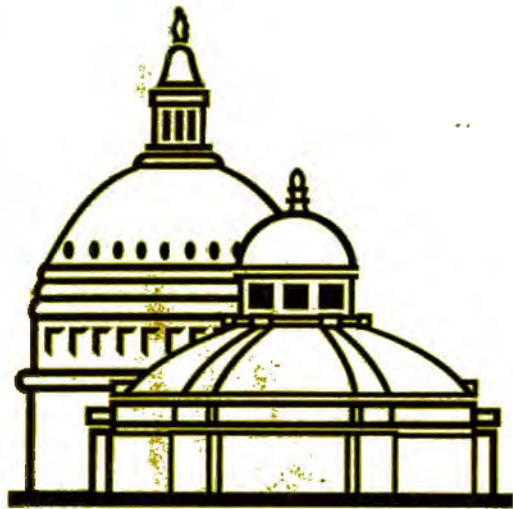




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CRS Report for Congress

An Introduction to the Spending and Budget Process in Congress

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AN INTRODUCTION TO THE SPENDING AND BUDGET PROCESS IN CONGRESS

SUMMARY

This report offers an introductory discussion of the spending and budget process in Congress. It begins by explaining some of the differences and relationships among budget authority, obligations, and outlays, and some of the alternatives to determining spending levels through the annual appropriations bills. The report then describes the authorization-appropriation sequence and congressional rules affecting appropriations before identifying some of the problems of coordination and control that encouraged the Congress to enact the Congressional Budget and Impoundment Control Act of 1974. As revised in 1986 and 1990, the report takes account of some of the major changes in the Budget Act that were made as part of the Balanced Budget and Emergency Deficit Control Act of 1985 (popularly known as the Gramm-Rudman-Hollings Act) and the Balanced Budget Reaffirmation Act of 1987 (Gramm-Rudman II), but does not explain the deficit reduction, or sequestration, provisions of those laws nor their possible effects. After a discussion of how the Congress has implemented the Budget Act, the report concludes with a summary of several other proposals for change.

CONTENTS

BUDGET AUTHORITY, OBLIGATIONS, AND OUTLAYS	2
ALTERNATIVES TO ANNUAL APPROPRIATIONS	4
THE AUTHORIZATION-APPROPRIATION SEQUENCE	7
CONGRESSIONAL RULES AFFECTING APPROPRIATIONS	9
PROBLEMS OF COORDINATION AND CONTROL	12
THE ISSUE OF IMPOUNDMENTS	13
THE FRAMEWORK OF A BUDGET PROCESS	15
IMPLEMENTING THE BUDGET ACT	19
PROPOSALS FOR CHANGE	23
GLOSSARY	26

AN INTRODUCTION TO THE SPENDING AND BUDGET PROCESS IN CONGRESS

Congress' power of the purse--which has often been described as the single most important basis of congressional power--derives from the constitutional prohibition against drawing any money from the Treasury that has not been appropriated by law. From this point on, complications abound. Even an introductory description of how Congress makes its spending and budget decisions requires discussion of some of the concepts and stages that arise in a process which has grown more complex over the years.

Before 1921, the agencies and departments of the Executive Branch submitted their own budget requests to Congress. There was no Federal budget as we now know it, in the sense of a deliberate and comprehensive spending plan that embodies a scheme of priorities for the Federal government in light of the revenues available to it. In 1921, as part of the Budget and Accounting Act, Congress empowered the President to submit an annual budget which reflects his priorities and which has become an important starting point for congressional decision-making each year.

The Gramm-Rudman-Hollings Act of 1985 and the 1987 amendments to it imposed a significant temporary constraint on the President's discretion in developing his budget. Section 241 of the Act provides that, unless Congress has declared war, the President's budget for any fiscal year between FY 1987 and FY 1993 (including any revisions or supplemental budget requests) shall not set forth a deficit in excess of the maximum deficit amount for that fiscal year, as provided in Section 201 of the Act (which amends Section 3 of the 1974 Budget Act). Section 241 also makes a permanent change in law by requiring the President to submit his annual budget on or before the first Monday after January 3 of 1987 and every year thereafter, rather than during the first fifteen days of each regular session of Congress. This change is intended to expedite Congress' annual consideration of budget, spending, and tax policies.

The President's budget document is accompanied by an almost bewildering array of detail, data, and documentation. But Congress never acts on the President's budget as a single document. Instead, every year Congress is expected to act on thirteen annual *general appropriations* bills, each of which is the responsibility of one of the subcommittees of the House and Senate Appropriations Committees.

However, the amounts appropriated for a fiscal year in these thirteen bills do not simply and fully determine how much the Federal government will spend during that fiscal year. One reason has to do with just what it is that Congress appropriates. Another has to do with the difficulties Congress has faced in trying to control Federal spending directly through the annual appropriations process.

BUDGET AUTHORITY, OBLIGATIONS, AND OUTLAYS

Congress appropriates money, to be sure. But to put it more precisely, Congress appropriates budget authority. Budget authority (or BA) is the authority granted to an agency or department by law to spend money. When the agency decides to use some of its budget authority, it makes a commitment to spend—it obligates budget authority. If budget authority is the authority to spend, an obligation is a commitment to spend. To this point, however, no money has actually been drawn from the Treasury and spent. Money is spent only when the Federal government pays its bills, such as bills for the goods and services it has purchased. Then the money is laid out; the budget authority that has been obligated becomes an outlay.

So there are three concepts in the process of Federal spending that must be distinguished: budget authority, obligations, and outlays. The differences among these concepts are important for several reasons.

First, for any fiscal year, an agency's budget authority is almost certainly not equal to its outlays. Suppose that the agency decides in September—a month before the fiscal year ends—to use part of its budget authority for Fiscal Year One to purchase a new computer; the agency signs a contract or purchase order and thereby obligates part of its budget authority for Fiscal Year One. But the computer may not be delivered until the following March, after Fiscal Year Two has begun. If the agency pays for the computer on delivery, the outlay occurs in Fiscal Year Two.

Different kinds of programs and different kinds of expenditures have different spend-out rates—the rates at which budget authority becomes transformed into outlays. Budget authority that is used for salaries usually is spent in the same fiscal year for which it is appropriated. On the other hand, budget authority that is obligated to pay for goods and services purchased under contract may not be spent out until several years after it is obligated.

Thus, an agency's spending or outlays for each fiscal year consists largely of budget authority appropriated for that fiscal year; but it also consists in part of budget authority appropriated for previous fiscal years—budget authority that has been obligated but not yet spent, and perhaps also some unobligated budget authority that remains available for obligation.

Congress usually appropriates budget authority only for one fiscal year at a time. Any budget authority that has not been obligated by the end of that fiscal year automatically lapses; it can no longer be obligated. However, Congress sometimes permits budget authority to remain available for obligation for two or more fiscal years or to remain available indefinitely. Such budget authority sometimes is called "two-year," "three-year," or "no-year" money. So when a fiscal year begins, agencies may have available to them some unobligated budget authority that was appropriated by Congress a year

or more before, in addition to the budget authority provided to them in appropriations bills for that fiscal year.

The difference between budget authority and outlays is one reason that the total amount of annual Federal spending is not the same as the total amount that Congress appropriates each year. The annual Federal deficit or surplus is essentially the difference between receipts and outlays--the difference between the amount of money the government receives from taxes and other sources and the amount of money the government actually spends. And the relationship between the budget authority appropriated by Congress and the outlays of the Executive Branch depends on the spend-out rates for each appropriation. So a one dollar reduction in an agency's appropriation for a fiscal year may not result in a one dollar reduction in spending by that agency during the fiscal year. Cutting an agency's annual appropriation for salaries by one million dollars actually may reduce outlays in the coming fiscal year more than cutting its annual appropriation for equipment by two million dollars, because the budget authority for salaries is more likely to be spent during that next fiscal year.

Consider, for example, what this implies for defense spending. If Congress agrees with a recommendation in the President's budget that the Navy should acquire a new ship, Congress may appropriate an amount of new budget authority equal to the total projected cost of the ship. The Navy then enters into a contract with a manufacturer to build the ship; the budget authority is obligated. The manufacturer may receive some money immediately, but he will not be paid in full until the ship is delivered, which may be several years later. On the other hand, if Congress votes not to approve the budget authority for the ship, it may appropriate a total amount for defense spending for the coming fiscal year that is less than the President recommended. But Congress does not thereby reduce defense spending during that fiscal year by the amount that the ship would have cost, because most of the outlays for the ship would not have occurred until later fiscal years.

The relationship between budget authority and outlays is reflected in the deficit reduction and elimination procedures of the Gramm-Rudman-Hollings Act--procedures known as "sequestration" because they call for sequestering funds to reduce spending and the deficit. The Act requires "uniform percentage" reductions in both "budgetary resources" (including unobligated balances of budget authority appropriated by Congress in earlier years for defense programs) and outlays for all Federal programs, projects, and activities subject to the sequestration process. However, the ratio between outlays saved and budgetary resources cancelled can vary from program to program, depending on their spend-out or outlay rates.*

* On the Gramm-Rudman-Hollings Act, see Changes in the Congressional Budget Process Made by the 1985 Balanced Budget Act (P.L. 99-177), by Robert Keith, May 23, 1986, CRS Report 86-713 GOV; and Debt-Limit Increase and 1985 Balanced Budget Act Reaffirmation: Summary of Public Law 100-119 (H.J.Res. 324), by Edward Davis and Robert Keith; October 29, 1987; CRS Report 87-865 GOV.

So one set of complications in the spending and budget process derives from the difference between budget authority and outlays and the consequences of this difference. Another set of complications arises from the fact that the President's budget and the Congress' thirteen general appropriations bills for a fiscal year do not account for all Federal spending for that fiscal year.

ALTERNATIVES TO ANNUAL APPROPRIATIONS

The spending levels for many Federal programs are determined as Congress acts on these thirteen bills each year. But there are a number of alternatives to deciding and controlling spending levels solely through the regular general appropriations bills.

First, not all Federal spending has been included in the Presidential budgets submitted early each year. Until passage of the Gramm-Rudman-Hollings Act, Congress had provided by law that the financial transactions of certain Federal agencies and activities were not to be included in the budget totals. In general, there were placed off-budget either because the agencies or activities are supposed to be self-supporting--as in the case of the Postal Service--or because including them in the budget could create complicated accounting problems--as in the case of the Federal Financing Bank. Most discussions of Federal budget deficits traditionally have been based on estimates of on-budget spending, but for many years the total deficit was even greater because of off-budget spending.

The Gramm-Rudman-Hollings Act of 1985 requires that entities which had been off-budget shall hereafter be included in the President's annual budget (and in the congressional budget resolution required by the 1974 Budget Act, as amended). The two exceptions are federally sponsored private corporations and social security, although any surplus or deficit in the social security programs is to be taken into account in determining whether a Presidential budget or a congressional budget resolution is within the maximum deficit amount permitted under the Act for a fiscal year between FY 1987 and FY 1993.

Second, not all congressional appropriations are included in one of the thirteen annual bills. Sometimes Congress acts on a special appropriation bill that provides funds for only one purpose, usually in response to some unanticipated emergency. Also, Congress normally passes at least one supplemental appropriations bill each year, after the fiscal year has begun, to provide additional money for reasons that were not anticipated or could not be estimated accurately when the President submitted his budget and when Congress enacted the regular appropriations bills.

Third, in recent years, Congress has not managed to complete action on all thirteen general appropriations bills before the start of the new fiscal year. In this situation, Congress has passed continuing resolutions to permit agencies to continue to pay salaries and operate their programs until their regular appropriations bill becomes law. Continuing resolutions usually are short-term; in some cases, however, agencies or departments have been funded for an entire fiscal year under one or more continuing resolutions.

Fourth, some appropriations are not made through any one of the annual appropriations bills; instead, they are permanent appropriations. For example, the Federal government pays an increasing amount each year in interest on the public debt. The money to pay interest costs must be appropriated before it can be spent. But Congress has determined that it would be pointless to appropriate for this purpose every year--first, because the interest must be paid, so Congress cannot refuse to appropriate the necessary money; and second, because some Federal interest costs may be affected by changes in interest rates over which Congress does not have full control, so the amount required for interest payments cannot be calculated precisely in advance. Therefore, Congress enacted a law that permits interest payments to be made from any money in the Treasury that has not been appropriated for some other purpose. This appropriation is permanent. It does not have to be renewed each year, so there is no appropriation for such debt payments in any of the annual appropriations bills.

There is another reason for permanent appropriations. Suppose the Federal government imposes a special tax, and also provides that all receipts from that tax shall be kept separate from other tax receipts by putting them in a trust fund because they are to be used for one special purpose. Before the receipts from the special tax which are in the trust fund can be used for that special purpose, they must be appropriated. Instead of making an annual appropriation, Congress may enact a permanent appropriation so that the tax receipts in the trust fund may be spent each year without further action by Congress. There are social security trust funds, for example, which receive certain revenues from social security taxes; the money entering these trust funds has been permanently appropriated for paying benefits.

The funds to pay for some other major Federal programs, especially entitlement programs, may or may not be included in annual appropriations bills. In either case, the costs of these programs generally cannot be controlled simply by appropriating less money.

Congress has enacted various laws which provide that people or governments meeting certain eligibility criteria are entitled to receive certain benefits. In this way, entitlement programs are created, and everyone who is entitled to the benefits has a legally enforceable claim against the Federal government for those benefits. Congress has concluded that it must pay the costs of these programs unless it first changes the laws establishing and governing them.

Some entitlements are funded through permanent appropriations—for example, the basic social security programs. The pension system for retired Federal civilian employees also is an entitlement program. The Federal contributions to the system are funded through a permanent appropriation of money in the general Treasury; they are not appropriated each year. In other cases, funds to pay the costs of entitlement programs are included in one of the annual appropriations bills. But many contend that Congress has no more direct control through the appropriations process over annually appropriated entitlements than it has over permanently appropriated entitlements. Congress must appropriate enough budget authority to meet the costs of the program, based on the known eligibility criteria and the best estimates of the number of eligible applicants. If Congress wants to reduce the costs of an entitlement—even one for which there is an annual appropriation—the most effective and certain way to do so is to change the law which sets the eligibility and benefit standards.

Entitlements are the most significant form of what have been called "*backdoor*" *spending* devices—devices which commit the Federal government to certain kinds of spending that cannot be reduced by cutting appropriations. Other forms of backdoor spending have included *contract authority* and *borrowing authority*.

In the case of contract authority, Congress enacts a law allowing an agency to enter into contracts; at some time, Congress must appropriate the money to pay the contractors. In the case of borrowing authority, a law allows an agency to borrow money; at some time, the Federal government must pay back the loan with interest. The money to pay for (or liquidate) the contract or borrowing authority may or may not be provided in an appropriations act, but the Federal government has entered into a commitment which it must honor. The necessary funds must be provided. Since 1974, Congress has required that amounts of new contract and borrowing authority usually must be approved by Congress in appropriations bills before the contract may be signed or the borrowing may take place.

Permanent appropriations, entitlements (whether permanently or annually appropriated), and contract and borrowing authority enacted before 1974 contribute to a category of annual Federal outlays that are often described as being "relatively uncontrollable under current law." These outlays are not truly uncontrollable, of course. They are *relatively uncontrollable* in the sense that they cannot be controlled by changing the amounts of new budget authority provided in annual appropriations bills. Instead, spending control for such programs is exercised through legislation reported by committees other than the Appropriations Committees. What is striking is how significant such "relatively uncontrollable" spending has become in recent decades. The House Budget Committee has estimated that more than half of Federal outlays in Fiscal Year 1985 resulted from uncontrollables such as interest payments, social security, and Medicare and Medicaid. Other

estimates using different criteria arrive at even higher estimates of uncontrollable spending as a percentage of total Federal spending.

Uncontrollable spending on such a massive scale severely limits the role of the Appropriations Committees in affecting both total Federal spending levels and Federal spending in certain fields such as health (since most health-related Federal spending takes the form of Medicare and Medicaid payments). In the same way, the ability of the House and Senate as a whole to control spending by cutting appropriations bills also is limited. For example, attempts to reduce or control domestic spending through the annual appropriations process must be limited to domestic programs that are funded in annual appropriations bills, and then only to appropriations in those bills that are discretionary, not uncontrollable. Using the same estimates of outlays for Fiscal Year 1985, less than 18 percent of those outlays were for non-defense discretionary spending.

For all of the reasons that have been discussed, it cannot truly be said that Federal spending policies and priorities are determined through congressional action on the thirteen annual general appropriations bills. Still, these bills account for billions of dollars each year and are the focus annually of prolonged congressional attention and action. They may well be the most important set of bills on which Congress is expected to act each year. Not surprisingly, therefore, the House and Senate have developed a rather elaborate body of rules and procedures for considering them.

THE AUTHORIZATION-APPROPRIATION SEQUENCE

The most noteworthy of these rules is the general proposition that an appropriation should be authorized in law before it is considered on the House or Senate floor. An *authorization* that has been enacted into law does not permit any money to be spent—it is not budget authority. Instead, a statutory authorization for an agency or program is generally a prerequisite for Congress to appropriate budget authority for that agency or program.

Thus, House and Senate rules generally prescribe a two-stage sequence of congressional actions for funding Federal activities: first, Congress is to enact an authorization; then, Congress may appropriate for the authorized activity. Authorization bills are within the jurisdiction of various House and Senate committees; appropriations bills are the exclusive responsibility of the two Appropriations Committees.

The authorization stage of the sequence is not imposed by the Constitution; it is imposed only by the rules of the House and the Senate. And either the House or the Senate is free to waive, ignore, change, or repeal any of its rules, including its rules against unauthorized appropriations. If Congress decides to enact an unauthorized appropriation (as it sometimes does), it is

free to do so, and the budget authority that is appropriated may be obligated by the Executive Branch.

One way of thinking about this authorization-appropriation sequence is to view authorization bills as decisions by Congress, based on the recommendations of its expert legislative committees, that the Federal government should undertake a certain activity in a particular way. Congress decides in an authorization bill that the activity authorized is a necessary or desirable thing for the Federal government to be doing. But there are more necessary or desirable things for the Federal government to do than it can afford to do fully at any one time. The appropriations process asks a different question: not whether the activity should be conducted, but how much money should be allocated to that activity when it is compared with all the other competing demands on limited Federal revenues.

Before 1960, most authorizations were permanent. Congress would pass and the President would sign a bill creating an agency or department or directing an existing agency or department to administer a new program. The bill would include various provisions governing how the agency, department, or program was to be managed and what it was to accomplish. During most of this century, such bills also included provisions to the effect that "there are hereby authorized to be appropriated such sums as may be necessary" to implement the law. Congress could then appropriate budget authority each year in accordance with this permanent authorization.

In recent years, congressional practice has changed. Instead of being authorized permanently, the appropriations for many departments, agencies, and programs now must be re-authorized either annually or periodically.

For example, the law creating the Department of Energy included provisions governing the department's organization, management, and responsibilities. The law also authorized appropriations to implement the law during the next fiscal year. Once the authorization became law, Congress could enact the necessary appropriations. At the end of that fiscal year, the basic provisions of law governing the Department remained in force, but the authorization of appropriations to implement them expired. Before Congress could appropriate funds, under its rules, for the Department's activities during the next fiscal year, those funds again had to be authorized. In other words, Congress is supposed to enact an annual authorization law as well as an annual appropriations law for the management and conduct of those Federal energy programs.

Today, Congress authorizes appropriations for only one year at a time for many departments, agencies, and programs. In other cases, authorizations extend for two, three, or five years, for example, but they must be renewed periodically. These annual or periodic re-authorization requirements give the House and Senate, and their legislative committees, regular opportunities to review the programs and performance of the Executive Branch in the process

of re-authorizing appropriations, so they may be viewed as one way of encouraging and improving congressional oversight. In fact, re-authorization bills normally make numerous changes in agency functions and programs in addition to authorizing appropriations for one or more fiscal years.

The movement from permanent to annual and periodic authorizations has had at least two other important consequences.

First, when an agency or department was authorized permanently, Congress could not very well set a specific level of appropriations that were authorized for each future fiscal year, because it was impossible to anticipate with any accuracy what a reasonable funding level might be in ten, twenty, or thirty years. Thus, Congress authorized the appropriation of "such sums as may be necessary." However, now that Congress authorizes appropriations annually or periodically, it may authorize the appropriation of specific sums. So it has become common practice for Congress to authorize the appropriation of a certain amount of new budget authority for one particular fiscal year: for example, "there is hereby authorized to be appropriated the sum of \$1 million for Fiscal Year 1985 for carrying out the purposes of this act." Once such an authorization level is enacted, it becomes a ceiling on the amount that can then be appropriated without violating congressional rules. Any appropriation in excess of the authorized level would be an unauthorized appropriation. ✓

Second, the practice of requiring annual or periodic re-authorizations means that these bills must be considered each year (or whenever a current authorization expires) in addition to the appropriations bills, if Congress is to enact the laws necessary for continuing the current operations and activities of the Federal government, and to enact them in a way that meets the requirements of its own rules. Before considering some of the problems that can arise, we must first examine the rules by which Congress imposes and enforces the authorization-appropriation sequence.

CONGRESSIONAL RULES AFFECTING APPROPRIATIONS

The House and Senate have rules, precedents, and practices concerning the authorization requirement and the relationship between appropriations on the one hand and authorizations and other legislation on the other. In general, House procedures and requirements on these subjects (as on others) are somewhat more restrictive than those of the Senate.

The rules of the House--specifically clause 2 of House Rule XXI--state that no provision of a bill and no amendment to a bill shall be considered on the House floor if it would appropriate for a purpose or program that has not already been authorized by law, with an exception for certain public works projects already underway. It is not sufficient for the House to have passed the authorization or for the Senate to have passed it as well; the authoriza-

tion must have been enacted into law. Any Representative can make a point of order on the House floor that prevents consideration of an unauthorized appropriation, including an appropriation that is greater than the amount authorized.

The rules of the Senate, on the other hand, are not nearly as restrictive. According to Senate Rule XVI, the Senate can consider an unauthorized appropriation on the floor if, for example, the authorization has passed the Senate during that session of Congress, even though it has not yet become law. Or the Senate can consider an unauthorized appropriation if that appropriation is recommended by the Senate's Appropriations Committee or by the Senate committee with jurisdiction over the authorization bill. Thus, it is possible--and it is not unusual--for the Senate to agree to appropriations that were not approved by the House, and could not have been approved by the House without waiving or violating its rules.

House and Senate rules also impose another general restriction on what can appear in a general appropriations bill. These bills should not include what is often called "legislation." In one sense, of course, a general appropriations bill is legislation like any other bill. But what "legislation" means in this context is a change in an existing law that governs how appropriations may be used. To over-simplify somewhat, the purpose of appropriations bills reported by the Appropriations Committees is to provide money; changes in laws governing the use of that money are more properly made through authorization and re-authorization bills and other bills reported by the other legislative committees of the House and Senate. Thus, it would normally be a violation of House or Senate rules to propose in a general appropriations bill that an agency or department may use or must use money appropriated by that bill for a purpose or in a way that is not already specified by law.

To enforce this prohibition, clause 2(b) of House Rule XXI provides that "[n]o provision changing existing law shall be reported in any general appropriation bill. . ." and that "[n]o amendment to a general appropriation bill shall be in order if changing existing law." (This clause includes a rather narrow exception, known as the "Holman rule," for certain provisions of such bills if those provisions would change existing law in a way that would "retrench" or reduce expenditures. Section 228 of the Gramm-Rudman-Hollings Act also amended the clause to permit general appropriations bills to include rescissions of previously-enacted appropriations.) Similarly, Senate Rule XVI states that "[t]he Committee on Appropriations shall not report an appropriation bill containing amendments to such bill proposing new or general legislation . . ." and that, "[o]n 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. . ."

It bears emphasizing, however, that, like the rules generally prohibiting unauthorized appropriations, this prohibition against legislating on general appropriations bills is only enforced if a Representative or Senator takes the

initiative to enforce it. Moreover, there is an established procedure in the House--and a procedure that is used frequently--to waive either of these two prohibitions.

It can be very difficult for Congress to enact an authorization or reauthorization bill before the House must begin floor consideration of the related appropriation. In such a situation, the Appropriations Committee may request that the House Rules Committee recommend, and that the House adopt, a resolution (known as a "rule" or "special rule") that waives points of order that Representatives could otherwise make against unauthorized appropriations in the Committee's bill. The same procedure can be used to protect legislative provisions in general appropriations bills against comparable points of order. The Rules Committee is not obliged to recommend such resolutions, but it usually does so when the Appropriations Committee requests them, just as the House usually agrees to the Rules Committee's recommendations when they are debated on the House floor.

There is no comparable procedure in the Senate, but this usually is not a serious problem. There are significant exceptions in Senate rules to the requirement that appropriations first be authorized by law, and the Senate can add "legislation" to a general appropriations bill on a subject if the House has already done likewise. Furthermore, the Senate is somewhat less likely than the House to enforce its rules strictly; if a majority of Senators wish to consider an amendment to a general appropriations bill, they can decide to consider it even if it might violate the Senate's rules.

In addition, there is an exception to the prohibition against legislating on general appropriations bills. While these bills may not contain legislation, they may contain provisions that are known as "limitations." A limitation restricts the way in which, or the purposes for which, certain funds appropriated for a specific fiscal year may be used, but it does not make a permanent change in law. This kind of provision usually states that none of the appropriated funds shall be used for a certain purpose. This can be an effective device for imposing restrictions on administrative discretion, but it is not a very flexible device because a limitation cannot require an executive official to do something for which he does not already have authority under existing law. For example, if an amendment provides that none of the funds appropriated shall be used for a certain purpose unless an executive official makes some determination or does something else that he is not already required to do, that amendment probably would not qualify as a limitation. Instead, it could be legislation, and subject to a point of order.

Limitation amendments, or "legislative riders" as they are often called, have been used to bring major policy issues to a vote on the House floor when bills on the same subjects were not reported from the committees to which they had been referred. Military operations in Indochina, busing, and abortion are only three examples of controversial issues that have been the subject of limitation amendments. Because they can be so controversial,

limitations have delayed final enactment of the appropriations bills to which they were attached--as, for example, when the House and Senate could not agree on whether funds appropriated to an executive department could be used to pay for abortions. In part for this reason, the House amended its rules in 1983 to give its members an opportunity to vote against considering any limitation amendments on the floor to particular general appropriations bills.

PROBLEMS OF COORDINATION AND CONTROL

These are the basic outlines of the procedures and requirements under which Congress made its spending decisions for many years (and continues to do so today). In general, funds were first to be authorized before being appropriated, and annual re-authorizations were required in an increasing number of cases. If necessary, the authorization requirement was either waived or ignored. The President's budget set the framework for the annual appropriations decisions that were made in thirteen bills--although some appropriations were permanent, other were mandated by entitlements and other backdoor spending requirements, and Congress also made funds available through supplemental appropriations bills and continuing appropriations resolutions. The budget authority provided by law in any one of these ways became available to Executive Branch departments and agencies to obligate in ways and for purposes that were consistent with the laws authorizing their functions and activities. The funds were then obligated during the fiscal year (or years) for which they were appropriated, and paid out (or laid out) from the Treasury when the time came to liquidate the obligations.

The system was complicated, but it served several purposes reasonably well. It distributed influence over the activities of the Federal government among the authorizing and appropriations committees of the House and Senate. The authorizing committees focused on defining national needs and suitable means for meeting them; the Appropriations Committees concentrated on allocating limited Federal spending resources among the many administrative units and activities that had been established by law. The system was also flexible enough to permit special funding arrangements such as entitlements or permanent appropriations when they were considered necessary, and to meet unexpected developments through unauthorized appropriations and supplemental appropriations bills.

But there also were problems with the system.

First, Congress frequently could not enact all the necessary authorizations and appropriations by the beginning of the new fiscal year; continuing resolutions became the rule, not the exception.

Second, many Representatives and Senators believed that Congress had become too dependent on the President's budget as it made its appropriations

decisions, and too dependent as well on Executive Branch agencies such as the Office of Management and Budget for budget-related information.

Third, there was no opportunity for Congress to develop its own budget for each fiscal year and to make decisions for that year about the relative priority of various Federal activities such as defense, education, and energy conservation and development. The thirteen general appropriations bills were considered one at a time, so there was never a moment at which Congress could decide to spend more for one general purpose and less for another.

Fourth, Congress did not make a deliberate decision concerning the appropriate total levels of new budget authority and outlays for the next fiscal year. These totals emerged from the results of congressional action on all the appropriations bills and any backdoor spending bills, plus estimates of spending through permanent appropriations. Congress did not decide how much the Federal government could or should spend in total before deciding how much to spend for specific purposes.

Fifth, the procedures for making spending decisions were separate from the procedures for making decisions about tax rates and the total levels of Federal revenues. The annual deficit or surplus was the result of a whole series of spending and taxing decisions that were generally made independently of each other without the benefit of any coordinating procedure.

Sixth, and consequently, Congress lacked the means for deliberately adjusting its spending decisions in response to changes in national economic conditions such as the rates of inflation and unemployment, nor did it have procedures for adjusting Federal fiscal policy in a deliberate and conscious attempt to influence those conditions by changes in taxes or spending or both.

So long as the national economy was generally expanding, so long as the Federal government could respond to most public demands for services and benefits, and so long as budget deficits remained small, these problems could be tolerated. However, a number of circumstances combined in the early 1970s to provoke Congress to re-examine its spending and taxing procedures with a view toward developing a more coordinated process. The result was enactment of the Congressional Budget and Impoundment Control Act of 1974.

THE ISSUE OF IMPOUNDMENTS

Some Representatives and Senators believed that the authorization-appropriation process did not promote fiscal restraint--and even encouraged fiscal extravagance--because the process did not confront Congress at any one moment with the collective consequences of its individual taxing and spending decisions, except when the time came to raise the debt ceiling. Others concluded that the process placed disproportionate power in the hands of

fiscal conservatives with the result that insufficient resources were being devoted to some domestic assistance programs. Still others were concerned primarily that the process was messy, uncoordinated, and inefficient; they viewed the regular recourse to continuing resolutions as a sign of institutional failure.

These concerns were not new, although they did grow in frequency and intensity as Congress began the extended process of institutional re-examination that marked the 1970s. What was new were the differences which developed between the Democratic majorities in Congress and President Nixon over spending policies and budget priorities, and the way in which these differences inspired a conflict over institutional prerogatives.

The issue was impoundment. The President announced that certain funds appropriated by Congress would not be released for obligation or expenditure by the Executive Branch. Other presidents had impounded funds in this way, but not to the same extent. Moreover, his critics contended that President Nixon was impounding funds not for reasons of efficiency or economy--the usual rationale for earlier impoundments--but because he disagreed with the purposes for which the funds had been appropriated in the first place. Substantial numbers of Representatives and Senators claimed that the President was thwarting the will of Congress, and undermining the most fundamental of all congressional powers, the "power of the purse." The President and his supporters contended in reply that Federal spending was out of control and that Congress was not equipped to restrain it. The lack of effective coordination and control in congressional procedures, they argued, compelled the President to act.

Although the courts generally found that the President had exceeded his authority, Congress did not ignore either the general challenge to its procedures or the specific problem of impoundments (the legal and constitutional status of which had always been ambiguous). The congressional response to the latter took the form of Title X of the Budget Act.

This title, known as the Impoundment Control Act, distinguishes between two kinds of impoundments. A deferral is a presidential decision that the obligation or expenditure of appropriated funds should be delayed usually until later during the fiscal year. When the President decides to defer appropriations, he notifies Congress, but the deferral remains in force unless and until Congress votes to disapprove it. According to Title X, either the House or the Senate can agree to a simple resolution disapproving a deferral, in which case the President must release the funds. However, the 1983 Supreme Court decisions concerning the legislative veto, especially in the Chadha case, effectively invalidated any such "one-house" veto, and the 1987 Balanced Budget Reaffirmation Act prohibited deferrals for policy, as opposed to strictly managerial or administrative, purposes.

^{not} The second form of impoundment is a rescission. If the President concludes that some appropriated funds should be spent at all, he recommends a rescission to Congress; he proposes that Congress pass a law that rescinds an appropriation it had previously enacted. If the Congress fails to act within roughly 45 days, the President must release the money. In other words, Congress decided in the Budget Act that the President can delay the use of appropriations unless the House or Senate disapproves, but that he cannot prevent the use of appropriations altogether unless both houses of Congress agree. On the one hand, the Budget Act gave new legal standing to presidential impoundments; on the other hand, the Act brought them under more direct and explicit congressional control.

THE FRAMEWORK OF A BUDGET PROCESS

The more challenging task for Congress was to develop a way to control and coordinate its own spending and taxing decisions that would work and that most members would accept. The answer on which the House and Senate agreed in 1974 was not to change either the authorization or the appropriation process in any direct and fundamental way, but instead to superimpose on existing arrangements a new third process, a congressional budget process built around two annual concurrent budget resolutions. Eleven years later, the Gramm-Rudman-Hollings Act made a number of permanent changes in the budget process, such as abolishing the requirement for a second budget resolution each year, in addition to establishing emergency deficit control procedures.

The 1974 Budget Act created Budget Committees in the House and Senate with the responsibility for developing budget resolutions and some other budget-related measures. To assist these committees and the rest of Congress, the Act also established the Congressional Budget Office to analyze economic conditions and budgetary alternatives and to provide Congress with a wide range of other information on the budgetary implications of its actions.

At the heart of the budget process were the two budget resolutions. The plan underlying them was for Congress to agree to the first of these resolutions before it acted on specific appropriations bills, tax bills, and other bills with direct spending consequences (such as bills creating or affecting entitlements). This first resolution was to create a broad congressional budget that then would serve as a set of targets or guidelines against which individual taxing and spending bills would be compared. After these bills were enacted, Congress then would review their collective impact while acting on a second budget resolution shortly before the beginning of the new fiscal year.

In short, the budget resolutions were to be "bookends," holding together and giving shape to the spending and revenue bills considered by Congress after the first budget resolution but before the second. The Gramm-Rudman-Hollings Act amended the Budget Act to eliminate the requirement for a

second annual budget resolution and, as we shall see, to make what had been the first resolution more binding on subsequent congressional decisions.

Specifically, the Budget Act requires each of the Budget Committees to examine the President's budget and other budgetary information, including reports from the various House or Senate committees about the spending implications for the next fiscal year of the legislation they expect to approve. Based on this information and on assessments of current and prospective economic conditions, each Budget Committee reports a concurrent budget resolution to its parent chamber. These resolutions then are debated by the House and Senate, with an agreement to be reached by April 15 of each year. It is important to emphasize that the budget resolution is a concurrent resolution; it requires approval by both houses of Congress but it is not submitted to the President for his signature or veto. It cannot become law; instead, it is a tool for internal congressional guidance and management.

The budget resolution has two parts, each part dealing with one or more of the criticisms that were levelled against uncoordinated authorizations, appropriations, and tax procedures.

The first part of the budget resolution addresses questions of fiscal policy, and the levels of Federal taxation and expenditures that are appropriate in light of present and anticipated economic conditions and, for the coming fiscal years, the need to reduce and then eliminate the Federal budget deficit. The resolution identifies the appropriate total level of new budget authority for the fiscal year that will begin on October 1, as well as a total for outlays during the same period (recognizing that total new budget authority will not be the same as total outlays). In addition, the resolution indicates an appropriate amount for total Federal revenues and the amount by which revenues should be increased or decreased.

Before the Budget Act was amended in 1985, the resolution also included whatever level of the budgetary surplus or deficit flowed from a comparison of the revenue and outlay numbers. By contrast, the Gramm-Rudman-Hollings Act amended Section 3 of the Budget Act to set a maximum deficit amount for each fiscal year from FY 1987 through 1993 and required that the budget resolutions for each of these fiscal years include budget authority, outlay, and revenue levels consistent with the maximum deficit amount for that year.

The Gramm-Rudman-Hollings Act also made a permanent change in the Budget Act (which codified recent practice) by requiring the first part of each budget resolution to include appropriate levels for Federal credit activities in the form of direct loan obligations and primary loan guarantee commitments. Finally, the resolution identifies the appropriate level of the public debt. The budget resolution includes all these figures for the coming fiscal year and for each of the two subsequent fiscal years. However, the enforcement procedures

that apply to the figures for the next fiscal year do not apply to the figures for the two "out-years"; these latter figures are for planning purposes only.

The Budget Act anticipated that, by debating and voting on these figures, Congress would have an opportunity to confront questions that never arise directly when spending and taxing bills are considered individually. How much should the Federal government spend during the next fiscal year? Should this spending be financed solely by taxes? If so, how much new revenue must the tax laws be amended to provide? If not, what will the deficit be, and how much money must the government borrow to finance the deficit? If the economy is sluggish, should spending be increased? Should taxes be decreased? If inflation is high, should taxes be increased to reduce demand? Should spending be cut to reduce the pressure of Federal borrowing on interest rates?

In 1985, however, Congress and the President agreed that emergency steps were required to cope with persistent and high budget deficits. As amended by the Gramm-Rudman-Hollings Act and the 1987 amendments, the Budget Act prohibits (except during time of war) consideration of a budget resolution for a fiscal year between FY 1987 and FY 1993 that exceeds the maximum deficit amounts permitted under the Act for that fiscal year. Under the design of the 1985 Act, Congress retains the discretion, in formulating budget resolutions for these fiscal years, to decide on the appropriate mix of spending and taxes so long as the resulting levels of outlays and revenues are consistent with the maximum deficit amounts stipulated by the Act.

The numbers in the budget resolution must be mathematically consistent. If Representatives or Senators propose to reduce the deficit number, they must propose either less in total spending or more in total revenues. If they wish to increase total spending, they must propose to increase either revenues or the deficit. In sum, the Budget Act, as amended, allows the Congress to reach decisions about macroeconomic policy that had previously emerged from a series of decisions on a dozen or more separate bills.

The second part of the budget resolution addresses the question of priorities. The totals for new budget authority, outlays, direct loan obligations, and primary loan guarantee commitments are allocated among roughly 20 functional categories, each function representing a major component of Federal activity such as agriculture, energy, income security, national defense, and transportation. Appropriations for health and defense are in separate appropriations bills, so the appropriations process does not give the entire House or Senate an opportunity to decide how much should be spent in total for one purpose compared with the other. The budget resolution, on the other hand, provides an occasion for such comparisons. If a Representative wishes to increase new budget authority for defense, for example, he or she may propose such an amendment. But he or she must either reduce one or more other functions to compensate for the increase, or increase the total level of new budget authority which then requires an increase either in

revenues or the deficit (subject to the maximum deficit amounts for Fiscal Years 1987-1993).

The House and Senate are to agree by April 15 of each year on both parts of this budget resolution for the fiscal year that will begin more than five months later, on October 1. No bill affecting taxes or spending for that fiscal year should be considered on the House or Senate floor until the resolution is in place. However, the Gramm-Rudman-Hollings Act amended Section 303(b) of the Budget Act to permit the House to begin floor consideration of general appropriations bills on May 15 even if the House and Senate have yet to agree on their budget resolution.

Before the Budget Act was amended in 1985, this resolution then became a series of targets or guidelines for subsequent action on individual spending and tax bills during late spring and summer. Section 302(a) requires the aggregate amounts to be allocated among the various committees of the House and Senate according to their jurisdictions. The House has broken down these allocations by function; the Senate has not. In turn, Section 302(b) directs each committee receiving an allocation to subdivide mandatory and controllable amounts among its subcommittees or the programs within its jurisdiction. But in general, before the 1985 amendments to the Act, neither the resolution nor any of these allocations was binding, either as a matter of law or under congressional rules.

Although the budget resolution still does not have the force of law, the Gramm-Rudman-Hollings Act included a number of enforcement provisions, having the effect of House and Senate rules, that make the budget resolution binding immediately upon adoption. A detailed discussion of these provisions, which are not exactly the same for the House and Senate, is beyond the scope of this report. In general, however, they permit members to make points of order to ensure that later congressional action on spending and tax bills remains consistent with the budget authority, outlay, and revenue levels of the budget resolution previously adopted for that fiscal year, and with the allocations of those levels under Section 302.

At the same time the House and Senate are developing and reaching agreement on the budget resolution, they are to enact the bills that are necessary to authorize or re-authorize appropriations. The House and Senate then act on the regular appropriations bills and any tax bills and bills affecting entitlements, just as they had before the Budget Act was written. If Congress decides to appropriate more for some purpose or raise less in taxes than the budget resolution contemplated, or even to exceed the maximum deficit amounts laid out in the Gramm-Rudman-Hollings Act, it may do so by waiving or choosing not to enforce its own rules (though more than a simple majority is required for some waivers). But the Budget Committees make certain, through scorekeeping and other reports, that members know whether or not individual bills are consistent with the assumptions of the budget resolution and the requirements of the Gramm-Rudman-Hollings Act.

According to the Budget Act timetable, as amended by the Gramm-Rudman-Hollings Act, the House is expected to complete action on the annual general appropriations bills by June 30 of each year. The remaining months before the new fiscal year begins on October 1 are available for Senate consideration and then House and Senate agreement on these bills, for Congress to complete action on any remaining tax and entitlement bills, and, during the years 1986 to 1992, for the House and Senate to consider and enact deficit reduction measures in lieu of the sequestration procedures of the Gramm-Rudman-Hollings Act. The Budget Act originally called for Congress to adopt a second concurrent budget resolution by September 15 of each year, reconsidering the first budget resolution in light of congressional actions on the individual spending and taxing bills, any changes in the national or international economy, and any unexpected developments affecting Federal budgetary policy. This requirement was eliminated by the Gramm-Rudman-Hollings Act.

This 1985 Act also provides for the annual budget resolution to include reconciliation instructions to the committees of the House and Senate in order to bring Federal tax and spending laws into conformity with the provisions and requirements of the budget resolution. The evolution of the reconciliation procedure is discussed briefly in the following section.

IMPLEMENTING THE BUDGET ACT

No major change in an institution like Congress ever works exactly as originally planned, and this has certainly been true of the Budget Act. The congressional budget process has survived, but it has encountered problems. It also has changed, as Congress has responded to new developments, changing circumstances, and increasingly difficult policy choices. Most recently, of course, Congress and the President agreed in the 1985 Gramm-Rudman-Hollings Act, and another law two years later, to a series of changes in the Budget Act, as well as emergency deficit control procedures imposed temporarily to reduce and ultimately eliminate projected Federal budgetary deficits.

Some of the problems that have emerged really were implicit in the Budget Act from the beginning. Consider two of them that have been the cause of some conflict: primarily between the authorization and appropriations committees in one instance, and primarily between the budget and appropriations committees in the other.

The first set of problems has its roots in the calendar. The Budget Act did not simplify the process for making spending and taxing decisions in Congress. In fact, it complicated that process by adding a number of additional requirements and prohibitions, especially the expectation that Congress would act on two budget resolutions each year (now only one, pursuant to the Gramm-Rudman-Hollings Act) in addition to the authoriza-

tion, appropriations, and tax bills. So there is now even more to do than before. With this in mind, the authors of the Budget Act included a timetable for completing various stages of the three-part process. For example, the Act originally contemplated that all the appropriations bills would become law by shortly after Labor Day. In practice, since the House always considers these bills before they reach the Senate floor, the House Appropriations Committee had to begin bringing its general appropriations bills to the House floor by early June of each year if Congress was to adhere to the timetable. But under House rules, the House cannot consider an appropriation until it has been authorized by law. Therefore, the Budget Act also originally required House committees to report their authorization bills by May 15, but meeting this deadline was only the first step toward actually moving those bills all the way to enactment by early June.

As a result, the House (and the Senate, to a somewhat lesser extent) was regularly confronted with the need to waive the authorization requirement if it was to consider appropriations in a timely fashion--not merely to meet the timetable of the Budget Act, but also to ensure that the appropriations would become law by October 1 when the new fiscal year begins. Naturally enough, this situation was a cause of general dissatisfaction. Members of authorizing committees argued that they were being circumvented or ignored, while members of the Appropriations Committee explained that there was little alternative if Congress wanted to avoid excessive reliance on continuing resolutions. This situation was one reason why some authorization bills were never enacted; and anticipating this possibility, Representatives were tempted to try to include program changes in appropriations bills, which sometimes complicated and delayed their enactment.

The Gramm-Rudman-Hollings Act made several changes in the budget process to address this set of problems. The Act moved up the date on which the President is to submit his annual budget to Congress. The Budget Committee must report budget resolutions to the House and Senate sooner than before because there also is an earlier deadline for Congress to reach agreement on their resolution (which should precede floor consideration of spending and tax bills). The House Appropriations Committee is to report the last of its general appropriations bills by June 10, and the House is to complete action on all these bills by June 30. The May 15 reporting deadline for authorization bills was repealed.

The intent of these changes evidently was to encourage Congress to begin making its budget and spending decisions earlier each year, and to provide sufficient time for the full House and Senate to consider and then agree on the appropriations bills. However, the existence of a timetable does not ensure adherence to it and prevent delays in enacting authorizations and reaching agreement on a budget resolution. In anticipation, the revised Budget Act timetable also provides that the House may begin floor consideration of the annual appropriations bills on May 15, even if the House and Senate have yet to agree on the budget resolution.

This provision may reduce the necessity for continuing resolutions by promoting timely consideration of the regular appropriations bills. On the other hand, it may perpetuate the problem of unauthorized appropriations if there continue to be delays in enacting authorizations. It could even undermine the incentives for the Congress to agree on an annual budget resolution if the House and then the Senate can consider appropriations bills after May 15 whether or not there is still disagreement over the terms of the resolution.

The second problem has its roots in numbers. If the numbers in the budget resolution are to be meaningful, they must be based on a number of economic assumptions--for example, projections of inflation, unemployment, and interest rates, all of which affect Federal spending and revenues. They must also be based on a much larger number of assumptions about funding for various programs. Both the aggregate numbers for new budget authority, outlays, and credit activities, and the allocation of these numbers among the functional categories must be predicated on assumptions about spending levels for individual programs. How else can the Budget Committee recommend an allocation for national defense, except by adding up the expected spending levels for specific defense programs and activities, and then making changes in these expectations if the total is considered too high or too low?

Such assumptions are inescapable, but they also raise the prospect of conflict between the Budget Committees and Appropriations Committees (and others), because it is the Appropriations Committees that have responsibility for recommending spending levels for programs funded by discretionary appropriations. The Budget Act attempts to minimize the potential conflict by requiring budget resolutions to allocate new budget authority and the other aggregates in terms of broad program functions, not in terms of the thirteen general appropriations bills. So there must be an elaborate "cross-walking" procedure by which the budget resolution aggregates are allocated under Section 302(a) among the committees with jurisdiction over that spending--including, but not only, the Appropriations Committees. Nonetheless, the more the Budget Committees explain the basis for their recommendations, the more they risk appearing to intrude on the responsibilities and prerogatives of the Appropriations Committees and other spending committees.

The same general problem arises when budget resolutions are debated by the House and Senate. How can a Senator propose an amendment to a budget resolution that would increase the health function by \$1 billion and reduce the transportation function by \$1 billion without explaining what health program would be expanded and what transportation program would be cut? House and Senate debates on budget resolutions do not focus exclusively on broad questions on fiscal policy and budgetary priorities; they can also involve debates over relatively small amounts and particular Federal activities, well before the Appropriations Committees have made their recommendations on the same matters.

One consequence, according to some critics, has been redundancy. The same issue may be debated on the House and Senate floor during consideration of the budget resolution, then during consideration of an authorization bill, and finally during consideration of the relevant appropriations bill, after which it is soon time to begin the process all over again for the next fiscal year. Members have lamented that issues never seem to be resolved; they return again and again in slightly different incarnations. When deficits are high and budget constraints severe, making policy choices harder, redundancy becomes particularly painful.

So the budget process has not been without problems and weaknesses. Members disagree over how much responsibility the Budget Act must bear for the massive Federal deficits of recent years. But the reality of these deficits, whatever their causes, provoked Congress to agree in advance on deficit ceilings for each fiscal year through FY 1993, rather than rely solely on the annual process it had created. The Gramm-Rudman-Hollings Act also imposed a sequestration process in an attempt to ensure that there would be automatic deficit reductions in each of these years if Congress and the President could not agree on an alternative way of achieving the same goal. But other provisions of the Act--especially the requirements that budget resolutions take account of credit activities and include aggregate levels and functional allocations for two "out-years"--recognized the value of innovations with which Congress already had been experimenting for several years.

Beyond question, the most significant and innovative development in implementing the Budget Act has been the use of reconciliation, especially since 1981. The reconciliation procedures in the 1974 Act have been adapted to promote congressional passage of omnibus bills to reduce Federal spending for a host of disparate programs. The Budget Act originally envisioned reconciliation as a device to be used in late September, just before the beginning of the new fiscal year, to bring the appropriations and tax bills enacted during the summer into line with the ceiling on new budget authority and the floor on revenues contained in the second budget resolution. But reconciliation was never used effectively in this way. Instead, reconciliation instructions were included in the first budget resolution, leading to enactment of spending reductions at roughly the same time that Congress has been acting on its appropriations and tax bills.

Specifically, the House and Senate have agreed to first budget resolutions containing the usual provisions, but also including instructions to specific legislative committees of the House and Senate. These instructions have directed each committee to recommend changes in the laws within its jurisdiction in order to achieve specified levels of savings in one or more fiscal years. By and large, the laws to be changed have been laws governing entitlement programs, and many of the changes in these laws have increased eligibility criteria to reduce demand or reduced benefit levels (or the rate of increase in benefit levels). The House and Senate have told their committees how much in savings to achieve but not exactly how to achieve the savings.

It has been left to each committee to decide how and where to find those savings in the programs for which they have responsibility.

The recommendations from the various committees usually have been assembled into a single omnibus bill that, in some years such as 1981, could easily have occupied congressional attention for the entire session if its various provisions had been considered as separate bills instead. But the reconciliation procedure was useful not merely because it saved time. The package approach undoubtedly made it easier to pass program cuts than it would have been if each program had been considered individually. Even though Representatives and Senators may have opposed cuts in specific programs, they still voted for the entire package and the many other cuts it included in the interest of deficit reduction.

Reconciliation also has been an effective device in that it has facilitated changes and cost savings in entitlement and other spending programs that could not readily be controlled by cutting annual appropriations. In fact, reconciliation instructions have been designed primarily to achieve savings in such programs, which account for such a large share of annual Federal outlays. Congress could make cuts in other programs, funded and controllable through the annual appropriations bills, as each of these bills reached the floor. This two-pronged strategy--cutting discretionary spending through annual appropriations bills and cutting entitlement spending through reconciliation bills--allowed Congress to make spending reductions that were both deeper and more evenly distributed than might have been possible otherwise. The Gramm-Rudman-Hollings Act envisioned a continuing reliance on reconciliation as a means for Congress and the President to agree on deficit reduction legislation as a preferred alternative to the automatic sequestration process it also created. To this end, the Act provides a special reconciliation procedure in the Senate to expedite consideration of an alternative deficit reduction measure.

PROPOSALS FOR CHANGE

The combined authorization, appropriation, and budget process has had its fair share of congressional critics. Some have criticized the process for being unnecessarily duplicative and inconclusive. Others have lamented the continuing need for Congress to rely on continuing resolutions. Some have criticized the Budget Committees and their budget resolutions for being too influential and for intruding too much into the responsibilities of other committees and elements of the process, while others have concluded that the Budget Act is not the effective device for control and coordination that they had hoped it would be. Most recently, the greatest concern among Representatives and Senators has been that the process has not enabled or compelled Congress to limit spending and avoid large annual budget deficits. In fact, there may be no member of either House who considers the current three-part process to be an ideal one, even in its recently amended form.

Some proposals for change have been directed primarily toward affecting the outcomes of the process; others have been concerned more with the process itself. The Gramm-Rudman-Hollings Act addressed both outcomes and process. Its most dramatic and far-reaching provisions are its arrangements for deficit reduction and eventual elimination which impose annual deficit ceilings for fiscal years 1986 to 1993, and which create more or less automatic procedures for bringing deficits within those limits unless Congress and the President can agree on alternative means to achieve the same result. But the Act also affects the process in significant ways: for example, attempting to streamline it by eliminating the requirement for a second budget resolution each year, and seeking to minimize the need for continuing resolutions by revising the schedule and deadlines of its timetable.

Passage of the Gramm-Rudman-Hollings Act certainly reflected congressional, presidential, and public frustration with continuing high deficits. The Act may be viewed as an alternative to a number of other proposals for addressing essentially the same problem. For example, some members proposed that total Federal spending or total Federal revenues (or both) be limited to a fixed percentage of the Gross National Product (GNP). Others put more emphasis on the relationship between spending and taxing, rather than the absolute levels of either; they sought a means to require Congress to keep its spending and taxing policies in balance. Proposals to achieve these goals took the form of proposed new laws or constitutional amendments.

For the foreseeable future, Congress is likely to continue focusing its attention on the implementation and impact of the Gramm-Rudman-Hollings Act. But there also may continue to be interest in revising other aspects of the three-part process.

For example, some Members have expressed concern that the movement toward annual re-authorization requirements has become self-defeating--that the sheer burden of legislative work actually hampers rather than promotes effective oversight, and that the number of annual re-authorization bills is a major cause of the recurring problems in enacting appropriations in accordance with House and Senate rules and in time for the beginning of the new fiscal year. Other members have suggested dealing with the problem of continuing resolutions by enacting a permanent and automatic continuing resolution that is triggered whenever a regular appropriations bill is not enacted by October 1. Representatives and Senators undoubtedly will be interested in whether revising the Budget Act timetable reduces reliance on continuing resolutions, and if permitting the House to consider appropriations bills after May 15 in the absence of congressional agreement on a budget resolution causes serious institutional problems.

A number of proposals would go even further in revising the authorization-appropriations process. For example, various schemes have been proposed for a biennial system of authorizations and appropriations. Under one proposal, the Congress would authorize in one year and then appropriate in

the next. Under another, each year the Congress would consider half of the authorizations and also the appropriations for programs re-authorized during the previous year. These proposals have merits, but they are not without problems as well. For example, moving back toward multi-year or permanent authorizations would reduce the number of regularly recurring opportunities for Congress' legislative committees to review and modify executive branch authorities. An automatic continuing resolution device would not be neutral in policy terms, in that it would somehow set funding levels that some members would support and others would oppose. And a scheme of biennial authorizations and appropriations would require budget projections even further into the future than are now required, possibly resulting in greater reliance on supplemental appropriations bills during the intervening years.

In addition to adjusting the procedures and requirements of the Budget Act, the Gramm-Rudman-Hollings Act departed significantly from the original budget process in attempting to ensure that certain outcomes are achieved, whether by congressional and presidential agreement or through the operation of the sequestration process. Proponents have contended that the Act's action-forcing mechanisms are necessary to achieve essential results. Opponents have argued that the Act constitutes an abdication of Congress' constitutional power of the purse. Whatever the merits of these arguments, the Gramm-Rudman-Hollings Act ensures that the congressional spending and budget process will remain at the heart of the legislative process.

GLOSSARY

AUTHORIZING LEGISLATION -- Legislation enacted by the Congress to set up or continue the operation of a Federal program or agency. Authorizing legislation is normally a prerequisite for subsequent appropriations, but does not usually provide budget authority.

BUDGET AUTHORITY (BA) -- Authority provided by law to enter into obligations that will result in immediate or future outlays. It may be classified by the period of availability, by the timing of congressional action, or by the manner of determining the amount available. The basic forms of budget authority are:

APPROPRIATIONS -- Authority that permits Federal agencies to incur obligations and to make payments.

AUTHORITY TO BORROW -- Authority that permits Federal agencies to incur obligations and to borrow money to make payments.

CONTRACT AUTHORITY -- Authority that permits Federal agencies to enter into contracts or incur other obligations in advance of an appropriation.

BUDGET RECEIPTS -- Money, net of refunds, collected from the public by the Federal Government through the exercise of its governmental or sovereign powers. Budget receipts also include gifts and contributions. Excluded are amounts received from strictly business-type transactions (such as sales, interest, or loan repayments) and payments between Government accounts.

BUDGET SURPLUS OR DEFICIT -- Difference between budget receipts and outlays.

CONCURRENT RESOLUTION ON THE BUDGET -- A resolution passed by both Houses of the Congress, but not requiring the signature of the President, setting targets or binding Federal budget totals for the Congress.

CONTINUING RESOLUTION -- Legislation enacted by the Congress to provide budget authority for specific ongoing activities when a regular appropriation for those activities has not been enacted by the beginning of the fiscal year.

DEFERRAL -- Any action or inaction by an officer or employee of the United States that temporarily withholds, delays, or effectively precludes the obligation or expenditure of budget authority. Deferrals may not extend beyond the end of the fiscal year and may be overturned at any time by either House of the Congress.

FISCAL YEAR -- The Federal Government's yearly accounting period, which begins on October 1, and ends on the following September 30. The fiscal year is designated by the calendar year in which it ends; e.g., fiscal year 1984 begins on October 1, 1983, and ends on September 30, 1984. (From 1844 to 1976 the fiscal year began on July 1 and ended on the following June 30.)

IMPOUNDMENT -- Any action or inaction by an officer or employee of the Federal Government that precludes the obligation or expenditure of budget authority provided by the Congress (see deferral and rescission).

OBLIGATIONS -- Amounts of orders placed, contracts awarded, services received, or similar legally binding commitments made by Federal agencies during a given period that will require outlays during the same or some future period.

OFF-BUDGET FEDERAL ENTITIES -- Federal organizations or programs that belong in the budget under current budget accounting concepts but that have been excluded from the budget totals under provisions of law.

OUTLAYS -- Checks issued or cash disbursed. Outlays include interest accrued on the public debt, or other forms of payment, net of refunds and reimbursements.

RECONCILIATION -- A directive that calls on various committees of the Congress to recommend legislative changes that reduce outlays or increase receipts by specified amounts.

RESCISSION -- a legislative action canceling budget authority previously provided by the Congress.

SUPPLEMENTAL APPROPRIATION -- An appropriations enacted subsequent to a regular annual appropriation act. Supplemental appropriation acts provide additional budget authority for programs or activities (including new programs authorized after the date of the original appropriation act) for which the need for funds is too urgent to be postponed until the next regular appropriation.

TRUST FUNDS -- Amounts collected and used by the Federal Government for carrying out specific purposes and programs according to a statute or trust agreement, such as the social security and unemployment trust funds. Trust funds are not available for the general purposes of the Government. Trust fund receipts that are needed immediately are generally invested in Government securities and earn interest for the trust fund.

Source: The United States Budget in Brief, Fiscal Year 1984. U.S. Government Printing Office. Washington, D.C. pp. 85-86.

CRS Report for Congress

Manual on the Federal Budget Process

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The Congressional Research Service works exclusively for the Congress, conducting research, analyzing legislation, and providing information at the request of committees, Members, and their staffs.

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Manual on the Federal Budget Process

PREFACE

This manual is intended to assist users of Federal budget information (especially of congressional budget material) in understanding how the process works and how data are to be interpreted. It does so primarily by displaying and explaining excerpts from legislation, standard forms, and other documentation developed at each stage of the budget process and other documents affecting budgetary procedures. (In several instances, tables or figures were prepared by the Congressional Research Service for this manual.) The selections in the manual are drawn from widely used documents, but in a publication of this size, it is not possible to cover every situation or application. (Appendix A explains how to obtain documents cited in this manual.)

The forms do not reveal everything about budgeting, but they offer useful clues to the rules of the game, the requirements of the process, and the roles of the participants. Anyone who wants to comprehend the Federal budget, whether to influence the decisions made in it or to interpret them, must understand the status and derivation of the various forms and documents used in it.

Following an overview chapter that explains the roles and relationships of the participants in the budget process, the basic concepts of Federal budgeting, and key features of the process, the manual devotes a separate chapter to each stage of the process. As a document intended for congressional users, the manual emphasizes the elements of congressional budgeting, though it includes chapters dealing with the President's budget, credit budgeting, the implementation of spending laws, and financial management. Each chapter opens with an introductory statement that explains the status of the particular stage of the process, and the procedures and documents associated with it, and closes with a series of exhibits. The exhibits present sample forms and documents accompanied by explanatory comments. The manual concludes with appendices that present a glossary of terms and other reference materials.

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TABLE OF CONTENTS

PREFACE	iii
ACKNOWLEDGEMENTS	iv
LIST OF EXHIBITS	viii
Chapter 1. OVERVIEW OF THE FEDERAL BUDGET PROCESS	1
The Evolution of Federal Budgeting	2
The Budget Cycle	3
Roles of the Participants	7
Basic Concepts of Federal Budgeting	9
Deficit Reduction and the Discretionary Spending Limits	13
Budgeting for Discretionary and Direct Spending	14
The Chain of Spending Control	16
The Budget and the Economy	18
Chapter 2. THE PRESIDENT'S BUDGET	33
Formulation and Content of the President's Budget	33
The Economic Forecast and Projections	35
Information in the President's Budget	36
Chapter 3. THE BUDGET RESOLUTION AND RECONCILIATION	51
Structure and Content of the Budget Resolution	52
Formulation of the Budget Resolution	52
The Reconciliation Process	54
Chapter 4. ENFORCING THE BUDGET RESOLUTION	69
Spending Ceilings, Revenue Floors, and Committee Allocations	69
Scorekeeping Procedures and Cost Estimates	71
Enforcement and Waiver of Points of Order	71

Chapter 5. THE GRAMM-RUDMAN-HOLLINGS PROCESS	83
The Sequestration Process	83
Deficit Targets, Spending Limits, and PAYGO Process	84
Sequestration Reports and Orders	86
Sequestration Estimates and Calculations	87
Suspension and Modification of the Sequestration Process	88
Chapter 6. REVENUE LEGISLATION	99
Revenue Legislation in Congress	100
Pay-As-You-Go (PAYGO) Rules	101
Tax Expenditures	102
Offsetting Collections	103
Chapter 7. AUTHORIZING LEGISLATION	113
The Relationship of Authorizations and Appropriations	113
Backdoor Spending	115
Chapter 8. THE APPROPRIATIONS PROCESS	125
Types of Appropriations Measures	126
Appropriations Procedures in Congress	127
Continuing Appropriations	128
Interpreting Appropriations Measures	129
Chapter 9. BUDGETING FOR DIRECT AND GUARANTEED LOANS	153
The Pre-1992 Method of Budgeting for Loans	153
The Federal Credit Reform Act of 1990	154
Estimating the Subsidy Cost	154
Accounting for Direct and Guaranteed Loans	156
Chapter 10. IMPLEMENTATION OF SPENDING LAWS	167
Spending Available Funds	167
Impoundment	170
Chapter 11. FINANCIAL MANAGEMENT	185
Accounting and Budgeting	186
Internal Control (Management Control)	188
Financial Statements and Audits	189

Appendix A. HOW TO OBTAIN DOCUMENTS EXHIBITED IN THE MANUAL	201
Appendix B. MILESTONES IN THE DEVELOPMENT OF THE FEDERAL BUDGET PROCESS	202
Appendix C. CITATIONS TO MAJOR BUDGETARY LAWS	205
Appendix D. GLOSSARY OF BUDGETARY TERMS	207

LIST OF EXHIBITS

CHAPTER 1. OVERVIEW OF THE FEDERAL BUDGET PROCESS

- 1-A. Outlays and Receipts as a Percentage of GNP
- 1-B. Major Phases in the Federal Budget Process
- 1-C. Principal Budgetary Functions of the Executive Branch
- 1-D. Principal Budgetary Functions of Congressional Committees
- 1-E. Principal Budgetary Functions of Congressional Support Agencies
- 1-F. Relation of Budget Authority to Outlays
- 1-G. Spendout (Outlay) Rates
- 1-H. Baseline Budget Projections
- 1-I. Functional Categories of the Budget
- 1-J. Alternative Measurements of the Deficit
- 1-K. Federal Payments for Individuals
- 1-L. Comparison of Discretionary and Direct (Mandatory) Spending
- 1-M. The Chain of Discretionary Spending Control
- 1-N. Sensitivity of Budget Projections to Changes in Economic Conditions

CHAPTER 2. THE PRESIDENT'S BUDGET

- 2-A. Budget Formulation by Agencies
- 2-B. Restrictions on the Release of Budgetary Information
- 2-C. Legislative Status of the President's Budget
- 2-D. CBO Reestimates of the President's Budget
- 2-E. Economic Forecast
- 2-F. Comparison of CBO and OMB Economic Forecasts
- 2-G. Effects of Economic Changes on the Budget
- 2-H. Current Services Estimates
- 2-I. Appropriations Language
- 2-J. Program Description and Workload Data
- 2-K. Program and Financing Schedule: Program by Activities
- 2-L. Program and Financing Schedule: Financing
- 2-M. Object Classification

CHAPTER 3. THE BUDGET RESOLUTION AND RECONCILIATION

- 3-A. Timetable of Congressional Budget Actions
- 3-B. Budget Resolution Aggregates: Revenues
- 3-C. Budget Resolution Aggregates: Spending, Deficit, and Debt Limit
- 3-D. Budget Resolution Functional Categories
- 3-E. Committee Report Accompanying a Budget Resolution
- 3-F. Views and Estimates of Committees
- 3-G. CBO Baseline Projections
- 3-H. Reconciliation Directives
- 3-I. Program Assumptions in the Reconciliation Process
- 3-J. Omnibus Budget Reconciliation Legislation
- 3-K. Deficit Neutrality of Amendments
- 3-L. Senate Restrictions on Extraneous Matter

CHAPTER 4. ENFORCING THE BUDGET RESOLUTION

- 4-A. Aggregate Spending Ceilings and Revenue Floors
- 4-B. Section 302(a)/602(a) Allocations to House Committees
- 4-C. Section 302(a)/602(a) Allocations to Senate Committees
- 4-D. Section 302(b)/602(b) Subdivisions by Appropriations Committees
- 4-E. Section 302(b)/602(b) Subdivisions by Legislative Committees
- 4-F. CBO Cost Estimates
- 4-G. Scorekeeping Reports
- 4-H. Floor Statements of Budget Committee Chairmen
- 4-I. Waiving Enforcement Provisions

CHAPTER 5. THE GRAMM-RUDMAN-HOLLINGS PROCESS

- 5-A. Timetable of the Sequestration Process
- 5-B. Original and Revised GRH Deficit Targets
- 5-C. Discretionary Spending Limits for FY 1991-1995
- 5-D. Discretionary Spending Limits: Periodic Adjustments
- 5-E. Discretionary Spending Limits: Sequestration Calculations
- 5-F. Pay-As-You-Go (PAYGO) Scorecard
- 5-G. Sequestration Reductions by Account
- 5-H. Suspension or Modification of the Sequestration Process

CHAPTER 6. REVENUE LEGISLATION

- 6-A. Revenue Legislation: House Rules
- 6-B. Sources of Revenue
- 6-C. Revenue Effects of Major Enacted Legislation
- 6-D. CBO Reestimates of President's Revenue Proposals
- 6-E. Revenue Estimates for the PAYGO Process
- 6-F. Tax Expenditure Data
- 6-G. Offsetting Collections
- 6-H. Proposed Changes in User Fees

CHAPTER 7. AUTHORIZING LEGISLATION

- 7-A. Authorizing Legislation: House Rules
- 7-B. Authorizing Legislation: Senate Rules
- 7-C. Basic Purposes of Authorizations Acts
- 7-D. Types of Discretionary Authorizations
- 7-E. Reauthorization Requirements
- 7-F. Earmarking and Other Features of Authorizations
- 7-G. Borrowing and Contract Authority
- 7-H. Entitlement Authority

CHAPTER 8. THE APPROPRIATIONS PROCESS

- 8-A. Appropriations Jurisdiction: House and Senate Rules
- 8-B. Types of Appropriations Measures
- 8-C. Path of An Appropriations Act Through Congress
- 8-D. Agency Justifications of Appropriations Requests
- 8-E. Sequence of House Actions on Appropriations Measures
- 8-F. Special Rules on Appropriations Bills
- 8-G. Section 302(b)/602(b) Statements
- 8-H. Statement of Administration Policy
- 8-I. Sequence of Senate Actions on Appropriations Measures
- 8-J. Numbered Senate Amendments
- 8-K. Conference Action on Appropriations Measures
- 8-L. Continuing Appropriations
- 8-M. Structure of a Regular Appropriations Act
- 8-N. Structure of an Appropriations Account
- 8-O. Other Types of Appropriations Accounts
- 8-P. Availability of Funds
- 8-Q. Limitations on Amount
- 8-R. Limitations on Purpose of Expenditure
- 8-S. Committee Report: Account and Program Amounts
- 8-T. Committee Report: Directives to Agencies

CHAPTER 9. BUDGETING FOR DIRECT AND GUARANTEED LOANS

- 9-A. Calculation of Subsidy Cost
- 9-B. Direct Loans: Account-Level Summary Data
- 9-C. Determinants of Subsidy Rate
- 9-D. Assumptions Used in Making Subsidy Estimates
- 9-E. Guaranteed Loans: Account-Level Summary Data
- 9-F. Credit Reform Account Structure: Fiscal Year 1992 and Beyond
- 9-G. Credit Subsidies: Cash Flows for Direct Loans
- 9-G. Credit Subsidies: Cash Flows for Guaranteed Loans

CHAPTER 10. IMPLEMENTATION OF SPENDING LAWS

- 10-A. Major Financial Management Roles and Responsibilities
- 10-B. Apportionment Procedures
- 10-C. Restrictions on the Use of Funds
- 10-D. Determination of the Appropriateness of Expenditure
- 10-E. Evidence of Obligation
- 10-F. Evidence of Obligation
- 10-G. Reprogramming Practices: Department of Defense
- 10-H. Notification of Reprogramming Action
- 10-I. Status of Old and New Balances in the Fixed Accounts
- 10-J. Presidential Impoundment Messages
- 10-K. GAO Review of Impoundment Messages
- 10-L. Congressional Control of Impoundments

CHAPTER 11. FINANCIAL MANAGEMENT

- 11-A. Financial Management Systems
- 11-B. Chief Financial Officer
- 11-C. Financial Management
- 11-D. GAO Review of Agency Accounting Systems
- 11-E. Core Financial Systems
- 11-F. Flow of Financial Transactions
- 11-G. Internal Control Systems
- 11-H. Agency Financial Statements
- 11-I. Types of GAO Audits

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. It could hardly be otherwise because so much is at stake when budget decisions are made. On the spending side, the budget adds up, as Exhibit 1-A shows, to almost one quarter of the Gross National Product (GNP) of the United States. Federal receipts hover around 20 percent of GNP, and the deficit, which results from the mismatch between revenues and spending, accounts for the largest single source of borrowing in capital markets.

The trend of Federal receipts and spending relative to GNP is only one of the ways of measuring the impact of the budget. Trends can also be measured in terms of real (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 1-K, which will be 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 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.

With so much at stake, it should not be surprising that budgeting is often a difficult and contentious process. Allocating over a trillion dollars is anything but a routine task, for as big as the budget is, there never is 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

Key Abbreviations Used in the Manual

BEA	Budget Enforcement Act
CBO	Congressional Budget Office
GAO	General Accounting Office
GNP	Gross National Product
GRH	Gramm-Rudman-Hollings
OMB	Office of Management and Budget
PAYGO	Pay-As-You Go

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.

The Evolution of Federal Budgeting

The "power of the purse" is a legislative power. The Constitution lists the power to lay and collect taxes as one of the powers of Congress and provides that funds may be drawn from the Treasury only pursuant to appropriations made by law. 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.

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 11 of the 17 fiscal years between 1894 and 1910) led Congress to seek a more coordinated means of making financial decisions. The key legislation was the Budget and Accounting Act of 1921 (Public Law 67-13; 42 *Stat.* 20), which established an 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. 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 strengthened 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 Budget and Accounting Act of 1921, as amended, remains the statutory basis for the presidential budget system.

After World War II, the belief that a presidential budget suffices gave way to the view that Congress also needs 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'; others felt that as long as its financial decisions were fragmented, Congress could not effectively control expenditures. Some efforts were made in the late 1940's to create a congressional budget, but it was not until the 1970's that a durable process was established.

The Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344; 88 Stat. 297) established a congressional budget process centered around a "concurrent resolution on the budget," scheduled for adoption prior to legislative consideration of spending or revenue bills. The congressional budget process initiated in the 1970s did not replace the pre-existing spending and revenue 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 Act is to coordinate the various revenue and spending decisions which are made in separate tax, appropriations, and legislative measures. To assist Congress in making budget decisions, the Congressional Budget Act of 1974 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 Congressional Budget Act of 1974, Congress made a number of changes in the budget process by enacting the Balanced Budget and Emergency Deficit Control Act of 1985 (Title II of Public Law 99-177; 99 Stat. 1037), commonly referred to as the Gramm-Rudman-Hollings (GRH) Act; the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (Title I of Public Law 100-119; 101 Stat. 754); and the Budget Enforcement Act of 1990 (Title XIII of Public 101-508; 104 Stat. 1388-573 through 630), commonly referred to as the BEA. Other, less extensive changes have been made from time to time. Various modifications are discussed in appropriate sections of the manual.

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 formulation of the President's annual budget and concludes with the audit and review of expenditures. The process spreads over a two-and-a-half year period (or longer). The main stages (as shown in **Exhibit 1-B**) are formulation of the President's budget, congressional budget actions, and execution of the budget. 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 conditions under which the budget is prepared and implemented, and other factors.

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 receipts and expenditures. 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 and Reagan) delegated much of the "appeals" function to senior White House staff; others (such as Ford and Carter) had a 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 must be consistent with the requirements of the GRH Act (as amended by the BEA of 1990) regarding deficit targets, discretionary spending limits, and pay-as-you-go procedures. The budget sets forth adjustments in the deficit targets and discretionary spending limits, as required by the GRH Act, and it contains a sequestration preview report for the upcoming fiscal year.

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 other measures changing tax law, modifying entitlement programs, or adjusting the debt limit. Congress has various procedures 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, Congress may provide more or less funds than the President wants for particular programs, or change tax rates in a way different than the President recommends.

Under the Congressional Budget Act of 1974, each House and Senate committee is required to issue within six weeks after the President submits his budget a "views and estimates" report on the budget matters in its jurisdiction. The Budget Committees use these reports, along with CBO analyses, to prepare the budget resolution for the next fiscal year. The Budget Committees use baseline estimates to project the costs of continuing programs without policy or statutory changes.

The budget resolution, which is supposed to be adopted by April 15, contains revenue and spending levels for five fiscal years, but only the figures for the first year are binding. 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, the debt limit, and total new direct loan obligations and new primary loan guarantee commitments. The new budget authority, outlay, direct loan, and loan guarantee levels are allocated among 20 functional categories, such as National Defense, International Affairs, Energy, and 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.

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.

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 Congressional Budget Act of 1974. The rules of the House permit it to consider regular appropriations bills after May 15 (and, through fiscal year 1995, certain deficit-neutral legislation after April 15) even if the budget resolution has not yet been adopted.

Annual Appropriations Measures. Annual appropriations are provided in 13 regular appropriations bills, each one under the jurisdiction of parallel House and Senate Appropriations subcommittees which 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" and "Section 602" procedures established in those sections of the Congressional Budget Act of 1974. 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 policies would be breached. In most instances, however, the appropriations bill is consistent with the Section 302 (or Section 602) subdivision.

Action on appropriations measures sometimes is delayed by the failure of Congress to enact necessary authorizing legislation. 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. The budgetary impact of authorizing legislation depends on whether it contains only discretionary authorizations (for which funding is provided in annual appropriations acts) or "backdoor spending," which itself enables an agency to enter into obligations.

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. Many agencies and programs have temporary authorizations which have to be renewed annually or every few years. The House and Senate often waive or disregard their rules against unauthorized appropriations for ongoing programs which have not yet been reauthorized.

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. Committees subject to reconciliation instructions in most instances 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 (or Section 602) subdivisions. 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 often "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 legislative or appropriations committees.

Agencies cannot spend appropriations until OMB apportions those funds. The Antideficiency Act (31 U.S.C. 1512-1519) 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 or allotments.

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.

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.

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 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 spokesmen.

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 executive agencies as well as in congressional committees. Congress, in exercise of its budgetary independence, has developed its own databases, so as to avoid undue dependence on executive data.

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.

The principal roles and functions of the participants in the budget process are enumerated in Exhibits 1-C, 1-D, and 1-E.

Executive Roles

There are three main participants in executive budgeting; arrayed in hierarchical order they are the President, OMB, and the executive agencies. In addition to these, various executive units have specialized roles. The Department of the Treasury maintains Government-wide 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.

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 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 obdurate than usual, this pattern of expectations can break down, leading to protracted conflict, as happened in the 1980s.

Legislative Roles

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 and other changes in budgetary procedure have been of greater importance. The Congressional Budget Act of 1974 introduced new participants in the legislative process, but it also retained 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 "backdoor spending") became more prevalent. These changes affected the jurisdiction and role of the Appropriations Committees.

Despite the fact that the congressional budget process has been in operation for almost 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. Multiyear 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 GRH 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 fiscal years 1988 and 1989, a 1989 summit agreement set overall policy for fiscal year 1990, and a summit agreement in 1990 established the budget framework for fiscal years 1991-1995.

Budget summits are inherently unstable because they depend on the willingness of the two branches to enter into negotiations and to set aside major differences in budget policy. One of the summit negotiations 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 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.

The Terminology of Spending

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 ("backdoor spending" legislation). The key 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 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 Bush's budget for fiscal year 1992 estimated that outlays would total \$1,446 billion. As shown in **Exhibit 1-F** (taken from the President's fiscal year 1992 budget), approximately \$1,066 billion of this amount was estimated to come from new budget authority for the fiscal year, while the remainder (\$380 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. (See **Exhibit 1-G** for an illustration of spendout rates in military accounts.) 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. 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.

The GRH process has increased the prominence of outlays in Federal budgeting. Under this process, outlay estimates are essential in enforcing the deficit targets, discretionary spending limits, and the pay-as-you-go requirements. This process is outlined later in this chapter and discussed more fully in Chapter 5.

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 offsets against the outlays of the agencies that collect the money, but in the case of offshore oil leases, the revenues are deducted from the total outlays of the Government. Another type of offsetting receipt occurs when one Government account makes a payment to another account. For example, Federal agencies contribute to a trust fund that provides pensions to retired Federal employees. Because both the payment by the agency (to the trust fund) and by the trust fund (to retired workers) are computed as budget authority and outlays, there can be double counting of the same expenditures. To avoid this problem, payments by the agency to the trust fund are counted as offsets to total spending.

Baseline Budget Projections

Budget decisions often are made by Congress in terms of baseline budget projections issued by CBO, sometimes in cooperation with OMB. The baseline is an extrapolation of budget trends, typically for each of the next five fiscal years, based on the assumption that current policies will continue in effect. The baseline projections incorporate assumptions about inflation, workload changes mandated by law, and other factors. In almost every program, baseline projections are higher than the current level of spending.

The baseline projections are used for various budgetary purposes, such as computing policy changes in the formulation of budget resolutions and in issuing and carrying out reconciliation instructions. These projections usually are the reference point in computing the amount of deficit reduction agreed to in budget summit negotiations between the President and Congress and enacted in reconciliation acts. Typically, therefore, it is possible to estimate future spending levels only with reference to the baseline. **Exhibit 1-H** provides a hypothetical example of baseline projections.

Scope of the Budget

The budget consists of two main groups of funds: federal funds and trust funds. Federal funds (which are similar to general funds in State and local government budgets) are not earmarked by law to any specific program or agency and derive from the general exercise of the taxing power. The use of these funds is determined largely by appropriations acts. Trust funds, by contrast, are restricted by law to designated programs or uses. These funds obtain most of their receipts from earmarked taxes and charges. The Social Security funds are the largest of the trust funds. The unified budget includes both the federal funds and the trust funds (with the exception of off-budget entities, which are discussed below). The balances in the trust funds are borrowed by the Federal Government; they are counted, therefore, in the Federal debt. Because these balances offset the budget deficit but are included in the Federal debt, the annual increase in the debt invariably exceeds the amount of the budget deficit.

Capital and operating expenses are not segregated in the budget. Hence, monies paid 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: (1) off-budget entities, and (2) 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. These rules are summarized in a later section of this chapter and are discussed more fully in Chapter 9.

Off-budget entities are excluded by law from the budget totals. The receipts and disbursements of the Social Security trust funds (the Federal Old-Age and Survivors Insurance Fund and the Federal Disability Insurance Fund) are excluded from the budget totals, as well as spending for the Postal Service. These transactions are shown separately

in the budget. Thus, the budget now reports two deficits: the budget deficit excluding the Social Security trust funds and the Postal Service, and the "consolidated" or unified deficit, which includes these entities and is the main focus of discussion in the President's budget.

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. These enterprises engage in credit activities. At this writing, the Government-sponsored enterprises are:

- the Student Loan Marketing Association
- the College Construction Loan Insurance Association
- the Federal National Mortgage Association
- the Federal Home Loan Mortgage Corporation
- the Banks for Cooperatives
- the Farm Credit Banks
- the Farm Credit System Financial Assistance Corporation
- the Federal Agricultural Mortgage Corporation
- the Federal Home Loan Banks
- the Financing Corporation
- the Resolution Funding Corporation

Budget schedules of the Government-sponsored enterprises are published in the *Budget of the United States Government*.

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. The current list of budget functions is set forth in Exhibit 1-I. Each of the functions is divided into a number of subfunctions.

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, outlays, and credit authority for the next five fiscal years. (See **Exhibit 3-D** for a display of this functional allocation.)

Deficit Reduction and the Discretionary Spending Limits

Since the early 1980s, annual consideration of the budget has been dominated by concern about the budget deficit. The reason for this concern is evident from **Exhibit 1-J**, which displays the budget deficit at two-year intervals since fiscal year 1983. In the mid-1980s, the deficit exceeded \$200 billion and amounted to almost six percent of the gross national product. In the early 1990s, the deficit approached the \$300 billion level.

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). The total deficit generally is regarded as the most comprehensive measure of the impact of the budget on the economy.

A narrower measure of the deficit is derived by excluding the Social Security trust funds from the totals. As noted, this exclusion is mandated by law, although Social Security is 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 1-J** shows, the Social Security trust funds had a zero balance in fiscal year 1983 but the annual surplus is expected to rise to about \$70 billion a decade later. Therefore, excluding Social Security from computations of the deficit results in higher deficit 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 exceed \$10 trillion 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 1-J** shows that the Federal funds deficit neared \$400 billion in the early 1990s.

Regardless of the measure used, it is evident that the deficit has been unusually high for an extended period of time. This chronic deficit prompted Congress to enact the GRH Act in 1985. The original GRH Act established deficit targets for each year through fiscal year 1991, 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. (The GRH Act and the sequestration process are discussed more fully in Chapter 5.)

Even with the targets, the actual deficit has been above the targeted level. In fact, the actual deficit was not within the GRH Act target in any year since 1985, when the process was introduced, through 1990, when the process was substantially revised. (The GRH 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 reorient the GRH process in the BEA of 1990. Sequestration procedures were retained but the fixed deficit targets were replaced by adjustable ones, limits were imposed on discretionary spending, and a pay-as-you-go (PAYGO) process was established for revenues and direct (mandatory) spending. The revised GRH process still has deficit targets, but unlike the original ones, those currently in effect are adjusted to reflect updated reestimates of economic and technical assumptions and any changes in concepts or definitions. For fiscal years 1991-1993, budget authority and outlay limits are established for three categories of discretionary spending: defense, international affairs, and domestic; for fiscal years 1994 and 1995, the limits are applied only for total discretionary spending. Adjustments for specified purposes also are made in the discretionary spending limits for all fiscal years. Finally, the PAYGO process requires that legislation enacted during a session affecting revenues or direct spending not increase the deficit. 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 deficit targets, discretionary spending limits, or the PAYGO requirements are enforced by sequestration. The revised GRH process is in effect through fiscal year 1995, but it may be further revised or extended before its scheduled expiration date.

Budgeting for Discretionary and Direct Spending

The distinction drawn by the BEA of 1990 between discretionary spending and direct (mandatory) spending recognizes in law the fact 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 are entitlements; a small part consists of other forms of backdoor spending provided through authorizing legislation. In fact, entitlements now account for approximately half of total Federal spending. Their recent growth is shown in **Exhibit 1-K**, 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 Exhibit 1-L indicates, the procedures used in budgeting for these types of expenditure differ greatly. The distinctions drawn in these exhibits 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 Exhibit 1-L.

(1) Budgetary Impact of Authorizing Legislation. With respect to budgetary impact, 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 cases where entitlement programs are subject to annual appropriation, the Appropriations Committees have little or no discretion as to the amounts they must provide.

(2) Committees Which Provide Budget Authority. It follows from the previous entry that the Appropriations Committees have jurisdiction and effective control over discretionary spending programs, while authorizing committees effectively control direct spending programs (even those funded in annual appropriations acts). Accordingly, when legislation establishes a program as discretionary or direct spending, it not only determines the character of spending but the locus of congressional 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 from 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 (and Section 602) of the Congressional Budget Act of 1974 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) Rules Under the Budget Enforcement Act. Discretionary programs are subject to the spending limits set in the BEA. Direct spending is not capped, but operates under the PAYGO process (established by the BEA), which requires that direct spending and revenue legislation enacted for a fiscal year be deficit neutral. 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 Changes. The baseline projections discussed earlier are applied to both discretionary and direct spending programs, but they are much more prominently used in computing 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, legislative changes made in reconciliation bills, and other claimed savings (or increases) are computed in terms of the baseline projections.

(7) Nature of Typical Decision. 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 programs are, by contrast, 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 inflation.

The Chain of Spending Control

The many pieces and procedures of the Federal budget process have been introduced in this 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 **Exhibit 1-M**). 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 many 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) includes "may not be exceeded" rules. 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 limit 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 three categories of discretionary spending for fiscal years 1991-1993 (defense, international affairs, and domestic) and on total discretionary spending for fiscal years 1994 and 1995. The President's budget recommendations and the congressional budget resolution adhere to these limits.

(2) Budget Resolution Aggregates. 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.

(3) Section 302(a) (and Section 602(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) (and Section 602(b)) Subdivisions. The Appropriations Committees are required to subdivide their allocations among their subcommittees. The other committees may subdivide their allocations among their subcommittees or programs (but they are not required to make such subdivisions while the GRH Act remains in effect). The subcommittee (or other) subdivisions made by a committee may not exceed the amounts allocated to it. The spending in each annual appropriations measure is compared to the relevant subdivision made under Section 302(b) (or Section 602(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 Department of the Treasury makes payments to liquidate obligations lawfully incurred by agencies. Outlays may not exceed obligations.

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.

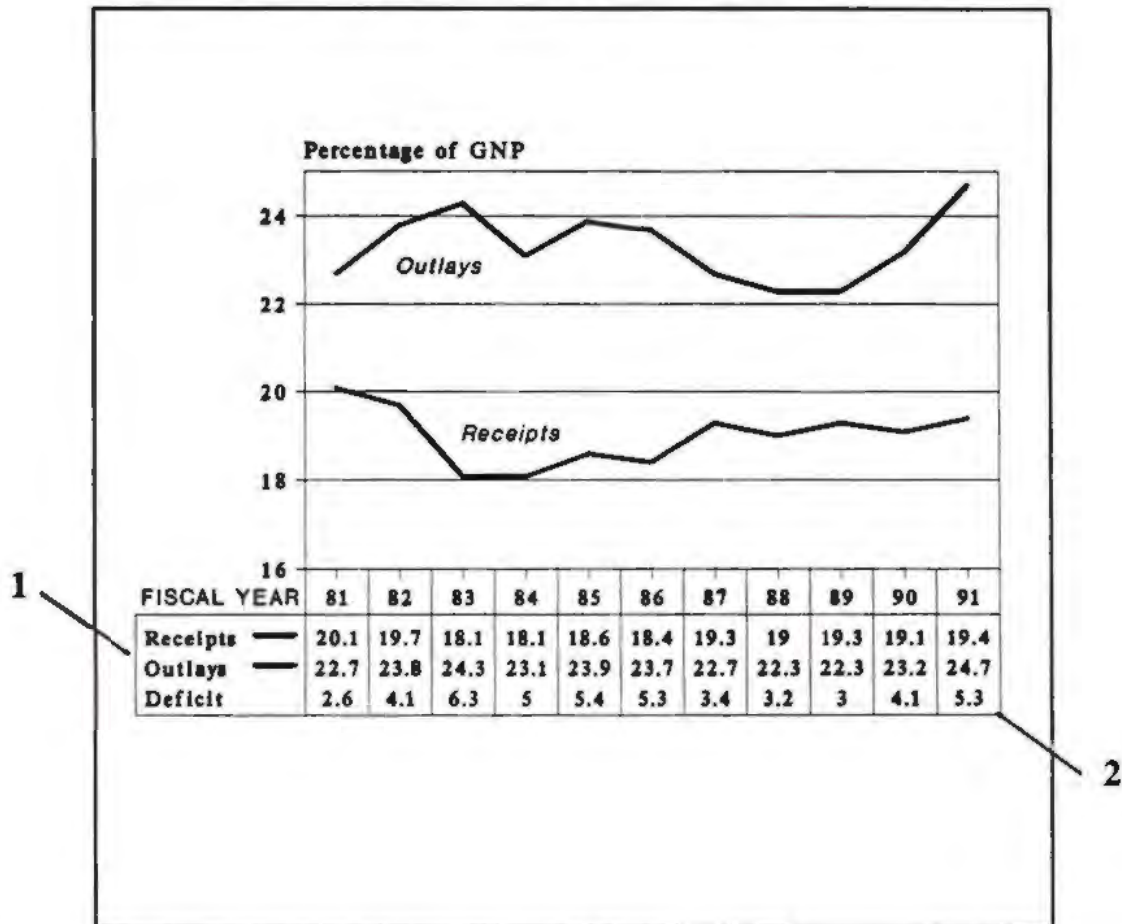
The budget, however, serves another role which transcends the internal operations of the Government. It is a prime means of influencing the condition of the economy. The size of the budget (and especially the deficit), the shape of tax policy, and the pattern of spending help determine the rate of economic 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 National 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' budget policies materialize will depend, in substantial measure, on whether the assumptions prove to have been accurate. Any major discrepancy between assumed and actual economic conditions will translate into variances between expected and actual budget results. Exhibit 1-N 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-N, one percentage point lower economic growth would subtract an estimated \$7 billion from Federal revenues in the first year and \$87 billion in the fifth year; a one percentage point rise in interest rates would add \$3 billion to outlays in the first year and \$26 billion in the fifth year.

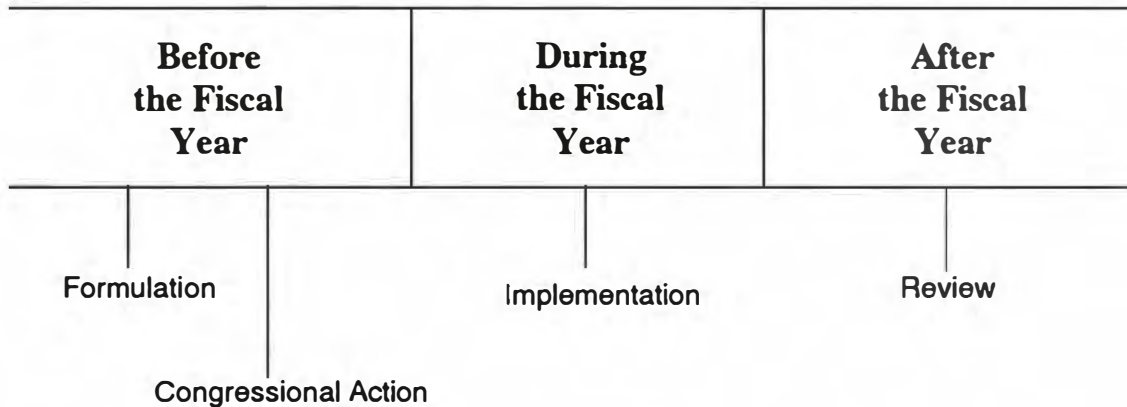
The relation of the budget and the economy is a matter of considerable dispute. Controversy rages over the appropriate size of the deficit, whether the large deficits experienced in the 1980s have damaged the economy, the assumptions to be used in making budget projections, and the extent to which Federal Government policy should affect the supply of, or the demand for, goods and services.

EXHIBIT 1-A
Outlays and Receipts as a Percentage of GNP



- (1) During the period from fiscal year 1981 through 1991, both receipts and outlays fluctuated within a narrow range. Relative to Gross National Product (GNP), the range was 2 percentage points for receipts and 2.4 percentage points for outlays.
- (2) Relative to GNP, the budget deficit ranged from 2.6 percentage points (in fiscal year 1981) to 6.2 percentage points (in fiscal year 1983). During the entire period, the budget deficit averaged more than 4 percent of GNP.
- (3) The percentages shown here are on a "consolidated" budget basis; they include the transactions of the Social Security trust funds and spending of the Postal Service, which are off-budget entities. If these entities were excluded, both outlays and receipts would be a lower percentage of GNP, but the deficit would be a higher percentage.

EXHIBIT 1-B
Major Phases of the Federal Budget Process



Formulation of the President's Budget: The President submits his budget to Congress in early February, about eight months before the fiscal year starts on October 1. Budget guidelines are developed in the preceding spring and agencies prepare their requests during the summer. In the fall, the President and OMB review the agency requests.

Congressional Action on the Budget: Congress adopts the budget resolution in the spring and then considers spending, revenue, and debt-limit legislation in the summer and fall (sometimes not completing action on important budgetary legislation until after the fiscal year has begun).

Implementation of the Budget: OMB apportions funds to agencies; agencies make allotments, obligate funds and conduct activities, and request supplemental appropriations; and the President proposes impoundments.

Review: Post-auditing and program evaluation occur and final budget data are made available.

EXHIBIT 1-C
Principal Budgetary Functions of the Executive Branch

President	Office of Management and Budget	Federal Agencies
Establishes executive budget policy and submits budget to Congress.	Operates executive budget system and advises President on issues.	Submit budget requests to OMB; appeal to President for more funds.
Submits supplemental requests, budget amendments, and updates to Congress.	Issues planning targets and budget "marks" to agencies.	Justify President's budget recommendations before congressional committees.
Signs (or vetoes) revenue, appropriations, and other budget-related measures passed by Congress.	Prepares budget options and recommendations for President.	Request apportionment from OMB and allot funds among subunits.
Notifies Congress of proposed rescissions and deferrals.	Issues sequestration reports under the Gramm-Rudman-Hollings Act.	Maintain accounting systems and systems of internal control.
Issues sequestration orders to cancel budgetary resources.	Reviews proposed legislation and testimony to determine whether it conforms to the President's budget.	Obligate funds and pre-audit expenditures.
	Apportions funds and oversees execution of the budget.	Carry out the activities for which funds were provided.
	Conducts management activities to improve efficiency of Federal expenditures.	

EXHIBIT 1-D
Principal Budgetary Functions of Congressional Committees

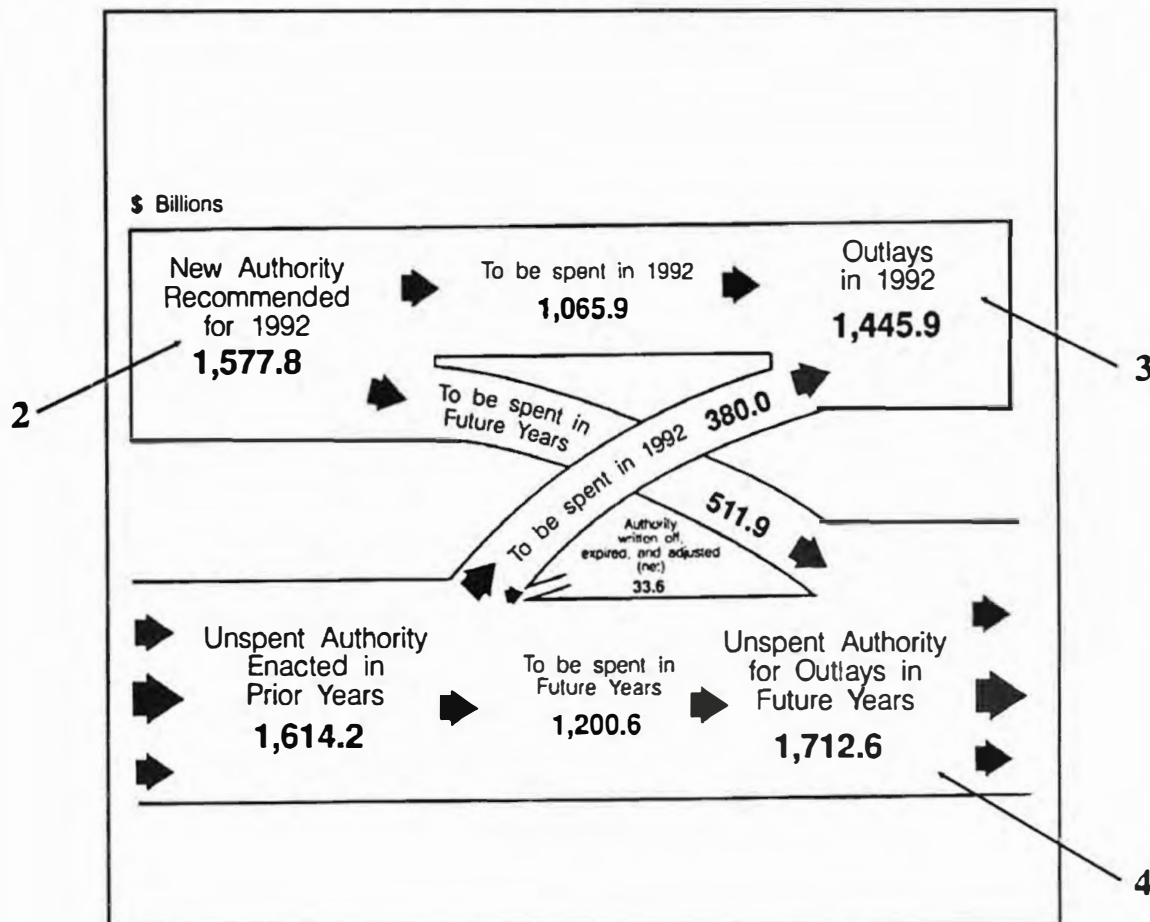
Authorizing Committees	Appropriations Committees	Revenue Committees	Budget Committees
Report authorizing and entitlement legislation.	Report regular and supplemental appropriations bills.	Report revenue legislation.	Report budget resolutions.
Oversee executive agencies.	Review proposed rescissions and deferrals.	Report legislation on public debt, Social Security, and certain other entitlements.	Draft reconciliation instructions and compile reconciliation bill.
Submit views and estimates to Budget Committee on matters in their jurisdiction.	Submit views and estimates to Budget Committees on Federal spending.	Submit views and estimates to Budget Committees on matters in their jurisdiction.	Allocate new budget authority, outlays, and new entitlement and credit authority to committees.
Recommend changes in laws pursuant to reconciliation instructions.	Include limits on credit programs in appropriations bills.	Recommend changes in laws pursuant to reconciliation instructions.	Monitor budget and advise Congress on its status.
Include CBO cost estimates in reports on their legislation.	Establish rules for reprogramming.		(Senate) reports resolutions waiving certain budget procedures.
	Establish account structure for Federal agencies.		

SOURCE: Table prepared by the Congressional Research Service.

EXHIBIT 1-E
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. Estimates 5-year cost of reported bills. Issues sequestration reports under the Gramm-Rudman-Hollings Act. Maintains database for scorekeeping. Prepares baseline budget projections. Assists the budget, tax, appropriations, and other committees.	Issues accounting guidelines and reviews agency accounting systems. Reviews deferrals and rescissions to determine whether they have been properly reported, and funds released as required. Audits operations of certain Federal agencies. Issues legal opinions concerning the use of funds. Settles claims and debt collection issues involving appeals of agency actions and certain questions of law. Evaluates programs and develops methods for assessing the effectiveness of expenditures. <i>*Some GAO functions are executive or judicial in nature.</i>	Analyzes legislative issues and proposals affecting agency and program operations. Prepares legislative histories of particular legislation and programs. Analyzes proposals to change the Federal budget process. Assists Committees and Members by providing data and analyses relevant to their legislative responsibilities.

EXHIBIT 1-F
Relation of Budget Authority to Outlays



- (1) This exhibit shows the relationship of total new budget authority and total outlays in the fiscal year 1992 budget. It shows that: (a) not all budget authority is outlayed 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 (see next exhibit).
- (2) Total new budget authority typically exceeds total outlays for a fiscal year because: (a) in programs with long lead-times, such as construction, it takes time for the resources provided by Congress to be spent; and (b) trust funds -- such as Social Security -- build up balances (which are computed as budget authority) that are spent in future years.
- (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, the GRH process has established controls on annual appropriations acts and other legislation affecting 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.

EXHIBIT 1-G Spendout (Outlay) Rates

	1991 Outlay Rates by Year (Percent)				
	First	Second	Third	Fourth	Fifth
MILITARY PERSONNEL					
Army	94.9%	4.9%			
Navy	95.5%	4.3%			
Marine Corps	95.8%	3.9%	0.1%		
Air Force	95.8%	4.0%			
Reserve Personnel, Army	91.6%	7.4%	0.5%		
Reserve Personnel, Navy	90.7%	7.3%	1.0%		
Res Personnel, Marine Corps	89.2%	8.8%	0.7%		
Res Personnel, Air Force	93.5%	4.9%	0.1%		
Natl Guard Personnel, Army	92.5%	6.8%	0.2%		
Natl Guard Personnel, Air Force	94.5%	4.7%	0.1%		
PROCUREMENT					
Aircraft Procurement, Army	13.0%	41.0%	24.0%	13.0%	5.0%
Missile Procurement, Army	5.0%	30.0%	49.0%	13.0%	1.0%
Weapons & Tracked Combat Veh.	1.0%	42.5%	37.0%	10.5%	5.3%
Ammunition Procurement, Army	34.0%	14.0%	37.0%	-2.0%	11.0%
Other Procurement, Army	9.0%	33.0%	28.0%	16.5%	7.5%
Aircraft Procurement, Navy	13.5%	32.4%	33.0%	12.3%	3.9%
Weapons Procurement, Navy	9.0%	33.0%	37.0%	12.0%	3.5%
Shipbuilding & Conversion, Navy	4.0%	17.0%	23.3%	14.7%	15.0%

- (1) The spendout rates are used for a number of budgetary purposes: (a) to estimate budget outlays in the President's and congressional budgets; (b) to enforce outlay limits on certain accounts; and (c) to make certain computations under the GRH Act. Spendout rates are computed as a percentage of new budget authority. Thus, a spendout rate of 10 percent means that 10 percent of the new budget authority results in outlays during a particular year.
- (2) Different types of accounts spend at different rates. Personnel accounts spend out more than 90 percent of their funds in the first year for which they were appropriated; procurement accounts typically spend out most of the funds in subsequent years.
- (3) Some accounts, such as Shipbuilding & Conversion, Navy, still yield outlays more than five years after funds were appropriated. Note that after five years the spendout rates in this account add up to less than 75 percent.

EXHIBIT 1-H
Baseline Budget Projections

(budget authority in billions of dollars)					
	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
<u>Baseline Budget Projections</u>					
Initial projection	100.00	112.35	126.25	141.84	159.36
<u>Adjustments:</u>					
Inflation increase of 5%	+5.00	+5.62	+6.31	+7.09	+7.97
Workload increase of 7%	+7.35	+8.28	+9.28	+10.43	+11.71
Total increases	+12.35	+13.90	+15.59	+17.52	+19.68
Baseline projections	112.35	126.25	141.84	159.36	179.04
<u>Policy Changes</u>					
Cap inflation increase at 3%	-2.00	-4.41	-7.28	-10.68	-14.70
Hold workload increases to 4%	-3.23	-7.10	-11.65	-17.02	-23.31
Total reductions	-5.23	-11.51	-18.93	-27.70	-38.01
Recommended spending	107.12	114.74	122.91	131.66	141.03

(Note: total spending reductions over five years amount to -\$101.38)

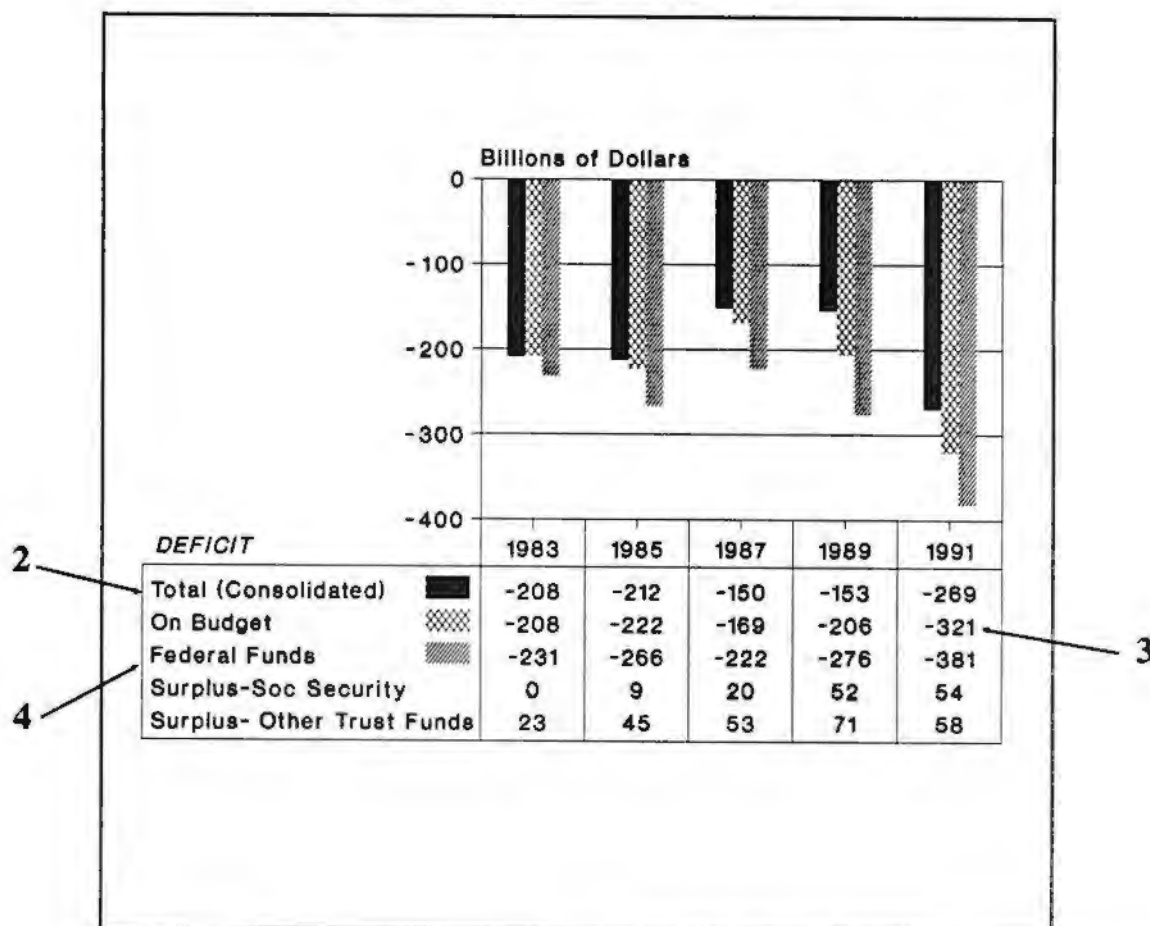
- (1) This hypothetical example shows baseline projections of budget authority for fiscal years 1992-1996, based on an assumed level of budget authority for the current year (fiscal year 1991) of \$100 billion.
- (2) The baseline includes adjustments for projected inflation (in this case, inflation increases of five percent for each year covered by the baseline) and mandatory workload increases (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 3 percent cap) or modifying eligibility rules so as to reduce workload increases (in this case, limiting them to 4 percent).
- (4) The changes shown here would bring estimated spending to levels below the baseline. Changes can also take the form of program expansions that cause spending to exceed baseline levels.
- (5) Note that spending reductions tend to grow in the outyears; in this instance, the assumed policy changes save an estimated \$5.23 billion from the projected baseline in the first year and \$38.01 billion in the fifth year. In this hypothetical example, the cumulative savings over five years (\$101.38 billion) exceed the projected spending level for fiscal year 1992 (\$100 billion).

EXHIBIT 1-I
Functional Categories of the Budget

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

- (1) The functional categories are used for several purposes, including formulation of the annual budget resolution. The functional categories group together related programs; a single category often covers programs from several different departments and agencies and involves funding from several different annual appropriations acts.
- (2) Each function is divided into a number of subfunctions. Each budget account is assigned to a single subfunction. The last 3 digits in an account's identification code represent its functional classification (see Exhibit 2-K).
- (3) Although it is off-budget, Social Security appears in the functional classification.
- (4) "Allowances" and "Undistributed Offsetting Receipts" are adjustments to the budget totals.

EXHIBIT 1-J
Alternative Measurements of the Deficit



- (1) This table displays three alternative measurements of the deficit: (a) on a total (or "consolidated") basis; (b) on an on-budget basis (which excludes Social Security and the Postal Service); and (c) on a Federal-funds basis. Depending on the basis for measurement, the deficit for fiscal year 1991 ranged from \$269 billion to \$381 billion.
- (2) The total (or "consolidated") deficit incorporates both on-budget and off-budget transactions, but it does not include the finances of Government-sponsored enterprises.
- (3) With Social Security excluded, the reported deficit 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.

EXHIBIT 1-K
Federal Payments for Individuals

Fiscal Year:	1970	1980	1990	1992	1996 proj.
Spending for Entitlements (in billions of dollars)					
TOTAL PAYMENTS	65	278	584	701	912
PAYMENTS AS A PERCENT OF TOTAL FEDERAL OUTLAYS	33%	47%	47%	49%	59%
Outlays for Major Programs:					
Social Security	9	116	243	283	350
Unemployment Assistance	3	17	17	25	23
Federal Retirement	6	27	53	59	76
Medicare	7	34	107	124	193
Medicaid	3	13	41	60	100
Student Assistance	1	5	10	10	2
Housing Assistance	1	5	16	20	25
Food Stamps	1	9	15	20	23
Family Support (AFDC)	4	7	12	15	17
Veterans' Assistance	9	21	29	32	35
Supplemental Security Income	0	6	11	16	22
Recipients of Major Entitlements (in millions)					
Social Security	26	35	39	41	42
Food Stamps (and predecessors)	9	19	19	22	22
Family Support (AFDC)	7	11	11	13	13
Medicare HI	20	28	33	34	36
Medicaid	15	22	25	29	33

- (1) This exhibit consists of three sections. The first shows entitlement spending as a percentage of total Federal outlays; the second part shows outlays for major entitlement programs; and the third part shows trends in the number of recipients of major entitlement programs.
- (2) Spending for entitlements has grown more than ten-fold between fiscal year 1970 and fiscal year 1992. Entitlements also have claimed an increasingly greater share of the budget. Entitlement payments, as a percentage of total Federal outlays, have increased from 33 percent in fiscal year 1970 to nearly 50 percent in fiscal year 1992, and is projected to rise to 59 percent in fiscal year 1996.
- (3) Most entitlement spending involves retirement and disability programs (such as Social Security) and health programs.
- (4) Because most entitlement spending stems from permanent law, spending automatically increases over time as more people become eligible for benefits. The number of entitlement recipients is expected to about double between fiscal year 1970 and fiscal year 1996.

EXHIBIT 1-L
Comparison of Discretionary and Direct (Mandatory) Spending

Feature	Discretionary Spending	Direct (Mandatory) Spending
(1) Budgetary impact of authorizing legislation.	Authorizes consideration of appropriations measures.	Provides budgetary resources.
(2) Committees which provide budget authority.	Appropriations Committees	Authorizing committees.
(3) Frequency of decision-making.	Annual.	Episodic.
(4) Means of enforcing the budget resolution.	Section 302 and 602 allocations.	Reconciliation.
(5) Rules under the Budget Enforcement Act.	Discretionary spending limits.	Pay-as-you-go requirements.
(6) Basis of computing changes.	Current year's spending and the President's request.	Baseline budget projections.
(7) Nature of typical decision.	How much to increase.	How much to decrease.
(8). Impact of economic changes.	Indirect, discretionary.	Direct, automatic.

EXHIBIT 1-M
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 by OMB as prescribed by law; they apply to defense, international, and domestic categories (through FY 1993) and to total amounts (through FY 1995).
(2) BUDGET RESOLUTION AGGREGATES	Ceilings on total budget authority and outlays which guide the enactment of legislation; by implication, budget resolution aggregates may not exceed discretionary spending limits.
(3) SECTION 302(A) (AND 602(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) (AND 602(B)) SUBDIVISIONS	A committee's subdivision of its spending allocations by subcommittee (or by program), which governs consideration of the committee's legislation; subdivisions made by a committee may not exceed its allocations.
(5) APPORTIONMENTS	The distribution of enacted appropriations (or other resources) for a fiscal year by OMB to an agency account on the basis of projects within the account or fiscal year quarter; the total amount apportioned during the fiscal year may not exceed the amount appropriated.
(6) ALLOTMENTS	The distribution of apportioned resources by a department or agency among its subunits; the amount allotted may not exceed the amount apportioned.
(7) 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 or for purposes other than those for which the funds were provided.
(8) OUTLAYS	Payments made by the Department of the Treasury to liquidate obligations lawfully incurred by agencies; outlays may not exceed obligations.

EXHIBIT 1-N
Sensitivity of Budget Projections to Changes in Economic Conditions

**TABLE III-7. EFFECTS ON CBO BUDGET PROJECTIONS
 OF SELECTED CHANGES IN ECONOMIC ASSUMPTIONS**
 (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995	1996
Real Growth: Effect of One-Percentage-Point Lower Annual Rate Beginning January 1991						
Change in Revenues	-7	-23	-40	-60	-80	-103
Change in Outlays	1	4	8	14	21	31
Change in Deficit	8	28	48	74	102	134
Unemployment: Effect of One-Percentage-Point Higher Annual Rate Beginning January 1991						
Change in Revenues	-28	-42	-43	-44	-46	-47
Change in Outlays	5	8	12	16	21	25
Change in Deficit	33	49	55	61	66	73
Inflation: Effect of One-Percentage-Point Higher Annual Rate Beginning January 1991						
Change in Revenues	6	17	30	45	61	78
Change in Outlays	5	18	30	43	57	71
Change in Deficit	-1	a	-1	-2	-4	-7
Interest Rates: Effect of One-Percentage-Point Higher Annual Rates Beginning January 1991						
Change in Revenues	0	0	0	0	0	0
Change in Outlays	5	15	22	28	33	37
Change in Deficit	5	15	22	28	33	37

- (1) Revenues and outlays, and therefore the deficit as well, are sensitive to changes in economic conditions, particularly the rate of growth, unemployment and inflation levels, and interest rates. This exhibit displays the estimated effects on the budget of changes in economic assumptions for each of these factors.
- (2) Real growth refers to the change in Gross National Product (GNP) after adjustment for price changes.
- (3) Lower real growth is likely to be accompanied by higher unemployment; hence, there is overlap between these two portions of the table.
- (4) Inflation increases both revenues and outlays in roughly equal degrees; accordingly, it has a relatively small impact on the deficit.
- (5) Changes in interest rates have a relatively small impact on the deficit in the year immediately ahead because most Federal debt is in long-term bonds with fixed interest rates. But the long-term effect of interest rate changes is much more pronounced.

Chapter 2. THE PRESIDENT'S BUDGET

The President's budget, officially referred to as the *Budget of the United States Government*, is 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 3 is to enhance Congress' 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 guide 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 should 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.

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 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. **Exhibit 2-A** displays the budget preparation schedule in one Federal agency. 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.

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.

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 Budget and Accounting Act of 1921 bars agencies from submitting their budget requests directly to Congress. Moreover, OMB regulations provide for confidentiality in all budget requests and recommendations prior to the transmittal of the President's budget to Congress (see **Exhibit 2-B**). However, it is quite common for internal budget documents to become public while the budget is still being formulated.

The format and content of the budget are partly determined by law, but the Budget and Accounting Act of 1921 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 types of information and explanatory material presented in the budget documents. Beginning with the budget for fiscal year 1991, the budget (which formerly involved as many as seven separate documents) has been presented in a single document.

Much of the budget is an estimate of requirements under existing law rather than a request for congressional action. As shown in **Exhibit 2-C**, approximately half of the budget authority in the budget becomes available without congressional action.

The President submits 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 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. As **Exhibit 2-D** reveals, CBO sometimes finds that if the President's budget proposals were put into effect, they would yield a higher deficit than the Administration had projected.

In recent years, several factors have given the President more continuing involvement in congressional action on the budget. One factor is the spending control and deficit reduction process under the GRH Act, which requires the President to notify Congress whether the projected deficit for the next fiscal year is within the target and whether the discretionary spending limits and pay-as-you-go requirements are being met. (This process is discussed in Chapter 5.) 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 more than 20 percent of the Gross National Product -- 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 2-E**). 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 (as shown in **Exhibit 2-F**), relying on data and analyses from the Congressional Budget Office, in formulating the budget resolution for the next fiscal year.

The budget is highly sensitive to the level of economic growth, price changes, interest rates, and unemployment. Deviations between actual and projected economic conditions will cause receipts and outlays to vary from budgeted amounts. Receipts are especially sensitive to the level of economic activity; outlays are directly affected by interest rates. **Exhibit 2-G** shows how one recent set of budget projections (for fiscal years 1991-1995) were affected by variances between the initial and revised projections of economic conditions. In fiscal year 1991, changing economic conditions added \$21.6 billion to outlays and reduced receipts by \$49.4 billion, resulting in a net increase of \$71.0 billion in the estimated deficit. While actual economic conditions often are less favorable than had been forecast, this is not always the case.

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 used when the budget was prepared and those made as later information became available.

Much of the adjustment of the budget to economic conditions is automatic; it occurs without presidential or congressional action. Budget receipts tend to fall in a weakening economy and to rise when the economy recovers. 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 Federal receipts and outlays to reflect changing economic conditions.

The GRH Act can affect the capacity of the Government to use the budget as an instrument of economic policy. That law prescribes deficit reduction as the key fiscal policy objective of the Federal Government. However, the GRH process can be suspended 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 (see **Exhibit 2-H**). The baseline projects budget authority and outlay amounts without policy change. The baseline estimates are presented in both summary and more detailed fashion.

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 2-I**), as well as a narrative description of each account's programs and performance (see **Exhibit 2-J**).

Following the appropriations language and program statement, the *Budget* presents a "Program and Financing Schedule" for each account, as displayed in Exhibits 2-K and 2-L. 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 2-M), 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. These are discussed in Chapter 9. Special schedules also are provided for business-type operations and various non-appropriated accounts.

The major components of the President's budget (which, as stated previously, has been submitted as a single volume in recent years) are:

Introduction, which includes the budget message of the President, an introduction by the OMB Director, and a discussion of economic assumptions;

Themes and Priorities, which discusses major revenue and spending proposals, as well as recommendations for improving financial management and the budget process, in broad areas;

Receipts, which provides detailed information on receipts, user fees, other collections, and tax expenditures;

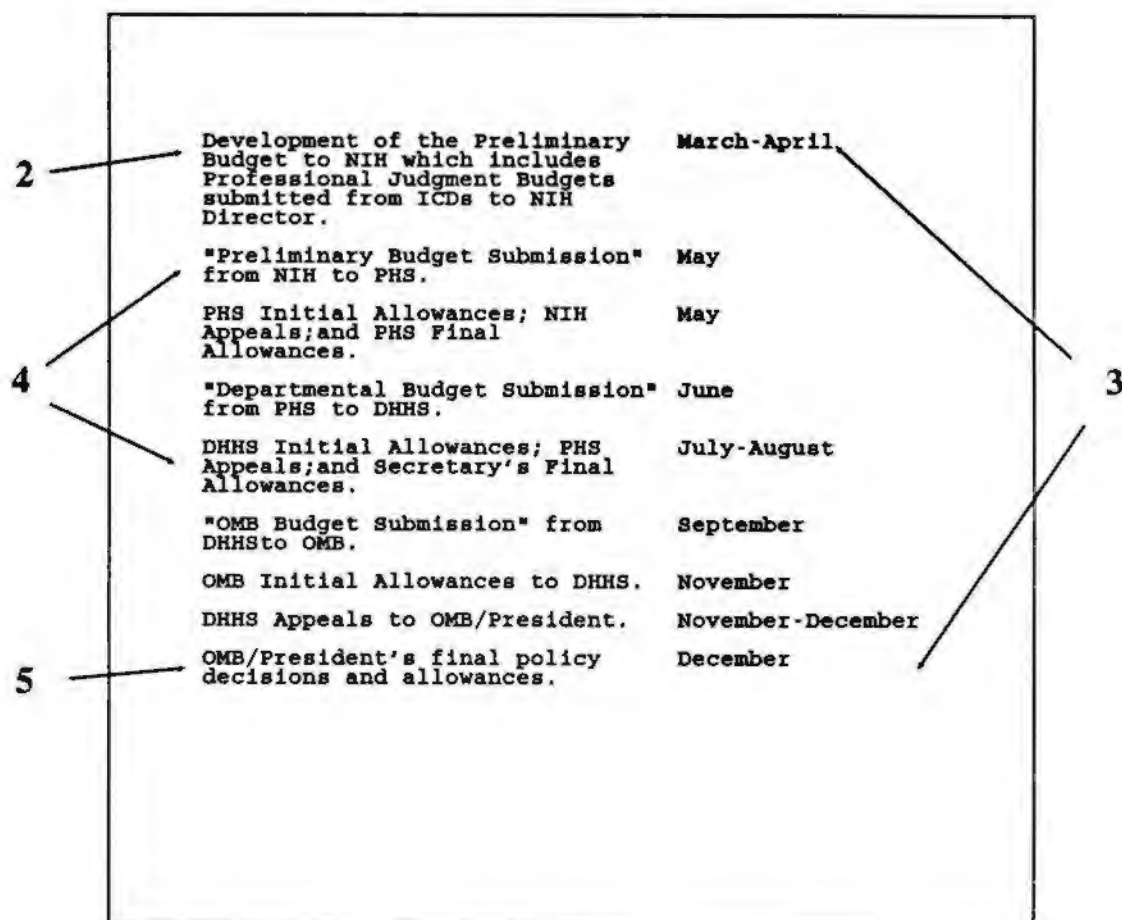
Federal Programs by Function, Agency, and Account, which provides summary information on Federal spending and employment and detailed information on budget estimates by agency and account;

Budget Enforcement Act Preview Report and Current Services Estimates, which are required by the GRH Act and the Congressional Budget Act of 1974, respectively;

Alternative Budget Presentations, which pertain, among other things, to the national income and product accounts, trust and Federal funds, and physical capital investment; and

Historical Tables, which generally provides information back to fiscal year 1940.

EXHIBIT 2-A
Budget Formulation by Agencies



- (1) This budget preparation calendar for the National Institutes of Health (NIH) shows a "bottom-up" process in which lower administrative submit requests to successively higher units. Some agencies use a more "top-down" process in which policy decisions are first made at higher echelons and communicated to subordinate units, which then formulate requests consistent with these policies.
- (2) Agencies typically commence a budget cycle in the early spring, as much as 18 months before the start of the fiscal year to which that budget pertains (and shortly after the President has submitted his budget for the next fiscal year).
- (3) This agency budget process for NIH involves six levels of organization: (a) the ICDs (Institutes/Centers/Divisions); (b) the National Institutes of Health; (c) the Public Health Service (PHS); (d) the Department of Health and Human Services (DHHS); (e) the Office of Management and Budget; and (f) the President.
- (4) The basic steps within an agency entail submission of a preliminary budget from lower to higher units, issuance of "allowances" by the higher unit, appeals by the lower unit, and final decisions by the higher unit. These internal steps parallel the relationship between each agency and OMB.
- (5) After receiving these OMB/presidential decisions, the Department conforms its budget submission to them.

EXHIBIT 2-B
Restrictions on the Release of Budgetary Information

1 — OMB Circular A-10

3. Requirements for confidentiality prior to official transmittal. The confidential nature of agency submissions, requests, recommendations, supporting materials and similar communications should be maintained, since these documents are an integral part of the decisionmaking process by which the President resolves budget issues and develops recommendations to the Congress. Presidential budget decisions are not final until the budget itself is transmitted to Congress. Amendments to the Budget and supplemental appropriation requests may also follow the transmittal of the budget. Budgetary material should not be disclosed in any form prior to transmittal by the President of the material to which it pertains. The head of each agency is responsible for preventing premature disclosures of this budgetary information.

31 U.S.C. 1108(e)

(e) Except as provided in subsection (f) of this section, an officer or employee of an agency (as defined in section 1101 of this title) 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.

- (1) OMB circulars are numbered and begin with the letter "A." They establish regulations that continue in effect from year to year unless changed, in contrast to OMB bulletins, which are effective only in the fiscal year for which they are issued.
- (2) This OMB circular is predicated on Section 206 of the Budget and Accounting Act of 1921 (31 U.S.C. 1108(e)), which bars agencies from submitting their budget requests directly to Congress unless they are requested to do so by the House or Senate.
- (3) Another section of this circular (not excerpted here) regulates agency testimony before Congress. Agencies are required to defend the President's recommendations and to ask for the amounts he has requested. In practice, however, agencies often find means of suggesting amounts in excess of the President's request.
- (4) OMB guidelines (currently incorporated in Section 12.9 of *Circular A-11*) bar agencies from disclosing budgetary records until the end of the fiscal year to which such information pertains.

EXHIBIT 2-C
Legislative Status of the President's Budget

Table D-1. BUDGET AUTHORITY
(In billions of dollars)

Description	1990 actual	1991 budget	1992 budget
1 Available through current action by the Congress:			
Enacted and pending appropriations	635.1	678.3	
Proposed in this budget:			678.8
Appropriations		2.0	
Supplemental requests		-4.2	
Rescission proposals			
To be requested separately:			
Upon enactment of proposed legislation		62.9	86.0
Allowances:			
Civilian agencies ¹			0.1
Department of Defense-Military ²		29.0	-0.3
Subtotal, available through current action by Congress	635.1	768.0	764.8
3 Available without current action by Congress (permanent appropriations):			
Trust funds (existing law)	563.7	606.2	647.7
On-budget	(255.8)	(276.4)	(296.6)
Off-budget	(307.9)	(329.8)	(351.1)
Interest on the public debt	264.8	286.3	304.0
Other	134.8	125.6	127.7
Subtotal, available without current action by Congress	963.3	1,018.1	1,075.4
4 Deductions for offsetting receipts	-226.8	-266.1	-266.4
On-budget	(-203.7)	(-234.6)	(-230.6)
Off-budget	(-26.3)	(-31.5)	(-35.8)
Total, budget authority	1,368.5	1,520.0	1,577.8
On-budget	(1,083.8)	(1,218.9)	(1,260.7)
Off-budget	(284.7)	(301.1)	(317.1)

- (1) Less than half of the budget authority recommended in the budget requires new congressional action to become available; the remainder is provided through permanent appropriations that become available without any current action by Congress.
- (2) Almost all of the budget authority that becomes available through current action of Congress is provided in annual appropriations acts.
- (3) Many of the trust funds in the budget have permanent appropriations which make the receipts of these funds automatically available for spending.
- (4) The two parts of the budget -- available through and without current action by Congress -- add up to more than the budget total. Offsetting receipts are deducted from the subtotal to yield the budget total.

EXHIBIT 2-D
CBO Reestimates of the President's Budget

1 — **TABLE I-2. DIFFERENCES BETWEEN ADMINISTRATION AND CBO ESTIMATES OF THE PRESIDENT'S PROPOSED BUDGET**
 (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995	1996
Administration Deficit or Surplus Estimate ^a	318	281	202	62	3	(20)
Reestimates to Pay-As-You-Go Proposals^b						
Capital gains proposal ^c	d	-1	5	5	6	5
Other proposals	d	d	2	2	1	2
Subtotal	d	-1	7	7	7	7
Other Economic Reestimates						
Revenues ^e	-9	-11	-1	18	29	40
Benefit programs	d	-2	-5	-6	-8	-8
Net interest	1	4	11	14	18	21
Subtotal	-9	-9	4	25	39	53
Other Technical Reestimates						
Revenues ^e	7	4	3	17	24	30
Deposit insurance ^e	-9	7	-1	57	-11	-17
Proposed asset sales ^f	0	d	2	-2	1	-1
Benefit programs	-4	-5	-6	-7	-8	-10
Defense	1	3	1	4	d	-4
Net interest ^g	2	2	4	8	12	13
Other outlays	2	7	6	2	3	4
Subtotal	-1	18	8	79	22	15
Total Reestimates	-10	9	19	112	68	76
Administration's Proposed Deficit as Estimated by CBO	308	290	221	173	71	56
Memoranda:						
Total Economic Reestimates	-9	-8	5	26	39	54
Total Technical Reestimates	-1	17	14	86	29	22

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- (1) Shortly after the President's budget is submitted, CBO issues its own analysis, including reestimates of the President's projections. This table is taken from the CBO analysis of the fiscal year 1992 budget. CBO also issues baseline budget projections that cover five fiscal years and assume no changes in current policy (see **Exhibit 3-G**).
- (2) In making reestimates, CBO distinguishes between differences due to: (a) policy changes, (b) variances between its economic assumptions and those used by the President, and (c) differences between its technical assumptions and those used by the President.
- (3) Typically, CBO finds that if its economic and technical assumptions were used, the budget deficit would be significantly higher than had been forecast in the President's budget.
- (4) Note that the gap between CBO and presidential deficit projections widens in the outyears.

EXHIBIT 2-E Economic Forecast

(Calendar years; dollar amounts in billions)					
	Actual 1989	Assumptions			
		1990 ¹	1991	1992	1993
Major economic indicators:					
Gross national product, percent change, fourth quarter over fourth quarter:					
Current dollars	5.6	4.5	5.3	7.5	7.1
Constant (1982) dollars	1.8	0.0	0.9	3.6	3.4
GNP deflator (percent change, fourth quarter over fourth quarter)	3.7	4.5	4.3	3.8	3.6
Consumer Price Index (percent change, fourth quarter over fourth quarter) ¹	4.5	6.3	4.3	3.9	3.6
Unemployment rate, total (fourth quarter) ²	5.3	5.8	6.6	6.5	6.0
Annual economic assumptions:					
Gross national product:					
Current dollars:					
Amount	5,201	5,465	5,689	6,096	6,536
Percent change, year over year ..	6.7	5.1	4.1	7.1	7.2
Constant (1982) dollars:					
Amount	4,118	4,152	4,140	4,267	4,415
Percent change, year over year ..	2.5	0.8	-0.3	3.1	3.5
	* * * *				
Unemployment rate, total, annual average ²	5.2	5.4	6.7	6.6	6.2
Federal pay raises, January (percent)	4.1	3.6	4.1	4.2	4.7
Interest rates (percent):					
91-day Treasury bills ³	8.1	7.5	6.4	6.0	5.8
10-year Treasury notes	8.5	8.5	7.5	7.2	6.8

- (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 1996 (1994-1996 data are not shown). Exhibit 1-N illustrates the sensitivity of budget projections to changes in economic conditions.
- (2) Gross National Product (GNP) is projected in both nominal and real terms. Nominal GNP (expressed in current dollars) is essential in projecting budget receipts; real GNP (expressed in constant dollars) is used to project future unemployment and changes in the volume of economic activity.
- (3) Both the GNP deflator and the Consumer Price Index (CPI) measure price changes. The GNP deflator encompasses all goods and services exchanged at market prices; the CPI is a more selective measure derived from a representative basket of goods and services.
- (4) Changes in the unemployment rate 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; they are not necessarily the increases that would be required to maintain comparability of Federal and private pay.

EXHIBIT 2-F
Comparison of CBO and OMB Economic Forecasts

1

TABLE II-1. COMPARISON OF CBO, ADMINISTRATION, AND BLUE CHIP SHORT-RUN ECONOMIC FORECASTS
 (By calendar year)

	Actual 1989	Estimated 1990	Forecast	
			1991	1992
Fourth Quarter to Fourth Quarter (Percentage change)				
Real Gross National Product				
CBO	1.8	0.2	1.3	3.4
Administration	1.8	0	0.9	3.6
Blue Chip	1.8	0.3	0.9	2.8
Implicit GNP Deflator				
CBO	3.7	4.4	4.1	3.6
Administration	3.7	4.5	4.3	3.8
Blue Chip	3.7	4.0	3.8	3.8
Consumer Price Index^a				
CBO	4.6	6.1	4.0	3.5
Administration	4.5	6.3	4.3	3.9
Blue Chip	4.6	6.3	3.8	4.1
Calendar-Year Average (Percent)				
Civilian Unemployment Rate^b				
CBO	5.3	5.5	6.6	6.4
Administration	5.2	5.4	6.7	6.6
Blue Chip	5.3	5.5	6.5	6.3
Three-Month Treasury Bill Rate				
CBO	8.1	7.5	6.6	7.0
Administration	8.1	7.5	6.4	6.0
Blue Chip	8.1	7.5	6.0	5.3
Ten-Year Government Note Rate				
CBO	8.5	8.6	7.9	7.7
Administration	8.5	8.5	7.5	7.2
Blue Chip ^c	8.5	8.5	7.8	8.0

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- (1) CBO compares its economic forecasts to both the OMB ("Administration") forecast and to the "Blue Chip" forecast (a composite of the forecasts made by major private sector economists).
- (2) For some economic indices, the most widely used measures are changes from the fourth quarter (October-December) of one calendar-year to the fourth quarter of the next year; other economic forecasts are made using calendar-year averages.
- (3) Some of the widest forecasting differences pertain to future interest rates, with CBO's projections generally much higher than those issued by OMB.

EXHIBIT 2-G
Effects of Economic Changes on the Budget

Table III-7. EFFECTS ON THE BUDGET OF CHANGES IN ECONOMIC ASSUMPTIONS SINCE LAST YEAR
(In billions of dollars)

	1991	1992	1993	1994	1995
Budget totals under 1991 budget economic assumptions and 1992 budget policies:					
Receipts	1,140.8	1,228.2	1,323.0	1,422.3	1,510.1
Outlays	1,388.0	1,408.8	1,405.9	1,368.7	1,404.0
Surplus or Deficit (-)	-247.2	-180.6	-82.9	53.6	106.1
Changes due to economic assumptions:					
Receipts	-49.4	-63.2	-70.3	-57.0	-42.8
Outlays:					
Inflation	5.0	9.5	11.9	14.0	15.5
Unemployment	6.3	6.9	5.8	4.3	2.2
Interest rates	5.9	10.9	14.4	17.8	19.8
Interest on changes in borrowing	4.4	9.8	16.2	22.3	28.8
Total, outlays	21.6	37.1	48.3	58.4	66.3
Increase in deficit	71.0	100.3	118.6	115.4	109.1
Budget totals under 1992 budget economic assumptions and policies:					
Receipts	1,091.4	1,165.0	1,252.7	1,365.3	1,467.3
Outlays	1,409.6	1,445.9	1,454.2	1,427.1	1,470.3
Surplus or Deficit (-)	-318.1	-280.9	-201.5	-61.8	-2.9

- (1) If the economic assumptions in the fiscal year 1991 had been realized, OMB estimated (in the fiscal year 1992 budget) that the Government would achieve surpluses in fiscal years 1994 and 1995.
- (2) However, changes in economic assumptions significantly reduced projected revenues while adding substantially to projected outlays, with the result that the deficit was estimated to be much higher than had originally been budgeted.
- (3) OMB separately computes the budget impact of projected changes in inflation, unemployment, interest rates, and the increased volume of borrowing.
- (4) Budget projections are revised later in the year, in the *Mid-Session Review*, and in the following year, when the President submits his budget for the next fiscal year, to reflect further changes in economic assumptions and budget policies.

EXHIBIT 2-H Current Services Estimates

Table XV-9. CURRENT SERVICES AND BUDGET CATEGORY TOTALS, 1991-1996
(In billions of dollars)

	1991	1992	1993	1994
CURRENT SERVICES ESTIMATES:				
Discretionary	518.4	527.5	537.5	537.6
Mandatory:				
Social Security benefits	266.7	286.0	303.8	320.3
Remaining mandatory	458.7	467.7	452.6	402.9
Subtotal, mandatory	725.4	753.7	756.4	723.2
Undistributed offsetting receipts	-39.1	-39.3	-41.2	-43.0
Net interest	196.7	206.3	211.6	215.5
Total Outlays	1,401.4	1,447.2	1,484.4	1,433.5
Total Receipts	1,091.1	1,162.3	1,252.1	1,366.0
Deficit or surplus (-)	310.3	284.9	212.3	67.5
ADMINISTRATION PROPOSED BUDGET:				
Discretionary	526.3	532.1	536.9	538.0
Mandatory:				
Social Security benefits	266.7	286.2	303.9	320.4
Remaining mandatory	458.6	460.6	442.8	393.4
Subtotal, mandatory	725.3	747.0	746.7	713.8
Undistributed offsetting receipts	-39.1	-39.5	-41.4	-40.2
Net interest	197.0	206.3	212.0	215.5
Total Outlays	1,409.6	1,445.9	1,454.2	1,427.1
Total Receipts	1,091.4	1,165.0	1,252.7	1,365.3
Deficit or surplus (-)	318.1	280.9	201.5	61.8
DIFFERENCE:				
Discretionary	7.9	4.6	-0.6	0.2
Mandatory:				
Social Security benefits		0.1	0.1	
Remaining mandatory	-0.1	-8.6	-8.6	-9.5
Subtotal, mandatory	-0.1	-8.7	-9.7	-9.5
Undistributed offsetting receipts		-0.2	-0.2	2.8
Net interest	0.3	1.0	0.5	-0.1
Total Outlays	8.1	-1.3	-10.2	-6.4
Total Receipts	0.4	2.7	0.6	-0.7
Deficit or surplus (-)	7.8	-4.0	-10.8	-5.7

- (1) The OMB current services estimates are similar to baseline budget projections made by CBO, though there may be significant estimating differences, as shown in Exhibit 2-D. The OMB estimates cover through fiscal year 1996 (1995-1996 data are not shown).
- (2) The GRH Act prescribes in detail how the baseline is to be developed for purposes of sequestration, providing little discretion to OMB. The current services estimates are prepared on a somewhat different basis.
- (3) Current services estimates project future receipts and outlays as if current policies were to continue without change. It thus makes it possible to distinguish between revenue and spending changes due to economic and technical changes, and those due to policy initiatives.
- (4) The differences between the current services estimates and the President's budget estimates are due to the policy recommendations presented in the budget.

EXHIBIT 2-I Appropriations Language

OPERATIONS, RESEARCH, AND FACILITIES
(INCLUDING TRANSFER OF FUNDS)

For necessary expenses of activities authorized by law for the National Oceanic and Atmospheric Administration, including acquisition, maintenance, operation, and hire of aircraft; ~~439~~ 416 commissioned officers on the active list; as authorized by 31 U.S.C. 1343 and 1344; construction of facilities, including initial equipment as authorized by 33 U.S.C. 883i; and alteration, modernization, and relocation of facilities as authorized by 33 U.S.C. 883i; ~~1,353,156,000~~ \$1,501,476,000 to remain available until expended[, of which \$2,200,000 shall be available for construction and renovation of facilities at the Stuttgart Fish Farming Experimental Station, Stuttgart, Arkansas, and to acquire equipment and furnishings necessary for such facility which are consistent with the original plan for the

* * * * *

not exceed \$2,000,000 and shall not be less than \$450,000]: *Provided [further], That [in addition to the sums appropriated elsewhere in this paragraph, not to exceed \$500,000 shall be available from the receipts deposited in the fund entitled "Promote and Develop Fishery Products and Research Pertaining to American Fisheries" for grant management and related activities: Provided further, That notwithstanding any other provision of law, \$400,000 shall be available to the South Carolina Coastal Council for the Charleston Harbor Estuary Special Area Management Plan] collections for user fees for seafood inspection may be credited to this account, to remain available until expended. (7 U.S.C. 1622; 12 U.S.C. 1715m; 15 U.S.C. 272, 313, 313a, 313nt, 330b, 330e, 1514, 1517, 2904, 2905, 2906, 2908, 4211, 4278; 16 U.S.C. 661 et seq.; 30 U.S.C. 1412, 1419, 1424, 1428, 1469, 1470; 33 U.S.C. 706 et seq., 1441, 1442, 1443, 1444, 1703, 1704, 1705, 1709; 37 U.S.C. 101 et seq.; 42 U.S.C. 1891, 7453, 7454, 8902, 8903, 8904, 8905; 43 U.S.C. 1347e; 49 U.S.C. 1153; Department of Commerce Appropriations Act, 1991; additional authorizing legislation to be proposed for \$106,895,000.)*

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- (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 8.)
- (2) The appropriation exhibited here proposes more than \$1 billion for operations, research, and facilities of the National Oceanic and Atmospheric Administration. All operating funds for an agency or a major program are typically provided in a single account.
- (3) Appropriations language sometimes also authorizes agencies to spend funds that they have collected. Without such authorization, these funds would revert to the Treasury.
- (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.

EXHIBIT 2-J
Program Description and Workload Data

-
- 1 — *National Environmental Satellite, Data, and Information Service.*—These programs provide for the: operation of environmental polar-orbiting and geostationary satellites; subsidy of a commercially operated Landsat system; and global environmental data and information products and services to users in commerce, industry, agriculture, science and engineering, the general public and Federal, State and local agencies. The 1992 funding will support procurement of replacement satellites for the polar-orbiting and geostationary systems.
- 2 — The Administration is committed to operating the Landsat 4 and 5 satellites until completing the development and launch of Landsat 6. No funds are proposed for operation of Landsat 6 because these costs will be covered by the contractor, the Earth Observation Satellite Company. Funding is requested for the operation of Landsat 5 as it appears likely that it will continue to operate into FY 1992.
- The Administration is considering options for continuing Landsat-type data after Landsat 6. No funds are required in 1992 for additional satellites, consistent with the expected lifetime of Landsat 6.

- (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 briefer and more specifically related to the particular year's budget request.
- (2) OMB instructions for the preparation of the budget (*Circular A-11*, Section 15.4) 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.

EXHIBIT 2-K
Program and Financing Schedule: Program by Activities

Program and Financing (in thousands of dollars)				
Identification code 13-1450-0-1-306		1990 actual	1991 est.	1992 est.
Program by activities:				
Direct program:				
00.01	National Ocean Service	144,576	151,757	157,252
00.02	National Marine Fisheries Service	186,293	212,240	174,624
00.03	Oceanic and Atmospheric Research	171,784	208,708	186,776
00.04	National Weather Service	425,952	476,008	508,619
00.05	National Environmental Satellite, Data, and Information Service	264,344	274,682	406,730
00.06	Program support	134,214	148,899	156,275
00.91	Total direct program	1,327,162	1,472,294	1,590,276
Reimbursable program:				
01.01	National Ocean Service	47,693	55,005	52,833
01.02	National Marine Fisheries Service	16,668	24,236	26,916
01.03	Oceanic and Atmospheric Research	29,195	36,200	29,206
01.04	National Weather Service	158,275	274,751	222,852
01.05	National Environmental Satellite, Data, and Information Service	38,518	25,013	19,366
01.06	Program support	13,683	14,152	13,943
01.91	Total reimbursable program	304,032	429,357	365,116
10.00	Total obligations	1,631,194	1,901,651	1,955,392

- (1) The "Program and Financing" schedule, which accompanies each budget account, consists of three parts: (a) program by activities -- shown here; and (b) financing and (c) relation of obligations to outlays -- displayed in the next exhibit.
- (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) The first part of this schedule divides resources among the programs 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.
- (4) Where appropriate (and not shown in this example), 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.)

EXHIBIT 2-L
Program and Financing Schedule: Financing

Program and Financing (in thousands of dollars)				
Identification code 13-1450-6-1-306		1990 actual	1991 est.	1992 est.
Financing:				
17.00	Recovery of prior year obligations.....	-6,216	-6,000	-6,000
21.40	Unobligated balance available, start of year.....	-77,815	-39,738	
24.40	Unobligated balance available, end of year.....	39,738		
39.00	Budget authority (gross).....	1,586,901	1,856,513	1,949,392
Budget authority:				
Current:				
40.00	Appropriation.....	1,223,389	1,353,156	1,501,476
42.00	Transferred from other accounts.....	59,500	73,400	70,800
43.00	Appropriation (adjusted).....	1,282,889	1,426,556	1,572,276
Permanent:				
62.00	Transferred from other accounts.....			12,000
63.00	Appropriation (adjusted).....			12,000
68.00	Spending authority from offsetting collections.....	304,032	429,357	365,116
Relation of obligations to outlays:				
71.00	Total obligations.....	1,631,194	1,901,651	1,955,392
72.40	Obligated balance, start of year.....	883,928	880,947	938,896
74.40	Obligated balance, end of year.....	-880,947	-938,896	-938,852
78.00	Adjustments in unexpired accounts.....	-6,216	-6,000	-6,000
87.00	Outlays (gross).....	1,627,959	1,837,702	1,949,436
Adjustments to budget authority and outlays:				
Deductions for offsetting collections:				
88.00	Federal funds.....	-251,236	-363,004	-288,024
88.30	Trust funds.....	-29,583	-34,521	-35,389
88.40	Non-Federal sources.....	-23,373	-31,832	-41,703
88.90	Total, offsetting collections.....	-304,192	-429,357	-365,116
89.00	Budget authority (net).....	1,282,709	1,426,556	1,584,276
90.00	Outlays (net).....	1,323,767	1,408,345	1,584,320

- (1) The financing portion of the schedule (continued from the previous exhibit) shows the source of funds. In the account exhibited here, the bulk of the funds come from annual appropriations, but some resources also come from permanent appropriations and offsetting collections.
- (2) The financing schedule sometimes displays reductions in available resources, such as when funds are withdrawn pursuant to a sequester. (No such reductions were made in this instance.)
- (3) This section of the schedule relates obligations to outlays. The outlay figure reported here for the budget year is only an estimate, not a recommendation or a limit.
- (4) Note the differences between the gross and net amounts. The gross amounts represent the total to be obligated or spent in this account, regardless of source; the net amounts are the amounts to be financed by appropriation to this account.

EXHIBIT 2-M
Object Classification

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Object Classification (in thousands of dollars)		1990 actual	1991 est.	1992 est.
Identification code 13-1450-0-1-306				
Direct obligations:				
Personnel compensation:				
11.1	Full-time permanent	361,791	393,047	401,905
11.3	Other than full-time permanent	18,933	18,686	19,163
11.5	Other personnel compensation	20,070	21,092	20,515
11.9	Total personnel compensation	400,794	432,825	441,583
12.1	Civilian personnel benefits	73,400	79,367	89,390
13.0	Benefits for former personnel	6,485	6,162	6,681
21.0	Travel and transportation of persons	20,467	17,796	18,181
22.0	Transportation of things	8,533	6,752	7,453
23.1	Rental payments to GSA	29,056	33,888	40,311
23.2	Rental payments to others	12,129	11,055	10,922
23.3	Communications, utilities, and miscellaneous charges	35,704	57,761	58,524
24.0	Printing and reproduction	7,146	6,672	7,881
25.0	Other services	481,395	518,089	622,561
26.0	Supplies and materials	51,134	49,797	48,631
31.0	Equipment	41,392	72,820	104,537
32.0	Land and structures	3,576	12,079	10,084
41.0	Grants, subsidies, and contributions	155,790	167,219	123,525
42.0	Insurance claims and indemnities	64	11	11
43.0	Interest and dividends	90	1	1
99.0	Subtotal, direct obligations	1,327,155	1,472,294	1,590,276
99.0	Reimbursable obligations	304,032	429,357	365,116
ALLOCATION TO ARMY CORPS OF ENGINEERS				
32.0	Land and structures	7		
99.0	Subtotal obligations, Army of Corps of Engineers	7		
99.9	Total obligations	1,631,194	1,901,651	1,955,392

2

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

Chapter 3. THE BUDGET RESOLUTION AND RECONCILIATION

The Congressional Budget 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 which sets aggregate budget policies and functional priorities for the next five fiscal years. (Pursuant to temporary changes made by the BEA of 1990, the budget resolution must cover five fiscal years from 1991 through 1995; if Congress does not extend this feature, existing law requires that budget resolutions beginning with fiscal year 1996 cover three fiscal years, as was the case before 1991.)

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 (see Chapter 4). The budget resolution also initiates the reconciliation process for conforming existing revenue and spending laws to congressional budget policies.

The Congressional Budget Act of 1974, 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 1985, 1987, and 1990, in conjunction with legislation establishing and revising the GRH Act. Additionally, some rules of the congressional budget process have been incorporated into or augmented by the standing rules of the House and Senate.

In the GRH Act, Congress imposed significant constraints on its ability to shape budgetary policy through fiscal year 1995 (see Chapter 5). These constraints involve deficit targets, limits on discretionary spending, and a pay-as-you-go process covering revenues and mandatory spending. As long as the GRH procedures remain in effect, policies embodied in the annual budget resolution must be consistent with them.

The congressional budget process begins upon the presentation of the President's budget in January or February. Exhibit 3-A displays the official timetable of the congressional budget process, which 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).

Structure and Content of the Budget Resolution

The Congressional Budget Act of 1974 requires the budget resolution, for each fiscal year covered, to set forth budget aggregates (see **Exhibits 3-B and 3-C**) and spending and credit amounts for each functional category of the budget (see **Exhibit 3-D**). The aggregates included in the budget resolution are:

- total revenues (and the amount by which the total is to be changed by legislative action)
- total new budget authority and outlays
- total direct loan obligations and primary loan guarantee commitments
- 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, outlays, direct loan obligations, and primary loan guarantee commitments. The functional allocations must add up to the corresponding spending or credit 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.

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. **Exhibit 3-E** provides an excerpt from the report of the House Budget Committee on the budget resolution for fiscal year 1992.

Finally, the Congressional Budget Act of 1974 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).

Formulation of the Budget Resolution

The House and Senate Budget Committees are responsible for marking up and reporting the budget resolution. In the course of developing the 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 3-F** -- provide the Budget Committees with information on the preferences and legislative plans of congressional committees regarding budgetary matters within their jurisdiction.

The CBO assists the Budget Committees in developing the budget resolution by issuing, early each year, reports on the economic and budget outlook, the President’s budgetary proposals, and, in most years, spending and revenue options for reducing the deficit. These reports provide the Budget Committees with baseline projections which inform Congress of estimated revenues and spending under assumed economic conditions and with no changes in policy. The baseline, which is prepared both for the budget as a whole and for many individual accounts or programs, is used in developing the budget resolution and in measuring the budgetary impact of policy changes intended or made by Congress (see **Exhibit 3-G**). It also provides a neutral starting point, which is not influenced by the President’s recommendations, in preparing the budget resolution. (In August, CBO issues new baseline projections when it updates the report on the economic and budget outlook.)

In marking up the budget resolution, the Budget Committees often are divided along party lines. This is particularly so in the House where Democrats on the Budget Committee usually review the Chairman’s recommendations before the full Committee takes up the resolution. There has tended to be somewhat less partisanship in the Senate Budget Committee, but there too, Democrats and Republicans have often differed over budget policy.

The reliance on budget summits between the President and Congress has also influenced the formulation of recent budget resolutions. In years when summit agreements have been reached, the budget resolution generally has ratified the summit agreement; it has not represented a wholly independent judgment of Congress.

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 Committee reports (see **Exhibit 3-E**), and during floor consideration of the budget resolution. 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 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.

The Reconciliation Process

Reconciliation is the process used by Congress to bring existing revenue and spending law into conformity with the policies in the budget resolution. The process has two stages: (1) the adoption of reconciliation instructions in the budget resolution; and (2) the enactment of reconciliation legislation that implements changes in revenue or spending laws. Although reconciliation has been used since 1980, the procedures tend to vary from year to year. In fact, as an optional process, there have been some years since 1980 when reconciliation was not used. — *Then what happens? Just no entitlement or tax net changes?*

Reconciliation is used to change the amount of revenues, budget authority, or outlays generated by existing law. On the spending side, the process focuses on entitlement laws; it may not be used, however, to impel changes in Social Security law. At one time, reconciliation was applied to discretionary authorizations (which are funded in annual appropriations acts), but this is no longer the practice.

Reconciliation begins with a directive in a budget resolution instructing designated committees to report legislation changing existing law (or pending legislation). Exhibit 3-H is taken from reconciliation instructions in the budget resolution for fiscal year 1991. 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, with separate dollar amounts specified for each of the years.

The dollar amounts are computed with reference to the CBO baseline. Thus, a change represents the amount by which revenues or spending would increase or decrease 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 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 (as shown in Exhibit 3-I); 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.

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. Thus, it has to separately satisfy the instruction for budget authority and outlays for each fiscal year covered by the instructions.

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 Congressional Budget Act of 1974 does not provide any sanctions against committees that fail to do so.

When more than one committee in the House and Senate is subject to reconciliation, the proposed legislative changes are usually consolidated by the Budget Committees into an omnibus bill (see Exhibit 3-J). The Congressional Budget Act of 1974 does not permit the Budget Committees to substantively revise 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 Congressional Budget Act of 1974 requires that amendments offered to reconciliation legislation in either the House or the Senate be deficit neutral (see Exhibit 3-K). In order 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 House, and, in the Senate, amendments containing extraneous matter (e.g., having no budgetary effect) are precluded (see Exhibit 3-L).

EXHIBIT 3-A
Timetable of Congressional Budget Actions

TABLE 1.—CONGRESSIONAL BUDGET PROCESS TIMETABLE

Deadline	Action to be completed
First Monday in February	President submits his budget to Congress.
February 15	Congressional Budget Office submits report on economic and budget outlook to Budget Committees.
2 Six weeks after President's budget is submitted.	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.
3 May 15	Regular appropriations bills may be considered in the House (even if action on the budget resolution has not yet been completed).
June 10	House Appropriations Committee reports last regular appropriations bill.
June 30	House completes action on regular appropriations bills and any required reconciliation legislation.
4 July 15	President submits "Mid-Session Review" of his budget to Congress.
October 1	Fiscal year begins.
	5

- (1) This timetable establishes deadlines for the major steps in the congressional budget process. Congress, however, is often unable to meet the deadlines for adoption of the budget resolution and passage of reconciliation legislation and appropriations bills.
- (2) Committees differ in the form and content of their "views and estimates" reports. Some committees have formal markups and issue detailed recommendations; others have informal procedures and submit only a sketchy outline of their budget preferences.
- (3) Although the Congressional Budget Act of 1974 bars Congress from considering spending measures before the budget resolution has been adopted, the House may take up appropriations bills after May 15, even if the budget resolution has not been adopted.
- (4) Congress acts on reconciliation legislation only if the budget resolution contains reconciliation instructions.
- (5) If the regular appropriations bills have not been enacted by the start of the fiscal year, Congress provides interim funding in a continuing appropriations act.

EXHIBIT 3-B
Budget Resolution Aggregates: Revenues

SEC. 2. RECOMMENDED LEVELS AND AMOUNTS.
The following budgetary levels are appropriate for the fiscal years 1992, 1993, 1994, 1995, and 1996:

(1) FEDERAL REVENUES.—(A) The recommended levels of Federal revenues are as follows:

Fiscal year 1992: \$850,400,000,000.
 Fiscal year 1993: \$909,800,000,000.
 Fiscal year 1994: \$966,300,000,000.
 Fiscal year 1995: \$1,025,700,000,000.
 Fiscal year 1996: \$1,079,800,000,000.

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

Fiscal year 1992: \$0.
 Fiscal year 1993: \$0.
 Fiscal year 1994: \$0.
 Fiscal year 1995: \$0.
 Fiscal year 1996: \$0.

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

Fiscal year 1992: \$82,100,000,000.
 Fiscal year 1993: \$88,600,000,000.
 Fiscal year 1994: \$94,400,000,000.
 Fiscal year 1995: \$100,600,000,000.
 Fiscal year 1996: \$107,100,000,000.

- (1) The first part of the budget resolution sets forth levels for major aggregates in the budget -- total revenues, new budget authority, outlays, and so forth. The revenue aggregates are displayed here; other aggregates are shown in the next exhibit.
- (2) The budget resolution for fiscal year 1992 sets forth amounts for five fiscal years -- fiscal year 1992 and the four ensuing years. Budget resolutions must cover five fiscal years until 1995 (when the GRH Act currently is scheduled to expire), when they revert back to a three-year timeframe.
- (3) These amounts do not include receipts of the Social Security trust funds. These receipts, as well as Social Security spending, are excluded from the unified budget.
- (4) The budget resolution shown here does not contemplate any legislative action to increase revenues. If the budget resolution assumes that revenues will be increased by legislative action, the amount of the increase is specified for each fiscal year covered by the budget resolution, but it does not specify which provisions of revenue law should be changed.
- (5) Although Medicare receipts (under the Federal Insurance Contributions Act) are included in the budget totals, they also are shown separately.

EXHIBIT 3-C

Budget Resolution Aggregates: Spending, Deficit, and Debt Limit

	SEC. 2. RECOMMENDED LEVELS AND AMOUNTS.	
	<i>The following budgetary levels are appropriate for the fiscal years 1992, 1993, 1994, 1995, and 1996:</i>	
	* * * *	
1	(2) NEW BUDGET AUTHORITY. —The appropriate levels of total new budget authority are as follows:	
	Fiscal year 1992: \$1,269,300,000,000.	
	Fiscal year 1993: \$1,272,700,000,000.	
	Fiscal year 1994: \$1,300,800,000,000.	
	Fiscal year 1995: \$1,341,700,000,000.	
	Fiscal year 1996: \$1,407,400,000,000.	
3	(3) BUDGET OUTLAYS. —The appropriate levels of total budget outlays are as follows:	2
	Fiscal year 1992: \$1,201,600,000,000.	
	Fiscal year 1993: \$1,212,100,000,000.	
	Fiscal year 1994: \$1,234,400,000,000.	
	Fiscal year 1995: \$1,209,100,000,000.	
	Fiscal year 1996: \$1,276,900,000,000.	
	(4) DEFICITS. —The amounts of the deficits are as follows:	4
	Fiscal year 1992: \$351,200,000,000.	
	Fiscal year 1993: \$302,300,000,000.	
	Fiscal year 1994: \$268,100,000,000.	
	Fiscal year 1995: \$183,400,000,000.	
	Fiscal year 1996: \$197,100,000,000.	
5	(5) PUBLIC DEBT. —The appropriate levels of the public debt are as follows:	
	Fiscal year 1992: \$3,982,200,000,000.	
	Fiscal year 1993: \$4,353,200,000,000.	
	Fiscal year 1994: \$4,696,600,000,000.	
	Fiscal year 1995: \$4,955,800,000,000.	
	Fiscal year 1996: \$5,226,600,000,000.	

- (1) New budget authority is provided in annual appropriations acts, permanent legislation, or (in some cases) new authorizing legislation.
- (2) The outlay amounts set forth in the budget resolution are estimates. However, the current version of the GRH Act imposes limits on discretionary outlays and establishes other controls on outlays.
- (3) The new budget authority and outlay amounts do not include spending of the Social Security trust funds or the Postal Service. This spending, as well as Social Security receipts, is excluded from the unified budget.
- (4) The Congressional Budget Act of 1974 requires that the deficit set forth in the budget resolution not exceed the maximum deficit amount under the GRH Act.
- (5) Note that the annual increase in the public debt is greater than the deficit for that fiscal year. The main reason for this is that the public debt includes amounts borrowed from the trust funds.

EXHIBIT 3-D
Budget Resolution Functional Categories

1 — **SEC. 6. MAJOR FUNCTIONAL CATEGORIES.**
The Congress determines and declares that the appropriate levels of new budget authority, budget outlays, new direct loan obligations, new primary loan guarantee commitments, and new secondary loan guarantee commitments for fiscal years 1992 through 1996 for each major functional category are:

(1) **National Defense (050):** ————— **2**

Fiscal year 1992:

(A) New budget authority, \$290,800,000,000.

(B) Outlays, \$295,300,000,000.

(C) New direct loan obligations, \$0.

(D) New primary loan guarantee commitments, \$0.

(E) New secondary loan guarantee commitments, \$0.

Fiscal year 1993:

(A) New budget authority, \$290,900,000,000.

(B) Outlays, \$292,000,000,000.

(C) New direct loan obligations, \$0.

(D) New primary loan guarantee commitments, \$0.

(E) New secondary loan guarantee commitments, \$0.

* * * *

(7) **Commerce and Housing Credit (370):** ————— **2**

Fiscal year 1992:

(A) New budget authority, \$105,900,000,000.

(B) Outlays, \$104,900,000,000.

(C) New direct loan obligations, \$2,600,000,000.

(D) New primary loan guarantee commitments, \$66,600,000,000.

(E) New secondary loan guarantee commitments, \$83,400,000,000.

- (1) Each budget resolution allocates new budget authority, outlays, direct loans, and guaranteed loans among the various functional categories of the budget. The sum of these functional allocations must equal the corresponding aggregates in the first part of the budget resolution.
- (2) Each function has a three-digit identification number. As shown in the excerpts presented here, the first function listed in the budget resolution (National Defense) is numbered 050, while the seventh function (Commerce and Housing Credit) is numbered 370. The functions and their numbers are listed in **Exhibit 1-I**.
- (3) The functional allocations are not binding on the Appropriations Committees or other committees with jurisdiction over spending. Binding limits on committees are set through discretionary spending limits (through fiscal year 1995) and allocations and subdivisions made under Sections 302 and 602 of the Congressional Budget Act of 1974.

EXHIBIT 3-E
Committee Report Accompanying a Budget Resolution

FUNCTION 700: VETERANS BENEFITS AND SERVICES

EXPLANATION OF COMMITTEE RECOMMENDATION

1 The Committee recommends \$34.4 billion in budget authority and \$34.0 billion in outlays for this function for fiscal year 1992. These totals represent a \$0.1 billion increase in budget authority and an outlay decrease of less than \$0.1 billion from the HBC baseline, which is \$1.1 billion in budget authority and \$0.7 billion in outlays above the freeze.

One-Year Freeze

2

The Committee's initial assumption is that fiscal year 1992 funding for all discretionary programs in this function will be at the level provided in the fiscal year 1991 regular appropriations bills. (Any fiscal year 1991 supplemental appropriations are considered to be one-time changes and are not reflected in the fiscal year 1992 base level.) This freeze applies for fiscal year 1992 only; it is assumed that funding will increase with inflation thereafter.

As noted below, however, the initial freeze assumption is modified for selected programs, which are assumed to receive fiscal year 1992 funding above or below the fiscal year 1991 freeze level.

Discretionary Policy Changes

1. MEDICAL CARE

3 The Committee recommendation assumes an increase of \$1.104 billion in budget authority and \$756 million in outlays above the freeze for medical care in fiscal year 1992. The recommendation adds \$211 million to the President's request for the Department of Veterans Affairs (DVA) medical care, rejecting the President's legislative reductions in this area and adding funds for increased medical care staff to reduce waiting times at overcrowded DVA medical care facilities.

- (1) The increases or decreases in spending and revenues recommended by the Budget Committees usually are explained in the Budget Committee reports accompanying the budget resolution as changes from the baseline. Spending recommendations are discussed by functional category of the budget.
- (2) In this case, the House Budget Committee made an initial assumption that all discretionary programs in this function would be funded at a "freeze" level for fiscal year 1992 (keeping funding at the level provided for fiscal year 1991). Because the baseline provides for increases in inflation and other factors, a freeze is computed as a reduction from the baseline.
- (3) The Committee makes exceptions to the overall assumption of a freeze by either increasing or decreasing assumed amounts of funding for specific programs. In this instance, the Committee recommended a greater increase for Veterans' medical care than was proposed by the President.
- (4) Although assumptions about specific programs or "line items" are not binding on the Appropriations Committees and other committees with spending jurisdiction, they may represent a consensus and often influence final funding outcomes.

EXHIBIT 3-F
Views and Estimates of Committees

- 1 *II. No Reconciliation* - Since the duration and scope of our continued involvement in the Persian Gulf and the depth and duration of the recession are both uncertain at this time, the Committee strongly insists, on both a bipartisan and unanimous basis, that there be no reconciliation directive to the Committee on either revenues or outlays.
- III. The President's Budget Proposals* - The Committee recognizes that the President's Budget contains several revenue proposals, some of which increase and some of which decrease taxes. In addition, the President has proposed legislative reductions of \$25 billion in Medicare over the next five years, a cap on foster care administrative funds under Title IV-E of the Social Security Act and the complete repeal of the Trade Adjustment Assistance program (TAA). The Committee anticipates little or no budgetary savings this fiscal year from these proposals. 2
- 3 *IV. Possible Committee Initiatives* - At some time during the year, the Committee may consider the following initiatives with budgetary consequences: tax simplification, expiring tax provisions, preventive and other health measures, unemployment insurance reforms and improvements, child welfare changes, and other measures. The Committee will fully comply with the new pay-as-you-go requirements, as we have in previous years. However, given the uncertainty of economic projections at this time, the Committee wishes to emphasize that the budget resolution should not attempt to project the amount of outlays or revenue losses associated with the above initiatives. Instead, the Budget Committee should be assured that all legislation reported from the Committee on Ways and Means will be deficit neutral, consistent with the new pay-as-you-go requirements.

- (1) The Congressional Budget Act of 1974 requires House and Senate committees to report their views and estimates on budget matters in their jurisdiction within six weeks after the President submits his budget. The excerpt shown here is from the fiscal year 1992 report of the House Ways and Means Committee.
- (2) The Committee stated its unanimous view that it should not be directed to recommend certain legislative changes through the reconciliation process at this time.
- (3) The House Ways and Means Committee, like many other committees, concentrates on those matters in disagreement with the President's budget. A few committees, however, prepare a detailed report covering all of the programs or accounts in their jurisdiction.
- (4) The Committee expressed its disagreement with the President's major recommendations for budgetary savings and indicated that it might pursue legislative initiatives in several areas. To keep its options open, the Committee argued against the Budget Committee assigning any dollar amounts to the initiatives at this time, pledging instead to abide by the pay-as-you-go requirements if the initiatives were pursued.

EXHIBIT 3-G
CBO Baseline Projections

CHAPTER III

THE BUDGET OUTLOOK 63

TABLE III-1. CBO PROJECTIONS OF TOTAL FEDERAL REVENUES, OUTLAYS, AND DEFICITS (By fiscal year)

	Actual 1990	1991	1992	1993	1994	1995	1996
In Billions of Dollars							
Baseline Revenues	1,031	1,094	1,170	1,251	1,332	1,416	1,496
Outlays	1,252	1,391	1,468	1,490	1,543	1,544	1,632
Deficit	220	298	298	239	211	128	135

* * * *

250-1 CANCEL THE NASA INTERNATIONAL SPACE STATION PROGRAM

Savings from CBO Baseline	Annual Savings (In millions of dollars)					Cumulative Five-Year Savings
	1992	1993	1994	1995	1996	
Budget Authority	2,000	2,050	2,150	2,200	2,300	10,650
Outlays	1,850	1,900	2,100	2,150	2,250	10,250

- (1) CBO issues baseline projections of revenues, outlays, and the deficit for the current fiscal year (in this case, fiscal year 1991) and each of the next five years on the basis of an assumed rate of inflation and projected workload changes that are mandatory, such as increases in the number of Social Security recipients. The baseline assumes that current policy will continue in effect. In some cases, laws that are scheduled to expire are assumed to continue.
- (2) In these baseline projections, the deficit surges to record levels and remains high for a few years (largely because of a recession and the aid provided to the ailing thrift industry), then drops markedly in later years.
- (3) CBO's baseline projections for most individual programs are not published. However, CBO issues an annual report on deficit-reduction options that shows the amount of savings from baseline levels for many programs.
- (4) CBO computes deficit-reduction options as providing savings from the baseline level, not from the previous year's spending level. (See Exhibit 1-H for an illustration of how savings are computed from the baseline.)

EXHIBIT 3-H
Reconciliation Directives

RECONCILIATION

2 — *SEC. 4. (a) Not later than October 15, 1990, the committees named in subsections (b) and (c) of this section shall submit their recommendations to the Committees on the Budget of their respective Houses. After receiving those recommendations, the Committees on the Budget shall report to the House and Senate a reconciliation bill or resolution or both carrying out all such recommendations without any substantive revision.*

3 — **HOUSE COMMITTEES**

5 — *(b)(1) The House Committee on Agriculture shall report (A) changes in laws within its jurisdiction which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce outlays, (B) changes in laws within its jurisdiction which provide spending authority other than as defined in section 401(c)(2)(C) of the Act, sufficient to reduce outlays, or (C) any combination thereof, as follows: \$1,022,000,000 in outlays in fiscal year 1991, \$2,023,000,000 in outlays in fiscal year 1992, \$3,214,000,000 in outlays in fiscal year 1993, \$3,432,000,000 in outlays in fiscal year 1994, and \$3,936,000,000 in outlays in fiscal year 1995.*

4 —

- (1) The reconciliation directives are contained in the budget resolution adopted by Congress. Reconciliation is an optional procedure (these directives are from the fiscal year 1991 budget resolution; reconciliation directives were not included in the budget resolution for fiscal year 1992). Reconciliation is used principally to reduce the projected deficit by raising revenues or reducing entitlement spending through changes in existing law.
- (2) The reconciliation directives usually set a deadline for committees to report their legislative recommendations, but committees sometimes do not meet the deadline (and it may be extended).
- (3) The reconciliation directives name the committees which must make legislative recommendations. Separate instructions are issued to House and Senate committees. In most years, at least several committees in each House are subject to reconciliation directives; their recommendations usually are consolidated into an omnibus bill, but sometimes committees (particularly the revenue committees) are allowed to proceed separately with their legislation.
- (4) The directives state that spending authority (mainly entitlements) must be reduced by an amount sufficient to yield specified outlay savings or that revenues must be increased by specified amounts. They do not mention the programs or laws to be changed, only the dollar amounts.
- (5) Under present practices, reconciliation directives cover five fiscal years; in past years, they usually covered three fiscal years.

EXHIBIT 3-1
Program Assumptions in the Reconciliation Process

CONFERENCE AGREEMENT RECONCILIATION BY HOUSE COMMITTEE—Continued						
(Deficit reduction in billions of dollars)						
	Fiscal Year—					5-year
	1991	1992	1993	1994	1995	
	* * * *					
Ways and Means:						
Fees: Customs fees.....	0	-.572	-.562	-.568	-.590	-2.292
Other:						
Medicare: ¹						
Provider payments.....	-3.100	-5.200	-6.300	-7.000	-8.400	-30.000
Beneficiary payments.....	-1.600	-3.600	-5.600	-7.700	-9.500	-28.000
Miscellaneous.....	0	-.400	-.500	-.500	-.800	-2.000
Medicare subtotal ¹	-4.700	-9.200	-12.400	-15.200	-18.500	-60.000
Social Security package.....	-.500	-.300	-.400	-.400	-.400	2.000
RA pension fund (REV).....	-.025	-.035	-.040	-.050	-.050	-.200
PBGC ²	-.120	-.130	-.130	-.130	-.130	-.640
Unemployment Insurance.....	0	-1.100	-1.150	-1.150	-1.200	-4.600
Social Security overpayments.....	0	-.043	-.028	0	0	-.071
Subtotal.....	-4.345	-10.208	-13.348	-16.130	-19.480	-63.511
Taxes: Summit tax package (REV).....	-14.200	-25.600	-26.000	-31.400	-31.400	-128.600
Committee total (DR).....	-18.545	-35.380	-39.910	-48.098	-51.470	-194.403
All committees (w/o double counts):						
Fees (DR).....	-.968	-2.068	-1.957	-2.021	-2.122	-9.136
Other (DR).....	-9.526	-17.341	-22.577	-27.290	-31.736	-108.470
Taxes (REV).....	-14.200	-25.600	-26.000	-31.400	-31.400	-128.600
Total reconciled (DR).....	-24.694	-45.009	-50.534	-60.711	-65.258	-246.206
IRS enforce initiatives (REV).....	-3.037	-1.835	-1.803	-1.488	-1.213	-9.376
Miscellaneous other mandatory entitlement/fees.....	-.600	-.600	-.600	-.600	-.600	-3.000
Total revenue increases and mandatory spending cuts (DR).....	-28.331	-47.444	-52.937	-62.799	-67.071	-258.582

- (1) The program assumptions that underlie the reconciliation directives do not appear in the budget resolution; they usually are discussed in the reports accompanying the budget resolution.
- (2) Both the revenue and spending amounts listed in this table have a minus sign, which indicates the amounts by which the deficit would be reduced below the baseline. Hence, a revenue increase is shown as a negative amount.
- (3) The program assumptions are not binding on committees -- they may recommend alternative deficit reductions -- but these assumptions typically are based on understandings worked out by the Budget Committees and the affected committees (and sometimes with the President, as well). Consequently, they usually influence the changes in existing law made in reconciliation bills.
- (4) The example used here, taken from the managers' statement accompanying the conference report on the fiscal year 1991 budget resolution, was defeated in the House, largely because certain program assumptions were not acceptable to a majority. Accordingly, the managers' statement accompanying the conference report that was agreed to subsequently by the House and Senate assigned to committees unspecified savings which made no reference to particular programs (not shown here).

EXHIBIT 3-J
Omnibus Budget Reconciliation Legislation

SEC. 4158. REDUCTION IN PAYMENTS UNDER PART B DURING FINAL 2 MONTHS OF 1990.

(a) **IN GENERAL.**—Notwithstanding any other provision of law (including any other provision of this Act, other than subsection (b)(4)), payments under part B of title XVIII of the Social Security Act for items and services furnished during the period beginning on November 1, 1990, and ending on December 31, 1990, shall be reduced by 2 percent, in accordance with subsection (b). 2(a)

* * * *

SEC. 6501. ENVIRONMENTAL PROTECTION AGENCY FEES. 2(b)

(a) **ASSESSMENT AND COLLECTION.**—The Administrator of the Environmental Protection Agency shall, by regulation, assess and collect fees and charges for services and activities carried out pursuant to laws administered by the Environmental Protection Agency.

(b) **AMOUNT OF FEES AND CHARGES.**—Fees and charges assessed pursuant to this section shall be in such amounts as may be necessary to ensure that the aggregate amount of fees and charges collected pursuant to this section, in excess of the amount of fees and charges collected under current law—

(1) in fiscal year 1991, is not less than \$28,000,000; and

(2) in each of fiscal years 1992, 1993, 1994, and 1995, is not less than \$38,000,000. 2(c)

* * * *

SEC. 11201. INCREASE IN EXCISE TAXES ON DISTILLED SPIRITS, WINE, AND BEER.

(a) **DISTILLED SPIRITS.**—

(1) **IN GENERAL.**—Paragraphs (1) and (3) of section 5001(a) (relating to rate of tax on distilled spirits) are each amended by striking “\$12.50” and inserting “\$13.50”.

- (1) Omnibus budget reconciliation legislation is made up of the recommendations of all the committees given instructions in the budget resolution. The bill usually is divided into titles (sometimes more than a dozen) that correspond to major areas of committee jurisdiction. In some years, the reconciliation bill is the principal vehicle for implementing deficit-reduction plans, including those arising from summit negotiations between the President and Congress.
- (2) This exhibit shows three types of provisions commonly found in reconciliation bills: (a) a reduction in spending; (b) the establishment or expansion of a user fee; and (c) an increase in revenues.
- (3) Much of the length and complexity of reconciliation measures derives from the inclusion of nongermane and extraneous matter, notwithstanding rules intended to bar its inclusion. For example, the measure used in this example included discretionary authorizations, program changes without any budgetary impact, and an entire title devoted to the establishment of new budgetary procedures (see also Exhibit 3-L).
- (4) Reconciliation bills sometimes have provisions that establish new programs or expand existing ones, thereby increasing spending. To be judged in compliance with reconciliation directives, committees must make sufficient reductions so that even with the increased spending taken into account, the required savings still are met.

EXHIBIT 3-K
Deficit Neutrality of Amendments

Sec. 310

(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.

- (1) This House provision -- and a similar one pertaining to the Senate -- bars floor amendments to reconciliation measures that would increase the deficit. To be "deficit neutral," an amendment reducing revenues or increasing spending must offset these deficit increases by equivalent revenue increases or spending cuts.
- (2) 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 in **Exhibit 3-L**).
- (3) 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.

EXHIBIT 3-L
Senate Restrictions on Extraneous Matter

1

Sec. 313

(b) **EXTRANEEOUS PROVISIONS.**—(1)(A) Except as provided in paragraph (2), a provision of a reconciliation bill or reconciliation resolution considered pursuant to section 310 shall be considered extraneous if such provision does not produce a change in outlays or revenue, 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).

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- (1) Concern over the use of reconciliation measures to enact provisions which do not reduce the deficit (or even increase it) led the Senate in 1986 to adopt a rule, known as the Byrd Rule (for its chief proponent, Senator Robert C. Byrd), to control the practice. (The Byrd Rule was incorporated into the Congressional Budget Act of 1974 (as Section 313) by the BEA of 1990.) The House has no comparable rule, though it may adopt special rules reported from the House Rules Committee to restrict the inclusion of extraneous matter.
- (2) The Byrd Rule on extraneous matter supplements the prohibition against the offering in the Senate of nongermane amendments to reconciliation measures set forth elsewhere in the Congressional Budget Act of 1974. Under the Byrd Rule, several categories of extraneous matter are established, and both committee provisions and floor amendments can be stricken by a point of order.
- (3) Since its adoption, the Byrd Rule has been invoked only a few times. Instead, potential violations of the Byrd Rule usually have been corrected by amendments offered by the Senate leadership, deleting the extraneous matter.
- (4) Extraneous provisions include items which would cause the estimated deficit for future fiscal years to rise.

Chapter 4. ENFORCING THE BUDGET RESOLUTION

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. A good deal lies 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. This chapter is concerned with enforcement of the budget resolution during legislative action by Congress, not with the effects of economic or other factors.

Congress' regular tools for enforcing the budget resolution on a yearly basis are overall spending ceilings and revenue floors and committee allocations and subdivisions of spending. (As mentioned in Chapter 3, Congress sometimes employs the reconciliation process to help achieve its budgetary goals; Chapter 5 discusses the special enforcement procedures under the GRH Act.) 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 and revenue floors in the budget resolution, committee subdivisions of spending, or congressional budget procedures.

Spending Ceilings, Revenue Floors, and Committee Allocations

In the early years of the Congressional Budget Act of 1974, 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 (see **Exhibit 4-A**). 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.

In view of the inadequacies of relying on enforcement of the budget totals, Congress changed the focus of enforcement to the committee allocations and subdivisions of spending made pursuant to Section 302 of the Act (and, for fiscal years 1991-1995, pursuant to Section 602 of the Act, as discussed below). 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 Allocations and Subdivisions

Section 302 provides for a two-step allocation procedure; first, the spending totals in the budget resolution for the upcoming fiscal year are distributed to committees; then, each committee divides the amount allocated to it among its programs or subcommittees. 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. (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.

The House and Senate have different practices for allocating spending amounts to committees. The House (as **Exhibit 4-B** shows) allocates budget authority, outlays, and entitlement authority, and distinguishes in each case between "current level" (which reflects mandatory spending under existing law and outlays ensuing from prior-year appropriations) and "discretionary action" (which represents spending increases or decreases that would result from legislative action). The Senate (as shown in **Exhibit 4-C**) allocates budget authority, outlays, and entitlements funded in annual appropriations (not total entitlement authority), but does not distinguish between current level and discretionary action. In addition, the Senate (but not the House) separately allocates outlays and revenues of the Social Security trust funds for the next fiscal year and four ensuing fiscal years.

Another distinction between the House and Senate regarding Section 302(a) allocations is that the former distributes each committee's allocations among the functional categories in the budget resolution. These functional amounts are not binding on the committees.

After the allocations are made to committees under Section 302(a), each committee subdivides the amounts it receives among its programs or subcommittees, as required by Section 302(b) (see **Exhibits 4-D and 4-E**). (The Appropriations Committees are required to subdivide the amounts among their subcommittees.) A committee's Section 302(b) subdivisions may not exceed the total amount allocated to the committee. Each committee reports its subdivisions to its respective House and a committee's spending legislation may not be considered until such report has been filed.

Section 602 Allocations and Subdivisions

During the period that the GRH process is in effect, the procedures for making committee allocations and subdivisions under Section 302 of the Congressional Budget Act of 1974 are superseded by special procedures in Section 602 of the Act. Under Section 602(a), the allocations to committees are made in the same manner as required by Section 302 except that allocations are made for the sum of the five fiscal years covered by the budget resolution, and, in the House only, amounts are allocated for each of the five fiscal years.

Section 602(b) requires that only the House and Senate Appropriations Committees subdivide amounts allocated to them, and only for the first fiscal year covered by the budget resolution. Other Senate committees may subdivide their allocations but are not required to do so.

Scorekeeping Procedures and Cost Estimates

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, scorekeeping serves several broad purposes. First, scorekeeping informs Members of Congress and the public about the budgetary consequences of their actions. When a budgetary measure is under consideration, scorekeeping information lets Members know whether adopting the amendment or passing the bill at hand would breach the budget. Further, scorekeeping information enables Members to judge what must be done in upcoming legislative action to achieve the year's budgetary goals.

Finally, scorekeeping is designed to assist Congress in enforcing its budget plans. In this regard, scorekeeping is used largely to determine whether points of order under the Congressional Budget Act of 1974 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 Houses 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 scorekeeping 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, which are included in committee reports, and scorekeeping reports for the Budget Committees (see Exhibits 4-F and 4-G). The Joint Committee on Taxation supports Congress by preparing estimates of the budgetary impact of revenue legislation.

Enforcement and Waiver of Points of Order

The Congressional Budget Act of 1974 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. 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 or new entitlement 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 Congressional Budget Act of 1974 bars the House from considering any measure that would cause the relevant committee's subdivisions of new discretionary budget authority or new entitlement authority to be exceeded. Further, it bars the Senate from considering any measure that would cause either a committee's Section 302(a) allocation (except for annual appropriations measures) or Section 302(b) subdivision to be exceeded.

During the period that the GRH process is in effect, the points of order that may be raised under Section 302(f) are applied to the allocations and subdivisions made under Section 602 of the Congressional Budget Act of 1974. Further, these points of order apply only to the first of the five fiscal years covered by the budget resolution and to the five-year total.

Also during this period, Section 601(b) of the Act prohibits the Senate from considering a budget resolution (through fiscal year 1995) or annual appropriations measure (through fiscal year 1993) that would breach the discretionary spending limits.

Section 605(b) of the Act requires (in the Senate only) that spending and revenue legislation not cause the GRH deficit target for the upcoming fiscal year to be exceeded.

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 violate revenue or outlay levels for the first fiscal year or the sum of the five fiscal years. Further, Section 302(f) bars the consideration of any legislation that would violate the Social Security outlay allocations for the same periods.

In addition to points of order to enforce compliance with the budget resolution and the allocations and subdivisions made pursuant to it, the Congressional Budget Act of 1974 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 (and, through fiscal year 1995, certain deficit-neutral legislation after April 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 usually makes a statement advising the chamber as to whether the measure violates any of these points of order (see **Exhibit 4-H** for an example).

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 Congressional Budget Act of 1974. The House often waives points of order by adopting a "special rule" such as the one that appears in **Exhibit 4-I**. The Senate may waive points of order by unanimous consent, by motion under Section 904 of the Act, or, in the case of Section 303 of the Act, by a special waiver resolution. The Senate requires a three-fifths vote of the membership to waive certain provisions of the Act.

EXHIBIT 4-A
Aggregate Spending Ceilings and Revenue Floors

SEC. 311. (a)(1) LEGISLATION SUBJECT TO POINT OF ORDER.—Except as provided by subsection (b), after the Congress has completed action on a concurrent resolution on the budget for a fiscal year, it shall not be in order in either the House of Representatives or the Senate to consider any bill, joint resolution, amendment, motion, or conference report providing new budget authority for such fiscal year, providing new entitlement authority effective during such fiscal year, or reducing revenues for such fiscal year, if—

(A) the enactment of such bill or resolution as reported;
 (B) the adoption and enactment of such amendment; or
 (C) the enactment of such bill or resolution in the form recommended in such conference report;

would cause the appropriate level of total new budget authority or total budget outlays set forth in the most recently agreed to concurrent resolution on the budget for such fiscal year to be exceeded, or would cause revenues to be less than the appropriate level of total revenues set forth in such concurrent resolution except in the case that a declaration of war by the Congress is in effect.

* * * * *

(b) EXCEPTION IN THE HOUSE OF REPRESENTATIVES.—Subsection (a) shall not apply in the House of Representatives to any bill, resolution, or amendment which provides new budget authority or new entitlement authority effective during such fiscal year, or to any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;
 (2) the adoption and enactment of such amendment; or
 (3) the enactment of such bill or resolution in the form recommended in such conference report,

would not cause the appropriate allocation of new discretionary budget authority or new entitlement authority made pursuant to section 302(a) for such fiscal year, for the committee within whose jurisdiction such bill, resolution, or amendment falls, to be exceeded.

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- (1) Section 311 bars consideration of any measure that would cause total budget authority or total outlays to exceed, or total revenues to fall below, the levels set forth in 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 Section 302 allocation of new discretionary budget authority or new entitlement authority.
- (2) In the House, this provision may be waived by a special rule adopted by a majority of those present and voting; in the Senate, a waiver requires a three-fifths vote of the membership (60 Senators).
- (3) The prohibitions in this section pertain only to total revenue and total spending. There is no bar against consideration of measures that would cause a functional allocation to be exceeded.
- (4) Section 605(b) of the Act requires (in the Senate only) that spending and revenue legislation not cause the GRH deficit target for the upcoming fiscal year to be exceeded.
- (5) The revenue and spending estimates of the Budget Committees are authoritative in enforcing the revenue floors and spending ceilings.

EXHIBIT 4-B
Section 302(a)/602(a) Allocations to House Committees

1 — CONFERENCE AGREEMENT ON H. CON. RES. 121, ALLOCATION OF SPENDING RESPONSIBILITY TO HOUSE COMMITTEE PURSUANT TO SEC. 602(a) OF THE CONGRESSIONAL BUDGET ACT—FISCAL YEAR 1992—Continued

(in millions of dollars)

	Budget authority	Outlays	Entitlement authority
PUBLIC WORKS AND TRANSPORTATION COMMITTEE			
Current level (enacted law):			
270 Energy.....	1,135	855	0
300 Natural resources and environment.....	208	167	0
400 Transportation.....	3,439	0	0
450 Community and regional development.....	5	110	0
800 General government.....	13	67	0
Subtotal.....	4,800	1,197	0
Discretionary action (assumed legislation):			
400 Transportation.....	16,358	0	0
Subtotal.....	16,358	0	0
Committee total.....	21,158	1,197	0
SCIENCE, SPACE, AND TECHNOLOGY COMMITTEE			
Current level (enacted law):			
250 General science, space, and technology.....	21	20	0
270 Energy.....	15	15	0
500 Education, training, employment, and social services.....	1	1	0
Subtotal.....	37	36	0
Committee total.....	37	36	0

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- (1) Under Section 302(a) of the Congressional Budget Act of 1974, separate allocations are made by the House and Senate Budget Committees to committees of their respective Houses. During the period that the Gramm-Rudman-Hollings process is in effect, the procedures for making allocations under Section 302(a) are superseded by special procedures under Section 602(a).
- (2) Section 602(a) allocations are made in the same manner as required by Section 302 except that allocations (not shown here) also are made for the sum of the five fiscal years covered by the resolution.
- (3) The Budget Committees use different approaches in making allocations. For example, the House Budget Committee allocates entitlement authority in addition to new budget authority and outlays, and, under Section 602(a), it provides separate spending allocations (not shown here) for each of the five fiscal years. (See the next exhibit for an example of allocations made by the Senate Budget Committee.)
- (4) A positive amount under "discretionary action" reflects the assumption that the committee will report legislation that increases spending for programs within its jurisdiction. A negative amount reflects the expectation that the committee will report legislation that reduces spending.
- (5) The distinction between "current level" and "discretionary action" enables a committee to use its full discretionary amount even when the total spending allocation has been exceeded.
- (6) The functional amounts are advisory and are not enforced.

EXHIBIT 4-C
Section 302(a)/602(a) Allocations to Senate Committees

1 **SENATE COMMITTEE BUDGET AUTHORITY AND OUTLAY ALLOCATIONS PURSUANT TO SECTION 302 OF THE CONGRESSIONAL BUDGET ACT FOR 1992**

[Dollars in millions]

Committee	Direct spending		Entitlements funded in annual appropriations	
	Budget authority	Outlays	Budget authority	Outlays
Appropriations	721,617	730,848		
Agriculture, Nutrition, and Forestry	19,780	14,377	14,715	5,908
Armed Services	49,494	36,297		
Banking, Housing, and Urban Affairs	107,100	99,810		
Commerce, Science, and Transportation	2,342	174	485	482
Energy and Natural Resources	1,654	1,256	60	60
Environment and Public Works	17,893	1,787		
Finance	491,243	487,336	96,746	96,403
Foreign Relations	12,174	11,159		
Governmental Affairs	73,598	48,540	500	500
Judiciary	2,758	2,397	157	155
Labor and Human Resources	6,601	6,723	5,339	4,126
Rules and Administration	45	170		
Veterans Affairs	1,646	1,539	17,101	17,073
Select Indian Affairs	482	463		
Small Business	300	—146		
Not allocated to commodities	—239,426	—241,132		
Total	1,269,300	1,201,600	135,105	124,707

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- (1) Under Section 602(a) of the Congressional Budget Act of 1974, 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 of 1990 (see Chapter 5). 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) The amounts "not allocated to committees" (in this case, a typographical error states "commodities") refers to offsetting receipts, which are subtracted from the committee allocations in computing the totals.

EXHIBIT 4-D
Section 302(b)/602(b) Subdivisions by Appropriations Committees

SUBDIVISION TO SUBCOMMITTEES, ¹ FISCAL YEAR 1992					
BUDGET AUTHORITY AND OUTLAYS					
(In millions of dollars)					
Subcommittee	Discretionary			Total	Mandatory
	Domestic	International	Domestic		
Commerce-Justice-State-Judiciary:					
Budget authority.....	225	5,000	15,690	20,915	902
Outlays.....	181	4,900	15,540	20,621	890
Defense:					
Budget authority.....	270,454			270,454	164
Outlays.....	275,855			275,355	164
District of Columbia:					
Budget authority.....			700	700	
Outlays.....			680	680	
Energy and Water Development:					
Budget authority.....	11,780		9,750	21,530	
Outlays.....	11,443		9,180	20,623	
Foreign Operations:					
Budget authority.....		15,306		15,306	41
Outlays.....		13,612		13,612	41
Interior:					
Budget authority.....			13,205	13,205	78
Outlays.....			12,050	12,050	78
Labor, Health and Human Services, and Education:					
Budget authority.....		9	59,275	59,284	142,591
Outlays.....		9	57,800	57,809	141,014
Legislative:					
Budget authority.....			2,344	2,344	81
Outlays.....			2,317	2,317	81
Military Construction:					
Budget authority.....	8,584			8,584	
Outlays.....	8,482			8,482	
Rural Development, Agriculture, and Related Agencies:					
Budget authority.....		1,455	11,045	12,500	37,888
Outlays.....		1,230	10,040	11,270	29,486

- (1) Under Sections 302(b) and 602(b) of the Congressional Budget Act of 1974, the House and Senate 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 thirteen regular appropriations bills).
- (2) It is not in order to consider appropriations measures in the House or Senate until the Appropriations Committee has filed a report setting forth its subdivisions of spending made under Section 302(b) (or Section 602(b)). The Appropriations Committees 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) (or Section 602(a)) allocations. Thus, in this example, the "discretionary" and "mandatory" columns used by the House Appropriations Committee correspond to the "discretionary action" and "current level" allocations made by the House Budget Committee. Additionally, the "discretionary" amounts are subdivided to reflect the three categories of discretionary spending limits in effect through fiscal year 1993.
- (4) The amounts subdivided to the subcommittees may not exceed the total amount allocated to the committee.

EXHIBIT 4-E
Section 302(b)/602(b) Subdivisions by Legislative Committees

**FISCAL YEAR 1991—BUDGET AUTHORITY, OUTLAY, AND ENTITLEMENT AUTHORITY ALLOCATION—
 SUBDIVISION BY PROGRAM**

(In millions of dollars)

Program	Budget authority	Outlays	Entitlement authority
Current level (enacted law):			
Federal employee health benefits	0	636	2,873
Civil service retirement and Federal employee life insurance	66,822	45,266	33,067
Subtotal	66,822	45,902	35,940
Discretionary action (assumed legislation):			
Federal pension reform	50	-1,230	0
Unspecified reductions	-935	-935	-1,230
Subtotal	-885	-2,165	-1,230
Committee total	65,937	43,737	34,710

- (1) Under Section 302(b), all committees (except the Appropriations Committees) may subdivide their allocations either by program or by subcommittee. Under Section 602(b) (which is in effect for the duration of the GRH Act), legislative committees are not required to subdivide their allocations.
- (2) A legislative committee receives an allocation, and makes subdivisions, only for entitlements and other types of spending authority; it does not make any subdivisions for discretionary authorizations funded in annual appropriations acts.
- (3) The structure of these reports, like the reports by the Appropriations Committees, corresponds to that used in the Section 302(a) (or Section 602(a)) allocations. Accordingly, this report of a House committee distinguishes between "current level" and "discretionary action." Most of this committee's funds are classified as current level because the bulk of its spending results from entitlement programs.
- (4) The negative amounts indicate that to stay within its allocations, the committee will have to report legislation reducing spending for certain programs within its jurisdiction.

EXHIBIT 4-F
CBO Cost Estimates

[By fiscal year, in million of dollars]					
	1992	1993	1994	1995	1996
Direct spending:					
Budget Authority.....	15,245	17,130	18,025	19,635	20,635
Estimated Outlays.....	29	43	46	39	39
Revenues.....	(1)	1	1	1	1
Authorizations:					
Authorization Level.....	12	12	12	12	12
Estimated Outlays.....	2,666	11,121	14,104	15,673	17,398

a. Less than \$0.5 million.

The costs of this bill fall within budget functions 400 and 300.
 Basis of estimate: The budget authority created by the bill consists of new contract authority for the federal-aid highways program and new direct spending authority from a National Recreational Trails Trust Fund.

* * * * *

In addition, the bill would eliminate some existing refunds of taxes paid by off-highway business motor fuel users. Specifically, taxes paid on gasoline not used on highways and used for purposes defined as both business-related and recreational would no longer be refunded. The Joint Committee on Taxation estimates that elimination of these refunds would increase revenues and decrease the deficit by less than \$1 million in 1992 and by \$1 million per year over the 1993-1996 period.

Appropriated Programs (See Table 3). For those programs subject to appropriations, CBO assumed that the full amounts authorized for each year would be appropriated prior to the start of the fiscal year. Outlay estimates are based on historical spending rates.

- (1) Section 403 of the Congressional Budget Act of 1974 requires that CBO prepare five-year cost estimates of all public bills (other than appropriations bills) reported by House or Senate committees. These estimates are usually published in the reports accompanying the bills.
- (2) The cost estimate presented in this exhibit pertains to an authorizing bill with provisions that have several different types of budgetary effects -- it provides direct spending, increases revenues, and provides discretionary authorizations.
- (3) With respect to the revenue effects of the bill, the CBO cost estimate reflects information provided by the Joint Committee on Taxation.
- (4) In estimating the cost of discretionary authorizations, whose funds are provided in annual appropriations acts, CBO assumes that the authorization will be fully funded. Also, as explained by CBO, the outlay estimate is based on past spendout rates. In this instance, the estimated outlays from authorizations include relatively small amounts from discretionary authorizations and billions of dollars from the direct spending contract authority.
- (5) In estimating the cost of entitlement legislation (for programs such as Medicare or Aid to Families With Dependent Children), CBO estimates participation rates, price changes, and other relevant financial and demographic factors.

EXHIBIT 4-G Scorekeeping Reports

**BUDGET SCOREKEEPING
REPORT**

Mr. SASSER. Mr. President, I hereby submit to the Senate the most recent budget scorekeeping report for fiscal year 1991, prepared by the Congressional Budget Office under section 308(b) of the Congressional Budget Act of 1974, as amended. This report serves as the scorekeeping report for the purposes of section 605(b) and section 311 of the Budget Act.

This report shows that current level spending is under the budget resolution by \$0.4 billion in budget authority, and under the budget resolution by \$0.4 billion in outlays. Current level is \$1 million below the revenue target in 1991 and \$6 million below the revenue target over the 5 years, 1991-95.

The current estimate of the deficit for purposes of calculating the maximum deficit amount is \$326.6 billion, \$0.4 billion below the maximum deficit amount for 1991 of \$327.0 billion.

The report follows:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, June 24, 1991.

HON. JIM SASSER,
Chairman, Committee on the Budget, U.S.
Senate, Washington, DC.

DEAR MR. CHAIRMAN: The attached report shows the effects of Congressional action on the budget for fiscal year 1991 and is current through June 21, 1991. The estimates of budget authority, outlays, and revenues are consistent with the technical and economic assumptions of the Budget Enforcement Act of 1990 (Title XIII of P.L. 101-508). This report is submitted under Section 309(b) and in aid of Section 311 of the Congressional Budget Act, as amended, and meets the requirements for Senate scorekeeping of Section 5 of S. Con. Res. 32, the 1988 First Concurrent Resolution on the Budget.

Since my last report, dated June 17, 1991, there has been no action that affects the current level of spending and revenues.

Sincerely,
ROBERT D. REISCHAUER
Director.

THE CURRENT LEVEL REPORT FOR THE U.S. SENATE, 102D
CONG., 1ST SESS., AS OF JUNE 21, 1991
(In billions of dollars)

	Revised on-budget estimates *	Current level **	Current level +/- estimates
On-budget:			
Budget authority.....	1,189.2	1,188.8	-.4
Outlays.....	1,132.4	1,132.0	-.4
Revenues.....			
1991.....	805.4	805.4	(*)
1991-95.....	4,690.3	4,680.3	(*)
Maximum deficit amount.....	327.0	326.6	-.4
Direct loan obligation.....	70.9	70.6	-.3
Guaranteed loan commitments.....	107.2	106.9	-.3
Debt subject to limit.....	4,145.0	3,424.9	-740.1

- (1) The Congressional Budget Act of 1974 requires that the House and Senate Budget Committees issue scorekeeping reports on the status of the congressional budget. Both Committees meet this requirement by inserting CBO scorekeeping reports into the *Congressional Record*, as frequently as the pace of legislative activity requires. The CBO reports take the form of a letter addressed to each Budget Committee Chairman, with accompanying tables.
- (2) These reports are used principally in determining whether a pending measure would violate Section 311 of the Congressional Budget Act of 1974 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 during the session and revenue or spending resulting from existing law. The scorekeeping reports take account only of legislation passed by Congress; they do not include pending measures, not even those whose enactment is expected.
- (4) The scorekeeping reports deal only with budget totals (total budget authority, total outlays, and so on) because there is a violation if Congress deviates from the totals, but not if it deviates from the functional allocations or from particular assumptions used in the budget resolution.

EXHIBIT 4-H
Floor Statements of Budget Committee Chairmen

- 1 — Mr. PANETTA. Mr. Chairman, I rise to discuss budget issues related to H.R. 1281, the dire emergency supplemental appropriation for fiscal year 1991, and H.R. 1282, the Desert Shield supplemental for fiscal year 1991.

H.R. 1282, the Desert Shield bill, provides that all of the funds made available in the bill are considered to be incremental costs for Operation Desert Shield/Desert Storm. It is our understanding that the funding provided in the bill is consistent with the administration's request. Under the Budget Enforcement Act, incremental costs for Operation Desert Shield are exempt from the defense spending limits. In this case, where there is agreement between Congress and the President that these funds are incremental Desert Shield costs, these costs will not be subject to the defense spending limits and will not cause a sequester. In addition, the Budget Enforcement Act provides that the costs of emergency provisions, including Desert Shield costs, are not to be counted for purposes of determinations under points of order under sections 302, 303, and 311 of the Budget Act. These costs therefore will not be scored against the committee's allocation or its subdivisions and will not be scored against the total spending levels in the budget resolution. In our view, therefore, the bill does not violate the Budget Act.

H.R. 1281, however, required two Budget Act waivers. Enactment of the bill as reported would cause the bill to exceed the committee's allocation and would cause total outlays in the budget resolution to be exceeded. However, it is important to note that House Joint Resolution 157, a technical corrections bill passed by the House on February 28, 1991, by voice vote, is pending in the Senate and may be cleared at any time. That bill, if enacted, would reduce the level of budget authority provided in the fiscal year 1991 foreign operations bill by \$403.5 million. If that bill had been enacted prior to consideration of H.R. 1281, the Committee on Appropriations would have been within its overall committee allocation and, because of the provisions of the Fazio exemption, there would have been no need for a waiver of section 311. Because some individual subcommittees would still be over their subdivisions, there would still be a need for a waiver of section 302(f), notwithstanding the fact that the committee was within its overall allocation.

2

- (1) The Chairman of the House Budget Committee usually informs the House of the budget implications of spending measures under consideration. In this exhibit, the Chairman (Mr. Panetta) explained the budget enforcement implications of the House's consideration of two supplemental appropriations bills. The explanation, in typical fashion, identified the provisions of the Congressional Budget Act of 1974 that would be violated by consideration of the measures, and for which waivers were requested (see next exhibit).
- (2) In noting that one of the bills would require waivers of two different sections of the Congressional Budget Act of 1974 in order to be considered, the Chairman discussed mitigating factors regarding the waivers. During such discussions, the Ranking Minority Member of the Committee sometimes offers a different perspective.
- (3) Members of the committee which reported the bill, in this instance the House Appropriations Committee, also discuss issues or individual items associated with the bill, but generally not the particulars of budget enforcement.
- (4) The Chairman sometimes includes a "fact sheet" or tabular data that explain the budget implications in more detail.
- (5) The Chairman of the Senate Budget Committee makes floor statements of a similar nature during consideration of budgetary legislation in the Senate.

EXHIBIT 4-I Waiving Enforcement Provisions

1	2	Mr. FROST. Mr. Speaker, by direction of the Committee on Rules, I call up House Resolution 103, and ask for its immediate consideration. The Clerk read the resolution, as follows: H. Res. 103 Resolved, That all points of order for failure to comply with the provisions of sections 302(f) and 311(a) of the Congressional Budget Act of 1974 and with clause 3(1)(6) of rule XI and clause 7 of rule XXI are hereby waived against consideration of the bill (H.R. 1281) making dire emergency supplemental appropriations for the consequences of Operation Desert Storm/Desert Shield, food stamps, unemployment compensation administration, veterans compensation and pensions, and other urgent needs for fiscal year 1991. During consideration of the bill, all points of order against provisions in the bill for failure to comply with the provisions of clauses 2 and 6 of rule XXI are hereby waived, except against the provisions beginning on page 24, line 17 through page 25, line 10; beginning on page 28, lines 14 through 31; and beginning on page 32, lines 15 through 22. It shall be in order to consider the following amendments printed in the report of the Committee on Rules accompanying this resolution: (1) the amendment to be offered by Representative Slattery of Kansas, said amendment shall be debatable for not to exceed thirty minutes, equally divided and controlled by the proponent and a Member opposed thereto, and all points of order against said amendment for failure to comply with the provisions of clause 2 of rule XXI are hereby waived;	Mr. FROST. Mr. Speaker, House Resolution 103 waives certain points of order against the consideration of H.R. 1281, and against certain provisions of the bill. H.R. 1281 makes dire emergency supplemental appropriations for some of the consequences of Operation Desert Storm/Desert Shield, food stamps, unemployment compensation administration, veterans compensation and pensions, and other urgent needs for fiscal year 1991. The rule waives two provisions of the Budget Act against consideration of the bill: Section 302(f) which prohibits consideration of measures which would cause the appropriate committee allocation to be exceeded; and section 311(a) which prohibits the consideration of legislation which causes the budget authority or outlay ceilings to be exceeded or the revenue floor to be breached. The Committee on Rules has recommended these waivers in the rule in order that the dire emergency supplemental can be considered by the House.
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- (1) The House may waive any points of order under its rules (including provisions of the Congressional Budget Act of 1974 that operate as rules of the House) by adopting a "special rule" (in the form of a House resolution, as shown here). A special rule usually applies to the consideration of a single measure; it may waive various points of order against consideration of the bill, amendments, or the conference report.
- (2) Special rules are reported by the House Rules Committee. The manager of the rule customarily explains the specific waivers that would be granted.
- (3) The Senate does not have "special rules" for waiving its rules. However, the Senate may waive its rules (including provisions of the Congressional Budget Act of 1974 that operate as Senate rules) by unanimous consent, by motion, and in one case, by the adoption of a special waiver resolution. Some waivers of the Congressional Budget Act of 1974 require the affirmative vote of three-fifths of the membership.
- (4) This special rule waived points of order under two sections of the Congressional Budget Act of 1974 as well as parts of the standing rules of the House. The House considers the special rule before it takes up the measure to which the rule applies. If the House fails to adopt the special rule, the measure typically is withdrawn until another special rule is adopted. On rare occasion, the House amends the special rule to change the terms of consideration.

Chapter 5. THE GRAMM-RUDMAN-HOLLINGS PROCESS

After a decade of experience with the Congressional Budget Act of 1974, Congress faced persistent high deficits and increasing budgetary deadlock. In 1985, it enacted legislation aimed at bringing the Federal budget into balance by the early 1990s. That legislation -- the Balanced Budget and Emergency Deficit Control Act of 1985 -- is commonly referred to as the Gramm-Rudman-Hollings (GRH) Act.

The GRH 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 are adhered to even if Congress and the President fail to reduce the deficit sufficiently through legislative action. Congress made significant changes in the GRH Act in 1987 and 1990. The most recent changes, the Budget Enforcement Act (BEA) of 1990 (discussed below), were made in conjunction with the enactment of a five-year deficit-reduction accord covering fiscal years 1991-1995. The accord, embodied in the budget resolution for fiscal year 1991, is intended to achieve about \$500 billion in deficit reduction over the five-year period (as measured from the baseline budget projections made at that time).

The BEA is a long, complicated act and some of its provisions have yet to be tested. Although this chapter reflects the current interpretations of the BEA, practical experience is likely to modify some of the interpretations presented here.

The Sequestration Process

Sequestration involves the issuance of a presidential order that permanently cancels budgetary resources (except for special funds and trust funds) for the purpose of achieving a required amount of outlay savings in order to reduce the deficit. 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.

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. If a sequester occurred, a formula set forth in the GRH Act required that half the required outlay reductions be made in defense programs and half in nondefense programs. For the most part, sequestration reductions were made uniformly across the range of accounts covered by the process (many accounts, involving roughly two-thirds of Federal outlays, were exempt from sequestration) and were applied uniformly to programs, projects, and activities within accounts. For certain entitlement programs, the reductions were made under special rules (for example, Medicare could not be cut more than two percent).

The BEA changed the sequestration process substantially. First, it revised the deficit targets in the GRH Act and made them adjustable, and extended the sequestration process for two more years -- through fiscal year 1995 (although the budget is not expected to be in balance by that time). Second, the BEA set limitations on distinct categories of discretionary spending funded in the annual appropriations process. Third, the BEA created pay-as-you-go 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.

In addition to retaining the sequestration process that enforces the deficit targets in the GRH Act, the BEA established 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 will 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." Exhibit 5-A sets forth the timetable for the issuance of sequestration reports and orders under current procedures.

Sequestration tied to enforcement of the deficit targets would occur only if a deficit excess remained after the other two types of sequestration, to enforce the discretionary limits and PAYGO requirement, had been implemented. The operation of these types of sequestration makes sequestration tied to the deficit targets virtually impossible through fiscal year 1993, and unlikely in fiscal years 1994 and 1995.

The deficit targets and discretionary spending limits must be adjusted to take into account a variety of circumstances and developments, as discussed below.

Previously, the surpluses of the Social Security trust funds were included in the deficit estimates made under the GRH 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 not included in the deficit estimates, though as discussed in Chapter 1 (see Exhibit 1-J) they are included in the "consolidated" deficit.

Deficit Targets, Spending Limits, and PAYGO Process

The three enforcement mechanisms established by the BEA that involve sequestration -- deficit targets, discretionary spending limits, and pay-as-you-go procedures -- are discussed in more detail below. These mechanisms function largely independently of one another; discretionary spending actions have no bearing on revenue or direct spending actions, and *vice versa*.

Deficit Targets

The original GRH Act established a fixed deficit target for each fiscal year covered by the process. The targets were not adjusted to take account of changes in economic conditions, such as growth or inflation rates, or changes in the number of persons receiving various

Federal payments. As a result, the actual deficit was consistently higher than the deficit target for each year in which fixed targets were in effect (fiscal years 1986-1990).

The BEA shifted from fixed to adjustable deficit targets for fiscal years 1991-1995. It also revised the deficit targets for these years, as shown in **Exhibit 5-B**. The President is required to adjust the deficit targets for fiscal years 1991-1995 to reflect updated economic and technical assumptions and changes in budgetary concepts and definitions, as applicable, when he submits his annual budget for fiscal years 1992 and 1993. Further, he may adjust the deficit targets for fiscal years 1994 and 1995 when he submits his budget for those fiscal years. The margin-of-error (the amount by which the deficit target may be exceeded without triggering sequestration) is set at zero for fiscal years 1992 and 1993 and at \$15 billion for fiscal years 1994 and 1995. Because of the adjustments to the deficit targets, the operation of the discretionary spending limits and pay-as-you-go procedures, and other factors, a sequester tied to the deficit targets is virtually impossible for fiscal years 1991-1993 and unlikely for fiscal years 1994 and 1995.

Discretionary Spending Limits

The BEA establishes limits on discretionary spending. For fiscal years 1991-1993, separate limits are set for new budget authority and outlays for three different categories -- defense, international, and domestic. For fiscal years 1994-1995, limits on new budget authority and outlays are established for a single category -- total discretionary spending.

In the President's budget for each of fiscal years 1992-1995, discretionary spending limits must be adjusted to take into account changes in budgetary concepts and definitions, changes in projected inflation, and (for fiscal years 1993-1994) changes in estimates of credit subsidy costs.

Additionally, at the end of each session, OMB must adjust the discretionary spending limits to allow for emergency appropriations (so designated by the President and by Congress in statute, and including costs for Operation Desert Storm/Desert Shield), the enactment of legislation affecting certain programs, and specified special allowances. Special budget authority allowances effectively increase the international cap by about \$1.2 billion and the domestic cap by about \$1.5 billion (precise determinations cannot be made until the aforementioned adjustments are calculated). Special outlay allowances for all three discretionary spending categories are meant to ensure that sequestration will not be triggered due to minor differences in scorekeeping between OMB and CBO.

Exhibit 5-C shows the original discretionary spending limits and **Exhibits 5-D and 5-E** show how the discretionary spending limits are adjusted and used in sequestration calculations.

Enforcement of the spending limits is accomplished through a special sequestration process and by linking the limits to points of order under the Congressional Budget Act of 1974. A sequester under this process would occur only within the category in which a breach occurred. If the enactment of legislation causing a breach in the spending limits 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 would be reduced by the amount of the breach.

Pay-As-You-Go (PAYGO) Procedures

Under the pay-as-you-go (PAYGO) process created by the BEA, legislation increasing direct spending or decreasing revenues must be offset so that the deficit is not increased. 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 -- sometimes referred to as mandatory 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 is accomplished through a special sequestration procedure and through links to the Congressional Budget Act of 1974. 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. If a sequester under this process is required, it would have to offset the amount of any net deficit increase in that fiscal year and the prior fiscal year caused by the enactment of legislation, and would be applied to non-exempt direct spending programs.

Spending for Social Security benefits and Federal deposit insurance commitments in effect at the time the BEA was enacted, as well as emergency direct spending and revenue legislation (so designated by the President and by Congress in statute) that would cause a deficit increase, 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.

Exhibit 5-F provides an example of the "PAYGO scorecard" used to keep track of this process. The use of the PAYGO scorecard, as it would apply to revenue measures, is illustrated in detail in Chapter 6.

Sequestration Reports and Orders

As originally framed, the GRH 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 new, multiple sequestration procedures provided by the BEA 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 in one or more categories of discretionary spending may

be issued during the following session if legislative developments so warrant. The CBO Director must provide advisory sequestration reports, five days before the OMB Director's reports are due.

Early in the session, OMB and CBO issue sequestration preview reports. The reports provide estimates of the deficit targets and 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 within five days of 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. First, 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. Second, the President must notify Congress by August 10 of each year if he intends to use authority provided him in the GRH Act to exempt military personnel accounts from sequestration. Finally, the Comptroller General must issue a compliance report (issued within 30 days of the final OMB sequestration report and the presidential sequestration order) evaluating whether the OMB and CBO reports and the presidential order comply with the requirements of the GRH Act.

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

Sequestration Estimates and Calculations

Sequestration reports for a fiscal year must provide baseline estimates of total spending, revenues, the deficit, and the deficit excess for purposes of enforcing the deficit targets; estimates of discretionary spending for purposes of enforcing the discretionary spending limits; and estimates of direct spending, revenues, and the net increase or decrease in the deficit for purposes of enforcing the PAYGO process. The GRH Act, as amended by the BEA, provides detailed instructions for making the baseline estimates.

Baseline estimates are made for each account on the basis of different categories of budgetary resources (see Exhibit 5-G). Each budgetary account is classified as: (1) direct spending or (2) discretionary spending under one of the three categories. For defense, budgetary resources subject to sequestration are new budget authority and unobligated balances of prior budget authority. For nondefense programs, budgetary resources subject to sequestration for the same period are new budget authority, direct spending authority, and obligation limitations.

The GRH Act requires that, in implementing sequestration, the President cut each "program, project, or activity" (PPA) within a budget account by the same percentage. The term "program, project, and activity" does not have a statutory definition. Instead, the GRH Act specifies that, for accounts funded through annual appropriations, the term is to be defined each year in appropriation acts and accompanying reports. For accounts not funded by annual appropriations, PPAs are defined as the budget activities listed in the "program and financing table" for each such account in the President's budget.

The GRH Act stipulates different methods by which the sequestration calculations are to be made depending on the type of sequester involved. With regard to sequestration tied to the deficit targets, the GRH Act establishes a formula under which half of the required outlay reductions must be made in defense programs (*i.e.*, programs in the National Defense (050) functional category) and the other half in nondefense programs. Additionally, the Act specifies certain steps that must be followed in calculating the reductions. A deficit sequester would occur only after any sequesters required by the discretionary spending limits or the PAYGO process had been made.

With regard to sequestration involving the discretionary spending limits, across-the-board reductions would be made in any category in which the budget authority or outlay limits for that category were breached. A uniform reduction percentage would be calculated for the appropriate category, taking into account whether the President intended to exempt military personnel accounts (in the defense category) and applying the maximum two-percent reduction in special-rule programs (certain health programs in the domestic category).

Under the PAYGO process, the sequester calculations are made so that three programs with automatic spending increases (COLAs) -- the National Wool Act, the special milk program, and vocational rehabilitation -- are cut first, followed by two special-rule programs (Stafford loans, formerly called guaranteed student loans, and foster care and adoption assistance), and then Medicare and the remaining non-exempt direct programs. The cut in Medicare under PAYGO is limited to four percent, rather than two percent as in the case of a sequester tied to the deficit targets.

The GRH Act exempts from sequestration many specified programs and activities, including Social Security, Federal retirement and disability programs, net interest, certain low-income programs, veterans' compensation and pensions, and regular State unemployment insurance benefits, and certain types of resources, such as unobligated balances of budget authority for nondefense programs.

Few discretionary spending programs are exempt from sequestration; on the other hand, most direct spending programs are exempt. According to the OMB sequestration preview report for fiscal year 1992, for all direct spending (including Social Security benefits), more than 80 percent of outlays are associated with budgetary resources exempt from sequestration.

Suspension and Modification of the Sequestration Process

The five-year enforcement procedures under the GRH Act and the Congressional Budget Act of 1974 may be suspended in two ways. First, the procedures are suspended automatically in the event a declaration of war is enacted. Second, the procedures may be

suspended if Congress enacts a special joint resolution triggered by the issuance of a "low-growth" report by CBO (see Exhibit 5-H). Under this procedure, the CBO director must notify Congress whenever either of the following two conditions exist: (1) CBO or OMB estimates two consecutive quarters of real (inflation-adjusted) economic decline during the six-quarter period consisting of the previous quarter, the current quarter, and the four following quarters; or (2) the Commerce Department advance, preliminary or final reports for the most recently completed quarter and the preceding quarter indicate real economic growth of less than one percent for each quarter. Upon receipt of such a report, the Senate majority leader must introduce (and the House majority leader may introduce) a joint resolution -- to be considered under an expedited process -- providing for the suspension of the budget enforcement procedures.

The GRH Act contains several procedures by which the final sequestration order for a fiscal year may be modified or the implementation of the order affected. First, the Majority Leader of the House or Senate may introduce a joint resolution to modify the end-of-session sequestration order issued by the President, including modifications that effectively cancel it. Second, the President is authorized to submit to Congress a report proposing changes in the reductions in defense programs, projects, and activities (PPAs) made in the end-of-session sequestration order, subject to certain restraints. The changes would increase the amount of reduction for some PPAs in order that the amount of reduction for others could be lessened (or the reduction eliminated altogether), but would not occur unless affirmed by Congress through the enactment of a joint resolution. Finally, the Senate may develop alternatives to a sequestration order by passing legislation under a special reconciliation process (the section does not set forth any House procedures).

EXHIBIT 5-A
Timetable of the Sequestration Process

Deadline	Action to be completed	
5 days before President submits his budget.	CBO issues sequestration preview report.	
By first Monday in February..	President submits budget to Congress, including OMB sequestration preview report.	
Not later than July 10.....	CBO issues any required within-session sequestration report regarding discretionary spending.	2
Not later than July 15.....	OMB issues any required within-session sequestration report, and President issues sequestration order, regarding discretionary spending.	
August 10.....	President notifies Congress if he intends to exempt military personnel accounts from sequestration.	
August 15.....	CBO issues update report for end-of-session sequestration.	
August 20.....	OMB issues update report for end-of-session sequestration.	
10 days after end of session.	CBO issues final report for end-of-session sequestration.	
3 — 15 days after end of session.	OMB issues final report for end-of-session sequestration; President issues sequestration order, if required.	
30 days later.....	Comptroller General issues GRH Act compliance report.	5

(1) This table compares the original GRH Act targets with the revised ones enacted in 1987 and 1990 (and as adjusted in the fiscal year 1992 budget).

OMB (and CBO) regularly issue three types of sequestration reports: preview reports early in the session, update reports in August, and end-of-session reports after Congress has adjourned. The OMB end-of-session report is the only one that would trigger sequestration.

Additionally, OMB (and CBO) must issue one or more "within-session" sequestration reports if Congress enacts appropriations measures causing a breach of the limits for the fiscal year in progress in one or more of the discretionary spending categories.

(4) The President must issue a sequestration order on the same day that the OMB Director issues an end-of-session or within-session sequestration report indicating a violation.

The CBO reports are advisory only -- they do not trigger a sequester -- and are issued five days before the OMB reports. OMB must explain in its reports any significant differences between its estimates and those of CBO.

Shortly after the final sequestration reports have been issued, the Comptroller General issues a report assessing compliance with the GRH Act.

EXHIBIT 5-B
Original and Revised GRH Deficit Targets

[Amounts in billions of dollars]

Fiscal year	Original target	1987 revision	1990 revision	Revision in fiscal year 1992 budget
1986	171.9			
1987	144			
1988	108	144		
1989	72	136		
1990	36	100		
1991	0	64	327	
1992		28	317	349.8
1993		0	236	285.2
1994			102	157.5
1995			83	117.3

- (1) This table compares the original GRH Act targets with the revised ones enacted in 1987 and 1990 (and as adjusted in the fiscal year 1992 budget).
- (2) The targets established in 1985 and revised in 1987 covered a six-year period ending with a zero deficit. Further, the deficit targets were fixed and, in most years, declined by \$36 billion from the preceding year.
- (3) The deficit targets, as revised by the BEA of 1990, are no longer fixed, but must be adjusted periodically by the President under procedures prescribed by the Act. This table shows the first adjustments to the targets when the President submitted his budget for fiscal year 1992.
- (4) The President must adjust the deficit targets through fiscal year 1993; he may adjust the targets for fiscal years 1994 and 1995 at his option. The President adjusts the targets to take into account revised economic and technical assumptions and changes in budgetary concepts. If Congress' legislative actions are consistent with established budget policy, the deficit targets will have no procedural significance, at least through fiscal year 1993.
- (5) The deficit targets established in 1990 are, on the whole, much higher than the earlier targets for several reasons. Unlike the earlier targets, the new targets exclude the Social Security trust funds and therefore do not reflect their large and growing surpluses. Other factors contributing to the increase in the targets include the large sums needed to resolve problems with insolvent thrift institutions and revised economic assumptions.

EXHIBIT 5-C
Discretionary Spending Limits for FY 1991-1995

[Amounts in billions of dollars]

		Fiscal year—				
		1991	1992	1993	1994	1995
2	Defense:					
	Budget authority	288.918	291.643	291.785		
	Outlays	297.660	295.744	292.686		
	International:					
	Budget authority	20.100	20.500	21.400		
	Outlays	18.600	19.100	19.600		
	Domestic:					
	Budget authority	182.700	191.300	198.300		
	Outlays	198.100	210.100	221.700		
Total discretionary:						
Budget authority					510.800	517.700
Outlays					534.800	540.800

3

- (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 both on new budget authority and outlays and a breach of either type of limit would cause a sequester.
- (2) For fiscal years 1991-1993, the discretionary spending limits are divided into three categories: defense, international, and domestic spending. For fiscal years 1994 and 1995, the limits apply only to total budget authority and outlays.
- (3) The spending limits provide small increases in budget authority for the defense and international categories between fiscal year 1991 and 1993, but provide greater increases in budget authority for the domestic category during the same period.
- (4) The original discretionary spending limits are set forth in Section 601 of the Congressional Budget Act of 1974. In addition to being enforced by sequestration, the spending limits are enforced in the Senate (during consideration of the budget resolution and appropriations acts) by a special point of order.
- (5) The discretionary spending limits are adjusted periodically (as discussed in Exhibit 5-D).

EXHIBIT 5-D
Discretionary Spending Limits: Periodic Adjustments

**Table 1.—Computation of Discretionary Spending Limits by Category For
Fiscal Year 1991**

(Dollar amounts in millions)

	Defense	International Affairs	Domestic	Total
Discretionary spending limits:				
Budget authority	288,918	20,100	182,700	491,718
Outlays	297,660	18,600	198,100	514,360
Adjustments to spending limits:				
Internal Revenue Service funding above the June 1990 baseline:				
Budget authority	—	—	191	191
Outlays	—	—	183	183
Debt forgiveness for Egypt and Poland:				
Budget authority	—	—	—	—
Outlays	—	100	—	100
Operation Desert Shield:				
Budget authority	1,000	—	—	1,000
Outlays	1,165	—	—	1,165
Total adjusted discretionary spending limits:				
Budget authority	289,918	20,100	182,891	492,909
Outlays	298,825	18,700	198,283	515,808

- (1) Discretionary spending limits are adjusted twice each year -- when the President submits his budget (taking into account changes in inflation, budgetary concepts, and estimates of credit subsidy costs) and in the OMB end-of-session sequestration report (taking into account legislative actions of Congress affecting certain programs, emergency appropriations enacted during the session, and specified special allowances).
- (2) This exhibit shows adjustments to all three categories made in the end-of-session OMB sequestration report for fiscal year 1991. The changes were necessitated by the enactment of appropriations measures affecting the Internal Revenue Service, debt forgiveness for Egypt and Poland, and emergency spending for Operation Desert Shield.

EXHIBIT 5-E
Discretionary Spending Limits: Sequestration Calculations

**Table 3.—Discretionary Budget Authority and Outlays for Fiscal Year 1991
 Compared to Discretionary Spending Limits by Category**
 (Dollar amounts in millions)

	Defense	International Affairs	Domestic	Total
Total adjusted discretionary spending limits:				
Budget authority.....	289,918	20,100	182,891	492,909
Outlays.....	298,825	18,700	198,283	515,815
Total 1991 appropriations:				
Budget authority.....	288,874	20,495	182,381	491,750
Outlays.....	297,989	19,403	199,863	517,256
Appropriations over/under (-) spending limits:				
Budget authority.....	-1,044	395	-510	-1,159
Outlays.....	-836	703	1,580	1,448
Special outlay allowance.....	2,500	1,500	2,500	6,500
Excess outlays covered by special outlay allowance.....	—	703	1,580	2,283

- (1) In determining whether a sequester must occur, OMB compares the total amount of appropriations enacted and the estimated outlays for the fiscal year with the discretionary spending limits for that fiscal year. For fiscal years 1991-1993, these comparisons are made within three different categories.
- (2) This exhibit, taken from the OMB end-of-session sequestration report for fiscal year 1991, compares enacted amounts to the limits in each of the three categories. A breach of \$395 million occurred in the international affairs category. Although the enacted levels of budget authority were below the limits in the other two categories, that did not affect the determination that a breach had occurred in the one category. Breaches in one category cannot be offset by savings in other categories.
- (3) The breach of \$395 million in the international affairs category required the President to issue a sequestration order reducing all non-exempt accounts in that category by 1.9 percent. (The sequester, which was necessitated by a drafting error in the Foreign Operations Appropriations Act, was canceled the following session when legislation correcting the error was enacted.)
- (4) Although breaches of the outlay limits occurred in two categories, sequestration was not required because the breaches did not exceed the special outlay allowances for those categories. The special outlay allowances are intended to ensure that minor scoring differences between OMB and CBO will not trigger a sequester.

EXHIBIT 5-F Pay-As-You-Go (PAYGO) Scorecard

DIRECT SPENDING AND RECEIPT LEGISLATION 102ND CONGRESS, 1ST SESSION AS OF JUNE 28, 1991 (in millions of dollars, by fiscal year) CBO/OMB ESTIMATES COMPARED						
		1991	1992	1993	1994	1995
Enacted Legislation:						
Change in outlays:						
Veterans' Compensation Amendments (H.R. 3, P.L. 102-3)	CBO	0	0	0	0	0
	OMB	0	0	0	0	0
Agent Orange Act (H.R. 556, P.L. 102-4)	CBO	0	0	0	0	0
	OMB	0	0	0	0	0
VA, Education and Employment Programs (H.R. 180, P.L. 102-16)	CBO	2	2	2	2	1
	OMB	*	*	*	*	*
Resolution Trust Corporation Funding Act (S. 419, P.L. 102-18)	CBO	0	0	0	0	0
	OMB	4	0	0	0	0
Persian Gulf Conflict Supplemental Authorization and Personnel Benefits Act (S. 725, P.L. 102-25)	CBO	0	0	0	145	170
	OMB	0	0	0	0	0
Higher Education Technical Amends. (H.R. 1285, P.L. 102-26)	CBO	3	-56	5	*	*
	OMB	-6	-38	0	0	0
Dept. of Veterans Affairs Health Care Personnel Act (H.R. 598, P.L. 102-40)	CBO	*	*	0	0	0
	OMB	*	*	0	0	0
Rehabilitation Act Amends. (H.R. 2127, P.L. 102-52)	CBO	0	0	0	0	0
	OMB	0	0	0	0	0
Veterans Housing Amendments (H.R. 232, P.L. 102-54)	CBO	0	5	3	1	0
	OMB	*	1	*	*	*
Change in receipts:						
Extending IRS Deadline for Desert Storm Troops (H.R. 4, P.L. 102-2)	CBO	-1	-5	0	0	0
	OMB	-1	-5	0	0	0
CBO:						
Total change in outlays		5	-49	10	148	171
Total change in receipts		-1	-5	0	0	0
Deficit impact		6	-44	10	148	171
OMB:						
Total change in outlays		-1	-36	*	*	*
Total change in receipts		-1	-5	0	0	0
Deficit impact		-2	-31	*	*	*
* Less than \$500 thousand						

- (1) The pay-as-you-go (PAYGO) process does not preclude Congress from enacting legislation that increases direct spending or reduces revenues; it only requires that these changes be offset by reductions in direct spending, increases in revenues, or a combination of the two so that the deficit is not increased. Failure to fully offset these changes will trigger a sequester of non-exempt direct spending programs.
- (2) The budgetary effects of direct spending and revenue legislation are tracked over the full five years of the process using a PAYGO scorecard. Although the enactment of a measure may not trigger sequestration in the current fiscal year, its effects may require a sequester in a future fiscal year.
- (3) Under the PAYGO process, a sequester occurs only once each year -- within 15 days after the end of a session of Congress. The process does not apply to one measure at a time, but to the cumulative impact for a fiscal year of all measures enacted during the current or previous sessions.
- (4) If Congress enacts direct spending or revenue legislation that increases the deficit for a fiscal year after a sequester for that year has occurred, the deficit increase is counted in the sequestration report for the next fiscal year under a "look-back" procedure.

EXHIBIT 5-G
Sequestration Reductions by Account

1	Account Title, Category	Sequester Base	Sequester Amount	2
	Funds Appropriated to the President			
	International Security Assistance			
	Peacekeeping operations (04-09-1032-A):			
	Budget Authority	32,800	623	3
	Outlays	22,632	430	
	Economic support fund (loans) (04-09-1037-A):			
	Budget Authority	3,145,000	59,755	
	Outlays	1,785,310	33,921	
	International military education and training (04-09-1081-A):			
	Budget Authority	47,196	897	
	Outlays	23,598	448	
	Foreign Military Financing (loans) (04-09-1082-A):			
	Budget Authority	5,111,921	97,126	
	Direct Loan Limitation	403,500	7,666	
	Outlays	1,860,754	35,354	
	Multilateral Assistance			
	Contribution to the Inter-American Development Bank (04-12-0072-A):			
	Budget Authority	91,299	1,735	
	Outlays	21,617	411	
	Contribution to the International Development Association (04-12-0073-A):			
	Budget Authority	1,064,150	20,219	
	Outlays	156,430	2,972	

- (1) When a sequester must occur, the sequestration report provides the necessary information to implement the sequester on an account-by-account basis. For each non-exempt account, the report identifies the sequester base and, by applying the uniform reduction percentage or special rule to the base, the resulting sequester amount. This exhibit provides an excerpt from a sequestration report where the sequester applied only to the international affairs category.
- (2) The sequester base includes the total amount of sequestrable budgetary resources available in the account, including new budget authority, unobligated balances for defense programs, direct spending authority, and obligation limitations. Prior to fiscal year 1992, credit levels also were included in the sequester base (in this exhibit, notice the sequester of \$7.666 million under a direct loan limitation for Foreign Military Financing).
- (3) Reductions are applied uniformly to each account (except those covered by special rules) and there is no minimum amount. Thus, \$623 thousand in budget authority was sequestered from the Peacekeeping Operations account while \$97.126 million in budget authority was sequestered from the Foreign Military Financing account; both accounts were reduced by 1.9 percent.
- (4) In implementing these reductions, each agency also must reduce "programs, projects, and activities" (PPAs) within each account uniformly. PPAs are defined by appropriations acts and accompanying reports, or, for accounts not funded by appropriations acts, by the program-by-activities listing in the "program and financing table" in the President's budget.

EXHIBIT 5-H Suspension or Modification of the Sequestration Process

By Mr. MITCHELL:
S.J. Res. 137. Joint resolution suspending certain provisions of law pursuant to section 258(a)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985; pursuant to section 258(a)(3) of the Balanced Budget and Emergency Deficit Control Act of 1985, referred to the Committee on the Budget.

SUSPENSION OF CERTAIN PROVISIONS OF THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT

Mr. MITCHELL. Mr. President, I ask unanimous consent that a letter from Mr. Reischauer of CBO, relating to the resolution just introduced, be placed in the *Record* following the text of the joint resolution.

There being no objection, the material was ordered to be printed in the *Record*, as follows:

S.J. Res. 137

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled. That the Congress declares that the conditions specified in section 254(j) of the Balanced Budget and Emergency Deficit Control Act of 1985 are met, and the implementation of the Congressional Budget and Impoundment Control Act of 1974, chapter 11 of title 31, United States Code, and part C of the Balanced Budget and Emergency Deficit Control Act of 1985 are modified as described in section 258(b) of the Balanced Budget and Emergency Deficit Control Act of 1985.

CONGRESSIONAL BUDGET OFFICE,
Washington, DC, April 30, 1991.

Hon. DAN QUAYLE,
President of the Senate,
Washington, DC.

DEAR MR. PRESIDENT: Under section 254(j) of the Balanced Budget and Emergency Deficit Control Act of 1985 (2 U.S.C. 904(j)), the Congressional Budget Office must notify the Congress in the event of an economic slowdown. The section reads in part:

(j) Low-growth report.—At any time, CBO shall notify the Congress if—

(2) the most recent of the Department of Commerce's advance preliminary or final report of actual real economic growth indicate that the rate of real economic growth for each of the most recently reported quarter and the immediate preceding quarter is less than one percent.

This letter serves to notify the Congress that on April 26, 1991, the Department of Commerce's advance report on the growth of real Gross National Product during the first calendar quarter of 1991 indicated that growth was less than 1.0 percent during that quarter and the preceding quarter.

Sincerely,
ROBERT D. REISCHAUER,
Director.

- (1) The sequestration process (and special five-year enforcement procedures in the Congressional Budget Act of 1974) are suspended automatically in the event a declaration of war is enacted and may also be suspended if Congress enacts a special joint resolution triggered by the issuance of a "low-growth" report by CBO.
- (2) This exhibit shows a CBO low-growth report triggered by one of the conditions set forth in the GRH Act -- in this instance, CBO informed Congress that the Department of Commerce had reported two consecutive quarters of real economic growth of less than one percent. CBO must issue a low-growth report at any time that the prescribed conditions are met.
- (3) In the Senate, the Majority Leader must introduce a joint resolution suspending the enforcement procedures upon receipt of a CBO low-growth report and the Senate must vote on it under expedited procedures. (The exhibit shows an example of such a resolution.) In the House, the Majority Leader may introduce such a joint resolution at his discretion.
- (4) The GRH Act sets forth several procedures by which Congress may modify or effectively cancel a sequestration order. All of these procedures require the enactment of legislation.
- (5) In addition to employing the procedures in the GRH Act to modify or effectively cancel a final sequestration order, Congress may use its general legislative powers for the same purpose. Congress used omnibus budget reconciliation bills to rescind sequestration reductions for fiscal year 1988 and to modify sequestration reductions for fiscal year 1990.

Chapter 6. REVENUE LEGISLATION

Article I, Section 8 of the U.S. Constitution gives Congress the power to levy "taxes, duties, imposts, and excises." Section 7 of this Article requires that all revenue measures originate in the House. (The Senate sometimes strips a House-passed revenue measure of all text except for the enacting clause and then inserts its own revenue provisions.) 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. While House rules bar other committees from reporting revenue legislation (see **Exhibit 6-A**), sometimes another committee will report legislation levying user fees on a class that benefits from a particular service or program or that is being regulated by a Federal agency. In many of these cases, the user fee legislation is referred subsequently to the Ways and Means Committee.

Revenues of the Federal Government (also referred to as receipts) derive from a number of sources. The top part of **Exhibit 6-B** 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, 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 6-B also indicates that there has been remarkable stability in Federal revenues as a share of the GNP over an extended period of time. Revenues totalled 20 percent of GNP in 1970 and 19 percent in 1990. But the exhibit shows that 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 GNP in 1960 to only 12 percent today. This means that an increasing portion of Federal revenues are restricted to particular uses.

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 6-C**, Congress enacted almost 20 major revenue measures during the 1980s; these cumulatively reduced Federal revenues for fiscal year 1990 by an estimated \$195 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 own estimates (developed in consultation with the Joint Committee on Taxation) of the revenue impact of the President's budget proposals. As shown in **Exhibit 6-D**, the congressional estimates often differ significantly from those presented in the President's budget. These estimates are important for the pay-as-you-go (PAYGO) rules adopted in 1990 and described in the next section of this chapter (and in Chapter 5). **Exhibit 6-D** also reveals that the revenue impact often is estimated to be far greater in future years than in the year immediately ahead.

Revenue estimates are used by Congress in formulating the annual budget resolution, which 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 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 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 resolution or motion authorized by the Congressional Budget Act of 1974.

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. The Senate does not restrict floor amendments in this manner, but it does have strict budget rules that can block revenue legislation or amendments which would cause the deficit to rise.

Pay-As-You-Go (PAYGO) Rules

The BEA of 1990 established pay-as-you-go (PAYGO) rules which affect the consideration of revenue (and direct spending) legislation in Congress. The PAYGO rules are in effect for fiscal years 1991-1995 and will expire at the end of this period unless they are extended. (For a discussion of the changes made by the BEA, see Chapters 3, 4 and 5.)

The basic PAYGO rule is that congressional action on revenue and direct spending legislation should not add to the budget deficit. (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 deriving from existing laws and increases or decreases in revenues resulting from new legislation. This distinction is shown in Exhibit 6-E, which is based on revenue estimates made by CBO and the Joint Committee on Taxation. (However, the BEA makes OMB's estimates determinative for PAYGO and related budget controls.) The first line of numbers in Exhibit 6-E estimates baseline revenues for five fiscal years. 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. The next 6 lines of numbers estimate the impact of pending proposals on baseline revenues. These PAYGO proposals include the extension of expiring tax laws and any other recommendations affecting Federal revenues.

Although it covers 5 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 below). 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.

Consider the scenario set forth in the table below. Congress enacted two revenue measures in 1991, one in July and the other in October. Although both bills were enacted during a single session of Congress, the first one was enacted during fiscal year 1991 and the second one was enacted during fiscal year 1992. The July bill lost \$30 million in revenue in fiscal year 1991 while the October bill had no effect in that fiscal year. For the remaining four fiscal years, the July bill loses revenue and the October bill increases revenue each year; the net effect over the five-year period is an increase in revenues of \$95 million.

	FY1991	FY1992	FY1993	FY1994	FY1995	FY91-95
July Bill	-30	-150	-200	-150	-50	-580
October Bill	0	+250	+150	+150	+125	+675
TOTAL	-30	+100	-50	0	+75	+95

Note: plus sign (+) indicates revenue increase; minus sign (-) indicates revenue decrease. Amounts shown are in millions of dollars.

This example illustrates several operating rules of the PAYGO process and is predicated on how the process would be implemented at the end of the 1991 session of Congress, shortly after fiscal year 1992 had begun, if these were the only PAYGO measures enacted during that session.

First, no PAYGO sequester for fiscal year 1992 would be required based upon the fiscal year 1992 effects of the two bills (which, in the net, increase revenues by \$100 million). However, a "look-back" feature of PAYGO requires that the deficit impact of legislation enacted since the last end-of-session sequester review be taken into account. Accordingly, the net amount for fiscal year 1992 would be reduced by \$30 million to take the fiscal year 1991 impact of the July bill into account. Even with this adjustment, no sequester would be required for fiscal year 1992. The effects of the bills on future fiscal years are taken into account when the sequester reports for those future fiscal years are prepared.

Further, House and Senate consideration of the July bill would not have been hindered by the PAYGO requirements; even though the bill decreased revenues, PAYGO requirements do not apply to the consideration of individual measures. (However, provisions in the Congressional Budget Act of 1974 might have had an effect on the bill's consideration.)

When the end-of-session sequester for fiscal year 1993 is calculated (and if no additional PAYGO legislation has been enacted), a sequester would be required at that time because the net effect of the two bills for that fiscal year is a \$50 million deficit increase. A sequester could be avoided if Congress enacted PAYGO legislation offsetting the deficit increase.

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.

Tax Expenditures

In enacting revenue legislation, Congress often establishes or alters tax expenditures. The term "tax expenditures" is defined in the Congressional Budget Act of 1974 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 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 lists almost 100 different tax expenditures with revenue losses of \$50 million or more (see Exhibit 6-F).

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.

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, 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 5); a mandatory offsetting collection would be considered direct spending and would be covered by the PAYGO process.

Exhibit 6-G indicates that offsetting collections, including the income of the U.S. Postal Service, total almost \$200 billion each year. The President frequently proposes changes in offsetting collections. Exhibit 6-H lists the changes proposed in the budget for fiscal year 1992. These changes do not include proposed fees for direct or guaranteed loans. Beginning with fiscal year 1992, income from these fees are included in the computation of credit subsidies (see Chapter 9) rather than as offsetting collections.

EXHIBIT 6-A
Revenue Legislation: House Rules

House Rule XXI (clause 5)

1 — (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. — 3

6 H46b. Restriction on bills and amendments carrying taxes or tariffs.

- (1) Jurisdiction over revenue measures is assigned to the Ways and Means Committee in the House and to the Finance Committee in the Senate. These committees also have jurisdiction over certain spending programs, such as Social Security, funded by earmarked taxes. Clause 5(b) of House Rule XXI, shown here, bars any other House committee from reporting revenue legislation; there is no comparable Senate rule.
- (2) The reference in clause 5(b) 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.
- (3) 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.

EXHIBIT 6-B
Sources of Revenue

	1960	1970	1980	1990	1992 est.
As a Percentage of Total Receipts					
Individual income Taxes	44%	47%	47%	45%	46%
Corporate income Taxes	23%	17%	13%	9%	9%
Social Insurance Taxes	16%	23%	31%	37%	37%
All Other Receipts	17%	13%	10%	9%	9%
TOTAL RECEIPTS:					
On-Budget	89%	83%	78%	73%	73%
Off-Budget	12%	17%	22%	27%	27%
As a Percentage of GNP					
Individual income Taxes	8%	9%	9%	9%	9%
Corporate income Taxes	4%	3%	2%	2%	2%
Social Insurance Taxes	3%	5%	6%	7%	7%
All Other Receipts	3%	3%	2%	2%	2%
TOTAL RECEIPTS	18%	20%	19%	19%	20%
On-Budget	16%	16%	15%	14%	14%
Off-Budget	2%	3%	4%	5%	5%
(Federal Fund Receipts	15%	14%	13%	12%	12%)

- (1) The top part of this table shows major sources of Federal revenues (receipts) as percentage of total revenues; the bottom part shows each source as a percentage of GNP.
- (2) Over the past 30 years, 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 source of Federal revenue, total receipts comprised about the same share of the Gross National Product in fiscal year 1990 that they did in fiscal year 1970.
- (5) Federal funds are available for the general purposes of the Government; unlike trust funds, they are not earmarked for specific programs. Note the decline in Federal fund receipts relative to the GNP.

EXHIBIT 6-C
Revenue Effects of Major Enacted Legislation

1 ————— **NET EFFECT OF MAJOR ENACTED LEGISLATION ON RECEIPTS ¹**

(in billions of dollars)

	1988	1989	1990	1991	1992	1989-90
Economic Recovery Tax Act of 1981	-264.4	-290.9	-322.8	-357.7	-397.6	-613.7
Tax Equity and Fiscal Responsibility Act of 1982	57.3	55.7	57.2	61.2	64.7	112.9
Highway Revenue Act of 1982	4.9	5.1	5.1	5.1	5.1	10.2
Social Security Amendments of 1983	24.6	30.9	23.4	23.8	25.2	54.4
Interest and Dividends Tax Compliance Act of 1983	-1.8	-2.0	-2.5	-2.8	-3.1	-4.4
Railroad Retirement Revenue Act of 1983	1.2	1.1	1.1	1.1	1.2	2.3
Deficit Reduction Act of 1984	25.4	27.7	31.0	33.8	37.9	58.7
Consolidated Omnibus Budget Reconciliation Act of 1985	2.9	3.0	3.0	3.2	3.5	6.0
Federal Employees' Retirement System Act of 1986	-0.2	-0.2	-0.3	-0.4	-0.4	-0.5
Omnibus Budget Reconciliation Act of 1986	2.4	2.0	1.0	0.1	1.0	3.0
Superfund Amendments and Reauthorization Act of 1986	0.6	0.8	0.8	0.8	0.8	1.6
Continuing Resolution for 1987	2.8	3.0	2.6	2.6	2.6	5.6
Tax Reform Act of 1986	-8.9	-24.4	-20.3	-16.4	-20.9	-44.6
Omnibus Budget Reconciliation Act of 1987	8.6	13.9	16.1	15.4	12.2	30.0
Continuing Resolution for 1988	2.0	2.7	2.6	2.7	2.7	5.3
Medicare Catastrophic Coverage Act of 1988 *		0.6	6.6	7.2	6.9	7.2
Family Support Act of 1988		0.1	0.2	0.3	0.3	0.3
Technical and Miscellaneous Revenue Act of 1988		-0.4	-0.1	0.1	-0.3	-0.6
Net tax reduction (-)	-142.6	-171.3	-195.3	-219.8	-258.3	-366.6

2 —————

3 —————

4 —————

- (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 fiscal year 1991 receipts by an estimated \$358 billion; all other revenue legislation enacted during the 1980s added an estimated \$138 billion to fiscal year 1991 receipts.
- (3) Note the variety of measures -- reconciliation bills, Social Security legislation, continuing resolutions, and others -- used 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.

EXHIBIT 6-D
CBO Reestimates of President's Revenue Proposals

TABLE III-4. CBO/JCT AND ADMINISTRATION ESTIMATES OF PROPOSED SAVINGS AND INVESTMENT INCENTIVES
 (By fiscal year, in billions of dollars)

Proposal	1992	1993	1994	1995	1996
Exclude 30 Percent of Capital Gains^a					
CBO/JCT	3.7	-3.2	-4.4	-4.1	-3.4
Administration	3.0	1.7	0.9	1.8	1.7
Establish Family Savings Accounts					
CBO/JCT	-0.4	-0.6	-1.0	-1.4	-1.8
Administration	-0.3	-0.8	-1.3	-1.8	-2.3
Waive the Penalty for Early Withdrawals from IRAs for First-Time Homebuyers					
CBO/JCT	-0.2	-0.1	-0.1	-0.1	-0.1
Administration	-0.1	-0.1	-0.1	-0.1	-0.1
Total					
CBO/JCT	3.2	-4.0	-5.5	-5.6	-5.3
Administration	2.7	0.8	-0.5	-0.1	-0.7

SOURCES: Joint Committee on Taxation; Office of Management and Budget.

- (1) CBO's revenue estimates often differ from those issued by the President in his budget. For example, CBO estimated that changing the capital gains tax rate would result in revenue losses in fiscal years 1993-1996. The Administration, by contrast, projected revenue gains in these years. Disagreement between the President and Congress over revenue estimates can have significant implications for the PAYGO process, in which the estimates issued by OMB are determinative.
- (2) The revenue impact of legislation often is far greater in the "outyears" than it is in the year immediately ahead. The outyear estimates are used in enforcing the PAYGO process for each year to which they apply.
- (3) Under the PAYGO process, if the total of all revenue (and direct spending) legislation for a fiscal year causes the deficit to increase, the increase must be offset by legislation decreasing other revenues (or direct spending), or else a sequester of certain direct spending programs will ensue.
- (4) The Joint Committee on Taxation (JCT) is a joint House-Senate Committee that provides staff assistance to Congress on revenue legislation.

EXHIBIT 6-E
Revenue Estimates for the PAYGO Process

1 — **TABLE III-2. CBO ESTIMATES OF REVENUE PROPOSALS IN THE ADMINISTRATION'S 1992 BUDGET**
 (By fiscal year, in billions of dollars)

Proposal	1992	1993	1994	1995	1996
CBO Baseline Revenues	1,169.2	1,250.7	1,331.5	1,415.4	1,495.4
Pay-As-You-Go Proposals					
Extend expiring income tax provisions	-1.3	-1.9	-1.8	-2.0	-2.2
Savings and investment incentive proposals ^a	3.2	-4.0	-5.5	-5.6	-5.3
Require Medicare contributions from all state and local government employees ^b	1.1	1.5	1.5	1.5	1.5
Extend and lower Highway Trust Fund taxes ^b	0.0	0.0	0.0	0.0	-2.8
Other proposals ^c	0.0	-0.1	-0.3	-0.5	-0.5
Subtotal, Pay-As-You-Go	3.0	-4.4	-6.0	-6.6	-9.2
IRS Enforcement Funding Proposal	0.0	0.0	0.0	0.0	0.0
Total, Revenue Proposals	3.0	-4.4	-6.0	-6.6	-9.2
President's Budget Revenues as Estimated by CBO	1,172.2	1,246.3	1,325.5	1,408.8	1,486.2

2 — (points to 1996 Baseline Revenues)
3 — (points to Extend expiring income tax provisions)
4 — (points to Subtotal, Pay-As-You-Go)
5 — (points to IRS Enforcement Funding Proposal)

- (1) These CBO estimates are advisory; the BEA of 1990 makes OMB revenue estimates determinative for calculating revenue gains and losses from legislation.
- (2) Baseline revenues are the estimated revenue yield from existing laws. Reductions in baseline estimates due to economic factors or technical re-estimates do not trigger PAYGO enforcement rules.
- (3) The extension of expiring revenue provisions (whether they gain or lose revenue) is considered as new legislation (with certain exceptions); hence, changes in revenue resulting from such extensions are not included in the baseline but are computed as revenue increases or losses under the PAYGO process.
- (4) If total legislation enacted for a fiscal year would produce a revenue loss, the loss would have to be offset by an equivalent revenue gain (or reduction in direct spending) from other legislation, or a sequester of certain direct spending programs will ensue.
- (5) Revenue increases resulting from additional appropriations for enhanced IRS enforcement are not included in the PAYGO computation.

EXHIBIT 6-F Tax Expenditure Data

1

ESTIMATES FOR MAJOR TAX EXPENDITURES IN THE INCOME TAX RANKED BY REVENUE LOSS
(In millions of dollars)

Description	1992
Net exclusion of employer plans pension contributions and earnings	51,170
Deductibility of mortgage interest on owner-occupied homes	40,545
Exclusion of employer contributions for medical insurance premiums and medical care	33,470
Step-up basis of capital gains at death	26,800
Accelerated depreciation (Normal tax method)	26,100
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	20,405
Exclusion of OASI benefits for retired workers	18,000
Deductibility of charitable contributions	16,800
Exclusion of interest on public purpose State and local debt	13,950
Deferral of capital gains on home sales	13,925
Deductibility of State and Local property tax on owner-occupied homes	11,575
Exclusion of interest on life insurance savings	7,960
Exception from passive loss rules for \$25,000 of rental loss	7,715
Net exclusion of IRA pension contributions and earnings	7,265
Exclusion of untaxed Medicare benefits	6,700
Inventory property sales source rules exception	4,845
Credit for child and dependent care expenses	4,395
Exclusion of interest on industrial development bonds	4,020
Reduced rates on first \$100,000 of corporate income (Normal tax method)	3,755
Preferential treatment of capital gains (Normal tax method)	3,460
Exclusion of social security benefits for dependents and survivors	3,405
Exclusion of capital gains on home sales for persons age 55 and over	3,340
Exclusion of workmen's compensation benefits	3,310
Deductibility of medical expenses	3,170
Exclusion of premiums on group life insurance	2,900
Exclusion of interest on State and local debt for private nonprofit health facilities	2,895
Special merger rules for financial institutions	2,760
Earned income credit	2,540
Expensing (Normal tax method)	2,470
Tax credit for corporations receiving income from doing business in United States possessions	2,325
Exclusion of benefits and allowances to armed forces personnel	2,060
Special ESOP rules (other than investment credit)	2,055

2

3

- (1) The tax expenditures in this table are computed in terms of estimated revenue losses; the budget also reports tax expenditures in terms of outlay equivalents.
- (2) 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.
- (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.

EXHIBIT 6-G Offsetting Collections

Table X-5. TOTAL OFFSETTING COLLECTIONS
(In millions of dollars)

	1990	1991	1992
Collections deposited in receipt accounts:			
Medicare premiums and other charges	11,245	11,844	13,002
Military assistance trust fund property sales	10,293	10,300	10,000
Outer Continental Shelf payments, naval petroleum reserve lease, power administration asset sales, and other undistributed offsetting receipts	3,006	3,729	3,983
Sale of property and services, interest income, and all other collections deposited in receipt accounts	14,831	14,808	15,839
Subtotal, collections deposited in receipt accounts	39,376	40,681	42,804
Collections credited to appropriation accounts:			
Postal Service stamp sales and other collections	32,202	43,150	46,088
Depository insurance funds	32,818	57,146	67,949
Tennessee Valley Authority and power administration collections	8,487	8,922	9,278
Commodity Credit Corporation loan repayments and other collections	10,719	8,476	8,544
Other loan repayments	11,437	12,580	9,459
Loan guaranty and other insurance premiums, interest income, and all other collections credited to appropriation accounts	42,536	46,500	49,347
Subtotal, collections credited to appropriation accounts	144,199	175,773	190,665
Total offsetting collections	183,575	216,454	233,469
Total offsetting collections excluding off-budget Postal Service collections	151,373	173,304	187,381

- (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 clearcut 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) These proprietary receipts arise out of business-type operations. The receipts are credited to one of the funds maintained by the Federal Government.
- (4) 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.

EXHIBIT 6-H
Proposed Changes in User Fees

Table X-6. PROPOSED USER FEES AND OTHER OFFSETTING COLLECTIONS
(in millions of dollars)

	1992	1993	1994	1995	1996
Discretionary:					
Medicare and medicaid survey and certification (net)	264	246	246	249	254
FDA product review and seafood inspections	196	205	212	212	212
Veterans medical care copayments	125	131	138	145	152
SBA loan guarantee [*]	86	96	96	96	96
Hard rock mining claim holding	80	80	80	80	80
SEC registration	68	71	73	76	79
FCC licensing and service	65	65	65	65	65
CFTC contract trading	48	51	55	59	63
FEMA regulation of emergency plans	10	10	10	10	10
FCC spectrum auction	—	—	800	1,200	500
Subtotal, discretionary	943	965	1,775	2,192	1,512
Mandatory:					
Elk Hills naval petroleum reserve lease	1,191	-139	-120	-113	-95
Veterans loan origination [*]	122	108	101	101	98
Corps of Engineers recreation site	20	20	20	20	20
Agricultural Marketing Service	13	16	16	17	18
Federal Grain Inspection Service	8	8	8	8	8
Forest Service recreation site	8	8	8	8	8
Pesticide reregistration	3	3	3	3	3
Arctic National Wildlife Refuge leasing	—	1,901	1	1,201	1
Subtotal, mandatory	1,364	1,922	36	1,244	59
Total	2,306	2,876	1,811	3,436	1,571

^{*}Savings from credit fees reflect a reduction in subsidy outlays, rather than increased collections.

- (1) As explained in the text, compulsory user fees are accounted for as receipts; other fees (such as those listed here) are budgeted as offsetting collections. As a general rule, revenue derived from business-type activities is accounted for as an offsetting collection.
- (2) Pursuant to the BEA of 1990, a distinction is made between mandatory and discretionary offsetting collections. Mandatory collections are covered by the PAYGO process; discretionary collections are covered by the discretionary spending limits.
- (3) An increase in discretionary offsetting collections would allow an equivalent amount of spending within the discretionary spending limits.
- (4) An increase in mandatory offsetting collections would allow an equivalent reduction in revenue or increase in direct spending under the PAYGO process.

Chapter 7. AUTHORIZING LEGISLATION

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. (Relevant excerpts from House and Senate rules are printed in **Exhibits 7-A and 7-B**) 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 authorizing legislation; the next one describes the appropriations 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 7-C**.

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.

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 authorizations 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. *Multiyear* authorizations are typically in effect for a two - to five - year period and have to be renewed when they expire. (Exhibit 7-D 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 multiyear) 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 7-E.

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 multiyear 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.

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 7-F**. 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.

Backdoor Spending

A sizeable portion of the budgetary resources spent by the Federal Government is provided or controlled by authorization laws. This type of authorization law is referred to informally as "backdoor spending." In general, spending of this type is defined as "spending authority" in the Congressional Budget Act of 1974, and as "direct spending" in the GRH Act. Such budgetary resources are either provided directly by the authorization law, or are effectively controlled by the authorization law but provided in annual appropriation acts.

There are several types of backdoor spending, the most prominent of which is *entitlement authority* -- provisions of law that mandate payments to eligible recipients. Backdoor spending legislation also includes *borrowing authority* (provisions authorizing agencies to spend borrowed funds), *contract authority* (provisions authorizing agencies to enter into obligations), and *authority to forego offsetting receipts* (provisions authorizing agencies not to collect certain user fees or other charges). The Congressional Budget Act of 1974 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 7-G and 7-H.**)

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 Congressional Budget Act of 1974 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 by means of the Section 302 (and Section 602) 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 (or Section 602) of the Congressional Budget Act of 1974.

The BEA regulates the enactment of new entitlements and other backdoor 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 fully discussed in Chapter 5. In general, PAYGO requires that legislation increasing direct spending (mainly entitlements and other mandatory 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.

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 3) to make such changes in law.

Authorizing 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 9.

EXHIBIT 7-A
Authorizing Legislation: House Rules

House Rule XXI, Clause 2

2. (a) No appropriation shall be reported in any 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 any general appropriation bill except germane provisions which 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 any legislative committee having jurisdiction over the subject matter thereof, and except rescissions of appropriations contained in appropriations Acts.

- (1) House Rule XXI (a portion of which is excerpted here) establishes the basic relationship between authorizations and appropriations.
- (2) House rules do not expressly require authorizations; they bar unauthorized appropriations. Under the rules, 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 rules against unauthorized appropriations by adopting a "special rule" before taking up the appropriations bill.
- (3) The rule against unauthorized appropriations applies only to general appropriations bills. Under the precedents of the House, a continuing resolution (providing interim funding for agencies that have not yet received regular appropriations for the new fiscal year) is not deemed to be a general appropriations bill. Hence, unauthorized programs can be funded in it.
- (4) A change in existing law constitutes new legislation and cannot, under the rules, be made in an appropriations bill (clause 2(c), not shown here, bars floor amendments changing existing law). A parallel provision bars the insertion of appropriations into authorizing legislation (see Exhibit 8-A).
- (5) The authority to include provisions which retrench expenditures in appropriations bills is known as the Holman Rule. This rule was devised in the 1870s; it is rarely used anymore.

EXHIBIT 7-B
Authorizing Legislation: Senate Rules

Senate Rule XVI

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.

- (1) Paragraph 1 of Senate Rule XVI bars unauthorized appropriations; paragraph 2 bars the Appropriations Committee from adding legislation to appropriations bills; paragraph 4 (not shown here, see Exhibit 8-A) bars floor amendments that add legislation to appropriations bills. Unlike the House, however, Senate rules do not bar appropriations in authorizing legislation.
- (2) The word "amendments" in this rule refers to any change made by the Senate -- in committee or on the floor -- to a House-passed appropriations bill. When the House and Senate conferees meet on appropriations bills, they act on Senate amendments which are numbered sequentially, as shown in Exhibit 8-H.
- (3) Senate rules allow many exceptions to the bar against unauthorized appropriations. Hence, enforcement of this rule is much stricter in the House than in the Senate.
- (4) When a point of order is made that a provision is legislation on an appropriations bill, the Senate usually votes on whether the matter is germane. If the Senate votes that the provision is germane, the point of order falls (see Exhibit 8-A).

EXHIBIT 7-C Basic Purposes of Authorizations Acts

1	Subtitle A—Programs for Minorities Generally SEC. 101. ESTABLISHMENT OF OFFICE OF MINORITY HEALTH AND AUTHORITY OF OFFICE TO MAKE GRANTS FOR PREVENTION AND CONTROL OF PREVA- LENT DISEASES Title XVII of the Public Health Service Act (42 U.S.C. 800a et seq.) is amended by adding at the end thereof the following new section: "SEC. 1701. ESTABLISHMENT OF OFFICE OF MINORITY HEALTH "(a) IN GENERAL.—The Secretary shall establish in the Office of the Assistant Secretary for Health an Office of Mi- nority Health. The Secretary shall appoint a Deputy Assist- ant Secretary of Minority Health, who shall serve as Director of such Office.	"(b) FUNCTIONS.—The Office of Minority Health shall, with respect to the health concerns of individuals from disad- vantaged backgrounds, including members of minority groups— "(1) establish short-range and long-range goals 3 and objectives and coordinate all other activities within the Department of Health and Human Services that relate to disease prevention, health promotion, service delivery, and research concerning individuals from dis- advantaged backgrounds, including racial and ethnic minorities; "(d) AUTHORIZATION OF APPROPRIATIONS.—For the 4 purpose of carrying out this section, there are authorized to be appropriated \$10,000,000 for fiscal year 1991, \$12,000,000 for fiscal year 1992, and \$15,000,000 for fiscal year 1993."
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- (1) These excerpts from recent legislation illustrate the basic purposes of authorizations: to establish Federal agencies or programs (in subsection (a)), to set forth the duties and functions of such agencies (in subsection (b)), and to provide an authorization of appropriations (in subsection (d)).
- (2) Authorizing legislation sometimes is silent on how an agency is to be organized, but as shown here, it sometimes prescribes the form of organization.
- (3) These provisions spell out the agency's responsibilities; authorizing legislation sometimes contains restrictions on what an agency may do.
- (4) An authorization of appropriations is a license to provide an appropriation. The funds mentioned here can be spent only to the extent provided in appropriations. Because these authorizations are for specific fiscal years, Congress will have to pass a new authorization for fiscal year 1994 and beyond so that the consideration of appropriations for those fiscal years will be in order.

EXHIBIT 7-D Types of Discretionary Authorizations

2 — **Permanent**

(d) **AUTHORIZATIONS.**—For fiscal year 1990, and each fiscal year thereafter, there are authorized to be appropriated such sums as may be necessary to carry out the provisions of this section.

3 — **Annual**

(c) **OCEAN AND COASTAL MANAGEMENT.**—There are authorized to be appropriated to the Department of Commerce for carrying out ocean and coastal management activities of the National Oceanic and Atmospheric Administration under title III of the Marine Protection, Research, and Sanctuaries Act of 1972 (16 U.S.C. 1431 et seq.), the Coastal Zone Management Act of 1972 (16 U.S.C. 1451 et seq.), the Deep Seabed Hard Mineral Resources Act (30 U.S.C. 1401 et seq.), and any other law involving those activities, not more than \$57,752,000 for fiscal year 1990.

4 — **Multi-year**

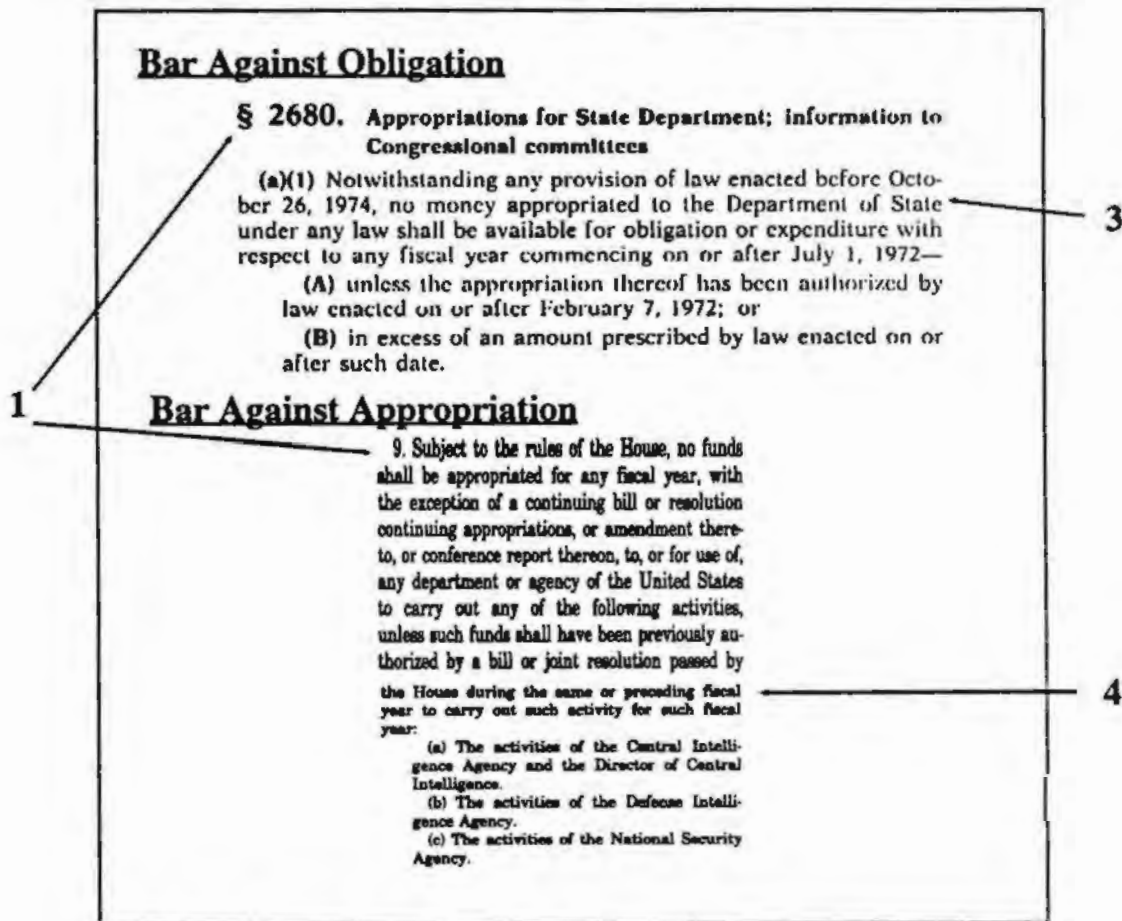
(a) **SUPPORTIVE SERVICES AND SENIOR CENTERS.**—Section 303(a) of the Older Americans Act of 1965 (42 U.S.C. 3023(a)) is amended to read as follows:

"(a) There are authorized to be appropriated \$379,575,000 for the fiscal year 1988, \$398,554,000 for the fiscal year 1989, \$418,481,000 for the fiscal year 1990, and \$439,406,000 for the fiscal year 1991, for the purpose of making grants under part B of this title (relating to supportive services and senior centers)."

5

- (1) The three examples on this page are of discretionary authorizations. In each case, the amounts available for obligation are determined in annual appropriations bills. Types of authorizations which bypass the appropriations process are displayed in Exhibits 7-G and 7-H.
- (2) A permanent authorization has no time limit. It usually is open-ended (without dollar limits) and authorizes "such sums as may be necessary."
- (3) 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.
- (4) Multiyear authorizations typically are for two- to five-year periods, with amounts specified for each year.
- (5) Multiyear authorizations often authorize escalating amounts for successive fiscal years. In this four-year authorization, the amount authorized for each year is higher than the previous year's level.

EXHIBIT 7-E
Reauthorization Requirements



- (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 the availability of the appropriations is affected by a statutory requirement for prior authorization.
- (3) Because this statutory provision bans the obligation or expenditure 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.

EXHIBIT 7-F
Earmarking and Other Features of Authorizations

1	AUTHORIZATION OF APPROPRIATIONS Sec. 2. (a) There are authorized to be appropriated to the National Science Foundation, for fiscal year 1987, the sums set forth in the following categories: (1) Mathematical and Physical Sciences, \$489,870,000. (2) Engineering, \$172,470,000. (3) Biological, Behavioral, and Social Sciences, \$270,500,000. * * * * *
2	(b) Notwithstanding any other provision of this Act, from the amount authorized under subsection (a)— (1) not less than \$33,430,000 is authorized only for purposes of the Social and Economic Sciences Division; (2) not less than \$49,870,000 is authorized only for purposes of the Behavioral and Neural Sciences Division;
3	AVAILABILITY Sec. 3. (a) Appropriations made under authority provided in sections 2 and 5 shall remain available for obligation for periods specified in the Acts making the appropriations. (b) To the extent that the total amount appropriated to carry out program activities specified in this Act is less than the total amount authorized to be appropriated for such activities under this Act, all such authorized amounts for such activities or their subactivities shall be reduced proportionally.
4	TRANSFERS AUTHORIZED Sec. 6. (a) Funds may be transferred among the categories listed in section 2(a), so long as the net funds transferred to or from any category do not exceed 10 percent of the amount authorized for that category in section 2. (b) The Director of the National Science Foundation may propose transfers to or from any category exceeding 10 percent of the amount authorized for that category in section 2. An explanation of any such proposed transfer must be transmitted in writing to the Speaker of the House of Representatives, the President of the Senate, the Committees on Labor and Human Resources and Commerce, Science, and Transportation of the Senate, and the Committee on Science and Technology of the House of Representatives. The proposed transfer may be made only when 30 calendar days have passed after submission of the written explanation.

- (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) Some authorizations measures establish floors for particular programs or organizational units covered in more general authorizations.
- (3) 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.
- (4) Earmarked authorizations are sometimes 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" (see Exhibit 10-G).

EXHIBIT 7-G
Borrowing and Contract Authority

Borrowing Authority

- 2 — "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

- 3 — "(2) There shall be available from the Mass Transit Account of the Highway Trust Fund only to carry out sections 3, 4(i), 8, and 16(b) of this Act \$1,097,000,000 for the fiscal year 1987, and \$1,000,000,000 for each of fiscal years 1988 through 1991, to remain available until expended.

"(b) SECTIONS 3 AND 9B.—In addition to the amounts set forth in subsection (a)(2), to carry out sections 3 and 9B of this Act, there shall be available from the Mass Transit Account of the Highway Trust Fund for each of fiscal years 1988 through 1991—

- "(1) \$200,000,000 for fiscal year 1988;
- "(2) \$250,000,000 for fiscal year 1989;
- "(3) \$300,000,000 for fiscal year 1990; and
- "(4) \$400,000,000 for fiscal year 1991;

to remain available until expended.

* * * * *

"(2) Notwithstanding any other provision of law, approval by the Secretary of a grant with funds made available under subsections (a)(2) and (b) of this section shall be deemed a contractual obligation of the United States for payment of the Federal share of the cost of the project.

4

- (1) Borrowing and contract authority are commonly referred to as "backdoor spending." Other types of backdoor spending are entitlement authority (see the next exhibit) and authority to forego the collection of offsetting proprietary receipts. The various types of backdoor spending are defined in Section 401(c) of the Congressional Budget Act of 1974 as "spending authority."
- (2) Borrowing authority permits an agency (such as the Panama Canal Commission) to borrow funds from the Department of the Treasury 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 Congressional Budget Act of 1974 requires that new borrowing authority be effective only to the extent provided in appropriations acts.
- (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.
- (4) Contract authority permits an agency to incur obligations in advance of appropriations. The Congressional Budget Act of 1974 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.

EXHIBIT 7-H
Entitlement Authority

Permanent Appropriation

§ 8348. Civil Service Retirement and Disability Fund

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

- 3 — (1) is appropriated for the payment of—
- (A) benefits as provided by this subchapter; and
- (B) administrative expenses incurred by the Office of Personnel Management in placing in effect each annuity adjustment granted under section 8340 of this title; and
- 4 — (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 and other retirement and annuity statutes.

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, and section 279(d) of Public Law 97-248, \$35,335,000,000.

- (1) The Congressional Budget Act of 1974 defines entitlement authority as authority "to make payments (including loans and grants), the budget authority for which is not provided for in advance by appropriation Acts, to any person or government if, under the provisions of law containing such authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by such law."
- (2) Some entitlements are funded by permanent appropriations and others are funded by annual appropriations.
- (3) This 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.
- (4) Congress sometimes limits (in annual appropriations acts) the administrative expenses that can be incurred in a fiscal year for programs financed by permanent appropriations.
- (5) This entitlement (for a portion of the Medicare program) is financed by annual appropriations. Although the Congressional Budget Act of 1974 gives the Appropriations Committees some limited review of new entitlement legislation, these committees regularly provide the funds mandated by law.
- (6) The BEA of 1990 established a pay-as-you-go (PAYGO) process that controls the impact of new entitlement legislation on the deficit. Both permanent and annually appropriated entitlements are covered by the PAYGO process (see Chapter 5).

Chapter 8. THE APPROPRIATIONS PROCESS

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 legislation. Appropriations are a principal, but not the only, means of providing budget authority. As discussed in the preceding chapter, budget authority sometimes is provided in substantive legislation authorizing an agency to incur obligations.

The power of appropriation derives from the Constitution which provides that "No 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 Chapter 7 and is reflected in Rule XXI of the House and Rule XVI of the Senate, which deal with "general appropriation bills." **Exhibit 8-A** presents excerpts from House Rule XXI and Senate Rule XVI. As previously noted, these rules establish a two-step authorizations-appropriations process.

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 provide budget authority to agencies for the next fiscal year. *Supplemental* appropriations 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 provide stop-gap (or full-year) funding for agencies that have not received a regular appropriation by the start of the fiscal year. **Exhibit 8-B** 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 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 or Senate Appropriations Committees sometimes consolidates 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 GRH 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.

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 less than half 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 be tracked in legislative databases until that point. **Exhibit 8-C** 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 BEA of 1990 and the allocations made to them under Sections 302 or 602 of the Congressional Budget Act of 1974. The discretionary spending limits (which are more fully discussed in Chapter 5) set limits on budget authority and outlays for three categories (defense, international, and domestic spending) for fiscal years 1991-1993 and on total budget authority and outlays for fiscal years 1994 and 1995. 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 or 602 of the Congressional Budget Act of 1974 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 subdivisions of the relevant subcommittee. (Section 302 sets forth a permanent process for making these allocations and subdivisions; Section 602, established by the BEA and in effect only through fiscal year 1995, supersedes the Section 302 process during this period and modifies it, mainly by requiring that allocations and subdivisions be made for both the first fiscal year and the sum of all five fiscal years covered by the budget resolution.)

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. As shown in **Exhibit 8-D**, the justification concentrates on spending changes between the two years.

The subcommittees are generally quite influential, and it is not uncommon for the full Appropriations Committee to report the bill prepared for it 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 8-E 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" through the Rules Committee. Nevertheless, most appropriations measures do come to the House under a rule (in the form of a resolution) waiving one or more of the standing rules, such as the rule against unauthorized appropriations. The House first adopts the special rule (see **Exhibit 8-F**), then it takes up the appropriations bill.

When it considers an appropriations measure, the House is provided a comparison of the budget authority and outlays in the bill to the appropriate subdivision under Section 302(b) (or Section 602(b)). **Exhibit 8-G** shows one such comparison. 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 8-H**.

The Senate usually considers appropriations measures after they have been passed by the House. The sequence of Senate actions is outlined in **Exhibit 8-I**. Hearings in the Senate Appropriations subcommittees generally are not as extensive as those held by counterpart subcommittees in the House. 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 8-J**). The conference to resolve differences in the measures passed by the two chambers considers each of the numbered amendments (see **Exhibit 8-K**). Congressional action on a measure is not complete until both the House and Senate have successfully disposed of all numbered amendments.

Continuing Appropriations

Continuing appropriations measures (often called continuing resolutions) have become increasingly important during the past decade and their scope has become much broader than was the case in earlier decades. 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 8-L** 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 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 8-M, 8-N, and 8-O.

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 8-P** 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 8-Q** offers examples of provisions in appropriations acts that limit the amount of resources provided.

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 8-R**) 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 10. 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 8-S and 8-T**). 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. In recent years, these instructions have tended to become more numerous and specific.

EXHIBIT 8-A

Appropriations Jurisdiction: House and Senate Rules

House Rule XXI

§ Adds. Restrictions of power to report appropriations.
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

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 the 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.

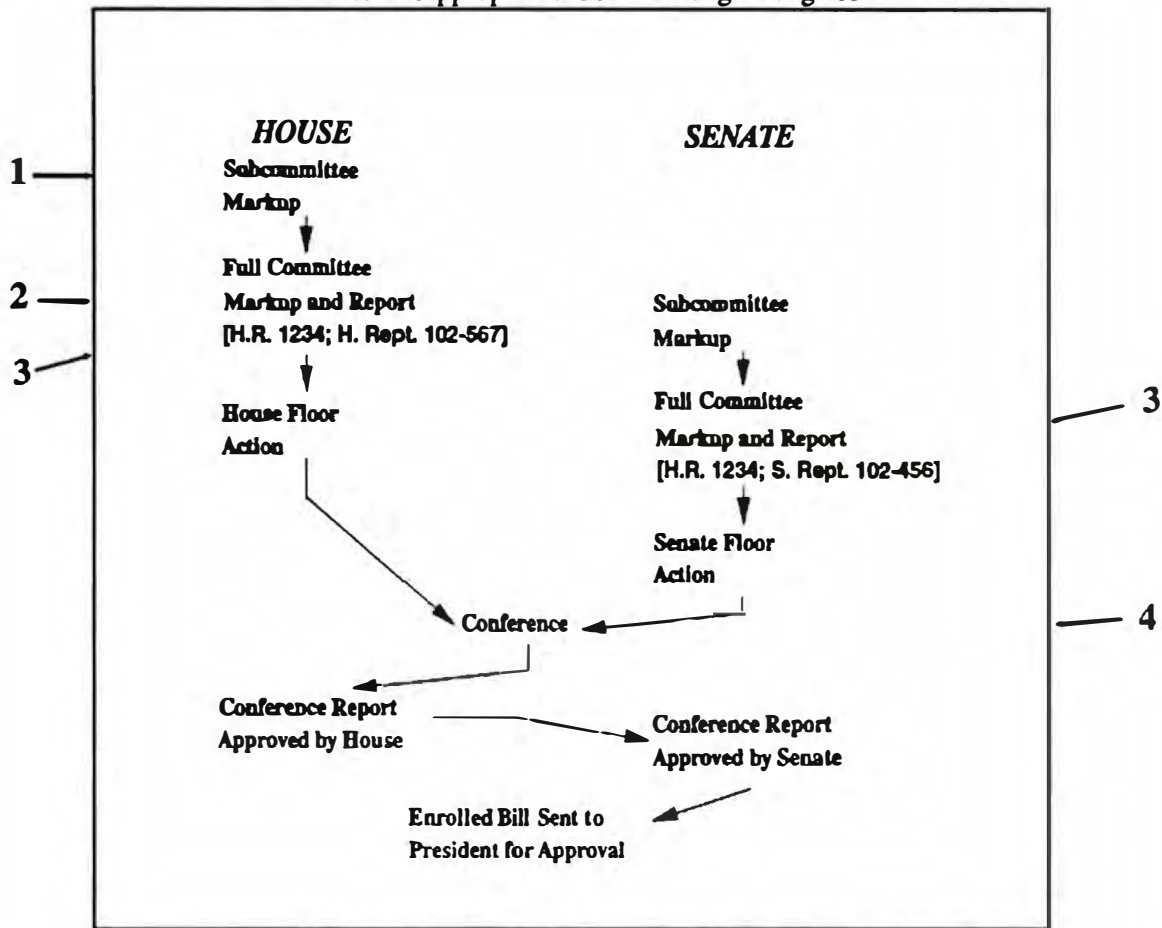
- (1) The two clauses exhibited here are parts of House and Senate rules delineating the proper scope of authorizing legislation and appropriations measures. They should be read in tandem with Exhibits 7-A and 7-B in the previous chapter.
- (2) Clause 5(a) appropriations in authorizing legislation. It is sometimes waived by the House to permit the inclusion of permanent appropriations in authorizing legislation.
- (3) The Senate may insert legislation deemed to be germane to the House-passed appropriations bill. When a point of order is made that a provision is legislation in an appropriations bill, the Senate usually votes on whether the matter is germane. If the Senate determines that the provision is germane, the point of order falls.

EXHIBIT 8-B Types of Appropriations Measures

Number of bill	Title	Reported	Passed House	Passed Senate
APPROPRIATION BILLS				
H.R. 4404	Dis. Emergency Supplemental, 1990 (H. Rept. 101-434)	Mar. 27	Apr. 3	May 1
H.R. 5019	Energy and Water, 1991 (H. Rept. 101-636)	June 13	June 19	Aug. 2
H.R. 5021	Commerce, Justice, State, Judiciary, 1991 (H. Rept. 101-537)	June 13	June 26	Oct. 11
H.R. 5114	Foreign Assistance, 1991 (H. Rept. 101-658)	June 21	June 27	Oct. 24
H.R. 5158	VA. HUD, 1991 (H. Rept. 101-656)	June 26	June 28	Oct. 3
H.R. 5229	Transportation, 1991 (H. Rept. 101-584)	July 10	July 12	Aug. 4
H.R. 5241	Treasury, Postal, 1991 (H. Rept. 101-589)	July 11	July 18	Sept. 11
H.R. 5257	Labor, Health, Human Services, Education, 1991 (H. Rept. 101-691)	July 12	July 19	Oct. 12
H.R. 5268	Agriculture, 1991 (H. Rept. 101-598)	July 13	July 18	Sept. 25
H.R. 5311	District of Columbia, 1991 (H. Rept. 101-607)	July 19	July 26	Sept. 18
H.R. 5313	Military Construction, 1991 (H. Rept. 101-606)	July 19	July 30	Oct. 1
H.R. 5399	Legislative Branch, 1991 (H. Rept. 101-648)	July 30	Oct. 21	Oct. 25
H.J. Res. 655	Continuing, 1991 (H. Rept. 101-754)	Sept. 25	Sept. 30	Sept. 30
H.R. 5769	Interior, 1991 (H. Rept. 101-783)	Oct. 2	Oct. 15	Oct. 24
H.J. Res. 660	Continuing, further, 1991		Oct. 5	Oct. 5
H.J. Res. 664	Continuing, further, 1991		Oct. 8	Oct. 8
H.R. 5803	Defense, 1991 (H. Rept. 101-822)	Oct. 9	Oct. 12	Oct. 15
H.J. Res. 677	Continuing, further, 1991		Oct. 18	Oct. 19
H.J. Res. 681	Continuing, further, 1991		Oct. 24	Oct. 24
H.J. Res. 687	Continuing, further, 1991		Oct. 27	Oct. 27

- (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 at the start of the fiscal year.
- (2) Each appropriation 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 does not initiate its own appropriations measures.
- (3) There is no significant 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. In this session, Senate action was delayed pending final action on a summit agreement with the Administration.
- (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.

EXHIBIT 8-C
Path of an Appropriations Act Through Congress



- (1) Appropriations bills originate in the House, but Senate Appropriations hearings (and sometimes mark-ups as well) may coincide with House action.
- (2) An appropriations bill is given an "H.R." number when the full House Committee is about to report it. This number carries over to Senate action on the bill.
- (3) The reports accompanying appropriations bills are usually drafted by the relevant subcommittees, but it is only the full committee that reports the measure.
- (4) 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).

EXHIBIT 8-D Agency Justifications of Appropriations Requests

OFFICE OF INSPECTOR GENERAL, SALARIES AND EXPENSES (Dollars in thousands)					
			Perm. Pos.		Amount
1989 obligations.....			296		\$9,376
Department of Justice Appropriations Act, 1990.....			296		20,673
1990 sequestration.....			...		-132
1990 appropriation anticipated.....			296		20,541
Mandatory increases (see p. 12).....			...		1,617
Decreases for the Federal Telecommunications System...			...		-18
1991 base.....			296		22,140
Program changes (detailed below).....			84		\$6,242
1991 estimate.....			380		28,382

Comparison by activity and program	1991 Base		1991 Estimate		Inc./Dec.	
	Perm. Pos.	Amount	Perm. Pos.	Amount	Perm. Pos.	Amount
1. Office of Inspector General...	296	\$22,140	380	\$28,382	84	\$6,242

Program changes	Perm. Pos.	Amount
Office of Inspector General.....	84	\$6,242

This program increase is requested to meet critical investigation and audit workload requirements in 1991 and to provide resources for senior policy and administrative support activities.

Specifically, an increase of 20 positions and \$1,085,000 is requested for the Audit functions. With current resources, the Office of Inspector General (OIG) has been able to perform 26 major internal audits. With the requested increase, an additional eight to ten audits can be performed annually.

- (1) Each agency requesting appropriations submits detailed "justifications" to the Appropriations subcommittees with jurisdiction over its budget (which usually are published as part of the Committee's hearings). In this example, which deals with a request for fiscal year 1991 of \$28.4 million for the Office of Inspector General, the agency also lists the amounts sequestered in prior-year appropriations as well as mandatory increases for the next fiscal year.
- (2) Each subcommittee prescribes the form and content of the material submitted to it, but it is common to show the appropriation for the current fiscal year, the amounts requested for the next fiscal year, and the amounts of increase or decrease from year to year. In this example, the increases in the fiscal year 1991 request are shown as changes from fiscal year 1991 baseline estimates.
- (3) The justifications typically list the number of permanent positions (or full-time equivalents (FTE)) and explain any requested changes in staffing levels.
- (4) The narrative justification usually focuses on requested changes in the level of funding and in the number of positions. As is the case here, the request usually is higher than the current year's appropriation.

EXHIBIT 8-E
Sequence of House Actions on Appropriations Measures

• ***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 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, because 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)/602(b) subdivision.

• ***Amendments***

Regular appropriations bills are usually 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.

• ***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 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 8-F Special Rules on Appropriations Bills

H. Res. 221

1 — *Resolved*, That during the consideration of the bill (H.R. 3015) making appropriations for the Department of Transportation and related agencies for the fiscal year ending September 30, 1990, and for other purposes, all points of order against the following provisions of the bill for failure to comply with the provisions of clause 3 of rule XXI are hereby waived: Beginning on page 5, line 8 through "expended:" on page 5, line 12; beginning on page 6, line 8 through page 9, line 19; beginning on page 11, line 2 through "appropriation:" on page 12, line 4; beginning with "Provided" on page 12, line 10 through page 12, line 25; beginning on page 14, line 14 through page 16, line 10; beginning on page 20, lines 11 through 18; beginning on page 22, line 10 through page 26, line 12; beginning on page 28, lines 15 through 21; beginning on page 30, line 1 through page 33, line 16; beginning on page 34, lines 1 through 16; beginning on page 38, lines 3 through 12; beginning on page 40, line 16 through page 41, line 10; beginning on page 44, lines 3 through 9; beginning on page 44, line 18 through page 48, line 7; beginning on page 48, line 15 through page 49, line 7; beginning on page 50, line 1 through page 53, line 5; beginning on page 53, lines 17 through 25; and beginning on page 54, line 6 through page 55, line 9; and all points of order against the following provision of the bill for failure to comply with the provisions of clause 6 of rule XXI are hereby waived: Beginning on page 11, line 2 through page 12, line 25. In any case where this resolution waives points of order against only a portion of a paragraph, a point of order against any other provision in such paragraph may be made only against such provision and not against the entire paragraph.

2 —

3 —

- (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. 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 Congressional Budget Act of 1974 (unlike the bill referred to in Exhibits 4-H and 4-I), but it did violate House Rule XXI, which, among other things, bars unauthorized appropriations and legislation in appropriations bills. The rule exhibited here waived points of order.
- (3) Note that the waivers pertain to particular portions of the appropriations bill, not to the entire measure. Selective waivers do not protect the entire bill -- only the designated portions -- nor do they protect any floor amendments (although floor amendments sometimes are expressly protected by the rule).

EXHIBIT 8-G
Section 302(b)/Section 602(b) Statements

1 — **Mr. PANETTA.** Mr. Chairman, I rise in support of H.R. 2622, the Treasury, Postal Service, and General Government appropriations bill for fiscal year 1992. This is the seventh of the 13 annual appropriations bills to be considered by the House.

Mr. Chairman, I want to commend the chairman of the subcommittee and the ranking member, both of whom did a very good job in adhering to the limits that were established by both the budget agreement and the budget resolution.

3 — The bill provides \$10.75 billion in discretionary budget authority, and \$11.093 billion in discretionary outlays, which is identical to the level of domestic discretionary budget authority and \$7 billion below the domestic discretionary outlays as set by the 602(b) spending subdivision for this subcommittee.

COMPARISON TO THE 602(B) SUBDIVISION

The bill, as reported, provides \$10,750 million of discretionary budget authority, the same as the Appropriations 602(b) subdivision for this subcommittee. The bill is \$7 million under the subdivision total for estimated discretionary outlays. A comparison of the bill with the funding subdivisions follows:

COMPARISON TO DOMESTIC SPENDING ALLOCATION

(in millions of dollars)

	Treasury, Postal Service and General Government appropriations bill		Appropriations Committee 602(b) subdivision		Bill over (+)/under (-) committee 602(b) subdivision	
	BA	O	BA	O	BA	O
Discretionary	10,750	11,093	10,750	11,100		-7
Mandatory *	8,837	8,839	8,837	8,839		
Total	19,587	20,932	19,587	20,939		-7

* Conforms to the Budget Resolution estimates for existing law.
 BA—New budget authority, O—Estimated outlays.

- (1) During general debate on each appropriations bill (or during consideration of the rule on the bill), the Chairman of the House Budget Committee provides a comparison of the amounts in the bill and the Section 302(b)/602(b) subdivisions. The statement indicates whether the budget authority and outlays in the bill adhere to the Section 302(b)/602(b) subdivision. As shown here, the statement usually reports that the amounts in a regular appropriations bill are within the subdivisions. A point of order may be raised (unless waived) against an appropriations measure that would cause budget authority or outlays to exceed the subdivided amounts.
- (2) The Appropriations Committees typically use almost all of the budget authority and outlays available under the Section 302/602 process.
- (3) The distinction between discretionary and mandatory spending conforms to the categories established for fiscal years 1991-1993 by the BEA.

EXHIBIT 8-H Statement of Administration Policy

STATEMENT OF ADMINISTRATION POLICY

The Administration continues to oppose Congressional action on appropriations bills in advance of a budget summit agreement. Such action could unnecessarily and perhaps harmfully complicate implementation of a final budget resolution that reflects the agreement. However, inasmuch as the House is apparently going to take action, the Administration will express its views on these bills as they come before Congress. The purpose of this Statement of Administration Policy is to express views on the Department of the Treasury, Postal Service, and General Government Appropriations Bill, FY 1991, as reported by the Committee.

It is the Administration's understanding that a point of order may be raised on the floor to strike funding for the Office of Management and Budget (OMB) in part or in whole in order to eliminate funding for the Office of Information and Regulatory Affairs (OIRA). The Administration is currently engaged in negotiations with the authorizing committee, and, therefore, it would not be appropriate to eliminate funding for OIRA and at this time. Should the House pass the bill without OIRA funding, the President's senior advisors would have no alternative but to recommend a veto of this bill. The House is urged not to allow such an action to result in a veto recommendation for an otherwise generally acceptable bill.

The Administration supports the overall funding level in this bill as reported by the Committee but has concerns about several specific provisions in the bill.

The Committee has included a provision that the Administration believes is a "gimmick" designed to reduce FY 1991 outlays. This provision would prohibit the Internal Revenue Service (IRS) from obligating any funds for its critical Tax System Modernization program until the last day of the fiscal year. If the bill were enacted with this provision, it would effectively delay development of crucial upgrades to our tax processing capability for six to twelve months. It would require layoffs of roughly 863 highly skilled systems personnel working on this project. Furthermore, the provision would raise program costs to defer higher revenue yields, staff savings, and taxpayer service improvements expected from this program. The House is urged to delete this provision.

The President's Budget requested a 3.5 percent pay increase for Federal civilian employees, effective January 1, 1991. However, section 418 of the Committee bill provides for a 4.1 percent pay increase. At a time of fiscal constraint, the Administration believes that such an increase is inadvisable.

- (1) A Statement of Administration Policy (SAP) is issued for each of the 13 regular appropriations bills, as well as for supplemental and continuing appropriations, at each stage of congressional action. The SAP usually takes the form of a letter from the Director of OMB to congressional and Appropriations Committee leaders. The SAP sometimes is inserted into the *Congressional Record* and may be accompanied by a detailed attachment.
- (2) The SAP typically enumerates Administration objections to provisions in the appropriations bill. The objectionable items may include funding increases above the President's request, restrictions placed on the use of the funds, other limitations or legislative provisions inserted in the bill, or other variances between congressional and executive priorities.
- (3) The SAP rarely states that the 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 extent to which the Administration objects to certain provisions.

EXHIBIT 8-1

Sequence of Senate Action on Appropriations Measures

- ***Waiver Motion (if necessary)***

The Congressional Budget Act of 1974 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, by the adoption of a waiver motion, and, in the case of a violation of Section 303(a) of the Act (which bars consideration of revenue and spending measures before the budget resolution has been adopted), by the adoption of a special Senate resolution. While the GRH Act is in effect, many of these prohibitions may be waived only by the affirmative vote of three-fifths of the membership.

- ***Time Limitation Agreement***

Major legislation in the Senate often is considered under a time limitation agreement (sometimes referred to as a unanimous consent agreement) which sets aside an amount of time for consideration of the measure and any amendments. The time limitation agreement usually is propounded by the Majority Leader and agreed to by unanimous consent.

- ***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, not to authorizing legislation.

- ***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 8-J
Numbered Senate Amendments

	3	PROCESSING TAX RETURNS AND ASSISTANCE	
	4	For necessary expenses of the Internal Revenue Serv-	
	5	ice, not otherwise provided for; including processing tax re-	
	6	turns; revenue accounting; statistics of income; providing as-	
	7	sistance to taxpayers; (24) establishing and operating an	3
	8	ongoing training program for IRS employees under which	
	9	employees will be provided with training and information de-	
2	10	signed to curtail employee mistreatment of taxpayers; and	
	11	hire of passenger motor vehicles (31 U.S.C. 1343(b)); and	
	12	services as authorized by 5 U.S.C. 3109, at such rates as	
	13	may be determined by the Commissioner;	
	14	(25) \$1,444,517,000 <i>\$1,521,595,000</i> , of which \$3,000,000	4
	15	shall be for the Tax Counseling for the Elderly Program, no	
	16	amount of which shall be available for IRS administrative	
	17	costs.	

- (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 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.

EXHIBIT 8-K
Conference Action on Appropriations Measures

CONFERENCE REPORT

[To accompany H.R. 5241]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 5241) making appropriations for the Treasury Department, the United States Postal Service, the Executive Office of the President, and certain Independent Agencies, for the fiscal year ending September 30, 1991, 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, 5, 8, 15, 17, 21, 30, 32, 47, 55, 58, 61, 62, 63, 64, 65, 66, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 102, 104, 106, 107, 108, 109, 110, 111, 118, 119, 120, 121, 123, 124, 125, 126, and 129.

That the House recede from its disagreement to the amendments of the Senate numbered 2, 9, 13, 22, 23, 24, 25, 31, 34, 37, 43, 44, 50, 67, and 68, and agree to the same.

Amendment numbered 7:

That the House recede from its disagreement to the amendment of the Senate numbered 7, and agree to the same with an amendment, as follows:

In lieu of the sum proposed by said amendment insert **\$20,775,000**; and the Senate agree to the same.

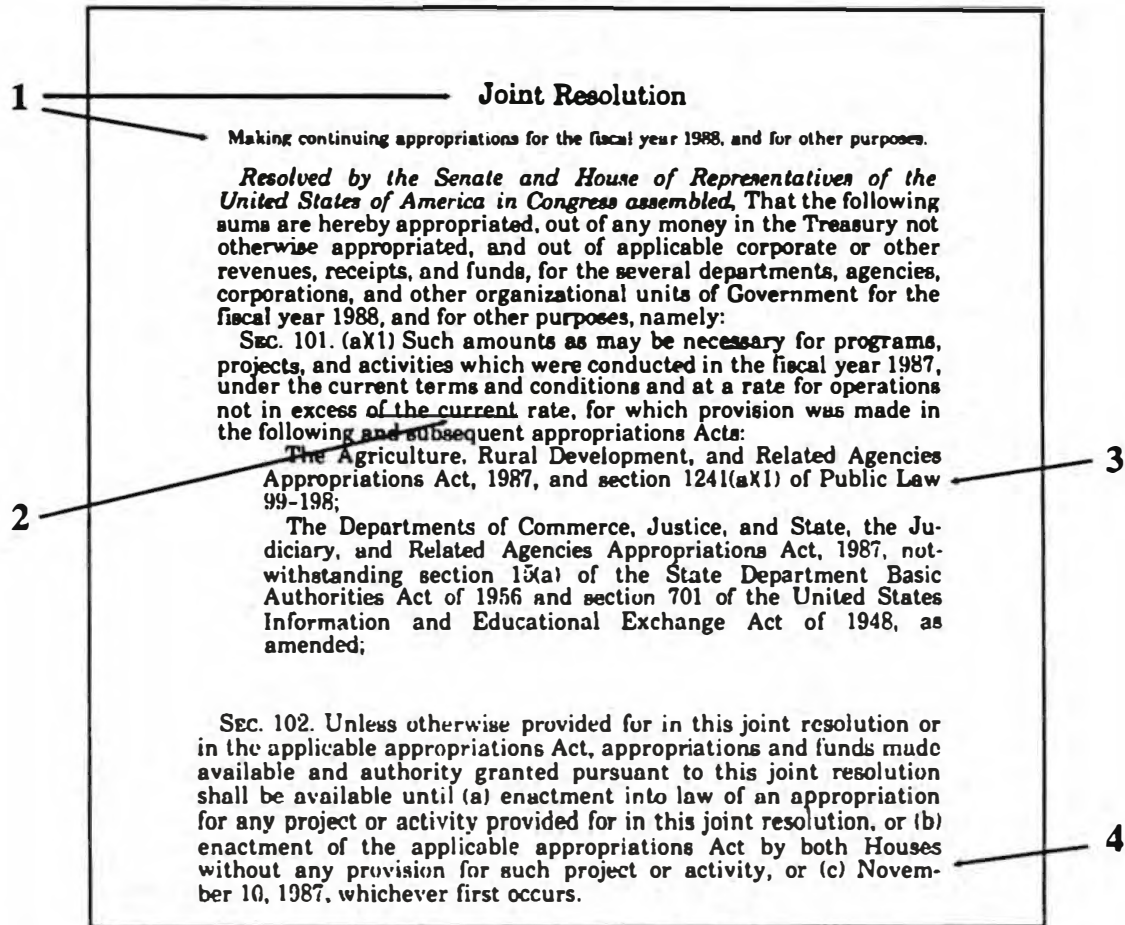
Amendment numbered 10:

That the House recede from its disagreement to the amendment of the Senate numbered 10, and agree to the same with an amendment, as follows:

In lieu of the sum proposed by said amendment insert **\$101,854,000**; and the Senate agree to the same.

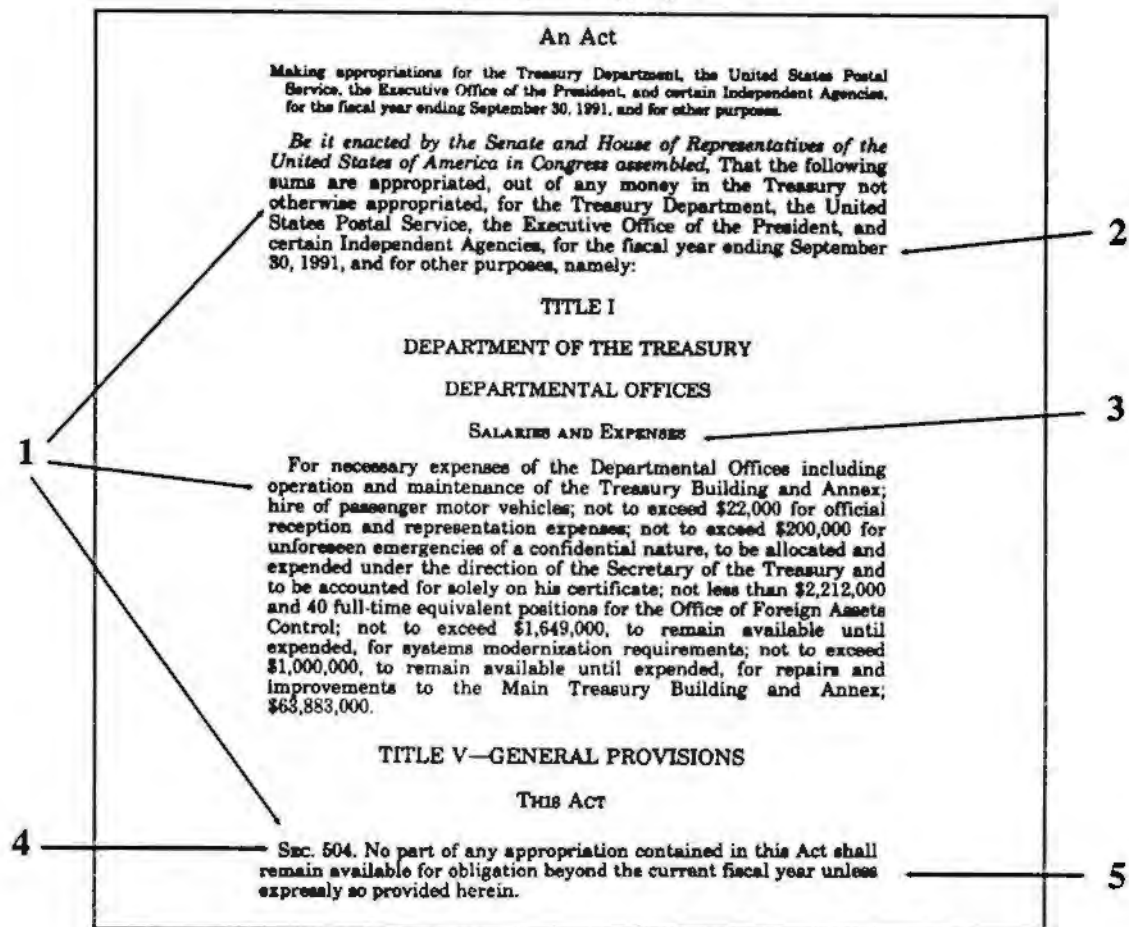
- (1) The numbered amendments referenced in the conference reports are the changes made by the Senate (in the committee or on the floor) in the amount or language of the House-passed appropriations measure. These amendments are numbered consecutively and appear in the version of the measure as passed 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 measure. The Senate-passed version 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, 5, 8 in the exhibit), adopting the Senate amendments (for example, amendments numbered 2, 9, 13), or revising the amendments with further amendments that constitute compromises (for example, amendments numbered 7 and 10).
- (4) Congressional action on a measure is not complete until both the House and Senate have successfully disposed of all numbered amendments.

EXHIBIT 8-L Continuing Appropriations



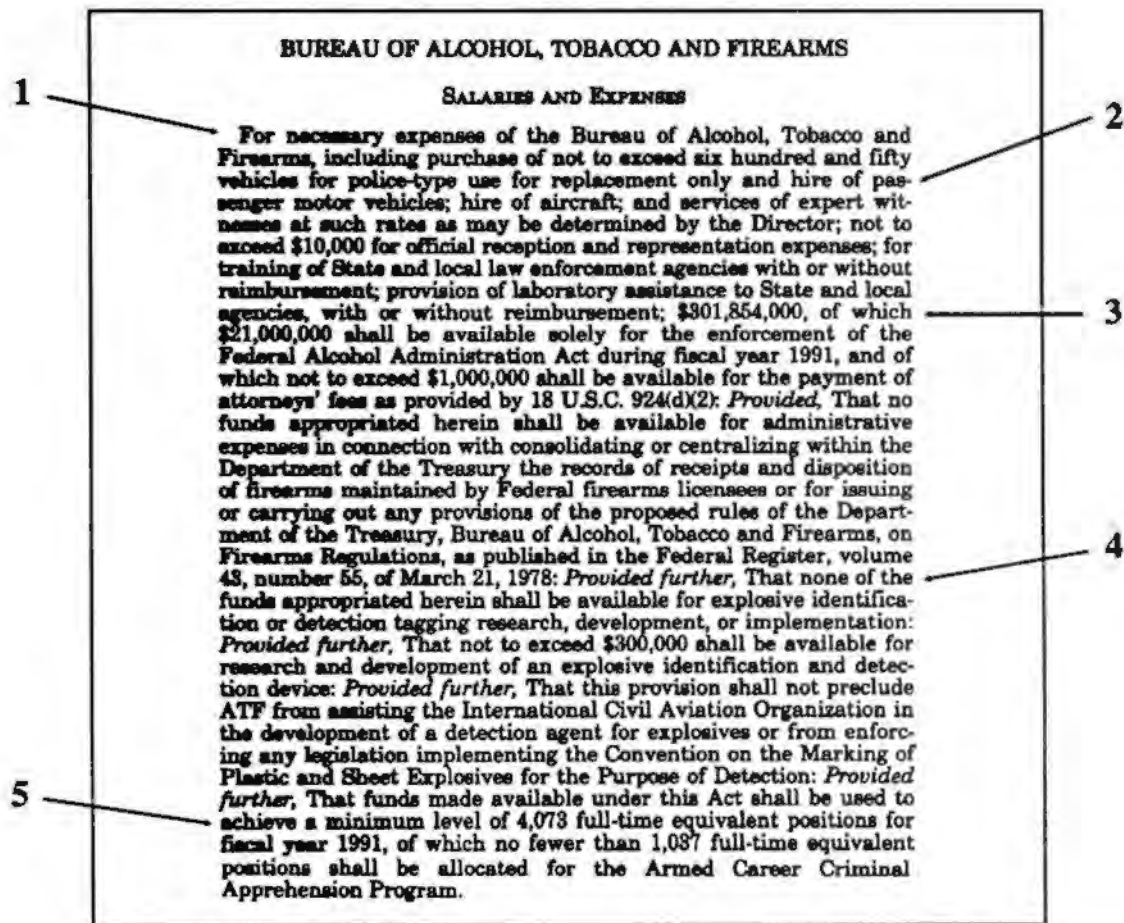
- (1) A continuing appropriation (often referred to as a "continuing resolution") is made for agencies that have not received their regular appropriation by the start of the fiscal year. It has the same legal effect as a regular appropriation, except that it may be in effect for only part of the fiscal year.
- (2) Although this provision specifies that continuing activities are to be funded at the "current rate," other provisions in the continuing resolution may set a different funding level for particular programs or accounts.
- (3) The continuing resolution specifies the regular appropriations measures covered by the resolution.
- (4) The continuing resolution is superseded by enactment of the regular appropriations bills. In this case, the continuing resolution expired on November 10. None of the regular appropriations bills were enacted separately that year, necessitating the enactment of three additional continuing resolutions (the last one was effective through the remainder of the fiscal year).

EXHIBIT 8-M
Structure of a Regular Appropriations Act



- (1) An appropriation act has three main components: (a) the enacting clause, (b) appropriations to specified accounts, and (c) general provisions.
- (2) The enacting clause specifies the fiscal year for which the appropriations are made. Unless otherwise stipulated, all funds in the act are available for obligation only in that fiscal year.
- (3) Each unnumbered paragraph is a separate appropriation account. Provisions in this paragraph pertain only to this account. Funds may be transferred between accounts only with the approval of Congress.
- (4) 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. In this case, Title V contains general provisions that apply to the entire act; the Treasury-Postal Service appropriations act also has general provisions that apply Government-wide.
- (5) Section 504 was inserted in this act to ensure that the funds would be available for obligation only during a single fiscal year, unless otherwise provided in the act. **Exhibit 8-P** contains examples of accounts for which the funds are expressly made available for a period beyond the fiscal year.

EXHIBIT 8-N
Structure of an Appropriations Account



- (1) This entire paragraph comprises a single appropriations 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. Many accounts identify the authorizing laws pertaining to the appropriation.
- (3) The next part of the paragraph states the amount(s) provided. Virtually all appropriations are for definite amounts. Note that a lump sum is provided for the entire account. The committee reports accompanying the appropriation, justification material submitted by the agency, and other budget documents specify the particular projects and activities for which the funds are provided (see Exhibits 8-D and 8-S).
- (4) The next part of the paragraph consists of one or more provisos which limit the use of appropriated funds. Some provisos provide legislative authority for spending the appropriations.
- (5) The final part of the paragraph sets a minimum personnel level.

EXHIBIT 8-O
Other Types of Appropriations Accounts

1 — **Liquidation of Contract Authorization**

Highway Trust Fund

For payment of obligations incurred in carrying out the provisions of title 23, United States Code, section 402, administered by the Federal Highway Administration, to remain available until expended, \$9,405,000, to be derived from the Highway Trust Fund:

2 — **Transfer**

Department of Defense

Sec. 9059. Notwithstanding any other provision of law, during fiscal year 1990, the Secretary of Defense shall make available to the United States Coast Guard without reimbursement not less than \$140,000,000 in supplies, fuel, training assistance, medical support, and other operational support, exclusive of administrative costs; and from funds made available in this Act, \$160,000,000 shall be transferred to Coast Guard "Operating Expenses".

3 — **Offsetting Collections**

Copyright Office

For necessary expenses of the Copyright Office, including publication of the decisions of the United States courts involving copyrights, \$20,373,000, of which not more than \$7,000,000 shall be derived from collections credited to this appropriation during fiscal year 1990 under 17 U.S.C. 708(c), and not more than \$1,139,000 shall be derived from collections during fiscal year 1990 under 17 U.S.C. 111(d)(3), 116(c)(1) and 119(b)(2): *Provided*, That the total amount available for obligation shall be reduced by the amount by which collections are less than the \$8,139,000:

- (1) This is a "liquidating appropriation"; it does not provide new budget authority; rather, it pays off (liquidates) an existing contractual obligation. In this case, budget authority was provided by legislation which authorized the contractual obligation (See Exhibit 7-G for a discussion of contract authority.)
- (2) This provision directs the Defense Department to transfer material and funds to the Coast Guard. When funds are transferred, the budget authority is provided to one account but used by another. Any rules or restrictions pertaining to the account to which the funds are transferred also apply to the transferred funds.
- (3) Appropriations language sometimes provides for offsetting collections to be credited to a particular account, thereby adding to the resources that may be obligated for that account. In this exhibit, more than \$20 million is made available to the Copyright Office for fiscal year 1990, including an appropriation of about \$12 million and offsetting collections of about \$8 million.

EXHIBIT 8-P
Availability of Funds

2	<u>One-Year</u> BUREAU OF THE CENSUS SALARIES AND EXPENSES For expenses necessary for collecting, compiling, analyzing, preparing, and publishing statistics, provided for by law, \$101,288,000.
	<u>Multi-Year</u> FAMILY HOUSING, DEFENSE AGENCIES For expenses of family housing for the activities and agencies of the Department of Defense (other than the military departments) for construction, including acquisition, replacement, addition, expansion, extension and alteration and for operation and maintenance, leasing, and minor construction, as authorized by law, as follows: for Construction, \$600,000; for Operation and maintenance, \$20,700,000; in all \$21,300,000: <i>Provided</i>, That the amount provided for construction shall remain available until September 30, 1994.
	<u>No-Year</u> HOMEOWNERS ASSISTANCE FUND, DEFENSE For use in the Homeowners Assistance Fund established pursuant to section 1013(d) of the Demonstration Cities and Metropolitan Development Act of 1966 (Public Law 89-754, as amended), \$5,100,000, 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, multiyear, and no-year appropriations. Other variants include appropriations that become available during only a portion of the fiscal year for which they have been provided, or that become available in advance of the fiscal year for which they were made.
- (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) This provision in a fiscal year 1990 appropriations act extends the availability of funds through fiscal year 1994 -- 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 fiscal year 1990. In an appropriations act, the term "available" refers to obligation, not outlays.
- (4) The phrase "to remain available until expended" provides a "no-year" appropriations which does not have to be obligated in a particular fiscal year. The availability of these funds carries over into subsequent fiscal years, even if they have not been obligated.

EXHIBIT 8-Q
Limitations on Amount

	<u>Obligations</u>	
	<u>Highway Trust Fund</u>	
1	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 \$12,260,000,000 for Federal-aid highways and highway safety construction programs for fiscal year 1990.	
	<u>Credit Activity</u>	
	<u>OPIC</u>	
2	During the fiscal year 1990 and within the resources and authority available, gross obligations for the amount of direct loans shall not exceed \$20,000,000.	
	During the fiscal year 1990, total commitments to guarantee loans shall not exceed \$215,000,000 of contingent liability for loan principal: <i>Provided</i> , That not less than \$40,000,000 of such amount shall be used for projects for Poland, notwithstanding any other provision of law.	3
	<u>Administrative Expenses</u>	
	<u>Social Security</u>	
	LIMITATION ON ADMINISTRATIVE EXPENSES	
4	For necessary expenses, not more than \$3,837,389,000 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) This provision establishes an "obligations 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) This provision limits the amount of direct loans that can be obligated during the fiscal year. The limitation is on obligations -- not on the loans actually made during the fiscal year.
- (3) This provision limits the amount of guaranteed loan commitments that may be made during the year. The proviso in this paragraph earmarks a portion of the loan guarantees to Poland.
- (4) The budget authority in this account 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.

EXHIBIT 8-R
Limitations on Purpose of Expenditure

MILITARY PERSONNEL, AIR FORCE

For pay, allowances, individual clothing, subsistence, interest on deposits, gratuities, permanent change of station travel (including all expenses thereof for organizational movements), and expenses of temporary duty travel between permanent duty stations, for members of the Air Force on active duty (except members of reserve components provided for elsewhere), cadets, and aviation cadets; and for payments pursuant to section 156 of Public Law 97-877, as amended (42 U.S.C. 402 note), to section 229(b) of the Social Security Act (42 U.S.C. 429(b)), and to the Department of Defense Military Retirement Fund; \$19,994,040,000: *Provided*, That none of the funds provided in this account and in "Operation and Maintenance, Air Force" may support the continuation of the B-52G Squadron of the 43rd Bomb Wing after June 15, 1990.

* * * * *

SEC. 9071. None of the funds available to the Department of Defense, including expired appropriations and M account balances, may be used for the B-1B's ALQ-161A CORE program unless the Secretary of Defense has notified the Congress in advance of his intention to use funds for such purpose: *Provided*, That no funds available to the Department of Defense may be used for research, development, test, evaluation, installation, integration, or procurement of an advanced radar warning receiver for the E-1B.

* * * * *

SEC. 9090. None of the funds appropriated by this or any other Act with respect to any fiscal year for the Navy may be used to carry out an electromagnetic pulse program in the Chesapeake Bay area in connection with the Electromagnetic Pulse Radiation Environment Simulator for Ships (EMPRESS II) program unless or until the Secretary of Defense certifies to the Congress that conduct of the EMPRESS II program is essential to the national security of the United States and to achieving requisite military capability for United States naval vessels,

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- (1) Although legislation is barred in general appropriations bills, it is an established principle that "limitations," which preclude any use of the funds for certain purposes, may be included in them. The typical limitation begins with the phrase, "provided, 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.
- (3) This limitation appears in the "General Provisions" section at the end of an appropriations act. Such a limitation normally would cover all the accounts in that act. The limitation presented here is broader yet; it applies to any funds -- regardless of their source -- available to the Department of Defense.
- (4) This limitation pertains to funds provided in any act, but it may be suspended under certain prescribed conditions.

EXHIBIT 8-S
Committee Report: Account and Program Amounts

RURAL DEVELOPMENT GRANTS	
1991 appropriation.....	\$20,750,000
1992 budget estimate.....	20,000,000
Provided in the bill.....	20,750,000
Comparison:	
1991 appropriation.....	
1992 budget estimate.....	+750,000
* Does not reflect sequester of \$270 pursuant to P.L. 99-177.	
This program was authorized by the Rural Development Act of 1972. Grants are made to public bodies to facilitate development of private enterprises in rural areas, including the development, construction or acquisition of land, buildings, plants, equipment, access streets and roads, parking areas, utility extensions, necessary water supply and waste disposal facilities, refinancing, services and fees.	
COMMITTEE PROVISIONS	
For rural development grants the Committee provides \$20,750,000, the same as the amount available for fiscal year 1991 and an increase of \$750,000 above the budget request.	
The Committee restores bill language earmarking \$500,000 for rural transportation technical assistance and will expect the Department to continue the program initiated in fiscal year 1989. These funds are designed to cover site specific projects such as the identification of transit development projects and technical assistance to communities that lack adequate transportation systems.	
The Committee provides up to \$1,000,000 for a grant to the Northern Tier Regional Planning and Development Commission for a recycling facility in Susquehanna County, Pennsylvania.	
The Committee provides up to \$500,000 for a grant to the city of Cotton Plant, Arkansas, for a processing facility for commercially produced fish. Due to the rapid growth of the aquaculture industry, there is a shortage of processing facilities in some areas of the country. These funds will augment matching funds from the applicant and the State of Arkansas.	

- (1) The committee reports accompanying appropriations measures compare the amount recommended for each account with the current fiscal year's appropriation and the President's request for the next fiscal year. This comparison (known as the "Comparative Statement of New Budget Authority") is provided for each account in the bill.
- (2) The appropriations reports typically show the differences between the amounts recommended by the Committee and the current appropriations and the President's request. It is common for the Appropriations Committees to recommend an amount above the current appropriation but below the President's recommendation. In this instance, however, the Committee recommended an amount above the President's request.
- (3) The Appropriations Committees often earmark funds to designated projects or activities. Agencies are expected to adhere to these earmarks, as well as to other guidances provided in the Appropriations Committee's reports.

EXHIBIT 8-T
Committee Report: Directives to Agencies

Airport Inspections.—The Committee is concerned that the INS is not fully complying in many locations with the 45 minute processing standard for inspection of individuals entering the United States through airports. The Committee notes that the 45 minute standard is meant to include inspection by all Federal agencies and not just the INS. The Committee expects the INS to work with the Customs Service and other Federal agencies in achieving the standard. Additionally, the Committee expects the INS to provide a quarterly report, beginning 30 days after enactment of this bill, on its efforts in meeting the processing standard, and if the standards are not being met, what steps are being taken to meet them.

The Committee understands that, in the past, one of the means of avoiding unnecessary delays was the use of citizen bypass. With the lessening of tensions in the Middle East, and knowing that the peak summer months are approaching, the Committee believes the INS should consider resuming citizen bypass during those high volume periods when it is clear that the 45 minute standard cannot be attained. The Committee requests that the Attorney General provide a report by July 15, 1991 on the INS' plans to reinstate citizen bypass.

INS is also encouraged to make greater use of immigration preinspection in which passengers are inspected abroad, after their check-in at the airport of departure. This procedure would help to relieve passenger congestion and delay at many U.S. airports.

Lastly, the Committee expects INS to work with U.S. airports and the airline industry in addressing processing problems and in devising staffing models and programs to provide the best possible inspection services at U.S. airports.

- (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 spend, or negative -- instructing them not to undertake certain activities or expenditures.
- (2) The directives do not comment on all items in the appropriations bill. As in the exhibit here, 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."
- (4) The Committee's language can be quite specific, referring to the number of positions, cases, and inspections affected by a proposal.

Chapter 9. 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 became effective for fiscal year 1992, 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 are likely to have only a modest impact on budget totals but a substantial impact on budgeting for particular loan programs.

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 of 1990 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 fiscal year 1992.

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 . . .". Several features of this definition warrant explanation. First, the subsidy cost is an estimate of the present value of all cash flows, not the actual outlay made at the time the loan is tendered. The subsidy cost may be reestimated every year to reflect new information and changing conditions. Second, the term for which the estimate is made depends on the maturity of the loan and other conditions. The estimate should cover all expected future cash flows. Third, the net present value of a loan is calculated by discounting estimated future cash flows to the present, using a discount rate equal to the interest rate paid by the Department of the Treasury at the time the loan is obligated or guaranteed. Fourth, although administrative costs are excluded from the calculation of subsidy costs, new accounting procedures are established for these expenditures.

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 chapter.

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 Department of the Treasury 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

The subsidy cost of a direct loan is the estimated net present value of the following cash flows: (1) loan disbursements; (2) repayments of principal; (3) payments of interest; and (4) all other payments by or to the Federal Government over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and any other recoveries.

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 9-A** shows how the subsidy rate is derived from estimated cash flows. **Exhibit 9-B** displays the relationship of loan activity, the subsidy rate, budget authority, and outlays for one of the direct loan programs in the budget.

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. **Exhibits 9-C and 9-D** trace the assumptions used by OMB to derive the subsidy rate for a direct loan program.

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. The procedures used for calculating the subsidy rate on loan guarantees are similar to those shown in **Exhibits 9-C and 9-D**. **Exhibit 9-E** shows the relationship of guaranteed loan levels, the subsidy rate, budget authority, and outlays for one of the guaranteed loan programs in the budget.

Reestimates

The subsidy cost is estimated at the time a direct loan is obligated or a loan guarantee commitment is made. These estimates often will turn out to be at variance with actual loan experience. Accordingly, the 1990 Act requires periodic reestimation of the subsidy cost during the lifetime of the loan. The reestimate must use the same method that was used for the initial estimate. Any differences between the original and the revised estimate would be due to variances between previous cash flow projections and the revised projections. Permanent indefinite budget authority is available to cover any increase in the subsidy cost resulting from the reestimate.

Comparing Subsidy Costs and Other Costs

One of the objectives of credit reform is to facilitate the comparison of different instruments of budget policy. Before the recent reforms, this was not possible because budgeting for direct loans commingled the subsidized and unsubsidized portions of the loans, while budgeting for guaranteed loans disregarded the prospective subsidy costs of these loans. Credit reform puts direct loans, loan guarantees, and other Federal Government outlays on an equal basis. All are budgeted in terms of the cost to the Federal Government. The table below contrasts pre-reform treatment of loans and grants with the new approach.

	Gross Amount of Transaction	Pre-Reform Outlays:		Post-Reform Outlays:	
		Basis	Amount	Basis	Amount
Direct Loan	100	Amount Dispersed	100	Subsidy Cost	15
Guaranteed Loan	100	First-Year Cash Flow	-2	Subsidy Cost	30
Grant	20	Amount Disbursed	20	Amount Disbursed	20

Note: Amounts are shown in millions of dollars.

This hypothetical example deals with a direct loan of \$100 million, a guaranteed loan of \$100 million, and a grant of \$20 million. Prior to credit reform, the direct loan was considered to be the more costly credit transaction because the budget recorded the full disbursement as budget authority and outlays. On the other hand, the loan guarantee resulted initially in a negative expenditure because no funds were disbursed and the Federal Government took in some origination fees. As a result of reform, budget outlays for the direct loan were reduced from \$100 million to \$15 million while budget outlays for the guaranteed loan were raised from -\$2 million to \$30 million, thus making it the more costly approach. The amounts budgeted for grants did not change, but under the new procedures they now can be compared more readily to direct and guaranteed loans. It should be noted, however, that the grant represents actual transactions while the post-reform outlays for direct and guaranteed loans are estimates.

Accounting for Direct and Guaranteed Loans

Credit reform has entailed the establishment of a new and complex accounting structure. Two sets of accounting mechanisms have been developed for direct and guaranteed loans. One set is used for estimating subsidy costs; the other is used for recording cash flows during the lifetime of a loan.

Accounting Procedures for Estimating Subsidy Costs

The subsidy cost must be estimated for each loan program. However, because a program may entail a large number of discrete loans, it would be impractical to calculate the subsidy cost separately for each loan. OMB has issued rules for classifying loans by (1) cohort, (2)

risk category, and (3) financing tranche. These classifications make it possible to compute the subsidy cost for a group of loans sharing certain characteristics.

A loan cohort is the accounting unit for all loans within the same program obligated during a single fiscal year, regardless of when the monies are disbursed by the Federal Government (in the case of direct loans) or by private lenders (in the case of guaranteed loans). Thus, all new loans obligated within a program for fiscal year 1992 are accounted for in the same cohort. These loans remain with their original cohort throughout the life of the loan or guarantee.

Each cohort may be subdivided into two or more risk categories. A risk category consists of all loans within the cohort that share similar risk characteristics associated with defaults or other costs. The factors associated with each risk category are applied in calculating the expected cash flows from that group of loans.

Finally, all loans within the same cohort, segregated by risk category, that are disbursed during the same quarter and have similar maturities are placed in the same financing tranche. The financing tranche is used for determining the interest rate on all cash inflows and outflows.

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. Exhibit 9-F 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, as are the loan cohorts, risk categories, and financing tranches discussed earlier. 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 Department of the Treasury, 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 Department of the Treasury. 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 Department of the Treasury. Exhibits 9-G and 9-H trace the cash flows between the program and financing accounts, as well as between these accounts and the Treasury.

Liquidating Account. This kind of account handles the cash flows for loans made prior to fiscal year 1992. 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.

EXHIBIT 9-A.
Calculation of Subsidy Cost

CREDIT SUBSIDY CALCULATION FOR A HYPOTHETICAL DIRECT LOAN OBLIGATED IN FISCAL YEAR 1992 (by fiscal year, in millions of dollars)							
	1992	1993	1994	1995	1996	1997	Sum
Obligated	1000	----	----	----	----	----	1000
Disbursed	1000	----	----	----	----	----	1000
Repayments:							
Interest	----	-50	-50	-50	-50	-50	-250
Principal	----	----	----	----	----	-1000	-1000
Total	0	-50	-50	-50	-50	-1050	-1250
Net cash flows	1000	-50	-50	-50	-50	-1050	-250
Discount rate (assumed rate on 5-year Treasury securities)	7.6%						
Present value of cash flows	1000	-46	-43	-40	-37	-728	106

- (1) This hypothetical example involves a \$1.0 billion direct loan obligated and disbursed in fiscal year 1992. 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 fiscal year 1992; this amount is derived by totaling the present value of cash flows for all fiscal years during the life of the loan (fiscal years 1992-1997). Outlays of \$106 million also are scored for fiscal year 1992.
- (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. In this example, on the basis of this calculation, an appropriation of \$106 million would permit direct loan obligations of \$1.0 billion.

EXHIBIT 9-B.
Direct Loans: Account-Level Summary Data

1 — **Summary of Loan Levels, Subsidy Budget Authority and Outlays by Program (in thousands of dollars)**

Modification code 73-1154-0-1-376

	1990 actual	1991 est.	1992 est.
Direct loan levels supportable by subsidy budget authority:			
1150 Handicapped loans.....		12,000	
1150 Economic opportunity loans.....		17,000	
1150 Section 8(a) loans.....		5,000	5,000
1150 Veteran's loans.....		17,000	
1150 Minority enterprise SBIC loans.....		20,000	
1159 Total direct loan levels.....		71,000	5,000
Direct loan subsidy rates (in percent):			
1320 Handicapped loans.....		36.9	
1320 Economic opportunity loans.....		30.7	
1320 Section 8(a) loans.....		30.7	29.6
1320 Veteran's loans.....		30.7	
1320 Minority enterprise SBIC loans.....		45.3	
1329 Weighted average subsidy rate.....		35.8	29.6
Direct loan subsidy budget authority:			
1330 Handicapped loans.....		4,427	
1330 Economic opportunity loans.....		5,214	
1330 Section 8(a) loans.....		1,534	1,479
1330 Veteran's loans.....		5,214	
1330 Minority enterprise SBIC loans.....		9,056	
1339 Total subsidy budget authority.....		25,445	1,479
Direct loan subsidy outlays:			
1340 Handicapped loans.....		2,213	
1340 Economic opportunity loans.....		2,607	
1340 Section 8(a) loans.....		767	739
1340 Veteran's loans.....		2,607	
1340 Minority enterprise SBIC loans.....		4,528	
1349 Total subsidy outlays.....		12,722	739

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- (1) Account-level summary data on direct loans is presented in special tables included in the President's budget.
- (2) This loan account (the Business Loans Program Account of the Small Business Administration) comprises five distinct loan programs administered by the same Federal agency. While the various programs are consolidated in a single account, separate subsidy rate calculations are made for each.
- (3) The loan level that can be supported by a particular amount of budget authority depends on the subsidy rate. In this instance, with a subsidy rate of 29.6 percent, \$1.479 million of budget authority would support \$5 million of direct loans.
- (4) The terms "subsidy budget authority" and "subsidy outlays" distinguish these entries from budget authority and outlays for non-loan programs. However, all budget authority and outlay entries, regardless of type, are added together to calculate the budget totals.

EXHIBIT 9-C.
Determinants of Subsidy Rate

	SUMMARY DATA ON OMB DIRECT LOAN PRESIDENTIAL POLICY SUBSIDY COST ESTIMATES																
1	Loan Program: <u>EXPORT - IMPORT BANK</u> Budget Account: <u>81-0100-0-1-155</u>																
2	Mandatory or Discretionary: <u>DISCRETIONARY</u> Examiner:																
	<u>Presidential policy direct loan subsidy estimates:</u> <table border="0" style="width: 100%;"> <tr> <td style="width: 40%;">Subsidy FY 1992: <u>15.6</u> %</td> <td style="width: 40%;">Obligations (in thousands): \$ 915,000</td> <td style="width: 20%;"></td> </tr> <tr> <td>Subsidy FY 1993: <u>15.6</u> %</td> <td>Obligations (in thousands): \$ 919,575</td> <td></td> </tr> <tr> <td>Subsidy FY 1994: <u>3.4</u> %</td> <td>Obligations (in thousands): \$ 808,920</td> <td></td> </tr> <tr> <td>Subsidy FY 1995: <u>3.4</u> %</td> <td>Obligations (in thousands): \$ 812,060</td> <td></td> </tr> <tr> <td>Subsidy FY 1996: <u>3.4</u> %</td> <td>Obligations (in thousands): \$ 816,120</td> <td></td> </tr> </table>	Subsidy FY 1992: <u>15.6</u> %	Obligations (in thousands): \$ 915,000		Subsidy FY 1993: <u>15.6</u> %	Obligations (in thousands): \$ 919,575		Subsidy FY 1994: <u>3.4</u> %	Obligations (in thousands): \$ 808,920		Subsidy FY 1995: <u>3.4</u> %	Obligations (in thousands): \$ 812,060		Subsidy FY 1996: <u>3.4</u> %	Obligations (in thousands): \$ 816,120		
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3	Composition of 1992 direct loan subsidy (above): <table border="0" style="width: 100%;"> <tr> <td style="width: 80%;">Defaults (net of recoveries).....</td> <td style="width: 20%; text-align: right;">8.8 %</td> </tr> <tr> <td>Interest rate differential.....</td> <td style="text-align: right;">-1.0 %</td> </tr> <tr> <td>Fees.....</td> <td style="text-align: right;">-4.1 %</td> </tr> <tr> <td>All other.....</td> <td style="text-align: right;">12.0 %</td> </tr> <tr> <td></td> <td style="text-align: right;">=====</td> </tr> <tr> <td>Total subsidy.....</td> <td style="text-align: right;">15.6 %</td> </tr> </table>	Defaults (net of recoveries).....	8.8 %	Interest rate differential.....	-1.0 %	Fees.....	-4.1 %	All other.....	12.0 %		=====	Total subsidy.....	15.6 %				
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Fees.....	-4.1 %																
All other.....	12.0 %																
	=====																
Total subsidy.....	15.6 %																
4																	

- (1) A separate calculation of subsidy cost is made for each loan program, and as explained earlier in this chapter, within each program by loan cohort and risk category.
- (2) The distinction between mandatory and discretionary is used to determine, among other things, the manner in which budget authority is provided.
- (3) OMB divides the direct loan subsidy into four components: (a) the portion of the loan expected to be defaulted, minus assumed recoveries; (b) the difference between the interest paid by the Department of the Treasury and the rate charged borrowers; (c) fees charged borrowers, either at the time the loan is made or during the life of the loan; and (d) all other factors.
- (4) Fees are shown as a negative percent because they reduce the subsidy rate. In this example, the interest rate subsidy also is negative because the rate charged borrowers exceeds the rate paid by the Department of the Treasury.

EXHIBIT 9-D.
Assumptions Used in Making Subsidy Estimates

2	Average loan maturity.....	<u>8.5</u> years
3	Average loan interest rate.....	<u>8.34</u> %
4	Grace period.....	<u>2.0</u> years
	Disbursement rates (as a percent of original obligation):	
	Year 1: <u>8.1</u> %	Year 2: <u>40.6</u> % Year 3: <u>23.8</u> %
	Year 4: <u>17.2</u> %	Year 5: <u>10.3</u> %
	Fees paid to government:	
	Commitment fees.....	<u>.5</u> %
5	Up-front fees.....	<u>3.25</u> %
	Annual fees.....	_____ %
6	Lifetime defaults of cohort of loans (as a % of disbursements)...	<u>7.62</u> %
	Average recovery rate on defaults (as a % of lifetime defaults)...	_____ %
	Source of default rate used:	<u>Country by country analysis.</u>

- (1) This exhibit pertains to the Export-Import Bank program used in the previous exhibit.
- (2) The duration of a loan (its maturity) affects the subsidy in several ways: (a) the further in the future that cash flows occur, the lower their present value; (b) the longer the duration of the loan, the greater are the unknown factors that must be considered; and (c) the duration of a loan can affect its riskiness.
- (3) If the average interest rate is above the rate paid by the Department of the Treasury, it will reduce subsidy costs; if it is lower, it will raise those costs.
- (4) The grace period and disbursement rates go into calculating the timing of cash flows, which is important when these flows are discounted to present value.
- (5) Fees can be of several types, including fees: (a) paid in order to obtain the Federal Government's commitment to lend the funds; (b) paid up front, such as origination fees; and (c) paid annually during the life of the loans.
- (6) Defaults and recoveries are calculated by cohort, as explained previously.

EXHIBIT 9-E.
Guaranteed Loans: Account-Level Summary Data

1 → **Summary of Loan Levels, Subsidy Budget Authority and Outlays by Program (in thousands of dollars)**

Identification code 73-1154-0-1-376	1990 actual	1991 est.	1992 est.
Guaranteed loan levels supportable by subsidy budget authority:			
2150 General business loans	4,117,647	4,117,333	
2150 Section 502 development company loans	43,750	45,588	
2150 Section 504 development company loans	485,000	505,370	
2150 Investment company loans	186,000	100,000	
2150 Minority investment company loans	60,000	60,000	
2159 Total loan guarantee levels	4,892,397	4,828,291	
Guaranteed loan subsidy rates (in percent):			
2320 General business loans	4.8	0.6	
2320 Section 502 development company loans	5.9	6.0	
2320 Section 504 development company loans	0.5		
2320 Investment company loans	14.1	10.8	
2320 Minority investment company loans	28.7	27.1	
4 → 2329 Weighted average subsidy rate	5.0	1.1	
Guaranteed loan subsidy budget authority:			
2330 General business loans	198,471	24,292	
2330 Section 502 development company loans	2,586	2,744	
2330 Section 504 development company loans	2,328		
2330 Investment company loans	26,300	10,820	
2330 Minority investment company loans	15,990	16,284	
2339 Total subsidy budget authority	245,675	54,140	
Guaranteed loan subsidy outlays:			
2340 General business loans	178,624	21,863	
2340 Section 502 development company loans	2,327	2,470	
2340 Section 504 development company loans	2,095		
2340 Investment company loans	23,670	9,738	
2340 Minority investment company loans	14,391	14,656	
2349 Total subsidy outlays	221,107	48,727	

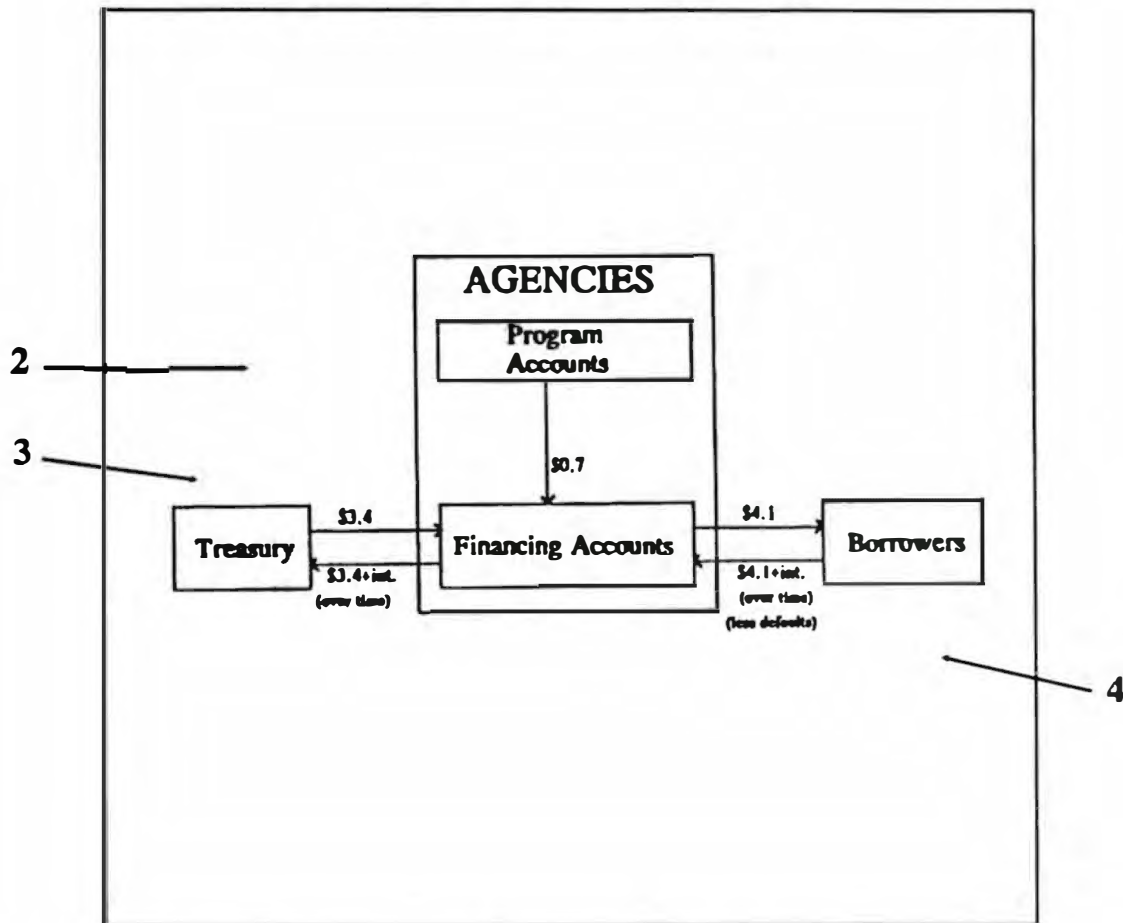
→ **3**

- (1) Account-level summary data on guaranteed loans is presented in special tables included in the President's budget.
- (2) These guaranteed loans are consolidated in the same program account used in Exhibit 9-B. However, when the funds are outlayed from the program account, the direct and guaranteed loans are split into separate financing accounts.
- (3) Because these guaranteed loans have a low subsidy rate (1.1 percent), budget authority supports a high volume of loan activity. For fiscal year 1992, the President requested \$54.1 million in subsidy budget authority to support \$4.8 billion in Small Business Administration guaranteed loans.
- (4) The "weighted average subsidy rate" is the rate of each loan program adjusted for the program's share of total loan activity in the account. Thus, even though "minority investment company loans" have a high subsidy rate in fiscal year 1992 (27.1 percent), the weighted average rate is much lower (1.1 percent) because these loans are only a very small portion of total loan activity in the account.

EXHIBIT 9-F.
Credit Reform Account Structure: Fiscal Year 1992 and Beyond

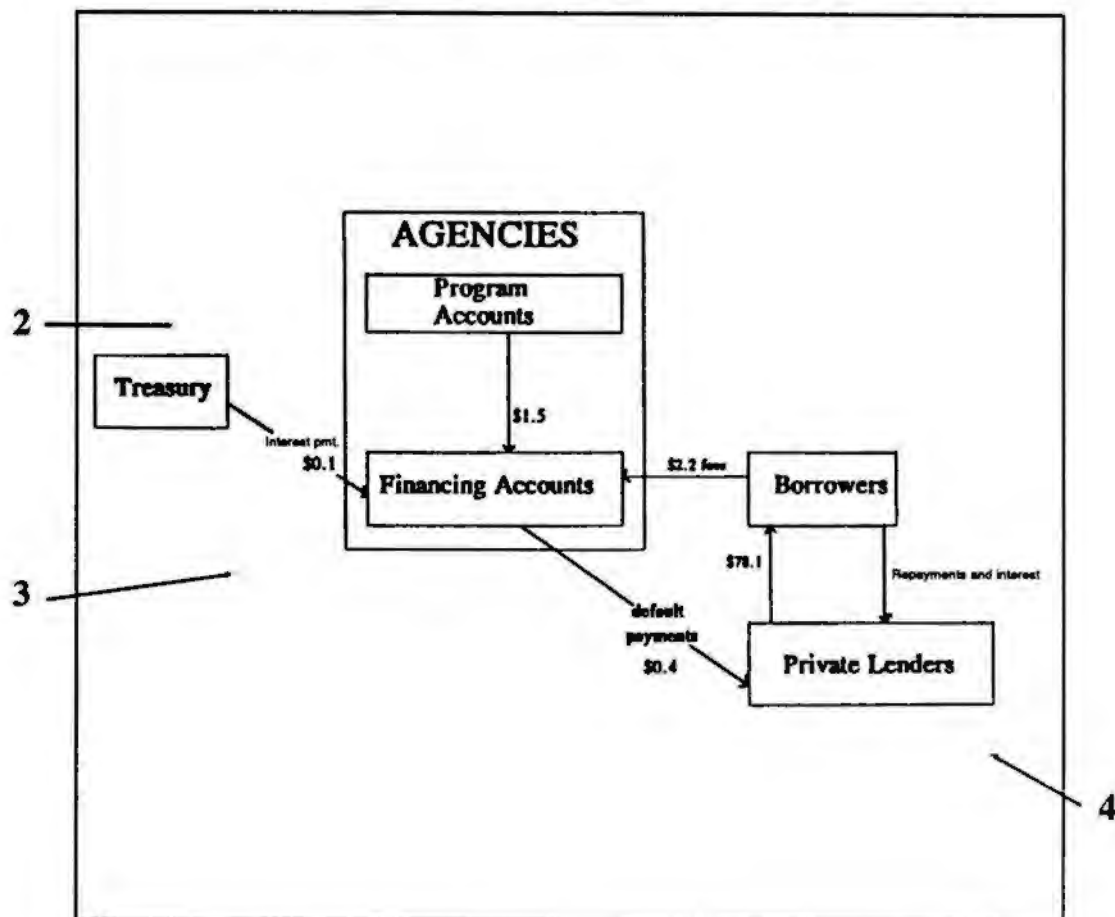
Liquidating Account	Program Account	Financing Account(s)
Mandatory scoring	Discretionary scoring for discretionary programs and appropriations actions Pay-as-you-go scoring for entitlements if changes are enacted by authorizing committees	Scored "below-the-line" as a means-of-financing
Scored on a cash basis	Scored on a credit reform (subsidy) basis	Cash flows scored as a means of financing
<i>"Old loan activity"</i> (permanent, indefinite BA)	<i>New subsidies and admin. expenses</i> (current, definite BA for discretionary programs, current, indefinite BA for mandatory programs)	<i>Cash flows from new credit activity</i> (scored as a means-of-financing, no appropriations required)
For loans obligated or committed prior to FY 1992: o collects repayments, interest, fees o repays any borrowing with interest o pays default claims and interest subsidies o if loans are modified or restructured, a subsidy is scored as a new loan	For loans obligated or committed in FY 1992 and beyond: o displays full cost of program in budget o receives appropriation of subsidy and admin. expenses o pays subsidy outlays to financing accounts o adjustments to original subsidy appropriations provided as permanent, indefinite appropriations, but scored against discretionary caps	For loans obligated or committed in FY 1992 and beyond: <u>Direct Loan Financing Account:</u> o collects subsidy from program account o borrows unsubsidized portion of loan from Treasury o disburses new loans o collects repayments, int., fees o repays borrowing to Treas. with interest <u>Guaranteed Loan Financing Account:</u> o collects subsidy from program account o collects fees from borrowers o acts as a reserve for defaults o receives interest on reserves from Treas. o pays default claims and interest subsidies

EXHIBIT 9-G.
Credit Subsidies: Cash Flows for Direct Loans



- (1) This chart diagrams the cash flows for total direct loans requested in the budget for fiscal year 1992. It traces the cash flows for \$4.1 billion in direct loans between the Treasury, program accounts, financing accounts, and borrowers. Liquidating accounts are not included here because the chart pertains only to new loans.
- (2) These loans have an estimated subsidy cost of \$1.2 billion in budget authority. Under the request, this amount would be appropriated to program accounts for fiscal year 1992 and would flow to financing accounts when loans are obligated. The loan disbursements would lead to estimated outlays of \$0.7 billion for the fiscal year.
- (3) The financing account disburses \$4.1 billion to borrowers, of which \$3.4 billion (the unsubsidized portion) is borrowed from the Treasury and \$0.7 billion is obtained from the program accounts. The amount borrowed from the Treasury is repaid over time with interest.
- (4) Borrowers receive \$4.1 billion from the financing accounts and repay these loans over time with interest. In many cases, the subsidy cost will be based on expected defaults. Expected defaults are reestimated annually during the life of the loans and permanent indefinite budget authority is provided to fund upward reestimates of subsidy budget authority.

EXHIBIT 9-H.
Credit Subsidies: Cash Flows for Guaranteed Loans



- (1) This chart diagrams the cash flows for total guaranteed loans requested in the budget for fiscal year 1992. It traces the cash flows for \$78.1 billion in guaranteed loans between the Treasury, program accounts, financing accounts, borrowers, and private lenders.
- (2) These loans have an estimated subsidy cost of \$2.9 billion in budget authority. Under the request, this amount would be appropriated to program accounts for fiscal year 1992 and would flow to financing accounts as loan guarantee commitments are made. Loan disbursements by private lenders would lead to estimated outlays of \$1.5 billion for the fiscal year.
- (3) In addition to receiving subsidy appropriations from the program accounts, financing accounts also receive fees from borrowers (\$2.2 billion) that are held in reserve and earn interest (\$0.1 billion) from the Treasury. The reserves are available to pay private lenders for defaults (\$0.4 billion).
- (4) Because of a low subsidy rate, the disbursement of \$1.5 billion in subsidy budget authority in the first year is sufficient to support \$78.1 billion in guaranteed loans.

Chapter 10. IMPLEMENTATION OF SPENDING LAWS

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; the following chapter examines financial management in terms of agency operations and the efficiency with which resources are used.

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 the top.

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. (Exhibit 10-A lists the main expenditure management responsibilities and activities 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 10-B. Agency requests for apportionment are reviewed by 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 **Exhibit 10-C**) 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 10-D**).

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 **Exhibit 10-E**, 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 Department of the Treasury; for another, the difference between outlays and receipts determines the size of the budget deficit (or surplus). The GRH Act (discussed in Chapter 5) relies on outlay reductions to lower the projected budget deficit. As concern over the budget deficit deepened in the 1980s and early 1990s, closer attention was paid to the volume of outlays. Some agencies -- the Department of Defense is the most prominent -- have been required to operate under an outlay ceiling, in addition to the ceilings on budget authority and 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 Department of the Treasury.

OMB receives monthly and annual budget execution reports from Federal agencies showing the status of each appropriation or fund account (see **Exhibit 10-F**). In addition to these reports, each agency maintains its own accounting and financial reporting system. These agency systems are much more detailed than those maintained on a Government-wide basis.

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. Exhibits 10-G and 10-H deal with reprogramming actions in the Department of Defense.

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 Department of the Treasury and were available to cover adjustments in obligations.

The new system, which is being phased in over several years, terminates the "M" accounts and the merged surplus authority accounts. Under the new system, 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. (See Exhibit 10-I for the schedule under the new system.) 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 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.

The two main objectives of the new system are: (1) to prevent agencies from building up balances in expired accounts and (2) to encourage them to close out obligations more expeditiously than they did in the past. The revised rules are likely to have the greatest impact on the Department of Defense, which had accumulated more \$40 billion in "M" accounts and merged surplus authority accounts.

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 incidentally 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.

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 is presented in **Exhibit 10-J**.) 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 10-K** 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. (See **Exhibit 10-L** for this type of congressional action.)

Exhibit 10-A
Major Financial Management Roles and Responsibilities

	<i>Budget Execution/ Accounting</i>	<i>Audit Evaluation</i>	<i>Financial Management Systems</i>
2	Congress Act on supplementals, deferrals, rescissions and re-programmings. Monitor programs (ad hoc).	Establish reporting requirements. Conduct oversight. Request audits and reviews from GAO and others.	Create appropriation account structure. Enact statutes governing money, finance, and management.
3	OMB Apportion budget authority. Initiate and process deferrals and rescission requests. Process supplementals. Monitor agency performance. Process reports of violation or authority. Project outlays.	Oversight by budget examiners. Mandate evaluations by agencies.	Approve agency regulations for administrative control of funds. Issue circulars on procurement, ADP, and current FM problems. Sit on JFMIP.
	Dept./ Agency Execute budget. Monitor execution. Reports to central agencies. Manage daily operations.	Conduct internal audits and evaluations. Respond to executive and congressional inquiries.	Design and implement financial management systems. Prepare financial reports for internal and external purposes.
5	Treasury Government's banker. Cash and debt management. Exercise fund control. Match agency outlays against spending authority.	None	Maintain government-wide accounting systems. Produce government-wide financial reports. Sit on JFMIP.
6	GAO Review and report on impoundments. Conduct claims settlement.	Review federal programs and operations. Audit financial statements of government corporations and audit selected congressional business activities.	Prescribe accounting principles and standards. Approve agency accounting systems. Develop standard terms for federal fiscal, budgetary, and program-related data. Identify and specify the needs of Congress for fiscal, budgetary, and program-related information. Sit on JFMIP.

- (1) Congress, OMB, the Department of the Treasury, and GAO have Government-wide responsibilities for expenditure policies. In addition, agencies are responsible for managing their financial resources.
- (2) Congress exercises oversight over Federal programs and often requests evaluations from GAO and others.
- (3) OMB apportions funds to agencies, monitors expenditures and performance, and issues regulations on various financial management activities. Agencies implement their spending plans and manage their resources. They maintain systems of internal control (discussed in the next chapter) and report on their financial operations.
- (4) Agencies implement their spending plans and manage their resources. They maintain systems of internal control and report on their financial operations.
- (5) The Department of the Treasury is responsible for cash and debt management and for maintaining central appropriation and fund accounts.
- (6) GAO establishes accounting standards and principles, approves agency accounting systems, reviews federal programs, and audits the financial statements of government corporations.

Exhibit 10-B
Apportionment Procedures

1				APPORTIONMENT AND REAPPORTIONMENT SCHEDULE			
AGENCY		APPROPRIATION OR FUND TITLE AND SYMBOL					
BUDGET							
DESCRIPTION		AMOUNT OF LATEST R.F. LNY	AGENCY REQUEST	ACTION BY OMB			
3		BUDGETARY RESOURCES					
1. Budget authority:							
A. Appropriations realized.....							
B. Appropriations anticipated (indefinite).....							
C. Other new authority (.....)							
D. Net transfers (+ or -).....							
* * * * *							
APPLICATION OF BUDGETARY RESOURCES							
A. Apportioned:		Memorandum: obligations incurred					
Category A:							
(1) First quarter.....							
(2) Second quarter.....							
(3) Third quarter.....							
(4) Fourth quarter.....							
Category B:							
(1).....							
(2).....							
(3).....							
(4).....							
9. Withheld pending rescission.....							
10. Deferred.....							
11. Unapportioned balance of revolving fund.....							
12. TOTAL BUDGETARY RESOURCES.....							
4							

- (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 -- through impoundment procedures -- 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 the funds by quarters in the fiscal year; category B apportionments are made by projects or activities.

Exhibit 10-C
Restrictions on the Use of Funds

Title 31, United States Code

§ 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—

- 1 — (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;
- 3 — (C) make or authorize an expenditure or obligation of funds required to be sequestered under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985; or
- (D) involve either government in a contract or obligation for the payment of money required to be sequestered under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985.

§ 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.

- (1) Section 1341 of Title 31, *United States Code* prohibits: (1) expenditures or obligations in excess of the appropriated amount, and (2) obligations in advance of appropriations, except when an advance obligation is authorized by law.
- (2) Legislation permitting an obligation in advance of appropriations is known as "contract authority." The Congressional Budget Act of 1974 provides, with certain exceptions, that such legislation may be considered by Congress only if the contract authority is effective to the extent provided in appropriations acts.
- (3) Most funds sequestered pursuant to the GRH Act are canceled and are no longer available for obligation.
- (4) Federal law permits agencies to spend funds only on objects or purposes for which the appropriation was made. Although a single appropriation account may fund numerous programs, agencies usually adhere to the detailed schedules submitted by them to the Appropriations Committees as well as to the guidance provided in reports accompanying appropriations measures.
- (5) Reappropriation either extends funds which otherwise would lapse or makes them available for a new purpose. A reappropriation is counted as new budget authority in the year for which the availability of funds is continued.

Exhibit 10-D
Determination of the Appropriateness of Expenditure

DECISION

**THE COMPTROLLER GENERAL
OF THE UNITED STATES
WASHINGTON, D.C. 20548**

FILE: B-215640**DATE: January 14, 1985****MATTER OF: Purchase of Heavy-Duty Office Chair**

1 — 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.

Exhibit 10-E
Evidence of Obligation

Title 31, United States Code

§ 1501. Documentary evidence requirement for Government obligations

- 3 — (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;
 - (4) an order issued under a law authorizing purchases without advertising—
 - (A) when necessary because of a public exigency;
 - (B) for perishable subsistence supplies; or
 - (C) within specific monetary limits;
- 4 — (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.

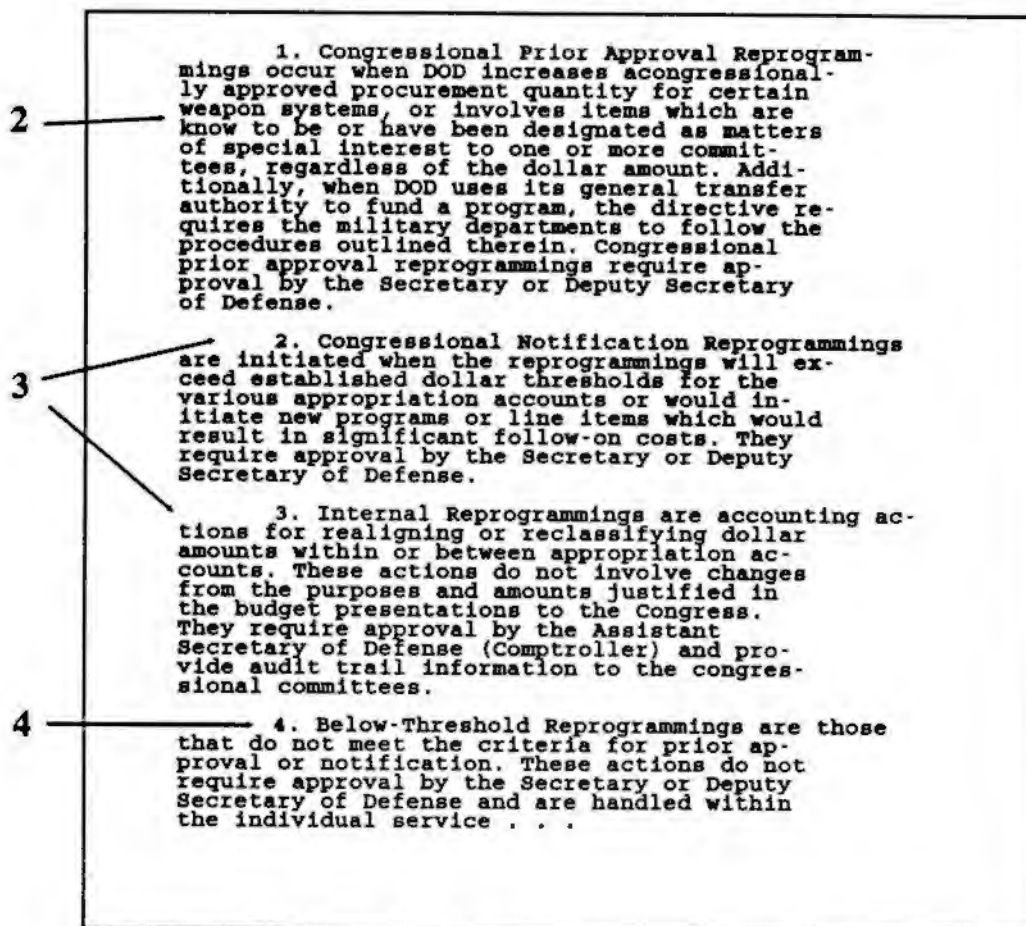
- (1) Obligations are the key point of financial decision and control in the Federal Government. Through appropriations and other measures, Congress provides budget authority which enables agencies to incur obligations. Once an obligation has been incurred, Congress and the agency normally have little control over the ensuing outlay.
- (2) Obligations may be incurred in a number of ways: awarding contracts, placing orders, accepting goods and services, and other actions in which the Government commits itself to make payment to another party.
- (3) Agencies are required to have documentary evidence of obligations. These documents may include requisitions, contracts, letters of intent, grant notifications, and other concrete evidence of the Government's commitment. A unilateral or wholly internal action (such as a memorandum for the files expressing intent to set aside funds for a particular purpose) which does not establish any commitment would not constitute an obligation.
- (4) Congress may be interested in the status of obligations for a number of reasons: to ensure that appropriated funds have been properly used; to determine whether funds have been impounded; or to determine the amounts of previous appropriations available for future use.

Exhibit 10-F
Budget Execution Report

1	REPORT ON BUDGET EXECUTION	
	APPROPRIATION FUND SUBFUND DEPARTMENT	APPROPRIATION OF FUND TYPE AND SOURCE
2	BUDGETARY RESOURCES	
	1. Budget authority: A. Appropriations realized..... B. Appropriations authorized (Revolving)..... C. Other new authority (.....) D. Net transfers (+ or -)..... * * * *	
3	STATUS OF BUDGETARY RESOURCES	
	8. Obligations incurred..... (\$.....) 9. Unobligated balances available: A. Appropriated, category A..... B. Appropriated, category B..... C. Other balances available..... 10. Unobligated balances not available: A. Appropriated for subsequent periods..... B. Withheld pending resolution..... C. Deferred..... D. Dispositioned balance of revolving fund..... E. Other balances not available..... * * * *	
4	RELATION OF OBLIGATIONS TO OUTLAYS AND ACCRUED EXPENDITURES	
	11. TOTAL BUDGETARY RESOURCES..... 12. Obligations incurred, net (8-9A-9B-9C)..... 13. Net unpaid obligations: A. Obligated balance, as of October 1..... B. Obligated balance transferred, net (+ or -)..... C. Obligated balance, end of period..... 14. Outlays (12+13A+13B-13C)..... (\$.....) 15. Change to amounts payable, net: A. Amounts payable, net, as of October 1..... B. Amounts payable transferred, net (+ or -)..... C. Amounts payable, net, end of period..... 16. Accrued expenditures (14-15A-15B+15C) (\$.....)	

- (1) A Report on Budget Execution (Standard Form 133) is submitted to OMB within 20 days after the close of each month. A single form is submitted for each appropriation or fund account. A copy of the form prepared after the close of each quarter of the fiscal year is submitted to the House Appropriations Committee.
- (2) The budget execution form is divided into three sections. The entries in the first of these sections -- "Budgetary Resources" -- correspond to those on the Apportionment Schedule. This part of the form itemizes all the resources available in the account.
- (3) The middle section of this form -- "Status of Budgetary Resources" -- shows how available resources have been applied. It reports on the obligations incurred, resources which remain available for obligation, and unobligated resources which are not available for obligation because they have not been apportioned for the period covered by the form or have been impounded.
- (4) The final part of the form relates obligations to outlays and accrued expenditures. Accrued expenditures represent monies owed which have not yet been paid out.

Exhibit 10-G
Reprogramming Practices: Department of Defense



- (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. There are no Government-wide rules for reprogramming. The rules vary among Appropriations subcommittees (and sometimes the authorizing committees). Each agency has its own procedures for initiating these actions and submitting them to Congress for review.
- (2) In the Department of Defense (from which this exhibit is drawn), the actions which require advance approval of the relevant Appropriations subcommittees and the House and Senate Armed Services Committees pertain to transfers between accounts, increases in the number of weapons to be purchased, and matters of special interest to Congress (as reflected by statements in committee reports).
- (3) Congress must also be notified when reprogrammings exceed certain threshold dollar amounts or when new programs or line items (such as weapons systems) are initiated. Internal reprogrammings -- minor shifts which do not entail changes from the purposes or amounts presented to Congress -- do not require congressional notification.
- (4) Below-threshold reprogrammings are reported to Congress periodically. The thresholds vary among different categories of expenditure.

Exhibit 10-H
Notification of Reprogramming Action

UNCLASSIFIED

Page 1 of 2 Pages

1 → **REPROGRAMMING ACTION**

Appropriation Account Title: Procurement, Weapons and Tracked Combat Vehicles, Army						DoD Serial Number: FY 89-6 PA																									
Component Serial Number: FY 89-5PA																															
(Amounts in Thousands of Dollars)																															
Line Item	Program Base Soliciting Congressional Action		Programs Previously Approved by Sec Def		Reprogramming Action		Revised Program																								
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity																								
a	b	c	d	e	f	g	h																								
2 → PRIOR APPROVAL ACTION																															
This reprogramming action is submitted for prior approval because it proposes a transfer of funds within the PwTCV, A appropriation to procure additional M-1 tanks in FY 1988 and FY 1989. The increase is for a higher priority item, based on unforeseen Military requirements, than the items for which funds were originally appropriated. These actions meet all administrative and legal requirements of the Congress, and have not been previously denied by the Congress. This reprogramming is reflected in the FY 1988 and FY 1989 columns of the FY 1990/1991 biennial budget. 3 → REPROGRAMMING INCREASE: 4 → Procurement, Weapons and Tracked Combat Vehicles, Army, 88/90 Budget Activity 1: Tracked Combat Vehicles <table border="1"> <tr> <td>Abrams Tank Series (MYP) 660</td> <td>1,633,950</td> <td>660</td> <td>1,633,950</td> <td>+29</td> <td>+60,000</td> <td>689</td> <td>1,693,950</td> </tr> <tr> <td>Less Adv Proc (PY)</td> <td>-182,800</td> <td></td> <td>-182,800</td> <td></td> <td></td> <td></td> <td>-182,800</td> </tr> <tr> <td></td> <td>1,451,150</td> <td></td> <td>1,451,150</td> <td></td> <td>+60,000</td> <td></td> <td>1,511,150</td> </tr> </table> EXPLANATION: These funds procure 29 additional tanks under the favorable terms of current multiyear contracts and maintain the overall tempo of modernization of the armored force in the active and reserve component force structure. This action is required to implement Section 1212 of the FY 1989 DoD Authorization Act.								Abrams Tank Series (MYP) 660	1,633,950	660	1,633,950	+29	+60,000	689	1,693,950	Less Adv Proc (PY)	-182,800		-182,800				-182,800		1,451,150		1,451,150		+60,000		1,511,150
Abrams Tank Series (MYP) 660	1,633,950	660	1,633,950	+29	+60,000	689	1,693,950																								
Less Adv Proc (PY)	-182,800		-182,800				-182,800																								
	1,451,150		1,451,150		+60,000		1,511,150																								

- (1) Some agencies, such as the Department of Defense, have special procedures and forms for reprogramming actions. The reprogramming is reviewed at senior levels of the agency before it is submitted to Congress.
- (2) In this case, the reprogramming is submitted for prior approval -- the funds may not be shifted without express authorization from the relevant committees. In other instances, the reprogramming is submitted on a "notification" basis, without the requirement of prior approval.
- (3) Note that the reprogramming is not for an item "previously denied by the Congress." It is a common rule that reprogramming cannot be used to obtain funds for a purpose previously rejected in the appropriations process.
- (4) This part of the schedule shows the activity to be increased; another part (not shown here) reports on the activities from which funds are to be taken. Both the increase and the decrease (which offset each other) occur in the same appropriation account.

Exhibit 10-I
Status of Old and New Balances in the Fixed Accounts

1 STATUS OF OLD AND NEW BALANCES IN THE FIXED ACCOUNTS Exhibit 111B

2

1. THE UNOBLIGATED BALANCES OF AMOUNTS CURRENTLY IN THE MERGED SURPLUS (MS) AUTHORITY ARE CANCELED ON DECEMBER 5, 1990. This includes the unobligated balances that expired at the end of FY 1988 and prior years.
2. MOST OBLIGATED BALANCES OF AMOUNTS CURRENTLY IN THE M ACCOUNTS THAT ARE OVER 5-YEARS OLD ARE CANCELED ON MARCH 5, 1991. This includes the obligated balances that expired at the end of FY 1983 and prior years, except FOR PAYMENTS THAT WILL BE MADE BY MAY 5, 1991.
3. THE REST OF THE OBLIGATED BALANCES IN THE M ACCOUNTS ARE CANCELED, AT THE END OF THE FOLLOWING FISCAL YEARS:

Year Obligated Balances Expired for new obligations:	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
FY 1984	M account	Closed									
FY 1985	M account	M account	Closed								
FY 1986	M account	M account	M account	Closed							
FY 1987	M account	M account	M account	Closed							
FY 1988	M account	M account	M account	Closed							

3

4. THE UNOBLIGATED BALANCES IN THE CURRENT SURPLUS FUNDS ARE PLACED WITH THE OBLIGATED BALANCES IN THE CURRENT EXPIRED ACCOUNTS AND CANCELED AS FOLLOWS:

Year Both Balances Expired:	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
FY 1989	Expired	Expired	Expired	Expired	Closed						
FY 1990	Expired	Expired	Expired	Expired	Expired	Closed					

5. ALL FUTURE EXPIRED BALANCES WILL BE CANCELED AFTER 5 YEARS.

Year Balances Will Expire:	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
FY 1991	Unexpired	Expired	Expired	Expired	Expired	Expired	Closed				
FY 1992	Unexpired	Unexpired	Expired	Expired	Expired	Expired	Expired	Closed			
FY 1993		Unexpired	Unexpired	Expired	Expired	Expired	Expired	Expired	Closed		
FY 1994			Unexpired	Unexpired	Expired	Expired	Expired	Expired	Expired	Closed	
FY 1995				Unexpired	Unexpired	Expired	Expired	Expired	Expired	Expired	Closed

- (1) This exhibit shows the transition from the "M" account system in effect prior to 1991 and the new system of expired accounts now in effect.
- (2) Unobligated balances carried over from fiscal year 1988 and prior years have been canceled; obligated balances carried over from fiscal 1983 and earlier have also been canceled. The obligated balances carried over from fiscal years 1984-1988 are to be canceled according to the schedule shown here.
- (3) Beginning with fiscal year 1989, when an account expires (and the funds in it are no longer available for new obligations), remaining balances are to be held in expired accounts (which retain their fiscal year identity) for another five years. At the end of this period, expired accounts are closed and remaining balances are canceled.

Exhibit 10-J
Presidential Impoundment Messages

Deferral No: D90-11 1

DEFERRAL OF BUDGET AUTHORITY
Report Pursuant to Section 1013 of P.L. 93-344

AGENCY: Department of Defense Bureau: Department of the Army Appropriation title and symbol: Procurement of Ammunition, Army 219/12034 219/02034 OMB identification code: 21-2034-0-1-051 Grant program: ☐ Yes ☒ No Type of account or fund: ☐ Annual ☒ Multiple-year Sept. 30, 1991 Sept. 30, 1990 (expiration date) ☐ No-Year	New budget authority..... \$ _____ (P.L. 101-165) Other budgetary resources. <u>467,181,798</u> Total budgetary resources. <u>467,181,798</u> Amount to be deferred: Part of year..... \$ <u>217,700,000</u> Entire year..... <u>72,300,000</u> Legal authority (in addition to sec. 1013): ☒ Antideficiency Act ☐ Other _____ Type of budget authority: ☒ Appropriation ☐ Contract authority ☐ Other _____
---	---

Coverage:	Account Symbol	OMB Identification Code	Amount Reported Deferred
Procurement of Ammunition, Army..	219/12034	21-2034-0-1-051	\$ 72,300,000
Procurement of Ammunition, Army..	219/02034	21-2034-0-1-051	<u>217,700,000</u> 310,000,000

2 Justification: This appropriation provides for the procurement, production and modification of ammunition, specialized equipment, training devices and expansion of facilities. These funds were provided for the design and construction of an RDX explosive production facility at the Louisiana Army Ammunition Plant.

4

- (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. D90-11 is the 11th deferral reported for fiscal year 1990.
- (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.
- (3) Deferrals are permitted only for the purposes set forth in the Antideficiency Act. These purposes are: (a) to provide for contingencies, or (b) to achieve savings made possible by efficiency or changes in requirements. "Policy" deferrals are not authorized.
- (4) The message identifies the account affected by the deferral or rescission by reference to the account number and the OMB identification code.

Exhibit 10-K
GAO Review of Impoundment Messages

1

D90-11

Department of the Army
Procurement of Ammunition, Army
Amount Deferred: \$310,000,000
219/12034 219/02034

These funds were provided for the design and construction of an RDX explosive production facility at the Louisiana Army Ammunition Plant.^{3/} The purpose of the facility was to respond to a "critical shortfall in the Army's mobilization base requirement." S. Rep. No. 235, 100th Cong., 1st Sess. 130 (1987).

As previously stated, the Impoundment Control Act permits deferrals "to achieve savings made possible by or through changes in requirements." 2 U.S.C. § 694(b). The \$310,000,000 is being deferred here because of changes in requirements in view of "promising developments in the Soviet Union and Eastern Europe." The justification for the deferral further states that:

"As a result of these changes, the Department is in the process of conducting a review of all ammunition and production facilities, including the RDX facility, to determine future requirements."

The mere addition of this sentence is not a sufficiently detailed or reasoned explanation for the deferrals. As discussed above, section 1013 of the Impoundment Control Act requires that the reasons for a deferral be fully explained in order to permit Congress to determine whether a deferral is, in fact, a proper exercise of the President's authority under the Act. Here, the Administration gives no more than a generalized assertion that a "review" of ammunition and production facilities is being conducted. Such a broad justification could be asserted for any number of military programs suggesting that the choice of deferring funds for this particular program relates less to the routine operation of the government than to an executive policy choice concerning whether the RDX facility should or should not be funded. Therefore, this deferral is not authorized.

3

We note that the bulk of the amount deferred, \$237,700,000, is only available until the end of this fiscal year, September 30, 1990. Therefore, the review and decision regarding the RDX facility at such a late date effectively puts the RDX funds in jeopardy of lapsing. This could create a situation in which the time remaining in the fiscal year would be insufficient to prudently obligate the funds for construction of the RDX facility thus leading to a potential de facto rescission.

2

- (1) The Comptroller General reviews each impoundment and notifies Congress of the relevant facts and probable effects of the rescission or deferral. This review by the Comptroller General pertains to Deferral D90-11 shown in Exhibit 10-I.
- (2) A major concern is whether the particular deferral is permitted under the Antideficiency Act. To make this determination, the Comptroller General must have a specific justification of the action. Here, he concludes, the deferral is not authorized because the justification did not meet Antideficiency Act requirements. When 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.
- (3) In reviewing deferrals, the Comptroller General must assess whether a deferral for the entire (or most of) the fiscal year effectively would cause the funds to lapse, and thereby constitute a de facto rescission. When the Comptroller General determines that a deferral constitutes a de facto rescission, he reclassifies the impoundment as such. Congress then has 45 days within which to enact a rescission bill.

Exhibit 10-L
Congressional Control of Impoundments

GENERAL PROVISIONS

(RESCISSIONS)

SEC. 201. Of the funds provided in Department of Defense Appropriations Acts and Military Construction Appropriations Acts, the following funds are hereby rescinded from the following accounts in the specified amounts:

Military Personnel, Air Force, \$104,484,000;
Operation and Maintenance, Army, \$80,800,000;
Operation and Maintenance, Navy, \$39,500,000;

* * * * *

ECONOMIC DEVELOPMENT AND REGULATION

(INCLUDING RESCISSION)

For an additional amount for "Economic development and regulation", \$50,000: *Provided*, That of the funds appropriated under this heading for fiscal year ending September 30, 1990, in the District of Columbia Appropriations Act, 1990, approved November 21, 1989 (Public Law 101-168; 103 Stat. 1269), \$10,498,000 are rescinded for a net decrease of \$10,448,000.

* * * * *

REPAYMENT OF LOANS AND INTEREST

Of the funds appropriated under this heading for fiscal year ending September 30, 1990 in the District of Columbia Appropriations Act, 1990, approved November 21, 1989 (Public Law 101-168; 103 Stat. 1272), \$12,336,000 are rescinded.

- (1) Although the Impoundment Control Act of 1974 provides for special rescission bills, Congress can rescind appropriations in legislation or appropriations acts, without using the procedures of that Act. The rescissions exhibited here were made in a supplemental appropriations act.
- (2) Congress may rescind all, only part, or none of the funds proposed for rescission by the President. The volume of proposed rescissions fluctuates considerably from year to year, as does the percentage rescinded by Congress.
- (3) Although it is not shown here, Congress also can disapprove a deferral in substantive legislation or an appropriations act. However, pursuant to court decisions which have held the legislative veto to be unconstitutional, Congress may not disapprove a deferral by means of an impoundment resolution, the method set forth in the Impoundment Control Act of 1974.

Chapter 11. 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 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 at hand.

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, property and inventory control, the management of grants and contracts, personnel and payroll systems, and procurement practices. Two OMB documents, *Circular A-127* and *Financial Management and Accounting Objectives* (portions of which are shown in Exhibit 11-A), prescribe the policies and procedures to be followed by Federal agencies in developing and operating financial management systems.

Responsibility for financial management is divided among several agencies, as displayed in Exhibit 10-A (in the preceding chapter). Both OMB and GAO have issued guidelines pertaining to internal control and financial management. Through its cash and debt-management operations, the Department of the Treasury also has a major role in defining financial management requirements and practices. These agencies participate in the Joint Financial Management Improvement Program (JFMIP). In 1991, they established the Financial Accounting Standards Advisory Board to help OMB, GAO, and the Department of the Treasury fulfill their responsibilities for financial accounting and reporting.

Various laws establish responsibility for financial management systems that provide complete and timely disclosure of the financial results of agency operations; adequate financial information for agency management and for the formulation and implementation of the budget; and effective control of receipts, expenditures, funds, property, and other assets. These laws include:

- the Budget and Accounting Act of 1921 (Public Law 67-13);
- the Budget and Accounting Procedures Act of 1950 (Public Law 81-784);
- the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255); and
- the Chief Financial Officers Act of 1990 (Public Law 101-576).

These and other laws set forth two basic requirements -- that agencies maintain accounting and other information systems that provide reliable information, and that they maintain systems of internal control (sometimes referred to as management control) to ensure that resources are properly and prudently used. Their information systems determine what agencies know about their operations and whether they are sufficiently informed to take corrective action when problems arise. Internal controls are designed to ensure that an agency has systems in place to protect against the misuse of resources.

The Chief Financial Officers Act of 1990 directs OMB to develop a five-year plan for improving financial management systems, and to report annually on progress in implementing its plan (see **Exhibit 11-B**). The requirements for the five-year plan are excerpted in **Exhibit 11-C**. This law, and associated requirements, are likely to enhance attention to financial management issues in the years ahead.

Accounting and Budgeting

The accounting system is the source of basic data on an agency's financial condition and operations. At one time, accounting was generally viewed as an isolated activity that was separated from the overall management of an agency; nowadays, however, it is increasingly viewed as a vital part of the agency managerial capacity. In line with this broader orientation, substantial efforts have been made in recent years to upgrade and modernize Federal accounting systems. The three principal objectives of these efforts have been to standardize accounting systems and principles, to integrate accounting with other financial management activities, and to link accounting and budgeting systems.

Standardization of Accounting Systems

From about 1950 to the early 1980s, accounting in the Federal Government was highly decentralized. Agencies were encouraged to install accounting systems that served their particular needs, and within big departments, individual divisions or bureaus also were encouraged to establish specialized systems for their own use. 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, the GAO has responsibility for prescribing Government-wide accounting standards and for certifying agency compliance with these standards. The current standards have been issued as Title 2 of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*. The principles underlying these standards are set forth in 31 U.S.C. 3512, which requires the head of each executive agency to establish accounting and internal control systems which provide: (1) complete disclosure of the financial results of agency activities; (2) adequate financial information needed for agency management; (3) effective control over, and accountability for, assets; (4) reliable accounting results and reports that are the basis for preparing and supporting agency budget requests and for executing the budget; and (5) suitable integration of agency accounting with the Department of the Treasury's central accounting and reporting responsibilities.

From time to time, GAO reviews agency accounting systems -- it generally does not review particular transactions, although it samples some to ascertain whether the prescribed

rules are followed in practice -- and recommends changes in them. Incomplete and inaccurate data, and agency failure to conform to established principles are among the shortcomings most frequently found by GAO. **Exhibit 11-D** contains excerpts from a GAO review of the Navy's accounting system.

Efforts to standardize agency accounting systems have been promoted by the Joint Financial Management Improvement Program. JFMIP has designed a standard general ledger for use by all agencies in recording receipts, expenditures, and other financial activities. It also has published core financial system requirements for all agencies. Some of these requirements are shown in **Exhibit 11-E**.

Despite the emphasis on standardization, agencies are encouraged to supplement the core requirements with accounting practices that meet their particular needs. These "customized" features are important for the second objective of contemporary accounting reform -- to integrate agency systems with other financial management practices.

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 or 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 ensure that it is well managed. 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. Modern accounting systems are linked to information systems that deal with payroll and personnel, procurement, inventory control, and other important management activities. The second step has been to supplement accounting for obligations and cash with cost-based accounts. Modern accounting practices in the private sector, and to a growing extent in State and local governments as well, focus on the cost of operations. The concept of cost is compared to alternative methods of accounting in **Exhibit 11-F**.

Actually, cost-based accounting (and budgeting) is not new; cost-based budgets and accrual accounting were mandated by legislation enacted in 1956, but this requirement never has been fully implemented. The main differences between current practice 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 or construction programs, certain credit programs, and in programs which maintain large inventories.

A cost-based budget is one which records costs in terms of the goods and services consumed by each activity. This type of budget is useful in measuring the cost of performing an activity or providing a service. It sensitizes managers to their role in controlling expenses and in improving the efficiency of their operations. Most importantly, cost-based budgets and accounts tell agencies that accounting is not simply an externally-imposed requirement but a means of improving the management of their operations.

Relationship to the Budget Process

The third thrust of contemporary accounting is to strengthen its relationship to the budget process. The Budget and Accounting Act of 1921 conceived of these processes as reinforcing one another, 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. For various reasons, over the years accounting and budgeting drifted apart. Typically, accounting and budgeting were located within separate organizational units, with little ongoing contact between them.

In recent years, efforts have been made to link accounting and budgeting in agency financial management systems. A key development has been the establishment of a Chief Financial Officer (CFO) in 23 major Federal departments and agencies. As prescribed by the Chief Financial Officers Act of 1990, the agency CFO is to report to the head of the agency regarding all financial management matters. The CFO's responsibilities 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 mention the role of CFOs in formulating agency budgets. It is highly likely that the budgetary role of CFOs will vary among Federal Agencies.

The Chief Financial Officers Act of 1990 (see **Exhibit 11-B**) 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, by setting up a Chief Financial Officers Council, and by making other changes.

Internal Control (Management Control)

The basic principle of internal control is that each agency should have the primary responsibility for ensuring that its resources are used properly and efficiently. The Federal Managers' Financial Integrity Act requires each agency to establish internal controls, 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 11-G**) sets forth policies and procedures to be followed by Federal agencies in establishing and reporting on their internal 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 internal control systems and take corrective action when necessary.

In addition to agency self-evaluations, GAO annually reviews internal 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 internal 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 agency financial management systems and in meeting the requirements of the Federal Managers' Financial Integrity Act. The report issued in November 1989 concluded that while some improvements had been made, the Federal Government still lacks internal control and accounting systems necessary to effectively operate many of its programs and safeguard its assets. Moreover, many of the weaknesses are long standing and have resulted in billions of dollars of waste. GAO urged that top-level officials and congressional committees take a more active role in encouraging and overseeing efforts to improve agency financial management.

Financial Statements and Audits

The Department of the Treasury requires all agencies to file a series of annual reports on their financial operations and condition. The Standard Form 220 reports on financial position and sets forth each entity's assets and liabilities, the basis on which major assets are valued, significant restrictions on assets, any contingent liabilities, and other information necessary to fully report on its financial position. The Standard Form 221 report on operations covers the entity's activities, revenues and other financing sources, and operating expenses. Where they have the capability to do so, agencies should report on an accrual basis. These and other reports enable the Department of the Treasury to issue the *United States Government Annual Report*, which presents the financial results of all funds and accounts.

Although prototype statements have been prepared by GAO, accounting firms, and others, the Federal Government does not produce a comprehensive financial statement that conforms to generally-accepted accounting principles. According to various GAO reports, deficiencies in accounting systems and internal controls -- especially with regard to inventory and other assets, contingent liabilities, and other claims on the Government, and the collection of debts and other receivables -- stand in the way of producing reliable statements.

In recent years, GAO has constructed financial statements for a number of Federal agencies. (One of these, for the Food and Nutrition Service, is shown in Exhibit 11-H.) The Chief Financial Officers Act of 1990 directs Federal agencies to prepare financial statements for their revolving and trust funds and, to the extent practicable, for any units or activities which carry out substantial commercial functions. The Act also provides for six designated Federal departments and agencies (the Departments of Agriculture, Housing and Urban Development, Labor, and Veterans' Affairs, the Air Force, and the General Services Administration) to pilot test comprehensive financial statements which report on their

overall financial position, results of operations, and cash flows or changes in financial position, and reconcile these financial statements to relevant budget reports. Pilot tests were selected instead of comprehensive requirements because of concern over inadequate financial standards, the accuracy of data, and inadequate audit resources.

OMB Bulletins 91-14 and 91-15, issued in September of 1991, establish initial requirements for audits of agency financial statements and provide guidance for the preparation of such statements, respectively.

The 1990 Act also calls for the required financial statements to be audited by the GAO or by an independent outside auditor. GAO conducts financial audits which examine, among other things, compliance with laws and regulations, internal controls, and the vulnerability of the agency to fraud or abuse. As **Exhibit 11-I** indicates, GAO also conducts performance audits which assess the efficiency of operations, management practices, and program effectiveness.

Exhibit 11-A
Financial Management Systems

Agencies shall establish and maintain a single, integrated financial management system, which may be supplemented by subsidiary systems. Data needed in this system and other agency systems shall be entered only once and transferred automatically to appropriate accounts or other parts of the system or...

* * * * *

Financial management data shall be recorded, stored, and reported to facilitate budget preparation, analysis, and execution. Data shall be classified uniformly and that classification, at a minimum, shall be at a level of detail that directly supports execution of enacted budgets and formulation of proposed budgets, without excessive aggregation or disaggregation.

Accounting and Administrative (Fund) Control System

Each agency shall operate an accounting and administrative (fund) control system that is capable of providing for each account complete, accurate, and timely data on the status of each account, showing:

- Total budgetary resources available for obligation within each legal limitation, e.g., appropriation, apportionment, statutory limitation, allotment, suballotment, or other administrative subdivision; or agency limitation, e.g., allowance, target, operating budget;
- Total valid obligations incurred to date for each legal and agency limitation, regardless of whether sufficient funds are available to liquidate the obligations;

- (1) This document, OMB Circular A-127, is one of several Government-wide guidances pertaining to financial management. Other relevant policy statements are contained in the *Treasury Financial Manual* and Titles 2 and 7 of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*.
- (2) This circular (and other recent guidances) emphasizes the integration of financial systems. Integration means that all systems should conform to established principles and should record transactions in a consistent manner. When systems are integrated, an entry in the general ledger should generate a corresponding entry in other subsystems such as payroll records or budget accounts.
- (3) This statement, from OMB's *Financial Management and Accounting Objectives*, emphasizes that accounting data should support the budget process by classifying data at a level of detail appropriate for financial decisions.

Exhibit 11-B
Chief Financial Officer

1	"§ 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—	2
3		

- (1) The Chief Financial Officers Act of 1990 (Public Law 101-576) established in law a CFO and Deputy CFO for all 14 executive departments and 9 major executive agencies. Until recently, the Chief Financial Officer (CFO) 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 and consisting of the Controller of OMB's Office of Financial Management, the Fiscal Assistant Secretary of Treasury, and the 23 CFO's of executive departments and agencies.

Exhibit 11-C
Financial Management

1	"§ 3512. Executive agency accounting and other financial management reports and plans "(a)(1) The Director of the Office of Management and Budget shall prepare and submit to the appropriate committees of the Congress a financial management status report and a governmentwide 5-year financial management plan. * * * * *
2	"(3)(A) A governmentwide 5-year financial management plan under this subsection shall describe the activities the Director, the Deputy Director for Management, the Controller of the Office of Federal Financial Management, and agency Chief Financial Officers shall conduct over the next 5 fiscal years to improve the financial management of the Federal Government. "(B) Each governmentwide 5-year financial management plan prepared under this subsection shall-- "(i) describe the existing financial management structure and any changes needed to establish an integrated financial management system; "(ii) be consistent with applicable accounting principles, standards, and requirements; "(iii) provide a strategy for developing and integrating individual agency accounting, financial information, and other financial management systems to ensure adequacy, consistency, and timeliness of financial information; "(iv) identify and make proposals to eliminate duplicative and unnecessary systems, including encouraging agencies to share systems which have sufficient capacity to perform the functions needed; "(v) identify projects to bring existing systems into compliance with the applicable standards and requirements; "(vi) contain milestones for equipment acquisitions and other actions necessary to implement the 5-year plan consistent with the requirements of this section; "(vii) identify financial management personnel needs and actions to ensure those needs are met;

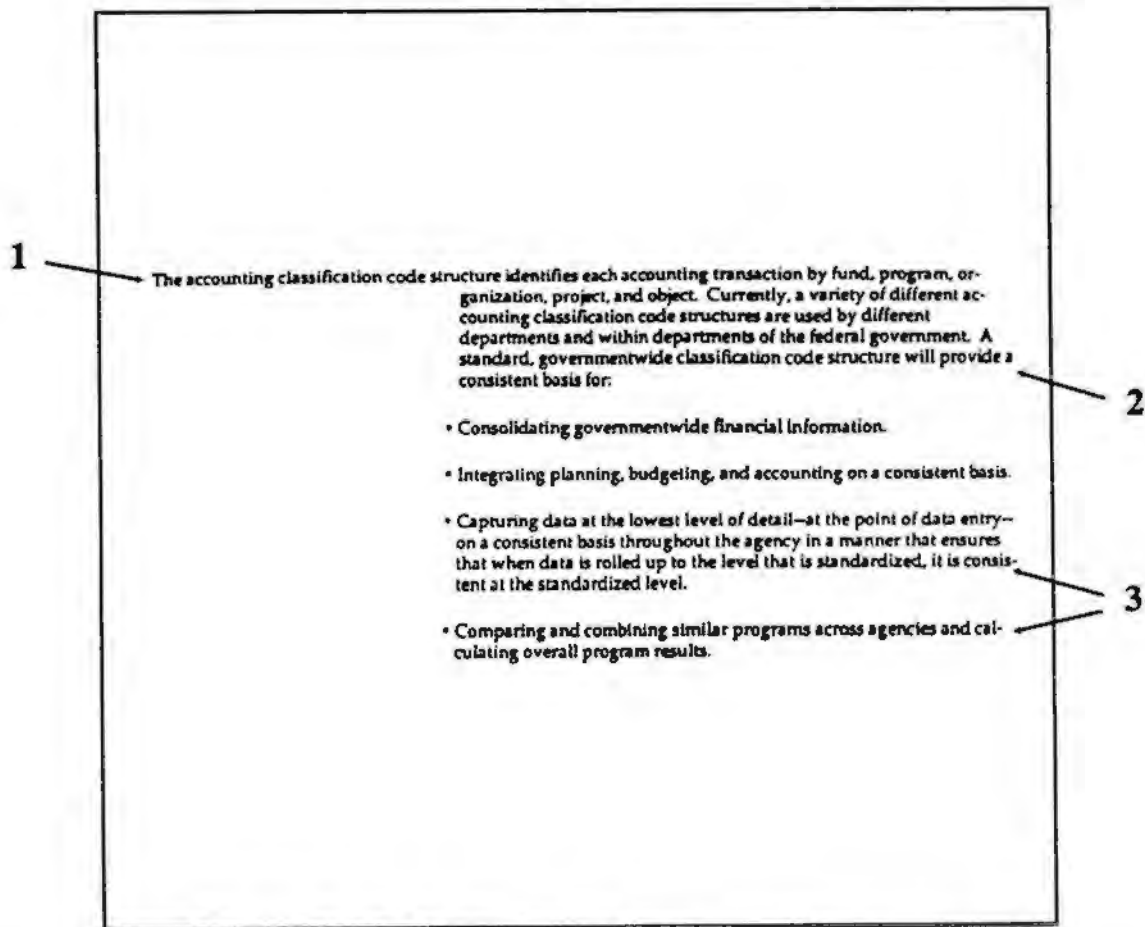
- (1) The Office of Federal Financial Management is a new office established by law in OMB. The Office is headed by a Controller who functions as the Chief Financial Officer in OMB. Each major Federal agency has a chief financial officer whose responsibilities are described in **Exhibit 11-B**.
- (2) The principal objectives of the five-year plan are to spur agencies to improve financial management systems, bring them into compliance with Government-wide standards and requirements, and integrate agency systems with Government-wide systems.
- (3) Implementation of financial management improvements entails substantial investment in equipment, databases, and personnel. The extent to which resources are available to implement the five-year plans will be determined by annual appropriations.

Exhibit 11-D
GAO Review of Agency Accounting Systems

Findings	Open Recommendations to Agencies
1 — GAO found that the Navy provided inaccurate and incomplete financial position reports to Treasury, since it: (1) did not effectively supervise, review, or control report preparation to ensure accuracy; (2) did not disclose approximately \$58 billion in real property, understating property assets by 34 percent and total assets by 18 percent; (3) did not disclose \$1.7 billion in guaranteed loans or data on operating leases for ships; (4) presented accounts receivable data that differed from the accompanying support schedules by \$164.5 million; (5) used different data sources, with different requirements, to prepare reports for Treasury and Congress; (6) did not reconcile property records with its accounting system; (7) did not develop service-specific guidelines for complying with Treasury reporting requirements; and (8) lacked controls to identify and correct problems occurring from dual recording of assets, property recording delays, and minimum acquisition-reporting thresholds.	Recommendation: The Secretary of the Navy should direct the Navy Comptroller to: (1) prepare the report on financial position based on general ledger account data rather than budget execution documents; and (2) monitor and take action necessary to ensure adherence to existing procedures to reconcile balances of property accounting activities with detailed property record balances contained in the real property management system.

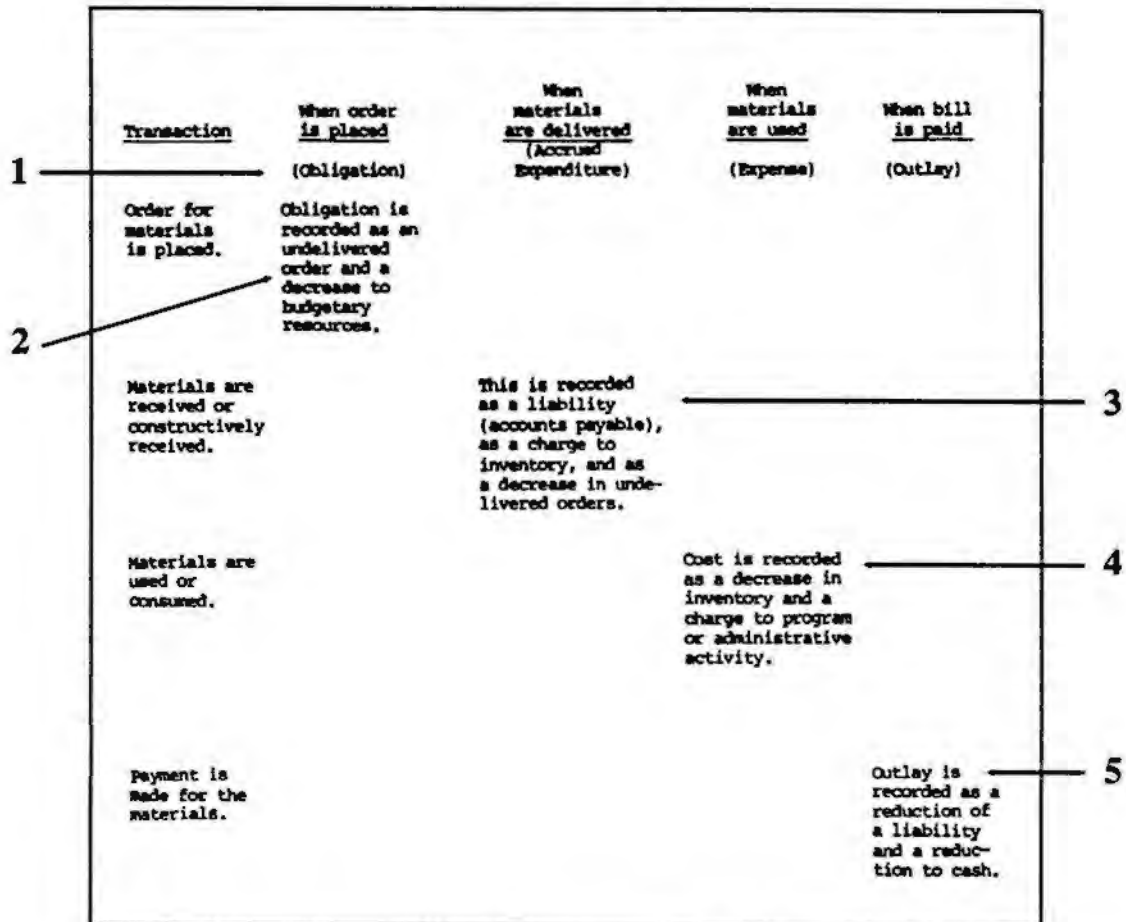
- (1) For the most part, GAO audits systems rather than individual transactions. It does sample a small number of transactions to determine whether agency procedures and system requirements are adhered to in practice.
- (2) The shortcomings found here are among the most commonly cited material weaknesses in financial management. They include incomplete accounting of assets, underreporting of loans, and failure to integrate or reconcile data from different sources.
- (3) The general ledger standardizes accounting practices among Federal agencies. Data derived from the standard general ledger should be uniform across all Federal agencies. The budget execution documents, by contrast, may differ among agencies and lack the completeness of the general ledger.

Exhibit 11-E Core Financial Systems



- (1) The "Core Financial System Requirements" issued by the Joint Financial Management Improvement Program in 1988 promulgate standards designed to produce greater consistency and reliability in agency financial systems. Each agency has been directed to implement systems that meet the core requirements.
- (2) The core system has five main components: (a) the general ledger, which contains accounting and fiscal information used in the preparation of financial reports; (b) budget execution, which monitors and controls the use of funds to help ensure that resources are used only for authorized purposes; (c) accounts payable, which record and control the payment of funds to others; (d) accounts receivable, which account for cash collections and debt management; and (e) cost accumulation, which measures the resources used in performing a particular service or carrying out a program or activity.
- (3) The core financial system generates all standard budget and financial reports to OMB, the Department of the Treasury, and Congress; accounts for assets and liabilities; and provides for funds control. The core systems are supported by subsidiary systems that provide detailed information on payroll, property, accounts receivable and payable, and other administrative operations. Also, agencies maintain program financial systems that provide unique accounting and reporting services for particular programs.

Exhibit 11-F
Flow of Financial Transactions



- (1) This chart shows four types of expenditure entries: obligation, accrued expenditure, expense, and outlay. The transactions do not always occur in the same fiscal period.
- (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.
- (3) An accrued expenditure is recorded and a liability is incurred when goods are received or when other transactions requiring payment occur.
- (4) A cost (expense) is recorded when goods or materials are consumed or withdrawn from inventory, not when they are received.
- (5) 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.

Exhibit 11-G
Internal Control Systems

4. Policy. Agencies shall establish and maintain a cost-effective system of internal controls to provide reasonable assurance that Government resources are protected against fraud, waste, mismanagement or misappropriation and that both existing and new program and administrative activities are effectively and efficiently managed to achieve the goals of the agency. The system shall comply with the Integrity Act and the internal control standards developed by the General Accounting Office and implemented by the circular. All levels of management shall be involved in ensuring the adequacy of controls.

8. Required Agency Actions. Each agency shall meet the following requirements in a cost-effective manner.

a. Maintain a current internal control directive assigning management responsibility for internal controls in accordance with this circular and the Internal Control Guidelines with the following provisions. Provide for coordination on internal control matters among the designated internal control official, heads of agency components, program managers and staffs, and the IG office or its equivalent. Establish administrative procedures to enforce the intended functioning of internal controls.
- 1
- 2
- 3

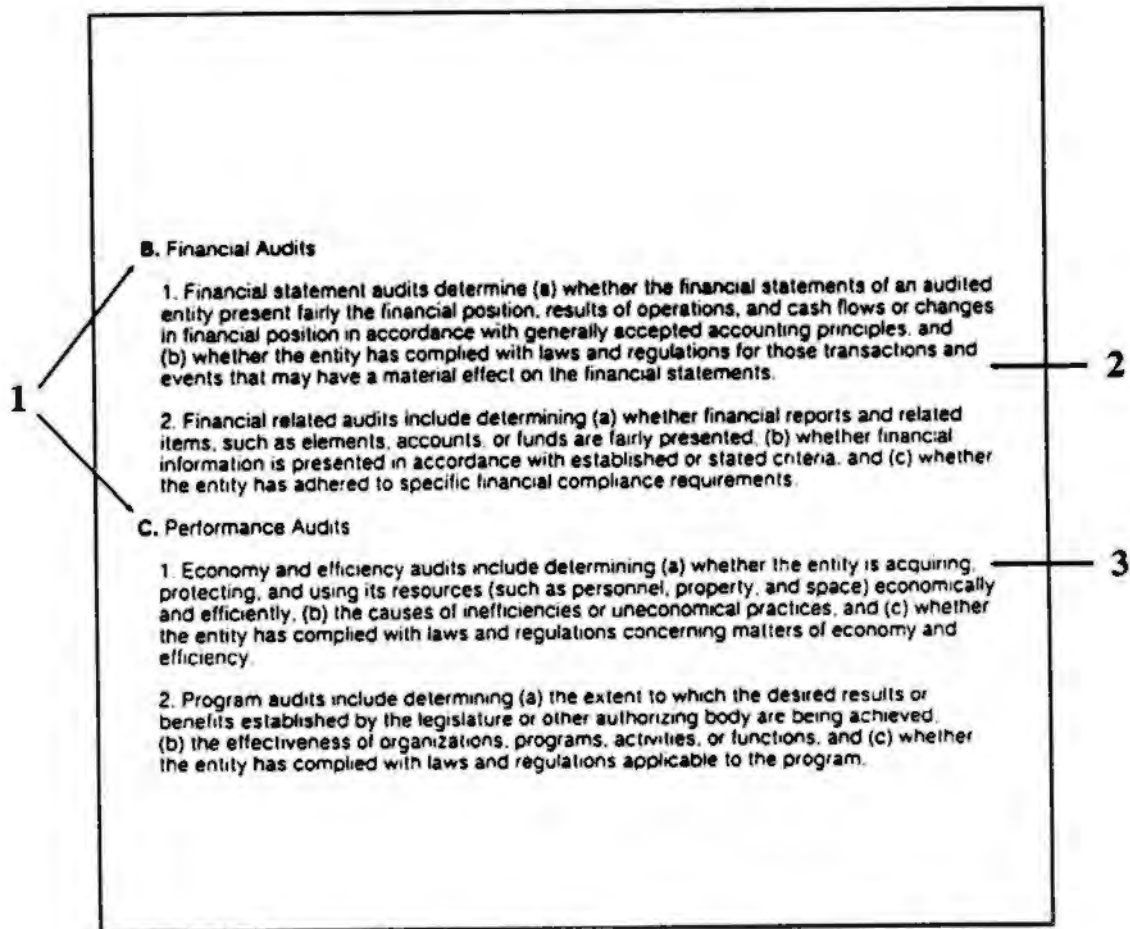
- (1) "Reasonable assurance" is defined by OMB Circular A-123 to be a "judgment by an agency head based upon all available information that the systems of internal control are operating as intended by the [Federal Managers' Financial] Integrity Act."
- (2) The Federal Managers' Financial Integrity Act (Public Law 97-255) establishes requirements for the maintenance and review of internal control systems. As provided in that Act, GAO issued *Standards for Internal Controls in the Federal Government* in 1984.
- (3) Required agency actions include making assessments of potential risks in their operations which necessitate corrective action or further investigation. These risk assessments are to be included in each agency's management control plan, which (among other things) identifies and monitors material weaknesses in its internal control system.

Exhibit 11-H
Agency Financial Statements

1	As of September 30, 1988 and 1987 (Dollars in thousands)		
		1988	1987 (as restated)
	Assets:		
2	Funds with U.S. Treasury (Note 6) Accounts Receivable net of allowance for doubtful accounts (1988 \$256,827; 1987 \$202,956) and Advances (Note 1) Property, Plant, and Equipment net of accumulated depreciation (1988 \$2,982; 1987 \$2,462)	\$1,899,617 265,720 <u>5,737</u>	\$1,645,980 189,788 <u>966</u>
	Total Assets:	<u>\$2,171,074</u>	<u>\$1,836,734</u>
	Liabilities:		
	Accounts Payable, Principally to Grantees Amounts Due Treasury (Note 1) Unredeemed Food Coupons (Note 3)	\$ 828,456 497,089 <u>131,734</u>	\$ 9970,993 504,670 <u>72,148</u>
	Total Liabilities	<u>\$1,457,279</u>	<u>\$1,547,811</u>
3	Equity of the U.S. Government: (Note 9)		
	Unexpended Appropriations Invested Capital	\$ 526,597 <u>187,198</u>	\$ 159,456 <u>129,467</u>
	Total Equity of the U.S. Government	<u>\$ 713,795</u>	<u>\$ 288,923</u>
	Total Liabilities and Equity	<u>\$2,171,074</u>	<u>\$1,836,734</u>
4	The accompanying notes are an integral part of these financial statements.		

- (1) This financial statement for the Food and Nutrition Service was prepared by GAO. It covers two fiscal years, thus allowing an analysis of changes in financial position.
- (2) Each of the main entries in this statement is supported by more detailed statements or by notes accompanying the financial statement. For example, the entry "Funds with U.S. Treasury" is supported by a *Statement of Changes in Funds With the U.S. Treasury*, which itemizes appropriations received, grant payments, administrative expenses, and other items.
- (3) This statement shows that the equity of the U.S. Government -- the excess of assets over liabilities -- increased in 1988. Financial statements prepared by GAO for some agencies show liabilities exceeding assets. This situation is most likely when the agency's assets are preponderantly in the form of loans.
- (4) 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.

Exhibit 11-I
Types of GAO Audits



- (1) GAO conducts two main types of audits: financial audits, which focus on the reliability and accuracy of financial statements, and performance audits, which focus on the efficiency and effectiveness of operations.
- (2) GAO audit standards require a compliance assessment to determine compliance with applicable requirements of Federal laws and regulations. They also require audits to assess internal controls and to identify any material weaknesses in them.
- (3) GAO distinguishes between “economy and efficiency” audits, which deal with the efficiency of operations, and “program” audits, which include a determination of whether objectives are being achieved. In conducting performance audits, GAO often undertakes a wide examination of an agency’s management and operations.

Appendix A. HOW TO OBTAIN DOCUMENTS EXHIBITED IN THE MANUAL

Members of Congress and congressional staff may obtain the different types of documents exhibited in the manual from various sources.

Public laws cited in the manual are published in the *Statutes-at-Large*; a separate volume is published for each session of Congress. The Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344; 88 Stat. 297), for example, was the 344th law enacted by the 93rd Congress, and may be found in Volume 88 of the *Statutes-at-Large* beginning on page 297. In addition, public laws (or parts thereof) may be found in the *United States Code*, which is arranged by titles that correspond to major subject areas. Section 201(a) of the Budget and Accounting Act of 1921 (31 U.S.C. 1105), for example, is found in Title 31 ("Money and Finance") of the *Code* at Section 1105. Provisions of law establishing congressional budgetary procedures are codified in Title 2 ("The Congress") of the *Code*. Up-to-date versions of the Congressional Budget and Impoundment Control Act of 1974 and the Gramm-Rudman-Hollings Act are published periodically as committee prints of the House and Senate Budget Committees.

The standing rules of the House and Senate may be found in documents of the respective Houses that are issued each Congress. The standing rules of the House are included in House Document No. 101-256, *Constitution, Jefferson's Manual, and Rules of the House of Representatives of the United States (102nd Congress)*, published in 1990. The standing rules of the Senate are included in Senate Document No. 101-25, *Standing Rules of the Senate*, published in 1990. The precedents of the House and Senate also are published periodically as documents of the respective Houses.

Public laws, legislation, and documents and reports of the current (and immediate past) Congress may be obtained from the House Document Room (225-3874) in the Ford House Office Building or the Senate Document Room (224-7860) in the Hart Senate Office Building. Hearings and prints are issued directly by committees. Historical collections of some congressional publications are available through the House Library (225-0462), the Senate Library (224-7106), and the Congressional Research Service (707-5700).

Certain budgetary publications of executive and legislative agencies are routinely distributed to congressional offices. Copies may also be obtained from the legislative affairs office or the publications office of the particular agency. For selected agencies, the appropriate telephone numbers to call regarding publications are:

• CONGRESSIONAL BUDGET OFFICE	226-2809
• GENERAL ACCOUNTING OFFICE	275-6241
• OFFICE OF MANAGEMENT AND BUDGET	395-7332
• DEPARTMENT OF THE TREASURY	566-2401

Appendix B. MILESTONES IN THE DEVELOPMENT OF THE FEDERAL BUDGET PROCESS

1789 **Constitution, Article I, Section 7**

Requires revenue bills to 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 Department of the Treasury 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.

1970

Legislative Reorganization Act of 1970

Provided for 5-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

Required 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 procedures (sequestration) aimed at balancing the budget by fiscal year 1991. 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 fiscal year 1993 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 establishing two new procedures: discretionary spending limits, which cap annual appropriations, and pay-as-you-go, which requires that action on spending outside of the annual appropriations process and on revenue legislation not increase the deficit. Includes the Federal Credit Reform Act of 1990, which establishes new budgeting and accounting rules for direct loans and loan guarantees.

1990 **Chief Financial Officers Act**

Required 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.

Appendix C. CITATIONS TO MAJOR BUDGETARY LAWS

Antideficiency Act

Title 31, *United States Code*, Sections 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.

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.

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; and the Budget Enforcement Act of 1990.)

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.

Appendix D. GLOSSARY OF BUDGETARY TERMS

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. This term has several different uses: (1) in executive budgeting, allocations are budget authority and other resources transferred to another agency to carry out the purposes of the parent account; (2) 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) (and Section 602(a)) of the Congressional Budget Act of 1974, 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 of obligations that may be incurred. 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. Apportionment is intended to prevent obligation of funds in a manner that would compel supplemental appropriations.

APPROPRIATED ENTITLEMENT. An entitlement whose budget authority is provided in annual appropriations acts rather than in substantive law. These entitlements are included in the definition of entitlement authority.

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. Appropriations represent the amounts that agencies may obligate during the period of time specified in the act. 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 used for specified purposes. These limitations 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 providing annual appropriations to Federal agencies and programs. The three major types of annual appropriations acts are regular, supplemental, and continuing. Appropriations acts usually are considered after authorizing legislation.

AUTHORIZATION. A provision in an authorizations act 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. An authorization may be for a definite amount of money or for "such sums as may be necessary."

AUTHORIZATIONS ACT. 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. Authorizations acts sometimes provide backdoor spending or permanent appropriations.

BACKDOOR SPENDING. Budget authority provided in substantive legislation in advance of the appropriations act. The most common forms of backdoor spending are entitlement authority, borrowing authority, contract authority, and authority to forgo the collection of certain

offsetting receipts. Section 401 of the Congressional Budget Act of 1974 defines this type of spending as "spending authority" and limits its use.

BALANCED BUDGET. A budget in which receipts equal or exceed outlays.

BALANCES OF BUDGET AUTHORITY. Amounts of budget authority provided in previous years that were not spent by the start of the year. 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. The baseline is a projection of the revenues, outlays, and other budget amounts that would ensue in the future under assumed economic conditions and participation rates, without any change in existing policy. The baseline can be computed for one or more years, for the budget totals or for particular accounts and programs, and for different assumptions about future conditions. Baseline projections are used in preparing the budget resolution and in estimating deficit reductions in reconciliation bills and other legislation. The Budget Enforcement Act of 1990 prescribes detailed rules for computing the baseline for fiscal years 1991-1995. These rules distinguish between projections of revenues and mandatory spending on the one hand and discretionary spending on the other.

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. Statutory 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 of 1990 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 of Federal Government funds. 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 manner of determining the amount available (definite or indefinite).

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, but also include receipts from court fines, certain fees, and deposits of earnings by the Federal Reserve System. Budget receipts do not include various offsetting receipts which are accounted for as "negative outlays," not as revenues. Total receipts are compared with total outlays in calculating the budget surplus or deficit.

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 each of 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 difference between budget receipts and outlays

(i.e., the deficit is an excess of outlays over budget receipts).

BUDGETARY RESOURCES. This term has two meanings, one in budgeting generally and one for purposes of the Gramm-Rudman-Hollings process. In general, budgetary resources are those amounts available to enter into obligation in a fiscal year. They include new budget authority, obligation limitations, recoveries or restorations of budget authority, transfers from other accounts, and unobligated balances. In the Gramm-Rudman-Hollings process, they are resources that are subject to sequestration.

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 capital budget segregates capital or investment expenditures from current or operating expenditures. Investment in capital assets would be excluded from calculations of the surplus or deficit, but the operating budget would be charged for depreciation and/or debt service. The Federal Government does not have a capital budget in the sense of financing or accounting for capital or investment-type programs separately from current expenditures. However, investment-type expenditures are displayed in special budget schedules.

CASH BASIS. The basis of accounting whereby revenues are recorded when received in cash and expenditures (outlays) are recorded 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.

CONCURRENT RESOLUTION ON THE BUDGET/CONGRESSIONAL BUDGET. See BUDGET RESOLUTION.

CONSOLIDATED BUDGET. See UNIFIED BUDGET

CONSTANT DOLLARS. A dollar value adjusted for changes in prices. Constant dollars are derived by dividing current dollar amounts by an appropriate index, a procedure known as deflating. The result is a constant dollar series. Any changes in such a series would reflect only changes in the real volume of goods and services.

CONSUMER PRICE INDEX (CPI). A measure of the price change of a representative "market basket" of goods and services purchased by consumers. The level of the CPI shows the relative cost of purchasing the specified market basket compared to the cost in a designated base year, while the rate of change in the CPI measures how fast prices are rising or falling.

CONTINGENT LIABILITY. A conditional commitment that may become an actual liability in the future because of an event beyond the control of the Government. Contingent liabilities include loan guarantees, bank deposit insurance, and price guarantees.

CONTINUING RESOLUTION/CONTINUING APPROPRIATIONS. A joint resolution enacted by Congress (when the new fiscal year is about to begin or has begun) to provide budget authority for Federal agencies and programs to continue in operation until the regular appropriations acts are enacted (or, in some instances, for the entire fiscal year). The continuing resolution may specify the rate at which obligations may be incurred (such as the prior year's rate, the President's budget request, or the amount passed by either or both Houses of Congress), or it may provide definite appropriations in the same form as a regular appropriations act.

CONTRACT AUTHORITY. Statutory 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 subsequently funded by appropriations to liquidate (pay off) obligations incurred pursuant to it.

COST ESTIMATE. An estimate prepared by the Congressional Budget Office of outlays that would ensue under legislation over a five-year period, as required by Section 403 of the Congressional Budget Act of 1974. The cost estimate 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 BUDGET. The appropriate levels of total new direct loan obligations, total new primary loan guarantee commitments, and total new secondary loan guarantee commitments set forth in a budget resolution. These levels form the basis for limitations on direct and guaranteed loans in appropriations acts. Although credit totals are set forth in a budget resolution, the credit budget has largely been superseded by procedures established in the Federal Credit Reform Act of 1990.

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 origination fees and other charges, and any penalties or recoveries.

CROSSWALK. This term sometimes is used in reference to allocations made pursuant to Section 302 (and Section 602) of the Congressional Budget Act of 1974, in which the amounts set forth in a budget resolution are converted to amounts under congressional committee jurisdictions. The term "crosswalk" also may refer generally to conversion of budgetary amounts from one classification to another.

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 of Representatives in making allocations pursuant to section 302 (or Section 602) of the Congressional Budget Act of 1974, 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. Presidential estimates of the levels of budget authority and outlays that would be required in the next and future fiscal years to continue existing services. These estimates reflect the anticipated costs of continuing Federal programs without policy changes and are transmitted to Congress in the President's budget.

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. Also, deferrals may not extend beyond the end of the fiscal year in which the funds are withheld.

DEFICIENCY APPORTIONMENT. A distribution by the Office of Management and Budget of available budgetary resources for the fiscal year that anticipates the need for supplemental budget authority. Deficiency apportionments may only be made under certain conditions provided for in the Antideficiency Act. A deficiency apportionment does not

authorize agencies to exceed available resources.

DIRECT LOAN. A disbursement of funds (not in exchange for goods or services) that is contracted to be repaid, with or without interest. The dollar value of direct loan obligations is included in the congressional budget resolution. The subsidy cost of direct loans is computed in the President's budget in accord with procedures established by the Federal Credit Reform Act of 1990.

DIRECT SPENDING. As defined by the Budget Enforcement Act of 1990, direct spending includes: (a) budget authority -- and the outlays derived from it -- provided in laws other than appropriations acts; (b) entitlement authority, including appropriated entitlements, and (c) the Food Stamps Program. Direct Spending is distinguished by the BEA from discretionary spending. In making spending allocations under Section 302 (or Section 602) of the Congressional Budget Act of 1974, the Senate Budget Committee includes both discretionary and mandatory spending in the term.

DISCRETIONARY SPENDING. As defined by the Budget Enforcement Act of 1990, budget authority -- and the outlays derived from it -- provided in annual appropriations acts, other than appropriated entitlements. Discretionary spending is distinguished by the BEA from direct spending.

DISCRETIONARY SPENDING LIMITS. Ceilings on budget authority and outlays for discretionary programs set by the Budget Enforcement Act of 1990. These spending limits are enforced by congressional rules and sequestration procedures. Discretionary spending limits apply to three categories for fiscal years 1991-1993 (defense, international affairs, and domestic) and to total discretionary spending for fiscal years 1994 and 1995.

EMERGENCY APPROPRIATION. As provided for by the Budget Enforcement Act of 1990, this is an appropriation that the President and Congress have designated as an emergency.

Such appropriations result in an adjustment to the relevant discretionary spending limit.

ENTITLEMENT AUTHORITY. A provision of law that requires payments to any person or unit of government that meets the eligibility criteria established by law. Entitlements constitute a binding obligation on the part of the Federal Government, and eligible recipients have legal recourse if the obligation is not fulfilled. Entitlement authority requires annual appropriations unless the appropriation is permanent.

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.

FEDERAL DEBT. The total amount of public debt and agency debt. The portion of the Federal debt held by Government trust funds, revolving funds, and other Federal accounts is excluded from the debt held by the public.

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 Chief Financial Officers Act of 1990 prescribes financial statements for revolving and trust funds, commercial operations, and (on a pilot test basis) certain Federal agencies.

FINANCING ACCOUNT. An account (established pursuant to the Federal Credit Reform Act of 1990) 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. At least one financing account is established for each credit program account. 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 national product, price level stability, and equilibrium in balance of payments. The budget process is a key instrument for determining and implementing Federal fiscal policy.

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 1993 begins on October 1, 1992 and ends on September 30, 1993.

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 first available for obligation toward the end of the fiscal year (usually on July 1) and which remains available through the succeeding 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 of budget authority authorized in authorizing legislation.

FUNCTIONAL CLASSIFICATION. A system of classifying budgetary resources by function so that budget authority, outlays, direct loans, loan guarantees, and tax expenditures are grouped in terms of national needs. Budget accounts generally are placed in the single budget function (e.g., national defense, transportation) that best reflects their major

purpose. A function may be divided into two or more subfunctions.

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.

GRAMM-RUDMAN-HOLLINGS

PROCESS. The process established by the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as the Gramm-Rudman-Hollings Act), as amended in 1987 and 1990. The process includes deficit targets and a procedure to sequester budgetary resources if the projected deficit is above the target. The Budget Enforcement Act of 1990 amended the GRH Act to provide revised deficit targets for fiscal years 1991-1995 and to establish discretionary spending limits and a pay-as-you-go (PAYGO) process affecting revenues and direct spending.

GROSS NATIONAL PRODUCT (GNP). The market value of all final goods and services produced in a given period of time. GNP comprises the purchases of final goods and services by persons and governments, gross private domestic investment, and net exports (less imports). The GNP can be expressed in current or constant dollars.

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.

INTERNAL 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 management control.

ITEM VETO. Authority to veto part rather than all of an appropriations act. The President does not now have item veto authority. He must sign or veto the entire appropriations act. The item veto sometimes is referred to as a line-item veto.

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.

LIQUIDATING ACCOUNT. An account (established pursuant to the Federal Credit Reform Act of 1990) 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 fiscal year 1992.

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 a lender or holder of a security in the event of default by the borrower. The Federal Credit Reform Act of 1990 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.

LOOK BACK. A feature of the sequestration process under the GRH Act intended to ensure

that a sequester is not avoided by enacting legislation after a particular time. With regard to the PAYGO process, the budgetary effects of legislation enacted after an end-of-session sequester are taken into account in the subsequent fiscal year. With regard to the discretionary spending limits, appropriations enacted during the last quarter of the fiscal year do not trigger a within-session sequester, but instead cause the appropriate spending limits for the next fiscal year to be reduced.

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.

MAXIMUM DEFICIT AMOUNTS. The maximum deficit level specified in the Gramm-Rudman-Hollings Act, as amended. For fiscal years 1991-1995, the maximum deficit amounts are subject to certain adjustments prescribed by the Budget Enforcement Act of 1990. If the deficit for a particular year is estimated to exceed the adjusted maximum deficit amount by more than a specified margin, a sequester is required to eliminate the excess deficit.

MEANS OF FINANCING. Financial flows to the Federal Government 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 of 1990.

MONTHLY TREASURY STATEMENT (MTS). A summary statement prepared from agency accounting reports and issued by the Treasury Department. 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).

MULTIYEAR APPROPRIATION. Budget authority provided in an appropriations act for a specified period of time in excess of one fiscal year. Multiyear appropriations may cover periods that do not coincide with the start or end of a fiscal year.

MULTIYEAR AUTHORIZATION. An authorization of appropriations for a specified period of time in excess of one fiscal year. Programs with multiyear authorizations must be reauthorized periodically.

NATIONAL INCOME ACCOUNTS. Accounts prepared quarterly and annually by the Commerce Department providing detailed statistics on aggregate economic activity in the United States. These accounts depict in dollar terms the composition and use of the Nation's output and the distribution of national income to different recipients. The accounts make it possible to analyze trends and fluctuations in economic activity.

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 uniform classification identifying the transactions of the Federal Government by the goods or services purchased (such as personnel compensation, supplies and materials, 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. An order placed, contract awarded, service received, or similar transaction during a given period that will require payments during the same or a future period.

OFF-BUDGET ENTITIES. The budget authority, outlays, and receipts of certain Federal entities that have been excluded from budget totals under provisions of law. At present, off-budget entities include the Social Security trust funds and the Postal Service.

OFFSETTING COLLECTIONS. These receipts are not counted as revenues but are deducted from budget authority and outlays, and are classified as follows:

Proprietary Receipts from the Public. Collections from business-type or market-oriented activities (e.g., interest, sale of property and products, and rents and royalties). The receipts from rents and royalties from Outer Continental Shelf lands are deducted from total budget authority and outlays rather than from any single agency or function.

Intragovernmental Transactions. These flows between accounts or funds may be intrabudgetary (both the payment and receipt occur within the budget) or they may result from the payment by an off-budget entity excluded from the budget totals.

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. A procedure established by the Budget Enforcement Act of 1990 to ensure that, for fiscal years 1991-1995, direct spending and revenue legislation do not add to the deficit. PAYGO requires that direct spending or revenue legislation increasing the deficit be offset or a sequester of resources in certain direct spending accounts will occur.

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 as the result of

previously-enacted legislation (substantive legislation or prior appropriations act) and does not require 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 of 1990) 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 three sections: (1) Program by Activities; (2) Financing; and (3) Relation of Obligations to Outlays.

PROGRAM, PROJECT, OR ACTIVITY (PPA). An element within a budget account. If budgetary resources are sequestered pursuant to the Gramm-Rudman-Hollings Act, equal percentages must be taken from each PPA. 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 program-by-activities section of the Program and Financing schedule in the budget.

PUBLIC DEBT. Amounts borrowed by the Treasury Department or the Federal Financing Bank 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 REVOLVING FUND ACCOUNTS. Expenditure accounts authorized by Congress to be credited with collections, primarily from the public, that are generated by, and earmarked to finance, a continuing cycle of business-type operations.

REAPPROPRIATION. Congressional action to continue the availability, whether for the same or different purposes, of all or part of the unobligated portion 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. If the instructions pertain to only one committee in a chamber, that committee reports the reconciliation bill; if the instructions pertain to more than one committee, the Budget Committee reports an omnibus reconciliation bill, but it may not make substantive changes in the recommendations of the other committees.

RECONCILIATION INSTRUCTION. A provision in a budget resolution directing one or more committees to report (or submit to the Budget Committee) legislation changing existing law or pending legislation in order to bring spending, revenues, or the debt-limit into conformity with the budget resolution. The instructions specify the committees to which they apply, indicate the appropriate dollar changes to be achieved, and usually provide a deadline by which the legislation is to be reported or submitted.

RECONCILIATION PROCESS. A process established in the Congressional Budget Act of 1974 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 measure.

REESTIMATES. Changes made in executive or congressional budget estimates due to changes in economic conditions, spendout rates, workload, and other factors, but not to changes in policy. From time to time, the reestimates are entered into budget baseline projections and scorekeeping reports.

REFUNDABLE TAX CREDITS. Tax credits that are fully payable to the taxpayer. The

amount of the credit in excess of tax liability is paid to the taxpayer. An example is the Earned Income Tax Credit. Nonrefundable tax credits are limited to the amount of the tax liability.

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 of 1974 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.

RESCISSION BILL. A bill that cancels, in whole or in part, budget authority previously granted by Congress.

RESERVES. Budgetary resources withheld from apportionment by the Office of Management and Budget under authority of the Antideficiency Act to: (1) provide for contingencies, or (2) effect savings made possible by greater efficiency of operations or through changes in requirements. Reserves are reported to Congress in accordance with the Impoundment Control Act of 1974.

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.

SEQUESTER. The cancellation (or withholding) of budgetary resources pursuant to the Gramm-Rudman-Hollings Act. Once

canceled, sequestered funds are no longer available for obligation or expenditure (except for special funds and trust funds). A sequester may occur in response to: (1) the enactment of discretionary appropriations that cause a breach, (2) the enactment of revenue or direct spending legislation that causes a net increase in the deficit, or (3) the estimation of a deficit in excess of the applicable maximum deficit amount. A sequester can also be classified in terms of when it is implemented, that is, as an end-of-session sequester or a within-session sequester.

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 of 1974 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 are commonly 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 (primarily the Treasury Department), 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) (or Section 602(b)) of the Congressional Budget Act of 1974 of the budget authority and outlays allocated to it. In the case of the Appropriations Committees, amounts must be subdivided among subcommittees. Other committees may subdivide either by programs or subcommittees (but they are not required to

make any subdivisions through the fiscal year 1995 budget cycle).

SUPPLEMENTAL APPROPRIATION. Budget authority provided in an appropriations act in addition to regular or continuing appropriations already provided. Supplemental appropriations are made to cover needs deemed too urgent to be postponed until the enactment of next year's regular appropriations act. 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 may be considered subsidies provided through the tax system to encourage certain activities or to assist certain groups. Tax expenditures involve no payment of funds from the Federal Government. Rather, the Treasury Department forgoes some of the receipts that it otherwise would have collected, and the taxpayers who benefit 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 expressly 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 benefits, Government retirement and veterans' benefits, and welfare payments.

TRUST FUNDS. Funds collected and used by the Federal Government for carrying out specific purposes and programs according to terms of a trust agreement or statute, such as the Social Security trust funds. Trust funds are not available for the general purposes of the Government.

UNDISTRIBUTED OFFSETTING RECEIPTS. These receipts, which are offset against total spending, are composed of: (1) payments to trust funds by Government agencies for their employees' retirement; (2) interest paid to trust funds on their investments in Government securities; and (3) proprietary receipts from rents and royalties on the Outer Continental Shelf lands.

UNIFIED BUDGET. The form of the budget of the Federal Government in which receipts and outlays from both federal funds and trust funds are consolidated (sometimes also called the "consolidated" budget). Budget authority, outlays, and receipts of off-budget entities are excluded from the unified budget.

UNOBLIGATED BALANCE. The portion of budget authority that has not been obligated. In one-year accounts, the unobligated balance expires at the end of the fiscal year. In multiyear accounts, the unobligated balance may be carried forward and remain available for obligation for the period specified. In no-year accounts, the unobligated balance is carried forward indefinitely until: (1) rescinded by law; (2) the purposes for which it was provided have been accomplished; or (3) disbursements have not been made against the appropriation for two full consecutive years.

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 of 1974), 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. The resources in consolidated working fund accounts are available for the same periods as those of the accounts advancing the funds.

Chapter Six

The Budget Process and Deficit Reduction

Some people believe that the budget process is merely the stuff of budget insiders and not terribly important to deficit reduction. Others believe that an appropriate budget process is all that is needed to eliminate the deficit. A review of recent history suggests that although budget procedures are not substitutes for policy actions to address the deficit (nor are they sufficient to force such actions), they can stiffen the resolve of policymakers and provide a certain amount of political protection for those who must make difficult decisions. For this reason, the budget process has an important, though limited, role in any effort to reduce the deficit. Even though no one should expect any process to accomplish miracles, appropriately designed procedures can make compliance with deficit-limiting actions more likely.

The term budget process here refers broadly to all of the rules and procedures that affect the level of federal spending and taxes. The term encompasses two different categories of rules and procedures, although the categories have some overlap. One category might be considered the traditional category. It includes rules and procedures, such as those established by the Budget and Accounting Act of 1921 and the Congressional Budget Act of 1974 (the Budget Act), that guide the formulation and consideration of the federal budget but do not impose any restrictions on budget outcomes. The second category includes rules and procedures that are intended to ensure some predetermined outcome--a balanced budget or a budget that complies with some previ-

ously agreed-to budgetary decisions. Such outcome-oriented rules and procedures have been put in place by the Balanced Budget and Emergency Deficit Control Act of 1985 (popularly known as Gramm-Rudman-Hollings) and the Budget Enforcement Act of 1990 (BEA).

Although reforms such as the Budget and Accounting Act and the Budget Act have certainly improved the information available to decisionmakers and rationalized the decisionmaking process, they did not prevent the occurrence of unprecedented peacetime deficits in the 1980s and the early 1990s. These deficits led to experimenting with the category of outcome-oriented budget procedures and to a raft of proposals for additional procedures of this sort. This chapter focuses on whether and how such procedures are likely to aid in reducing the deficit.

Recent history indicates that the best recipe for deficit reduction is to couple enacting long-term deficit reduction (as opposed to enacting promises of future actions) with a process to enforce that reduction. This formula was followed by the architects of the 1990 budget agreement, which led to deficit reduction legislation and the BEA. The best approach to additional deficit reduction is to build on this model by deciding on specific policies to reduce the deficit *and* providing a budget process to enforce this agreement.

The Congressional Budget Office's volume *Reducing the Deficit: Spending and Revenue Options*, which will be published in February

1993, contains specific policy options that could be included in a multiyear deficit reduction package. This chapter discusses the issues that policymakers must address when devising an appropriate process to enforce deficit reduction. A review of budgetary decision-making and outcomes under both Gramm-Rudman-Hollings and the BEA yields lessons to guide those who would revamp the budget process. CBO applies these lessons in concluding that extension, perhaps with some modification, of the current BEA procedures, coupled with enactment of a long-term deficit reduction package, offers the best chance of significantly reducing the deficit in the next few years.

Gramm-Rudman-Hollings and the Budget Enforcement Act

Frustration with large deficits led to the enactment in 1985 of Gramm-Rudman-Hollings, which grafted additional rules on top of existing budget procedures. The act established fixed annual deficit targets that declined each year, and required a balanced budget in 1991. It also established a mechanism intended to ensure that the targets were not exceeded: if the estimated deficit at the beginning of a fiscal year exceeded the target for the year, automatic across-the-board cuts in spending for most discretionary and some mandatory programs (called a sequestration) would reduce the deficit to the targeted amount. The targets were amended in 1987, and the goal of a balanced budget was pushed back to 1993.

Although Gramm-Rudman-Hollings may have held the deficits below what they would otherwise have been, it clearly did not lower the deficit to anywhere close to the targeted level. The original deficit target for 1990, the last year the Gramm-Rudman-Hollings procedures were fully in place, was \$36 billion. The revised 1990 target, established in 1987,

was \$100 billion. The actual deficit for that year was \$221 billion.

In 1990, the Gramm-Rudman-Hollings procedures were largely replaced by the BEA, which resulted from the budget agreement adopted that year. Enacted in conjunction with a legislative package that provided deficit reduction of almost \$500 billion over five years, the BEA set up separate enforcement mechanisms for discretionary spending and for mandatory spending and revenue actions. These mechanisms--a limitation on discretionary spending and a pay-as-you-go requirement for mandatory spending and revenues--replaced the previous focus on fixed deficit targets with a concentration on limiting legislative actions that would increase the deficit. In general, the process the BEA established has been successful in preserving the deficit reductions enacted in 1990, even though other factors have caused a substantial increase in the projected deficits since then.

The first BEA enforcement mechanism limits discretionary spending--spending that is provided in annual appropriation acts. For fiscal years 1991 through 1993, annual appropriation and outlay ceilings were established for each of three categories of discretionary spending--defense, international, and domestic. For the two years after 1993, budget authority and outlay caps exist only for the total of discretionary spending. Any violation of the spending caps is enforced through a sequestration of discretionary spending--in the category in which the violation occurs through 1993, and in total discretionary spending in 1994 and 1995.

The BEA's second major enforcement mechanism is the pay-as-you-go (PAYGO) process that applies to mandatory spending and revenues, which are both controlled by permanent law (or at least laws that do not require annual renewal). Mandatory spending, such as that for Medicare and farm price support programs, is determined by laws establishing eligibility rules, benefit rates, or other provisions that require the federal government to make

Box 6-1.

Changes in the Deficit Outlook Since the Budget Agreement

Shortly after enactment of the Omnibus Budget Reconciliation Act of 1990 (OBRA-90), which put in place deficit reduction agreed to by the President and the Congress that year, the Congressional Budget Office estimated that budget deficits would be reduced by nearly \$500 billion over the 1991-1995 period, with the deficit down to \$29 billion in 1995. CBO currently estimates that the deficit in 1995 will be \$284 billion (see table below). What has happened to cause such a dramatic reestimate in the deficit?

Perhaps as important as what has happened is what has not happened. First, the reduction in the deficit resulting from OBRA-90 has not been dramatically less than was estimated two years ago. If the changes in spending and taxes agreed to in 1990 had never happened, the deficits in 1991 through 1995 would be close to \$500 billion higher than current estimates. Second, legislation enacted since 1990 has not significantly increased deficits. In fact, legislated policy changes account for only \$2 billion

of the estimated \$255 billion increase in the projected 1995 deficit.

What has happened is that factors beyond the direct control of the President or the Congress have reduced revenues and increased spending for entitlements and other mandatory programs. Revenues are lower because real economic growth was slower than anticipated. Lower inflation has also pushed down revenues, but this effect on the deficit is approximately offset by lower automatic cost-of-living adjustments in benefit programs, which are tied to inflation. Other expenditures in major benefit programs are up, largely because of dramatic increases in Medicare and Medicaid spending caused by a number of technical factors. Although the estimated overall costs of closing ailing thrifts and banks has not increased since 1990, delays in funding thrift resolutions has increased the estimated 1995 cost. Finally, net interest costs in 1995 are higher because of increased deficits in 1991 through 1995, although lower interest rates partially offset this increase.

Changes in CBO Deficit Projections Since the 1990 Budget Summit
(By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
December 1990 Projection	253	262	170	56	29
Policy Changes					
Revenues	-1	3	5	a	a
Outlays					
Desert Storm spending ^b	23	13	10	2	1
Desert Storm contributions	-43	-5	0	0	0
Other	1	7	4	2	1
Subtotal	-19	15	14	4	2
Deficit	-19	13	9	4	2
Economic Changes					
Revenues	-31	-58	-78	-90	-102
Outlays	1	-9	-31	-38	-34
Deficit	32	49	47	52	68
Technical Changes					
Revenues	-24	-38	-42	-38	-36
Outlays					
Deposit insurance ^c	-28	-108	-28	51	37
Medicaid and Medicare	7	19	32	45	60
Other major benefit programs	8	18	24	24	25
Debt service	-1	-2	a	8	18
Other	-7	1	13	13	8
Subtotal	-21	-71	42	140	148
Deficit	3	-34	84	179	185
Total	16	28	140	235	255
Current Projection	270	290	310	291	284

SOURCE: Congressional Budget Office.

NOTE: The December 1990 projections appeared in Congressional Budget Office, "The 1990 Budget Agreement: An Interim Assessment," CBO Paper (December 1990).

a. Less than \$500 million.

b. Estimated; Desert Storm outlays are not segregated from other defense outlays.

c. Excludes changes in estimated interest paid by two deposit insurance agencies (the Resolution Trust Corporation and the Bank Insurance Fund) to the Treasury. These payments are intrabudgetary and do not affect the deficit.

expenditures. Revenues are determined by the tax rates and tax rules set forth in laws.

The PAYGO rules require that the net effect of legislative actions taken since 1990 that affect mandatory spending and revenues in the 1991-1995 period must not increase the combined deficit of the current and next fiscal year. If this condition is not met, the PAYGO discipline is enforced through a separate sequestration of the resources available to mandatory programs other than those the BEA specifically exempts from sequestration.

Deficit targets, though they still exist, play no role under the BEA through 1993. Through that year, the President must adjust them for changes in economic and technical assumptions and conceptual revisions. (The President has the option to make similar adjustments for 1994 and 1995.) As long as the targets are fully adjusted, the deficit estimate may increase substantially--because of a deteriorating economy, for example--and no action would be mandated to offset the bleaker deficit outlook.

The BEA has been generally successful in its first two years in enforcing the deficit reduction actions that resulted from the 1990 budget agreement. The discretionary spending caps are holding; the appropriations committees and the Congress lived within their limits for 1991 and 1992 and actually reduced spending to a level below the caps in 1993. The pay-as-you-go process has discouraged major efforts to increase entitlement spending or cut taxes or both.

Nonetheless, the deficit has not come down since the BEA was enacted. It is higher now than it was before the passage of that law, and CBO projects that the long-term deficit problem will worsen without further policy actions (see Chapter 2).

But the deficit's failure to come down cannot be laid at the feet of the BEA. When enacting the BEA, policymakers believed that the budget summit agreement would lower the deficit substantially; the BEA included no

requirement for additional deficit reduction if this expectation was not met. The factors that have led to an increase in the projected deficit since 1990 have largely to do with the deterioration of the economy and technical reestimates of revenues and spending, especially for Medicare and Medicaid (see Box 6-1). That virtually none of the change in the deficit outlook results from policies enacted since the BEA is a testament to the act's success in enforcing the budget agreement.

Lessons Learned

The past seven years have provided an experiment in the efficacy of two very different approaches to using the budget process to reduce the deficit. Although neither Gramm-Rudman-Hollings nor the Budget Enforcement Act has resulted in the hoped-for deficit reduction, several lessons emerge from the actual results under each regime.

- o First, budget procedures are much better at enforcing deficit reduction agreements than at forcing such agreements to be reached.
- o Second, participants in the budget process should be held accountable for results that are under their direct control.
- o Third, the enforcement process must be credible.
- o Fourth, the process must include a certain amount of flexibility to allow reasonable responses to unexpected events.

Enforcing Agreements Instead of Forcing Agreements

Gramm-Rudman-Hollings was enacted because the President and the Congress could not agree on policies that would reduce long-term deficits. Policymakers hoped that the

specter of sequestration would force the President and the Congress to negotiate and agree to meaningful deficit reduction measures. But agreement could not be reached on enough real, permanent deficit reduction to lower the deficit to the statutory level. Instead, the legal requirement to meet the targets was satisfied by using overly optimistic economic assumptions and outright budget gimmickry, such as shifting military pay dates between fiscal years and moving costly spending off-budget.

The experience under Gramm-Rudman-Hollings demonstrated that if the President and the Congress are unwilling to agree on a painful deficit reduction package, it is unlikely that any budget procedure can force them to agree. Instead, budgetary legerdemain is likely to be used to meet the letter of the law, and the hard decisions that would achieve real, permanent deficit reduction will still be avoided. Any budget procedure that establishes fixed deficit targets represents an attempt to force future agreements and is subject to this problem. A constitutional amendment requiring a balanced budget, a particularly prominent proposed means of establishing fixed deficit targets, would be no exception (see Box 6-2). A process that sets fixed amounts of deficit reduction to be achieved in coming years is also an attempt to force future actions and is likely to be less effective than a system that enforces reductions that have already been put in place. At least in the case of fixed reduction targets, however, the magnitude of the required future changes can be set at a reasonable level that is not subject to huge increases resulting from changes in the economy and technical factors.

Conversely, if the President and the Congress agree on and enact a painful package of spending cuts and tax increases to reduce the deficit, budget procedures that highlight and penalize deviations from that agreement can be effective. The procedures succeed in part because the participants in the agreement have an incentive to stick to the original terms, but this success also reflects the fact that it is far easier to block legislation than to

Box 6-2.

Would a Balanced Budget Amendment Reduce the Deficit?

The limitations of fixed deficit targets represent one of the biggest problems inherent in adopting one of the most popular proposed changes in the budget process—an amendment to the Constitution that would require a balanced budget. A balanced budget amendment sets a target for the size of the deficit, but does not specify either the policy actions that are necessary to reach the target or a process for enforcing those actions. As was so clearly demonstrated under Gramm-Rudman-Hollings, it is impossible to build a process around the achievement of an annual deficit target without creating incentives to engage in short-term fixes and gimmicks in response.

A balanced budget amendment would lead to several problems. First, there is no consensus on what the budget to be balanced under such a strict rule should include, or on how to measure conformity with the balanced budget rule. Further, a balanced budget amendment lacks credibility because it interferes with the ability of the federal government to combat recessions through automatic stabilizers or discretionary fiscal policy. Most important, a balanced budget rule offers too many opportunities to evade its requirements. The President and the Congress could get around an apparently rigid balanced budget constraint by using timing mechanisms and other budgetary gimmicks to achieve short-run budget targets; basing the budget on overly optimistic economic assumptions; creating off-budget agencies that would have authority to borrow and to spend but whose transactions would not be directly recorded in the budget; and passing costly spending on to states and local governments (through mandates) or private businesses (through regulations).

A balanced budget amendment, if it were to work, would need to be accompanied by legislation that specified particular actions to reduce the deficit and how they would be enforced. The deficit cannot be brought down without making these painful decisions to cut specific programs and raise particular taxes. The balanced budget amendment is not a substitute for such a balanced budget plan. Even if the amendment were passed and ratified by the necessary three-fourths of the states, therefore, the hard work would remain to be done.

enact it. The parliamentary impediments (such as filibusters in the Senate, the need to muster majorities in numerous committees and at various stages of the legislative process, or the two-thirds majority in each House required to override a Presidential veto)

that make enacting deficit reduction, or any controversial legislation, so difficult also work against reversing deficit reduction legislation once it is in place.

The durability of enacted deficit reductions was demonstrated by the defeat of several attempts in 1992 to tear down the walls between the defense and domestic discretionary spending categories and use defense savings to fund domestic programs at a level above the domestic cap. Given the demand for additional domestic spending and the political climate at the time, establishing *de novo* a domestic spending cap at the level of the BEA cap almost certainly would have been impossible in 1992. It was possible, however, to block efforts that would have revised the previously agreed-upon BEA cap to allow more domestic spending.

Promoting Accountability

One of the problems with Gramm-Rudman-Hollings was that the fixed deficit targets made it virtually impossible to identify any budget participants who were responsible if the deficit was estimated to exceed the target. Any excess was the result of numerous factors, including ones not directly under the control of any budget participant, such as slower-than-expected economic growth. The inability to assign responsibility for the excess made it more difficult to reach agreement on how to eliminate it.

In addition, if efforts to cut the deficit were only partially successful and a sequestration did occur, it would apply to all programs that were not specifically exempt from all sequestrations, whether or not those programs had already been cut in the effort to reach the target. Policymakers, therefore, were more hesitant than usual to volunteer cuts for a deficit reduction package. Furthermore, because many programs were exempt from sequestration, advocates of those programs were free to try to increase spending in those programs or

defend them from cuts without worrying about whether their actions would trigger a sequestration.

The BEA makes it easy to identify those responsible for deviations from the budget agreement, and it applies the sequestration more precisely than Gramm-Rudman-Hollings. If discretionary spending exceeds the cap, legislation within the jurisdiction of the appropriations committees is clearly responsible, and any resulting sequestration applies only to the discretionary spending within the relevant category (or to all discretionary spending in 1994 and 1995). If the PAYGO scorecard shows a net deficit increase, those who supported legislation that increased mandatory spending or reduced revenues are clearly responsible; any sequestration that does occur applies only to mandatory spending. Because the two committees that write tax legislation--the House Ways and Means Committee and the Senate Committee on Finance--also have jurisdiction over programs that represent a very large share of mandatory spending, the responsibility for avoiding net PAYGO deficit increases is more concentrated than is at first apparent.

As a result of the clear connection between legislation and a sequestration, PAYGO legislation that increases the deficit is the subject of intense scrutiny. The first question asked of anyone proposing an increase in mandatory spending or a cut in taxes since the BEA is almost always "How are you going to pay for it?" No PAYGO sequestration has yet been triggered, because any enacted deficit increases have been offset, at least according to OMB's estimates, by measures that reduce the deficit.

Maintaining Credibility

Gramm-Rudman-Hollings lacked credibility because it promised results that were virtually impossible to achieve, and it invited evasion through phony estimates and budgetary gimmicks.

Reaching the original deficit targets or the revised targets established in 1987 might have seemed possible, though ambitious, when the targets were established. As the performance of the economy fell below expectations and the costs of programs such as Medicaid and Medicare increased above projections, however, it became clear that there was virtually no way to reach the targets.

For example, in October 1990, the Office of Management and Budget (OMB) estimated that a sequestration of \$83 billion would have been necessary to meet the Gramm-Rudman-Hollings target of \$64 billion in fiscal year 1991. According to OMB, a sequestration of \$83 billion would have cut spending for each nonpersonnel defense account by 35 percent and each nonexempt domestic account by 32 percent. The President and the Congress clearly could not allow a sequestration of that size to take effect; therefore, neither the deficit target nor the supposedly automatic enforcement was credible.

The credibility of Gramm-Rudman-Hollings also suffered because of the overly optimistic economic and technical estimates and the budgetary gimmicks it encouraged. Rosy scenarios are almost inevitable in any system that focuses on meeting fixed deficit targets. The effects of changes in economic and technical assumptions on the deficit can easily dwarf the effects of proposed policy changes. Making the forecast of economic growth a little more optimistic is more palatable than including in the budget a deeper cut in a popular entitlement program or a tax increase. Also, any system that focuses enforcement on one year at a time, as Gramm-Rudman-Hollings did, invites schemes that produce apparent deficit savings in the target year while increasing deficits in other years.

The BEA is more credible than Gramm-Rudman-Hollings because it promises only to prevent legislative changes that would diminish the deficit reduction put in place as a result of the 1990 budget agreement. That is not a clearly unobtainable goal. In addition, the automatic sequestrations that enforce the

BEA are credible because they are likely to be relatively small. Unlike Gramm-Rudman-Hollings, these sequestrations apply only to deficit increases caused by legislative actions, and such actions are unlikely to increase the deficit in any year by the very large amounts that can result from changes in the economy or technical factors.

The BEA also is less subject to rosy scenarios and budgetary gimmicks. Optimistic economic and technical assumptions have a great effect on estimates of the deficit, which are not relevant in BEA enforcement, but ordinarily have relatively little effect on estimates of the costs of new legislation, which are central to BEA enforcement. Timing shifts and other budgetary gimmicks are harder to use to evade BEA enforcement because the BEA has a multiyear focus. Unlike Gramm-Rudman-Hollings, the BEA does not ignore any current-year deficit increases after initial estimates indicate compliance at the beginning of the year. It also does not allow the possibility that future estimates of lower deficits based on optimistic economic or technical assumptions will eliminate the need to offset increases in future deficits resulting from current legislation. Any estimate that current legislation will increase a future deficit will require lower spending or higher taxes in that future year—at least through 1995, when the BEA expires.

Providing Flexibility

Any budget process must be flexible enough to deal with unforeseen circumstances that require budgetary responses. For example, it is often appropriate for the federal government to engage in countercyclical fiscal policy when the economy is in recession. The federal government also responds to other emergencies, such as natural disasters or international crises, that cannot always be anticipated.

The budget process must recognize these realities; indeed, its continued survival depends on providing policymakers with the flexibility to deal with these unanticipated

events. The BEA assisted in this goal by establishing an explicit exception for discretionary appropriations, mandatory spending increases, or tax cuts that the legislation and the President designate as emergency requirements. Despite some predictions to the contrary, the President and the Congress have resisted the urge to use this safety valve to evade the BEA's strictures on a large scale. Any process designed to enforce future deficit reduction agreements should maintain such exceptions.

The Budget Process in 1993

CBO's budget projections clearly show that significant actions are needed to reduce the deficit. Under current policies, budget deficits will hover around \$300 billion in the next few years and then will begin to rise even higher despite the assumption that the economy will grow steadily throughout the period. The deficit reduction enacted in 1990 prevented the deficit from being even higher than it is, but additional cuts in spending or tax increases or both are needed to forestall deficit increases that are unprecedented in a growing peacetime economy.

Based on the lessons of the last seven years, the chances of achieving long-term deficit reduction will be improved if changes in the budget process are not the focus of attention in 1993. The focus should instead be on reaching agreement on a specific long-term deficit reduction plan and enacting cuts in mandatory spending or increases in taxes that are included in that plan. A process should then be put in place that will ensure that future appropriations for discretionary spending do not exceed the planned amounts and that future changes in mandatory spending programs and taxes do not dissipate the deficit reduction that has been enacted.

If subsequent changes in the economy or the costs of mandatory programs lead to deficits that are significantly different than anticipated in the wake of the enacted deficit reduction, the President and the Congress should consider taking additional action at that time. The BEA requires actions in response to events that are under the direct control of policymakers, but does not require the situation to be revisited if the deficit outlook deteriorates for other reasons. Although no process should be put in place that is intended to force future actions, neither should the existence of a process enforcing a previous plan be used as an excuse to avoid taking responsible actions in response to changed circumstances.

Discretionary Spending

Because discretionary appropriations are enacted for one year at a time, it is not possible to enact discretionary savings for future years. However, as the BEA shows, it is possible to enact caps on discretionary spending so that cuts in discretionary spending below a baseline level can be part of a multiyear deficit reduction package. Some people believe that giving the President the authority to veto line items in appropriation bills would also help to achieve savings in discretionary spending, but an item veto seems more likely to affect the composition of discretionary spending than to contribute to deficit reduction (see Box 6-3).

Setting caps that are supposed to ensure future discretionary savings may seem to run counter to the argument that the budget process is not good at forcing future agreements on specific cuts. But the very fact that discretionary spending is annually appropriated is what makes the caps work. Because mandatory spending and taxes are based on permanent law, the President and the Congress can avoid making promised future cuts simply by failing to take action. But appropriators must act every year in order to provide funding for

discretionary programs. They cannot evade the caps by simply failing to act. Instead of the caps being a device to force future actions, they are mechanisms that limit future actions.

If an agreement is reached on a new deficit reduction package that extends beyond 1995, the BEA discretionary caps should be adjusted and extended in order to enforce the level of discretionary spending assumed in that package. Such enforcement is credible as long as the caps are not unreasonably low. One important issue is whether the caps cover only

total discretionary spending, as the BEA provides in 1994 and 1995, or whether there should be a return to the separate caps on discretionary categories that existed in 1991 through 1993. Caps on total spending provide decisionmakers with more flexibility in responding to changing needs, but still ensure that the promised discretionary savings are achieved. Having separate caps on categories reduces flexibility, but it leads to deficit reduction if actual funding in any category is below the cap: the deficit is reduced because those savings cannot be used to increase spending in

Box 6-3.

What Is the Likely Effect of the Item Veto?

Many Presidents have sought the authority to reduce or eliminate specific items in appropriation bills, a power possessed by 43 of the 50 state governors. These Presidents have argued that an item veto would empower them, as a representative of the general interest, to reduce low-priority or locally oriented--so-called pork-barrel--projects, thus leading to a reduction in the deficit.

Various statutory alternatives that are designed to have largely the same effect as the item veto have also been proposed. The most popular of these would expand the current powers of the President to propose rescinding appropriated funds under the Congressional Budget and Impoundment Control Act of 1974. Expedited rescission proposals (such as H.R. 2164, which passed the House in the closing days of the 102nd Congress) are the most limited in their grant of authority to the President. They would require the Congress to vote on proposed rescissions, with a simple majority prevailing on the vote. At present, the Congress can kill the proposed rescissions simply by failing to act on the proposal.

Giving the President item veto or similar power would certainly represent a shift in the constitutional balance of powers, but it is unlikely to have any significant effect on deficits. Because the item veto and its statutory substitutes would apply only to discretionary spending, which represents only about 40 percent of total outlays and is growing much more slowly than mandatory spending, the item veto's potential to reduce the deficit or control spending is necessarily limited.

The item veto has limited potential to reduce even the discretionary portion of the budget. Because the Budget Enforcement Act's spending caps represent a statutory agreement between the President and the Congress on the level of discretionary spending, the item veto is unlikely to spur additional reductions. Any reductions in appropriations from line-item vetoes are likely to be replaced by other spending, so the only result would be a shift in the composition of spending.

Even if discretionary spending limits were not in place, Presidents are likely to use the threat of vetoes to gain increases in spending they support rather than to reduce spending overall. Only Presidents who value reduced spending over pursuing their own spending priorities are likely to even try to use the item veto for deficit reduction.

Because an item veto would shift the balance of power between the President and the Congress, it probably would affect the distribution of spending by substituting some Presidential budget priorities for Congressional ones. Evidence from studies of the states' use of the item veto supports this claim; state governors have used it to shift state spending priorities rather than to decrease spending. Some analysts would argue that shifting spending priorities is sufficient reason to adopt the item veto if the President is less likely to engage in pork-barrel spending. An item veto, they claim, would make the President more responsible for spending choices and would lessen the tendency for the two branches to blame each other for the proliferation of "wasteful" spending.

another category. Separate caps also focus accountability by reducing the number of decisionmakers with primary responsibility for ensuring compliance with a cap.

The BEA's current sequestration process for discretionary programs should be used to enforce any limits on appropriations that are part of a new deficit reduction package. Any

Box 6-4.

Will Caps on Mandatory Spending Work?

Approximately half of all federal spending is for entitlements and other mandatory spending (excluding net interest payments). Payments for these programs are governed by formulas that are set in law, and spending is not constrained in the annual appropriation process. The Budget Enforcement Act's pay-as-you-go procedures were designed to prevent enactment of legislation that would erode the mandatory spending cuts and revenue increases that were enacted as a result of the 1990 budget agreement. They were not designed to prevent growth in mandatory spending that results from increases in beneficiary populations, inflation, increased use of services, or any other factors not directly under the control of the Congress and the President.

During the 102nd Congress, the Bush Administration and various Members supported the concept of placing an enforceable cap on mandatory spending. This proposal would tie the growth of spending for individual programs to the increase in the eligible population and inflation, plus a transitional percentage that would allow the change to be phased in. It would also establish a sequestration procedure to enforce a breach of that cap. Savings would be achieved if spending were held to the cap level, because the costs of some programs, notably Medicare and Medicaid, are estimated to grow much faster than their beneficiary populations and general inflation. This rapid growth in Medicare and Medicaid is primarily the result of increases in the use of hospital and physician services, changes in the quality of care, and inflation in the cost of medical care that exceeds inflation in the rest of the economy. In the absence of a fundamental restructuring of Medicare and Medicaid, holding the growth of their costs to the cap level would require real cuts in the health care services that would be available to the elderly and the poor.

Many advocates of this approach do not accompany the call for a mandatory cap with policy proposals to achieve the reductions in

individual programs that are needed to avoid sequestration. Because even most advocates of a mandatory cap agree that an across-the-board sequestration is not an acceptable way to achieve the desired reduction in mandatory spending, however, the cap is likely to be met only if such specific policy changes are enacted. The most important of these would be policies that would control the long-term growth in health care costs, which represent the fastest growing part of the budget. These cuts will be hard to achieve, however, because many people will want to use any Medicare and Medicaid savings to provide greater and more affordable access to medical care for citizens who currently are not covered by government health care programs and do not have access to, or cannot afford, private health insurance.

A sequestration of mandatory programs could not be carried out easily. Government benefit checks and other mandatory spending cannot simply stop flowing after the cap is reached without disrupting, and possibly endangering, the lives of millions of citizens. Agencies in the executive branch could estimate the likely shortfall resulting from the cap and adjust all future payments to account for the effect of the limit, but that would involve an enormous amount of bureaucratic discretion and uncertainty about the benefits that will actually be provided. In any case, the courts may be asked to respond to the conflict between the legislation that authorized the mandatory spending and a requirement to sequester that spending.

By their very nature, entitlement programs are not subject to specific annual spending limits. Simply placing a limit on an entitlement program is no substitute for changing the policies controlling it. If policymakers believe that a program such as Medicare should not exceed a particular level of spending in a year, they should revamp the program and turn it into a discretionary program.

sequestration that occurs is aimed only at programs under the jurisdiction of the appropriators--and only within the offending category if there are separate category caps. Also, the scope of the sequestration is comprehensive because almost no discretionary programs are exempt.

Mandatory Spending

In contrast to its annual funding of discretionary programs, the Congress can enact changes now in mandatory programs and taxes that will achieve the multiyear deficit reduction that has been agreed to. The enforcement mechanism then merely needs to prevent legislative actions that would undo the savings that have been achieved, rather than put a cap on future spending or a floor under taxes.

In place of this approach, however, some people have proposed enacting a cap on future mandatory spending as a way to force future action to cut mandatory programs or, failing that, to achieve savings through future across-the-board sequestrations of mandatory programs. As with proposals to set fixed deficit or deficit reduction targets, the mandatory cap approach assumes that establishing a new procedure can force future agreements to take politically difficult steps (in this case, agreements to cut mandatory programs) that are currently not possible. And, as with fixed targets, a mandatory cap is likely to end up promising more than it can deliver--with gimmicks and phony estimates taking the place of real spending cuts and with promised automatic cuts lacking credibility (see Box 6-4). The most effective means of reducing mandatory spending or increasing revenues is to enact laws now that achieve multiyear deficit reduction and to enforce the new deficit reduction package by extending the BEA's PAYGO procedures for a number of years.

The PAYGO mechanism is not as well focused or comprehensive as the discretionary procedures. A tax cut that is not offset by

mandatory spending cuts or tax increases would trigger a sequestration of mandatory spending rather than a tax increase. Further, the majority of mandatory spending is exempt from sequestration even though increases in exempt programs might be the cause of the sequestration. Although the current PAYGO system has worked well, expanding the application of sequestration would increase the fairness of the process and expand the number of policymakers with strong incentives to avoid sequestration. The President and the Congress should consider making an automatic increase in taxes a part of PAYGO sequestration and broadening the base of programs that are subject to sequestration to include the vast amount of spending on programs that primarily benefit the middle class. These actions would be likely to ensure that advocates of these benefit programs and advocates of low taxes would actively oppose any legislation that might lead to a PAYGO sequestration.

Conclusion

The past indicates that efforts to reduce the deficit are most likely to be successful if the President and the Congress first agree on policy actions and then set up processes to enforce them: deficit reduction does not work as well if the process changes precede the policy actions. For example, both Gramm-Rudman-Hollings and the proposed balanced budget amendment try to force agreement on specific deficit-reducing actions. Processes are not as good at forcing agreements, however, as they are at enforcing them. Procedures are important, but they should not be asked to do what they cannot. If agreement exists on policy actions, many of the major process changes (such as the balanced budget amendment, the line-item veto, and mandatory caps) that have been advocated are superfluous. The Congress and the President should avoid any temptation to substitute process for policy, but should recognize the importance of process in ensuring that policy changes are realized.



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Budget Process IP 12B

This Info Pack provides a summary of the congressional budget process, including information on recent revisions to the Gramm-Rudman-Hollings Amendment--the Budget Enforcement Act of 1990 (Title 13 of the Omnibus Budget Reconciliation Act of 1990, P.L. 101-508). The Budget Enforcement Act made significant changes to many aspects of the budget process, which are summarized in CRS Report 90-520, included in this packet.

Members of Congress who want further information on this topic may contact CRS at 7-5700. Additional CRS Reports may be identified by looking in the current *Guide to CRS Products* (for congressional use only) under "Gramm-Rudman-Hollings Act" and "Budget and Government Spending," and in the latest *Update* under "Budget and Government Spending."

Constituents may find additional information on this topic in a local library through the use of *Readers' Guide to Periodical Literature*, Public Affairs Information Service *Bulletin* (PAIS), and various newspaper indexes. Books on this subject may be identified through the library's catalog or the most recent edition of *Subject Guide to Books in Print*.

We hope this information will be helpful.

Congressional Reference
Division

CRS Report for Congress

Budget Enforcement Act of 1990: Brief Summary

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and
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Government Division

November 5, 1990



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BUDGET ENFORCEMENT ACT OF 1990: BRIEF SUMMARY

SUMMARY

The Omnibus Budget Reconciliation Act of 1990, H.R. 5835, was signed into law on November 5, 1990. Title XIII of the law is referred to as the "Budget Enforcement Act of 1990." The conference report on H.R. 5835 (House Report 101-964, October 26, 1990) was printed in the *Congressional Record* of October 26 (Vol. 136, No. 149, Pt. II).

The Budget Enforcement Act contains five subtitles:

- Subtitle A, which provides special five-year procedures for deficit control (affecting fiscal years 1991-1995);
- Subtitle B, which makes permanent changes in the congressional budget process;
- Subtitle C, which deals with the treatment of Social Security in the budget;
- Subtitle D, which cancels the fiscal year 1991 sequester and retroactively authorizes pay for employees furloughed during a three-day funding gap in October 1990; and
- Subtitle E, which pertains to the financial safety and soundness of Government-sponsored enterprises.

The Budget Enforcement Act makes numerous and substantial changes in the Federal budget process by amending several laws, principally the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177, as amended) -- also referred to as the Gramm-Rudman-Hollings Act -- and the Congressional Budget Act of 1974 (P.L. 93-344, as amended), and the standing rules of the House. This report briefly discusses the major changes.

CONTENTS

INTRODUCTION	1
SPECIAL FIVE-YEAR PROCEDURES FOR DEFICIT CONTROL .	2
Revision and Enforcement of Deficit Targets	3
Enforcement of Discretionary Spending Limits	3
Enforcement of "Pay-As-You-Go" Procedures	5
Timetable for Sequestration Reports and Orders	6
OTHER BUDGET PROCESS MATTERS	6
Deadline for Submission of President's Budget	6
Treatment of Social Security in the Budget	7
Federal Credit Reform Act of 1990	8
Government-Sponsored Enterprises	8
"Byrd Rule" on Extraneous Matter in Reconciliation	9
Cancellation of Fiscal Year 1991 Sequester	9
Federal Operations During Funding Gaps	9

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Additional information relating to the Budget Enforcement Act may be obtained from the following CRS Reports to Congress:

- *Budget Enforcement Act of 1990: Contents Listing*, by Edward Davis and Robert Keith. Report no. 90-516 GOV. November 5, 1990, 5 p.;
- *Budget Enforcement Act of 1990: Cross-References to Laws and Rules Amended*, by Edward Davis and Robert Keith. Report no. 90-517 GOV. November 5, 1990, 13 p.; and
- *Budget Enforcement Act of 1990: Legislative History*, by Edward Davis and Robert Keith. Report no. 90-518 GOV. November 5, 1990, 5 p.

SPECIAL FIVE-YEAR PROCEDURES FOR DEFICIT CONTROL

The Budget Enforcement Act establishes special five-year procedures for deficit control (covering fiscal years 1991-1995) by amending the Gramm-Rudman-Hollings Act and the Congressional Budget Act (principally by adding a new Title VI, "Budget Agreement Enforcement Provisions").

First, the Act revises the deficit targets in the Gramm-Rudman-Hollings (GRH) Act and extends the sequestration process for two more years -- through fiscal year 1995 (although the budget is not expected to be in balance by that time). Second, the Act sets limitations on distinct categories of discretionary spending. Third, the Act creates "pay-as-you-go" 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 effect on the deficit.

In addition to retaining the sequestration process that enforces the deficit targets in the GRH Act, the Budget Enforcement Act also establishes sequestration procedures to enforce the discretionary spending limits and the pay-as-you-go requirements. To the extent that any of the three different types of sequesters must be made, they will 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 informally 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 formally as "within-session sequestration."

Sequestration tied to enforcement of the deficit targets would occur only if a deficit excess remained after the other two types of sequestration had been implemented. A number of factors, however, including the operation of the other two types of sequestration, are expected to make sequestration tied to the deficit targets unnecessary, at least through fiscal year 1993.

The deficit targets and discretionary spending limits must be adjusted to take into account a variety of circumstances and developments, as discussed below.

In addition to establishing three separate sequestration procedures, the Budget Enforcement Act requires that budget resolutions considered during this period cover five fiscal years. Further, the procedures for setting aggregate budget amounts in the budget resolution, allocating spending under a budget resolution, and enforcing budget resolution amounts are keyed to the deficit targets and discretionary spending limits (as they may be adjusted).

Revision and Enforcement of Deficit Targets

The deficit targets in the GRH Act are revised for fiscal years 1991-1995, as shown in Table 1. In 1985, the GRH Act set the deficit target for fiscal year 1991 at zero. The fiscal year 1991 target was revised upward to \$64 billion in 1987, with the budget expected to be in balance by fiscal year 1993. The Budget Enforcement Act revises the fiscal year 1991 target upward to \$327 billion. Further, the Act does not specify a future deficit target of zero; the deficit target for fiscal year 1995, the last fiscal year covered by the procedures, is \$83 billion. The newly revised deficit targets are comparatively greater than the earlier targets because of a change in the treatment of the Social Security trust funds and revised economic and technical assumptions.

The President is required to adjust the deficit targets for fiscal years 1991-1995 (to reflect updated economic and technical assumptions and changes in budgetary concepts and definitions), as applicable, when he submits his annual budget for fiscal years 1992 and 1993. Further, he may adjust the deficit targets for fiscal years 1994 and 1995 (to reflect updated economic and technical assumptions) when he submits his budget for those fiscal years. For any fiscal year, the deficit targets must be adjusted to take into account changes in the discretionary spending limits made under other procedures. Sequestration reports issued by OMB later in the year must reflect these adjustments.

The Budget Enforcement Act retains the sequestration procedures that make across-the-board spending cuts to reduce the deficit down to the target level. As under the earlier procedures, half of the required outlays savings must be made in defense programs and half in nondefense programs. The margin-of-error amount (which is the amount by which the deficit target may be exceeded without triggering sequestration) is set at zero for fiscal years 1992 and 1993 and is set at \$15 billion for fiscal years 1994 and 1995. (Formerly, the GRH Act set the margin-of-error amount at \$10 billion each year and zero for the last fiscal year covered by the process.)

Enforcement of Discretionary Spending Limits

The Budget Enforcement Act establishes limits on discretionary spending. For fiscal years 1991-1993, separate limits are set for new budget authority and outlays for three different categories -- defense, international, and domestic. For fiscal years 1994 and 1995, the limits on new budget authority and outlays are established for a single category -- total discretionary spending. The discretionary spending limits for fiscal years 1991-1995 are shown in Table 2.

When the President submits his budget for each of fiscal years 1992 through 1995, he must adjust the discretionary spending limits to take into account certain factors and conditions, including changes in budgetary concepts and definitions, changes in inflation, and (for fiscal years 1993 and

TABLE 1. Original and Revised Deficit Targets
(amounts in billions of dollars)

Fiscal year	1985 Law	1987 Law	House Bill	Senate Amendment	Conference Agreement
1986	171.9				
1987	144				
1988	108	144			
1989	72	136			
1990	36	100			
1991	0	64	302.3	242	327
1992		28	276.8	219	317
1993		0	189.7	165	236
1994			58.1	86	102
1995			18.7	62	83

TABLE 2. Discretionary Spending Limits: Fiscal Years 1991-1995
(amounts in billions of dollars)

	FY1991	FY1992	FY1993	FY1994	FY1995
<u>Defense</u>					
Budget Authority	288.918	291.643	291.785	-----	-----
Outlays	297.660	295.744	292.686	-----	-----
<u>International</u>					
Budget Authority	20.100	20.500	21.400	-----	-----
Outlays	18.600	19.100	19.600	-----	-----
<u>Domestic</u>					
Budget Authority	182.700	191.300	198.300	-----	-----
Outlays	198.100	210.100	221.700	-----	-----
<u>All Categories</u>					
Budget Authority	-----	-----	-----	510.800	517.700
Outlays	-----	-----	-----	534.800	540.800

1994) changes in estimates of credit subsidy costs. Discretionary spending limits may also be adjusted to allow for Internal Revenue Service tax compliance funding, debt forgiveness for Egypt and Poland, International Monetary Fund quota increases, emergency appropriations (designated as such in statute and including costs for operation Desert Shield), and specified special allowances.

Enforcement of the spending limits is accomplished through a special sequestration process and by linking the limits to points of order under the Congressional Budget Act. A sequester under this process would occur only within the category in which a breach occurred. If a sequester under this process is required at the end of a session, it must occur on the same day as any sequestration tied to enforcement of the pay-as-you-go procedures or the deficit targets. During the following session, the enactment of legislation causing a breach in the spending limits would trigger sequestration 15 days later; however, any such enactment occurring during the last quarter of the fiscal year (*i.e.*, between July 1 and September 30) would instead cause the appropriate discretionary spending limits for the next fiscal year to be reduced by the amount of the breach.

Enforcement of Pay-As-You-Go Procedures

Under the "pay-as-you-go" process created by the Budget Enforcement Act, legislation proposing new direct spending, or legislation decreasing revenues, must be offset so that the deficit is not increased. Enforcement of the "pay-as-you-go" process is accomplished through a special sequestration procedure and through links to the Congressional Budget Act.

If a sequester under this process is required, it must occur within 15 calendar days after Congress adjourns at the end of a session and on the same day as any sequestration tied to enforcement of the discretionary spending limits or the deficit targets. The sequester would have to offset the amount of any net deficit increase in that fiscal year and the prior fiscal year, and would be applied to non-exempt direct spending programs.

Emergency direct spending and revenue legislation (designated as such in statute) that would cause a deficit increase is not covered by the "pay-as-you-go" sequestration process.

For instances in which legislation causing a net reduction in revenues is enacted, the House provides a special reconciliation procedure under which the committee of jurisdiction over the enacted legislation would have to report new legislation increasing revenues to offset the deficit increase.

Timetable for Sequestration Reports and Orders

The three types of sequestration that may occur -- relating to the deficit targets, the discretionary spending limits, and the "pay-as-you-go" procedures -- are integrated under a single timetable, as discussed previously.

Table 3 sets forth the timetable for the issuance of sequestration reports and orders.

TABLE 3. Timetable for Sequestration Reports and Orders

<u>Date:</u>	<u>Action to be completed:</u>
5 days before the President's budget submission	CBO sequestration preview report.
The President's budget submission	OMB sequestration preview report.
August 15	CBO sequestration update report.
August 20	OMB sequestration update report.
10 days after end of session	CBO final sequestration report.
15 days after end of session	OMB final sequestration report; Presidential order.
30 days later	GAO compliance report.

OTHER BUDGET PROCESS MATTERS

Deadline for Submission of President's Budget

Under the Budget and Accounting Act of 1921 (31 U.S.C. 1105(a)), the President was required to submit his annual budget within 15 days after Congress convened. In 1985, the Gramm-Rudman-Hollings Act changed the deadline for submission to the first Monday after January 3 (the date on which a new Congress convenes). Three of the five budgets submitted since

the change in the deadline were submitted between January 29 and February 18, well after the deadline.

The Budget Enforcement Act changes the deadline for submission of the President's budget to the first Monday in February, although he may submit it as early as the first Monday after January 3 (and is urged by the conferees to do so except under pressing circumstances).

Treatment of Social Security in the Budget

Transactions of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (OASDI), commonly referred to as the Social Security trust funds, were excluded from the spending and revenue totals of the Federal Government by the Social Security Amendments Act of 1983 and the GRH Act. Although the trust funds (which reflect a growing surplus) are exempt from sequestration, they were included in the deficit calculations made under the GRH Act.

The Budget Enforcement Act reaffirms the off-budget status of the Social Security trust funds and excludes them from the deficit calculations made under the GRH Act.

The exclusion of the Social Security trust funds from the GRH deficit calculations, in the view of some, may create incentives to "tap into" the growing trust fund balances. Accordingly, the Budget Enforcement Act establishes separate House and Senate procedures to protect these balances.

The House provision creates a point of order (as free-standing law) to prohibit the consideration of legislation that would change the actuarial balance of the Social Security trust funds over a 5-year or 75-year period. In the case of legislation decreasing Social Security revenues, the prohibition would not apply if the legislation also included an equivalent increase in Medicare taxes for the period covered by the legislation.

The Senate provision also creates a procedure (referred to as a "firewall") to protect Social Security financing, but does so by expanding certain enforcement provisions of the Congressional Budget Act. The Senate provision expands the prohibition in Section 310(g) of the Budget Act to specifically protect Social Security financing, prohibits the consideration of a reported budget resolution calling for a reduction in Social Security surpluses, and includes Social Security in the enforcement procedures under Sections 302 and 311 of the Budget Act.

The Budget Enforcement Act also requires a report to Congress by the Board of Trustees of the Social Security trust funds regarding the actuarial balances of the funds.

Federal Credit Reform Act of 1990

The treatment of Federal credit activities in the budget is changed by the Budget Enforcement Act. The Act adds a new title, Title V, to the Congressional Budget Act; the new title is referred to as the "Federal Credit Reform Act of 1990." The purposes of the Federal Credit Reform Act are to provide for more accurate measurement of the costs of direct loans and loan guarantees, to place the costs of credit programs on a budgetary basis equivalent to other spending programs, and to improve the allocation of resources among credit programs and between credit programs and other spending programs.

Beginning with fiscal year 1992, the Federal Credit Reform Act provides that the budget cost of credit programs be the long-term cost to the Federal Government on a net present value basis, excluding administrative costs and certain incidental effects. The remaining cash flows associated with credit programs are treated as a "means of financing" and do not affect spending levels. Federal deposit insurance programs are not covered under the Act.

Under the Act, appropriations must be enacted to cover the cost of direct loan and loan guarantee programs, except for credit programs that are entitlements and credit programs of the Commodity Credit Corporation, before assistance can be provided. Adjustments are made to accounts at a later time if the estimated cost of credit activities proves to be incorrect.

The Director of OMB is responsible for developing guidelines and regulations to be used in carrying out the Act. Both OMB and CBO are charged with developing improved cost estimates for credit programs and reporting, by January 31, 1992, on differences in long-term administrative costs for credit programs versus grant programs.

Government-Sponsored Enterprises

Government-Sponsored Enterprises (GSEs) are entities chartered and established by the Federal Government but privately owned and operated. Because GSEs have public-oriented missions and are closely allied with Federal activities, the Federal Government is seen by many as implicitly backing GSE operations financially. The Budget Enforcement Act defines the following entities as GSEs for purposes of the Act: (1) the Farm Credit System; (2) the Federal Home Loan Bank System; (3) the Federal Home Loan Mortgage Corporation; (4) the Federal National Mortgage Association; and (5) the Student Loan Marketing Associations.

The Budget Enforcement Act requires both CBO and the Treasury Department to report to Congress by April 30, 1991, regarding an assessment of the financial soundness of GSEs, and (in the CBO report only) alternative models for oversight. The Treasury Department report must include legislative recommendations.

The Budget Enforcement Act also provides for the reporting of legislation to ensure the financial soundness of GSEs by the appropriate congressional committees no later than September 15, 1991 and requires that the President's annual budget include an analysis regarding GSEs.

"Byrd Rule" on Extraneous Matter in Reconciliation

The "Byrd Rule" sets forth Senate procedures controlling the consideration of extraneous matter in reconciliation measures. The rule originated as Section 20001 of the Omnibus Budget Reconciliation Act of 1985 (P.L. 99-272), was augmented by two Senate resolutions adopted in the 99th Congress (S.Res. 286 and 509), and has been amended. The rule bars extraneous matter from being included in any reconciliation legislation, defining different categories of extraneous matter and providing exceptions to the prohibition.

The Budget Enforcement Act revises the Byrd rule to clarify what constitutes extraneous matter and to strengthen provisions regarding its enforcement (including the incorporation of the two Senate resolutions adopted in the 99th Congress). Further, the Act transfers the Byrd Rule to the Congressional Budget Act and establishes it as a new section (Section 313, "Extraneous Matter in Reconciliation Legislation").

Cancellation of Fiscal Year 1991 Sequester

Pursuant to the Gramm-Rudman-Hollings Act, President Bush issued an initial sequestration order for fiscal year 1991 on August 25, 1990. On October 15, the President issued a final sequestration order. The implementation of the across-the-board spending cuts was suspended by a series of five continuing resolutions (Public Laws 101-403, 101-412, 101-444, 101-461, and 101-467), the final one expiring on November 5. Had the sequester gone into effect, budgetary resources would have been cut by an amount sufficient to reduce outlays by more than \$80 billion.

The Budget Enforcement Act rescinded the fiscal year 1991 sequestration orders (and provided for the restoration of budgetary resources had they been cancelled).

Federal Operations During Funding Gaps

During the 1980s, there were 8 funding gaps (a funding gap is the period when Federal agencies lack authority to spend funds due to the absence of enacted appropriations). Funding gaps have raised controversy because they sometimes result in the widespread furlough of Federal employees and the shutdown of Federal Government operations. Another concern is that during funding gaps many agencies have been too liberal in classifying employees as "essential" personnel and continuing routine activities under authority that

allows only emergency activities involving the safety of human life and protection of property. During the 1980s, following a funding gap, pay for furloughed employees and the conduct of emergency activities was authorized retroactively in continuing appropriations acts enacted after the funding gap.

In 1990, a funding gap occurred during October 6-8. The Budget Enforcement Act retroactively authorized pay for employees furloughed and emergency activities conducted during this period.

In addition, the Budget Enforcement Act amends the Antideficiency Act (31 U.S.C. 1341-1342) to make clear that any funds sequestered may not be obligated or expended and that routine activities of the Federal Government should not be continued during funding gaps.

CHAPTER II

THE NEW BUDGET PROCESS

On September 30, after almost five months of talks, Congressional and Administration budget negotiators announced an agreement. The summit agreement, as it was called, contained changes in substantive law and budgetary procedures designed to reduce the deficit by a total of \$500 billion over five years. When first presented to the House of Representatives in the form of a concurrent resolution on the budget, the summit agreement was voted down. After some modifications, however, a budget resolution was ratified by the House on October 8 and by the Senate the next day.

The budget resolution contained reconciliation instructions directing House and Senate authorizing committees to reduce mandatory spending or increase revenues by a total of \$246 billion over the 1991-1995 period. It also provided discretionary spending allocations to the Appropriations Committees in the amounts agreed upon by the summit participants. The Congress moved quickly to implement the budget resolution. In the following three weeks, it completed action on the 13 appropriation bills for fiscal year 1991. And on the weekend of October 27-28, it approved the Omnibus Budget Reconciliation Act of 1990, which contained tax increases, entitlement cuts, and changes in budget enforcement procedures.

The Budget Enforcement Act of 1990 (Title XIII of the reconciliation act) closely follows the procedures outlined in the budget summit agreement. It includes amendments to both the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as Gramm-Rudman-Hollings) and the Congressional Budget Act of 1974. The most striking change in the budget process is the elimination of fixed deficit targets. While the deficit is likely to fall significantly between now and 1995 as a result of the spending cuts and tax increases in the reconciliation act, the new version of Gramm-Rudman-Hollings does not guarantee this result, as prior versions purported to do. Instead, it

Source: *The Economic and Budget Outlook: Fiscal Years 1992-1996*, pp. 43-57
Congressional Budget Office, January 30, 1991

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attempts to ensure that the hard-won savings enacted in 1990 are not eroded by future changes in law.

This chapter summarizes the new budget process. First, it outlines the rules that will govern the path of spending and revenues. Second, it describes the Congressional procedures that are intended to enforce these rules and the automatic provisions that will be called into play if the Congressional procedures fail. Third, it gives the timetable for the budget process this year. Finally, it considers some of the possible effects of the new budget process on budget outcomes.

This chapter reflects the best current interpretation of the Budget Enforcement Act, but few statements about the new law can be made with complete assurance. The act is long and complicated and was written hurriedly, and most of its provisions have not yet been tested. Practical experience is therefore likely to modify some of the conclusions stated here.

BUDGETARY RULES

The Budget Enforcement Act establishes three major budgetary rules--dollar limits on discretionary spending, a pay-as-you-go requirement for most mandatory spending and revenues, and flexible deficit targets.

Discretionary Spending Limits

Ultimately, almost all federal spending is discretionary. Except for the commitment to pay the interest on the public debt, laws that promise to make specific benefit, grant, subsidy, or other payments can always be changed. Yet, some kinds of spending are more discretionary than others. The spending that is usually termed discretionary is that which is controlled by annual appropriations.

Each year the Appropriations Committees consider and the Congress approves 13 separate appropriation bills. The largest (almost \$300 billion) is for defense. The smallest (about \$0.5 billion) provides

the federal payment to the District of Columbia. The remaining appropriation bills cover foreign operations; the Departments of Labor, Health and Human Services, and Education, and related agencies; the legislative branch; rural development and agriculture; transportation; and the other ongoing operations of the federal government. Each appropriation bill provides specific amounts of budget authority (the authority to make financial obligations) for the agencies and programs within its scope, and that budget authority sooner or later results in outlays (generally, cash disbursements). If the appropriation bills are not enacted by the start of each fiscal year, most government agencies would have to shut down.

The Budget Enforcement Act divides discretionary appropriations into three parts--defense, international, and domestic. For 1991, 1992, and 1993, there are separate budget authority and outlay limits for each of the these three components. For 1994 and 1995, budget authority and outlay caps are set for discretionary spending as a whole. Like most of the other numbers in the Budget Enforcement Act, the discretionary spending limits will be adjusted periodically according to rules specified in law.

The defense discretionary category comprises not only the military activities of the Department of Defense, but also the defense-related functions of other agencies, such as the Department of Energy's nuclear weapons programs. International discretionary spending includes foreign economic and military aid, the activities of the Department of State and the U.S. Information Agency, and international financial programs, such as the Export-Import Bank. Domestic discretionary spending includes science and space, transportation, the environment, social services and education, subsidized housing, veterans' medical care, and the basic executive, legislative, and judicial functions of government.

Adjustments to the discretionary spending limits will be made twice each year--at the beginning and at the end of a session of Congress. This year, the initial adjustments are of two sorts: (1) adjustments for changes in budgetary concepts or definitions made by the Budget Enforcement Act and (2) adjustments for differences between actual and estimated inflation for fiscal year 1990.

After the Congress adjourns, the caps will be adjusted again to reflect any additional amounts appropriated for enforcement activities of the Internal Revenue Service (up to a specified limit), International Monetary Fund quota increases, certain debt forgiveness, or designated emergencies. The law provides that the costs of Operation Desert Shield (now Operation Desert Storm) are to be treated as an emergency need. Other emergencies--for example, a natural disaster--must be designated as such by both the President and the Congress. Since these adjustments are made only after legislation is enacted, they must be made at the end rather than the beginning of a budget cycle.

In addition, at the end of a Congressional session, the international discretionary cap will be increased by about \$1.2 billion in budget authority, and the domestic cap will be increased by about \$1.5 billion. Because they are calculated as percentages after all the other adjustments have been made, the amounts of these special budget authority allowances cannot be known with certainty until the end of the year, although they can be estimated with reasonable precision.

Outlays are also permitted to exceed the caps by small amounts, as long as the budget authority caps are not breached. Unlike the special budget authority allowances, however, this special outlay allowance is not intended to be spent. It is designed to insulate the legislative process from differences in estimates between CBO (whose estimates are used for Congressional scorekeeping) and the Office of Management and Budget (whose estimates are controlling for the automatic enforcement of the discretionary spending limits).

Mandatory Spending and Revenues

Unlike discretionary appropriations, spending for entitlements and other mandatory programs (also called direct spending) does not require annual decisions on funding levels. Instead, these programs (of which the largest are Social Security, Medicare and Medicaid, and federal civilian and military retirement) continue making payments to eligible recipients unless the Congress changes the underlying laws. Under the new procedures, changes in revenues and most mandatory

spending are now required to be deficit-neutral in each year. Special rules apply to Social Security and deposit insurance.

Pay-as-You-Go. The Budget Enforcement Act provides that changes in mandatory spending programs and in governmental receipts combined must not increase the deficit in any year. An entitlement program can be increased only if another entitlement is cut or if taxes or fees are raised. Similarly, a tax can be cut only if another is increased or if entitlement spending is reduced. This requirement, which is termed pay-as-you-go, applies not to each new law individually, but to the total of all laws affecting a fiscal year.

As with discretionary spending, spending for designated emergency needs is exempt from the pay-as-you-go requirement. But that is the only exception. There is no allowance for estimating differences.

Unlike the appropriation caps, however, the pay-as-you-go system does not control federal spending. Rejecting a decade of complaints from some quarters about the growth of entitlement spending, the new law allows entitlements to be increased without limit, as long as the increases are paid for by new taxes or fees.

Social Security. Social Security, the biggest entitlement program, is not subject to the general pay-as-you-go requirement but has its own pay-as-you-go rule.

The Budget Enforcement Act excludes the receipts and spending of the Social Security retirement and disability trust funds from all calculations under the Balanced Budget Act, including the deficit and pay-as-you-go. The intent is to insulate Social Security from whatever adjustments are needed to meet the general budgetary limits. This exclusion, however, removes an impediment to cutting payroll taxes, increasing retirement benefits, or using the Social Security trust funds to finance other programs. Accordingly, the Budget Enforcement Act erects new procedural hurdles to protect the balances in the Social Security trust funds. New House and Senate rules thwart consideration of legislation that would reduce projected Social Security surpluses. In the Senate, waiving this rule requires 60 votes (instead of the 51 votes usually required when all Senators vote).

Deposit Insurance. Spending necessary to meet the government's existing deposit insurance commitments is not limited in any way under the new budget process.

Early in 1991, the Congress will have to provide more money to the Resolution Trust Corporation to allow it to continue its job of resolving hundreds of insolvent savings and loan institutions. The Bank Insurance Fund will also need new resources soon. While legislation will be required in both cases, the changes in law will not represent new spending but merely the recognition of a prior government commitment; therefore, it will be excluded from pay-as-you-go. Additional deposit insurance spending will not need to be offset by tax increases or spending cuts. By the same token, increases in deposit insurance premiums or other resources will not permit non-deposit-insurance spending to be increased.

Deficit Targets

The Budget Enforcement Act revises the previous deficit targets, extends the targets through 1995, and excludes the income and outgo of the Social Security trust funds from the targets. Through at least 1993, however, the deficit targets are irrelevant.

There are two reasons for this. First, the President must adjust the deficit targets for revised economic and technical assumptions, the costs of Operation Desert Storm and other emergency legislation, and other adjustments to the discretionary caps when submitting the budget for fiscal years 1992 and 1993. Whenever these adjustments are made, they will be made for all years through 1995. Second, the economic and technical estimating assumptions used by the Office of Management and Budget in the President's budget must also be used by OMB for all subsequent calculations that year. Therefore, even if the outlook deteriorates after the President's budget is submitted, the deficit targets will be said to have been reached as long as the discretionary spending limits and the pay-as-you-go requirement are met.

The President is also allowed to adjust the deficit targets in the budgets for 1994 and 1995 to reflect up-to-date economic and technical

assumptions. Even if he chooses not to exercise this option, he must still revise the deficit targets for adjustments in the discretionary spending limits. If the President opts to adjust the deficit targets fully in 1994 and 1995, the targets will continue to be nonbinding, as in 1992 and 1993. If the targets are not adjusted, and if the discretionary spending limits and pay-as-you-go requirements are met, the deficit targets will be binding only if the economic and technical assumptions used in the 1993 budget (other than for deposit insurance) understated the deficits for 1994 and 1995.

Credit Reform

The Budget Enforcement Act brings federal direct loan and loan guarantee programs within the scope of the discretionary spending limits, pay-as-you-go requirements, and other budget enforcement provisions starting in fiscal year 1992.

Previously, federal credit programs were included in the budget on a cash-flow basis. The disbursement of a direct loan was recorded as a budget outlay, even if future repayments implied that the government incurred little or no long-run cost. Conversely, the receipt of a loan guarantee fee reduced outlays, and spending was not recorded unless and until the loan defaulted. Because of these accounting perversities, a separate credit budget was created to control direct loans and loan guarantees through volume limits. Even so, the volume limits and cash-flow accounting rules distorted budgetary decisions involving federal credit programs.

Henceforth, the government's long-run cost for a direct loan or loan guarantee program will be recorded as a budget outlay at the time the loan is disbursed. This change in accounting, termed credit reform, places direct loans, loan guarantees, and other federal spending programs on the same footing. Credit and noncredit programs with equal costs will be shown as having equal outlays. As a result, discretionary credit programs (those controlled by the Appropriations Committees) will be included in the discretionary spending caps, and appropriate adjustments will be made to the caps so that the Appropriations Committees are not disadvantaged by the accounting change. Similarly,

mandatory credit programs will be subject to the pay-as-you-go discipline. A separate credit budget will no longer be necessary.

ENFORCEMENT OF THE RULES

Strengthened Congressional procedures are designed to assure that any new legislation conforms to the discretionary spending limits, pay-as-you-go requirement, and deficit targets, if applicable. If these procedures fail, automatic across-the-board cutbacks (termed sequestration) will do the job.

Congressional Procedures

Each year the Congress adopts a budget resolution, which is a plan to guide its spending and taxing decisions for that Congressional session. The spending total in the budget resolution is divided among committees with jurisdiction over various spending programs, and special procedural rules make it difficult for a committee to exceed its spending allocation. Similarly, the House Ways and Means Committee and the Senate Finance Committee, which have jurisdiction over taxes, are not allowed to propose tax cuts that, if enacted, would cause revenues to fall short of their target.

Before the Budget Enforcement Act, the spending and revenue totals in the Congressional budget resolution were binding only for one year, and committees were not precluded from taking actions in the budget year that increased the deficit in later years. Now, budget resolutions for fiscal years 1992 through 1995 must set forth appropriate spending and revenue levels for both the budget year and the following four years. These five-year budget resolutions will have to comply with the discretionary spending limits, the pay-as-you-go requirement, the deficit targets, and all other requirements of the Balanced Budget Act.

Committees will not be permitted to exceed their spending allocations for both the first year and the total of the five years covered by the budget resolution. In the Senate, waiving this or most other

requirements of the Budget Enforcement Act will require a 60-vote majority.

Sequestration

If these Congressional procedures fail, any spending overage will be eliminated through automatic across-the-board cuts, or sequestration. In fact, there are now three potential sequestrations to achieve the three budgetary requirements--discretionary spending limits, pay-as-you-go, and deficit targets. There is no sequestration, however, to enforce the special pay-as-you-go requirement for Social Security.

If defense, international, or domestic discretionary spending exceeds its budget authority or outlay limit, the excess will be eliminated through a cutback in the offending category. A few discretionary programs are exempt, and some health programs are subject to a maximum cut of 2 percent, but most discretionary spending is subject to sequestration. One discretionary spending sequestration has already taken place. Because of a drafting error in the foreign operations appropriation bill, international discretionary spending for 1991 breached the limits by \$395 million in budget authority. On November 9, 1990, after the required sequestration reports were released by CBO and OMB, the President issued a sequestration order cutting international discretionary spending by 1.9 percent.

If changes in mandatory spending or receipts increase the deficit in any year, a pay-as-you-go sequestration will be triggered, and mandatory programs would be cut to the extent necessary to eliminate the overage. Unlike discretionary spending, most mandatory spending is not subject to sequestration, and Medicare is subject to a pay-as-you-go reduction of no more than 4 percent. Mandatory spending in 1992 is projected to total \$403 billion, excluding Social Security and deposit insurance. The maximum possible sequestration of mandatory programs amounts to only about \$26 billion, however, including \$11 billion

for Commodity Credit Corporation (CCC) farm price supports and \$4 billion for Medicare benefits. For a pay-as-you-go sequestration of less than \$5 billion, Medicare would bear 80 percent and CCC almost 10 percent of the reductions.

Sequestration to enforce the discretionary spending limits and the pay-as-you-go requirements will assure that there will be no separate sequestration to achieve the deficit targets in 1992 and 1993. The same will be true in 1994 and 1995 if the President opts to adjust the targets for those years for economic and technical changes. Otherwise, a separate deficit sequestration will enforce the 1994 and 1995 deficit targets. If the deficit is projected to exceed the target by more than \$15 billion (excluding changes in deposit insurance estimates), spending will be cut by the amount necessary to bring the deficit down to the target. Half of the reductions will be taken from defense and half from nondefense programs.

BUDGET TIMETABLE

The Budget Enforcement Act modifies the budget timetable and adds an additional set of sequestration reports. Much of the old budget process, however, still remains. Key events will occur this year as follows.

January 30--CBO Preview Report

Five days before the President submits his budget message to the Congress, the Congressional Budget Office is required to issue a sequestration preview report. (This year's report is found in Appendix A of this volume.) The preview report contains updated estimates of the maximum deficit amount and of the discretionary spending limits for each category, based on the adjustments specified in law. It also provides an estimate of any net deficit increase or decrease caused by entitlement or revenue legislation enacted since the Budget Enforcement Act. (There is no such legislation so far this year.)

February 4--President's Budget and OMB Preview Report

The President must submit his budget to the Congress between the first Monday in January and the first Monday in February. This year, OMB has announced that the fiscal year 1992 budget will be submitted on February 4, 1991. On that day, OMB must also issue its own sequestration preview report. The OMB report will contain the same information as the CBO report, and OMB is required to explain differences between its estimates and those of CBO. Whatever the differences may be, CBO's estimates will be merely advisory, and OMB's estimates of the discretionary spending limits and deficit targets will be controlling.

The economic and technical estimating assumptions that OMB uses in the President's budget and in its sequestration preview report must also be used by OMB for all subsequent sequestration calculations that year. Under prior law, OMB did not reveal its final estimating assumptions until August 15. This change is intended to make the budget process operate more quickly and smoothly by setting the rules of the game at the start of a Congressional session.

April 15--Congressional Budget Resolution

By mid-April the Congress is supposed to adopt the budget resolution for the coming fiscal year. Although in recent years the Congress has never met and has rarely come close to this deadline, the new budget procedures make it a more realistic goal. For 1992 and 1993, the split among defense, international, and domestic appropriations is largely determined by the discretionary spending caps. The deficit targets, as adjusted, will automatically be achieved if taxes and mandatory spending are left unchanged and the appropriation caps are met. The only major decisions left for the budget resolution are the shape of any pay-as-you-go revenue or entitlement initiative and whether discretionary spending should be held below the legal caps. If the Congress fails to adopt a budget resolution by April 15, the House Committee on Appropriations is given a spending allocation based on the adjusted discretionary spending limits for the upcoming fiscal year.

August 15 and 20--CBO and OMB Sequestration Update Reports

CBO and OMB will issue sequestration update reports in August. These reports will revise the information provided in the preview reports to reflect subsequent legislation. As with the preview reports, OMB issues its report five days after CBO and is required to explain any differences in estimates.

Ten and Fifteen Days After the Congressional Session Ends-- CBO and OMB Final Reports and Possible Sequestration

Previously, sequestration took place on October 15, even if the Congress was still in session, and any increase in the deficit resulting from legislation passed after October 15 was ignored. The new law closes this loophole.

Now, CBO and OMB will issue their final sequestration reports 10 and 15 days, respectively, after the session of Congress ends. If sequestration is required to comply with the discretionary spending limits, the pay-as-you-go requirement, or the deficit target, the Presidential order will be issued 15 days after the end of the session.

During the next session of Congress, enactment of legislation that causes a breach in the discretionary spending limits for fiscal year 1992 will trigger sequestration 15 days later if it occurs before July 1, 1992. If the legislation is enacted after July 1, the applicable spending limits for fiscal year 1993 will be reduced by the amount of the breach in 1992. If tax or entitlement legislation enacted at any time during the next session of Congress increases the 1992 deficit, the amount of the 1992 net increase in the deficit will be added to the deficit increase in 1993. The same provisions will apply to fiscal years 1993 through 1995, as well as to any legislation affecting the 1991 deficit during the remainder of the current fiscal year.

IMPLICATIONS OF THE NEW PROCESS

While the new budget process is undeniably complex, it is more flexible than the old one in some respects, and is likely to be seen as more equitable and more effective. Even though policymakers and the public will chafe at some of its restrictions, the Budget Enforcement Act sets fiscal policy on a favorable course for the next five years.

Flexibility has been added to the process in three ways. First, the Budget Enforcement Act allows for adjustments in the discretionary spending limits and the deficit targets. No longer is there a promise that the budget will be balanced by a certain date, even though that promise is inevitably broken because of unforeseen circumstances. Second, exempting deposit insurance from the pay-as-you-go requirement should remove the incentive to delay the resolution of the savings and loan crisis, which would only increase its long-run cost. A third element of flexibility is the provision that exempts emergency spending from the discretionary spending limits and the pay-as-you-go requirement.

The new discipline will probably be viewed as more equitable for a couple of reasons. For the next five years, sequestration will fall primarily on categories of spending that exceed their limits. Appropriations will not be cut as long as the appropriators stay within the caps. Moreover, at least through 1993, spending programs will not be held hostage to developments that policymakers do not directly control, such as the state of the economy.

The new process is also likely to be more effective than the old, both because of its greater equity and for other reasons. Because the budget horizon will stretch for five years, shifting spending or revenues from one year to another will no longer be readily available as a means of avoiding real deficit reduction. Lease-purchase arrangements and other accounting devices have been limited by the score-keeping rules appended to the reconciliation act. And credit reform will curb other budgetary gimmicks that have existed since before the Gramm-Rudman-Hollings era.

As outlined above, the Budget Enforcement Act adds many new rules to the budget process while removing some of the old ones. Some of these new constraints will tend to make the budget debate less contentious. But they will also engender new controversies, frustration, and attempts at evasion.

One major issue, the pace at which defense spending should be reduced and how the freed-up funds should be used, will be less important for the next two years. In 1992 and 1993, reductions in defense spending cannot be used to increase the amount available for domestic or international discretionary spending in those years. Holding defense spending below the caps in 1992 and 1993, however, will make it easier to devote a larger portion of discretionary spending to nondefense purposes in 1994 and 1995.

Although mandatory spending cannot be reduced nor taxes increased to fund discretionary programs, this barrier may not be insurmountable. For example, in the area of higher education, some experts have advocated reducing reliance on guaranteed student loans and expanding Pell grants. As long as guaranteed student loans are mandatory and Pell grants are discretionary, such a trade-off is precluded. If Pell grants were made mandatory, however, both programs would fall in the pay-as-you-go category, and the impediment would be removed.

Credit reform will also offer new opportunities for rearranging spending priorities. Under the old cash-based accounting, to continue the previous example, cutbacks in guaranteed student loans generated little immediate budgetary savings. But with credit reform and pay-as-you-go, these savings will be recognized immediately and will become available to spend on another entitlement, such as a restructured Pell grant program.

Other roundabout attempts to increase discretionary spending may also be expected. Some reports have suggested that there will be an incentive to increase fees because they will be treated as an offset to discretionary outlays. But such a frontal assault on the caps may be precluded, because the Budget Enforcement Act specifies that legislation affecting receipts is included in the pay-as-you-go scorecard. It

would be possible, however, to enact or increase a fee and simultaneously provide a mandatory appropriation of similar purpose to an existing discretionary appropriation.

Some little-understood aspects of the new process may prove harder to evade. Spending from the highway and airport trust funds, for example, is classified as discretionary, even though the programs have dedicated revenue sources. Highway and airport spending must therefore compete against education, health research, and other programs for scarce room under the domestic discretionary cap, even though the trust funds have large and growing balances. Similarly, further increases in gasoline or airplane ticket taxes will not permit more highway or airport spending.

Unless the 1990 reconciliation act itself is amended, the course of fiscal policy appears to be set for the next five years. Not only did the reconciliation act achieve nearly \$500 billion in deficit reduction, but it locks those savings firmly in place. The Budget Enforcement Act precludes changes in law, other than emergency spending, that would add to the projected deficits. As a result, by 1995, the total federal deficit is likely to fall below \$100 billion for the first time in 15 years and below 1 percent of gross national product for the first time in 20 years. The next chapter explores the budget outlook through 1996 and shows how it has been affected by the reconciliation act and other recent developments.

Source: *Budget of the United States Government, FY94*, pp. 133-138, Office of Management and Budget, April 8, 1993.

BUDGET ENFORCEMENT ACT PREVIEW REPORT

The Budget Enforcement Act of 1990 (BEA) contains procedures designed to enforce the deficit reduction agreement of the Omnibus Budget Reconciliation Act of 1990. The BEA divides the budget into two mutually exclusive categories: 1) discretionary programs, and 2) direct spending and receipts. For 1991 through 1995, the BEA limits discretionary spending and establishes a "pay-as-you-go" requirement that legislation changing direct spending and receipts must, in total, be at least deficit neutral.

This Preview Report discusses the status of discretionary, pay-as-you-go, and deficit sequestration based on current law as of March 1, 1993. In addition, it explains the differences between the OMB and CBO estimates of the discretionary caps and the maximum deficit amount. The OMB estimates use the economic and technical assumptions underlying the President's budget submission, as required by the BEA. The OMB Update Report that will be issued in August, and the Final Report that will be issued after the end of the Congressional session, must also use these economic and technical assumptions. Estimates in the Update Report and the Final Report will only be revised to reflect laws enacted since the Preview Report.

Budget Enforcement Reform

The BEA specifies budget enforcement procedures through 1995. The Administration proposes that certain budget enforcement provisions should be extended. Specifically, control over discretionary spending through caps should be continued through 1998 and pay-as-you-go enforcement should be extended through 2003.

Discretionary Sequestration Report

Discretionary programs are, in general, those that have their program levels established annually through the appropriations process. The scorekeeping guidelines accompanying the BEA identify accounts with discretionary resources. The BEA limits budget authority and outlays available for discretionary programs each year through 1995. Appropriations that cause either the budget authority or outlay limits to be exceeded will trigger a sequester to eliminate any such breach. There is no requirement that the full amount available under the discretionary limits be appropriated.

For 1991 through 1993, limits are specified for three categories of discretionary programs: defense, international, and domestic. The limits on each of these categories are enforced independently. Thus savings in one category cannot be used to increase spending in another. Similarly, a breach of a category limit will result only in a sequester in the category where the breach occurs. For 1994 and 1995, there are no separate categories for discretionary programs, and the caps

apply to total discretionary budget authority and outlays. The Administration proposes that the caps for 1996 through 1998 also apply to total discretionary budget authority and outlays.

Adjustments to the limits.—The BEA permits certain adjustments to the discretionary limits—also known as caps. On October 23, 1992, the Office of Management and Budget submitted the Final Sequestration Report required by the BEA. This report described adjustments permitted by the BEA as of the time the report was issued. The caps resulting from these adjustments are the starting points for this Preview Report. Included in this report are cap adjustments for differences between actual and projected inflation, reestimates of subsidy amounts under credit reform, and changes in concepts and definitions. The table entitled "Discretionary Spending Limits" shows the impact on the caps of these adjustments.

The discretionary caps enacted in the BEA reflect assumptions about inflation, as measured by the gross national product implicit price deflator. These assumptions are presented in the law for 1990 through 1993. The BEA requires an inflation adjustment if the actual rate of inflation for a year is different from the rate identified in the law for that year. Because the actual rate of inflation for 1992 was 2.9 percent, or 1.2 percentage points less than the 4.1 percent assumed in the BEA, a downward adjustment has been made to the discretionary caps for 1994 and 1995.

Certain changes to the caps affect specific accounts, and they produce adjustments only to the category limits in which these accounts are included. An adjustment previously was made to the caps for accounting changes made by the Federal Credit Reform Act of 1990. The table below shows reestimates of these changes that result from better information on subsidy levels in credit programs.

Several cap adjustments represent changes in concepts and definitions resulting from legislative action that reclassified certain programs. These actions shifted programs between the mandatory (i.e., direct spending) category and the discretionary category. For instance, several 1993 appropriations bills included provisions that modified normally mandatory programs. Since funding controlled by appropriations action is considered discretionary, the effects of these provisions are recorded as adjustments to the caps. An example is an adjustment made for interim assistance to States for legalization of aliens. A downward cap adjustment was made since a 1993 appropriations bill increased 1994 and 1995 spending for this mandatory program.

Other adjustments to the limits.—The BEA identifies other adjustments to the discretionary caps that can be made only after appropriations have been enacted. These adjustments can be made to reflect appropriations action taken in all years from 1991 through 1995 and include the following:

- **Internal Revenue Service (IRS) funding:** Funding for the IRS compliance initiative above the CBO baseline levels estimated in June 1990. The BEA specifies the amounts of these adjustments.
- **Emergency appropriations:** Funding for accounts that the President designates as emergency requirements and that the Congress so designates in statute. The caps estimated in this report assume enactment of the President's stimulus program, which was designated by the President as an emergency requirement.

In addition, the BEA provides special allowances for budget authority for 1992 through 1995, and for outlays

in 1991 through 1995. The special budget authority allowances apply primarily to the international and domestic discretionary categories. The allowances are based on a percentage of the total adjusted discretionary limits for budget authority in 1991 through 1993. The outlays associated with the budget authority allowances are calculated based on spendout rates contained in the law. These outlays are subtracted from the outlay allowance, reducing the amounts otherwise available. In addition to the budget authority allowances for the international and domestic categories, there is a small budget authority allowance that can be applied to any of the three discretionary categories. The dollar amounts for the outlay allowances are specified in the BEA. In 1991 through 1993, the allowances are \$2.5 billion for defense, \$1.5 billion for international, \$2.5 billion for domestic; and, in 1994 and 1995, \$6.5 billion for total discretionary.

DISCRETIONARY SPENDING LIMITS

(In millions of dollars)

		1991	1992	1993	1994	1995
DOMESTIC						
Domestic limits, October 23, 1992 end-of-session report	BA	182,935	209,169	206,325		
	OL	200,470	215,562	229,916		
Adjustments:						
1992 inflation	BA				-1,823	-1,881
	OL				-791	-1,515
Credit reform:						
Reestimates of credit reform subsidies	BA				-132	-135
	OL				-108	-120
Statutory and other shifts between categories	BA				-1,047	-206
	OL				-821	-23
Emergency appropriations (release of contingencies)	BA					
	OL				48	56
Subtotal, domestic adjustments required for preview report	BA				-3,002	-2,222
	OL				-1,672	-1,602
Preview report domestic limits	BA	182,935	209,169	206,325		
	OL	200,470	215,562	229,916		
Further adjustments to reflect enactment of the President's proposals:						
IRS funding	BA				187	188
	OL				183	188
Additional IRS funding proposed in the President's budget	BA				150	157
	OL				143	156
Stimulus proposals	BA			12,191		
	OL			4,995	5,696	1,865
Special allowances	BA				1,605	1,605
	OL				851	1,348
Change to special allowance that would result from enactment of the President's Stimulus proposals	BA			12	12	12
	OL			6	10	11
Subtotal, further domestic adjustments	BA			12,203	1,954	1,962
	OL			5,001	6,883	3,568
Estimated end-of-session domestic limits	BA	182,935	209,169	218,528		
	OL	200,470	215,562	234,917		
INTERNATIONAL						
International limits, October 23, 1992 end-of-session report	BA	21,245	22,191	35,081		
	OL	20,296	19,840	20,601		
Adjustments:						
1992 inflation	BA				-366	-375
	OL				-105	-151

DISCRETIONARY SPENDING LIMITS—Continued

(In millions of dollars)

		1991	1992	1993	1994	1995
Reestimates of credit reform subsidies	BA				2	2
	OL				38	32
Subtotal, international adjustments required for preview report	BA				-364	-373
	OL				-69	-119
Preview report international limits	BA	21,245	22,191	35,081		
	OL	20,296	19,840	20,601		
Special allowances	BA				1,268	1,268
	OL				583	837
Change to special allowance that would result from enactment of the President's Stimulus proposals	BA			10	10	10
	OL			4	6	8
Subtotal, further international adjustments	BA			10	1,278	1,278
	OL			4	589	845
Estimated end-of-session international limits	BA	21,245	22,191	35,091		
	OL	20,296	19,840	20,605		
DEFENSE						
Defense limits, October 23, 1992 end-of-session report	BA	332,918	305,288	289,651		
	OL	330,802	310,299	298,861		
Adjustments:						
1992 inflation	BA				-2,026	-2,078
	OL				-881	-1,512
Desert Shield/Desert Storm outlay reestimates	BA					
	OL				-1	-100
Subtotal, defense adjustments required for preview report	BA				-2,026	-2,078
	OL				-882	-1,612
Preview report defense limits	BA	332,918	305,288	289,651		
	OL	330,802	310,299	298,861		
Further adjustments to reflect enactment of the President's proposals:						
Stimulus proposals	BA			6		
	OL			4	1	
Estimated end-of-session defense limits	BA	332,918	305,288	289,657		
	OL	330,802	310,299	298,865		
TOTAL DISCRETIONARY						
Discretionary limits, October 23, 1992 end-of-session report	BA	537,098	536,648	531,056	515,312	522,071
	OL	551,568	545,701	549,378	539,877	542,285
Adjustments required for preview report						
Domestic	BA				-3,002	-2,222
	OL				-1,672	-1,602
International	BA				-364	-373
	OL				-69	-119
Defense	BA				-2,026	-2,078
	OL				-882	-1,612
Subtotal, discretionary adjustments required for preview report	BA				-5,392	-4,673
	OL				-2,623	-3,333
Preview report discretionary limits	BA	537,098	536,648	531,056	509,920	517,398
	OL	551,568	545,701	549,378	537,254	538,952
Further adjustments for end-of-session report						
Domestic	BA			12,203	1,954	1,962
	OL			5,001	6,883	3,568
International	BA			10	1,278	1,278
	OL			4	589	845
Defense	BA			6		
	OL			4	1	
Estimated end-of-session discretionary limits	BA	537,098	536,648	543,275	513,152	520,638
	OL	551,568	545,701	554,387	544,727	543,365

The actual adjustments to the discretionary caps to be included in the final sequester report at the end of the current session of Congress cannot be determined until appropriations have been enacted. The "Discretionary Spending Limits" table shows the end-of-session adjustments that would result if the President's discretionary proposals were enacted. The President's request includes funding in 1994 for the IRS compliance initiative. Further, the Administration proposes to revise these amounts in budget enforcement reform legislation to be consistent with increased compliance initiative funding proposed in the budget.

Consistent with the BEA, the President's request assumes an increase in budget authority and outlays based on the special allowance formulas. The adjustment to total discretionary in 1994 would increase budget authority by \$2.9 billion and outlays by \$1.4 billion. In addition, about \$1.1 billion of the outlay allowance has been used by the special budget authority allowances calculated for 1992 and 1993. The remaining outlay allowance available in 1994 would be \$3.9 billion.

The President's budget proposals for discretionary programs are below the adjusted caps, as currently estimated, in 1994 and 1995. The table below displays the President's proposals excluding the discretionary investment proposals. The Administration believes that it is essential that the President's investment proposals be considered as part of the Administration's entire economic plan.

Sequester determinations.—Five days after enactment of an appropriations act, OMB must submit a report to Congress estimating the budget authority and outlays provided by the legislation for the current year and the budget year. These estimates must be based on the same economic and technical assumptions used in the most recent President's budget. In addition, the report must include CBO estimates and explain the differences between the OMB and CBO estimates. The OMB estimates are used in all subsequent calculations to determine whether a breach of any of the budget authority or outlay caps has occurred, and whether a sequester is required.

Compliance with the discretionary caps is monitored throughout the fiscal year. The first determination of whether a sequester is necessary for a given fiscal year occurs when the final sequestration report is issued

after Congress adjourns to end a session—near the beginning of the fiscal year. The monitoring process begins again after Congress reconvenes for a new session. Appropriations for the fiscal year in progress that cause a breach in any of the category caps would, if enacted before July 1st, trigger a sequester in that category. When such a breach is estimated, a "within-session" sequestration report and Presidential sequestration order are issued. For a breach that results from appropriations enacted on or after July 1st, reductions necessary to eliminate the breach are not applied to the budgetary resources available in the current year. Instead, the corresponding caps for the following fiscal year are reduced by the amount of the breach.

A within-session sequester can only be caused by newly enacted appropriations. Reestimates of budget authority and outlays for already enacted funds cannot trigger a sequester. A within-session sequester for any of the three discretionary categories for 1993 is possible only if additional appropriations for 1993 are enacted. OMB reported in the Final Sequestration Report to the President and the Congress that enacted discretionary appropriations for 1993 were within the prescribed spending limits.

Sequester calculations.—If either the budget authority or outlay caps are exceeded in a discretionary category, an across-the-board reduction of sequestrable budgetary resources in that category would be required to eliminate the breach. The percentage reduction for certain special-rule programs would be limited to 2 percent. Once this limit is reached, the uniform percentage reduction for all other discretionary sequestrable resources in that category would be increased to a level sufficient to achieve the required reduction.

If both the budget authority and outlay caps are exceeded, a sequester would first be calculated to eliminate the budget authority breach. If estimated outlays still remained above the cap, even after applying the available outlay allowance, further reductions in budgetary resources to eliminate the outlay breach would then be required.

Comparison between OMB and CBO discretionary limits.—Section 254(d)(5) of the BEA requires an explanation of differences between OMB and CBO estimates for the discretionary spending limits. CBO assumes lower credit subsidy costs than does OMB,

BUDGET PROPOSALS

(In millions of dollars)

		1994	1995	1996	1997	1998
President's discretionary proposals (excluding discretionary investment proposals)	BA	492,466	493,504	495,155	493,248	503,671
	OL	544,199	539,064	531,110	517,682	525,867
Discretionary limits	BA	513,152	520,638	.....	.....	.....
	OL	544,727	543,365	.....	.....	.....
President's discretionary proposals below (-) the discretionary caps	BA	-20,686	-27,134	.....	.....	.....
	OL	-528	-4,301	.....	.....	.....

and, thus, has a significant decrease in the caps due to credit reestimates. OMB also assumes a slightly larger inflation adjustment than does CBO, due primarily to different outlay spendout rate estimates. Other differences are relatively small and are in the nature of technical estimating differences.

Pay-As-You-Go Sequestration Report

This section of the Preview Report discusses the enforcement procedures that apply to the remainder of the budget—direct spending and receipts. The BEA defines direct spending as budget authority provided by law other than appropriations acts, entitlement authority, and the food stamp program. Social security and the Postal Service are not subject to pay-as-you-go enforcement. Legislation specifically designated as an emergency requirement and legislation fully funding the Government's commitment to protect insured deposits are also exempt from pay-as-you-go enforcement.

The BEA provides that, as determined by specific provisions of the Act, direct spending and receipts legislation enacted beginning with the 102nd Congress should not increase the deficit in any year through 1995. If it does, and if it is not fully offset by other legislative savings, the increase must be offset by sequestration of direct spending programs. Under these provisions, net savings enacted for one fiscal year can be used to offset net increases in the subsequent year.

Sequester determinations.—The BEA requires OMB, within five days after enactment of direct spending or receipts legislation, to submit a report to Congress estimating the change in outlays or receipts for

each fiscal year through 1995 resulting from that legislation. The estimates must use the economic and technical assumptions underlying the most recent President's budget. These OMB estimates are used to determine whether the pay-as-you-go requirements have been met.

The cumulative nature of the pay-as-you-go process requires maintaining a "scorecard" that shows, beginning with the 102nd Congress, the deficit impact of enacted direct spending and receipts legislation and required pay-as-you-go sequesters. The pay-as-you-go Preview Report is intended to show how these past actions affect the upcoming fiscal year.

As of March 1, 1993, OMB had issued 141 reports on legislation affecting direct spending and receipts. Most of these (80 percent) either had no effect on the deficit or changed it by less than \$10 million in each year. Less than 10 percent of the pay-as-you-go legislation had a deficit impact greater than \$50 million in any one year.

The first table below shows OMB estimates for legislation enacted through March 1, 1993. In total, pay-as-you-go legislation has reduced the combined 1993 and 1994 deficits by \$3.6 billion. This balance of pay-as-you-go savings can be used to offset legislation that increases direct spending or reduces receipts in 1993 and 1994. Legislation that increases the combined 1993 and 1994 deficits by a greater amount will cause a sequester.

Deficit Sequestration Report

The BEA specifies maximum deficit amounts for 1991 through 1995 that reflect the on-budget current law

PAY-AS-YOU-GO LEGISLATION ENACTED AS OF MARCH 1, 1993

(In millions of dollars)

	Change in the Baseline Deficit		
	1993	1994	1995
Revenue impact of enacted legislation	-5,127	-1,401	-1,337
Outlay impact of enacted legislation	2,450	491	534
Total impact of enacted legislation	-2,676	-910	-803

MAXIMUM DEFICIT AMOUNTS

(In billions of dollars)

	1994	1995
Current maximum deficit amounts	351.2	346.6
Current estimated deficit	349.5	344.9
Excess deficit	-1.7	-1.7
Memorandum:		
Current maximum deficit amounts	351.2	346.6
End-of-session cap adjustments ¹	7.5	4.4
Pay-as-you-go emergencies ²	2.3	-0.0
Related debt service	1.1	1.6
Subtotal	10.9	6.0
End-of-session maximum deficit amounts	362.1	352.7

¹ Assumes enactment of Presidential policy.

² The calculations required in the end-of-session report have the practical effect of adjusting the MDA for mandatory emergencies.

levels for direct spending and receipts, and the spending limits for discretionary programs. These deficit amounts reflect the economic and technical assumptions as of the time the BEA was enacted. For the 1992 and 1993 budgets, the BEA required OMB to adjust the maximum deficit amounts to reflect up-to-date economic and technical assumptions. The BEA gives the President the option of adjusting the maximum deficit amounts in 1994 and 1995. On January 21, the President chose to adjust the maximum deficit amount to reflect current economic conditions and technical assumptions. Since the President chose to make this adjustment in 1994, the BEA provides him with the same opportunity in 1995.

The "Maximum Deficit Amounts" table shows for 1994 and 1995 the current maximum deficit amounts and the current deficit estimates calculated using BEA

rules. The current deficit estimates are below the maximum deficit amounts by the amount of pay-as-you-go savings enacted and the associated debt service. Therefore, no sequestration is projected at this time. The table also shows adjustments to reach the end-of-session maximum deficit amounts. The adjustments are primarily for enactment of the President's stimulus package.

In its preview report, CBO estimates a maximum deficit amount for 1994 of \$345.1 billion, \$6.1 billion below the OMB estimate. CBO estimates a maximum deficit amount for 1995 of \$354.2 billion, \$7.5 billion above the OMB estimate. As presented in the table entitled "Differences Between OMB and CBO Maximum Deficit Amounts," these differences are the result of the different technical assumptions used by OMB and CBO, primarily for receipts and deposit insurance.

DIFFERENCES BETWEEN OMB AND CBO MAXIMUM DEFICIT AMOUNTS

(in billions of dollars)

	1994	1995
OMB maximum deficit amounts	351.2	346.6
Differences:		
Receipts	-1.6	-4.9
Outlays:		
Discretionary	-0.0	-0.2
Deposit insurance	-3.2	10.8
Other mandatory	0.7	1.4
Interest	-2.0	0.5
Total, Differences	-6.1	7.5
CBO maximum deficit amounts	345.1	354.2

CRS Report for Congress

Points of Order Under the Congressional Budget Act of 1974

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April 12, 1991



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POINTS OF ORDER UNDER THE CONGRESSIONAL BUDGET ACT OF 1974

SUMMARY

The Congressional Budget Act of 1974 (Titles I-IX of P.L. 93-344, as amended) establishes certain requirements, principally in Titles III, IV, and VI of the Act, for congressional action on budgetary legislation. These requirements generally are enforced through points of order that can be raised when the House or Senate considers budgetary measures. In recent years, major changes have been made in budget enforcement procedures and provisions establishing points of order under the 1974 Budget Act, most recently by the Budget Enforcement Act of 1990 (Title XIII of P.L. 101-508).

The Budget Enforcement Act of 1990 establishes special procedures to enforce the five-year deficit reduction plan set forth in the fiscal year 1991 budget resolution (H.Con.Res. 310, 101st Congress). The Act amended the Gramm-Rudman-Hollings Act (P.L. 99-177, as amended) to revise and extend the annual deficit targets and establish new sequestration procedures -- referred to as "mini-sequesters" -- to enforce limits on discretionary spending and "pay-as-you-go" requirements for direct spending and revenue legislation. The Act made both permanent and temporary changes in the 1974 Budget Act. The temporary changes are embodied principally in a new Title VI -- referred to as "Budget Agreement Enforcement Provisions."

Under Title VI, budget resolutions are required to cover five fiscal years and generally are enforceable by points of order for all five fiscal years covered by the resolution (with certain exceptions). Title VI also changes the procedure for making and enforcing committee allocations and suballocations of spending, in part to require that they cover five fiscal years. A new point of order is established in the Senate to enforce the discretionary spending limits, and in the House a "pay-as-you-go exception" is created that under certain conditions would permit the consideration of deficit-neutral legislation despite certain Budget Act points of order.

This report summarizes the points of order that can be raised under the 1974 Budget Act, highlights both the permanent and temporary changes in these points of order made by the Budget Enforcement Act of 1990, and briefly outlines the requirements for waiving Budget Act points of order (especially in the Senate).

CONTENTS

INTRODUCTION	1
MAJOR CHANGES MADE BY THE BUDGET ENFORCEMENT ACT ...	3
Section 301(i)	3
Section 302(c)	4
Section 302(f)	4
Section 303(a)	5
Section 311(a)	6
Section 313	6
Title VI	7
PROCEDURES TO WAIVE BUDGET ACT POINTS OF ORDER	7

POINTS OF ORDER UNDER THE CONGRESSIONAL BUDGET ACT OF 1974

INTRODUCTION

The Congressional Budget Act of 1974 (Titles I-IX of P.L. 93-344, as amended) establishes certain requirements for congressional action on budgetary legislation. These requirements establish conditions for the adoption of the budget resolution, provide for the timing of congressional action on spending and revenue legislation, ensure that congressional action on spending and revenue legislation is consistent with levels established in the budget resolution, and set forth other guidelines for the content and consideration of budgetary legislation.

Budget Act requirements generally are enforced through points of order that can be raised when the House or Senate considers budgetary measures. These points of order are set forth in various sections of Titles III, IV, and VI of the Act. Table 1 below summarizes the points of order that can be raised under the 1974 Budget Act.

In recent years, major changes have been made in Budget Act requirements and provisions establishing points of order in conjunction with the enactment and modification of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177, as amended; known as the Gramm-Rudman-Hollings Act, or GRH). The Gramm-Rudman-Hollings Act set forth annual deficit targets leading to a balanced budget by fiscal year 1991 and created an emergency spending reduction procedure, known as sequestration, to keep the estimated deficit from exceeding the target level. GRH also amended the 1974 Budget Act to strengthen existing requirements and add new provisions to enforce compliance with the annual deficit targets during congressional action on budgetary legislation.

In 1987, Congress enacted the Balanced Budget and Emergency Deficit Control Reaffirmation Act (Title I of P.L. 100-119) to revise and extend the GRH deficit targets through fiscal year 1993 and modify the sequestration process. Title II of P.L. 100-119 further modified budget enforcement procedures under the 1974 Budget Act.

At the close of the 101st Congress, further major changes in GRH and the 1974 Budget Act were enacted into law as part of a five-year deficit reduction agreement. The Budget Enforcement Act of 1990 (Title XIII of the Omnibus Budget Reconciliation Act of 1990, P.L. 101-508) established special procedures to enforce a five-year deficit reduction plan embodied in the fiscal year 1991 budget resolution (H.Con.Res. 310; see especially the accompanying conference

report, H.Rept. 101-820).¹ The five-year plan calls for approximately \$40 billion in deficit reduction for fiscal year 1991, and approximately \$500 billion in deficit reduction through fiscal year 1995. About half of the estimated savings are to come from spending reductions and revenue increases enacted in the 1990 Reconciliation Act, with most of the remaining savings to be realized through the enactment of annual appropriations acts consistent with the deficit reduction agreement and through consequent debt service savings.

The Budget Enforcement Act amended GRH to revise and extend the annual deficit targets and continue sequestration through fiscal year 1995 (though the revised targets no longer lead to a balanced budget). The Act also established, for this period, limits on discretionary spending and "pay-as-you-go" requirements for direct spending (i.e., entitlements and other mandatory spending) and revenue legislation, which are to be enforced through new sequestration procedures.²

The Budget Enforcement Act made both temporary and permanent changes in the 1974 Budget Act. The temporary changes, embodied principally in a new Title VI (referred to as "Budget Agreement Enforcement Provisions"), generally require congressional budget procedures to cover five fiscal years. Through fiscal year 1995, budget resolutions are required to cover five fiscal years and amounts for the five-year period are enforceable through points of order (with certain exceptions). Previously, only amounts for the first fiscal year covered by the resolution could be enforced. The temporary procedures still require budget resolutions to comply with the deficit targets, as adjusted (in the Senate, only for the first fiscal year of a budget resolution), and in the Senate also with the discretionary spending limits, as adjusted.

Permanent changes in the 1974 Budget Act include the Federal Credit Reform Act of 1990 -- codified as Title V of the 1974 Budget Act. Title V establishes new credit budgeting procedures to measure more accurately the costs of direct loans and loan guarantees, to place the costs of credit programs on a budgetary basis equivalent to that of other spending programs, and to improve the allocation of resources among credit programs and between credit programs and other spending programs. Other permanent changes in the 1974 Budget Act include new Senate procedures to protect the Social Security trust fund balances (House procedures for protecting the Social Security trust fund balances are set forth as free-standing law in Section 13302 of the Budget Enforcement Act), a new Section 313 of the 1974 Budget Act codifying the

¹ For a brief chronology of the bipartisan budget negotiations leading to the deficit reduction agreement, and a legislative history of the Budget Enforcement Act of 1990, see CRS Report 90-518 GOV, *Budget Enforcement Act of 1990: Legislative History*, by Edward Davis and Robert Keith, November 5, 1990.

² For a summary of changes made by the Budget Enforcement Act, see CRS Report 90-520 GOV, *Budget Enforcement Act of 1990: Brief Summary*, by Edward Davis and Robert Keith (revised November 19, 1990).

Senate's "Byrd Rule" for the control of extraneous matter in reconciliation legislation, numerous technical and conforming changes, and other matters.³

MAJOR CHANGES MADE BY THE BUDGET ENFORCEMENT ACT

Major changes in points of order under the 1974 Budget Act made by the Budget Enforcement Act are summarized below, arranged by section of the 1974 Budget Act. Points of order generally unchanged by the Budget Enforcement Act are not discussed, but are listed in Table 1 below. Certain conforming or technical changes, such as those to standardize the language of Budget Act points of order (for example, see Section 13207 of the Budget Enforcement Act), also are not included in the following discussion.⁴

Section 301(i)

Before enactment of the Budget Enforcement Act, Section 301(i) prohibited consideration of a budget resolution recommending a deficit in excess of the GRH deficit target for the first fiscal year. Section 301(i) was scheduled to expire at the end of fiscal year 1993.

Changes made by the Budget Enforcement Act. The Budget Enforcement Act amended Section 301(i) to create a permanent point of order in the Senate prohibiting the consideration of a reported budget resolution that decreases the Social Security surplus. The previous Section 301(i) point of order is replaced effectively by a new Section 606 of the 1974 Budget Act (see separate entry under Title VI below).

³ The Social Security trust funds were excluded from the spending and revenue totals of the Federal budget by the Social Security Amendments Act of 1983 and GRH, but were included in the GRH deficit calculations (although Social Security benefits are exempt from sequestration). The Budget Enforcement Act reaffirmed the off-budget status of the Social Security trust funds and excluded them from the deficit and other budget enforcement calculations made under GRH. The Act also created new House and Senate procedures to protect the trust fund balances (which are in surplus). The House procedure is established as free-standing law in Section 13302 of the Budget Enforcement Act. The Senate procedure expands certain enforcement provisions of the 1974 Budget Act. For a discussion of House and Senate procedures for protecting the Social Security trust funds, see CRS Report 91-9 EPW, *Social Security: Its Removal From the Budget and New Procedures for Considering Changes to the Program*, by David Koitz, revised January 5, 1991.

⁴ For cross-references to specific sections of the Budget Enforcement Act that change the 1974 Budget Act and other laws, see CRS Report 90-517 GOV, *Budget Enforcement Act of 1990: Cross-References to Laws and Rules Amended*, by Edward Davis and Robert Keith, November 5, 1990.

Section 302(c)

Section 302(c) of the 1974 Budget Act prohibits the consideration of spending legislation within the jurisdiction of a committee until that committee has reported its suballocations of spending under Section 302(b). (For a discussion of procedures for the committee spending allocations and suballocations, see entry for Section 302(f) below.)

Changes made by the Budget Enforcement Act. For fiscal years 1992 through 1995, the point of order under Section 302(c) applies only to spending suballocations made by the House and Senate Appropriations Committees under Section 602(b) of the 1974 Budget Act (for a summary of procedures under Section 602, see discussion below).

Section 302(f)

Under Section 302 of the 1974 Budget Act, aggregate spending totals in the budget resolution are allocated to committees (referred to as Section 302(a) allocations) and then suballocated by those committees (referred to as Section 302(b) suballocations). Before enactment of the Budget Enforcement Act, Section 302(f) prohibited the consideration of legislation in excess of a committee's Section 302(b) spending suballocations, and enforced spending levels only for the first fiscal year covered by the budget resolution.

Changes made by the Budget Enforcement Act. The Budget Enforcement Act made both temporary and permanent changes in the 1974 Budget Act affecting the application of the point of order under Section 302(f).

The temporary changes are contained in Title VI of the 1974 Budget Act. For fiscal years through 1995 (except for fiscal year 1991 in the House), Section 602(c) of the 1974 Budget Act applies the point of order under Section 302(f) to committee spending allocations or suballocations made under Sections 602(a) or (b) -- instead of spending suballocations made under Section 302(b) -- and further applies the point of order both to the first fiscal year covered by the budget resolution and to the total for all fiscal years for which spending allocations under Section 602(a) are made.

Section 602(a), in a manner similar to Section 302(a), provides for the allocation to House and Senate committees of spending totals in budget resolutions adopted through fiscal year 1995. In the House, committees are allocated appropriate levels of new budget authority, new entitlement authority, and outlays for each fiscal year and for the total for all five years covered by the budget resolution. In the Senate, committees are allocated appropriate levels of new budget authority, outlays, and Social Security outlays for the first fiscal year and for the total for all five fiscal years covered by the budget resolution.

Section 602(b)(1) requires the House and Senate Appropriations Committees to suballocate the amounts allocated to them under Section 602(a) to each of their subcommittees for the first fiscal year covered by the budget

resolution. Under Section 602(b)(2), other Senate committees have the option but are not required to suballocate amounts allocated to them.

The Budget Enforcement Act also amended the 1974 Budget Act to add a "pay-as-you-go exception" to the point of order under Section 302(f) for fiscal years 1991 through 1995. Under Section 602(e) of the 1974 Budget Act, any deficit-neutral legislation considered by the House is excepted from a point of order under Section 302(f) as long as any increase in total revenues required under the budget resolution has been met.

Permanent changes in the point of order under Section 302(f) affect the Senate only. (In the House, the permanent point of order under Section 302(f) will continue to enforce only Section 302(b) suballocations.) The Budget Enforcement Act amended Section 302(f) to prohibit Senate consideration of any legislation exceeding either a committee's Section 302(a) spending allocation (except for measures within the jurisdiction of the Senate Appropriations Committee) or Section 302(b) spending suballocation. In addition, Section 302(f) is amended to permit enforcement (in the Senate) of Social Security outlay allocations for the first fiscal year covered by the budget resolution and for the total of that year and the four succeeding fiscal years, and (for fiscal year 1991 only) amounts of new credit authority.

Section 303(a)

Section 303(a) generally prohibits the consideration of spending, revenue, or debt-limit legislation for a fiscal year before the adoption of the budget resolution for that year. Section 303(b) generally excepts from a Section 303(a) point of order (1) any legislation providing new budget authority or changing revenues first effective in a fiscal year following the fiscal year to which the budget resolution applies, or (2) any regular appropriations bills considered in the House after May 15.

Changes made by the Budget Enforcement Act. The Budget Enforcement Act amended Section 303(a) to delete the reference to credit legislation (reflecting the new budgetary treatment of credit) and to expand the point of order in the Senate to include legislation providing new spending authority or outlays.

The Act also amended Section 303(b) to change the exceptions to a Section 303(a) point of order in the Senate to include (1) any spending or revenue legislation first effective in *any* fiscal year covered by a budget resolution and (2) certain advance appropriations.

In addition, for fiscal years 1991 through 1995, Section 602(e) of the 1974 Budget Act excepts from a Section 303(a) point of order certain deficit-neutral legislation considered in the House after April 15 (see the discussion of the "pay-as-you-go exception" under Section 302(f) above).

Section 311(a)

Section 311(a) generally prohibits the consideration of spending or revenue legislation for a fiscal year that would cause total new budget authority or outlays to exceed or total revenues to fall below the aggregate levels recommended in the budget resolution for that year. In the House, Section 311(b) generally excepts from a Section 311(a) point of order spending legislation that is within the appropriate committee spending allocation made under Section 302(a).

Before enactment of the Budget Enforcement Act, Section 311(a) also prohibited consideration in the Senate of legislation causing the GRH deficit target for the fiscal year to be exceeded, and provided for spending and revenue levels to be enforced only for the first fiscal year covered by the budget resolution.

Changes made by the Budget Enforcement Act. The Budget Enforcement Act made both temporary and permanent changes in the 1974 Budget Act affecting the point of order under Section 311(a).

The temporary changes are made in Title VI of the 1974 Budget Act. Section 605(a) of the Act, in part, extends the point of order in the House to enforce spending and revenue levels for both the first fiscal year and the total for all five fiscal years covered by budget resolutions adopted through fiscal year 1995.

The permanent changes in the point of order under Section 311(a) extend the point of order in the Senate to enforce spending and revenue levels for both the first fiscal year and the total for all five fiscal years covered by the budget resolution, including Social Security outlay and revenue levels. The Budget Enforcement Act deletes the prohibition under Section 311(a) against Senate action on legislation exceeding the GRH deficit target for the fiscal year, but establishes a similar requirement in Section 605 (see separate entry under Title VI below).

Section 313

In 1985, the Senate adopted temporary procedures -- referred to as the "Byrd Rule" -- to control provisions unrelated to deficit reduction (so-called "extraneous matter") in reconciliation legislation. The Byrd rule, originally set forth in Title XX of the Consolidated Omnibus Budget Reconciliation Act of 1985 (P.L. 99-272, as amended) and certain Senate resolutions, was scheduled to expire on September 30, 1992.

Changes made by the Budget Enforcement Act. The Budget Enforcement Act amended the Byrd Rule to clarify the definition of extraneous matter and generally strengthen enforcement of the rule. The Act also codified the Byrd Rule as a permanent Section 313 of the 1974 Budget Act.

Title VI

Points of order established by the Budget Enforcement Act in Title VI of the 1974 Budget Act generally expire after fiscal year 1995. Certain points of order under Title VI are linked by reference to permanent provisions of the 1974 Budget Act (principally Sections 302 and 311, see entries above). Additional points of order are set forth in Title VI as follows:

Section 601(b) prohibits Senate consideration of a budget resolution for fiscal years 1992 through 1995 or annual appropriations measures for fiscal years 1992 or 1993 that would breach the discretionary spending limits set forth in Section 601(a), as adjusted (and, in the case of appropriations measures, the Section 602(b) suballocations based on the discretionary limits);

Section 605(b) prohibits Senate consideration of spending or revenue legislation that would cause the GRH deficit target for the first fiscal year covered by the budget resolution to be exceeded (and replaces a similar requirement set forth previously in Section 311(a)); and

Section 606 generally prohibits consideration of a budget resolution that recommends a deficit in excess of the GRH deficit targets (and replaces a similar requirement set forth previously in Section 301(i)).

PROCEDURES TO WAIVE BUDGET ACT POINTS OF ORDER

The 1974 Budget Act sets forth certain procedures -- in Sections 303(c) and 904 -- for waiving points of order under the Act. These waiver procedures apply in the Senate only. In the House, Budget Act points of order are waived by the adoption of "special rules" -- simple resolutions reported from the House Rules Committee that provide for the consideration of legislation by the House -- and other means.

In the Senate, most Budget Act points of order can be waived only by a three-fifths vote of all Senators duly chosen and sworn (60 votes, assuming no vacancies). Three-fifths voting requirements for Budget Act waivers were established initially by GRH (Section 271 of P.L. 99-177), and were expanded and modified by the 1987 Reaffirmation Act (P.L. 100-119). In the House, a single three-fifths waiver requirement was established by GRH for certain points of order raised under Section 301(i) of the 1974 Budget Act (regarding the consideration of budget resolution conference reports providing for a deficit in excess of the GRH deficit target). Most three-fifths waiver requirements added by GRH, and modified by the 1987 Reaffirmation Act, were set to expire at the end of fiscal year 1993.

The Budget Enforcement Act of 1990 amended Sections 904(c) and (d) of the 1974 Budget Act to standardize the listing of three-fifths waiver requirements in the Senate and to add three-fifths waivers for points of order

under Title VI and Section 313 of the 1974 Budget Act.⁶ Further, the Budget Enforcement Act repealed the only three-fifths waiver requirement in the House by amending Section 301(i) of the 1974 Budget Act (the new Section 301(i) prohibits budget resolutions as reported to the Senate from altering the Social Security trust fund balances). The Act extended the expiration date of most three-fifths waiver requirements through the end of fiscal year 1995.⁶

The Budget Enforcement Act also amended the 1974 Budget Act, in Section 606(d)(2), to except from certain Budget Act points of order spending or revenue legislation which causes the discretionary spending limits to be adjusted or which is not counted in the pay-as-you-go calculations.

⁶ The Budget Enforcement Act also added points of order under Section 258 of GRH (establishing expedited procedures for suspending or modifying sequestration and other budget enforcement procedures) to the list of three-fifths waiver requirements set forth in Sections 904(c) and (d). This report covers only points of order under the 1974 Budget Act.

⁶ Certain three-fifths waiver requirements set forth in Sections 904(c) and (d) are permanent, including waivers of Sections 305(b)(2), 305(c)(4) and 306. In a drafting error, the Budget Enforcement Act also added Section 310(f) of the 1974 Budget Act to the list of Senate three-fifths waivers set forth in Sections 904(c) and (d). However, because Section 310(f), as amended, applies only in the House (see Table 1), a three-fifths waiver requirement in the Senate for this section has no practical effect.

TABLE 1. Points of Order Under the Congressional Budget Act of 1974 1/

Section of the Act	Description	Application
301(g)	In the Senate, prohibits consideration of a budget resolution using more than one set of economic and technical assumptions.	Budget resolution, amendment, or conference report.
301(i) *	In the Senate, prohibits consideration of a reported budget resolution that would decrease the Social Security surplus in any fiscal year covered by the resolution.	Budget resolution (as reported).
302(c) * [602(d)]	Prohibits consideration of spending legislation from a committee until that committee files its spending suballocations under Section 302(b). For fiscal years 1992 through 1995, by reference in Section 602(d), this point of order applies only to suballocations made by the House and Senate Appropriations Committees under Section 602(b).	Bill, joint resolution, amendment, motion, or conference report.

See footnote at end of table.

**TABLE 1. Points of Order Under the Congressional Budget Act of 1974 1/
--continued**

Section of the Act	Description	Application
302(f) * [602(c)]	Prohibits consideration of spending legislation which: In the House, exceeds a committee's Section 302(b) suballocation; or, In the Senate, exceeds a committee's Section 302(a) allocation (with the exception of the Senate Appropriations Committee) or Section 302(b) suballocation, including legislation exceeding a committee's Social Security outlay allocation. For fiscal years 1991 through 1995: Section 602(c) applies the point of order under Section 302(f) to any allocation or suballocation made under Sections 602(a) or (b), including Social Security outlay allocations in the Senate (Section 602(c) does not apply in the House for fiscal year 1991). Section 602(e) excepts from a point of order under Section 302(f) any deficit-neutral legislation considered in the House as long as any revenue increases required under the budget resolution have been met.	Bill, joint resolution, amendment, motion (in the Senate), or conference report.

See footnote at end of table.

**TABLE 1. Points of Order Under the Congressional Budget Act of 1974 1/
--continued**

Section of the Act	Description	Application
303(a)	Prohibits consideration of spending, revenue, or debt-limit legislation for a fiscal year before a budget resolution for that year has been adopted. After May 15, Section 303(a) does not apply in the House to consideration of regular appropriations bills for the upcoming fiscal year. For fiscal years 1991 through 1995, Section 303(a) does not apply in the House after April 15 to consideration of deficit-neutral legislation described in Section 602(e).	Bill, joint resolution, amendment, motion, or conference report.
305(a)(1)	In the House, prohibits consideration of a reported budget resolution until a five-day layover period has elapsed.	Budget resolution (as reported).
305(a)(4)	In the House, prohibits consideration of amendments to budget resolutions relating to certain economic goals if the budget resolution does not set forth such goals, and requires such amendments, if in order, to be germane.	Amendment to a budget resolution.
305(b)(2) *	In the Senate, prohibits consideration of nongermane amendments to budget resolutions and, by reference in Section 310(e), to reconciliation legislation.	Amendment to a budget resolution or reconciliation measure.
305(c)(4) *	In the Senate, prohibits consideration of nongermane amendments to amendments between the House and Senate to budget resolutions and, by reference in Section 310(e), to reconciliation legislation.	Amendment to a budget resolution or reconciliation measure.
305(d)	In the Senate, prohibits a vote on the adoption of a budget resolution that is not mathematically consistent.	Budget resolution, conference report.

See footnote at end of table.

**TABLE 1. Points of Order Under the Congressional Budget Act of 1974 1/
--continued**

Section of the Act	Description	Application
306 *	Prohibits consideration of legislation within the jurisdiction of the House and Senate Budget Committees not reported by those committees.	Bill, resolution, amendment, motion, or conference report.
309	In the House, prohibits consideration of an adjournment resolution for more than three calendar days in July until the House has approved all regular appropriations bills for the upcoming fiscal year.	Resolution.
310(d) *	Prohibits consideration of amendments to reconciliation measures that are not deficit neutral (including, in the House, any reconciliation legislation considered pursuant to Section 604).	Amendment.
310(e) *	In the Senate, prohibits consideration of nongermane amendments to reconciliation legislation, including amendments to amendments between the House and Senate. (see Sections 305(b)(2) and 305(c)(4)).	Amendment to a reconciliation measure.
310(f)	In the House, prohibits consideration of an adjournment resolution for more than three calendar days in July until the House has completed action on any required reconciliation legislation.	Resolution.
310(g) *	Prohibits consideration of reconciliation legislation -- including, in the Senate, any special reconciliation legislation triggered by Section 258C of the Gramm-Rudman-Hollings Act -- that recommends changes in Social Security.	Reconciliation bill, resolution, amendment, or conference report.

See footnote at end of table.

TABLE 1. Points of Order Under the Congressional Budget Act of 1974 1/
--continued

Section of the Act	Description	Application
311(a) * [605(a)]	Prohibits consideration of legislation that would breach the aggregate spending or revenue levels in the budget resolution -- including, in the Senate, Social Security outlay and revenue levels -- for both the first fiscal year and (in the House, pursuant to Section 605(a), through fiscal year 1995 only) the total for all five fiscal years covered by the budget resolution.	Bill, joint resolution, amendment, motion, or conference report.
313 *	In the Senate, prohibits consideration of extraneous provisions in reconciliation legislation (including any special reconciliation legislation triggered by Section 258C of the Gramm-Rudman-Hollings Act).	Reconciliation bill, resolution, amendment, motion, or conference report.
401(a)	Prohibits consideration of legislation providing new contract or borrowing authority not limited to amounts provided in appropriations acts.	Bill, joint resolution, amendment, motion, or conference report.
401(b)(1)	Prohibits consideration of legislation providing new entitlement authority that becomes effective during the fiscal year that ends in the calendar year in which the measure is reported.	Bill, joint resolution, amendment, motion, or conference report.
402(a)	Prohibits consideration of legislation providing new credit authority not limited to amounts provided in appropriations acts.	Bill, joint resolution, amendment, motion, or conference report.

See footnote at end of table.

TABLE 1. Points of Order Under the Congressional Budget Act of 1974 1/
--continued

Section of the Act	Description	Application
601(b) *	In the Senate, prohibits consideration of a budget resolution for fiscal years 1992-1995 or an appropriations measure for fiscal years 1992 or 1993 that would breach the discretionary spending limits, as adjusted, for those years. [Expires after fiscal year 1995]	Budget resolution, appropriation bill, joint resolution, amendment, motion, or conference report.
605(b)	In the Senate, prohibits consideration of spending or revenue legislation that would cause the GRH deficit target, as adjusted, for the first fiscal year covered by the budget resolution to be exceeded. [Expires after fiscal year 1995]	Bill, resolution, amendment, motion, or conference report.
606 *	In the House (Section 606(b)), prohibits consideration of a budget resolution recommending deficits in excess of the GRH deficit targets, as adjusted, for each fiscal year covered by the resolution. In the Senate (Section 606(c)), prohibits consideration of a budget resolution recommending a deficit in excess of the GRH deficit target, as adjusted, for the first fiscal year covered by the budget resolution. [Expires after fiscal year 1995]	Budget resolution, amendment (in the Senate), or conference report.

See footnote at end of table.

TABLE 1. Points of Order Under the Congressional Budget Act of 1974 1/
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Footnote:

1/ Budget Act sections marked with an asterisk (*) require a three-fifths vote of the Senate to waive. With the exception of Sections 305(b)(2), 305(c)(4), and 306 (marked in *italics*), all three-fifths waiver requirements listed in Table 1 expire at the end of fiscal year 1995. In general, the Budget Enforcement Act standardized -- in Sections 904(c) and (d) of the 1974 Budget Act -- the listing of Budget Act and GRH points of order that require a three-fifths vote of the Senate to waive. In a drafting error, Section 310(f) of the 1974 Budget Act, which applies only in the House (see Table 1), is among the points of order requiring a three-fifths vote to waive in the Senate, while Section 310(g), which prohibits changes in Social Security in reconciliation legislation (and required a three-fifths waiver vote in the Senate before enactment of the Budget Enforcement Act), is omitted from the listing of three-fifths waivers in Sections 904(c) and (d). In the case of Section 310(f), a three-fifths waiver requirement in the Senate has no practical effect. However, in the case of Section 310(g), a three-fifths waiver vote in the Senate still is required by virtue of Section 271(b) of GRH, which initially established three-fifths waiver requirements for certain Budget Act points of order in 1985 (and is now scheduled to expire after fiscal year 1995).