THE BUDGET SYSTEM AND CONCEPTS

BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 2000

THE BUDGET DOCUMENTS

Budget of the United States Government, Fiscal Year 2000 contains the Budget Message of the President and information on the President's 2000 budget proposals. In addition, the *Budget* includes the Nation's second comprehensive Government-wide Performance Plan.

Analytical Perspectives, Budget of the United States Government, Fiscal Year 2000 contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective.

The *Analytical Perspectives* volume includes economic and accounting analyses; information on Federal receipts and collections; analyses of Federal spending; detailed information on Federal borrowing and debt; the Budget Enforcement Act preview report; current services estimates; and other technical presentations. It also includes information on the budget system and concepts and a listing of the Federal programs by agency and account.

Historical Tables, Budget of the United States Government, Fiscal Year 2000 provides data on budget receipts, outlays, surpluses or deficits, Federal debt, and Federal employment covering an extended time period—in most cases beginning in fiscal year 1940 or earlier and ending in fiscal year 2004. These are much longer time periods than those covered by similar tables in other budget documents. As much as possible, the data in this volume and all other historical data in the budget documents have been made consistent with the concepts and presentation used in the 2000 Budget, so the data series are comparable over time.

Budget of the United States Government, Fiscal Year 2000—Appendix contains detailed information on the various appropriations and funds that constitute the budget and is designed primarily for the use of the Appropriations Committee. The *Appendix* contains more detailed financial information on individual programs and appropriation accounts than any of the other budget documents. It includes for each agency: the proposed text of appropriations language, budget schedules for each account, new legislative proposals, explanations of the work to be performed and the funds needed, and proposed general provisions applicable to the appropriations of entire agencies or group of agencies. Information is also provided on certain activities whose outlays are not part of the budget totals.

A Citizen's Guide to the Federal Budget, Budget of the United States Government, Fiscal Year 2000 provides general information about the budget and the budget process for the general public.

Budget System and Concepts, Fiscal Year 2000 contains an explanation of the system and concepts used to formulate the President's budget proposals.

Budget Information for States, Fiscal Year 2000 is an Office of Management and Budget (OMB) publication that provides proposed State-by-State obligations for the major Federal formula grant programs to State and local governments. The allocations are based on the proposals in the President's budget. The report is released after the budget and can be obtained from the Publications Office of the Executive Office of the President, 725 17th Street NW, Washington, DC 20503; (202) 395–7332.

AUTOMATED SOURCES OF BUDGET INFORMATION

The information contained in these documents is available in electronic format from the following sources:

CD-ROM. The CD-ROM contains all of the budget documents and software to support reading, printing, and searching the documents. The CD-ROM also has many of the tables in the budget in spreadsheet format.

Internet. All budget documents, including documents that are released at a future date, will be available for downloading in several formats from the Internet. To access documents through the *World Wide Web,* use the following address:

http://www.gpo.gov/usbudget

For more information on access to the budget documents, call (202) 512–1530 in the D.C. area or toll-free (888) 293–6498.

GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.

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BUDGET SYSTEM AND CONCEPTS AND GLOSSARY

The budget system of the United States Government provides the means for the President and Congress to decide how much money to spend, what to spend it on, and how to raise the money they have decided to spend. Through the budget system, they determine the allocation of resources among the Government's major functions—such as providing for the national defense, regulating commerce, and ensuring the availability of health care—and among individual programs, projects, and activities—such as building navy ships, issuing patents, and controlling diseases. The budget system focuses primarily on dollars, but it also allocates other resources, such as Federal employment. The decisions made in the budget process affect the nation as a whole, state and local governments, and individual Americans. Many budget decisions have worldwide significance. The Congress and the President enact budget decisions into law. The budget system ensures these laws are carried out.

This chapter provides an overview of the budget system and explains some of the more important budget concepts. It includes summary dollar amounts to illustrate major concepts. Other chapters of the budget documents discuss these amounts, and more detailed amounts, in greater depth. A glossary of budget terms appears at the end of the chapter.

Various laws, enacted to carry out requirements of the Constitution, govern the budget system. This chapter refers to the principal ones by title throughout the text and gives complete citations in the section just preceding the glossary.

THE BUDGET PROCESS

The budget process has three main phases, each of which is interrelated with the others:

(1) formulation of the President's budget;
(2) congressional action on the budget; and
(3) budget execution.

Formulation of the President's Budget

The Budget of the United States Government consists of several volumes that set forth the President's financial proposal with recommended priorities for the allocation of resources. The primary focus of the budget is on the budget year—the next fiscal year for which Congress needs to make appropriations. However, the budget may propose changes to funding levels already provided for the current year, in this case 1999, and it covers at least the four years following the budget year in order to reflect the effect of budget decisions over the longer term. The 2000 budget covers the fiscal years through 2004. The budget includes data on the most recently completed fiscal year, in this case 1998, so that the reader can compare budget estimates to actual accounting data.

The President begins the process of formulating the budget by establishing general budget and fiscal policy guidelines. This occurs not later than the spring of each year, at least nine months before the President transmits the budget to Congress and at least 18 months before the fiscal year begins. (See the Budget Calendar below.) Based on these guidelines, the Office of Management and Budget (OMB) works with the Federal agencies to establish specific policy directions and planning levels for the agencies, both for the budget year and for the following four years, at least, to guide the preparation of their budget requests.

During the formulation of the budget, the President, the Director of OMB, and other officials in the Executive Office of the President continually exchange information, proposals, and evaluations bearing on policy decisions with the Secretaries of the departments and the heads of the other Government agencies. Decisions reflected in previously enacted budgets, including the one for the fiscal year in progress, and reactions to the last proposed budget (which Congress is considering when the process of preparing the upcoming budget begins) influence decisions concerning the upcoming budget. So do projections of the economic outlook, prepared jointly by the Council of Economic Advisers, OMB, and the Treasury Department.

In early fall, agencies submit budget requests to OMB, where analysts review them and identify issues that OMB officials need to discuss with the agencies. OMB and the agencies resolve many issues themselves. Others require the involvement of the President and White House policy officials. This decision-making process is usually completed by late December. At that time, the final stage of developing detailed budget data and the preparation of the budget documents begins.

The decision-makers must consider the effects of economic and technical assumptions on the budget estimates. Interest rates, economic growth, the rate of inflation, the unemployment rate, and the number of people eligible for various benefit programs, among other things, affect Government spending and receipts. Small changes in these assumptions can affect budget estimates by billions of dollars. Chapter 1, "Economic Assumptions," in the *Analytical Perspectives* volume of the 2000 budget provides more information on this subject.

Statutory limitations on changes in receipts and outlays through 2002 also influence budget decisions (see Budget Enforcement below).

Thus, the budget formulation process involves the simultaneous consideration of the resource needs of individual programs, the allocation of resources among the functions of the Government, the total outlays and receipts that are appropriate in relation to current and prospective economic conditions, and statutory constraints.

The law governing the President's budget specifies that the President is to transmit the budget to Congress on or after the first Monday in January but not later than the first Monday in February of each year for the following fiscal year, which begins on October 1. This gives Congress eight to nine months before the fiscal year begins to act on the budget.

For various reasons, some parts or all of the budget documents have been transmitted after the specified date. One reason is that the current law does not require an outgoing President to transmit a budget, and it is impractical for an incoming President to complete a budget within a few days of taking office on January 20th. President Clinton, the first President subject to the current requirement, submitted a report to Congress on February 17, 1993, describing the comprehensive economic plan he proposed for the Nation and containing summary budget information. He transmitted the Budget of the United States for 1994 on April 8, 1993.[1]

In some years, the late or pending enactment of appropriations acts, other spending legislation, and tax laws considered in the previous budget cycle have delayed preparation and transmittal of complete budgets. For this reason, for example, President Reagan submitted his budget for 1988 forty-five days after the date specified in law. In other years, Presidents have submitted abbreviated budget documents on the due date, sending the more detailed documents weeks later. For example, President Clinton transmitted an abbreviated budget document to Congress on February 5, 1996, because of uncertainty over 1996 appropriations as well as possible changes in mandatory programs and tax policy. He transmitted a Budget Supplement and other budget volumes in March 1996.

Congressional Action[2]

Congress considers the President's budget proposals and approves, modifies, or disapproves them. It can change funding levels, eliminate programs, or add programs not requested by the President. It can add or eliminate taxes and other sources of receipts, or make other changes that affect the amount of receipts collected.

Congress does not enact a budget as such. Through the process of adopting a budget resolution (described below), it agrees on levels for total spending and receipts, the size of the deficit or surplus, and the debt limit. The budget resolution then provides the framework within which congressional committees prepare appropriations bills and other spending and receipts legislation. Congress provides spending authority for specified purposes in several regular appropriations acts each year (usually thirteen). It also enacts changes each year in permanent laws that affect spending and receipts.

In making appropriations, Congress does not vote on the level of outlays (spending) directly, but rather on budget authority, which is the authority to incur legally binding obligations of the Government that will result in immediate or future outlays. In a separate process, prior to making appropriations, Congress usually enacts legislation that authorizes an agency to carry out particular programs and, in some cases, limits the amount that can be appropriated for the programs. Some authorizing legislation expires after one year, some expires after a specified number of years, and some does not expire. Congress may enact appropriations for a program even though there is no specific authorization for it.

Congress begins its budget process shortly after it receives the President's budget. Under the procedures established by the Congressional Budget Act of 1974, Congress decides on budget totals before completing action on individual appropriations. The Act requires each standing committee of the House and Senate to recommend budget levels and report legislative plans concerning matters within the committee's jurisdiction to the Budget Committee in each body. The Budget Committees then initiate the concurrent resolution on the budget. The budget resolution sets levels for total receipts and for budget authority and outlays, in total and by functional category (see Functional Classification below). It also sets levels for the budget deficit or surplus and debt. The statutory limitations on changes in receipts and outlays through 2002 that apply to the President's budget also apply to the budget resolution.

In the report on the budget resolution, the Budget Committees allocate amounts of budget authority and outlays within the functional category totals to the House and Senate Appropriations Committees and other committees that have jurisdiction over the programs in the functions. The Appropriations Committees are required, in turn, to allocate amounts of budget authority and outlays among their respective subcommittees. The subcommittees may not exceed their allocations in drafting spending bills. Other committees with jurisdiction over spending and receipts may make allocations among their subcommittees but are not required to. There is no allocation at the program level. However, the Budget Committees' report may discuss assumptions about the level of funding for major programs. While these assumptions do not bind the committees and subcommittees with jurisdiction over the programs, they may influence decisions about a pro-

[1] The transmittal date was changed in 1990 from the first Monday after January 3rd. The report submitted on February 17, 1993, was entitled, "A Vision of Change for America."

[2] For a fuller discussion of the congressional budget process, see Robert Keith and Allen Schick, *Manual on the Federal Budget Process* (Congressional Research Service Report 98–720 GOV, August 28, 1998, 184 p.).

gram. The budget resolution may contain "reconciliation directives," which are discussed below.

The congressional timetable calls for the whole Congress to adopt the budget resolution by April 15 of each year, but Congress regularly misses this deadline. Once Congress passes a budget resolution, a member of Congress can raise a point of order to block a bill that would cause a committee's allocation to be exceeded.

Budget resolutions are not laws and, therefore, do not require the President's approval. However, Congress considers the President's views in preparing budget resolutions, because legislation developed to meet congressional budget allocations does require the President's approval. In some years, the President and the joint leadership of Congress have formally agreed on plans to reduce the deficit or balance the budget. These agreements were reflected in the budget resolution and legislation passed for those years.

Appropriations bills are initiated in the House. They provide the budget authority for the majority of Federal programs. The Appropriations Committee in each body has jurisdiction over annual appropriations. These committees are divided into subcommittees that hold hearings and review detailed budget justification materials prepared by the agencies within the subcommittee's jurisdiction. After a bill has been drafted by a subcommittee, the committee and the whole House, in turn, must approve the bill, usually with amendments to the original version. The House then forwards the bill to the Senate, where a similar review follows. If the Senate disagrees with the House on particular matters in the bill, which is often the case, the two bodies form a conference committee (consisting of Members of both bodies) to resolve the differences. The conference committee revises the bill and returns it to both bodies for approval. When the revised bill is agreed to, first in the House and then in the Senate, Congress sends it to the President for approval or veto.[3]

If Congress does not complete action on one or more appropriations bills by the beginning of the fiscal year, it enacts a joint resolution, which is similar to an appropriations bill, to provide authority for the affected agencies to continue operations at some specified level up to a specific date or until their regular appropriations are enacted. In some years, a continuing resolution has funded a portion or all of the Government for the entire year. Congress must present these resolutions to the President for approval or veto. In some cases, the President has rejected continuing resolutions because they contained unacceptable provisions. Left without funds, Government agencies were required by law to shut down operations—with exceptions for some activities—until Congress passed a continuing resolution the President would approve. Shutdowns have lasted for periods of a day to several weeks.

[3] In 1996, Congress enacted the Line Item Veto Act, granting the President limited authority to cancel new spending and limited tax benefits when he signs laws enacted by the Congress. However, in 1998, the Supreme Court declared the authority provided by the Act to be unconstitutional. As a result of the Court's decision, the spending and limited tax benefits that had been canceled were restored (prior to the Court's decision, Congress had passed legislation overriding a number of the spending cancellations.)

Congress also provides budget authority in permanent laws, ones that do not need to be enacted each year. In fact, while annual appropriations acts provide the budget authority for the majority of Federal programs, permanent laws provide a majority of the total budget authority available in a year. This is because permanent laws provide the budget authority for interest on the public debt ($364 billion in 1998) and a few programs with large amounts of spending each year, such as social security ($371 billion in 1998).

The outlays from permanent budget authority, together with the outlays from budget authority provided in appropriations acts for previous years, account for over half of the outlay total for any year. This means that less than half of outlays in a year are controlled through the appropriations acts for that year. This chapter discusses the types of budget authority, their control by Congress, and the relation of outlays to budget authority in greater detail under BUDGET AUTHORITY AND OTHER BUDGETARY RESOURCES, OBLIGATIONS, AND OUTLAYS.

Almost all taxes and most other receipts result from permanent laws. The House initiates tax bills, specifically in the Ways and Means Committee. In the Senate, the Finance Committee has jurisdiction over tax laws.

The budget resolution often includes reconciliation directives, which require authorizing committees to change permanent laws that affect receipts and outlays. They direct each designated committee to report amendments to the laws under the committee's jurisdiction that will change the levels of receipts and spending controlled by the laws. The directives specify the dollar amount of changes that each designated committee is expected to achieve, but do not specify the laws to be changed or the changes to be made. However, the Budget Committees' report on the budget resolution may discuss assumptions about how the laws would be changed. Like other assumptions in the report, they do not bind the committees of jurisdiction but may influence decisions.

The committees subject to reconciliation directives draft the implementing legislation. Such legislation may, for example, change the tax code, revise benefit formulas or eligibility requirements for benefit programs, or authorize Government agencies to charge fees to cover some of their costs. In some years, Congress has enacted an omnibus budget reconciliation act, which combines the amendments to implement reconciliation directives in a single act. These acts, together with appropriations acts for the year, often implement agreements between the President and the Congress. They may include other matters, such as laws providing the means for enforcing these agreements, as described below.

Budget Enforcement

The Budget Enforcement Act (BEA), first enacted in 1990 and extended in 1993 and 1997, significantly amended the laws pertaining to the budget process, including the Congressional Budget Act, the Balanced

Budget and Emergency Deficit Control Act, and the law pertaining to the President's budget (see PRINCIPAL BUDGET LAWS, later in the chapter). The BEA constrains legislation enacted through 2002 that would increase spending or decrease receipts.

The BEA divides spending into two types—***discretionary spending*** and ***direct spending.*** Discretionary spending is controlled through annual appropriations acts. Funding for salaries and other operating expenses of Government agencies, for example, is usually discretionary because it is usually provided by appropriations acts. Direct spending is more commonly called mandatory spending. Mandatory spending is controlled by permanent laws. Medicare and medicaid payments, unemployment insurance benefits, and farm price supports are examples of mandatory spending, because permanent laws authorize payments for those purposes. The BEA specifically defines funding for the Food Stamp program as mandatory spending, even though appropriations acts provide the funding. The BEA includes receipts under the same rules that apply to mandatory spending, because permanent laws generally control receipts. The BEA constrains discretionary spending differently from mandatory spending and receipts, as explained in the following paragraphs.

The BEA defines categories of discretionary spending and limits ("caps") the spending in each category by specifying dollar amounts for both budget authority and outlays for each fiscal year through 2002. The following table lists the categories, which vary from year to year, and their caps. The BEA requires OMB to adjust the caps up or down for certain reasons, such as to reflect conceptual changes or the enactment of emergency appropriations. The Transportation Equity Act for the 21st Century (TEA-21) (Public Law 105–178, which was enacted in 1998) amended the BEA to add the highways and mass transit categories. The caps on these categories, which apply to outlays only, were based on estimates at the time TEA-21 was drafted of gasoline excise taxes and other receipts credited to the Highway Trust Fund each year. The TEA-21 amendments require OMB to adjust these caps up or down for the difference in the amount of receipts actually collected in the past year and for reestimates of the amount the Government expects to collect in the budget year. The table shows the adjusted caps. The Preview Report (described above) explains other cap adjustments proposed in this budget.

If the amount of budget authority provided in appropriations acts for the year exceeds the cap on budget authority for a category, or the amount of outlays for the year estimated to result from this budget authority exceeds the cap on outlays for a category, the BEA requires a procedure, called sequestration, for reducing the spending in that category. A sequestration reduces spending for most programs in the category by a uniform percentage. The BEA specifies special rules for reducing some programs and exempts some programs from sequestration.

DISCRETIONARY SPENDING LIMITS

(In billions of dollars)

	1999	2000	2001	2002
Defense				
Budget authority	276	NA	NA	NA
Outlays	270	NA	NA	NA
Nondefense, excluding special categories:				
Budget authority	285	NA	NA	NA
Outlays	274	NA	NA	NA
Violent crime reduction:				
Budget authority	6	5	NA	NA
Outlays	5	6	NA	NA
Highways:				
Budget authority	NA	NA	NA	NA
Outlays	22	25	26	27
Mass transit:				
Budget authority	NA	NA	NA	NA
Outlays	4	4	5	5
Other discretionary:				
Budget authority	NA	532	541	550
Outlays	NA	537	540	535
Total discretionary:				
Budget authority	566	536	541	550
Outlays	576	571	571	567

The BEA does not cap mandatory spending or require a certain level of receipts. Instead, it requires that all laws enacted through 2002 that affect mandatory spending or receipts must be enacted on a ***"pay-as-you-go" (PAYGO)*** basis. This means that if a law increases the deficit in the budget year or any of the four following years, another law must be enacted with an offsetting reduction in spending or increase in receipts for each year that is affected. Legislated increases in benefit payments, for example, would have to be offset by legislated reductions in other mandatory spending or increases in receipts. Otherwise, a sequestration would be triggered at the end of the session of Congress in the fiscal year in which the deficit would be increased. The BEA sequestration procedures require a uniform reduction of mandatory spending programs that are neither exempt nor subject to special rules. The BEA exempts social security, interest on the public debt, Federal employee retirement, Medicaid, most means-tested entitlements, deposit insurance, other prior legal obligations, and most unemployment benefits. A special rule limits the sequestration of Medicare spending to no more than four percent, and special rules for some other programs limit the size of a sequestration for those programs. As a result of exemptions and special rules, only about three percent of all mandatory spending is subject to sequestration, including the maximum amounts allowed under special rules.

The PAYGO rules do not apply to increases in mandatory spending or decreases in receipts that are not the result of new laws. For example, mandatory spending for benefit programs, such as unemployment insurance, rises when the population of eligible beneficiaries rises, and many benefit payments are automatically increased for inflation under existing laws. Likewise, tax receipts decrease when the profits of private businesses decline as the result of economic conditions.

The BEA requires OMB to make the estimates and calculations that determine whether there is to be a sequestration and report them to the President and Congress. It requires the Congressional Budget Office (CBO) to make the same estimates and calculations, and the Director of OMB to explain any differences between the OMB and CBO estimates. The BEA requires the President to issue a sequestration order without changing any of the particulars of the OMB report. It requires the General Accounting Office to prepare compliance reports.

The BEA requires OMB and CBO to publish three sequestration reports—a "preview" report at the time the President submits the budget, an "update" report in August, and a "final" report at the end of a session of Congress (usually in the fall of each year). The preview report discusses the status of discretionary and PAYGO sequestration, based on current law. This report also explains the adjustments that are required by law to the discretionary caps and publishes the revised caps. (See Chapter 13, "Preview Report," in the *Analytical Perspectives* volume of the 2000 budget.) The update and final reports revise the preview report estimates to reflect the effects of newly enacted discretionary and PAYGO laws. The BEA requires OMB and CBO to estimate the effects of appropriations acts and PAYGO laws immediately after each one is enacted and to include these estimates, without change, in the update and final reports. OMB's final report estimates trigger a sequestration if the appropriations enacted for the current year exceed the caps or if the cumulative effect of PAYGO legislation is estimated to increase a deficit. In addition, CBO estimates the effects of bills as they move through Congress for the purpose of the Budget Committees' enforcement of the budget resolution within Congress. OMB provides advisory estimates on bills that might have significant consequences as they move through Congress.

From the end of a session of Congress through the following June 30th, discretionary sequestrations take place whenever an appropriations act for the current fiscal year causes a cap to be exceeded. Because a sequestration in the last quarter of a fiscal year might be too disruptive, the BEA specifies that a sequestration that otherwise would be required then is to be accomplished by reducing the cap for the next fiscal year. These requirements ensure that supplemental appropriations enacted during the fiscal year are subject to the budget enforcement provisions.

Budget Execution

Government agencies may not spend more than Congress has appropriated, and they may use funds only for purposes specified in law. The Antideficiency Act prohibits them from spending or obligating the Government to spend in advance of an appropriation, unless specific authority to do so has been provided in law. Additionally, the Act requires the President to apportion the funds available to most executive branch agencies. The President has delegated this authority to OMB, which usually apportions by time periods (usually by quarter of the fiscal year) and sometimes by activities. Agencies may request OMB to reapportion funds during the year to accommodate changing circumstances. This system helps to ensure that funds are available to cover operations for the entire year.

If changes in laws or other factors make it necessary, Congress may enact ***supplemental appropriations.*** For example, a supplemental appropriation might be required to respond to an unusually severe natural disaster.

The President cannot impound funds appropriated by Congress by simply failing to spend them. On the other hand, changing circumstances may reduce the need for certain spending for which funds have been appropriated. The President may withhold appropriated amounts from obligation only under certain limited circumstances—to provide for contingencies, to achieve

Budget Calendar

The following timetable highlights the scheduled dates for significant budget events during the year.

Between the 1st Monday in January and the 1st Monday in February	President transmits the budget, including a sequestration preview report.
Six weeks later	Congressional committees report budget estimates to Budget Committees.
April 15	Action to be completed on congressional budget resolution.
May 15	House consideration of annual appropriations bills may begin.
June 15	Action to be completed on reconciliation.
June 30	Action on appropriations to be completed by House.
July 15	President transmits Mid-Session Review of the budget.
August 20	OMB updates the sequestration preview.
October 1	Fiscal year begins.
15 days after the end of a session of Congress	OMB issues final sequestration report, and the President issues a sequestration order, if necessary.

savings made possible through changes in requirements or greater efficiency of operations, or as otherwise specifically provided in law. The Impoundment Control Act of 1974 specifies the procedures that must be followed if funds are withheld. ***Deferrals,*** which are temporary withholdings, take effect immediately unless overturned by an act of Congress. In 1998, the President proposed a total of $4.8 billion in deferrals, and Congress overturned none. ***Rescissions,*** which permanently cancel budget authority, take effect only if Congress passes a law approving them. If Congress does not pass such a law within 45 days of continuous session, the President must make the funds available for spending. In total, Congress has rescinded about one-third of the amount of funds that Presidents have proposed for rescission since enactment of the Impoundment Control Act. In 1998, the President proposed rescissions totaling $25 million, and Congress rescinded a total of $17 million.

COVERAGE OF THE BUDGET

Federal Government and Budget Totals

The budget documents provide information on all Federal agencies and programs. However, because the laws governing social security (the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance trust funds) and the Postal Service Fund exclude the receipts and outlays for those activities from the budget totals and from the calculation of the deficit for Budget Enforcement Act purposes, the budget presents on-budget and off-budget totals. The off-budget totals include the transactions excluded by law from the budget totals. The on-budget and off-budget amounts are added together to derive the totals for the Federal Government. These are sometimes referred to as the unified or consolidated budget totals.

TOTALS FOR THE BUDGET AND THE FEDERAL GOVERNMENT

(In billions of dollars)

	1998 actual	1999 estimate	2000 estimate
On-budget:			
Budget authority	1,368	1,444	1,442
Outlays	1,336	1,404	1,430
Receipts	1,306	1,362	1,418
Deficit	–30	–42	–12
Off-budget:			
Budget authority	324	326	339
Outlays	317	323	336
Receipts	416	444	465
Surplus	99	121	129
Federal Government:			
Budget authority	1,692	1,770	1,781
Outlays	1,653	1,727	1,766
Receipts	1,722	1,806	1,883
Surplus	69	79	117

Neither the on-budget nor the off-budget totals include transactions of Government-sponsored enterprises, such as the Federal National Mortgage Association (Fannie Mae). Federal laws established these enterprises for public policy purposes, but they are privately owned and operated corporations. Because of their close relationship to the Government, the budget discusses them and reports their financial data in the budget *Appendix* and in some detailed tables.

The *Appendix* includes a presentation for the Board of Governors of the Federal Reserve System for information only. The amounts are not included in either the on-budget or off-budget totals because of the independent status of the System. However, the Federal Reserve System transfers its net earnings to the Treasury, and the budget records them as receipts.

Functional Classification

The functional classification arrays budget authority, outlays, and other budget data according to the major purpose served—such as agriculture, income security, and national defense. There are nineteen major functions, most of which are divided into subfunctions. For example, the ***Agriculture*** function comprises the subfunctions ***Farm Income Stabilization*** and ***Agricultural Research and Services.*** The functional classification is an integral part of the congressional budget process, and the functional array meets the Congressional Budget Act requirement for a presentation in the budget by national needs and agency missions and programs.

The following criteria are used in the establishment of functional categories and the assignment of activities to them:

- A function encompasses activities with similar purposes, emphasizing what the Federal Government seeks to accomplish rather than the means of accomplishment, the objects purchased, or the clientele or geographic area served.
- A function must be of continuing national importance, and the amounts attributable to it must be significant.
- Each basic unit being classified (generally the appropriation or fund account) usually is classified according to its predominant purpose and assigned to only one subfunction. However, some large accounts that serve more than one major purpose are subdivided into two or more subfunctions.
- Activities and programs are normally classified according to their primary purpose (or function) regardless of which agencies conduct the activities.

Section VI, "Investing in the Common Good: Program Performance in Federal Functions," in the main Budget volume of the 2000 budget provides information on government activities by function and subfunction.

Agencies, Accounts, Programs, Projects, and Activities

Various summary tables in the *Analytical Perspectives* volume of the 2000 budget provide information on budget authority, outlays, and receipts arrayed by Federal agency. Chapter 25 of that volume, "Federal Programs by Agency and Account," consists of a table that lists budget authority and outlays by budget account within each agency and the totals for each agency of budget authority, outlays, and receipts that offset the agency spending totals. The *Appendix to the Budget of the United States Government* provides budgetary, financial, and descriptive information about programs, projects, and activities by account within each agency. The *Appendix* also presents the most recently enacted appropriation language for an account and any changes that are proposed to be made for the budget year.

Types of Funds

Agency activities are financed through Federal funds and trust funds.

Federal funds comprise several types of funds. Receipt accounts of the ***general fund,*** which is the greater part of the budget, record receipts not earmarked by law for a specific purpose, such as almost all income tax receipts. The general fund also includes the proceeds of general borrowing. General fund appropriation accounts record general fund expenditures. General fund appropriations draw from general fund receipts collectively and, therefore, are not specifically linked to receipt accounts. ***Special funds*** consist of receipt accounts for Federal fund receipts that laws have earmarked for specific purposes and associated appropriation accounts for the expenditure of the earmarked receipts. ***Public enterprise funds*** are revolving funds used for programs authorized by law to conduct a cycle of business-type operations, primarily with the public, in which outlays generate collections. ***Intragovernmental*** funds are revolving funds that conduct business-type operations primarily within and between Government agencies. The budget records the collections and the outlays of revolving funds in the same account.

Trust funds account for the receipt and expenditure of monies by the Government for carrying out specific purposes and programs in accordance with the terms of a statute that designates the fund as a trust fund (such as the Highway Trust Fund) or for carrying out the stipulations of a trust agreement where the Nation is the beneficiary (such as any of several trust funds for gifts and donations for specific purposes). ***Trust revolving funds*** are trust funds credited with collections earmarked by law to carry out a cycle of business-type operations.

The Federal budget meaning of the term "trust," as applied to trust fund accounts, differs significantly from its private sector usage. In the private sector, the beneficiary of a trust usually owns the trust's assets, which are managed by a trustee who must follow the stipulations of the trust. In contrast, the Federal Government owns the assets of most Federal trust funds, and it can raise or lower future trust fund collections and payments, or change the purposes for which the collections are used, by changing existing laws. There is no substantive difference between a trust fund and a special fund or between a trust revolving fund and a public enterprise revolving fund. The Government does act as a true trustee for some funds. For example, it maintains accounts on behalf of individual Federal employees in the Thrift Savings Fund, investing them as directed by the individual employee. The Government accounts for such funds in ***deposit funds,*** which are not included in the budget. Chapter 15, "Trust Funds and Federal Funds," in the *Analytical Perspectives* volume of the 2000 budget provides more information on this subject.

Current Operating Expenditures and Capital Investment

The budget includes all types of spending, including both current operating expenditures and capital investment. Capital investment includes direct purchases of land, structures, and equipment. It also includes subsidies for capital investment provided by direct loans and loan guarantees; purchases of other financial assets; grants to state and local governments for purchases of physical assets; and the conduct of research, development, education, and training. Chapter 6, "Federal Investment Spending and Capital Budgeting," in the Analytical Perspectives volume of the 2000 budget provides more information on capital investment.

COLLECTIONS

In General

The budget classifies money collected by the Government into two major categories:

- ***Governmental receipts,*** which are compared in total to outlays (net of offsetting collections) in calculating the surplus or deficit.
- ***Offsetting collections,*** which are deducted from gross outlays to produce net outlay figures.

Governmental Receipts

These are collections from the public that result primarily from the exercise of the Government's sovereign or governmental powers. They consist mostly of individual and corporation income taxes and social insurance taxes, but also include excise taxes, compulsory user charges, customs duties, court fines, certain license fees, and deposits of earnings by the Federal Reserve System. They also include gifts and donations. Total receipts for the Federal Government include both on-budget and off-budget receipts (see the table, "Totals for the Budget and Federal Government," which appears earlier in this chapter.) Chapter 3, "Federal Receipts," in the *Analytical Perspectives* volume of the 2000 budget provides more information on governmental receipts.

Offsetting Collections

Offsetting collections result from two kinds of transactions:

- ***Business-like or market-oriented activities with the public.*** The budget records the proceeds from the sale of postage stamps, the fees charged for admittance to recreation areas, and the proceeds from the sale of Government-owned land, for example, as offsetting collections. Such collections are deducted from gross budget authority and outlays, rather than added to governmental receipts. This treatment produces budget totals for receipts, budget authority, and outlays that represent governmental rather than market activity.
- ***Intragovernmental transactions.*** The budget also records collections by one Government account from another as offsetting collections. For example, the General Services Administration records payments it receives from other Government agencies for the rent of office space as offsetting collections in the Federal Buildings Fund. Intragovernmental offsetting collections are deducted from gross budget authority and outlays so that the budget totals measure the transactions of the Government with the public.

Some offsetting collections are credited to expenditure accounts and some are credited to receipt accounts. The following sections explain the differences in accounting for such collections.

Offsetting Collections Credited to Expenditure Accounts

Some laws authorize agencies to credit collections directly to the account from which they will be spent and, usually, to be spent for the purpose of the account without further action by Congress. Most revolving funds operate with such authority. For example, a permanent law authorizes the Postal Service to use collections from the sale of stamps to finance its operations without a requirement for annual appropriations. The budget records these collections in the Postal Service Fund (a revolving fund) and records budget authority in an amount equal to the collections. Some intragovernmental collections may be recorded in this manner. For example, the budget records the intragovernmental collections of the Federal Buildings Fund (mentioned earlier) in the same manner as the Postal Service Fund. Some agencies are authorized to defray a portion of costs mostly financed by appropriations from the general fund. In such cases, the budget records the offsetting collections and resulting budget authority in the general fund expenditure account.

Where accounts have offsetting collections, the budget shows the budget authority and outlays of the account both gross (before deducting offsetting collections) and net (after deducting offsetting collections). Totals for the agency, subfunction, and budget are net of offsetting collections.

While most offsetting collections credited to expenditure accounts result from business-like activity or are collected from other Government accounts, some are governmental in nature but are required by law to be treated as offsetting. These are labeled "offsetting governmental collections."

Offsetting Receipts

Offsetting collections that are not authorized to be credited to expenditure accounts are credited to general fund, special fund, or trust fund receipt accounts and are called offsetting receipts. Offsetting receipts are deducted from budget authority and outlays in arriving at total budget authority and outlays. However, unlike offsetting collections credited to expenditure accounts, offsetting receipts do not offset budget authority and outlays at the account level. In most cases, such deductions are made at the subfunction and agency levels. Offsetting receipts are subdivided into three categories, as follows:

- ***Proprietary receipts from the public.***—These are collections from the public, deposited in receipt accounts, that arise from the business-type or market-oriented activities of the Government. Most proprietary receipts are deducted from the budget authority and outlay totals of the agency that conducts the activity generating the receipt and of the subfunction to which the activity is assigned. For example, fees for using National Parks are deducted from the totals for the Department of Interior, which has responsibility for the parks, and the Recreational Resources subfunction. Proprietary receipts from a few sources, however, are not offset against any specific agency or function and are classified as undistributed offsetting receipts. They are deducted from the Government-wide totals for budget authority and outlays. For example, the collections of rents and royalties from outer continental shelf lands are undistributed because the amounts are large and for the most part are not related to the spending of the agency that administers the transactions and the subfunction that records the administrative expenses.
- ***Intragovernmental transactions.***—These are collections from expenditure accounts that are deposited into receipt accounts. Most intragovernmental transactions are deducted from the budget authority and outlays of the agency that conducts the activity generating the receipts and of the subfunction to which the activity is assigned. In two cases, however, intragovernmental transactions

appear as special deductions in computing total budget authority and outlays for the Government rather than as offsets at the agency level—agencies' payments as employers into employee retirement trust funds and interest received by trust funds. The special treatment for these receipts is necessary because the amounts are large and would distort the agency totals, as measures of the agency's activities, if they were attributed to the agency.

- ***Offsetting governmental receipts.***—These are collections that are governmental in nature but are required by law to be treated as offsetting and are not authorized to be credited to expenditure accounts.

User Fee

In the budget, the term "user fee" refers to fees, charges, and assessments levied on a class directly benefiting from, or subject to regulation by, government programs or activity, to be utilized solely to support the program or activity. It does not refer to a separate budget category for collections. The budget records user fees as governmental receipts or offsetting collections, depending on whether the fee results primarily from the exercise of governmental powers or from business-like activity. Chapter 4, "User Fees and Other Collections," in the *Analytical Perspectives* volume of the 2000 budget discusses user fees in greater detail.

BUDGET AUTHORITY AND OTHER BUDGETARY RESOURCES, OBLIGATIONS, AND OUTLAYS

Budget Authority and Other Budgetary Resources

Budget authority is the authority provided in law to enter into obligations that will result in immediate or future outlays of Government funds. Government officials may obligate the Government to make outlays only to the extent they have been granted budget authority. The budget records budget authority as a dollar amount in the year when it first becomes available. Under circumstances described below, unobligated balances of budget authority may be carried over into the next year. The budget does not record these balances as budget authority again. They do, however, constitute a budgetary resource that is available for obligation. In some cases, a provision of law such as a limitation on obligations or a benefit formula (for example, the formula for unemployment insurance benefits), precludes the obligation of funds that would otherwise be available for obligation. In such cases, the budget records budget authority equal to the amount of obligations that can be incurred.

In deciding the amount of budget authority to request for a program, project, or activity, agency officials estimate the total amount of obligations they will need to incur to achieve desired goals and subtract the amounts of unobligated balances available for these purposes. The amount of budget authority requested is influenced by the nature of the programs, projects, or activities being financed. For current operating expenditures, the amount requested usually covers needs for the year. For major procurement programs and construction projects, the Government generally applies a full funding policy. Under this policy, agencies must request an amount to be appropriated in the first year that they estimate will be adequate to complete an economically useful segment of a procurement or project, even though it may be obligated over several years. This policy is intended to ensure that the decision-makers take into account all costs and benefits fully at the time decisions are made to provide resources. It also avoids sinking money into a procurement or project without being certain if or when future funding will be available to complete the procurement or project.

Budget authority takes several forms:

- ***appropriations,*** provided in annual appropriations acts or permanent laws, permit agencies to incur obligations and make payment;
- ***authority to borrow,*** usually provided in permanent laws, permits agencies to incur obligations but requires them to borrow funds, usually from the general fund of the Treasury, to make payment;
- ***contract authority,*** usually provided in permanent law, permits agencies to incur obligations in advance of a separate appropriation of the cash for payment or in anticipation of the collection of receipts that can be used for payment; and
- ***spending authority from offsetting collections,*** usually provided in permanent law, permits agencies to credit offsetting collections to an expenditure account, incur obligations, and make payment using the offsetting collections.

Because offsetting collections (offsetting receipts and offsetting collections credited to expenditure accounts) are deducted from gross budget authority, they are referred to as negative budget authority for some purposes, such as Congressional Budget Act provisions that pertain to budget authority.

Authorizing statutes usually determine the form of budget authority for a program. The authorizing statute may authorize a particular type of budget authority to be provided in annual appropriations acts, or it may provide one of the forms of budget authority directly, without the need for further appropriations. Most programs are funded by appropriations. An appropriation may make funds available from the general fund, special funds, trust funds, or authorize the spending of offsetting collections credited to expenditure accounts, including revolving funds. Borrowing authority is usually authorized for business-like activities where the activity being financed is expected to produce income over time with which to repay the borrowing with interest. Contract authority is a traditional form of budget authority for certain programs, particularly transportation programs.

Annual appropriations acts generally make budget authority available for obligation only during the fiscal year to which the act applies. However, they specify many exceptions, allowing budget authority for a particular purpose to remain available for obligation for a longer period or indefinitely (that is, until expended or until the program objectives have been attained). Typically, appropriations acts make budget authority for current operations available for only one year, and budget authority for construction and some research projects available for a specified number of years or indefinitely. Many appropriations of trust fund receipts make the budget authority available indefinitely. Only another law can extend a limited period of availability (see Reappropriation below). Budget authority provided in authorizing statutes usually remains available until expended.

Budget authority that is available for more than one year and that is not obligated in the year it becomes available is carried forward for obligation in a following year. In some cases, an account may have carried forward unobligated budget authority from more than one year. The sum of such amounts constitutes an account's ***unobligated balance.*** Budget authority that has been obligated but not paid constitutes the account's ***obligated balance.*** For example, in the case of salaries and wages, one to three weeks elapse between the time of obligation and the time of payment. In the case of major procurement and construction, payments may occur over a period of several years after the obligation is made. Obligated balances of budget authority are carried forward until the obligations are paid or the balances are canceled. (A general law cancels the obligated balances of budget authority that was made available for a definite period five years after the end of the period, and then other resources must be used to pay the obligations.) Due to such flows, a change in the amount of budget authority available in any one year may change the level of obligations and outlays for several years to come. Conversely, a change in the amount of obligations incurred from one year to the next does not necessarily result from an equal change in the amount of budget authority available for that year and will not necessarily result in a change in the level of outlays in that year. [4]

Congress usually makes budget authority available on the first day of the fiscal year for which the appropriations act is passed. Occasionally, the appropriations language specifies a different timing. The language may provide an ***advance appropriation***—budget authority that does not become available until one year or more beyond the fiscal year for which the appropriations act is passed. ***Forward*** funding refers to budget authority that is made available for obligation beginning in the last quarter of the fiscal year (beginning on July 1st) for the financing of ongoing grant programs during the next fiscal year. This kind of funding is used mostly for education programs, so that obligations for grants can be made prior to the beginning of the next school year. For certain benefit programs funded by annual appropriations, the appropriation provides for ***advance funding***—budget authority that is to be charged to the appropriation in the succeeding year but which authorizes obligations to be incurred in the last quarter of the current fiscal year if necessary to meet benefit payments in excess of the specific amount appropriated for the year.

Provisions of law that extend the availability of unobligated amounts that have expired or would otherwise expire are called ***reappropriations.*** Reappropriations count as new budget authority in the fiscal year in which the balances become newly available. For example, if a 2000 appropriations act extends the availability of unobligated budget authority that otherwise would expire at the end of 1999, new budget authority would be recorded for 2000.

The budget classifies budget authority as ***current*** or ***permanent.*** Generally, budget authority is current if an annual appropriations act provides it and permanent if authorizing legislation provides it. Advance appropriations of budget authority are classified as permanent, even though they are provided in annual appropriations acts, because they become available a year or more following the year to which the act pertains.

Obligations and outlays resulting from permanent budget authority account for more than half of the budget totals. Put another way, annual appropriations acts control less than half of the obligations and outlays in the budget. Most permanent budget authority, other than the authority to spend offsetting collections, arises from the authority to spend trust fund receipts and the authority to pay interest on the public debt. Most authority to spend offsetting collections is provided to public enterprise revolving funds.

For purposes of the Budget Enforcement Act (discussed earlier under "Budget Enforcement"), the budget classifies budget authority as ***discretionary*** or ***mandatory.*** Generally, budget authority is discretionary if an annual appropriations act provides it and mandatory if authorizing legislation provides it. This classification is nearly the same as the one for current and permanent budget authority. It differs in a few cases, because the BEA requires the budget authority (and resulting outlays) provided in annual appropriations acts for certain specifically identified programs to be treated as mandatory. The BEA requires this because the authorizing legislation in these cases entitles beneficiaries to receive payment or otherwise obligates the Government to make payment, even though the payments are funded by a subsequent appropriation. Since the authorizing legislation effectively determines the amount of budget authority required, the BEA classifies it as mandatory.

The budget also classifies budget authority as ***definite*** or ***indefinite.*** It is definite if the legislation that

[4] A separate report, "Balances of Budget Authority," provides additional information on balances. The National Technical Information Service, Department of Commerce, makes the report available shortly after the budget is transmitted.

provides it specifies a dollar amount (which may be an amount not to be exceeded). It is indefinite if, instead of specifying an amount, the legislation that provides it permits the amount to be determined by subsequent circumstances. For example, indefinite budget authority is provided for interest on the public debt, payment of claims and judgments awarded by the courts against the U.S., and many entitlement programs. Many of the laws that authorize collections to be credited to revolving, special, and trust funds make all of the collections available for expenditure for the authorized purposes of the fund, and such authority is considered to be indefinite budget authority.

Obligations Incurred

Following the enactment of budget authority and the completion of required apportionment action, Government agencies incur obligations to make payments. Agencies must record obligations when they enter into binding agreements that will result in outlays, immediately or in the future. Such obligations include the current liabilities for salaries, wages, and interest; and contracts for the purchase of supplies and equipment, construction, and the acquisition of office space, buildings, and land. For Federal credit programs, obligations are recorded in an amount equal to the estimated subsidy cost of direct loans and loan guarantees (see FEDERAL CREDIT below).

Outlays

Outlays are the measure of Government spending. The budget records outlays for payments that liquidate obligations (other than the repayment of debt), net of refunds and offsetting collections. They are recorded when obligations are paid, in the amount that is paid. The Government usually makes outlays in the form of cash (currency, checks, or electronic fund transfers). However, in some cases agencies pay obligations without disbursing cash and the budget records outlays nevertheless. For example, the budget records outlays for the full amount of Federal employees' salaries, even though the cash disbursed to employees is net of Federal and state income taxes, retirement contributions, life and health insurance premiums, and other deductions. (The budget also records receipts for the deductions of Federal income taxes and other payments to the Government.) The budget records outlays when debt instruments (bonds, debentures, notes, or monetary credits) are used to pay obligations and an increase in debt. For example, the budget records the acquisition of physical assets through certain types of lease-purchase arrangements as though an outlay were made for an outright purchase. Because no cash is paid up front to the nominal owner of the asset, the transaction creates a Government debt. In such cases, the cash lease payments are treated as repayments of principal and interest.

The measurement of interest varies. The budget records outlays for the interest on the public issues of Treasury debt securities as the interest accrues, not when the cash is paid. Treasury issues a kind of security that features monthly adjustments to principal for inflation and semiannual payments of interest on the inflation-adjusted principal. As with fixed-rate securities, the budget records the interest payments on these securities as outlays as the interest accrues. The monthly adjustment to principal is recorded, simultaneously, as an increase in debt outstanding and an outlay of interest. The budget normally states the interest on special issues of the debt securities held by trust funds and other Government accounts on a cash basis. When a Government account is invested in Federal debt securities, the purchase price is usually close or identical to the par (face) value of the security. The budget records the investment at par value and adjusts the interest paid by Treasury and collected by the account by the difference between purchase price and par, if any. However, two trust funds in the Department of Defense, the Military Retirement Trust Fund and the Education Benefits Trust Fund, routinely have relatively large differences between purchase price and par. For these funds, the budget records the holdings of debt at par but records the differences between purchase price and par as adjustments to the assets of the funds that are amortized over the life of the security. The budget records interest as the amortization occurs.

For Federal credit programs, outlays are equal to the subsidy cost of direct loans and loan guarantees and are recorded as the underlying loans are disbursed (see FEDERAL CREDIT below).

The budget records refunds of receipts that result from overpayments (such as income taxes withheld in excess of tax liabilities) as reductions of receipts, rather than as outlays. The budget records payments to tax payers for tax credits (such as earned income tax credits) that exceed the tax payer's tax liability as outlays.

Outlays during a fiscal year may liquidate obligations incurred in the same year or in prior years. Obligations, in turn, may be incurred against budget authority provided in the same year or against unobligated balances of budget authority provided in prior years. Outlays, therefore, flow in part in part from budget authority provided for the year in which the money is spent and in part from budget authority provided in prior years. The ratio of the outlays resulting from budget authority enacted in any year to the amount of that budget authority is referred to as the spendout rate for that year.

Outlays for an account are stated both gross and net of offsetting collections, but function, agency, and Government-wide outlay totals are only stated net. Total outlays for the Federal Government include both on-budget and off-budget outlays. (See the table, "Totals for the Budget and Federal Government" above.)

FEDERAL CREDIT

Some laws authorize Government agencies to make ***direct loans*** or loan guarantees. A direct loan is a disbursement of funds by the Government to a non-Federal borrower under a contract that requires the repayment of such funds with or without interest. The term includes equivalent transactions such as selling a property on credit terms in lieu of receiving cash up front. A ***loan guarantee*** is any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender. The Federal Credit Reform Act prescribes the budget treatment for Federal credit programs. This treatment is designed to measure the subsidy cost of direct loans and loan guarantees in the budget, when the loans are disbursed, rather than the cash flows over the term of the loan, so direct loans and loan guarantees can be compared to each other and to other methods of delivering benefits, such as grants, on an equivalent basis.

The budget records the estimated long-term cost to the Government arising from direct loans and loan guarantees in ***credit program accounts.*** The cost is estimated as the present value of expected disbursements over the term of the loan less the present value of expected collections.[5] For most credit programs, as with most other kinds of programs, agencies can incur costs only if Congress has appropriated funds sufficient to cover the costs in annual appropriations acts.

When an agency disburses a direct loan or when a non-federal lender disburses a loan guaranteed by an agency, the program account outlays an amount equal to the cost to a non-budgetary ***credit financing account.*** For a few programs, the computed cost is negative, because the present value of expected collections over the term of the loan exceeds that of expected disbursements. In such cases, the financing account makes a payment to the Treasury general fund where it is recorded as an offsetting receipt in an account identified to the program. In a few cases, the receipts are earmarked in a special fund established for the program and are available for appropriation for the program.

The agencies responsible for credit programs must reestimate the cost of the outstanding direct loans and loan guarantees, normally each year. If an agency estimates the cost to have increased, the agency must make an additional outlay from the program account to the financing account. The Federal Credit Reform Act provides a permanent indefinite appropriation to pay the increased costs resulting from reestimates. If the agency estimates the cost to have decreased, the agency must make a payment from the financing account to the program's receipt account, where it is recorded as an offsetting receipt.

If the Government modifies the terms of an outstanding direct loan or loan guarantee in a way that increases the cost, as the result of a law or the exercise of administrative discretion under existing law, the agency must record an obligation in the program account for an additional amount equal to the increased cost and outlay the amount to the financing account. As with the original costs, agencies may incur modification costs only if Congress has appropriated funds to cover them. The Government may reduce costs by modifications, in which case the agency makes a payment from the financing account the program's receipt account.

Credit financing accounts record all cash flows to and from the Government arising from direct loan obligations and loan guarantee commitments. These cash flows consist mainly of direct loan disbursements and repayments, loan guarantee default payments, fees, and amounts recovered from disposing assets acquired as a result of defaults. Separate financing accounts record the cash flows of direct loans and of loan guarantees for programs that do both. The budget totals exclude the transactions of financing accounts because they are not a cost to the Government. Financing account transactions affect the means of financing a budget surplus or deficit (see **Credit Financing Accounts** in the next section). The budget documents display the transactions of the financing accounts, together with the related program accounts, for information and analytical purposes.

The budget continues to account for the transactions associated with direct loan obligations and loan guarantee commitments made prior to 1992 on a cash flow basis. The budget records these transactions in ***credit liquidating accounts,*** which, in most cases, are the accounts that were used for the programs prior to the enactment of the Credit Reform Act.

BUDGET DEFICIT OR SURPLUS AND MEANS OF FINANCING

When outlays exceed receipts, the difference is a deficit. The Government finances deficits by borrowing and, to a limited extent, with the other items discussed under this heading. The Government's debt (debt held by the public) is the cumulative amount of borrowing to finance deficits, less repayments. When receipts exceed outlays, the difference is a surplus. The Government uses surpluses to reduce debt and applies it to the other items.

Borrowing and Debt Repayment

The budget treats borrowing and debt repayment as a means of financing, not as receipts and outlays. (If borrowing were defined as receipts and debt repayment as outlays, the budget would be virtually balanced by

[5] Present value is a standard financial concept that allows for the time value of money, that is, for the fact that a given sum of money is worth more at present than in the future because interest can be earned on it.

definition.) This rule applies both to borrowing in the form of Treasury securities and to specialized borrowing in the form of agency securities (including the issuance of debt securities to liquidate an obligation and the sale of certificates representing participation in a pool of loans). In 1998, the Government repaid $51 billion of debt held by the public. This was the result of a $69 billion surplus in that year. The rest of the surplus was needed to finance direct loans disbursed in credit financing accounts, which are discussed below, and for smaller changes in the other means of financing. At the end of 1998, the debt held by the public was $3,720 billion. In addition to selling debt to the public, the Treasury Department issues debt to Government accounts, primarily trust funds that are required by law to invest in Treasury securities. Issuing and redeeming this debt does not affect the means of financing, because these transactions occur between one Government account and another, and they do not raise or use any cash for the Government as a whole. Chapter 12, "Federal Borrowing and Debt," in the *Analytical Perspectives* volume of the 2000 budget provides a fuller discussion of this topic.

Exercise of Monetary Power

Seigniorage is the profit from coining money. It is the difference between the value of coins as money and their cost of production. Seigniorage adds to the Government's cash balance, but unlike the payment of taxes or other receipts, it does not involve a transfer of financial assets from the public. Instead, it arises from the exercise of the Government's power to create money. Therefore, the budget excludes seigniorage from receipts and treats it as a means of financing. The budget treats profits resulting from the sale of gold as a means of financing, since the value of gold is determined by its value as a monetary asset rather than as a commodity.

Credit Financing Accounts

The budget records the net cash flows of credit programs in credit financing accounts, which are excluded from the budget totals and are called net financing disbursements. (See FEDERAL CREDIT above.) Net financing disbursements are defined in the same way as the outlays of a budgetary account and are therefore a means of financing. Like outlays, they may be either positive or negative.

The net financing disbursements result partly from intragovernmental transactions with budgetary accounts (the receipt of subsidy payments and the receipt or payment of interest) and partly from transactions with the public (disbursement and repayment of loans, receipt of interest and fees, payment of default claims, etc.). An intragovernmental transaction affects the deficit or surplus and the means of financing in equal amounts but with opposite signs, so they have no combined effect on Treasury borrowing from the public. On the other hand, financing account disbursements to the public increase the requirement for Treasury borrowing in the same way as an increase in budget outlays. Financing account receipts from the public can be used to finance the payment of the Government's obligations and therefore reduce the requirement for Treasury borrowing from the public in the same way as an increase in budget receipts.

Deposit Fund Account Balances

The Treasury uses deposit funds, which are non-budgetary accounts, to record amounts held temporarily until ownership is determined (for example, earnest money paid by bidders for mineral leases) or held by the Government as agent for others (for example, State and local income taxes withheld from Federal employees' salaries and not yet paid to the State or local government). Deposit fund balances may be held in the form of either invested or uninvested balances. Changes in deposit fund balances affect the Treasury's cash balances, even though the transactions are not a part of the budget. To the extent that deposit fund balances are not invested, changes in the balances are a means of financing. To the extent that the balances are invested in Federal debt, changes in the balances are reflected as borrowing from the public if the deposit fund investments are classified as held by the public, and as a means of financing if the investments are classified as held by Government accounts.

Exchange of Cash

The budget treats the Government's deposits with the International Monetary Fund (IMF) as monetary assets (like bank deposits). Therefore, the movement of money between the IMF and the Treasury is not considered in itself a receipt or an outlay, borrowing, or lending. However, the budget records interest paid by the IMF on U.S. deposits as an offsetting collection. Similarly, the budget treats the holdings of foreign currency by the Exchange Stabilization Fund as cash assets. The budget records outlays for changes in these holdings only to the extent there is a realized loss of dollars on the exchange and offsetting collections only to the extent there is a realized dollar profit.

FEDERAL EMPLOYMENT

The budget includes information on civilian and military employment and personnel compensation and benefits. It also compares the Federal workforce, State and local government workforces, and the United States population. The budget provides two different measures of Federal employment levels—actual positions filled and full-time equivalents (FTE). One FTE equals one work year or 2,080 hours. For most purposes, the FTE measure is more meaningful, because it takes into account part-time employment, temporary employment, and vacancies during the year. For example, one full-time employee and two half-time employees would count as two FTE's but three positions. Chapter 10, "Federal Employment and Compensation," in the *Analytical Perspectives* volume of the 2000 budget provides more information on this subject.

TOTAL FEDERAL EMPLOYMENT

	1998 actual	1999 estimated	2000 estimated	Percent change 1998 to 2000
Total FTE's	4,145,814	4,133,431	4,153,582	0.2
Federal Executive Branch civilian employees per 1000 U.S. population	9.7	9.7	9.7	0.0

BASIS FOR BUDGET FIGURES

Data for the Past Year

The past year column (1998) generally presents the actual transactions and balances as recorded in agency accounts and as summarized in the central financial reports prepared by the Treasury Department for the most recently completed fiscal year. Occasionally the budget reports corrections to data reported erroneously to Treasury but not discovered in time to be reflected in Treasury's published data. The budget usually notes the sources of such differences.

Data for the Current Year

The current year column (1999) includes estimates of transactions and balances based on the amounts of budgetary resources that were available when the budget was transmitted, including amounts appropriated for the year. This column also reflects any supplemental appropriations or rescissions proposed in the budget.

Data for the Budget Year

The budget year column (2000) includes estimates of transactions and balances based on the amounts of budgetary resources that are estimated to be available, including new budget authority requested under current authorizing legislation, and amounts estimated to result from changes in authorizing legislation and tax laws. The budget *Appendix* generally includes the appropriations language for the amounts proposed to be appropriated under current authorizing legislation. In a few cases, the language is transmitted later because the exact requirements are unknown when the budget is transmitted. The *Appendix* generally does not include appropriations language for the amounts that will be requested under proposed legislation; that language is usually transmitted later, after the legislation is enacted. Some tables in the budget identify the items for later transmittal and the related outlays separately. Estimates of the total requirements for the budget year include both the amounts requested with the transmittal of the budget and the amounts planned for later transmittal.

Data for the Outyears

The budget presents estimates for each of the four years beyond the budget year (2001 through 2004) in order to reflect the effect of budget decisions on longer term objectives and plans.

Allowances

The budget may include lump-sum allowances to cover certain transactions that are expected to increase or decrease budget authority, outlays, or receipts but are not, for various reasons, reflected in the program details. For example, the budget might include an allowance to show the effect on the budget totals of a proposal that would actually affect many accounts by relatively small amounts, in order to avoid unnecessary detail in the presentations for the individual accounts. Congress does not enact the allowances as such.

Baseline

The budget baseline is an estimate of the receipts, outlays, and deficits or surplus that would result from continuing current law through the period covered by the budget. The baseline assumes that receipts and mandatory spending, which generally are authorized on a permanent basis, will continue in the future as required by current law. The baseline assumes that the future funding for discretionary programs, which generally are funded annually, will equal the most recently enacted appropriation, adjusted for inflation. The baseline represents the amount of real resources that would be used by the Government over the period covered by the budget on the basis of laws currently enacted.

The baseline serves several useful for purposes:

- It warns of future problems, either for Government fiscal policy as a whole or for individual tax and spending programs.
- It provides a starting point for formulating the President's budget.
- It provides a "policy-neutral" benchmark against which the President's budget and alternative proposals can be compared to assess the magnitude of proposed changes.
- OMB uses it, under the BEA, to determine how much will be sequestered from each account and the level of funding remaining after sequestration.

Chapter 14, "Current Services Estimates," in the Analytical Perspectives volume of the 2000 budget provides more information on the baseline.

PRINCIPAL BUDGET LAWS

The following basic laws govern the Federal budget process:

- ***Article 1, section 8, clause 1 of the Constitution,*** which empowers the Congress to collect taxes.
- ***Article 1, section 9, clause 7 of the Constitution,*** which requires appropriations in law before money may be spent from the Treasury.
- ***Antideficiency Act (codified in Chapters 13 and 15 of Title 31, United States Code),*** which prescribes rules and procedures for budget execution.
- ***Chapter 11 of Title 31, United States Code,*** which prescribes procedures for submission of the President's budget and information to be contained in it.
- ***Congressional Budget and Impoundment Control Act of 1974 (Public Law 93–344),*** as amended. This Act comprises the:
  —Congressional Budget Act of 1974, as amended, which prescribes the congressional budget process; and
  —Impoundment Control Act of 1974, which controls certain aspects of budget execution.
- ***Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99–177),*** as amended, which prescribes rules and procedures (including "sequestration") designed to eliminate excess spending.
- ***Budget Enforcement Act of 1990 (Title XIII, Public Law 101–508)*** significantly amended key laws pertaining to the budget process, including the Congressional Budget Act and the Balanced Budget and Emergency Deficit Control Act. The Budget Enforcement Act of 1997 (Title X, Public Law 105–33) extended the BEA requirements through 2002 (2006 in part) and altered some of the requirements. The requirements generally referred to as BEA requirements (discretionary spending limits, pay-as-you-go, sequestration, etc.) are part of the Balanced Budget and Emergency Deficit Control Act.
- ***Federal Credit Reform Act of 1990 (as amended by the Budget Enforcement Act of 1997),*** a part of the Budget Enforcement Act of 1990, which amended the Congressional Budget Act to prescribe the budget treatment for Federal credit programs.
- ***Government Performance and Results Act of 1993,*** which emphasizes managing for results. It requires agencies to prepare strategic plans, annual performance plans, and annual performance reports.

GLOSSARY OF BUDGET TERMS

Balances of budget authority—These are amounts of budget authority provided in previous years that have not been outlayed.

Baseline—An estimate of the receipts, outlays, and deficit or surplus that would result from continuing current law through the period covered by the budget.

Breach—A breach is the amount by which new budget authority or outlays within a category of discretionary appropriations for a fiscal year is above the cap on new budget authority or outlays for that category for that year.

Budget—The Budget of the United States Government sets forth the President's comprehensive financial plan for allocating resources and indicates the President's priorities for the Federal Government.

Budget authority (BA)—Budget authority is the authority becoming available during the year to enter into obligations that will result in immediate or future outlays of Government funds. (For a description of the several forms of budget authority, see Budget Authority and Other Budgetary Resources earlier in this chapter.).

Budgetary resources—Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.

Budget totals—The budget includes totals for budget authority, outlays, and receipts. Some presentations in the budget distinguish on-budget totals from off-budget totals. On-budget totals reflect the transactions of all Federal Government entities except those excluded from the budget totals by law. The off-budget totals reflect the transactions of Government entities that are excluded from the on-budget totals by law. Under current law, the off-budget totals include the social security trust funds (Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds) and the Postal Service Fund. The budget combines the on- and off-budget totals to derive unified or consolidated totals for Federal activity.

Cap—This is the term commonly used to refer to legal limits on the budget authority and outlays for each fiscal year provided by discretionary appropriations.

Credit program account—A credit program account receives an appropriation for the subsidy cost of a direct loan or loan guarantee program and disburses such cost to a financing account for the program when the direct loan or guaranteed loan is disbursed.

Deficit—A deficit is the amount by which outlays exceed receipts.

Direct loan—A direct loan is a disbursement of funds by the Government to a non-Federal borrower under a contract that requires the repayment of such funds with or without interest. The term includes the purchase of, or participation in, a loan made by another lender. The term also includes the sale of a Government asset on credit terms of more than 90 days duration as well as financing arrangements for other transactions that defer payment for more than 90 days. It also includes loans financed by the Federal Financing Bank (FFB) pursuant to agency loan guarantee authority. The term does not include the acquisition of a federally guaranteed loan in satisfaction of default or other guarantee claims or the price support loans of the Commodity Credit Corporation. (Cf. *loan guarantee.*)

Direct spending—Direct spending, more commonly called mandatory spending, is a category of outlays from budget authority provided in law other than appropriations acts, entitlement authority, and the budget authority for the food stamp program. (Cf. *discretionary appropriations.*)

Discretionary appropriations—Discretionary appropriations is a category of budget authority that comprises budgetary resources (except those provided to fund direct spending programs) provided in appropriations acts. (Cf. *direct spending.*)

Emergency spending—Emergency spending is spending that the President and the Congress have designated as an emergency requirement. Such spending is not subject to the limits on discretionary spending, if it is discretionary spending, or the pay-as-you-go rules, if it is direct spending.

Federal funds—Federal funds are the moneys collected and spent by the Government other than those designated as trust funds. Federal funds include general, special, public enterprise, and intragovernmental funds. (Cf. *trust funds.*)

Financing account—A financing account receives the cost payments from a credit program account and includes all cash flows to and from the Government resulting from direct loan obligations or loan guarantee commitments made on or after October 1, 1991. At least one financing account is associated with each credit program account. For programs that make both direct loans and loan guarantees, there are separate financing accounts for the direct loans and the loan guarantees. The transactions of the financing accounts are nonbudgetary and not included in the budget totals. (Cf. *liquidating account.*)

Fiscal year—The fiscal year is the Government's accounting period. It begins on October 1st and ends on September 30th, and is designated by the calendar year in which it ends. Before 1976, the fiscal year began on July 1 and ended on June 30.

General fund—The general fund consists of accounts for receipts not earmarked by law for a specific purpose, the proceeds of general borrowing, and the expenditure of these moneys.

Governmental receipts—These are collections from the public that result primarily from the exercise of the Government's sovereign or governmental powers. Governmental receipts consist mostly of individual and corporation income taxes and social insurance taxes, but also include excise taxes, compulsory user charges, customs duties, court fines, certain license fees, and deposits of earnings by the Federal Reserve System. Gifts and donations are also counted as governmental receipts. They are compared to outlays in calculating a surplus or deficit. (Cf. *offsetting collections.*)

Liquidating account—A liquidating account includes all cash flows to and from the Government resulting from direct loan obligations and loan guarantee commitments made prior to October 1, 1991. (Cf. *financing account.*)

Loan guarantee—A loan guarantee is any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender. The term does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. (Cf. direct loan.)

Mandatory spending—See *direct spending.*

Intragovernmental funds—These funds are accounts for business-type or market-oriented activities conducted primarily within and between Government agencies and financed by offsetting collections that are credited directly to the fund.

Obligations—Obligations are binding agreements that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

Obligated balances—These are amounts of budget authority that have been obligated but not yet outlayed. Unobligated balances are amounts that have not been obligated and that remain available for obligation under law.

Off-budget—See *budget totals.*

Offsetting collections—Offsetting collections are collections from the public that result from business-type or market-oriented activities and collections from other Government accounts. These collections are deducted from gross disbursements in calculating outlays, rather than counted in Governmental receipt totals. Some offsetting collections are credited directly to expenditure accounts; others, called offsetting receipts, are credited to receipt accounts. The authority to spend offsetting collections is a form of budget authority. (Cf. *governmental receipts.*)

Offsetting receipts**—**See *offsetting collections.*

On-budget**—**See *budget totals.*

Outlays**—**Outlays are the measure of Government spending. They are payments to liquidate obligations (other than the repayment of debt), net of refunds and offsetting collections. Outlays generally are recorded on a cash basis, but also include cash-equivalent transactions, the subsidy cost of direct loans and loan guarantees, and interest accrued on public issues of Treasury debt.

Pay-as-you-go (PAYGO)**—**This term refers to requirements in law that result in a sequestration if the estimated combined result of legislation affecting direct spending or receipts is an increase in the deficit for a fiscal year.

Outyear estimates**—**This term refers to estimates presented in the budget for years beyond the budget year (usually four).

Public enterprise funds**—**These funds are revolving accounts for business or market-oriented activities conducted primarily with the public and financed by offsetting collections that are credited directly to the fund.

Receipts**—**See *governmental receipts and offsetting collections.*

Scorekeeping**—**This term refers to measuring the budget effects of legislation, generally in terms of budget authority, receipts, and outlays for purposes of the Budget Enforcement Act.

Sequestration**—**A sequestration is the cancellation of budgetary resources provided by discretionary appropriations or direct spending legislation, following various procedures prescribed in law. A sequestration may occur in response to a discretionary appropriation that causes a breach or in response to increases in the deficit resulting from the combined result of legislation affecting direct spending or receipts (referred to as a "pay-as-you-go" sequestration).

Special funds**—**These are Federal fund accounts for receipts earmarked for specific purposes and the associated expenditure of those receipts. (Cf. *trust funds.*)

Subsidy**—**This term means the same as cost when it is used in connection with Federal credit programs.

Surplus**—**A surplus is the amount by which receipts exceed outlays.

Supplemental appropriation**—**A supplemental appropriation is one enacted subsequent to a regular annual appropriations act when the need for funds is too urgent to be postponed until the next regular annual appropriations act.

Trust funds**—**These are accounts, designated by law as trust funds, for receipts earmarked for specific purposes and the associated expenditure of those receipts. (Cf. *special funds.*)

User fee**—**This term refers to fees, charges, and assessments levied on a class directly benefiting from, or subject to regulation by, government programs or activity, to be utilized solely to support the program or activity.

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