# CIRCULAR NO. A–11

# PREPARATION, SUBMISSION, AND EXECUTION OF THE BUDGET

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
JULY 2003

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

November 14, 2003

MEMORANDUM FOR USERS OF OMB CIRCULAR NO. A-11

FROM: Art Stigile
Chief, Budget Concepts Branch

SUBJECT: Revisions to OMB Circular No. A-11 dated July 2003

We have updated the electronic version of OMB Circular No. A-11 to reflect several changes and clarifications. The updated Circular is available for viewing or downloading at the following Internet address:

http://www.whitehouse.gov/omb/circulars/index.html

Paper copies of the updated pages will not be issued.

The revised guidance:

- Clarifies the treatment of reductions affecting spending authority from offsetting collections (sections 20.3, 20.4, and 82.8).
- Adds two memorandum lines to MAX schedule P for reporting investments by the Railroad Retirement Board in non-Federal securities (section 82.7).
- Clarifies the types of expenses that are not considered administrative and may therefore be deducted from proceeds of sales, rather than paid from the credit program account (section 185.3(a)).
- Indicates that subsidy rates for direct loans and loan guarantees should now be entered into MAX using decimal points (section 185.10(c)).
- Adds a line numbering scheme in schedule P for financing accounts similar to that for program accounts (section 185.11(a)).
- Updates the MAX edit checks (Appendix D).

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

July 25, 2003

CIRCULAR NO. A-11
Revised
Transmittal Memorandum No. 77

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Preparing, Submitting, and Executing the Budget

OMB Circular No. A-11 provides guidance on preparing the FY 2005 Budget submission and includes instructions on budget execution.

For the FY 2005 Budget, agencies will prepare a performance budget that can be used for the annual performance plan required by the Government Performance and Results Act. The performance budget will be integrated with other elements of the agency budget request to OMB in September and the agency Congressional justification in February. The performance budget will include information from the PART assessments, where available, and all performance goals used in the assessment of program performance done under the PART process.

This year, we continued our ongoing review of reporting requirements and simplified and reduced those requirements, where appropriate. The Circular also now contains electronic links to the instructions for certain essential data collections that are not specifically required for preparation of the President's budget. The links will be maintained by the respective "owners" of the requirements and will be updated as necessary.

This Circular supersedes all previous versions. The summary of changes highlights the substantive changes made since last year.

Your proposals should reflect the policies of the President, including the government-wide initiatives and agency-specific management reform proposals identified in the President's Management Agenda. Your proposals should also be consistent with guidance provided by OMB, including that contained in OMB spring guidance memoranda.

Joshua B. Bolten
Director

Attachment

# TABLE OF CONTENTS

# GUIDE TO OMB CIRCULAR NO. A–11

## What is the purpose of the Circular?

Part 1: Provides an overview of the budget process. It discusses the basic laws that regulate the budget process and the terms and concepts you need to know to understand the budget process and this Circular. (Sections numbered 10 through 22)

Part 2: Covers development of the President's budget and tells you how to prepare and submit materials required for OMB and Presidential review of agency requests and for formulation of the FY 2005 Budget, including development and submission of performance budgets for FY 2005. The performance budget replaces the annual performance plan required by the Government Performance and Results Act. A significant portion of this part focuses on the preparation of the budget *Appendix* and the related database. This year, detailed instructions for a number of requirements not directly related to the preparation and production of the budget have been moved from A-11 and are accessible through electronic links that are provided in section 25. (Sections numbered 25 through 95)

Part 3: Discusses supplementals, amendments, releases of contingent emergency funding, rescission proposals and deferrals, and investments. (Sections numbered 110 through 113)

Part 4: Provides instructions on budget execution, including guidance on the apportionment and reapportionment process (SF 132), report on budget execution and budgetary resources (SF 133), and a checklist for fund control regulations. (Sections numbered 120 through 150)

Part 5: Covers Federal credit programs, including requirements related to the preparation of budget estimates and to budget execution. (Section number 185)

Part 6: Describes requirements for strategic plans and annual program performance reports and provides an overview of the performance budget. (Sections numbered 200 through 230)

Part 7: Discusses planning, budgeting and acquisition of capital assets, and tells you how to prepare and submit information on new and past acquisitions. (Section number 300)

Part 8: Contains supplementary materials. (Appendices numbered A through K)

## How do I find information in the Circular?

The Circular groups related requirements together and presents requirements chronologically, where appropriate (e.g., instructions related to budget formulation are included in Part 2, and instructions related to budget execution are included in Part 4).

The information in each part is divided into chapters and, in some cases, subchapters. The chapters are organized into a series of sections that consist of consecutively numbered subsections. Section numbers are not repeated between parts. We reserved certain section numbers for future use, so there gaps in the numbering scheme. Page numbers identify the section number and page within that section.

At the beginning of the Circular, there is a table of contents that identifies all the parts, chapters, sections and associated page numbers.

There is also a table of contents at the beginning of each section that identifies the subsections and exhibits contained in that section. We summarize major changes in policies and requirements at the beginning of the Circular. In addition, we describe the changes that affect each section at the beginning of that section and use vertical revision bars in the margins to highlight new requirements and significant changes. At the end of the Circular, there is an index.

OMB circulars, memoranda, and bulletins, including Circular No. A–11, are available for viewing or downloading at the following Internet address:

www.whitehouse.gov/omb

Presidential Executive Orders are available for viewing or downloading at the following Internet address:

www.archives.gov

The internet version of the Circular contains a number of hyperlinks that link the various parts of A-11 with each other and other web sites.

Normally, A–11 is fully revised annually. However, the guidance is usually updated in the fall to reflect changes and clarifications since the full revision. If you are working with a paper copy of A–11 or CD ROM, please check the Internet to make sure you have the latest version and updates.

**What agencies are covered by the Circular?**

This Circular applies to all executive departments and establishments. In addition, some of the requirements apply to the legislative and judicial branches, to the District of Columbia, and to Government-sponsored enterprises.

If you want a modification to the requirements in this Circular, you must get OMB approval in advance (see section 25.2).

**When are the materials required by this Circular due?**

Different materials are due on different dates.

The initial submission of budget justification and other materials required under Part 2 is due ***September 8, 2003*** for Cabinet agencies and other agencies subject to executive branch review. Section 25 provides additional information on due dates for materials required in connection with the submission of budget estimates.

Materials required under Part 4 are due as follows:

Initial apportionments—August 21
Reapportionments—30 days after enactment of appropriations
SF 133—quarterly, unless OMB requires a monthly report

**What common conventions does this Circular use?**

When the Circular refers to a specific year, assume it is a calendar year unless otherwise noted. The following phrases and abbreviations are used to identify specific fiscal years:

| Fiscal Year | Description |
|---|---|
| Past year - 1 (PY-1) | The fiscal year immediately preceding the past year. |
| Past year (PY) | The fiscal year immediately preceding the current year; the last completed fiscal year. |
| Current year (CY) | The fiscal year immediately preceding the budget year. |
| Budget year (BY) | The next fiscal year for which estimates are submitted. |
| Budget year + 1 (BY+1) *through* budget year + 9 (BY+9) | The fiscal year following the budget year *through* the ninth fiscal year following the budget year. |

Special budget terms, such as budget authority, obligations, and outlays, are defined in section 20.

In Part 2, the term ***schedule*** refers to a set of data within the MAX budget database that is complete in itself and describes a view or slice of the President's budget. Schedules are described in section 79.

**Who can answer questions about the Circular?**

The following table lists OMB organizational units with primary responsibility for certain sections of the Circular. You should direct general questions on the instructions and underlying concepts to these units. Direct agency-specific questions on the application of these instructions, as well as on sections not listed below, to your OMB program examiner or Resource Management Office.

**OMB CONTACTS**

| Section No. | Description | OMB Contact | Telephone No.* |
|---|---|---|---|
| **PART 2** | | | |
| 51.12 | Justification of unobligated balances in credit liquidating accounts | Budget Concepts Branch, Budget Review and Concepts Division | 395–3172 |
| 52.4 | Financial management budget justification | Financial Standards Reporting and Management Integrity Branch, Office of Federal Financial Management | 395–3993 |
| 52.5 | Report on resources for financial management activities | Federal Financial Systems Branch, Office of Federal Financial Management | 395–3993 |
| 53 | Information technology | Information Policy and Technology Branch, Office of Information and Regulatory Affairs | 395–3785 |
| 54 | Rental payments for space and land | Justice/GSA Branch, Transportation, Commerce, Justice, and Services Division | 395–6106 |
| **PART 6** | Strategic plans, performance budgets, and annual program performance reports | Budget Concepts Branch, Budget Review and Concepts Division | 395–3172 |

| Section No. | Description | OMB Contact | Telephone No.* |
|---|---|---|---|
| **PART 7** | Planning, budgeting, acquisition, and management of capital assets | Information Policy and Technology Branch, Office of Information and Regulatory Affairs | 395–3787 |
| — | MAX A–11 User's Guide | Budget Systems Branch, Budget Analysis and Systems Division | 395–6934 |

*Area code is 202

# SUMMARY OF CHANGES

***Note:*** *Vertical revision bars "|" are used in the margin of the Circular to highlight new requirements and significant changes.*

| Section No. | Change |
|---|---|
| 204. | Clarifies the definition of reappropriations. |
| 20.7 | Simplifies the discussion of offsetting collections and offsetting receipts. |
| 25.5 | Consolidates requirements previously included in several separate sections (old sections 51, 55, 84, and 100) and provides electronic links to the instructions. |
| | Requires agencies to submit activity-level homeland security and overseas combating terrorism information with their initial submission. |
| | Requires agencies to submit overseas staffing information with their initial submission (previously section 58). This information is requested as part of the President's Management Agenda on rightsizing overseas presence and will be published as part of the budget documents. |
| 26 | This new section compiles and links to guidance about the integration and use of performance information, including the statutory requirements of the Government Performance and Results Act (GPRA), the President's Management Agenda, and the use of the Program Assessment Rating Tool (PART). |
| 31.9 | Requires information on the cost of managing competitive sourcing initiatives. |
| 31.11 | Provides guidance on human capital management. |
| 32 | Drops the requirement to report on the impact of fully accruing employee pensions and annuitant health benefits. |
| 32.4 | Provides information on how prior year FTE figures are obtained. |
| 32.5 | Provides additional guidance on FTE accounting for military personnel. |
| 32.9 | Includes guidance on personnel benefits, previously included in section 33. |
| 33 | Drops the requirement to provide information for the national security crosscut. |
| | Moves data requirements related to aircraft and motor vehicles to section 25. |
| 35 | Section has been incorporated into sections 20, 86, and 130. |
| 51.2, 51.7, 220 | Agency budget submissions should be in the form of a "performance budget" to the greatest extent possible. The "performance budget" submission will replace the performance plan required by the Government Performance and Results Act. |
| 51.3 | Requires agencies to provide a breakout of resources for IT expenditures. |
| 51.9 | Updates guidance on program evaluation. |
| 52 | Drops the requirement to report on material weaknesses and nonconformances. |
| 53, 300 | Changes all terminology from IT "management" to "investments." The term IT investments includes projects, systems, IT workforce, and initiatives. |
| 53.2 | Adds information on the Federal Enterprise Architecture, its use during the agency budget formulation process, and the overall FY 2005 Budget process. |

| Section No. | Change |
|---|---|
| 53.3 | Reflects the enactment of the Federal Information Security Management Act and the E-Government Act of 2002. |
| 53.4 | Requires submission of agencies' initial drafts of exhibit 53. |
| 53.5 | Adds information on attendant documents and their requirements. |
| 53.7 | Modifies definition and provides criteria for identifying systems as "Major IT Investment" or "Non-Major IT Investment." |
| 55 | Requirement for information on energy and transportation efficiency management is covered in section 25.5; section 55 has been eliminated. |
| 56 | Drops the requirement for information on drug control programs; section 56 has been eliminated. |
| 57 | Drops the requirement for information on erroneous payments; section 57 has been eliminated. |
| 71 | Moves guidance on alignment of budget accounts and programs to sections 51 and 82. |
| 80.8 | Incorporates requirement for information in support of baseline estimates previously included in section 100. |
| 81.3 | Drops sequestrable/exempt and user charge classifications from MAX. |
| 81.4 | Drops memorandum entries for the cost of fully accruing retirement costs; drops the requirement for to report limitations for direct and guaranteed loans. |
| 82.1 | Removes ability to override generated subtotals and totals. |
| 82.2 | Clarifies the reporting of obligations for program activities and provides non-add performance activity lines within a program that finance specific performance metrics. |
| 82.3 | Adds a line to schedule P for reporting extensions in the availability of expired funds that are not reported as reappropriations. |
| | Identifies the schedule P lines that are automatically copied to schedule N. |
| | Instructs agencies to report transfers from mandatory to discretionary accounts on corresponding lines. |
| | Clarifies the treatment of reappropriations. |
| 82.7 | Adds memorandum entries for obligated and unobligated balances of contract authority. |
| 82.8 | Simplifies the presentation of rescissions and reductions of budget authority and distinguishes between temporary and permanent reductions. |
| 82.20 | Requires additional lines in schedule P to tie to amounts reported in FACTS II. |
| 84 | Moves requirement for information on research and development performed by colleges and universities and allocation of research funds to section 25. |
| 84.3 | Drops the projection of budget authority and outlays beyond the budget year, except for grant outlays, which will continue to be projected to BY+9. |
| 84.4 | Updates definitions of National Science and Technology Council crosscuts. |
| 85 | This new section describes performance metrics that will be published in the budget. In conjunction with other changes in the program and financing schedule, the new MAX schedule (V) will help provide a framework to better link cost and performance data. |

| Section No. | Change |
|---|---|
| 86 | Drops the schedule on the status of contract authority (schedule I). |
| 86.1 | Drops the commercial versus inherently governmental distinction in the personnel summary (schedule Q). |
| 86.2 | Drops the statement of operations (schedule E). |
| | Drops CY and BY data from the balance sheet (schedule F). Balance sheets are required for Government-Sponsored enterprises, financing vehicles, and credit accounts; they are optional for other funds. |
| 86.5 | Drops requirement for certain accounts to submit status of funds data (schedule J). |
| 86.6 | Schedule N will be refreshed each time the related accounts are uploaded and downloaded, rather than as part of the overnight production cycle. |
| | Drops offsetting collections from the schedule on unavailable receipts (schedule N). |
| | Clarifies how MAX calculates the "appropriation, net" lines in schedule N. |
| 95 | Consolidates requirements previously included in sections 95, 96, and 97. |
| | Drops the analysis of programs financed by multiple budget accounts. |
| 100 | Drops the requirements for information on motor vehicles, relocation expenses, and international travel; section 100 has been eliminated. |
| 110 | Drops the requirement to provide revised MAX schedules for supplementals and amendments. |
| 112.19 | Clarifies the description and title of SF 132 line 6B consistent with Appendix F. |
| 113 | Contains information on investments previously included in section 20.12 and 122; those sections have been eliminated. |
| 120.1-120.2 | Expands the purpose of apportionment. The process is now used to identify meaningful program reporting categories that agencies will report their obligations against when submitting budget execution reports. |
| 120.3 | Apportionments are made at the Treasury appropriation fund symbol (TAFS) level. |
| 120.8 | Clarifies the descriptions of apportionment categories to state that one TAFS may potentially have anywhere from a single category B apportionment to dozens of category B apportionments. |
| 120.26 | Requires agencies to use only the formats described in section 121.5. |
| 121.2-121.9 | Describes how to use program reporting categories. |
| 121.5 | Describes the columns used on the SF 132 and letter apportionment Excel spreadsheets. Shows a new column, line split, to be used to distinguish between two or more amounts that you would normally report on a single line. |
| 121.10 | Clarifies the treatment of extensions of the availability of unobligated balances. |
| 122 | Moves instructions on investment transactions for budget execution to section 113. |
| 145.6 | Adds information on anticipated budgetary resources. |
| 185.8 | Provides guidance on sales of performing loan assets. |
| 185.10 | Drops outlay lines for reestimates in schedule U. |

| Section No. | Change |
|---|---|
| 220 | Agencies' performance budgets will include information from the PART assessments, where available, and all performance goals used in the assessment of program performance done under the PART process. |
| 300 | Adds information on the Federal Enterprise Architecture, its use during the agency budget formulation process, and the overall FY 2005 Budget process. |
| 300.9 | Requires one business case for office automation, infrastructure, and telecommunications; requires that all exhibit 300s be in XML. |
| | Describes the requirements for multi-agency business cases. |
| 800 | Drops the section on managing physical and financial assets. |
| Exhibit 300 | Adds PART review questions; adds government FTE to the summary of spending. |
| Appendix B | Clarifies that the impact of changes to existing operating lease contracts needs to be evaluated against the criteria for operating leases. |
| | Fair market value will not include the value of features or enhancements that were built or added for the Government's unique needs or special purposes. Such features should be financed up-front, separate from the lease. |
| | Lease-backs from public/private partnerships with substantial private sector participation will be presumed to be capital leases; public/private partnerships without substantial private sector participation will be considered governmental for purposes of the budget. |
| | When determining whether a lease contains a bargain-price purchase option, the purchase price includes the value of any rebates or income to the Government resulting from its purchase of the asset. |
| | The assumptions used to perform lease analyses are subject to OMB approval. |
| Appendix E | Removes three of the six diagnostic reports included in last year's A-11. The reports have been converted to MAX edit checks. |
| Appendix J | Renumbers former Appendix 300A. |
| Appendix K | Renumbers former Appendix 300B. |
| | Initial submissions of budget justification and other materials are due September 8, 2003. |
| | OMB plans to lock prior year data in MAX by the middle of December. |

# CIRCULAR NO. A–11

# PART 1

# GENERAL INFORMATION

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
JULY 2003

## SECTION 10—OVERVIEW OF THE BUDGET PROCESS

**Table of Contents**



### 10.1 What is the budget?

In this Circular, the term *budget* means the President's budget—*The Budget of the United States Government*. The budget consists of several volumes that set forth the President's financial proposal with recommended priorities for allocating resources. The main *Budget* volume contains the President's budget message and other broad statements of policy. The *Appendix* contains detailed information by agency, bureau or program group, budget accounts, programs, and activities. Other volumes, such as *Analytical Perspectives* and *Historical Tables*, provide complementary views of the budget. Most of the information contained in the budget is, or is based on, information you submit for your agency and programs in response to this Circular.

The term "budget" can mean other things in other contexts. It often refers to the full receipt and outlay proposals rather than the volumes in which these amounts are published. Some people refer collectively to the budget resolution and revenue and spending bills that Congress passes, which we describe below, as the "congressional budget." Ultimately, Congress and the President enact many laws that control the Government's receipts and spending, which we sometimes refer to collectively as the budget, as in "enacting the budget."

This section provides a broad overview of the budget process. You can read more about the budget process in a chapter of the *Analytical Perspectives* volume of the most recent budget, "Budget System and Concepts and Glossary," which is also available as a separate pamphlet. You can order budget documents, including the pamphlet, from the Government Printing Office, or you can view or download them at the following Internet addresses:

http://www.access.gpo.gov/usbudget (GPO), or

http://www.whitehouse.gov/omb/ (OMB)

## 10.2 Why prepare a budget?

A law requires the President to submit a budget (see section 15.2). The President formally transmits his proposals for allocating resources to Congress through the budget. Congress considers the recommendations and uses the information included in the budget as it drafts and passes laws that affect spending and receipts. Through this process the Government decides how much money to spend, what to spend it on, and how to raise the money it has decided to spend.

## 10.3 What kinds of information does the budget provide?

The budget focuses primarily on the budget year—the upcoming fiscal year for which Congress needs to make appropriations. However, it includes data for the most recently completed year, the current year, and at least the four years following the budget year (outyears) in order to reflect the effect of budget decisions over the longer term. In addition to proposed appropriations for the budget year, the budget may include proposed changes to appropriations for the current year (supplementals and rescissions), and legislative proposals that would affect the current year, the budget year, or the outyears.

The budget provides actual or estimated data (stated in millions or billions of dollars, depending on the context) for the following:

- The amount by account that each agency may obligate the Government to pay (budget authority) and estimates of payments (outlays) by agency and account;
- The amount of receipts each agency collects from various sources;
- Budget authority, outlays, and receipts by major function of Government, such as national defense; (This is why we assign each budget account a functional classification code(s).)
- Total budget authority, outlays, and receipts for the Government; and
- The actual or estimated surplus (when receipts exceed outlays) or deficit (when outlays exceed receipts).

The budget divides the Government totals for budget authority, outlays, and receipts into "on-budget" amounts and "off-budget" amounts. The off-budget amounts include the transactions of the Social Security trust funds and the Postal Service, which are excluded from the on-budget totals by laws.

The budget arrays data in many different ways. For example, one section of the budget discusses current operating expenditures versus capital investment. Also, while the budget focuses primarily on dollars, it also includes data on other resources, such as Federal employment levels.

## 10.4 Which agencies does the budget cover?

The budget covers the agencies of all three branches of government—Executive, Legislative, and Judicial—and provides information on Government-sponsored enterprises. In accordance with law or established practice, OMB includes information on agencies of the Legislative Branch, the Judicial Branch, and certain Executive Branch agencies as submitted by those agencies without change. By longstanding practice, the budget presents information about the Board of Governors of the Federal Reserve System but does not include amounts for the Board in the budget totals, even though it is a Government agency, because of the independent status of the System. The budget includes information about the Government-sponsored enterprises, such as the Federal National Mortgage Association (Fannie

Mae), but doesn't include them in the budget totals because they are privately owned. (Section 25 discusses the applicability of Part 2 of this Circular to various agencies.)

### 10.5 What happens during the Federal budget process and when?

The budget process occurs in three main phases:

- *Formulation*. During this phase, the Executive Branch prepares the President's budget. OMB and the Federal agencies begin preparing the next budget almost as soon as the President has sent the last one to Congress. OMB officially starts the process by sending planning guidance to Executive Branch agencies sometime in the Spring. The President completes this phase by sending the budget to Congress on the first Monday in February, as specified in law, although occasionally Presidents have sent it later for various reasons. For example, in a year with a transition between outgoing and incoming Administrations, the timing of the President's budget transmittal changes. (President George W. Bush transmitted his first budget, the 2002 Budget, in April 2001.)

- *Congressional*. This phase starts in late January or February, when Congress receives the President's budget. Congress doesn't vote on the President's budget itself, and it doesn't enact a budget of its own, as such. It considers the President's budget proposals, passes an overall revenue and spending plan called a "budget resolution," and enacts the thirteen regular appropriations acts and other laws that control spending and receipts.

- *Execution.* This phase lasts for at least five fiscal years and includes two parts.

  - The *apportionment* part pertains to funds appropriated for that fiscal year and to balances of appropriations made in prior years that remain available for obligation. At the beginning of the fiscal year, and at such other times as necessary, OMB apportions funds—that is, specifies the amount of funds that an agency may use by time period, program, project, or activity—to Executive Branch agencies. Throughout the year, agencies hire people, enter into contracts, and enter into grant agreements, etc., in order to carry out their programs, projects, and activities. These actions use up the available funds by obligating the Federal government to make outlays, immediately or in the future.

  - The *reporting and outlay* part lasts until funds are canceled (one- and multiple-year funds are canceled at the end of the fifth year after the funds expire for new obligations) or until funds are totally disbursed (for no-year funds).

The following tables highlight the major events in each of the phases of the budget process. These tables show the planned timing or, when applicable, the timing specified in law. The actual timing may vary from the plan. For example, Congress frequently does not enact all appropriations acts by the start of the fiscal year, and on several occasions a President has submitted the budget later than specified for various reasons, including late enactment of appropriations for the previous fiscal year or a change in Administrations. Since budget cycles overlap, we must begin the next cycle before completing the last one.

## MAJOR STEPS IN THE FORMULATION PHASE

| What happens? | When? |
|---|---|
| *OMB issues Spring planning guidance to Executive Branch agencies for the upcoming budget.* The OMB Director issues a letter to the head of each agency providing policy guidance for the agency's budget request. Absent more specific guidance, the outyear estimates included in the previous budget serve as a starting point for the next budget. This begins the process of formulating the budget the President will submit the following February. | Spring |
| OMB and the Executive Branch agencies discuss budget issues and options. OMB works with the agencies to:<br>Identify major issues for the upcoming budget;<br>Develop and analyze options for the upcoming fall review; and<br>Plan for the analysis of issues that will need decisions in the future. | Spring and Summer |
| OMB issues Circular No. A–11 to all Federal agencies. This Circular provides detailed instructions for submitting budget data and materials. | July |
| Executive Branch agencies (except those not subject to Executive Branch review) make initial budget submissions. See section 25. | September 8 |
| Fiscal year begins. The just completed budget cycle focused on this fiscal year. It was the "budget year" in that cycle and is the "current year" in this cycle. | October 1 |
| OMB conducts its Fall review. OMB staff analyze agency budget proposals in light of presidential priorities, program performance, and budget constraints. They raise issues and present options to the Director and other OMB policy officials for their decisions. | October–November |
| OMB briefs the President and senior advisors on proposed budget policies. The OMB Director recommends a complete set of budget proposals to the President after OMB has reviewed all agency requests and considered overall budget policies. | Late November |
| "Passback." OMB usually informs all Executive Branch agencies at the same time about the decisions on their budget requests. | Late November |
| All agencies, including Legislative and Judicial Branch agencies, enter MAX computer data and submit print materials and additional data. This process begins immediately after passback and continues until OMB must "lock" agencies out of the database in order to meet the printing deadline. | Late November to early January * |
| Executive Branch agencies may appeal to OMB and the President. An agency head may ask OMB to reverse or modify certain decisions. In most cases, OMB and the agency head resolve such issues and, if not, work together to present them to the President for a decision. | December * |
| Agencies prepare and OMB reviews congressional budget justification materials. Agencies prepare the budget justification materials they need to explain their budget requests to the responsible congressional subcommittees. | January |
| President transmits the budget to Congress. | First Monday in February |

*OMB provides specific deadlines for this activity.

### MAJOR STEPS IN THE CONGRESSIONAL PHASE

| What happens? | When? |
|---|---|
| Congressional Budget Office (CBO) reports to Budget Committees on the economic and budget outlook. | January |
| CBO reestimates the President's budget based on their economic and technical assumptions. | February |
| Other committees submit "views and estimates" to House and Senate Budget Committees. Committees indicate their preferences regarding budgetary matters for which they are responsible. | Within 6 weeks of budget transmittal |
| Congress completes action on the concurrent resolution on the budget. Congress commits itself to broad spending and revenue levels by passing a budget resolution. | April 15 |
| Congress needs to complete action on appropriations bill for the upcoming fiscal year. Congress completes action on regular appropriations bills or provides a "continuing resolution" (a stop-gap appropriation law). | September 30 |

### MAJOR STEPS IN THE EXECUTION PHASE

| What happens? | When? |
|---|---|
| Fiscal year begins. | October 1 |
| OMB apportions funds made available in the budget process and other available funds. Agencies submit apportionment requests to OMB for each budget account by *August 21* or within *10 calendar days* after the approval of the appropriation, whichever is later. OMB approves or modifies the apportionment specifying the amount of funds agencies may use by time period, program, project, or activity. | September 10 (or within 30 days after approval of a spending bill) |
| Agencies incur obligations and make outlays to carry out the funded programs, projects, and activities. Agencies hire people, enter into contracts, enter into grant agreements, etc. in order to carry out their programs, projects, and activities.<br><br>Agencies record obligations and outlays pursuant to administrative control of funds procedures (see Appendix H), report to Treasury (see the Treasury Fiscal Requirements Manual and section 130), and prepare financial statements. | Throughout the fiscal year |
| Fiscal year ends. | September 30 |
| Expired phase (no-year funds do not have an expired phase). Agencies disburse against obligated balances and adjust obligated balances to reflect actual obligations during the period of availability.<br><br>Agencies continue to record obligations and outlays pursuant to administrative control of funds procedures, report to Treasury, and prepare financial statements. | Until September 30, fifth year after funds expire. |

## 10.6 What is the Mid-Session Review?

The law requires the President to send a report to Congress updating budget estimates on or before July 15th. This report contains revised budget estimates resulting from changes in economic assumptions, technical reestimates, Presidential initiatives, and completed congressional actions that have occurred since transmittal of the budget. Your OMB representative will provide guidance on the development of these estimates at the appropriate time.

### 10.7 What are the central financial agencies?

The central financial agencies are:

- The Office of Management and Budget (OMB), in the Executive Office of the President;
- The Department of the Treasury, Financial Management Service (FMS);
- The Congressional Budget Office (CBO), in the Legislative Branch; and
- The General Accounting Office (GAO), in the Legislative Branch.

### 10.8 What are the responsibilities and functions of OMB?

OMB's predominant mission is to assist the President in overseeing the preparation of the Federal budget and to supervise its administration by the Executive Branch agencies. OMB evaluates the effectiveness of agency programs, policies, and procedures, assesses competing funding demands among agencies, and sets funding priorities. OMB ensures that agency reports, rules, testimony, and proposed legislation are consistent with the President's budget and with Administration policies.

In addition, OMB oversees and coordinates the Administration's procurement, financial management, information, and regulatory policies. In each of these areas, OMB's primary roles are to improve administrative management, develop better performance measures and coordinating mechanisms, and reduce any unnecessary burdens on the public.

For further information, please refer to the OMB web site at http://www.whitehouse.gov/omb.

### 10.9 What are the responsibilities and functions of the Treasury?

Treasury, acting through the Financial Management Service (FMS):

- Disburses 950 million Federal payments like Social Security, veterans' benefits and income tax refunds to more than 100 million people; (The Defense Department does not use FMS to disburse its funds.)

- Collects more than $2 trillion in Federal revenues;

- Oversees a daily cash flow of $10 billion;

- Provides centralized debt collection services to most Federal agencies; and

- Provides government-wide accounting and reporting.

FMS gathers and publishes government-wide financial information that is used by the public and private sectors to monitor the government's financial status and establish fiscal and monetary policies. These publications include: the Daily Treasury Statement; the Monthly Treasury Statement; the Treasury Bulletin; the Combined Statement of Receipts, Outlays and Balances of the United States Government; and the Financial Report of the U.S. Government, which is the Federal government's first set of audited financial statements, a requirement of the Government Management and Reform Act of 1994.

For further information, please refer to the FMS web site at http://www.fms.treas.gov/.

### 10.10 What are the responsibilities and functions of CBO?

CBO was created by the Congressional Budget and Impoundment Control Act of 1974. CBO's mission is to provide the Congress with the objective, timely, nonpartisan analyses needed for economic and budget decisions and with the information and estimates required for the Congressional budget process. CBO prepares analyses and estimates relating to the budget and the economy and presents options and alternatives for the Congress to consider but does not make recommendations on policy. CBO's services can be grouped into four categories: helping the Congress formulate a budget plan, helping it stay within that plan, helping it assess the impact of federal mandates, and helping it consider issues related to the budget and economic policy.

For further information, please refer to the CBO web site at http://www.cbo.gov/.

### 10.11 What are the responsibilities and functions of GAO?

The General Accounting Office is the investigative arm of Congress. GAO helps the Congress meet its Constitutional responsibilities and helps improve the performance and accountability of the Federal government for the American people. GAO examines the use of public funds, evaluates Federal programs and activities, and provides analyses, options, recommendations, and other assistance to help the Congress make effective oversight, policy, and funding decisions. In this context, GAO works to continuously improve the economy, efficiency, and effectiveness of the Federal government through financial audits, program reviews and evaluations, analyses, legal opinions, investigations, and other services. GAO's activities are designed to ensure the executive branch's accountability to the Congress under the Constitution and the government's accountability to the American people. GAO is dedicated to good government through its commitment to the core values of accountability, integrity, and reliability.

For further information, please refer to the GAO web site at http://www.gao.gov/.

### 10.12 Do OMB, CBO, FMS, and GAO have any overlapping responsibilities?

Yes. Here are a few examples:

- After OMB submits the President's Budget, CBO is responsible for re-estimating the Budget.

- Both OMB and CBO score the costs of legislation (both appropriations and direct spending included in authorization bills). Congress uses the CBO estimates during congressional consideration of individual bills to ensure that they are consistent with the budget resolution totals. The President uses OMB estimates to determine whether budget-related legislation exceeds the limits set by the Budget Enforcement Act. OMB reconciles or explains differences between the two sets of estimates.

- OMB and FMS work together to establish any new Treasury accounts, both during the preparation of the Budget and after bills become laws.

- OMB provides its scoring to FMS to assist in FMS' responsibility to prepare warrants.

- OMB and FMS work together to estimate actual outlays during the course of a year.

- FMS gathers financial information through FACTS II (Federal Agencies' Centralized Trial-Balance System) that allows agencies to submit one set of accounting data (mostly budgetary, some proprietary) that fulfills the needs of the SF 133 Report on Budget Execution and Budgetary Resources, the FMS 2108 Year-End Closing Statement, and the prior-year column of the Program and Financing schedule in the President's Budget.

- OMB and FMS worked together to develop the FACTS II systems. FMS develops U.S. Standard General Ledger guidance to comply with OMB definitions.

- Both FMS and GAO provide guidelines used by financial managers as they account for Federal finances.

- OMB uses GAO audits and evaluations as part of its review of agency programs.

# SECTION 15—BASIC BUDGET LAWS

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## 15.1 What laws govern the budget cycle?

The Federal budget cycle can be divided into three distinct phases that are generally sequential and yet intertwined. The first phase, which culminates in the transmittal of the President's budget proposals to Congress, is called the budget formulation phase. In the next phase, Congress acts upon laws that together constitute the enacted budget. Once the laws have been enacted, executive agencies carry out the laws in the budget execution phase. The Federal budget cycle is governed mainly by the following six laws, which we describe below:

- Budget and Accounting Act.
- Congressional Budget Act.
- Antideficiency Act.
- Impoundment Control Act.
- Government Performance and Results Act.
- Federal Credit Reform Act.

## 15.2 Why is the Budget and Accounting Act important?

Before this law, which was enacted in 1921, there was no annual centralized budgeting in the executive branch. Federal Government agencies usually sent budget requests independently to Congressional committees with no coordination of the various requests in formulating the Federal Government's budget. The Budget and Accounting Act required the President to coordinate the budget requests for all Government agencies and to send a comprehensive budget to Congress. It created the Bureau of the Budget, now the Office of Management and Budget, to help the President implement these requirements. It also required the President to include certain information in the budget. Congress has amended the requirements many times and has codified them as Chapter 11, Title 31, U.S. Code. These are some of the requirements:

- "On or after the first Monday in January but not later than the first Monday in February of each year, the President shall submit a budget of the United States Government for the following fiscal year."

- "Each budget shall include a budget message and summary and supporting information. The President shall include in each budget the following...." The provision goes on to list about thirty items, such as expenditures and receipts for the past year through the fourth year following the budget year, information on debt, financial information, and information on employment levels.

- "Under regulations prescribed by the President, each agency shall provide information required by the President in carrying out this chapter. The President has access to, and may inspect, records of an agency to obtain information."

- "Estimated expenditures and proposed appropriations for the legislative branch and the judicial branch...shall be submitted to the President before October 16 of each year and included in the budget by the President without change."

### 15.3 How does Congress enact the budget and what laws govern the process?

Congress does not enact a budget, as such. Instead, the budget is enacted through several different types of legislation:

- Congress is first scheduled to adopt a concurrent resolution that sets forth the total budget outlays (spending) and budget receipts for the upcoming fiscal year.

- Next, legislation authorizing changes in programs and in taxes is scheduled to be enacted consistent with the budget resolution.

- Finally, Congress is scheduled to enact appropriations in as many as 13 regular appropriations bills for the up-coming fiscal year

Before the Congressional Budget Act (CBA), there was no annual centralized budgeting in the legislative branch. Each of the 13 regular annual appropriations bills was acted on separately by Congress and changes in taxes were authorized in another process. In addition, there was no established process to add up the total receipts and total spending in all the bills to reach the Federal Government's bottom line, whether it was a surplus or a deficit.

The CBA established the concurrent resolution on the budget, also known as the budget resolution, the House and Senate Budget Committees, the Congressional Budget Office, and procedures for relating individual appropriation actions to the budget totals. Also, the CBA defines some key budget terms, such as budget authority, that are used in all phases of the President's budget formulation process and the Congressional budget process.

The CBA was amended extensively by a series of laws that prescribed rules and procedures (including "sequestration") designed to constrain spending and receipts legislation. The latest was the Budget Enforcement Act (BEA) which was first enacted in 1990. The most recent version of the BEA constrained legislation enacted through 2002 that would increase spending or decrease receipts. It applied to appropriations acts and other laws, so it affected almost every aspect of budgeting. Key enforcement provisions of the BEA, including the discretionary caps, expired at the end of 2002.

The BEA divided spending into two types:

- *Discretionary spending,* which means the budget authority controlled by annual appropriations acts and the outlays that result from the budget authority; and

- *Mandatory spending,* which means budget authority and outlays resulting from permanent laws.

The BEA applied one set of rules to discretionary spending and another to mandatory spending and receipts. It includes receipts under the same rules that apply to mandatory spending because receipts are generally controlled by permanent laws. Section 20.9 explains these rules and BEA reporting requirements in detail.

## 15.4 What laws govern the budget execution process when funds are actually spent?

Chapters 13, 15, and 33 of Title 31, United States Code, prescribe rules and regulations for budget execution. Among these, the major laws are the Antideficiency Act, the Impoundment Control Act, the provisions known as the Economy Act which are found in section 1535, the provisions that govern the closing of accounts which are found in sections 1551 through 1555; and the "Miscellaneous Receipts Law" which is found in section 3302.

The Antideficiency Act requires OMB to apportion the accounts and to monitor spending; prohibits agencies from spending more than the amounts appropriated or apportioned, whichever is lower; requires that agencies control their spending; and provides penalties for overspending.

Specifically, agencies may not:

- Purchase services and merchandise *before* appropriations are enacted and accounts are apportioned;
- Enter into contracts that *exceed* the appropriation for the year or the amount apportioned by OMB, whichever is lower; or
- Pay bills when there is *no cash* in the appropriation or fund account.

The head of each agency is required to establish, by regulation, a system of administrative control of funds that:

- Restricts *both* obligation and expenditure (for example, outlays or disbursements) from each account to the *lower of* the amount apportioned by OMB or the amount available for obligation and/or expenditure.
- Enables the head of the agency to identify the person(s) responsible for violating the Act.

There are administrative and criminal *penalties* for violating the Antideficiency Act. Also, the agency head is required to report any violations to the President, through the OMB Director, and to the Congress. See section 145 for instructions on reporting violations.

The Impoundment Control Act, which was enacted in 1974, requires that the President notify Congress whenever the Executive Branch withholds, delays, or precludes the obligation or expenditure of budget authority. There are two types of impoundment: the temporary *deferral* of funds and *rescission proposals* to permanently cancel spending**.** The Act also prescribes the rules that must be followed whenever the executive branch impounds funds**.** See section 112 for instructions on reporting deferrals and rescission proposals and the rules that must be followed.

## 15.5 What does the Government Performance and Results Act of 1993 require?

This law emphasizes managing for results—emphasizing what a program accomplishes and how well the accomplishments match with the program's purpose and objectives. It requires agencies to prepare strategic plans, annual performance plans, and annual performance reports. Part 6 of this Circular addresses the requirements of this law.

## 15.6 What do I need to know about the Federal Credit Reform Act of 1990?

This law governs Federal credit programs—ones that make direct loans and loan guarantees. The Act prescribes a special budget treatment for direct loans and loan guarantees that measures their subsidy cost, rather than their cash flows. For most credit programs, Congress must provide budget authority equal to the subsidy cost in annual appropriations acts before the program can make direct loans or loan guarantees. Section 185 of this Circular addresses the requirements of this law, which was enacted as an amendment of Title V of the Congressional Budget Act of 1974.

# SECTION 20—TERMS AND CONCEPTS (CLICK HERE TO GET UPDATED FILE)

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**Summary of Changes**

Excludes information on recording investments in securities, disinvestment, and earnings, which was moved to section 113.

Clarifies the definition of reappropriations (section 20.4(h)).

Simplifies the discussion of offsetting collections and offsetting receipts (section 20.7).

## 20.1 What is the purpose of this section?

In this section we define budget terms—such as *budget authority, obligation,* and *outlay*—that you need to know in order to understand the budget process and this Circular. We also explain certain of the terms in depth.

## 20.2 How do I use this section?

- Go to the next section (section 20.3) if you just need a brief definition of a term commonly used in the budget process. That section lists the terms in alphabetical order.

- Go to sections 20.4–20.12 if you need a fuller explanation of the terms and concepts listed in the section titles of the Table of Contents above.

- Go to section 113 if you need to know about investing fund balances in Federal securities or other securities.

- Go to section 185, Federal credit, if you need to know more about the credit terms defined in section 20.3.

## 20.3 What special terms must I know?

***Advance appropriation*** means appropriations of new budget authority that become available one or more fiscal years beyond the fiscal year for which the appropriation act was passed. (See section 20.4(c).)

***Advance funding*** means appropriations of budget authority provided in an appropriations act to be used, if necessary, to cover obligations incurred late in the fiscal year for benefit payments in excess of the amount specifically appropriated in the act for that year, where the budget authority is charged to the appropriation for the program for the fiscal year following the fiscal year for which the appropriations act is passed. (See section 20.4(c).)

***Agency*** means a department or establishment of the Government for the purposes of this Circular. (Compare to *bureau.*)

***Allowance*** means a lump-sum included in the budget to represent certain transactions that are expected to increase or decrease budget authority, outlays, or receipts but that 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 affect many accounts by relatively small amounts, in order to avoid unnecessary detail in the presentations for the individual accounts. The President doesn't propose that Congress enact an allowance as such, but rather that it modify specific legislative measures as necessary to produce the increases or decreases represented by the allowance.

***Apportionment*** means a distribution made by OMB of amounts available for obligation in an appropriation or fund account into amounts available for specified time periods, program, activities, projects, objects, or any combinations of these. The apportioned amount limits the obligations that may be incurred. An apportionment may be further subdivided by an agency into allotments, suballotments, and allocations.

***Appropriated entitlement***—See entitlement authority.

***Appropriation*** means a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority (see section 20.4.)

***Baseline*** means an estimate of the receipts, outlays, and deficit or surplus that would result from continuing current law through the period covered by the budget. (See section 80.)

***BEA*** means the Budget Enforcement Act of 1990, as amended. (See section 15.3.)

***Borrowing authority*** is a type of budget authority that permits obligations and outlays to be financed by borrowing. (See section 20.4.)

***Budget*** means the *Budget of the United States Government,* which sets forth the President's comprehensive financial plan and indicates the President's priorities for the Federal Government. (See section 10.1.)

***Budget authority (BA)*** means the authority provided by law to incur financial obligations that will result in outlays. Specific forms of budget authority include appropriations, borrowing authority, contract authority, and spending authority from offsetting collections. (See section 20.4.)

***Budget totals*** means the totals included in the budget for budget authority, outlays, receipts, and the surplus or the deficit. 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. Off-budget totals reflect the transactions of Government entities that laws exclude from the on-budget totals (those of the Social Security trust funds and the Postal Service). The budget presents combined on- and off-budget totals to derive totals for Federal activity, sometimes called the unified budget totals. For example, see the end of the chapter "Federal Programs by Agency and Account" in the *Analytical Perspectives* volume of the most recent budget.

***Budgetary resource*** means an amount available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority (including direct spending authority provided in existing statute and obligation limitations), and unobligated balances of budget authority provided in previous years.

***Bureau*** means the principal subordinate organizational units of an agency.

***Cap*** means the legal limits for each fiscal year on the budget authority or outlays for a category of discretionary spending. (See section 20.9.)

***Cash equivalent transaction*** means a transaction in which the Government makes outlays or receives collections in a form other than cash, or in which the outlays or receipts recorded in the budget differ from the cash because the cash does not accurately measure the value of the transaction. (See section 20.8.)

***Collection*** means money collected by the Government that the budget records as either a receipt, an offsetting collection, or an offsetting receipt. (See section 20.7.)

***Contract authority*** permits you to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. Typically, Congress provides contract authority in an authorizing statute to allow you to incur obligations in anticipation of the collection of receipts or offsetting collections that will be used to liquidate the obligations. (See section 20.4.)

***Cost*** means the price or cash value of the resources used to produce a program, project, or activity. This term is used in many different contexts. When used in connection with Federal credit programs, the term means the estimated long-term cost to the Government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays. (See section 185.) For specific instructions on estimating costs, refer to the pertinent OMB instructions: for cost principles for educational institutions, see Circular No. A–21; for estimating costs for user charges, see Circular No. A–25; for rental and construction costs of Government quarters, see Circular No. A–45; for allowable costs for audits, see Circular No. A–50; for cost estimates in performing commercial activities, see Circular No. A–76; and for cost principles for State, local and Indian Tribal Governments, see Circular No. A–97.

***Credit program account*** means a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy amount to a financing account. (See section 185.)

***Current services estimates***—See baseline.

***Deficit*** means the amount by which outlays exceed receipts in a fiscal year. It may refer to the on-budget, off-budget, or unified budget deficit. (See *budget totals.)*

***Deferral*** means any executive branch action or inaction that temporarily withholds, delays, or effectively precludes the obligation or expenditure of budgetary resources. The President reports deferrals to Congress by special message. They are not identified separately in the budget. (See section 112.1.)

***Deposit fund*** means an account established to record amounts held temporarily by the Government until ownership is determined (for example, earnest money paid by bidders for mineral leases) or held by the Government as an 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). (See section 20.11(f).)

***Direct loan*** means 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 also includes certain equivalent transactions that extend credit. (See section 185.) (Compare to *loan guarantee*.)

***Direct spending***—See mandatory spending.

***Discretionary spending*** means budgetary resources (except those provided to fund mandatory spending programs) provided in appropriations acts. (See section 20.9.) (Compare to *mandatory spending*.)

***Emergency appropriation*** means an appropriation that the President and the Congress have designated as an emergency requirement under the BEA. (See section 20.9.)

***Entitlement authority*** means the authority, generally provided by an authorizing statute, to make payments (including loans and grants) to persons or non-federal entities who meet the requirements established by law. Examples of entitlement authority include benefit payments for Social Security, medicare, and unemployment insurance. Some programs, such as the food stamp program, veteran's compensation, and Medicaid, are classified as entitlements even through they are funded by appropriations acts, because the authorizing statute for the program obligates the United States to make payments. These are referred to as *mandatory appropriations* or *appropriated entitlements*. Also see *mandatory spending* (section 20.9.)

***Expenditure transfer***—See transfers.

***FACTS II*** means the Treasury Federal Agencies' Centralized Trial-balance System II. Agency staff use this system to electronically submit the accounting data that (a) support the SF 133 Report on Budget Execution and Budgetary Resources and (b) are used for much of the initial set of past year data in MAX schedule P. (See sections 82.15 and 130.2)

***Federal funds group*** refers to the moneys collected and spent by the Government through accounts other than those designated as trust funds. The Federal funds group includes general, special, public enterprise, and intragovernmental funds. (See section 20.11.) (Compare to *trust funds*.)

***Financing account*** means a non-budgetary account that records all of the cash flows 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. Separate financing accounts are required for direct loan cash flows and for guaranteed cash flows if the program account provides subsidy cost for both forms of credit. The transactions of the financing accounts, which are a *means of financing*, are not included in the budget totals. (See section 185.) (Compare to *liquidating account*.)

***Fiscal year*** means the Government's accounting period. It begins on October 1 and ends on September 30, and is designated by the calendar year in which it ends.

***Forward funding*** means appropriations of budget authority that become available for obligation in the last quarter of the fiscal year for the financing of ongoing grant programs during the next fiscal year. (See section 20.4(c).)

***Full-time equivalent (FTE) employment*** is the basic measure of the levels of employment used in the budget. It is the total number of hours worked (or to be worked) divided by the number of compensable hours applicable to each fiscal year. (See section 32.1.)

***Functional classification*** means the array of budget authority, outlays, and other budget data according to the major purpose served—for example, agriculture, national defense, and transportation. (See section 79.3.)

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

***Impoundment*** means any executive action or inaction that temporarily or permanently withholds, delays, or precludes the obligation or expenditure of budgetary resources.

***Intragovernmental fund***—See revolving fund.

***Liquidating account*** means a budget account that records all cash flows to and from the Government resulting from direct loan obligations and loan guarantee commitments made prior to October 1, 1991. Unlike financing accounts, these accounts are included in the budget totals. (See section 185.) (Compare to *financing account*.)

***Loan guarantee*** means 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. (See section 185.) (Compare to *direct loan*.)

***Mandatory appropriation***—See entitlement authority.

***Mandatory spending*** means spending controlled by laws other than appropriation acts (including spending for entitlement programs) and spending for the food stamp program. Although the BEA uses the term *direct spending* to mean this, *mandatory spending* is commonly used instead. (See section 20.9.) (Compare to *discretionary spending*.)

***Means of financing*** refers to borrowing, the change in cash balances, and certain other transactions that are involved in financing a deficit. The term is also used to refer to the debt repayment, the change in cash balances, and certain other transactions involved in using a surplus. By definition, the means of financing are not treated as receipts or outlays. (See section 20.7(f).)

***Non-expenditure transfer***—See transfer.

***Obligated balance*** means the cumulative amount of budget authority that has been obligated but not yet outlayed. It is also known as unpaid obligations (which are made up of accounts payable and undelivered orders) net of accounts receivable and unfilled customers orders. (See section 20.4(g).)

***Obligation*** means a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally. (See section 20.5.)

***Obligation limitation*** means a type of budgetary resource appropriated to accounts in a manner similar to budget authority that limits the amount of budget authority already made available for obligation by another law. The obligation limitation is effectively the amount of new budget authority available for obligation for that period. Obligation limitations are quite common in Transportation and General Service Administration accounts.

***Off-budget***—See budget totals.

***Offsetting collections*** mean collections that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, they are authorized to be spent for the purposes of the account without further action by Congress. They result from business-type or market-oriented activities with the public and intragovernmental transactions with other Government accounts. The authority to spend offsetting collections is a form of budget authority. (See sections 20.4(b) and 20.7.) (Compare to *receipts* and *offsetting receipts*.)

***Offsetting receipts*** mean collections that are deposited in offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they result from business-type or market-oriented activities with the public and intragovernmental transactions with other Government accounts. (Compare to *receipts* and *offsetting collections.*)

***On-budget***—See budget totals.

***Outlay*** means a payment to liquidate an obligation (other than the repayment of debt principal). Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions, such as the subsidy cost of direct loans and loan guarantees, and interest accrued on public issues of the public debt. Outlays are the measure of Government spending. (See section 20.6.)

***Outyear estimates*** mean estimates presented in the budget for the years beyond the budget year (usually four) of budget authority, outlays, receipts, and other items (such as debt).

***Pay-as-you-go (PAYGO)*** means the requirements of the BEA that result in a sequestration if the estimated combined result of legislation affecting mandatory spending or receipts is a net cost for a fiscal year. (See section 20.9.)

***Public enterprise fund***—See revolving fund.

***Reappropriation*** means an extension of the availability of unobligated balances of budget authority that have expired or would otherwise expire as a result of legislation enacted subsequent to the law that provided the budget authority. (See section 20.4(h), section 121.10.)

***Receipts*** mean collections that result from the Government's exercise of its sovereign power to tax or otherwise compel payment, and gifts of money to the Government. They are compared to outlays in calculating a surplus or deficit. (See section 20.7.) (Compare to *offsetting collections* and *offsetting receipts*.)

***Reduction*** means either a) rescission (see section 20.4(i)), b) across-the-board reduction (see section 82.8) or c) sequestration (see section 20.9).

***Refund*** means the return of excess payments to or by the Government. (See section 20.10.)

***Reimbursable obligation*** means an obligation financed by offsetting collections credited to an expenditure account in payment for goods and services provided by that account. (See section 83.5.)

***Rescission*** means a legislative action that permanently cancels new budget authority or the availability of unobligated balances of budget authority prior to the time the authority would otherwise have expired. (See section 20.4(i).)

***Revolving fund*** means a fund that conducts continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. There are three types of revolving funds: Public enterprise funds, which conduct business-like operations mainly with the public, intragovernmental revolving funds, which conduct business-like operations mainly within and between Government agencies, and trust revolving funds, which conduct business-like operations mainly with the public. (See section 20.11.)

***Scorekeeping*** means measuring the budget effects of legislation, generally in terms of budget authority, receipts, and outlays for purposes of the BEA. (See section 20.9.)

***Sequestration*** means the cancellation of budgetary resources provided by discretionary appropriations or mandatory spending legislation, following various procedures prescribed by the BEA. A sequestration may occur in response to a discretionary appropriation that causes discretionary spending to exceed the discretionary spending caps set by the BEA or in response to net costs resulting from the combined result of legislation affecting mandatory spending or receipts (referred to as a "pay-as-you-go" sequestration). (See section 20.9.)

***Special fund*** means a Federal fund account for receipts earmarked for specific purposes and the expenditure of these receipts. (See section 20.11.)

***Spending authority from offsetting collections*** is a type of budget authority that permits obligations and outlays to be financed by offsetting collections (see section 20.4 ). (Compare to *offsetting collections*.)

***Subsidy*** means the same as "cost" when it is used in connection with Federal credit programs. (See section 185.)

***Surplus*** means the amount by which receipts exceed outlays in a fiscal year. It may refer to the on-budget, off-budget, or unified budget surplus. (See *budget totals.)*

***Supplemental appropriation*** means an appropriation 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. (See section 110.2.)

***Transfer*** means to move budgetary resources from one budget account to another. Depending on the circumstances, the budget may record a transfer as an expenditure transfer, which means a transfer that involves an outlay, or as a nonexpenditure transfer, which means a transfer that doesn't involve an outlay. (See section 20.4(j).)

***Transfer in the estimates*** means a proposal to stop funding an activity through one budget account and begin funding it through another account. A transfer in the estimates doesn't involve a transfer of budgetary resources between the accounts. (See section 20.4(k).)

***Treasury Appropriation Fund Symbol (TAFS***) refers to the separate Treasury accounts for each appropriation title based on the availability of the resources in the account. The TAFS is a combination of Federal account symbol and availability code (e.g., annual, multi-year, or no-year). (See section 20.4).

***Trust fund*** refers to a type of account, designated by law a trust fund, for receipts or offsetting receipts earmarked for specific purposes and the expenditure of these receipts. Some revolving funds are designated as trust funds, and these are called trust revolving funds. Trust revolving funds have no receipt account and the collections are credited directly to the expenditure account. (See section 20.11.) (Compare to *special funds* and *revolving funds.*)

***Trust funds group*** refers to the moneys collected and spent by the Government through trust fund accounts. (See section 20.11.) (Compare to *Federal funds group*.)

***Unexpended balance*** means the sum of the unobligated and obligated balances.

***Unobligated balance*** means the cumulative amount of budget authority that is not obligated and that remains available for obligation under law.

***User charges*** are charges assessed for the provision of Government services and for the sale or use of Government goods or resources. The payers of the user charge must be limited in the authorizing legislation to those receiving special benefits from, or subject to regulation by, the program or activity beyond the benefits received by the general public or broad segments of the public (such as those who pay income taxes or customs duties). User charges are defined and the policy regarding user charges is established in OMB Circular A–25, "User Charges" (July 8, 1993). The term encompasses proceeds from the sale or use of government goods and services, including the sale of natural resources (such as timber, oil, and minerals) and proceeds from asset sales (such as property, plant, and equipment). (See section 20.7(e).)

***Warrant*** means an official document issued by the Secretary of the Treasury, pursuant to law, that establishes the amount of appropriations that can be obligated and disbursed.

## 20.4 What do I need to know about budget authority?

(a) *Definition of budget authority.*

Budget authority (BA) means the authority provided by law to incur financial obligations that will result in outlays. This definition is the same as the one contained in section 3(2) of the Congressional Budget and Impoundment Control Act of 1974, which Congress uses in the congressional budget process. You violate the law if you enter into contracts, issue purchase orders, hire employees, or otherwise obligate the Government to make a payment before a law has provided budget authority for that purpose (see Appendix G).

(b) *Forms of budget authority.*

Most laws provide budget authority in the form of appropriations, but some laws provide budget authority in the form of contract authority, authority to borrow, or spending authority from offsetting collections. The following table summarizes the characteristics of each form of budget authority, and the text following the table discusses them in more depth.

**FORMS OF BUDGET AUTHORITY**

| Form of budget authority | Summary of Characteristics |
|---|---|
| Appropriation | • Authorizes obligations and outlays using general funds, special funds, or trust funds.<br>• Provided in appropriations acts and other laws.<br>• May authorize the use of cash-equivalent payments.<br>• Not all appropriations provide budget authority. |
| Contract authority | • Authorizes obligations but not outlays.<br>• Typically provided in authorizing laws with variations in the way obligations are liquidated. |
| Authority to borrow | • Authorizes obligations with outlays to be financed by borrowing, usually from Treasury.<br>• Typically provided in laws that authorize business-like operations and require the borrowing to be repaid, with interest, out of the business proceeds. |
| Spending authority from offsetting collections. | • Authorizes obligations and outlays using offsetting collections.<br>• Typically provided in authorizing laws.<br>• Appropriations acts limit obligations in some cases.<br>• Obligations may be incurred against orders from other Federal accounts, but not from the public. |

(1) *Appropriations,* as a type of budget authority, permit you to incur obligations and make outlays (payments). (Not all appropriations provide budget authority, as explained below.) Congress enacts appropriations in annual appropriations acts and other laws. An appropriation may make funds available from the general fund, special funds, or trust funds, or it may authorize the spending of offsetting collections, which are credited to expenditure accounts (including revolving funds).

A law that authorizes you to incur obligations and liquidate them through cash-equivalent payments (see section 20.8) constitutes an appropriation of budget authority.

Some appropriations do not provide budget authority, because they do not provide authority to incur new obligations. Amounts appropriated to liquidate contract authority, to liquidate deficiencies, or to repay debt provide the cash needed to liquidate obligations already incurred. Because they do not authorize you to incur new obligations, they are not appropriations of budget authority, and you do not record them as such. Although there are many variations in the language providing such appropriations, usually the appropriation heading for such appropriations includes a subheading such as "(Liquidation of Contract Authority)", and the language reads something like, for "payment of obligations...."

For purposes of the Antideficiency Act, the definition of the term "appropriations" is broader. As defined by the Act, it means all new budget authority and balances of budget authority as described here.

(2) *Contract authority* permits you to incur obligations in advance of an appropriation, offsetting collections, or receipts that enable you to make outlays to liquidate the obligations. Typically, Congress provides contract authority in an authorizing statute to allow you to incur obligations in anticipation of the collection of receipts or offsetting collections that will be used to liquidate the obligations. When you receive the appropriated receipts or the collections, you replace the contract authority with the appropriation or the spending authority from the offsetting collections to cover the obligations and subsequently liquidate the obligations.

For some programs, the law authorizes you to use offsetting collections to liquidate the obligations incurred against the contract authority without further appropriation action. In a few cases, such as the foreign military sales program, the law that provides the contract authority also appropriates the receipts without further appropriation action.

For other programs, such as certain highway and airport and airway programs, Congress as a matter of custom requires you to seek an appropriation of receipts to liquidate the obligations.

In some instances, if the program does not have sufficient collections to liquidate the obligations incurred against contract authority, Congress may enact a general fund appropriation.

(3) *Authority to borrow* permits you to incur obligations and authorizes you to borrow funds to liquidate the obligations. Usually, the law authorizing the borrowing specifies that you must borrow from the Treasury, but in a few cases it authorizes borrowing directly from the public. Laws usually authorize borrowing for business-like operations, such as the Tennessee Valley Authority, which generates and sells electrical power. Such laws require the program to repay the borrowing, with interest, out of business proceeds.

(4) *Spending authority from offsetting collections* permits you to incur obligations and to make outlays using offsetting collections.

You record *new* spending authority from offsetting collections and the offsetting collections in the program and financing schedule of an account (see sections 82.3 and 82.6).

For *annual* and *multi-year* accounts, the spending authority from the offsetting collections belongs to the Treasury account that filled the order. (See section 20.11(a) for the distinction between Treasury accounts (TAFS) and budget accounts.) The availability of the spending authority is generally the same as the Treasury account to which it belongs. If the annual or multi-year Treasury account has *expired*, then you should NOT record the collection as *new* spending authority (schedule P lines 6800 and 6900) because it is not available to incur new obligations. It is not new budget authority. However, collections that belong to expired Treasury accounts are available to pay old bills, until the authority is canceled. You record collections in expired accounts as offsetting collections along with the collections in unexpired accounts (schedule P lines 8800 through 8845). You report the portion credited to expired accounts only on schedule P line 8896. For more information on determining the period of availability of budget authority, see section 20.4(c). As discussed in section 20.11(a), each budget account covers all the Treasury accounts with the same appropriation title. The program and financing schedule covers:

- the unexpired accounts (annual, multi-year and no-year); and
- all the expired accounts (for example, the five expired annual accounts illustrated in 20-11(a)).

You subtract all offsetting collections (unexpired and expired) from gross outlays to yield net outlays so that the contribution of the budget account to the Federal Government's bottom line (the surplus or deficit) can be determined.

For *no-year* accounts, you record gross new budget authority (spending authority from offsetting collections) (schedule P lines 6800 and 6900) equal to the collections for the year and record the collections (schedule P lines 8800 - 8845) as an offset to the budget authority.

The Congressional Budget Act defines offsetting receipts and collections as negative budget authority. In the congressional budget process, this subjects proposed provisions of law that affect offsetting receipts and collections to the rules that pertain to budget authority.

*Amount precluded from obligation*. A law may preclude you from using some of the collections to incur obligations. For example, in some cases Congress enacts obligation limitations in appropriations acts that limit the authority to spend offsetting collections provided in authorizing laws. In other cases, the law authorizing the collection may itself limit the amount of obligations you may incur, such as through a benefit formula that determines the amount of benefits that may be obligated. In these cases you need to reduce the spending authority from cash collections by the precluded amount to determine the amount of budget authority that is available. The budget presents the unavailable amounts in an unavailable receipts schedule (see section 86.6).

You record budget authority in the year when the collections become available for obligation under the law. As a general rule, you must record obligations first against budget authority from collections in that year. To the extent that budget authority from collections in that year are not adequate to cover obligations, you then record obligations against budget authority that is made available from previously unavailable balances, as long as you do not exceed the obligation limitation.

You always deduct the full amount of offsetting collections (cash) from gross budget authority and gross outlays in the year you collect them, even where a law precludes you from obligating all or a portion of the collections in that year. For this reason, an account can have negative net budget authority or outlays.

(c) *Period of availability of budget authority.*

When a law appropriates budget authority, it sets the period during which you can use it to incur new obligations. We call this the period of availability for *new obligation* of the budget authority, and the period normally is specified in the law providing the budget authority. The period of availability for incurring new obligations is shorter than the period of availability for making *disbursements,* which is covered by a general law. Each is described below.

<u>Period of availability for incurring new obligations</u>

- *Annual budget authority.* This term refers to budget authority that is available for obligation during only one fiscal year or less. One year is the default period of availability for annual appropriations acts, because a general provision in each of the acts specifies that the amounts provided in the act are available for one year, unless the act expressly provides otherwise. Even if there were not such a provision, the preamble of an appropriations act says that it is for a specific fiscal year. For example, the following language in an appropriation act would provide one-year budget authority: "For expenses of the Office of the Secretary, $1,500,000."

- *Multi-year budget authority.* The language for a specific appropriation of budget authority in an appropriations act or the authorization of the appropriation may make all or some portion of the amount available for obligation for a specified period of time in excess of one fiscal year. Usually, the period covers two or more whole fiscal years, but it may cover a period that includes part of the second fiscal year. We refer to such budget authority as multi-year budget authority or, specifically, as two-year budget authority, three-year budget authority, etc. For example, if the following language appeared in an appropriations act for 2003, it would provide two-year budget authority: "For research and development, $1,500,000, to remain available until September 30, 2004."

- *No-year budget authority.* The language for a specific appropriation of budget authority or the authorization of the appropriation may make all or some portion of the amount available until expended. That means you can incur obligations against it indefinitely. We refer to this as no-year budget authority. For example, the following language provides no-year budget authority: "For construction, improvements, repair or replacement of physical facilities, $1,500,000, to remain available until expended." Authorizing laws that make appropriations seldom limit the period of availability, so most budget authority provided in authorizing laws is no-year budget authority.

Usually an appropriations act makes budget authority available beginning on October 1 of the fiscal year for which the appropriation act is passed. However, there are three types of appropriations where that is not the case. They are described below, and the budget *Appendix* lists the accounts in the budget with such appropriations under the heading, "Advance Appropriations, Advance Funding, and Forward Funding."

- *Advance appropriation* means appropriations of new budget authority that become available one or more fiscal years beyond the fiscal year for which the appropriation act was passed. For example, if the following language appeared in an appropriations act for fiscal year 2003, it would provide an advance appropriation for fiscal year 2004: "For operating expenses, $1,500,000, to become available on October 1, 2003." Under current BEA scoring guidelines, new budget authority for advance appropriations is scored in the fiscal year in which the funds become available for obligation. In this example, you would record the budget authority in fiscal year 2004.

- *Advance funding* means appropriations of budget authority provided in an appropriations act to be used, if necessary, to cover obligations incurred late in the fiscal year for benefit payments in excess of the amount specifically appropriated in the act for that year, where the budget authority is charged to the appropriation for the program for the fiscal year following the fiscal year for which the appropriations act is passed. When such budget authority is used, the budget records an increase in the budget authority for the fiscal year in which it is used and a reduction in the budget authority for the following fiscal year. The following language, when added to regular appropriation language, provides advance funding: "...together with such sums as may be necessary to be charged to the subsequent year appropriation for the payment of compensation and other benefits for any period subsequent to August 15 of the current year."

- *Forward funding* means appropriations of budget authority that are made for obligation in the last quarter of the fiscal year for the financing of ongoing grant programs during the next fiscal year. The budget records the budget authority in the fiscal year in which is it appropriated. The following language, if it appeared in an appropriation act for 2003, would provide forward funding, which would be recorded in fiscal year 2003: "... of which $2,000,000,000 shall become available on July 1, 2003 and shall remain available through September 30, 2004 for academic year 2003–2004."

<u>*Period of availability for making disbursements.*</u>

Under a general law, *annual* budget authority and *multi-year* budget authority may disburse during the first two phases of the following three phases that make up the life cycle of the budget authority.

- *Unexpired* phase. During this time period the budget authority is available for incurring "new" obligations. You may make "new" grants or sign "new" contracts during this phase and you may make disbursements to liquidate the obligations. This phase lasts for a set number of years. Annual budget authority lasts for up to one fiscal year. Multi-year authority lasts for longer periods, currently from over one fiscal year up to 15 fiscal years, and no-year authority lasts indefinitely.

- *Expired* phase. During this time period, the budget authority is no longer available for new obligations but is still available for disbursement. This phase lasts five years after the last unexpired year unless the expiration period has been lengthened by legislation. Specifically, you may not incur new obligations against expired budget authority, but you may liquidate existing obligations by making disbursements.

- However, you may use the expired budget authority to make certain adjustments to obligations that were incurred before the budget authority expired. For example, you could make an upward adjustment in previously recorded obligations for transportation charges, under an agreement to pay actual transportation charges, if they turned out to be greater than originally estimated. Unless there is an exception in law, you may use expired authority to make adjustments to obligations or disbursements only during a period of five years after the last unexpired year. The expired period can be lengthened by legislation. If you have a program with a legitimate need to disburse funds for more than five years after the authority expires for obligation—for example, to make disbursements over many years under direct loan contracts, to pay termination costs under a contract, or to make payments under a lease—and your OMB representative approves, you may propose special language to disburse over a period longer than five years. (section 95.8). You may disburse during the longer period only if the special language is enacted in law.

- *Canceled* phase. After the last expired year, the account is closed, and the balances are canceled. The authority to disburse is canceled and is no longer available for any purpose. Any offsetting collections credited to the account at the time the account is canceled or subsequently must be transferred to miscellaneous receipts in the Treasury. Any old bills with valid obligations that show up after the account is closed must be obligated against and disbursed from budget authority that is available for the same general purpose but still in the unexpired phase. For example, an old bill from obligations incurred against an FY 1998 annual salaries and expense (S&E) account that arrives after the authority is canceled must be obligated and disbursed against the corresponding FY 2004 annual S&E account.

*No-year* authority usually stays in the unexpired phase until fully obligated and disbursed. When the purposes for which the authority was made available have been achieved, the account may be closed and the authority canceled.

(d) *Determining the amount of budget authority.*

If a law provides budget authority in a specific amount, we refer to it as *definite* budget authority. We consider the budget authority definite even if the language reads "not to exceed" a specified amount. You record the specified amount as budget authority. For example, this language would provide definite budget authority of $100 million: "For salaries and expenses, not to exceed $100,000,000."

If a law doesn't specify an amount of budget authority, but, instead, specifies a variable factor that determines the amount, we refer to the budget authority as *indefinite.* If the law provides "such sums as may be necessary" to cover the obligations resulting from an entitlement (such as unemployment insurance), record budget authority in the past year equal to the amount obligated and in other years equal to your estimate of obligations. If a law authorizes you to obligate all of the receipts from a specified source, record budget authority equal to the amount of receipts you collected in the past year and equal to amounts you estimate you will collect in other years.

If a law appropriates a specific amount to be derived from receipts, it limits the amount of budget authority actually provided to the lower of the actual receipts or the amount specified. For example, if the language read, "... and, in addition, $75,000,000 of the amounts collected under section 101 of the Authorization Act of 1995," you could obligate only the amount actually collected, up to $75,000,000. Similarly, if a law appropriates an amount to be derived from a special or trust fund, it limits the amount of budget authority actually provided to the lower of the amount of the balances in the fund or the specified amount. For example, language that reads, "For necessary expenses, $1,500,000, to be derived from the Land Restoration Trust Fund," allows you to obligate only the amount actually in the fund and no more than $1,500,000. If a law authorizes you to obligate all of the receipts credited to a fund, record budget authority equal to the amount of receipts collected by the fund in the past year and equal to the amounts you estimate you will collect in other years.

Some laws that provide authority to borrow limit the amount of debt that may be outstanding at any one time. This may limit your ability to incur obligations indirectly, because you must consider your ability to borrow the cash needed to liquidate the obligations that will become due, but it doesn't determine the level of obligations directly. In such cases, treat the budget authority as indefinite and record the amount that you obligated in the past year or estimate you will obligate in other years. Under the BEA scorekeeping guidelines, OMB will score legislation that imposes or changes a limit of this type only to the extent that we estimate that it will alter the amount of obligations that will be incurred (see Appendix A, scorekeeping guideline no. 16).

Most budget authority provided in appropriations acts is definite, and most budget authority provided in other laws is indefinite.

(e) *Discretionary or mandatory budget authority.*

The Budget Enforcement Act of 1990 (BEA) requires us to classify budget authority (and outlays) as either discretionary spending or mandatory spending, and applies a different set of rules to each type of spending. We explain this further in section 20.9.

(f) *Unobligated balance of budget authority*

An unobligated balance consists of the cumulative amounts of budget authority that are not obligated and that remain available for obligation under law.

In budget execution, the unobligated balance of budget authority at the end of the year is the total amount that is available for obligation during the fiscal year.

In budget formulation, there is a related but not identical concept called "unobligated balance carried forward." These are the unobligated balances net of the balances that expire at the end of the fiscal year. Unobligated balances carried forward must meet *all* of the following conditions:

- They are balances of budget authority that have never been obligated or that have been obligated and deobligated.
- They are balances of budget authority that do not expire at the end of the fiscal year.
- You can quantify the amount by subtracting the obligations to date from the amount of budget authority provided (new budget authority and unobligated balances carried forward at the start of the year from the previous fiscal year). That is, the law providing the budget authority must have specified a definite amount or an indefinite amount based on the appropriation of collections from a specified source. You can not quantify "such sums as may be necessary".

You shouldn't count unavailable offsetting receipts or unavailable offsetting collections as budget authority and, therefore, you shouldn't have any unobligated balances as a result of them. Report them in a schedule of unavailable receipts (see section 86.6).

In budget schedules, such as the program and financing schedule, the unobligated balance carried forward at the end of a year is equal to the unobligated balance at the start of the next year.

The balances you report for the start and end of the past year must be consistent with the amounts reported in the Treasury Combined Statement (TCS) published by the Department of the Treasury (previously called the Treasury Annual Report (TAR)). (See section 82.15.)

(g) *Obligated balance.*

The term obligated balance is a term of art that is defined in law as a "net" concept. It is *not* the unpaid obligations. The obligated balances are calculated as follows:

- Take the unpaid obligations (which is the sum of the accounts payable and the undelivered orders).
- Subtract the accounts receivable and the unfilled orders from Federal sources.

(h) *Reappropriation.*

A reappropriation is an extension of the availability of unobligated balances of budget authority that have expired or would otherwise expire as a result of legislation enacted subsequent to the law that provided the budget authority. The term no longer applies to extensions of the availability of unobligated balances of budget authority that result from standing provisions of law, enacted before the budget authority was provided, or from provisions of law included in the same law that appropriates the funds.

Reappropriations of expired balances that are newly available for obligation in the current or budget year will be recorded as new budget authority (reappropriations) in the year they are newly available, in the full amount of the potential extension.

Unlike previous years, reappropriations of unexpired balances or reappropriations of expired balances that cannot take effect until a fiscal year beyond the budget year will be scored as cap adjustments under BEA scoring (i.e., reductions will be made to outyear BA caps for newly enacted authority) and will be reported as balance transfers in the year they are newly available for obligation.

In the past, because of the difficulty in estimating in advance exactly how much would be extended and when, reappropriations were not always treated consistently in budget formulation and execution. Under the revised treatment, reappropriations will be treated in the same manner for both.

Similar to reappropriations of unexpired balances, extensions in availability resulting from standing provisions of law or from provisions of law included in the same law that appropriates the funds will be shown as balance transfers. See section 121.10 for a complete discussion on reporting for all types of extensions in availability.

(i) *Rescission.*

Rescission means a permanent cancellation in law of budgetary resources (budget authority or unobligated balances). You record a rescission as negative budget authority in the year it takes effect, regardless of whether it cancels budget authority or unobligated balances. A law that precludes the obligation of budgetary resources in one year and authorizes their obligation in a subsequent year in which they were not available for obligation, constitutes a rescission and a reappropriation. In such cases, you record a rescission in the first year and a reappropriation in the second. Include enacted rescissions in the regular program and financing and other regular schedules. Proposed rescissions require separate budget schedules (see section 82.9).

Amounts rescinded from special fund accounts revert either to unavailable collections of the special fund or to the general fund of the Treasury, depending on the circumstances and the specific requirements of the law making the rescission. As a general rule, amounts rescinded from an annually appropriated special fund account revert to unavailable collections, which may be appropriated subsequently. However, if the rescinding law indicates that the rescinded amounts are *permanently* canceled, the amounts revert to the general fund and are not available for subsequent appropriation. A rescission of permanently appropriated special fund receipts reverts to the general fund of the Treasury, and the receipts are no longer available for appropriation as special fund receipts.

(j) *Transfer.*

(1) *Definition.* Transfer means to reduce budgetary resources (budget authority and unobligated balances) in one account and increase them in another, by the same amount.

(2) *Authority.* You can't make a transfer unless a law authorizes it. The law may specify a particular transfer or provide general transfer authority within specified limits.

(3) *Expenditure transfer or nonexpenditure transfer.* You record a transfer as an *expenditure* transfer, one that involves an outlay, or as a *nonexpenditure* transfer, one that doesn't involve an outlay. Which you record usually depends on the purpose of the transfer, as explained in the following table. See also exhibit 20.

| If the transfer... | Record as... |
|---|---|
| (1) purchases goods or services that benefit the transferring account for example, Economy Act transactions or purchases from revolving funds (including working capital funds), such as, a rental payment to GSA's Federal Buildings Fund… | An expenditure transfer. |
| (2) shifts budgetary resources between Federal funds (general, special, and revolving fund accounts) and trust funds (trust fund and trust revolving fund accounts), regardless of the purpose... | An expenditure transfer. |
| (3) reduces budgetary resources available for the activities of the transferring account and increases them for the activities of the receiving account (for example, a transfer of unobligated balances from the construction account to the salaries and expense account to fund pay raises) other than between Federal and trust funds... | A non-expenditure transfer. |
| (4) corresponds to a transfer of an activity from one account to another (such as in a reorganization)... | A non-expenditure transfer. |

(4) *Recording transfers in the budget:*

- *Expenditure transfers.* Record an expenditure transfer as an obligation (against new budget authority or unobligated balances) and an outlay in the transferring account and as an offsetting collection or offsetting receipt in the receiving account (see section 20.7). If the receiving account is a general fund appropriation account or a revolving fund account (including a trust revolving fund), credit the amount as an offsetting collection to the appropriation or revolving fund account. If the receiving account is a special fund or trust fund account, credit the amount as an offsetting receipt to a receipt account of the fund.

- *Nonexpenditure transfers.* Do not record an obligation or an outlay or an offsetting collection or offsetting receipt. Record nonexpenditure transfers as a decrease either in budget authority or unobligated balances in the transferring account and as an increase either in budgetary authority or unobligated balances in the gaining account. Whether you record the reduction and increase as a change in budget authority or unobligated balances, depends on the circumstances, as described in the following table.

| If you transfer... | And the transfer... | Record... |
|---|---|---|
| (1) unobligated balances | Results from a transfer specified in law that changes the purpose for which the funds will be used | a decrease in budget authority in the transferring account and an increase in budget authority in the gaining account. |

| If you transfer... | And the transfer... | Record... |
|---|---|---|
| (2) unobligated balances | • results from general transfer authority, or<br>• corresponds to a transfer of an activity such that the purpose does not change | a decrease in unobligated balances in the transferring account and an increase in unobligated balances in the gaining account. |
| (3) budget authority in the year it becomes available | Is for any purpose | a decrease in budget authority in the transferring account and an increase in budget authority in the gaining account. |

(k) *Transfer in the estimates.*

A transfer in the estimates means the budget proposes to stop funding an activity under one budget account and start funding the activity under another budget account, beginning in the budget year. This does not involve a transfer of budgetary resources, like that discussed in subsection (j). You simply stop showing budget authority in the one account and start showing it in the other. A transfer in the estimates usually reflects a proposal to do one of the following in the budget year:

- Transfer the funding of an activity from one account to another.
- Consolidate funding for related activities from two or more accounts into a single account.
- Disaggregate the funding for an activity from one account between two or more accounts.

You must indicate a transfer in the estimates by footnoting the program and financing schedules of the transferring and receiving accounts (see section 82.12).

(l) *Allocation.*

Allocation means a delegation, authorized in law, by one agency of its authority to obligate budget authority and outlay funds to another agency. When an agency makes such a delegation, the Treasury Department establishes a subsidiary account called a "transfer appropriation account", and the receiving agency may obligate up to the amount included in the account. The budget doesn't show the transfer appropriation account separately. The budget schedules for the parent account include the obligations by the other agency against the subsidiary account without separate identification, except in the object class schedule (see section 83.17). Allocations are appropriate where the receiving agency is acting as the agent for the allocating agency. Where the receiving account is simply providing goods or services on a reimbursable basis, such as transactions under the Economy Act, record an expenditure transfer (see section 20.4(j)).

## 20.5 When should I record obligations and in what amounts?

(a) *The general rule.*

Obligation means a legally binding agreement that will result in outlays, immediately or in the future. When you place an order, sign a contract, award a grant, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another, you incur an obligation. It is a violation of the Antideficiency Act (31 U.S.C. 1341(a)) to involve the Federal Government in a contract or obligation for payment of money *before* an appropriation is made, unless authorized by law. This means you can not incur obligations in a vacuum; you incur an obligation against budget authority in a Treasury account that belongs to your agency. It is a violation of the Antideficiency Act to incur an obligation in an amount *greater* than the amount available in the Treasury account that is available. This means that the account must have budget authority sufficient to cover the total of such obligations at the time the obligation is incurred. In addition, the obligation you incur must conform to other applicable provisions of law, and you must be able to support the amounts reported by the documentary evidence required by 31 U.S.C. 1501. Moreover, you are required to maintain certifications and records showing that the amounts have been obligated (31 USC 1108). The following provides additional guidance on when to record obligations for the different types of goods and services or the amount.

(b) *Personnel compensation and benefits*

For personnel compensation and benefits the issue is usually the "timing" of the obligation and not the "amount" of the obligation. The amount is prescribed by laws that cover the civil service and the uniformed service and determined by well-established personnel procedures. As for the timing of the obligation, the amounts generally are recorded as obligations as the amounts are earned during the reporting pay period, with the following exceptions:

| **Type of obligations...** | **At the time ...** | **Because...** |
|---|---|---|
| Severance pay. | It is paid on a pay period by pay period basis. | Severance pay is not earned with regular salaries and wages. |
| Authorized reimbursable expenses estimated to be paid to employees for real estate, temporary subsistence, and other expenses incident to relocation at the request of the Government. | The individual travel orders are approved. | The travel is a bona fide need at the time the order is approved. |
| Cash awards that do not become part of the employee's basic rate of pay.<br>Allowances for uniforms and quarters.<br>Subsidies for commuting costs. | When payable to the employee. | This is the time the amount is definite. |
| Unemployment compensation payments to the Department of Labor for former Federal employees | When the agency receives the bills rendered by Labor. | Underlying law. |

| Type of obligations... | At the time ... | Because... |
|---|---|---|
| Annual leave | When it becomes due and payable as terminal leave or taken in lieu of a lump sum payment | Normally, annual leave is unfunded. |
| Funded annual leave | When you transfer a person from a revolving fund to another revolving fund, you obligate the employee's share of funded annual leave and you pay it to the fund to which the employee is transferred. | The revolving fund to which the employee is transferred will pay the employee's salary and wages when the employee takes the annual leave or will pay the lump sum terminal leave for any annual leave not taken. |
| | When you transfer a person from a revolving fund to a non-revolving fund, you obligate the employee's portion of the funded annual leave and pay miscellaneous receipts in the general fund of the Treasury | The appropriation from the general fund in the Treasury will pay the employee's salaries and wages when the employee takes the annual leave or will pay the lump sum terminal leave for any annual leave not taken. |

(c) *Contractual services and supplies.*

Services and supplies that are purchased by contract and any potential Federal Government cancellation and/or termination costs are recorded as obligations at the time there is a binding agreement, which is usually when the contract is signed, and in the amount of the maximum liability to the Federal Government under the terms of the contract. The following provides the nuances of contracts with certain characteristics.

| Contracts with... | Amount obligated is… | At the time ... |
|---|---|---|
| A maximum price | The maximum price. | The contract is signed. |
| | Amount of downward adjustments, i.e. deobligation, if any. | There is documentary evidence that the price is reduced. |
| Letters of intent and letter contracts. | Normally, no amount is obligated. | The letter is signed. |
| However, IF the letters constitute binding agreements under which the contractor is authorized to proceed. | The maximum amount indicated in the letter that the contractor is authorized to incur to cover expenses prior to the execution of a definitive contract. | |
| Contracts for variable quantities. | Normally, no amount is obligated. | The contract is signed. |

| Contracts with... | Amount obligated is… | At the time ... |
|---|---|---|
| The contracts are usually followed by "purchase orders" that do obligate the Government. | The amount of actual orders. | The order is issued. |
| Orders where a law "requires" that you to place orders with another Federal Government account. | The amount of the order. | The order is issued. |
| Voluntary orders with other Federal Government accounts: | The amount of the order. | |
| If the order is for common-use standard stock item the supplier has on hand or on order at published prices. | | That you issue the order to the supplier. |
| If the order is for stock items other than the above. | | You receive a formal notification that the items are on hand or on order. |
| If the order involves execution of a specific contract. | | The supplying agency notifies you that it has entered into the contract. |

(d) *Land and structures*

Contracts for lands and structures generally follow the same rules as for contracts specified above with the following exceptions.

| Contracts with... | Amount obligated is… | At the time ... |
|---|---|---|
| Condemnation proceedings. | The estimated amount for the price of the land, adjusted to the amount of the payment to be held in escrow where there is a declaration of taking. | When you ask the Attorney General to start condemnation proceedings. |
| Lease-purchases and capital leases covered by the score keeping rules developed under the Budget Enforcement Act. | The present value of the lease payments, discounted using the Treasury interest rate used in calculating the budget authority provided for the purchase. | The contract is signed. |
| | The imputed interest costs (that is, the financing costs Treasury would have incurred if it had issued the debt to acquire the asset) | During the lease period. |

(e) *Grants and fixed charges.*

Discretionary grants will be obligated after the amounts are determined administratively and recorded at the time the grant award is signed. The grant award is normally the documentary evidence that the grant has been awarded. Letters of credit are issued after the grant awards are made and generally are not obligating documents.

For grants and fixed charges with formulas in law that automatically fix the amount of the charges, record the amount determined by the formula or, if there is an appropriation, then record the amount appropriated, whichever is smaller. The obligation is reported at the time the grantee is awarded the grant and is liquidated when the payment is made to the grantee. To the extent that a grant is no longer valid, you will record a recovery of prior year obligations.

The exceptions follow.

| Grants or fixed charges.. | Amount obligated is… | At the time ... |
|---|---|---|
| In lieu of taxes. | The amount appropriated. | The taxes are due. |
| Interest. | The amount owed. | The interest is payable. |
| Dividends. | The amount declared. | The dividend is declared. |

(f) *Federal credit programs.*

Obligations in Federal credit programs generally follow the same rules as for "personnel compensation and benefits" and "contracts" specified above with the following exceptions.

| The amount is.. | Amount obligated is… | At the time ... |
|---|---|---|
| Subsidy in direct loan program account | The portion of the subsidy cost for the direct loan contract that you are signing | You sign the direct loan contract and incur the direct loan obligation in the credit financing account. |
| Subsidy in guaranteed loan program account. | The portion of the subsidy cost for the binding agreement to make a loan guarantee. | You make the loan guarantee commitment, that is, when you enter into a binding agreement to make a loan guarantee when special conditions are fulfilled by the borrower, the lender, or any other party to the guarantee agreement. |

## 20.6 What do I need to know about outlays?

Outlay means a payment to liquidate an obligation (other than the repayment to the Treasury of debt principal). Outlays are a measure of Government spending. As required by law, the budget presents some outlays as "on-budget" and some as "off-budget". Total outlays for the Federal Government include both on-budget and off-budget outlays. Government-wide outlay totals are stated net of refunds, offsetting collections, and offsetting receipts. Function, subfunction, and agency outlay totals are stated net of related refunds, offsetting collections, and offsetting receipts for most budget presentations. (Offsetting receipts from a few sources do not offset any specific function, subfunction, or agency but only offset Governmentwide outlay totals.) Outlay totals for accounts with offsetting collections are stated both gross and net of the offsetting collections credited to the account. However, the outlay totals for special and trust funds with offsetting receipts are not stated net of the offsetting receipts.

The Government usually makes payments in the form of cash (currency, checks, or electronic fund transfers), and you normally record outlays equal to the disbursement at the time of the disbursement. Normally the amount of cash disbursed appropriately measures the value of the transaction. In other cases, however, the cash disbursed does not accurately measure the value of the transactions. In these cases, we require you to record the cash-equivalent value of the transactions (see section 20.8).

Not every disbursement is an outlay, because not every disbursement liquidates an obligation. You don't record outlays for the following:

- Repayment of debt principal, because we treat borrowing and the repayment of debt principal as a means of financing.

- Disbursements to the public by Federal credit programs for direct loan obligations and loan guarantee commitments made in fiscal year 1992 or later (and those made prior to that year if they have been modified), because we treat the cash flows to and from the Government for credit programs as a means of financing. We record outlays equal to the subsidy cost of direct loans and loan guarantees when the underlying direct or guaranteed loans are disbursed. Disbursements from liquidating accounts for direct loan obligations and loan guarantee commitments made prior to fiscal year 1992 are treated as outlays (see section 185).

- Disbursements from deposit funds, because these funds are on deposit with the Government but are not owned by the Government and are therefore excluded from the budget (see section 20.7).

- Refunds of receipts that result from overpayments, because they are recorded as decreases in receipts, rather than as increases in outlays (see section 20.10).

The timing for recording outlays for interest payments varies. Treasury records outlays for the interest on the public issues of Treasury debt securities as the interest accrues, not when it pays the cash. However, most Treasury debt securities held by Government accounts are in the Government account series. Treasury normally records the interest payments on these securities when it pays the cash. (And you normally record an offsetting collection or receipt on a cash basis.) Four trust funds in the Department of Defense, the Military retirement trust fund, the Education benefits trust fund, the Defense cooperation fund, and the Medicare-eligible health care fund, routinely have relatively large differences between purchase price and par. For these funds, we've instructed the Department to record the holdings of debt at par but record 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 Department records interest as the amortization occurs. We discuss the budget treatment of investment transactions in section 113.

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 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 the past year must agree with amounts reported in the Treasury Combined Statement (formerly the Department of the Treasury's Annual Report), unless OMB approves an exception.

## 20.7 What do I need to know about receipts, offsetting collections, and offsetting receipts?

(a) *Overview.*

We use the term collections for the universe of money collected by the Federal Government and its accounts. Collections result from the following transactions:

- Sovereign power - collections from the public that result primarily from the Government's exercise of its sovereign power to tax or otherwise compel payment and from gifts of money.

- Business-type transactions with the public - collections from the public in exchange for goods and services.

- Intragovernmental transactions - collections from other Federal Government accounts.

The universe of money collected also includes the proceeds of borrowing and the other means of financing which are not treated as collections in the budget because they do not represent a transfer of economic assets. They are not discussed in this section but are discussed in section 20.7 (f).

The Federal Government normally receives collections in the form of cash and normally records collections equal to the amount of cash received at the time of collection. Usually the amount of cash collected appropriately measures the value of the transaction. In some cases, the cash collected does not accurately measure the value of the transaction. In these cases, you record the cash equivalent value of the transactions (see section 20.8).

Collections are presented in the President's budget as either *receipts* or *offsets to outlays*, based on the nature of the activity generating the collection, as recommended by the 1967 President's Commission on Budget Concepts. Collections resulting from sovereign power are recorded as receipts, while business-type collections and intragovernmental collections are offset against (deducted from) outlays. In this way, the budget totals for receipts and outlays represent governmental rather than market activity. Offsets to outlays are either *offsetting receipts* or *offsetting collections*. Offsetting collection *line codes* and receipt *source category codes* are used to generate budget tables using these concepts.

The Government places collections in either *receipt accounts* or *expenditure accounts* based on interpretation of laws and longstanding budget concepts and practice. See section 20.11 for more detail on the characteristics of receipt and expenditure accounts.

(b) *How are collections reported in the President's budget?*

The budget records money collected by Government agencies as either receipts or offsets to outlays depending on the nature of the activity generating the collection.

Receipts. Receipts are collections that result from the Government's exercise of its sovereign power to tax or otherwise compel payment and from gifts of money. Sometimes they are called governmental receipts to distinguish them from offsetting receipts and sometimes they are called Federal receipts. For more information on receipts, see chapter 4, "Federal Receipts" in the *Analytical Perspectives* volume of the President's budget.

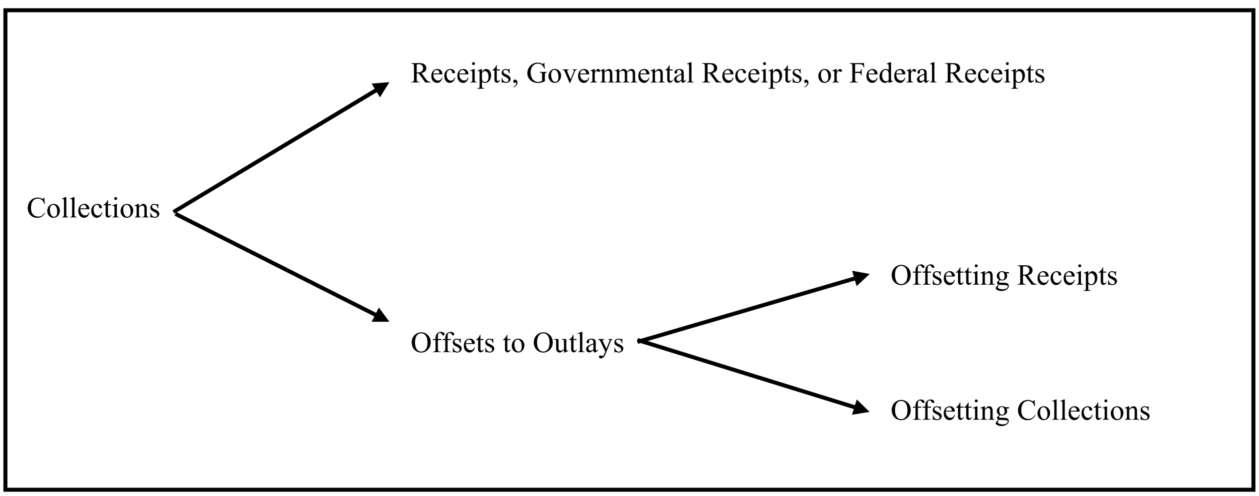
**<u>Offsets to outlays</u>.** Offsets to outlays result from one of three kinds of transactions:

- **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 or 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 or receipts. 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. These transactions are exactly offsetting and do not affect the surplus or deficit. However, they are an important accounting mechanism for allocating costs to the programs and activities that cause the Government to incur the costs. Intragovernmental offsetting collections and receipts are deducted from gross budget authority and outlays so that the budget totals measure the transactions of the Government with the public.

- **Offsetting governmental transactions**. These are collections that are governmental in nature but are required by law to be misclassified as offsets to outlays.

Offsets to outlays are either offsetting receipts or offsetting collections. They are offsetting collections when the collections are authorized by law to be credited to expenditure accounts. Otherwise, they are deposited in receipt accounts and called offsetting receipts. See section 20.7(c) for an explanation of why some collections are placed in receipt accounts and others in expenditure accounts.




For more information on how the budget treats collections and the reasons for the treatment, see the section on "Receipts, Offsetting Collections, and Offsetting Receipts" in the chapter on "Budget System and Concepts and Glossary" in the *Analytical Perspectives* volume of the President's budget.

(c) *Why are some collections placed in receipt accounts and others in expenditure accounts?*

<u>Receipt accounts</u>. A general law requires that, except as provided by another law, an official or agent of the Government who receives money for the Federal Government from any source shall *deposit* the money in the Treasury as soon as practicable. This law is generally referred to as the "Miscellaneous Receipts Act". The Department of the Treasury, in consultation with OMB, interprets this law as

requiring all collections to be deposited in *general fund* receipt accounts, which as a group comprise part of "the general fund."

Some laws *earmark* collections from a certain source for a specific purpose. Treasury deposits these collections in *trust fund* receipt accounts, if so required by law, and deposits the remainder in *special fund* receipt accounts or, as explained below, credits the collections to expenditure accounts, including revolving fund accounts. Also, the legislation will specify whether the earmarked receipts are (i) simultaneously appropriated, i.e., *available* for obligation and outlay without further action by Congress, or (ii) unavailable receipts, i.e., *not available* for obligation or outlay until Congress makes the amounts available in annual appropriations acts.

Expenditure accounts. When the collections in the receipt accounts are available for obligation and outlay, the amounts are appropriated to general fund expenditure accounts, special fund expenditure accounts, or trust fund expenditure accounts.

Still other laws override the requirement to first deposit collections in receipt accounts. These collections are *credited directly to expenditure accounts*, where the collections are generally available for obligation and outlay without further action by Congress. These collections are called *offsetting collections.* Most revolving funds operate under such authority. These include public enterprise, intragovernmental, and trust revolving funds. In addition, the Economy Act allows Federal agencies or bureaus within agencies to do work for each other. When one account reimburses another account for this work, the Act authorizes the collections to be credited directly to the expenditure account that provided the goods and services.

(d) *How are offsetting collections and receipts classified?*

Offsetting collections and receipts are classified according to the type and source of the money collected and how it is treated in the budget.

Offsetting collections. Collections credited to expenditure accounts automatically offset the outlays at the expenditure account level. Line codes are used to identify the source of the collections. See the table on "Offsets" in section 82.6 for the offsetting collection line entries and the definitions. The lines are presented in the program and financing (schedule P) in the Appendix to the President's budget. See section 20.4(b)(4) for information on spending authority from offsetting collections.

Receipts. Collections deposited in receipt accounts are coded to identify the type of receipt (e.g., governmental, proprietary, intragovernmental) and how it is treated (e.g., offset at the agency and function level). Each receipt type also has a number of unique and associated source category codes that enable MAX to produce tables needed for the Budget. These are assigned by OMB when the account is established.

Offsetting receipt classification serves two purposes. The first purpose is to identify the type of receipt. There are three major types:

- **Proprietary receipts from the public**. These are collections from the public that arise out of 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.

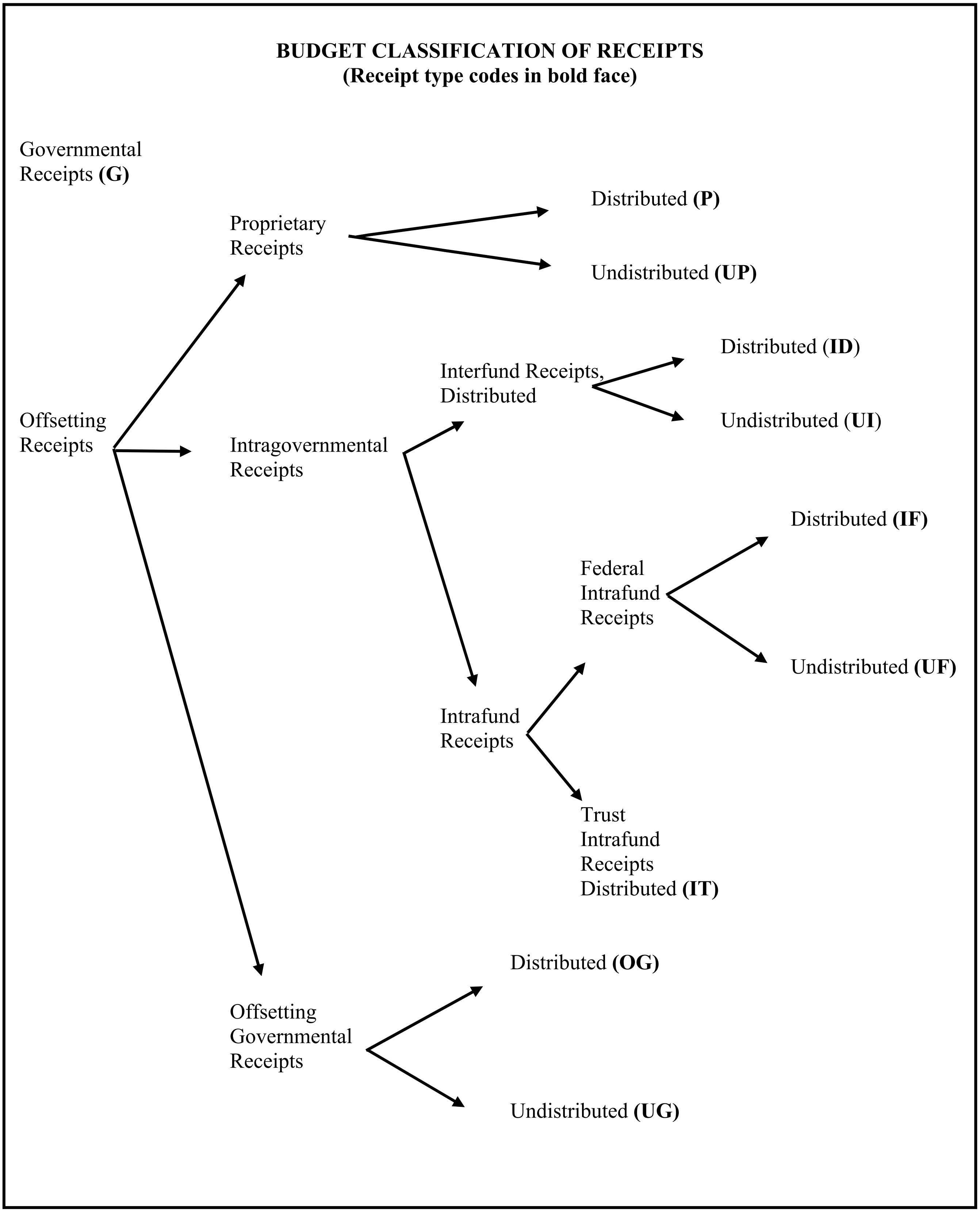
- Proprietary receipts from a few sources are not offset against any specific agency or function and are classified as undistributed offsetting receipts. They are deducted from the Government-wide totals for budget authority and outlays. For example, the collection of rents and royalties from outer continental 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 of payments from expenditure accounts that are deposited into receipt accounts. Most intragovernmental transactions are deducted from the budget authority and outlays of the agency and subfunction that produces the goods or services, not the one that uses the goods and services. In this way, the cost of the activity is reflected as a net cost in the agency and function that uses the goods or services provided. However, in two cases intragovernmental transactions are classified as undistributed offsetting receipts. These are agencies' payments as employers into federal employee retirement trust funds and interest received by trust funds. They appear as special deductions in computing total budget authority and outlays for the Government rather than as offsets at the agency level. This special treatment is necessary because the amounts are large and would distort 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 misclassified as offsetting and are not authorized to be credited directly to expenditure accounts.

The second purpose is to identify those that are distributed and those that are undistributed for purposes of offsetting budget authority and outlays. Most offsetting receipts deposited in receipt accounts are offset at the agency and subfunction levels. We call these *distributed* offsetting receipts. A few offsetting receipts are offset at government-wide totals. We call these *undistributed* offsetting receipts. For more information on the magnitude of undistributed offsetting receipts see Table 4, Undistributed Offsetting Receipts, in the Object Class Analysis report that accompanies the President's annual budget.

The following chart shows the receipt types, with associated codes in parentheses, for the various types of receipts.


BUDGET CLASSIFICATION OF RECEIPTS
(Receipt type codes in bold face)
Governmental Receipts **(G)**
Offsetting Receipts
Proprietary Receipts
Distributed **(P)**
Undistributed **(UP)**
Intragovernmental Receipts
Interfund Receipts, Distributed
Distributed (**ID**)
Undistributed (**UI**)
Intrafund Receipts
Federal Intrafund Receipts
Distributed **(IF)**
Undistributed **(UF)**
Trust Intrafund Receipts Distributed **(IT)**
Offsetting Governmental Receipts
Distributed **(OG)**
Undistributed **(UG)**

The following chart provides the relationships between the nature of the transaction and the source of the collection for offsetting receipts and offsetting collections. Collections deposited in receipt accounts are identified by receipt source categories and codes. Collections credited to expenditure accounts are identified by offsetting collection line in the program and financing schedule, the line titles and line codes.

| **Nature of the Transaction** | **Receipt Type by Source** | **Offsetting Collection Line Titles and Codes** |
|---|---|---|
| Business-like or market-oriented activities with the public | Proprietary receipts from the public (P, UP) | Non-Federal sources (line 8840) |
| Intragovernmental transaction | Intragovernmental receipts (ID, IF, UF, IT) | Federal sources (line 8800)<br>Interest on Federal securities (line 8820)<br>Interest on uninvested funds (line 8825) |
| Offsetting governmental transaction | Offsetting governmental receipts (OG,IG) | Offsetting governmental collections<br>(line 8845) |

(e) *User charges.*

User charge means a fee, charge, or assessment the Government levies on a class directly benefiting from, or subject to regulation by, a Government program or activity. We record user charges as receipts, offsetting collections, or offsetting receipts using the criteria described above. The authorizing law must limit the payers of the charges to those benefiting from, or subject to regulation by, the program or activity. The group of payers may not be so broad as to consist of the general public or a broad segment of the public.

User charges include:

- Collections from non-Federal sources for goods and services provided (for example, the proceeds from the sale of goods by defense commissaries, electricity by power marketing administrations, and stamps by the Postal Service; fees charged to enter national parks; and premiums charged for flood and health insurance);
- Voluntary payments to social insurance programs, such as Medicare Part B insurance premiums;
- Miscellaneous customs fees (for example, United States Customs Service merchandise processing fees);
- Proceeds from asset sales (property, plant, and equipment);
- Proceeds from the sale of natural resources (such as timber, oil, and minerals);
- Outer Continental Shelf receipts;
- Spectrum auction proceeds;
- Many fees for permits, and regulatory and judicial services; and
- Specific taxes and duties on an exception basis.

User charges do not include:

- Collections from other Federal accounts;
- Collections associated with credit programs;
- Realizations upon loans and investments;
- Interest, dividends, and other earnings;
- Payments to social insurance programs required by law;
- Excise taxes;
- Customs duties;
- Fines, penalties, and forfeitures;
- Cost-sharing contributions; and
- Federal Reserve System deposits of earnings.

(f) *Means of financing.*

These are monies received or paid by the Government that are not counted in the budget totals as either income (receipts, offsetting collections, or offsetting receipts) or outgo (outlays). Borrowing and the repayment of debt are the primary means of financing. Others are listed below. These monies finance outlays when there is a deficit—that is, when outlays (net of offsetting collections and offsetting receipts) exceed receipts. When there is a surplus—that is, when receipts exceed outlays (net of offsetting collections and offsetting receipts)—the means of financing may be used, together with the surplus, to retire debt.

The means of financing frequently have opposite effects, and some themselves require financing. For example, if the disbursements from credit financing accounts exceed their collections, which is normal, the difference must be financed by receipts or the other means of financing. The means of financing other than borrowing and repayment of debt include:

- Net financing disbursements by direct loan and guaranteed loan financing accounts.
- Seigniorage (the profit from coining money) and profits on the sale of gold (a monetary asset).
- Certain exchanges of cash, such as deposits by the U.S. in the International Monetary Fund.
- Changes in Treasury's operating cash balance, compensating balances, uninvested deposit fund balances, and checks outstanding.
- Treasury debt buyback premiums and discounts (see section 113).

## 20.8 What do I need to know about cash-equivalent transactions?

Normally the amount of cash disbursed or collected is the appropriate measure of the value of the transaction, and you record outlays or collections equal to the cash that changes hands. In other cases, however, the cash disbursed or collected doesn't accurately measure the value of the transactions. In these cases, you should record the cash-equivalent value of the transactions in the budget. The following are some examples of cash-equivalent transactions:

- *Federal employee salaries*. You record an outlay for the full amount of an employee's salary, even though the cash disbursement is net of Federal and state income taxes, retirement contributions, life and health insurance premiums, and other deductions. We record collections for the deductions that are payments to the Government.

- *Debt instruments*. When the Government receives or makes payments in the form of debt instruments (such as bonds, debentures, monetary credits, or notes) in lieu of cash, we record collections or outlays in the budget on a cash-equivalent basis. The Government can borrow from the public to raise cash and then outlay the cash proceeds to liquidate an obligation, or, if authorized in law, it may liquidate the obligation by issuing securities in lieu of the cash. The latter method combines two transactions into one—borrowing and an outlay. Combining these transactions into one does not change the nature of the transactions. Since the two methods of payment are equivalent, we require you to record the same amount of outlays for both cases. Similarly, when the Government accepts securities in lieu of cash from the public in payment of an obligation owed to the Government, we record collections. In one program, for example, a Government agency may choose whether to pay default claims against it in cash or by issuing debentures in lieu of cash; the agency records the same amount of outlays in either case. In turn, a recipient of these debentures may choose to pay the fees that it owes to the Government either in cash or by returning debentures of equivalent value that it holds. The agency records the same amount of collections in either case.

- *Lease-purchases*. We require you to record an outlay for the acquisition of physical assets through certain types of lease-purchase arrangements as though the transaction was an outright purchase or direct Federal construction. Lease-purchase transactions in which the Government assumes substantial risk are equivalent to the Government raising cash by borrowing from the public and purchasing the asset directly by disbursing the cash proceeds. You must report outlays over the period that the contractor constructs, manufactures, or purchases the asset that will be leased to the Government, not when the Government disburses cash to the developer for lease payments. Because the Government pays no cash up front to the nominal owner of the asset, the transaction creates a Government debt. In such cases, we treat the subsequent cash lease payments as the equivalent of interest outlays on that debt and principal repayments. (See Appendix B).

The scorekeeping effect of cash-equivalent transactions applies to budget authority, as well as to outlays and collections. You record the authority to incur obligations that will be liquidated through cash-equivalent payments as budget authority.

The use of cash-equivalents often results in an increase or decrease in Federal debt. In the previous example of the Government using debentures to pay claims, we record the issuance of a debenture as an increase in debt, and we record the Government's acceptance of a debenture for payment of fees as a decrease in debt. We also record an increase in debt as the means of financing the cash-equivalent outlays of lease-purchase arrangements in which the Government assumes substantial risk.

## 20.9 What do I need to know about discretionary spending, mandatory spending, and PAYGO?

(a) *Overview.*

The Budget Enforcement Act of 1990 (BEA) (see section 15.3) significantly amended the laws pertaining to the budget process. The BEA expired at the end of 2002. The Administration proposes to extend the BEA's mechanisms for constraining legislation that would increase spending or decrease receipts. This section describes the BEA requirements under the Balanced Budget and Emergency Deficit Control Act, as extended in 1997.

The Act divides spending into two types:

1. *Discretionary spending* means the budget authority controlled by annual appropriations acts and the outlays that result from that budget authority. For example, the budget authority and outlays for the salaries and other operating expenses of Government agencies are usually controlled by annual appropriations acts and, therefore, are usually discretionary.

2. *Mandatory spending* means budget authority and outlays resulting from permanent laws. For example, permanent laws authorize payments for Medicare and Medicaid, unemployment insurance benefits, and farm price supports, so the budget authority and outlays for these programs are mandatory. In addition, the BEA defines several programs as "appropriated entitlements" and "mandatories" and classifies their spending as mandatory spending. In these cases, appropriations acts nominally provide the budget authority but don't actually control it, because the authorizing law creates an entitlement. Also, the BEA specifically defines funding for the Food Stamp program as mandatory spending, even though annual appropriations acts provide funding for the program and the authorizing legislation doesn't create an entitlement. Mandatory spending is the term commonly used for this kind of spending, although the BEA calls it "direct spending".

The Joint Explanatory Statement of the Committee of Conference for the Balanced Budget Act of 1997 (Public Law 105–33), which most recently amended the BEA, listed all accounts under the Appropriations Committees' jurisdiction at the time. It classified accounts as discretionary by category or as appropriated entitlements and mandatories. The "scorekeepers" (House and Senate Budget Committees, CBO, and OMB) consult on the classification of new accounts and may reclassify an existing account. OMB indicates the BEA classification for an account when it is established in the MAX database (see section 81.3). While mandatory and discretionary classifications are used for measuring compliance with the BEA, they do not determine whether a program provides legal entitlement to a payment or benefit. You should address questions about BEA classifications and legal entitlements to your OMB representative.

The BEA applies one set of rules to discretionary spending and another to mandatory spending and receipts. The BEA applies the same rules to receipts as apply to mandatory spending, because receipts are generally controlled by permanent laws. The BEA refers to the rules that apply to mandatory receipts and spending as "pay-as-you-go" (PAYGO) requirements. The BEA itself sets the basic rules, but the Explanatory Statement referred to in the previous paragraph provided scorekeeping guidelines that the scorekeepers must use in interpreting the rules. The BEA authorizes the scorekeepers to revise the guidelines if all agree on the revision. Appendix A contains the current guidelines.

(b) *Discretionary spending caps.*

The BEA defined categories of discretionary spending that have varied from year to year. For 2001 they were highways, mass transit, and all other discretionary spending. The Interior appropriations act for 2001 added the conservation spending category to the existing categories beginning in 2002. This category is divided into six subcategories: Federal and State Land and Water Conservation Fund; State and Other Conservation; Urban and Historic Preservation; Payments in Lieu of Taxes; Federal Deferred Maintenance; and Coastal Assistance. The BEA specifies caps through 2003 for the highways and mass transit categories and through 2006 for the conservation spending category, although the discretionary spending provisions of the BEA will expire after 2002 if not extended by law. In some earlier years there were separate categories for defense and for violent crime reduction. The BEA caps both budget authority and outlays for each fiscal year for the conservation spending and other discretionary categories, but it caps only outlays for each fiscal year for highways and mass transit.

The BEA requires OMB to adjust the caps upward for appropriations for emergencies—any appropriation designated as emergency spending by both the Congress and the President—and appropriations for certain specified purposes, such as continuing disability reviews by the Social Security Administration. Thus, these appropriations cannot trigger a sequestration. The BEA also requires OMB, in consultation with Congress, to adjust the caps for the effects of conceptual changes. If the Congress and the President designate an appropriation as an emergency requirement, we score the appropriations act for the budget authority and estimated outlays when it is enacted, and we increase the discretionary caps by the same amounts in the next sequestration report. This is the case even if the language makes the appropriation contingent on the President's notifying Congress that he is making the appropriation available for emergency spending.

The BEA requires special cap adjustments for the highways and mass transit categories to align the cap levels with highway receipts. It also requires a special cap adjustment for the conservation spending category. If appropriations in this category are less than the levels specified, the caps for the following year are adjusted upward by the amount of the shortfall. In addition, the BEA specifies minimum levels of spending for six subcategories of conservation spending. If appropriations for a subcategory for a fiscal year are less than the amount specified, the minimum level for the following year is adjusted upward by the amount of the shortfall. The subcategory levels are not caps. That is, appropriations in excess of a subcategory level would not necessarily trigger a sequestration. A sequestration would be triggered only if the aggregate of amounts appropriated for conservation spending exceeded the overall cap for the conservation spending category. In general, Appropriations Committee actions are discretionary.

The BEA requires that substantive changes to or restrictions on entitlement law or other mandatory spending law in appropriations laws (including changes in offsetting receipts or collections) be treated as changes in discretionary spending for the purposes of scoring those appropriations laws. However, in the subsequent budget, OMB may decide to reclassify such changes, especially in accounts that are generally mandatory, and make a compensating adjustment to the discretionary caps. This is sometimes referred to as "rebasing".

Where obligation limitations set in appropriations acts limit permanent budget authority, except trust fund accounts in the Department of Transportation, we redefine the budget authority for the account as discretionary in an amount equal to the limit. For Transportation trust funds, the budget authority remains mandatory, although the funds' outlays are discretionary.

If the amount of budget authority provided in appropriations acts for the year exceeds the cap on budget authority for a category, or if OMB estimates of the amount of outlays for the year resulting from all discretionary budget authority exceed the cap on outlays for a category, the BEA specifies a procedure, called sequestration, for reducing the spending in that category. The BEA requires the President to issue a sequestration order reducing most programs in the category by a uniform percentage. Special rules apply in reducing some programs, and the BEA exempts some programs from sequestration.

The BEA's sequestration rules cover supplemental appropriations enacted during the fiscal year. 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 breaches a cap. Because a sequestration in the last quarter of a fiscal year might disproportionally disrupt Government operations, the BEA requires OMB to reduce the applicable cap for the next fiscal year, in lieu of a sequestration in the fourth quarter.

(c) *PAYGO requirements.*

The BEA doesn't cap mandatory spending. Instead, it requires all laws enacted through 2002 that affect mandatory spending or receipts to be enacted on a "pay-as-you-go" basis. This means that if a provision of law increases the deficit or decreases the surplus in the budget year or any of the four following years, another provision of law (in the same or another law) must offset the increase with a decrease in spending or increase in receipts in each affected year. A provision that increases benefit payments, for example, would have to be offset by a provision decreasing other mandatory spending or increasing receipts. Otherwise, the BEA requires the President to issue a sequestration order at the end of the session of Congress in the fiscal year in which the deficit is increased. (Note: Although the BEA requires estimates of the effects of legislation for the budget year and the four following years, OMB requires budget policy estimates for 9 years beyond the budget year (see section 30.2.))

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 from sequestration. A special rule limits the sequester of Medicare spending to no more than 4 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 3 percent of all mandatory spending is subject to sequestration, including the maximum amounts allowed under the special rules.

The PAYGO rules don't apply to increases in mandatory spending or decreases in receipts that don't result from 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.

If both the Congress and the President designate a provision of mandatory spending or receipts legislation as an emergency requirement, we don't score the effect of the provision as PAYGO.

(d) *OMB and CBO estimates.*

The BEA requires OMB, using the methods prescribed by the BEA, to make the estimates and calculations that determine whether there is to be a sequestration and report them to the President and Congress. The President's sequestration order may not change any of the particulars of the OMB report. The BEA requires the Congressional Budget Office (CBO) to make the same estimates and calculations, and requires OMB to explain any differences between the OMB and CBO estimates. Congress uses the CBO estimates for enforcing constraints during the congressional budget process.

(e) *Reporting requirements.*

The BEA requires OMB to issue five different kinds of reports to the President and the Congress, which the following table describes. The BEA requires CBO to issue like reports, with its estimates, 5 days earlier than the OMB reports.

**BEA REPORTS**

| What OMB reports... | When... |
|---|---|
| *Preview report.* This report discusses the status of discretionary and PAYGO sequestration based on current law. It also explains OMB adjustments to the discretionary caps, under the BEA's adjustment provisions, and publishes the revised caps. By custom, OMB publishes its report as a chapter of the *Analytical Perspectives* volume of the budget. | With the President's budget |
| *7-day after reports.* As part of enforcing the discretionary spending caps, OMB must issue a report for each appropriation act (including a supplemental appropriations act) estimating the amount of new budget authority and outlays provided by the act for the current year and budget year. As part of enforcing the PAYGO rules, OMB must also issue a report for each authorizing act that changes receipts or outlays. | 7 days after enactment of a bill |
| *Update report.* This report revises the preview report estimates to reflect the effects of newly enacted discretionary and PAYGO legislation. | August 20 |
| *Final report.* This report also revises the preview report estimates, this time to reflect the effects of legislation enacted through the end of the session of Congress. The estimates in this report determine whether the President must issue a sequestration order. | 15 days after the end of a session of Congress (usually in the fall of each year) |
| *Within-session report.* The BEA requires OMB to report if an appropriation for a fiscal year in progress is enacted before July 1 that breaches a cap. The report triggers a sequestration order. (If an appropriation is enacted after July 1 that breaches a cap, the BEA requires OMB to reduce the cap for the following year.) | Between the end of a session of Congress and July 1 |

## 20.10 What do I need to know about refunds?

You might think that you should record refunds received as collections and refunds paid as outlays, but that isn't always the case. The following table explains how to record refunds *received.* (We cover refunds paid after the table.)

| If you... | And the appropriation against which the obligation was incurred... | You... |
|---|---|---|
| (1) receive a refund of funds that were obligated and outlayed in that year | remains available (usually the case) | reduce the total amount of obligations and outlays recorded for the year in the budget schedules. |
| (2) receive a refund of funds that were obligated and outlayed in a previous year | remains available for new obligations | record the refund as an offsetting collection, increasing spending authority from offsetting collections. |
| (3) receive a refund of funds that were obligated and outlayed in a previous year | has expired but is not yet canceled | record the refund as an offsetting collection and as a portion of cash collections credited to expired accounts (line 8896 of the P&F schedule). These offsetting collections are not reported as new spending authority from offsetting |

| If you... | And the appropriation against which the obligation was incurred... | You... |
|---|---|---|
| | | collections (part of gross budget authority), and the amount on line 8896 reduces the offset applied to gross budget authority. |
| (4) receive a refund of funds that were obligated in a previous year | has been canceled | deposit the refund miscellaneous receipts of the Treasury. |

Record refunds *paid* as follows:

- Record refunds paid by an expenditure account as an obligation and an outlay of the account.
- Record refunds of receipts that result from overpayments (such as income taxes withheld in excess of a taxpayer's income tax liability) as reductions of receipts, rather than as outlays. This does not include payments to a taxpayer for credits (such as an earned income tax credit) that exceed the taxpayer's income tax liability. Record these as outlays, not as refunds.

### 20.11 What do I need to know about accounts and fund types?

(a) *Accounts.*

An a*ccount* may mean a "receipt" account or an "expenditure" account. The term may refer to a "Treasury" account or a "budget" account.

For receipt accounts, the budget accounts generally are coterminous with Treasury accounts.

For expenditure accounts (which includes both "appropriations" and "fund" accounts), Treasury establishes separate Treasury appropriation fund symbol (TAFS) accounts for each appropriation title based on the availability of the resources in the account. Treasury establishes separate TAFS accounts for each annual, multi-year, or no-year amount appropriated.

In budget execution, the term "account" normally refers to the TAFS.

The budget accounts are based on actual and proposed accounts. Normally a budget account in the MAX database is a consolidation of all the Treasury accounts with the same appropriation title, for example, "Salaries and expenses". As an illustration, the FY 2003 column of the program and financing schedule for "Salaries and expenses" in the budget Appendix would cover outlays made in FY 2003 from the unexpired FY 2003 annual appropriation, the FY 2001–2003 multi-year appropriation, the no-year appropriation, and the five expired annual appropriations (FY 1998 through FY 2002).

For more information on account identification codes see section 79.2.

(b) *Overview of fund types.*

Agency activities are financed through general funds, special funds, and revolving funds (public enterprise revolving funds and intragovernmental revolving funds), which constitute the Federal funds group, and trust funds and trust revolving funds, which constitute the trust funds group. General, special, and trust fund collections and disbursements may be held *temporarily* in clearing accounts pending clearance to the applicable account. In some cases, agencies account for amounts that are not

Government funds in deposit funds. The following table summarizes the characteristics of these funds. The text following the table discusses the types of funds in more depth.

## CHARACTERISTICS OF FUND TYPES AND THEIR ACCOUNTS

| **Fund Type/Account**<br><br>**Treasury Account Symbol** | **What is the purpose of the account?** | **Are receipt accounts and expenditure accounts linked?** | **Are these funds included in the budget?** |
|---|---|---|---|
| Federal funds: | | | |
| General fund receipt accounts<br>(0000–3899) | Record unearmarked receipts. | No. | Yes. |
| General fund expenditure accounts<br>(0000–3899) | Record budget authority, obligations, and outlays of general fund receipts and borrowing. Record offsetting collections authorized by law, such as the Economy Act, and associated budget authority, obligations, and outlays. | No, general fund appropriations draw from general fund receipts collectively. | Yes. |
| Special fund receipt accounts<br>(5000–5999) | Record receipts earmarked by law for a specific purpose (other than business-like activity). | Yes. | Yes. |
| Special fund expenditure accounts<br>(5000–5999) | Record budget authority, obligations, and outlays of special fund receipts. Record offsetting collections authorized by law, such as the Economy Act, and associated budget authority, obligations, and outlays | Yes. | Yes. |
| Public enterprise revolving funds<br>(4000–4499) | Record offsetting collections earmarked by law for a specific purpose and associated budget authority, obligations, and outlays for a business-like activity conducted primarily with the public. | Not applicable. Collections are credited to the expenditure account. | Yes.[1] |
| Intragovernmental revolving funds (including working capital funds)<br>(4500–4999) | Record offsetting collections earmarked by law for a specific purpose and associated budget authority, obligations, and | Not applicable. Collections credited to the expenditure account. | Yes. |

| **Fund Type/Account**<br><br>**Treasury Account Symbol** | **What is the purpose of the account?** | **Are receipt accounts and expenditure accounts linked?** | **Are these funds included in the budget?** |
|---|---|---|---|
| | outlays for a business-like activity conducted primarily within the Government. | | |
| Trust funds: | | | |
| Trust fund receipt accounts<br><br>(8000–8399 and 8500–8999) | Record receipts earmarked by law for a specific purpose (other than a business-like activity). | Yes. | Yes.[1] |
| Trust fund expenditure accounts<br><br>(8000–8399 and 8500–8999) | Record budget authority, obligations, and outlays of trust fund receipts. Record offsetting collections authorized by law, such as the Economy Act, and associated budget authority, obligations, and outlays. | Yes. | Yes.[1] |
| Trust revolving funds<br><br>(8400–8499) | Record offsetting collections earmarked by law for a specific purpose and associated budget authority, obligations, and outlays for a business-like activity conducted primarily with the public. | Not applicable. Collections credited to the expenditure account. | Yes. |
| Other: | | | |
| Clearing accounts<br><br>(F3800–F3885) | Temporarily hold general, special, or trust fund Federal Government collections or disbursements pending clearance to the applicable receipt or expenditure accounts. | Not applicable. Deposits and disbursements are recorded in the same account. | Yes |
| Deposit funds<br><br>(6000–6999) | Record deposits and disbursements of monies not owned by the Government or not donated to the Government (amounts donated to the Government are deposited in a special or trust fund account). | Not applicable. Deposits and disbursements are recorded in the same account. | No. |

[1] By law, the budget authority and the outlays (net of offsetting collections) of the Postal Service Fund (a revolving fund), and the receipts, budget authority, and outlays of the two social security trust funds (the Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund) are excluded from the budget totals. The budget documents present these amounts as "off-budget" and adds them to the budget totals to show totals for the Federal Government (sometimes called unified budget totals).

(c) *Federal funds.*

Federal funds comprise several types of accounts or funds. A *general fund receipt account* records receipts not earmarked by law for a specific purpose, such as individual income tax receipts. A *general fund expenditure account* records appropriations from the general fund and the associated transactions, such as obligations and outlays. General fund appropriations draw from general fund receipts collectively and, therefore, are not specifically linked to receipt accounts.

The Federal funds group also includes *special funds* and *revolving funds*, both of which earmark collections for spending on specific purposes. We establish a special fund where the law requires us to earmark collections from a specified source to finance a particular program, and the law neither authorizes the fund to conduct a cycle of business-type operations (making it a revolving fund) nor designates it as a trust fund. For example, a law established the Land and water conservation fund, earmarking a portion of rents and royalties from Outer Continental Shelf lands and other receipts to be used for land acquisition, conservation, and recreation programs. The receipts earmarked to a fund are recorded in one or more *special fund receipt accounts.* More than one receipt account may be necessary to distinguish different types of receipts (governmental, proprietary, etc.) and receipts from significantly different types of transactions (registration fees vs. fines and penalties, for example). The fund's appropriations and associated transactions are recorded in a *special fund expenditure* account. Most funds have only one expenditure account, even if they have multiple receipt accounts. However, a large fund, especially one with appropriations to more than one agency (such as the Land and water conservation fund), may have more than one expenditure account. The majority of special fund collections are derived from the Government's power to impose taxes, fines, and other compulsory payments, and they must be appropriated before they can be obligated and spent.

Revolving funds conduct continuing cycles of business-like activity. They charge for the sale of products or services and use the proceeds to finance their spending. Instead of recording the collections in receipt accounts (as offsetting receipts), the budget records the collections and the outlays of revolving funds in the same account. The laws that establish revolving funds authorize the collections to be obligated and outlayed for the purposes of the fund without further appropriation. The law of supply and demand is expected to regulate such funds. However, in some cases, Congress enacts obligation limitations on the funds in appropriations acts as a way of controlling their expenditures (for example, a limitation on administrative expenses). There are two types of revolving funds in the Federal funds group. *Public enterprise funds,* such as the Postal Service Fund, conduct business-like operations mainly with the public. *Intragovernmental funds,* such as the Federal Buildings Fund, conduct business-like operations mainly within and between Government agencies.

(d) *Trust funds.*

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). Like special funds and revolving funds, trust funds earmark collections for spending on specific purposes. Many of the larger trust funds finance social insurance payments for individuals, such as Social Security, Medicare, and unemployment compensation. Other major trust funds finance military and Federal civilian employees' retirement, highway and mass transit construction, and airport and airway development.

A trust fund normally consists of one or more receipt accounts to record receipts and an expenditure account to record the appropriation of the receipts and associated transactions. Some trust funds have multiple receipt accounts for the same reasons that special funds have them. Also, like special funds, large trust funds (such as the Highway Trust Fund) may have multiple expenditure accounts. A few trust funds, such as the Veterans Special Life Insurance fund and the Employees Life Insurance Fund, are established by law as revolving funds. These funds operate the same way as revolving funds in the Federal funds group, and we call them *trust revolving funds.* They conduct a cycle of business-type operations. The collections are credited to the expenditure account as offsetting collections and their outlays are displayed net of collections in a single expenditure account.

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 these trust funds and special funds or between trust revolving funds and public enterprise revolving funds. Whether a particular fund is designated in law as a trust fund is, in many cases, arbitrary. For example, the National Service Life Insurance Fund is a trust fund, but the Servicemen's Group Life Insurance Fund is a Federal fund, even though both are financed by earmarked fees paid by veterans and both provide life insurance payments to veterans' beneficiaries. There are a few Federal trust funds that are managed pursuant to a trust agreement. These are identified in the budget as "gift funds". In addition, the Government does act as a true trustee on behalf of some entities outside of the Government where it makes no decisions about the amount of these deposits or how they are spent. 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 (see the section after next).

(e) *Clearing accounts*

You use clearing accounts to temporarily account for transactions that you *know belong to the Government* while you wait for information that will allow you to match the transaction to a specific receipt or expenditure account. For example:

- To temporarily credit unclassified transactions from the public when there is a reasonable presumption that the amounts belong to a Federal Government account other than miscellaneous receipts in the Treasury.

- To temporarily credit unclassified transactions between Federal agencies, including On-line Payment and Collection (OPAC) transactions.

You should not use clearing accounts to mask an overobligation or overexpenditure of an expenditure account.

(f) *Deposit funds*

You use deposit funds to account for monies that *do not belong to the Government*. This includes monies held temporarily by the Government until ownership is determined (such as earnest money paid by bidders for mineral leases) or held by the Government as an agent for others (such as State and local income taxes withheld from Federal employees' salaries and not yet paid to the State or local government). We exclude deposit fund transactions, as such, from the budget totals because the funds are not owned by the Government. Therefore, the budget records transactions between deposit funds and budgetary accounts as transactions with the public. For example, when the mineral leasing process has been completed, the winning bidder's earnest money is transferred from the deposit fund to the appropriate receipt account and the budget records a receipt. Similarly, outlays are recorded in an agency's salaries and expense account when a Federal employee is paid, even though some of the amount is transferred to a deposit fund for State and local income taxes withheld and paid later to the State and local government. Deposits and associated disbursements are recorded in the same account.

## 20.12 What do I need to know about spending authority from offsetting collections?

(a) *Spending authority from offsetting collections*

*Spending authority from offsetting collections* is the budget authority that is financed by payments and repayments authorized by law to be credited to an appropriation or fund account. Offsetting collections consist of:

- Advances and reimbursements,
- Refunds, and
- Other income.

You may not retain collections unless you are authorized by a law. This prohibition is in 31 U.S.C. 3302(b). If you do not have statutory authority to accept collections, they must be deposited in the Miscellaneous Receipt account in the Treasury.

(b) *Advances*

Advances are amounts of money prepaid to a Federal Government account for the later receipt of goods, services, or other assets, or as matching funds.

When an advance is required, the budgetary resource provided by the order is denominated by the cash accompanying the order. The advance, per se, is not available for obligation. If both the order and the advance were to be available for obligation, budgetary resources would be double-counted.

Deposit advances *with orders* in the appropriate appropriation/fund or receipt account.

Deposit advances *without orders* as follows:

| If the advance is from... | Deposit the advance in... |
|---|---|
| A non-Federal source | Deposit fund account (6500) |
| A Federal source | An intragovernmental clearing account (F3885) |

(c) *Refunds*

Refunds are the repayments of excess payments. The amounts are directly related to previous obligations incurred and outlays made against the appropriation. Deposit refunds to the credit of the appropriation or fund account charged with the original obligation as follows:

- Refunds collected by unexpired annual and multi-year appropriations and uncanceled no-year appropriations:

- Net refunds received in the same fiscal year as the obligations are incurred against Obligations incurred (line 8 of the SF 133) without further identification. These amounts have already been apportioned to the current year.

- Enter refunds of prior year obligations on line 3A1 when collected. These amounts must be reapportioned before being reobligated.

- Refunds receivable usually are not budgetary resources available for obligation until the refund is collected.

- Refunds collected by expired annual and multi-year appropriations are available for upward adjustments of valid obligations incurred during the unexpired period but not recorded.

- Deposit refunds to canceled annual, multi-year, or no-year appropriations in miscellaneous receipts in the Treasury.

(d) *Advances or reimbursements collected in return for providing others with goods and services*

The types of laws that allow you to use advances or reimbursements for providing goods and services are:

- Laws that establish revolving funds, including franchise funds and working capital funds;

- The Economy Act (31 U.S.C. 1535); and

- Provisions in your appropriations act, your authorizing legislation, or other substantive laws that allow you to use the amounts that you collect.

(e) *Revolving fund*

You may use a revolving fund when a law establishes the revolving funds and authorizes you to credit payments to the revolving fund that performs the work. Revolving funds operate on a reimbursable basis when working capital (undisbursed cash) is available. Otherwise, advance payments must accompany orders. You may *not* disburse revolving funds into a negative cash position in anticipation of Federal or non-Federal reimbursements because of the Antidefiency Act.

(f) *Economy Act*

The Act authorizes the head of an agency or major organizational unit within an agency to place an order with a major organizational unit within the same agency or another Federal agency for goods or services provided that:

- The ordering agency has enough money to pay for the order.

- The head of the ordering agency or unit decides the order is in the best interest of the United States Government.

- The agency or unit to fill the order is able to provide or get by contract the ordered goods or services.

- The head of the ordering agency decides that the ordered goods or services cannot be provided by contract as conveniently or cheaply by a commercial enterprise.

Transactions authorized by the Economy Act are limited by the statutory requirement that the amount obligated by the ordering appropriation is required to be deobligated to the extent that the agency or unit filling the order has not incurred obligations before the end of the period of availability of the ordering appropriation.

Under the Economy Act, payment (via expenditure transfer) may be made in advance or reimbursements may be made. Advances and reimbursements from other Federal Government appropriations are available for obligation when the ordering appropriation records a valid obligation to cover the order.

(g) *Reimbursable work with Federal agencies under the Economy Act*

When you anticipate but have not yet received an order, whether or not you received an advance, enter the amount on line 3C of the SF 133, "Anticipated for rest of year: Without advance".

When you receive the order, move the amount of the order from line 3C to line 3B2, "Change in unfilled customer orders: Without advance from Federal sources." If the order is accompanied or preceded by an advance payment, move the advance payment (up to the amount of the order) to line 3B1, "Change in unfilled customers' orders: Advance received."

If you do not record valid obligations to cover all or part of an order before the period of availability to make obligations of the ordering account expires, then you may not fill that part of the order. You must send back any cash advances not covered by obligations back to the ordering account. If you are the ordering agency, deobligate funds not covered by obligations by the performing account and record the corresponding adjustments. Use line 4A of the SF 133, "Recoveries of prior year obligations, actual", for obligations incurred in prior fiscal years. For obligations incurred in the current fiscal year, net the amount against the appropriate line 8, "Obligations incurred". If a cash advance accompanied the order, use line 3A1 when you collect the refund. These will be start of year unobligated balances available for adjustments but not new obligations in the expired years.

When you fill the order, move the amounts earned and collected to line 3A1, "Earned: Collected". Move the amounts earned but *not* collected to line 3A2, "Earned: Receivable from Federal sources".

If you receive payment for a filled order *after* the period of obligational authority of the performing appropriation has *expired,* credit the payment to the expired appropriation, unless the law expressly prescribes other procedures.

If you receive payment *after* your performing account has been *canceled*, you must send the amounts to miscellaneous receipts in the Treasury.

If the period of disbursement for your account is canceled before you reimburse the appropriation that performed the work, you can only make the repayment from an unexpired appropriation that is available for the same purpose as the closed account.

(h) *Payments from the public*

If the law authorizes an expenditure account to perform work for the public and to credit collections from the public as spending authority, you may cover obligations incurred by the account by:

- Advances collected up to the amount of accompanying orders. (You must deposit amounts greater than accompanying orders in a deposit fund. The expenditure account may *not* incur obligations against amounts *greater than* the order.)

- Working capital that is available for this purpose.

# Transfers[1] of Budgetary Resources Among Federal Government Accounts

| TYPE OF TRANSACTION | NATURE OF TRANSACTION | TREASURY ACCOUNTING TREATMENT | BUDGET TREATMENT |
|---|---|---|---|
| **I. NONEXPENDITURE TRANSFERS** | | | |
| A. TRANSFER OF AUTHORITY TO OBLIGATE | Transfers to carry out the purposes of the RECEIVING ACCOUNT, for example, to shift resources from one purpose to another or to reflect a reorganization. | TRANSFER via S.F. 1151 | The TRANSFERRING ACCOUNT reports a transfer out of budget authority or balances. THE RECEIVING ACCOUNT reports a transfer in. |
| B. ALLOCATION OF AUTHORITY TO OBLIGATE i.e., transfers to transfer appropriation accounts | Transfers to carry out the purposes of the PARENT ACCOUNT. | TRANSFER via S.F. 1151 | Obligations and outlays are reported by the PARENT ACCOUNT. |
| **II. EXPENDITURE TRANSFERS** | | | |
| A. EXPENDITURE TRANSFER PAYMENTS BETWEEN TWO FEDERAL FUNDS OR BETWEEN TWO TRUST FUNDS | Payments to carry out the purposes of the PAYING ACCOUNT, such as payments in return for goods and services authorized under the Economy Act.<br><br>Payments that represent financial interchanges between Federal government accounts that are not in exchange for goods and services. | PAYMENTS via S.F. 224 or electronic funds transfer.[2] | Obligations and outlays are reported by the PAYING account. Offsetting collections are reported by the RECEIVING account. The collections are (1) ADVANCES or (2) REPAYMENTS in the form of REIMBURSEMENTS or REFUNDS. |
| B. EXPENDITURE TRANSFER PAYMENTS BETWEEN FEDERAL AND TRUST FUNDS | All transfers between the two fund groups are expenditure transfers. | PAYMENTS via S.F. 224 or electronic funds transfer. | Same as above. |

[1] A transfer is distinguished from a reprogramming in that a reprogramming is the shifting of budgetary resources within an Treasury account whereas a transfer is the shifting of budgetary resource between two Treasury accounts.

[2] For non-Treasury disbursing offices, the equivalent of the SF 224 is the SF 1219, Statement of Accountability and SF 1220, Statement of Transactions.

# SECTION 22—COMMUNICATIONS WITH CONGRESS AND THE PUBLIC AND CLEARANCE REQUIREMENTS

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## 22.1 Confidentiality of budget deliberations.

The nature and amounts of the President's decisions and the underlying materials are confidential. Do not release the President's decisions outside of your agency until the budget is transmitted to Congress. Do not release any materials underlying those decisions at any time, except in accordance with this section. Presidential decisions on current and budget year estimates (other than forecasts of items that will be transmitted formally later), both in total and in detail, become the "proposed appropriations" as that term is used in the Budget and Accounting Act of 1921, as amended, and must be justified by your agency. Do not release agency justifications provided to OMB and any agency future year plans or long-range estimates to anyone outside the executive branch, except in accordance with this section.

## 22.2 Congressional testimony and communications.

The Executive Branch communications that led to the President's budget decisions will not be disclosed either by the agencies or by those who have prepared the budget. In addition, agency justifications provided to OMB and any agency future year plans or long-range estimates will not be furnished to anyone outside the executive branch, except in accordance with this section.

When furnishing information on appropriations and budgetary matters, you (and your agency representatives) should be aware of the following limitation on communications:

> "... An officer or employee of an agency may submit to Congress or a committee of Congress an appropriations estimate or request, a request for an increase in that estimate or request, or a recommendation on meeting the financial needs of the government only when requested by either House of Congress."

You should also be aware of restrictions on communications to influence legislation that are not conducted through proper official channels (18 U.S.C. 1913).

After formal transmittal of the budget, an amendment, or a supplemental appropriation request, the following policies apply when testifying before any congressional committee or communicating with Members of Congress:

- Witnesses will give frank and complete answers to all questions.

- Witnesses will avoid volunteering personal opinions that reflect positions inconsistent with the President's program or appropriation request.

- If statutory provisions exist for the direct submission of the agency budget request to Congress, OMB may provide you additional materials supporting the President's budget request that you will forward to Congress with the agency testimony. Witnesses will be prepared to explain the agency submission, the request in the President's budget, and any justification material.

- When responding to specific questions on program and appropriations requests, witnesses will not provide the agency request to OMB or plans for the use of appropriations that exceed the President's request. Typically, witnesses are responsible for one or a few programs, whereas the President is responsible for all the needs of the Federal Government given the revenues available. Where appropriate, witnesses should explain this difference in perspective and that it is therefore not appropriate for them to support appropriations above the President's request.

- When asked to provide a written response that involves a statement of opinion on program and appropriations requests, witnesses will provide a reply through the agency head.

- Do not let your communications be perceived as an "appropriations estimate or request ... or an increase in that estimate or request" (31 U.S.C. 1108). You are expected to support the President's budgetary decisions and seek adjustments to those decisions only through established procedures if your agency head determines such action is necessary.

## 22.3 Clearance of materials for Congress and the media.

Policy consistency between the President's budget and the budget-related materials prepared for Congress and the media is essential. To ensure this consistency, you are required to submit budget-related materials to OMB for clearance prior to transmittal to congressional committees, individual Members of Congress or their staff, or the media. Unless a specific exemption is approved by OMB, materials subject to OMB clearance include:

- All budget justifications and budget-related oversight materials;

- Testimony before and letters to congressional committees;

- Written responses to congressional inquiries or other materials for record;

- Materials responding to committee and subcommittee reporting requirements;

- Capability statements;

- Appeals letters;

- Reprogramming requests;

- Related cost information;

- Financial management documents addressing budget and policy issues (e.g., some accountability reports or transmittal documents for audited financial statements); and

- Proposed press releases relating to the President's budget.

Provide this information to OMB five working days in advance to allow adequate review time. OMB review of reprogramming requests may take longer in some circumstances (e.g., if the request has not been coordinated or if supporting materials have not been provided concurrently). In exceptional circumstances, where the response time is very short, agencies may request oral clearance or make other arrangements for expedited review. Immediately after the budget transmittal and after subsequent transmittals, provide OMB with a schedule of anticipated congressional reviews that require agency oral and written participation. Revise this schedule as appropriate.

Address any questions you have about this subsection to the OMB representatives whom you normally consult on budget-related matters.

## 22.4 Clearance of changes to the President's budget.

If you want to propose changes to the President's budget (e.g., appropriations language, limitations, balance sheets required by the Government Corporation Control Act, and dollar amounts), you must follow the confidentiality and clearance guidance provided in this section and submit a written request as described in section 110.3. OMB will notify you whether a formal transmittal of the change will be made.

When it is possible to reduce the amount of an appropriations request before action has been taken by the Appropriations Committee of either House, the head of your agency should inform OMB promptly. Before your agency head decides to request restoration of a reduction, the reasons for the reduction, the circumstances under which it was made, and its significance to the President's program should be carefully considered.

## 22.5 Information available to the public.

Many agency budget documents that are subject to the Freedom of Information Act (FOIA) are exempt from mandatory release pursuant to 5 U.S.C. 552(b)(5). Depending on the nature of the record requested, other FOIA exemptions may apply. When deciding whether to withhold a budget document that is exempt from mandatory release, follow the FOIA memorandum issued by the Attorney General on October 12, 2001. Any discretionary decision by an agency to disclose protected information should be made only after full and deliberate consideration of the institutional interests that could be implicated by disclosure, as well as after consultation with OMB. Agency heads are responsible for determining the propriety of record releases under FOIA.

Certain agencies headed by a collegial body may be required to hold their meetings open to public observation unless the agency properly determines that the matter to be discussed warrants the closing of those meetings for reasons enumerated in the Government in the Sunshine Act (Public Law 94–409). Some meetings covered by that Act may pertain to budgetary information discussed in this Circular. Although, as with the FOIA, it is not possible to determine merely by the generic category of such information whether such an agency would be authorized to close a particular meeting covered by the Government in the Sunshine Act, the premature disclosure of budgetary information may "be likely to significantly frustrate implementation of a proposed agency action" (5 U.S.C. 552b(c)(9)(B)). Furthermore, other exemptions from the open meeting requirements of the Act may apply. Such agencies are responsible for the propriety of determinations that would lead to the disclosure of this budgetary information.

## 22.6 Additional material to be included in congressional budget justifications.

(a) *Materials for performance budget submission to Congress.*

For FY 2005, you will have submitted your budget to OMB as a performance budget, presenting what you propose to accomplish in the upcoming year and what resources your proposal will require. Descriptions of the performance budget are presented in Sections 26 and 51.

You should revise the performance budget submission to reflect decisions made in the Administration's budget process, and use the performance budget format as the basis for your justification of the budget request to Congress. You should consult with your Congressional representatives to agree on the performance budget format prior to submitting your Congressional justification. Your OMB representative should be included in those consultations as appropriate.

Your Congressional justification should be in the form of a "performance budget" to the greatest extent possible. A "performance budget" should include:

- A description of what you plan to accomplish, organized by strategic goal,
- Background on what you have accomplished,
- Performance targets for current and budget years and how you expect to achieve those targets, and
- What resources you are requesting to achieve the targets.

Where possible, you should include the full cost of a program, and you should align budget accounts with programs.

You should provide your proposed justification to Congress to your OMB representative with sufficient time for review.

(b) *Material to be included in congressional budget justifications*

41 U.S.C. 433(h) requires you to identify funding levels requested for education and training of the acquisition workforce in your budget justifications to the Congress.

Public Law 100–615 requires you to identify funds requested for energy conservation measures in your budget justifications to the Congress.

You should provide Congress with information to assess current and proposed capital projects that is consistent with the Administration's budget proposals, including appropriate information on planning; budgeting, including the current or proposed use of incremental or full funding; acquisition; and management of the projects.

You must submit all budget justification materials to OMB for clearance before transmitting them to Congress.