THE BUDGET SYSTEM AND CONCEPTS OF THE UNITED STATES GOVERNMENT

APRIL 1993

For sale by the U.S. Government Printing Office
Superintendent of Documents, Mail Stop: SSOP, Washington, DC 20402-9328
ISBN 0-16-041693-0

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The budget system of the United States Government provides the means by which the Government decides how much money to spend and what to spend it on, and how to raise the money it has decided to spend. Once these decisions are made, the budget system ensures that they are carried out. The Government uses the budget system to determine the allocation of resources among its major functions—such as ensuring the national defense, promoting commerce, and providing health care—as well as to determine the objectives and scope of individual programs, projects, and activities. While the focus of the budget system is on dollars, other resources, such as federal employment, are controlled through the budget system, too. The decisions made in the budget process affect the nation as a whole, state and local governments, and individual Americans. Many budget decisions have worldwide significance.

This pamphlet provides an overview of the budget system and explains some of the more important budget concepts. The principal laws pertaining to the budget system are referred to by title throughout the text, and complete citations are given at the end of the pamphlet.

THE BUDGET PROCESS

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

Formulation of the President's Budget

The Budget of the United States Government sets forth the President's financial proposal with recommended 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 may propose changes to funding levels already provided for the current year, and it covers the four years following the budget year in order to reflect the effect of budget decisions over the longer term. The budget includes data on the most recently completed fiscal year so that the budget estimates can be compared to actual accounting data and to make preliminary plans over the longer horizon.

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. The President establishes general budget and fiscal policy guidelines. Based on these guidelines, the Office of Management and Budget

(OMB) issues more specific 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.

During the formulation of the budget, there is a continual exchange of information, proposals, evaluations, and policy decisions among the President, the Director of OMB, other officials in the Executive Office of the President, the Secretaries of the departments, and other heads of 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.

In September, agencies submit budget requests to OMB, where budget examiners and management analysts review them and recommend to OMB officials, including the Director, whether to approve, disapprove, or modify elements of the agencies' requests. When the OMB decisions are passed back to the agencies, the head of an agency may ask the Director to reconsider selected decisions and may appeal issues that cannot be resolved with the Director to the President. Few decisions are appealed to the President. This decision-making process is usually completed by early January. At that time, the final stage of developing detailed budget data and the preparation of the budget documents begins.

The decision-makers must consider the effect of economic and technical assumptions on the budget. Interest rates, the rate of inflation, employment levels, and the size of the beneficiary populations are some of the assumptions that must be made. Small changes in these assumptions can affect budget estimates by billions of dollars. Budget 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 allocation of resources among the functions of the Government, the total outlays and receipts that are appropriate in relation to current and prospective economic conditions, and statutory constraints. Through 1995, certain categories of spending and the maximum deficit amount are limited by law (see **Budget Enforcement** below).

In most years, the President transmits the budget to Congress early in each calendar year, eight to nine months before the beginning of the next fiscal year on October first.[1] The Budget Enforcement Act of 1990 changed the date by which the President is required to transmit the budget from the first Monday after January 3rd to the first Monday in February. As a result of this change, President Bush was not required to submit a budget before he left office. Thus, President Clinton is the first President in modern times required to construct and submit to Congress a complete budget so soon after taking office. President Clinton submitted a report to Con-

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

gress, *A Vision of Change for America,* on February 17, 1993, which described his comprehensive economic and budgetary plan for the nation. *The Budget of the United States Government, Fiscal Year 1994,* was transmitted in early April 1993.

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 acts each year that provide authority to spend for specified purposes. Also, vast amounts of spending occur as a result of permanent laws; that is, laws that do not need to be reenacted each year. Almost all taxes and most other collections result from permanent laws. Amendments to permanent laws usually have little effect on receipts and outlays in the year the amendments are enacted.

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 (spending) directly, but rather on ***budget authority,*** which is the authority to incur legally binding obligations of the Government that will result in immediate or future outlays. For the majority of Federal programs, budget authority is provided each year in appropriations acts. However, most of the total budget authority available in a year is provided by permanent laws. This is because the budget authority for interest on the public debt and a few programs with large amounts of obligations each year, such as social security, are funded by permanent law. The outlays from permanent budget authority, together with the outlays from obligations incurred with budget authority provided in previous years, account for the majority of the outlay total for any year. Therefore, most outlays in a year are not controlled through appropriations actions for that year. The types of budget authority, 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 the budget to Congress. Under the procedures established by the Congressional Budget Act, 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. The Budget Committees initiate the concurrent resolution on the budget. The ***budget resolution*** sets targets for total receipts and for budget authority and outlays, in total and by functional category (see **Functional Clas-**

sification below). It allocates amounts of budget authority and outlays within the functional category totals to the committees that have jurisdiction over the programs in the functions. The budget resolution is scheduled to be adopted by the whole Congress by April 15 of each year, but passage is often delayed. After passage of the budget resolution, a point of order can be raised to block consideration of bills that would cause a committee's allocation to be exceeded. Like the President's budget, the budget resolution is subject to spending limitations imposed in law through 1995.

Budget resolutions are not laws and, therefore, do not require the President's approval. However, Congress considers the Administration's views, because legislation developed to meet congressional budget targets does require the President's approval. In some years, the President and the joint leadership of Congress have formally agreed on the framework of a deficit reduction plan. These agreements were reflected in the budget legislation passed for those years. Such a process led to the enactment of the Budget Enforcement Act, which is designed to constrain spending through 1995.

Committees in the House of Representatives and the Senate consider appropriations requests and changes in revenue laws concurrently. The Appropriations Committee in each body has jurisdiction over annual appropriations. Those committees are divided into subcommittees that hold hearings and review detailed budget justification materials prepared by the agencies within the subcommittee's jurisdiction. The House Ways and Means Committee and the Senate Finance Committee review proposed tax measures.

Appropriations and tax bills are drafted in the House. Annually enacted appropriations are divided among thirteen regular appropriations bills. After a bill has been approved by the committee and by the whole House, usually with amendments to the original version, it is 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 approval or veto.

If action on one or more appropriations bills 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 for entitlement programs, the spending for which is often not controlled through appropriations acts.

Budget Enforcement

The Balanced Budget and Emergency Deficit Control Act (commonly known as the Gramm-Rudman-Hollings Act), which was extended and amended extensively by the Budget Enforcement Act, imposes limits on outlays, receipts, and the deficit through 1995. This law also determines the procedures for enforcing the limits throughout the budget process each year.

The Act divides spending into two types—***discretionary appropriations*** and ***direct spending,*** which sometimes is called mandatory spending. Discretionary appropriations are controlled through annual appropriations acts, and direct spending is generally controlled by other laws that do not have to be re-enacted each year. Funding for salaries and other operating expenses of Government agencies, for example, is usually provided by discretionary appropriations. Social security benefits and interest on the public debt are examples of direct spending, because payments for those purposes are authorized in permanent laws.

The Act specifies procedures, called ***sequesters,*** for reducing spending if it would otherwise exceed the limits. 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. The procedures are designed to apply uniform reductions to the kind of spending, discretionary or direct, that caused the sequester.

Through 1993, discretionary appropriations are subdivided into three categories—***defense, international,*** and ***domestic***—with separate limits for each category. For 1994 and 1995, limits apply to the total of discretionary spending. Separate limits are specified for budget authority and outlays. From adjournment of a session of Congress (usually in the Fall of each year) through the following June 30th, ***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. Because a sequester in the last quarter of a fiscal year might be too disruptive, the Act specifies that a sequester that otherwise would be required then is to be accomplished by reducing the limit for that 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 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 percentage. Special rules apply in reducing some programs, and some programs are exempt from sequester by law.

A third type of sequester, called a ***deficit sequester,*** could occur in 1995 if the deficit is estimated to exceed a maximum deficit amount (determined under the law) by more than $15 billion. The Act specifies procedures for reducing outlays by the amount of the excess deficit. This could happen only if the President chooses not to adjust the specified maximum deficit amount to reflect up-to-date reestimates of economic and technical assumptions, as permitted by the Act. The President chose to make such an adjustment for 1994, the first time the option was available under the Act.

The Act provides that the estimates and calculations that determine whether there is to be a sequester are to be made by 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 and CBO estimates. 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 of the OMB report. The General Accounting Office is required to prepare compliance reports.

Budget Execution

Government officials are generally required to spend no more and no less than has been appropriated, and they may use funds only for purposes specified in law. Additionally, the funds available to most executive branch agencies are subject to apportionment under the Antideficiency Act. Under the Act, OMB usually apportions by time periods (usually by quarter of the fiscal year) and sometimes by activities. Agencies may request that an account be reapportioned during the year to accommodate changing circumstances. This system helps to ensure that funds are available to cover operations for the entire year.

If changes in laws or other factors may make it necessary, supplemental requests may be sent to Congress. On the other hand, amounts appropriated may be withheld 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 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 continual session. Otherwise, the withheld funds must be made available for spending. In total, Congress has approved about one-third of the amount of funds that Presidents have proposed for rescission.

Budget Calendar

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

Between the 1st Monday in January and 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

Federal Government and Budget Totals

The budget documents provide information on all Federal agencies and programs. 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 Government-sponsored enterprises, such as the Federal National Mortgage Association (Fannie Mae) and the Student Loan Marketing Association (Sallie Mae). The enterprises are chartered by federal law but are considered to be privately owned and operated corporations. Because of their close relationship to the Government, these enterprises are discussed in several parts of the budget and financial data about them are provided in some detailed presentations.

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

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

- A function 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.

Agencies, Accounts, Programs, Projects, and Activities

Various summary tables provide information on budget authority, outlays, and receipts arrayed by Federal agency. (These terms are discussed in following sections.) One part of the budget, *Federal Programs by Agency and Account,* consists of a table that lists budget authority and outlays by budget account within each agency and the totals for each agency of budget authority, outlays, and receipts that offset the agency spending totals. Another part of the budget, *Detailed Budget Estimates,* provides budgetary, financial, and descriptive information about programs, projects, and activities by account within each agency. This part of the budget also presents the most recently enacted appropriation language for an account and any changes that are proposed to be made for the budget year.

Types of Funds

Agency activities are financed through Federal funds and trust funds.

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

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 (such as the Highway Trust Fund) or for carrying out the stipulations of a trust agreement (such as any of several trust funds for gifts and donations for specific purposes). ***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.

COLLECTIONS

In General

Money collected by the Government is classified into two major categories:

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

Governmental Receipts

These are collections from the public that result primarily from the exercise of the Government's sovereign or governmental powers. Governmental receipts consist mostly of individual and corporate income taxes and social insurance taxes, but also include compulsory user charges, receipts from customs duties, court fines, certain license fees, and deposits of earnings by the Federal Reserve System. Gifts and donations are also counted as governmental receipts. Total receipts for the Federal Government include both on-budget and off-budget receipts.

Offsetting Collections

These are amounts received from the public as a result of business-like or market-oriented activities (for example, proceeds from the sale of postage stamps or electricity, fees for admittance to recreation areas, or the proceeds from the sale Government-owned land) and amounts collected from other Government accounts. Offsetting collections from the public are deducted from gross budget authority and outlays, rather than combined with governmental receipts. The purpose of this treatment is to produce budget totals for receipts, budget authority, and outlays that represent governmental rather than market activity. Intragovernmental offsetting collections are deducted from gross budget authority and outlays in order to avoid the double counting that would occur if budget authority and outlays for both the payment between Government accounts and the payment from a Government account to the public were included in the totals.

Offsetting collections 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 Expenditure Accounts

For all revolving funds and some appropriation accounts, laws authorize collections to be credited directly to expenditure accounts and, usually, to be spent for the purpose of the account without further action by Congress. For example, a permanent law authorizes the Postal Service to use collections from the sale of stamps to finance its operations without a requirement for annual appropriations. The offsetting collections that are authorized to be spent are recorded as budget authority. Sometimes, however, appropriations acts contain limitations on the obligations that can be financed by such budget authority. In those cases, the recorded budget authority is adjusted to reflect the amount available to incur obligations. 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 offsetting collections.

Offsetting Receipts

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

- ***Proprietary receipts from the public.***—These are collections from the public, deposited in receipt accounts, that arise 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. A limited number of proprietary receipts, however, are not offset against any specific agency or function and are classified as undistributed offsetting receipts. They are deducted from the Government-wide totals for budget authority and outlays. For example, the collections of rent and royalties from Outer Continental Shelf lands are undistributed because the amounts are large and for the most part are not related to the spending of the agency and subfunction that administers the transactions.

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

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 transactions that are not intrabudgetary—payments from on-budget expenditure accounts to off-budget receipt accounts, and from off-budget expenditure accounts to on-budget receipt accounts.

BUDGET AUTHORITY AND OTHER BUDGETARY RESOURCES, OBLIGATIONS, AND OUTLAYS

Budget Authority and Other Budgetary Resources

Government agencies are permitted to enter into obligations requiring either immediate or future outlays only when they have been granted authority to do so by law. This authority is recorded as ***budget authority*** in the year that it first becomes available. Unobligated balances of budget authority may remain available from previous years, but they are not recorded as budget authority again in subsequent years. They do, however, 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.

In deciding the amount of budget authority to request in the budget for a program, project, or activity, Government officials estimate the total amount of obligations that will need to be incurred to achieve desired goals and subtract the amounts of unobligated balances available for these purposes. The amount of budget authority requested is influenced by the nature of the programs, projects, or activities being financed. For current operating expenses, the amount requested usually is the amount estimated to be needed for the year. For major procurement programs and construction projects, a full funding policy generally applies. Under this policy, an amount that is estimated to be adequate to complete the procurement or project must be requested to be appropriated in the first year, even though it may be obligated over several years. This policy is intended to avoid piecemeal funding of programs and projects that cannot be used until they have been completed.

Budget authority takes several forms:

- ***appropriations,*** which permit obligations to be incurred and payments to be made;
- ***borrowing authority,*** which permits obligations to be incurred but requires that funds be borrowed, generally from the general fund of the Treasury, to make payment; and
- ***contract authority,*** which permits obligations in advance of a separate appropriation of the cash for payment or in anticipation of the collection of receipts that can be used for payment.

The form of budget authority is usually determined in the authorizing statute for a program. Most programs are funded by appropriations. An appropriation may make available funds from the general fund, special funds, trust funds, or a combination of those sources. The authority to spend offsetting collections credited to expenditure accounts is another form of appropriation. Borrowing authority is usually authorized for business-like activities where the activity being financed is expected to produce income over time with which to repay the borrowing with interest. Contract authority is a traditional form of budget authority for certain programs, particularly transportation programs.

Budget authority that is provided in an annual appropriations act is available for obligation only during the fiscal year to which the appropriations act applies, unless the appropriation language providing the budget authority specifies that it is to remain available for a longer period. Typically, budget authority for current operations is made available for obligation in only one year. Some budget authority is made available for a specified number of years. Other budget authority, including most provided for construction, some for research, and many appropriations of trust fund receipts, is made available for obligation until the amount appropriated has been expended or until the program objectives have been attained.

Congress usually makes budget authority available on the first day of the fiscal year for which the appropriations act is passed. Occasionally, the appropriations language specifies a different timing. The language may provide an ***advance appropriation***—budget authority that does not become available until one year or more beyond the fiscal year for which the appropriations act is passed. ***Forward funding*** refers to budget authority that is made available for obligation beginning in the last quarter of the fiscal year (beginning on July 1st) for the financing of ongoing grant programs during the next fiscal year. This kind of funding is used mostly for education programs, so that obligations for grants can be made prior to the beginning of the next school year. For certain benefit programs funded by annual appropriations, the appropriation provides for ***advance funding***—budget authority that is to be charged to the appropriation in the succeeding year but which authorizes obligations to be incurred in the last quarter of the fiscal year if necessary to meet 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 and cannot be used later. Provisions of law that extend the availability of unobligated amounts that have expired or would otherwise expire are called ***reappropriations.*** Reappropriations are counted as new budget authority in the fiscal year in which the balances become newly available. For example, if a 1994 appropriations act extends the availability of unobligated budget authority that otherwise would expire at the end of 1993, new budget authority would be recorded for 1994.

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 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 expenditure 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 annual appropriations acts. 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 applies to public enterprise revolving funds.

Budget authority also is classified in the budget as *definite* or *indefinite.* Budget authority is definite if the legislation that provides it specifies a definite dollar amount (including an amount not to be exceeded). Budget authority is indefinite if, instead of specifying an amount, the legislation providing it permits the amount to be determined by subsequent circumstances. For example, indefinite budget authority is provided for interest on the public debt, payment of claims and judgments awarded by the courts against the U.S., and many entitlement programs. Many of the laws that authorize collections to be credited to revolving, special, and trust funds make all of the collections available for expenditure for the authorized purposes of the fund. Such authority is considered to be indefinite budget authority. In some such cases, only some of these amounts are counted as budget authority, because they are precluded from obligation in a fiscal year by a provision of law, such as a limitation on obligations or a benefit formula (for example, the formula for unemployment insurance benefits).

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. For Federal credit programs, obligations are recorded in an amount equal to the estimated subsidy cost of direct loans and loan guarantees (see **FEDERAL CREDIT** below).

Outlays

Outlays are recorded when obligations are paid. The amount of the outlay is the amount paid. Obligations are usually paid in the form of cash (currency, checks, or electronic fund transfers). However, obligations also may be paid and outlays recorded even though no cash is disbursed. For example, outlays are recorded for the full amount of Federal employees' salaries, even though the cash disbursed to the employee is net of Federal and state taxes, retirement contributions, life and health insurance premiums, and other deductions. (Receipts are also recorded for the deductions that represent payments to the Government.) Outlays are recorded when debt instruments (bonds, debentures, notes, or monetary credits) are used to pay obligations. (An increase in debt is also recorded when such instruments are used.) For example, the acquisition of physical assets through certain types of lease-purchase arrangements is treated as though an outlay were made for an outright purchase. Because no cash is paid at that time nominal owner of the asset, a debt is recorded. Lease payments in such cases are recorded as repayments of principal and interest.

The treatment of interest varies. Outlays for the interest on the public issues of Treasury debt securities are recorded as the interest accrues, not when it is actually paid. 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. The special issues of zero-coupon bonds held by the Pension Benefit Guaranty Corporation are recorded at market value and the interest is accrued.

For Federal credit programs, outlays for the subsidy cost of direct loans and loan guarantees are recorded as the underlying loans are disbursed.

Refunds of receipts (such as income taxes in excess of tax liabilities) are recorded as reductions of receipts, rather than as outlays.

Outlays during a fiscal year may be for the payment of obligations incurred in the same year or in prior years. Obligations, in turn, may be incurred under budget authority provided in the same or in prior years. 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. The ratio of the outlays resulting from budget authority enacted in any year to the amount of that budget authority is referred to as the ***spendout rate*** for that year.

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

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 at the end of a year 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 paid.[2]

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 prescribes the budget treatment for Federal credit programs. This treatment is designed to measure the ***cost*** of subsidizing direct loans and guaranteed loans in the budget, rather than the cash flows, so they can be compared to each other and to other methods of delivering benefits, such as grants, on an equivalent basis.

Under credit reform, the estimated long-term cost to the Government arising from the direct loans and loan guarantees of a credit program must be estimated and recorded in the budget in a ***credit program account.*** The cost is calculated on a net present value basis.[3] For most programs, direct loan obligations and loan guarantee commitments cannot be made unless Congress has appropriated funds for the costs in advance in annual appropriations acts. In addition, the appropriation language for most credit programs includes annual limitations on the amount of obligations for direct loans and commitments for loan guarantees.

When a direct or guaranteed loan is disbursed, the program account makes a payment equal to the cost, which is recorded as an outlay, to a non-budgetary ***credit financing account.*** For a few programs, the computed cost is negative for a portion or all of the direct loans and loan guarantees. In such cases, the financing account makes a payment to a special fund receipt account established for the program, where it is recorded as an offsetting receipt.

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[2] 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.

[3] *Present value* is a standard financial concept that allows for the time value of money, that is, for the fact that a given sum of money is worth more at present than in the future because interest can be earned on it. The cost of direct loans and loan guarantees is a *net present value* because collections are offset against disbursements.

The cost of the outstanding direct and guaranteed loans is reestimated each year. If the cost is estimated to have increased, an additional outlay is made from the program account to the financing account, and, if the cost is estimated to have decreased, a payment is made from the financing account to the program's special fund, where it is recorded as an offsetting receipt. A permanent appropriation is available to pay the increased costs resulting from reestimates.

If the terms of an outstanding direct loan or loan guarantee are modified in a way that increases the cost, an outlay in the amount of the increased cost is made from the program account to the financing account. The additional cost is recorded as an obligation against the budget authority provided for the costs of the program for that year. The requirement to record the costs of modification applies to pre-credit reform, as well as post-credit reform, direct loans and loan guarantees.

Credit financing accounts record all cash flows to and from the Government arising from direct loan obligations and loan guarantee commitments. These cash flows consist mainly of direct loan disbursements and repayments and loan guarantee default payments. The cash flows of direct loans and of loan guarantees are recorded in separate financing accounts for programs that do both. The transactions of the financing accounts are displayed in the budget documents for information and analytical purposes, together with the related program accounts, but are excluded from the budget totals. Financing account transactions are a means of financing a budget surplus or deficit (see **Credit Financing Accounts** below).

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 credit reform in 1990.

BUDGET DEFICIT OR SURPLUS AND MEANS OF FINANCING

A budget deficit is the amount by which outlays exceed receipts. When receipts exceed outlays, the difference is a budget surplus. 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 is not defined as receipts, and debt repayment is not defined as outlays. If they were, the budget would initially be balanced by definition. This rule applies both to borrowing in the form of Treasury securities and to specialized borrowing in the form of agency securities (including the issuance of debt securities to liquidate an obligation and the sale of certificates representing participation in a pool of loans).

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 but 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 Accounts

The net cash flows of credit programs are recorded in credit financing accounts, which are excluded from the budget totals, and are called ***net financing disbursements.*** (See **FEDERAL CREDIT** above.) Net financing disbursements are defined in the same way as the outlay of a budgetary account and may be either positive or negative. If positive, they must be paid in cash and increase the requirement for Treasury borrowing in the same way as an increase in budget outlays and the budget deficit; if negative, they provide cash to the Treasury that can be used to finance the payment of the Government's obligations. The net financing disbursement are therefore 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 Federal 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 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 U.S. 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

Data for the Past Year

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

Data for the Current Year

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

Data for the Budget Year

The budget year column includes estimates of transactions and balances based on the amounts of budgetary resources that are estimated 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 when 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 transmittal of the budget and the amounts planned for later transmittal.

Data for the Outyears

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

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 amended the Congressional Budget Act to prescribe the budget treatment 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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ISBN 0-16-041693-0

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