
THE BUDGET SYSTEM AND CONCEPTS

26. THE BUDGET SYSTEM AND CONCEPTS

The budget system of the United States Government provides the means for the President and Congress to decide how much money to spend, what to spend it on, and how to raise the money they have decided to spend. Through the budget system, they determine the allocation of resources among the agencies of the Federal Government and between the Federal Government and the private sector. The budget system focuses primarily on dollars, but it also allocates other resources, such as Federal employment. The decisions made in the budget process affect the nation as a whole, State and local governments, and individual Americans. Many budget decisions have worldwide significance. The Congress and the President enact budget decisions into law. The budget system ensures that these laws are carried out.

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

The following section discusses the budget process, covering formulation of the President's budget, congressional action, and budget execution. The next section provides information on budget coverage, including a discussion of on-budget and off-budget amounts, functional classification, how budget data is arrayed, types of funds, and full cost budgeting. Subsequent sections discuss the concepts of receipts and collections, budget authority, and outlays. These sections are followed by discussions of Federal credit; surpluses, deficits, and means of financing; Federal employment; and the basis for the budget figures. A glossary of budget terms appears at the end of the chapter.

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

THE BUDGET PROCESS

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

- (1) Formulation of the President's proposed budget;
- (2) Congressional action on the budget; and
- (3) Budget execution.

Formulation of the President's Budget

The Budget of the United States Government consists of several volumes that set forth the President's financial proposal with recommended priorities for the allocation of resources by the Government. The primary focus of the budget is on the budget year—the next

fiscal year for which Congress needs to make appropriations, in this case 2006. (Fiscal year 2006 will begin on October 1, 2005 and end on September 30, 2006.) The budget also covers at least the four years following the budget year in order to reflect the effect of budget decisions over the longer term. It includes the funding levels provided for the current year, in this case 2005, so that the reader can compare the President's budget proposals to the most recently enacted levels, and it includes data on the most recently completed fiscal year, in this case 2004, so that the reader can compare budget estimates to actual accounting data.

The President begins the process of formulating the budget by establishing general budget and fiscal policy guidelines, usually by the Spring of each year, at least nine months before the President transmits the budget to Congress and at least 18 months before the fiscal year begins. (See the "Budget Calendar" below.) Based on these guidelines, the Office of Management and Budget (OMB) works with the Federal agencies to establish specific policy directions and planning levels for the agencies, both for the budget year and for at least the following four years, to guide the preparation of their budget requests.

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

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

The decision-makers must consider the effects of economic and technical assumptions on the budget estimates. Interest rates, economic growth, the rate of inflation, the unemployment rate, and the number of people eligible for various benefit programs, among other things, affect Government spending and receipts. Small

changes in these assumptions can affect budget estimates by billions of dollars. (Chapter 12, "Economic Assumptions," provides more information on this subject.)

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

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

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

In some years, for various reasons, the President cannot adhere to the normal schedule. One reason is that the current law does not require an outgoing President to transmit a budget, and it is impracticable for an incoming President to complete a budget within a few days of taking office on January 20th. President Clinton, the first President subject to the current requirement, submitted a report to Congress on February 17, 1993, describing the comprehensive economic plan he proposed for the Nation and containing summary budget information. He transmitted the Budget of the United States for 1994 on April 8, 1993. President George W. Bush similarly submitted an initial document, *A Blueprint for New Beginnings—A Responsible Budget for America's Priorities*, to Congress on February 28, 2001, and transmitted the Budget of the United States Government for Fiscal Year 2002 on April 9, 2001.

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

Congressional Action¹

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

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

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

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

In the report on the budget resolution, the Budget Committees allocate the total on-budget budget authority and outlays provided in the resolution to the Appropriations Committees and the other committees that

¹For a fuller discussion of the congressional budget process, see Robert Keith and Allen Schick, *Manual on the Federal Budget Process* (Congressional Research Service Report 98-720 GOV) and *Introduction to the Federal Budget Process* (Congressional Research Service Report 98-721 GOV).

have jurisdiction over spending. (See **COVERAGE OF THE BUDGET**, later in this chapter, for more information on on-budget and off-budget amounts.) The Appropriations Committees are required, in turn, to divide their allocations of budget authority and outlays among their respective subcommittees. The subcommittees may not exceed their allocations in drafting spending bills. The other committees with jurisdiction over spending and receipts may make allocations among their subcommittees but are not required to. The Budget Committees' reports may discuss assumptions about the level of funding for major programs. While these assumptions do not bind the other committees and subcommittees, they may influence their decisions. The budget resolution may contain "reconciliation directives" (discussed below) to the committees responsible for tax laws and for spending not controlled by annual appropriation acts, in order to conform the level of receipts and this type of spending to the levels specified in the budget resolution.

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

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

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

The President can only approve or veto an entire bill; he cannot approve or veto selected parts. In 1996, Congress enacted the Line Item Veto Act, granting the President limited authority to cancel new spending and limited tax benefits when he signs laws enacted by the Congress. However, in 1998, the Supreme Court declared this authority to be unconstitutional.

For 22 of the last 24 fiscal years, including 2005, some or all of the appropriations bills were not enacted by the beginning of the year. When this occurs, Congress usually enacts a joint resolution called a "continuing resolution," which is an interim appropriations bill, to provide authority for the affected agencies to continue operations at some specified level up to a specific date or until the regular appropriations are enacted. In some years, a continuing resolution has funded a portion or all of the Government for the entire year. Congress must present these resolutions to the President for approval or veto. In some cases, Presidents have rejected continuing resolutions because they contained unacceptable provisions. Left without funds, Government agencies were required by law to shut down operations with exceptions for some activities until Congress passed a continuing resolution the President would approve. Shutdowns have lasted for periods of a day to several weeks.

As explained earlier, Congress also provides budget authority in laws other than appropriations acts. In fact, while annual appropriations acts control the spending for the majority of Federal programs, they control only one-third of the total spending in a typical year. Permanent laws, called authorizing legislation, control the rest of the spending. A distinctive feature of these laws is that they provide agencies with the authority to collect or to spend money without first requiring the Appropriations Committees to enact funding. This category of spending includes interest the Government pays on the public debt and the spending of several major programs, such as Social Security, Medicare and Medicaid, unemployment insurance, and Federal employee retirement. This chapter discusses the control of budget authority and outlays in greater detail under **BUDGET AUTHORITY AND OTHER BUDGETARY RESOURCES, OBLIGATIONS, AND OUTLAYS**.

Almost all taxes and most other receipts result from permanent laws. Article I, Section 7, of the Constitution provides that all bills for raising revenue shall originate in the House of Representatives. In the House, the Ways and Means Committee initiates tax bills; in the Senate, the Finance Committee has jurisdiction over tax laws.

The budget resolution often includes reconciliation directives, which require authorizing committees to change permanent laws that affect receipts and outlays. The budget resolution directs each designated committee to report amendments to the laws under the committee's jurisdiction that would achieve changes in the levels of receipts and reductions in direct spending controlled by the laws. The directives specify the dollar

amount of changes that each designated committee is expected to achieve, but do not specify which laws are to be changed or the changes to be made. However, the Budget Committees' reports on the budget resolution frequently discuss assumptions about how the laws would be changed. Like other assumptions in the report, they do not bind the committees of jurisdiction but may influence their decisions. A reconciliation instruction may also specify the total amount by which the statutory limit on the public debt is to be changed.

The committees subject to reconciliation directives draft the implementing legislation. Such legislation may, for example, change the tax code, revise benefit formulas or eligibility requirements for benefit programs, or authorize Government agencies to charge fees to cover some of their costs. Congress typically enacts an omnibus budget reconciliation act, which combines the amendments to implement reconciliation directives in a single act.

Such a large and complicated bill would be difficult to enact under normal legislative procedures because it usually involves changes to tax rates or to popular social programs in order to achieve budgetary savings. The Senate considers such omnibus reconciliation acts under expedited procedures that limit total debate on the bill. As a result, there are significant restrictions with respect to the substantive content of the reconciliation measure itself, as well as amendments to the measure. Any material in the bill or amendment to the bill that is not germane, would add extraneous material, would cause deficit levels to increase, or that contains changes to the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance programs is not in order under expedited reconciliation procedures.

Reconciliation acts, together with appropriations acts for the year, often implement agreements between the President and the Congress. They may include other matters, such as laws providing the means for enforcing these agreements, as described below.

Budget Enforcement

The Budget Enforcement Act (BEA), first enacted in 1990 and extended in 1993 and 1997, significantly amended the laws pertaining to the budget process, including the Congressional Budget Act, the Balanced Budget and Emergency Deficit Control Act, and the laws pertaining to the President's budget (see *PRINCIPAL BUDGET LAWS*, later in the chapter). The BEA constrained legislation enacted through 2002 that would increase spending or decrease spending.

The BEA divided spending into two types—*discretionary spending* and *direct spending*. Discretionary spending is controlled through annual appropriations acts. Direct spending, which is more commonly referred to as *mandatory spending*, is controlled by permanent laws. However, the BEA required budget authority provided in annual appropriations acts for certain specifically identified programs to be treated as mandatory. This is because the authorizing legislation in these

cases entitles beneficiaries to receive payment or otherwise obligates the Government to make payment, even though the payments are funded by a subsequent appropriation. Since the authorizing legislation effectively determines the amount of budget authority required, the BEA classified it as mandatory.

The BEA defined categories of discretionary spending and specified dollar limits known as *caps* on the amount of spending in each category. If the amount of budget authority or outlays provided in appropriations acts for a given year exceeded the cap for that category, the BEA required a procedure, called *sequestration*, for reducing the spending in the category.

The BEA did not cap mandatory spending. Instead, it required that all laws that affected mandatory spending or receipts be enacted on a *pay-as-you-go* (PAYGO) basis. That meant that if such a law increased the deficit or reduced a surplus in the budget year or any of the four following years, another law had to be enacted with an offsetting reduction in spending or increase in receipts for each year that was affected. Otherwise, a sequestration would be triggered in the fiscal year in which the deficit would be increased.

Chapter 24, "Budget System and Concepts and Glossary," pages 460–461 in the *Analytical Perspectives* volume of the 2004 Budget, discusses the Budget Enforcement Act in more detail.

The BEA expired at the end of 2002. The Administration proposes to extend the BEA's mechanisms for limiting discretionary spending and to establish mandatory spending controls. The Administration also proposes to establish a new mechanism to measure the Federal Government's long-term unfunded obligations and to prohibit increases in those obligations. In April, 2004 the Administration transmitted a comprehensive budget enforcement legislation package to Congress. The Administration plans to repropose that legislation, with appropriate updates and revisions, after the budget is transmitted. These proposals are discussed in more detail in Chapter 15, "Budget Reform Proposals."

Budget Execution

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

During the budget execution phase, the Government sometimes finds that it needs to spend more money than Congress has appropriated for the fiscal year because of unanticipated circumstances. For example, more money might be needed to respond to a severe natural disaster. Under such circumstances, Congress may enact a supplemental appropriation.

On the other hand, changing circumstances may reduce the need to spend appropriated funds. Under the requirements of the Impoundment Control Act of 1974, the President cannot simply decline to spend appropriations. The President may defer spending or propose rescissions. Deferrals, which are temporary withholdings, take effect immediately unless overturned by an act of Congress. The President may only defer funds to provide for contingencies, to achieve savings

made possible through changes in requirements or greater efficiency of operations, or as otherwise specifically provided in law. He may not defer funds for policy reasons. In 2004, no deferrals were proposed. Rescissions, which permanently cancel budget authority, take effect only if Congress passes a law approving them. The law may approve only part of a rescission. If Congress does not pass such a law within 45 days of continuous session, the President must make the funds available for spending. The President may propose a rescission for any reason. In total, Congress has rescinded about one-third of the amount of funds that Presidents have proposed for rescission since enactment of the Impoundment Control Act. In 2004, no rescissions were proposed by the President although Congress initiated and enacted rescissions.

Budget Calendar

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

Between the 1st Monday in January and the 1st Monday in February	President transmits the budget.
Six weeks later	Congressional committees report budget estimates to Budget Committees.
April 15	Action to be completed on congressional budget resolution.
May 15	House consideration of annual appropriations bills may begin.
June 15	Action to be completed on reconciliation.
June 30	Action on appropriations to be completed by House.
July 15	President transmits Mid-Session Review of the Budget.
October 1	Fiscal year begins.

COVERAGE OF THE BUDGET

Federal Government and Budget Totals

Table 26-1. TOTALS FOR THE BUDGET AND THE FEDERAL GOVERNMENT
(In billions of dollars)

	2004 actual	Estimate	
		2005	2006
Budget authority:			
Unified	2,407	2,477	2,548
On-budget	2,021	2,076	2,123
Off-budget	386	402	425
Receipts:			
Unified	1,880	2,053	2,178
On-budget	1,345	1,491	1,584
Off-budget	535	561	593
Outlays:			
Unified	2,292	2,479	2,568
On-budget	1,913	2,080	2,141
Off-budget	380	399	423
Surplus or deficit (-):			
Unified	-412	-427	-390
On-budget	-567	-589	-560
Off-budget	155	162	170

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

It is not always obvious whether a transaction or activity should be included in the budget. Where there is a question, OMB normally follows the recommendation of the 1967 President's Commission on Budget Concepts to be comprehensive of the full range of Federal agencies, programs, and activities. In recent years, for example, the budget has included the transactions of the Universal Service Fund, the Public Company Accounting Oversight Board, Guaranty Agencies Reserves, the National Railroad Retirement Investment

Trust, the United Mine Workers Combined Benefits Fund, and the Telecommunications Development Fund.

In contrast, the budget excludes tribal trust funds that are owned by Indian tribes and held and managed by the Government in a fiduciary capacity on the tribes' behalf. These funds are not owned by the Government, the Government is not the source of their capital, and the Government's control is limited to the exercise of fiduciary duties. Similarly, the transactions of Government-sponsored enterprises, such as the Federal National Mortgage Association (Fannie Mae) are not included in the on-budget or off-budget totals. Federal laws established these enterprises for public policy purposes, but they are privately owned and operated corporations. Because of their close relationship to the Government, the budget discusses them and reports summary financial data in the budget *Appendix* and in some detailed tables.

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

Functional Classification

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

The following criteria are used in establishing functional categories and assigning activities to them:

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

Detailed functional tables, which provide information on government activities by function and subfunction, appear this year on the *Analytical Perspectives* CD ROM as Table 27.

Agencies, Accounts, Programs, Projects, and Activities

Various summary tables in the *Analytical Perspectives* volume of the budget provide information on budget authority, outlays, and offsetting collections and receipts arrayed by Federal agency. A table that lists budget authority and outlays by budget account within each agency and the totals for each agency of budget authority, outlays, and receipts that offset the agency spending totals appears this year on the *Analytical Perspectives* CD ROM as Table 28. The *Appendix* provides budgetary, financial, and descriptive information about programs, projects, and activities by account within each agency. The *Appendix* also presents the most recently enacted appropriation language for an account and any changes that are proposed to be made for the budget year.

Types of Funds

Agency activities are financed through Federal funds and trust funds.

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

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

The Federal budget meaning of the term “trust,” as applied to trust fund accounts, differs significantly from its private sector usage. In the private sector, the beneficiary of a trust usually owns the trust's assets, which are managed by a trustee who must follow the stipulations of the trust. In contrast, the Federal Government

owns the assets of most Federal trust funds, and it can raise or lower future trust fund collections and payments, or change the purposes for which the collections are used, by changing existing laws. There is no substantive difference between a trust fund and a special fund or between a trust revolving fund and a public enterprise revolving fund. The Government does act as a true trustee of assets that are owned or held for the benefit of others. For example, it maintains accounts on behalf of individual Federal employees in the Thrift Savings Fund, investing them as directed by the individual employee. The Government accounts for such funds in *deposit funds*, which are not included in the budget. (Chapter 22, "Trust Funds and Federal Funds," provides more information on this subject.)

Budgeting for Full Costs

A budget is a financial plan for allocating resources—deciding how much the Federal Government should spend in total, program by program, and for the parts of each program. The budgetary system provides a process for proposing policies, making decisions, implementing them, and reporting the results. The budget needs to measure costs accurately so that decision makers can compare the cost of a program with its benefit, the cost of one program with another, and the cost of alternative methods of reaching a specified goal. These costs need to be fully included in the budget up front, when the spending decision is made, so that executive and congressional decision makers have the information and the incentive to take the total costs into account for setting priorities.

The budget includes all types of spending, including both current operating expenditures and capital investment, and to the extent possible, both are measured on the basis of full cost. Questions are often raised about the measure of capital investment. The present budget provides policymakers the necessary information regarding investment spending. It records investment on a cash basis, and it requires Congress to provide budget authority before an agency can obligate the Government to make a cash outlay. By these means, it

causes the total cost of capital investment to be compared up front in a rough and ready way with the total expected future net benefits. Since the budget measures only cost, the benefits with which these costs are compared, based on policy makers' judgment, must be presented in supplementary materials. Such a comparison of total costs with benefits is consistent with the formal method of cost-benefit analysis of capital projects in government, in which the full cost of a capital asset as the cash is paid out is compared with the full stream of future benefits (all in terms of present values). (Chapter 6, "Federal Investment," provides more information on capital investment.)

There have been a number of proposals to change the basis for measuring capital investment in the budget. Many of these would undermine effective consideration and control of costs by spreading the real cost of the project over time and record as a current operating expense the annual depreciation for each year of an asset's life. No depreciation would be recorded until after the asset was put into service. This could be several years after the initial expenditure, in which case the budget would record no expenses at all in the budget year or several years thereafter, even though the Government is legally obligated to buy the asset, and the asset is being constructed or manufactured. Recording the annual depreciation in the budget each year would provide little control over the decision about whether to invest in the first place. Control can only be exercised up front when the Government commits itself to the full sunk cost. Spreading the costs over time would make the cost of a capital asset appear very cheap when decisions were being made that compared it to alternative expenditures. As a result, the Government would have an incentive to purchase capital assets with little regard for need, and also with little regard for the least-cost method of acquisition. Chapter 7, "Federal Investment Spending and Capital Budgeting," pages 157–165 in the *Analytical Perspectives* volume of the 2004 Budget, discusses alternative capital budget and capital expenditure presentations in more detail.

RECEIPTS, OFFSETTING COLLECTIONS, AND OFFSETTING RECEIPTS

In General

The budget records money collected by Government agencies two different ways. Depending on the nature of the activity generating the collection and the law that established the collection, they are recorded as either:

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

Governmental Receipts

Governmental 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 to the Government. Sometimes they are called receipts, Federal receipts, or Federal revenues. They consist mostly of individual and corporation income taxes and social insurance taxes, but also include excise taxes, compulsory user charges, regulatory fees, customs duties, court fines, certain license fees, and deposits of earnings by the Federal Reserve System. Total receipts for the Federal Government include both on-budget and off-budget receipts (see Table 26–1, "Totals for the

Budget and the Federal Government,” which appears earlier in this chapter.) Chapter 17, “Federal Receipts,” provides more information on receipts.

Offsetting Collections and Offsetting Receipts

Offsetting collections and offsetting receipts are recorded as offsets to (deductions from) spending, not as additions on the receipt side of the budget. As explained below, they are recorded as offsets to spending so that the budget totals represent governmental rather than market activity and reflect the Government’s net transactions with the public. They are recorded in one of two ways, based on interpretation of laws and long-standing budget concepts and practice. 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.

Offsetting collections and offsetting receipts result from one of the following types of transactions:

- ***Business-like transactions or market-oriented activities with the public***—collections from the public in exchange for goods or services, such as 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. The budget records these amounts as *offsetting collections from non-Federal sources* (for offsetting collections) or as *proprietary receipts* (for offsetting receipts). The amounts are deducted from gross budget authority and outlays, rather than added to receipts. This treatment produces budget totals for receipts, budget authority, and outlays that represent governmental rather than market activity.
- ***Intragovernmental transactions***—collections from other Federal Government accounts. The budget records collections by one Government account from another as *offsetting collections from Federal sources* (for offsetting collections) or as *intragovernmental receipts* (for offsetting receipts). For example, the General Services Administration rents office space to other Government agencies and records their rental payments as offsetting collections from Federal sources 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***—collections from the public that are governmental in nature (e.g., tax receipts, regulatory fees, compulsory user charges, custom duties, license fees) but required by law to be misclassified as offsetting. The budget records amounts from non-Federal

sources that are governmental in nature as *offsetting governmental collections* (for offsetting collections) or as *offsetting governmental receipts* (for offsetting receipts).

A table in Chapter 21, “Outlays to the Public, Net and Gross,” shows the effect of offsetting collections and receipts on gross outlays for each major Federal agency.

Offsetting Collections

Some laws authorize agencies to credit collections directly to the account from which they will be spent and, usually, to spend the collections for the purpose of the account without further action by Congress. Most revolving funds operate with such authority. For example, a permanent law authorizes the Postal Service to use collections from the sale of stamps to finance its operations without a requirement for annual appropriations. The budget records these collections in the Postal Service Fund (a revolving fund) and records budget authority in an amount equal to the collections. In addition to revolving funds, some agencies are authorized to charge fees to defray a portion of costs for a program that are otherwise financed by appropriations from the general fund and usually to spend the collections without further action by Congress. In such cases, the budget records the offsetting collections and resulting budget authority in the program’s general fund expenditure account. Similarly, intragovernmental collections authorized by some laws may be recorded as offsetting collections and budget authority in revolving funds or in general fund expenditure accounts.

Sometimes appropriations acts or provisions in other laws limit the obligations that can be financed by offsetting collections. In those cases, the budget records budget authority in the amount available to incur obligations, not in the amount of the collections.

Offsetting collections credited to expenditure accounts automatically offset the outlays at the expenditure account level. Where accounts have offsetting collections, the budget shows the budget authority and outlays of the account both gross (before deducting offsetting collections) and net (after deducting offsetting collections). Totals for the agency, subfunction, and budget are net of offsetting collections.

Offsetting Receipts

Collections that are offset against gross outlays but are not authorized to be credited to expenditure accounts are credited to receipt accounts and are called offsetting receipts. Offsetting receipts are deducted from budget authority and outlays in arriving at total budget authority and outlays. However, unlike offsetting collections credited to expenditure accounts, offsetting receipts do not offset budget authority and outlays at the account level. In most cases, they offset budget authority and outlays at the agency and subfunction levels.

Proprietary receipts from a few sources, however, are not offset against any specific agency or function and

are classified as undistributed offsetting receipts. They are deducted from the Government-wide totals for budget authority and outlays. For example, the collections of rents and royalties from outer continental shelf lands are undistributed because the amounts are large and for the most part are not related to the spending of the agency that administers the transactions and the subfunction that records the administrative expenses.

Similarly, two kinds of intragovernmental transactions—agencies' payments as employers into Federal employee retirement trust funds and interest received by trust funds—are classified as undistributed offsetting receipts. They appear instead 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.

User Charges

User charges are fees assessed on individuals or organizations 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). User charges are not necessarily earmarked for the activity they finance and may be credited to the general fund of the Treasury.

The term "user charge" does not refer to a separate budget category for collections. User charges are classified in the budget as receipts, offsetting receipts, or offsetting collections according to the principles explained above.

See Chapter 18, "User Charges and Other Collections," for more information on the classification of user charges.

BUDGET AUTHORITY AND OTHER BUDGETARY RESOURCES, OBLIGATIONS, AND OUTLAYS

Budget authority, obligations, and outlays are the primary benchmarks and measures of the budget control system. Congress enacts laws that provide agencies with spending authority in the form of budget authority. Before agencies can use the resources, OMB must approve their spending plans. After the plans are approved, agencies can enter into binding agreements to purchase items or services or to make grants or other payments. These agreements are recorded as obligations of the United States and deducted from the amount of budgetary resources available to the agency. When payments are made, the obligations are liquidated and outlays recorded. These concepts are discussed more fully below.

Budget Authority and Other Budgetary Resources

Budget authority is the authority provided in law to enter into legal obligations that will result in immediate or future outlays of the Government. In other words, it is the amount of money that agencies are allowed to commit to be spent in current or future years. Government officials may obligate the Government to make outlays only to the extent they have been granted budget authority. The budget records new budget authority as a dollar amount in the year when it first becomes available. When permitted by law, unobligated balances of budget authority may be carried over and used in the next year. The budget does not record these balances as budget authority again. They do, however, constitute a budgetary resource that is available for obligation. In some cases, a provision of law (such as a limitation on obligations or a benefit

formula) precludes the obligation of funds that would otherwise be available for obligation. In such cases, the budget records budget authority equal to the amount of obligations that can be incurred. A major exception to this rule is for the highway and mass transit programs financed by the Highway Trust Fund, where budget authority is measured as the amount of contract authority (described below) provided in authorizing statutes, even though the obligation limitations enacted in annual appropriations acts restrict the amount of contract authority that can be obligated.

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

Budget authority takes several forms:

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

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

Authorizing statutes usually determine the form of budget authority for a program. The authorizing statute may authorize a particular type of budget authority to be provided in annual appropriations acts, or it may provide one of the forms of budget authority directly, without the need for further appropriations.

An appropriation may make funds available from the general fund, special funds, or trust funds, or authorize the spending of offsetting collections credited to expenditure accounts, including revolving funds. Borrowing authority is usually authorized for business-like activities where the activity being financed is expected to produce income over time with which to repay the borrowing with interest. The use of contract authority is traditionally limited to transportation programs.

New budget authority for most Federal programs is normally provided in 13 annually enacted appropriations acts. However, new budget authority for more than half of all outlays is made available through permanent appropriations under existing laws and does not require current action by Congress. Much of the permanent budget authority is for trust funds, interest on the public debt, and the authority to spend offsetting collections credited to appropriation or fund accounts. For most trust funds, the budget authority is automatically appropriated under existing law from the available balance of their receipts and equals the estimated annual obligations of the funds. For interest on the public debt, budget authority is automatically provided under a permanent appropriation enacted in 1847 and equals interest outlays.

Annual appropriations acts generally make budget authority available for obligation only during the fiscal year to which the act applies. However, they frequently allow budget authority for a particular purpose to remain available for obligation for a longer period or indefinitely (that is, until expended or until the program

objectives have been attained). Typically, budget authority for current operations is made available for only one year, and budget authority for construction and some research projects is available for a specified number of years or indefinitely. Budget authority provided in authorizing statutes, such as for most trust funds, is available indefinitely. Only another law can extend a limited period of availability (see “Reappropriation” below).

Budget authority that is available for more than one year and not obligated in the year it becomes available is carried forward for obligation in a following year. In some cases, an account may carry forward unobligated budget authority from more than one year. The sum of such amounts constitutes the account’s **unobligated balance**. Most of this budget authority is earmarked for specific uses and is not available for new programs. A small part may never be obligated or spent, primarily amounts provided for contingencies that do not occur or reserves that never have to be used.

Budget authority that has been obligated but not paid constitutes the account’s **unpaid obligations**. For example, in the case of salaries and wages, one to three weeks elapse between the time of obligation and the time of payment. In the case of major procurement and construction, payments may occur over a period of several years after the obligation is made. Unpaid obligations net of the accounts receivable and unfilled customers orders are defined by law as the **obligated balances**. Obligated balances of budget authority at the end of the year are carried forward until the obligations are paid or the balances are canceled. (A general law cancels the obligated balances of budget authority that was made available for a definite period five years after the end of the period, and then other resources must be used to pay the obligations.) Due to such flows, a change in the amount of budget authority available in any one year may change the level of obligations and outlays for several years to come. Conversely, a change in the amount of obligations incurred from one year to the next does not necessarily result from an equal change in the amount of budget authority available for that year and will not necessarily result in an equal change in the level of outlays in that year.²

Congress usually makes budget authority available on the first day of the fiscal year for which the appropriations act is passed. Occasionally, the appropriations language specifies a different timing. The language may provide an **advance appropriation**—budget authority that does not become available until one year or more beyond the fiscal year for which the appropriations act is passed. **Forward funding** is budget authority that is made available for obligation beginning in the last quarter of the fiscal year (beginning on July 1st) for the financing of ongoing grant programs during the next fiscal year. This kind of funding is used mostly

²A separate report, “Balances of Budget Authority,” provides additional information on balances. The National Technical Information Service, Department of Commerce makes the report available shortly after the budget is transmitted

for education programs, so that obligations for grants can be made prior to the beginning of the next school year. For certain benefit programs funded by annual appropriations, the appropriation provides for **advance funding**—budget authority that is to be charged to the appropriation in the succeeding year but which authorizes obligations to be incurred in the last quarter of the current fiscal year if necessary to meet benefit payments in excess of the specific amount appropriated for the year.

Provisions of law that extend the availability of unobligated amounts that have expired or would otherwise expire are called **reappropriations**. Reappropriations of expired balances that are newly available for obligation in the current or budget year count as new budget authority in the fiscal year in which the balances become newly available. For example, if a 2005 appropriations act extends the availability of unobligated budget authority that expired at the end of 2004, new budget authority would be recorded for 2005.

For purposes of the Budget Enforcement Act (discussed earlier under “Budget Enforcement”), the budget classifies budget authority as **discretionary** or **mandatory**. This classification indicates whether appropriations acts or authorizing legislation control the amount of budget authority that is available. Generally, budget authority is discretionary if provided in an annual appropriations act and mandatory if provided in authorizing legislation. However, the BEA requires the budget authority provided in annual appropriations acts for certain specifically identified programs to be classified as mandatory. This is because the authorizing legislation for these programs entitles beneficiaries to receive payment or otherwise obligates the Government to make payment and effectively determines the amount of budget authority required, even though the payments are funded by a subsequent appropriation. Outlays are also classified as discretionary or mandatory according to the classification of the budget authority from which they flow (see “Outlays” below).

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

Obligations Incurred

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

Outlays

Outlays are the measure of Government spending. They are payments that liquidate obligations (other than the repayment of debt). The budget records them when obligations are paid, in the amount that is paid.

Agency, function and subfunction, and Government-wide outlay totals are stated net of offsetting collections and offsetting receipts for most budget presentations. (Offsetting receipts from a few sources do not offset any specific function, subfunction, or agency, as explained previously, but only offset Government-wide 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 outlays in the form of cash (currency, checks, or electronic fund transfers). However, in some cases agencies pay obligations without disbursing cash and the budget records outlays nevertheless for the equivalent method. For example, the budget records outlays for the full amount of Federal employees’ salaries, even though the cash disbursed to employees is net of Federal and state income taxes withheld, retirement contributions, life and health insurance premiums, and other deductions. (The budget also records receipts for the deductions of Federal income taxes and other payments to the Government.) When debt instruments (bonds, debentures, notes, or monetary credits) are used in place of cash to pay obligations, the budget records outlays financed by an increase in agency debt. For example, the budget records the acquisition of physical assets through certain types of lease-purchase arrangements as though a cash disbursement were made for an outright purchase. The transaction creates a Government debt, and the cash lease payments are treated as repayments of principal and interest.

The measurement of interest varies. The budget records outlays for the interest on the public issues of Treasury debt securities as the interest accrues, not when the cash is paid. A small portion of this debt consists of inflation-indexed securities, which feature

monthly adjustments to principal for inflation and semi-annual payments of interest on the inflation-adjusted principal. As with fixed-rate securities, the budget records interest outlays as the interest accrues. The monthly adjustment to principal is recorded, simultaneously, as an increase in debt outstanding and an outlay of interest.

Most Treasury debt securities held by trust funds and other Government accounts are in the Government account series (special issues). The budget normally states the interest on these securities on a cash basis. When a Government account is invested in Federal debt securities, the purchase price is usually close or identical to the par (face) value of the security. The budget records the investment at par value and adjusts the interest paid by Treasury and collected by the account by the difference between purchase price and par, if any. However, two trust funds in the Department of Defense, the Military Retirement Trust Fund and the Education Benefits Trust Fund, routinely have relatively large differences between purchase price and par. For these funds, the budget records the holdings of debt at par but records the differences between purchase price and par as adjustments to the assets of the funds that are amortized over the life of the security. The budget records interest as the amortization occurs.

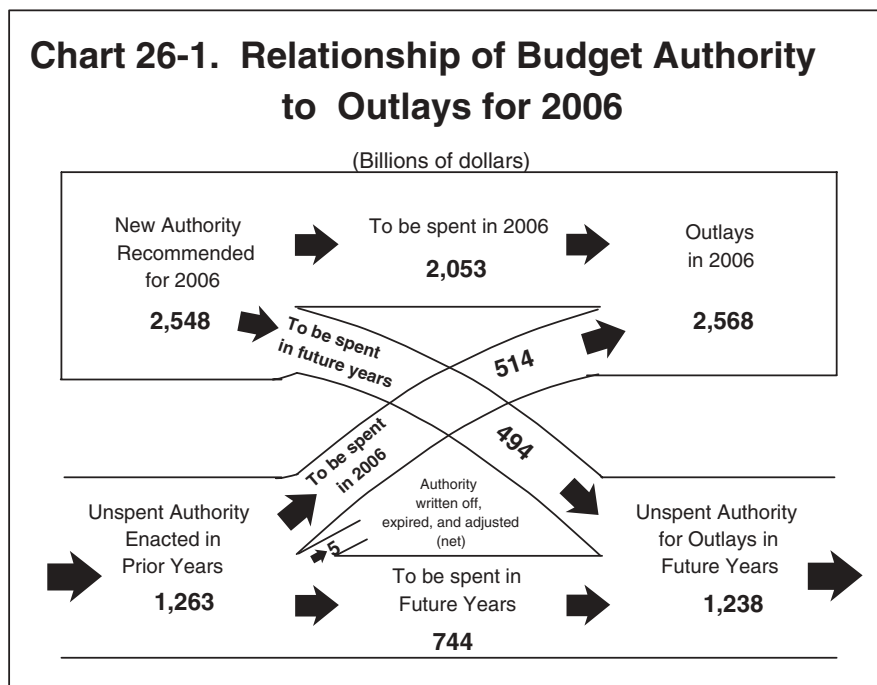
For Federal credit programs, outlays are equal to the subsidy cost of direct loans and loan guarantees and are recorded as the underlying loans are disbursed (see FEDERAL CREDIT below).

The budget records refunds of receipts that result from overpayments (such as income taxes withheld in

excess of tax liabilities) as reductions of receipts, rather than as outlays. However, the budget records payments to taxpayers for refundable tax credits (such as earned income tax credits) that exceed the taxpayer's tax liability as outlays. Refunds of overpayments by the Government are recorded as offsetting collections or offsetting receipts.

Not all of the new budget authority for 2006 will be obligated or spent in 2006. 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 a given year to the amount of that budget authority is referred to as the spendout rate for that year.

As shown in the following chart, \$514 billion of outlays in 2006 (20 percent of the total) will be made from budget authority enacted in previous years. At the same time, \$494 billion of the new budget authority proposed for 2006 (19 percent of the total amount proposed) will not lead to outlays until future years. In general, the total budget authority for a particular year is not directly indicative of that year's outlays since it combines various types of budget authority that have different short-term and long-term implications for budget obligations and outlays.



As described earlier, the budget classifies budget authority and outlays as discretionary or mandatory for the purposes of the BEA. This classification of outlays measures the extent to which actual spending is controlled through the annual appropriations process. Nearly 40 percent of total outlays (\$895 billion in 2004) are discretionary; the remainder (\$1,397 billion in 2004) is mandatory spending and net interest. Such a large portion of total spending is nondiscretionary because authorizing legislation determines net interest (\$160 billion in 2004) and the spending for a few programs with large amounts of spending each year, such as Social Security (\$492 billion in 2004) and Medicare (\$265 billion in 2004).

The bulk of mandatory outlays flows from an equal amount of budget authority recorded in the same fiscal year. This is not the case for discretionary budget authority and outlays. For most major construction and procurement projects and long-term contracts, for example, the budget authority covers the entire cost estimated when the projects are initiated even though the work will take place and outlays will be made over a period extending beyond the year for which the budget authority is enacted. Similarly, discretionary budget authority for most education and job training activities is appropriated for school or program years that begin in the fourth quarter of the fiscal year. Most of these funds result in outlays in the year after the appropriation.

FEDERAL CREDIT

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

The cost of direct loans and loan guarantees, sometimes called the “subsidy cost,” is estimated as the present value of expected disbursements over the term of the loan less the present value of expected collections.³ As for most other kinds of programs, agencies can make loans or guarantee loans only if Congress has appropriated funds sufficient to cover the subsidy costs in annual appropriations acts.

The budget records the estimated long-term cost to the Government arising from direct loans and loan guarantees in *credit program accounts*. When a Federal agency disburses a direct loan or when a non-Federal lender disburses a loan guaranteed by a Federal agency, the program account outlays an amount equal to the cost to a non-budgetary *credit financing account*. The financing accounts record the actual transactions with the public. For a few programs, the estimated cost is negative, because the present value of expected collections exceeds the present value of expected disbursements over the term of the loan. In such

cases, the financing account makes a payment to the program’s receipt account, where it is recorded as an offsetting receipt. In a few cases, the receipts are earmarked in a special fund established for the program and are available for appropriation for the program.

The agencies responsible for credit programs must reestimate the cost of the outstanding direct loans and loan guarantees each year. If the estimated cost increases, the program account makes an additional payment to the financing account. If the estimated cost decreases, the financing account makes a payment to the program’s receipt account, where it is recorded as an offsetting receipt. The FCRA provides permanent indefinite appropriations to pay for upward reestimates.

If the Government modifies the terms of an outstanding direct loan or loan guarantee in a way that increases the cost, as the result of a law or the exercise of administrative discretion under existing law, the program account records obligations for an additional amount equal to the increased cost and outlays the amount to the financing account. As with the original cost, agencies may incur modification costs only if Congress has appropriated funds to cover them. Modification may also reduce costs, in which case the financing account makes a payment to the program’s receipt account.

Credit financing accounts record all cash flows to and from the Government arising from direct loan obligations and loan guarantee commitments. These cash flows consist mainly of direct loan disbursements and repayments, loan guarantee default payments, fees and interest from the public, the receipt of subsidy cost payments from program accounts, and interest paid to or received from Treasury. Separate financing accounts record the cash flows of direct loans and of loan guarantees for programs that provide both types of credit. The budget totals exclude the transactions of financing accounts because they are not a cost to the Government. However, since financing accounts record cash flows to and from the Government, they affect the means of financing a budget surplus or deficit (see “Credit Financing Accounts” in the next section). The

³Present value is a standard financial concept that allows for the time value of money, that is, for the fact that a given sum of money is worth more at present than in the future because interest can be earned on it.

budget documents display the transactions of the financing accounts, together with the related program accounts, for information and analytical purposes.

The FCRA, which was enacted in 1990, grandfathered direct loan obligations and loan guarantee commitments made prior to 1992. The budget records these on a cash basis in credit liquidating accounts, the same as they were recorded before FCRA was enacted. However,

this exception ceases to apply if the direct loans or loan guarantees are modified as described above. In that case, the budget records a modification subsidy cost or savings, as appropriate, and begins to account for the associated transactions as the FCRA prescribes for direct loan obligations and loan guarantee commitments made in 1992 or later.

BUDGET DEFICIT OR SURPLUS AND MEANS OF FINANCING

When outlays exceed receipts, the difference is a deficit, which the Government finances primarily by borrowing. When receipts exceed outlays, the difference is a surplus, and the Government uses the surplus primarily to reduce debt. The Government's debt (debt held by the public) is approximately the cumulative amount of borrowing to finance deficits, less repayments from surpluses. Borrowing is not exactly equal to the deficit, and debt repayment is not exactly equal to the surplus, because of the other means of financing such as those discussed under this heading. Some, such as the net disbursements of the direct loan financing accounts, normally increase the Government's borrowing needs or decrease its ability to repay debt; others normally have the opposite effect or may be either positive or negative. In some years, such as 2003, the net effect of the other means of financing is minor relative to the borrowing or debt repayment; in other years, such as 2002, the net effect may be significant.

Borrowing and Debt Repayment

The budget treats borrowing and debt repayment as a means of financing, not as receipts and outlays. If borrowing were defined as receipts and debt repayment as outlays, the budget would be virtually balanced by definition. This rule applies both to borrowing in the form of Treasury securities and to specialized borrowing in the form of agency securities (including the issuance of debt securities to liquidate an obligation and the sale of certificates representing participation in a pool of loans). In 2004, the Government borrowed \$382 billion from the public. This financed nearly all of the \$412 billion deficit in that year. The rest of the deficit was financed by the net effect of the other means of financing, such as changes in cash balances and other accounts discussed below. At the end of 2004, the debt held by the public was \$4,296 billion.

In addition to selling debt to the public, the Treasury Department issues debt to Government accounts, primarily trust funds that are required by law to invest in Treasury securities. Issuing and redeeming this debt does not affect the means of financing, because these transactions occur between one Government account and another and thus do not raise or use any cash for the Government as a whole. (See Chapter 16, "Federal Borrowing and Debt," for a fuller discussion of this topic.)

Debt Buyback Premiums

From 2000 through April 2002, the Treasury Department bought back outstanding U.S. Treasury bonds as part of its efforts to manage efficiently the publicly held debt. Because interest rates were lower than the coupon rates on the bonds that Treasury bought back, the government had to pay a premium over the book value of these securities. This buyback premium was recorded as a means of financing, not as outlays. Chapter 24, "Budget System and Concepts and Glossary," pages 457–458 in the *Analytical Perspectives* volume of the 2001 Budget, discusses the basis for this treatment in more detail, including an examination of the alternatives that were considered.

Exercise of Monetary Power

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

Credit Financing Accounts

The budget records the net cash flows of credit programs in credit financing accounts. They are excluded from the budget because they are not allocations of resources by the Government (see FEDERAL CREDIT above). However, even though they do not affect the surplus or deficit, they can either increase or decrease the Government's need to borrow. Therefore, they are recorded as a means of financing.

Financing account disbursements to the public increase the requirement for Treasury borrowing in the same way as an increase in budget outlays. Financing account receipts from the public can be used to finance the payment of the Government's obligations and therefore reduce the requirement for Treasury borrowing

from the public in the same way as an increase in budget receipts.

Deposit Fund Account Balances

The Treasury uses non-budgetary accounts, called deposit funds, to record cash held temporarily until ownership is determined (for example, earnest money paid by bidders for mineral leases) or cash held by the Government as agent for others (for example, State and local income taxes withheld from Federal employees' salaries and not yet paid to the State or local government or the Thrift Savings Fund, a defined contribution pension fund held and managed in a fiduciary capacity by the Government). Deposit fund balances may be held in the form of either invested or uninvested balances. To the extent that they are not invested, changes in the balances are available to finance expenditures and are recorded as a means of financing other than borrowing from the public. To the extent that they are invested in Federal debt, changes in the balances are reflected as borrowing from the public in lieu of borrowing from other parts of the public and are not reflected as a separate means of financing.

Exchanges with the International Monetary Fund (IMF)

Under the terms of its participation in the IMF, the U.S. transfers dollars to the IMF and receives Special Drawing Rights (SDR's) in return. The SDR's are interest-bearing monetary assets and may be exchanged for foreign currency at any time. These transfers are like bank deposits and withdrawals, where the government exchanges one type of financial asset (cash) for another (bank deposit), with no change in total financial assets. Following a recommendation of the 1967 President's Commission on Budget Concepts, the budget excludes these transfers from budget outlays or receipts. In contrast, the budget records interest paid by the IMF on U.S. deposits as an offsetting receipt in the general fund of the Treasury. It also records outlays for foreign currency exchanges to the extent there is a realized loss in dollars terms and offsetting receipts to the extent there is a realized gain in dollar terms.

Railroad Retirement Board Investments

Under longstanding rules, the budget treats investments in non-Federal securities as a purchase of an asset, recording an obligation and an outlay in an amount equal to the purchase price in the year of the purchase. Since investments in non-Federal securities consume cash, fund balances (of funds available for obligation) normally exclude the value of non-Federal securities. However, the Railroad Retirement and Survivors' Improvement Act of 2001 (Public Law 107-90) requires purchases or sales of non-Federal assets by the National Railroad Retirement Investment Trust to be treated as a means of financing in the budget.

Earnings on investments by the National Railroad Retirement Investment Trust in private assets pose special challenges for budget projections. Equities and

private bonds earn a higher return on average than the Treasury rate, but that return is subject to greater uncertainty. Sound budgeting principles require that estimates of future trust fund balances reflect both the average return and the cost of risk associated with the uncertainty of that return. (The latter is particularly true in cases where individual beneficiaries have not made a voluntary choice to assume additional risk.) Estimating both of these separately is quite difficult. While the additional returns that these assets have received in the past are known, it is quite possible that these premiums will differ in the future. Furthermore, there is no existing procedure for the budget to record separately the cost of risk from such an investment, even if it could be estimated accurately. Economic theory suggests, however, that the difference between the expected return of a risky liquid asset and the Treasury rate is equal to the cost of the asset's additional risk as priced by the market. Following through on this insight, the best way to project the rate of return on the Fund's balances is to use a Treasury rate. This will mean that assets with equal economic value as measured by market prices will be treated equivalently, avoiding the appearance that the budget could benefit if the Government bought private sector assets.

The actual and estimated returns to private securities are recorded in subfunction 909, other investment income. The actual year returns include interest, dividends, and capital gains and losses on private equities and other securities. The Fund's portfolio of these assets is revalued at market prices at the end of the actual year to determine capital gains or losses. As a result, the Fund's end-of-year balance reflects the current market value of resources available to the Government to finance benefits. Earnings for the current and future years are estimated using the 10-year Treasury rate and the value of the Fund's portfolio at the end of the actual year. No estimates are made of gains and losses for the current year or subsequent years.

Federal Communications Commission Monetary Credit

In June 2000, the Federal Communications Commission (FCC) issued a transferable monetary credit of \$125 million in the form of an Auction Discount Voucher (ADV) to Qualcomm, Incorporated, in satisfaction of a court ruling. The monetary credit was structured to work in a manner similar to that of an auction bidding credit and could be used to bid on spectrum licenses in future FCC auctions. Consistent with the budgetary treatment of other monetary credits, the budget recorded an outlay and borrowing from the public in 2000.

Qualcomm transferred \$11 million of the monetary credit in 2002 by using it as an auction bidding credit. In November 2002, the FCC revised its Order governing the ADV to allow Qualcomm to transfer the remaining \$114 million to a debtor to repay outstanding direct loans issued for the purpose of purchasing spectrum

licenses at previous FCC auctions. In April of 2003, the FCC again revised its Order to grant Qualcomm until June of 2004 to use the remainder of its ADV. During 2003, \$59 million was transferred and used against the voucher. In 2004, the remaining balance of \$56 million was redeemed.

The \$11 million used as an auction bidding credit in 2002 was recorded as an offsetting collection in FCC's Pioneer's Preference Account and then applied to extinguish \$11 million of the \$125 million FCC debt that was recorded when the Qualcomm voucher was originally issued. The \$59 million that was used to

repay outstanding loans in 2003 was recorded as offsetting collections in the Spectrum Auction Direct Loan Financing Account and applied to repay outstanding debt of the financing account to Treasury. At the same time, \$59 million auction receipts collected by the FCC were reported as offsetting collections in FCC's Pioneer's Preference Account, rather than as general fund receipts, and were applied to extinguish \$59 million of the outstanding FCC debt that was recorded when the Qualcomm voucher was issued. The \$56 million redeemed in 2004 was recorded in the same way.

FEDERAL EMPLOYMENT

The budget includes information on civilian and military employment. It also includes information on related personnel compensation and benefits. Chapter 24, "Federal Employment and Compensation," provides two different measures of Federal employment levels—actual positions filled and full-time equivalents (FTE). Agency FTEs are the measure of the total number of hours

worked by an agency's Federal employees divided by the total number of workhours in one fiscal year. In the budget Appendix, only the FTE measure is used because it takes into account part-time employment, temporary employment, and vacancies during the year. (Chapter 24, "Federal Employment and Compensation," provides more information on this subject.)

BASIS FOR BUDGET FIGURES

Data for the Past Year

The past year column (2004) generally presents the actual transactions and balances as recorded in agency accounts and as summarized in the central financial reports prepared by the Treasury Department for the most recently completed fiscal year. Occasionally the budget reports corrections to data reported erroneously to Treasury but not discovered in time to be reflected in Treasury's published data. The budget usually notes the sources of such differences (see Chapter 20, "Comparison of Actual to Estimated Totals," for a summary of these differences).

Data for the Current Year

The current year column (2005) includes estimates of transactions and balances based on the amounts of budgetary resources that were available when the budget was transmitted, including amounts appropriated for the year.

Data for the Budget Year

The budget year column (2006) includes estimates of transactions and balances based on the amounts of budgetary resources that are estimated to be available, including new budget authority requested under current authorizing legislation, and amounts estimated to result from changes in authorizing legislation and tax laws.

The budget *Appendix* generally includes the appropriations language for the amounts proposed to be appropriated under current authorizing legislation. In a few cases, this language is transmitted later because the exact requirements are unknown when the budget is transmitted. The *Appendix* generally does not include

appropriations language for the amounts that will be requested under proposed legislation; that language is usually transmitted later, after the legislation is enacted. Some tables in the budget identify the items for later transmittal and the related outlays separately. Estimates of the total requirements for the budget year include both the amounts requested with the transmittal of the budget and the amounts planned for later transmittal.

Data for the Outyears

The budget presents estimates for each of the four years beyond the budget year (2007 through 2010) in order to reflect the effect of budget decisions on longer term objectives and plans.

Classification of Tricare Accruals

Section 725 of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law No. 108-375) changes the Department of Defense contributions to the Department of Defense Medicare-Eligible Retiree Health Care Fund (the Retiree Health Care Fund) for the cost of Tricare benefits earned by active duty service members. The changes take place at the beginning of 2006. Table 26-2 summarizes the major features of the contributions before and after the changes.

The Act replaces annual appropriations to the military personnel accounts of the Department of Defense with permanent, indefinite appropriations from the General Fund. Accrual payments will be made at the beginning of each year, instead of at the end of each month, and will be based on planned troop levels within the enacted Department of Defense budget, instead of

Table 26–2 DEPARTMENT OF DEFENSE CONTRIBUTIONS FOR TRICARE BENEFITS EARNED BY MILITARY PERSONNEL

	2005	2006
Source of funding	Annual appropriations from the General Fund to the military personnel accounts	Permanent, indefinite appropriations directly from the General Fund
Frequency of contributions	Monthly	Annually at the beginning of the year
Basis for payments	Actual end strength	Budgeted average strength
Government official who causes the payments to be made	Secretary of Defense pays	Secretary of the Treasury pays upon certification of the amount by the Secretary of Defense
Annual action by Congress that controls the total amount of the payments	Appropriations to the Military Personnel accounts	Same
Government official who determines total amount of the payments	Secretary of Defense	Same
Government official who determines per-member amount	Secretary of Defense but using methods and assumptions approved by the Board of Actuaries, who are appointed by Secretary of Defense	Same
Calculation of total amount	Per-member amount times number of military personnel	Same
Contributions for which agency	Law describes as “Department of Defense contribution” and for funding “liabilities of the Department of Defense”	Same
Employees who are compensated	Active duty uniformed service members	Same
Type of expenditure	Deferred compensation	Same
Recipient of contributions	Department of Defense Medicare-Eligible Retiree Health Care Fund	Same

on the actual number of military personnel at the end of the month. The budget reflects this change by recording the new type of funding in 10 new budget accounts within the Department of Defense, beginning in 2006. Each account shows the amount of the annual Tricare accrual payment that is made for the military services members who are paid by the corresponding military personnel account. For example, the Medicare-Eligible retiree health contribution, Navy account records the payment of Tricare accruals for service members who are paid by the Military Personnel, Navy account. The Tricare accrual payments are classified within the National Defense function and as discretionary, consistent with the classification of the payments prior to 2006. These classifications were determined in consultation with the House and Senate Budget Committees and the Department of the Treasury. They are consistent with the views expressed by the Department of Defense Medicare-Eligible Retiree Health Care Board of Actuaries in a June 8, 2004 letter, which stated that the accruals should remain in the Department of Defense discretionary budget. A brief summary of the reasons for these classifications follows.

Agency: DoD Military.—The payments are recorded in Department of Defense-Military budget accounts because this is the agency that carries out the operations

for which the cost is incurred. The Secretary of Defense has the substantive responsibility for the annual contributions for Tricare accruals. The contributions are made as deferred compensation on behalf of service members who contribute to Department of Defense-Military operations; the per-member contribution amount is calculated using assumptions and methods approved by the independent Department of Defense Medicare-Eligible Retiree Health Care Board of Actuaries, which is appointed by the Secretary; the total amount of the payments are directly based on decisions made by Congress in determining the appropriations for military personnel within the Department of Defense and decisions made by the Secretary of Defense about the number of troops within the level of appropriations for military personnel; and the payments are made only upon certification by the Secretary of Defense. Indeed, the Act describes the annual payments as a “Department of Defense contribution.”

An alternative would be to locate the new budget accounts within the Department of the Treasury, because the Act specifies that the Secretary of the Treasury will pay the contributions from the General Fund of the Treasury to the Retiree Health Care Fund. Under this logic, all spending by the General Fund would be classified in budget accounts recorded within the De-

partment of the Treasury because Treasury, as the Government's cash manager, makes all payments out of the General Fund. However, if all General Fund spending was classified in accounts within the Department of the Treasury instead of the agencies that are substantively responsible for the programs, it would not be a meaningful system of budget accounts.

The General Fund consists of Federal income taxes and all other receipts and collections not earmarked by law to finance specified programs, the proceeds of general Treasury borrowing, and the expenditure of these amounts. It includes roughly 60 percent of gross Federal spending and 70 percent of all budget expenditure accounts. These budget accounts are routinely classified as part of the agency that carries out the operations that generate the cost. For example, the annual payment for the accruing portion of the concurrent receipt of military retired pay and veterans disability compensation benefits authorized by the National Defense Authorization Act for Fiscal Year 2004 (Public Law 108-136) is recorded as a budget account of the military programs of the Department of Defense, even though the Secretary of the Treasury is directed by law to make the payment from the General Fund. Similarly, the Secretary of the Treasury is directed by law to fund the amortization of the unfunded liability of a number of Federal employee retirement trust funds by making annual payments to the trust funds, which are recorded as payments from accounts within the agencies that operate the trust funds. Also, most funds that invest their balances trust funds, special funds, public enterprise funds, deposit funds are by law administered by the Secretary of the Treasury, but are recorded as funds within the respective agencies.

Functional classification: subfunction 051 of the national defense function.—The functional classification divides the budget into functions and subfunctions based on the primary purpose or national need served by the spending. Each account is classified in the subfunction that best describes its purpose. Contributions for Tricare accruals are part of the current compensation of military service members, which is recorded in various accounts within subfunction 051, Department of Defense-Military. This subfunction includes the military personnel accounts, which record the pay and allowances of military personnel and the accruing cost of their pensions and education benefits. Through 2005, the military personnel accounts also make the Tricare accrual payments, and the payments are classified in this subfunction. Health benefits for current service members are paid by the defense health program account in this subfunction. Also, the annual payment for the accruing portion of the concurrent receipt benefits authorized by the National Defense Authorization Act for 2004 (Public Law 108-136) is recorded as a budget account in this subfunction.

An alternative would be to classify the contributions for Tricare accruals within subfunction 054, Defense-related activities, as is the payment to the Retiree Health Care Fund for the amortization of its unfunded

liability. However, subfunction 054 is used to record the cost of military compensation that was earned in past years, while subfunction 051 records the cost of deferred compensation earned in each current year. In order to measure the cost of current defense operations, the budget distinguishes between (a) the cost of services provided by uniformed service members in the current year (contributions for military retirement accruals in subfunction 051) and (b) the amortization of the unfunded liability for military retirement, which is attributable to past years (in subfunction 054).

BEA classification: discretionary.—The total amount of the annual contribution for accrued Tricare benefits is the product of the per-member accrual charge that is calculated using methods and assumptions approved by the Board of Actuaries times the number of military personnel. The number of military personnel is controlled directly by the amount of discretionary appropriations provided to the various military personnel accounts and decisions made by the Secretary of Defense about the number of troops within the level of those appropriations. Hence, the total amount of the annual accrual payment will vary directly with changes in the amount of discretionary appropriations for military personnel. Because of this direct linkage, the contribution for Tricare accruals is classified as discretionary.

This conclusion is not affected by advancing the timing of the payments, by reducing the frequency of making the payments to one per year instead of twelve, or by using a single estimate of the number of military service members instead of twelve estimates. These changes simplify the calculation of the payment and reduce the number of bookkeeping transactions reported by the Department of Defense to the Treasury. However, they do not sever the links between the annual appropriations for military personnel, the number of military personnel, and the total amount of the payment for Tricare benefits earned during the year. The annual payments, like the current monthly payments, will continue to vary directly with number of military service members that are funded in annual appropriations acts.

An alternative would be to classify the contributions for Tricare accruals as mandatory because the authority is provided in an authorizing Act, and the Act provides permanent, indefinite appropriations for the contributions. These are true of the annual payments to amortize the unfunded liability, which are described in the discussion about functional classification and are classified as mandatory.

However, BEA classification decisions are not made solely or primarily on the basis of the type of bill that provides the funding or on the basis of the type of funding. Instead, the primary basis for the classification is whether the level of spending is effectively controlled by authorizing Acts (mandatory) or by appropriations Acts (discretionary). Usually, control is exercised in the same Act that appropriates funds for the program. However, occasionally programs are funded by one type

of Act, but the spending level is determined by provisions contained in the other type of Act. In those cases, the BEA classification is based on the type of Act that determines the spending level. For example, Medicaid, food stamps, veterans disability compensation, and other “appropriated entitlements” are funded in annual appropriations Acts but are classified as mandatory because their spending levels are determined ultimately by the entitlement and benefits formula specified in authorizing Acts. Similarly, the levels of various fees collected by the Securities and Exchange Commission are specified by sections of the Securities Exchange Act of 1933, its authorizing Act, but the fees are classified as discretionary because the authority to collect them is triggered by appropriation of the fees in annual appropriations Acts.

The payment for the amortization of the unfunded liability bolsters the case for classifying the Tricare accruals as discretionary. The unfunded liability results from benefits earned but not funded prior to the beginning of the accrual funding system in 2003, and from differences between actuarial estimates and fund performance since 2003. Unlike Tricare accrual payments, the payment for the unfunded liability does not vary as a result of any appropriation for goods or services provided in the current year. For example, Congress could not reduce the unfunded liability, and hence the amortization, by reducing appropriations for military personnel. Hence, it is appropriate to have different BEA classifications for the two types of payments.

Non-DoD uniformed services.—Tricare benefits are also earned by uniformed service members of the Coast Guard, the National Oceanic and Atmospheric Administration, and the Public Health Service. The Act creates the same funding structure for all of these agencies. Each agency’s contribution to the Retiree Health Care Fund for the accruing Tricare benefits of its employees is comparable to the treatment of the Department of Defense contribution for DoD uniformed service members. Beginning in 2006, the contribution will be funded by permanent, indefinite authority for each agency. The new payments will be classified as discretionary and in the same subfunction as the existing annually fund-

ed contributions. Since these payments are relatively small and to simplify bookkeeping, they will be merged into the existing accounts that pay retirement benefits.

Allowances

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

Baseline

The budget baseline is an estimate of the receipts, outlays, and deficits or surpluses that would occur if no changes were made to current laws during the period covered by the budget. The baseline assumes that receipts and mandatory spending, which generally are authorized on a permanent basis, will continue in the future as required by current law. The baseline assumes that the future funding for discretionary programs, which generally are funded annually, will equal the most recently enacted appropriation, adjusted for inflation.

The baseline represents the amount of resources, in real terms, that would be used by the Government over the period covered by the budget on the basis of laws currently enacted. (Chapter 25, “Current Services Estimates,” provides more information on the baseline.)

The baseline serves several useful purposes:

- It may warn of future problems, either for Government fiscal policy as a whole or for individual tax and spending programs.
- It provides a starting point for formulating the President’s budget.
- It provides a “policy-neutral” benchmark against which the President’s budget and alternative proposals can be compared to assess the magnitude of proposed changes.

PRINCIPAL BUDGET LAWS

The following basic laws govern the Federal budget process:

- **Article 1, section 8, clause 1 of the Constitution**, which empowers the Congress to collect taxes.
- **Article 1, section 9, clause 7 of the Constitution**, which requires appropriations in law before money may be spent from the Treasury.
- **Antideficiency Act (codified in Chapters 13 and 15 of Title 31, United States Code)**, which prescribes rules and procedures for budget execution.
- **Chapter 11 of Title 31, United States Code**, which prescribes procedures for submission of the

President’s budget and information to be contained in it.

- **Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344, as amended)**. This Act comprises the:
 - Congressional Budget Act of 1974, which prescribes the congressional budget process; and
 - Impoundment Control Act of 1974, which controls certain aspects of budget execution.
- **Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177, as amended)**, which prescribes rules and procedures

(including “sequestration”) designed to eliminate excess spending.

- **Budget Enforcement Act of 1990 (Title XIII, Public Law 101-508)**, which significantly amended key laws pertaining to the budget process, including the Congressional Budget Act and the Balanced Budget and Emergency Deficit Control Act. The Budget Enforcement Act of 1997 (Title X, Public Law 105-33) extended the BEA requirements through 2002 and altered some of the requirements. The requirements, generally referred to as BEA requirements (discretionary spending limits, pay-as-you-go, sequestration, etc.), are part

of the Balanced Budget and Emergency Deficit Control Act. The BEA expired at the end of 2002.

- **Federal Credit Reform Act of 1990, as amended (2 USC 661-661(f))**, a part of the Budget Enforcement Act of 1990, which amended the Congressional Budget Act to prescribe the budget treatment for Federal credit programs.
- **Government Performance and Results Act of 1993 (Public Law 103-62, as amended)**, which emphasizes managing for results. It requires agencies to prepare strategic plans, annual performance plans, and annual performance reports.

GLOSSARY OF BUDGET TERMS

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.

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.

Agency means a department or other establishment of the Government.

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.

Balances of budget authority means the amounts of budget authority provided in previous years that have not been outlayed.

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.

Budget means the Budget of the United States Government, which sets forth the President’s comprehensive financial plan for allocating resources and indicates the President’s priorities for the Federal Government.

Budget authority (BA) means the authority provided by law to incur financial obligations that will result in outlays. (For a description of the several forms of budget authority, see “Budget Authority and Other Budgetary Resources” earlier in this chapter.)

Budget totals mean the totals included in the budget for budget authority, outlays, and receipts. Some presentations in the budget distinguish on-budget totals from off-budget totals. On-budget totals reflect the transactions of all Federal Government entities except those excluded from the budget totals by law. The off-budget totals reflect the transactions of Government entities that are excluded from the on-budget totals by law. Under current law, the off-budget totals include the Social Security trust funds (Federal Old-Age and

Survivors Insurance and Federal Disability Insurance Trust Funds) and the Postal Service Fund. The budget combines the on- and off-budget totals to derive unified or consolidated totals for Federal activity.

Budgetary resources mean amounts available to incur obligations in a given year. The term comprises new budget authority and unobligated balances of budget authority provided in previous years.

Cap means the legal limits for each fiscal year under the Budget Enforcement Act on the budget authority and outlays provided by discretionary appropriations.

Cash equivalent transaction means a transaction in which the Government makes outlays or receives collections in a form other than cash or the cash does not accurately measure the cost of the transaction. (For examples, see the section on “Outlays” earlier in this chapter.)

Collections mean money collected by the Government that the budget records as either a receipt, an offsetting collection, or an offsetting receipt.

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 cost to a financing account.

Current services estimate—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.

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 includes the purchase of, or participation in, a loan made by another lender. The term also includes the sale of a Government asset on credit terms of more than 90 days duration as well as financing arrangements for other transactions that defer payment for more than 90 days. It also includes loans financed by the Federal Financing Bank (FFB) pursuant to agency loan guarantee authority. The term does not include the acquisition of a federally guaranteed loan in satisfaction of default or other guarantee claims or the price support loans of the Commodity Credit Corporation. (Cf. loan guarantee.)

Direct spending—see mandatory spending.

Discretionary spending means budgetary resources (except those provided to fund mandatory spending programs) provided in appropriations acts. (Cf. mandatory spending.)

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

Federal funds group refers to the moneys collected and spent by the Government through accounts other than those designated as trust funds. Federal funds include general, special, public enterprise, and intragovernmental funds. (Cf. trust funds.)

Financing account means a non-budgetary account (its transactions are excluded from the budget totals) that records all of the cash flows resulting from post-1991 direct loan obligations or loan guarantee commitments. At least one financing account is associated with each credit program account. For programs that make both direct loans and loan guarantees, there are separate financing accounts for the direct loans and the loan guarantees. (Cf. liquidating account.)

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

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.

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.

Intragovernmental fund—see revolving fund.

Liquidating account means a budget account that records all cash flows to and from the Government resulting from pre-1992 direct loan obligations or loan guarantee commitments. (Cf. 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. (Cf. direct loan.)

Mandatory spending means spending controlled by laws other than appropriations acts (including spending for entitlement programs) and spending for the food stamp program. Although the Budget Enforcement Act uses the term direct spending to mean this, mandatory spending is commonly used instead. (Cf. discretionary spending.)

Means of financing refers to borrowing, the change in cash balances, and certain other transactions 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.

Obligated balance means the cumulative amount of budget authority that has been obligated but not yet outlaid. (Cf. unobligated balance.)

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.

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-like transactions or market-oriented activities with the public and other Government accounts. The authority to spend offsetting collections is a form of budget authority. (Cf. receipts and offsetting receipts.)

Offsetting receipts mean collections that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. 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 appropriation acts before they can be spent. Like offsetting collections, they result from business-like transactions or market-oriented activities with the public and other Government accounts. (Cf. receipts, undistributed offsetting 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 issuance of debentures to pay insurance claims, and in a few cases are recorded on an accrual basis such as interest on public issues of the public debt. Outlays are the measure of Government spending.

Outyear estimates means 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 Budget Enforcement Act 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.

Public enterprise fund—see revolving fund.

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. (Cf. offsetting collections and offsetting receipts.)

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 two types of revolving funds: Public enterprise funds, which conduct business-like operations mainly with the public, and intragovernmental revolving funds, which conduct business-like operations mainly within and between Government agencies.

Scorekeeping means measuring the budget effects of legislation, generally in terms of budget authority, receipts, and outlays for purposes of the Budget Enforcement Act.

Sequestration means the cancellation of budgetary resources provided by discretionary appropriations or mandatory spending legislation, following various procedures prescribed by the Budget Enforcement Act. A sequestration may occur in response to a discretionary appropriation that causes discretionary spending to exceed the discretionary spending caps set by the Budget Enforcement Act 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).

Special fund means a Federal fund account for receipts or offsetting receipts earmarked for specific purposes and the expenditure of these receipts. (Cf. trust fund.)

Subsidy 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.

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.

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.

Trust fund refers to a type of account, designated by law as 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. (Cf. special fund and revolving fund.)

Trust funds group refers to the moneys collected and spent by the Government through trust fund accounts. (Cf., Federal funds group.)

Undistributed offsetting receipts mean offsetting receipts that are deducted from the Government-wide totals for budget authority and outlays instead of offset against a specific agency and function. (Cf. offsetting receipts.)

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 custom duties).