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Basic Federal Budgeting Terminology

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In its most elemental form, the federal budget is a comprehensive accounting of the government's spending, revenues, and borrowing. This fact sheet provides a brief overview of the basic terminology and concepts used in the federal budget process.

Spending

The key terms of federal spending are *budget authority*, *obligations*, *outlays*, and *spendout rate*. Congress and the President enact budget authority in law. Budget authority allows federal agencies to incur obligations, such as entering into contracts, employing personnel, and submitting purchase orders. Outlays represent the actual payment of these obligations, usually in the form of electronic transfers or checks issued by the Treasury Department. The rate at which budget authority becomes outlays in a fiscal year is called the spendout rate, or the *outlay rate*. The spendout rate varies among agencies' accounts depending on the timing of activity in each account.

Budget authority may be made available for obligation for a one-year, multi-year, or no-year period. One-year, or annual, budget authority is available for obligation only during a specific fiscal year, and any unobligated authority expires at the end of that fiscal year; multi-year authority is available for a period longer than one fiscal year; and no-year budget authority is available for an indefinite period.

Typically, new budget authority is provided in the form of permanent appropriations or annual appropriations. Permanent appropriations provide new budget authority each year without any annual legislative action. Usually, this type of new budget authority is provided in legislation authorizing the program, such as in the case of most entitlement programs (*e.g.*, Social Security benefits). Annual appropriations, on the other hand, generally provide new budget authority for the particular fiscal year for which they were enacted. In some cases, new budget authority in annual appropriations acts is made available for more than one year, or for a future fiscal year. Annual appropriations are provided in the 13 regular appropriations bills enacted by Congress and the President each year. Annual appropriations also may be provided in continuing resolutions and supplemental appropriations acts.

New budget authority also may be made available to agencies in the form of borrowing authority, contract authority, and the authority to spend offsetting collections. Borrowing authority and contract authority allow agencies to borrow funds and enter into

contracts without advance appropriations. However, the 1974 Congressional Budget Act (P.L. 93-344) has curbed this practice for the past 20-odd years. Spending authority from offsetting collections, such as fees for certain market-oriented activities, may be provided to allow agencies to obligate and spend these funds. Offsetting collections are deducted from gross budget authority and outlays at the account or higher level.

Revenues

Revenues, also known as *receipts*, are the funds collected from the public primarily as a result of the federal government's exercise of its sovereign powers. Most of the federal government's revenues consist of receipts from individual income taxes, social insurance taxes (or payroll taxes, such as Social Security and Medicare taxes), and corporate income taxes. Preferential provisions, such as tax exemptions, deductions, and credits, which reduce government receipts, are called *tax expenditures*. Excise taxes, duties, gifts, and miscellaneous receipts are other sources of federal revenues.

Offsetting collections usually are deducted from the budget authority and outlays made available to agencies, and are not classified as revenue.

Budget Deficit or Surplus

The difference between government revenues and outlays in a fiscal year equals the *budget deficit* or *surplus*. A budget deficit results when outlays exceed revenues; a budget surplus results when revenues exceed outlays. However, what is counted as government revenues and outlays depends on the presentation of the federal budget. For the past several decades, the focus of debates about the federal budget deficit or surplus has been on the *consolidated budget*. The consolidated budget, also referred to as the *unified budget*, consists of the two main types of funds: federal funds and trust funds. Federal funds comprise general government receipts not earmarked for any specific government activity. Trust funds are designated by law to a particular purpose. For example, the Hospital Insurance trust funds are earmarked to Medicare Part A benefits. The consolidated budget represents a comprehensive picture of the federal government's financial activities.

Federal Debt

The *gross federal debt*, almost all of which is subject to statutory limitation, consists of the *debt held by the public* plus the *debt held by government accounts*. The debt held by the public is the total net amount borrowed from the public by the federal government to cover its budget deficits over the years. Usually, analysts use the debt held by the public as the measure of the impact of the federal government's borrowing on the economy. It is this portion of federal debt that not only reflects the amount of the nation's wealth invested in federal government securities rather than in private investment, but also determines the level of real resources the government must acquire to make interest and principal payments. The debt held by government accounts is the total net amount of federal debt issued to specialized federal accounts, primarily trust funds. It represents internal transactions of the federal government.