Congressional Support Agencies**

| Congressional Budget Office | General Accounting Office | Congressional Research Service |
|---|---|---|
| Issues reports on budget and economy, including 5-year projections. | Reviews agency accounting and financial management systems. | Analyzes legislative issues and proposals affecting agency and program operations. |
| Analyzes federal programs and options for dealing with selected problems. | Reviews deferrals and rescissions to determine whether they have been properly reported, and whether funds have been released as required. | Prepares legislative histories of particular legislation and programs. |
| Reestimates the President's budget using its own economic and technical assumptions. | Audits operations of certain federal agencies. | Analyzes proposals to change the federal budget process. |
| Estimates 5-year costs of reported bills. | Issues legal opinions concerning the use of funds. | Assists committees and Members by providing data and analyses relevant to their legislative responsibilities. |
| Estimates costs of unfunded mandates in reported bills. | Settles claims and debt collection issues involving appeals of agency actions and certain questions of law. | |
| Issues advisory sequestration reports. | Evaluates programs and develops methods for assessing the effectiveness of expenditures. | |
| Maintains databases for scorekeeping. | | |
| Prepares baseline budget projections. | | |
| Assists the budget, tax, appropriations, and other committees. | | |

Despite the fact that the congressional budget process has been in operation for more than two decades, role changes continue to unfold in Congress. Reconciliation has altered legislative roles and relationships. In each year since 1975, the congressional budget process has been implemented differently. Multi-year budgeting

was introduced one year, credit budgeting another. In some years party leaders have been active in shaping the budget; in other years they have remained on the sidelines. Relationships between Congress and the White House have varied from year to year and have contributed to role uncertainty on Capitol Hill. The 1985 Balanced Budget Act and deficit pressures also have influenced legislative roles and behavior.

The budgetary roles and relationships of the President and congressional participants have been greatly affected by reliance on budget summit negotiations between the executive and legislative branches. A summit agreement in 1987 established overall budget policy for FY1988 and FY1989; a 1989 summit agreement set overall policy for FY1990; a summit agreement in 1990 established the budget framework for FY1991-1995; and a summit agreement in 1997 set the path for a balanced budget by FY2002.

The increased reliance on summit negotiations has been due to two factors—split political control of the executive and legislative branches, and the drive to reduce or eliminate the budget deficit. In 18 of the 24 years since Congress established its own budget process, the presidency has been controlled by one party, and one or both houses of Congress by the other. During this period, Republicans and Democrats often have disagreed on budget policy, and each party has had sufficient strength to block the other's initiatives. Moreover, as concern over deficit spending mounted, both parties faced difficult and often controversial decisions on taxing and spending. Negotiated budgets have been the principal means by which the two parties have bridged their differences and agreed on policies to reduce the deficit.

The importance of budget summitry was demonstrated by the budget deadlock and government shutdown in 1995. During that year, each party proceeded on its own. The President submitted a budget that was unacceptable to congressional Republicans, who adopted a budget resolution that diverged significantly from President Clinton's proposals. When Congress tried to implement its budget strategy in reconciliation legislation, President Clinton vetoed the bill. In the ensuing impasse, Congress and the President were unable to agree on major appropriations bills, leading to the lengthiest shutdown of federal agencies in U.S. history.

The 1995 stalemate shows that the outcomes of budget summits generally are uncertain because they depend on the willingness of the two branches to enter into negotiations and to set aside major differences in budget policy. Two of the summit negotiations mentioned above took place in the spring, the other two occurred in the fall. The first agreement covered two fiscal years, the next applied to only a single fiscal year, and the most recent ones covered five fiscal years. If summit negotiations guide budget making in the future, one result is likely to be greater uncertainty about the budgetary behavior of participants.

## Basic Concepts of Federal Budgeting

The federal budget is a compilation of numbers about the revenues, spending, and borrowing and debt of the government. Revenues come largely from taxes, but stem from other sources as well (such as duties, fines, licenses, and gifts). Spending involves such concepts as budget authority, obligations, outlays, and offsetting collections. The numbers are computed according to rules and conventions that have

accumulated over the years; they do not always conform to the way revenues and spending are accounted for in other processes. Some of the rules are not recognized in law, but they are nonetheless used by the various participants in federal budgeting. **Appendix D** provides a glossary of terms used in the federal budget process.

**Budget Authority and Outlays.** When Congress appropriates money, it provides *budget authority*, that is, authority to enter into obligations. Budget authority also may be provided in legislation that does not go through the appropriations process (*direct spending* legislation). The key congressional spending decisions relate to the obligations that agencies are authorized to incur during a fiscal year, not to the outlays made during the year. (*Obligations* occur when agencies enter into contracts, submit purchase orders, employ personnel, and so forth; *outlays* occur when obligations are liquidated, primarily through the issuance of checks, electronic fund transfers, or the disbursement of cash.)

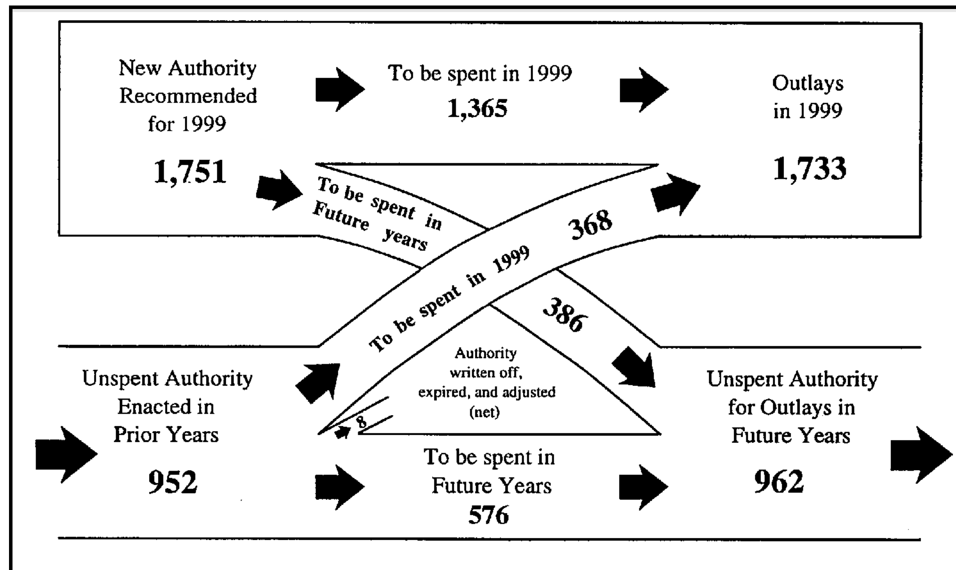
Budget authority that first becomes available for a fiscal year is counted as *new budget authority*. In programs that have permanent appropriations, new budget authority becomes available each year without congressional action. Under law, the income of the Social Security trust funds and certain other trust funds is automatically available for obligation; hence, the annual receipts of these funds are counted as new budget authority.

The provision of budget authority is the key point at which Congress exercises control over federal spending, although the outlay level often receives greater public attention because of its bearing on the deficit. Congress does not directly control outlays; each year's outlays derive in part from new budget authority and in part from "carryover" budget authority provided in prior years. For example, President Clinton's budget for FY1999 estimated that outlays would total $1,733 billion. As shown in **Exhibit 1-B** (taken from the President's FY1999 budget), approximately $1,365 billion of this amount was estimated to come from new budget authority for the fiscal year, while the remainder ($368 billion) was estimated to come from budget authority enacted in prior years.

Budget authority and outlays can be thought of as akin to deposits and withdrawals in a bank account. When Congress provides budget authority, whether by appropriating funds or otherwise enacting legislation that enables an agency to incur obligations, its actions have the effect of making a deposit into an agency account. That is, the budget authority augments the financial resources available to the agency. When bills are paid and outlays occur, resources are withdrawn from the agency's account.

The relation of budget authority to outlays varies from program to program and depends on *spendout rates*, the rates at which funds provided by Congress are obligated and payments disbursed. In a program with a high spendout rate, most new budget authority is expended during the fiscal year; if the spendout rate is low, however, most of the outlays occur in later years.

**Exhibit 1-B.**
**Relation of Budget Authority to Outlays**
(dollars in billions)




(1) *This exhibit shows the relationship of budget authority to outlays in the FY1999 budget. It shows that: (a) not all budget authority becomes outlays in the year for which it is provided; and (b) a portion of each year's outlays derives from budget authority provided in prior years. The flow of outlays from budget authority is measured by the spendout rate, sometimes called the outlay rate.*

(2) *Total new budget authority typically exceeds total outlays for a fiscal year because in programs with long lead times, such as construction, it may take years for the resources provided by Congress to be spent.*

(3) *The outlays set forth in the budget are only estimates of the amount to be spent. Actual outlays for a fiscal year may vary significantly from the estimate. However, congressional budget procedures, such as Section 302 allocations, control annual appropriations acts and other legislation in terms of the volume of outlays in a fiscal year.*

(4) *Unspent budget authority carried over into future years consists of both obligated and unobligated balances. Most of the obligated balances are for contracts entered into in prior years; most of the unobligated balances are in trust funds.*

**Source**: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Analytical Perspectives*, February 1998, Chart 20-1, page 352.

Regardless of the spendout rate, the outlays in the budget are merely estimates of the amounts that will be disbursed during the year. If payments turn out to be higher than the budget estimate, outlays will be above the budgeted level. The President and Congress control outlays indirectly by deciding on the amount of budget authority to be provided or by limiting the amount of obligations to be incurred.

Budget reforms enacted since 1985 have increased the prominence of outlay estimates and controls in federal budgeting. Under these procedures, outlay estimates are essential in enforcing the discretionary spending limits and the pay-as-you-go requirement. This process is outlined in the next chapter.

Certain receipts of the federal government are accounted for as "offsets" against outlays rather than as revenues. Various fees collected by government agencies are deducted from outlays; similarly, income from the sale of certain assets are treated as *offsetting receipts*. Most such receipts are offset against the outlays of the agencies that collect the money, but in the case of offshore oil leases and certain other activities, the revenues are deducted from the total outlays of the government.

**Scope of the Budget.** The budget consists of two main groups of funds: *federal funds* and *trust funds*. Federal funds—which comprise mainly the general fund—largely derive from the general exercise of the taxing power and general borrowing and for the most part are not earmarked by law to any specific program or agency. One component of federal funds, called special funds, are earmarked as to source and purpose. The use of federal funds is determined largely by appropriations acts.

Trust funds are established, under the terms of statutes that designate them as trust funds, to account for funds earmarked by specific sources and purposes. The Social Security funds are the largest of the trust funds; revenues are collected under a Social Security payroll tax and are used to pay for Social Security benefits and related purposes. The unified budget includes both the federal funds and the trust funds. The balances in the trust funds are borrowed by the federal government; they are counted, therefore, in the federal debt. Because these balances offset a budget deficit but are included in the federal debt, the annual increase in the debt invariably exceeds the amount of the budget deficit. For the same reason, it is possible that the federal debt will rise even when the federal government has a budget surplus.

Capital and operating expenses are not segregated in the budget. Hence, monies used for the operations of government agencies as well as for the acquisition of long-life assets (such as buildings, roads, and weapons systems) are reported as budget outlays. Proposals have been made from time to time to divide the budget into capital and operating accounts. While these proposals have not been adopted, the budget contains various tables showing the investment and operating outlays of the government.

The budget totals do not include all the financial transactions of the federal government. The main exclusions fall into two categories—off-budget entities and government-sponsored enterprises. In addition, the budget includes direct and

guaranteed loans on the basis of the accounting rules established by the Federal Credit Reform Act of 1990, which are discussed more fully in the next chapter.

Off-budget entities are excluded by law from the budget totals. The receipts and disbursements of the Social Security trust funds (the Old-Age and Survivors Insurance Fund and the Disability Insurance Fund), as well as spending for the Postal Service Fund, are excluded from the budget totals. These transactions are shown separately in the budget. Thus, the budget now reports two deficit or surplus amounts—one excluding the Social Security trust funds and the Postal Service Fund, and the other (on a "total" or "consolidated" basis) including these entities. The latter is the main focus of discussion in both the President's budget and the congressional budget process. The official policy adopted by the President and Congress to achieve a balanced budget early in the near term uses a consolidated basis, which includes Social Security.

The transactions of government-owned corporations (excluding the Postal Service), as well as revolving funds, are included in the budget on a net basis. That is, the amount shown in the budget is the difference between receipts and outlays, not the total activity of the enterprise or revolving fund. If, for example, a revolving fund has annual income of $150 million and disbursements of $200 million, the budget would report $50 million as net outlays.

*Government-sponsored enterprises* (GSEs) are excluded from the budget because they are deemed to be private rather than public entities. The federal government does not own any equity in these enterprises, most of which receive their financing from private sources. Although they were established by the federal government, their budgets are not reviewed by the President or Congress in the same manner as other programs. Most of these enterprises engage in credit activities. They borrow funds in capital markets and lend money to homeowners, farmers, and others. In total, these enterprises have assets and liabilities in excess of one trillion dollars. At this writing, the government-sponsored enterprises are:

- the Student Loan Marketing Association (Sallie Mae);
- the College Construction Loan Insurance Association (Connie Lee);
- the Federal National Mortgage Association (Fannie Mae);
- the Federal Home Loan Mortgage Corporation;
- the Banks for Cooperatives;
- the Farm Credit Banks;
- the Federal Agricultural Mortgage Corporation;
- the Federal Home Loan Banks;
- the Financing Corporation; and
- the Resolution Funding Corporation.

Financial statements of the government-sponsored enterprises are published in the President's budget.

**Functional Categories of the Budget.** Budget authority and outlays are classified into 20 *functional categories* that represent the major objectives and operations of the federal government. Each of the functions is divided into a number of subfunctions. (See **Box 4-B** for a list of budget functions.)

Although the functional classification has diminished in importance in recent years, it is used for a number of purposes in the federal budget process. First, the functional classification brings together in a single category the various programs and activities serving a common objective, regardless of the agency responsible for them. For example, the "National Defense" function includes most of the programs and expenditures of the Defense Department, as well as defense-related activities of the Energy Department and other federal agencies.

Second, the functional classification shows the various types of resources spent on the same objective. Thus, the budget presents the budget authority, outlays, tax expenditures, and credit authority associated with each function.

Third, the functional classification may be used to explain the President's budget policies and is used to present budgetary data.

Finally, the functional classification is used in establishing congressional budget priorities. Each budget resolution contains a functional allocation of new budget authority and outlays for at least the next five fiscal years.

## The Budget and the Economy

A key purpose of the federal budget is to allocate public funds among government agencies and programs. Viewed from this perspective, the budget is an internal management tool of government. Much of the budget process entails relationships among federal agencies and between the agencies and Congress.

The budget, however, serves another role which transcends the internal operations of the government. It is a prime means of influencing the condition of the economy. The size of the budget (and especially the deficit), the shape of tax policy, and the pattern of federal spending help determine the rate of economic growth, employment trends, interest rates, and price changes. When they make budget decisions, therefore, the President and Congress are guided in part by concern about the impact of their policies on economic performance.

The relation of the budget and the economy is bilateral. Not only does the budget influence the economy, but the reverse also is true: the condition of the economy shapes budget outcomes. When the President and Congress formulate their budgets for the next fiscal year or beyond, they must make assumptions about future economic conditions. They typically make assumptions about real and nominal growth, the Gross Domestic Product, short- and long-term interest rates, and inflation and unemployment rates. Differences in the assumptions used by the two branches of government often account for sizeable differences in their planned budget levels.

Because the budget is predicated on assumptions about future economic conditions, the extent to which the President's or Congress's budget policies materialize depends, in substantial measure, on whether the assumptions prove to be accurate. Any major discrepancy between assumed and actual economic conditions will translate into variances between expected and actual budget results.

**Exhibit 1-C** reveals that the budget is highly sensitive to changes in economic conditions. Deviations of the economy from the assumed path will lead to higher or lower revenues, outlays, and deficits. Revenues are particularly sensitive to the rate of economic growth; outlays are particularly sensitive to the interest rate paid on government debt. Moreover, as the exhibit indicates, the impact of these economic conditions on the budget compounds with each passing year.

According to the information presented in **Exhibit 1-C**, one tenth of one percentage point lower economic growth would subtract an estimated $1 billion from federal revenues in the first year and $9 billion in the fifth year; a one percentage point rise in inflation would add $6 billion to outlays in the first year and $62 billion in the fifth year.

The relation of the budget and the economy is a matter of considerable dispute. Controversy rages over the appropriate size of the surplus or deficit, the assumptions to be used in making budget projections, and the extent to which federal government policy should affect the supply of, or the demand for, goods and services.

## Exhibit 1-C.
## Sensitivity of Budget Projections to Changes in Economic Conditions

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|
| **Real Rate of Growth is 0.1 Percentage Point a Year Lower Beginning in January 1998** | | | | | | | |
| Change in Revenues | -1 | -3 | -5 | -7 | -9 | -12 | -15 |
| Change in Outlays | | | | | | | |
| Net interest (Debt service) | a | a | a | 1 | 1 | 2 | 3 |
| Mandatory spending | a | a | a | a | a | a | a |
| Change in Deficit or Surplus[b] | -1 | -3 | -5 | -8 | -11 | -14 | -18 |
| **Inflation Rate is 1 Percentage Point a Year Higher Beginning in January 1998** | | | | | | | |
| Change in Revenues | 9 | 26 | 45 | 65 | 87 | 111 | 139 |
| Change in Outlays | | | | | | | |
| Net interest | | | | | | | |
| Higher rates | 5 | 15 | 20 | 23 | 25 | 27 | 27 |
| Debt Service | a | a | -1 | -1 | -3 | -4 | -7 |
| Discretionary spending | 0 | 0 | 0 | 0 | 0 | 6 | 12 |
| Mandatory spending | 1 | 8 | 17 | 28 | 40 | 53 | 67 |
| Total | 6 | 22 | 37 | 50 | 62 | 81 | 99 |
| Change in Deficit or Surplus[b] | 3 | 4 | 8 | 15 | 24 | 30 | 40 |

a. Less than $500 million
b. A minus sign indicates an increase in the deficit or a decrease in the surplus.

(1) *Revenues and outlays, and therefore the surplus or deficit as well, are sensitive to changes in economic conditions, particularly the rate of real growth, unemployment and inflation levels, and interest rates. This exhibit displays the estimated effects on the budget of changes in economic assumptions for two of these factors—real growth and inflation. Real growth refers to the change in the Gross Domestic Product after adjustment for price changes.*

(2) *Inflation increases both revenues and outlays in roughly equal degrees, which lessens its net effect on the surplus or deficit.*

(3) *Under these projections, a rise in inflation has a much greater impact on interest payments and mandatory spending during the first five years than it does on discretionary spending because the latter is assumed to be capped by statutory limits in effect through FY2002. The effect on interest payments occurs more quickly but levels off after a few years; the effect on mandatory spending builds more slowly but continues to increase year after year. After FY2002, when the caps on discretionary spending are assumed to expire, such spending begins to rise steadily.*

**Source**: Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1999-2008*, January 1998, Table C-1, page 98.

2. The Framework for Budget Enforcement

The enforcement of budgetary decisions involves a complex web of procedures that encompasses both congressional and executive actions. These procedures are rooted principally in two statutes—the Congressional Budget Act of 1974 and the Budget Enforcement Act (BEA). The 1974 act established a congressional budget process, as discussed in Chapter 4, in which budget policies are enforced by Congress during the consideration of individual measures. The BEA is the current embodiment of additional enforcement procedures, first established in the Balanced Budget and Emergency Deficit Control Act of 1985 and renewed with modification in 1990 and 1997, that are used mainly by the executive to enforce budget policies after congressional action for a session has ended.

These twin sets of enforcement procedures are separate and distinct, but they have common elements and are linked in various ways. One important common element is the emphasis placed on reducing the deficit in past years and, currently, on maintaining a surplus. Another is the distinction drawn between the treatment of discretionary spending on the one hand and direct spending and revenues on the other.

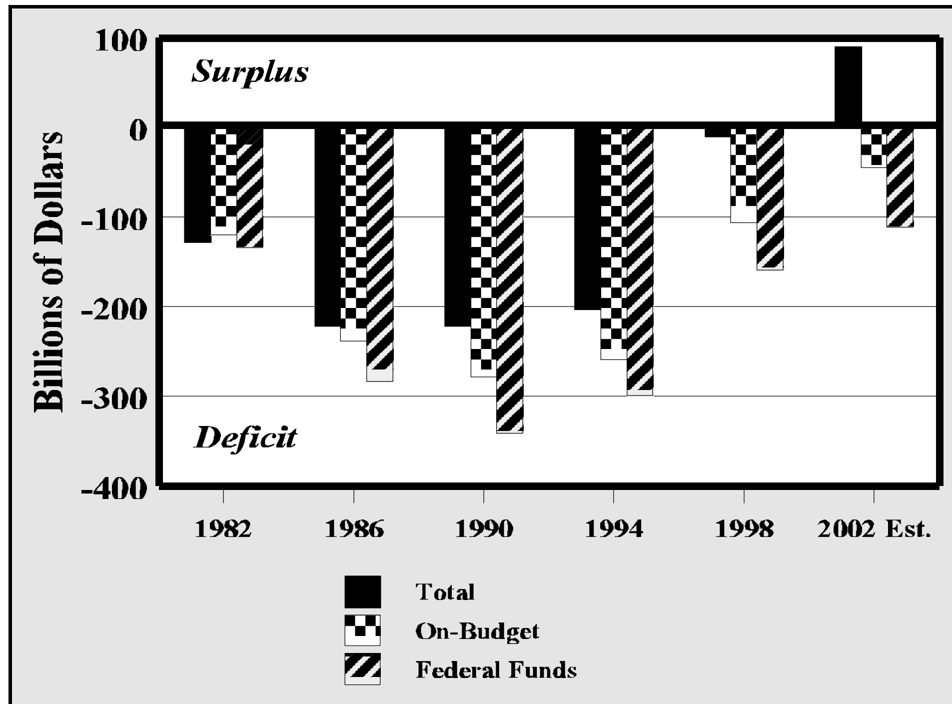
Congress enforces budget decisions in two ways. One is by guarding against actions that would cause budget outcomes to deviate from a desired course; the other is by ensuring that the House and Senate (and their committees) abide by the budget decisions taken in the congressional budget resolution. This chapter deals with enforcing budget outcomes; Chapter 4 deals with enforcing congressional budget decisions. In addition, this chapter addresses two other elements of the framework for budget enforcement—budget baselines and the new rules for the treatment of federal credit activities.

## Deficit Reduction and the Rules of Congressional Budgeting

Between the early 1980s and the late 1990s, annual consideration of the budget was dominated by concern about the budget deficit. The reason for this concern is evident from **Exhibit 2-A**, which displays the budget deficit at 4-year intervals since FY1982. In the mid-1980s, the deficit exceeded $200 billion and amounted to almost six percent of GDP. High deficits persisted in the early 1990s.

The size of the deficit depends on how it is measured. The "total" or "consolidated" deficit combines all on-budget federal funds and trust funds with the off-budget entities (the Social Security trust funds and the Postal Service Fund). The total deficit generally is regarded as the most comprehensive measure of the impact of the budget on the economy.

**Exhibit 2-A.**
**Alternative Measurements of the Deficit/Surplus**




(1) *This table, taken from President Clinton's initial budget submission for FY1999 (in February 1998), displays three alternative measures of the deficit or surplus: (a) on a total or consolidated basis; (b) on an on-budget basis (which excludes the Social Security trust funds and the Postal Service Fund); and (c) on a federal-funds basis (which excludes all trust funds). Depending on the basis for the measurement, the estimate for FY2002 ranged from a deficit of $111 billion to a surplus of $90 billion.*

(2) *The total deficit incorporates both on-budget and off-budget transactions, but it does not include the finances of government-sponsored enterprises.*

(3) *The Social Security trust funds ran an $8 billion deficit in FY1982, but since then they have run a steadily increasing surplus (amounting to about $100 billion by the end of the 1990s). With the Social Security trust funds excluded, the reported deficit (after FY1982) is much higher because the annual surplus in these funds does not offset the deficit in the rest of the budget.*

(4) *The federal funds deficit excludes all trust funds, whether they are on-budget or off-budget.*

**Source**: Chart prepared by the Congressional Research Service based on data in: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Historical Tables*, February 1998, Table 1.1, pages 19-20, and Table 1.4, pages 25-26.

A narrower measure of the deficit—the on-budget deficit—is derived by excluding the Social Security trust funds and the Postal Service Fund from the totals. As noted, this exclusion is mandated by law, although Social Security and the Postal Service Fund are counted in the budget in reports on the deficit. In 1983, Congress enacted legislation revising the financing of the Social Security trust funds in order to bring about increasing annual surpluses for the next several decades. As **Exhibit 2-A** discusses, the Social Security trust funds ran a small deficit in FY1982; thereafter, the trust funds have run steadily increasing surpluses (amounting to about $100 billion by the end of the 1990s). Therefore, excluding Social Security from computations of the deficit or surplus results in higher deficit or lower surplus figures. (The accumulated balance credited to these funds is much higher than the annual surplus; it now amounts to hundreds of billions of dollars and is projected to amount to trillions of dollars in the early decades of the next century.)

A still narrower measure of the deficit—the federal funds deficit—would exclude all trust funds from deficit computations. As is the case with Social Security, the other trust funds in the net incur an annual surplus. **Exhibit 2-A** shows that the federal funds deficit exceeded $300 billion in the early 1990s.

Regardless of the measure used, it is evident that the deficit was unusually high for an extended period of time. This chronic deficit prompted Congress to enact the Balanced Budget and Emergency Deficit Control Act of 1985. The original 1985 Balanced Budget Act established deficit targets for each year through FY1991, when the budget was to be balanced, and a sequestration process under which budgetary resources would be canceled automatically if the estimated deficit exceeded the amount allowed under the act.

Even with the targets, the actual deficit for the covered years was above the targeted level. The 1985 act, as originally framed, did not require that the actual deficit be within the target; it required only that the deficit projected at the start of the fiscal year be within that amount. Thus, any increase in the deficit during the fiscal year, whether because of changes in economic conditions, policy changes, or other factors, did not activate the sequestration process for that fiscal year.

Failure to achieve the deficit targets, and other problems, led Congress to revise the process in the Budget Enforcement Act (BEA) of 1990. Sequestration procedures were retained, but the fixed deficit targets were replaced by adjustable ones (which expired at the end of FY1995), adjustable limits were imposed on discretionary spending, and a pay-as-you-go (PAYGO) process was established for revenues and direct spending. The discretionary spending limits and PAYGO process were extended in 1993 (through FY1998) and again in 1997 (through FY2002).

Different categories of discretionary spending are used for different periods. Under the 1997 changes, discretionary spending limits apply separately to defense and nondefense spending for FY1998-1999 and to violent crime reduction spending for FY1998-2000; for the remaining fiscal years, all discretionary spending is merged into a single category. In 1998, as part of the Transportation Equity Act for the 21st Century, Congress added separate categories for highway and mass transit spending.

The PAYGO process requires that legislation enacted during a session affecting revenues or direct spending not increase the deficit or reduce the surplus. Legislation reducing revenues or increasing direct spending must be fully offset (in the same or other legislation) by revenue increases or reductions in direct spending.

Violations of the discretionary spending limits or the PAYGO requirement are enforced by sequestration. Sequestration has not been used in recent years.

## Budgeting for Discretionary and Direct Spending

The distinction drawn by the BEA between discretionary spending (which is controlled through the annual appropriations process) and direct spending (which is provided outside of the annual appropriations process) recognizes that the federal government has somewhat different, though overlapping, means of dealing with these two types of spending. One set of procedures pertains to discretionary spending, another to direct spending.

Most of the direct spending subject to the PAYGO process under the BEA involves entitlement programs; the rest consists of other forms of mandatory spending provided through authorizing legislation and interest payments. In fact, entitlements now account for about half of total federal spending (all direct spending, including net interest, accounts for about two-thirds of the total). Their recent growth is shown in **Exhibit 2-B**, which also shows the rise in the number of recipients of these payments. The impressive feature of this trend is that most of the growth in spending and in the number of recipients has been built into existing law; for the most part, it has not been the result of new legislation. Indeed, the increase has occurred despite a number of legislative enactments to curtail entitlement programs.

The procedures for discretionary and direct spending converge at two critical points in federal budgeting: formulation of the President's budget and formulation of the congressional budget resolution. Both of these policy statements encompass discretionary and direct spending. But as **Box 2-A** indicates, the procedures used in budgeting for these types of expenditure differ greatly. The distinctions drawn in this box have some notable exceptions. Some procedures associated with direct spending are applied to particular types of discretionary programs, and *vice versa*. Nevertheless, the generalizations presented here help to explain the complications of the budget process and explain how decisions are made. The paragraphs below correspond to the entries in **Box 2-A**.

*(1) Budgetary Impact of Authorizing Legislation.* An authorization for a discretionary spending program is only a license to enact an appropriation. The amount of budgetary resources available for spending is determined in annual appropriations acts. For direct spending programs (principally entitlements), on the other hand, the authorizing legislation either provides, or effectively mandates the appropriation of, budget authority. In those entitlement programs that are subject to annual appropriation, the Appropriations Committees have little or no discretion as to the amounts they provide.

**Exhibit 2-B.**
**Outlays for Mandatory Spending and Net Interest: FY1970-1996**

(in billions of dollars)

| | **1970** | **1980** | **1990** | **1996** |
|---|---|---|---|---|
| Outlays for mandatory spending and net interest (and as a percent of total outlays) | 75.5 (39%) | 314.9 (53%) | 752.9 (60%) | 1,026.7 (66%) |
| Outlays for selected major entitlements: | | | | |
| Social Security (OASDI) | 30 | 118 | 245 | 344 |
| Medicare | 6 | 31 | 96 | 171 |
| Medicaid | 3 | 14 | 41 | 92 |
| Unemployment assistance | 3 | 17 | 17 | 23 |
| Federal retirement | 6 | 27 | 52 | 68 |
| Food/nutrition assistance | 1 | 13 | 21 | 34 |
| Recipients of selected major entitlements (in millions of persons): | | | | |
| Social Security (OASDI) | 26 | 35 | 39 | 43 |
| Food Stamps (and predecessors) | 9 | 19 | 19 | 26 |
| Medicare Hospital Insurance | 20 | 28 | 33 | 38 |
| Medicaid | 15 | 22 | 25 | 34 |

(1) *This exhibit consists of three sections. The first section shows total outlays for mandatory programs and net interest, and such spending as a percentage of total federal outlays; the second part shows outlays for selected major entitlement programs; and the third part shows trends in the number of recipients of selected major entitlement programs.*

(2) *Mandatory and net interest spending grew almost 15-fold between FY1970 and FY1996, claiming an increasingly greater share of the budget. As a percentage of total federal outlays, mandatory and net interest spending increased from 39% in FY1970 to 66% in FY1996.*

(3) *Most mandatory or direct spending is for entitlements, which primarily involve retirement and disability programs (such as Social Security) and health programs (such as Medicare and Medicaid).*

(4) *Because most entitlement spending stems from permanent law, spending automatically increases over time as more people receive benefits. Entitlement spending also increases because of inflation.*

**Source**: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Historical Tables*, February 1998, Table 3.1 (pages 42-49), Table 8.1 (page 117), and Table 8.5 (pages 121-125).

**Box 2-A.**
**Differences Between Discretionary and Direct Spending**

| Feature | Discretionary Spending | Direct Spending |
|---|---|---|
| (1) Budgetary impact of authorizing legislation. | No direct impact; authorizes consideration of appropriations bills. | Direct impact; provides budgetary resources. |
| (2) Committees which provide or mandate budget authority. | Appropriations Committees. | Authorizing committees. |
| (3) Frequency of decision-making. | Annual. | Periodic. |
| (4) Means of enforcing the budget resolution. | Section 302 allocations and suballocations. | Reconciliation process. |
| (5) Budget Enforcement Act controls. | Discretionary spending limits. | Pay-as-you-go (PAYGO) requirement. |
| (6) Basis of computing budget impact. | Current year's spending and President's request. | Baseline budget projections. |
| (7) Typical decision facing Congress. | How much to increase. | How much to decrease. |
| (8) Impact of economic changes. | Indirect, discretionary. | Direct, often automatic. |

*(2) Committees Which Provide or Mandate Budget Authority.* The Appropriations Committees have jurisdiction and effective control over discretionary spending programs, while authorizing committees effectively control direct spending programs (including those funded in annual appropriations acts). In fact, committee jurisdiction determines whether a program is classified as discretionary or direct spending. All spending under the effective control of the Appropriations Committees is discretionary; everything else is direct spending. Accordingly, when legislation establishes a program as discretionary or direct spending, it not only determines the character of spending but the locus of congressional committee control as well.

*(3) Frequency of Decision-Making.* Discretionary appropriations are, with few exceptions, made annually for the current or next fiscal year. Direct spending programs typically are established in permanent law that continues in effect until such time as it is revised or terminated by another law. The fact that many entitlements have annual appropriations does not diminish the permanence of the laws governing the amounts spent. It should be noted, however, that some direct spending programs,

such as Medicare, have been subject to frequent legislative changes. The purpose of such legislation has been to modify existing law, not to provide annual funding.

*(4) Means of Enforcing the Budget Resolution.* The procedures used by Congress to enforce the policies set forth in the annual budget resolution differ somewhat for discretionary and direct spending programs. For both types of spending, Congress relies on allocations made under Section 302 of the 1974 Congressional Budget Act to ensure that spending legislation reported by House and Senate committees conforms to established budget policies. But although this procedure is effective in controlling new legislation—both annual appropriations measures and new entitlement legislation—it is not an effective control on the spending that results from existing laws. Hence, Congress relies on reconciliation procedures to enforce budget policies with respect to existing spending and revenue laws. Reconciliation is not currently applied to discretionary programs funded in annual appropriations measures.

*(5) Budget Enforcement Act Controls.* Discretionary programs are subject to the spending limits set in the BEA. Direct spending is not capped, but operates under the PAYGO process, which requires that direct spending and revenue legislation enacted for a fiscal year not cause the deficit to rise or the surplus to decrease. The lack of caps is due to the fact that most direct spending programs are open-ended, with spending determined by eligibility rules and payment formulas in existing law rather than by new legislation.

*(6) Basis of Computing Budget Impact.* The baseline projections discussed earlier are applied to both discretionary and direct spending programs, but they are much more prominently used in scoring changes for the latter. In recommending funds for discretionary programs, the Appropriations Committees rely almost exclusively on two other benchmarks: the appropriation for the current fiscal year and the amount requested by the President for the upcoming fiscal year. These committees regularly compare the amount recommended by them to each of these benchmarks, but make no mention in their reports of baseline budget projections. In the case of direct spending programs, however, the reconciliation instructions, the budgetary impact of legislative changes made in reconciliation bills, and other claimed savings (or increases) are computed in terms of the baseline projections.

*(7) Typical Decision Facing Congress.* Because discretionary spending is determined in annual appropriations acts, the typical decision facing Congress for such spending is the amount by which it should be changed from the current year's level. Direct spending is determined by permanent law and often is affected by exogenous factors, such as price changes, so that decisions typically deal with the amount of increases or decreases from baseline levels. In direct spending programs, increases often are built into law; in discretionary spending programs, they are not.

*(8) Impact of Economic Changes.* When economic conditions—such as the inflation or unemployment rate—change, there often is an automatic, reciprocal change in direct spending. A price rise triggers cost-of-living adjustments (COLAs) in various payment programs, as does a rise in the number of persons filing unemployment claims or participating in the Food Stamps program. Discretionary

spending, by contrast, is largely insulated from such changes. When prices rise, for example, Congress can opt to appropriate more discretionary funds or it can compel the affected agency to absorb the increased costs.

## The Chain of Discretionary Spending Control

The many pieces and procedures of the federal budget process have been introduced in this and the preceding chapter. At this point, it would be useful to put some of the pieces together to see how they create a chain of spending controls as part of an integrated budget process (see **Box 2-B**). The controls traced in the exhibit pertain most fully to discretionary spending. A somewhat different set of controls would apply to other parts of the budget, such as direct spending and revenues, though there are some common features. The discussion that follows is keyed to the accompanying exhibit.

Before explaining the individual controls, two points should be noted. First, each control (other than the first one) is based on "may not be exceeded" rules. That is, the amount available under one step may not normally exceed the amount provided in the previous step. These rules establish a chain relationship among the various parts of the process. But the "may not be exceeded" rules do not always mean that the controls produce the desired results. For one thing, there can be various adjustments or exceptions, as will be explained below. For another, enforcement of the "may not be exceeded" rules often depends on estimates and assumptions which may prove to be erroneous as events unfold. Third, enforcement of those rules pertaining to Congress sometimes may be set aside. Despite these caveats, the sequence of controls generally are quite effective in keeping discretionary spending within established limits.

The second point to be noted is that the chain of controls engages the participation of virtually all executive and legislative participants in federal budgeting. Note, however, that the chain does not begin with the President's budget because (as discussed earlier) it is only a set of recommendations. Congress does not have to accept these recommendations in its own budget actions. Note also that the chain does not include authorizing legislation because these measures do not always determine the amount that may be appropriated.

*(1) Discretionary Spending Limits.* The limits set dollar caps on budget authority and outlays, subject to adjustment by OMB for certain purposes prescribed by law, on broad categories of discretionary spending through FY2002. The President's budget recommendations and the congressional budget resolution adhere to these limits. At times, however, the President and CBO do not agree on how these limits are to be applied, and CBO sometimes finds that the President has recommended spending in excess of the discretionary spending caps.

*(2) Budget Resolution Aggregates.* The aggregates in the budget resolution may be lower than, or the same amount as, the discretionary spending limits. Legislation considered by Congress may not violate the aggregate spending levels (total budget authority and total outlays) in the budget resolution and, by implication, may not exceed the discretionary spending limits.

**Box 2-B.**
**The Chain of Discretionary Spending Control**

| Control or Limitation | Method of Control |
|---|---|
| (1) Discretionary spending limits | Caps on discretionary budget authority and outlays, adjusted periodically as prescribed by law; they apply to defense and nondefense categories for FY1998-1999 and a total category for FY2000-2002; also, violent crime reduction (FY1998-2000) and highway and mass transit (FY1999-2003) categories are used. |
| (2) Budget resolution aggregates | Ceilings on total budget authority and outlays which guide the enactment of legislation; budget resolution aggregates do not exceed discretionary spending limits. |
| (3) Section 302(a) allocations | Allocations of total budget authority and outlays in the budget resolution to committees with spending jurisdiction; total amounts allocated to committees may not exceed the budget resolution aggregates. |
| (4) Section 302(b) subdivisions | A committee's subdivision of its spending allocations by subcommittee (or by program); subdivisions made by a committee may not exceed its allocations. |
| (5) Appropriation | The amount of budget authority or outlays resulting from an appropriations act may not exceed the Section 302(b) subdivision to the relevant Appropriations subcommittee. |
| (6) Apportionments | The distribution of enacted appropriations (or other budgetary resources) for a fiscal year by OMB to projects or fiscal year quarters within an account; the total amount apportioned to an account may not exceed the amount appropriated. |
| (7) Allotments | The distribution of apportioned resources by a department or agency among its subunits; the amount allotted may not exceed the amount apportioned. |
| (8) Obligations | Actions taken by federal agencies that incur financial liabilities of the federal government; an agency may not obligate in excess of the resources available to it. |
| (9) Outlays | Payments made by the Treasury Department to liquidate obligations lawfully incurred by agencies; outlays may not exceed obligations. |

*(3) Section 302(a) Allocations.* After a budget resolution is adopted, the total budget authority and outlays in it are allocated among House and Senate committees with jurisdiction over discretionary or direct spending. Discretionary spending is under the jurisdiction of the Appropriations Committees. The total amounts allocated to committees may not exceed the budget resolution aggregates.

*(4) Section 302(b) Subdivisions.* The Appropriations Committees are required to subdivide their allocations among their subcommittees. (The other House and Senate committees are not required to subdivide their allocations.) The subdivisions made by the subcommittees may not exceed the amounts allocated to the full committee. The spending in each annual appropriations measure is compared to the relevant subdivision made under Section 302(b). In some cases, a point of order can be raised against an appropriations measure that exceeds the relevant subdivision.

*(5) Apportionments.* After the appropriations measures have been enacted, OMB apportions funds to agencies by quarters of the fiscal year or by project. The amounts apportioned during the fiscal year may not be more than the amount appropriated. However, "deficiency" apportionments are permitted in some instances.

*(6) Allotments.* Each department and agency allots the amount apportioned to it among its subunits. The amount allotted may not be more than the amount apportioned. Some agencies (generally small ones) skip the allotment procedure.

*(7) Obligations.* An agency is not permitted to obligate (except under very limited exceptions) in excess of the resources available to it or for purposes other than those for which the funds were provided. The amount available for obligation in an account may include—in addition to new appropriations—transfers from other accounts, funds carried over from prior years, and (when authorized by law) certain offsetting receipts collected by the agency.

*(8) Outlays.* This is the final step in the chain of spending control. The Treasury Department makes payments to liquidate obligations lawfully incurred by agencies. Outlays may not exceed obligations.

## Deficit Targets, Discretionary Spending Limits, and the PAYGO Process

**Establishment of the Sequestration Process.** The 1985 Balanced Budget Act established a series of declining annual deficit targets and created an automatic spending-reduction process (known as sequestration) intended to ensure that the deficit targets were adhered to even if Congress and the President failed to reduce the deficit sufficiently through legislative action. The Budget Enforcement Act (BEA) of 1990 made major changes in conjunction with the enactment of a five-year deficit-reduction accord covering FY1991-1995. In 1993, the BEA procedures were extended through FY1998 as part of another comprehensive budget agreement between the President and Congress. Most recently, the procedures were extended through FY2002, with modifications, by the Budget Enforcement Act (BEA) of 1997, as part of a plan to balance the budget by that fiscal year.

Sequestration involves the issuance of a presidential order that permanently cancels budgetary resources, except for revolving funds, special funds, trust funds, and certain offsetting collections. As originally framed, the purpose of sequestration was to achieve a required amount of outlay savings to reduce the estimated deficit to target levels. Once sequestration is triggered by an executive determination, spending reductions are made automatically; this process, therefore, is regarded by many as providing a strong incentive for Congress and the President to reach agreement on legislation that would avoid a sequester.

**Changes Made by the Budget Enforcement Acts of 1990 and 1997.** From its inception in 1985 until its revision by the BEA in 1990, the process was tied solely to the enforcement of fixed deficit targets. The BEA changed the sequestration process substantially. First, it effectively eliminated the deficit targets as a factor in budget enforcement. Second, the BEA established adjustable limits on discretionary spending funded in the annual appropriations process. Third, the BEA created pay-as-you-go (PAYGO) procedures to require that increases in direct spending (*i.e.*, spending controlled outside of the annual appropriations process) or decreases in revenues due to legislative action are offset so that there is no net increase in the deficit or reduction of the surplus.

The BEA established new sequestration procedures to enforce the discretionary spending limits and the pay-as-you-go requirements. To the extent that any sequesters must be made, they occur on the same day (which must be within 15 calendar days after Congress adjourns to end a session); sequestration of this type is referred to as *end-of-session sequestration*. Further, one or more additional sequesters may occur subsequently in the fiscal year to eliminate any breach in the discretionary spending limits; this type of sequestration is referred to as *within-session sequestration*.

Previously, the surpluses of the Social Security trust funds were included in the deficit estimates made under the 1985 Balanced Budget Act but Social Security spending (except for administrative expenses) was exempt from sequestration. Under the BEA, Social Security spending still is exempt from sequestration, but the trust fund surpluses are excluded from the deficit estimates.

The BEA established adjustable limits on discretionary spending. For FY1991-1993, separate limits were set for new budget authority and outlays for three different categories—defense, international, and domestic. For FY 1994-1998, limits on new budget authority and outlays were established for a single category—total discretionary spending. In 1994, the Violent Crime Control and Law Enforcement Act of 1994 (P.L. 103-322) established separate but parallel sequestration procedures for violent crime reduction programs through FY2000.

In 1997, the BEA limits for FY1998 were revised and new limits were established through FY2002 (see **Exhibit 2-C**). The limits are established for the following categories of discretionary spending: defense and nondefense, for FY1998-1999; discretionary (a single category), for FY2000-2002; and violent crime reduction, for FY1998-2000. In 1998, as part of the Transportation Equity Act for

the 21st Century (P.L. 105-178), Congress created separate categories for highway and mass transit spending for FY1999-2003.

## Exhibit 2-C.
## Discretionary Spending Limits

(in millions of dollars)

| | 1998 | 1999 | 2000 |
|---|---|---|---|
| **Non-Defense Discretionary Spending** | | | |
| Budget Authority | 253,506 | 283,737 | 285,937 |
| Outlays | 285,686 | 289,297 | 290,057 |
| **Violent Crime Reduction Spending** | | | |
| Budget Authority | 5,500 | 5,800 | 4,500 |
| Outlays | 4,833 | 4,953 | 5,554 |
| **Defense Discretionary Spending** | | | |
| Budget Authority | 269,000 | 271,570 | 275,429 |
| Outlays | 267,124 | 266,635 | 269,072 |
| **Total Discretionary Spending** | | | |
| Budget Authority | 528,006 | 561,107 | 565,866 |
| Outlays | 557,643 | 560,885 | 564,683 |

*(1) The discretionary spending limits apply to funds provided in annual appropriations acts (except for mandatory programs, such as Medicaid, funded in such acts). Limits are set on both new budget authority and outlays; a breach of either type of limit would cause a sequester.*

*(2) The discretionary spending limits are divided into categories, which vary by fiscal year. The BEA of 1997 established the following categories for the five-year period covering FY1998-2002 (FY2001 and FY2002 are not shown here): defense and nondefense for FY1998-1999; total discretionary (a single category) for FY2000-2002; and violent crime reduction for FY1998-2000. In 1998, the Transportation Equity Act for the 21st Century established highway and mass transit categories beginning with FY1999.*

*(3) Periodically, the OMB director adjusts the discretionary spending limits for factors set forth in the BEA, including such things as changes in concepts and definitions, emergency spending, and the enactment of legislation in specified categories (such as for continuing disability reviews and international arrearages).*

*(4) Discretionary spending limits also are included in the budget resolution and are enforced in the Senate (but not the House) by a point of order.*

**Source**: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Analytical Perspectives*, February 1998, Table 14-2, pages 261-263.

Under the BEA, the discretionary spending limits must be adjusted periodically by the President for various factors, including (among others), changes in concepts and definitions, a special outlay allowance (to accommodate estimating differences between OMB and CBO), and the enactment of legislation providing emergency funding and funding for the International Monetary Fund, international arrearages, an earned income tax credit compliance initiative, and other specially designated purposes.

Enforcement of the spending limits is accomplished through a special sequestration process that is triggered automatically, at the end of a congressional session, if the applicable spending limit is breached through the enactment of legislation. If the enactment of legislation causing a breach in the spending limits for the current year occurs during the last quarter of the fiscal year (*i.e.*, between July 1 and September 30), the appropriate discretionary spending limits for the next fiscal year are reduced by the amount of the breach.

Under the PAYGO process created by the BEA, legislation increasing direct spending or decreasing revenues must be offset so that the deficit is not increased or the surplus reduced (see **Exhibit 2-D**). The PAYGO process does not require any offsetting action when the spending increase or revenue decrease is due to the operation of existing law, such as an increase in the number of persons participating in the Medicare program. Direct spending consists largely of spending for entitlement programs. Most direct spending and revenue programs are established under permanent law, so there is not necessarily any need for recurring legislative action on them (and the PAYGO process does not require such action).

Enforcement of the PAYGO process also is accomplished through a special sequestration procedure. The PAYGO process does not preclude Congress from enacting legislation to increase direct spending; it only requires that the increase be offset by reductions in other direct spending programs (which could include increases in offsetting receipts), by increases in revenues, or by a combination of the two in order to avoid a sequester. If a sequester under this process is required, it would have to offset the amount of any net deficit increase (or surplus reduction) for the fiscal year caused by the enactment of legislation in the current and prior sessions of Congress, and would be applied to nonexempt direct spending programs.

Spending for Social Security benefits and current federal deposit insurance commitments, as well as emergency direct spending and revenue legislation (so designated by both the President and by Congress), is exempted completely from the PAYGO sequestration process. All remaining direct spending programs are covered by the PAYGO process to the extent that legislation affecting their spending levels is counted in determining whether a net increase or decrease in the deficit has occurred for a fiscal year. If a PAYGO sequester occurs, however, many direct spending programs would be exempt from reduction.

In 1997, coverage of the PAYGO requirement was extended to legislation enacted through FY2002; however, the PAYGO process remains in effect through FY2006 to deal with the outyear effects of such measures. Consequently, a PAYGO

sequester could occur in FY2003-2006 based on legislation enacted before the end of FY2002.

| Report No. | Act No. | Act Title | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|
| **Legislation enacted in the 1st Session—Reports issued after 11/21/97 (not reflected in Final Report):** | | | | | | | | |
| 417 | PL 105-85<br>H.R. 1119 | National Defense Authorization Act for Fiscal Year 1998: | | | | | | |
| | | OMB estimate | -156 | 3 | 10 | 15 | -4 | -24 |
| | | CBO estimate | -159 | 9 | 17 | 19 | -13 | -35 |
| 418 | P.L. 105-89<br>H.R. 867 | Adoption and Safe Families Act of 1997 | | | | | | |
| | | OMB estimate | -1 | ..... | 3 | 11 | 40 | 76 |
| | | CBO estimate | -1 | ..... | ..... | ..... | ..... | 7 |
| | | * * * * * | | | | | | |
| | | **Total, new balances (excluding Final Sequester Report FY1998 amount):** | | | | | | |
| | | OMB estimate | | | | | | |
| | | CBO estimate | -153 | 11 | 16 | 14 | 10 | 9 |
| | | | -156 | 68 | 95 | 96 | 22 | -68 |

## Exhibit 2-D.
## The PAYGO Scorecard

(1) *The budgetary impact of all direct spending and revenue legislation enacted beginning with FY1991 is recorded on a multi-year PAYGO "scorecard." This exhibit shows an excerpt from a table in the sequestration preview report for FY1999, issued in February 1998 as part of the President's budget. By this time, more than 400 separate PAYGO measures had been enacted.*

(2) *From time to time, Congress and the President have reset the PAYGO balances to zero as part of a major deficit-reduction act in order that the sizeable savings from the act not be available to offset future spending increases or revenue reductions. This happened with the Balanced Budget Act of 1997, which was enacted several months before this sequestration preview report was issued.*

(3) *This exhibit shows that the National Defense Authorization Act for FY1998 contained modest amounts of direct spending, ranging in one year from savings of $156 million to increases of $15 million in another.*

(4) *Although the PAYGO scorecard exhibited here shows a balance of $11 million for FY1999, no sequester would be required under these estimates (assuming they remained unchanged during the session). This is because, under a "look back" feature, the balance for the current year (-$153 million for FY1998) is added to the balance for the budget year. In this case, the FY1998 "credit" more than offsets the FY1999 amount.*

**Source**: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Analytical Perspectives*, February 1998, Table 14-5, pages 268-269.

As originally framed, the 1985 Balanced Budget Act provided for the automatic issuance of a sequestration order by the President upon the submission of a report by the comptroller general identifying a deficit excess. This feature of the act was invalidated by a Supreme Court ruling (*Bowsher* v. *Synar*) in 1986 on the ground that the constitutional separation-of-powers doctrine was violated because the comptroller general is a legislative branch official. Congress subsequently revised the process in the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 by placing the triggering function in the hands of the OMB director, an executive branch official.

**The Timing of Sequestration Actions.** The multiple sequestration procedures established by the BEA in 1990 remain automatic and are triggered by a report from the OMB director. For sequestration purposes generally, there is only one triggering report issued each year (just after the end of the session). Additionally, OMB reports triggering a sequester for discretionary spending may be issued during the following session if legislative developments so warrant (*i.e.*, the enactment of supplemental appropriations). The CBO director must provide advisory sequestration reports, shortly before the OMB director's reports are due.

The timetable for the sequestration process is set forth in **Box 2-C**.

Early in the session, OMB and CBO issue sequestration preview reports. The reports provide estimates of the discretionary spending limits, with the adjustments prescribed by law. Also, the reports provide estimates of any net deficit increase or decrease caused by the enactment of direct spending or revenue legislation subject to the PAYGO process. In August, OMB and CBO issue sequestration update reports to reflect the impact of legislation enacted during the interim. Finally, OMB and CBO issue sequestration reports shortly after Congress adjourns to end the session. The end-of-session reports must reflect any pertinent legislation enacted since the update reports were issued and must indicate the baseline amount of budgetary resources and the amount and percentage of the reduction for each account subject to sequestration.

In preparing its update and final sequestration reports, OMB must use the economic and technical assumptions that were used in the earlier preview report. During the course of the session, OMB must provide Congress with cost estimates of budgetary legislation shortly after its enactment, so that compliance with the discretionary spending limits and PAYGO requirements can be monitored. The cost estimates must be based on the economic and technical assumptions used in the President's most recent budget.

Several other reports are associated with the sequestration process. For example, within-session sequestration reports may be issued by CBO and OMB (no later than July 10 and July 15, respectively) if supplemental appropriations or other discretionary spending is enacted that causes a breach in a discretionary spending limit. Also, the comptroller general issues a compliance report, if requested by either the House or Senate Budget Committee, evaluating whether the OMB and CBO reports and the presidential order comply with the requirements of the act.

**Box 2-C.**
**Sequestration Process Timetable**

| Deadline | Action to be completed |
|---|---|
| 5 days before the President's budget submission | CBO issues sequestration preview report. |
| Date of the President's budget submission | OMB issues sequestration preview report (as part of the President's budget). |
| August 10 | President notifies Congress if he intends to exempt military personnel accounts. |
| August 15 | CBO issues sequestration update report. |
| August 20 | OMB issues sequestration update report. |
| 10 days after end of session | CBO issues final sequestration report. |
| 15 days after end of session | OMB issues final sequestration report; President issues any required sequestration order. |

Any sequestration order issued by the President must follow the OMB sequestration report strictly.

Sequestration procedures may be suspended in the event a declaration of war is enacted or if Congress enacts a special joint resolution triggered by the issuance of a CBO report indicating "low growth" in the economy. Also, there are several special procedures under the act by which the final sequestration order for a fiscal year may be modified or the implementation of the order affected.

## Baseline Budget Projections

Most appropriations are for a definite amount and the budget authority is provided for a single fiscal year. The main task is to estimate the outlays that will derive in the next year and beyond from the budget authority provided in the appropriations bill. CBO and the Appropriations Committees base these estimates on outlay (or spendout) rates—the percentage of budget authority that is spent in each year. These outlay rates vary by account and are based on historical records. For example, if $1 billion is appropriated to an account which has a spendout rate of 80% in the first fiscal year that funds become available, the outlay estimate for that fiscal year will be $800 million; the remaining $200 million will become outlays in subsequent years.

Scoring is much more complex in enforcing the statutory PAYGO requirement. For one thing, unlike appropriations, revenue and direct spending legislation usually is open-ended; it does not specify the amount by which revenue or spending will be

changed. For another, the impact of this type of legislation continues in future years. In enforcing the PAYGO requirement, Congress must estimate the revenue gain or loss for each of the next five years (and 10 years under the special Senate rule), and it cannot do so simply by referring to the text of the legislation being scored. It must also take into account the behavior of taxpayers, economic conditions, and other factors that affect revenue collection.

Congress scores revenue and direct spending legislation by reference to baseline projections issued by CBO, sometimes in cooperation with OMB. CBO works closely with the Joint Committee on Taxation in preparing its baseline revenue projections (see **Box 5-B**). The baseline is an extrapolation of future budget conditions, typically for each of the next five years, based on the assumption that current policies will continue in effect. The baseline projections incorporate assumptions about future inflation and workload changes mandated by law. These projections are made for the budget aggregates as well as for individual programs and accounts.

When Congress considers revenue or direct spending legislation, CBO estimates the amount of revenues or outlays that would ensue if the measure were enacted. It then compares this amount with the baseline projection to score the legislation. Thus, the score measures budgetary impact as the difference between the amount projected under current policies and the amount estimated if the legislation were enacted. A score is reported for each of the years and often for the sum of the years as well.

**Exhibit 2-E** provides a hypothetical example of using baseline projections to score legislation. In this hypothetical case, legislation would be scored as reducing spending against the baseline by $3.08 million the first year and $53.53 million over the five years covered by the baseline.

The BEA makes OMB the "official scorer" of congressional budget actions. The OMB score is authoritative in determining whether offsets or a sequester are required under the PAYGO rules. However, Congress usually relies on the CBO score while it is considering legislation. The OMB and CBO scores on legislation sometimes differ.

In addition to enforcing PAYGO, baseline projections and scoring are used in computing the amount of deficit reduction agreed to in budget summit negotiations between the President and Congress and enacted in reconciliation acts.

## Budgeting for Direct and Guaranteed Loans

The Federal Credit Reform Act of 1990 made fundamental changes in the budgetary treatment of direct loans and guaranteed loans. The reform, which first became effective for FY1992, shifted the accounting basis for federally provided or guaranteed credit from the amount of cash flowing into or out of the Treasury to the estimated subsidy cost of the loans. Credit reform entails complex procedures for estimating these subsidy costs and new accounting mechanisms for recording various loan transactions. The changes have had only a modest impact on budget totals but a substantial impact on budgeting for particular loan programs.

**Exhibit 2-E.**
**Hypothetical Baseline Projections and Policy Changes**

(by fiscal year; in millions of dollars)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Baseline projections** | | | | | |
| Initial projections | 100.00 | 107.12 | 114.74 | 122.91 | 131.66 |
| Assumptions | | | | | |
| Inflation increase—4% | 4.00 | 4.28 | 4.59 | 4.92 | 5.27 |
| Workload increase—3% | 3.12 | 3.34 | 3.58 | 3.83 | 4.11 |
| Total increase | 7.12 | 7.62 | 8.17 | 8.75 | 9.38 |
| Final projections | 107.12 | 114.74 | 122.91 | 131.66 | 141.04 |
| **Policy changes** | | | | | |
| Cap inflation increase at 2% | -2.00 | -4.20 | -6.63 | -9.30 | -12.23 |
| Change laws to limit workload rises to 2% | -1.08 | -2.30 | -3.67 | -5.20 | -6.92 |
| Total policy changes | -3.08 | -6.50 | -10.30 | -14.50 | -19.15 |

*(1) This hypothetical example shows baseline projections of budget authority for FY1999-2003, based on an assumed level of budget authority for the current year (FY1998) of $100 billion.*

*(2) The baseline includes adjustments for projected inflation (in this case, inflation increases of 4% for each year covered by the baseline) and mandatory workload increases of 3% (such as increases in the number of Social Security recipients). These adjustments typically lead to projections of rising spending in each subsequent year.*

*(3) Policy changes represent changes from established policy (often involving changes in law) and cause spending to vary from baseline levels. For example, such changes might include setting inflation adjustments below projected levels (in this case, a 2% cap) or modifying eligibility rules so as to reduce workload increases (in this case, limiting them to 2%).*

*(4) Note that spending reductions tend to grow in the outyears; in this instance, the assumed policy changes save an estimated $3.08 million from the projected baseline in the first year and $19.15 million in the fifth year. In this hypothetical example, the cumulative savings over five years ($53.53 million) are more than half of the projected spending level for FY1998 ($100 million).*

**Source**: Table prepared by the Congressional Research Service.

**The Pre-1992 Method of Budgeting for Loans.** Prior to the Federal Credit Reform Act, the budget accounted for both direct loans and loan guarantees on a cash basis. Direct loans were recorded as outlays when funds were disbursed. These outlays were netted against repayments of principal and interest on old loans, so that net outlays were the difference between disbursements of new loans and repayments of old ones. (However, the congressional budget resolution budgeted for both direct and guaranteed loans on a gross basis, that is, total direct loan obligations and total guaranteed loan commitments. The inclusion of loan volumes in the budget resolution has not been altered by credit reform.) Loan guarantees were budgeted as outlays only when payment was made pursuant to default or to some other contingency requiring a federal disbursement. No outlays were recorded when the commitment was made to issue the guarantee.

This system had a number of perceived shortcomings. First, it overstated the cost of direct loans and understated the cost of loan guarantees, thereby encouraging the federal government to favor the latter type of loan regardless of its true cost. Second, because direct loans were recorded as outlays when the funds were disbursed, no budget entry was made when, as often happened, the loans were defaulted, forgiven, converted into grants, or forgotten. The budget had inadequate means of recognizing these costs. Third, neither Congress nor executive agencies had effective control of guaranteed loans. They did not have to set aside resources for loan guarantees, even when defaults were probable; when defaults occurred, the ensuing outlays were uncontrollable. Fourth, the treatment of direct and guaranteed loans made it impossible to compare the cost of these types of transactions to one another or to other budgetary actions, such as grants.

**The Federal Credit Reform Act of 1990.** In response to these perceived shortcomings, the Federal Credit Reform Act established a system of budgeting for the subsidized cost of loans. The credit reforms put direct and guaranteed loans on an equal footing, provide a means of recognizing a change in the status of loans in the budget, control guaranteed loans at the time the commitment is made, and provide a basis for comparing direct and guaranteed loans with other uses of budgetary resources. The 1990 act also established procedures for handling the unsubsidized portion of loans as well as loans made prior to FY1992.

The new system requires that budget authority and outlays be budgeted for the estimated subsidy cost of direct and guaranteed loans. This cost is defined in the 1990 act as "the estimated long-term cost to the government of a direct loan or a loan guarantee, calculated on a net present value basis, excluding administrative costs ...."

Under the new system, Congress appropriates budget authority or provides indefinite authority equal to the subsidy cost. This budget authority is placed in a program account from which funds are disbursed to a financing account. The various accounts maintained in credit budgeting are explained later in this section. **Exhibit 2-F** shows the relation between subsidy rates, budget authority, and loan levels for certain direct loans using 1999 data.

## Exhibit 2-F.
## Relation of Subsidy Rates, Budget Authority, and Loan Levels

(budget authority and loan levels in millions of dollars)

| Agency and program | 1999 weighted average subsidy as a percent of disbursements | 1999 subsidy budget authority | 1999 estimated loan levels |
|---|---|---|---|
| Agriculture: | | | |
| Agricultural credit insurance | 8.5 | 56 | 666 |
| Rural community advancement | 14.43 | 153 | 1,014 |
| Rural electrification and telephone | 2.27 | 36 | 1,475 |
| Rural telephone bank | 2.65 | 10 | 175 |
| Distance learning/medical link | 0.12 | * | 150 |
| Rural housing insurance fund | 16.45 | 197 | 1,197 |
| Rural development loan fund | 50.35 | 18 | 35 |
| Rural economic development | 25.22 | 4 | 15 |
| P.L. 480 direct loans | 86.79 | 89 | 102 |
| Small Business Administration: | | | |
| Disaster loans | 5.93 | 53 | 901 |
| Business loans | 9.54 | 6 | 60 |
| **Total** | 5.99 | 1,310 | 21,875 |

* $500 thousand or less.

*(1) The Federal Credit Reform Act of 1990 established new controls on federal credit activities, including direct and guaranteed loans; the act does not apply to deposit insurance and other insurance programs.*

*(2) Under the act, Congress appropriates budget authority equal to subsidy costs. The subsidy determines the loan levels that can be supported (although they sometimes are limited in statute by Congress; see* ***Exhibit 7-O****).*

*(3) This exhibit shows data on the direct loan activities of selected agencies for FY1999. In total, the President requested subsidy budget authority of $1,310 million to support $21,875 million in loan levels for the year; the weighted average subsidy for the total level of activity was 5.99 percent.*

*(4) The rate of subsidy (and associated budget authority and loan levels) varies widely for different programs, even within the same agency. Subsidies for Agriculture Department programs range from less than 1% to nearly 87%.*

**Source**: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Analytical Perspectives*, February 1998, Table 8-3, page 188.

**Estimating the Subsidy Cost.** Estimating the subsidy cost is a complex process that must be done for each credit program. The process is designed to separate the subsidized portion of the loan from the unsubsidized portion. Budget authority and outlays are provided only for the subsidized portion, which is the subsidy cost. This cost typically is less than the face value of a direct loan because all or part of most loans is repaid. It is also less than the amount guaranteed because only some such loans default. The unsubsidized portion of direct loans must be financed, but it is not included in the subsidy cost; hence, no budget authority is appropriated for it.

The subsidized portion of a direct loan is the amount, discounted to present value, that is not repaid. For guaranteed loans, it is the portion, also discounted to present value, on which the federal government is estimated to incur payment in the future. In discounting to present value, a factor equal to the interest rate paid by the Treasury Department is applied to all estimated cash flows associated with the loan. When discounted, a payment made by the federal government in the first year of the loan has a higher value, and therefore a higher subsidy cost, than an equivalent payment made in a later year. Furthermore, present value is computed on a net basis, so that estimated inflows are discounted to present value and then subtracted from discounted outflows.

***Direct Loans.*** Before a direct loan may be obligated, Congress must provide budget authority in an annual appropriations act or other measure to cover the subsidy cost. The amount of budget authority required for a given volume of loans depends on the subsidy rate, that is, subsidy outlays as a percentage of loan disbursements. For example, if the subsidy rate is 25 percent, budget authority of $10 million would support $40 million of loan obligations. **Exhibit 2-G** shows how the subsidy rate is derived from estimated cash flows.

The subsidy rate is calculated for each direct loan program. Many characteristics, some related to the terms of the loans, others to the status of the borrowers, go into calculation of the subsidy rate. These include the interest and fees charged borrowers, assumed defaults and recoveries on defaults, and the maturity of the loan.

***Guaranteed Loans.*** The procedures used for estimating subsidy costs of guaranteed loans are similar to those used for direct loans, but some of the factors differ. The subsidy cost of guaranteed loans is the difference between the present value of the federal government's cash disbursements for defaults and other payments, and the present value of the estimated cash inflows from fees, recoveries, and other collections. In other words, the subsidy cost is the portion of estimated payments by the federal government that is not expected to be offset by collections, in present value terms. As with direct loans, Congress must provide sufficient budget authority to permit the federal government to make loan guarantee commitments.

## Exhibit 2-G.
## Calculation of Subsidy Cost

**Credit Subsidy Calculation for a Hypothetical Direct Loan Obligated in FY 1999**
(by fiscal year; in millions of dollars)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | Sum |
|---|---|---|---|---|---|---|---|
| Obligated | 1,000 | ..... | ..... | ..... | ..... | ..... | 1,000 |
| Disbursed | 1,000 | ..... | ..... | ..... | ..... | ..... | 1,000 |
| Repayments: | | | | | | | |
| Interest | ..... | -50 | -50 | -50 | -50 | -50 | -250 |
| Principal | ..... | ..... | ..... | ..... | ..... | -1,000 | -1,000 |
| Total | 0 | -50 | -50 | -50 | -50 | -1,050 | -1,250 |
| Net cash flows | 1,000 | -50 | -50 | -50 | -50 | -1,050 | -250 |
| Discount rate (assumed rate on 5-year Treasury securities) | 7.6% | | | | | | |
| Present value of cash flows | 1,000 | -46 | -43 | -40 | -37 | -728 | 106 |

*(1) This hypothetical example involves a $1.0 billion direct loan obligated and disbursed in FY1999. The example assumes that: (a) the loan is disbursed soon after obligation; (b) the borrower pays interest annually at five percent, well below the Treasury's cost of money; (c) the principal is paid in full at the end of five years (no default); and (d) for simplicity, all cash flows take place at the end of the year.*

*(2) An appropriation of subsidy costs is made for the fiscal year in which the loan is obligated, even if some or all of the funds will be outlayed in subsequent years. Note that after the first year the actual net cash flows are different from the present value of these cash flows.*

*(3) A subsidy appropriation of $106 million is needed for FY1999; this amount is derived by totaling the present value of cash flows for all fiscal years during the life of the loan (FY1999-2004). Outlays of $106 million also are scored for FY1999.*

*(4) The subsidy rate is calculated by dividing the sum of the present value of cash flows by total loan obligations, yielding in this instance a subsidy rate of 10.6 percent. On the basis of this calculation, an appropriation of $106 million would permit direct loan obligations of $1.0 billion.*

**Source**: Table prepared by the Congressional Budget Office in 1991 and updated by the Congressional Research Service in 1998.

***Recording Cash Flows in the Budget.*** Credit reform necessitates the establishment of separate budgetary accounts for the subsidized and unsubsidized portions of loans, and for the cash flows of both pre-reform loans and those made after the new procedures took effect. Three types of accounts have been established to accommodate these needs: (1) program accounts for the subsidized portion of new loans and administrative expenses; (2) financing accounts for the unsubsidized portion and for all cash flows, except administrative expenses, during the life of new loans; and (3) liquidating accounts for the cash flows of pre-reform loans. **Box 2-D** lists the budgetary status of these accounts.

*Program Account.* This is the type of account into which an appropriation is provided to cover the subsidy cost of a direct or guaranteed loan. An amount typically is also appropriated to this account for administrative expenses, though these expenses are not included in the computation of subsidy costs. Direct and guaranteed loans are segregated within these accounts. The program account does not receive any funds for the unsubsidized portion of a direct or guaranteed loan.

*Financing Account.* This type of account is non-budgetary; its cash inflows and outflows are not included in the budget totals. These flows are accounted for as a "means of financing," not as budget receipts or outlays. The financing account collects the subsidy cost appropriation from the program account and borrows the unsubsidized portion of the loan from the Treasury Department, as needed, to make loan disbursements. Payments of fees, interest, principal, and other charges are placed in the financing account which repays, with interest, money borrowed from the Treasury Department. Separate financing accounts are maintained (within the same program) for direct and guaranteed loans. In the case of guaranteed loans, the financing account serves as a reserve for defaults. It lends these reserves, with interest, to the Treasury Department.

*Liquidating Account.* This kind of account handles the cash flows for loans made prior to FY1992. Because these loans were made under pre-reform procedures, they are budgeted on a cash basis. The liquidating account collects payments of principal, interest, and fees, and pays default claims and interest subsidies. The liquidating account does not make new loan disbursements or commitments.

**Box 2-D.**
**Credit Reform Account Structure**

| Liquidating Account | Program Account | Financing Account(s) |
|---|---|---|
| Mandatory scoring. | Discretionary scoring for discretionary programs and appropriations actions. Pay-as-you-go scoring for entitlements if changes are enacted by authorizing committees. | Scored "below the line" as a means of financing. |
| Scored on a cash basis. | Scored on a credit reform (subsidy) basis. | Cash flows scored as a means of financing. |
| "Old loan activity" (permanent, indefinite BA). | New subsidies and admin. expenses (current, definite BA for discretionary programs; current, indefinite BA for mandatory programs). | Cash flows from new credit activity (scored as means of financing; no appropriations required). |
| For loans obligated or committed prior to FY1992:<br>• collects repayments, interest fees;<br>• repays any borrowing with interest;<br>• pays default claims and interest subsidies; and<br>• if loans are modified or restructured, a subsidy is scored as a new loan. | For loans obligated or committed in FY1992 and beyond:<br>• displays full cost of program in budget;<br>• receives appropriation of subsidy and administrative expenses;<br>• pays subsidy outlays to financing accounts; and<br>• adjustments to original subsidy appropriations provided as permanent, indefinite appropriations, but scored against discretionary caps. | For loans obligated or committed in FY1992 and beyond:<br>Direct Loan Financing Account<br>• collects subsidy from program account;<br>• borrows unsubsidized portion of loan from Treasury;<br>• collects repayments, interest, fees; and<br>• repays borrowing to Treasury with interest.<br>Guaranteed Loan Financing Account<br>• collects subsidy from program account;<br>• collects fees from borrowers;<br>• acts as a reserve for defaults;<br>• receives interest on reserves from Treasury; and<br>• pays default claims and interest subsidies. |

# Chapter 3. The President's Budget

The President's budget, officially referred to as the *Budget of the United States Government*, is required by law to be submitted to Congress early in the legislative session, no later than the first Monday in February. The budget consists of estimates of spending, revenues, borrowing, and debt; policy and legislative recommendations; detailed estimates of the financial operations of federal agencies and programs; data on the actual and projected performance of the economy; and other information supporting the President's recommendations.

The President's budget is only a request to Congress. Congress is not required to adopt the President's recommendations; in fact, one of the purposes of the budget resolution process described in Chapter 4 is to enhance Congress's independence from presidential influence. Nevertheless, the power to formulate and submit the budget is a vital tool in the President's direction of the executive branch and of national policy. The President's proposals often influence congressional revenue and spending decisions, though the extent of the influence varies from year to year and depends more on political and fiscal conditions than on the legal status of the budget.

The Constitution does not provide for a budget, nor does it require the President to make recommendations concerning the revenues and spending of the federal government. Until 1921, the federal government operated without a comprehensive presidential budget process. Instead, agencies submitted estimates to the secretary of the Treasury (who compiled them in a *Book of Estimates* each year). The President was not formally involved in the process, though some Presidents actively intervened to shape financial policy.

The Budget and Accounting Act of 1921 provides for a national budget system. Its basic requirement is that the President prepare and submit a budget to Congress each year. The 1921 act established the Bureau of the Budget (now the Office of Management and Budget) to assist the President in preparing and implementing the executive budget. Although it has been amended many times, this statute provides the legal basis for the presidential budget, prescribes much of its content, and defines the roles of the President and the agencies in the process.

The three key advisers to the President on economic and budgetary matters, sometimes referred to as the "Troika," are the director of OMB, the secretary of the Treasury, and the chairman of the Council of Economic Advisers. Presidents sometimes have accorded significant influence over economic and budgetary matters to an informal group of advisers, including such persons as the White House chief of staff and special presidential assistants, in addition to members of the Troika.

In the executive branch, OMB is the hub of the federal budget process. Its chief mission is to assist the President by overseeing the preparation of the budget and its submission to Congress, and to supervise its administration and implementation by the

executive agencies. In doing so, OMB helps set funding priorities, assesses competing funding demands among agencies, and evaluates the effectiveness of agency programs. OMB seeks to ensure that the legislative proposals and congressional testimony of agencies, as well as agency reports and rules, are consistent with the President's budget recommendations and administration policies. During the consideration of budgetary legislation, OMB maintains liaison with the House and Senate, communicating the President's position on budgetary issues through devices such as *Statements of Administration Policy* (see **Exhibit 7-E**). In addition to its budgetary mission, OMB oversees and coordinates the administration's procurement, financial management, information, and regulatory policies. In OMB, the budget and review functions report directly to the director and deputy director, but the management and regulatory functions usually report to the deputy director for management.

## Formulation and Content of the President's Budget

Preparation of the President's budget typically begins in the spring (or earlier) each year, at least nine months before the budget is submitted to Congress, about 17 months before the start of the fiscal year to which it pertains, and about 29 months before the close of that fiscal year. The early stages of budget preparation occur in federal agencies. When they begin work on the budget for a fiscal year, agencies already are implementing the budget for the fiscal year in progress and awaiting final appropriations actions and other legislative decisions for the fiscal year after that. The long lead times and the fact that appropriations have not yet been made for the next year mean that the budget is prepared with a great deal of uncertainty about economic conditions, presidential policies, and congressional actions.

At one time, OMB had a formal process, known as the spring preview, for developing presidential budget guidelines for the next fiscal year. During the 1980s, however, the formal process withered away (possibly because of the preoccupation of OMB and the White House with congressional budget activity). Nowadays, however, agencies usually are at work preparing their own budgets before presidential policies and detailed technical instructions are communicated to them.

**Box 3-A** displays the budget preparation schedule in one federal agency. This example sets forth excerpts from a more detailed schedule used by the Department of Education (the complete schedule may be obtained on the Internet at: *http://www.ed.gov/offices/OUS/budcal98.html*). Note that the process begins at the lower levels of the agency and moves progressively to higher levels until it is consolidated into an agency-wide budget for submission to OMB. This "bottom up" approach is typical of federal agencies, though some have elaborate planning processes which allow for objectives established at the top to guide budget preparation.

Bottom-up budgeting is a time-consuming process. It begins almost a full year before the President submits his budget to Congress, and a year and a half before the beginning of the fiscal year to which it pertains. When the Education Department started work on the FY2000 budget, it was barely half way through FY1998 and Congress had just begun work on the FY1999 budget.

**Box 3-A.
An Illustration of the Stages in Budget Formulation:
The Department of Education**

| Calendar date | Action | Explanation |
|---|---|---|
| Spring | Allowance letter issued by OMB to Department. | OMB specifies budget authority and outlay ceilings for budget year and outyears. |
| May | OUS (Office of the Under Secretary) staff begin to develop budget and legislative recommendations. | Assistant secretaries are asked to submit their budget and legislative priorities to the under secretary. |
| June | OUS submits preliminary budget recommendations and the priorities of the assistant secretaries to the secretary. | Secretary makes preliminary decisions on new initiatives and total dollar levels and requests issue papers. |
| July | OUS staff develop issue papers and submit final budget recommendations to the secretary, along with the assistant secretaries' recommendations. | Formal briefings are held for the secretary involving OUS, assistant secretaries, and other senior staff officers. Secretary makes final decisions. |
| September | Budget request transmitted to OMB. | Department submits budget request to OMB in early September, along with a transmittal letter from the secretary covering highlights and major issues. |
| October | Department responds to detailed questions concerning budget submission and revises request. | OMB staff request answers to analytic questions to enable them to make recommendations to the director of OMB; revisions take into account current legislative action by Congress. |
| November-December | OMB passback and appeals of passback. | OMB passback contains not only funding decisions, but program policy changes, legislative direction, and personnel ceilings. Although the OMB passback represents final decisions, agencies can appeal levels to the budget examiners, the director, or the President, depending on the nature of the issue. |
| January | Preparation of President's budget materials. | Department prepares a variety of materials to explain and justify budget. |
| February | President submits his budget to Congress. | By law, it must be submitted by the first Monday in February. |

The Government Performance and Results Act (GPRA) requires federal agencies to submit strategic plans and performance plans to the OMB director. Strategic plans, which initially had to be submitted no later than September 30, 1997, lay out the long-term goals and objectives of the agencies; they must cover at least five years and must be revised periodically. Performance plans are submitted annually as part of the budget process, beginning with the FY1999 budget cycle. Strategic and performance plans are supposed to be integrated with and guide budget preparation, but it is too early to assess whether this has been achieved. Procedures under GPRA are discussed more fully in Chapter 8.

As agencies formulate their budgets, they maintain continuing contact with the OMB examiners assigned to them. These contacts provide agencies with guidance in preparing their budgets and also enable them to alert OMB to any needs or problems that may loom ahead. Midway during their work on the budget, agencies receive *Circular A-11* from OMB, which contains detailed instructions and schedules for submission of budget estimates. OMB communicates its instructions and guidelines on budget preparation and other activities to agencies through circulars, bulletins, and other publications (see **Box 3-B**).

**Box 3-B.**
**OMB Publications**

OMB communicates its instructions and guidelines on budget preparation and other activities to agencies by means of the following types of publications:

- **Circulars**, which are expected to have a continuing effect of two years or more;
- **Bulletins**, which contain guidance of a more transitory nature that would normally expire after one or two years;
- **Regulations** and **Paperwork**, reports, updated daily, that list the regulations and paperwork under OMB review;
- **Financial Management** policies and **Grants Management** circulars and related documents;
- ***Federal Register* Submissions**, which include copies of proposed and final rule submissions to the *Federal Register*.

Agency requests are submitted to OMB in late summer or early fall; these are reviewed by OMB staff in consultation with the President and his aides. The review has several distinct stages: (1) *staff review*, during which OMB staff prepare issue papers, consult with agency officials, and prepare recommendations; (2) *director's review*, at which major issues are discussed, OMB examiners defend their recommendations, and the OMB director makes budget decisions; (3) *passback*, at which agencies are notified of the director's decisions and have an opportunity to appeal to OMB if they disagree with aspects of the passback; (4) *appeals*, which are first taken to OMB, but if agreement cannot be reached, may be taken to the President; and (5) *final decisions*, which are made by the President, pursuant to which agencies must promptly revise their budget submissions to bring them into accord with these decisions. The budget is then printed for distribution to Congress and the public.

The 1921 Budget and Accounting Act bars agencies from submitting their budget requests directly to Congress (see **Box 3-C**). Moreover, OMB regulations in *Circular A-10* provide for confidentiality in all budget requests and recommendations prior to the transmittal of the President's budget to Congress. However, it is quite common for internal budget documents to become public while the budget is still being formulated.

**Box 3-C.**
**Confidentiality of Budgetary Information**

**Budget and Accounting Act of 1921**
**(31 U.S.C. 1108(e))**

Except as provided in subsection (f) of this section, an officer or employee of an agency...may submit to Congress or a committee of Congress an appropriations estimate or request, a request for an increase in that estimate or request, or a recommendation on meeting the financial needs of the Government only when requested by either House of Congress.

The format and content of the budget are partly determined by law, but the 1921 Budget and Accounting Act authorizes the President to set forth the budget "in such form and detail" as he may determine. Over the years, there has been an increase in the number of volumes making up the budget submission, as well as in the types of information and explanatory material presented. (During a 4-year period covering FY1991-1994, however, the budget was presented as a single document.) The different volumes used in recent years are shown in **Box 3-D**.

Much of the budget is an estimate of requirements under existing law rather than a request for congressional action. About one-third of all spending in the budget is discretionary; Congress must act each year on appropriations acts providing discretionary budget authority. The remainder of the spending, however, is mandatory; it occurs automatically each year (with some exceptions) under permanent law. Similarly, most of the revenue for a fiscal year is generated under permanent law. The President usually proposes some changes in mandatory spending and revenue laws in his budget.

The President is required to submit a budget update (reflecting changed economic conditions, congressional actions, and other factors), referred to as the *Mid-Session Review*, by July 15 each year. The President may revise his recommendations any time during the year. Changes requested before Congress has acted are submitted as budget *amendments*; requests made for additional funds after Congress has acted on the particular appropriations measures are submitted as *supplemental* requests. The *Mid-Session Review* and messages transmitting budget amendments, supplemental requests, and impoundment proposals are routinely printed as House documents.

The President and his budget office have an important but limited role once the budget is submitted to Congress. OMB officials and other presidential advisors appear before congressional committees to discuss overall policy and economic issues, but they generally leave formal discussions of specific programs to the affected agencies. Agencies thus bear the principal responsibility for defending the President's program recommendations at congressional hearings. Agencies are

**Box 3-D.**
**Volumes in the President's Annual Budget Submission**

In most years, the President submits his annual budget to Congress as a multi-volume set. In recent years, the major volumes that make up this set have included:

- the ***Budget*** (referred to officially as the *Budget of the United States Government*), which includes the budget message of the President, detailed presentations on the President's major budgetary initiatives, a descriptive discussion of federal programs organized by budget function, and summary tables;
- the ***Appendix***, which sets forth detailed financial information on individual programs and appropriation accounts;
- the ***Analytical Perspectives***, which contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective, such as current services estimates, economic and accounting analyses, and the Budget Enforcement Act preview report;
- the ***Historical Tables***, which provide data on budget receipts, outlays, surpluses or deficits, federal debt, and federal employment covering an extended time period—in most cases beginning in FY1940 or earlier; and
- ***Budget Information for States***, which provides proposed state-by-state obligations for the major federal formula grant programs to state and local governments.

In addition, the budget submission is supplemented by ***A Citizen's Guide to the Federal Budget***, ***Budget System and Concepts***, and several technical reports.

The President transmits his annual ***Economic Report of the President*** to Congress shortly after his budget submission. This document includes the report of the Council of Economic Advisers.

Later in the year, the President submits the ***Mid-Session Review*** of his budget.

supposed to justify the President's recommendations, not their own, and OMB maintains an elaborate legislative clearance process to ensure that agency budget justifications, testimony, and other submissions are consistent with presidential policy. But the fragmented structure of the appropriations process and interactions at congressional hearings sometimes enable agencies to exert independence from the White House's position on particular issues.

Independence from the President's recommendations also is fostered by CBO review of the Administration's proposals. The CBO review, which generally is published about one month after the President's budget is submitted to Congress, includes its reestimates of the President's budget, based on its own economic and

technical assumptions. The CBO review includes a summary, backed up by detailed analyses of major programs and policies. As **Exhibit 3-A** reveals, CBO sometimes finds that, if the President's budget proposals were put into effect, they would yield a higher deficit or lower surplus than the Administration had projected. Although the differences between the President's estimates and CBO's estimates often seem to be large, they usually amount to less than one-half percent of total revenue and spending.

In recent years, several factors have given the President more continuing involvement in congressional action on the budget. One factor is the Budget Enforcement Act, which requires the President to notify Congress whether the discretionary spending limits and pay-as-you-go requirements are being met. (This process is discussed in Chapter 2.) Another factor is the trend toward budget summits at which an overall agreement is negotiated by presidential aides and congressional leaders. Finally, with agencies and Congress acting more independently on budget matters than in the past, the President and his aides must closely monitor developments in Congress.

## The Economic Forecast and Projections

Because of its size—outlays total one-fifth of GDP—the budget has a significant impact on the economy. As stated in the opening chapter, the relationship between the budget and the economy is bilateral. Not only does budget policy affect the economy, economic performance strongly influences budget outcomes. In making the budget, the President must consider the condition of the economy and the potential effects of federal policies on prices, employment levels, the output of goods and services, and other economic indicators.

The President's budget contains a forecast of economic conditions for the next two calendar years (see **Exhibit 3-B**). It also projects assumed economic performance for a longer period. There is a marked tendency for these forecasts and assumptions to project steady improvement in the years ahead. Shortly after the budget is issued, the President submits an annual *Economic Report* to Congress. This document also contains the annual report of the President's Council of Economic Advisers.

Congress is not bound by the President's economic projections. It usually makes its own economic forecast, relying on data and analyses from CBO, in formulating the budget resolution for the next fiscal year. Congress and the President sometimes coordinate their economic forecasts, however, especially when they engage in a budget summit.

The budget is highly sensitive to the level of economic growth, price changes, interest rates, and unemployment (see **Exhibit 1-C**). Deviations between actual and projected economic conditions will cause receipts and outlays to vary from budgeted amounts. Revenues are especially sensitive to the level of economic activity; outlays are directly affected by interest rates.

## Exhibit 3-A.
## CBO Reestimates of the President's Budget

(by fiscal year, in billions of dollars)

| | 1998 | 1999 | 2000 |
|---|---|---|---|
| Deficit (-) or surplus under the President's budgetary policies as estimated by the Administration | -10 | 10 | 9 |
| **Baseline Differences** | | | |
| Revenues | 22 | 9 | 5 |
| Outlays | | | |
| Discretionary | 5 | a | -1 |
| Mandatory | -1 | 6 | 9 |
| Subtotal | 4 | 6 | 9 |
| Total[b] | 18 | 3 | -4 |
| **Differences in Estimates of Proposed Policies** | | | |
| Revenues | a | -1 | a |
| Outlays | | | |
| Discretionary | a | 7 | 7 |
| Mandatory | -1 | 1 | 3 |
| Subtotal | -1 | 8 | 10 |
| Total[b] | 1 | -9 | -9 |
| **All Estimating Differences** | | | |
| Total Differences[b] | 18 | -6 | -13 |
| Deficit (-) or surplus under the President's budgetary policies as estimated by the Administration | 8 | 4 | -5 |

a. Less than $500 million
b. Reductions in the surplus are shown with a negative sign.

*(1) Shortly after the President's budget is submitted, CBO issues its own analysis, including reestimates of the President's projections. This excerpt is taken from the CBO analysis of the FY1999 budget (the complete CBO table covers FY1998-2003).*

*(2) In making reestimates, CBO distinguishes between baseline differences (which reflect economic and technical factors) and differences due to proposed policy changes.*

*(3) Typically, CBO finds that its reestimates show a higher deficit or lower surplus compared to the President's budget. This is true for all years in the example shown except FY1998. Note that the gap between CBO and presidential surplus estimates widens in the outyears.*

**Source:** Congressional Budget Office, *Analysis of the President's Budgetary Proposals for Fiscal Year 1999*, March 1998, Summary Table 2, page xii.

## Exhibit 3-B.
## Economic Forecast

(calendar years)

| | Projections | | | |
|---|---|---|---|---|
| | **1998** | **1999** | **2000** | **2001** |
| **Gross Domestic Product (GDP):** | | | | |
| Levels, dollar amounts in billions: | | | | |
| Current dollars | 8,430 | 8,772 | 9,142 | 9,547 |
| Real, chained (1992) dollars | 7,357 | 7,503 | 7,652 | 7,820 |
| **Consumer Price Index (all urban)** | | | | |
| Percent change, fourth quarter over fourth quarter | 2.2 | 2.2 | 2.3 | 2.3 |
| **Unemployment rate, civilian, percent:** | | | | |
| Fourth quarter level | 5.0 | 5.2 | 5.4 | 5.4 |
| Annual average | 4.9 | 5.1 | 5.3 | 5.4 |
| **Federal pay raises, January, percent:** | | | | |
| Military | 2.8 | 3.1 | 3.0 | 3.0 |
| Civilian | 2.8 | 3.1 | 3.0 | 3.0 |
| **Interest rates, percent:** | | | | |
| 91-day Treasury bills | 5.0 | 4.9 | 4.8 | 4.7 |
| 10-year Treasury notes | 5.9 | 5.8 | 5.8 | 5.7 |

*(1) The revenue and outlay estimates in the budget are made in tandem with the economic forecast. The economic forecast presented here covers through calendar year 2003 (2002 and 2003 data are not shown).* ***Exhibit 1-C*** *illustrates the sensitivity of budget projections to economic changes.*

*(2) In addition to Gross Domestic Product (GDP), the Consumer Price Index the unemployment rate, federal pay raises, and interest rates, assumptions regarding incomes are used (but not shown in this excerpt).*

*(3) GDP is projected in both current and real dollars. Current GDP is essential in projecting budget receipts; real GDP (expressed in chained 1992 dollars) is used to project future unemployment and changes in the volume of economic activity.*

*(4) Changes in economic performance generally have a more pronounced impact on revenues than on outlays.*

*(5) The pay raises shown in the budget are the amounts that the President intends to recommend to Congress.*

**Source:** Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999*, February 1998, Table III-1, page 29.

While actual economic conditions often are less favorable than had been forecast, this is not always the case. For FY1998, both OMB and CBO (and most private economists) initially forecast a deficit. The forecast later was changed from a deficit to the first surplus in many years; the surplus estimates subsequently were revised upward.

Economic conditions are not the only factors causing the budget to veer off the projected course. Variances also result from policy decisions and from differences between the technical estimates made when the budget was prepared and those used as later information became available.

Much of the adjustment of the budget to economic conditions is automatic; it occurs without presidential or congressional action. Revenues do not usually fall when the economy weakens; they just grow more slowly. Outlays of various indexed programs are adjusted for price changes, and interest charges respond directly to changing interest rates. Periodically, the President issues an updated budget forecast to take account of fresh economic data and other developments. CBO also reestimates revenues and outlays to reflect changing economic conditions.

The Budget Enforcement Act can affect the capacity of the government to use the budget as an instrument of economic policy. That law prescribes a decline in the real levels of discretionary spending, and deficit neutrality for legislative changes in revenue and mandatory programs, as the key fiscal policy objectives of the federal government. However, the BEA provides for adjustments to accommodate emergencies and the BEA controls can be suspended altogether by Congress in case of recession or weak economic growth.

## Information in the President's Budget

The President's budget contains a variety of data and information concerning both overall budget policy and particular programs and accounts. One useful guideline for understanding budget requests is to compare them to baseline estimates. The baseline projections prepared by OMB are referred to as *current services estimates*. They project budget authority, outlay, and revenue amounts without policy change. The baseline estimates are presented in both summary and more detailed fashion. Because they are based on different assumptions, the President's current services estimates often differ from the baseline projections made by CBO.

Detailed information on each budget account is provided in the budget. The budget provides the text of the current appropriation for each annually appropriated account (see **Exhibit 3-C**), as well as a narrative description of each account's programs and performance (see **Exhibit 3-D**).

Following the appropriations language and program statement, the budget presents a *Program and Financing Schedule* for each account, as displayed in **Exhibits 3-E** and **3-F**. This schedule shows the account's programs and financing sources and relates annual obligations to outlays. The budget also contains a schedule of each account's objects of expenditure (see example in **Exhibit 3-G**), as well as a summary of positions associated with each account.

The standard schedules shown in the budget were designed for accounts which spend appropriated funds. Special schedules are used for credit transactions in which the federal government makes or guarantees loans. Special schedules also are provided for business-type operations and various nonappropriated accounts.

## Exhibit 3-C.
## Appropriations Language

Federal Bureau of Investigation
Salaries and Expenses

For necessary expenses of the Federal Bureau of Investigation...**[**$2,750,921,000**]** *$2,785,214,000*; of which not to exceed $50,000,000 for automated data processing and telecommunications and technical investigative equipment and not to exceed $1,000,000 for undercover operations shall remain available until September 30, **[**1999**]** *2000*; of which not less than **[**$221,050,000**]** *$170,283,000* shall be for counterterrorism investigations, foreign counterintelligence, and other activities related to our national security;...

*In addition, $215,356,000 for such purposes, to remain available until expended, to be derived from the Violent Crime Reduction Trust Fund, as authorized by the Violent Crime Control and Law Enforcement Act of 1994, as amended, and the Antiterrorism and Effective Death Penalty Act of 1996. (Department of Justice Appropriations Act, 1998.)*

(1) *For each account funded by annual appropriations, the budget prints the text of the current and proposed appropriations. Material in brackets is current appropriations language proposed for deletion; material in italics is proposed to be added. (Additional discussion of appropriations language is provided in Chapter 7. The full text of this appropriations language appears in* ***Exhibit 7-L.****)*

(2) *The appropriation exhibited here proposes nearly $3 billion for the salaries and expenses of the Federal Bureau of Investigation. All operating funds for an agency or a major program are typically provided in a single account.*

(3) *In this particular case, $2,750,921,000 is the amount that was appropriated for FY1998 and $2,785,214,000 is the amount that was requested by the President for FY1999. $50,000,000 was earmarked for automated data processing and other purposes for FY1998; the same amount also was proposed for FY1999.*

(4) *The appropriations language is immediately followed by a citation of the annual appropriations act in which the appropriation for the current fiscal year was provided.*

**Source:** Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Appendix*, February 1998, page 604.

## Exhibit 3-D.
## Program Description and Workload Data

The overall objectives of the FBI are to uphold the law—to investigate violations of Federal criminal law, to protect the United States from foreign hostile intelligence efforts, to provide leadership and assistance to other Federal, State, local, and international law enforcement agencies, ...

The direct programs of the FBI are divided into the following general categories: ...

*Law enforcement support.*—This activity consists of training, recruitment, applicant investigations, forensic laboratories, investigative records and communications, ADP and telecommunications, and technical field support and services, identification, and informational services.

| | 1997 actual | 1998 est. | 1999 est. |
|---|---|---|---|
| Training—FBI Academy: | | | |
| New FBI Special Agents | 1,106 | 735 | 950 |
| FBI In-Service Training | 6,577 | 5,500 | 6,000 |
| State and Local personnel | 3,525 | 2,789 | 3,000 |
| Forensic examinations performed: | | | |
| Federal | 462,216 | 620,000 | 660,000 |
| Non-Federal | 81,479 | 130,000 | 140,000 |
| Name Checks Processed | 35,946,696 | 40,390,000 | 43,390,000 |
| Fingerprint Cards Processed | 13,043,493 | 14,550,000 | 14,250,000 |

(1) *For most budget accounts, the budget describes the programs and provides relevant workload or other performance data. Recent budgets have significantly revamped these program descriptions, making them more specifically related to the particular year's budget request.*

(2) *OMB instructions for the preparation of the budget in Circular A-11 call for agencies to justify their requests with detailed analyses of workload, unit costs, productivity trends, and performance standards. The amount of such data included in the budget, however, is quite limited.*

(3) *Much more detailed program descriptions and performance data are provided by agencies in the justification material presented to the Appropriations subcommittees. The justification materials are included in the Appropriations Committees' hearings, published by the Government Printing Office.*

**Source:** Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Appendix*, February 1998, page 605.

## Exhibit 3-E.
## Program and Financing Schedule:
## Obligations by Program Activity

**Program and Financing** (in millions of dollars)

| Identification code 15-0200-0-1-999 | 1997 actual | 1998 est. | 1999 est. |
|---|---|---|---|
| **Obligations by program activity:** | | | |
| Direct program: | | | |
| Operating expenses: | | | |
| Criminal, security and other | 1,648 | 1,838 | 1,902 |
| investigations | 805 | 534 | 515 |
| Law enforcement support | 162 | 164 | 175 |
| Program direction | 2,615 | 2,536 | 2,592 |
| Total operating expenses | | | |
| Capital investment: | | | |
| Criminal, security and other | 73 | 174 | 123 |
| investigations | 164 | 327 | 280 |
| Law enforcement support | 2 | 4 | 2 |
| Program direction | 239 | 505 | 405 |
| Total capital investment | | | |
| Total direct program | 2,854 | 3,041 | 2,997 |
| Reimbursable program | 482 | 476 | 519 |
| Total obligations | 3,336 | 3,517 | 3,516 |

*(1) The "Program and Financing" schedule, which accompanies each budget account, covers three fiscal years (the past, current, and upcoming fiscal years) and consists of several parts. The part displayed in this exhibit shows obligations classified by the program and activities comprising the account. OMB instructions call for agencies to define activities that are based on the accounting structure, are related to the administrative operations of the agency, and are useful for program analysis and evaluation.*

*(2) Each account has an 11-digit identification code. The first two digits designate the agency; the next four are the account number; the seventh digit indicates the type of budget request (such as regular or supplemental); and the eighth digit indicates the type of fund. The last three digits are the functional classification.*

*(3) Where appropriate, program and financing schedules distinguish between operating expenses and capital investments. (Unlike virtually all state and local governments, the federal government does not budget separately for operating and capital spending.)*

**Source:** Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Appendix*, February 1998, page 604.

## Exhibit 3-F.
## Program and Financing Schedule:
## New Budget Authority and Outlays

**Program and Financing** (in millions of dollars)

| Identification code 15-0200-0-1-999 | 1997 actual | 1998 est. | 1999 est. |
|---|---|---|---|
| **New budget authority (gross), detail:** | | | |
| Current: | | | |
| Appropriation | 2,567 | 2,751 | 2,786 |
| Transferred from other accounts | 173 | 185 | 215 |
| Appropriation (total) | 2,740 | 2,936 | 3,001 |
| Permanent: | | | |
| Transferred to other accounts | -35 | ..... | ..... |
| Advance appropriation (indefinite) | 35 | ..... | ..... |
| Spending authority from offsetting collections: Offsetting collections (cash) | 482 | 476 | 519 |
| Total new budget authority (gross) | 3,222 | 3,412 | 3,520 |
| **Outlays (gross), detail:** | | | |
| Outlays from new current authority | 2,487 | 2,202 | 2,251 |
| Outlays from current balances | 207 | 641 | 440 |
| Outlays from new permanent authority | 482 | 476 | 519 |
| Total outlays | 3,176 | 3,319 | 3,210 |

(1) *This portion of the schedule (continued from the previous exhibit) shows detailed information on the new budget authority and outlays associated with the account. The total new budget authority requested for FY1999, $3,520 million, reflects an appropriation of $2,786 million (as shown in* ***Exhibit 3-C****), plus $215 million transferred from the Violent Crime Reduction Trust Fund and $519 million from offsetting collections.*

(2) *The program and financing schedule also presents net, rather than gross, amounts of new budget authority and outlays (not shown here). The gross amounts represent the total to be obligated or spent in the account, regardless of source; the net amounts are the amounts to be financed by appropriations (not offsetting collections).*

(3) *"Current" new budget authority comes from appropriations bills to be enacted during the session. "Permanent" new budget authority is derived automatically from prior laws; no further congressional action is required.*

(4) *Other parts of the schedule (not shown here) provide information on unobligated balances, sources of offsetting collections, and other matters.*

**Source:** Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Appendix*, February 1998, page 605.

## Exhibit 3-G.
## Object Classification

**Object Classification** (in millions of dollars)

| Identification code 15-0200-0-1-999 | | 1997 actual | 1998 est. | 1999 est. |
|---|---|---|---|---|
| | Direct obligations: | | | |
| | Personnel compensation: | | | |
| 11.1 | Full-time permanent | 1,083 | 1,191 | 1,243 |
| 11.3 | Other than full-time permanent | 4 | 3 | 3 |
| 11.5 | Other personnel compensation | 185 | 192 | 199 |
| 11.9 | Total personnel compensation | 1,272 | 1,386 | 1,445 |
| 12.1 | Civilian personnel benefits | 328 | 382 | 406 |
| 13.0 | Benefits for former personnel | 3 | ..... | ..... |
| 21.0 | Travel and transportation of persons | 70 | 58 | 58 |
| 22.0 | Transportation of things | 10 | 14 | 14 |
| 23.1 | Rental payments to GSA | 163 | 187 | 199 |
| 23.2 | Rental payments to others | 30 | 31 | 31 |
| 23.3 | Communications, utilities, and miscellaneous charges | 75 | 86 | 84 |
| 24.0 | Printing and reproduction | 3 | 3 | 3 |
| | * * * * * * | | | |
| 99.0 | Subtotal, direct obligations | 2,854 | 3,041 | 2,997 |
| 99.0 | Reimbursable obligations | 482 | 476 | 519 |
| 99.9 | Total obligations | 3,336 | 3,517 | 3,516 |

(1) *This schedule—which accompanies every budget account—classifies obligations among the major objects of spending. The same object codes are used for all federal agencies.*

(2) *Some objects are divided into subcodes to provide more detailed information on expenditures. Note that personnel compensation is subdivided between full-time compensation and other personnel costs. (This exhibit does not show all of the codes and subcodes for this account.)*

(3) *For each account with personnel compensation, the budget presents a "Personnel Summary" (not displayed here) that provides the amount of full-time equivalent employment (in workyears) and other personnel data.*

**Source:** Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Appendix*, February 1998, pages 605-606.

# Chapter 4. The Congressional Budget Resolution and Reconciliation

## The Congressional Budget Resolution

The Congressional Budget and Impoundment Control Act of 1974, as amended, establishes the congressional budget process as the means by which Congress coordinates the various budget-related actions (such as the consideration of appropriations and revenue measures) taken by it during the course of the year. The process is centered around an annual concurrent resolution on the budget that sets aggregate budget policies and functional spending priorities for at least the next five fiscal years.

Because a concurrent resolution is not a law—it cannot be signed or vetoed by the President—the budget resolution does not have statutory effect; no money can be raised or spent pursuant to it. The main purpose of the budget resolution is to establish the framework within which Congress considers separate revenue, spending, and other budget-related legislation. Revenue and spending amounts set in the budget resolution establish the basis for the enforcement of congressional budget policies through points of order. The budget resolution also initiates the reconciliation process for conforming existing revenue and spending laws to congressional budget policies.

The 1974 Congressional Budget Act, which includes many provisions that operate as rules of the House and Senate, has been amended many times. Major changes to the act occurred in the 1980s and 1990s in conjunction with legislation establishing and extending the Balanced Budget and Emergency Deficit Control Act of 1985 and the Budget Enforcement Act of 1990. Changes in the 1974 act were made most recently by the Budget Enforcement Act of 1997. Additionally, some rules of the congressional budget process have been incorporated into or augmented by the standing rules of the House and Senate.

**Content and Formulation of the Budget Resolution.** The congressional budget process begins upon the presentation of the President's budget in January or February (see **Box 4-A**). The timetable set forth in the 1974 Congressional Budget Act calls for the final adoption of the budget resolution by April 15, well before the beginning of the new fiscal year on October 1. Although the House and Senate often pass the budget resolution separately before April 15, they often do not reach final agreement on it until after the deadline—sometimes months later. The Congressional Budget Act of 1974 bars consideration of revenue, spending, and debt-limit measures for the upcoming fiscal year until the budget resolution for that year has been adopted, but certain exceptions are provided (such as the exception that allows the House to consider the regular appropriations bills after May 15, even if the budget resolution has not been adopted by then).

**Box 4-A.**
**Congressional Budget Process Timetable**

| Deadline | Action to be completed |
| --- | --- |
| First Monday in February | President submits budget to Congress. |
| February 15 | CBO submits report on economic and budget outlook to Budget Committees. |
| Six weeks after President's budget is submitted | House and Senate committees submit reports on views and estimates to respective Budget Committee. |
| April 1 | Senate Budget Committee reports budget resolution. |
| April 15 | Congress completes action on budget resolution. |
| June 10 | House Appropriations Committee reports last regular appropriations bill. |
| June 30 | House completes action on regular appropriations bills and any required reconciliation legislation. |
| July 15 | President submits mid-session review of his budget to Congress. |
| October 1 | Fiscal year begins. |

***Budget Resolution Content.*** The 1974 Congressional Budget Act requires the budget resolution, for each fiscal year covered, to set forth budget aggregates (see **Exhibits 4-A** and **4-B**) and spending levels for each functional category of the budget (see **Box 4-B**). The aggregates included in the budget resolution are as follows:

- total revenues (and the amount by which the total is to be changed by legislative action);
- total new budget authority and outlays;
- the deficit or surplus; and
- the debt limit.

With regard to each of the functional categories, the budget resolution must indicate for each fiscal year the amounts of new budget authority and outlays, and they must add up to the corresponding spending or aggregates.

Aggregate amounts in the budget resolution do not reflect the revenues or spending of the Social Security trust funds, although these amounts are set forth separately in the budget resolution for purposes of Senate enforcement procedures.

## Exhibit 4-A.
## Budget Resolution Aggregates: Revenues

### TITLE I—LEVELS AND AMOUNTS

**Sec. 101. Recommended Levels and Amounts**.

The following budgetary levels are appropriate for the fiscal years 1998, 1999, 2000, 2001, and 2002:

(1) Federal Revenues—For purposes of the enforcement of this resolution—

(A) The recommended levels of Federal revenues are as follows:

Fiscal year 1998: $1,199,000,000,000.
Fiscal year 1999: $1,241,900,000,000.
Fiscal year 2000: $1,285,600,000,000.
Fiscal year 2001: $1,343,600,000,000.
Fiscal year 2002: $1,407,600,000,000.

(B) The amounts by which the aggregate levels of Federal revenues should be changed are as follows:

Fiscal year 1998: $-7,400,000,000.
Fiscal year 1999: $-11,100,000,000.
Fiscal year 2000: $-22,000,000,000.
Fiscal year 2001: $-22,800,000,000.
Fiscal year 2002: $-19,900,000,000.

(C) The amounts for Federal Insurance Contributions Act revenues for hospital insurance within the recommended levels of Federal revenues are as follows:

Fiscal year 1998: $113,500,000,000.
Fiscal year 1999: $119,100,000,000.
Fiscal year 2000: $125,100,000,000.
Fiscal year 2001: $130,700,000,000.
Fiscal year 2002: $136,800,000,000.

(1) *The first title of a budget resolution sets forth the budget aggregates—total revenues, new budget authority, outlays, the deficit or surplus, and the debt limit. It also includes spending levels by function and, if appropriate, reconciliation instructions. This exhibit shows the revenue aggregates.*

(2) *These amounts do not include receipts of the Social Security trust funds, which are off-budget. These receipts, as well as Social Security spending, are presented elsewhere in the title only to enforce Senate point-of-order provisions intended to protect the balances in the trust funds. Although Medicare receipts (under the Federal Insurance Contributions Act) are included in the budget totals, they also are shown separately.*

(3) *The budget resolution shown here contemplates legislative action to reduce revenues by more than $80 billion over five years; it does not specify which provisions of revenue law should be changed.*

**Source:** H.Rept. 105-116 (conference report to accompany H.Con.Res. 84, Concurrent Resolution on the Budget for Fiscal Year 1998), June 4, 1997, page 3.

**Exhibit 4-B.**
**Budget Resolution Aggregates: Spending, Deficit, and Public Debt**

**TITLE I—LEVELS AND AMOUNTS**

**Sec. 101. Recommended Levels and Amounts**.

The following budgetary levels are appropriate for the fiscal years 1998, 1999, 2000, 2001, and 2002:

* * * * * *

(2) NEW BUDGET AUTHORITY- For purposes of the enforcement of this resolution, the appropriate levels of total new budget authority are as follows:

Fiscal year 1998: $1,386,700,000,000.
Fiscal year 1999: $1,440,100,000,000.
Fiscal year 2000: $1,486,400,000,000.
Fiscal year 2001: $1,520,200,000,000.
Fiscal year 2002: $1,551,600,000,000.

(3) BUDGET OUTLAYS- For purposes of the enforcement of this resolution, the appropriate levels of total budget outlays are as follows:

Fiscal year 1998: $1,372,000,000,000.
Fiscal year 1999: $1,424,100,000,000.
Fiscal year 2000: $1,468,800,000,000.
Fiscal year 2001: $1,500,700,000,000.
Fiscal year 2002: $1,515,900,000,000.

(4) DEFICITS- For purposes of the enforcement of this resolution, the amounts of the deficits are as follows:

Fiscal year 1998: $-173,000,000,000.
Fiscal year 1999: $-182,200,000,000.
Fiscal year 2000: $-183,200,000,000.
Fiscal year 2001: $-157,100,000,000.
Fiscal year 2002: $-108,300,000,000.

(5) PUBLIC DEBT- The appropriate levels of the public debt are as follows:

Fiscal year 1998: $5,593,500,000,000.
Fiscal year 1999: $5,841,000,000,000.
Fiscal year 2000: $6,088,600,000,000.
Fiscal year 2001: $6,307,300,000,000.
Fiscal year 2002: $6,481,200,000,000.

*(1) New budget authority is provided in annual appropriations acts and direct spending measures. The outlay amounts set forth in the budget resolution are estimates.*

*(2) Exclusion of off-budget Social Security trust funds, which are running significant surpluses, means that the resolution may show a deficit even when the total budget is in surplus.*

*(3) The annual increase in the public debt is greater than the deficit for that fiscal year because the debt includes amounts borrowed from trust funds.*

**Source:** H.Rept. 105-116 (conference report to accompany H.Con.Res. 84, Concurrent Resolution on the Budget for Fiscal Year 1998), June 4, 1997, pages 3 and 4.

**Box 4-B.**
**Functional Classifications of the Budget**

National Defense (050)
International Affairs (150)
General Science, Space, and Technology (250)
Energy (270)
Natural Resources and Environment (300)
Agriculture (350)
Commerce and Housing Credit (370)
Transportation (400)
Community and Regional Development (450)
Education, Training, Employment, and Social Services (500)
Health (550)
Medicare (570)
Income Security (600)
Social Security (650)
Veterans' Benefits and Services (700)
Administration of Justice (750)
General Government (800)
Net Interest (900)
Allowances (920)
Undistributed Offsetting Receipts (950)

The budget resolution does not allocate funds among specific programs or accounts, but the major program assumptions underlying the functional amounts are often discussed in the reports accompanying each resolution. Some recent reports have contained detailed information on the program levels assumed in the resolution. These assumptions are not binding on the affected committees.

Finally, the 1974 Congressional Budget Act allows certain additional matters to be included in the budget resolution. Perhaps the most important optional feature of a budget resolution is reconciliation directives (discussed below). In recent years, the House and Senate have included many declaratory statements in budget resolutions; these provisions usually begin with the phrase "it is the sense of the House" or "it is the sense of the Senate." Also, the Senate has included other procedural matters in recent years, including provisions called *reserve funds*, which provide for later adjustments in budget resolution figures and committee spending allocations so that certain deficit-neutral legislation may be considered.

***Budget Resolution Formulation.*** The House and Senate Budget Committees are responsible for marking up and reporting the budget resolution. In the course of developing a budget resolution, the Budget Committees hold hearings, receive "views and estimates" reports from other committees, and obtain information from CBO. In their initial hearings each year, the Budget Committees receive testimony from the director of OMB, the secretary of the Treasury, and the chairman of the President's Council of Economic Advisers. The CBO director also testifies. The "views and estimates" reports of House and Senate committees—an excerpt from one appears as **Exhibit 4-C**—provide the Budget Committees with information on the preferences and legislative plans of congressional committees regarding budgetary matters within their jurisdiction.

CBO assists the Budget Committees in developing the budget resolution by issuing, early each year, a report on the economic and budget outlook that includes baseline budget projections. The baseline projections presented in the report are supported by more detailed projections for accounts and programs; CBO usually revises the baseline projections one or more times before the Budget Committees

## Exhibit 4-C.
## Views and Estimates of Committees

**Surface Transportation**

The [House Transportation and Infrastructure] Committee's top priority is to reauthorize the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 ....

The Committee ... recommends that the Budget Resolution assume contract authority for these programs that reflect a funding level that would make full use of the resources of the Highway Trust Fund. The funding levels for highways, mass transit, and highway safety should include income plus an additional amount that would draw down the existing balance. We recognize that immediately spending the maximum level possible would be difficult in light of the goal to balance the budget by 2002. The Committee also believes that Federal fuel excise taxes be used to finance infrastructure improvements and not be diverted to the General Fund. The Budget Resolution should assume funding financed from the 4.3 cent fuel tax that is currently deposited in the General Fund. This increased revenue will allow the Trust Fund to sustain a higher level of funding well into the next century ....

It is not sufficient, however, to simply provide contract authority for the reauthorization in the Budget Resolution. The Budget Resolution must also assume that the newly authorized funds can actually be spent. Toward this end, the resolution should reflect enactment of H.R. 4, the Truth in Budgeting Act, to move the transportation trust funds off-budget so they can be utilized for their stated intent. Without special budgetary treatment for the transportation trust funds, the funds authorized and the tax revenue collected will simply accumulate ....

(1) *House and Senate committees are required to report their views and estimates on budget matters in their jurisdiction within six weeks after the President submits his budget. The excerpt shown presents the views of the House Transportation and Infrastructure Committee for FY1998.*

(2) *Some committees submit "views and estimates" reports in the form of a brief letter from the chairman; others submit lengthy, detailed reports. In this exhibit, the views represent a bipartisan statement; some committees submit separate statements from the majority and minority members.*

(3) *The House Transportation Committee, like many other committees, organizes its report by broad subject areas under its jurisdiction and identifies major legislation it expects to consider. Legislative committees comment on direct spending within their jurisdiction (in this case, contract authority for highway programs), but may also discuss their authorizations that require funding in annual appropriations acts.*

(4) *Committees may comment on structural and procedural aspects of the budget that affect their jurisdiction, not just budget policy matters.*

**Source:** House Budget Committee, *Views and Estimates of Committees of the House on the Concurrent Resolution on the Budget for Fiscal Year 1998*, House Budget Committee Print No. CP-1, May 1997, pages 227-228.

mark up the budget resolution. In addition, CBO issues a report analyzing the President's budgetary proposals in light of CBO's own economic and technical assumptions. In past years, CBO also issued an annual report on spending and revenue options for reducing the deficit.

The extent to which the Budget Committees (and the House and Senate) consider particular programs when they act on the budget resolution varies from year to year. Specific program decisions are supposed to be left to the Appropriations Committees and other committees of jurisdiction, but there is a strong likelihood that major issues will be discussed in markup, in the Budget Committees' reports, and during floor consideration of the budget resolution (an excerpt from a Budget Committee report is shown in **Exhibit 4-D**). Although any programmatic assumptions generated in this process are not binding on the committees of jurisdiction, they often influence the final outcome.

Floor consideration of the budget resolution is guided by House and Senate rules and practices. In the House, the Rules Committee usually reports a *special rule* (a simple House resolution), which, once approved, establishes the terms and conditions under which the budget resolution is considered. This special rule typically specifies which amendments may be considered and the sequence in which they are to be offered and voted on. It has been the practice in recent years to allow consideration of a few amendments (as substitutes for the entire resolution) that present broad policy choices. In the Senate, the amendment process is less structured, relying on agreements reached by the leadership through a broad consultative process. The amendments offered in the Senate may entail major policy choices or may be focused on a single issue.

**Budget Resolution Enforcement.** Achievement of the policies set forth in the annual budget resolution depends on the legislative actions taken by Congress (and their approval or disapproval by the President), the performance of the economy, and technical considerations. Many of the factors that determine whether budgetary goals will be met are beyond the direct control of Congress. If economic conditions—growth, employment levels, inflation, and so forth—vary significantly from projected levels, so too will actual levels of revenue and spending. Similarly, actual levels may differ substantially if the technical factors upon which estimates are based, such as the rate at which agencies spend their discretionary funds or participants become eligible for entitlement programs, prove faulty.

Congress's regular tools for enforcing the budget resolution each year are overall spending ceilings and revenue floors and committee allocations and subdivisions of spending. In addition, in recent years the Senate has enforced discretionary spending limits in the budget resolution, which parallel the adjustable limits established in statute and enforced by the sequestration process. In order for the enforcement procedures to work, Congress must have access to complete and up-to-date budgetary information so that it can relate individual measures to overall budget policies and determine whether adoption of a particular measure would be consistent with those policies. Substantive and procedural points of order are designed to obtain congressional compliance with budget rules. A point of order may bar House or Senate consideration of legislation that violates the spending ceilings

## Exhibit 4-D.
## Committee Report Accompanying a Budget Resolution

### Function 400: TRANSPORTATION

#### Discretionary Spending

Discretionary spending in this function is a priority in the Bipartisan Budget Agreement....

The Resolution Mark assumes spending of all estimated Highway Trust Fund tax receipts between 1998 and 2002...Proposal would increase total highway spending from its current level of $20.8 billion to $23.1 billion in 2002.

The Resolution Mark assumes the Budget Resolution baseline for FAA Operations, Facilities and Equipment, and Research, Engineering, and Development programs. The Resolution Mark would provide for these programs to grow from their 1997 level of $7.1 billion to $8.3 billion in 2002. The Resolution Mark also assumes a freeze in the Airport Improvement Program (AIP), through 2002, at its current level of $1.46 billion. The President's budget had provided for AIP to be reduced to $1.0 billion in 1998 and frozen at this figure through 2002....

In order to meet the Bipartisan Budget Agreement's discretionary spending limits, savings will be required from programs in this function. These savings will be determined by the Appropriations Committee....

#### Mandatory Spending

The Resolution Mark provides for an increase in contract authority for highways, highway safety, and mass transit above the levels provided in 1997. Total highway and highway safety contract authority would rise from its current level of $22.6 billion to $25.1 billion in 2002....

(1) *The increases or decreases in spending and revenues recommended by the Budget Committees usually are explained in the Budget Committee reports on the budget resolution as changes from the baseline. Spending recommendations are discussed by functional category of the budget, and within each category, by discretionary and mandatory amounts.*

(2) *In this case, the Senate Budget Committee adhered to a Bipartisan Budget Agreement, reached by President Clinton and congressional leaders, that designated transportation spending as a priority.*

(3) *The Budget Committee's recommendations for this function, like many others, are a mix of increases for priority programs, freeze levels for other programs, and reductions in others.*

(4) *Although specific program assumptions are not binding on the Appropriations Committees and other committees with spending jurisdiction, they may represent a consensus and influence final outcomes.*

**Source:** Senate Budget Committee, *Concurrent Resolution on the Budget, FY1998: Committee Print to Accompany S.Con.Res. 27* (105th Cong., 1st Sess.), S.Prt. 105-27, May 1997, pages 25-27.

and revenue floors in the budget resolution, committee subdivisions of spending, or congressional budget procedures.

***Budget Resolution Aggregates.*** In the early years after the 1974 Congressional Budget Act, the principal enforcement mechanism was the ceiling on total budget authority and outlays and the floor under total revenues set forth in the budget resolution. The limitations inherent in this mechanism soon became apparent. For example, the issue of controlling breaches of the spending ceilings usually did not arise until Congress acted on supplemental appropriations acts, when the fiscal year was well underway. The emergency nature of the legislation often made it difficult to uphold the ceilings.

As part of the budget process changes made by the BEA of 1997, the aggregate levels set in the budget resolution, and the associated discretionary spending limits and committee spending allocations, are adjusted periodically for the consideration of legislation in several different categories; the adjustments are meant to parallel similar adjustments made automatically in the statutory discretionary spending limits. The chairmen of the House and Senate Budget Committees make the adjustments whenever the designated legislation is reported and submit them for publication in the *Congressional Record*; the adjustments take permanent effect if the legislation is enacted into law.

Adjustments may be triggered by legislation in the following five categories:

(1) measures containing designated emergency amounts of discretionary spending, direct spending, or revenues;
(2) measures funding continuing disability reviews;
(3) measures providing an allowance for the International Monetary Fund;
(4) measures funding arrearages for various international organizations, international peacekeeping, and multilateral development banks (but only for the period covering FY1998-2000 and subject to a limit of $1.884 billion in budget authority); and
(5) measures providing funds for an earned income tax credit compliance initiative, subject to annual limits ranging from $138 million for FY1998 to $146 million for FY2002.

***Allocations of Spending to Committees.*** In view of the inadequacies in the early years of congressional budgeting of relying on enforcement of the budget totals, Congress changed the focus of enforcement in the 1980s to the committee allocations and subdivisions of spending made pursuant to Section 302 of the act. The key to enforcing budget policy is to relate the budgetary impact of individual pieces of legislation to the overall budget policy. Because Congress operates through its committee system, an essential step in linking particular measures to the budget is to allocate the spending amounts set forth in the budget resolution among House and Senate committees.

Section 302(a) provides for allocations to committees to be made in the statement of managers accompanying the conference report on the budget resolution. A Section 302(a) allocation is made to each committee which has jurisdiction over

spending, both for the budget year and the full period covered by the budget resolution—at least five fiscal years (see **Exhibits 4-E** and **4-F**).

The committee allocations do not take into account jurisdiction over discretionary authorizations funded in annual appropriations acts. The amounts of new budget authority and outlays allocated to committees in the House or Senate may not exceed the aggregate amounts of budget authority and outlays set forth in the budget resolution. Although these allocations are made by the Budget Committees, they are not the unilateral preferences of these committees. They are based on assumptions and understandings developed in the course of formulating the budget resolution.

After the allocations are made under Section 302(a), the House and Senate Appropriations Committees subdivide the amounts they receive among their 13 subcommittees, as required by Section 302(b) (see **Exhibit 4-G**). The subcommittees' Section 302(b) subdivisions may not exceed the total amount allocated to the committee. Each Appropriations Committee reports its subdivisions to its respective chamber; the appropriations bills may not be considered until such a report has been filed.

***Scoring and Cost Estimates.*** Scoring (also called scorekeeping) is the process of measuring the budgetary effects of pending and enacted legislation and assessing its impact on a budget plan—in this case, the budget resolution. In the congressional budget process, scoring serves several broad purposes. First, it informs Members of Congress and the public about the budgetary consequences of their actions. When a budgetary measure is under consideration, scoring information lets Members know whether adopting the amendment or passing the bill at hand would breach the budget. Further, scoring information enables Members to judge what must be done in upcoming legislative action to achieve the year's budgetary goals. Finally, scoring is designed to assist Congress in enforcing its budget plans. In this regard, scoring is used largely to determine whether points of order under the 1974 Congressional Budget Act may be sustained against legislation violating budget resolution levels.

The principal scorekeepers for Congress are the House and Senate Budget Committees, which provide the presiding officers of their respective chambers with the estimates needed to determine if legislation violates the aggregate levels in the budget resolution or the committee subdivisions of spending. The Budget Committees make summary scoring reports available to Members on a frequent basis, usually geared to the pace of legislative activity. CBO assists Congress in these activities by preparing cost estimates of legislation (see **Exhibit 4-H**), which are included in committee reports, and scoring reports for the Budget Committees. (see **Exhibit 4-I**) The Joint Committee on Taxation supports Congress by preparing estimates of the budgetary impact of revenue legislation.

## Exhibit 4-E.
## Section 302(a) Allocations to House Committees

(by fiscal year, in millions of dollars)

| | | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| **Appropriations Committee** | | | | |
| **Current Level** | | | | |
| | Budget Authority | 274,392 | 304,803 | 330,585 |
| | Outlays | 276,420 | 297,566 | 324,972 |
| **Discretionary Action** | | | | |
| General Purpose | | | | |
| Defense | | | | |
| | Budget Authority | 269,000 | 271,500 | 275,367 |
| | Outlays | 266,823 | 266,518 | 268,995 |
| Nondefense | | | | |
| | Budget Authority | 242,457 | 255,699 | 257,326 |
| | Outlays | 279,117 | 287,850 | 289,716 |
| Violent Crime Reduction Trust Fund | | | | |
| | Budget Authority | 5,500 | 5,800 | 4,500 |
| | Outlays | 3,592 | 4,953 | 5,554 |
| Total Discretionary Action | | | | |
| | Budget Authority | 516,957 | 532,999 | 537,193 |
| | Outlays | 549,532 | 559,321 | 564,265 |
| * * * * * * | | | | |
| **Committee Total** | | | | |
| | Budget Authority | 799,209 | 845,504 | 875,412 |
| | Outlays | 833,464 | 864,187 | 892,592 |
| **Agriculture Committee** | | | | |
| **Current Level (Enacted Law)** | | | | |
| | Budget Authority | 9,824 | 9,646 | 9,113 |
| | Outlays | 7,512 | 7,136 | 6,663 |

*(1) Under Section 302(a) of the 1974 Congressional Budget Act, separate spending allocations are made by the House and Senate Budget Committees to committees of their respective houses.*

*(2) The Budget Committees use different approaches in making allocations (see the next exhibit). The House Budget Committee allocates spending for each of the five fiscal years (only three are shown here) and further divides discretionary appropriations by the BEA categories used for sequestration.*

*(3) The House also distinguishes between "current level," reflecting enacted law (mostly appropriated entitlements), and "discretionary action," reflecting expected legislative activity, and allocates by functional category (not shown here).*

**Source:** H.Rept. 105-116 (conference report to accompany H.Con.Res. 84, Concurrent Resolution on the Budget—Fiscal Year 1998), June 4, 1997, page 114.

**Exhibit 4-F.**
**Section 302(a) Allocations to Senate Committees**

**Budget Year Total 1998**
(in millions of dollars)

| Committee | Direct spending jurisdiction | | Entitlements funded in annual appropriations | |
|---|---|---|---|---|
| Appropriations | 788,769 | 824,665 | 0 | 0 |
| Appropriations (violent crime reduction) | 5,500 | 3,592 | 0 | 0 |
| Agriculture, Nutrition, and Forestry | 10,011 | 7,702 | 8,502 | 8,476 |
| Armed Services | 48,152 | 48,022 | 0 | 0 |
| Banking, Housing, and Urban Affairs | 9,190 | -3,203 | 0 | 0 |
| Commerce, Science, Transportation | 4,922 | 2,202 | 637 | 634 |
| Energy and Public Works | 1,879 | 1,848 | 50 | 41 |
| Finance | 25,637 | 2,915 | 0 | 0 |
| Foreign Relations | 683,953 | 681,872 | 112,893 | 115,429 |
| Governmental Affairs | 13,135 | 12,945 | 0 | 0 |
| | 56,248 | 55,190 | 0 | 0 |
| * * * * * * | | | | |
| Total | 1,386,700 | 1,372,000 | 144,841 | 147,270 |

(1) *Under Section 302(a) of the 1974 Congressional Budget Act, the Senate Budget Committee allocates spending to committees for the next fiscal year and (not shown here) the sum of the five fiscal years, but, unlike the House, it does not make separate allocations for each of the five fiscal years. Further, the Senate (but not the House) allocates revenue and outlay amounts for Social Security.*

(2) *As used here, "direct spending" includes discretionary appropriations as well as mandatory spending (such as entitlements) and thus differs from the use of the term in the PAYGO process established under the BEA. Neither meaning of the term includes discretionary authorizations.*

(3) *"Entitlements funded in annual appropriations" are displayed for informational purposes. The amounts shown in this column are included in direct spending.*

(4) *Senate allocations do not distinguish between "current level" and "discretionary action," nor are they divided among functional categories.*

(5) *Offsetting receipts are presented on a separate line, "unassigned to committee" (not shown here), as negative amounts.*

**Source**: H.Rept. 105-116 (conference report to accompany H.Con.Res. 84, Concurrent Resolution on the Budget—Fiscal Year 1998), June 4, 1997, page 148.

## Exhibit 4-G.
## Section 302(b) Subdivisions by Appropriations Committees

(in millions of dollars)

| Subcommittee | Discretionary | | Mandatory | Total |
|---|---|---|---|---|
| | General Purpose | Crime Trust Fund | | |
| Agriculture, Rural Development, Food and Drug Administration | | | | |
| Budget authority | 13,751 | ..... | 35,048 | 48,799 |
| Outlays | 12,997 | ..... | 35,205 | 49,202 |
| Commerce-Justice-State-Judiciary | | | | |
| Budget authority | 25,968 | 5,259 | 522 | 31,749 |
| Outlays | 25,548 | 3,434 | 532 | 29,514 |
| District of Columbia | | | | |
| Budget authority | 835 | ..... | ..... | 835 |
| Outlays | 537 | ..... | ..... | 537 |
| Energy and Water Development | | | | |
| Budget authority | 20,793 | ..... | ..... | 20,793 |
| Outlays | 20,893 | ..... | ..... | 20,893 |
| Foreign Operations | | | | |
| Budget authority | 12,800 | ..... | 44 | 12,844 |
| Outlays | 13,060 | ..... | 44 | 13,104 |
| * * * * * * | | | | |
| Emergency Reserve | | | | |
| Budget authority | 246 | ..... | ..... | 246 |
| Outlays | 259 | ..... | ..... | 259 |
| Grand Total | | | | |
| Budget authority | 521,002 | 5,500 | 277,312 | 803,814 |
| Outlays | 549,706 | 3,592 | 278,725 | 832,023 |

*(1) Under Section 302(b) of the 1974 Congressional Budget Act, the Appropriations Committees are required to subdivide their allocations by subcommittee. In this way, the amounts in each regular appropriations bill can be compared to the subdivision for the relevant subcommittee (because each subcommittee reports one of the 13 regular appropriations bills).*

*(2) Appropriations measures cannot be considered until the Appropriations Committees have filed their reports on the Section 302(b) subdivisions. They may revise their subdivisions at any time by filing a new report.*

*(3) The structure of these reports corresponds to that used in the Section 302(a) allocations; in this example, the "discretionary" and "mandatory" columns correspond to the "discretionary action" and "current level" allocations made by the House Budget Committee.*

**Source**: H.Rept. 105-260 (Report on the Revised Subdivision of Budget Totals for Fiscal Year 1998), House Appropriations Committee, September 23, 1997, pages 2-3.

## Exhibit 4-H.
## CBO Cost Estimates

(by fiscal year, in millions of dollars)

| | 1998 | 1999 | 2000 |
|---|---|---|---|
| **Direct Spending** | | | |
| Spending Under Current Law for Federal Civilian Retirement | | | |
| Estimated Budget Authority | 43,851 | 45,994 | 48,246 |
| Estimated Outlays | 43,764 | 45,904 | 48,151 |
| Proposed Changes | | | |
| New Retirement Benefits | | | |
| Estimated Budget Authority | 12 | 29 | 22 |
| Estimated Outlays | 12 | 29 | 22 |
| Agency Payments | | | |
| Estimated Budget Authority | -14 | -33 | 0 |
| Estimated Outlays | -14 | -33 | 0 |
| Total Change in Direct Spending | | | |
| Estimated Budget Authority | -2 | -4 | 22 |
| Estimated Outlays | -2 | -4 | 22 |
| Spending Under H.R. 2206 for Federal Civilian Retirement | | | |
| Estimated Budget Authority | 43,849 | 45,990 | 48,268 |
| Estimated Outlays | 43,762 | 45,900 | 48,173 |
| **Spending Subject to Appropriation** | | | |

*(1) Section 403 of the 1974 Congressional Budget Act requires that CBO prepare five-year cost estimates of all public bills, other than appropriations bills, reported by House or Senate committees (only three years are shown here); they usually are published in the reports accompanying the bills.*

*(2) The cost estimate presented in this exhibit pertains to an authorizing bill that provides both direct spending and discretionary authorizations. The authorization changes are assumed to be fully funded in appropriations.*

*(3) In addition to tabular information, CBO cost estimates usually provide a detailed discussion of the budgetary impact of each section of the bill and its PAYGO and unfunded mandate implications, if any.*

**Source**: CBO cost estimate for H.R. 2206, Veterans' Health Programs Improvement Act of 1997, October 1, 1997 (obtained from CBO's Internet site).

## Exhibit 4-I.
## Scoring Reports

**The Current Level Report for the U.S. Senate, Fiscal Year 1998, 105th Congress, 1st Session, as of Close of Business October 24, 1997**

(in billions of dollars)

(1) *The 1974 Congressional Budget Act requires that the House and Senate Budget Committees issue scoring (also called scorekeeping) reports on the status of the congressional budget. Over the years, both committees have met this requirement by inserting CBO scoring reports into the* Congressional Record, *as frequently as legislative activity requires; only the Senate Budget Committee has issued these reports regularly in recent years.*

(2) *These reports are used principally in determining whether a pending measure would violate Section 311 of the 1974 Congressional Budget Act by causing total budget authority or outlays to exceed, or total revenues to fall below, the levels set in the budget resolution.*

(3) *As used here, "current level" includes both new legislation already enacted or sent to the President during the session and revenue or spending resulting from existing law.*

**Source**: Remarks of Senator Pete Domenici, "Budget Scorekeeping Report," in the *Congressional Record* of October 29, 1997, at pages S11371-72.

***Points of Order.*** The 1974 Congressional Budget Act provides for both substantive and procedural points of order to block violations of budget resolution policies and congressional budget procedures. One element of substantive enforcement is based on Section 311 of the act, which bars Congress from considering legislation that would cause total revenues to fall below the level set in the budget resolution or total new budget authority or total outlays to exceed the budgeted level. The House and Senate both enforce the spending ceilings for the first fiscal year only; the revenue floor, however, is enforced for the first fiscal year and for the full number of fiscal years covered by the budget resolution.

In the House (but not the Senate), Section 311 does not apply to spending legislation if the committee reporting the measure has stayed within its allocation of new discretionary budget authority. Accordingly, the House may take up any spending measure that is within the appropriate committee allocations, even if it would cause total spending to be exceeded. Neither chamber bars spending legislation that would cause functional allocations in the budget resolution to be exceeded.

Section 302(f) of the 1974 Congressional Budget Act bars the House and Senate from considering any spending measure that would cause the relevant committee's spending allocations to be exceeded; in the House, the point of order applies only to violations of allocations of new discretionary budget authority. Further, the point of order also applies to suballocations of spending made by the Appropriations Committees.

The Senate, but not the House, enforces revenue and spending levels for Social Security contained in the budget resolution. Section 311 bars the consideration of any legislation that would cause an increase in Social Security deficits, or a decrease in Social Security surpluses, relative to the levels set forth in the budget resolution, for the budget year or the full period covered by the budget resolution.

In addition to points of order to enforce compliance with the budget resolution and the allocations and subdivisions made pursuant to it, the 1974 Congressional Budget Act contains points of order to ensure compliance with its procedures. Perhaps the most important of these is Section 303, which bars consideration of any revenue, spending, entitlement, or debt-limit measure prior to adoption of the budget resolution. However, the rules of the House permit it to consider regular appropriations bills after May 15, even if the budget resolution has not yet been adopted.

When the House or Senate considers a revenue or a spending measure, the chairman of the respective Budget Committee sometimes makes a statement advising the chamber as to whether the measure violates any of these points of order. If no point of order is made, or if the point of order is waived, the House or Senate may consider a measure despite any violations of the 1974 Congressional Budget Act. The House often waives points of order by adopting a special rule. The Senate may waive points of order by unanimous consent or by motion under Section 904 of the act. The Senate requires a three-fifths vote of the membership to waive certain provisions of the act.

## The Reconciliation Process

Beginning in 1980, Congress has used reconciliation legislation to implement many of its most significant budget policies. Section 310 of the 1974 Congressional Budget Act sets forth a special procedure for the development and consideration of reconciliation legislation. Reconciliation legislation is used by Congress to bring existing revenue and spending law into conformity with the policies in the budget resolution. Reconciliation is an optional process, but Congress has used it more years than not; during the period covering 1980 through 1997, a total of 14 reconciliation measures in 11 different years were enacted into law (and one was vetoed).

The reconciliation process has two stages—the adoption of reconciliation instructions in the budget resolution and the enactment of reconciliation legislation that implements changes in revenue or spending laws. Although reconciliation has been used since 1980, specific procedures tend to vary from year to year.

Reconciliation is used to change the amount of revenues, budget authority, or outlays generated by existing law. In a few instances, reconciliation has been used to adjust the public debt limit. On the spending side, the process focuses on entitlement laws; it may not be used, however, to impel changes in Social Security law. Reconciliation sometimes has been applied to discretionary authorizations (which are funded in annual appropriations acts), but this is not the usual practice.

**Reconciliation Directives.** Reconciliation begins with a directive in a budget resolution instructing designated committees to report legislation changing existing law or pending legislation (see **Exhibits 4-J** and **4-K**). These instructions have three components: (1) they name the committee (or committees) that are directed to report legislation; (2) they specify the amounts by which existing laws are to be changed (but do not identify how these changes are to be made, which laws are to be altered, or the programs to be affected); and (3) they usually set a deadline by which the designated committees are to recommend the changes in law. The instructions typically cover the same fiscal years covered by the budget resolution.

The dollar amounts are computed with reference to the CBO baseline. Thus, a change represents the amount by which revenues or spending would decrease or increase from baseline levels as a result of changes made in existing law. This computation is itself based on assumptions about the future level of revenues or spending under current law (or policy) and about the dollar changes that would ensue from new legislation. Hence, the savings associated with the reconciliation process are assumed savings. The actual changes in revenues or spending may differ from those estimated when the reconciliation instructions are formulated.

Although the instructions do not mention the programs to be changed, they are based on assumptions as to the savings or deficit reduction (or, in some cases, increases) that would result from particular changes in revenue provisions or spending programs. These program assumptions are sometimes printed in the reports on the budget resolution. Even when the assumptions are not published, committees and Members usually have a good idea of the specific program changes contemplated by the reconciliation instructions.

## Exhibit 4-J.
## House Reconciliation Directives

**Sec. 105. Reconciliation in the House of Representatives.**

(a) Purpose.—The purpose of this section is to provided for two separate reconciliation bills: the first for entitlement reform and the second for tax relief.

(b) Submissions.—

(1) Entitlement Reforms.—Not later than June 13, 1997, the House committees named in subsection (c) shall submit their recommendations to the House Committee on the Budget. After receiving those recommendations, the House Committee on the Budget shall report to the House a reconciliation bill carrying out all such recommendations without any substantive revision.

(2) Tax Relief and Miscellaneous Reforms.—Not later than June 14, 1997, the House committees named in subsection (d) shall submit their recommendations to the House Committee on the Budget...

(c) Instructions Relating to Entitlement Reforms.—

(1) Committee on Agriculture.—The House Committee on Agriculture shall report changes in laws within its jurisdiction that provide direct spending such that the total level of direct spending for that committee does not exceed: $34,571,000,000 in outlays for fiscal year 1998, $37,008,000,000 in outlays for fiscal year 2002, and $179,884,000,000 in outlays in fiscal years 1998 through 2002.

*(1) The reconciliation directives are contained in the budget resolution. Reconciliation is an optional procedure that is not used every year. It has been used principally to reduce the deficit by raising revenues or reducing direct spending through changes in existing law. In recent years, it has been used to reduce revenues, and in a few instances, to increase spending.*

*(2) The reconciliation directives set a deadline for committees to report their legislative recommendations; sometimes the deadline is extended.*

*(3) Separate House and Senate directives name the committees that must make legislative recommendations. In most years, at least several committees in each House are subject to directives; their recommendations usually are consolidated into an omnibus bill, but sometimes committees are directed to proceed separately with their legislation (particularly on revenue issues).*

*(4) The House often uses directives that differ in form from those used in the Senate. In this example, the directive is stated as a ceiling on the total direct spending of the committee for the first year, the last year, and the full five-year period covered by the budget resolution. The form of House directives has changed over the years. Compare this example to the next exhibit, which makes clear that reconciliation involved an increase for this particular committee.*

**Source**: H.Rept. 105-116 (conference report to accompany H.Con.Res. 84, Concurrent Resolution on the Budget for Fiscal Year 1998), June 4, 1997, page 17.

## Exhibit 4-K.
## Senate Reconciliation Directives

**Sec. 104. Reconciliation in the Senate**

(a) Reconciliation of Spending Reductions.—Not later than June 13, 1997, the committees named in this subsection shall submit their recommendations to the Committee on the Budget of the Senate. After receiving those recommendations, the Committee on the Budget shall report to the Senate a reconciliation bill carrying out all such recommendations without any substantive revision.

(1) Committee on Agriculture, Nutrition, and Forestry.—The Senate Committee on Agriculture, Nutrition, and Forestry shall report changes in laws within its jurisdiction that provide direct spending...to increase outlays by not more than $300,000,000 in fiscal year 2002 and by not more than $1,500,000,000 for the period of fiscal years 1998 through 2002.

(2) Committee on Banking, Housing, and Urban Affairs.—The Senate Committee on Banking, Housing, and Urban Affairs shall report changes in laws within its jurisdiction that reduce the deficit $434,000,000 in fiscal year 2002 and $1,590,000,000 for the period of years 1998 through 2002.

* * * * * *

(b) Reconciliation of Revenue Reductions.—Not later than June 20, 1997, the Senate Committee on Finance shall report to the Senate a reconciliation bill proposing changes in laws within its jurisdiction necessary to reduce revenues by not more than $20,500,000,000 in fiscal year 2002 and $85,000,000,000 for the period of fiscal years 1998 through 2002.

*(1) The Senate directives contemplate that the recommendations for spending reductions will be incorporated into an omnibus bill that the Senate Budget Committee will report (without any substantive revision), but that the Senate Finance Committee will report its recommendations for the $85 billion tax cut directly to the Senate as a separate bill.*

*(2) Like the House reconciliation directives, the Senate directives provide a deadline for the submission by committees of their recommendations. In the case of the omnibus bill, the instructed committees must submit both legislative language (for incorporation into the omnibus bill) and report language (for incorporation into the accompanying report).*

*(3) The Senate directives differ in form from those used in the House. In this example, the directive is stated as a specific amount of outlay increase or deficit reduction for each committee for the last fiscal year and the full five-year period covered by the budget resolution. The form of Senate directives has changed over the years.*

**Source**: H.Rept. 105-116 (conference report to accompany H.Con.Res. 84, Concurrent Resolution on the Budget for Fiscal Year 1998), June 4, 1997, pages 15-16.

A committee has discretion to decide on the legislative changes to be recommended. It is not bound by the program changes recommended or assumed by the Budget Committees in the reports accompanying the budget resolution. Further, a committee has to recommend legislation estimated to produce dollar changes for each category delineated in the instructions to it.

When a budget resolution containing a reconciliation instruction has been approved by Congress, the instruction has the status of an order by the House and Senate to designated committees to recommend legislation, usually by a date certain. It is expected that committees will carry out the instructions of their parent chamber, but the 1974 Congressional Budget Act does not provide any sanctions against committees that fail to do so.

**Development and Consideration of Reconciliation Measures.** When more than one committee in the House and Senate is subject to reconciliation directives, the proposed legislative changes usually are consolidated by the Budget Committees into an omnibus bill. The 1974 Congressional Budget Act does not permit the Budget Committees to revise substantively the legislation recommended by the committees of jurisdiction. This restriction pertains even when the Budget Committees estimate that the proposed legislation will fall short of the dollar changes called for in the instructions. Sometimes, the Budget Committees, working with the leadership, develop alternatives to the committee recommendations, to be offered as floor amendments, so as to achieve greater compliance with the reconciliation directives.

The 1974 Congressional Budget Act requires that amendments offered to reconciliation legislation in either the House or the Senate be deficit neutral (see **Box 4-C**). To meet this requirement, an amendment reducing revenues or increasing spending must offset these deficit increases by equivalent revenue increases or spending cuts. Additionally, nongermane amendments may not be offered in either chamber.

This deficit-neutrality requirement pertains only to floor amendments. It does not pertain to deficit-increasing provisions recommended by a committee instructed to produce reconciliation savings (however, such provisions in the Senate could violate the Byrd rule, discussed below). One effect of this restriction is to make it difficult to amend reconciliation bills in the House or Senate. Although deficit-neutral amendments may be offered, the requirement that they contain offsets usually makes them politically unattractive. Of course, amendments may be offered that reduce the deficit below the budgeted level.

During the first several years' experience with reconciliation, the legislation contained many provisions that were extraneous to the purpose of reducing the deficit. The reconciliation submissions of committees included such things as provisions that had no budgetary effect, that increased spending or reduced revenues, or that violated another committee's jurisdiction.

**Box 4-C.**
**Deficit Neutrality of Amendments**

**Section 310 of the Congressional Budget Act of 1974**

(d) Limitation on Amendments to Reconciliation Bills and Resolutions.—

(1) It shall not be in order in the House of Representatives to consider any amendment to a reconciliation bill or reconciliation resolution if such amendment would have the effect of increasing any specific budget outlays above the level of such outlays provided in the bill or resolution (for the fiscal years covered by the reconciliation instructions set forth in the most recently agreed to concurrent resolution on the budget), or would have the effect of reducing any specific Federal revenues below the level of such revenues provided in the bill or resolution (for such fiscal years), unless such amendment makes at least an equivalent reduction in other specific budget outlays, an equivalent increase in other specific Federal revenues, or an equivalent combination thereof (for such fiscal years), except that a motion to strike a provision providing new budget authority or new entitlement authority may be in order.

In 1985, the Senate adopted the Byrd rule (named after its principal sponsor, Senator Robert C. Byrd) on a temporary basis as a means of curbing these practices (see **Box 4-D**). The Byrd rule allows Senators to strike extraneous provisions from reconciliation legislation on a point of order, both during initial consideration of such legislation and during consideration of the conference report. It has been extended and modified several times over the years. In 1990, the Byrd rule was incorporated into the 1974 Congressional Budget Act as Section 313 and made permanent.

A Senator opposed to the inclusion of extraneous matter in reconciliation legislation has two principal options for dealing with the problem. First, the Senator may offer an amendment (or a motion to recommit the measure with instructions) that strikes such provisions from the legislation. Second, under the Byrd rule, the Senator may raise a point of order against extraneous matter. In general, a point of order authorized under the Byrd rule may be raised to strike extraneous matter already in the bill as reported or discharged (or in the conference report), or to prevent the incorporation of extraneous matter through the adoption of amendments or motions. A motion to waive the Byrd rule, or to sustain an appeal of the ruling of the chair on a point of order raised under the Byrd rule, requires the affirmative vote of three-fifths of the membership (60 Senators, if no seats are vacant).

Under the Byrd rule, several categories of extraneous matter are established, including (among other things) items that would cause the estimated deficit for future fiscal years to rise. The Byrd rule supplements the prohibition against the offering in the Senate of nongermane amendments to reconciliation measures set forth elsewhere in the 1974 Congressional Budget Act.

**Box 4-D.**
**The Senate's "Byrd Rule" on Extraneous Matter**

**Section 313 of the Congressional Budget Act of 1974**

(b) Extraneous Provisions.—

(1)(A) Except as provided in paragraph (2), a provision of a reconciliation bill or reconciliation resolution considered pursuant to section 641 of this title shall be considered extraneous if such provision does not produce a change in outlays or revenues, including changes in outlays and revenues brought about by changes in the terms and conditions under which outlays are made or revenues are required to be collected (but a provision in which outlay decreases or revenue increases exactly offset outlay increases or revenue decreases shall not be considered extraneous by virtue of this subparagraph); (B) any provision producing an increase in outlays or decrease in revenues shall be considered extraneous if the net effect of provisions reported by the committee reporting the title containing the provision is that the committee fails to achieve its reconciliation instructions; (C) a provision that is not in the jurisdiction of the committee with jurisdiction over said title or provision shall be considered extraneous; (D) a provision shall be considered extraneous if it produces changes in outlays or revenues which are merely incidental to the non-budgetary components of the provision; (E) a provision shall be considered to be extraneous if it increases, or would increase, net outlays, or if it decreases, or would decrease, revenues during a fiscal year after the fiscal years covered by such reconciliation bill or reconciliation resolution, and such increases or decreases are greater than outlay reductions or revenue increases resulting from other provisions in such title in such year; and (F) a provision shall be considered extraneous if it violates section 310(g).

Although the House has no rule comparable to the Senate's Byrd rule, it may use other devices to control the inclusion of extraneous matter in reconciliation legislation. In particular, the House has used special rules to make in order amendments that strike such matter. Any extraneous matter passed by the House may have to be deleted in conference because of Senate insistence on adherence to the Byrd rule.

# Chapter 5. Revenues and Borrowing

In addition to appropriations and other forms of spending, Congress's constitutional "power of the purse" (see **Box 1-A**) extends to revenues and borrowing. Article I, Section 8 of the Constitution gives Congress the power to levy "taxes, duties, imposts, and excises." Section 8 also empowers Congress to borrow funds "on the credit of the United States."

Section 7 of Article I of the Constitution requires that all revenue measures originate in the House. Beyond this, the Constitution does not prescribe any procedures for action on revenue and debt legislation. Over many decades, however, the House and Senate have developed complex rules and practices that govern consideration of such measures.

Although the procedures of the two chambers have many elements in common, each house has tailored its rules and practices to fit its role in revenue and debt matters. For example, the House usually considers revenue measures under a more restrictive amendment process than the Senate; the Senate considers revenue (and direct spending) legislation under budget enforcement procedures that extend over a much longer time frame than does the House (10 years versus five years); and the House, unlike the Senate, has used special procedures in an attempt to eliminate the need for votes directly on increasing the debt limit.

With respect to revenue and debt matters, the legislative process is sufficiently flexible to accommodate a variety of political and legislative circumstances. For example, in some years, when the Senate has chosen to initiate action on major revenue proposals, it has adhered to the letter of the constitutional requirement for House origination by taking up a narrow, House-passed revenue measure and substituting its own comprehensive revenue provisions for the other chamber's brief text. Further, although the annual budget resolution (which sets forth total revenue for the next five fiscal years) often originates in the Senate, this sequence does not violate the Constitution because the resolution itself does not raise revenues.

In the House, revenue legislation is under the jurisdiction of the Ways and Means Committee; in the Senate, jurisdiction is held by the Finance Committee. These committees also have jurisdiction over certain spending programs, such as Social Security and unemployment compensation, some of which are funded by earmarked taxes.

The House rules (in Clause 5(b) of Rule XXI) bar committees other than the Ways and Means Committee from reporting revenue legislation (see **Box 5-A**). The reference in the rule to the Senate pertains to situations in which the Senate adds revenue provisions to a House-passed measure. This part of the clause bars House consideration of revenue provisions added by the Senate to a House-passed measure not reported by the Ways and Means Committee.

**Box 5-A.**
**Bar Against Revenue Provisions in Non-Revenue Measures: House Rules**

**House Rule XXI, Clause 5(b)**

(b) No bill or joint resolution carrying a tax or tariff measure shall be reported by any committee not having jurisdiction to report tax and tariff measures, nor shall an amendment in the House or proposed by the Senate carrying a tax or tariff measure be in order during the consideration of a bill or joint resolution reported by a committee not having that jurisdiction. A question of order on a tax or tariff measure in any such bill, joint resolution, or amendment thereto may be raised at any time.

The House sometimes allows committees with jurisdiction over particular programs to report legislation containing revenue provisions related to those programs. In applying this rule, the House distinguishes between levies on the general public (such as income taxes and social insurance premiums), which are in the exclusive jurisdiction of the Ways and Means Committee, and fees, which are imposed on beneficiaries of particular services or to regulate certain activities. In the latter case, legislation containing the user charge may be reported by other committees. This type of measure is sometimes jointly or sequentially referred to the Ways and Means Committee.

The Senate has no rule comparable to Clause 5(b) of House Rule XXI, but Senate practices hardly differ in this respect from those of the House because all general revenue legislation is under the jurisdiction of the Senate Finance Committee.

Revenues of the federal government (also referred to as *receipts*) have fluctuated over the last several decades between 17% and 20% of GDP. As **Exhibit 5-A** shows, revenues are expected to be at about the top of this range at the turn of the century. Revenues derive from a number of sources. The top part of the exhibit shows that individual and corporate income taxes account for more than half of the receipts of the government. Social insurance taxes are an increasingly prominent source of revenues and they now provide more than one third of total receipts. Additional amounts accrue to the government from various excise taxes, customs fees, gifts and bequests, and miscellaneous receipts. These revenues do not include various offsetting receipts, which, as will be discussed below, are not accounted for as budget receipts.

**Exhibit 5-A** also indicates that there has been remarkable stability in federal revenues as a share of the GDP over an extended period of time. Revenues totaled just over 19% of GDP in FY1970 and are expected to amount to just under 20% of GDP in FY2000. The portion of receipts that are federal funds (the general funds of the government that, unlike trust funds, are available for all purposes) has progressively declined over the years—from 15 percent of GDP in 1960 to only 12 percent today. This means that an increasing portion of federal revenues are restricted to particular uses.

## Exhibit 5-A.
## Sources of Revenue

| Fiscal Year | 1960 | 1970 | 1980 | 1990 | 2000* |
|---|---|---|---|---|---|
| **As a Percentage of Total Receipts** | | | | | |
| Individual Income Taxes | 44.0 | 46.9 | 47.2 | 45.2 | 44.9 |
| Corporate Income Taxes | 23.2 | 17.0 | 12.5 | 9.1 | 11.3 |
| Social Insurance Taxes | 15.9 | 23.0 | 30.5 | 36.8 | 34.7 |
| All Other Receipts | 16.8 | 13.0 | 9.8 | 8.8 | 9.1 |
| **Total Receipts** | | | | | |
| On-Budget | 88.5 | 82.6 | 78.1 | 72.7 | 74.7 |
| Off-Budget | 11.5 | 17.4 | 21.9 | 27.3 | 25.3 |
| **As a Percentage of GDP** | | | | | |
| Individual Income Taxes | 7.9 | 9.0 | 9.0 | 8.2 | 8.9 |
| Corporate Income Taxes | 4.1 | 3.3 | 2.4 | 1.6 | 2.2 |
| Social Insurance Taxes | 2.8 | 4.4 | 5.8 | 6.7 | 6.9 |
| All Other Receipts | 3.1 | 2.5 | 1.9 | 1.6 | 1.8 |
| **Total Receipts** | 17.8 | 19.1 | 19.0 | 18.2 | 19.8 |
| On-Budget | 15.8 | 15.8 | 14.9 | 13.2 | 14.8 |
| Off-Budget | 2.1 | 3.3 | 4.2 | 5.0 | 5.0 |

* estimate
Details may not add to totals due to rounding.

(1) *The top part of this table shows major sources of federal revenues (also called receipts) as a percentage of total revenues; the bottom part shows each source as a percentage of GDP.*

(2) *Over the past several decades, there has been a shift in the composition of federal revenues. Corporate income taxes account for a declining share of total revenues and social insurance taxes account for a higher share. The "all other receipts" category includes excise taxes, which also have declined as a proportion of total revenues.*

(3) *Off-budget receipts are the taxes paid into the Social Security trust funds.*

(4) *Although there has been a shift in the sources of federal revenue, total receipts are expected to comprise nearly the same share of GDP in FY2000 that they did in FY1970.*

**Source**: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Historical Tables*, February 1998, Table 2.2, pages 29-30, and Table 2.3, pages 31-32.

Most receipts derive from existing provisions of the tax code or Social Security law which continue in effect from year to year unless changed by Congress. This tax structure can be expected to produce increasing amounts of revenue in future years as the economy expands and incomes rise. Nevertheless, Congress usually makes some changes in the tax laws each year, either to raise or lower revenues or to redistribute the tax burden. In most years, these changes have only a marginal impact on total revenues, though the effects on particular categories of taxpayers can be enormous.

As displayed in **Exhibit 5-B**, Congress enacted almost 20 major revenue measures during the 1980s; these cumulatively reduced federal revenues for FY1990 by an estimated $186 billion. The most sizeable of these changes by far was the 1981 tax reduction act. From time to time, Congress also alters the tax burdens in ways which greatly affect specific taxpayers, even if total revenues are not changed very much. Such was the case in 1986 when Congress enacted far-reaching tax reform legislation.

## Revenue Legislation in Congress

Congress typically acts on revenue legislation pursuant to proposals in the President's budget. An early step in congressional work on revenue legislation is publication by CBO of its baseline budget projections and its estimates of the revenue impact of the President's budget proposals. The Congressional Budget Act of 1974 requires that CBO use estimates of revenue legislation developed by the Joint Committee on Taxation (JCT) (see **Box 5-B**). This requirement, which was adopted in 1985, contributes to a close working relationship between CBO and JCT on revenue matters generally.

**Box 5-B.**
**Joint Committee on Taxation**

**Section 201(f) of the Congressional Budget Act of 1974**

(f) Revenue Estimates.—For the purposes of revenue legislation which is income, estate and gift, excise, and payroll taxes (i.e., Social Security), considered or enacted in any session of Congress, the Congressional Budget Office shall use exclusively during that session of Congress revenue estimates provided to it by the Joint Committee on Taxation ....

Congressional estimates often differ significantly from those presented in the President's budget. The revenue impact often is estimated to be far greater in future years than in the year immediately ahead. Consequently, differences between congressional and executive revenue estimates usually are greatest in the outyears.

Revenue estimates are used by Congress in establishing baseline budget projections, formulating the annual budget resolution, and scoring revenue legislation. The budget resolution sets forth total revenues for each of the next five fiscal years and the amount (if any) by which these totals are to be increased or decreased by legislative action. The budget resolution also may contain reconciliation instructions directing the House Ways and Means Committee and the

## Exhibit 5-B.
## Revenue Effects of Major Enacted Legislation

(in billions of dollars)

| | 1987 | 1988 | 1989 | 1990 | 1991 | 1988–89 |
|---|---|---|---|---|---|---|
| Economic Recovery Tax Act of 1981 | −241.7 | −260.8 | −285.5 | −315.7 | −350.2 | −546.2 |
| Tax Equity and Fiscal Responsibility Act of 1982 | 56.9 | 57.3 | 55.8 | 57.4 | 61.6 | 113.1 |
| Highway Revenue Act of 1982 | 4.7 | 4.9 | 5.1 | 5.1 | 5.1 | 10.0 |
| Social Security Amendments of 1983 | 12.1 | 24.6 | 31.0 | 23.9 | 23.9 | 55.6 |
| Interest and Dividends Tax Compliance Act of 1983 | −1.7 | −1.8 | −2.0 | −2.5 | −2.8 | −3.8 |
| Railroad Retirement Revenue Act of 1983 | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 | 2.3 |
| Deficit Reduction Act of 1984 | 22.0 | 25.3 | 27.7 | 31.0 | 34.0 | 53.0 |
| Consolidated Omnibus Budget Reconciliation Act of 1985 | 2.7 | 2.9 | 3.0 | 3.0 | 3.2 | 5.9 |
| Federal Employees' Retirement System Act of 1986 | −0.1 | −0.2 | −0.2 | −0.3 | −0.4 | −0.4 |
| Omnibus Budget Reconciliation Act of 1986 | 2.7 | 2.5 | 2.0 | 1.0 | 0.2 | 4.5 |
| Superfund Amendments and Reauthorization Act of 1986 | 0.4 | 0.8 | 0.8 | 0.8 | 0.8 | 1.6 |
| Continuing Resolution for 1987 | 1.9 | 2.7 | 2.6 | 2.7 | 2.8 | 5.3 |
| Tax Reform Act of 1986 | 21.5 | −4.5 | −17.2 | −13.5 | −9.5 | −21.8 |
| Omnibus Budget Reconciliation Act of 1987 [2] | .................. | 9.1 | 14.3 | 16.2 | 15.6 | 23.3 |
| Continuing Resolution for 1988 | .................. | 2.4 | 3.1 | 3.3 | 3.4 | 5.5 |
| Net tax reduction (−) | −117.5 | −133.7 | −158.4 | −186.3 | −211.4 | −292.1 |

(1) *The estimates in this table take account of: (a) the direct effects of legislative changes at an assumed level of economic activity, and (b) the indirect effects of induced changes in economic activity on incomes.*

(2) *The 1981 legislation outweighed all other tax measures in the 1980s in terms of its impact on federal revenues, with its effects persisting into the next decade. It lowered FY1991 receipts by an estimated $350 billion; all other revenue legislation enacted during the 1980s added an estimated $139 billion to FY1991 receipts.*

(3) *A variety of measures—reconciliation bills, Social Security legislation, continuing resolutions, and others—were used during the 1980s to enact changes in federal revenues.*

(4) *The projections made at the time revenue legislation is considered are not always realized. The Tax Reform Act of 1986 was expected to be "revenue neutral" over the five years following its enactment. However, the estimates shown here indicate that it resulted in a reduction in federal revenues.*

**Source**: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1990*, January 1989, page 4-4.

Senate Finance Committee to report legislation changing the total amount of revenues. Legislation reported pursuant to these instructions often is considered as part of an omnibus budget reconciliation bill, but sometimes it is considered as a separate revenue reconciliation measure.

The revenue totals in the budget resolution establish the framework for subsequent action on revenue measures. Congress generally may not consider legislation increasing or decreasing revenues for the next fiscal year until it has adopted the budget resolution for that year. Congress sometimes waives this requirement—in the House, usually by means of a special rule reported by the Rules Committee; in the Senate, usually by unanimous consent or by a waiver motion authorized by the 1974 Congressional Budget Act.

The budget resolution contains only revenue totals and total recommended changes; it does not allocate these totals among revenue sources (although it does set out Medicare receipts separately), nor does it specify which provisions of the tax code are to be changed. These specific decisions are made in the revenue legislation reported by the House and Senate committees with jurisdiction over such matters.

Revenue legislation usually is considered in the House under a special rule (typically either a "closed" or "modified" rule) that either bars any floor amendments or specifies those that may be offered. The House rarely acts on such measures under an "open" rule, which would allow any floor amendment to be offered. In addition, the special rule may waive one or more points of order that otherwise would apply to a measure. In 1995, the House amended Clause 5 of Rule XXI to require a three-fifths majority to pass legislation containing a "federal income tax rate increase" and to bar measures containing any such increase that is retroactive.

The Senate does not restrict floor amendments like the House, but it does have strict budget rules that can block revenue legislation or amendments which would cause the deficit to rise. In particular, the Senate adopted (as part of a budget resolution) a "pay-as-you-go" point of order that requires revenue and direct spending legislation to be deficit neutral over a ten-year period. This provision, which supplements the statutory pay-as-you-go process discussed below, expires at the end of FY2002, unless the Senate chooses to extend it.

## Pay-As-You-Go (PAYGO) Rules

The BEA of 1990 established pay-as-you-go (PAYGO) rules that affect the consideration of revenue and direct spending legislation in Congress. The PAYGO rules currently are in effect through FY2002. (For a discussion of the PAYGO process generally, see Chapter 2.)

The basic PAYGO rule is that congressional action on revenue and direct spending legislation should not increase the deficit or reduce the surplus. (Direct spending consists of entitlement and other mandatory spending programs.) Legislation reducing federal revenues must be offset by measures increasing revenues or decreasing direct spending by an equal or greater amount, or a sequestration of certain direct spending programs will occur.

In enforcing PAYGO, it is necessary to distinguish between baseline revenues derived from existing laws and increases or decreases in revenues resulting from new legislation. Congress is not required to offset any drop in baseline revenues due to changing economic conditions or technical re-estimates. It would, however, be required to act if baseline revenues decline because of new legislation.

Although it covers five fiscal years, PAYGO is enforced one year at a time. This means that revenue increases or decreases enacted for one fiscal year are not netted against increases or decreases for another year (except under the "look-back" feature discussed in Chapter 2). Moreover, PAYGO is enforced against all revenue (and direct spending) legislation affecting a fiscal year, not against individual measures. PAYGO does not bar Congress from considering a measure that would reduce revenues; its enforcement procedures are triggered only if all legislation enacted for a fiscal year would increase the deficit above the baseline estimate.

PAYGO emphasizes deficit neutrality, not deficit reduction. Thus, legislation producing additional revenue can finance increased direct spending or reductions in other revenue and does not have to be applied to deficit reduction. PAYGO simply requires that the net effect of revenue and direct spending enacted for a fiscal year not increase the estimate of the deficit (or reduce the estimate of the surplus) for that year.

## Tax Expenditures

In enacting revenue legislation, Congress often establishes or alters tax expenditures. The term *tax expenditures* is defined in the 1974 Congressional Budget Act to include revenue losses due to deductions, exemptions, credits, and other exceptions to the basic tax structure.

Tax expenditures are a means by which the federal government pursues public policy objectives and, as the term denotes, can be regarded as alternatives to other policy instruments such as direct spending. The President's budget presents two different measures of tax expenditures: revenue losses and outlay equivalents. Revenue losses measure the amount of revenue that the federal government forgoes; outlay equivalents measure the amount of spending that would be required to provide taxpayers the same after-tax income that would be received on the basis of a revenue loss measure. The President's budget for FY1999 lists 131 different tax expenditures; about 40 of them involve revenue losses of $1 billion or more (see **Exhibit 5-C**).

Legislation proposing the creation of new tax expenditures, or the expansion of an existing ones, is subject to restrictions under both the congressional budget process and PAYGO because revenue losses are involved.

Tax expenditures are classified by budget function to facilitate the comparison of spending programs and tax expenditures. The Joint Committee on Taxation estimates the revenue effects of legislation changing tax expenditures, and it also publishes five-year projections of these provisions as an annual committee print.

## Exhibit 5-C.
## Tax Expenditures

(In millions of dollars)

| Provision | 1999 |
|---|---|
| Exclusion of employer contributions for medical insurance premiums and medical care | 76,230 |
| Net exclusion of employer pension-plan contributions and earnings | 72,375 |
| Deductibility of mortgage interest on owner-occupied homes | 53,695 |
| Deductibility of nonbusiness State and local taxes other than owner-occupied homes | 33,490 |
| Accelerated depreciation of machinery and equipment (normal tax method) | 28,535 |
| Capital gains (other than agriculture, timber, iron ore, and coal) (Normal tax method) | 26,120 |
| Deductibility of charitable contributions | 25,260 |
| Child credit [1] | 19,175 |
| Exclusion of Social Security benefits for retired workers | 19,115 |
| Deductibility of State and local property tax on owner-occupied homes | 18,440 |
| Exclusion of interest on public purpose bonds | 14,760 |
| Exclusion of interest on life insurance savings | 14,200 |
| Net Exclusion of Individual Retirement Account contributions and earnings | 10,780 |
| Capital gains exclusion on home sales | 9,465 |
| Step-up basis of capital gains at death | 9,465 |
| Exclusion of interest on State and local debt for various non-public purposs | 7,395 |
| Exclusion of workmen's compensation benefits | 5,210 |

(1) *Tax expenditures come in various forms—exclusions of income from taxation, deduction of certain income in computing taxable income, preferential treatment of certain activities, tax credits, and deferral of taxation.*

(2) *This exhibit shows the largest of the more than 100 tax expenditures listed in the President's budget for FY1999. They are computed in terms of estimated revenue losses; the budget also reports tax expenditures in terms of outlay equivalents.*

(3) *The first three items on this list account for more than one third of total tax expenditures. These and many other tax expenditures have enjoyed special treatment since the early years of the federal income tax.*

(4) *It is generally agreed that the value of individual tax expenditures cannot be added to calculate total tax expenditures. The reason for this is that changing one tax expenditure provision might result in more or less reliance on other tax expenditures. These interactions are netted out in computing total tax expenditures by function; they are not netted out for the budget as a whole.*

**Source**: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Analytical Perspectives*, February 1998, Table 5-3, page 98.

## Offsetting Collections

Offsetting collections are collections or receipts that are counted as negative spending, not as revenue. These collections offset—that is, reduce—budget outlays (and, where applicable, budget authority) by an equivalent amount. For example, if $50 million of offsetting collections were credited to an account, the budget outlays in that account would be reduced by $50 million.

Offsetting collections include income from business or market-type activities, income from the sale of assets, voluntary user fees, and certain flows of funds among the accounts maintained by the federal government. Compulsory user fees (in which the payer has no discretion) resemble taxes and are, therefore, accounted for as revenue.

The distinction between budget receipts and offsetting collections is sometimes vague. In general, any income received by the federal government in the exercise of its sovereign power is recorded as a receipt; any arising from the sale of goods and services or other business-like charges are budgeted as offsetting collections.

Although classifying income as revenue or as an offsetting collection does not affect the size of the budget deficit or surplus, it does affect the enforcement of the budget rules adopted in 1990. When income is classified as a receipt, it is included in the PAYGO process discussed earlier. When it is recorded as an offsetting collection, it must be classified as either discretionary or mandatory spending. A discretionary offsetting collection would affect spending computations under the discretionary spending limits (discussed in Chapter 2); a mandatory offsetting collection would be considered direct spending and would be covered by the PAYGO process. An increase in discretionary offsetting collections would allow an equivalent amount of additional spending within the discretionary spending limits. An increase in mandatory offsetting collections would allow an equivalent reduction in revenue or increase in direct spending under the PAYGO requirement.

**Exhibit 5-D** indicates that offsetting collections, including the income of the U.S. Postal Service and excluding intragovernmental transactions, totaled almost $130 billion in FY1997. The President frequently proposes changes in offsetting collections.

## Borrowing

Each year the federal government borrows funds to meet various purposes, repays a portion of its outstanding debt, and services the debt with interest payments. Borrowed funds are not treated as revenues. Similarly, debt repayments are not counted as spending, but interest payments on the debt are treated as budget authority and outlays.

Borrowing occurs for two main reasons: (1) to finance a deficit; and (2) to satisfy legal requirements that surplus amounts in trust funds and certain other funds in the federal budget be invested in Treasury securities.

## Exhibit 5-D.
## Offsetting Collections

| Offsetting collections: | |
|---|---|
| Offsetting collections deposited in receipt accounts: | |
| Medicare premiums | 20,421 |
| Services charges on foreign military sales | 15,128 |
| Immigration fees | 992 |
| U.S. customs user fees | 1,288 |
| Medical care and National Serviceman's Life Insurance Premiums and other Veterans fees | 234 |
| Nuclear Regulatory Commission fees | 459 |
| Interior park entrance, concessionaire and other fees | 349 |
| Inspection, grading and other Agriculture fees | 148 |
| Other collections deposited in receipt accounts | 396 |
| Subtotal, offsetting collections deposited in receipt accounts | 39,415 |
| Offsetting collections deposited in appropriations accounts: | |
| Postal Service | 57,407 |
| Tennessee Valley Authority and other power marketing | 8,135 |
| Housing and commissary fees paid by military personnel and other defense related fees | 7,909 |
| Federal Employee and Retiree health and life insurance benefits | 4,104 |
| Pension Benefit Guaranty Corporation premiums and and other Department of Labor fees | 1,576 |
| Veterans insurance premiums and other fees | 1,595 |
| National flood insurance fund premiums | 1,108 |
| Bureau of Engraving and Printing and U.S. Mint fees | 1,086 |
| Patent and Trademark and fees | 641 |
| Other offsetting collections deposited in appropriations accounts | 6,580 |
| Subtotal, offsetting collections deposited in appropriations accounts | 90,141 |
| Total, offsetting collections | 129,556 |

(1) *Offsetting collections are budgeted as deductions against outlays, not as revenues. There are three main types of offsetting collections: user fees and other charges, proprietary receipts from the public, and intragovernmental transactions. Only the first two types of offsetting collections are exhibited here. Intragovernmental transactions are flows of money between budget funds or accounts.*

(2) *The distinction between receipts and offsetting collections is not always clear and the government sometimes changes the classification. Prior to the 1983 budget, for example, Medicare premiums paid into the supplementary medical insurance fund were classified as receipts; since then, they have been recorded as offsetting collections.*

(3) *The offsetting collections credited to appropriation accounts are usually available to be spent without any further action by Congress. Congress sometimes limits the amount of these collections that can be spent in a single year.*

**Source**: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Analytical Perspectives*, February 1998, Table 4-1, page 80.

The *gross federal debt* consists of monies borrowed from the public to finance the deficit and debt issued to federal government accounts that invest their surpluses as required by law. For FY1999, the gross federal debt is expected to exceed $5.7 trillion. Two-thirds of that amount—about $3.8 trillion—is *debt held by the public*; the remainder, about $1.9 trillion, is held by U.S. government accounts. Debt held by the public is an important measure in fiscal policy because of the large impact that federal borrowing has on credit markets and for other reasons. Federal borrowing competes in these markets with private borrowing and thereby influences interest rates. The issuance of federal debt to government accounts, on the other hand, does not have the same economic effects.

At the end of World War II, the federal debt exceeded 100% of GDP. Over the next several decades, this figure steadily declined. Economic disruptions during the late 1970s, and the burgeoning deficits of the 1980s, reversed this decline and caused the federal debt to grow significantly. As a consequence, interest payments on the public debt escalated to over $350 billion by the end of the 1990s (net interest costs, which deduct interest earned by government trust funds, rose to more than $240 billion). The realization of projected surpluses may cause the debt held by the public, and associated interest payments, to decline markedly in future years. Nonetheless, the gross federal debt will continue to increase as trust fund surpluses (particularly for the Social Security trust funds) are invested in Treasury securities.

Nearly all of the federal debt has been issued by the Treasury Department, but a small portion of it has been issued by other federal agencies. The latter is referred to as *agency debt*.

Virtually all federal borrowing is subject to a statutory limit. The Second Liberty Bond Act of 1917 established the current framework, under which the statutory limit on the public debt is adjusted periodically by legislative action. Congress has revised the nature of the debt limit over the years, including temporary limits, permanent limits, combinations of temporary and permanents limits, and limitations by dollar amount and time (*i.e.*, expiration dates).

The House and Senate may use any one of three distinct procedures to develop debt-limit legislation: (1) regular legislative procedures; (2) the House's Gephardt rule; and (3) the reconciliation process. For decades, the usual practice was for the House to originate a bill increasing the debt limit (the House Ways and Means Committee and the Senate Finance Committee have jurisdiction over such measures), which the House and Senate considered under regular legislative procedures. Such measures often attracted controversy, affording Members an opportunity to register their dissatisfaction with various facets of budgetary and economic policy. In the Senate, significant nongermane issues sometimes were added by amendment. Debt-limit measures sometimes were defeated, bringing the federal government to the brink of default. In some instances, a series of short-term laws raising the debt limit was enacted before the impasse on the matter was broken.

In 1979, the House added a new rule, Rule XLIX (commonly referred to as the Gephardt rule, after its sponsor, Representative Richard Gephardt) in an effort to make debt-limit adjustment an automatic extension of congressional action on the budget resolution. (Although the appropriate levels of the public debt for each fiscal

year are set forth as one of the required elements in the budget resolution, a statute must be enacted subsequently to actually increase the debt limit.) The Gephardt rule provides that upon the adoption by Congress of the conference report on a budget resolution, the clerk of the House automatically engrosses and transmits to the Senate a joint resolution containing a debt-limit increase consistent with the budget resolution; the measure is deemed to have passed the House by the same vote by which the House agreed to the conference report on the budget resolution.

The Senate did not adopt any special procedures for the consideration of debt-limit measures. Although several joint resolutions originating under the Gephardt rule were enacted into law during the 1980s, these measures usually were subject to full debate in the Senate and during House-Senate conference action. Beginning in the 104th Congress, the House decided to no longer use procedures under the Gephardt rule to originate debt-limit measures.

In recent years, the House and Senate have incorporated debt-limit increases into omnibus budget reconciliation bills and other types of measures (see **Exhibit 5-E**). Permanent increases in the debt limit were included in the omnibus budget reconciliation bills in 1990, 1993, and 1997 that were enacted to implement the terms of budget summit agreements reached between the President and Congress.

**Exhibit 5-E.**
**Increases in the Statutory Debt Limit During the 1990s**

| Date | Type of Act | Nature of increase | Limit ($ trillions) |
|---|---|---|---|
| 08-09-90 | Debt-limit Increase | Temporary increase | 3.195 |
| 10-02-90 | Debt-limit Increase | Temporary increase | 3.195 |
| 10-09-90 | Continuing Resolution | Temporary increase | 3.195 |
| 10-19-90 | Continuing Resolution | Temporary increase | 3.195 |
| 10-25-90 | Continuing Resolution | Temporary increase | 3.195 |
| 10-28-90 | Continuing Resolution | Temporary increase | 3.230 |
| 11-05-90 | Omnibus Reconciliation | Permanent increase | 4.145 |
| 04-06-93 | Debt-limit Increase | Temporary increase | 4.370 |
| 08-10-93 | Omnibus Reconciliation | Permanent increase | 4.900 |
| 02-08-96 | Timely Payment of Soc. Security Benefits | Temporary exemption for certain borrowing | —- |
| 03-12-96 | Timely Payment of Soc. Security Benefits | Temporary exemption for certain borrowing | —- |
| 03-29-96 | Contract with America | Permanent increase | 5.500 |
| 08-05-97 | Omnibus Reconciliation | Permanent increase | 5.950 |

(1) *This exhibit lists the 11 debt-limit measures enacted so far during the 1990s, which raised the limit by $2.755 trillion over seven years. (In addition, two measures were enacted in 1996 to exempt Treasury borrowing to ensure the timely payment of Social Security benefits.)*

(2) *Various types of acts were used to raise the debt limit, including simple debt-limit measures, continuing resolutions, and budget reconciliation acts.*

(3) *In 1990, six short-term increases were enacted while Congress and the President concluded budget summit negotiations. During the 1990s, reconciliation acts have been the main vehicle for permanent increases.*

**Source**: Table prepared by the Congressional Research Service from information in: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999, Historical Tables*, February 1998, Table 7.3, pages 115-116.

# Chapter 6. Authorizations and Direct Spending

The rules of the House and Senate contemplate a two-step process for establishing and funding federal agencies and programs. First, Congress enacts legislation authorizing an agency or program; then, it makes appropriations for the authorized purpose. While the rules have certain exceptions and are sometimes waived or not enforced, they delineate the basic functions of authorizing legislation and appropriations measures. (This chapter discusses the authorizations process; the next one describes the appropriations process.)

Congress bypasses the usual two-step funding process for some agencies and programs. In these cases, the legislative committees exercise jurisdiction over the legislation that controls spending. This type of spending is referred to as *direct spending* (also called *mandatory spending*); it is distinguished from *discretionary spending*, which is controlled through the annual appropriations process. At present, roughly two-thirds of all spending in the federal budget is direct spending and it is growing at a faster rate than discretionary spending.

Direct spending is used primarily, but not exclusively, to fund entitlement programs such as Social Security, Medicare, federal employees' retirement and disability programs, and unemployment compensation. Most entitlement funding is provided automatically each year under permanent appropriations in substantive law. Some direct spending programs, such as Medicaid, are funded in annual appropriations acts each year, but the spending levels effectively are controlled in the substantive legislation establishing the entitlement. Legislative committees sometimes report hybrid legislation that commingles authorizing provisions and direct spending provisions.

## The Authorization Process

Authorizing legislation has a dual purpose: (1) it is the means by which Congress establishes policy and exercises control of federal agencies, and (2) it provides the authority under House and Senate rules for Congress to appropriate funds. Accordingly, an authorization act is legislation that both establishes, continues, or modifies an agency or program, and authorizes the enactment of appropriations for that agency or program. Authorizing legislation establishes the terms and conditions under which each agency operates. This type of legislation typically sets forth the responsibilities of agency officials and often specifies the agency's organizational structure. The basic purposes of authorizations acts are illustrated in **Exhibit 6-A**.

## Exhibit 6-A.
## Basic Purposes of Authorizations Acts

An Act
To reauthorize the Sea Grant Program
* * * * * *

**Sec. 5. National Sea Grant College Program.**

Section 204 (33 U.S.C. 1123) is amended to read as follows:

"Sec. 204. National Sea Grant College Program.

"(a) Program Maintenance.—The Secretary shall maintain within the Administration a program to be known as the national sea grant college program. The national sea grant college program shall be administered by a national sea grant office within the Administration.

"(c) Responsibilities of the Secretary.—

"(1) The Secretary, in consultation with the panel, sea grant colleges, and sea grant institutes, shall develop a long-range strategic plan which establishes priorities for the national sea grant college program and which provides an appropriately balanced response to local, regional, and national needs....

"(d) Director of the National Sea Grant College Program.—

"(1) The Secretary shall appoint, as the Director of the National Sea Grant College Program, a qualified individual...The Director shall be appointed and compensated...at a rate payable under section 5376 of title 5, United States Code...

**Sec. 9. Authorization of Appropriations.**

(a) Grants, Contracts, and Fellowships.—Section 212(a) (33 U.S.C. 1131(a)) is amended to read as follows:

"(a) Authorization.—

"(1) In General.—There is authorized to be appropriated to carry out this Act—

"(A) $56,000,000 for fiscal year 1999;
"(B) $57,000,000 for fiscal year 2000;
"(C) $58,000,000 for fiscal year 2001;
"(D) $59,000,000 for fiscal year 2002; and
"(E) $60,000,000 for fiscal year 2003.

(1) *These excerpts from a recent law illustrate some of the basic purposes of authorizations: to establish federal agencies or programs and to set forth their duties and functions (in Section 5 of the act) and to provide an authorization of appropriations (in Section 9).*

(2) *This multi-year reauthorization extends authorized amounts for five fiscal years. Because these authorizations are for specific fiscal years, Congress will have to pass a new authorization for FY2004 and beyond so that the consideration of appropriations for those fiscal years will be in order.*

(3) *The funds mentioned here can be spent only to the extent provided in appropriations.*

**Source**: Public Law 105-160, National Sea Grant College Program Reauthorization Act of 1998, March 6, 1998 (112 *Stat*. 21-27).

Authorizations also define committee jurisdictions in Congress. Most House and Senate committees are authorizing committees with jurisdiction over designated programs or activities. Most of what these committees do revolves around their authorizing responsibilities. The legislation they produce defines the relationship between these committees and the Appropriations Committees. Authorizing legislation often establishes the financial boundaries within which appropriations are made.

Authorizations represent the exercise by Congress of its legislative power. (At one time, what is now termed an "authorization" was referred to simply as "legislation.") In the exercise of its legislative powers, Congress can place just about any type of provision (other than appropriations or revenue provisions) in authorizing legislation. It can prescribe what an agency must do or may not do in the performance of its assigned responsibilities. It can give the agency a broad grant of authority or legislate in great detail. There is no uniform structure or format for authorizing legislation. However, virtually all contemporary authorization measures contain one or more provisions authorizing funds to be appropriated for designated purposes.

**House and Senate Rules.** House Rule XXI and Senate Rule XVI establish the basic relationship between authorizations and appropriations (see **Box 6-A**).

House rules do not expressly require authorizations; they bar unauthorized appropriations. Under Clause 2(a) of House Rule XXI, before the House can consider most appropriations measures, the purposes for which the money is to be provided have to be authorized in law. The House sometimes waives the rule against unauthorized appropriations by adopting a special rule before taking up an appropriations bill. The rule applies only to general appropriations bills. Under the precedents of the House, a continuing appropriations act is not deemed to be a general appropriations bill; hence, it can fund unauthorized programs.

House Rule XXI also bars legislative provisions in general appropriations bills. Changes in existing law constitute new legislation and are proscribed by Clauses 2(b) and (c) of the rule. (Clause 5(a) of the rule, shown in **Box 7-A**, contains a parallel provision that bars the insertion of appropriations into authorizing legislation.) The rule makes an exception for germane provisions which retrench expenditures; this exception, known as the "Holman Rule," was devised in the 1870s but rarely is used anymore.

Senate Rule XVI (in Paragraph 1) bars unauthorized appropriations as well, but it allows many exceptions. As a consequence, the House is much stricter in its enforcement of the rule. Unlike the House, Senate rules do not bar appropriations in authorizing legislation.

Legislation in appropriations also is prohibited by Senate Rule XVI (in Paragraphs 2 and 4). However, during the Senate's consideration of a supplemental appropriations bill in 1995, the chair's ruling that a particular amendment offered by a Senator was out of order as legislation was overturned by the full Senate. The Senate has not enforced this portion of the rule since that time.

**Box 6-A.**
**House and Senate Rules on Authorizing Legislation**

**House Rule XXI, Clause 2(a) and (b)**

(a) No appropriation shall be reported in a general appropriation bill, or shall be in order as an amendment thereto, for any expenditure not previously authorized by law, except to continue appropriations for public works and objects which are already in progress.

(b) No provision changing existing law shall be reported in a general appropriation bill, including a provision making the availability of funds contingent on the receipt or possession of information not required by existing law for the period of the appropriation, except germane provisions that retrench expenditures by the reduction of amounts of money covered by the bill, which may include those recommended to the Committee on Appropriations by direction of a legislative committee having jurisdiction over the subject matter thereof, and except rescissions of appropriations contained in appropriation Acts.

**Senate Rule XVI, Paragraphs 1 and 2**

1. On a point of order made by any Senator, no amendments shall be received to any general appropriation bill the effect of which will be to increase an appropriation already contained in the bill, or to add a new item of appropriation, unless it be made to carry out the provisions of some existing law, or treaty stipulation, or act or resolution previously passed by the Senate during that session; or unless the same be moved by direction of the Committee on Appropriations or of a committee of the Senate having legislative jurisdiction of the subject matter, or proposed in pursuance of an estimate submitted in accordance with law.

2. The Committee on Appropriations shall not report an appropriation bill containing amendments to such bill proposing new or general legislation or any restriction on the expenditure of the funds appropriated which proposes a limitation not authorized by law if such restriction is to take effect or cease to be effective upon the happening of a contingency, and if an appropriation bill is reported to the Senate containing amendments to such bill proposing new or general legislation or any such restriction, a point of order may be made against the bill, and if the point is sustained, the bill shall be recommitted to the Committee on Appropriations.

**The Relationship of Authorizations and Appropriations.** It is a basic rule of federal law that funds provided in appropriations acts are to be spent according to the terms set in authorizing legislation. The ideal division of labor between these two types of enactments would be for the appropriations act to determine the amounts available for expenditure and the authorization act to determine the purposes for which the funds are to be used. In practice, however, the relationship is not so clear cut. Some authorization acts provide budget authority and some appropriations acts contain substantive provisions affecting the use of available resources.

***Permanent Versus Temporary Authorizations.*** An authorization is presumed to be permanent unless the authorizing law limits its duration. Most of the provisions in an authorizing statute pertaining to the operations of the affected agency are permanent, although some may be effective only for a single fiscal year or other period of time. The permanent provisions continue in effect year after year, until such

time as they are terminated or revised by new authorizing legislation. In many areas of federal activity, therefore, there is no need for Congress to consider new authorizing legislation each year.

The portion of authorization law which provides the authority under House and Senate rules for Congress to make appropriations often is limited in its period of effectiveness. These "authorized to be appropriated" provisions can be classified into three categories, depending on their duration. *Permanent authorizations* do not have any time limit and continue in effect until they are changed by Congress. An agency having a permanent authorization need only obtain appropriations to continue in operation. *Annual authorizations* are for a single year and, usually, for a fixed amount of money. These authorizations have to be renewed each year. Strictly speaking, all Congress has to do is to extend the "authorized to be appropriated" language for another fiscal year, but in the course of doing so it often makes other changes in authorizing law. *Multi-year authorizations* are typically in effect for a two- to five-year period and have to be renewed when they expire. (**Exhibit 6-B** provides examples of the three types of authorizations.)

Until the 1950s, virtually all authorizations were permanent. Since then, however, there has been a trend toward temporary (annual or multi-year) authorizations. The shift from permanent to temporary authorizations can be mandated either by law or by the rules of the House or Senate, as shown in **Exhibit 6-C**.

There are two main reasons for the trend to temporary authorizations, corresponding to the two functions of authorizing legislation identified earlier in this chapter. First, an annual or multi-year authorization act gives Congress frequent opportunities to review an agency's activities and to make such changes in law as it deems appropriate. Congress is likely to seek additional control when it lacks confidence in the agency. Second, temporary authorizations enhance the influence of authorizing committees in Congress, especially with respect to the amounts subsequently appropriated to affected agencies.

This influence arises out of a feature of temporary authorizations which generally distinguish them from permanent ones. While permanent authorizations rarely specify amounts of money, temporary authorizations usually do. In fact, some of these authorizations have become quite detailed in specifying amounts that are authorized to be appropriated for particular activities. Although the amount appropriated does not have to conform to the authorized level—under the rules, the appropriation can be as much as or less than the authorized amount—there often is a close correspondence between the authorized and appropriated amounts. This is particularly true for annually-authorized programs. Inasmuch as the annual authorization normally is enacted first, it directly influences the amount subsequently provided in the appropriations act.

**Exhibit 6-B.**
**Types of Discretionary Authorizations**

**Annual**

National Defense Authorization Act for Fiscal Year 1998

Sec.101. Army.

Funds are hereby authorized to be appropriated for fiscal year 1998 for procurement for the Army as follows:

(1) For aircraft, $1,316,233,000.
(2) For missiles, $742,639,000.
(3) For weapons and tracked combat vehicles, $1,297,641,000.
(4) For ammunition, $1,011,193,000.
(5) For other procurement, $2,566,208,000.

**Multi-Year**

Birth Defects Prevention Act of 1998

(f) Authorization of Appropriations.—For the purpose of carrying out this section, there are authorized to be appropriated $30,000,000 for fiscal year 1999, $40,000,000 for fiscal year 2000, and such sums as may be necessary for each of the fiscal years 2001 and 2002.

**Permanent**

Individuals With Disabilities Education Act

(j) Authorization of Appropriations.—For the purpose of carrying out this part, other than section 619, there are authorized to be appropriated such sums as may be necessary.

*(1) The three examples on this page are of discretionary authorizations; budget authority is provided in annual appropriations acts.*

*(2) Annual authorizations are renewed every year (unless Congress terminates the program or makes unauthorized appropriations). They usually specify the amount authorized for the fiscal year.*

*(3) Multi-year authorizations typically cover five fiscal years or less, with amounts specified for each year, and often authorize escalating amounts for successive years. This four-year authorization doesn't specify authorized levels for the last two fiscal years covered.*

*(4) A permanent authorization has no time limit; no fiscal year is specified. It usually is open-ended (without dollar limits) and authorizes "such sums as may be necessary."*

**Source**: Annual, Public Law 105-85, November 18, 1997 (111 *Stat*. 1629-2078); multi-year, Public Law 105-168, April 21, 1998 (112 *Stat*. 43-45); and permanent, Public Law 105-17, June 4, 1997 (111 *Stat*. 37-157).

## Exhibit 6-C.
## Reauthorization Requirements

**Bar Against Obligation**

(a)(1) Notwithstanding any provision of law enacted before October 26, 1974, no money appropriated to the Department of State under any law shall be available for obligation or expenditure with respect to any fiscal year commencing on or after July 1, 1972 -

(A) unless the appropriation thereof has been authorized by law enacted on or after February 7, 1972; or

(B) in excess of an amount prescribed by law enacted on or after such date.

**Bar Against Appropriation**

9. Subject to the rules of the House, no funds shall be appropriated for any fiscal year, with the exception of a continuing bill or resolution continuing appropriations, or amendment thereto, or conference report thereon, to, or for use of, any department or agency of the United States to carry out any of the following activities, unless such funds shall have been previously authorized by a bill or joint resolution passed by the House during the same or preceding fiscal year to carry out such activity for such fiscal year:

(a) The activities of the Central Intelligence Agency and the Director of Central Intelligence.

(b) The activities of the Defense Intelligence Agency.

(c) The activities of the National Security Agency.

(d) The intelligence and intelligence-related activities of other agencies and subdivisions of the Department of Defense...

*(1) Some requirements of prior authorization, such as for the State Department, are enacted into law; others, such as for the intelligence agencies, are prescribed by the rules of the House or Senate. The effect on congressional operations is about the same in both cases.*

*(2) Congress often enacts appropriations for ongoing programs whose temporary authorizations have expired. Agencies usually may spend unauthorized appropriations, but sometimes their availability is affected by a statutory requirement for prior authorization.*

*(3) Because this statutory provision bans the obligation of funds, the State Department would not be able to use unauthorized appropriations unless the appropriations act expressly waived this prohibition.*

*(4) This provision requires annual authorization of intelligence activities, in contrast to the language shown above for the State Department which does not specify the period for which authorization shall be made.*

**Source**: 22 *U.S.C.* 2680(a); House Rule XLVIII, Clause 9.

Congress sometimes sets aside its rules and makes unauthorized appropriations. (An appropriation in excess of the authorized amount is also deemed to be unauthorized.) In most such cases, the full appropriation is available for expenditure, except when a law prohibits the obligation or expenditure of such unauthorized funds. Congress rarely makes an unauthorized appropriation for a new program, concerning which no authorizing law has been enacted. The typical unauthorized appropriation occurs because the "authorized to be appropriated" provision has not been renewed. In these instances, the agency receiving the unauthorized appropriation is subject to the permanent law governing its operations.

***Means of Influencing Appropriations.*** The authorizations discussed thus far do not permit agencies to incur obligations or spend money; the authorized funds are available only to the extent provided in appropriations acts. These conventional (or discretionary) authorizations cover less than half of the funds spent each year by the federal government. Although discretionary authorizations do not provide budget authority, they often influence the amount of funds subsequently appropriated or the activities on which funds are spent. One means of influence is to earmark funds in authorizing legislation, in the manner displayed in **Exhibit 6-D**. Earmarking has become more prevalent and more detailed in recent years and it has sometimes resulted in conflicts between the priorities spelled out in authorizing legislation and the priorities sought by the Appropriations Committees.

Congress sometimes inserts "appropriations forcing" provisions in authorizing legislation. In these cases, the funds are provided in appropriations acts, but under circumstances that either give the Appropriations Committees little flexibility in the matter or induces them to provide the desired funds. In some instances, the authorization bars the use of funds for one purpose unless a minimum amount is appropriated for another purpose. The Appropriations Committees do not have to provide the minimum amount, but if they fail to do so, funds provided may then remain unused. This and other appropriations-forcing techniques are used by authorizing committees when their spending priorities differ from those of the Appropriations Committees.

## Direct Spending

As mentioned at the opening of this chapter, a sizeable portion of the budgetary resources spent by the federal government is provided or controlled by laws under the jurisdiction of the legislative committees rather than the Appropriations Committees. Spending of this type is referred to as *direct spending*. (Section 250 of the 1985 Balanced Budget Act defines the term to mean three things: (1) budget authority provided by law other than appropriation acts; (2) entitlement authority; and (3) the Food Stamp program.) Such budgetary resources are either provided directly by substantive law, or are effectively controlled by the substantive law but provided in annual appropriation acts.

**Exhibit 6-D.**
**Earmarking and Other Features of Authorizations**

**Sec. 102. Authorization of Appropriations.**

(a) Fiscal Year 1998—

(1) In General—There are authorized to be appropriated to the Foundation $3,505,630,000 for fiscal year 1998.

(2) Specific Allocations—Of the amount authorized under paragraph (1)—

(A) $2,576,200,000 shall be made available to carry out Research and Related Activities, of which—

(i) $370,820,000 shall be made available for Biological Sciences;

(ii) $289,170,000 shall be made available for Computer and Information Science and Engineering;

(iii) $360,470,000 shall be made available for Engineering;

(iv) $455,110,000 shall be made available for Geosciences;

(v) $715,710,000 shall be made available for Mathematical and Physical Sciences;

(vi) $130,660,000 shall be made available for Social, Behavioral, and Economic Sciences, of which up to $1,000,000 may be made available for the United States-Mexico Foundation for Science; ...

**Sec. 103. Proportional Reduction of Research and Related Activities Amounts.**

If the amount appropriated pursuant to section 102(a)(2)(A) or (b)(2)(A) is less than the amount authorized under that paragraph, the amount available for each scientific directorate under that paragraph shall be reduced by the same proportion.

*(1) Some authorizations measures—such as this one for the National Science Foundation (NSF)—contain earmarked amounts for specific areas or programs. When this occurs, conflicts can arise between the amounts authorized and appropriated for particular programs.*

*(2) Authorizations measures that earmark amounts sometimes contain "proportionality language" to maintain the authorizing committee's priorities when less than the full amounts authorized are appropriated. Each authorized category is reduced to its pro-rata share of the total authorization.*

*(3) Earmarked authorizations sometimes are accompanied by flexibility to shift funds among programs. This discretion usually has a percentage limitation and a requirement that relevant congressional committees be informed of the action. These shifts are comparable to "reprogrammings" (discussed in Chapter 8).*

**Source**: Public Law 105-207, the National Science Foundation Authorization Act of 1998, July 29, 1998 (112 *Stat*. 869-878).

There are several types of direct spending, the most prominent of which is *entitlement authority*—provisions of law that mandate payments to eligible recipients. Direct spending also includes *borrowing authority* (provisions authorizing agencies to spend borrowed funds), *contract authority* (provisions authorizing agencies to enter into obligations), and *authority to forgo offsetting receipts* (provisions authorizing agencies not to collect certain user fees or other charges). The 1974 Congressional Budget Act bars Congress—with certain exceptions—from considering new contract authority or new borrowing authority unless it is made effective only to the extent provided in appropriations acts. This bar does not apply to entitlements. (Examples of contract, borrowing, and entitlement authority appear in **Exhibits 6-E** and **6-F**.)

Although entitlements are established in authorizing legislation, the rules and procedures for them are somewhat different than for discretionary authorizations. Entitlements are laws that give eligible recipients (usually persons, but sometimes governments) a legal right to payments from the federal government. The federal government is obligated to make these payments, even if the budget does not provide sufficient funds for them. Most entitlement laws are open-ended; they do not specify or limit the total to be spent. Instead, the law typically spells out eligibility criteria and establishes a formula for computing the size of payments. The total spent depends on the number of eligible persons and the amount each is entitled to receive. Some entitlements (such as Social Security) have permanent appropriations; the necessary funds become available without annual action by Congress. Other entitlements (such as veterans' pensions) go through the annual appropriations process, though Congress does not really control them at this stage. If the amount appropriated does not suffice, Congress will have to provide a supplemental appropriation.

The 1974 Congressional Budget Act bars the House and Senate from considering entitlement legislation until the budget resolution for the next fiscal year has been adopted. This sequence enables Congress to determine whether the new entitlement is consistent with the spending policies adopted in the budget resolution. Congress makes this determination principally by means of the Section 302 procedures discussed in Chapter 4. That is, it determines whether the estimated cost of the entitlement legislation is within the amounts allocated to the committees of jurisdiction pursuant to Section 302 of the 1974 Congressional Budget Act.

The BEA regulates the enactment of new entitlements and other direct spending by means of a pay-as-you-go (PAYGO) process intended to ensure that such legislation does not increase the deficit. (The PAYGO process is discussed more fully in Chapter 2.) In general, PAYGO requires that legislation increasing direct spending or reducing revenues be offset by reductions in other direct spending or increases in revenues or a sequester of certain direct spending programs will occur.

Several years ago, the Senate adopted (as part of a budget resolution) a "pay-as-you-go" point of order that requires direct spending and revenue legislation to be deficit-neutral over a 10-year period. This provision, which augments the statutory PAYGO process, can only be waived by a three-fifths vote of the Senate and expires at the end of FY2002.

## Exhibit 6-E.
## Borrowing and Contract Authority

### Borrowing Authority

Act title

Sec. 1304. (a) The Panama Canal Commission may borrow from the Treasury, for any of the purposes of the Commission, not more than $100,000,000 outstanding at any time. For this purpose, the Commission may issue to the Secretary of the Treasury its notes or other obligations...

### Contract Authority

Transportation Equity Act for the 21st Century

Sec. 3029. Authorizations.

(a) In General.—Section 5338 is amended to read as follows:

``Sec. 5338. Authorizations

``(a) Formula Grants.—

``(1) Fiscal year 1998.—

``(A) From the trust fund.—There shall be available from the Mass Transit Account of the Highway Trust Fund to carry out sections 5307, 5310, and 5311, $2,260,000,000 for fiscal year 1998.

* * * * * *

``(g) Grants as Contractual Obligations.—

``(1) Grants financed from the highway trust fund.—A grant or contract approved by the Secretary, that is financed with amounts made available under subsection (a)(1)(A),...or (f)(2)(A) is a contractual obligation of the United States Government to pay the Government's share of the cost of the project.

*(1) Borrowing authority permits an agency (such as the Panama Canal Commission) to borrow funds from the Treasury Department or the public. Borrowing authority often is in the form of a revolving fund, with payment of old debt replenishing an agency's authority to borrow. The 1974 Congressional Budget Act requires that new borrowing authority be effective only to the extent provided in appropriations acts.*

*(2) Contract authority permits an agency to incur obligations in advance of appropriations. The 1974 Congressional Budget Act requires that new contract authority be effective only to the extent provided in appropriations acts. However, it exempts self-financed trust funds (such as the Highway Trust Fund) from this requirement.*

*(3) "Shall be available" language has the effect of providing the funds to an agency, even when the language appears (as it does here) in authorizing legislation.*

**Source**: Borrowing authority, Section 5424 of Public Law 100-203, December 22, 1987 (101 *Stat*. 1330-273); contract authority, Public Law 105-178, June 9, 1998 (112 *Stat*. 107-509).

## Exhibit 6-F.
## Entitlement Authority

**Permanent Appropriation**

Sec. 8348. Civil Service Retirement and Disability Fund

(a) There is a Civil Service Retirement and Disability Fund. The Fund—

(1) is appropriated for the payment of—

(A) benefits as provided by this subchapter or by the provisions of chapter 84 of this title which relate to benefits payable out of the Fund; and

(B) administrative expenses incurred by the Office of Personnel Management in placing in effect each annuity adjustment granted under section 8340 or 8462 of this title, ...;

(2) is made available, subject to such annual limitation as the Congress may prescribe, for any expenses incurred by the Office in connection with the administration of this chapter, chapter 84 of this title, and other retirement and annuity statutes; and...

**Annual Appropriation**

Payments to Health Care Trust Funds

For payment to the Federal Hospital Insurance and the Federal Supplementary Medical Insurance Trust Funds, as provided under sections 217(g) and 1844 of the Social Security Act, sections 103(c) and 111(d) of the Social Security Amendments of 1965, section 278(d) of Public Law 97-248, and for administrative expenses incurred pursuant to section 201(g) of the Social Security Act, $60,904,000,000.

(1) *Entitlement authority stems from provisions in law that mandate payments to eligible beneficiaries. Entitlement laws usually set forth eligibility criteria and a schedule of benefit payments. Some entitlements are funded by permanent appropriations and others are funded by annual appropriations.*

(2) *The entitlement for Civil Service retirement and disability pay has a permanent appropriation. All receipts of the trust fund become available for expenditure without further action by Congress. Hence, the receipts of the trust fund are classified as budget authority.*

(3) *Congress sometimes places limits in annual appropriations acts (not shown here) on the administrative expenses that can be incurred in a fiscal year for programs financed by permanent appropriations.*

(4) *This entitlement (for a portion of the Medicare program) is financed by annual appropriations. In the case of such provisions, called "appropriated entitlements," the Appropriations Committees regularly provide the funds mandated by law.*

**Source**: 5 *U.S.C.* 8348(a); Public Law 105-78, Labor-HHS-Education Appropriations Act for Fiscal Year 1998, November 13, 1997 (111 *Stat*. 1467-1526).

Because entitlements usually are established in permanent law, the only way for Congress to modify these spending levels is to change the laws establishing entitlements. Congress frequently relies on the reconciliation process (see Chapter 4) to make such changes in law.

Direct spending legislation may authorize a federal agency to make or guarantee loans. The Federal Credit Reform Act of 1990 made significant changes in budgeting for direct and guaranteed loans. (These changes are discussed in Chapter 2.)

7. Annual Appropriations

An appropriations act is a law passed by Congress that provides federal agencies legal authority to incur obligations and the Treasury Department authority to make payments for designated purposes. Appropriations provide budget authority—that is, authority to obligate funds—to agencies. Appropriations measures, as explained in the previous chapter, are distinct from authorizing and direct spending legislation and are a principal, but not the only, means of providing budget authority.

The power of appropriation is part of Congress's constitutional "power of the purse" (see **Box 1-A**). Article I, Section 9 of the Constitution states in part that "[n]o money shall be drawn from the Treasury but in consequence of appropriations made by law." The power to appropriate is exclusively a legislative power; it functions as a limitation on the executive branch. An agency may not spend more than the amount appropriated to it, and it may use available funds only for the purposes and according to the conditions provided by Congress. In contemporary times, appropriations also have been viewed as mandates that the funds be used to carry out the activities intended by Congress.

The Constitution does not require annual appropriations, but since the First Congress the practice has been to make appropriations for a single fiscal year. Appropriations must be used (obligated) in the fiscal year for which they are provided, unless the law provides that they shall be available for a longer period of time. All provisions in an appropriations act, such as limitations on the use of funds, expire at the end of the fiscal year, unless the language of the act extends their period of effectiveness.

In the federal government, an appropriation makes funds available for obligation; it does not usually require that outlays be made in any particular fiscal year. This is in contrast to the practices of most state and local governments, which have outlay-based appropriations; the amount provided is the amount to be paid out during the fiscal year. In the federal government, outlays often ensue years after the appropriations are obligated. (The relationship between budget authority provided in appropriations acts and annual outlays is explained in Chapter 1.)

The Constitution does not specify the form in which appropriations shall be made. Established practice predating the Constitution, and recognized in the rules of the House and Senate, provides for appropriations to be made in appropriations acts that are distinct from other types of legislation. This distinction was discussed in the previous chapter and is reflected in Rule XXI of the House and Rule XVI of the Senate, which deal with "general appropriation bills."

**Box 7-A** presents excerpts from House Rule XXI and Senate Rule XVI. As previously noted, these rules establish a two-step authorizations-appropriations process (and should be read in tandem with **Box 6-A**). Clause 5(a) of House Rule XXI bars appropriations in authorizing legislation; it is sometimes waived by the House to permit the inclusion of permanent appropriations in authorizing legislation. Senate Rule XVI bars unauthorized appropriations and legislation in appropriations. Paragraph 4 of the rule, for example, prohibits Senators from offering floor amendments to general appropriations bills that are legislative. In 1995, however, during Senate consideration of a supplemental appropriations bill, the chair's ruling that a particular amendment offered by a Senator was out of order as legislation was

**Box 7-A.**
**Appropriations Jurisdiction:**
**House and Senate Rules**

**House Rule XXI, Clause 5(a)**

No bill or joint resolution carrying appropriations shall be reported by any committee not having jurisdiction to report appropriations, nor shall an amendment proposing an appropriation be in order during the consideration of a bill or joint resolution reported by a committee not having that jurisdiction. A question of order on an appropriation in any such bill, joint resolution, or amendment thereto may be raised at any time.

**Senate Rule XVI, Paragraph 4**

On a point of order made by any Senator, no amendment offered by any other Senator which proposes general legislation shall be received to any general appropriation bill, nor shall any amendment not germane or relevant to the subject matter contained in the bill be received; nor shall any amendment to any item or clause of such bill be received which does not directly relate thereto; nor shall any restriction on the expenditure of funds appropriated which proposes a limitation not authorized by law be received if such restriction is to take effect or cease to be effective upon the happening of a contingency; and all questions of relevancy of amendments under this rule, when raised, shall be submitted to the Senate and be decided without debate; and any such amendment or restriction to a general appropriation bill may be laid on the table without prejudice to the bill.

overturned by the full Senate. As a consequence of the Senate's action, this portion of Rule XVI has not been enforced since that time.

The President requests annual appropriations in his budget submitted in January or February of each year. The President's budget displays, for each account, the appropriation language for the current fiscal year, and the proposed text for the next fiscal year. In support of the President's appropriations requests, agencies submit justification materials to the House and Senate Appropriations Committees. These materials provide considerably more detail than is contained in the President's budget and are used in support of agency testimony during Appropriations subcommittee hearings on the President's budget.

## Types of Appropriations Measures

Congress passes three main types of appropriations measures. *Regular appropriations* acts provide budget authority to agencies for the next fiscal year. *Supplemental appropriations* acts provide additional budget authority during the current fiscal year when the regular appropriation is insufficient or to finance activities not provided for in the regular appropriation. *Continuing appropriations* acts, also called *continuing resolutions*, provide stop-gap (or full-year) funding for agencies that have not received a regular appropriation. **Exhibit 7-A** lists the various types of appropriations measures considered in a recent session of Congress.

House Rule XXI and Senate Rule XVI pertain only to *general appropriations bills*. For purposes of these rules, all regular appropriations bills, as well as supplemental appropriations measures covering two or more agencies or purposes, are considered to be general appropriation bills. The House and Senate usually do not consider supplemental appropriations for a single agency or purpose to be general appropriation bills (nor does the House consider continuing appropriations to be general appropriation bills). Hence, the restrictions in these House and Senate rules do not apply to certain appropriations. In fact, Congress often inserts legislation into continuing appropriations acts. Moreover, the House often waives Rule XXI with respect to particular appropriations measures, and the Senate sometimes chooses not to enforce Rule XVI.

In a typical session, Congress acts on more than 15 appropriations measures. Thirteen of these are regular appropriations bills. Jurisdiction over these measures is vested in the House and Senate Appropriations Committees, each of which is divided into 13 parallel subcommittees. Each set of subcommittees has jurisdiction over one of the regular appropriations bills. After the House and Senate have considered each of these bills separately, the House and Senate Appropriations Committees sometimes consolidate all or some of them into an omnibus measure.

Congress typically acts on one or more supplemental appropriations measures each year. The number and size of supplementals have declined in recent years, principally because of constraints imposed by the Budget Enforcement Act and congressional budget enforcement rules. Some supplemental appropriations, usually those prompted by an emergency such as a natural disaster, are for a single purpose. But at least one of the supplementals enacted during the session is likely to cover a multitude of activities.

Because of recurring delays in the appropriations process, Congress typically passes one or more continuing appropriations each year. The scope and duration of these measures depend on the status of the regular appropriations bills and the degree of budgetary conflict between the President and Congress. In some years, the final continuing appropriations has been turned into an omnibus measure for enactment of regular appropriations bills.

**Exhibit 7-A.**
**Types of Appropriations Measures**

| Number of bill | Title | Reported | Passed House | Passed Senate |
|---|---|---|---|---|
| H.R. 1469 | Emergency Supplemental, 1997 | Apr. 29 | May 15 | May 16 |
| H.R. 1871 | Emergency Supplemental, 1997 | ——— | June 12 | June 12 |
| H.R. 2016 | Military Construction, 1998 | June 24 | July 8 | July 22 |
| H.R. 2107 | Interior, 1998 | July 1 | July 15 | Sept. 18 |
| H.R. 2158 | VA, HUD, 1998 | July 11 | July 16 | July 22 |
| H.R. 2159 | Foreign Assistance, 1998 | July 14 | Sept. 4 | Sept. 5 |
| H.R. 2160 | Agriculture, 1998 | July 14 | July 24 | Sept. 3 |
| H.R. 2169 | Transportation, 1998 | July 16 | July 23 | July 30 |
| H.R. 2203 | Energy and Water, 1998 | July 21 | July 25 | July 28 |
| * * * * * | * * * * * | * * * | * * * | * * * |
| H.J.Res. 94 | Continuing, 1998 | ——— | Sept. 29 | Sept. 30 |
| H.J.Res. 97 | Continuing, further, 1998 | ——— | Oct. 22 | Oct. 23 |
| H.J.Res. 101 | Continuing, further, 1998 | ——— | Nov. 7 | Nov. 7 |

*(1) Congress usually acts on three types of appropriations measures each year: (a) regular appropriations for the next fiscal year; (b) supplemental appropriations for the fiscal year in progress; and (c) continuing appropriations for programs and agencies lacking regular appropriations.*

*(2) Each appropriations measure has either an "H.R." (House of Representatives) or "H.J.Res." (House Joint Resolution) number, indicating that the measure originated in the House. (The Senate sometimes acts on its own appropriations measures up to the stage of final passage, when it then switches to the House-passed measure.)*

*(3) There is no substantive difference between a bill and a joint resolution. Joint resolutions are used for some supplemental, and usually all continuing, appropriations.*

*(4) There usually is only a brief interval from the time that an appropriations measure is reported and its consideration in the House. The House usually takes up regular appropriations bills in June and July, and the Senate usually follows suit in July, August (if it is in session), and September. This schedule does not usually enable Congress to complete action on all regular appropriations by the start of the fiscal year on October 1.*

*(5) Congress often passes more than one continuing appropriations measure during a session. The first such measures usually have an expiration date; hence, Congress must pass additional continuing resolutions if all regular appropriations measures have not yet been enacted. The last continuing resolution sometimes is in effect for the remainder of the fiscal year.*

**Source**: *Calendars of the United States House of Representatives*, 105th Congress, First Session.

Congress sometimes makes appropriations in substantive legislation (reported by an authorizing committee) rather than in appropriations acts. These usually are permanent appropriations which become available each year without current action by Congress. Because of the growth of permanent appropriations (for example, the Social Security trust funds and interest on the public debt), only about half of the budget authority available each year is in the jurisdiction of the Appropriations Committees. Moreover, a sizeable portion of the budget authority provided in annual appropriations acts is mandatory (principally for entitlements). The Appropriations Committees have effective discretion over about one-third of each year's total new budget authority.

## Appropriations Procedures in Congress

By precedent, appropriations originate in the House of Representatives. In the House, appropriations measures are originated by the Appropriations Committee (when it marks up or reports the measure) rather than being introduced by a Member beforehand. Appropriations bills do not have "H.R." or "H.J.Res." numbers until they are about to be reported by the committee, and they cannot generally be tracked in legislative databases until that point. **Exhibit 7-B** traces the path of an appropriations act through the House and Senate.

Before the full committee acts on the bill, it is considered in the relevant Appropriations subcommittee. The House subcommittees typically hold extensive hearings on appropriations requests shortly after the President's budget is submitted. In marking up their appropriations bills, the various subcommittees are guided by the discretionary spending limits established by the Budget Enforcement Act and the allocations made to them under Section 302 of the 1974 Congressional Budget Act. The discretionary spending limits (which are more fully discussed in Chapter 2) set limits on budget authority and outlays for broad categories of spending. Inasmuch as all discretionary spending is in the jurisdiction of the Appropriations Committees, the caps limit the amount that these committees can provide in annual appropriations measures.

Specific dollar limitations on appropriations also are set, following the adoption of a budget resolution, by the process under Sections 302 of the 1974 Congressional Budget Act discussed in Chapter 4. Pursuant to this process, the House and Senate Appropriations Committees receive total spending allocations, which they subdivide among their 13 subcommittees. When an appropriations bill is reported, the spending provided in it is compared to the amount allocated or subdivided to the relevant subcommittee.

In acting on appropriations, the subcommittees closely review the extensive justification material submitted in connection with hearings at which agency officials defend their budget requests. The justification material typically breaks down the agency's request into discrete projects, activities, and line items. Although the format of these materials (which are published in the appropriations hearings) varies among subcommittees, it is common for the agency to compare the amount requested for the next fiscal year with the amount provided for the current year and to explain variances between them.

**Exhibit 7-B.**
**Sequence of an Appropriations Act Through Congress**

| House | Senate |
|---|---|
| **Subcommittee hearings** | **Subcommittee hearings** |
| **Subcommittee markup** (no bill number is assigned yet) | **Subcommittee markup** (usually a House-passed bill; sometimes an unnumbered Senate bill) |
| **Full committee markup and report** (bill number is assigned) | **Full committee markup and report** (usually a House-passed bill; sometimes a Senate-numbered bill) |
| **House floor action** | **Senate floor action** (if Senate bill is considered, it is held at stage of final passage so that the Senate can amend and pass the House bill) |
| **House-Senate conference** (on House-numbered bill) | |
| **House agrees to conference report** (and any amendments in disagreement) | **Senate agrees to conference report** (and any amendments in disagreement) |
| **Enrolled measure sent to President for approval** | |

*(1) Appropriations bills originate in the House; the House usually passes an appropriations bill before it is considered in the Senate. However, the Senate sometimes expedites its actions by considering a Senate-numbered bill up to the stage of final passage. When the House-passed bill is received in the Senate, it is amended with the text that the Senate already has agreed to and then the Senate passes the House-numbered bill.*

*(2) The reports accompanying appropriations bills usually are drafted by the relevant subcommittees, but only the full committee reports the measure.*

*(3) The conference report is the version of the bill approved by the conferees. Explanations of the conference report are presented in the joint statement of the managers (conferees).*

*(4) Some items, referred to as amendments in disagreement, are considered separately from the conference report; such items nearly always are referred to as "disagreements" only for technical reasons.*

**Source**: Table prepared by the Congressional Research Service.

The subcommittees are generally quite influential, and it is not uncommon for the full Appropriations Committee to report the bill prepared for it by the subcommittee without making substantive changes. The subcommittees also draft the report which will accompany the bill to the floor and will establish much of the legislative history used to determine congressional intent.

**Exhibit 7-C** identifies the main steps in House action on appropriations. Because general appropriations bills are privileged for floor consideration, they can be brought to the House without first obtaining a special rule (a simple House resolution setting the terms of consideration) through the Rules Committee. Nevertheless, most appropriations measures do come to the House under a rule waiving one or more of the standing rules, such as the rule against unauthorized appropriations. The House first adopts the special rule (see **Exhibit 7-D**), then it takes up the appropriations bill.

When debate on an appropriations bill begins, the managers of the bill usually provide a summary of the main features, including a comparison of the budget authority and outlays in the bill to the amounts appropriated for the previous year and requested in the President's budget. Sometimes, the bill's managers (or the chairman of the House Budget Committee) will indicate how the measure complies with the subdivisions under Section 302(b).

The House also is advised of any issues raised by the White House or OMB. The advice takes the form of a Statement of Administration Policy (SAP). A SAP outlines the administration's position on the appropriations measure as it progresses through the appropriations process. A SAP normally is issued at six stages of congressional action: (1) House Appropriations subcommittee action; (2) House Appropriations Committee markup; (3) House floor action; (4) Senate Appropriations subcommittee action; (5) Senate Appropriations Committee markup; and (6) Senate floor action. A SAP also may be issued during conference action. The SAP concentrates on items in the most recent version of the appropriations measure that the Administration finds objectionable. Excerpts from a SAP are provided in **Exhibit 7-E**.

The Senate usually considers appropriations measures after they have been passed by the House. When House action on appropriations bills is delayed, however, the Senate sometimes expedites its actions by considering a Senate-numbered bill up to the stage of final passage. Upon receipt of the House-passed bill in the Senate, it is amended with the text that the Senate already has agreed to (as a single amendment) and then passed by the Senate.

The sequence of Senate actions is outlined in **Exhibit 7-F**. Hearings in the Senate Appropriations subcommittees generally are not as extensive as those held by counterpart subcommittees in the House. The Senate routinely uses unanimous consent agreements to frame the consideration of measures. These agreements are printed in the Senate's daily *Calendar of Business*. Sometimes, the Senate uses such agreements to expedite the consideration of appropriations bills (see **Exhibit 7-G**). When the Senate (either in committee or on the floor) changes a House-passed appropriations measure, it does so by inserting consecutively numbered amendments (see **Exhibit 7-H**).

## Exhibit 7-C.
## Sequence of House Actions on Appropriations Measures

- **Special Rule**

  Although appropriations bills are privileged and can be considered by the House at any time, the House normally considers them under special rules (in the form of a simple House resolution) waiving one or more points of order, such as those arising out of the House rule barring unauthorized appropriations.

- **Committee of the Whole**

  After the House adopts the special rule, it takes up the appropriations bill in the Committee of the Whole rather than in the House itself; the Committee of the Whole has a much smaller quorum requirement than that of the House.

- **General Debate**

  Debate on the bill is opened by the floor managers—the chairman and ranking minority member of the relevant Appropriations subcommittee. Opening statements may also be made by the chairman of the Appropriations Committee who may remark on the overall status of appropriations bills and by the chairman of the Budget Committee who may advise the House as to whether the particular bill conforms to the 302(b) subdivision.

- **Amendments**

  Regular appropriations bills usually are considered under an open rule which does not preclude consideration of any floor amendments. An amendment must be offered in a timely manner; that is, when the portion of the bill to which it pertains is being read (except for en bloc amendments that are completely offsetting).

- **Points of Order**

  Points of order may be raised against either the bill reported by the committee or a floor amendment. In the House, it is rare for the ruling of the chair on a point of order to be challenged.

- **Limitations**

  Floor amendments inserting certain limitations into the appropriations bill may be offered only after consideration of funding levels has been completed. At this point, it is in order to move that the Committee of the Whole "rise and report." If this motion is adopted, there may be no opportunity to offer limitation amendments.

- **Final Passage**

  After the Committee of the Whole reports, final consideration is in the House itself. Under certain circumstances, the House may reconsider matters decided in the Committee of the Whole, but it usually concurs in the previous vote.

**Exhibit 7-D.**
**Special Rules on Appropriations Bills**

H.Res. 477

*Resolved*, That at any time after the adoption of this resolution the Speaker may, pursuant to clause 1(b) of rule XXIII, declare the House resolved into the Committee of the Whole House on the state of the Union for consideration of the bill (H.R. 4059) making appropriations for military construction, family housing, and base realignment and closure for the Department of Defense for the fiscal year ending September 30, 1999, and for other purposes. The first reading of the bill shall be dispensed with. General debate shall be confined to the bill and shall not exceed one hour equally divided and controlled by the chairman and ranking minority member of the Committee on Appropriations. After general debate the bill shall be considered for amendment under the five-minute rule. Points of order against provisions in the bill for failure to comply with clause 2 or 6 of rule XXI are waived. During consideration of the bill for amendment, the Chairman of the Committee of the Whole may accord priority in recognition on the basis of whether the Member offering an amendment has caused it to be printed in the portion of the Congressional Record designated for that purpose ...

*(1) Although appropriations bills are privileged in the House and can be taken up at any time, their consideration typically is preceded by the adoption of a special rule (in the form of a simple House resolution) waiving certain points of order that otherwise would apply and establishing other terms for consideration. The House acts first on the rule and then, if the rule is adopted, considers the appropriations bill.*

*(2) The appropriations bill which was the subject of this rule did not involve any violations of the 1974 Congressional Budget Act, but it did violate House Rule XXI, which, among other things, bars unauthorized appropriations and legislation in appropriations bills. The rule exhibited here waived any points of order under Clauses 2 or 6 of the House rule.*

*(3) Note that the waivers pertain to the entire measure. In the past, rules used to protect only particular portions of the appropriations bill, which were specified by page and line numbers.*

*(4) Pursuant to the rule, Members who have their amendments printed beforehand in the* Congressional Record *may be recognized first.*

**Source**: House Resolution 477, 105th Congress (see the *Congressional Record* of June 19, 1998, at page H 4843).

**Exhibit 7-E.**
**Statement of Administration Policy**

This Statement of Administration Policy provides the Administration's views on the Department of Defense Appropriations Bill, FY 1999, as reported by the House Appropriations Committee. Your consideration of the Administration's views would be appreciated.

The Committee has developed a bill providing requested funding for many of the Administration's priorities. We appreciate the Committee's decision to fully fund the military pay raise and to fund critical readiness programs at sufficient levels. Also, we are pleased that most of the modernization priorities of the Department of Defense (DoD) are funded at or near requested levels. The Administration, however, is disappointed that the Committee bill, based on OMB's preliminary scoring, provides $255 million below the President's request in order to increase funding for lower priority military construction projects ....

The Administration strongly opposes any provision in the House version of the bill that could be read to require prior congressional authorization of actions taken by the President pursuant to his authority under the Constitution. The President must be able to act decisively to protect U.S. national security and foreign policy interests. This provision would send the wrong signal to the world, including U.S. resolve regarding Iraqi compliance with its obligations with respect to weapons of mass destruction, the SFOR operation in Bosnia, and efforts to deter Serbian President Milosevic from attacks on the people of Kosovo. The President's senior national security advisers would recommend veto of a bill with a provision such as this one that could be interpreted to restrict the President's exercise of constitutional authority.

*(1) A Statement of Administration Policy (SAP) is issued for each annual appropriations bill at each stage of congressional action. It typically enumerates Administration objections to provisions in the appropriations bill, which may include funding increases above the President's request, restrictions on the use of the funds, legislative provisions inserted in the bill, or other variances between congressional and executive priorities.*

*(2) This SAP is for the FY1999 Defense appropriations act as reported by the House Appropriations Committee. The excerpt shown here focuses on the Administration's position on the bill generally; specific funding issues involving more than a dozen different programs also were discussed.*

*(3) SAPs sometimes state that a bill will be vetoed if objectionable provisions are not removed; instead, it usually declares that OMB (or some other executive agency) will recommend a veto. The explicitness of the veto threat varies with the level of the Administration's objections.*

**Source**: Office of Management and Budget, *Statement of Administration Policy: H.R. 4103—Department of Defense Appropriations Bill, FY1999*, June 24, 1998 (available at: *http://www.whitehouse.gov/wh/eop/sap/hr4103-h.html*).

## Exhibit 7-F.
## Sequence of Senate Action on Appropriations Measures

- **Waiver Motion (if necessary)**

  The 1974 Congressional Budget Act prohibits the consideration of legislation in the Senate (as well as the House) if certain procedural or substantive requirements would be violated. In the Senate, these prohibitions may be set aside by unanimous consent or by the adoption of a waiver motion. While the Budget Enforcement Act is in effect, many of these prohibitions may be waived only by the affirmative vote of three-fifths of the membership.

- **Unanimous Consent Agreement**

  Major legislation in the Senate often is considered under a unanimous consent agreement (sometimes referred to as a time limitation agreement) which may limit the amount of time that the measure can be debated, restrict amendments, or otherwise expedite consideration. The unanimous consent agreement usually is propounded by the majority leader.

- **Managers' Statements**

  The chairman and ranking minority member of the relevant Appropriations subcommittee provide an overview of the bill, usually comparing the amounts in it to the previous year's level, the President's request, and the House-passed bill.

- **Committee Amendments**

  Changes recommended by the Senate Appropriations Committee to the House-passed bill are usually voted on en bloc (all together) and approved by voice vote. This procedure pertains only to appropriations bills considered by the Senate after the House has acted.

- **Floor Amendments**

  Unlike the House, the entire appropriations bill is open to floor amendment at any time during Senate consideration. However, the time limitation agreement sometimes specifies the sequence in which amendments are to be taken up.

- **Points of Order**

  Points of order also may be raised at any time. When a point of order is made that an item is legislation on an appropriations bill, another member may raise the defense of germaneness. If this occurs, the Senate decides the question and if the item is deemed to be germane, the original point of order falls.

- **Final Passage**

  After all amendments have been disposed of (or when the time for vote on final passage stipulated in the time limitation agreement arrives), the Senate votes on the bill. Some appropriations bills are agreed to by voice—rather than recorded—vote in the Senate.

## Exhibit 7-G.
## Unanimous Consent Agreements on Appropriations Bills

IMF SUPPLEMENTAL APPROPRIATIONS

4.—*Ordered*, That when the Senate receives from the House the IMF Supplemental Appropriations Bill, the Senate proceed to its immediate consideration; that all after the enacting clause be stricken; that the text of the IMF title of S. 1768 be inserted in lieu thereof; that the bill be advanced to third reading and passed; and that the motion to reconsider be laid upon the table, all without further action or debate.

*Ordered further*, That the Senate insist on its amendment, request a conference with the House on the disagreeing votes thereon, and that the Chair be authorized to appoint conferees on the part of the Senate, all occurring without further action or debate. (*Mar. 26, 1998*.)

*(1) In March 1998, the Senate initiated action on an omnibus supplemental appropriations bill (S. 1768) providing funds for responses to natural disasters, peacekeeping operations of the Defense Department, the International Monetary Fund (IMF), and other matters. The Senate finished consideration and amendment of the bill on the floor, but stopped short of final passage; it waited to receive a House-numbered bill in order to adhere to the practice of the House "originating" appropriations bills.*

*(2) Shortly thereafter, the House passed an omnibus supplemental appropriations bill, but it excluded the IMF funding. The Senate quickly passed the bill without the IMF funding; after conference action with the House, it was sent to the President and signed into law.*

*(3) The unanimous consent agreement shown here provides for the immediate disposition of a House-passed bill providing supplemental appropriations for the IMF. It requires that the IMF-related text of S. 1768, which the Senate passed earlier, be incorporated into the House-passed bill as a complete substitute and that the Senate then go directly to conference with the House.*

**Source**: U.S. Senate, *Calendar of Business*, Monday, July 10, 1998, page 2.

**Exhibit 7-H.**
**Numbered Senate Amendments**

10 CONSTRUCTION

11 For construction, improvements, repair or replace-

12 ment of physical facilities**(**25**)**, *including the modifica-*

13 *tions authorized by section 104 of the Everglades Na-*

14 *tional Park Protection and Expansion Act of 1989,*

15 **(**26**)**~~$148,391,000~~ *$173,444,000* to remain available until

16 expended**(**27**)**~~: Provided, That $500,000 for the Ruther-~~

17 ~~ford B. Hayes Home and $600,000 for the Sotterly Plant-~~

18 ~~ation House shall be derived from the Historic Preserva-~~

19 ~~tion Fund pursuant to 16 U.S.C. 470A:~~

*(1) The Senate does not initiate its own appropriations bill. Instead, it amends the House-passed appropriations bill.*

*(2) The numbers shown here in bolded parentheses (25, 26, and 27) designate Senate amendments to the House-passed appropriations bill. These amendments are numbered sequentially and are referred to in the conference report on the appropriations bill (see next exhibit).*

*(3) The lined-out text immediately following the number is the House-passed language struck by the Senate. The italicized text is language inserted by the Senate. The remaining text is the House-passed language to which the Senate made no changes.*

*(4) The Senate may change the amount appropriated and any provision or other material in the House-passed appropriations bill.*

**Source**: H.R. 2107 (105th Congress), Department of the Interior Appropriations Act for Fiscal Year 1998, as ordered to be printed with the amendments of the Senate numbered, September 19, 1997, page 17.

The conference to resolve differences in the measures passed by the two chambers considers each of the numbered amendments (see **Exhibit 7-I**). Some matters resolved by the conferees may be excluded from the conference report as amendments in disagreement. In nearly all instances, the "disagreement" is merely technical and the language is excluded only to protect the conference report from a potential point of order; the amendments in disagreement are considered immediately after the conference report has been agreed to and usually are disposed of routinely. Congressional action on a measure is not complete until both the House and Senate have successfully completed action on all numbered amendments.

## Continuing Appropriations

Continuing appropriations measures (often called *continuing resolutions*) have become increasingly important during the past two decades and their scope has become much broader than was the case in earlier years. In some years, the major continuing appropriations act has covered all of the regular appropriations bills for that year. Moreover, rather than providing interim funding until the regular appropriations bills are enacted, some continuing resolutions have provided funds for the entire fiscal year. When this occurs, the continuing resolution becomes an omnibus appropriations act for the fiscal year. **Exhibit 7-J** displays a portion of a continuing resolution.

This development has been accompanied by two other changes in the character of continuing appropriations. First, these measures frequently provide funding at levels other than a "continuation rate." Some recent continuing resolutions have contained the full text of regular appropriations bills, or have incorporated these bills by reference to the version passed by the House or Senate, or agreed to in conference. Some have specified definite amounts for particular programs or accounts in the same manner as is done in regular appropriations bills.

Second, continuing resolutions have been increasingly used to enact substantive legislation. The opportunity to do so is based in part on the fact that they are not deemed to be general appropriations bills in the House (and, therefore, the requirement that appropriations and authorizing legislation be in separate measures does not apply to them). The manner in which these measures are considered—late in the session and with the threat that government agencies will have to suspend operations if funds are not speedily provided—invites use of the continuing resolution as a vehicle for substantive legislation.

## Interpreting Appropriations Measures

Appropriations are vital to the ongoing operations of federal agencies. In the course of conducting their activities, agencies have to know not only how much money they have to spend, but also any restrictions on the use of funds and directives as to what the money should be used for. The text of the appropriations act will offer some guidance, but it will not be sufficiently detailed to cover all the issues facing

**Exhibit 7-I.**
**Conference Action on Appropriations Measures**

CONFERENCE REPORT

[To accompany H.R. 2107]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 2107) "making appropriations for the Department of the Interior and Related Agencies, for the fiscal year ending September 30, 1998, and for other purposes" having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 4, 6, 7, 13, 28, 30, 35, 40, 54, 61, 91, 95, 106, 131.

That the House recede from its disagreement to the amendments of the Senate numbered 2, 5, 10, 16, 18, 20, 25, 31, 33, 38, 39, 41, 44, 45, 46, 47, 48, 49, 52, 53, 56, 58, 59, 60, 62, 63, 64, 66, 71, 72, 73, 75, 76, 79, 85, 86, 92, 94, 100, 107, 112, 113, 116, 117, 119, 120, 122, 123, 125, 126, 127, 133, 135, 139, 140, 141, 145, 147, 148, 149, 154, 155, 159, 160, and 161; and agree to the same.

Amendment numbered 1:

That the House recede from its disagreement to the amendment of the Senate numbered 1, and agree to the same with an amendment, as follows:

In lieu of the sum proposed by said amendment insert: $583,270,000; and the Senate agree to the same.

(1) *The numbered amendments referenced in the conference reports are the changes made by the Senate (in the committee or on the floor) in the amount or language of the House-passed appropriations measure. These amendments are numbered consecutively and appear in the version of the measure as passed by the Senate.*

(2) *To interpret the conference report, one must have both a copy of the conference report and the Senate-passed version of the bill. The Senate-passed bill contains both the House-passed language and the Senate amendments, and the conference report contains any compromise language.*

(3) *The conference can resolve House-Senate differences by dropping the Senate amendments (for example, amendments numbered 4 and 6 in the exhibit), adopting the Senate amendments (amendments numbered 2 and 5), or revising the amendments with further amendments that constitute compromises (amendment numbered 1).*

(4) *Congressional action on a measure is not complete until both the House and Senate have successfully disposed of all numbered amendments.*

**Source**: H.Rept. 105-337 (conference report to accompany H.R. 2107, Department of the Interior Appropriations Act for Fiscal Year 1998), October 22, 1997, page 1.

## Exhibit 7-J.
## Continuing Appropriations

Joint Resolution

Making continuing appropriations for the fiscal year 1998, and for other purposes.

*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled*, That the following sums are hereby appropriated, out of any money in the Treasury not otherwise appropriated, and out of applicable corporate or other revenues, receipts, and funds, for the several departments, agencies, corporations, and other organizational units of Government for the fiscal year 1998, and for other purposes, namely:

Sec. 101. (a) Such amounts as may be necessary under the authority and conditions provided in the applicable appropriations Act for the fiscal year 1997 for continuing projects or activities including the costs of direct loans and loan guarantees (not otherwise specifically provided for in this joint resolution) which were conducted in the fiscal year 1997 and for which appropriations, funds, or other authority would be available in the following appropriations Acts:

(1) the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1998;

(2) the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 1998, notwithstanding section 15 of the State Department Basic Authorities Act of 1956 ...;

* * * * * *

Sec. 106. Unless otherwise provided for in this joint resolution or in the applicable appropriations Act, appropriations and funds made available and authority granted pursuant to this joint resolution shall be available until: (1) enactment into law of an appropriation for any project or activity provided for in this joint resolution; or (2) the enactment into law of the applicable appropriations Act by both Houses without any provision for such project or activity; or (3) October 23, 1997, whichever

*(1) A continuing appropriations act (often referred to as a "continuing resolution") is enacted for agencies that have not received their regular appropriation for a fiscal year. It has the same legal effect as a regular appropriations act but may be in effect for only part of the fiscal year.*

*(2) The continuing resolution specifies the regular appropriations measures covered (in this case, two of the 13 covered by this resolution are shown).*

*(3) The continuing resolution is superseded by enactment of the regular appropriations bills. In this case, the continuing resolution expired on October 23. Although all 13 of the regular appropriations bills eventually were enacted separately that year, five more continuing resolutions were enacted in October and November.*

**Source**: Public Law 105-46, Continuing Appropriations Act for Fiscal Year 1998, September 30, 1997 (111 *Stat*. 1153-1158).

an agency. In addition to reviewing the act, an agency must consult authorization law, the supporting material submitted in justification of its budget request, and relevant reports of the Appropriations Committees.

**The Structure and Content of Appropriations Measures.** Regular appropriations acts contain a number of features. These include the enacting clause, which designates the fiscal year for which the appropriations are made, the appropriation for each account, including any provisions attached to it, and the general provisions. Some of these features are displayed in **Exhibits 7-K**, **7-L**, and **7-M**.

The basic unit of an appropriation is an account. A single unnumbered paragraph in an appropriations act comprises one account and all provisions of that paragraph pertain to that account and to no other, unless the text expressly gives them broader scope. Any provision limiting the use of funds enacted in that paragraph is a restriction on that account alone.

Over the years, appropriations have been consolidated into a relatively small number of accounts. It is typical for a federal agency to have a single account for all its expenses of operation and additional accounts for other purposes such as construction. Accordingly, most appropriation accounts encompass a number of activities or projects. The appropriation sometimes earmarks specific amounts to particular activities within the account, but the more common practice is to provide detailed information on the amounts intended for each activity in other sources (principally the committee reports accompanying the measures).

In addition to the substantive limitations (and other provisions) associated with each account, each appropriations act has "general provisions" that apply to all of the accounts in a title or in the whole act. These general provisions appear as numbered sections, usually at the end of the title or the act.

The standard appropriation is for a single fiscal year—the funds have to be obligated during the fiscal year for which they are provided; they lapse if not obligated by the end of that year. An appropriation that does not mention the period during which the funds are to be available is a one-year appropriation. Congress also makes no-year appropriations by specifying that the funds shall remain available until expended. No-year funds are carried over to future years, even if they have not been obligated. Congress sometimes makes multiyear appropriations which provide for the funds to be available for two or more fiscal years. **Exhibit 7-N** shows appropriations with different periods of availability.

Appropriations measures also contain other types of provisions that serve specialized purposes. These include provisions that liquidate (pay off) obligations made pursuant to backdoor contract authority; reappropriate funds provided in previous years; transfer funds from one account to another; rescind funds (or release deferred funds); or set ceilings on the amount of obligations that can be made under permanent appropriations, on the amount of direct or guaranteed loans that can be made, or on the amount of administrative expenses that can be incurred during the fiscal year. **Exhibit 7-O** offers examples of provisions in appropriations acts that limit the amount of resources provided.

## Exhibit 7-K.
## Structure of a Regular Appropriations Act

An Act

Making appropriations for the Department of Transportation and related agencies for the fiscal year ending September 30, 1998, and for other purposes.

### Enacting Clause

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That the following sums are appropriated, out of any money in the Treasury not otherwise appropriated, for the Department of Transportation and related agencies for the fiscal year ending September 30, 1998, and for other purposes, namely:

### Appropriations to Specified Accounts

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE SECRETARY

Salaries and Expenses

For necessary expenses of the Office of the Secretary, $61,000,000, of which not to exceed $40,000 shall be available as the Secretary may determine for allocation within the Department for official reception and representation expenses: *Provided*, That notwithstanding any other provision of law, there may be credited to this appropriation up to $1,000,000 in funds received in user fees: *Provided further*, That none of the funds appropriated in this Act or otherwise made available may be used to maintain custody of airline tariffs that are already available for public and departmental access at no cost; to secure them against detection, alteration, or tampering; and open to inspection by the Department.

### General Provisions

Sec. 307. None of the funds appropriated in this Act shall remain available for obligation beyond the current fiscal year, nor may any be transferred to other appropriations, unless expressly so provided herein.

(1) *An appropriations act has three main components: (a) the enacting clause (which specifies the fiscal year for which the appropriations are made), (b) appropriations to specified accounts, and (c) general provisions.*

(2) *Each unnumbered paragraph is a separate appropriation account. Provisions in this paragraph pertain only to this account.*

(3) *The general provisions (which may limit the use of funds or contain new legislation) are numbered sections. These provisions apply to all accounts in the title or in the entire act, as specified.*

**Source**: Public Law 105-66, Department of Transportation Appropriations Act for Fiscal Year 1998, October 27, 1997 (111 *Stat*. 1425-1451).

**Exhibit 7-L.**
**Structure of an Appropriations Account**

Federal Bureau of Investigation

For necessary expenses of the Federal Bureau of Investigation for detection, investigation, and prosecution of crimes against the United States; including purchase for police-type use of not to exceed 3,094 passenger motor vehicles, of which 2,270 will be for replacement only, without regard to the general purchase price limitation for the current fiscal year, and hire of passenger motor vehicles; acquisition, lease, maintenance, and operation of aircraft; and not to exceed $70,000 to meet unforeseen emergencies of a confidential character, to be expended under the direction of, and to be accounted for solely under the certificate of, the Attorney General, $2,750,921,000; of which not to exceed $50,000,000 for automated data processing and telecommunications and technical investigative equipment and not to exceed $1,000,000 for undercover operations shall remain available until September 30, 1999; of which not less than $221,050,000 shall be for counterterrorism investigations, foreign counterintelligence, and other activities related to our national security; of which not to exceed $98,400,000 shall remain available until expended; of which not to exceed $10,000,000 is authorized to be made available for making advances for expenses arising out of contractual or reimbursable agreements with State and local law enforcement agencies while engaged in cooperative activities related to violent crime, terrorism, organized crime, and drug investigations; and of which $1,500,000 shall be available to maintain an independent program office dedicated solely to the relocation of the Criminal Justice Information Services Division and the automation of fingerprint identification services: *Provided*, That not to exceed $45,000 shall be available for official reception and representation expenses: *Provided further*, That no funds in this Act may be used to provide ballistics imaging equipment to any State or local authority which has obtained similar equipment through a Federal grant or subsidy unless the State or local authority agrees to return that equipment or to repay that grant or subsidy to the Federal Government.

*(1) This entire paragraph comprises a single appropriation account; all provisions in the paragraph pertain only to this account.*

*(2) The first part of the paragraph sets forth the purposes for which the funds are provided and the total amount appropriated ($2,750,921,000). Virtually all appropriations are for definite amounts. A lump sum is provided for the entire account, but committee reports accompanying the bill and other documents specify the particular activities funded by the appropriation.*

*(3) The remainder of the paragraph consists of several earmarks to specific purposes and two provisos which limit the use of appropriated funds.*

**Source**: Public Law 105-119, Commerce-Justice-State Appropriations Act for Fiscal Year 1998, November 26, 1997 (111 *Stat*. 2440-2526).

**Exhibit 7-M.**
**Other Types of Appropriations Accounts**

**Liquidation of Contract Authorization**

Mass Transit Capital Fund

For payment of obligations incurred in carrying out 49 U.S.C. 5338(b) administered by the Federal Transit Administration, $2,350,000,000, to be derived from the Highway Trust Fund and to remain available until expended.

**Transfer**

Environmental Restoration, Navy

For the Department of the Navy, $275,500,000 to remain available until transferred: *Provided*, That the Secretary of the Navy shall, upon determining that such funds are required for environmental restoration ... transfer the funds made available by this appropriation to other appropriations made available to the Department of the Navy, to be merged with and to be available for the same purposes and for the same time period as the appropriations to which transferred: Provided further, That upon a determination that all or part of the funds transferred from this appropriation are not necessary for the purposes provided herein, such amounts may be transferred back to this appropriation.

**Offsetting Collections**

Copyright Office

For necessary expenses of the Copyright Office, including publication of the decisions of the United States courts involving copyrights, $34,361,000, of which not more than $17,340,000 shall be derived from collections credited to this appropriation during fiscal year 1998 under 17 U.S.C. 708(d), and not more than $5,086,000 shall be derived from collections during fiscal year 1998 under 17 U.S.C. 111(d)(2), ... and 1005: *Provided*: That the total amount available for obligation shall be reduced by the amount by which collections are less than $22,426,000: ...

(1) *A "liquidating appropriation" does not provide new budget authority; rather, it pays off (liquidates) an existing contractual obligation. The budget authority was provided beforehand by direct spending legislation.*

(2) *The next provision directs the Navy Secretary to transfer funds from this account to other Navy accounts. Budget authority in the receiving account is increased while budget authority in the source account is reduced.*

(3) *When offsetting collections can be credited to a particular account, they add to the resources that may be obligated for that account. In this exhibit, about $22 million of the $34 million made available to the Copyright Office for FY1998 is derived from offsetting collections.*

**Source**: Public Law 105-66, Transportation Appropriations Act for Fiscal Year 1998, October 27, 1997 (111 *Stat*. 1439); Public Law 105-56, Defense Appropriations Act for Fiscal Year 1998, October 8, 1997 (111 *Stat*. 1209); and Public Law 105-55, Legislative Branch Appropriations Act for Fiscal Year 1998 (111 *Stat*. 1192).

## Exhibit 7-N.
## Availability of Funds

### One-Year Funds

United States Parole Commission

For necessary expenses of the United States Parole Commission as authorized by law, $5,009,000.

### Multi-year Funds

Military Construction, Air Force Reserve

For construction, acquisition, expansion, rehabilitation, and conversion of facilities for the training and administration of the Air Force Reserve as authorized by chapter 133 of title 10, United States Code, and Military Construction Authorization Acts, $30,243,000, to remain available until September 30, 2002.

### No-Year Funds

North Atlantic Treaty Organization

Security Investment Program

For the United States share of the cost of the North Atlantic Treaty Organization Security Investment Program for the acquisition and construction of military facilities and installations (including international military headquarters) and for related expenses for the collective defense of the North Atlantic Treaty Area as authorized in Military Construction Authorization Acts and section 2806 of title 10, United States Code, $152,600,000, to remain available until expended.

*(1) Appropriations differ in the period for which the budget authority is available for obligation. The three excerpts displayed here are one-year, multi-year, and no-year appropriations.*

*(2) Appropriations typically are available for a single fiscal year, but may be made available for shorter or longer periods if the text expressly so provides. One-year funds lapse if they are not obligated by the end of the fiscal year for which they were provided.*

*(3) The provision for Air Force Reserve construction extends appropriations in a FY1998 act through FY2002—four fiscal years beyond the fiscal year for which the appropriation was made. Although the funds are available for five fiscal years, the entire appropriation is counted in FY1998.*

*(4) The phrase "to remain available until expended" provides "no-year" funds which do not have to be obligated in a particular fiscal year.*

**Source**: Public Law 105-119, Commerce-Justice-State Appropriations Act for Fiscal Year 1998 (111 *Stat*. 2440-2526) and Public Law 105-45, Military Construction Appropriations Act for Fiscal Year 1998 (111 *Stat*. 1142-1152).

## Exhibit 7-O.
## Limitations on Amount

**Obligations**

Highway Trust Fund

None of the funds in this Act shall be available for the implementation or execution of programs the obligations for which are in excess of $21,500,000,000 for Federal-aid highways and highway safety construction programs for fiscal year 1998.

**Credit Activity**

Bureau of Reclamation Loan Program Account

For the cost of direct loans and/or grants, $10,000,000, to remain available until expended, as authorized by the Small Reclamation Projects Act of August 6, 1956, as amended (43 U.S.C. 422a-422l): *Provided*, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974: *Provided further*, That these funds are available to subsidize gross obligations for the principal amount of direct loans not to exceed $31,000,000.

**Administrative Expenses**

Social Security Administration

Limitation on Administrative Expenses

For necessary expenses, including the hire of two passenger motor vehicles, and not to exceed $10,000 for official reception and representation expenses, not more than $5,894,040,000 may be expended, as authorized by section 201(g)(1) of the Social Security Act, from any one or all of the trust funds referred to therein: ...

*(1) The first provision shown here establishes an "obligation limitation" for the fiscal year. This type of limitation is used for programs financed by trust funds. The limitation effectively sets a cap on the amount of the trust funds that can be obligated during the fiscal year.*

*(2) Credit activity is controlled primarily by the Federal Credit Reform Act of 1990 (which is Title V of the 1974 Congressional Budget Act). In this example, an appropriation of $10 million is provided to the Bureau of Reclamation for the subsidy costs of its direct loans. The appropriation is supplemented by a $31 million limit on gross direct loan obligations.*

*(3) Budget authority sometimes is provided in the form of a limitation on administrative expenses. This form of limitation is used for an account—such as Social Security—which is financed by a permanently appropriated trust fund. Without the limitation, the agency would not be limited in the amount that it could spend on administrative expenses.*

**Source**: Public Law 105-66, Transportation Appropriations Act for Fiscal Year 1998, October 27, 1997 (111 *Stat*. 1431); Public Law 105-62, Department of Interior Appropriations Act for Fiscal Year 1998, October 13, 1997 (111 *Stat*. 1329); and Public Law 105-78, Labor-HHS-Education Appropriations Act for Fiscal Year 1998, November 13, 1997 (111 *Stat*. 1513).

In addition to providing funds, appropriations acts often contain substantive limitations on government agencies. Rulings in the House and Senate have held that certain limitations (examples of which are in **Exhibit 7-P**) may be included in appropriations measures.

**Impact of Authorization Law.** In the previous chapter, it was noted that appropriations must be spent according to the terms and conditions set in authorization law. It does not suffice to review the appropriations act and any pertinent legislative history; one must also examine relevant substantive law. In many instances, the relationship between the authorizations and appropriations laws is straightforward, but there are instances where the two laws conflict or where the authorizing statute is silent. A particularly difficult complication arises when the report on the appropriations bill specifies a somewhat different pattern of expenditure than is prescribed in substantive law.

In sorting out conflicts between the two sets of law, one should keep in mind that seemingly slight differences in wording can spawn major differences in legal interpretation. Hence, one should not draw conclusions about how appropriated funds are to be spent without reviewing the actual text of appropriations and authorization law.

**Budget Justifications.** Although appropriations accounts often span many activities, each agency supplements account-level data with detailed budget justifications. While agencies have discretion to vary their actual expenditures from the detailed supporting schedules, the Appropriations Committees expect them to adhere to their justifications to the extent practicable. When an agency shifts funds from one program to another in the same account, it must go through the reprogramming procedures discussed in Chapter 8. Less significant changes are handled informally, or by the agency unilaterally, but there has been a pronounced trend for Congress to hold agencies more closely to the spending patterns set forth in their budget justifications.

**Appropriations Committee Reports.** Detailed information on how funds are to be spent, along with other directives or guidance, is provided in the reports accompanying the various appropriations measures (see **Exhibits 7-Q** and **7-R**). Agencies ordinarily abide by report language in spending the funds appropriated by Congress.

The appropriations reports do not comment on every item of expenditure. Report language is most likely when the Appropriations Committee prefers to spend more or less on a particular item than the President has requested or when the committee wants to earmark funds for a particular project or activity. When a particular item is mentioned by the committee, there is a strong expectation that the agency will adhere to the instructions.

## Exhibit 7-P.
## Limitations on Use of Appropriated Funds

**Limitation by Account**

Office of Management and Budget

For necessary expenses of the Office of Management and Budget ... $57,444,000 ... *Provided further*, That none of the funds appropriated in this Act for the Office of Management and Budget may be used for the purpose of reviewing any agricultural marketing orders or any activities or regulations under the provisions of the Agricultural Marketing Agreement Act of 1937 ....

**Limitation by Act**

Title V—General Provisions

Sec. 513. No funds appropriated by this Act shall be available to pay for an abortion, or the administrative expenses in connection with any health plan under the Federal employees health benefit program which provides any benefits or coverage for abortions.

**Governmentwide Limitation**

Title VI—General Provisions

Sec. 630. No part of any appropriation contained in this or any other Act shall be used for publicity or propaganda purposes within the United States not heretofore authorized by the Congress.

(1) *Although House (and until recently, Senate) rules bar legislation in general appropriations bills, "limitations" (which preclude any use of the funds for certain purposes) may be included in them. Limitations often begin with the phrase, "*Provided *[or* Provided further*],* That none of the funds ....*"*

(2) *The scope of a limitation depends on its wording and placement in an appropriations act. When placed in an unnumbered paragraph, the limitation pertains only to the funds appropriated to that account, unless the language of the limitation gives it a broader effect. In the first example, none of the funds in the Executive Office Appropriations Act (part of the FY1998 Treasury Appropriations Act) for the Office of Management and Budget—not just in the OMB account—may be used to review agricultural marketing orders or related activities ad regulations.*

(3) *Some limitations appear in the "general provisions" of appropriations acts. The annual Treasury and General Government Appropriations Act, unlike the other regular appropriations acts, contains both a general provisions title pertaining to accounts covered by the act (in this example, Title V) and another that is governmentwide in its application (Title VI).*

**Source**: Public Law 105-61, Treasury and General Government Appropriations Act for Fiscal Year 1998 (111 *Stat*. 1293, 1305, and 1315).

## Exhibit 7-Q.
## Committee Report: Account and Program Amounts

FEDERAL BUREAU OF INVESTIGATION
Salaries and Expenses

The Committee recommends $2,886,065,000 for the Federal Bureau of Investigation (FBI) for fiscal year 1998, which includes $179,121,000 from the Violent Crime Reduction Trust Fund. This amount is $150,094,000 above the appropriation for the current year and $6,804,000 below the request.

The Committee recommendation provides for adjustments to base, including the cost of the 1998 pay raise. Included in this amount is $59,977,000 to annualize and sustain 1,539 positions provided in the 1997 appropriation. The Committee recommendation assumes all of these positions will be on-board, with the exception of 300 support positions, by the end of the current fiscal year. In addition, the recommendation includes $40,000,000 which may be deposited in the Telecommunications Carrier Compliance Fund for the purpose of reimbursing telecommunications carriers pursuant to the Communications Assistance for Law Enforcement Act. The recommendation also provides for the following program increases:

*Counterterrorism.*—The recommendation includes an increase of $38,803,000 and 167 new agents to continue to build the FBI's capability to counter, investigate and prevent acts of terrorism. Included in this amount is:

+$27,227,000 and 245 positions (including 133 agents) for counterterrorism activities; and

+$11,576,000 and 56 positions (including 34 agents) to establish new Computer Investigative and Infrastructure Threat Assessment (CITAC) Teams, to identify the nature and scope of the computer crime problem and investigate significant intrusions or threats to major information infrastructures or networks ...

*(1) The reports on appropriations bills typically compare, for each account, the amounts recommended by the committee with the amounts for the current fiscal year and the President's request.*

*(2) The Appropriations Committees often use report language to earmark funds in an account to designated projects or activities; sometimes, the committees insert earmarks into the text of the bill itself.*

*(3) Summary information on amounts provided by agency and account is presented at the end of each committee report in the "Comparative Statement of New Budget Authority."*

**Source**: House Report No. 105-207 (report of the House Appropriations Committee to accompany H.R. 2267, Commerce-Justice-State Appropriations Act for Fiscal Year 1998), July 25, 1997, page 22.

## Exhibit 7-R.
## Committee Report: Directives to Agencies

National Oceanic and Atmospheric Administration

*NOAA Budgetary and Financial Management.*—The Committee is concerned about NOAA's lack of progress in addressing the serious budgetary and financial management problems which have been highlighted by this Committee for the last two years. The Committee remains frustrated by NOAA's inability to project its funding requirements for any given fiscal year. Further, the Committee was disturbed to learn of actions by some NOAA line offices which appeared to be deliberate attempts to provide misleading information to the Committee regarding funding requirements....

In addition, the Committee is concerned that NOAA failed to respond to the direction included in both the fiscal year 1996 and 1997 House Reports and Statement of Managers of the conference reports ... to develop a revised budget structure that displays the amounts requested under a true program office and activity structure....

Therefore, the Committee directs NOAA, through the Department of Commerce, to take the following actions to improve its budgetary and financial management practices: (1) submit to the Committee, not later than December 1, 1997, an operating plan for expenditure of funds available to NOAA in fiscal year 1998 based on the Committee's distribution shown in the accompanying table, and report to the Committee on a quarterly basis the status of obligations against the Committee's distribution; (2) provide a report to the Committee, not later than September 1, 1997, as to the progress of development of a revised budget structure; and (3) provide to the Committee a plan for implementing the independent auditor's recommendations regarding the presentation of its financial information.

*(1) The report of the Appropriations Committee explains the committee's actions and provides guidance to the affected agency. Although report language generally does not have legal effect, agencies normally heed the directives to them in Appropriations Committee reports. These directives may be positive—telling them how appropriated funds are to be spent, or negative—instructing them not to undertake certain activities.*

*(2) The directives do not comment on all items in the appropriations bill. They often concentrate on increases over the previous year's level, or on matters where their recommendation differs from the President's budget request.*

*(3) The language used here to convey the committee's position—"is concerned"—is strong. The Appropriations Committees use other words which may convey different meanings, such as "assumes", "believes", "expects," or "requests." They often direct agencies to take certain actions or to provide progress reports by specified dates.*

**Source**: House Report No. 105-207 (report of the House Appropriations Committee to accompany H.R. 2267, Commerce-Justice-State Appropriations Act for Fiscal Year 1998), July 25, 1997, page 75.

The legal basis of managing and spending public funds is established by Congress when it makes appropriations (and provides other forms of budget authority) and when it enacts laws prescribing the rules and procedures for financial management. This chapter discusses the legal basis of expenditure management, including ongoing efforts to improve financial management and the efficiency with which federal agencies use resources.

## Implementation of Spending Laws

The federal government has a decentralized system of expenditure management. The size of the federal government and the diversity of its activities preclude the maintenance of a centralized operation in which all major financial decisions are made at a single command post. OMB has year-round responsibility in overseeing the expenditure of funds, but after it has apportioned funds to agencies, OMB's role is necessarily limited and selective. On any particular matter, OMB can intervene to influence the use of money, but most expenditure decisions are made by the spending agency itself, with little specific guidance from OMB.

In a decentralized environment for expenditure management, agencies receiving appropriations and other financial resources from Congress have primary responsibility to ensure the legality and propriety of expenditures. Agencies generally make their own determination on these matters, but they sometimes consult with GAO, which serves as the principal accounting and auditing arm of the federal government. In addition, GAO often undertakes studies and evaluations on its own initiative to determine whether financial resources have been managed in an appropriate and efficient manner. (**Box 8-A** lists the main financial management roles and responsibilities in the federal government.)

**Spending Available Funds.** Appropriated funds are not automatically available to agencies for their use. A key step in making these funds available is for OMB to apportion them to spending agencies. The Antideficiency Act requires that appropriated funds be apportioned among time periods (usually quarters) during the fiscal year or among the projects on which the funds are to be spent in order for them to become available for obligation. The purpose of the apportionment process is to prevent agencies from spending at a rate that would exhaust their appropriations before the fiscal year has been completed. In some instances (such as for national defense and some other emergencies), the Antideficiency Act permits apportionment at a rate that would necessitate additional appropriations.

The apportionment process is managed by OMB, using the standard form excerpted in **Exhibit 8-A**. Agency requests for apportionment are reviewed by

**Box 8-A.**
**Major Financial Management Roles and Responsibilities**

| Entity | Budget execution | Audit and evaluation | Financial management systems |
|---|---|---|---|
| Congress | Acts on supplementals, impoundments, and reprogrammings; sometimes monitors activities or expenditures. | Imposes reporting requirements; conducts oversight; requests audits and evaluations from GAO and others. | Establishes account structure; legislates policy on financial management systems and practices. |
| Office of Management and Budget | Apportions budget resources; maintains FTE controls; monitors agency performance. | Reviews agency spending and programs; focuses on high-risk areas; promotes performance measurement. | Issues directives on internal control, accounting rules, and other management practices; oversees CFO and GPRA implementation. |
| Agencies | Spend resources and carry out activities; report to Congress, OMB, and others. | Conduct internal audits and evaluations; respond to congressional and executive requests; measure performance and results. | Design and use financial management systems; maintain internal controls; report on material weaknesses. |
| Treasury Department | Manages cash and debt; matches spending against resources. | None. | Maintains government-wide accounting system. |
| General Accounting Office | Reviews and reports on impoundments; settles certain claims. | Reviews programs and operations; audits financial statements of government corporations. | Approves agency accounting systems; advises Congress on material weaknesses in internal control systems. |
| Agency chief financial officer | Monitors financial execution of budget. | Prepares auditable financial statements, including data on performance. | Promotes integration of accounting and budgeting systems. |
| Inspector general | None. | Audits financial statements; investigates spending and other actions. | Recommends changes to improve systems and performance. |
| Federal Accounting Standards Advisory Board | None. | None. | Formulates accounting standards and principles. |

## Exhibit 8-A.
## Apportionment Procedures

Standard Form 132

APPORTIONMENT AND REAPPORTIONMENT SCHEDULE

| Agency | Appropriation of Fund Title and Symbol | | |
|---|---|---|---|
| Bureau | | | |
| Description | Amount on Latest S.F. 132 | Agency Request | Action by OMB |
| **Budgetary Resources**<br>1. Budget authority<br>A. Appropriations<br>B. Borrowing authority<br>C. Contract authority<br>D. Net transfers...<br>E. Other<br>* * * * * *<br>7. Total budgetary resources | | | |
| **Application of Budgetary Resources**<br>8. Apportioned<br>Category A:<br>(1) First quarter<br>(2) Second quarter<br>(3) Third quarter | | | |
| (4) Fourth quarter... | | | |

(1) *The Antideficiency Act requires the apportionment of appropriated funds as a means of preventing agencies from incurring obligations at a rate that would compel Congress to provide additional funds during the fiscal year. Apportionment is a process by which agencies request, and OMB divides, appropriated funds by time periods or projects. The President must notify Congress of all proposed rescissions or deferrals.*

(2) *A single apportionment is made for an entire appropriation or fund account (using Standard Form 132). OMB does not generally exercise formal control—except through the impoundment process—below the account level, but it has other informal means of influencing agency expenditures and activities.*

(3) *The top part of this schedule itemizes the resources available for apportionment. These may come from a number of sources: new appropriations, permanent appropriations, other sources of budget authority, and transfers to and from other accounts. The amount apportioned may not exceed the total of these resources.*

(4) *Category A apportionments divide funds by fiscal year quarters; category B apportionments (not shown here) are made by projects or activities.*

**Source**: Office of Management and Budget, Standard Form 132.

OMB; any funds withheld from apportionment must be reported to Congress under the procedures of the Impoundment Control Act of 1974 (discussed below).

A key requirement of expenditure management is that funds be used only for the purposes for which they were provided. This requirement is embodied in a number of statutes (excerpts of which are presented in **Box 8-B**) which provide that expenditures and obligations may not exceed the appropriated amounts and that funds shall be applied only to the objects for which they were appropriated. Another fundamental tenet is that funds be used only for public purposes. The distinction between public and private is not always clear, and GAO sometimes is called upon to render a decision on whether a particular expenditure is allowable (see **Exhibit 8-B**).

**Box 8-B.**
**Restrictions on the Use of Funds**

**Title 31, United States Code**

**Sec. 1301. Application**

(a) Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law.

(b) The reappropriation and diversion of the unexpended balance of an appropriation for a purpose other than that for which the appropriation originally was made shall be construed and accounted for as a new appropriation. The unexpended balance shall be reduced by the amount to be diverted....

**Sec. 1341. Limitations on expending and obligating amounts**

(a)(1) An officer or employee of the United States Government or of the District of Columbia government may not -

(A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation;

(B) involve either government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law;....

The obligation of funds is a key point in expenditure management. An obligation represents a legal commitment by an agency of the government to another party; as shown in **Box 8-C**, each obligation has to be supported by documents attesting to the commitment of funds. Once the goods or services for which the funds have been obligated have been provided, the ensuing outlay normally is a matter of administrative routine. Obligated funds carry over from year to year, even when the appropriation is made for a single fiscal year.

Although they are not usually an effective point of financial control, outlays are an essential part of the financial management process. For one thing, the timing of outlays is important for cash and debt management by the Treasury Department; for another, the difference between outlays and receipts determines the size of the budget deficit (or surplus). As concern over the budget deficit deepened in the 1980s and early 1990s, closer attention was paid to the volume of outlays. Some

**Exhibit 8-B.**
**GAO Decisions on the Legality of Expenditure**

**Decision** — **The Comptroller General of the United States**

**File**: B-215640 **Date**: January 14, 1985
**Matter of**: Purchase of Heavy-Duty Office Chair

This decision is in response to a request from the Department of the Navy for a decision as to whether the agency is authorized to purchase a heavy-duty chair for an employee for his use in performing official duties. For the reasons hereafter stated, the purchase of the chair for the employee's use in performing his official duties is authorized from appropriated funds.

The facts, briefly stated, are as follows. The employee has worked for the Department of the Navy since 1966. He is 6'6" in height and weighs about 330 pounds. Since the inception of his employment with the Navy, due to his height and weight, he has broken approximately 15 normal office chairs. The chairs usually bend or break and have to be discarded. The cost of each chair is about $200. In addition, the employee has a medical condition that is aggravated by the narrowness and shallowness of the seat of the normal office chair which does not provide adequate support for his thighs and cuts off the circulation of blood in his legs.

(1) *The Comptroller General (head of GAO) is often asked to rule whether appropriated funds may be used for a specific purpose. In deciding on the legality of a proposed expenditure, the Comptroller General may have to analyze the purpose for which the funds are to be used. If he finds a "private" purpose—such as providing employees with special equipment which would benefit only them—the expenditure would be disallowed. If he finds, as in this case, that a reasonable public purpose would be served, the expenditure would be permitted.*

(2) *Agencies may rely on the decisions of the Comptroller General, and one ruling may establish a precedent for later cases which present similar issues. Agencies do not refer every question to the Comptroller General. They often interpret previous rulings or rely on their own interpretation of an appropriation's legislative history in determining the legality of an expenditure.*

**Source**: General Accounting Office, *Decision of the Comptroller General*, File No. B-215640, January 14, 1985, page 1.

agencies—the Defense Department is the most prominent—have been required to operate under an outlay ceiling, in addition to the ceilings on budget authority and

**Box 8-C.**
**Evidence of Obligation**

**Title 31, United States Code**

**Sec. 1501. Documentary evidence requirement for Government obligations**

(a) An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of -

(1) a binding agreement between an agency and another person (including an agency) that is -

(A) in writing, in a way and form, and for a purpose authorized by law; and

(B) executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided;

(2) a loan agreement showing the amount and terms of repayment;

(3) an order required by law to be placed with an agency;...

(b) A statement of obligations provided to Congress or a committee of Congress by an agency shall include only those amounts that are obligations consistent with subsection (a) of this section.

other resources. They have been prodded to improve the care with which spendout rates are calculated and to make more accurate projections of outlays.

Disbursements of government funds may be made only pursuant to an approved voucher (or, in certain circumstances, an invoice) which has sufficient information to enable the transaction to be audited. Prior to payment, the affected agency must pre-audit the voucher to determine, among other things, whether: (1) any required administrative authorizations have been obtained; (2) the payment is permitted by law and the amount of the payment is correct; (3) the goods received or services performed were in accordance with relevant contracts or other agreements; and (4) the appropriation or fund from which the payment is to be made is available for that purpose. Payments themselves are made through a system of disbursing officers operated by the Treasury Department.

***Reprogramming.*** Although most appropriations are made in broad categories, with a single appropriation often covering all of an agency's salary and operating expenses, each appropriation is supported by detailed schedules of how the requested funds are to be spent. If an agency wants to spend for somewhat different purposes (within the same account) than were submitted to the Appropriations Committees, it reprograms the money—that is, it shifts funds from one project or activity to another within the same account. (A shift between appropriations accounts is a transfer and may be done only pursuant to statutory authority.)

Reprogrammings are not always easy to define. In the course of managing their expenditures, agencies often make minor adjustments in the use of funds. They may experience a higher-than-expected vacancy rate and shift some funds budgeted for personnel expenses to other objects such as consultants or office equipment. Many such adjustments are made without bringing into play formal reprogramming procedures. Nevertheless, a reprogramming would occur if the shift were from one activity to another, or if the pattern of expenditure deviated from that set forth in the Appropriations Committee report. (Many, perhaps most, specific items of expenditure are not noted in these reports; hence, an agency may have somewhat more discretion in making minor adjustments. But when a report directs that a particular expenditure be made, the spending agency would probably go through the reprogramming process in the unlikely event it proposed to use the funds for a different purpose.)

Reprogramming rules and procedures vary among Appropriations subcommittees and federal agencies. In some instances, only the relevant Appropriations subcommittees are drawn into the process; in others, the authorizing committees also participate. Some reprogrammings require advance approval by the participating congressional committees; for others, the relevant committees must be notified in advance, and the reprogramming takes effect (after a waiting period) if they do not object; in still others, Congress is notified of reprogrammings, but it takes no action on them. Reprogramming rules often are set forth in the reports accompanying appropriations bills; in some cases, the rules are incorporated into the act itself. **Exhibit 8-C** deals with reprogramming rules for the Commerce Department.

***Closing Accounts.*** The final step in the spending process (other than the payment of funds which normally is a routine operation) is the closing of appropriation and fund accounts. Once an account is closed, all remaining balances are canceled and it is no longer available for obligation or expenditure.

The procedures for closing accounts were substantially revised by Public Law 101-510, enacted in 1990. Under the old procedures, when an appropriation expired after the period during which it was available for obligation ended, remaining obligated and unobligated balances retained their fiscal year identity for another two years. After this time, remaining balances lost their fiscal year identity and separate accounts were no longer maintained for them. Obligated balances were transferred to an “M” account and remained available indefinitely to pay previously recorded obligations. Unobligated balances were transferred to “merged surplus authority accounts” maintained by the Treasury Department and were available to cover adjustments in obligations.

Under the new system, which terminated the “M” accounts and the merged surplus authority accounts, when the period during which funds are available for obligation ends, the account expires but all obligated and unobligated balances retain their fiscal year identity for an additional five years. During this five-year period, obligated balances are available to liquidate obligations chargeable to that account while unobligated balances are available for adjustments in obligations or expenditures. At the end of five years, the account is closed and all remaining balances are canceled. From this point, up to one percent of unexpired

## Exhibit 8-C.
## Reprogramming Rules

Sec. 605. (a) None of the funds provided under this Act, or provided under previous appropriations Acts to the agencies funded by this Act that remain available for obligation or expenditure in fiscal year 1998, or provided from any accounts in the Treasury of the United States derived by the collection of fees available to the agencies funded by this Act, shall be available for obligation or expenditure through a reprogramming of funds which: (1) creates new programs; (2) eliminates a program, project, or activity; (3) increases funds or personnel by any means for any project or activity for which funds have been denied or restricted; (4) relocates an office or employees; (5) reorganizes offices, programs, or activities; or (6) contracts out or privatizes any functions, or activities presently performed by Federal employees; unless the Appropriations Committees of both Houses of Congress are notified 15 days in advance of such reprogramming of funds.

(b) None of the funds provided under this Act,...shall be available for obligation or expenditure for activities, programs, or projects through a reprogramming of funds in excess of $500,000 or 10 percent, whichever is less, that: (1) augments existing programs, projects, or activities; (2) reduces by 10 percent funding for any existing program, project, or activity, or numbers of personnel by 10 percent as approved by Congress; or (3) results from any general savings from a reduction in personnel which would result in a change in existing programs, activities, or projects as approved by Congress; unless the Appropriations Committees of both Houses of Congress are notified 15 days in advance of such reprogramming of funds.

(1) *Reprogramming occurs when an agency shifts funds from one program or purpose to another within the same appropriation account. (A shift of funds between accounts constitutes a transfer.)*

(2) *There are no governmentwide rules for reprogramming. The rules vary among Appropriations subcommittees (and sometimes the authorizing committees), which often include their reprogramming rules in the reports accompanying the appropriations bills but sometimes include them in the acts themselves. Each agency has its own procedures for initiating these actions and submitting them to Congress for review.*

(3) *In the case of the Commerce Department (from which this exhibit is drawn), the Appropriations subcommittees placed reprogramming rules in the annual appropriations act. The rules in Section 605(a) of the act bar actions that would, among other things, create new programs, terminate existing programs, or relocate offices or employees without prior notification to the House and Senate Appropriations Committees. The committees must also be notified when reprogrammings would exceed a $500 thousand or 10% threshold.*

**Source**: Public Law 105-119, Commerce-Justice-State Appropriations Act for Fiscal Year 1998, November 26, 1997 (111 *Stat*. 2440-2526).

appropriations (for the same purpose) are available to pay obligated balances of closed accounts. In addition, Congress may specifically appropriate new funds or provide other legislative authority to pay old obligations.

**Impoundment.** Although an appropriation limits the amounts that can be spent, it also establishes the expectation that the available funds will be used to carry out authorized activities. Hence, when an agency fails to use all or part of an appropriation, it deviates from the intentions of Congress. The Impoundment Control Act of 1974 (Title X of the Congressional Budget and Impoundment Control Act of 1974, as amended) prescribes rules and procedures for instances in which available funds are impounded.

An impoundment is an action or inaction by the President or a federal agency that delays or withholds the obligation or expenditure of budget authority provided in law. The Impoundment Control Act of 1974 divides impoundments into two categories and establishes distinct procedures for each. A *deferral* delays the use of funds; a *rescission* is a presidential request that Congress rescind (cancel) an appropriation or other form of budget authority. Deferral and rescission are exclusive and comprehensive categories; an impoundment is either a rescission or a deferral—it cannot be both or something else.

Although impoundments are defined broadly by the Impoundment Control Act of 1974, in practice they are limited to major actions which affect the level or rate of expenditure. If every "action or inaction"—the phrase used in the Impoundment Control Act of 1974—that slowed the rate of expenditure were deemed to be an impoundment, there probably would be many thousands of impoundments each year. In fact, at most only a few hundred are reported. As a general practice, only deliberate curtailments of expenditure are reported as impoundments; actions having other purposes which incidently affect the rate of spending are not recorded as impoundments. For example, if an agency were to delay the award of a contract because of a dispute with a vendor, the delay would not be an impoundment; if the delay were for the purpose of reducing expenditure, it would be an impoundment. The line between routine administrative actions and impoundments is not clear and controversy occasionally arises as to whether a particular action constitutes an impoundment.

A particularly difficult-to-identify impoundment occurs when the rate or level of spending is deliberately slowed through indirect administrative means. For example, if an agency cuts the size of the staff processing grant applications it might spend less on grants than the amount provided by Congress, even if it does not expressly impound the funds. These actions have come to be known as "de facto" impoundments.

***Rescissions.*** To propose a rescission, the President must submit a message to Congress specifying the amount to be rescinded, the accounts and programs involved, the estimated fiscal and program effects, and the reasons for the rescission. Multiple rescissions can be grouped in a single message. After the message has been submitted to it, Congress has 45 days of "continuous session" (usually a larger number of calendar days) during which it can pass a rescission bill. Congress may rescind all, part, or none of the amount proposed by the President.

If Congress does not approve a rescission in legislation by the expiration of this period, the President must make the funds available for obligation and expenditure. If the President fails to release funds at the expiration of the 45-day period for proposed rescissions, the comptroller general may bring suit to compel their release. This has been a rare occurrence, however.

The rescission process has both similarities to and differences with the line-item veto process invalidated by the Supreme Court. In both, the President proposes to cancel appropriations enacted into law. But unlike the line-item veto, which had to be initiated within five days after the President signed an appropriations act, the rescission process operates throughout the year. And unlike a line-item veto, which cancels an appropriation unless the cancellation is disapproved by Congress, a rescission takes effect only if it is approved by Congress. Thus, if Congress fails to act, a line-item veto would be effective but a proposed rescission would lapse.

***Deferrals.*** To defer funds, the President submits a message to Congress setting forth the amount, the affected account and program, the reasons for the deferral, the estimated fiscal and program effects, and the period of time during which the funds are to be deferred. (An excerpt from such a message in presented in **Exhibit 8-D**.) The President may not propose a deferral for a period of time beyond the end of the fiscal year, nor may he propose a deferral that would cause the funds to lapse or otherwise prevent an agency from spending appropriated funds prudently. In accounts where unobligated funds remain available beyond the fiscal year, the President may defer the funds again in the next fiscal year.

At present, the President may defer only for the reasons set forth in the Antideficiency Act, including to provide for contingencies, to achieve savings made possible by or through changes in requirements or greater efficiency of operations, and as specifically provided by law. He may not defer funds for policy reasons (for example, to curtail overall federal spending or because he is opposed to a particular program).

The comptroller general reviews all proposed rescissions and deferrals and advises Congress of their legality and possible budgetary and program effects. The comptroller general also notifies Congress of any rescission or deferral not reported by the President and he may reclassify an improperly classified impoundment. (**Exhibit 8-E** contains an excerpt from a report of the comptroller general.) In all cases, a notification to Congress by the comptroller general has the same legal effect as an impoundment message of the President.

Congress can rescind funds or disapprove impoundments in ordinary legislation or in appropriations acts.

# Exhibit 8-D.
# Presidential Impoundment Messages

Rescission Proposal No. R98-2

**PROPOSED RESCISSION OF BUDGET AUTHORITY**
**Report Pursuant to Section 1012 of P.L. 93-344**

| | |
|---|---|
| **AGENCY:** Department of Agriculture | New budget authority.......... (P.L. 105-86) $ 426,282,000 |
| **BUREAU:** Animal and Plant Health Inspection Service | Other budgetary resources.. $ 151,000,000 |
| **Appropriations title and symbol:** Salaries and expenses 1281600 12X1600 | Total budgetary resources... $ 577,282,000 |
| | Amount proposed for rescission.......................... $ 350,000 |
| **OMB identification code:** 12-1600-0-1-352 | **Legal authority (in addition to sec. 1012):** [X] Antideficiency Act [ ] Other ________ |
| **Grant program:** [ ] Yes [X] No | |
| **Type of account or fund:** [X] Annual [ ] Multi-year: ________ (expiration date) [ ] No-Year | **Type of budget authority:** [X] Appropriation [ ] Contract authority [ ] Other ________ |

**Justification**: The major objectives of the Animal and Plant Health Inspection Service (APHIS) are to protect the animal and plant resources of the Nation from destructive pests and diseases. The proposed rescission is based on the affected program's FTE level and an estimate of its impact on the Department's civil rights resources, and is intended to offset supplemental appropriations for the Department's Civil Rights Initiative. This action is taken pursuant to the Antideficiency Act (31 U.S.C. 1512).

**Estimated Program Effect**: None. These reductions can be absorbed within the available resources and would have a negligible impact on the program.

**Outlay Effect** (in thousands of dollars):

| 1998 Outlay Estimate | | Outlay Changes | | | | | |
|---|---|---|---|---|---|---|---|
| Without Rescission | With Rescission | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 | FY 2003 |
| 406,000 | 405,705 | -295 | -55 | --- | --- | --- | --- |

*(1) Every deferral and rescission has a unique alpha-numeric identification. Deferrals are prefaced with the letter "D"; rescissions begin with the letter "R." Rescissions and deferrals are numbered sequentially by fiscal year. R98-2 is the 2nd rescission reported for FY1998.*

*(2) The President notifies Congress of every rescission or deferral in a message that sets forth the reasons for the action and the estimated fiscal and program effects. If the President fails to report a rescission or deferral, the comptroller general may notify Congress. His notification has the same status as a presidential report.*

**Source**: H.Doc. 105-215, *Proposed Rescissions of Budgetary Resources*, February 24, 1998, page 8.

**Exhibit 8-E.**
**GAO Review of Impoundment Messages**

**Department of Agriculture**
**R98-2** Animal and Plant Health Inspection Service
Salaries and Expenses
Amount Proposed for Rescission: $350,000
1281600
12X1600

According to a letter apportionment schedule and other information provided by the agency, total budgetary resources are $577,237,377 and not $577,282,000 as reported by the President.

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The Office of Management and Budget (OMB) recently exempted some agencies from the requirement of preparing the standard apportionment form, SF 132, which provides detailed, current information on an account's budgetary resources and the amount being withheld pending rescission. OMB permits exempted agencies to prepare letter apportionments which provide summary information for several accounts. Most of the letter apportionments relevant to the rescissions contained in the President's second special message were prepared during the first quarter of the fiscal year and did not contain current information. In those cases, we have obtained more current, detailed information from the agency.

GAO/OGC-98-36

*(1) The comptroller general reviews each impoundment. He notifies Congress of the accuracy of the information in the President's special message and, as appropriate, relevant facts and probable effects of the rescission or deferral.*

*(2) This review by the comptroller general pertains to rescission R98-2, shown in the previous exhibit. The note in the comptroller general's report indicates that the agency was exempted from preparing Standard Form 132 (see* ***Exhibit 8-A****) for this account and that information was obtained by other means.*

*(3) If the comptroller general finds that a rescission or deferral is not authorized, the funds must be made available for obligation. If they are not, the Comptroller General can bring a suit to compel their release.*

*(4) Presidential impoundment messages and the GAO reports that review them are printed as House Documents; GAO also issues its reports separately (as identified by the number in the lower right, GAO/OGC-98-36).*

**Source**: H.Doc. 105-265, *Review of Impoundment Message*, June 5, 1998, page 1.

## Financial Management

In the course of operating its programs, a federal agency takes many actions affecting its financial condition. To ensure that resources are properly and efficiently used, an agency must be informed of the financial implications of its actions and the status of budgeted resources. It must know, for example, the amount of appropriated funds that have already been obligated and the amount of unobligated funds that may be carried over to the next fiscal year. It also must establish practices and procedures governing how its resources are used.

These practices and procedures comprise the financial management systems of federal agencies. Broadly conceived, financial management extends beyond the purely financial operations of an agency to its capacity to perform the tasks required of it with the resources provided by Congress.

OMB has defined financial management to include all systems that: (1) collect, analyze, and report data for financial decision-making; (2) process, control, and account for financial transactions and resources; and (3) generate financial information in support of an agency's mission. Financial management reaches to budget formulation and implementation, accounting and information systems, property and inventory control, personnel and payroll systems, and the management of grants, contracts, and purchases.

Some of the laws governing federal financial management were enacted during the $19^{th}$ century, when the government was much smaller; others date back to the early years of federal budgeting in the 1920s; still others to the postwar period during the 1950s when management practices and concepts were adapted to a much enlarged federal government. A dozen major laws affecting financial management have been enacted since 1978; some of these are briefly described in **Box 8-D**. The two most important of these laws are the Chief Financial Officers Act of 1990 (see **Exhibit 8-F**) and the Government Performance and Results Act of 1993 (see **Box 8-E**).

**Box 8-D** lists these laws in chronological order. It shows a clear difference between the earlier laws on the list and the more recent ones. The earlier laws were designed to identify and eliminate wrongdoing and inadequacies in financial management; the later laws have been designed to establish systems and procedures that promote efficiency in federal operations.

These recent laws set forth two basic requirements—that agencies maintain accounting and other information systems that provide timely and reliable information, and that they maintain systems of management accountability and control to ensure that resources are properly and prudently used. Their information systems determine what agencies know (and report) about their operations and whether they are sufficiently informed to take corrective action when problems arise. Management and accountability controls are designed to ensure that an agency has systems in place to protect against the misuse of resources and to promote their efficient use.

**Box 8-D.**
**Major Federal Laws Affecting Financial Management**

**Inspector General Act of 1978 (P.L. 95-452)**

Establishes independent inspector general offices in all federal departments and major agencies to conduct audits and investigations; recommend policies to promote economy, efficiency, and effectiveness; detect and prevent fraud and abuse; and inform the agency head and Congress on problems and deficiencies.

**Federal Managers' Financial Integrity Act of 1982 (P.L. 97-255)**

Requires agencies to maintain internal accounting and administrative controls in compliance with standards prescribed by the comptroller general, to evaluate their management accountability and control systems, and to report yearly (to Congress and the President) on plans to correct material weaknesses.

**Chief Financial Officers Act of 1990 (P.L. 101-576)**

Requires 24 federal agencies to have a chief financial officer (CFO) responsible for overseeing all financial management activities relating to the agency's programs and operations and to prepare five-year plans, including milestones, for improving financial management. The CFO Council, headed by the OMB deputy director for management, reviews and recommends improvements in financial management.

**Government Performance and Results Act of 1993 (P.L. 103-62)**

Mandates that agencies submit initial strategic plans by September 30, 1997, with updates every three years, and (beginning with FY1999) performance plans covering each program activity. On the basis of these plans, OMB must include a performance plan for the federal government in the President's budget. Beginning in 2000, agencies must report each year on the previous year's performance.

**Government Management Reform Act of 1994 (P.L. 103-356)**

Requires the audit of agency financial statements and the preparation and audit of a consolidated financial statement for the federal government beginning with FY1997.

**Federal Financial Management Improvement Act of 1996 (P.L. 104-208)**

Directs auditors to report on whether agency financial statements comply with federal financial management systems requirements, federal accounting standards, and the U.S. government's Standard General Ledger.

OMB Circular A-123 provides guidance on agency responsibility for management and accountability controls. It defines such controls as the organization, policies, and procedures used by agencies to reasonably assure that: (1) programs achieve their intended results; (2) resources are used consistent with agency missions; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, reported, and used for decision-making. The circular further stipulates that agency managers have primary responsibility for monitoring and assessing controls.

**Exhibit 8-F.**
**Chief Financial Officer**

**Sec. 902. Authority and functions of agency Chief Financial Officers**

(a) An agency Chief Financial Officer shall -

(1) report directly to the head of the agency regarding financial management matters;

(2) oversee all financial management activities relating to the programs and operations of the agency;

(3) develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which -

(A) complies with applicable accounting principles, standards, and requirements, and internal control standards;

(B) complies with such policies and requirements as may be prescribed by the Director of the Office of Management and Budget;

(C) complies with any other requirements applicable to such systems; and

(D) provides for -

(i) complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management;

(ii) the development and reporting of cost information;

(iii) the integration of accounting and budgeting information; and

(iv) the systematic measurement of performance;

(4) make recommendations to the head of the agency regarding the selection of the Deputy Chief Financial Officer of the agency;

(5) direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations, including....

*(1) The Chief Financial Officers Act of 1990 established in law a Chief Financial Officer (CFO) and deputy CFO for all executive departments and certain major executive agencies. Until recently, the chief financial officer in most federal agencies was an administrative appointment. The Department of Housing and Urban Development was the first department to have the position established in law.*

*(2) The CFO of a department or agency reports directly to the agency head; the CFO's responsibilities cover accounting, internal control, the overall financial management system, and budget execution.*

*(3) The Chief Financial Officers Act established in OMB a deputy director for management and an Office of Federal Financial Management (headed by the controller). The act also established a Chief Financial Officers Council, chaired by the OMB deputy director for management.*

**Source**: 31 *U.S.C.* 902, as added by Section 205(a) of the Chief Financial Officers Act of 1990 (104 *Stat*. 2843).

**Box 8-E.**
**Major Features of the Government Performance and Results Act of 1993**

| | |
|---|---|
| Purpose | To shift the focus of government management from inputs and outputs to outcomes and accomplishments, from process to results, from compliance to performance, and from management control to managerial initiative. |
| Basic requirements | All agencies must define long-term goals and strategic plans, set annual performance targets derived from these goals, and annually compare actual performance to targets. |
| Pilot tests | Three sets of pilot tests: performance plans and reports; enhanced managerial accountability and flexibility; and performance budgeting. (Many of the pilot tests were not conducted, and agencies moved directly to implementation.) |
| Implementation schedule | Eight-year implementation schedule to provide feedback from pilot tests. |
| 1993 | Selection of at least 10 agencies as pilot sites for testing performance plans and reports. |
| 1994 | At least five of these agencies selected as pilot sites for testing managerial accountability and flexibility. |
| 1997 | OMB reports to Congress on results of pilot tests and GAO reports to Congress on agency readiness for full implementation. |
| | Agencies submit 5-year strategic plans (to be updated every three years). |
| | Agencies submit annual performance plans for FY1999, with annual plans each subsequent year. |
| | Selection of at least five agencies as pilot sites for tests of performance budgeting. |
| 1998 | OMB submits governmentwide performance plan as part of FY1999 budget, with annual update thereafter. |
| 2000 | Agencies submit annual performance reports for FY1999, with annual updates thereafter. |
| 2001 | OMB reports to Congress on pilot test of performance budgeting. |

**Accounting and Budgeting.** The accounting system is the source of basic data on an agency's financial condition and operations. As indicated by the title of the 1921 law that established the presidential budget system, at one time budgeting and accounting were integrated activities that shared the same database and operated in close relation to one another. The budget was a plan of expenditures for a future fiscal period; the accounting system reported on expenditures during a past period. In this integrated relationship, the accounting system fed financial information to budget makers, and the budget fed data to those who compiled financial statements.

Over time, however, the two activities drifted apart, and accounting came to be viewed as a specialized activity that was isolated from the overall management of an agency. Moreover, budget systems accumulated conventions and practices on the treatment of revenue and expenditure that differed in some key aspects from the way they were recorded in financial statements. Many federal agencies relied on budgetary information systems rather than accounting data to prepare budget requests.

Modern financial management reintegrates accounting and budgeting and views them as connected, interdependent, consistent processes. This reintegration was the main objective of the Chief Financial Officers Act of 1990 (see **Box 8-E**), which directs OMB to develop a five-year plan for improving financial management and assigns agency chief financial officers (CFOs) broad responsibility for overseeing financial systems.

A key part of this development is a changed perspective on accounting systems. Rather than being isolated, accounting is now viewed as a vital part of each agency's managerial capacity. In line with this broad, managerial orientation, substantial effort has been made in recent years to upgrade and modernize federal accounting systems. These efforts have led to important progress in developing accounting principles and standards, integrating accounting with other financial management activities, and reporting on financial condition.

***Standardization of Accounting Systems.*** From about 1950 to 1980, accounting was highly decentralized. Agencies were encouraged to install accounting systems that served their particular needs, and within big departments, individual bureaus and operating units also were permitted to design their own specialized systems. Decentralization led to extreme fragmentation, with the federal government operating hundreds of separate systems that were unable to communicate with one another. It was not uncommon for the various systems to record transactions inconsistently and for the accounts maintained at the bureau level to be incompatible with those maintained by the department.

Within this fragmented arrangement, GAO took the lead in prescribing governmentwide accounting standards and in certifying agency compliance with these standards. From time to time, GAO reviewed agency accounting systems—it generally did not audit particular transactions, leaving this responsibility to the agencies and their inspectors general. But GAO was not the sole participant in the account field; as displayed in **Box 8-A**, responsibility for financial management is shared with the Treasury Department and OMB. The Treasury Department issued rules and requirements that enabled it to report periodically on the financial condition of the federal government, and OMB issued guidelines for assembling and executing

the executive budget. Having a pluralism of standard-setting agencies left the federal government without genuine accounting standards. GAO, the Treasury Department, and OMB cooperated from time to time through the Joint Financial Management Improvement Program (JFMIP), a small unit that disseminates information on financial management developments, but each took the position that it had the authority to promulgate accounting standards.

With passage of the Chief Financial Officers Act, however, the three agencies recognized a need to set aside their differences and cooperate in developing accounting standards that would enable federal entities to prepare auditable financial statements. Accordingly, GAO, the Treasury Department, and OMB established the Federal Accounting Standards Advisory Board (FASAB) and agreed that each would accept and issue accounting standards recommended by FASAB. During the 1990s, FASAB has devised, and OMB has issued, a series of Statements of Federal Financial Accounting Standards (SFFAS). The major standards are listed in **Box 8-F**. Note that the initial standards are broad statements of principle while the later standards apply to particular problems or practices.

Standardization has enabled federal agencies to prepare annual financial

**Box 8-F.**
**Statements of Federal Financial Accounting Standards**

| | |
|---|---|
| SFFAS 1. | Accounting for Selected Assets and Liabilities |
| SFFAS 2. | Accounting for Direct Loans and Loan Guarantees |
| SFFAS 3. | Accounting for Inventory and Related Property |
| SSFAS 4. | Managerial Cost Accounting Concepts and Standards for the Federal Government |
| SSFAS 5. | Accounting for Liabilities of the Federal Government |
| SSFAS 6. | Accounting for Property, Plant, and Equipment |
| SSFAS 7. | Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting |
| SSFAS 8. | Supplementary Stewardship Reporting |

statements (see **Exhibit 8-G**) and for the Treasury Department to develop a consolidated statement for the entire federal government. Not surprisingly, GAO has found many of these financial statements to have material weaknesses, but it anticipates steady improvement as agencies remedy deficiencies and gain experience in complying with accounting standards.

## Exhibit 8-G.
## Agency Financial Statements

**Consolidated Statement of Financial Position** *(in millions)*
as of September 30, 1996

| | |
|---|---|
| **Assets** | |
| Agency Assets | |
| Intragovernmental | |
| Fund Balance with Treasury (Note 2) | $10,911 |
| Investments (Note 3) | 6,402 |
| Accounts Receivable (Note 4) | 688 |
| * * * * * * | * * * |
| Total Assets | $94,033 |
| **Liabilities** | |
| Liabilities Covered by Budgetary Resources | |
| Intragovernmental Liabilities | |
| Accounts Payable | $776 |
| Debt (Note 9) | 2,456 |
| * * * * * * | * * * |
| Total Liabilities | $264,579 |
| **Net Position** | |
| Unexpended Appropriations (Note 17) | 5,841 |
| Invested Capital | 56,714 |
| Cumulative Results of Operations | 2,690 |
| Future Funding Requirements | (235,791) |
| Total Net Position | ($170,546) |
| Total Liabilities and Net Position | ($94,033) |

The accompanying notes are an integral part of these financial statements.

(1) *This financial statement for the Energy Department covers FY1996. Each of the main entries in this statement is supported by more detailed statements or by notes accompanying the financial statement.*

(2) *This statement shows that the Energy Department contributed to a reduction in the equity (the excess of assets over liabilities) of the federal government for FY1996. The department's liabilities amounted to about $264.6 billion, an excess of nearly $170.6 billion over assets of about $94 billion.*

(3) *The notes accompanying the financial statement set forth significant accounting policies used in preparing the statement and elaborate the assumptions used in computing various assets and liabilities.*

**Source**: Department of Energy, *Consolidated Financial Statements for Fiscal Year 1996* (available at the department's website on the Internet at *http://www.cfo.doe.gov/ficor/finstmt.pdf*).

In tandem with the new standardization, agencies have been encouraged to supplement core requirements with accounting practices and reports that meet their particular needs. These customized features are important to make accounting useful for managerial purposes.

***Financial Management for Agencies.*** Traditionally, financial management has served external requirements, such as those concerning the legal basis of expenditure. For this limited purpose, it sufficed to account for federal finances in terms of obligations authorized or incurred (budget authority) and cash received or paid out (receipts and outlays). Accounting for obligations is essential to ensure that funds are spent properly, while accounting for cash is essential for the Treasury Department's management of the government's debt operations.

In addition to these external requirements, an agency needs timely and accurate financial data to manage its own operations efficiently. Two steps have been taken to make accounting systems more useful for agency management. One has been to integrate accounting with other financial management activities and the agency's management information systems. The second step has been to supplement accounting for obligations and cash with cost-based (or accrual-based) accounts. The cost basis is compared to alternative methods of accounting in **Exhibit 8-H**. The main differences between traditional practices and cost-based accounting arise when obligations or outlays occur in one fiscal period but the cost is incurred in another period. This situation commonly occurs in procurement and construction programs, certain credit programs, and in programs which maintain large, variable inventories.

A cost-based budget records costs in terms of the goods and services consumed by each activity. This type of budget is useful in measuring the cost of providing a service or carrying out an activity. It sensitizes managers to their responsibility for controlling expenses and in improving the efficiency of operations. Cost-based budgets have made it possible for federal agencies to apply cost accounting techniques in managing their operations.

***Relationship to the Budget Process.*** As noted previously, the Budget and Accounting Act of 1921 conceived of accounting and budgeting as interdependent process, with decisions made in the budget providing the basis for the accounting structure, and the information collected by the accounting system providing a basis for new budget decisions. But as also noted, over the years accounting and budgeting drifted apart. Typically, they were assigned to different organizational units, and there was little contact between them.

During the 1990s, however, significant progress has been made in linking the two processes. The key development has been the establishment of a chief financial officer in 24 federal departments and agencies. As prescribed by the Chief Financial Officers Act of 1990, each CFO is to report to the head of the agency regarding all financial management matters. The CFO's responsibilities vary somewhat among agencies, but they generally include developing and maintaining an integrated accounting and financial management system, overseeing all financial management activities relating to programs and operations of the agency, and monitoring the financial execution of the budget. The 1990 act does not expressly assign a role to

**Exhibit 8-H.**
**Flow of Financial Transactions**

| Transaction | When order is placed | When materials are delivered | When materials are used | When bill is paid |
|---|---|---|---|---|
| | (obligation) | (accrued expenditure) | (expense) | (outlay) |
| Order for materials is placed. | Obligation is recorded as an undelivered order and a decrease to budgetary resources. | | | |
| Materials are received or constructively received. | | This is recorded as a liability (accounts payable), as a charge to inventory, and as a decrease in undelivered orders. | | |
| Materials are used or consumed. | | | Cost is recorded as a decrease in inventory and a charge to program or administrative activity. | |

*(1) This chart shows four types of expenditure entries: obligation, accrued expenditure, expense, and outlay.*

*(2) The authority to obligate is provided by budget authority, such as appropriations. When the obligation is incurred, the amount of available budget authority is reduced. An accrued expenditure is recorded and a liability is incurred when goods are received or when other transactions requiring payment occur.*

*(3) A cost (expense) is recorded when goods or materials are consumed or withdrawn from inventory, not when they are received. In this flow, outlays follow the recording of an expense or cost. The outlay precedes the cost when payment is made before the goods are used.*

**Source**: General Accounting Office, *Policy and Procedures Manual for Guidance of Federal Agencies*, Title 2 (Accounting), Appendix I, August 1987, page 12.

the CFO in formulating the agency budget, and actual practice in this regard varies significantly among federal agencies.

The 1990 act strengthened the leadership structure for federal financial management by creating within OMB the position of deputy director for Management (to serve as the CFO for the federal government) and the Office of Federal Financial Management, by designating CFO (and deputy CFO) positions for each executive department and major agency, and by setting up a Chief Financial Officers Council.

**Management Control (Internal Control).** The basic principle of management control is that each agency should have the primary responsibility for ensuring that its resources are used properly and efficiently. The term *management control* generally has replaced the term *internal control*, although the latter still is used in various documents and reports. While the two terms sometimes are used interchangeably, *management control* conveys a broader sense of the responsibility of federal managers for the resources they use and the results achieved.

The Federal Managers' Financial Integrity Act requires each agency to establish management accountability and control systems, in accordance with standards prescribed by the comptroller general, which provide reasonable assurance that: (1) obligations and costs are in compliance with applicable law; (2) funds, property, and other assets are safeguarded against waste, loss, or abuse; and (3) revenues and expenditures are properly recorded.

The term *internal control* refers to the procedures used by agencies to ensure that established policies with respect to financial management are followed. The comptroller general has defined *internal control* as:

> the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

OMB *Circular A-123* (excerpted in **Exhibit 8-I**) sets forth policies and procedures to be followed by federal agencies in establishing and reporting on their management accountability and control systems. These guidelines require each agency to develop a management control plan that assesses the risk of various activities to waste or loss and to identify material weaknesses in their internal control systems. Furthermore, agencies must periodically evaluate their management accountability and control systems and take corrective action when necessary.

In addition to agency self-evaluations, GAO annually reviews management accountability and control systems and reports on any material weaknesses it has identified. The concept of material weakness is of fundamental importance in maintaining the integrity of controls. GAO has set forth a number of criteria that recognize that not all shortcomings entail the same degree of risk. In assessing whether a problem constitutes a material weakness, GAO advises agencies to consider the magnitude and sensitivity of the resources involved, conflicts of interest, violations of statutory requirements, and adverse publicity that would diminish an agency's credibility. GAO issues an annual report assessing progress in improving

## Exhibit 8-I.
## Management Accountability and Control

**OMB Circular A-123**

2. **Policy**. Management accountability is the expectation that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs and mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable law.

Management controls are the organization, policies, and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission;
(iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

3. **Actions Required**. Agencies and individual Federal managers must take systematic and proactive measures to (i) develop and implement appropriate, cost-effective management controls for results-oriented management; (ii) assess the adequacy of management controls in Federal programs and operations; (iii) identify needed improvements; (iv) take corresponding corrective action; and (v) report annually on management controls.

*(1) The Federal Managers' Financial Integrity Act (Public Law 97-255) requires each agency head to establish controls that reasonably ensure that: (a) obligations and costs comply with applicable law; (b) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (c) revenues and expenditures are properly recorded and accounted for.*

*(2) Each agency head must annually report to the President and Congress on whether there is reasonable assurance that management controls are achieving their intended objectives. The report must identify material weaknesses in the agency's controls and include plans to correct them.*

*(3) Circular A-123 further provides that in assessing their management controls, agencies should supplement their own judgment with audits and investigations conducted by the General Accounting Office (GAO) and the agency's inspector general.*

*(4) Agency management control systems must be consistent with* Standards for Internal Control Systems in the Federal Government, *issued by GAO.*

**Source**: Office of Management and Budget, *Circular A-123 (Management Accountability and Control)*, June 21, 1995, page 1.

agency financial management systems and in meeting the requirements of the Federal Managers' Financial Integrity Act.

**Consolidated Financial Statements.** Improvements in accounting and financial management culminated in 1998 with the issuance of the first audited financial statements covering the entire federal government. Although the auditors found numerous gaps and shortcomings in the statements, their publication marked a big step forward in applying accounting standards to report on the financial operations and condition of the federal government.

The requirement of published financial statements is embedded in the Constitution, which provides in Article I, Section 9, that "A regular Statement of Account of the Receipts and Expenditures of all public Money shall be published from time to time." Over the years, the Treasury Department has met this requirement by publishing an annual report on receipts and outlays. The report did not include information on the assets and liabilities of the government, nor was it prepared in accord with accepted accounting principles.

Two developments during the 1990s advanced the idea of true financial statements for the federal government. One was the work of the Financial Accounting Standards Advisory Board (FASAB); the other was the Government Management Reform Act of 1994. By 1997, FASAB had completed the basic of accounting standards, giving the federal government, for the first time in its history, the means by which to measure and report on its financial position and results. The 1994 law extended the requirement of audited financial statements to all departments and major agencies and called for audited statements covering the entire federal government to be published beginning with FY1997.

The new governmentwide financial statements are prepared on an accrual basis; hence, reported costs do not match budgeted expenditures. The statements reported that at the end of FY1997, the federal government has assets of $1.6 trillion and liabilities of $6.6 trillion. But the assets did not include the value of public lands or the federal government's taxing power. In auditing the statements, GAO concluded that because of significant weaknesses in financial systems, incomplete documentation and weak internal control, and other deficiencies, the government was unable to accurately report a large portion of its assets, liabilities, and costs. The quality of these statements is expected to improve rapidly now that it has been demonstrated that it is possible to produce governmentwide reports.

**Improving Government Performance.** The value of financial information depends on the use to which it is put. If it is produced only to satisfy external reporting requirements, there may be some benefit in improved accountability. But if the information is used by managers to measure and assess costs, to determine how resources should be deployed, and to restructure operations, then the payoff will come in higher organizational efficiency.

A potentially important advance in using the budget to promote efficiency was taken by the Government Performance and Results Act (GPRA) of 1993. The main provisions of this act are set forth in **Box 8-F**. They call for a sequence of actions by federal agencies, beginning with the development of performance measures early in

the 1990s, leading to agency strategic plans later in the decade, and concluding with agency and governmentwide performance plans linked to budget submissions at the end of the decade. Beyond this, agencies are to develop new performance plans annually based on the existing or revised longer-term strategic plans.

Agency strategic plans must have six critical components: (1) a comprehensive mission statement that explains why the agency exists and what it does; (2) agencywide long-term goals and objectives for the next five years, or longer, that explain the results expected from each major function and when to expect those results; (3) approaches or strategies to be employed by the agency in pursuing its objectives, including the resources needed to reach specified goals; (4) an explanation of the relationship between the agency's long-term goals and its annual performance goals, expressed in measurable terms so that actual results can be compared to plans; (5) identification of key factors beyond the agency's control that could significantly affect achievement of its strategic goals; and (6) a description of how program evaluations were used to define strategic goals, and a schedule of future evaluations.

GPRA requires agencies to consult with Congress during preparation of their strategic plans. In 1997, the House majority leadership established special teams to oversee implementation of the act. The first batch of strategic plans were submitted by September 30, 1997; updates are required every three years. At the behest of various congressional committees, GAO has assessed the strategic plans and concluded that they do not yet define a strategic direction for agencies to take in setting goals and measuring performance. In GAO's view, the early strategic plans should be regarded as only the starting points for the broad transformation that is needed to implement performance-based management.

The next step in the GPRA process the submission of annual performance plans to OMB by federal agencies. On the basis of these agency plans, OMB, beginning with the FY1999 budget cycle, must include a federal performance plan in the President's budget. Agency plans must specify goals that define the performance to be achieved, express the goals in an objective, quantifiable, and measurable form, describe the operational processes and resources required to achieve the goals, specify performance indicators to be used in measuring or assessing outputs, and provide a basis for comparing actual results with program goals.

The culmination of the GPRA process may be the introduction of performance-based budgets in which a level of resources is explicitly linked to a level of outputs. This form of budgeting was tried in the 1950s and 1960s with little success. It is too early to know whether the outcome will be more favorable this time, but if it is, it will be because developments in financial management and a new culture of performance management has created the conditions under which the allocation of resources can be based on actual or planned results rather than on agency demands.

# Appendix A. How to Obtain Publications Exhibited in the Manual

Members of Congress and congressional staff may obtain the different types of publications exhibited or otherwise cited in the manual from various sources.

Public laws, legislation, committee reports, and other documents of the current (and immediate past) Congress may be obtained from the House and Senate document rooms. Hearings and prints usually are issued directly by committees. Historical collections of public laws and some congressional publications are available through the House Legislative Resource Center, the Senate Library, and the Congressional Research Service.

The standing rules of the House and Senate may be found in documents of the respective houses that are issued each Congress. The precedents of the House and Senate also are published periodically as documents of the respective Houses.

Certain budgetary publications of executive and legislative agencies are routinely distributed to congressional offices. Copies also may be obtained from the legislative affairs office or the publications office of the particular agency.

Finally, almost all of the publications referred to in this manual can be obtained over the Internet at the website of the appropriate entity. Congressional publications generally are available through the Legislative Information System (*http://www.congress.gov*). Websites for congressional support agencies and selected executive agencies are listed below.

- Congressional Budget Office, *http://www.cbo.gov*;
- Congressional Research Service, *http://www.loc.gov/crs*;
- General Accounting Office: *http://www.gao.gov*;
- Government Printing Office: *http://www.access.gpo.gov*;
- Office of Management and Budget: *http://www.whitehouse.gov/wh/eop/omb*;
- Treasury Department: *http://www.treas.gov*.

# Appendix B. Milestones in the Federal Budget Process

**1789 Constitution, Article I, Section 7**

Requires that revenue bills originate in the House. (By custom, appropriations measures also originate in the House.)

**1789 Constitution, Article I, Section 9**

Requires the enactment of appropriations before expenditure, and a public statement of receipts and expenditures.

**1802-1867 House and Senate Rules**

House Ways and Means Committee established as a standing committee in 1802; House Appropriations Committee established in 1865. Senate Finance Committee established in 1816; Senate Appropriations Committee established in 1867.

**1837 House Rule XXI**

Bar against unauthorized appropriations and bar against appropriations in legislation.

**1850 Senate Rule XVI**

Bar against unauthorized appropriations.

**1870, 1905-1906 Antideficiency Act**

Requires apportionment of funds to prevent over-expenditure. Amended in 1950 to permit budgetary reserves and in 1974 to restrict such reserves.

**1921 Budget and Accounting Act of 1921**

Provides for an executive budget system; established the Bureau of the Budget and the General Accounting Office.

**1939 Reorganization Plan No. 1 (Executive Order 8248)**

Transferred the Bureau of the Budget from the Treasury Department to the Executive Office of the President and expanded the Bureau's role.

**1946 Employment Act of 1946**

Requires the President to submit an annual economic report to Congress; established the Council of Economic Advisers.

**1946 Legislative Reorganization Act of 1946**

Provided for a legislative budget, which was abandoned after several years.

**1950 Budget and Accounting Procedures Act of 1950**

Established requirements for budgeting, accounting, financial reporting, and auditing.

**1967 President's Commission on Budget Concepts**

Adoption of the unified budget (first implemented for FY1969).

**1970 Legislative Reorganization Act of 1970**

Provided for five-year budget projections and expanded the role of GAO in program evaluation.

**1970 Reorganization Plan No. 2 (Executive Order 11541)**

The Bureau of the Budget was renamed the Office of Management and Budget.

**1974 Congressional Budget and Impoundment Control Act of 1974**

Established the congressional budget process, House and Senate Budget Committees, and the Congressional Budget Office. Also, established procedures for legislative review of proposed rescissions and deferrals.

**1980 Reconciliation Process**

Reconciliation process used for the first time as part of the first budget resolution.

**1982 Federal Managers' Financial Integrity Act**

Requires ongoing evaluations and reports on each agency's system of internal control so as to provide reasonable assurance that obligations and costs are in compliance with law, revenue and expenditures are properly recorded, and assets are safeguarded against waste, loss, or unauthorized use.

**1985 Balanced Budget and Emergency Deficit Control Act of 1985**

Established deficit-reduction goals and sequestration procedures aimed at balancing the budget by FY1991. Also, made extensive amendments in the Congressional Budget Act of 1974.

**1987 Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987**

Revised the sequestration process, extending the goal of a balanced budget until FY1993 and requiring that the OMB director determine if a sequester is necessary.

**1990 Budget Enforcement Act of 1990**

Revised the sequestration process, abandoning fixed deficit targets in favor of adjustable targets and established discretionary spending limits, which cap annual appropriations, and a pay-as-you-go requirement, which mandates that action on direct spending and revenue legislation not increase the deficit. Also, established new budgeting and accounting rules for direct loans and loan guarantees under the Federal Credit Reform Act of 1990.

**1990 Chief Financial Officers Act**

Requires appointment of chief financial officer in 23 major federal agencies to oversee financial management activities, develop and maintain an integrated agency accounting and financial reporting system, and monitor the execution of the budget.

**1993 Government Performance and Results Act of 1993**

Directs federal agencies to develop long-term goals and strategic plans, to prepare annual performance targets tied to budget requests, and to report annually on actual performance compared to the targets.

**1994 Government Management Reform Act of 1994**

Incorporates various recommendations to improve federal management and budgeting from the National Performance Review.

**1995 Unfunded Mandates Reform Act of 1995**

Establishes procedures (incorporated into the Congressional Budget Act of 1974) to strengthen controls over the imposition by Congress of costs on state and local governments and the private sector.

**1996 Line Item Veto Act**

Authorized the President to cancel discretionary spending, direct spending, and limited tax benefits within five days after signing a spending or revenue measure into law and set up congressional procedures to disapprove such cancellations. (The act was struck down by the Supreme Court in 1998.)

**1997 Budget Enforcement Act of 1997**

Extends the discretionary spending limits and pay-as-you-go requirement through FY2002 and makes various (mainly technical or minor) changes in the sequestration and congressional budget processes.

# Appendix C.  Citations to Major Budgetary Laws

**Antideficiency Act**

Title 31, *United States Code*, Sections 1341-1342 and 1512-1519.

**Balanced Budget and Emergency Deficit Control Act of 1985**

Title II of Public Law 99-177 (Increasing the Statutory Limit on the Public Debt); 99 *Stat*. 1038-1101; December 12, 1985.

**Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987**

Title I of Public Law 100-119 (Increasing the Statutory Limit on the Public Debt); 101 *Stat*. 754-784; September 29, 1987.

**Budget and Accounting Act of 1921**

Public Law 67-13; 42 *Stat*. 20-27; June 10, 1921.

**Budget and Accounting Procedures Act of 1950**

Public Law 81-784; 64 *Stat*. 832-845; September 12, 1950.

**Budget Enforcement Act of 1990**

Title XIII of Public Law 101-508 (Omnibus Budget Reconciliation Act of 1990); 104 *Stat*. 1388-573 through 630; November 5, 1990.

**Budget Enforcement Act of 1997**

Title X of Public Law 105-33 (Balanced Budget Act of 1997); 111 *Stat*. 677-712; August 5, 1997.

**Chief Financial Officers Act of 1990**

Public Law 101-576; 104 *Stat*. 2838-2855; November 15, 1990.

**Congressional Budget and Impoundment Control Act of 1974**

Public Law 93-344; 88 *Stat*. 297-339; July 12, 1974.  Titles I-IX are referred to as the Congressional Budget Act and Title X is referred to as the Impoundment Control Act.

**Employment Act of 1946**

Public Law 79-304; 60 *Stat*. 23-26; February 20, 1946.

**Federal Credit Reform Act of 1990**

(See the Budget Enforcement Act of 1990, Section 31201. The Federal Credit Reform Act of 1990 was incorporated into the Congressional Budget Act of 1974 as a new Title V.)

**Federal Managers' Financial Integrity Act**

Public Law 97-255; 96 *Stat*. 814-815; September 8, 1982.

**Government Management Reform Act of 1994**

Public Law 103-356; 108 *Stat*. 3410-3417; October 13, 1994.

**Government Performance and Results Act of 1993**

Public Law 103-62; 107 *Stat*. 285-296; August 3, 1993.

**Gramm-Rudman-Hollings Act**

(See the Balanced Budget and Emergency Deficit Control Act of 1985; the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987; the Budget Enforcement Act of 1990; and the Budget Enforcement Act of 1997.)

**Impoundment Control Act of 1974**

(See the Congressional Budget and Impoundment Control Act of 1974.)

**Legislative Reorganization Act of 1946**

Public Law 79-601; 60 *Stat*. 812-852; August 2, 1946.

**Legislative Reorganization Act of 1970**

Public Law 91-510;84 *Stat*. 1140-1204; October 26,1970.

**Line Item Veto Act**

Public Law 104-130; 110 *Stat*. 1200-1212; April 9, 1996.

**Unfunded Mandates Reform Act of 1995**

Public Law 104-4; 109 *Stat*. 48-71; March 22, 1995.

# Appendix D.  Glossary of Budgetary Terms

**Account**.  A control and reporting unit for budgeting and accounting.  Each account in the budget is assigned a unique identification number.

**Accrual Basis**.  The basis of accounting which records revenues when they are earned and expenditures when costs are incurred, regardless of the period in which money is received or payments made.

**Accrued Expenditures**.  Charges that reflect liabilities incurred for:  (1) services performed by employees, contractors, and others; (2) goods and other property received; and (3) amounts becoming owed under programs for which no current service or performance is required, such as annuities and other payments. Expenditures accrue regardless of when cash payments are made.

**Advance Appropriation**.  Budget authority provided in an appropriations act to become available in a fiscal year beyond the fiscal year for which the appropriations act is enacted.  The amount is included in the budget totals for the fiscal year in which the amount will become available for obligation.

**Allocation**.  In executive budgeting, allocations are budget authority or other budgetary resources transferred to another account to carry out the purposes of the parent account.  In congressional budgeting, an allocation is a distribution of the budget authority, outlays, and certain other resources set forth in a budget resolution to House or Senate committees with jurisdiction over such resources.  The allocation is made pursuant to Section 302(a) of the Congressional Budget Act, and is followed by a subdivision of the allocation amounts among each committee's programs or subcommittees.

**Allotment**.  An authorization by the head (or other authorized official) of an agency to subordinates to incur obligations within a specified amount. The amount allotted by an agency cannot exceed the amount apportioned by the Office of Management and Budget.

**Allowance Letter**.  A letter sent to each agency by OMB after the President's budget has been submitted to Congress. The letter advises agencies of budget decisions and multi-year planning estimates, employment ceilings, goals for management improvement, and other significant policy and administrative matters.

**Allowances**.  Amounts included in the budget to cover possible additional expenditures for statutory pay increases, contingencies, and other requirements.

**Annual Authorization**.  An authorization of appropriations for a single fiscal year, usually for a definite amount of money.  Programs with annual authorizations are supposed to be reauthorized each year.  If ongoing programs are not reauthorized,

Congress often enables them to continue by providing appropriations.

**Apportionment**. A distribution made by the Office of Management and Budget of amounts available for obligation. Apportionments divide these amounts by specific time periods (usually quarters) or activities. The amounts apportioned limit the amount that may be obligated. In apportioning an account, some funds may be reserved to provide for contingencies or to effect savings, pursuant to the Antideficiency Act, or may be proposed for rescission pursuant to the Impoundment Control Act.

**Appropriated Entitlement**. An entitlement whose budget authority is provided in annual appropriations acts rather than in substantive law. These entitlements are classified as direct spending by the Budget Enforcement Act.

**Appropriation**. A provision of law providing budget authority that permits federal agencies to incur obligations and to make payments out of the Treasury for specified purposes. Annual appropriations are provided in appropriations acts; most permanent appropriations are provided in substantive law.

**Appropriation Limitation**. A provision in an appropriations act that establishes the maximum amount that may be obligated or spent for specified purposes. The limitation may be applied to the amount of direct loan obligations, guaranteed loan commitments, administrative expenses financed out of trust funds, or other purposes.

**Appropriations Act**. A law that authorizes federal agencies to incur obligations and to make payments out of the Treasury for specified purposes. The law may be a regular, supplemental, or continuing appropriations act.

**Authorization**. A provision in law that authorizes appropriations for a program or an agency. An authorization may be effective for one year, a fixed number of years, or for an indefinite period, and may be for a definite amount of money or for "such sums as may be necessary."

**Authorizing Legislation**. A law that establishes or continues one or more federal agencies or programs, establishes the terms and conditions under which they operate, sets other policy requirements or restrictions, authorizes the enactment of appropriations, and specifies how appropriated funds are to be used.

**Backdoor Spending**. (See **Direct Spending** and **Spending Authority**.)

**Balanced Budget**. A budget in which receipts equal or exceed outlays.

**Balances of Budget Authority**. Amounts of budget authority provided in previous years that have not been spent. Obligated balances are amounts that have been obligated but have not yet been liquidated; unobligated balances are amounts that have not been obligated and remain available for obligation.

**Baseline**. A projection of future revenues, budget authority, outlays, and other budget amounts under assumed economic conditions and participation rates, and assuming no change in current policy. The baseline is projected for each of the next five (or more) fiscal years by the Congressional Budget Office. It is used in preparing the congressional budget resolution, in scoring the budgetary impact of legislation under the PAYGO rules, and

in estimating the budgetary impact of provisions in reconciliation bills.

**Biennial Budget**. A budget for a period of two years. The federal government has an annual budget, but proposals have been made that it use a biennial budget.

**Borrowing Authority**. Spending authority that permits a federal agency to incur obligations and to make payments for specified purposes out of funds borrowed from the Treasury or the public. Except for trust funds and certain other exceptions, new borrowing authority is effective only to the extent provided in appropriations acts.

**Breach**. The amount by which new budget authority or outlays within a discretionary appropriations category is above the limit for that fiscal year. The Budget Enforcement Act provides for eliminating a breach by sequestering resources in the discretionary category in which the breach occurred.

**Budget Amendment**. A revision to a pending budget request, submitted to Congress by the President before Congress completes appropriations action.

**Budget Authority**. Authority provided by law to enter into obligations that normally result in outlays. The main forms of budget authority are appropriations, borrowing authority, and contract authority. Budget authority also includes the subsidy cost of direct and guaranteed loans, but not the unsubsidized portion. Budget authority may be classified by the period of availability (one-year, multiyear, no-year), by the timing of congressional action (current or permanent), or by the amount available (definite or indefinite).

**Budget Enforcement Act**. A 1990 law (amended in 1993 and 1997) that establishes limits on discretionary spending and PAYGO rules for revenue and direct spending; it also established maximum deficit targets, which no longer are in effect.

**Budget Receipts**. Collections from the public and from payments by participants in certain social insurance programs. These collections consist primarily of tax receipts and social insurance premiums. Budget receipts do not include various offsetting receipts which are accounted for as negative outlays, not as revenues.

**Budget Resolution**. A concurrent resolution passed by both Houses of Congress, but not requiring the signature of the President, setting forth the congressional budget for at least the next five fiscal years. The budget resolution sets forth various budget totals and functional allocations, and may include reconciliation instructions to designated House or Senate committees.

**Budget Surplus or Deficit**. The arithmetic difference between budget receipts and outlays (*i.e.*, the deficit is an excess of outlays over budget receipts).

**Budgetary Resources**. The amounts available, regardless of source, for obligation in a fund or account. These resources include new budget authority, permanent appropriations that become available in a fiscal year, transfers from other accounts, fees and other collections deposited in the account, and unobligated balances.

**Business-type Statements**. Financial statements prepared for government corporations, revolving funds that have business-type operations, and

government-sponsored enterprises. These statements differ from budget schedules in that they focus principally on assets and liabilities rather than on budgetary resources.

**Capital Budget**. A budget that segregates capital or investment expenditures from current or operating expenditures. Investment in capital assets is excluded from calculations of the surplus or deficit, but the operating budget is charged for depreciation and/or debt service. The federal government does not have a capital budget, but investment-type expenditures are displayed in special budget schedules.

**Cash Basis**. The accounting method records revenues when received and expenditures when paid, without regard to the accounting period in which the revenues were earned or the costs incurred.

**Chief Financial Officer**. The official appointed pursuant to the Chief Financial Officers Act of 1990 to: (1) oversee all financial management activities relating to the programs and operations of the agency; (2) develop and maintain an integrated accounting and financial management system; and (3) monitor the financial execution of the budget.

**Closed Account**. An account whose balance has been canceled and is no longer available for obligation or outlay. An account that is available for a definite period of time (such as one fiscal year) is closed five years after obligations may no longer be drawn against it.

**Committee Allocation**. The distribution, pursuant to Section 302 of the Congressional Budget Act, of new budget authority, entitlement authority, and outlays to House and Senate committees. The allocation usually is made in the joint explanatory statement that accompanies the conference report on a budget resolution.

**Concurrent Resolution on the Budget/Congressional Budget**. (See **Budget Resolution**.)

**Constant Dollars**. The dollar value of goods and services, adjusted for changes in prices. Constant dollar series are used to report the inflation-adjusted amounts of receipts, outlays, and other budget categories.

**Consumer Price Index (CPI)**. A measure of the price change of a representative "market basket" of goods and services purchased by consumers. The CPI shows the relative cost of purchasing the specified market basket compared to the cost in a designated base year; the rate of change in the CPI measures how much prices are rising or falling.

**Contingent Liability**. A conditional obligation that may become an actual liability if certain events occur or fail to occur. Contingent liabilities include loan guarantees, deposit insurance, and price guarantees.

**Continuing Resolution**. An act (in the form of a joint resolution) that provides budget authority to agencies or programs whose regular appropriation has not been enacted after the new fiscal year has started. A continuing resolution usually is a temporary measure that expires on a specified date or is superseded by enactment of the regular appropriations act. Some continuing resolutions, however, are in effect for the remainder of the fiscal year and are the means of enacting regular appropriations.

**Contract Authority**. Spending authority that permits obligations to be incurred in advance of appropriations. With certain exceptions, contract authority is effective only to the extent provided in appropriations acts. Contract authority is funded by appropriations to liquidate (pay off) obligations incurred pursuant to it.

**Cost-based Budget**. A budget whose expenditures are based on the goods and services consumed rather than on the amounts obligated or outlayed.

**Cost Estimate**. An estimate prepared by the Congressional Budget Office of the outlays that would ensue under reported legislation over a five-year period. The cost estimate usually is published in the report accompanying the measure.

**Credit Authority**. Authority to incur direct loan obligations or to make loan guarantee commitments. Section 402 of the Congressional Budget Act bars Congress from considering credit authority legislation unless such authority is effective only to the extent provided in appropriations acts.

**Credit Subsidy Cost**. The estimated cost, over the duration of a direct loan or a loan guarantee, calculated on the basis of the net present value of the cash flows of the loan or guarantee, excluding administrative expenses. For direct loans, the subsidy cost is the net present value of loan disbursements, less repayments of principal and interest, and fees. For loan guarantees, the subsidy cost is the net present value of government payments for defaults, interest subsidies, and other payments, less payments to the government for fees, other charges, and recoveries.

**Current Dollars**. The dollar value of a good or service in terms of prices current at the time the good or service is sold. This is in contrast to the value of the good or service in constant dollars.

**Current Level**. As used by the House Budget Committee in making allocations pursuant to Section 302 of the Congressional Budget Act, refers to new budget authority and outlays resulting from existing law, in contrast to new budget authority and outlays resulting from new legislation.

**Current Services Estimates**. Estimates included in the President's budget of the levels of budget authority and outlays that would be required in future fiscal years to continue existing programs. These estimates reflect the projected costs of continuing federal programs without policy changes.

**Deferral**. An action or inaction that temporarily withholds, delays, or effectively precludes the obligation or expenditure of budget authority. Deferrals may be made only for the purposes authorized by the Antideficiency Act, not for policy reasons.

**Deficiency Apportionment**. An apportionment by the Office of Management and Budget of available budgetary resources in an amount that may compel the enactment of supplemental appropriations. Such apportionments may be made only for the purposes allowed by the Antideficiency Act.

**Deficit**. An excess of outlays over revenues.

**Direct Loan**. A disbursement of funds (not in exchange for goods or services) that is contracted to be repaid. The dollar value of direct loan obligations is included in the congressional budget resolution. The subsidy cost of direct

loans is reported in the President's budget in accord with procedures established by the Federal Credit Reform Act of 1990.

**Direct Spending**. Budget authority, and the resulting outlays, provided in laws other than annual appropriations acts. Appropriated entitlements are classified as direct spending. Direct spending is distinguished by the Budget Enforcement Act from discretionary spending and is subject to the PAYGO rules.

**Discretionary Spending**. Budget authority, and the resulting outlays, provided in annual appropriations acts, but not including appropriated entitlements. Discretionary spending is distinguished by the Budget Enforcement Act from direct spending.

**Discretionary Spending Limits**. Ceilings on budget authority and outlays for discretionary programs set by the Budget Enforcement Act. These spending limits are enforced by congressional rules and sequestration procedures.

**Earmarking**. Earmarked revenues are dedicated by law to a specified account, fund, or program. These include revenues deposited in trust and general funds and offsetting collections credited to appropriations accounts. Earmarked expenditures are dedicated by an appropriations act or the accompanying committee report to a particular project or activity within an account.

**Emergency Spending**. Spending designated by the President and Congress as an emergency requirement. If it is direct spending, the amount is not scored in enforcing the PAYGO rules; if it is discretionary spending, the discretionary spending limits are increased by an amount equal to the additional spending.

**Entitlement Authority**. A law that obligates the federal government to make payments to eligible persons, businesses, or governments. Entitlement authority may be funded by either a permanent or annual appropriations.

**Expired Account**. An appropriation or fund account in which the balances are no longer available for incurring new obligations because the time available for such obligations has expired. Outlays may be made in an expired account to liquidate obligations incurred when the account was open.

**Federal Debt**. The total amount of Treasury debt and agency debt, consisting of debt held by the public and debt held by trust and special funds.

**Federal Funds**. All monies collected and spent by the federal government other than those designated as trust funds. Federal funds include general, special, public enterprise, and intragovernmental funds.

**Financial Statements**. Statements showing the financial condition of an agency, including statements of financial condition, results of operations, cash flows, and a reconciliation to budget schedules. The Government Management Reform Act of 1994 requires all agencies to have audited financial statements and for the Treasury to issue a consolidated financial statement for the federal government.

**Financing Account**. An account (established pursuant to the Federal Credit Reform Act) which receives payments from a credit program account and includes other cash flows to and from the government resulting from direct loan obligations or loan guarantee

commitments. The transactions of financing accounts are not included in the budget totals.

**Fiscal Policy**. Federal government policies with respect to taxes, spending, and debt intended to promote the nation's macroeconomic goals, particularly with respect to employment, gross domestic product, price level stability, and equilibrium in balance of payments.

**Fiscal Year**. The fiscal year for the federal government begins on October 1 and ends on September 30. The fiscal year is designated by the calendar year in which it ends; for example, fiscal year 1999 begins on October 1, 1998 and ends on September 30, 1999.

**Fixed Account**. An appropriation or funds account with balances that are available for a definite period of time, in contrast to accounts that have no-year funds. Balances in fixed accounts expire if they have not been obligated by the end of the period for which they are available.

**Forward Funding**. Budget authority that becomes available for obligation during one fiscal year and continues to be available through the next fiscal year. The budget authority is counted in the fiscal year for which the appropriation is made (not the succeeding fiscal year).

**Full Funding**. The provision of budget resources to finance the full estimated cost of a project or activity, such as a construction or procurement program, in contrast to incremental funding where only a portion of the estimated total cost is provided for in a single fiscal year. Also, the term "full funding" sometimes is applied to the appropriation of the full amount authorized in authorizing legislation.

**Functional Classification**. A classification of budgetary resources in terms of the principal purposes they serve. A function may be divided into two or more subfunctions. The last three digits of an account's identification code represent the subfunction into which the account has been classified.

**Government-sponsored Enterprises**. Enterprises established by the federal government, but privately owned. Because they are private corporations, these enterprises are excluded from the budget totals. Information concerning their finances is included in the President's budget. The government-sponsored enterprises include the Farm Credit Banks and the Federal Home Loan Mortgage Corporation, among others.

**Gross Domestic Product (GDP)**. The total market value of goods and services produced domestically during a given period. In contrast to the Gross National Product, GDP excludes capital income earned from investments abroad but includes the capital income that nonresidents earn from domestic investment.

**Identification Code**. The 11-digit code assigned to each appropriation or fund account that identifies: (1) the agency, (2) the account, (3) the timing of the transmittal to Congress, (4) the type of fund, and (5) the account's functional classification.

**Impoundment**. An action or inaction by an executive official or employee that delays or precludes the obligation or expenditure of budget authority. Every impoundment is classified either as a deferral or as a rescission.

**Justification Materials**. The documentation submitted by an agency to the Appropriations Committees in

support of its budget request. The documentation typically justifies changes between the current and the next fiscal year for each line item in the agency budget. The term is also applied by OMB to refer to the materials submitted to it by an agency in support of its budget requests.

**Line Item**. In executive budgeting, the term usually refers to a particular item of expenditure such as travel costs or equipment. In congressional budgeting, it usually refers to assumptions about particular programs or accounts made—but not included—in the budget resolution; in appropriations measures, it usually refers to individual accounts or parts of accounts.

**Line-Item Veto**. The power of the President to veto part of a bill passed by Congress. The Line Item Veto Act of 1996 authorized the President to cancel parts of legislation containing discretionary budget authority, new direct spending, or limited tax benefits. The act was ruled unconstitutional by the Supreme Court in 1998. At present, therefore, the President must sign or veto the entire measure.

**Liquidating Account**. An account (established pursuant to the Federal Credit Reform Act) to handle all cash flows to and from the government resulting from direct loan obligations and loan guarantee commitments made prior to the start of FY1992.

**Liquidating Appropriation**. An appropriation to pay obligations incurred pursuant to substantive legislation, usually contract authority. A liquidating appropriation is not recorded as budget authority.

**Loan Guarantee**. A commitment by the federal government to pay part or all of the loan principal and interest to the lender in the event of default by the borrower. The Federal Credit Reform Act provides for the cost of a guaranteed loan (defined as the net present value of all cash flows) to be included in the computation of budget authority and budget outlays.

**Management Control**. The methods and practices within an agency to safeguard its assets, check the accuracy and reliability of its accounting data, and foster compliance with prescribed financial management policies, sometimes referred to as internal control.

**Management Funds**. Accounts authorized by law to receive collections from two or more appropriations to carry out a common purpose or activity not involving a continuing cycle of operations.

**Means of Financing**. Financial flows that are not included in budget receipts or outlays. These include funds borrowed from the public, seigniorage, and the financing accounts established pursuant to the Federal Credit Reform Act.

**Mid-Session Review**. An updated summary of the President's budget, scheduled to be issued by July 15 each year, containing revised estimates of revenue, budget authority, and outlays, as well as other information.

**Monthly Treasury Statement (MTS)**. A summary statement issued each month by the Treasury. The MTS presents data on the receipts, outlays, and surplus or deficit for the month and fiscal year to date compared to the same period in the previous year.

**Multi-year Appropriation**. Budget authority provided in an appropriations act for a specified period of time in

excess of one fiscal year. Multi-year appropriations may cover periods that do not coincide with the start or end of a fiscal year.

**Multi-year Authorization**. An authorization of appropriations for a specified period of time in excess of one fiscal year. Programs with multi-year authorizations must be reauthorized periodically.

**National Income and Product Accounts (NIPA)**. Quarterly and annual accounts on aggregate economic activity, including the level and composition of the Gross Domestic Product. Federal revenues and outlays in the NIPA differ somewhat from those reported in the budget.

**No-year Appropriation**. Budget authority provided in an appropriations act that remains available for obligation for an indefinite period of time. No-year funds do not lapse if they are not obligated by the end of the fiscal year.

**Object Classification**. A classification of expenditures according to the goods and services purchased (such as personnel, supplies, and equipment). An object classification schedule is included for each appropriation account in the budget.

**Obligated Balance**. The amount of obligations incurred for which payment has not yet been made. This balance usually is carried forward until the obligations are paid.

**Obligation**. A binding agreement (such as through a contract or purchase order) that will require payment.

**Off-budget Entities**. The budget authority, outlays, and receipts of certain federal entities that have been excluded by law from budget totals. At present, off-budget entities include the Social Security trust funds and the federal payment to the Postal Service Fund.

**Offsetting Collections**. Receipts from the public that result from business-type activities as well as collections from other government accounts. These collections are deducted from budget authority and outlays; they are not counted as receipts.

**One-year Appropriation**. Budget authority provided in an appropriations act that is available for obligation only during a single fiscal year, usually the fiscal year specified in the enacting clause of the appropriations act.

**Outlay Rate**. (See **Spendout Rate**.)

**Outlays**. Payments made (generally through the issuance of checks or disbursement of cash) to liquidate obligations. Outlays during a fiscal year may be for payment of obligations incurred in prior years or in the same year.

**Outyear**. A year beyond the budget year, for which projections are made.

**PAYGO (Pay-as-You-Go) Process**. The procedure established by the Budget Enforcement Act to ensure that revenue and direct spending legislation does not add to the deficit or reduce the surplus. PAYGO requires that any increase in the deficit or reduction in the surplus due to legislation be offset by other legislation or sequestration. PAYGO is enforced by estimating the five-year budgetary effects of all new revenue and direct spending laws.

**Permanent Authorization**. An authorization of appropriations without limit of time and, usually, without limit

of money. A permanent authorization continues in effect unless changed or terminated by Congress.

**Permanent Appropriation**. Budget authority that becomes available without current action by Congress. Budget authority is considered to be "current" if provided in the current session of Congress and "permanent" if provided in prior sessions.

**Program Account**. An account (established pursuant to the Federal Credit Reform Act) to which an appropriation is made for the subsidy cost of a direct loan or loan guarantee program, from which such appropriation is disbursed to a financing account.

**Program and Financing Schedule**. A schedule, published in the President's budget, presenting budget data for each account. The schedule consists of several sections that provide data on obligations (by program activity), total budgetary resources, new budget authority, outlays, and offsets.

**Program, Project, or Activity (PPA)**. An element within a budget account. The PPAs are defined, for annually appropriated accounts, by the appropriations acts and accompanying reports and documentation; for accounts not funded by annual appropriations, PPAs are defined by the program listings provided in the obligations section of the Program and Financing schedule in the budget.

**Public Debt**. Amounts borrowed by the Treasury Department from the public or from another fund or account. The public debt does not include agency debt (amounts borrowed by other agencies of the federal government). The total public debt is subject to a statutory limit.

**Public Enterprise Fund**. A revolving account for business-type activities that is financed by offsetting collections credited to the account.

**Reappropriation**. Congressional action to continue the availability of budget authority that has expired or would otherwise expire. Reappropriations are counted as budget authority in the year for which the availability is extended.

**Reconciliation Bill**. A bill containing changes in law recommended pursuant to reconciliation instructions in a budget resolution.

**Reconciliation Instruction**. A provision in a budget resolution directing one or more committees to recommend legislation changing existing law to bring spending or revenues into conformity with the budget resolution. The instructions specify the committees, indicate the dollar changes to be achieved, and usually provide a deadline by which the legislation is to be reported.

**Reconciliation Process**. A process established in the Congressional Budget Act by which Congress changes existing laws to conform tax and spending levels to the levels set in a budget resolution. Changes recommended by committees pursuant to a reconciliation instruction are incorporated into a reconciliation bill.

**Reprogramming**. The shift of funds from one purpose to another within the same appropriation account. Reprogramming is often preceded by consultation between the federal agency and the appropriate congressional committees. It often involves formal notification and, in some instances, requires approval by congressional committees.

**Rescission**. The cancellation of budget authority previously provided by Congress. The Impoundment Control Act specifies that the President may propose to Congress that funds be rescinded. If both Houses have not approved a rescission proposal (by passing legislation) within 45 days of continuous session, any funds being withheld must be made available for obligation.

**Revolving Fund**. An account or fund in which all income derived from its operations is available to finance the fund's continuing operations without fiscal year limitation.

**Scorekeeping**. Procedures for tracking and reporting on the status of congressional budgetary actions affecting budget authority, receipts, outlays, the surplus or deficit, and the public debt limit.

**Scoring**. Measuring the budget effects of legislation for purposes of the Budget Enforcement Act. OMB is responsible for scoring enacted legislation to determine whether a sequester is necessary.

**Sequester**. The cancellation of budgetary resources pursuant to the Budget Enforcement Act in response to a breach in the discretionary spending limits or a violation of the PAYGO requirement.

**Special Funds**. Funds earmarked by law for specific purposes. There sometimes is little practical difference between a special fund and a trust fund.

**Spending Authority**. The term designated in the Congressional Budget Act for borrowing authority, contract authority, entitlement authority, and authority to forgo offsetting collections, for which the budget authority is not provided in advance by appropriations acts. These sometimes are referred to as "backdoor spending."

**Spendout Rate**. The rate at which the budget authority provided by Congress is spent by federal agencies; hence, the rate at which outlays occur (and sometimes referred to as the "outlay rate").

**Statutory Limit on the Public Debt**. The maximum amount, established in law, of public debt that can be outstanding. The limit covers virtually all debt incurred by the federal government, including borrowing from trust funds, but excludes some debt incurred by agencies.

**Subdivision**. A distribution made by a House or Senate committee pursuant to Section 302(b) of the Congressional Budget Act of the budget authority and outlays allocated to it. In the case of the Appropriations Committees, amounts must be subdivided among subcommittees.

**Supplemental Appropriation**. Budget authority provided in an appropriations act in addition to regular or continuing appropriations already provided. Supplemental appropriations acts sometimes include items not included in regular appropriations acts for lack of timely authorization.

**Tax Expenditures**. Revenue losses attributable to provisions of federal tax law that allow a special exclusion or deduction from income, or that provide a special credit, preferential tax rate, or deferral of tax liability. Tax expenditures involve no payment of funds from the federal government. Rather, the Treasury forgoes some of the receipts that it otherwise would have collected, and affected taxpayers pay

lower taxes than they otherwise would have had to pay.

**Transfer of Funds**. The shift of budgetary resources from one appropriation account or fund to another. Funds may be transferred only when authorized by law.

**Transfer Payments**. Payments made by the federal government to individuals or organizations for which no current or future goods or services are provided in return. Transfer payments include Social Security benefits, unemployment insurance, and veterans' benefits.

**Trust Funds**. Accounts designated by law as trust funds for receipts and expenditures earmarked for specific purposes.

**Undistributed Offsetting Receipts**. Collections that are offset against total spending rather than against particular accounts or functions. These include income from the sale of major assets and offshore oil leases.

**Unified Budget**. A comprehensive budget that includes all receipts and outlays from federal funds and trust funds.

**Unobligated Balance**. The portion of budget authority that has not been obligated. Unobligated balances are carried forward until the period for which they are available expires.

**User Fees**. Fees charged to users of goods or services provided by the federal government. In levying or authorizing these fees, Congress determines whether the revenue should go into the Treasury or should be available to the agency providing the goods or services.

**Views and Estimates Report**. A report issued each year (under the Congressional Budget Act), within six weeks of the President's budget submission, by each House and Senate committee with jurisdiction over federal programs. Each views and estimates report contains a committee's comments or recommendations on budgetary matters within its jurisdiction.

**Warrants**. Documents issued by the Secretary of the Treasury that establish the amount of money (by account) authorized to be withdrawn from the Treasury.

**Working Fund Accounts**. Funds established to receive advance payments from other agencies or accounts. Consolidated working funds are not used to finance the work directly, but only to reimburse the appropriation or fund account that will finance the work to be performed.