THE BUDGET SYSTEM AND CONCEPTS OF THE UNITED STATES GOVERNMENT

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The budget system of the U.S. Government provides the framework within which decisions on resource allocation and program management are made. These decisions are made in relation to the requirements of the Nation, the availability of Federal resources, effective financial control, and accountability for use of the resources.

This pamphlet provides an overview of the budget process and explains some of the more important budget concepts. The President's budget document itself, the *Budget of the United States Government*, provides a fuller explanation of some concepts in the context of the related budget data.

THE BUDGET PROCESS

The budget process has three main phases: (1) executive formulation and transmittal; (2) congressional action; and (3) budget execution and control. Each of these is interrelated with the others.

Executive Formulation and Transmittal.—*The Budget of the United States Government* sets forth the President's financial plan and indicates his priorities for the Federal Government. The primary focus of the budget is on the budget year—the next fiscal year for which Congress needs to make appropriations. However, the budget is developed in the context of a multi-year budget planning system that includes coverage of the four years following the budget year in order to integrate longer-range planning into the executive budget process. The system requires that broad fiscal goals and agency spending and employment levels be established beyond the budget year.

The President transmits his budget to Congress early in each calendar year, eight to nine months before the next fiscal year begins on October first.[1] In a year in which a new President takes office, the outgoing President submits a budget, and the new President usually proposes changes to that budget.

The process of formulating the budget begins not later than the spring of each year, at least nine months before the budget is transmitted and at least 18 months before the fiscal year begins.

[1] All years referred to are fiscal years, unless otherwise noted.

During the formulation of the budget, there is a continual exchange of information, proposals, evaluations, and policy decisions among the President, the Office of Management and Budget (OMB), other Executive Office units, and the various Government agencies. Decisions concerning the upcoming budget are influenced by the results of previously enacted budgets, including the one being executed by the agencies, and reactions to the last proposed budget, which is being considered by Congress. Decisions are influenced also by projections of the economic outlook that are prepared jointly by the Council of Economic Advisers, OMB, and the Treasury Department.

The President establishes general budget and fiscal policy guidelines. Based on his decisions, OMB issues general policy directions and planning levels to the agencies, both for the budget year and for the following four years, to guide the preparation of their budget requests.

In September, agencies submit budget requests to OMB, where they are reviewed in detail, and decisions are made. These decisions may be revised as a result of Presidential review. Fiscal policy issues, which affect outlays and receipts, are reexamined. The effect of budget decisions on outlays and receipts in the years that follow are also considered and are explicitly taken into account, in the form of multi-year budget planning estimates. Thus, the budget formulation process involves the simultaneous consideration of the resource needs of individual programs, the total outlays and receipts that are appropriate in relation to current and prospective economic conditions, and the legal requirements to achieve a balanced budget by 1993.[2]

Congressional Action.—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. It enacts appropriations bills and other legislation affecting outlays and receipts, such as legislation to amend eligibility requirements for benefit payments or to amend revenue laws. However, most receipts collected and most outlays made in any year are the result of laws enacted in previous years. Therefore, Congress has only a limited ability to reduce a deficit in a given year through legislation passed in that year.

[2] The requirements of the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as the Gramm-Rudman-Hollings Act) are discussed under "Deficit reduction."

Prior to making appropriations, Congress usually enacts legislation that authorizes an agency to carry out a particular program and, in some cases, includes limits on the amount that can be appropriated for the program. Some programs require annual authorizing legislation. Others are authorized for a specified number of years or indefinitely.

In making appropriations, Congress does not vote on the level of outlays directly, but rather on *budget authority* or other authority to incur obligations that will result in immediate or future outlays. For the majority of Federal programs, budget authority becomes available each year only as voted by Congress in appropriations acts. However, in many cases Congress has voted permanent budget authority, under which funds become available annually without further congressional action. Many trust fund appropriations are permanent, as are a number of Federal fund appropriations, such as the appropriation to pay interest on the public debt. Some authority to incur obligations takes forms other than budget authority, and such obligational authority usually becomes available for obligation without further congressional action. In recent years, more obligational authority has become available under permanent appropriations than by current actions of Congress. In turn, the outlays from permanent appropriations, together with the outlays from obligations incurred in prior years, comprise the majority of the outlay total for any year. Therefore, most outlays in any year are not controlled through appropriations actions for that year. The types of budget authority, other budgetary resources, their control by Congress, and the relation of outlays to budget authority are discussed in more detail in later sections.

Congressional review of the budget begins shortly after the President transmits his budget estimates to Congress. Under standing law, the budget is required to be transmitted on or before the first Monday after January third of each year. However, in years when Congress has been late in completing action on the previous budget, it has agreed to a delay of a few weeks in the transmittal of the next budget.

Under the procedures established by the Congressional Budget Act of 1974, Congress considers budget totals before completing action on individual appropriations. The Act requires each standing committee of Congress to report on budget estimates to the House and Senate Budget Committees by February 25. Congress adopts a concurrent *budget resolution* as a guide in its subsequent consideration of appropriations and receipt measures. The budget resolution, which is scheduled to be adopted by April 15, sets targets for total receipts and for budget authority and outlays, in total and by functional category. The budget resolution also sets targets for direct loan obligations and guaranteed loan commit-

ments. The resolution is subject to deficit reduction requirements under the Gramm-Rudman-Hollings Act.

Budget resolutions do not require Presidential approval. However, there is consultation between the congressional leadership and the Administration, because legislation developed to attain congressional budget targets must be sent to the President for his approval. In recent years, the President and the joint leadership of Congress formally agreed on the framework of a deficit reduction plan. These agreements, known as Bipartisan Budget Agreements, were reflected in the budget legislation passed for those years. Also, in recent years, Congress has enacted omnibus reconciliation acts, which combine many amendments to authorizing legislation that affect the outlays and receipts.

Congressional consideration of requests for appropriations and changes in revenue laws occurs first in the House of Representatives. The Appropriations Committee, through its subcommittees, studies the requests for appropriations and examines in detail each agency's performance. The Ways and Means Committee reviews proposed revenue measures. Each committee then recommends the action to be taken by the House of Representatives. After passage of the budget resolution, a point of order can be raised to block consideration of bills that would cause a committee's targets, as set by the resolution, to be breached.

When the appropriations and tax bills are approved by the House, they are forwarded to the Senate, where a similar review follows. In case of disagreement between the two Houses of Congress, a conference committee (consisting of Members of both bodies) meets to resolve the differences. The report of the conference committee is returned to both Houses for approval. When the measure is agreed to, first in the House and then in the Senate, it is ready to be transmitted to the President as an enrolled bill, for his approval or veto.

When action on appropriations is not completed by the beginning of the fiscal year, Congress enacts a joint *continuing resolution* to provide authority for the affected agencies to continue financing operations up to a specified date or until their regular appropriations are enacted. In some years, a portion or all of the Government has been funded for the entire year by a continuing resolution. Continuing resolutions must be presented to the President for approval or veto.

Deficit Reduction.—The Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as the Gramm-Rudman-Hollings Act), as amended in 1987, calls for a balanced Federal budget by 1993. It sets declining deficit targets for each fiscal year and specifies a procedure designed to achieve these targets. For

1990, 1991, 1992, and 1993, the targets are $100 billion, $64 billion, $28 billion, and zero, respectively.

According to the Act, the President's budget must propose receipts and outlays consistent with the deficit target for the budget year, and the budget must include estimates of total receipts, total outlays, the deficit, and other aggregate-level estimates using the same estimating rules that are specified for reports required under the Act. Then, congressional action on the budget is supposed to ensure that the deficit target for that year will be met. If the target is not estimated to be met, the Act specifies a process to sequester (i.e., reduce or cancel) budgetary resources to reduce outlays by the amount required to meet the specified target for the year ahead.

On August 25 of each year, the Director of OMB submits a report to the President and Congress estimating the deficit for the upcoming fiscal year. On October 15 the Director of OMB submits a revised report, which reflects the effects on the deficit of any legislation enacted or regulations promulgated since August 25. If OMB estimates show, in either report, that the projected deficit exceeds the specified target by more that $10 billion (zero in 1993), the report must include a calculation of the amount of reduction (referred to in the Act as "sequester") in budgetary resources required to eliminate the deficit excess. The Act specifies rules for determining uniform percentage reductions—separately for defense and non-defense programs—for most programs subject to sequester and special rules for certain programs subject to sequester. Many programs are exempt from sequester. The Director of OMB must explain, in his initial and revised reports, any significant differences between his estimates and the estimates provided to him and Congress in initial and revised reports by the Director of the Congressional Budget Office.

The reports by the Director of OMB become the basis for the initial and final sequester orders issued by the President. The President's orders may not change any of the particulars in the Director's reports. If the initial order specifies a sequester, the sequestered amounts are withheld temporarily pending the final report and the enactment of appropriations for the full year. If the final order specifies a sequester and full year appropriations have been enacted, the sequestered amounts are permanently cancelled (with some exceptions specified in the Act). The Act provides for reducing the amount of the sequester where Congress enacted reduced appropriations after the final report. Events after October 15 that affect the deficit do not result in new or additional sequesters. However, Congress may pass laws that affect the amount sequestered directly.

As of the date of this publication, sequester orders had been issued for 1986, 1988, and 1990. The order for 1988 was reversed and the sequestered resources restored as a result of the enactment of the Omnibus Reconciliation Act of 1987. The sequester for 1990 was partially reversed and the sequestered resources restored by the Omnibus Budget Reconciliation Act of 1989.

Budget Execution and Control.—The President's budget, as approved or modified through appropriations acts and other laws, becomes the basis for the financial plan for the operations of each agency during the fiscal year. Under the law, most budget authority and other budgetary resources are made available to the agencies of the executive branch through an apportionment system. The Director of OMB apportions (distributes) appropriations and other budgetary resources to each agency by time periods and by activities, in order to ensure the effective use of available resources and to preclude the need for additional appropriations.

Changes in laws or other factors may indicate the need for additional appropriations during the year, and supplemental requests may have to be sent to Congress. On the other hand, amounts appropriated may be withheld temporarily from obligation under certain limited circumstances in order to provide for contingencies, to achieve savings made possible through changes in requirements or greater efficiency of operations, or as specifically provided in law. The Impoundment Control Act of 1974 provides that the executive branch, in regulating the rate of spending, must report to Congress any effort through administrative action to postpone or eliminate spending provided by law. Deferrals, which are temporary withholdings of budget authority, take effect immediately unless overturned by an act of Congress. Rescissions, which permanently cancel budget authority, do not take effect unless passed by Congress within 45 days of continuous session. Otherwise, the withheld funds must be made available for spending.

Budget Calendar.—The following timetable highlights the dates of significant budget events during the year.

BUDGET CALENDAR

1st Monday after January 3	President transmits the budget.
February 25	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, including preliminary estimates of the G-R-H baseline.
August 15	Initial snapshot of the G-R-H baseline.

BUDGET CALENDAR—Continued

August 25	OMB issues initial G-R-H report to the President and Congress, and President issues initial sequester order.
October 1	Fiscal year begins and initial sequester order becomes effective.
October 15	OMB issues final G-R-H report to the President and Congress, and President issues final sequester order, which becomes effective immediately.

COVERAGE OF THE BUDGET TOTALS

Agencies and Programs.—The budget documents provide information on all Federal agencies and programs, including trust funds and Government corporations. The total receipts and outlays of the Federal Government are composed of both on-budget receipts and outlays and off-budget receipts and outlays. The receipts and outlays of social security (the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance trust funds) were excluded from the budget totals by the Gramm-Rudman-Hollings Act. Such receipts and outlays are referred to as being off-budget. However, the Act also specified that they be included in calculating the deficit targets specified in the Act. The Omnibus Budget Reconciliation Act of 1989 shifted the transactions of the Postal Service Fund off-budget effective in 1990 and also specified that they be excluded from the calculation of the deficit for Gramm-Rudman-Hollings Act purposes. The off-budget transactions are separately identified in the budget. The on-budget and off-budget amounts are added together to derive totals for the Federal Government.

Neither the on-budget nor the off-budget totals include transactions of private, Government-sponsored enterprises, such as the Federal National Mortgage Association and Federal home loan banks. However, because of their relationship to the Government, these enterprises are discussed in several parts of the budget.

A presentation for the Board of Governors of the Federal Reserve System is included in the budget 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.

Functional Classification.—The functional classification arrays budget authority, outlays, and other budget data according to the major purpose served—e.g., agriculture. There are nineteen major functions, most of which are divided into subfunctions. For example, the *Agriculture* function is divided into *Farm income stabilization* and *Agricultural and research services*. In accordance with the Congressional Budget Act of 1974, as amended, the congressional budget resolution establishes budget targets using these functional categories.

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

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

National Needs Presentation.—Section 601 of the Congressional Budget Act of 1974 requires that the budget for each fiscal year shall contain a presentation of budget authority, proposed budget authority, outlays, proposed outlays, and descriptive information in terms of—

(1) a detailed structure of national needs, which shall be used to reference all agency missions and programs;
(2) agency missions; and
(3) basic programs.

To meet that requirement of law, each major function is presented in the context of the national needs being served, and subfunctions are presented in the context of the major missions devoted to serving national needs.

Types of Funds.—Agency activities are financed through Federal funds and trust funds.

Federal funds are of several types. The *general fund* is credited with receipts not earmarked by law for a specific purpose and is also financed by the proceeds of general borrowing. General fund appropriation accounts record general fund expenditures. *Special funds* account for Federal fund receipts earmarked for specific purposes, other than for carrying out a cycle of operations, and the associated expenditures. *Public enterprise* (revolving) *funds* conduct a cycle of business-type operations in which outlays generate collections, primarily from the public, which are credited directly to the fund. *Intragovernmental funds*, including revolving and management funds, conduct business-type operations primarily within and between Government agencies and are financed by collections, which are credited directly to the fund.

Trust funds are established to 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 (e.g., the Highway Trust Fund) or for carrying out the stipulations of a trust agreement (e.g., any of several trust funds for gifts and donations for specific purposes). These monies are not available for other purposes of the Government. *Trust revolving funds* are credited with collections earmarked by law to carry out a cycle of business-type operations.

There is no sbustantive difference between a trust fund and a special fund or between a trust revolving fund and a public enterprise revolving fund.

Current Expenses and Capital Investment.—The budget includes spending for both current operating expenses and capital investment, such as the purchase of lands, structures, and equipment. It also includes capital investment in the form of lending; the purchase of other financial assets; and the conduct of research, development, education, and training. Several parts of the budget document focus on capital investment.

BUDGETARY RESOURCES AND RELATED TRANSACTIONS

Budgetary Resources.—Government agencies are permitted to enter into obligations requiring either immediate or future payment of money only when they have been granted authority to do so by law. This authority, which constitutes the budgetary resources available to an agency, is most commonly provided in the form of budget authority. In addition, collections specifically authorized to be credited to appropriation and fund accounts (e.g., Postal Service collections from the sale of stamps), while not scored as budget authority, are also available for obligation. The use of budgetary resources may be restrained by the imposition of legally binding limitations on obligations, including obligations for administrative expenses of entitlement programs and for direct loans.

Budget authority and other budgetary resources permit *obligations* to be incurred. The amounts of budget authority requested are determined by the nature of the programs or projects being financed and the amounts of other resources (such as unobligated balances and offsetting collections) available for the purpose.

For activities such as operation and maintenance, for which the cost depends upon the program level during the fiscal year, the amount of budget authority requested usually is the amount estimated to be needed to cover the obligations to be incurred during the year.

For most major procurement programs and construction projects, an amount adequate to complete the procurement or project gener-

ally is requested to be appropriated in the first year, even though it may be obligated over several years. This policy, sometimes referred to as "full funding," is intended to avoid piecemeal funding of programs and projects that cannot be used until they have been completed.

Budget authority usually takes the form of *appropriations,* which permit obligations to be incurred and payments to be made. However, some budget authority is in the form of *contract authority,* which, when specifically authorized by law, permits obligations in advance of appropriations but requires a subsequent appropriation or the collection of receipts to liquidate (pay) these obligations. Another form of budget authority is *authority to borrow,* which permits obligations to be incurred but requires that funds be borrowed, generally from the Treasury, to liquidate these obligations.

With certain exceptions, it is not in order for either House of Congress to consider any bill that provides new borrowing or contract authority unless that bill also provides that such new spending authority will be effective only to the extent or in such amounts as provided in appropriations acts.

Appropriations are available for obligation only during the fiscal year for which they are enacted, unless the appropriation language specifies that an appropriation is available for a longer period. Typically, appropriations for current operations are made available for obligation in only one year. Some appropriations are made available for a specified number of years. Others, including most of those for construction, some for research, and many for trust funds, are made available for obligation until the amount appropriated has been expended or until the program objectives have been attained.

Usually Congress 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 becomes available one year or more beyond the fiscal year for which the appropriations act is passed. To meet the special timing requirements of many education programs, the appropriations for them provide for *forward funding*—budget authority that is made available for obligation beginning in the last quarter of the fiscal year for the financing of ongoing grant programs during the next fiscal year. For certain entitlement 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 fiscal year if necessary to meet higher than anticipated benefit payments in excess of the specific amount appropriated for the year.

When budget authority is made available by law for a specific period of time, any part that is not obligated during that period expires (lapses) and cannot be used later. Congressional actions that extend the availability of unobligated amounts that have expired or would otherwise expire are known as *reappropriations.* Reappropriations are counted as new budget authority in the fiscal year in which the balances become newly available.

A *rescission* is a legislative action that cancels new budget authority or the availability of unobligated balances of budget authority prior to the time the authority would otherwise have expired. Rescissions of both new budget authority and unobligated balances of budget authority are recorded as decreases to new budget authority for that year. Accordingly, it is possible that some accounts show negative budget authority because an amount of unobligated balances was rescinded that was greater than the amount of new budget authority made available.

A *deferral* is an executive branch action or inaction permitted in limited situations (such as the establishment of legally authorized reserves) that delays the obligation or expenditure of funds within the year that the action is taken. Deferrals are not identified separately in the budget.

Budget authority is classified and labeled in the budget as *current* or *permanent.* Budget authority is current if it is provided in legislation enacted during or for the fiscal year in which it becomes available. Budget authority is permanent if it becomes available in a fiscal year pursuant to legislation that was enacted in a previous year. Current budget authority usually is provided annually in appropriations acts, and permanent budget authority usually is provided by standing authorizing legislation. However, advance appropriations of budget authority are classified as permanent, even though they are provided in annual appropriations acts, because they become available a year or more following the year to which the act pertains; and budget authority that is provided by authorizing legislation is classified as current in the year such legislation is enacted and as permanent thereafter. Though not recorded as budget authority, the authority to credit offsetting collections to appropriation and revolving fund accounts is a form of permanent authority to incur obligations.

Obligations and outlays resulting from permanent budget authority and from offsetting collections credited to appropriation and revolving fund accounts comprise more than half of the budget totals. Put another way, less than half of the obligations and outlays in the budget result from current actions by the Congress. Most permanent budget authority arises from the authority to spend trust fund receipts and the authority to pay interest on the

public debt. Most obligations and outlays from offsetting collections occur in public enterprise revolving funds.

Budget authority is classified and labeled in the budget as *definite* or *indefinite*. Budget authority is definite if the legislation that provides it specifies a definite amount or an amount not to be exceeded. Budget authority is indefinite if the legislation providing it permits the amount to be determined by subsequent circumstances. Examples of indefinite authority are authority to borrow that is limited only to the amount of debt that may be outstanding at any time, the appropriation for interest on the public debt, and the trust fund appropriation equal to receipts under the Federal Insurance Contributions Act (social security). Indefinite budget authority is presented as the amount of receipts collected or estimated to be collected each year in the case of many special and trust funds, and as the amount needed to finance obligations incurred or estimated to be incurred in the case of certain appropriations, contract authority, and authority to borrow.

Obligations Incurred.—Following the enactment of budget authority and the completion of required apportionment action, Government agencies incur obligations. Such obligations include: the current liabilities for salaries, wages, and interest; agreements to make loans; contracts for the purchase of supplies and equipment, construction, and the acquisition of office space, buildings, and land; and other arrangements requiring the payment of money.

Outlays.—When obligations are liquidated (paid), *outlays* are recorded. Outlays usually are in the form of checks, cash, or electronic fund transfers. Obligations also may be liquidated (and outlays recorded) by the accrual of interest on public issues of Treasury debt securities (including an increase in the redemption value of bonds outstanding); or by the issuance of bonds, debentures, notes, or monetary credits.

Refunds of receipts are treated as reductions of receipts, rather than as outlays. Payments for earned income tax credits in excess of tax liabilities are treated as outlays rather than as a reduction to receipts. Outlays during a fiscal year may be for the payment of obligations incurred in prior years or in the same year. Outlays, therefore, flow in part from unexpended balances of prior year budget authority and in part from budget authority provided for the year in which the money is spent. Outlays are stated net of offsetting collections, and total outlays for the Federal Government include both on-budget and off-budget outlays.

Balances of Authority.—Not all budget authority enacted for a fiscal year results in obligations and outlays in the same year. In the case of budget authority that is available for more than one

year, the *unobligated balance* of budget authority that is still available may be carried forward for obligation in the following year. The *obligated balance* is that portion of the budget authority that has been obligated but not yet paid. For example, in the case of salaries and wages, 1 to 3 weeks elapse between the time of obligation and the time of payment. In the case of major procurement and construction, payment may occur over several years. Obligated balances of budget authority are carried forward until the obligations are subsequently paid.[3] The ratio of the outlays resulting from budget authority enacted in any year to the amount of that budget authority is referred to as the *spendout rate*. Collections authorized to be credited directly to appropriation or fund accounts also may be carried forward as unobligated or obligated balances.

A change in the amount of obligations incurred from one year to the next is not necessarily accompanied by an equal change in either the budget authority or the outlays of that same year. Conversely, a change in budget authority in any one year may cause changes in the level of obligations and outlays for several years.

FEDERAL CREDIT

In addition to the resource measures previously described, Government programs may be carried out through federally supported credit in the form of direct loans or loan guarantees. These are included in the budget as obligations for direct loans and commitments for guaranteed loans. *Obligations for direct loans* result from agreements requiring the Government to make a loan immediately or at some future time. *Commitments for guaranteed loans* result from agreements entered into by the Government to guarantee the repayment of principal and/or interest on loans made by non-Federal lenders. Since loan guarantees, unlike direct loans, do not require obligational authority and, by themselves, do not require Federal disbursements, the amounts are not included in the President's budget totals. They create Government liabilities of a contingent nature that result in obligations and outlays *only* in the event of borrower default.

COLLECTIONS

In General.—Money collected by the Government is classified into two major categories:

- *Governmental receipts*, which are compared to outlays in calculating the surplus or deficit.
- *Offsetting collections*, which are deducted from gross disbursements in calculating outlays.

[3] Additional information is provided in a separate report, "Balances of Budget Authority," which is available from the National Technical Information Service, Department of Commerce, shortly after the budget is transmitted.

Governmental Receipts.—These are collections from the public that result from the exercise of the Government's sovereign or governmental powers. Governmental receipts consist primarily of tax receipts (including social insurance taxes), but also include compulsory user charges, receipts from customs duties, court fines, certain licenses, and deposits of earnings by the Federal Reserve System. Gifts and contributions (as distinguished from payments for services or cost-sharing deposits by State and local governments) are also counted as governmental receipts. Total receipts for the Federal Government include both on-budget and off-budget receipts.

Offsetting Collections.—These are amounts received from the public that result from business-like or market-oriented activities (e.g., the sale of a product or service) or collections of payments from other Government accounts. They are classified into two major categories: *offsetting collections credited to appropriation or fund accounts* and *offsetting receipts* (that is, offsetting collections deposited in receipt accounts). The offset is applied differently for each type.

Offsetting Collections Credited to Appropriation or Fund Accounts.—For all revolving funds and some appropriation accounts, laws authorize collections to be credited directly to expenditure accounts and, usually, make them available to spend for the purpose of the account without further action by the Congress. However, it is not unusual for the Congress to enact limitations in annual appropriations acts on the obligations that can be financed by these collections. The outlays of the appropriation or fund account are quantified as disbursements less offsetting collections.

Offsetting Receipts.—These are offsetting collections credited to general fund, special fund, or trust fund receipt accounts. They are deducted from budget authority and outlays in arriving at total budget authority and outlays. In most cases, such deductions are made at the subfunction and agency levels. Offsetting receipts are subdivided into two categories, as follows:

- *Proprietary receipts from the public.*—These are collections from the public, deposited in receipt accounts, that arise out of the business-type or market-oriented activities of the Government. While most proprietary receipts are deducted at the agency and subfunction level, some are classified as undistributed offsetting receipts and are deducted from total budget authority and outlays (e.g., collections of rent and royalties from Outer Continental Shelf lands.)
- *Intragovernmental transactions.*—These are payments into receipt accounts from governmental appropriation or fund ac-

counts. In most cases, intragovernmental transactions are deducted from both the outlays and the budget authority of the subfunction and the agency receiving the payment. However, in two cases intragovernmental transactions appear as special deductions in computing total budget authority and outlays for the Government rather than offsets at the agency level—agencies' payments as employers into employee retirement trust funds and interest received by trust funds.

There are several categories of intragovernmental transactions. *Intrabudgetary transactions* include all payments from on-budget expenditure accounts to on-budget receipt accounts. These are subdivided into three categories: (1) *interfund transactions*, where the payment is from one fund group (either Federal funds or trust funds) to a receipt account in the other fund group; (2) *Federal intrafund transactions*, where the payment and receipt both occur within the Federal fund group; and (3) *trust intrafund transactions*, where the payment and receipt both occur within the trust fund group. In addition, there are intragovernmental payments from on-budget accounts to off-budget receipt accounts, and from off-budget accounts to on-budget receipt accounts.

MEANS OF FINANCING

Deficits are financed by borrowing and, to a limited extent, the other items discussed under this heading. Surpluses are used to reduce debt and, to a limited extent, may be absorbed by the other items.

Borrowing and Repayment.—Borrowing and debt repayment are not treated as receipts or outlays. If they were, the budget would be balanced by definition. This rule applies both to borrowing in the form of public debt 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. Where Federal loan assets are sold with recourse (i.e., where the Federal Government guarantees repayment of principal and interest on the loan assets in the event of default), the proceeds of the sale are treated as a means of financing the deficit other than borrowing from the public.

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 on coins arises from the exercise of the Government's monetary powers and differs from receipts coming from the public, since there is no corresponding payment by another party. Therefore, seigniorage is excluded from receipts and treated as a means of financing the deficit other than

borrowing from the public. The increment (profit) resulting from the sale of gold as a monetary asset also is treated as a means of financing, since the value of gold is determined by its value as a monetary asset rather than as a commodity.

Balances in Deposit Fund Accounts.—Certain accounts outside the budget, known as deposit funds, are established to record amounts held temporarily until ownership is determined (for example, earnest money paid by bidders for mineral leases) or held by the Government as agent for others (for example, State and local income taxes withheld from Federal employees' salaries and payroll deductions for the purchase of savings bonds by employees of the Government). Deposit fund balances may be held in the form of either invested or uninvested balances. Changes in deposit fund balances, if they are not invested, affect Treasury's cash balances, even though the transactions are not a part of the budget. To the extent that deposit fund balances are not invested, changes in the balances are reflected as a means of financing the deficit other than borrowing from the public.

Exchange of Cash.—The Government's deposits with the International Monetary Fund (IMF) are considered to be monetary assets. Therefore, the movement of money between the IMF and the Treasury is not considered in itself a receipt or an outlay, borrowing, or lending. However, interest paid by the IMF on those deposits is an offsetting collection. In a similar manner, the holdings of foreign currency by the Exchange Stabilization Fund are considered to be cash assets. Changes in these holdings are outlays only to the extent there is a realized loss of dollars on the exchange and are offsetting collections only to the extent there is a realized dollar profit.

BASIS FOR BUDGET FIGURES

In General.—Outlays usually are stated in terms of payments (in the form of checks, cash, and electronic fund transfers) net of offsetting collections received. When a cash-equivalent financial instrument is developed to use as a substitute for cash or checks, the monetary value of the instrument is normally counted as outlays in the budget in order to record the transaction in the same manner regardless of the means of effecting it. The accrual basis is used for interest on the public issues of Treasury debt securities. Interest on special issues of the debt securities held by trust funds and other Government accounts is normally stated on a cash basis. When a Government account invests 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. However, in the case of two trust funds in the Department of Defense, the Military Retirement Trust Fund and the Education Benefits Trust Fund, the differences between purchase price and par are routinely relatively large. For these funds, the budget records the holdings of debt at par and 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.

Data for the past year.—The past year (budget year minus 2) column of the budget generally presents the actual transactions and balances as recorded in agency accounts and as summarized in the central financial reports prepared by the Treasury Department for the most recently completed fiscal year. Occasionally the budget reports corrections to data reported erroneously to Treasury but not discovered in time to be reflected in Treasury's published data. The budget usually notes the sources of such differences.

Data for the current year.—The current year (budget year minus 1) column of the budget includes estimates of transactions and balances based on the amounts of budgetary resources that were available when the budget was transmitted, including amounts provided as appropriations for the year, and that are expected to become available during the year.

Data for the budget year.—The budget year column of the budget includes estimates of transactions and balances based on the amounts of budgetary resources that are expected to be available, including amounts proposed to be appropriated. The budget generally includes the appropriations language for the amounts proposed to be appropriated. Where the estimates represent amounts that will be requested under proposed legislation, the appropriation language usually is not included; it is transmitted later, usually after the legislation is enacted. In a few cases, proposed language for appropriations to be requested under existing legislation is transmitted later because the exact requirements are not known at the time the budget is transmitted. In certain tables of the budget, the items for later transmittal and the related outlays are identified separately. Estimates of the total requirements for the budget year include both the amounts requested with the transmission of the budget and the amounts planned for later transmittal.

Multi-year budget planning data.—The budget presents estimates for each of the four years beyond the budget year in order to reflect the effect of budget year decisions on longer term objectives and plans. These data often reflect specific Presidential policy determinations and are shown in many budget tables.

Allowances.—Lump-sum allowances are included in the budget to cover certain forms of budgetary transactions that are expected to increase or decrease budget authority or outlays but are not reflected in the program details. Budget authority and outlays included in the allowance section are never appropriated as allowances, but rather indicate the estimated budget authority and outlays that may be requested for specific programs.