BUDGET SYSTEM AND CONCEPTS OF THE UNITED STATES GOVERNMENT

FEBRUARY 1995

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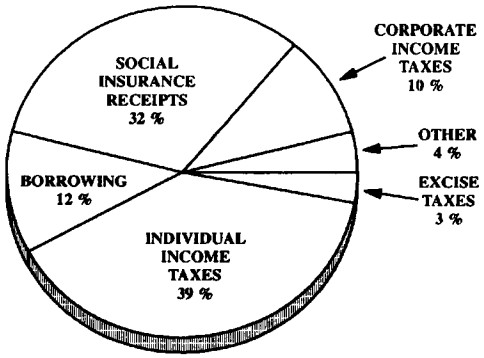
THE FEDERAL GOVERNMENT DOLLAR
FISCAL YEAR 1996 ESTIMATES

WHERE IT COMES FROM...



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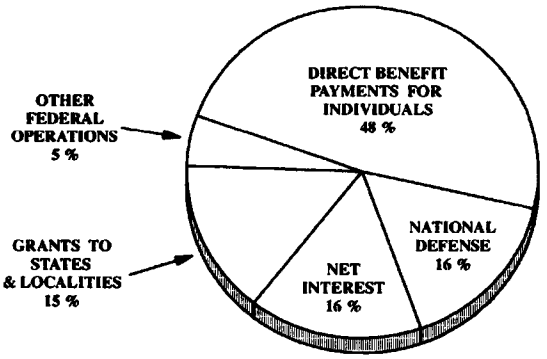

GENERAL NOTES

1. This pamphlet was extracted from the *Analytical Perspectives* volume of *The Budget of the United States Government, Fiscal Year 1996.*
2. All years referred to are fiscal years, unless otherwise noted.
3. Detail in this document may not add to the totals due to rounding.

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THE BUDGET SYSTEM AND CONCEPTS AND GLOSSARY

OF THE

UNITED STATES GOVERNMENT

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. 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 chapter provides an overview of the budget system and explains some of the more important budget concepts. A glossary of budget terms is provided at the end of the chapter. Summary dollar amounts illustrate major concepts. These figures and more detailed amounts are discussed in more depth in other chapters of the budget document.

The budget system is governed by various laws that have been enacted to carry out requirements of the Constitution. The principal laws pertaining to the budget system are referred to by title throughout the text, and complete citations are given later in the chapter.

THE BUDGET PROCESS

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

(1) formulation of the President's budget;
(2) congressional action on the budget; and
(3) budget execution.

Formulation of the President's Budget

The Budget of the United States Government consists of several volumes that set forth the President's financial proposal with recommended priorities for the allocation of resources by the 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

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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.

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. (See the Budget Calendar below.) The President establishes general budget and fiscal policy guidelines. Based on these guidelines, the Office of Management and Budget (OMB) works with the federal agencies to establish specific policy directions and planning levels for the agencies, both for the budget year and for 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 for the fiscal year in progress, 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 the fall, agencies submit budget requests to OMB, where analysts review them and identify for OMB officials issues that need to be discussed with agencies. Many issues are resolved between OMB and the agency. Others require the involvement of the President and White House policy officials. This decision-making process is usually completed by late December. At that time, the final stage of developing detailed budget data and the preparation of the budget documents begins.

The decision-makers must consider the effects of economic and technical assumptions on the budget estimates. Interest rates, economic growth, the rate of inflation, 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. (Chapter 1, "Economic Assumptions" in the Analytical Perspectives volume of the 1996 budget provides more information on this subject.)

Budget decisions must also take into account any statutory limitations on receipts, outlays, and the deficit (see Budget Enforcement below).

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

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. The transmittal of the President's budget to Congress is scheduled in law for the first Monday

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in February. For various reasons, the budget has not always been transmitted on the scheduled date. In some years, Congress has been late in passing appropriations acts for the fiscal year prior to the budget year, which delays preparation of the budget. Also, this schedule does not require an outgoing President to transmit a budget, it is not practical for an incoming President to complete a budget within a few days of taking office on January 20th.[1]

Congressional Action[2]

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.

Congressional review of the budget begins shortly after the President transmits the budget to Congress. 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 the House and Senate to recommend budget levels and report legislative plans concerning matters within the committee's jurisdiction to the Budget Committee in each body. The Budget Committees then initiate the concurrent resolution on the budget. The budget resolution sets appropriate levels for total receipts and for budget authority and outlays, in total and by functional category (see Functional Classification below). It also sets appropriate levels for the budget deficit (or surplus) and debt.

The explanatory statement that accompanies the budget resolution 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 House and Senate Appropriations Committees are required, in turn, to allocate amounts of budget authority and outlays among its respective subcommittees. Other committees may make allocations among their subcommittees but are not required to. There is no allocation at the program level. However, the functional allocations are based on certain assumptions about the level of funding for major programs. These assumptions may be included in the explanatory statement, but they are not binding on the committees of jurisdiction. The budget resolution may contain "reconciliation directives," which are discussed below.

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

[1] The transmittal date was changed in 1990 from the first Monday after January 3rd. Thus, President Clinton was the first President in modern times to face this problem. The 1994 Budget was transmitted in early April 1993.

[2] For a fuller discussion of the congressional budget process, see Allen Schick, Robert Keith, and Edward Davis, *Manual on the Federal Budget Process* (Congressional Research Service Report 91-902 GOV, December 24, 1991) and Davis and Keith, *Budget Process Changes Adopted in August 1993* (CRS Report 93-778 GOV, December 6, 1993).

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resolution is subject to spending limitations imposed in law through 1998.

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 allocations 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 resolution and legislation passed for those years.

Congress does not enact a budget as such. It provides spending authority for specified purposes in several appropriations acts each year (usually thirteen). 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. In a separate process, 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, some are authorized for a specified number of years, and others are authorized indefinitely. Congress may enact appropriations for a program even though there is no specific authorization for it.

Appropriations bills are initiated in the House. 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. 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.

Congress provides spending authority in permanent laws as well as appropriations acts. These are laws that do not need to be reenacted each year. In fact, while spending authority for the majority of Federal programs is provided each year in appropriations acts, most of the total spending authority available in a year is provided

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by permanent laws. This is because the budget authority for interest on the public debt ($297 billion in 1994) and a few programs with large amounts of obligations each year, such as social security ($321 billion in 1994), 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 in the chapter.

Almost all taxes and most other receipts result from permanent laws. Tax bills are initiated in the House. The House Ways and Means Committee and the Senate Finance Committee have jurisdiction over tax laws.

The reconciliation directives in a budget resolution usually require changes in permanent laws. They instruct each designated committee to make changes in the laws under the committee's jurisdiction that will change the levels of receipts and spending controlled by the laws. The instructions specify the dollar amount of changes that each designated committee is expected to achieve through changes in law, but do not specify the laws to be changed or the changes to be made. However, the changes in receipt and outlay amounts are based on certain assumptions about how laws would be changed, and these assumptions may be included in the explanatory statement accompanying the budget resolution. Like other assumptions included in the explanatory statement, these are not binding on the committees of jurisdiction.

The committees that are subject to reconciliation directives are expected to prepare implementing legislation. Such legislation may, for example, change the tax code, change benefit formulas or eligibility requirements for entitlement programs, or authorize Government agencies to charge fees to cover some of their costs. In some years, Congress has enacted an omnibus budget reconciliation act (OBRA), which combines the amendments to implement reconciliation directives in a single act. These acts, together with appropriations acts for the year, often implement agreements between the President and the Congress. They may include other matters, such as laws providing the means for enforcing these agreements, as described below.

Budget Enforcement

The Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as the Gramm-Rudman-Hollings Act) constrains legislation that would increase spending or decrease receipts through 1998. It was extended and amended extensively by the Budget Enforcement Act of 1990 and extended again by the Omnibus Budget Reconciliation Act of 1993.

The Act divides spending into two types—***discretionary spending*** and ***direct spending*** (sometimes called mandatory spending). Discretionary spending is controlled through annual appropriations acts.

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Funding for salaries and other operating expenses of Government agencies, for example, is usually discretionary because it is usually provided by appropriations acts. Direct spending is controlled by permanent laws. Medicare and medicaid payments, unemployment insurance benefits, and farm price supports are examples of direct spending, because payments for those purposes are authorized in permanent laws. The Act specifically defines funding for the Food Stamp program as direct spending, even though funding for the program is provided in appropriations acts. The Act includes receipts under the same rules that apply to direct spending, because receipts are generally controlled by permanent laws.

The Act constrains discretionary spending differently from direct spending and receipts. Discretionary spending is constrained by dollar limits ("caps") on budget authority and outlays for each fiscal year through 1998. The caps are adjusted when the budget is transmitted each year for the difference between the inflation rates assumed when the caps were enacted and actual inflation rates. The Act requires the caps to be adjusted for certain other reasons, such as to reflect the enactment of emergency appropriations. The caps for this budget, adjusted to reflect proposed changes, are shown in the following table:

DISCRETIONARY SPENDING LIMITS

(In billions of dollars)

	1994	1995	1996	1997	1998
Budget authority	525.1	527.0	508.2	497.9	510.5
Outlays	547.6	549.8	546.8	543.8	535.5

If the amount of budget authority provided in appropriations acts for the year exceeds the discretionary cap on budget authority, or the amount of outlays estimated to result from this budget authority is estimated to exceed the discretionary cap on outlays, the Act specifies a procedure, called ***sequestration,*** for reducing discretionary spending. Under a sequester, spending for most discretionary programs is reduced by a uniform percentage. Special rules apply in reducing some programs, and some programs are exempt from sequester by law.

The Violent Crime Control and Law Enforcement Act of 1994 created the Violent Crime Reduction Trust Fund and appropriated a specified amount to the Fund for each year from 1995 through 2000. Spending from the Fund is controlled by annual appropriations acts, however, it is not subject to the general purpose discretionary caps. Instead, the Act specified outlay caps, which are not adjustable, and effectively capped budget authority, as shown in the following table:

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VIOLENT CRIME REDUCTION LIMITS

(In billions of dollars)

	1994	1995	1996	1997	1998
Budget authority	—	2.4	4.3	5.0	5.0
Outlays	—	0.7	2.3	3.9	4.9

The Act amended the Gramm-Rudman-Hollings Act to require a separate sequester procedure, similar to the one required for general purpose discretionary spending, if the Violent Crime Reduction caps are exceeded.

Laws that would increase direct spending or decrease receipts are constrained through *"pay-as-you-go"* (PAYGO) rules. Under these rules, the cumulative effects of legislation affecting direct spending or receipts must not increase the deficit. Legislated increases in benefit payments, for example, have to be offset by legislated reductions in other direct spending or increases in receipts. Following the end of a session of Congress, OMB estimates the net effect on the deficit of laws enacted since the Act was passed that affect direct spending and receipts. If there is an estimated net increase in the deficit for the current fiscal year and the budget year combined, the Act specifies sequester procedures for the uniform reduction of most non-exempt direct spending programs. Special rules apply in reducing some non-exempt programs. Less than 3 percent of all direct spending is sequesterable; the rest is exempt from sequester by law.

The PAYGO rules do not apply to increases in direct spending or decreases in receipts that are not the result of new laws. For example, direct spending for benefit programs, such as unemployment insurance, rises when the population of eligible beneficiaries rises and many benefit payments are automatically increased for inflation under existing laws. Tax revenues decrease when the profits of private businesses decline as the result of economic conditions. To address the problem of rising direct spending, President Clinton issued Executive Order No. 12857, which established targets for direct spending (excluding deposit insurance and interest on the public debt) for 1994 through 1997. The targets were based on estimates made in 1994 and may be adjusted for unanticipated increases in the number of beneficiaries. If there is an actual or projected overage in any year, the President must submit a message to Congress, explaining the cause. Depending on the economic circumstances at the time, the President may recommend recouping or eliminating all, some, or none of the overage. If the President recommends reducing the overage, he must specify how. The House has instituted rules to expedite its response to such a message. (Chapter 15, "Review of Direct Spending and Receipts," in the *Analytical Perspectives* volume of the 1996 budget provides more information on this subject.)

The Gramm-Rudman-Hollings Act requires OMB to make the estimates and calculations that determine whether there is to be a sequester and report them to the President and Congress. The Congressional Budget Office (CBO) is required to make the same estimates and

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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.

OMB and CBO are required to publish three sequestration reports—a "preview" report at the time the President submits the budget, an "update" report in August, and a "final" report at the end of a session of Congress (usually in the Fall of each year). The preview report discusses the status of discretionary and PAYGO sequestration, based on current law. This report explains the adjustments that are required by law to the discretionary caps and publishes the revised caps. The preview report estimates are revised in the update and final reports to reflect the effects of laws enacted since the preview report. In addition to these reports, OMB and CBO are required to estimate the effects of appropriations acts and PAYGO laws immediately after each one is enacted. The OMB final report estimates trigger a sequester if the appropriations enacted for the current year exceed the caps or if the cumulative effect of PAYGO legislation are estimated to increase the deficit.

From the end of a session of Congress through the following June 30th, discretionary sequesters take place whenever an appropriation act for the current fiscal year causes a cap to be exceeded. 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 the next fiscal year. These requirements ensure that supplemental appropriations enacted during the fiscal year are covered by the budget enforcement provisions.

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. The Antideficiency Act prohibits government officials from spending or obligating the government to spend in advance of an appropriation, unless specific authority to do so has been provided in law. Additionally, the Act requires the President to apportion the funds available to most executive branch agencies. The President has delegated this authority to OMB. 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 make it necessary, Congress may enact ***supplemental appropriations.*** For example, a supplemental appropriation might be required to respond to an unusually severe natural disaster.

On the other hand, changing circumstance may reduce the need for certain spending for which funds have been appropriated. How-

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ever, the President may withhold amounts appropriated from obligation, only 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 otherwise specifically provided in law. The Impoundment Control Act of 1974 specifies the procedures that must be followed if funds are withheld. Deferrals, which are temporary withholdings, take effect immediately unless overturned by an act of Congress. In 1994, a total of $8.6 billion in deferrals were reported to Congress and none were overturned. Rescissions, which permanently cancel budget authority, do not take effect unless Congress passes a law approving them. If such a law is not passed within 45 days of continuous session, the withheld funds must be made available for spending. In total, Congress has approved less than one-third of the amount of funds that Presidents have proposed for rescission since enactment of the Impoundment Control Act. In 1994, the President proposed rescissions totalling $3.2 billion, and Congress enacted a total of $1.3 billion.

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 receipts and outlays that, by law, are designated as off-budget. By law, the receipts and outlays of social security (the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance

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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.

TOTALS FOR THE BUDGET AND THE FEDERAL GOVERNMENT

(In billions of dollars)

	1994 actual	1995 estimate	1996 estimate
On-budget:			
Budget authority	1,246	1,266	1,305
Outlays	1,182	1,247	1,307
Receipts	923	995	1,045
Deficit	−259	−252	−262
Off-budget:			
Budget authority	283	298	309
Outlays	279	292	305
Receipts	335	351	370
Surplus	56	60	66
Federal Government:			
Budget authority	1,528	1,564	1,614
Outlays	1,461	1,539	1,612
Receipts	1,258	1,346	1,415
Deficit	−203	−193	−197

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). These enterprises were established by federal law for public policy purposes but are privately owned and operated corporations. Because of their close relationship to the Government, these enterprises are discussed in several parts of the budget, and their financial data are reported in the *Appendix to the Budget of the United States Government* and some detailed tables.

A presentation for the Board of Governors of the Federal Reserve System is included in the *Appendix* 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. However, the Federal Reserve Systems net earning are transferred annually to the Treasury, and are recorded in the budget as receipts.

Functional Classification

The functional classification arrays budget authority, outlays, and other budget data according to the major purpose served—such as agriculture, income security, and national defense. There are nineteen major functions, most of which are divided into subfunctions. For example, the *Agriculture* function is divided into *Farm Income Sta-*

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bilization 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.

Chapter 6, "Federal Spending by Function, Subfunction, and Major Program" in the *Analytical Perspectives* volume of the 1996 budget provides information on budget authority and outlays by function and subfunction.

Agencies, Accounts, Programs, Projects, and Activities

Various summary tables in the *Analytical Perspectives* volume of the 1996 budget provide information on budget authority, outlays, and receipts arrayed by Federal agency. Chapter 26 of that volume, "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. The *Appendix to the Budget of the United States Government* provides budgetary, financial, and descriptive information about programs, projects, and activities by account within each agency. That volume 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 credited with the proceeds of general borrowing. General fund appropriation accounts record general fund expenditures. General fund appropriations are drawn from general

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fund receipts collectively and, therefore, are not specifically linked to receipt 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 trust funds credited with collections earmarked by law to carry out a cycle of business-type operations.

The Federal budget meaning of the term "trust" differs significantly from its private sector usage. In the private sector, the beneficiary of a trust usually owns the trust's assets, which are managed by a trustee who must follow the stipulations of the trust. In contrast, the Federal Government owns the assets of most Federal trust funds, and it can raise or lower future trust fund collections and payments, or change the purposes for which the collections are used, by changing existing laws. There is no substantive difference between a trust fund and a special fund or between a trust revolving fund and a public enterprise revolving fund. (Chapter 18, "Trust Funds and Federal Funds," in the *Analytical Perspectives* volume of the 1996 budget provides more information on this subject.)

Current Operating Expenses and Capital Investment

The budget includes all types of spending, including both current operating expenses and capital investment. Capital investment includes direct purchases 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; grants to state and local governments for the purchase of physical assets; and the conduct of research, development, education, and training. (Chapter 7, "Federal investment outlays and capital budgets," in the *Analytical Perspectives* volume of the 1996 budget provides more information on capital investment.)

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.

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- *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 excise taxes, compulsory user charges, 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 (see the table, "Totals for the Budget and Federal Government," which appears earlier in this chapter.)

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 of 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 so that the budget totals measure the transactions of the Government with the public.

Offsetting collections are classified into two major categories: ***offsetting collections credited to appropriation or fund accounts,*** and ***offsetting receipts,*** which are deposited in receipt accounts. The offset is applied differently for each type.

Offsetting Collections Credited to Expenditure Accounts

For all revolving funds and many 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. These collections may be from either the public or other expenditure accounts. 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 this is not the full amount of the offsetting collections, because appropriations acts may 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.

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While most offsetting collections credited to expenditure accounts result from business-like activity or are collected from other Government accounts, some are governmental in nature but are required by law to be treated as offsetting. These are labeled as "offsetting governmental 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 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.

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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 an expenditure account in 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 otherwise available may be constrained 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 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;

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- ***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. The authorizing statute may authorize a particular type of budget authority to be provided in annual appropriations acts, or it may actually provide the budget authority in one of its forms. Most programs are funded by appropriations. An appropriation may make funds available from the general fund, special funds, trust funds, or authorize the spending of offsetting collections credited to expenditure accounts, including revolving funds. Borrowing authority is usually authorized for business-like activities where the activity being financed is expected to produce income over time with which to repay the borrowing with interest. Contract authority is a traditional form of budget authority for certain programs, particularly transportation programs.

Because offsetting collections (offsetting receipts and offsetting collections credited to expenditure accounts) are deducted from gross budget authority, they are referred to as negative budget authority for some purpose, such as Congressional Budget Act provisions that pertain to budget authority.

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

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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 1995 appropriations act extends the availability of unobligated budget authority that otherwise would expire at the end of 1994, new budget authority would be recorded for 1995.

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 that determines the amounts to be paid (for example, the formula for unemployment insurance benefits).

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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, in 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 income 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 up front to the nominal owner of the asset, a debt is recorded. The actual cash payments, nominally 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 the cash is 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. Interest is recorded as the amortization occurs. The special issues of zero-coupon bonds held by the Pension Benefit Guaranty Corporation are recorded at market value and the interest is accrued.

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

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. (See the table, "Totals for the Budget and Federal Government," which appears earlier in this chapter.)

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 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, payments may occur over several years. Obligated balances of budget authority are carried forward until the obligations are paid.[3]

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

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

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Reform Act prescribes the budget treatment for Federal credit programs. This treatment is designed to measure the subsidy cost of 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 estimated as the present value of expected disbursements over the term of the loan less the present value of expected collections.[4] 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.

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 receipt account, 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

[4] 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.

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related program accounts, but are excluded from the budget totals because they are not a cost to the Government. 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. Deficits are financed by borrowing and, to a limited extent, the other items discussed under this heading. The debt (debt held by the public) is the cumulative amount of borrowing to finance deficits, less repayments. When receipts exceed outlays, the difference is a budget surplus. 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 virtually 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). In addition to issuing debt to the public, the Government issues debt to Government accounts, primarily trust funds that are required by law to invest in Treasury securities. This debt is not a means of financing deficits, because it does not raise any additional cash. In 1994, the Government borrowed $185 billion from the public to finance the deficit of $203 billion in that year (the rest was financed by various other means). At the end of 1994, the debt held by the public was $3,432 billion. (See Chapter 13, "Federal Borrowing and Debt," in the *Analytical Perspectives* volume of the 1996 budget for a fuller discussion of this topic.)

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 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.

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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 outlays 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 disbursements 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 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. To the extent that the balances are invested in Federal debt, changes in the balances are reflected as borrowing from the public or as a means of financing the deficit other than borrowing from the public, depending on whether the deposit fund investments are classified as held by 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.

FEDERAL EMPLOYMENT

The budget includes information on civilian and military employment and personnel compensation and benefits. It also makes comparisons between the Federal workforce, State and local government workforces, and the United States population. Two different measures

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of employment levels are provided—actual positions filled and full-time equivalents (FTE). One FTE is equal to one work year or 2,080 hours. For most purposes, the FTE measure is more meaningful, because it takes into account part-time employment, temporary employment, and vacancies during the year. (Chapter 12, "Federal Employment," in the *Analytical Perspectives* volume of the 1996 budget provides more information on this subject.)

TOTAL FEDERAL EMPLOYMENT

	1994 actual	1995 estimated	1996 estimated	Percent change 1994 to 1996
Total FTE's	4,600,057	4,484,177	4,394,585	−4.5
Federal Executive Branch civilian employees per 1000 U.S. population	11.2	10.9	10.7	−4.5

BASIS FOR BUDGET FIGURES

Data for the Past Year

The past year column (1994) 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 (1995) 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 (1996) 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.

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Data for the Outyears

The budget presents estimates for each of the four years beyond the budget year (1997 through 2000) in order to reflect the effect of budget decisions on longer term objectives and plans.

Allowances

Lump-sum allowances may be included in the budget to cover certain transactions that are expected to increase or decrease budget authority, outlays, or receipts but that are not for various reasons reflected in the program details. Budget authority and outlays are never appropriated as such, rather they indicate the estimated budget authority and outlays that will be requested for specific programs.

Baseline

The budget baseline is an estimate of the receipts, outlays, and deficits that will result from laws already enacted. For receipts and direct spending, which generally are authorized on a permanent basis, it assumes they continue in the future as required by current law. For discretionary programs, which generally are funded annually, the baseline commonly assumes future funding will be equal to the most recently enacted appropriation, adjusted for inflation. Because most receipts and mandatory programs adjust automatically for inflation, the baseline represents the amount of real resources that will be used by the Government over the period covered by the budget. (Chapter 17, "Current services estimates," in the *Analytical Perspectives* volume of the 1996 budget provides more information on the baseline.)

The baseline is useful for several reasons. It warns of future problems, either for Government fiscal policy as a whole or for individual tax and spending programs. It provides a starting point for formulating the President's budget. It is a "policy-neutral" benchmark against which the President's budget and alternative proposals can be compared to see the magnitude of proposed changes. And it is used, under the Budget Enforcement Act, to determine how much will be sequestered from each account and what level of funding will be available after sequestration.

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

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—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. The provisions of this act, which would have expired after 1995, were extended through 1998 by the Omnibus Budget Reconciliation Act of 1993 (Public Law 103–66).
- ***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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GLOSSARY OF BUDGET TERMS

Balances of budget authority—These are amounts of budget authority provided in previous years that have not been outlayed.

Obligated balances—These are amounts that have been obligated but not yet outlayed. Unobligated balances are amounts that have not been obligated and that remain available for obligation under law.

Baseline—A policy neutral set of estimates designed to show the effect on continuing current law through the period covered by the budget.

Breach—A breach is the amount by which new budget authority or outlays within a category of discretionary appropriations for a fiscal year is above the cap on new budget authority or outlays for that category for that year.

Budget—The Budget of the United States Government sets forth the President's comprehensive financial plan for allocating resources and indicates the President's priorities for the Federal Government.

Budget authority (BA)—Budget authority is the authority provided by Federal law to incur financial obligations that will result in outlays. Specific forms of budget authority include:

- provisions of law that make funds available for obligation and expenditure (other than borrowing authority), including the authority to obligate and expend offsetting receipts and collections;
- borrowing authority, which is authority granted to a Federal entity to borrow (e.g., through the issuance of promissory notes or monetary credits) and to obligate and expend the borrowed funds;
- contract authority, which is the making of funds available for obligation but not for expenditure; and
- offsetting receipts and collections as negative budget authority.

Budgetary resources—Budgetary resources comprise new budget authority, unobligated balances of budget authority, direct spending authority, and obligation limitations.

Budget totals—The budget includes totals for budget authority, outlays, and receipts. Some presentations in the budget distinguish on-budget totals from off-budget totals. On-budget totals reflect the transactions of all Federal Government entities except those excluded from the budget totals by law. Off-budget totals reflect the transactions of Government entities that are excluded from the on-budget totals by law. Currently excluded are the social security trust funds (Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds) and the Postal Service Fund. The on- and off-budget totals are combined to derive a total for Federal activity.

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Cap—This is the term commonly used to refer to legal limits on the budget authority and outlays for each fiscal year provided in by discretionary appropriations. A sequester is required if an appropriation for a category causes a breach in the cap.

Credit program account—A credit program account receives an appropriation for the subsidy cost of a direct loan or loan guarantee program, disburses such cost to a financing account for the program.

Deficit—A deficit is the amount by which outlays exceed receipts.

Direct loan—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. The term includes the purchase of, or participation in, a loan made by another lender. The term does not include the acquisition of a federally guaranteed loan in satisfaction of default claims or the price support loans of the Commodity Credit Corporation. (Cf. *loan guarantee.*)

Direct spending—Direct spending, sometimes called mandatory spending, is a category of outlays from budget authority provided in law other than appropriations acts, entitlement authority, and the budget authority for the food stamp program. (Cf. *discretionary appropriations.*)

Discretionary appropriations—Discretionary appropriations is a category of budget authority that comprises budgetary resources (except those provided to fund direct-spending programs) provided in appropriations acts. (Cf. *direct spending.*)

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

Entitlement authority—A provision of law that legally obligates the Federal government to make specified payments to any person or government that meets the eligibility requirements established by that law. Section 250(18) of the Balanced Budget and Emergency Deficit Control Act of 1985 specifies that the term includes, for the purposes of defining direct spending under the Act, a list of so-called mandatory appropriations in the joint explanatory statement of managers accompanying the Omnibus Reconciliation Act of 1990.

Federal funds—Federal funds are the moneys collected and spent by the Government other than those designated as trust funds. Federal funds include general, special, public enterprise, and intragovernmental funds. (Cf. *trust funds.*)

Financing account—A financing account receives the cost payments from a credit program account and includes other cash flows to and from the Government resulting from direct loan obligations or

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loan guarantee commitments made on or after October 1, 1991. At least one financing account is associated with each credit program account. For programs with direct and guaranteed loans, there are separate financing accounts for direct loans and guaranteed loans. The transactions of the financing accounts are not included in the budget totals. (Cf. *liquidating account.*)

Fiscal year—The fiscal year is the Government's accounting period. It begins on October 1st and ends on September 30th, and is designated by the calendar year in which it ends. Before 1976, the fiscal year began on July 1 and ended on June 30.

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

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 excise taxes, compulsory user charges, 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. They are compared to outlays in calculating a surplus or deficit. (Cf. *offsetting collections.*)

Liquidating account—A liquidating account includes all cash flows to and from the Government resulting from direct loan obligations and loan guarantee commitments prior to October 1, 1991. (Cf. *financing account.*)

Loan guarantee—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 term does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. (Cf. *direct loan.*)

Mandatory spending—See *direct spending.*

Intragovernmental funds—Intragovernmental funds are accounts for business-type or market-oriented activities conducted primarily within and between Government agencies and financed by offsetting collections that are credited directly to the fund.

Obligations—Obligations are binding agreements that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

Off-budget—See *budget totals.*

Offsetting collections—Offsetting collections are collections from the public that result from business-type or market-oriented activities

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and collections from other Government accounts. These collections are deducted from gross disbursements in calculating outlays, rather than counted in Governmental receipt totals. Some offsetting collections are credited directly to appropriation or fund accounts; others, called offsetting receipts, are credited to receipt accounts. The authority to spend offsetting collections is a form of budget authority. (Cf. *governmental receipts.*)

Offsetting receipts—See *offsetting collections.*

On-budget—See *budget totals.*

Outlays—Outlays are the measure of Government spending. They are payments to liquidate obligations (other than the repayment of debt), net of refunds and offsetting collections. Outlays generally are recorded on a cash basis, but also include cash-equivalent transactions, the subsidy cost of direct loans and loan guarantees, and interest accrued on public issues of Treasury debt.

Pay-as-you-go (PAYGO)—This term refers to requirements in law that result in a sequester if the estimated combined result of legislation affecting direct spending or receipts is an increase in the deficit for a fiscal year.

Public enterprise funds—Public enterprise funds are revolving accounts for business or market-oriented activities conducted primarily with the public and financed by offsetting collections that are credited directly to the fund.

Receipts—See *governmental receipts and offsetting collections.*

Sequester—A sequester is the cancellation of budgetary resources provided by discretionary appropriations or direct spending legislation, following various procedures prescribed in law. A sequester may occur in response to a discretionary appropriation that causes a breach or in response to increases in the deficit resulting from the combined result of legislation affecting direct spending or receipts (referred to as a "pay-as-you-go" sequester).

Special funds—Special funds are Federal fund accounts for receipts earmarked for specific purposes and the associated expenditure of those receipts. (Cf. *trust funds.*)

Subsidy—This term means the same as cost when it is used in connection with Federal credit programs.

Surplus—A surplus is the amount by which receipts exceed outlays.

Supplemental appropriation—A supplemental appropriation is one enacted subsequent to a regular annual appropriations act when the need for funds is too urgent to be postponed until the next regular annual appropriations act.

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Trust funds—Trust funds are accounts, designated by law as trust funds, for receipts earmarked for specific purposes and the associated expenditure of those receipts. (Cf. *special funds.*)

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