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NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS



# A Primer on the Federal Budget Process

*By the 2004-2005 NASFAA Research Committee*

## Introduction

In July 2004, George Chin, then-Chair of the National Association of Student Financial Aid Administrators (NASFAA) Board of Directors, charged the Association's Research Committee with developing "a primer or monograph on program costing, budget scoring, and credit scoring to enhance knowledge about these subjects to facilitate more extensive activity by staff from member institutions in discussions about federal student aid programs." Mr. Chin was concerned that NASFAA Members were being asked to comment on and affect the federal budget process, particularly with regard to the federal student aid programs, but did not have enough knowledge of this process to communicate with federal policymakers effectively. Very few financial aid administrators know the history of the federal budget or the Congressional committees that have the most effect on this process. Even fewer understand how concepts such as "budget scoring," "budget authority," "sequestration," and other terms used in the federal budget process affect appropriations for financial aid programs. As members of Congress and their staffs have become more inclined to reduce or eliminate spending for a number of programs that are vital to many financially needy postsecondary education students, knowledge of the federal budget process is more important now than at any time in the history of the Higher Education Act.

*A Primer on the Federal Budget Process*, originally completed in June 2005, was updated prior to publishing to include recent analyses of costs of the Federal Family Education and Federal Direct Student Loan Programs by the Government Accountability Office and the Congressional Budget Office. The Budget Primer is designed to give more information about the process Congress and the President use to develop a federal spending plan every year. The first section of this report gives a brief history of the process and explains how we got to where we are today. Later sections provide an overview of the key Congressional and Presidential administration players and their roles in crafting annual spending bills and getting them through Congress;

the legal mechanisms used to ensure appropriations stay within the spending limits established by the budget; and an overview of how the budget process affects annual spending on federal student aid programs. Throughout the report a number of key terms are often used to describe various aspects of the budget process. These terms are **highlighted** and can be found in a Glossary, which provides detailed definitions of these terms. The appendix provides a timeline of months of the year during which key aspects of the budget process are scheduled to take place.

We hope that *A Primer on the Federal Budget Process* provides the basic information you need to understand the complex details of the federal budget process and that the information helps you in your efforts to communicate with Congressional or other leaders who may influence federal spending on student aid and higher education. However, if you need more specific information on aspects on the budget process that may be mentioned only briefly here, please consult the list of references included in the last section of this report.

# The Federal Budget Process: History and Background

Each year the United States government spends more than two trillion dollars of the people's money. Federal spending is a major force in the nation's economy, and it is one of the major ways in which Washington addresses important national objectives. For these reasons, our nation's founders recognized the need for a government budget early on. Even so, the United States Constitution includes fewer than forty words on this subject:

No money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and account of Receipts and Expenditures of all public Money shall be published from time to time (U.S. Constitution, Article 1, Section 9).

The Founding Fathers left the authority for budgetary rulemaking up to the Congress. House and Senate procedures for receipts and expenditures of federal funds are enacted under a Constitutional provision that permits each house of Congress to make its own rules. The only appropriation bill passed in 1789 by the First Congress was all of 142 words long, and since that first funding bill the federal and Congressional budgetary processes have become more and more complex to meet the challenges of a more complex nation and to meet important and multifaceted societal needs.

## Federal Budgeting Before 1974

For almost eighty years, the House Committee on Ways and Means and the Senate Committee on Finance held combined responsibility for federal spending and taxation. But in 1865, the House of Representatives transferred the appropriating duties from Ways and Means to a newly created Committee on Appropriations. The Senate passed a resolution providing for the creation of its own Committee on Appropriations two years later.

The Anti-Deficiency Act of 1870 was Congress' first major effort to exert more control over government spending. Until then, federal agencies frequently had committed themselves to spending more than Congress had appropriated to them. The agencies then submitted "coercive deficiency" requests to Congress to ensure that their bills would be paid. The 1870 Act prohibited departments from spending more than Congress had provided. It also forbade them from entering into contracts for future payments in excess of appropriations.

Congress passed many budgetary rules during the late nineteenth and early twentieth centuries as it tried to effectively manage ever-increasing federal expenditures. Few of these rules had any lasting effect. Soon after the turn of the twentieth century, however, consensus for a more centralized approach to national financial policy emerged. This resulted in the Budget and Accounting Act of 1921, which required the President to formulate a budget and submit it to Congress. The Act created the Bureau of the Budget to oversee the executive budget process and the General Accounting Office (GAO) (Note: in 2004 the agency's name was changed to the "Government Accountability Office") to act as the government's auditor. It also gave the GAO responsibility for conducting independent audits of executive accounts and for alerting Congress to violations of federal fiscal statutes.

The Revenue Act of 1941 created the Joint Committee on the Reduction of Federal Expenditures. The joint committee was made up of members of the House and Senate appropriating committees. Its staff tracked Congressional action against the President's budget request, generally using Bureau of the Budget estimates.

The Legislative Reorganization Act of 1946 created the Joint Committee for the Legislative Budget. This committee was supposed to prepare a budget that recommended total estimated federal receipts and expenditures for the ensuing fiscal year. If estimated expenditures exceeded receipts, a concurrent resolution accompanying the committee's report was to call for increasing the public debt. Attempts to implement the Legislative Reorganization Act in 1947 and 1948 failed, and in 1949, after admitting that the Act contained basic defects, Congress abandoned any further attempts to comply with it.

In 1967, President Lyndon Johnson appointed a Commission on Budget Concepts to study the federal budgetary process. The commission concluded that too many competing and confusing procedures governed federal financial activity. It recommended replacing these procedures with a unified system.

## The Congressional Budget and Impoundment Control Act of 1974

The Congressional Budget and Impoundment Control Act of 1974 (also referred to as the Budget Act of 1974 or more simply as the Budget Act) is arguably the most important budget legislation ever passed. Even today, it remains the basic blueprint for federal budget and appropriations procedures.

The 1974 Act was stimulated by two developments. First, there was widespread recognition that President Johnson's commission was right. The legislative branch had no process for determining its own spending priorities before considering the executive branch's budgetary recommendations. Instead, each year Congress simply responded piecemeal to Presidential proposals for taxes and spending.

Second, Congress became involved in a dispute with President Richard Nixon. Like many of his predecessors, President Nixon believed the White House had authority to impound (withhold) funds appropriated by Congress. By 1973, the Nixon Administration had impounded as much as $15 billion of Congressionally approved spending. Some of these funds had been impounded even after both the House and Senate had voted to override Mr. Nixon's veto of the legislation that appropriated them.

The intent of the 1974 Budget Act was to coordinate and control the legislative branch's budget activities and to curb the President's impoundment powers. For the first time, it created standing Congressional budget committees to focus on federal budgetary policy. These committees were given responsibility for drafting Congress' annual budget plan and for monitoring all budgetary activities within the federal government. Among these activities is spending for federal student aid programs, which are funded under federal budget Function 500 for Education, Training, Employment, and Social Services.

The 1974 Act also created the Congressional Budget Office (CBO) to serve as Capitol Hill's budget scorekeeper. The CBO replaced the Joint Committee on the Reduction of Federal Expenditures. It provides Congress with an annual economic forecast, reviews the President's annual budget submission, scores (provides budget forecasts) all spending legislation reported from committees, and prepares various financial reports for Congress.

## Changes Since the 1974 Act

Federal deficits increase dramatically during the 1980s. In response, Congress passed the Balanced Budget and Emergency Deficit Control Act in 1985. This legislation is also referred to under the names of its Senate authors—Phil Gramm of Texas, Warren Rudman of New Hampshire, and Ernest Hollings of South Carolina.

The **Gramm-Rudman-Hollings Act** established "maximum deficit amounts." If the deficit exceeded these established limits, the Act required the President to issue a sequester order that caused a uniform reduction in all nonexempt spending. Gramm-Rudman-Hollings also made several changes to Congressional rules in order to enforce the maximum deficit amounts and generally to strengthen Congressional budget enforcement procedures. The most significant of these changes was to increase the number of votes required to waive certain budgetary points of order in the Senate from a simple majority to a three-fifths margin.

Under Gramm-Rudman-Hollings, CBO played an equal role with the Office of Management and Budget (OMB)—which replaced the Bureau of the Budget as part of the executive branch—in calculating **sequestration** data. In 1986, the Supreme Court held that provision of the Act to be a violation of the Constitution's separation of powers doctrine. Specifically, the Court found that the CBO's role in the calculations was an unconstitutional assumption by a Congressional entity of the executive branch's responsibility for executing law. In response to the Court's ruling, Congress passed the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987. This measure corrected

Gramm-Rudman-Hollings by assigning all sequestering responsibilities to the OMB.

The 1987 Act also extended Gramm-Rudman-Hollings' deficit limits through 1992, but Congress soon realized the deficit would exceed those limits, partly because it had exempted most of the budget from sequesters. To correct this, Congress passed the Omnibus Budget Reconciliation Act of 1990. That Act's enforcement provisions effectively replaced the Gramm-Rudman-Hollings system of deficit limits with two independent enforcement regimens. One featured caps on discretionary spending to limit the total amounts of **budget authority** and **outlays** that Congress may provide both overall and for specific areas such as Function 500.

The other, called pay-as-you-go **(PAYGO)**, required that any legislation increasing the federal deficit or decreasing a federal surplus be offset by other PAYGO legislation. If the sum of all PAYGO bills passed during a particular Congressional session would increase the deficit or reduce a surplus, the 1990 Act requires that automatic across-the-board sequesters reduce expenditures in mandatory spending programs. PAYGO applied to most categories of mandatory spending and to tax legislation.

The discretionary spending caps and PAYGO requirements of the 1990 Act were extended through the Omnibus Budget Reconciliation Act of 1993 and the Balanced Budget Act of 1997; however, these provisions expired at the end of federal fiscal year 2002. To date, they have not been reinstated.

The 1990 Act also contained an emergency clause exempting certain urgent and unforeseen spending from all spending limits. Only bills that both the President and Congress designate as emergency measures are exempt from these limits, but there is no statutory definition of what constitutes an emergency (however, recent examples of such emergencies include supplemental appropriations for the wars in Afghanistan and Iraq [see P.L. 108-106] and relief for victims of hurricanes in Florida or other natural disasters [see P.L. 108-69].

# Principal Participants and Their Roles

The federal budget process involves both the executive and the legislative branches of government. In the executive branch, the Office of Management and Budget (OMB) plays a major role along with the President. In the legislative branch, House and Senate Budget Committees, the Congressional Budget Office (CBO), the House Rules Committee, and the House and Senate Appropriations Committees all serve important functions.

## The Executive Branch

The President is the chief executive officer of the nation and as such is responsible for initiating the annual budget process by proposing an initial budget to Congress and for giving final approval to the budget that results from Congress' deliberations. OMB reports directly to the President. Its primary mission is to assist the President in overseeing the federal budget's preparation and to supervise its administration in executive branch agencies.

### ♦ The President

The President's budget submission takes place on or before the first Monday in February and consists of a detailed budget request for the next federal fiscal year, which runs from October 1 to September 30. This budget request, developed by OMB, accomplishes three important objectives. First, it tells Congress what the President believes overall federal fiscal policy should be, as indicated by three components: (1) how much money the federal government should spend; (2) how much it should take in as tax revenues; and (3) how much of a deficit (or surplus) the federal government should run, which is simply the difference between (1) and (2).

Second, the budget request lays out the President's relative priorities for federal spending. It states how much he believes should be spent overall on defense, agriculture, education, health, and so on. The President's budget typically sketches fiscal policy and budget priorities not only for the coming year but for the next five years or more, and it is accompanied by historical tables that set out past budget figures. The President's budget request also is accompanied by various supplemental publications that describe the request and Administration budget policies.

Third, the President's budget signals to Congress the President's recommended spending and tax policy changes. Spending or taxes that are already part of permanent law make up about five-sixths of the budget, so the President does not need to propose legislative change if he feels none is needed. Nearly all of the federal tax code is set in permanent law and does not expire; almost two-thirds of spending—including the three largest entitlement programs (Medicare, Medicaid, and Social Security)—also is permanently enacted. Similarly, interest paid on the national debt is set automatically, with no need to be reauthorized by specific legislation. (However, the ceiling on the national debt must, from time to time, be raised by legislation in order that the government does not default on its borrowing used to finance annual deficits. In March 2006 President Bush signed a bill into law raising the debt ceiling by $781 billion to a total of $8.965 trillion.)

The one type of spending the President does have to ask for each year is annual discretionary, or appropriated, spending. This spending falls under the jurisdiction of the House and Senate appropriations committees. Any discretionary program must have its funding, or **budget authority**, renewed each year in order to continue operating. Most defense spending is discretionary, as is spending on education, health research, federal law enforcement, national parks, and housing, to name just a few examples. Altogether, **discretionary spending** comprises about one-third of all federal spending. The President's budget specifies how much he recommends be spent on each specific discretionary program.

### ♦ The Office of Management and Budget

In helping to formulate the President's spending plans, OMB evaluates the effectiveness of agency programs, policies, and procedures; assesses competing funding demands among agencies; and sets funding priorities. OMB ensures that agency reports, rules, testimony, and proposed legislation are consistent with the President's budget and with administration policies.

During the budget process, OMB also develops supporting material such as the current services estimates that are packaged in the annual **current services budget**. The current services estimates are executive branch estimates of the anticipated costs of federal programs and operations for the next and future fiscal years at existing levels of service and assuming no new initiatives or changes in existing law. They are submitted to Congress with the President's annual budget and include explanations of the economic and policy assumptions upon which they are based such as anticipated rates of inflation, real (inflation-adjusted) economic growth, and unemployment, plus program caseloads and pay increases.

Additionally, OMB oversees and coordinates the administration's procurement, financial management, information, and regulatory policies. In each of these areas, OMB's role is to help improve administrative management, to develop better performance measures and coordinating mechanisms, and to reduce any unnecessary burdens on the public.

## The Legislative Branch

Congress begins its budget activity after receiving the President's budget proposal in early February. Both houses of Congress are involved through their respective budget committees.

### ♦ The House and Senate Budget Committees

The House and Senate Budget Committees oversee the budget process within the Congress. After receiving the President's budget request, Congress generally holds hearings to question administration officials about the budget and then proceeds to develop its own **budget resolution**. This work is done by the budget committees, whose sole function is to draft the annual budget resolution. The committees' resolution goes to the House and Senate floors, where it can be amended (by a majority vote). It then goes to a House-Senate conference to resolve any differences, and both houses pass a conference report. The budget resolution is a "concurrent" Congressional resolution, not an ordinary bill, and does not go to the President for his signature or veto. It does establish aggregate spending levels by function. It also requires only a majority vote to pass and is one of the few pieces of legislation that cannot be filibustered in the Senate. Congress is supposed to pass the final budget resolution by April 15, but it often takes longer. In some recent years Congress has not passed a budget resolution at all.

### ♦ The Congressional Budget Office

The Congressional Budget Office (CBO) provides nonpartisan budgetary information and analyses to Congress and its committees. It is one of three government agencies (the others are GAO and the Congressional Research Service) referred to as "legislative agencies" that report to the Congress rather than to the executive branch. The Budget Act of 1974 requires CBO to give priority to serving the budget committees, the appropriations and revenue committees in each house, and all other committees, in that order. CBO produces five-year economic projections, budget baseline projections, spending and revenue options for reducing the budget deficit, and analysis of the President's budget. It also provides budget **scorekeeping** reports, cost estimates on pending legislation, and a variety of special studies. Under the original version of the Gramm-Rudman-Hollings Act, CBO played an equal role with OMB in calculating **sequestration** data. Since the Supreme Court struck down Gramm-Rudman-Hollings' provision for CBO to share equally with OMB in calculating sequestration data, CBO's role has been limited to providing advisory sequestration reports. Its chief responsibility under the Budget Act is to help the budget committees with the matters under their jurisdiction—principally the Congressional budget resolution and its enforcement.

The CBO director typically is asked to testify about the outlook for the budget and the economy as well as related issues. To help the budget committees enforce the budget resolution, CBO provides estimates of the budgetary costs of legislation approved by the various Congressional committees and tracks the progress of spending and revenue legislation in a scorekeeping system. At the request of committees or members of Congress, and as time and resources permit, CBO also prepares many cost estimates for legislative proposals as they are being developed or for amendments under consideration. CBO's cost estimates and scorekeeping system help the budget committees determine whether the budgetary effects of individual legislative proposals are consistent with the spending and revenue targets set in the most recent budget resolution.

In addition to its work for the budget committees, CBO is assigned many other duties by law. The Budget Act directs CBO to support (in the following order) the Appropriations, Ways and Means, and Finance Committees; other Congressional committees; and individual members to the extent practicable. The Budget Act further directs CBO to issue annual reports that help Congress identify authorizing legislation that should be in place before it considers the regular appropriation bills for the upcoming fiscal year. The **Unfunded Mandates Reform Act of 1995** amended the Budget Act of 1974 to require CBO to also identify federal mandates contained in authorizing legislation and to estimate the costs they impose on state, local, and tribal governments or on the private sector.

At Congressional request CBO also produces reports analyzing specific policy and program issues pertaining to the budget. Those analyses examine issues in greater depth and help to inform CBO's statutory work in the Congressional budget process. In all of its work, CBO routinely discloses its assumptions and methods. In keeping with the agency's nonpartisan role, its analyses do not make policy recommendations. That nonpartisan stance has been instrumental in establishing the agency's reputation for professionalism and has enhanced the credibility of its reports.

### ♦ Baseline Budget and Economic Projections

Each year CBO prepares a report on the budget and the economic outlook covering a specified budget-planning horizon. In recent reports that horizon has been the next 10 years. The outlook report is issued in January and updated in the summer. Typically, the January report also includes a discussion of the uncertainty surrounding budget projections, the long-run budget outlook, and current budgetary or economic policy issues. CBO's report on the budget and economic outlook gives Congress a baseline from which to measure the effects of proposed changes in spending and tax laws. The **baseline** is constructed according to rules set forth in law, mainly in the 1974 Budget Act and the 1985 Balanced Budget and Emergency Deficit Control Act. Following those requirements, CBO projects federal spending and **revenues** under the assumption that current laws and policies remain in place. The baseline is not intended to be a prediction of future budgetary outcomes. Rather, the projections reflect CBO's best judgment about how the economy and other factors will affect federal revenues and spending under existing laws and policies.

For revenues and **mandatory spending** (spending controlled by laws other than annual **appropriation acts**), the Deficit Control Act generally requires CBO to project the baseline on the assumption that current laws will continue without change. For **discretionary spending** (spending controlled by annual appropriation acts), the Deficit Control Act directs CBO to adjust projections beyond the current year to reflect inflation and certain other factors.

CBO is developing the capacity to provide long-term projections for Social Security and Medicare beyond the budget-planning horizon. The agency's long-term models will provide a basis to estimate costs of changes in those programs.

### ♦ The House Rules Committee

The House of Representatives establishes a set of procedures called a rule for processing each piece of legislation that it considers, including budget resolutions. The House Rules Committee develops these rules. The Rules Committee is specifically responsible for all rules and joint rules other than those relating to the Code of Official Conduct and for establishing the order of business of the House, recesses, and final adjournments of Congress.

Once the budget committees have marked up and reported their budget resolutions, the full House and Senate take action. The Budget Act outlines the procedures for floor consideration of the budget resolution in both bodies. In the House, however, the Rules Committee traditionally grants a special rule to dictate the terms for considering the budget resolution on the floor. In recent years, the House has followed a policy of allowing only complete substitute budget resolutions to be considered as amendments. A further requirement added during the 104th Congress (1995–1996) mandates that all proposed substitutes must achieve a balanced budget within a set time. The Senate has generally operated under fewer constraints.

### ♦ The House and Senate Appropriations Committee

Making federal funds available for expenditure is a two-part process. During the first part of the process, Congress' authorizing committees determine what is to be done. During the second part the House and Senate appropriations committees decide how much money is to be spent doing it.

Ten subcommittees within the House and twelve Senate subcommittees of the respective chamber's parent Appropriations Committees draft legislation to allocate funds to government agencies under their jurisdiction (in the House and Senate the Labor, Health and Human Services, Education, and Related Agencies subcommittees provide funding for student aid and higher education programs). These subcommittees review the President's budget request, hear testimony from government officials, and draft the spending plans for the coming fiscal year. Their work goes on to the full House or Senate Appropriations Committee, which may review and modify the bills and then forward them to the floor for consideration.

Once the budget resolution has set the aggregate spending levels, the Appropriations Committee is given a **section 302(a) allocation** for spending (named for the authorizing section of the Budget Act). This allocation serves as an internal Congressional control mechanism, enforceable through points of order and other procedural mechanisms in both the House and Senate. The appropriations committees may not exceed these aggregate totals in their annual appropriations bills.

When the appropriations committees receive the aggregate allocation, they divide it into **section 302(b) suballocations** corresponding to each of the appropriations subcommittees. Once it has received its suballocation total, each subcommittee begins work on the annual spending bill for its areas of government operations. The subcommittees base their work on the administration's February budget request as well as previous years' spending bills while incorporating any new priorities Congress may have. The federal agencies involved send justification materials to the House and Senate appropriations committees. These materials supplement the President's budget request. They contain more detail than the budget request and support the agencies' testimony during annual subcommittee hearings on the President's budget.

In the House, appropriation measures are not introduced by members beforehand but originate instead in the Appropriations Committee when the appropriate subcommittee marks up or reports a committee print (often referred to as a "chairman's mark"). Once the subcommittee completes its work on the chairman's mark, it is reported to the full committee. There it is considered, possibly amended, and ultimately approved and reported by the full Appropriations Committee consistent with House rules. All committee actions are constrained by the overall discretionary spending limits and the allocations in the budget resolution. The Budget Act targets June 10 as the annual completion date for the House Appropriations Committee's action on these general bills.

## Enforcing the Budget Resolution

In good economic times, compelling committees to keep spending within the limits dictated by the budget resolution is not a major concern. Sufficient funds are available to support every program at levels that make Congressional representatives and their constituents reasonably happy. This is not the case in bad economic times. Congressional representatives are understandably reluctant to cut programs that they believe are important. This reluctance may lead to attempts to fund programs at levels that would exceed the 302(a) allocations and "bust the budget" as determined by CBO's scorekeeping system. How does the Congress police itself and enforce the Budget Resolution?

### The Budget Point of Order

Congress' primary mechanism to prevent passing appropriations or authorizing legislation that does not meet the requirements of the budget resolution is a procedural "budget point of order." This is essentially a challenge that the legislation under discussion fails to stay within the limits imposed by the budget resolution.

Budget points of order can be raised on either the House or the Senate floor, but each chamber treats them differently. In the House, the Rules Committee reports a "rule" that governs floor debate, and usually such a rule can waive various points of order The rule is approved by a simple majority vote of the House. A vote on a rule precedes debate and amendment of a Budget Resolution. By contrast, in the Senate the budget point of order is very important. A point of order can be raised on the floor to challenge any legislation that exceeds spending authority or reduces taxes below budget resolution levels. Waiving the point of order requires a vote of sixty members of the full Senate. In the case of tax or entitlement bills, or proposed amendments to those bills, limits on spending for both the first year and the five-year (or longer) period of the budget resolution must be obeyed.

## Reconciliation

Reconciliation is a special procedure provided for in the Budget Act. It was developed to assist in managing deficit reduction legislation because the budget point of order can only limit spending increases or tax cuts, not spending cuts or tax increases.

If Congress chooses to use the reconciliation procedure, "reconciliation directive" language must be inserted in the budget resolution. This instructs committees to develop legislative language to achieve specific spending or tax goals by a certain date. The committees are generally free to adopt whatever policies they choose, so long as they meet the budget goals. In the history of the Budget Act it has never occurred, but if the committees do not meet those goals, the budget committee can meet the budget savings requirement by creating amendments to the reconciliation bill. This threat compels the committees to cooperate. Once the committees have produced their pieces of legislation, the budget committee packages them together into a reconciliation bill. This is presented on the floor for a yes or no vote.

The reconciliation procedure is pursued almost simultaneously in the House and Senate. After each chamber has adopted its version of a bill, a conference committee resolves any differences and produces a conference report. This goes back to the floor of both houses for approval and then is sent to the President for signature or veto.

Reconciliation would seem to allow members of Congress to insert legislative language to make many different changes, including some not germane to the budget. The Senate controls this through the "Byrd rule," named for Senator Robert Byrd of West Virginia. This rule allows senators to raise a **point of order** against any provision of the bill or amendment that is deemed to be extraneous. As with a budget point of order, at least sixty members of the Senate must vote to waive a Byrd rule point of order.

The Byrd rule limits the opportunity to use the reconciliation process to make policy changes that do not have a fiscal impact. In addition, it prohibits discretionary appropriations or changes to civil rights or employment law. Also excluded are entitlement increases or tax cuts that will cost money beyond the reconciliation bill's time frame (five years or more), unless offset by other provisions in the bill. The Byrd rule is the primary reason why the tax cuts authorized in 2001 under the Economic Growth and Tax Relief Reconciliation Act will expire in stages through 2010 rather than being permanent.

# Spending Authority and the Federal Student Aid Programs

The complexities of the federal budget process contribute to the confusion of most Americans as they try to understand the reasons for funding, or not funding, their favorite programs. The federal student aid programs are among the popular programs that annually receive a lot of press coverage when discussions begin for the next fiscal year federal budget. Added to this media attention is the misconception that decreases or savings in one student aid program will increase funding for another program. Student aid programs not only compete for funding with all other federal programs but also receive those funds through different spending authority.

The Federal Pell Grant program, for instance, is the most popular and widely known federal student aid program. Although financial aid professionals often refer to it as an "entitlement," the Pell Grant is treated as a discretionary program that is controlled by annual appropriations acts. Limits on discretionary funding are influenced by the economy, budget surpluses or deficits, and the political and social agenda of the President and Congress. Competing with other highly visible and popular programs like national defense, homeland security, international finance, and law enforcement, the Pell Grant program's maximum award has been level since it reached $4,050 in fiscal year 2003.

Budgetary savings and the rationale to maintain appropriation levels at least at status quo are not always possible as Congress reviews new tax incentives and other types of government-wide options to cut the federal deficit and boost the economy. In addition, estimated savings cannot always be calculated when appropriations merely shift spending among similar programs. For instance, funding for the Federal campus-based aid programs (Federal Perkins Loan, Federal Work-Study, and Federal Supplemental Educational Opportunity Grants) is also controlled by discretionary spending authority. These programs received only a 3 percent increase in funds between fiscal years 1999 and 2004. In addition, President Bush's fiscal year 2005 budget called for and Congress approved the elimination of the federal capital contribution (FCC) in the Perkins Loan program. However, the elimination of FCC appropriation and slower growth in funding for campus-based aid have not led to any increases in the Pell Grant maximum award. (Federal funding for Pell Grants and campus-based aid is "forward funded," appropriations for each fiscal year will be used to provide financial aid to students enrolled during the following academic year.)

The federal student loan programs (Federal Family Education Loans [FFEL] and Federal Direct Loans [DL]) are controlled by direct (or mandatory) spending. This spending is authorized by permanent law—not through appropriations acts. Spending levels are determined by formulas or criteria described in legislation, and Congress usually modifies some of these programs each session.

Student loans are highly visible and are constantly being legislated. With more than 6 million student loan recipients in the United States each year, changes to these programs can have a significant effect on the views and lifestyles of many people in our country. Although the FFEL and DL programs offer the same types of loans to student and parent borrowers, they have substantially different costs and, therefore, score differently in the budget process.

Arguments have been made that the DL program is more cost-effective (Shireman, 2004) and, conversely, that the budget process is biased against FFEL (America's Student Loan Providers, 2004; PriceWaterhouseCoopers, 2005). The following discussion provides the reasons for their different treatment in the federal budget process. It is meant to be a program-neutral approach to the budget scoring process and to provide examples of the typical cost of a student loan in that process.

## Stafford Loans: A Cost-Estimating Example

Since its inception in 1965, the Stafford Loan program has been by far the largest student loan program. From the start, Stafford Loans were a joint venture of the public and private sectors. Private lenders provide the loans to students; financial aid administrators determine individual eligibility for loans consistent with institutional packaging policies; and then the government pays interest on some loans while students are enrolled in school and guarantees lenders against default. In the early 1990s, the government itself began making Stafford Loans through the Federal Direct Student Loan program. In fiscal year 2003, student loans through the FFEL and DL programs accounted for about $36 billion, or about 10 percent of total federal loan activity.

For many financial aid programs, computing the impact on the federal budget is relatively simple. For the federal Stafford Loan program, however, the process becomes much more daunting. Stafford Loans not only involve expenditures within the budget year but also involve a stream of future guarantees, costs, and benefits of capital. As with any loan program, the effectiveness of Stafford Loans depends on the actual cost recovery. There are significant sources of loss in the cost recovery of most student loan programs, Stafford Loans included. Of utmost concern is the possibility of default, the first and foremost factor in cost recovery.

Due to the complexities involving the costs in the loan programs, different organizations that have attempted to compare the long-term differences between FFEL and DL expenditures have reached different conclusions. The Congressional Budget Office, for instance, recently estimated that "the overall subsidy rate (that is, the net budgetary costs measured as a percentage of the amount lent) for loans…in the FFEL program is about 15 percent, whereas the rate for the direct loan program is about -2 percent—meaning that for every $1 in loans, the federal government incurs budgetary costs of $0.15 in the FFEL program and realizes budgetary savings of

$0.02 in the direct loan program" (CBO, 2005 at 9). These results occur due largely to the different subsidy rates used to compare the two loan programs and due to the subsidy rates used to compare the long-term costs of the federal government's payments to lenders in the FFEL program and the government's collection of interest in the Direct Loan program (CBO, 2005). At nearly the same time, a report from the Government Accountability Office concludes that for "FFELP, lower than expected interest rates have made the difference between the borrower interest rate and lender yield smaller than expected resulting in lower [subsidies] paid to lenders, which in turn resulted in lower [re-estimated] subsidy cost estimates. For FDLP, lower than expected interest rates contributed to higher [re-estimated] subsidy costs because the government received smaller interest payments from borrowers than originally anticipated and, in some cases, the rate paid by student borrowers fell below the government's fixed borrowing rate" (GAO, 2005 at 6). In other words, the differences in cost estimates between the loan programs can be explained by changes in interest rates; if rates decline below the government's cost of borrowing, the FFEL could actually be less expensive than Direct Loans.

The assumptions and calculations used to compare the costs of the two loan programs thus often yield widely different results. The CBO, for example, estimates that the Direct Loan program may be less expensive than FFEL. At the same time, the GAO and other groups believe that FFEL may be less expensive based on different cost assumptions (American Student Loan Providers, 2004). The example below illustrates in more detail how different cost estimates can lead to these different results. It is not intended to make a judgment on any organization's methodology used for calculating differences in loan costs.

The borrowing and lending of money depends fundamentally on the certainty of repayment, which depends in turn either on the credit worthiness of the borrower or on the pledge of recoverable assets/collateral equivalent to the value of the loan. From the government's perspective, Stafford Loans are uniquely risky because neither of the above conditions for repayment is in place. That is, students' eligibility is determined merely by financial need, not by their credit rating, and loans are not secured by any tangible asset. Additionally, there are no observable market rates simply because there is no private market for this type of loan. For the most part, Stafford Loans are priced below the market rate; however, the government's risk in subsidizing student loans is justified as long as the private sector fails to provide such loans.

A second source of loss from student loans is excessive governmental subsidization. The central characteristic of student loans is the federal subsidy; that is, the federal guarantee of the loan principal (the larger part of the loan subsidy) and the federal payment of interest while students are in school. Subsidized Stafford Loans constitute the largest cost of the student loan programs. Finally, the effective loan recovery depends on the costs of administering and servicing the loans. Most administrative costs are borne by lenders and guaranty agencies.

To compare the cost of such programs over an extended period is difficult. Prior to 1990, the federal budget reflected these costs on a cash basis; that is, the annual cash flow of all outstanding federal loans and loan guarantees. But the Federal Credit Reform Act of 1990 (FCRA) requires that these costs be scored on an accrual basis using " …the present value of future cash flows on credit extended in the current budget year"—in other words, lifetime costs include loan disbursements, defaults, interest payments, fees, and repayments over the life of the loan.

The FFEL and DL programs, however, score differently in the federal budget process because of two aspects in the Federal Credit Reform Act (America's Student Loan Providers, 2004). First, administrative costs of making a loan are included only in the guaranteed loans, which results in an underestimation of the cost of the DL program. Second, the annual cost of each loan program is based on estimated future payments over the life of the loans. The relatively new Direct Loan program receives a more positive budget forecast than justified by past performance. In contrast, the budget estimates for the older FFEL program have not kept up with improvements in default prevention initiatives and collections. To correct the problem, the Department of Education re-estimated the cost of each program resulting in an increase in the Direct Loan program from $481 million in 2001 to $2.6 billion in 2004 and a decrease in the guaranteed loan program from $4.7 billion in 2001 to $3.6 billion in 2004. The need to recalculate these estimates illustrates the difficulties of predicting and comparing the long-term costs of the loan programs.

Differences between the estimated costs of the FFEL and Direct Loan Programs are also subject to changes in the interest rates used to project program costs into the future, due to the different long- and short-term outlays of federal funds required for the two loan programs. Direct Loans are characterized by initial outlays of loan capital to students, followed by several years during which the loans are not in repayment due to students' in-school enrollments and grace periods (while federal financing costs are incurred). FFEL loans, on the other hand, are characterized by in-school interest and special allowance payments to lenders during periods of enrollment and grace, followed by special allowance payments made during periods of repayment. Because of these different loan features and their effects on federal cash flows in the future, the long-term costs of the two programs must be presented in their present value—sometimes referred to as "net present value" in budgeting terms. These net present value calculations are subject to changes in long-term interest rates and "discount rates" which are used to determine the future costs of the loan programs in present (or current) dollars. Generally speaking, Direct Loan program costs will rise and FFEL costs will fall as discount rates increase, because DL future cash flows are "discounted" at a higher rate. Thus, cost comparisons between the two programs can become quite complicated based on assumptions of long- and short-term interest rates.

Now let's examine the cost of a "typical" student loan. Determining the amounts to budget for such a program involves a number of predictions. To make these predictions, budgetary planners use the Treasury-Rate Approach, which calculates the difference between the value of the loan and the cost of the loan. The cost of a first-year loan is significantly less expensive than, for instance, a four-year loan. No *default* risk is factored in for the one-year loan; the value of the loan equals the cost of the loan with no extra cost incurred by the government.

*Credit* risk is involved, however, in the case of a defaulted loan. For example, consider a $100 loan at a 5-percent interest rate, and assume that 25 percent of these loans will default (but do not include a hedge factor to account for the cost of, or reserve for, the loss) after collecting only $30 at the end of one year (see Table 1). Due to the default risk, the government incurs $17.86 as a loss. Although this example is for one year only and student loans generally have a longer term, it illustrates the general concept of scoring the cost of Stafford Loans. To arrive at the proposed budget figure, this method is applied to the anticipated demand for loans to be originated in a given budget year with the accompanying amortization.

The cost-scoring process is not like the one followed by commercial lenders because the Treasury-Rate Approach does not include administrative costs but includes them elsewhere in the budget. It also ignores costs associated with market risk because it bases the anticipated cash flow on the interest for risk-free bonds issued by the U.S. Treasury. While there is no concern/risk for default, factors such as overall government spending, the business cycle, and employment levels, can cause interest rate fluctuations. On the other hand, the market rate approach does not ignore future risk and includes a factor for the future cost associated with setting aside reserves for risk in the market. Thus, a weakness in this method is its potential to understate the cost of such programs.

To make the budgeting task even more complex, the original cost estimate is constantly re-estimated and then added into the annual budget as required by the FCRA. "The Federal Credit Reform Act recognizes that subsidy costs are uncertain and that realized gains and losses

## Table 1.
## Differing Assumptions about Credit Risk for Federal Student Loans

| Detail | Value | Comments |
|---|---|---|
| Loan Amount | $25.00 + $75.00 = $100.00 | Advanced to borrower with 25 percent defaulting to $30.00 collected |
| Cost of Capital:<br>i) Risky component<br>ii) Risk-free component | 0.25*($30/1.05) = $ 7.14<br>0.75*($105/1.05) = <u>$75.00</u><br>$82.14 | Calculating Discounted Present Value |
| Loan Amount – Cost of Capital | $100.00 – $82.14 = $17.86 | Cost of Loan |

will deviate from initial estimates" (CBO, 2004 p. 16). These estimates can cause substantial differences in dollar amounts even when the assumptions are only slightly off. For instance, in our example above, loan costs were $17.86 per $100 per year based on the government-borrowing rate of 5 percent. If the borrowing rate were to increase by one quarter of a percentage point the cost would go down to $17.11 per $100. Using the 2003 figure of $36 billion in new loans, the cost for just one year would fall from approximately $6.4 billion to $6.2 billion, a $200 million difference. That such small changes can make such big differences is all the more reason to remember that in many instances federal budget items are only estimates. While precision is desirable but not entirely attainable, it is especially critical when dealing with mandatory categories such as Stafford Loans that include two fundamentally different delivery approaches. Each approach fosters differing volatility for changing discount rates across time. Such volatility then adds to the complex nature of providing accurate projections. Without sufficient precision, serious budget adjustments may be necessary.

## Summary: The Federal Budget Process Is Very Complicated

The reauthorization of the Higher Education Act occurs only once every several years, but financial support for the federal student financial aid programs is determined annually by the federal budget process. Today that process is the evolutionary product of financial management efforts that date back to the earliest days of our nation. It involves an extensive array of Congressional committees, executive departments, and legislative agencies. Each year, they work within complex and sometimes controversial rules to estimate future spending needs, to devise legislation designed to meet those needs, and to enforce spending limits embodied in such legislation. Whether a program's appropriations are discretionary or mandatory, the budget process can change those appropriations and even the rules under which the program is authorized to function. As a result, student financial aid professionals need to understand and pay close attention to the federal budget process. At the same time, because of so many assumptions and interpretations, it is important to note that the final budget is only a plan, often imprecise in student aid as well as other areas, as evidenced by periodically re-estimating the cost of Stafford Loans and other programs.

Further, it should also be noted that the budget process takes place in a very political environment and is subject to the manipulation and political maneuverings of House and Senate members at various points along the way. Similar manipulation by the Administration occurs in fashioning the President's annual budget request. So while this is a straightforward description of the process, it does not completely convey the "dance of legislation" that sometimes is involved with crafting an annual federal budget.

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♦ Ms. Bonnie C. Joerschke, Purdue University, West Lafayette, IN, and Committee Chair
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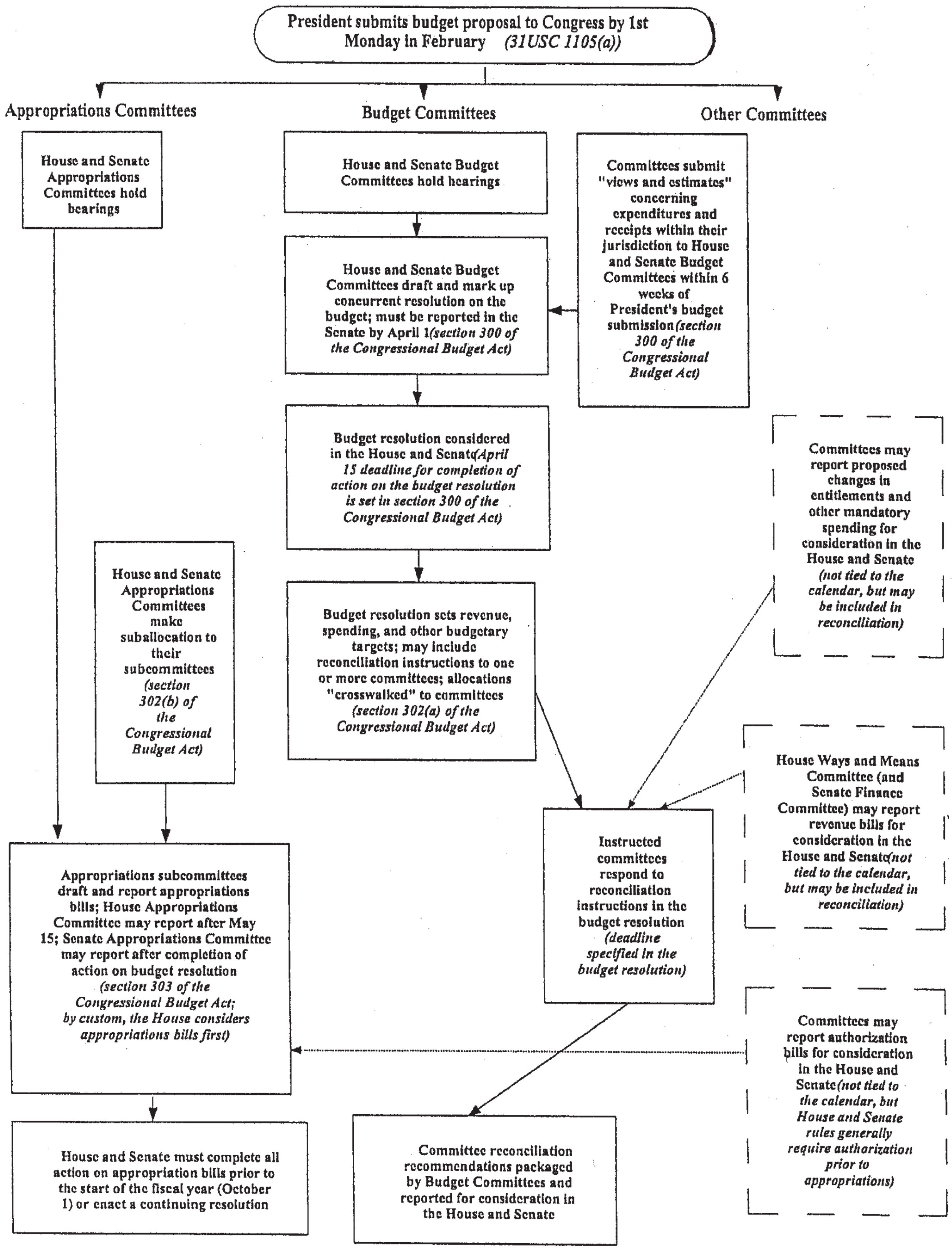
# The Congressional Budget Process: Timetable for Annual Action




Source: Congressional Research Service.

# Glossary

The definitions for the terms in this glossary are adapted from the following documents: “Glossary of Terms in the Federal Budget Process,” Parliamentary Outreach Program, U.S. House of Representatives, Committee Rules Majority Office, web address: <www.house.gov/rules>; “Glossary of Budget Terms,” U.S. Senate Budget Committee, Democratic Caucus, web address: <http://budget.senate.gov/democratic/glossary.html>; and “A Glossary of Terms Used in the Federal Budget Process,” U.S. General Accounting Office, Accounting and Financial Management Division, GAO/AFMD-2.1.1, revised January 1993.

**Appropriations 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 thirteen regular appropriations acts for each fiscal year. From time to time, Congress also enacts supplemental appropriations acts.

**Authorization –** A statutory provision that establishes or continues a federal agency, activity, or program for a fixed or indefinite period. It may also establish policies and restrictions and deal with organizational and administrative matters. It is also a statutory provision that authorizes appropriations for an agency, activity, or program. The appropriations may be authorized for one year, several years, or an indefinite period, and the authorization may be for a specific or an indefinite amount of money. Specific amounts are construed as ceilings on the amounts that subsequently may be appropriated in an appropriation bill but not as minimums; either house may appropriate lesser amounts or nothing at all.

**Balanced Budget and Emergency Deficit Control Act of 1985 –** See Gramm-Rudman-Hollings Act of 1985.

**Baseline –** A projection of the levels of federal spending, revenues, and the resulting budgetary surpluses or deficits for the upcoming and subsequent fiscal years, taking into account laws enacted to date and assuming no new policy decisions. It provides a benchmark for measuring the budgetary effects of proposed changes in federal revenues or spending, assuming certain economic conditions. Baseline projections are prepared by the Congressional Budget Office and used by the budget committees to develop the annual budget resolution and reconciliation instructions.

**Budget Authority –** Generally, the amount of money that may be spent or obligated by a government agency or for a government program or activity. Technically, it is statutory authority to enter into obligations that normally result in outlays. The main forms of budget authority are appropriations, borrowing authority, and contract authority. It also includes authority to obligate and expend the proceeds of offsetting receipts and collections. Congress may make budget authority available for only one year, several years, or an indefinite period, and it may specify definite or indefinite amounts.

**Budget Resolution –** A concurrent resolution passed by both houses of Congress setting forth, reaffirming, or revising the Congressional budget for the U.S. Government for a fiscal year. Concurrent resolutions do not require a Presidential signature because they are not laws. They 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.

**Budget Year –** The fiscal year for which the budget is being considered.

**Byrd Rule –** Amendment sponsored by Sen. Robert C. Byrd to the Congressional Budget Act that bars the inclusion of extraneous matter in any reconciliation legislation considered in the Senate. Enforcement of the ban requires a point of order sustained by the chair.

**Congressional Budget and Impoundment Act of 1974 –** Commonly called the Budget Act, established basic procedures of the current Congressional budget process; created the House and Senate budget committees; and enacted procedures for reconciliation, deferrals, and rescissions.

**Current Services Budget –** A section of the President's budget required by the Budget Act, that 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.

**Current Year –** The fiscal year immediately preceding the budget year.

**Deferral –** An impoundment of funds for a specific period that may not extend beyond the fiscal year in which it is proposed. Under the Impoundment Control Act of 1974, the President must notify Congress that he is deferring the spending or obligations of funds provided by law for a project or activity. Congress can disapprove the deferral by legislation. The President may defer funds to provide for contingencies in which savings have been made through greater operational efficiency or for similar reasons, but not because of opposition to a program, or to reduce federal spending, or for any other policy reason. The comptroller general of the United States reviews all deferrals and advises Congress about their legality and possible effects.

**Discretionary Spending –** Spending controlled by the Appropriations Committee and appropriated through the thirteen annual appropriations bills. Discretionary spending is often divided into three categories: defense (which funds the military activities of the Department of Defense and the defense-related functions of other agencies), international (which encompasses spending for foreign economic and military aid, the Department of State and international finance programs), and domestic (which includes, among other things, the government's science, transportation, law enforcement, education, health, and housing activities).

**Entitlement –** Program governed by legislation in a way that legally obligates the federal government to make specific payments to qualified recipients. Social Security, Medicare, and veterans' pension programs are examples of entitlements.

**Federal Credit Reform Act of 1990 –** A law that established a system of budgeting for the subsidized cost of federal direct loans and loan guarantees. Under this system, Congress appropriates budget authority or provides indefinite authority equal to the subsidy cost. The budget authority is placed in a program account from which funds are disbursed to a financing account. This Act also established new budgetary and accounting rules for federal loans. It intended to put direct and guaranteed loans on an equal footing; provided a means for recognizing a change in the status of loans in the budget and for controlling guaranteed loans at the time commitments are made; and provided a basis for comparing direct and guaranteed loans with other uses of budgetary resources.

**Fiscal Year –** The federal government's annual accounting period. It begins October 1 and ends the following September 30. In theory, Congress is supposed to complete action on all budgetary measures applying to a fiscal year before that year begins.

**Functional Categories –** A broad category of national need and spending of budgetary significance. A category provides an accounting method for allocating and keeping track of budgetary resources and expenditures for that function because it includes all budget accounts related to the function's subject or purpose. A Congressional budget resolution lists all the functional categories and the portion of aggregate budget amounts allocated to each. Education is under Function 500.

**Gramm-Rudman-Hollings Act of 1985 –** Common name for the Balanced Budget and Emergency Deficit Control Act of 1985, which established new budget procedures intended to balance the federal budget by fiscal year 1991—a goal subsequently extended to 1993. To achieve that goal, the Act set annual maximum deficit targets and mandated automatic across-the-board spending cuts, called sequesters, by the President to enforce the limits. It also extensively amended the Congressional Budget Act of 1974. The Act's chief sponsors were Senators Phil Gramm (R-Texas), Warren Rudman (R-N.H.), and Ernest Hollings (D-S.C.). In 1986, the Supreme Court invalidated a provision of the Act that authorized the General Accounting Office to determine the sequestrations required of the President. The Court held that the provision violated the Constitution's separation-of-powers doctrine because GAO is a legislative agency. In 1987, Congress assigned the function to the Office of Management and Budget.

**Mandatory Spending –** Spending levels that are governed by formulas or criteria set forth in authorizing legislation rather than by appropriations. Examples of mandatory spending include: Social Security, Medicare, veterans' pensions, rehabilitation services, members' pay, judges pay, and the payment of interest on the public debt. Many of these programs are considered entitlements.

**Mark-Up –** Meetings where Congressional committees work on language of bills or resolutions. The House and Senate Budget Committees work on the language and numbers contained in budget resolutions and legislation affecting the Congressional budget process.

**Obligation –** A binding agreement by a government agency to pay for goods, products, services, studies and the like, either immediately or in the future. Appropriation laws usually make funds available for obligation for one or more fiscal years but do not require agencies to spend their funds during those specific years.

**Offsetting Collections –** Income from the public that results from the government engaging in business-like activities with the public, such as the sales of products or the rendering of a service. Examples include proceeds funds derived from the sale of postage stamps. Offsetting collections are credited against the level of budget authority or outlays associated with a specific program or account.

**Omnibus Bill –** A measure that combines the provisions of several disparate subjects into a single and often lengthy bill. Examples include reconciliation bills, continuing resolutions that contain all or most of the thirteen general appropriation bills, and omnibus claims bills that combine several private bills into a single measure.

**Off-Budget Entity –** Any federal fund or trust fund whose transactions are required by law to be excluded from the totals of the President's budget submission and Congress's budget resolution, although they remain part of the government's total transactions. Current law requires that the Social Security trust funds and Postal Service be off-budget.

**On-Budget Entity –** Federal funds and trust funds that are included within the budget.

**Outlays –** Amounts of government spending. They consist of payments, usually by check or in cash, to liquidate obligations incurred in prior fiscal years as well as in the current year, including the net lending of funds under budget authority.

**Outyear –** Any year beyond the budget year for which projections are made.

**Pay-As-You-Go (PAYGO) –** A requirement of the Budget Enforcement Act of 1990 that Congressional action on revenue legislation and legislation on entitlement or other mandatory programs should not add to the budget deficit. Increased spending for such programs resulting from new legislation and revenue losses from legislation reducing taxes or fees are supposed to be offset by legislated spending reductions in other programs subject to PAYGO or by legislated increases in other taxes. If Congress fails to enact the appropriate offsets, the Act requires Presidential sequestration of sufficient offsetting amounts in specific direct spending accounts.

**Point of Order** – An objection raised on the House or Senate floor or in committees to a motion or procedure that violates the body's rules. Usually, a point of order may be waived by a simple majority vote. However, in the Senate, waiver of some points of order requires a three-fifths vote.

**Reconciliation –** Procedure for changing existing revenue and spending laws to bring total federal revenues and spending within the limits established in a budget resolution. It begins with directives in the budget resolution instructing specific committees to report legislation adjusting revenues or spending within their respective jurisdictions by specified amounts, usually by specified deadlines. When several committees are involved, the Budget Committee in each house consolidates its proposals in an omnibus reconciliation bill that the Budget Committee brings to the floor without changes but to which it may offer amendments. Amendments must be germane and deficit neutral. Congress has applied reconciliation chiefly to revenues and mandatory spending programs, especially entitlements. Discretionary spending is controlled through annual appropriation bills.

**Rescission –** A provision of law that repeals previously enacted budget authority in whole or in part. Under the Impoundment Control Act of 1974, the President can impound such funds by sending a message to Congress requesting one or more rescissions and the reasons for doing so. If Congress does not pass a rescission bill for the program requested by the President within forty-five days of continuous sessions after receiving the message, the President must make the funds available for obligation and expenditure. If the President does not, the comptroller general of the United States is authorized to bring suit to compel the release of those funds. A rescission bill may rescind all, part, or none of an amount proposed by the President, and may rescind funds the President has not impounded.

**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.

**Scorekeeping –** The process of calculating the budgetary effects of pending and enacted legislation and assessing their impact on the targets or limits in the budget resolution. The Congressional Budget Office (CBO) produces detailed scorekeeping reports, and the budget committees issue summarized versions at least once a month and often more frequently. By using these reports and CBO's cost estimates on proposed legislation, members can determine whether approval of a particular amendment or bill would breach the spending ceilings or revenue floor established by the budget resolution or the allocations of budget resolution amounts made to committees. Scorekeeping reports tabulate Congressional actions affecting budget authority, receipts, outlays, the surplus or deficit, and the public debt limit. CBO derives its scorekeeping estimates from analyses of the President's budget, baseline budget projections, and bill cost estimates.

**Section 302(a) Allocation –** First of a two-step allocation procedure outlined in the Congressional Budget Act of 1974; provides spending totals in the budget resolution for the upcoming fiscal year to the House and Senate Budget Committees.

**Section 302(b) Suballocation –** Second of a two-step allocation procedure, outlined in the Congressional Budget Act of 1974, where the House and Senate Budget Committees subdivide the 302(a) allocation among their subcommittees.

**Sequestration –** A procedure for canceling budgetary resources—that is, money available for obligation or spending—to enforce budget limitations established in law. Sequestered funds are no longer available for obligation or expenditure. Automatic sequestration occurs by Presidential order following a report from the Office of Management and Budget declaring that a specified budget limit has been breached. The procedure was first established in the Gramm-Rudman-Hollings Act and subsequently modified by the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 and the Budget Enforcement Act of 1990.

**Spending Authority –** The borrowing authority, contract authority, and entitlement authority for which appropriation acts do not provide budget authority in advance. Under the Budget Act, legislation that provides new spending authority may not be considered unless it provides that the authority shall be effective only to the extent or in such amounts as provided in the appropriation act.

**Spendout Rate –** Also called outlay rate. In a fiscal year, the ratio of outlays resulting from new budgetary resources to the new budgetary resources.

**Subsidy –** A payment or benefit made by the federal government where the benefit exceeds the cost to the beneficiary. Subsidies are designed to support the conduct of an economic enterprise or activity. They may refer to (1) provisions in the tax laws for certain tax expenditures; and (2) the provision of loans, goods, and services to the public at prices lower than market value. These include interest subsidies. Under credit reform, the net present value of the cost to the government of direct loans or loan guarantees constitutes a subsidy.

**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.

**Unfunded Mandates Reform Act of 1995 –** A law establishing procedures governing Congressional consideration of legislation containing unfunded mandates. The Act establishes a point of order in each house against considering a bill or joint resolution that would increase the unfunded costs of intergovernmental (public sector) mandates by more than $50 million or that is not accompanied by a CBO estimate of the unfunded costs of intergovernmental and private sector mandates. A point of order also lies against an amendment, motion, or conference report that would result in the unfunded costs of intergovernmental mandates in the measure exceeding the $50 million threshold. The Senate may waive any of these points of order by a three-fifths majority (60 votes); the House may vote to consider a measure, amendment, or conference report notwithstanding the point of order. Under the Act, a mandate may be funded through annual appropriations or direct spending (entitlement) authority. If annual appropriations are insufficient to implement the mandate during any fiscal year, it ceases to be effective unless Congress changes the requirements of the mandate accordingly.

**Unified Budget –** A comprehensive display of the federal budget that includes all revenues and all spending for all regular federal programs and trust funds.

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