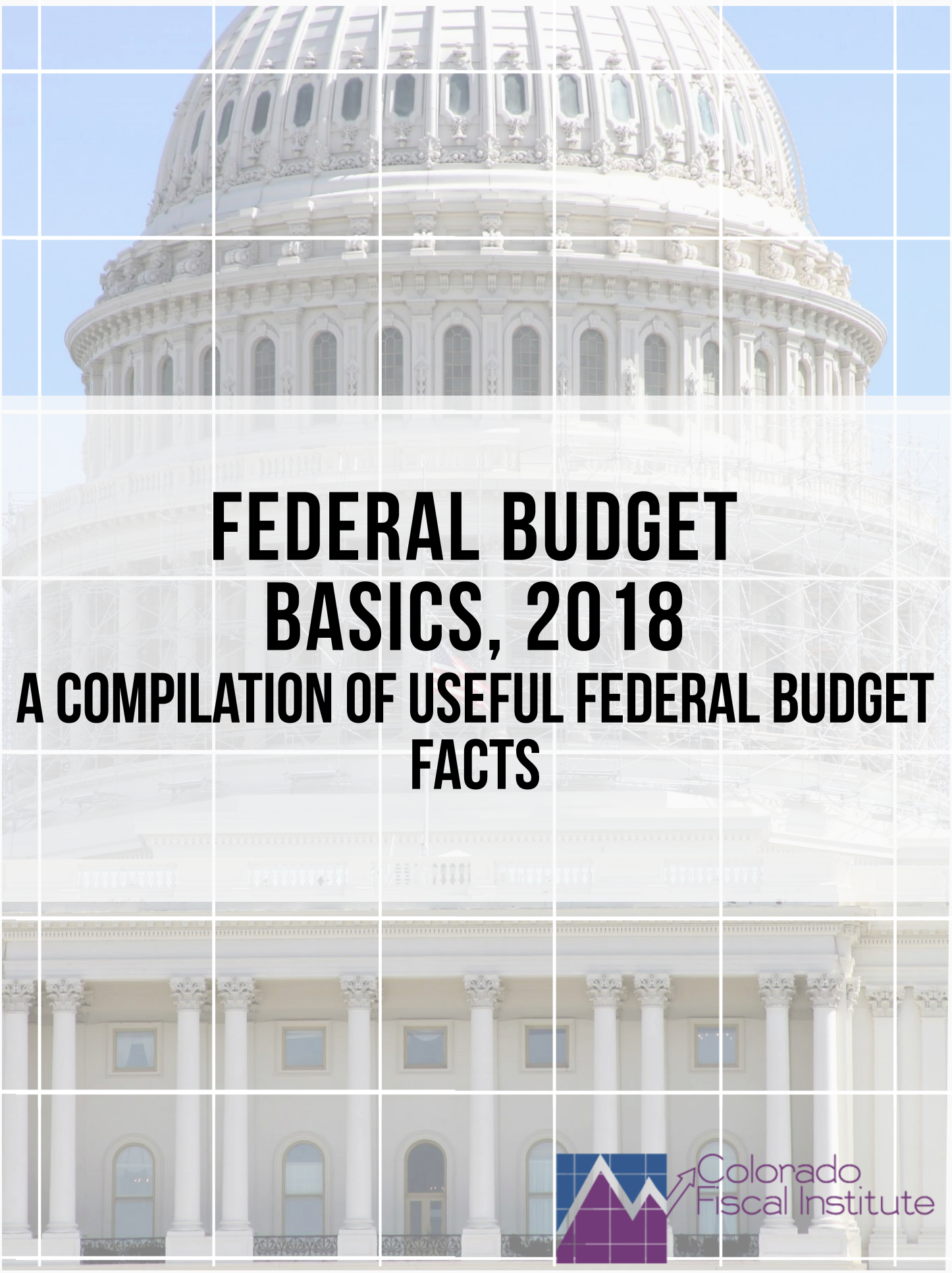
FEDERAL BUDGET BASICS, 2018

A COMPILATION OF USEFUL FEDERAL BUDGET FACTS



Colorado Fiscal Institute

TABLE OF CONTENTS

Contents

Chapter 1:The Basic, Federal Budget Process 1
The Basic Budget Framework 1
The Budget "Reconciliation" Process 4
What If Appropriations Bills Are Not Passed on Time? 5
Chapter 2: Where Do Federal Funds Come From, Where Do They Go? 7
Types of Programs: Mandatory, Entitlement, Interest and Discretionary programs 7
Mandatory or Entitlement Programs and Interest on Debt 7
Discretionary Funding: Annually Appropriated Programs 7
Non-Defense Discretionary Programs 7
NDD Spending Supports Key Public Services 8
Where Do Federal Tax Revenues Come From? 8
Chapter 3: Deficit, Debt and Interest 11
Deficits (or Surpluses) 11
Debt 11
Interest 11
The Debt Limit 12
Important Terms 13

INTRODUCTION: WHAT EXACTLY IS THE FEDERAL BUDGET?

From the National Priorities Project: The United States federal government spends around $3.9 trillion dollars on public programs, services and infrastructure. That's about $12,000 for each woman, man and child living in the United States. It's also about 20 percent of the entire U.S. economy.

But the government is not just a bill collector and spender. At its best, each of the dollars our government spends can advance the common good and Americans' quality of life through public investments in infrastructure, systems and structures that only government is positioned to make — investments in things like court systems, clean water, transportation, income security, energy and education.

A few examples: the federal government provides an average of 30 percent of state government revenues for things like transportation and education; most Americans will rely on government programs like Social Security and Medicare as they age; and half of the nation's public schools receive federal aid. Without the federal government, our communities and families would not be the same.

And we all contribute to government, whether we engage through voting or other civic involvement, or whether we simply go to work and pay our taxes. In fact, in 2015, 80 percent of federal revenues will have come from individual income and payroll taxes.

It is in all of our best interests — and it is our responsibility — to see that our tax dollars are raised and spent in ways that reflect our priorities. To do that, we need to know where that money is going and how budget decisions are made.

The contents of this Federal Budget Basis were compiled from numerous policy briefs and reports from the National Priorities Project and the Center on Budget and Policy Priorities

CHAPTER ONE: THE BASIC FEDERAL BUDGET PROCESS

THE BASIC BUDGET FRAMEWORK[1,2]

Every fiscal year, the federal government follows a basic budget framework to set a federal budget. The following is the basic framework, and the actual budget process often deviates from this process.

There are five key steps in the federal budget process:,

1. The president submits a budget request to Congress
2. The House and Senate pass budget resolutions
3. House and Senate Appropriations subcommittees "markup" appropriations bills
4. The House and Senate vote on appropriations bills and reconcile differences
5. The president signs each appropriations bill and the budget becomes law

Step 1: The President Submits a Budget Request

The president sends a budget request to Congress each February for the coming federal fiscal year, which begins on Oct. 1. To create his (or her) request, the president and the Office of Management and Budget solicit and accept budget requests from federal agencies, outlining what programs need more funding, what could be cut and what new priorities each agency would like to fund.

The president's budget request is just a proposal. Congress then passes its own appropriations bills; only after the president signs these bills (in step five) does the country have a budget for the new fiscal year.

Step 2: The House and Senate Pass Budget Resolutions

Congress generally holds hearings to question administration officials about their requests and then develops its own budget plan, called a "budget resolution." This work is done by the House and Senate Budget Committees, whose primary function is to draft and enforce the budget resolution. Once the budget committees pass their budget resolutions, the bills go to the House and Senate floors, where they can be amended (by a majority vote). A House-Senate conference then resolves any differences, and the budget resolution for the year is adopted when both houses pass the conference report.

The budget resolution is a "concurrent" congressional resolution, not an ordinary bill, and therefore does not go to the president for his signature or veto. It also requires only a majority vote to pass, and its consideration is one of the few actions that cannot be filibustered in the Senate. Because it does not go to the president, a budget resolution cannot enact spending or tax law. Instead, it sets targets for other congressional committees that can propose legislation directly providing or changing spending and taxes.

A budget resolution is not a binding document, but it provides a framework for Congress for making budget decisions about spending and taxes. It sets overall annual spending limits for federal agencies but does not set specific spending

1 Center on Budget and Policy Priorities, Introduction to the Federal Budget Process, http://www.cbpp.org/sites/default/files/atoms/files/3-7-03bud.pdf
2 Office of Management and Budget, National Priorities Project, Federal Budget 101 https://www.nationalpriorities.org/budget-basics/federal-budget-101/federal-budget-process/

amounts for particular programs. After the House and Senate pass their budget resolutions, some members from each come together in a joint conference to iron out differences between the two versions, and the resulting reconciled version is then voted on again by each chamber.

Congress is supposed to pass the budget resolution by April 15, but it often takes longer. In recent years it has been common for Congress not to pass a budget resolution at all. When that happens, the previous year's resolution, which is a multi-year plan, stays in effect, although the House, the Senate, or both can and typically do adopt special procedures to set spending levels.

How spending is defined: budget authority vs. outlays

The spending totals in the budget resolution are stated in two different ways: the total amount of "budget authority," and the estimated level of expenditures, or "outlays." Budget authority is how much money Congress allows a federal agency to commit to spend; outlays are how much money actually flows out of the federal Treasury in a given year. For example, a bill that appropriated $50 million for building a bridge would provide $50 million in budget authority for the coming year, but the outlays might not reach $50 million until the following year or even later, when the bridge actually is built. Budget authority and outlays thus serve different purposes. Budget authority represents a limit on the new financial obligations federal agencies may incur (by signing contracts or making grants, for example) and is generally what Congress focuses on in making most budgetary decisions. Outlays, because they represent actual cash flow, help determine the size of the overall deficit or surplus.

How committee spending limits get set: 302(a) allocations

The report that accompanies the budget resolution includes a table called the "302(a) allocation." This table takes the spending totals that are laid out by budget function in the budget resolution and distributes them by congressional committee instead. The House and Senate tables are different from one another, since committee jurisdictions vary somewhat between the two chambers.

In both the House and Senate, the Appropriations Committee receives a single 302(a) allocation for all of its programs. It then decides on its own how to divide this funding among its 12 subcommittees, creating what are known as 302 (b) sub-allocations. Similarly, the various committees with jurisdiction over mandatory programs each get an allocation that represents a total dollar limit on all of the legislation they produce that year.

The spending totals in the budget resolution do not apply to "authorizing" legislation that merely establishes or changes rules for federal programs funded through the annual appropriations process. Unless it changes an entitlement program (such as Social Security or Medicare), authorizing legislation does not actually have a budgetary effect. For example, the education committees could produce legislation that authorizes a certain amount to be spent on the Title I education program for disadvantaged children. However, none of that money can be spent until the annual Labor-Health and Human Services-Education appropriations bill — which includes education spending — sets the actual dollar level for Title I funding for the year, which is frequently less than the authorized limit.

Often the report accompanying the budget resolution contains language describing the assumptions behind it, including how much it envisions certain programs being cut or increased. These assumptions generally serve only as guidance to the other committees and are not binding on them. Sometimes, though, the budget resolution includes more complicated devices intended to ensure that particular programs receive a certain amount of funding.

The budget resolution can also include temporary or permanent changes to the congressional budget process.

Step 3: House and Senate Subcommittees "Markup" Appropriation Bills

The appropriations committees in both the House and the Senate are responsible for determining the precise levels of budget authority, or allowed spending, for all discretionary programs.

The appropriations committees in both the House and Senate are broken down into smaller appropriations subcommittees. Subcommittees cover different areas of the federal government: for example, there is a subcommittee for defense spending, and another one for energy and water. Each subcommittee conducts hearings in which they pose questions to leaders of the relevant federal agencies about each agency's requested budget.

Based on all of this information, the chair of each subcommittee writes a first draft of the subcommittee's appropriations bill, abiding by the spending limits set out in the budget resolution. All subcommittee members then consider, amend, and finally vote on the bill. Once it has passed the subcommittee, the bill goes to the full appropriations committee. The full committee reviews it, and then sends it to the full House or Senate.

Step 4: The House and Senate Vote on Appropriations Bills and Reconcile Differences

The full House and Senate then debate and vote on appropriations bills from each of the 12 subcommittees.

After both the House and Senate pass their versions of each appropriations bill, a conference committee meets to resolve differences between the House and Senate versions. After the conference committee produces a reconciled version of the bill, the House and Senate vote again, but this time on a bill that is identical in both chambers. After passing both the House and Senate, each appropriations bill goes to the president.

Step 5: The President Signs Each Appropriations Bill and the Budget Becomes Law

The president must sign each appropriations bill after it has passed Congress for the bill to become law. When the president has signed all 12 appropriations bills, the budget process is complete. Rarely, however, is work finished on all 12 bills by Oct. 1, the start of the new fiscal year.

This chart shows how all of these pieces fit together to make the annual federal budget process.

Enforcing the Terms of the Budget Resolution

The main enforcement mechanism that prevents Congress from passing legislation that violates the terms of the budget resolution is the ability of a single member of the House or the Senate to raise a budget "point of order" on the floor to block such legislation. In some recent years, this point of order has not been particularly important in the House because it can be waived there by a simple majority vote on a resolution developed by the leadership-appointed Rules Committee, which sets the conditions under which each bill will be considered on the floor.

However, the budget point of order is important in the Senate, where any legislation that exceeds a committee's spending allocation — or cuts taxes below the level allowed in the budget resolution — is vulnerable to a budget point of order on the floor that requires 60 votes to waive.

Appropriations bills (or amendments to them) must fit within the 302(a) allocation given to the appropriations committee as well as the committee-determined 302(b) sub-allocations for the coming fiscal year. Tax or entitlement bills (or any amendments offered to them) must fit within

the budget resolution's spending limit for the relevant committee or within the revenue floor, both in the first year and over the total multiyear period covered by the budget resolution. The cost of a tax or entitlement bill is determined (or "scored") by the budget committees, nearly always by relying on the nonpartisan Congressional Budget Office (CBO). CBO measures the cost of tax or entitlement legislation against a budgetary "baseline" that projects mandatory spending and tax receipts under current law.

What If There Is No Budget Resolution?

Congress has seldom completed action on the budget resolution by the April 15 target date specified in the Budget Act, and it failed to complete action on a resolution for fiscal years 1999, 2003, 2005, 2007 and each year from 2011 through 2013. In the absence of a budget resolution, the House and Senate typically enact separate budget targets, which they "deem" to be a substitute for the budget resolution. Such deeming resolutions typically provide spending allocations to the appropriations committees but may serve a variety of other budgetary purposes. Unless the House or Senate agrees to such a deeming resolution, the multi-year revenue floors and spending allocations for mandatory programs that had been agreed to in the most recent budget resolution remain in effect.

The Bipartisan Budget Act of 2013 described below took a different tack, establishing a "Congressional Budget" for fiscal years 2014 and 2015 in statute as an alternative to the concurrent budget resolution called for in the Congressional Budget Act.

THE BUDGET "RECONCILIATION" PROCESS

From time to time, Congress makes use of an optional, special procedure outlined in the Congressional Budget Act known as "reconciliation" to expedite the consideration of mandatory spending and tax legislation. This procedure was originally designed as a deficit reduction tool, to force committees to produce spending cuts or tax increases called for in the budget resolution. However, it was used to enact tax cuts several times during the George W. Bush administration, thereby increasing projected deficits. Senate rules now prohibit using reconciliation to consider legislation that would increase the deficit beyond 10 years after the reconciliation measure is passed. House rules prohibit using it to increase mandatory spending.

What is a reconciliation bill?

A reconciliation bill is a single piece of legislation that typically includes multiple provisions (generally developed by several committees), all of which affect the federal budget — whether on the mandatory spending side, the tax side, or both. A reconciliation bill, like the budget resolution, cannot be filibustered by the Senate, so it only requires a majority vote to pass.

How does the reconciliation process work?

If Congress decides to use the reconciliation process, language known as a "reconciliation directive" must be included in the budget resolution. The reconciliation directive instructs committees to produce legislation by a specific date that meets certain spending or tax targets. (If they fail to produce this legislation, the budget committee chair generally has the right to offer floor amendments to meet the reconciliation targets for them, a threat which usually produces compliance with the directive.) The budget committee then packages all of these bills together into one bill that goes to the floor for an up-or-down vote, with limited opportunity for amendment. After the House and Senate resolve the differences between their competing bills, a final conference report is considered on the floor of each house and then goes to the president for his signature or veto.

Constraints on reconciliation: the "Byrd rule."

While reconciliation enables Congress to bundle together several different provisions from different committees affecting a broad range of programs, it faces one major constraint: the "Byrd rule," named after the late Senator Robert Byrd of West Virginia. This Senate rule provides a point of order against any provision of (or amendment to) a reconciliation bill that is deemed "extraneous" to the purpose of amending entitlement or tax law. If a point of order is raised under the Byrd rule, the offending provision is automatically stripped from the bill unless at least 60 senators vote to waive the rule. This makes it difficult, for example, to include any policy changes in a reconciliation bill unless they have direct fiscal implications. Under this rule, changes in the authorization of discretionary appropriations are not allowed, nor, for example, are changes to civil rights or employment law or even the budget process. Changes to Social Security also are not permitted under the Byrd rule, even if they are budgetary.

In addition, the Byrd rule bars any entitlement increases or tax cuts that cost money beyond the years covered by the reconciliation directive, unless other provisions in the bill fully offset these "out-year" costs.

WHAT IF APPROPRIATIONS BILLS ARE NOT PASSED ON TIME?

If Congress does not complete action on an appropriations bill before the start of the fiscal year on Oct. 1, it must pass, and the president must sign, a continuing resolution (CR) to provide stopgap funding for affected agencies and discretionary programs. If Congress doesn't pass or the president will not sign a CR because it contains provisions he finds unacceptable, agencies that have not received funding through the ordinary appropriations process must shut down operations.

A dispute over delay or defunding of health reform legislation between President Obama and congressional Republicans led to a 16-day shutdown of ordinary government operations beginning Oct. 1, 2013. A dispute between President Clinton and congressional Republicans in the winter of 1995-96 produced a 21-day shutdown of substantial portions of the federal government.

Statutory Deficit-Control Mechanisms

Separately from the limits established in the annual budget process, Congress operates under statutory deficit-control mechanisms that prevent tax and mandatory spending legislation from increasing the deficit and that constrain discretionary spending. "If Congress does not complete action on an appropriations bill before the start of the fiscal year on October 1, it must pass, and the president must sign, a continuing resolution to provide stopgap funding for affected agencies and discretionary programs."

What is sequestration? [3]

A sequester provides for the automatic cancellation of previously enacted spending, making largely across-the-board reductions to non-exempt programs, activities and accounts. A sequester is implemented through a sequestration order issued by the president as required by law.

The purpose of a sequester is to enforce certain statutory budget requirements, such as enforcing statutory limits on discretionary spending or ensuring that new revenue and mandatory spending laws do not have the net effect of increasing the deficit. Generally, sequesters have been used as an enforcement mechanism that would either discourage Congress from enacting legislation violating a specific budgetary goal or encourage Congress to enact legislation that would fulfill a specific budgetary goal.

3 EveryCRSReport, https://www.everycrsreport.com/reports/R42972.html#_Toc436735662

PAYGO

Under the 2010 Statutory Pay-As-You Go (PAYGO) Act, any legislative changes to taxes or mandatory spending that increase multi-year deficits must be "offset" or paid for by other changes to taxes or mandatory spending that reduce deficits by an equivalent amount. Violation of PAYGO triggers across-the-board cuts ("sequestration") in selected mandatory programs to restore the balance between budget costs and savings.

Discretionary funding caps

The 2011 Budget Control Act (BCA) imposed limits or "caps" on the level of discretionary appropriations for defense and for nondefense programs in each year through 2021. Appropriations in excess of the cap in either category trigger sequestration in that category to reduce funding to the capped level.

BCA sequestration

On top of any sequestration triggered by PAYGO or funding cap violations, the BCA also requires additional sequestration each year through 2021 in discretionary and select mandatory programs, split evenly between defense and nondefense funding. This BCA sequestration was implemented as a result of a BCA-created congressional joint select committee's failure to propose a legislative plan that would reduce deficits by $1.2 trillion over ten years. In the case of discretionary programs, for 2014 and after this special sequestration mechanism operates by reducing the appropriations caps below the level that the BCA originally set.

If budget legislation violates these statutes, the relevant sequestration penalties apply automatically, unless Congress also modifies the requirements. For example, policymakers modified the 2013 BCA sequestration requirement in the American Taxpayer Relief Act of 2012. Similarly, the Bipartisan Budget Act of 2013, worked out by Senate Budget Committee Chair Patty Murray (D-WA) and House Budget Committee Chair Paul Ryan (R-WI), reduced sequestration cuts in 2014 and 2015 while extending BCA sequestration of mandatory programs through 2023. Congress approved another budget deal in 2015 to provide even bigger sequestration relief for 2016 and 2017.

CHAPTER TWO: WHERE DO FEDERAL FUNDS COME FROM, WHERE DO THEY GO?

TYPES OF PROGRAMS: MANDATORY, ENTITLEMENT, INTEREST AND DISCRETIONARY PROGRAMS [5,6]

The federal government collects taxes to finance various public services. In fiscal year 2016, the federal government spent $3.9 trillion, amounting to 20 percent of the nation's gross domestic product (GDP). Of that $3.9 trillion, more than $3.3 trillion was financed by federal revenues. The remaining amount ($587 billion) was financed by borrowing. There are three groups of spending in the federal budget: Mandatory programs, discretionary programs and interest paid on debt. Mandatory and discretionary spending make up the majority of all federal spending and pay for all the public services and programs on which we rely.

Mandatory or Entitlement programs and Interest on Debt

Mandatory spending is the spending that is legislated outside of the annual appropriations process and important entitlement programs such as Social Security, Medicare and Medicaid; important safety net programs such SNAP (food stamps), school meals, low-income housing assistance, child care assistance, and help meeting home energy bills; and significant amounts of funding for transportation, education and defense.

The president's budget does not need to include recommendations to ensure the continuation of ongoing mandatory programs and revenues but will typically include proposals to alter some mandatory programs and revenue laws.

Recommendations for mandatory programs typically spell out changes to eligibility criteria and levels of individual benefits but do not specify overall funding levels. Rather, the funding levels effectively are determined by the eligibility and benefits rules set in law.

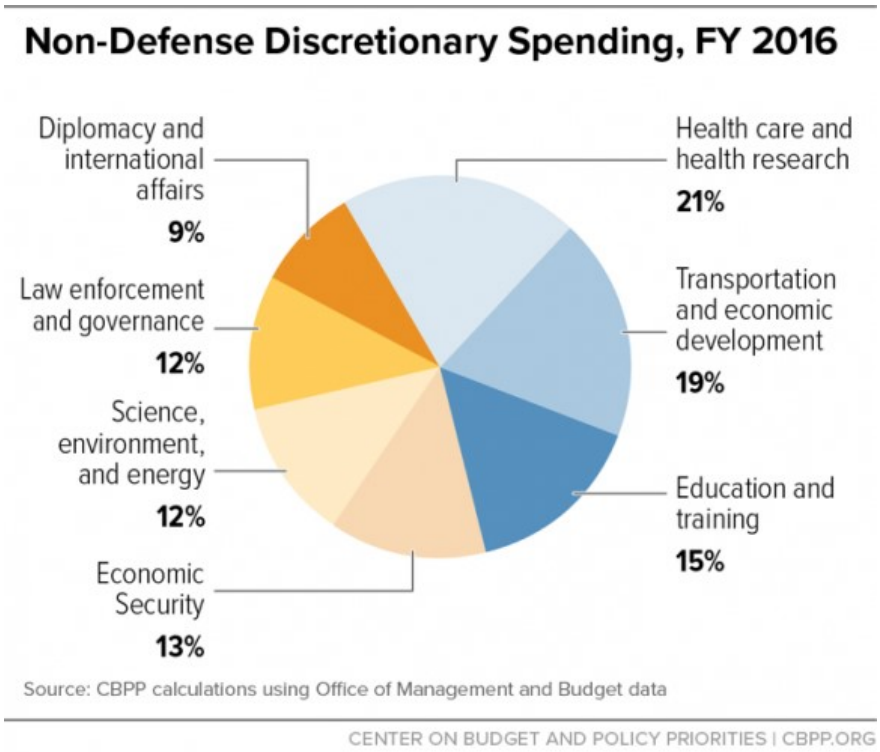
Discretionary Funding: Annually appropriated programs

These programs fall under the jurisdiction of the House and Senate Appropriations Committees. Funding for these programs is known as "discretionary" because the laws that establish them leave Congress with the discretion to set the funding levels each year. That doesn't mean the programs are optional or unimportant, however. For example, almost all defense spending is discretionary, as are the budgets for a broad set of public services, including environmental protection, education, job training, border security, veterans' health care, scientific research, transportation, economic development, some low-income assistance, law enforcement and international assistance. Discretionary programs make up about one-third of all federal spending and the president's budget spells out how much funding is recommended for each discretionary program.

5 Center on Budget and Policy Priorities, Policy Basics, Where Do Federal Tax Dollar Go, http://www.cbpp.org/sites/default/files/atoms/files/4-14-08tax.pdf

6 Office of Management and Budget, National Priorities Project, Federal Budget 101 https://www.nationalpriorities.org/budget-basics/federal-budget-101/spending/

7 Center on Budget and Policy Priorities, Policy Basics, Non-Defense Discretionary Programs http://www.cbpp.org/sites/default/files/atoms/files/PolicyBasics-NDD.pdf



NON-DEFENSE DISCRETIONARY PROGRAMS[7]

Nondefense discretionary (NDD) programs comprise domestic and international programs outside of national defense that Congress funds on an annual basis. In 2016, NDD spending totaled $600 billion, or 16 percent of federal spending.

NDD includes a wide variety of priorities such as education, scientific research, infrastructure, national parks and forests, environmental protection, some low-income assistance, and public health, as well as many basic government operations including law enforcement, courts and tax collection. It also includes many programs related to national security, including foreign aid, homeland security and services for veterans.

These programs are called "discretionary" because Congress must set funding levels for them each year through the appropriations process. In contrast, for "entitlement" or "mandatory" programs such as Social Security, Medicare and Medicaid, spending is determined by eligibility, benefits and payment formulas set in authorizing law. Hence, spending on these programs occurs without annual action by Congress.

Traditionally, funding for defense and nondefense discretionary programs is provided each year through 12 appropriations bills covering various parts of the government. In recent years, individual bills have been more often combined into large "omnibus" packages before enactment. When final action on appropriations is delayed beyond the start of the fiscal year, Congress passes "continuing resolutions," which authorize agencies to continue operating — generally at the prior year's funding level — until final legislation is completed.

The 2011 Budget Control Act established caps that limit overall appropriations for most defense and nondefense discretionary programs in each year through 2021. Some appropriations are exempt from the caps, including those for overseas military and anti-terrorism operations, disaster relief, other emergencies and certain activities to fight fraud and abuse. In addition, spending from the highway and other transportation trust funds are counted as NDD spending but are not subject to the Budget Control Act caps.

NDD Spending Supports Key Public Services

Of total NDD spending in 2016, 33 percent went to grants to states and localities, such as for K-12 education and highway projects, while 21 percent went to low-income programs, such as Head Start and rental assistance. These categories are not mutually exclusive; a sizable share of grants to states and localities support low-income programs.

8 Center on Budget and Policy Priorities, Policy Basics, Where Do Federal Tax Dollars Come From http://www.cbpp.org/sites/default/files/atoms/files/PolicyBasics_WhereDoFederalTaxRevsComeFrom_08-20-12.pdf

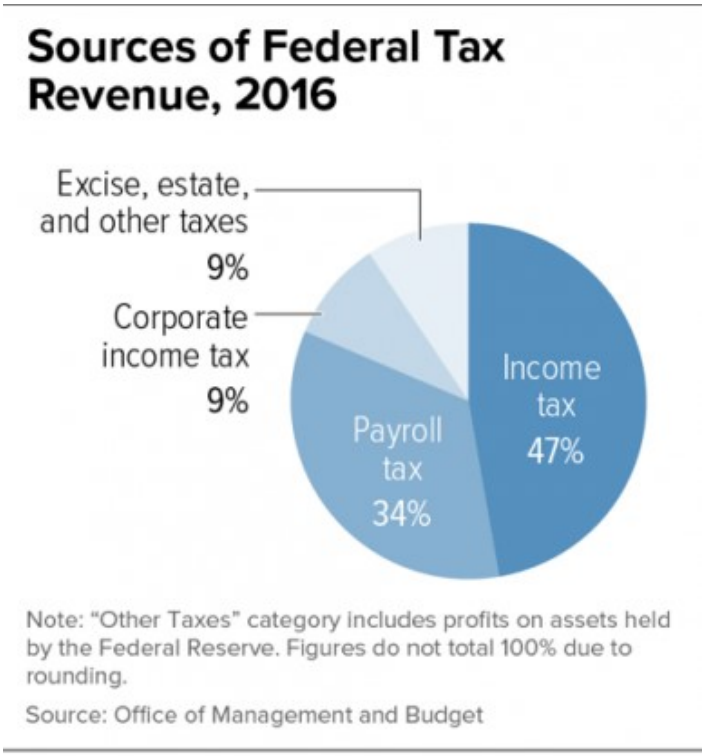
WHERE DO FEDERAL TAX REVENUES COME FROM? [8]

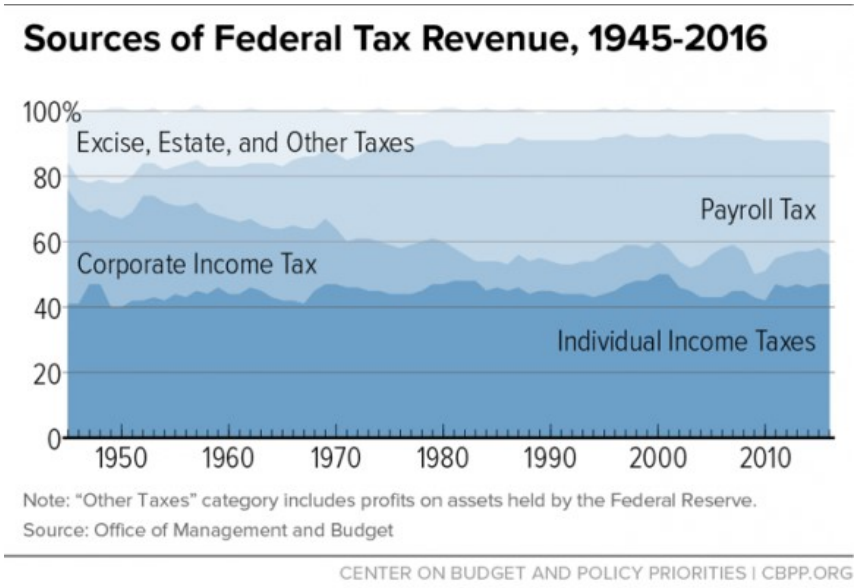
Federal revenues financed over $3.3 trillion of the $3.9 trillion federal budget. Borrowing financed the remaining amount ($587 billion); future taxpayers will ultimately pay this deficit. The three main sources of federal tax revenue are individual income taxes, payroll taxes, and corporate income taxes; other sources of tax revenue include excise taxes, the estate tax and other taxes and fees.

Almost half of all federal revenue (47 percent) comes from individual income taxes. The income tax is generally progressive: higher income households pay a larger share of their income in income taxes than lower-income households do. Another 34 percent of revenue comes from payroll taxes, which are assessed on the wage or salary paychecks of almost all workers and used to fund Social Security, Medicare Hospital Insurance and unemployment insurance.

Corporate income taxes make up about 9 percent of federal revenue, with the remaining 9 percent coming from excise taxes, estate taxes and other taxes. The corporate income tax is a declining share of federal tax revenue.

The estate tax is a tax on assets such as cash, real estate or stock that are transferred from deceased persons to their heirs. Because the first $10.9 million of a married couple's estate was exempt from the estate tax in 2016, and because of other special exemptions from the estate tax, fewer than the wealthiest two of every 1,000 estates nationwide owed any estate tax in 2016. Estate tax revenues made up 0.7 percent of total federal receipts in 2016. The Tax Cuts and Jobs Act, signed into law in December 2017, doubles estate tax exemptions. In future years, the first $22 million of a married couple's estate will be exempt from estate tax. This policy change will benefit only a few very wealthy households, and will significantly decrease the already-small portion of federal revenue collected from estate taxes.





Over recent decades, the share of federal revenues coming from individual income plus payroll taxes has grown, while the share coming from corporate taxes and other revenues has fallen. The Great Recession — one of the worst economic downturns since the Great Depression — and the policies enacted to combat it, including temporary tax cuts, depressed federal revenues below the typical levels of recent decades.

CHAPTER THREE: DEFICIT, DEBT AND INTEREST [9]

Three important budget concepts — deficits (or surpluses), debt and interest — are often misunderstood.

DEFICITS (OR SURPLUSES)

For any given year, the federal budget deficit is the amount of money the federal government spends (also known as outlays) minus the amount of money it takes in (also known as revenues). If the government takes in more money than it spends in a given year, the result is a surplus rather than a deficit. The 2015 budget deficit was $587 billion (3.2 percent of gross domestic product, or GDP) — down significantly from levels it reached in the Great Recession and its immediate aftermath.

When the economy is weak, people's incomes decline, so the government collects less in tax revenues and spends more for safety net programs such as unemployment insurance. This is one reason why the deficit typically grows (or a surplus shrinks) during recessions. Conversely, when the economy is strong, the deficit tends to shrink (or a surplus grows).

Recessions aren't the only causes of deficits. A government may also face a "structural deficit," or one that would exist even if the economy were operating at full capacity, with high employment.

Economists generally believe that increases in the deficit resulting from an economic downturn perform a beneficial "automatic stabilizing" role, helping moderate the downturn's severity by cushioning the decline in overall demand. In contrast, when the government runs structural deficits and borrows large amounts of money even in good economic times, that borrowing is much more likely to have harmful effects on private credit markets and hurt economic growth over the long term.

DEBT

Unlike the deficit, which drives the amount of money the government has to borrow in any single year, the national debt is the cumulative amount of money the government has had to borrow throughout our nation's history. When the government runs a deficit, it increases the national debt; when the government runs a surplus, it shrinks the debt.

INTEREST

Interest, the fee a lender charges a borrower for the use of the lender's money, is the cost of government borrowing. Interest costs are determined by both the amount of money borrowed (also known as the principal) and the interest rate. When interest rates rise or fall, interest costs generally follow, making the national debt a bigger or smaller drain on the budget. Interest costs — in dollar terms, as a percent of GDP and as a share of the budget — will increase as debt continues to grow and interest rates return to more normal levels.

9 Center on Budget and Policy Priorities, Policy Basics, Deficits, Debt, and Interest http://www.cbpp.org/sites/default/files/atoms/files/policybasics-deficits3.pdf

THE DEBT LIMIT

Congress exercises its constitutional power over federal borrowing by imposing a legal limit on the amount of money that the federal government can borrow to finance its operations. The debt subject to that limit differs only slightly from the gross debt. Thus, it combines debt held by the public with the Treasury securities held by U.S. government trust funds.

Once the debt limit is reached, the government must raise the debt limit or default on its legal obligation to pay its bills. Congress has raised the debt limit more than 90 times since 1940.

Raising the debt limit does not directly alter the amount of federal borrowing or spending going forward. Rather, it allows the government to pay for spending on programs and services that Congress has already approved.

Nor is the need to raise the debt limit a reliable indicator of the soundness of budget policy. For example, Congress had to raise the debt limit a number of times between the end of World War II and the mid-1970s, even though the debt-to-GDP ratio fell significantly over this period. Similarly, debt subject to limit rose in the late 1990s — even though the budget was in surplus and debt held by the public was shrinking — because Social Security was also running large surpluses and lending them to the Treasury.

IMPORTANT TERMS

Actual Spending: spending reported by the president after the end of a fiscal year. Actual spending is different from requested spending because it reflects the spending priorities approved by Congress during the annual appropriations process.

Appropriated Amount (or appropriation): refers to the budget authority granted by Congress. (See also requested amount.)

Appropriation: law that authorizes the expenditure of funds for a given purpose.

Appropriations Bill: A bill that specifies how much money can be spent on a given federal program. Reviewed by Appropriations subcommittees in both the House and Senate, appropriations bills must also be approved by the full House and Senate before being signed by the president to become law.

Appropriations Committees: Appropriations Committees in both the House and the Senate are responsible for determining the precise levels of budget authority for all discretionary programs.

Appropriations Process: The annual process through which Congress creates the discretionary budget.

Appropriations Subcommittees: Appropriations Subcommittees in both the House and the Senate, Appropriations subcommittees are committees made up of members of the full Appropriations Committee. Each of these subcommittees has jurisdiction over funding for a different area of the federal government. In both the House and Senate there are 12 different Appropriations subcommittees.

Authorization Bill: gives a government agency the legal authority to fund and operate its programs. An authorization bill also sets maximum funding levels and includes policy guidelines. Government programs can be authorized on an annual, multi-year, or permanent basis. The specific amounts of money authorized in an authorization bill serve as limits on the amounts of money that subsequently may be appropriated by Congress, though lawmakers can choose to appropriate less than the amounts authorized.

Balanced Budget: a budget in which revenues and spending are equal in a given year.

Balanced Budget Amendment: An amendment to the U.S. Constitution that would require the federal government to enact a budget where expenditures do not exceed revenues in any fiscal year.

Budget Authority: the federal government's legal authority to spend a given amount of money for a certain purpose, according to laws passed by Congress and signed by the president.

Budget Control Act of 2011: legislation that passed in August 2011. It raised the debt ceiling, narrowly averting a debt crisis; placed caps on discretionary spending for 10 years; and set up an additional deficit reduction target to be achieved by a super committee or through automatic spending cuts known as sequestration.

Budget Resolution: a non-binding resolution passed by both chambers of Congress that serves as a framework for budget decisions. It sets overall spending limits but does not decide funding for specific programs.

Congressional Budget Office (CBO): non-partisan branch of Congress that provides analysis and materials related to the federal budget process, and objective analyses needed for economic and budgetary decisions related to programs covered by the federal budget.

10 Office of Management and Budget, National Priorities Project, Federal Budget Glossary, https://www.nationalpriorities.org/budget-basics/federal-budget-101/glossary/

IMPORTANT TERMS CONT.

Continuing Resolution (CR): a piece of legislation that extends funding for federal agencies – typically at the same rate that they had been previously funded – into a new fiscal year until new appropriations bills become law.

Debt Ceiling: the limit on the amount of debt the federal government allows itself to hold. Congress has the authority to raise the debt ceiling.

Deficit: the amount by which government expenditures are greater than tax collections in a given year.

Discretionary Spending: the portion of the budget that the president requests and Congress appropriates every year. It represents less than one-third of the total federal budget, while mandatory spending accounts for around two-thirds.

Entitlement Programs: A term that refers to a certain kind of federal program in which all people who are eligible for the program's benefits, according to eligibility rules written into law, must by law receive benefits if they apply for them. The Supplemental Nutrition Assistance Program (SNAP), commonly known as food stamps, is an example of an entitlement program; anyone who qualifies and applies for benefits receives food stamps. Entitlement programs may also be referred to as earned benefit or social insurance programs.

Estate Taxes: taxes paid on an inheritance.

Excise Taxes: taxes placed on the sale of (usually) luxury items but also on specific consumer items like cigarettes, liquor, and gasoline.

Federal Debt: the total of all past federal budget deficits, minus what the federal government has repaid.

Government Accountability Office (GAO): an independent, nonpartisan agency that works for Congress. GAO operates as an auditor of the federal government, and investigates how the federal government spends taxpayer dollars. The head of GAO is the Comptroller General of the United States.

House Committee on the Budget: the committee in the U.S. House of Representatives that is responsible for writing a budget resolution, among other responsibilities. It became a standing committee with the passage of the Congressional Budget and Impoundment Control Act of 1974.

Interest on Debt: the interest payments the federal government makes on its accumulated debt, minus interest income received by the government for assets it owns.

Mandatory Spending: federal spending that is spent based on existing laws rather than the budgeting process. For instance, spending for Social Security is based on the eligibility rules for that program. Mandatory spending is not part of the annual appropriations process.

Obligations: binding financial agreements entered into by the federal government. Examples of obligations include contracts and the hiring of federal workers. Obligations are part of the process of federal spending. The federal budget creates budget authority to spend money for certain programs; then those programs enter into obligations to spend that money; and finally the Treasury spends the money, which is known as outlays.

Office of Management and Budget (OMB): part of the executive branch of government, gives guidelines to federal agencies instructing them how to prepare their strategic plans and budgets.

IMPORTANT TERMS CONT.

Omnibus: An omnibus bill is a budget that encompasses all 12 appropriations bills into one bill, often used when Congress and the President can't agree on passage of 12 individual spending bills.

Outlays: money paid out by the U.S. Treasury; they occur when obligations are actually paid off, primarily by issuing checks or making electronic fund transfers.

President's Budget: the annual spending proposal, also known as the budget request, released by the White House each February. It represents the administration's priorities as reflected in the specific funding requests of various federal agencies. It is the starting point for the annual budget process, but it is not legally binding.

Progressive: describes a tax system in which wealthier people pay a higher percentage of their income in taxes than lower-income people. Progressive also describes political ideology on the left side of the political spectrum.

Reconciliation: a special procedure outlines in Congressional Budget Act that expedites the consideration of mandatory spending and tax legislation and reprioritizes across-the-board spending reductions enacted as part of the Budget Control Act of 2011 (BCA).

Regressive: describes a tax system in which people earning lower incomes pay a higher percentage of their income in taxes than their wealthier counterparts.

Revenues: are funds flowing into the U.S. Treasury from such things as individual and corporate income taxes, payroll taxes and user fees (also referred to as receipts).

Senate Committee on the Budget: the committee in the U.S. Senate that is responsible for writing a budget resolution, among other responsibilities. It became a standing committee with the passage of the Congressional Budget and Impoundment Control Act of 1974.

Sequestration: the term for automatic, across-the-board spending cuts triggered by legislation limiting discretionary spending. Most recently, the Budget Control Act of 2011 included budget caps that went into effect in 2013 and will continue through 2021 unless Congress passes new legislation to stop them. If Congress does not abide by the spending caps during the appropriations process, spending will be automatically reduced through across-the-board, indiscriminate cuts known as sequestration.

Super Committee: The Joint Select Committee on Deficit Reduction, known widely as the super committee, was created by the Budget Control Act of 2011. The super committee was comprised of six senators and six representatives evenly divided between Democrats and Republicans. They were tasked with finding a minimum of $1.2 trillion in deficit reduction to be implemented over 10 years. Because the super committee failed to complete this task by the established deadline of Nov. 23, 2011, across-the-board cuts known as sequestration went into effect.

Supplemental Appropriation: legislation that provides funding beyond what was appropriated in the regular budget process. Congress typically passes supplemental appropriations in response to emergencies like a natural disaster.

Surplus: the amount by which revenues exceed expenditures in the federal budget. The federal government has only run a surplus in four years in the last half century, from 1998 to 2001.

The Colorado Fiscal Institute provides credible, independent and accessible information and analysis of fiscal and economic issues facing Colorado. Out aim is to inform and influence policy debates and contribute to sound decisions that improve the economic well-being of individuals, communities and the state as a whole.

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