
**THE BUDGET SYSTEM
AND CONCEPTS
OF THE
UNITED STATES GOVERNMENT**

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THE BUDGET SYSTEM AND CONCEPTS OF THE UNITED STATES GOVERNMENT

The budget system of the U.S. Government provides the framework within which Federal decisions on resource allocation and program management are made. These decisions are made in relation to the requirements of the Nation, the availability of 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. Citations to the principal laws pertaining to the budget, which are referred to by title throughout the pamphlet, are provided at the end of the pamphlet. 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

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.

¹All 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. Decisions must also take into account any statutory limitations on spending and the deficit. 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 statutory constraints. For 1991 through 1995, certain categories of spending and the maximum deficit amount are constrained by law. The President's budget proposals must be consistent with these constraints, which are discussed below under "Budget Enforcement."

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 that provide authority to spend for specified purposes and other legislation that affects outlays or 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 not the result of laws enacted specifically for that year. Therefore, Congress has only a limited ability

to reduce a deficit in a given year through legislation passed in that year.

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 is available for obligation without further congressional action. In recent years, more budget 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 not later than the first Monday in February of each year.

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 within six weeks after the President's budget is transmitted. 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. Like the President's budget, the budget resolution is subject to spending limitations imposed in law for 1991 through 1995.

Budget resolutions are not laws and, therefore, do not require the President's approval. However, there is consultation between the congressional leadership and the Administration, because legislation developed to meet congressional budget targets must be sent to the President for his approval. For some budgets prior to 1991, 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. A similar agreement process led to the enactment of the Budget Enforcement Act of 1990, which is designed to constrain spending for 1991 through 1995.

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.

In each of the last several years, Congress has enacted omnibus budget reconciliation acts, which combine many amendments to authorizing legislation that affect outlays and receipts. For example, these acts may change benefit formulas or eligibility requirements, the spending for which is often not controlled through appropriations acts.

Budget Enforcement.—Limits on expenditures, receipts, and the deficit are established in law for 1991 through 1995, as are procedures for enforcing the limits throughout the budget process each year. These limits and procedures are determined by the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as the Gramm-Rudman-Hollings Act), which was extended and amended extensively by the Budget Enforcement Act. The latter also affected the President's budget and the congressional budget process.

The law divides spending into two types—*discretionary appropriations* and *direct spending*. These definitions are designed to distinguish spending that is generally controlled through annual appropriations acts from that which is generally provided in other, more permanent laws (most entitlement and other so-called mandatory spending). The law specifies processes, called *sequesters*, for reducing spending. Different sequester procedures are prescribed for reducing the excess spending resulting from discretionary appropriations and for eliminating increases in the deficit resulting from legislation affecting direct spending or receipts. A third type of sequester applies to all types of spending if, after application of the discretionary and direct spending procedures, the deficit exceeds specified maximum deficit amounts.

The sequester processes for discretionary appropriations and direct spending are designed to apply uniform reductions to the same kind of spending that caused the sequester. Discretionary appropriations are subdivided into three categories for 1991 through 1993—*defense*, *international*, and *domestic*. Spending limits for budget authority and outlays are specified for each category for each of those years. For 1994 and 1995, the limits apply to the total of discretionary spending. From adjournment of a session of Congress through the following June 30th of a fiscal year, discretionary sequesters take place whenever an appropriation bill causes the limit in a category to be breached. Under a sequester, spending for most non-exempt programs in the category is reduced by a uniform percentage. Special rules apply in reducing some programs and some programs are exempt from sequester by law. Between June 30th and the end of a fiscal year, for practical reasons, the sequester is accomplished by reducing the limit for the category for the next fiscal year.

Sequesters of direct spending, called *pay-as-you-go* sequesters, occur following the end of a session of Congress (usually in the Fall of each year) if there is estimated to be a net increase in the deficit caused by laws enacted that affect direct spending and receipts. Under a pay-as-you-go sequester, spending for most non-exempt programs in the category is reduced by a uniform percent-

age. Special rules apply in reducing some programs and some programs are exempt from sequester by law.

A deficit sequester occurs if it is calculated that estimated spending in all categories and estimated receipts will result in a deficit that exceeds the maximum deficit amount for the year by more than the allowed margin (zero in 1992 and 1993, \$15 billion in 1994 and 1995). Under a deficit sequester, half of any excess must be taken from defense programs and half from non-exempt non-defense programs. Spending for most programs is reduced by a uniform percentage that is calculated (separately for defense and non-defense programs) to eliminate the increase in the deficit. Special rules apply in reducing some programs, and some programs are exempt from sequester.

The law provides that the estimates and calculations that determine whether there is to be a sequester are to be made by the OMB and reported to the President and Congress. The Congressional Budget Office (CBO) is required to make the same estimates and calculations, and the Director of OMB is required to explain any differences between the OMB estimates and the estimates prepared by CBO. The estimates and calculation by OMB are the basis for sequester orders issued by the President. The President's orders may not change any of the particulars the OMB report. The General Accounting Office is required to prepare compliance reports.

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 Antideficiency Act, 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 avoid 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 imme-

diately 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

No later than the 1st Monday in February	President transmits the budget, including a sequester preview report.
Six weeks later ...	Congressional committees report budget estimates to Budget Committees.
April 15	Action to be completed on congressional budget resolution.
May 15	House consideration of annual appropriations bills may begin.
June 15	Action to be completed on reconciliation.
June 30	Action on appropriations to be completed by House.
July 15	President transmits Mid-Session Review of the budget.
August 20	OMB updates the sequester preview.
October 1	Fiscal year begins.
15 days after the end of a session of Congress	OMB issues final sequester report, and the President issues a sequester order, if necessary.

COVERAGE OF THE BUDGET TOTALS

Agencies and Programs.—The budget document provides 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. By law, the receipts and outlays of social security (the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance trust funds) and the Postal Service Fund are excluded from the budget totals and 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*. The functional array meets the Congressional Budget Act requirement for a presentation in the budget by national needs and agency missions and programs. That Act also requires an annual concurrent resolution on the budget to establish limits for the budget in total and for each functional category, and to allocate amounts within the limits to the congressional committees that have jurisdiction over the programs in the functions. For 1991 through 1995, the budget resolution also will allocate resources under the limits imposed on discretionary spending 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.

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 substantive 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 land, structures, and equipment. It also includes subsidies for capital investment provided by direct loans and loan guarantees; the purchase of other financial assets; and the conduct of research, development, education, and training.

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. Unobligated balances of budget authority remaining available from previous years are not recorded as budget authority again in subsequent years, but they constitute a budgetary resource that is available for obligation. The use of budgetary resources may be restrained by the imposition of legally binding limitations on obligations (for example, obligations for administrative expenses of benefit programs). Such limitations substitute for budget authority, for some purposes, and are treated as a budgetary resource.

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) 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 generally 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 takes many forms. It is usually provided in the form of *appropriations*, which permit obligations to be incurred and payments to be made. Appropriations includes the authority to spend offsetting collections that are specifically authorized to be credited to appropriation and fund accounts (e.g., Postal Service collections from the sale of stamps). The Budget Enforcement Act redefined budget authority to include the authority to spend offsetting collections. Another form of budget authority is *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 *borrowing authority*, 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 does not become available until 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 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 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*. Generally, budget authority is current if it is provided by annual appropriations acts and permanent if it becomes available pursuant to standing authorizing legislation. 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. The authority to spend offsetting collections credited to appropriation and revolving fund accounts usually is provided by authorizing legislation and, therefore, is usually a form of permanent budget authority.

Obligations and outlays resulting from permanent budget authority, including the authority to spend offsetting collections credited to appropriation and revolving fund accounts, account for 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, other

than the authority to spend offsetting collections, arises from the authority to spend trust fund receipts and the authority to pay interest on the public debt. Most authority to spend offsetting collections occurs in public enterprise revolving funds.

Budget authority also 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 trust fund appropriations that make all of the receipts collected in the fund immediately available for expenditure. Indefinite budget authority is the amount needed to finance obligations incurred or estimated to be incurred in the case of certain appropriations, contract authority, and borrowing authority, and the amount of receipts collected or estimated to be collected each year in the case of many special and trust funds. The Congressional Budget and Impoundment Control Act, as it was amended by the Budget Enforcement Act, specifies that for four trust funds—Federal Hospital Insurance Trust Fund, the Supplementary Medical Insurance Trust Fund, the Unemployment Trust Fund, and the railroad retirement account—the indefinite budget authority is the amount needed to finance obligations incurred or estimated to be incurred under legal limitations on obligations or benefit formulas, not the amount of the receipts collected.

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; 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. Beginning in 1992, obligations are recorded in an amount equal to the estimated subsidy cost of direct loans and loan guarantees (see “Federal Credit”).

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. Beginning in 1992, outlays for the subsidy cost of direct loans and loan guarantees are recorded as the underlying loans are disbursed. Outlays are stated net of offsetting collections, and total outlays for the Federal Government include both on-budget and off-budget outlays.

Balances of Budget 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.² 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*.

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

Government programs may be carried out through federally supported credit in the form of *direct loans* or *loan guarantees*. A direct loan is a disbursement of funds by the Government to a non-Federal borrower under a contract that requires the repayment of such funds with or without interest. 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 of 1990 made significant changes in the methods of budgeting and accounting for Federal credit programs beginning

²Additional 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.

in 1992. The new treatment (described below) is designed to measure the effect on the budget of direct loan programs and guaranteed loan programs so that they can be compared to each other and to other methods of delivering benefits, such as grants, on an equivalent basis.

The estimated *subsidy costs* arising from the direct loans and loan guarantees of a program must be calculated on a net present value basis. For most programs, direct loan obligations and loan guarantee commitments cannot be made unless appropriations for the subsidy cost have been provided in advance in annual appropriations acts. In addition, the budget proposes annual limitations in appropriations language on the amount of obligations for direct loans and commitments for guaranteed loans.

Subsidy appropriations are recorded as budget authority in *credit program accounts*. All cash flows arising from direct loan obligations and loan guarantee commitments are recorded in separate *financing accounts*. The transactions of the financing accounts are not included in the budget totals. The program accounts make subsidy payments, recorded as on-budget outlays, to the financing accounts at the time of the disbursement of the direct or guaranteed loans.

The transactions associated with direct loan obligations and loan guarantee commitments made prior to 1992 continue to be accounted for on a cash flow basis and are recorded in *liquidating accounts*. In most cases, the liquidating account is the account that was used for the program prior to the enactment of the 1990 requirements.

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.

Governmental Receipts.—These are collections from the public that result primarily from the exercise of the Government's sovereign or governmental powers. Governmental receipts consist 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 re-

ceipts 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 amounts collected 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 the collections available to spend for the purpose of the account without further action by the Congress. The authority to spend the offsetting collections is recorded as budget authority. It is not unusual for the Congress to enact limitations in annual appropriations acts on the obligations that can be financed by such budget authority. The budget authority and outlays of the appropriation or fund account are shown both gross (that is, before deducting offsetting collections) and net (that is, after deducting offsetting collections). Totals for the agency, subfunction, and budget are net of such offsetting collections, except where specified otherwise.

Offsetting Receipts.—Offsetting collections are called offsetting receipts and credited to general fund, special fund, or trust fund receipt accounts unless laws authorize them to be credited to expenditure accounts. Offsetting receipts 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. Most proprietary receipts are deducted from the budget authority and outlay totals of the agency that conducts the activity generating the receipt and of the subfunction to which the activity is assigned. For example, fees for using National Parks are deducted from the totals for the Department of Interior, which has responsibility for the parks, and the Recreational Resources subfunction. Some proprietary receipts, however, are not offset against any specific agency or function and are classified as undistributed offsetting re-

ceipts. They are deducted from the Government-wide totals for budget authority and outlays. For example, the collections of rent and royalties from Outer Continental Shelf lands are undistributed because the amounts are large and do not arise in significant measure from the spending of the agency and subfunction that administers the transactions.

- *Intragovernmental transactions.*—These are collections from governmental appropriation or fund accounts, deposited into receipt accounts. Most intragovernmental transactions are deducted from the budget authority and outlays of the agency that conducts the activity generating the receipts and of the subfunction to which the activity is assigned. In two cases, however, intragovernmental transactions appear as special deductions in computing total budget authority and outlays for the Government rather than as offsets at the agency level—agencies' payments as employers into employee retirement trust funds and interest received by trust funds. The special treatment for these receipts is necessary because the amounts are large and would result in distortions in the agency totals.

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 expenditure accounts to off-budget receipt accounts, and from off-budget expenditure 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.

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.

Credit Financing Account Balances.—Credit financing accounts are established outside the budget to record the non-subsidy cash flows (mainly direct loan disbursements and repayments and guaranteed loan default payments) for new credit transactions beginning in 1992. These accounts will have balances of assets and liabilities. The financing accounts for guaranteed loans will hold subsidy cost payments from on-budget accounts against the need to make future default claim payments; the financing accounts for direct loans will have balances of debt owed to Treasury. Changes in these balances affect Treasury's need for cash, even though the transactions are not a part of the budget. Such changes are treated as a means of financing the deficit other than borrowing from the public.

Deposit Fund Account Balances.—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 in private securities, 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 borrowing from the public or a means of financing the deficit other than borrowing from the public, depending on whether the deposit funds are classified as part of the public or the Government.

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. In particular, the acquisition of physical assets through certain types of lease-purchase arrangements are treated as though they were outright purchases.

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, if any. 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 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.

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.

Principal Budget Laws.—The following are the basic laws pertaining to the Federal budget process:

- *Article 1, section 9, clause 7 of the Constitution*, which requires appropriations in law before money may be spent from the Treasury.
- *Chapter 11 of Title 31, United States Code*, which prescribes procedures for submission of the President's budget and information to be contained in it.
- *Congressional Budget and Impoundment Control Act of 1974* (Public Law 93-344), as amended. This Act comprises the:

- Congressional Budget Act of 1974, as amended, which prescribes the congressional budget process; and
- Impoundment Control Act of 1974, which controls certain aspects of budget execution.
- *Balanced Budget and Emergency Deficit Control Act of 1985* (Public Law 99-177), as amended, which prescribes rules and procedures (including “sequestration”) designed to eliminate excess deficits. This Act is commonly known as the Gramm-Rudman-Hollings Act.
- *Budget Enforcement Act of 1990* (Title XIII, Public Law 101-508), which significantly amended the laws pertaining to the budget process, including the Congressional budget Act and the Balanced Budget and Emergency Deficit Control Act.
- *Federal Credit Reform Act of 1990*, a part of the Budget Enforcement Act of 1990, which prescribes the accounting for Federal credit programs.
- *Antideficiency Act* (codified in Chapters 13 and 15 of Title 31, United States Code), which prescribes rules and procedures for budget execution.

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