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GRAMM-RUDMAN-HOLLINGS

AND

THE CONGRESSIONAL BUDGET PROCESS

AN EXPLANATION

COMMITTEE ON THE BUDGET

UNITED STATES SENATE

DECEMBER 1985

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FOREWORD

The Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344; hereinafter referred to as the "Budget Act") and the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177; hereinafter referred to as "Gramm-Rudman-Hollings") have become two of the most important laws affecting Congress' legislative agenda. Because of the increasing importance of the budget process, the Budget Committee has received numerous inquiries for information about the operation of the Budget Act and Gramm-Rudman-Hollings.

This Committee print provides a general explanation of the budget process and the 6-year Gramm-Rudman-Hollings procedures, a historical table of action on budget resolutions, examples of budget resolution language, and a glossary of budget terms.

Nothing in this volume is intended to represent the views of the Budget Committee or any of its members.

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INTRODUCTION

The U.S. Constitution gives the Congress the exclusive power to allocate the resources of the Federal Government. In order to accomplish this mammoth task, the Congress has developed three fiscal processes. First, the Congress has an *authorization process* which establishes Federal tax laws and creates Federal programs to respond to national needs. The Senate has 16 authorizing committees and the House has 19 authorizing committees that have jurisdiction over particular areas of national concern.

The second process is known as the *appropriations process.* While the authorizing committees are concerned with establishing Federal programs, the Appropriations Committee in each House of Congress is charged with the task of funding those programs.

The third—and newest—fiscal process in Congress is the congressional *budget process.* Under this process, the Congress annually establishes an overall fiscal policy on how much total spending and revenues ought to be and how total spending should be divided among the major functions of government such as defense, agriculture, health, and so forth. A recent overlay on the budget process is the set of procedures imposed by the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as "Gramm-Rudman-Hollings" for its three Senate sponsors). The purpose of this publication is to provide a general explanation of why we have a congressional budget process, how the process functions, and how the Gramm-Rudman-Hollings procedures are to operate.

WHY HAVE A CONGRESSIONAL BUDGET PROCESS?

The congressional budget process was established with enactment of the Congressional Budget and Impoundment Control Act of 1974 (Budget Act). The impetus for establishment of a congressional budget process may be traced to two developments.

One development was an increasing realization in the Congress that it had no means to develop an overall budget plan. Prior to 1974 the Congress each year would receive the President's budget containing the President's many spending and revenue proposals and would proceed to act on those proposals individually. There existed no means for the Congress to establish its own total spending and revenue levels or broad spending priorities to serve as guidelines for both Houses to follow as they worked on specific spending and revenue bills during the spring and summer.

A more immediate cause for the Budget Act was a dispute in the early 1970s over presidential authority to impound money appropriated by the Congress. President Nixon asserted authority to withhold from Federal agencies money appropriated by Congress. Many in Congress disputed this authority.

These factors led key Members of Congress to study the problem, and in 1974 Congress enacted the Budget Act to establish procedures for developing an annual congressional budget plan and to achieve a system of impoundment control.

NEW INSTITUTIONS CREATED IN 1974

In order to implement the congressional budget process, the Budget Act created the Senate and House Budget Committees and the Congressional Budget Office.

The Budget Committees of the Senate and House are responsible for drafting Congress' annual budget plan for the Federal Government for consideration by the full Senate and House. Unlike the authorizing and appropriating committees, which focus on individual Federal programs, the Budget Committees focus on the Federal budget as a whole, and how it affects the national economy. In this way, the Budget Act created congressional institutions whose unique concern is Federal budgetary policy.

The Congressional Budget Office (CBO) supports the congressional budget process by providing economic and program analyses and cost information on existing and proposed Federal programs. The Budget Committees are major users of such information, along with other committees and Members of Congress who are involved in the budget process. The framers of the Budget Act saw a need to provide the Congress with its own independent, nonpartisan budget professionals similar to those who serve the President in his Office of Management and Budget (OMB).

HOW THE PROCESS WORKS

The Fiscal Year

In order to keep track of its revenues and expenditures in an orderly way, the Federal Government has established a 12-month period known as the "fiscal year." Prior to the Budget Act, the Federal Government's fiscal year had been July 1 through June 30. However, in 1976 the fiscal year was shifted forward to October 1 through September 30 in order to allow sufficient time for the new congressional budget process. In reading about the various steps of the congressional budget process, keep October 1 in mind as a target for completion of each year's budget process.

The fiscal year is designated by the calendar year in which it ends. Thus, the period October 1, 1985–September 30, 1986 is fiscal year 1986.

January: Receipt of President's Budget Request

The first thing Congress needs to know in building a budget is what the executive branch believes is appropriate to fund the operations of the Federal Government. The President is therefore required to submit to Congress in early January the Administration's budget request ("President's budget") for the upcoming fiscal year that begins the following October 1. In order to meet this deadline, the Administration needs to begin preparing its budget request the prior spring and summer. For example, consider the budget process for fiscal year 1986. The President's budget request for fiscal year 1986 (October 1, 1985–September 30, 1986) was transmitted to Congress in early 1985. The Administration began working with Federal agencies to prepare its budget request for fiscal year 1986 in the spring of 1984, roughly a year-and-a-half prior to the start of fiscal year 1986.

Under the Gramm-Rudman-Hollings procedures, the President's budget is required to stay within specified deficit levels for fiscal years 1986 through 1991. These deficit levels are designed to reduce annual Federal deficits to zero by fiscal year 1991. The maximum deficit amount for each fiscal year is as follows:

FY 1986—$171.9 billion.
FY 1987—$144.0 billion.
FY 1988—$108.0 billion.
FY 1989—$72.0 billion.
FY 1990—$36.0 billion.
FY 1991—$0.

February: Budget Committee Hearings, Committee Views and CBO Report

After receiving the President's budget request, the Senate and House Budget Committees hold hearings at which they receive testimony from Administration officials, experts from academic and business communities, representatives of national organizations, Members of Congress, and the general public. During the same period the other committees of Congress review the President's budget and transmit to the Budget Committees by February 25 their "views and estimates" on appropriate spending or revenue levels for programs in their jurisdiction. In addition, during February, CBO sends to the Budget Committees its annual report analyzing the President's request, budgetary options, and the economic outlook.

March: Budget Committees Draft Budget Resolutions

The Senate and House Budget Committees—using the President's budget request, information from their hearings, views and estimates from other committees, and CBO's reports—each draft a congressional budget plan during March in a series of public committee meetings called "mark-ups." The budget plan is known as the concurrent resolution on the budget (budget resolution).

Budget resolutions set forth budgetary levels for the upcoming fiscal year and planning levels for the following 2 fiscal years. The budget resolution is composed of two basic parts: (1) budget totals and (2) spending broken down by budget function. The budget totals set forth what the Congress considers to be the appropriate amounts for total spending, total revenues, and the resulting deficit or surplus. In setting these budget totals, Congress considers the impact of the Federal budget on the national economy and establishes Federal fiscal policy for the coming fiscal year.

Federal spending broken down by function—the second basic part of the budget resolution—gives the Congress a mechanism for establishing Federal spending priorities. This is accomplished by dividing up Federal spending among 21 different classifications such as national defense, agriculture, and health. These classifications, known as "budget functions," provide the Congress with a means of allocating Federal resources among broad categories of spending.

In addition to budget totals and spending by function, budget resolutions have recently included a procedure directing committees to change existing law. This procedure is known as "reconciliation." Under this procedure, the budget resolution includes provisions in which the Congress directs its committees to report legislation by a certain date which decreases spending or increases revenues by a specified amount by making changes in laws within the committees' respective jurisdictions.[1] The committee-reported reconciliation legislation is then packaged together and considered by the Congress as a single reconciliation bill. Under the Gramm-Rudman-Hollings procedures, any amendment to a reconciliation bill which would cause deficit levels to increase may be objected to by any Senator or Congressman. If an amendment is objected to, it cannot be considered absent a waiver of budgetary rules.

In recent years reconciliation has become a major component of several budget resolutions. An important reason for this is that reconciliation provides Congress with a mechanism to achieve reduced spending for entitlement programs as part of its budget plan. This is difficult to do simply by assuming lower entitlement spending levels in the budget resolution because entitlement laws *require* the Government to pay specified benefits to qualifying individuals *unless* those entitlement laws are changed. The amount of money needed to fund an entitlement for a given year is determined by the number of people qualifying for benefits—not by annual appropriations decisions. Reconciliation therefore helps the Congress to achieve its budget plan savings from entitlement programs by instructing committees to change existing entitlement laws. This is especially useful since entitlements comprise about one-half of the Federal budget.

[1] Reconciliation can also be used to increase spending or decrease revenues, but that occurs very infrequently.

Another reason for the importance of reconciliation has been the use of reconciliation instructions to achieve reductions in authorization levels. Authorization levels are ceilings, established in the authorizing process, on the amount of appropriations specific programs can receive. Authorizing legislation frequently establishes such funding ceilings at the same time programs are established or renewed. Reconciliation of authorization levels, in this way, permits Congress to instruct its substantive committees to take actions which will result in savings in non-entitlement programs.

April 15: Congress Adopts a Budget Resolution

When the Budget Committees complete action on formulating a budget resolution, they report their respective resolutions to the full Senate and full House. All Senators and Congressmen then have an opportunity to alter the work of the Budget Committees by offering amendments to the budget resolution as it is debated on the Senate or the House floor.

Under the Gramm-Rudman-Hollings procedures, the budget resolution is required to conform to the same maximum deficit amounts for fiscal years 1986 through 1991 as the President's budget. Any budget resolution, or amendment to a budget resolution, which would cause those deficit levels to be exceeded may be objected to by any Senator or Congressman. If a budget resolution or amendment to a budget resolution is objected to, it cannot be considered absent a waiver of budgetary rules.

When the Senate and House have both passed their respective versions of the budget resolution they appoint several of their Members to a conference committee to resolve the differences between the Senate- and House-passed resolutions. When differences have been resolved, each chamber must then vote on the compromise version of the budget resolution which also must conform to the maximum deficit amounts. The Budget Act sets April 15 as the date for completion of this work.

Since the budget resolution is designed solely to guide the *Congress* in its detailed deliberations on the budget, it is in the form of a *concurrent* resolution which is agreed to by both Houses but is not a public law and is not signed by the President.

April–September: Spending and Revenue Bills and Reconciliation

After Congress has adopted a budget plan, it proceeds to work on specific spending and revenue measures, and any reconciliation legislation mandated by the budget plan. Under the Budget Act timetable, as amended by Gramm-Rudman-Hollings, Congress is to complete action on reconciliation legislation, if any, by June 15. Action on annual appropriation bills is to be completed in the House by June 30 and in the Senate by the start of the fiscal year (October 1). In the past, action on appropriations bills has not always been completed by October 1, necessitating the passage of a "continuing resolution" to provide appropriations on a temporary basis until the regular appropriations bills are enacted. A continuing resolution is a form of appropriation bill and should not be confused with the budget resolution.

Since action on spending measures begins in committees, the budget process must have a way of translating the total spending levels in the budget plan into guidelines for the committees. The budget process accomplishes this by allocating the spending in the budget resolution among the committees. Each committee therefore ends up with an overall level for the spending within its jurisdiction that is consistent with the congressional budget plan. Committees then subdivide their allocations among their subcommittees or programs within their jurisdiction. This procedure of allocating the budget plan's spending levels among the spending committees is known informally as "crosswalking." Committee crosswalks for both the House and Senate are set out initially in the report accompanying the budget resolution of each House, and finally in the report of the conference committee on the budget resolution.

The allocations under the budget resolution and sub-allocations by the committees allow the full Senate and House, as they debate and adopt individual spending bills, to determine whether or not the bill they are debating fits within the budget plan. During consideration of spending bills, any bill or amendment thereto which would exceed the relevant sub-allocations made by a committee may be objected to by an Senator or Congressman. If a spending bill is objected to, it cannot be considered absent a waiver of budgetary rules.

In similar fashion, the revenue floor in the budget resolution serves as a guide to the Senate Finance Committee and the House Ways and Means Committee (the Congressional taxwriting committees) as they proceed with bills to raise or lower taxes.

During the spring and summer months, as Congress works on spending and revenue measures and reconciliation legislation for the upcoming fiscal year, the levels set in the budget resolution stand as constraints on congressional action. In the Senate, legislation which would cause the spending ceilings or revenue floor to be breached or which would cause the maximum deficit amount to be exceeded could be objected to by any Senator. The House has similar prohibitions on exceeding the budget resolution totals, with certain exceptions.

If changing economic circumstances or policy requirements dictate, the Congress may revise its budget resolution during the fiscal year, thereby altering the spending and revenue totals. While this may be done at any time during the fiscal year, the Congress in recent years has followed the practice of revising the budget plan for the current fiscal year as part of the budget resolution for the upcoming fiscal year. For example, the budget resolution for fiscal year 1986 also revised the budget totals for fiscal year 1985.

ENFORCEMENT OF MAXIMUM DEFICIT AMOUNTS

Gramm-Rudman-Hollings establishes special procedures for fiscal years 1986 through 1991 to enforce the maximum deficit amounts for these fiscal years. The procedures operate as described below for fiscal years 1987–91 (see appendix X for the application of these procedures to fiscal year 1986).

Assessing the Deficit and Calculating Spending Reductions

On August 15, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) estimate the deficit for the upcoming fiscal year. If the estimated deficit exceeds the maximum deficit amount for the upcoming fiscal year by more than $10 billion (zero in the case of fiscal year 1991), CBO and OMB calculate spending reductions to eliminate the entire deficit excess down to the maximum deficit amount according to the following formula.

DEFICIT REDUCTION FORMULA

First, the amount by which the estimated deficit exceeds the maximum deficit amount for the fiscal year is calculated. One-half of the deficit excess is to come from defense programs and one-half from non-defense programs.

Second, the total amount of outlay savings from eliminating automatic spending increases is calculated. Provided that the resulting savings are not more than one-half of the total required reduction, the automatic increases are eliminated.[1] One-half of the resulting savings for indexed retirement and disability programs are applied toward the required reduction amount for defense programs and the other half to non-defense programs. All savings from eliminating automatic spending increases in three other specific programs—the National Wool Act, the special milk program, and vocational rehabilitation—are applied to the required reduction in outlays for non-defense programs.

Third, the amount of outlay savings to be obtained by applying four special rules to certain programs is calculated. These special rules are for guaranteed student loans, foster care and adoption assistance, medicare, and certain health programs, and are described in appendix VIII of this report.[2] The estimated savings from these four special rules are applied toward the required spending reductions in non-defense programs. If the full amount of savings is not required, the reductions in medicare and other health programs are scaled back accordingly.

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[1] For example, suppose that the estimated deficit exceeds the maximum level by $11 billion. If eliminating the automatic increases would save $3 billion, the automatic increases would be eliminated. If, however, eliminating the automatic increases would save $6 billion, they could only be reduced to levels which would save $5.5 billion, i.e. one-half of the deficit overage.

[2] There are a number of special rules for other programs, such as the Commodity Credit Corporation, but they do not enter into the calculations at this step. They are also described in appendix VIII of this report.

The remaining reductions in defense programs and non-defense programs, if required, must be taken on a uniform percentage basis, computed separately for defense and for non-defense. The uniform reduction percentages are computed by dividing the remaining required outlay savings in defense and non-defense spending by the estimated outlays associated with non-exempt budgetary resources in each category. These uniform percentages are then applied to all of the remaining non-exempt budgetary resources for defense and non-defense programs. Appendix IX explains in greater detail how uniform percentage reductions are to be applied.

In the event that the Directors of OMB and CBO are unable to agree on any of these calculations, the Act requires that their estimates be averaged to the extent necessary to produce a single, consistent set of data that achieves the required deficit reduction.

In making these calculations, OMB and CBO are to assume (1) that current law for revenues and entitlement (and other spending) authority will continue unchanged, (2) that expiring revenue and entitlement provisions will expire as scheduled (except for farm price supports and excise taxes dedicated to a trust fund), and (3) that appropriations for the fiscal year are those contained in regular annual appropriation bills or in full-year continuing appropriations (if by then such bills have been enacted for the fiscal year; otherwise the levels of the previous year's appropriations).

Having estimated the deficit for the upcoming fiscal year and having calculated any required spending reductions, OMB and CBO report their findings to the United States Comptroller General by August 20. The Comptroller General, in turn, reports his estimate of the deficit for the upcoming fiscal year and any required spending reductions to the President by August 25. The Comptroller General's report presents his own findings; however, he must take "due regard" of the findings of OMB and CBO and must explain any differences between his findings and theirs.

Presidential Order Implementing Spending Reductions

If the Comptroller General's report to the President estimates that the maximum deficit amount for the upcoming fiscal year will be exceeded by more than $10 billion (zero in the case of fiscal year 1991), the President is required to issue an order reducing spending to eliminate the entire deficit excess down to the maximum deficit amount. The reductions are based upon the reductions calculated in the Comptroller General's report. The reductions contained in the President's order are applied at the program, project, or activity level, as defined in the appropriations process, for those budget accounts that are subject to annual appropriations. For all other accounts, the reductions are applied at the budget activity level as contained in the President's budget.

The President issues an "initial order" on September 1 setting forth any required reductions. The initial order becomes effective on October 1, the start of the fiscal year. At this point any budgetary resources covered by the presidential order are withheld.

Revised Reports by OMB/CBO and the Comptroller General and Final Presidential Order

On October 5, OMB and CBO issue a joint revised report on the estimated deficit for the fiscal year and any spending reductions required to eliminate the deficit excess as then calculated. This revised report is designed to reflect any congressional action during the last half of August and during September on spending and revenue measures for the fiscal year. On October 10, the Comptroller General issues a revised report to the President. These reports are prepared using the same ground rules as used for the initial reports.

On October 15 the President issues a final order making any spending reductions required by the Comptroller General's revised report. The final order takes effect immediately and cancels budgetary resources as required.

Compliance Report by the Comptroller General

On November 15, one month after the final presidential order is issued, the Comptroller General issues a "compliance report" on the extent to which the President's order complies with all the requirements of Gramm-Rudman-Hollings. The Comptroller General must certify that the order fully and accurately complies with such requirements or indicate where it fails to comply.

Alternative Congressional Plan

Gramm-Rudman-Hollings sets forth procedures in the Senate for formulating a congressional alternative to a presidential reduction order. Procedures for the House of Representatives are not specified in the law because the House Rules Committee would stipulate appropriate procedures at the time an alternative was formulated.

Development of a congressional alternative would normally occur during the September-October period following issuance of a presidential reduction order. The procedures established for the Senate are an accelerated form of reconciliation, which is already a well-established part of the congressional budget process.

Under this accelerated procedure, Senate committees may submit to the Budget Committee their views on a congressional alternative, and the Budget Committee may report a resolution to the Senate affirming the presidential order or changing it in whole or in part. If any changes are recommended, the resolution must contain instructions to Senate committees to change laws under their jurisdiction to reduce spending sufficiently to achieve the required deficit reduction.

If such a resolution is adopted, Senate committees receiving reconciliation instructions report their deficit reduction legislation to the Budget Committee. The Budget Committee then packages the legislation into a single reconciliation bill for consideration by the full Senate. Following passage of an alternative plan by the Senate and the House, differences would be ironed out in a Senate-House conference. Following passage of a conference agreement by the Senate and House, the alternative plan would require presidential signature to take effect, and supersede in whole or in part a presidential sequester order.

Special Provisions for an Economic Recession or Declared War

Under Gramm-Rudman-Hollings, if the economy enters a recession, the Senate and House would automatically consider a resolution temporarily suspending for the remainder of the current fiscal year or for the next fiscal year or both: (1) the maximum deficit amounts; (2) budget resolution spending and revenue levels; (3) the requirement for issuance of reports by OMB, CBO, and the Comptroller General on deficit reduction and related matters; and (4) the requirement for issuance of a presidential reduction order (except that if an order has already been issued, it is allowed to stand). Any such suspension resolution passed by the Congress would have to be signed into law by the President.

Recession is defined, for these purposes, as: (1) a *projection* by OMB or CBO that real economic growth will be less than zero with respect to two consecutive quarters during the six-quarter period beginning with the prior quarter; *or* (2) a report by the Department of Commerce that *actual* real economic growth for the previous two quarters was less than 1 percent.

Under the provisions of Gramm-Rudman-Hollings, a declaration of war by Congress automatically suspends: the reporting of excess deficits by OMB, CBO, and the Comptroller General; the requirement that budget resolutions comply with the maximum deficit amounts; and the requirement that amendments to reconciliation bills be deficit neutral.

IMPOUNDMENT CONTROL

As mentioned earlier in this publication, one cause for enactment of the Budget Act was a dispute in the early 1970s over presidential authority to impound money appropriated by the Congress. Title X of the Budget Act (known as the Impoundment Control Act) sets up legal procedures to prevent a recurrence of this dispute.

Under these procedures, the President may propose to defer using an amount of budget authority until later in the fiscal year or he may propose to rescind (cancel) an amount of budget authority altogether, but in either case he must notify the Congress. A deferral proposed by the President stands unless Congress passes a law disapproving the postponement. A rescission proposed by the President does not occur unless Congress passes a law approving the cancellation.

The Gramm-Rudman-Hollings procedures for presidential deficit reduction orders are a temporary exception to Title X of the Budget Act, for fiscal years 1986 through 1991. As explained above, instead of proposing cancellation of budget authority to the Congress, the President is required in certain instances, by Gramm-Rudman-Hollings, to cancel budget authority by presidential order.

IMPORTANT CHARACTERISTICS OF THE CONGRESSIONAL BUDGET PROCESS

The Process Is Congress' Own

The Budget Act established a new process and new institutions which enable the Congress to develop its own budget plan each year. The Congress is no longer limited to acting on the President's budget request on a piecemeal basis. Congressional budget resolutions allow the Congress to act on revenue or spending proposals within the framework of its own budget plan.

The Process Sets Parameters—Not Details

Budget resolutions set overall spending and revenue totals and broad spending priorities. The other committees of Congress work out the details of the spending and revenue bills, as they did prior to adoption of the Budget Act.

The Process Is Designed To Be Result Neutral

The Budget Act was not adopted to promote any particular fiscal policy or set of spending priorities. Rather, it is designed to give Congress the means to examine the budget as a whole and to establish whatever policies and priorities it wishes. The budget process is designed to work for any majority that develops.

The overlay imposed by Gramm-Rudman-Hollings for fiscal years 1986 through 1991 is an example of a majority in Congress working its will to achieve a particular policy result, namely, a balanced Federal budget in fiscal year 1991.

The Process Is Public

Unlike formulation of the President's budget, the congressional budget process is developed in full public view. This is true of the Budget Committees' hearings and mark-ups, the Senate and House floor debates, and the Senate/House conference meetings on budget resolutions and reconciliation bills.

BUDGET CONCEPTS

Federal Revenues

Federal revenues consist of the money taken in by the Government through exercise of its sovereign taxing power. This includes individual and corporate income taxes, social insurance taxes (such as social security payroll taxes), excise taxes, estate and gift taxes, customs duties, and the like.

Revenues do not include receipts received by the Federal Government for sale of products or services rendered (such as sale of timber from Federal lands or entrance fees for national parks). Such receipts are netted against the Federal spending totals in the budget and are thus called "offsetting receipts."

Federal Spending

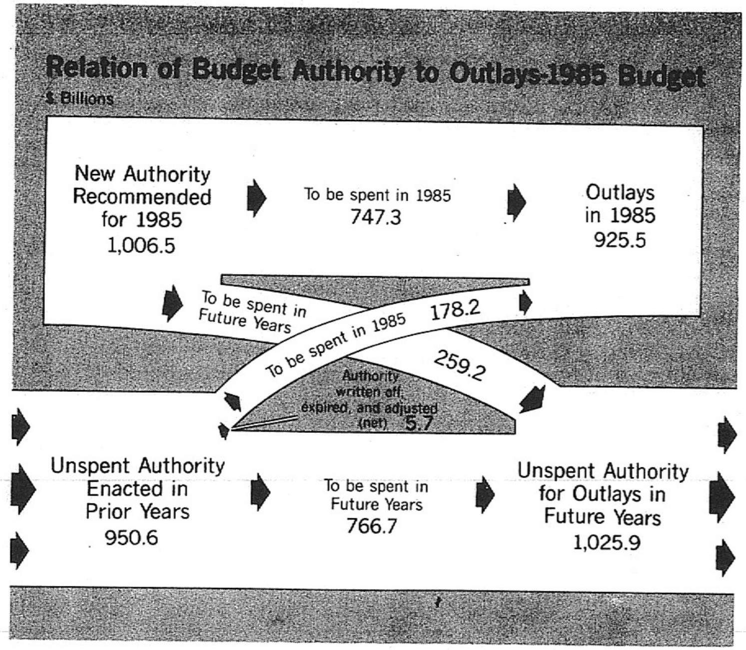
Spending levels in congressional budget resolutions consist of two types of numbers: *budget authority* and *outlays.* Outlays are disbursements by the Treasury. When the Treasury issues a check in fiscal year 1986, that is a fiscal year 1986 outlay. Budget authority, on the other hand, is legal authority for an agency to enter into obligations which will result in outlays. When Congress appropriates funds for a particular program, it is enacting budget authority—not outlays.

To illustrate the relationship of budget authority to outlays, assume that the Congress has decided to build a ship costing $1 billion. The Congress would appropriate $1 billion of new budget authority for a ship in the defense appropriation bill for the new fiscal year. This means that the Department of Defense has legal authority to enter into obligations totaling $1 billion during the new fiscal year. However, this budget authority will only result in outlays when the shipbuilders are issued checks by the Treasury. If the contractors are paid only upon completion of each stage of the construction, the $1 billion of budget authority could result in outlays over several years.

In other cases, new budget authority appropriated for a fiscal year results in outlays during the same fiscal year. An example of this is appropriations for salaries of Federal workers.

Figure 1 illustrates the overall relationship of budget authority to outlays. In this diagram taken from the President's fiscal year 1985 budget, $1.006 trillion in new budget authority is requested for fiscal year 1985. It is estimated that this new authority to obligate the Federal Government during fiscal year 1985 would result in outlays of $747 billion in fiscal year 1985 and outlays of $259 billion in future years. The remaining $178 billion within the $925 billion in total outlays estimated for fiscal year 1985 comes from budget authority enacted in prior fiscal years.

FIGURE 1



Source: Office of Management and Budget.

Budget Deficit/Surplus and the Federal Debt

A budget deficit or surplus is calculated by figuring the difference between outlays and revenues for a given fiscal year. For example, in fiscal year 1984 revenues were $666 billion and outlays were $851 billion, yielding a budget deficit of $185 billion.

In contrast to an annual deficit, the Federal debt is the accumulated debt of the Federal Government. Whenever the Federal Government runs a budget deficit, the additional borrowing to finance the deficit *adds* to the Federal debt. By contrast, whenever the Federal Government runs a budget surplus, the Federal debt *decreases* because the Treasury can use the surplus to redeem some of the outstanding debt.

Federal law contains a statutory limit on the Federal debt, commonly called the debt ceiling. If the activities of the Government require a higher limit, Congress must enact a law to raise the debt ceiling. For fiscal year 1986, the debt ceiling is approximately $2.08 trillion.

Baseline

In order to formulate a budget resolution, the Senate and House Budget Committees need to have a starting point. The starting point they most often use is a set of projections showing the levels of spending and revenues that would occur for the upcoming fiscal year and beyond if existing programs and policies are continued unchanged, with all programs adjusted for inflation so that existing levels of activity are maintained. These projections are known as a current policy (or current services) baseline.[1] In considering proposed levels of spending and revenues, Senators and Congressmen usually describe their proposals as being above, below, or equal to the baseline.

Major Types of Federal Spending

Senators and Congressmen sometimes propose budget plans which divide Federal spending into four conceptual components: entitlements, defense spending, nondefense discretionary spending, and interest payments.

Entitlements are laws which require the Government to pay specified benefits to qualifying individuals. The fundamental characteristic of an entitlement is the absence of annual decisions on funding levels. Instead, formulas included in laws establishing the entitlements determine how much money the Government has obligated itself to spend. For example, the social security laws prescribe formulas under which retired workers receive benefits based on the length of time they have worked and their earnings. The cost of social security for a given fiscal year is thus determined by the number of qualifying retirees rather than by annual appropriations decisions. In this way entitlement programs are sometimes thought of as nondiscretionary, since their funding requirements are determined by the legislation which set up the program and not by annual funding decisions.

By contrast, *nondefense discretionary spending* refers to those nondefense programs which are subject to annual funding decisions in the appropriations process. If the Congress decides to lower funding for a program of this type, it can simply reduce the annual appropriation. Unlike entitlement programs, there are no formulas which have to be changed to alter funding levels.

Defense spending simply refers to Federal spending for the national defense. Nearly all defense spending is discretionary in nature.

Interest payments are payments to individuals, corporations, or other entities who hold notes which finance the Federal debt.

[1] An alternative baseline that has been used by Congress from time to time adjusts programs for inflation only where required by law. This is usually called a "current law" baseline.

Appendix I

HISTORICAL TABLE: BUDGET RESOLUTIONS AND RECONCILIATION BILLS

Fiscal year	First concurrent resolution adopted	Second concurrent resolution adopted [1]
1976	May 14, 1975 (H. Con. Res. 218)	December 12, 1975 (H. Con. Res. 466)
1977	May 13, 1976 (S. Con. Res. 109)	September 16, 1976 (S. Con. Res. 139) [2]
1978	May 17, 1977 (S. Con. Res. 19)	September 15, 1977 (H. Con. Res. 341)
1979	May 17, 1978 (S. Con. Res. 80)	September 23, 1978 (H. Con. Res. 683)
1980	May 24, 1979 (H. Con. Res. 107)	November 28, 1979 (S. Con. Res. 53; replaced S. Con. Res. 36)
1981	June 12, 1980 (H. Con. Res. 307)	November 20, 1980 (H. Con. Res. 448)
1982	May 21, 1981 (H. Con. Res. 115)	December 10, 1981 (S. Con. Res. 50)
1983	June 23, 1982 (S. Con. Res. 92)	([1])
1984	June 23, 1983 (H. Con. Res. 91)	([1])
1985	October 1, 1984 (H. Con. Res. 280)	([1])
1986	August 1, 1985 (S. Con. Res. 32)	([1])

Reconciliation bills	Passed by Congress
Omnibus Reconciliation Act of 1980	December 3, 1980 (P.L. 96–499).
Omnibus Budget Reconciliation Act of 1981	July 31, 1981 (P.L. 97–35).
Omnibus Budget Reconciliation Act of 1982	August 18, 1982 (P.L. 97–253).
Tax Equity and Fiscal Responsibility Act of 1982	August 19, 1982 (P.L. 97–248).
Omnibus Budget Reconciliation Act of 1983	April 5, 1984 (P.L. 98–270).

[1] As originally enacted, the Budget Act required a first and a second concurrent resolution on the budget for each fiscal year. The first budget resolution spending and revenue totals served only as targets for congressional action on spending and revenue bills. Spending and revenue totals were not to be binding (i.e., subjecting legislation breaching the totals to points of order) until adoption of a second budget resolution. Beginning with fiscal year 1983 the Congress discontinued the formulation of second budget resolutions and made first budget resolution totals binding with the start of the fiscal year on October 1. Beginning with fiscal year 1987, Gramm-Rudman-Hollings makes the budget resolution totals immediately binding upon adoption of the one budget resolution each spring.

[2] A third concurrent resolution on the budget for FY 1977 was adopted by the Congress on Mar. 3, 1977 (S. Con. Res. 10).

Appendix II

EXAMPLE OF BUDGET RESOLUTION TOTALS

That the Congress hereby determines and declares that the concurrent resolution on the budget for fiscal year 1984 is hereby revised and replaced, the first concurrent resolution on the budget for fiscal year 1985 is hereby established, and the appropriate budgetary levels for fiscal years 1986 and 1987 are hereby set forth:

(a) The following budgetary levels are appropriate for the fiscal years beginning on October 1, 1983, October 1, 1984, October 1, 1985, and October 1, 1986:

(1) The recommended levels of Federal revenues are as follows:

Fiscal year 1984: $672,900,000,000.
Fiscal year 1985: $750,900,000,000.
Fiscal year 1986: $810,800,000,000.
Fiscal year 1987: $881,000,000,000.

and the amounts by which the aggregate levels of Federal revenues should be changed are as follows:

Fiscal year 1984: $0.
Fiscal year 1985: −$300,000,000.
Fiscal year 1986: −$100,000,000.
Fiscal year 1987: −$100,000,000.

and the amounts for Federal Insurance Contributions Act revenues for hospital insurance within the recommended levels of Federal revenues are as follows:

Fiscal year 1984: $40,000,000,000.
Fiscal year 1985: $45,400,000,000.
Fiscal year 1986: $52,000,000,000.
Fiscal year 1987: $57,200,000,000.

and the amounts for Federal Insurance Contributions Act revenues for old-age, survivors, and disability insurance within the recommended levels of Federal revenues are as follows:

Fiscal year 1984: $166,200,000,000.
Fiscal year 1985: $188,700,000,000.
Fiscal year 1986: $204,500,000,000.
Fiscal year 1987: $221,100,000,000.

(2) The appropriate levels of total new budget authority are as follows:

Fiscal year 1984: $918,900,000,000.
Fiscal year 1985: $1,021,350,000,000.
Fiscal year 1986: $1,103,800,000,000.
Fiscal year 1987: $1,200,250,000,000.

(3) The appropriate levels of total budget outlays are as follows:

Fiscal year 1984: $845,600,000,000.
Fiscal year 1985: $932,050,000,000.
Fiscal year 1986: $1,003,550,000,000.
Fiscal year 1987: $1,088,600,000,000.

(4) The amounts of the deficits in the budget which are appropriate in the light of economic conditions and all other relevant factors are as follows:

Fiscal year 1984: $172,700,000,000.
Fiscal year 1985: $181,150,000,000.
Fiscal year 1986: $192,750,000,000.
Fiscal year 1987: $207,600,000,000.

(5) The appropriate levels of the public debt are as follows:

Fiscal year 1984: $1,575,700,000,000.
Fiscal year 1985: $1,823,800,000,000.
Fiscal year 1986: $2,090,000,000,000.
Fiscal year 1987: $2,377,600,000,000.

Source: First Concurrent Resolution on the Budget—Fiscal Year 1985.

Appendix III

BUDGET FUNCTIONS

050: National Defense
150: International Affairs
250: General Science, Space, and Technology
270: Energy
300: Natural Resources and Environment
350: Agriculture
370: Commerce and Housing Credit
400: Transportation
450: Community and Regional Development
500: Education, Training, Employment, and Social Services
550: Health
570: Medicare
600: Income Security
650: Social Security [1]
700: Veterans Benefits and Services
750: Administration of Justice
800: General Government
850: General Purpose Fiscal Assistance
900: Net Interest
920: Allowances
950: Undistributed Offsetting Receipts

[1] Gramm-Rudman-Hollings exempts social security from budget reductions designed to achieve the maximum deficit amounts in the law, but included social security revenues and spending in setting those maximum deficit amounts.

Appendix IV

EXAMPLE OF SPENDING BY BUDGET FUNCTION

The Congress hereby determines and declares the appropriate levels of budget authority and budget outlays, and the appropriate levels of new direct loan obligations and new loan guarantee commitments for fiscal years 1984 through 1987 for each major functional category are:

(1) National Defense (050):
- Fiscal year 1984:
  - (A) New budget authority, $264,150,000,000.
  - (B) Outlays, $230,400,000,000.
  - (C) New direct loan obligations, $0.
  - (D) New primary loan guarantee commitments, $0.
  - (E) New secondary loan guarantee commitments, $0.
- Fiscal year 1985:
  - (A) New budget authority, $292,900,000,000.
  - (B) Outlays, $262,900,000,000.
  - (C) New direct loan obligations, $0.
  - (D) New primary loan guarantee commitments, $0.
  - (E) New secondary loan guarantee commitments, $0.
- Fiscal year 1986:
  - (A) New budget authority, $324,700,000,000.
  - (B) Outlays, $288,700,000,000.
  - (C) New direct loan obligations, $0.
  - (D) New primary loan guarantee commitments, $0.
  - (E) New secondary loan guarantee commitments, $0.
- Fiscal year 1987:
  - (A) New budget authority, $359,800,000,000.
  - (B) Outlays, $321,300,000,000.
  - (C) New direct loan obligations, $0.
  - (D) New primary loan guarantee commitments, $0.
  - (E) New secondary loan guarantee commitments, $0.

(2) International Affairs (150)
- Fiscal year 1984:
  - (A) New budget authority, $22,000,000,000.
  - (B) Outlays, $12,300,000,000.
  - (C) New direct loan obligations, $9,100,000,000.
  - (D) New primary loan guarantee commitments, $8,650,000,000.
  - (E) New secondary loan guarantee commitments, $0.
- Fiscal year 1985:
  - (A) New budget authority, $20,800,000,000.
  - (B) Outlays, $16,500,000,000.
  - (C) New direct loan obligations, $9,500,000,000.
  - (D) New primary loan guarantee commitments, $9,300,000,000.
  - (E) New secondary loan guarantee commitments, $0.
- Fiscal year 1986:
  - (A) New budget authority, $18,750,000,000.
  - (B) Outlays, 16,000,000,000.
  - (C) New direct loan obligations, $11,800,000,000.
  - (D) New primary loan guarantee commitments, $10,000,000,000.
  - (E) New secondary loan guarantee commitments, $0.
- Fiscal year 1987:
  - (A) New budget authority, $19,500,000,000.
  - (B) Outlays, $16,000,000,000.
  - (C) New direct loan obligations, $12,800,000,000.
  - (D) New primary loan guarantee commitments, $10,400,000,000.
  - (E) New secondary loan guarantee commitments, $0.

Appendix V

EXAMPLE OF RECONCILIATION INSTRUCTIONS

SEC. 3. (a) Not later than July 22, 1983, Senate committees named in subsections (b) through (e) of this section shall submit their recommendations to the Senate Committee on the Budget and not later than July 22, 1983, the House committees named in subsections (f) through (l) of this section shall submit their recommendations to the House Budget Committee. After receiving those recommendations, the Committees on the Budget shall report to the House and Senate a reconciliation bill or resolution or both carrying out all such recommendations without any substantive revision.

(b)(1) The Senate Committee on Finance shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce outlays by $400,000,000 in fiscal year 1984; to reduce outlays by $500,000,000 in fiscal year 1985; and to reduce outlays by $800,000,000 in fiscal year 1986.

(2) The Senate Committee on Finance shall report changes in laws within the jurisdiction of that committee sufficient to increase revenues as follows: $12,000,000,000 in fiscal year 1984; $15,000,000,000 in fiscal year 1985; and $46,000,000,000 in fiscal year 1986.

(c) The Senate Committee on Governmental Affairs shall report changes [in laws] within the jurisdiction of that committee, (1) sufficient to achieve savings in budget authority and outlays, or (2) which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority and outlays, or (3) any combination thereof, as follows: $1,619,000,000 in budget authority and $1,900,000,000 in outlays in fiscal year 1984; $2,332,000,000 in budget authority and $2,841,000,000 in outlays in fiscal year 1985; and $3,235,000,000 in budget authority and $4,144,000,000 in outlays in fiscal year 1986.

(d) The Senate Committee on Small Business shall report changes in laws within the jurisdiction of that committee which will result in savings in budget authority and outlays, as follows: $139,000,000 in budget authority and $287,000,000 in outlays in fiscal year 1984; $555,000,000 in budget authority and $466,000,000 in outlays in fiscal year 1985; and $544,000,000 in budget authority and $443,000,000 in outlays in fiscal year 1986.

(e) The Senate Committee on Veterans' Affairs shall report changes in laws within the jurisdiction of that committee which provide spending authority as defined in section 401(c)(2)(C) of the Congressional Budget Act of 1974, sufficient to reduce budget authority by $228,000,000 and outlays by $226,000,000 in fiscal year 1984; to reduce budget authority by $139,000,000 and outlays by $138,000,000 in fiscal year 1985; and to reduce budget authority by $141,000,000 and outlays by $140,000,000 in fiscal year 1986.

Source: First Concurrent Resolution on the Budget—Fiscal Year 1984.

Appendix VI

EXAMPLE OF SENATE COMMITTEE CROSSWALKS

SENATE COMMITTEE BUDGET AUTHORITY AND OUTLAY ALLOCATIONS PURSUANT TO SEC. 302 OF THE CONGRESSIONAL BUDGET ACT, FISCAL YEAR 1985

[In million of dollars]

Committees	Direct spending jurisdiction		Entitlements funded in annual appropriation acts	
	Budget authority	Outlays	Budget authority	Outlays
Appropriations	559,953	546,187		
Agriculture, Nutrition, and Forestry	5,475	15,343	8,824	127
Armed Services	36,300	24,712	178	189
Banking, Housing, and Urban Affairs	1,937	−2,314		
Commerce, Science, and Transportation	1,705	109	325	341
Energy and Natural Resources	1,373	960	63	61
Environment and Public Works	15,554	580	6	6
Finance	510,653	480,445	47,583	50,057
Foreign Relations	13,848	13,370		
Governmental Affairs	50,419	33,938	(1)	(1)
Judiciary	494	476	79	79
Labor and Human Resources	3,851	2,746	5,870	5,800
Rules and Administration	5	11		
Small Business				
Veterans' Affairs	1,526	1,175	15,681	15,707
Select Indian Affairs	486	484		
Not allocated to committees	−182,275	−186,171		
Total, budget	1,021,350	932,050	78,609	72,369

[1] Less than $500,000.

Source: Joint Explanatory Statement of the Committee of Conference on the First Concurrent Resolution on the Budget—Fiscal Year 1985.

Appendix VII

BUDGET PROCESS TIMETABLE: FISCAL YEARS 1987-1991

First Monday after January 3 (FY 1987 budget only: February 5).[1]	President submits budget to Congress.
February 15 [1]	CBO issues annual report to Budget Committees.
February 25 [1]	Committees submit views and estimates to Budget Committees.
April 1 [1]	Senate Budget Committee reports budget resolution.
April 15 [1]	Congress completes budget resolution.
June 10 [1]	House Appropriations Committee reports last annual appropriation bill.
June 15 [1]	Congress completes reconciliation.
June 30 [1]	House completes action on annual appropriation bills.
August 15	OMB and CBO estimate deficit for upcoming fiscal year.
August 20	OMB and CBO submit report to Comptroller General.
August 25	Comptroller General submits report to President.
September 1	Initial presidential reduction order issued (if required).
September 5	Deadline for President to propose reductions in defense contracts.
September 30	GAO certification of outlay savings with respect to proposed defense contract reductions.
October 1	Initial presidential reduction order effective; fiscal year begins.
October 5	OMB and CBO submit revised report to Comptroller General.
October 10	Comptroller General submits revised report to President.
October 15	Final presidential reduction order issued (if required) and becomes effective.
September-October	Congressional alternative to presidential order, if any, developed and adopted.
November 15	Comptroller General compliance report issued.

[1] These deadlines are permanent changes to the congressional budget process.

Appendix VIII

SPECIAL RULES FOR TREATMENT OF PROGRAMS

(For additional explanation of special rules, see the conference report on Gramm-Rudman-Hollings, House Report 99-433, pp. 48-59, 85-95)

Special Rules by Program

Social Security and Railroad Retirement Tier I

—Social security and railroad retirement tier I benefits and cost-of-living adjustments are exempt from reduction under Gramm-Rudman-Hollings.

—Social security revenues and outlays are excluded from the President's and Congress' budget totals. However, social security revenues and outlays are figured into the total budget figures for fiscal years 1986 through 1991 for purposes of calculating the deficits under Gramm-Rudman-Hollings.

Medicare

—Reductions in the medicare program are achieved through reductions in payments for covered services. No changes in co-insurance or deductibles are made, and covered services are unaffected under a presidential reduction order.

—Under a presidential reduction order, each payment made under the medicare program would be reduced by a specified percentage, which would be 1 percent for fiscal year 1986 and 2 percent for each subsequent year. The reduction percentages would be proportionately reduced in any year in which the excess deficit is small enough to permit a smaller reduction.

Community Health Centers; Migrant Health Centers; Indian Health Facilities; Indian Health Services; Veterans Medical Care

Reductions in these health programs are limited to 1 percent in fiscal year 1986 and 2 percent below the levels they would otherwise receive in any subsequent fiscal year.

Commodity Credit Corporation

—Payments and loan eligibility under any contract entered into after a presidential reduction order has been issued for a fiscal year are subject to a percentage reduction.

—Outlay reductions in the following year that are the result of contract adjustments in the reduction year are counted toward overall outlay reduction required in the reduction year.

—Appropriations for CCC net realized losses are not subject to reduction.

Guaranteed Student Loans

Two changes to the guaranteed student loan program are to occur automatically under a presidential reduction order. First, the special statutory allowance factor

for lenders is to be reduced by 0.40 percentage point, but not below 3.00 percent, in the first year of the loan. Second, a student's origination fee is to increase by 0.50 percentage point. In both cases, the reduction is to affect only loans made during the applicable fiscal year *after* the order is issued.

Child Support Enforcement

Outlays for the child support enforcement program are available for reduction only by reducing the Federal matching rate for State administrative expenses.

Foster Care and Adoption Assistance Programs

The amounts available for reduction in the foster care and adoption assistance programs are limited to increases in foster care maintenance payment rates or adoption assistance payment rates and only to the extent that the reduction can be made by reducing Federal matching payments by a uniform percentage.

Unemployment Programs

Regular State unemployment benefits, the State share of extended unemployment benefits, benefits paid for former Federal employees and former members of the armed services, and loans and advances to the State and Federal unemployment accounts are *not* available for reduction. However, the Federal share of extended benefits and federally paid benefits and administrative expenses are fully available for reduction.

Mine Worker Disability

Increases in black lung benefits and special benefits for disabled coal miners are treated in the same manner as automatic spending increases.

Federal Pay

—Rates of pay for civilian employees (and rates of basic pay, basic subsistence allowances and basic quarters allowances for members of the uniformed services) may *not* be reduced by a presidential reduction order.

—A scheduled pay increase may *not* be reduced by a presidential reduction order.

Defense: Presidential Discretion With Respect to Defense Contracts

—Within a defense program, project or activity, the President may achieve some or all of the required outlay savings through termination or modification of existing contracts.

—To invoke this flexibility, the President must identify the contracts proposed to be modified or terminated by September 5 (January 15 in FY 1986) and obtain certification from GAO by September 30 (February 15 in FY 1986) that the proposed savings can, in fact, be achieved.

—This procedure could not be invoked in the case of defense contracts whose modification or cancellation would cause a net loss or whose modification or cancellation would violate the legal obligations of the Government.

Federal Administrative Expenses

—Administrative or operating expenses of all the departments and agencies, including self-financed programs, are subject to reduction, unless specifically exempted.

—Payments made to reimburse administrative costs incurred by State or local governments (such as for AFDC and Medicaid) are not considered Federal administrative expenses; however, State administrative costs for a program may be reduced to the extent the program is reduced.

Deferrals

Deferrals proposed between October 1 of a fiscal year and October 15 of such fiscal year are not to be taken into account in determining the budget base.

Automatic Spending Increases Subject to Reduction

Any automatic spending increases that would be first paid between October 1 and October 15 of an applicable fiscal year are suspended until October 15 of such fiscal year. If the October 15 presidential order provides for elimination of the increases, the suspended increases will be canceled. If the increases are only partially reduced, the suspended increases will be restored to the allowed amount and lump-sum reimbursements will be made, to the extent necessary.

For the following programs, Gramm-Rudman-Hollings provides that *only* outlays due to changes in indexes and outlays due to administrative expenses are subject to reduction (programs are identified by the designated budget account identification code numbers set forth in the Budget of the United States, 1986—Appendix):

Black lung benefits (20–8144–0–7–601).

Central Intelligence Agency retirement and disability system fund (56–3400–0–1–054).

Civil service retirement and disability fund (24–8135–0–7–602).

Comptrollers general retirement system (05–0107–0–1–801).

Foreign service retirement and disability fund (19–8186–0–7–602).

Judicial survivors' annuities fund (10–8110–0–7–602).

Longshoremen's and harborworkers' compensation benefits (16–9971–0–7–601).

Military retirement fund (97–8097–0–7–602).

National Oceanic and Atmospheric Administration retirement (13–1450–0–1–306).

National Wool Act (12–4336–0–3–351).

Pensions for former Presidents (47–0105–0–1–802).

Railroad retirement tier II (60–8011–0–7–601).

Retired pay, Coast Guard (69–0241–0–1–403).

Retirement pay and medical benefits for commissioned officers, Public Health Service (75–0379–0–1–551).

Special benefits, Federal Employees' Compensation Act (16–1521–0–1–600).

Special benefits for disabled coal miners (75–0409–0–1–601).

Special milk program (12–3502–0–1–605).

Tax Court judges survivors annuity fund (23–8115–0–7–602).

Vocational rehabilitation (91–0301–0–1–506).

Prior Legal Obligations Exempt From Sequestration

Gramm-Rudman-Hollings provides that except for the special rules for termination or modification of defense contracts (see above), obligated balances are *not* subject to reduction under a presidential reduction order.

Exempt Programs

(Except for administrative or operating expenses, the following programs a exempt from reduction under Gramm-Rudman-Hollings. Programs are identified l the designated budget account identification code numbers set forth in the Budget the United States, 1986—Appendix):

Social security benefits and tier I railroad retirement benefits.

Veterans' compensation (36–0153–0–1–701).

Veterans' pensions (36–0154–0–1–701).

Net interest.

Earned income tax credit.

Offsetting receipts and collections.

Aid to families with dependent children (75–0412–0–1–609).

Child nutrition (12–3539–0–1–605).

Food stamps (12–3505–0–1–605 and 12–3550–0–1–605).

Grants to States for medicaid (75–0512–0–1–551).

Supplemental security income (75–0406–0–1–609).

Women, infants, and children program (12–3510–0–1–605).

Activities resulting from private donations, bequests, or voluntary contributions to the Government.

Alaska Power Administration, operations and maintenance (89–0304–0–1–271).

Appropriations for the District of Columbia (to the extent they are appropriations of locally raised funds).

Bonneville Power Administration fund and borrowing authority established pursuant to section 13 of Public Law 93–454 (1974), as amended (89–4045–0–3–271).

Bureau of Indian Affairs miscellaneous trust funds, tribal trust funds (14–9973–0–7–999).

Claims, defense (97–0102–0–1–051).

Claims, judgments, and relief acts (20–1895–0–1–806).

Coinage profit fund (20–5811–0–2–803).

Compensation of the President (11–0001–0–1–802).

Eastern Indian land claims settlement fund (14–2202–0–1–806).

Exchange stabilization fund (20–4444–0–3–155).

Federal payment to the railroad retirement account (60–0113–0–1–601).

Foreign military sales trust fund (11–8242–0–7–155).

Health professions graduate student loan insurance fund (health education assistance loan program) (75–4305–0–3–553).

Intragovernmental funds, including those from which the outlays are derived primarily from resources paid in from other government accounts, except to the extent such funds are augmented by direct appropriations for the fiscal year during which an order is in effect.

Payment of Vietnam and *USS Pueblo* prisoner-of-war claims (15-0104-0-1-153).

Payment to civil service retirement and disability fund (24-0200-0-1-805).

Payments to copyright owners (03-5175-0-2-376).

Payments to health care trust funds (75-0580-0-1-572).

Payments to military retirement fund (97-0040-0-1-054).

Payments to social security trust funds (75-0404-0-1-571).

Payments to State and local government fiscal assistance trust fund (20-2111-0-1-851).

Payments to the foreign service retirement and disability fund (11-1036-0-1-153 and 19-0540-0-1-153).

Payments to trust funds from excise taxes or other receipts properly creditable to such trust funds.

Postal service fund (18-4020-0-3-372).

Salaries of Article III judges.

Soldiers and Airmen's Home, payment of claims (84-8930-0-7-705).

Southeastern Power Administration, operations and maintenance (89-0302-0-1-271).

Southwestern Power Administration, operations and maintenance (89-0303-0-1-271).

Tennessee Valley Authority fund, except non-power programs and activities (64-4110-0-3-999).

Western Area Power Administration, construction, rehabilitation, operations, and maintenance (89-5068-0-2-271).

Western Area Power Administration, Colorado River basins power marketing fund (89-4452-0-3-271).

Appendix IX

CALCULATING UNIFORM PERCENTAGE REDUCTIONS

The Gramm-Rudman-Hollings procedures require—under certain circumstances—uniform percentage reductions to defense and non-defense programs, projects, and activities. Following is an explanation of how such uniform percentage reductions would be calculated.

The first step in calculating a required uniform percentage reduction is to determine the total amount of outlays available for reduction. In the case of both defense and non-defense programs, outlays from obligations incurred in prior years are not available for sequestration.[1] In the case of *defense* programs, outlays which result from new budget authority and unobligated balances of prior-year budget authority are available for sequestration. In the case of *non-defense* programs, outlays which result from new budget authority, new loan guarantee commitments, new direct loan obligations, obligation limitations, and entitlement and other spending authority are available for sequestration (unless specifically exempted). Notice that for non-defense programs, outlays resulting from unobligated balances are not available for sequestration.

The second step is to calculate the required uniform percentage reductions by dividing the amount of outlays required to be sequestered (see "Deficit Reduction Formula" on page 7) by the amount of outlays available for sequestration. This calculation is done separately for defense programs and non-defense programs. Because of the application of special rules and because the base for sequestration will not be the same in both cases, the uniform reduction percentages for defense and non-defense programs are likely to be different.

The final step in calculating uniform percentage reductions is to apply the percentages to the programs. In the case of defense programs, new budget authority and unobligated balances (if any) would be reduced by the uniform percentage reduction calculated for defense programs. In the case of non-defense programs, new budget authority, new loan guarantee commitments, new direct loan obligations, obligation limitations, and entitlement and other spending authority would be reduced by the uniform percentage reduction for non-defense programs. For both defense and non-defense programs which receive annual appropriations, the uniform reductions would be applied below the account level to programs, projects, and activities where such detail is specified in appropriation acts or Appropriations Committee reports. Where such detail is not provided, the uniform percentage reductions would be applied to budget accounts. In the case of programs not annually appropriated, the uniform percentage reductions would be applied to budget account activities as specified in the President's budget for that fiscal year.

[1] Under certain circumstances, as described in section 251(d)(3) of Gramm-Rudman-Hollings, the President may propose to meet the defense sequester requirement (in whole or in part) through savings in outlays from obligations already incurred in defense contracts signed in prior years.

Appendix X

SPECIAL RULES FOR FISCAL YEAR 1986 UNDER GRAMM-RUDMAN-HOLLINGS

[Items in italic refer to the budget process for FY 1987]

TIMETABLE

January 10	OMB & CBO estimate deficit for FY 1986; President to notify Comptroller General and Congress on exercise of flexibility with respect to military personnel accounts.
January 15	OMB & CBO report to Comptroller General; deadline for President to propose reductions in defense contracts.
January 21	Comptroller General reports to President.
January 23	Senate committees may submit views on alternative deficit reduction plan.
February 1	Presidential sequester order issued (if required).
No later than 2 session days after February 1.	Senate Budget Committee may report resolution proposing an alternative deficit reduction plan.
February 5	*President submits FY 1987 budget to Congress.*
February 15	GAO certification of outlay savings with respect to proposed defense contract reductions; *CBO annual report for FY 1987.*
February 25	*Committee submitted views and estimates on FY 1987 budget to Budget Committees.*
10 days following passage of alternative deficit reduction plan resolution (if any).	Senate committees report alternative plan reconciliation language.
March 1	Presidential order (if required) becomes effective.
April 1	Comptroller General compliance report issued; *Senate Budget Committee reports budget resolution for FY 1987.*

Reductions in fiscal year 1986

In fiscal year 1986, reductions are triggered if the fiscal year 1986 deficit is estimated to exceed the maximum deficit amount ($171.9 billion) by any amount. This stands in contrast to the requirement for fiscal years 1987–90 that reductions be triggered only when there is at least a $10 billion excess (there is also no $10 billion trigger for fiscal year 1991). In addition, a presidential reduction order for fiscal year 1986 is limited to $20 billion, regardless of the deficit overage and will be prorated by $\frac{7}{12}$ due to the March 1 effective date. This formula permits a maximum prorated reduction amount for fiscal year 1986 of $11.7 billion.

Presidential Flexibility for Defense in fiscal year 1986

While Gramm-Rudman-Hollings generally provides for uniform percentage reductions in all defense programs, projects, or activities, it sets forth two exceptions for defense programs in FY 1986:

(1) *Flexibility with respect to military personnel accounts:* Programs, projects, or activities within military personnel accounts may be protected from reduction entirely or partially if the uniform percentage reduction from all other military programs, projects, and activities is increased sufficiently to produce the required total defense outlay reductions.

(2) *Flexibility among programs, projects, and activities within accounts:* Within an account, certain programs, projects, or activities may be reduced by an amount up to two times the uniform percentage (calculated after any increase in a reduction pursuant to (1) above) and other programs, projects, or activities within that same account could be spared from some or all of the reduction, as long as the total amount of the reduction for the account does not change. In applying this flexibility: no programs, projects, or activities can be increased above base levels; the President cannot close any bases; and the President cannot apply more than the uniform reduction percentage to items of congressional interest (items which are funded at a level 110 percent of the President's request or higher).

Treatment of Deferrals in fiscal year 1986

Deferrals proposed between December 22, 1985, and February 1, 1986, are not to be taken into account in determining the budget base.

Suspension of Automatic Spending Increases in fiscal year 1986

Any automatic increases that would be first paid between December 22, 1985, and March 1, 1986, are suspended until March 1. If the March 1 presidential order provides for elimination of the increases, the suspended increases will be canceled. If the increases are only partially reduced, the suspended increases will be restored to the allowed amount and lump-sum reimbursements will be made, to the extent necessary.

Definition of "Program, Project, and Activity" in fiscal year 1986

For fiscal year 1986, the Appropriations Committees of the House and Senate may, after consulting with each other, define the terms "program, project, and activity."

Appendix XI

BUDGET ACT POINTS OF ORDER IN THE SENATE

Section	Description	Waiver requirement	Application	Effective date	Expiration date
301(i)	Prohibits consideration of budget resolution, amendment thereto, or conference report thereon, which contains deficit in excess of maximum deficit amount. (Also applies to revised budget resolutions via sec. 304(b).)	Three-fifths	Budget resolution Amendments Conference report	12-12-85	9-30-91
302(c)	Prohibits consideration of a committee's legislation until that committee has filed its sec. 302(b) report.	Majority	Bill Resolution Amendment	4-15-86	
302(f)	Prohibits consideration of legislation providing budget authority or outlays in excess of committee's sec. 302(b) report.	Three-fifths	Bill Resolution Amendment Conference report	4-15-86	9-30-91 (Three-fifths expires)
303(a)	Prohibits legislation providing new budget authority, change in revenues, change in public debt, new entitlement authority, or new credit authority for a fiscal year until the budget resolution for that year has been agreed to.	Majority	Bill Resolution Amendment	12-12-85	
304(b)	See section 301(i)	Three-fifths	Revised Budget Resolution	12-12-85	9-30-91
305(b)(2)	Prohibits non-germane amendments to budget resolution (and, by reference, reconciliation bills).	Three-fifths	Amendment	12-12-85	
306	Prohibits consideration of legislation within Budget Committee's jurisdiction, unless the Budget Committee reported it.	Three-fifths	Bill Resolution Amendment	12-12-85	
310(d)(2)	Prohibits amendments to reconciliation bills which are not deficit neutral.	Three-fifths	Amendment	4-15-86	9-30-91 (Three-fifths expires)
310(g)	Prohibits consideration of reconciliation legislation which recommends changes in social security.	Three-fifths	Bill Resolution Amendment Conference report	4-15-86	9-30-91 (Three-fifths expires)
311(a)	Prohibits consideration of legislation which would exceed outlay ceiling or revenue floor, or would cause deficit to exceed maximum deficit amount.	Three-fifths	Bill Resolution Amendment Conference report	12-12-85	9-30-91 (MDA expires) (Three-fifths expires)

BUDGET ACT POINTS OF ORDER IN THE SENATE—Continued

Section	Description	Waiver requirement	Application	Effective date	Expiration date
401(a)	Prohibits consideration of legislation providing new contract authority or new borrowing authority which is not limited to appropriations.	Majority	Bill Resolution Amendment Conference report	12-12-85	
401(b)(1)	Prohibits consideration of legislation providing new entitlement authority which becomes effective during the fiscal year which ends in the calendar year in which the bill is reported.	Majority	Bill Resolution Amendment	12-12-85	
402	Prohibits consideration of legislation providing new credit authority which is not limited to appropriations.	Majority	Bill Resolution Amendment Conference report	2-1-86	

Appendix XII

TERMS USED IN THE CONGRESSIONAL BUDGET PROCESS

Note: This is intended to be a glossary of only the most common terms used in the congressional budget process. For a complete glossary, see "A Glossary of Terms Used in the Federal Budget Process" published by the U.S. General Accounting Office.

Appropriation Act

A statute, under the jurisdiction of the House and Senate Appropriations Committees, that generally provides authority for Federal agencies to incur obligations and to make payments out of the Treasury for specified purposes. An appropriation act is the most common means of providing budget authority. Currently there are 13 regular appropriation acts for each fiscal year. From time to time, Congress also enacts supplemental appropriation acts. (*See* "Appropriations" under Budget Authority; Continuing Resolution; Supplemental Appropriation.)

Authorizing Committee

A committee of the House or Senate with legislative jurisdiction over laws that set up or continue the operations of Federal programs and provide the legal basis for making appropriations for those programs. Authorizing committees also have direct control over spending for entitlement programs since the Government's obligation to make payments for such programs is contained in the authorizing legislation. (*See* Entitlements.)

Authorizing Legislation

Legislation enacted by Congress that sets up or continues the operation of a Federal program or agency indefinitely or for a specific period of time. Authorizing legislation may place a cap on the amount of budget authority which can be appropriated for a program or may authorize the appropriation of "such sums as are necessary." (*See* Budget Authority; Entitlements.)

Baseline, Current Policy

A set of projections showing the levels of spending and revenues that would occur for the upcoming fiscal year and beyond if existing programs and policies are continued unchanged, with all programs adjusted for inflation so that existing levels of activity are maintained. (*See* Current Services Budget.)

Budget Authority

The authority Congress gives to Government agencies, permitting them to enter into obligations which will result in immediate or future outlays, except that budget authority does not include authority to insure the repayment of loans held by another person or government.

Budget authority may be classified in several ways. It may be classified by the form it takes: appropriations, borrowing authority, or contract authority. Budget authority may also be classified by the determination of amount: definite authority or indefinite authority. Finally, budget authority may be classified by the period of availability: 1-year authority, multi-year authority, or no-year authority (available until used).

Forms of Budget Authority

APPROPRIATIONS.—An act of Congress that permits Federal agencies to incur obligations and to make payments out of the Treasury for specified purposes. An appropriations act is the most common means of providing budget authority.

BORROWING AUTHORITY.—Statutory authority that permits a Federal agency to incur obligations and to make payments for specified purposes out of money borrowed from the Treasury, the Federal Financing Bank, or the public. The Budget Act in most cases requires that new authority to borrow must be approved in advance in an appropriation act.

CONTRACT AUTHORITY.—Statutory authority that permits a Federal agency to enter into contracts in advance of appropriations. Under the Budget Act, most new authority to contract must be approved in advance in an appropriation act.

Determination of Amount

DEFINITE AUTHORITY.—The dollar amount of budget authority is contained in the law.

INDEFINITE AUTHORITY.—The dollar amount of budget authority is not contained in the law; instead the law would provide "such sums as may be necessary."

Period of Availability

ONE-YEAR AUTHORITY.—Budget authority that is available for obligation only during a specified fiscal year.

MULTI-YEAR AUTHORITY.—Budget authority that is available for a specified period of time in excess of 1 fiscal year.

NO-YEAR AUTHORITY.—Budget authority that remains available for obligations for an indefinite period of time (until the objectives for which the authority was made available are attained).

Budget Deficit

The amount by which the Government's outlays exceed its revenues for a given fiscal year. (*see* Outlays; Revenues.)

Budget Resolution

A resolution passed by both chambers of Congress setting forth, reaffirming, or revising the congressional budget for the U.S. Government for a fiscal year. A budget resolution is a concurrent resolution of Congress. Concurrent resolutions do not require a presidential signature because they are not laws. Budget resolutions do not need to be laws because they are a legislative device for the Congress to regulate itself as it works on spending and revenue bills.

The budget resolution for the upcoming fiscal year is to be adopted by the Congress by April 15. Additional concurrent resolutions revising the previously established budget levels may be adopted by Congress at any time before the end of the fiscal year. It is the usual practice for Congress to revise budget levels for the current fiscal year as part of the budget resolution for the upcoming fiscal year.

Budget Surplus

The amount by which the Government's revenues exceed its outlays for a given fiscal year. (*See* Outlays; Revenues.)

Congressional Budget

(*See* Budget Resolution.)

Continuing Resolution

Appropriations legislation enacted by Congress to provide temporary budget authority for Federal agencies to keep them in operation when their regular appropriation bill has not been enacted by the start of the fiscal year. A continuing resolution is a joint resolution, which has the same legal status as a bill.

A continuing resolution frequently specifies a maximum rate at which obligations may be incurred, based on the rate of the prior year, the President's budget request, or an appropriation bill passed by either or both chambers of the Congress.

A continuing resolution is a form of appropriation act and should not be confused with the budget resolution.

Credit Authority

Authority to incur direct loan obligations or to incur primary loan guarantee commitments. Under the Budget Act, new credit authority must be approved in advance in an appropriation act.

Crosswalk

Also known as "committee allocation" or "section 302 allocation." The means by which budget resolution spending totals are translated into guidelines for committee action on spending bills. The Budget Committees allocate the budget resolution totals among the committees by jurisdiction. Those committees, in turn, subdivide their allocations among their subcommittees or programs. Crosswalk allocations to the committees appear initially in Budget Committee reports on the budget resolution and finally in the joint explanatory statement accompanying a conference report on the budget resolution.

Current Services Budget

A section of the President's Budget, required by the Budget Act, which sets forth the level of spending or taxes that would occur if existing programs and policies were continued unchanged through the fiscal year and beyond, with all programs adjusted for inflation so that existing levels of activity are maintained. (*See* Baseline.)

Deferral of Budget Authority

An action by the executive branch that delays the obligation of budget authority beyond the point it would normally occur. Pursuant to the Congressional Budget and Impoundment Control Act of 1974, the President must provide advanced notice to the Congress of any proposed deferrals. A deferral may not extend beyond the end of the fiscal year in which the President's message proposing the deferral is made. Congress may overturn a deferral by passing a law disapproving the deferral. (*See* Impoundment Resolution.)

Entitlements

Programs that are set up in a way that obligates the U.S. Government to make specific payments to qualified recipients.

Expenditures

(*See* Outlays.)

Federal Debt

Consists of all Treasury and agency debt issues outstanding.

Fiscal Policy

Federal Government policies with respect to taxes, spending, and debt management, intended to promote the Nation's macroeconomic goals, particularly with respect to employment, gross national product, price level stability, and equilibrium in balance of payments. The budget process is a major vehicle for determining and implementing Federal fiscal policy. The other major component of Federal macroeconomic policy is monetary policy. (*See* Monetary Policy.)

Fiscal Year

A fiscal year is a 12-month accounting period. The fiscal year for the Federal Government begins on October 1 and ends on September 30. The fiscal year is designated by the calendar year in which it ends; for example, fiscal year 1986 is the year beginning October 1, 1985, and ending September 30, 1986.

Functional Classification

A system of classifying budget resources by major purpose so that budget authority, outlays, and credit activities can be related in terms of the national needs being addressed (e.g., national defense, health) regardless of the agency administering the program. A function may be divided into two or more subfunctions depending upon the complexity of the national need addressed by that function. (*See* Budget Authority; Outlays.)

Impoundment

A generic term referring to any action or inaction by an officer or employee of the U.S. Government that precludes the obligation or expenditure of budget authority in the manner intended by Congress. (*See* Deferral of Budget Authority; Rescission of Budget Authority.)

Impoundment Resolution

Section 1013(b) of the Congressional Budget and Impoundment Control Act of 1974 permits either chamber of Congress to adopt an impoundment resolution to veto a deferral of budget authority proposed by the administration. However, in 1983 the Supreme Court held that a one-House legislative veto is unconstitutional because it constitutes a legislative action without having been passed by both chambers of Congress and signed into law by the President. (*INS* v. *Chadha,* U.S. (1983).) As a result, Congress now disapproves deferrals in appropriations laws.

Mark-Up

Meetings where congressional committees work on the language of bills or resolutions. At Budget Committee mark-ups, the House and Senate Budget Committees work on the language and numbers contained in budget resolutions.

Monetary Policy

Management of the money supply, under the direction of the Board of Governors of the Federal Reserve System, with the aim of achieving price stability and full employment. Government actions in guiding monetary policy, include currency revaluation, credit contraction or expansion, rediscount policy, regulation of bank reserves and the purchase and sale of Government securities. (*See* Fiscal Policy.)

Offsetting Receipts

Income from the public that results from sale of products or services rendered (such as sale of timber from Federal lands or entrance fees for national parks). Offsetting receipts are deducted from total budget authority and outlays rather than added to Federal revenues even though they are deposited in the Treasury as miscellaneous receipts.

Outlays

Outlays are disbursements by the Federal Treasury in the form of checks or cash. Outlays flow in part from budget authority granted in prior years and in part from budget authority provided for the year in which the disbursements occur.

The term "expenditures" is frequently used interchangeably with the term outlays. (*See* Budget Authority.)

President's Budget

The document sent to Congress by the President in January or February of each year, requesting new budget authority for Federal programs and estimating Federal revenues and outlays for the upcoming fiscal year.

Revenues

Collections from the public arising from the Government's sovereign power to tax. Revenues include individual and corporate income taxes, social insurance taxes (such as social security payroll taxes), excise taxes, estate and gift taxes, customs duties, and the like.

Reconciliation Process

A process in which Congress includes in a budget resolution "reconciliation instructions" to specific committees, directing them to report legislation which changes *existing* laws, usually for the purpose of decreasing spending or increasing revenues by a specified amount by a certain date. The reported legislation is then considered as a single "reconciliation bill."

Gramm-Rudman-Hollings provides for an accelerated form of reconciliation in the Senate as the method for developing a congressional alternative to a presidential reduction order.

Rescission of Budget Authority

Cancellation of budget authority before the time when the authority would otherwise cease to be available for obligation. The rescission process begins when the President proposes a rescission to the Congress for fiscal or policy reasons. Unlike the deferral of budget authority which occurs *unless* Congress acts to disapprove the deferral, rescission of budget authority occurs *only if* Congress acts within 45 days of continuous session to enact the rescission. (*See* Deferral of Budget Authority; Impoundment.)

Scorekeeping

Procedures for tracking the status of congressional budgetary actions. Scorekeeping data published by the Congressional Budget Office include status reports on the effects of congressional actions and comparisons of these actions to targets and ceilings set by Congress in budget resolutions.

Sequester

That element of a presidential spending reduction order that occurs by reducing defense and non-defense spending by uniform percentages.

Supplemental Appropriation

An act appropriating funds in addition to those in the 13 regular annual appropriation acts. Supplemental appropriations provide additional budget authority beyond the original estimates for programs or activities (including new progams authorized after the date of the original appropriation act) in cases where the need for funds is too urgent to be postponed until enactment of the next regular appropriation bill. (*See* Appropriation Act.)

Tax Expenditures

Revenue losses attributable to a special exclusion, exemption, or deduction from gross income or to a special credit, preferential rate of tax, or deferral of tax liability.

Unified Budget

Describes the way the Federal budget is currently displayed. This display includes revenues and spending for all regular Federal programs and trust funds except social security which was removed from budget totals beginning with fiscal year 1987. Prior to the creation of the unified budget in 1969, all trust funds were excluded from budget totals.

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