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GAO

Comptroller General of the United States

MANAGING THE COST OF GOVERNMENT

Proposals for Reforming Federal Budgeting Practices

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Preface

The federal government is continuing to spend beyond its means in spite of emergency deficit reduction legislation passed in 1985. As a result, interest payments on the U.S. Treasury's debt have become the third largest budget item, running over $200 billion in fiscal year 1988 alone. The ultimate consequences of these large deficits and financing costs are likely to be lowered U.S. economic growth and competitiveness.

Painful choices will have to be made on the revenue and spending sides of the budget to get the government's fiscal house in order. Unfortunately, the enormous difficulty of this task is compounded by an obsolete set of federal budgeting practices that lack credibility with our elected officials and the public at large. Given the prevalence of budget gimmicks that hide the true state of the government's current finances and future obligations, it is no wonder that increasing numbers of Americans are becoming cynical about the operations of their government.

It has been 15 to 20 years since the last reforms created the current congressional budget process and the unified budget. There are now new policy issues and information needs requiring new approaches. This document gives an overview of our proposed reform in budgeting practices. It is important to note that our proposal is designed to reform the unified budget, make it more workable, and reduce pressures to remove certain federal activities from the budget. We are concerned about the growing number of proposals to establish off-budget activities to carry out governmental functions. If implemented, these proposals would serve to avoid budget discipline. They are, therefore, a serious threat to the integrity of the government's budget and financial management systems. If they are adopted, grave doubts will arise about the integrity of the government's reports on its financial operations and condition, making it even more difficult for decisionmakers and the public to understand and deal with the overriding problem of the budget deficit.

This report is part of a series of financial management reports which began with our 1985 publication, Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/AFMD-85-35 and 85-35-A, February 1985).

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Introduction

Basic weaknesses in the federal budget's structure, costs, and process complicate the task of reaching consensus on budget policies. They vividly illustrate the need for a major overhaul of budgeting practices. The following pages summarize each of the three major problem areas and outline GAO's proposed solutions. Additional details on the problems and proposed solutions follow the summary.

Restructure the Budget

Problems

The present budget structure, with its exclusive focus on a bottom-line cash deficit, obscures important differences among programs, making it virtually impossible for the public and many officials to understand what is actually going on in the government's finances. Merging the growing Social Security surpluses into the general total leaves the erroneous impression that the structural imbalance in the government's financial affairs is being corrected when, in fact, it is getting worse. Whereas the most recent budget reported a $155 billion deficit for fiscal year 1988 and projected declining deficits over the next 5 years, a breakdown of the numbers shows that the general fund deficit was over $200 billion and expected to rise during the same period. Also, large business-type operations such as the Postal Service are unable to plan and operate efficiently because they are subject to short-term spending controls more appropriate for programs financed from the general fund. Finally, critical capital investments for nuclear weapons plant modernization, bridge repair, and other purposes are postponed because the budget treats the purchase of long-term assets the same as the purchase of paper, pencils, and other consumables that are used up immediately.

Proposal

The unified budget should be retained to assure continued disclosure of the government's total financial operations, but it should be divided into three major components—general, trust, and enterprise funds—with each component subdivided to distinguish between operating and capital amounts. Having budget subtotals corresponding to these components would greatly enhance the budget's relevance to emerging fiscal issues and increase its usefulness for setting and carrying out multiyear budget policy goals. In addition to a deficit reduction goal for the overall budget, as seen in the Gramm-Rudman-Hollings legislation, a separate goal for each major component could reflect a policy decision on the appropriate deficit reduction or surplus accumulation path for the area. Table 1 shows fiscal year 1988 budget results restructured according to our proposal. This budget presentation shifts the focus away from a single deficit figure of $155 billion for that year by showing a subtotal and the capital and operating amounts for each of the three major components.

Table 1: Fiscal Year 1988 Budget Results Restructured According to GAO Proposal

Dollars in billions

	Total	General	Trust	Enterprise
Operating surplus/deficit (-)	$−131	$−248	$124	$−7
Capital financing requirements	−24	−23	2	−3
Unified Budget Financing Requirements	**$−155**	**$−271**	**$126**	**$−10**

Note: With the exception of the $155 billion total, the amounts are approximations.

Improve Cost Measurements

Problems

The budget's almost exclusive focus on cash transactions means that many costs are greatly understated, a few are overstated, and others are totally ignored. As a result, decisions are distorted in an attempt to minimize current cash outlays, and decisionmakers are frequently faced with surprises when forced to pay bills that come due without warning. A recent, striking example is the billions that American taxpayers must pay for resolving the savings and loan crisis. A similar problem is the practice of treating new loan guarantees, now running at about $100 billion annually, as cost free because they involve no cash outlays in the first year, when, in reality, they will entail very substantial future costs because of defaults. Other problems stem from not recognizing as budget costs certain liabilities that will require future payments. For example, the budget greatly understates the cost of employing federal workers by failing to include in budget totals the retirement benefits they are accumulating. Also, the use of billions of dollars worth of non-cash assets to liquidate governmental obligations is ignored.

Proposal

To reduce the chances of future budget surprises, more costs should be reflected in the budget when program initiatives or events in the economy create the likelihood or certainty of future payments. This would include estimating the expected losses on proposed direct loans and loan guarantees and requesting appropriations to cover such future losses. The budget should also report costs when major liabilities are incurred. For example, it should recognize costs for future federal retiree payments even though the pension payments will not be made for several years. Similarly, recognizing budget costs for federal payroll and similar liabilities as they are incurred would eliminate the incentive to claim budget "savings" by shifting paydays from one fiscal year to another. Using commodities and similar assets in lieu of cash should be included in budgetary totals to close this form of backdoor spending.

Streamline the Process

Problems

The government's process for deciding how much to spend and what to spend it on has become an endless, repetitive cycle. Every year, the Congress takes separate actions on a budget resolution, authorization bills, appropriation bills, and other budget-related matters, creating numerous opportunities for delay and absorbing scarce legislative time. Members complain that budgeting is pushing aside needed oversight activities. For the executive branch, the problem is even worse, as officials work simultaneously to implement one budget, explain their current proposal before the Congress, and plan yet another budget for inclusion in the President's next submission to the Congress—all in an environment of considerable budget uncertainty. It is no wonder that the budget process is a constant source of anger, frustration, and confusion for legislators, executive branch officials, and the public.

Proposal

The bipartisan leadership of the Congress and the President should negotiate politically binding agreements on the broad shape of the budget, preferably covering a period of at least 2 years. The 1987 "budget summit" agreement set a precedent, and it showed that such an agreement can expedite budgetary actions and assure a timely enactment of appropriation measures. In conjunction with this, the Congress should seek ways of increasing the efficiency of its budgetary operations by reducing the layering, fragmentation, and duplication of the current process. In recent years, congressional study groups have recommended ways to streamline legislative actions through modifications of leadership and committee responsibilities. We do not endorse a specific proposal but rather urge that the Congress examine these and any new proposals with a view toward better integrating the leaders and committees involved in budget matters.

Our budget reform proposals offer the potential for substantial benefits, but only if they are implemented as part of a coordinated reform strategy. Successful budget reform requires a comprehensive, integrated approach with congressional and executive commitment sustained over a number of years.

Contents

Abbreviations

CBO	Congressional Budget Office
CCC	Commodity Credit Corporation
GAO	General Accounting Office
GNP	gross national product
OMB	Office of Management and Budget

the burden on future workers of paying benefits to the baby boomers. In 1988, this caused the Social Security trust funds to run a surplus of about $39 billion. By 1994, the annual surplus in the Social Security system alone is expected to reach $113 billion, according to Congressional Budget Office (CBO) projections.

Another step was to establish a fully-funded military retirement system. By 1988, the Military Retirement Trust Fund had an annual surplus of about $14 billion, while the companion Civil Service Retirement and Disability Fund was running an annual surplus of about $18 billion.

Similar patterns are seen in other trust funds, though the explanations differ from program to program. Medicare's 1988 surplus, for example, was $15 billion, while the combined surplus of the Highway Trust Fund and the Airport and Airway Trust Fund was about $2 billion.

As the unified budget is presently structured, the surpluses in the trust funds are merged with the rest of the budget, effectively masking the magnitude of those surpluses and the size of the deficit in the rest of the government. In 1988, for example, the reported total deficit of $155 billion actually consisted of a surplus of about $100 billion in the trust funds, partially offsetting a $255 billion deficit in the rest of the government. Moreover, the trust surpluses are rising rapidly, primarily because of Social Security, and are projected by CBO to reach $175 billion by 1994.

Because the trust fund surpluses—especially those in Social Security—are growing so rapidly, the merger of trust and nontrust funds creates the erroneous impression that the deficit is under control and declining. In reality, the nontrust fund deficit has grown from $222 billion in 1987 to $255 billion in 1988 and is projected to reach $283 billion or more in 1989. The fact is that increased payroll taxes, levied to meet the long-term needs of the Social Security system, are being used to finance the current operating costs of the government.

The perceived misuse of trust fund receipts (which, by law, are dedicated to specific trust fund purposes) for nontrust fund purposes occurs when budgetary actions restrict trust fund spending, while allowing trust tax receipts to accumulate, to offset deficits in the nontrust part of the budget. Some observers feel that this breaks an understanding or implied agreement underlying the original tax enactment—that is, that the trust fund's tax revenues would be used only for the trust fund's program purposes. This feeling generates pressures to remove trust funds from the budget, as in the case of the Highway Trust Fund, the receipts of which have grown faster than its outlays have been permitted to grow in recent years. If this perceived misuse of the trust funds is not adequately addressed, we may expect increasing pressures to remove other programs from the budget.

Problems Concerning Enterprise Funds

The current budget also is not organized in a way that facilitates tailoring budgetary decisions to the special needs of the government's business-type entities. These enterprises such as the Postal Service and Tennessee Valley Authority with programs costing about $40 billion and $6 billion a year, respectively, have several characteristics which distinguish them from other government activities. They

- sell a product or service to the general public,
- are established to be self-financed for the most part by fees paid by users of the product or service, and
- have expenses which fluctuate with consumer demand.

If an enterprise-type activity is to operate successfully as a business, it needs more flexibility than some government programs. For example, it needs to be able to set its user fees to recover its operational costs. Also, it must be able to make relatively independent investment decisions to plan for and react to changes in consumer demand. Many of these activities are set up by statute to operate with relative independence but can incur sizable governmental liabilities to finance capital investment and other activities. The current budget treatment of enterprise-type funds does not enhance the ability of the Congress or the administration to tailor budgetary decisions to these funds' special needs. It may be appropriate to treat them differently than other programs, but the provisions of Gramm-Rudman-Hollings and related budget legislation apply equally to enterprise investments and other government activities. Recently, for example, the Postal Service was required to reduce the hours of window service in local post offices in order to contribute to overall deficit reduction efforts. Actions such as this, if perpetuated, would be counterproductive, undermining the Postal Service's capacity to provide efficient service to the public, discouraging patronage, and threatening the Service's ability to cover its costs.

The problems discussed above partly explain the periodic efforts by the Congress or the administration to remove federal programs like the Postal Service from the budget. In addition to the enterprise-type activities, the targeted programs have included major trust fund programs (as discussed above), capital intensive programs, and credit programs. The incentives to remove these programs from the budget would be lessened by a restructured budget more relevant to the government's current and future needs.

Unsound Deficit Reduction Strategies

The federal budget's focus on a single deficit total does not distinguish between operating deficits and capital financing requirements. This is misleading and results in unsound deficit reduction strategies, such as certain Gramm-Rudman-Hollings provisions. Under the present federal budget structure, it is difficult for the President and the Congress to apply deficit reduction efforts in a way that balances needs for operating expenses with needs for capital investments. For example, the Gramm-Rudman-Hollings law did not distinguish, in its deficit reduction goals, between the $151 billion spent on capital investments and the $1.1 trillion for operating expenses[1] in fiscal year 1988.

Also, this treatment does not recognize that these two kinds of spending are not the same. Capital investments, unlike operating expenses, produce assets that generate future streams of benefits to the government or economy. The benefits may be in the form of cash, facilities that can be used over several years, or other economic returns.

This federal budget focus on a single deficit total differs from that seen in many states which practice capital budgeting. At least 37 states use a capital budget, either as part of a comprehensive budget or as a separate budget.[2] Recognizing that capital investment is different from operating expenses, most of the 34 states with balanced budget requirements target those requirements only to their operating budgets. Debt financing is used for their capital projects, subject to separate state debt limits. Further, the states control their debt by requiring their annual debt service costs to be included in the operating budgets and thus subject to balanced budget requirements.

[1]These estimates were made by GAO and do not appear in the budget. They represent gross outlays since they include receipts from the public, unlike current budget totals which are presented net of some receipts from the public.

[2]Budget Issues: Capital Budgeting Practices in the States (GAO/AFMD-86-63FS, July 15, 1986).

Budget Bias Against Capital

The current budget also creates a budget bias against capital investment programs. Because the budget recognizes capital investment costs in the early years of a program, a proposed new investment appears more costly, on a yearly basis, than it really is. Under the present budget rules, a \$50 million outlay to construct a hydroelectric plant (a capital investment) in a given year contributes to the year's deficit just as a \$50 million outlay for vehicle or airplane fuel costs (an operating expense) does. However, the full \$50 million in federal assets has not been used up. Initially, there has been an asset exchange: \$50 million in cash has been exchanged for a \$50 million facility. Only the cost of using the hydroelectric plant for the year—\$2 million if the plant has a 25-year life—is a true cost for that year.

The current budget treatment could lead to uneconomical decisions. For example, decisionmakers may decide to forgo the construction of a facility because of the sizable, initial cash outlays that would be reflected in the budget and choose instead another option for space acquisition—leasing—with lower initial budget impact but higher, long-term costs. In one instance, the Army Corps of Engineers chose to acquire a building through a lease-purchase agreement rather than outright purchase. Under its current agreement with the appropriations committees, the Corps need not report a capital investment to the Congress until the year 2000. However, this will result in an additional cost to the government of about \$11 million, taking into account the time value of money over the 25-year lease term.[3]

The failure of current budgeting practices to recognize the cost of continuing to use an asset also creates serious problems. Once an asset is acquired and put in service, it begins to lose value because of wear and tear, age, and obsolescence. In private industry, this loss of value is termed "depreciation." Charges to depreciation serve to spread the cost of the asset over its useful life, an important feature for business-type enterprises, which are expected to cover their costs of operations out of revenues from the sale of goods and services. In addition, depreciation charges serve as a continuing reminder of the limited useful life of any asset, and of the need to prepare for major renovation or replacement of the asset when that useful life is exhausted.

The fate of the nation's nuclear weapons complex is a vivid illustration of the consequences of failing to recognize the reality of depreciation.

[3]Lease-Purchase: Corps of Engineers Acquisition of Building in New Orleans District (GAO/AFMD-88-56FS, June 7, 1988).

Many of the weapons facilities had been built in the 1940s or 1950s and had long since reached the end of their useful life—a problem made even worse by inadequate upkeep, repair, and care in the handling of toxic wastes. Because of failure to recognize depreciation as it was occurring, the need to begin the process of cleanup, repair, and replacement came as a sudden—and very expensive—surprise, with a price tag estimated by some to be as high as $150 billion.

The costs of direct loan programs (another type of capital investment) are also distorted because there is no budget recognition that, in making a loan, the government receives a real financial asset and that at least a portion of the loan outlays will be repaid in the future. However, under current budget treatment, a portfolio of $100 million in new direct loan outlays counts toward the deficit the same as $100 million in grants, even though some of the loans will be repaid in the future.

GAO Proposal

The budget should be restructured to provide sections and subtotals on trust funds, enterprise-type funds, and other government funds, and to divide these into capital and operating parts. New spending goals similar to the Gramm-Rudman-Hollings targets could focus on these subtotals as well as the overall total. Also, the costs of major capital assets should be annualized and recognized as an operating cost (depreciation) of the agency responsible for the asset.

Table 2 shows fiscal year 1988 budget results restructured according to our proposal, which shifts the focus away from a single deficit figure of $155 billion for that year. Appendix I provides additional detail. Table 2's trust fund surplus, $126 billion, is $26 billion higher than what the budget reported for 1988. This is because we have added $26 billion to the general activities deficit and trust fund surplus to reflect our proposal that annual payments be made from the general fund to a trust fund for retirement benefits earned by federal employees. (See discussion in the "Budgeting for Liabilities" section.)

Table 2: Fiscal Year 1988 Budget Results Restructured According to GAO Proposal

Dollars in billions

	Total	General	Trust	Enterprise
Operating surplus/deficit (-)	$–131	$–248	$124	$–7
Capital financing requirements	–24	–23	2	–3
Unified Budget Financing Requirements	**$–155**	**$–271**	**$126**	**$–10**

Note: With the exception of the $155 billion total, the amounts are approximations.

Our proposal treats amounts received from the public—currently termed "proprietary receipts" and "offsetting collections"—differently from the current budget, which offsets them against gross outlays. We have recommended that such amounts not be netted against gross outlays on the grounds that the resulting outlay totals understate the true level of federal outlays.[4] Under our proposal, these amounts are reported as budget receipts, resulting in total expense and investment figures (shown in appendix I) which are larger than the outlays reported in the current budget. Such an approach does not change the total financing requirements.

For our proposed restructured budget to be meaningful, capital investments, trust funds, and enterprise-type funds need to be strictly defined. In our current proposal, capital investments refer to investments in physical and financial assets. We recognize that other expenditures, such as those for research and development and human capital, could also be viewed as capital investments. We do not include them at this time because of the difficulties involved in defining and measuring them, and we are studying this matter further. Also, our ongoing study of trust funds indicates that many of them are not different from other earmarked funds. We are in the process of refining our definitions for trust and enterprise-type funds.

Distinguishing between trust and nontrust amounts in the restructured budget would resolve the problem of trust fund surpluses masking part of the nontrust deficit. Budgetary information in our proposal would clearly disclose the trends in both parts of the budget and facilitate planning for the proper fiscal balance between trust and nontrust fund operations. Elsewhere, GAO has stated that the goal should be to reduce deficits in the nontrust area of the budget and move toward approximate balance or surplus in the unified budget at a steady, sustainable pace.[5]

The new trust and nontrust totals would not, in themselves, resolve the issue of the perceived misuse of trust receipts to finance other parts of the budget. However, the new totals could lessen some incentives in the existing budget structure to remove certain programs from the budget

[4] Federal Budget Outlay Estimates: A Growing Problem (GAO/PAD-79-20, February 9, 1979) and Federal Budget Totals Are Understated Because of Current Practices (GAO/PAD-81-22, December 31, 1980).

[5] Transition Series: The Budget Deficit (GAO/OCG-89-1TR, November 1988) and Social Security: The Trust Fund Reserve Accumulation, the Economy, and the Federal Budget (GAO/HRD-89-44, January 19, 1989).

by better disclosing how some trust funds, such as the Highway Trust Fund, are in fact being used to reduce the deficit. The new presentation of information would make the implications of such deficit reduction decisions clear to decisionmakers and the public and make it easier for the Congress to separately treat trust and nontrust activities in deficit reduction legislation.

By making a distinction between enterprise activities and other government and trust activities, the Congress and the administration can more easily make budgetary decisions specifically tailored to the enterprise funds' special needs for flexibility and budgetary independence.

The capital and operating split in the restructured budget would provide sounder and more realistic debt control options. Policy decisions on the desired balance between spending for short-term consumption needs (operating expenses) and spending for long-term infrastructure and productivity-enhancing needs (capital investments) could be made on the basis of clearly displayed budget information. The restructured budget would make it possible to formulate separate goals for the operating deficit, capital financing requirements, and, for fiscal policy purposes, total financing requirements.

The capital and operating split would also improve cost comparability between capital programs and other programs. For physical capital investments, an "asset consumption" amount, or depreciation, would be reported annually in the operating part of the budget over the investments' useful life. This would show the "consuming" of the government's physical assets as an operating cost, thus improving cost comparisons between capital and operating programs. This asset consumption amount would be made available in the operating budget and would be credited to the capital budget as a means of financing part of the year's costs of acquiring new physical assets. In effect, the asset consumption amount would finance part of the replacement costs of physical capital investments. The balance, representing net additions to capital, would be financed by taxes or borrowing.

For financial capital investments (such as loans and notes), the government's estimated loss from interest subsidies and defaults (the subsidy cost) on new loans and guarantees would be reported in the operating part as an expense for the year. The cash disbursement for financial capital investments, less the subsidy cost, would be reported in the capital part of the budget as a financial capital investment.

This capital budgeting approach would improve the cost comparability of such credit programs with other programs. The budget now recognizes the cost of $25 million in new loans as $25 million at the time of disbursement, even though at least part of these loans will be repaid. In effect, this treatment overstates the cost of new loan programs, since disbursements exceed repayments at that time. An opposite effect occurs later when loan repayments flowing back to the loan programs are netted against new loan disbursements to report total loan program outlays. Capital budgeting would correct this distortion of the credit programs' true costs.

Improve Budget Cost Measurements

Current Problems

Our efforts to reduce the deficit must be based on good reporting of the actual cost of government activities. However, current budget reporting of the financial resources applied to and used by certain programs is inadequate. The budget's almost exclusive focus on short-term cash transactions produces misleading or incomplete cost information for several types of programs—credit programs, pension funds, and programs using noncash financing. In addition, because of the budget's exclusive focus on cash, opportunities exist to manipulate outlay levels. Also, the budget does not recognize the growing demand to increase outlays for present and future unmet needs.

The overall result of these weaknesses is a budget that fails to properly anticipate future costs, leading to potentially disruptive budget surprises when the bills are presented. Doubts about the reliability of the numbers also complicate the task of reaching consensus on budget policy.

Misleading Cost Information on Credit Programs

Given the size of the government's credit activities—the total fiscal year 1988 credit budget for new direct loans and loan guarantees was $128 billion—it is important that costs be measured correctly. Currently, that is not the case. The present budget treatment of credit programs provides misleading cost information. For direct loans, the budget measures net cash flow, which overstates loan costs in the initial years of a program and understates them in later years, as discussed in the previous section on the restructured budget. Loan guarantee programs may be completely excluded from reported budget totals, even though they are likely to entail large future losses. Furthermore, for all credit programs (that is, direct loans and loan guarantees), the budget does not recognize the subsidy costs up front—before new loans and guarantees are made—so that they can be compared to other programs when making budgeting decisions. The Office of Management and Budget (OMB) has recently proposed that these costs be annually appropriated, which we support, but we believe its proposed method of estimating the costs will overstate the actual cost to the government. The ongoing efforts of the Congressional Budget Office (CBO) and the Senate Budget Committee to develop an appropriate budget treatment for credit programs further demonstrate the need to change budget reporting for credit programs.

Understated Cost Information on Pension Programs

Cash-based budget reporting understates cost information on some major future liabilities because it does not include them in the budget totals submitted to the Congress. The federal government incurs liabilities for future pension payments which may not be liquidated by cash outlays until long after the liability has been incurred. The cash-based budget does not fully recognize the current year's costs for future retirement payments for most civilian pension plans, and thus appropriations are not made to cover those payments. As of September 30, 1987, the unfunded liability of the Civil Service Retirement and Disability Fund was $486 billion. This is the fund's accumulated liability for future retirement benefits (already earned by current and past employees and their survivors) which has not been included in budget estimates over the years and has not been appropriated by the Congress.[6]

Opportunities to Manipulate Outlay Levels

Budget gimmicks and accounting tricks have been used in reporting the costs of some programs to give the appearance of meeting arbitrary deficit reduction goals. Opportunities to use accounting tricks are most evident for programs such as payroll or entitlements which incur liabilities over time as pay is earned or entitlement payments are qualified for. Payments are made to liquidate such liabilities on a regular schedule. Because of the size of these payments, making them early or late to shift them to a different fiscal year could cause a deficit fluctuation of billions of dollars—an easy but artificial way to appear to achieve a deficit reduction.

For example, in fiscal year 1987, the Congress directed the Department of Defense (DOD) to change its payday from the last day of September (fiscal year 1987) to the first of October (fiscal year 1988). Because this payday was recorded as a cash outlay in fiscal year 1988, it helped to reduce the fiscal year 1987 deficit by about $1 billion. However, no real savings were achieved because the liability to make the payment had already occurred, and the payment was made in fiscal year 1988. Similarly, in fiscal year 1984, DOD delayed military service retirement system payments by 1 day to the succeeding fiscal year, resulting in fiscal year 1984 budget "savings" of over $1 billion. However, the "savings" were lost in the next fiscal year because DOD made 13 retirement payments, rather than the usual 12, when the normal paydate was restored.

[6] This amount is the unfunded actuarial accrued liability, calculated in accordance with OMB/GAO instructions. Actuarial amounts vary, depending on the method of calculation. Using the calculation method in Financial Accounting Standards Board Statement No. 35, the excess of actuarial present value of accumulated plan benefits over net assets available for benefits is about $369 billion.

Missing Cost Information on Programs Using Noncash Financing

Information on billions of dollars of financing for programs with authority to make purchases by giving certificates or something other than money to a seller is missing from the budget. Because the budget focuses almost exclusively on cash transactions, it does not always record program costs financed with other assets. Governmentwide, agencies have identified 27 accounts which they interpret as having such authority. For example, for fiscal year 1989, the Commodity Credit Corporation (CCC) plans to issue about $3 billion worth of commodity certificates in lieu of cash payments to farmers participating in various farm support programs. Farmers can use the certificates to repay loans, exchange them for commodities in CCC's inventory, turn them in to CCC for cash, or sell them to someone else who in turn can sell or exchange them. Also, the Forest Service can acquire land without paying cash by giving up other land or timber which could have been sold for cash. In each of these examples, the government avoids making a cash expenditure by giving up a potential cash collection in a future transaction.

In times of heightened concern over federal spending, such as the current budget environment, the use of this type of financing would probably become increasingly attractive and therefore increase. This type of financing, however, is not properly recorded in the budget. In some cases, such as "bidding rights"[7] issued by the Department of the Interior, the certificates the government issues are treated like cash by including budget authority and outlays for their issuance and collections for their redemption. While this budget treatment is preferable to excluding the certificates from any budget totals, we do not believe that it is the best way to show noncash financing in the budget. Recording outlays for certificate issuances distorts the budget's reported outlay totals by overstating actual (cash) outlays and artificially increasing the budget's reported deficit. Similarly, recording certificate redemptions as collections, even though no cash is received, overstates actual (cash) collections and artificially decreases the budget's reported deficit.

In other cases, such as commodity certificates, budget totals do not directly reflect the use of noncash assets as a means of financing. Ignoring the use of this type of financing by not including it in the budget totals the Congress reviews is also inappropriate. It understates the actual cost of programs using such financing by showing only the cash

[7] For example, the Secretary of the Interior may issue "bidding rights," in lieu of cash payments, for the acquisition of private lands or interests within or contiguous to the Rattlesnake National Recreation Area and Rattlesnake Wilderness. The "bidding rights" may be used as credits against coal lease payments, rentals, or royalties payable to the federal government.

cost in the budget. Thus, when the Congress makes resource allocation decisions, it may not consider the noncash financing for those programs.

No Recognition of Unavoidable Future Costs

The President's budget submission to the Congress includes only those programs for which the President wants the Congress to appropriate funds. Thus, it is possible that important present and future spending needs might not be included. For example, in past years the President's budget has not fully addressed the growing need to spend funds for modernizing and cleaning up nuclear weapons facilities, resolving the savings and loan industry crisis, or modernizing the nation's air traffic control system.

GAO Proposal

The following sections discuss certain changes in budget reporting which could alleviate or eliminate these problems. The thrust of the proposals is to go beyond an almost exclusive focus on cash transactions to better capture costs in certain kinds of programs.

Changes in Credit Budgeting

For many years, we have noted the need to improve government budgeting for credit activities. We believe that the total, long-term subsidy costs of new credit activities—including the interest subsidy and default costs—should be estimated on the basis of the cost to the government and appropriated before the government makes new direct loans and loan guarantees. The OMB estimated the costs of the 1989 budget's proposed loans and loan guarantees at about $1 billion and $9 billion respectively. Reporting such amounts in the budget would enhance the ability of the Congress to make cost comparisons between credit and other programs.

We support the general thrust of OMB's recently developed credit reform proposal requiring appropriations for credit subsidies for each budget year's new direct loans and loan guarantees. This would be a step forward because the Congress would be appropriating credit program subsidy costs when approving the loans or guarantees, rather than after the fact to cover losses. However, we believe OMB's proposed method of calculating the credit subsidy will overstate it.

OMB would measure the subsidy in terms of the economic benefits the borrower receives by obtaining a loan from the government rather than in the private sector. Subsidies measured this way will generally be larger than subsidies measured in terms of the cost to the government because they will include some costs, such as premiums for illiquidity and risk (above and beyond expected default costs), which would not be reflected in budget outlays.

The cost to the government approach, which both we and the Senate Budget Committee prefer, values the subsidy in terms of the expected future cash outlays which will impact on budget totals. The subsidy is measured in terms of the costs—including the interest subsidy and estimated defaults—the government will incur as a result of its decision to make or guarantee the loan. For direct loans, it is calculated by taking the difference between (1) the present value of the future principal and interest payments (adjusted for expected defaults) discounted at the government's interest rate for comparable Treasury securities and (2) the money loaned out. For loan guarantees, the subsidy cost would be the difference between fees received, if any, and the present value of estimated default costs. While recognizing that administrative costs are associated with the government's credit activities, we are not including them at this time in our subsidy calculation because measuring and allocating them over the terms of new loans would be very difficult.

Conceptually, we do not favor OMB's benefit to the borrower approach because it introduces costs into the budget which would never impact on budget outlays. We favor the cost to the government approach as the more accurate and appropriate cost measure.

We would combine this new budget treatment of credit programs with our proposed restructured budget, which has capital and operating components. The separate identification of the subsidy and nonsubsidy costs of direct loan programs, as we propose, permits the loan's nonsubsidy or asset portion to be recorded in the capital component of the restructured budget, thus recognizing it as a financial asset that will be repaid. The subsidy portion of direct loans and the subsidy associated with loan guarantees would be recorded as expenses in the operating component of our restructured budget.

Budgeting for Liabilities

Budget reporting of the costs of most civilian pension programs and payroll and entitlement programs with regular payment schedules can be improved by including some data based on liabilities incurred, rather than cash, in the budget. To avoid problems experienced during previous governmentwide efforts to add such data to the budget (due to accounting system limitations in calculating the amounts and excessive detail), we suggest recording liabilities only for selected programs. At this time, these would include federal employee pension funds and payments earned through the end of the fiscal year for payroll and entitlement programs with regular payment schedules.

The exclusion of the full cost of civilian agency pension programs from the budget understates the costs of federal employment in comparison to capital investments. The Congress would be better able to compare labor-intensive programs with capital-intensive programs if the full cost of pension programs were shown in the budget. To do so, two changes would be required. First, each agency would record budget authority and outlays to fund the annual liability incurred (taking into account inflation trends) for future pension benefits.[8] Each agency should pay this amount to the Civil Service Retirement and Disability Fund or other comparable pension funds. Second, the Office of Personnel Management would record budget authority and outlays to amortize those funds' unfunded liabilities from previous years, as is now being done for military retirement. If these two budgeting procedures had been in effect for fiscal year 1988, approximately $26 billion in added budget authority would have been required for the Office of Personnel Management and agencies covered by the Civil Service Retirement System. These changes, however, would not have affected the deficit because cash outlays to the public would not have increased. Such outlays would continue to be reported when actual benefit payments are made to retirees.

The government also incurs liabilities for other payments, such as those owed to contractors, whose payment dates theoretically could be shifted from one fiscal year to another to achieve the illusion of reducing the deficit. Such payments are covered by the Prompt Payment Act of 1982, which has applied some discipline to bill-paying practices for contractual relationships. We do not think that liabilities incurred for unbilled performance by contractors or subcontractors need to be recorded in the budget. (This was one of the areas which caused problems in earlier attempts at including liabilities in the budget.)

Noncash Asset Budgeting

Budget reporting of the costs of programs with authority to make purchases by giving certificates or something other than money to a

[8]We recognize that implementation may present accounting problems. However, to ease implementation, the amount of budget authority needed to cover pension costs could be based on the current normal cost, which is the level percentage of pay that would have to be contributed for a typical group of new employees over their entire working careers to fund, together with interest, their retirement benefits. The basic benefit portion of the Federal Employees Retirement System is funded in this manner.

seller instead of cash would be enhanced by the development of a new set of noncash-based terms and totals for use in the budget process. During the past year, we have studied the budgetary treatment of CCC's commodity certificates in detail.[9] We believe that the value of commodity certificates should be included in budget totals reviewed by the Congress. We prefer that this be done by developing a new set of noncash-based budget terms and totals which would better disclose the full amount of resources—cash and noncash—devoted to the program, maintain consistency in the current cash-based outlay totals, and permit congressional budget review and oversight. The Congress should use these new totals in its budget resolution and subsequent resource allocation decisions regarding the amount of government resources to devote to individual government programs. However, commodity certificates could also be included in budget totals the Congress reviews by treating them as cash and recording budget authority and outlays for their issuance. While commodity certificates are only 1 of the 27 programs authorized to use this type of financing, many of the other 26 programs could be suitable for the same kind of budget treatment. In our report, we suggested that OMB consider these approaches in assessing their budget treatment.

Information on Unavoidable Future Costs

Unavoidable future spending needs should be recognized in the budget documents. This could be accomplished by supplementing the budget's special analyses documents with information on spending which will be required in the future, but is not currently included in the President's budget request. While providing supplemental information on unavoidable future spending needs would not include such spending in the budget's totals, it would highlight the need for this spending for the Congress and the public.

[9] Budget Issues: USDA's Commodity Certificates Should Be Recognized in Budget Totals (GAO/AFMD-88-27, August 16, 1988).

Streamline the Budget Process

Current Problems

Except for congressional success in completing action on all fiscal year 1989 appropriation bills on time—due in large part to the November 1987 budget summit agreement—the budget process has been taking up too much time and producing disappointing results. The percentage of budget-related roll-calls in the Senate increased from an average of 43 percent in the 1955 to 1975 period to an average of 60 percent over the 1980 to 1985 period. Even with this substantial amount of congressional time devoted to budgeting, deadlines are frequently missed and omnibus spending bills covering a broad range of government activities are increasingly used in place of regular appropriation bills. Equally important has been an apparent increase in congressional frustration with the cumbersome and time-consuming budget process.

A direct result of this increased budget workload has been lessened time in the Congress available for critically needed oversight activities. Sound budgeting decisions are only one element of effective operations, and, as recent revelations in certain Federal Housing Administration programs vividly illustrate, the Congress needs to have time for oversight to assure honest and efficient use of appropriated funds.

Part of the budget workload problem is that over the years the process has become increasingly layered with many participants. The Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344) provided a needed, top-down budgeting procedure. However, it also added another layer of budget review to the already layered committee structure by creating the budget committees to provide guidance to the existing authorization and appropriation committees. Since then, other layers have been added. Currently, six spending-related processes with different leadership structures, immense coordination problems, and numerous revisited decisions can be involved in enacting spending legislation. Authorizing, appropriation, and budget committees all perform annual budgeting functions. Added to these are activities related to the periodic debt ceiling extension, the annual Gramm-Rudman-Hollings process, and, in 1987, the congressional and executive branch budget summit. In addition, the President and the Congress are so inundated with detailed budget information, including over 1,100 separate appropriation accounts, that they can scarcely focus on policy-level issues.

Not surprisingly then, the Congress has found its time increasingly consumed by budgeting activities. Appropriations are frequently not enacted before the start of the fiscal year and omnibus spending bills proliferate. Examples include the following:

- Since 1960, continuing resolutions have been used over 90 times when the Congress lacked sufficient time to complete action on individual appropriation bills before the start of the new fiscal year. In the 1980s, the resolutions have been used increasingly in place of regular appropriation bills. They are so broad in scope as to resemble omnibus appropriation bills.
- In the fall of 1984, neither regular appropriations nor a continuing resolution was passed by the start of the new fiscal year. Some federal agencies started closing nonessential activities and furloughing employees.
- The 30-pound, 2,100-page fiscal year 1988 omnibus continuing resolution, which the President displayed during his January 1988 State of the Union address, contained 13 appropriation bills and was enacted into law almost 3 months after the start of the fiscal year after only a few hours of debate. Such omnibus spending bills make it impossible for members of the Congress or the President to oppose a single appropriation bill without opposing other appropriation bills at the same time.

One of the potentially more significant developments in federal budgeting in recent years has been a gradual increase in the number of fiscal years covered in OMB's budget documents. Many budget tables now provide receipt, outlay, and other projections into the fourth year beyond the coming fiscal year. However, these amounts are not presented or treated as a realistic, multiyear budget plan. They do not represent the fiscal implications of a comprehensive administration plan of policy and legislative actions to be taken over several years.

Many of the country's biggest problems, such as the savings and loan industry crisis, have been years in the making and will require long-term solutions. These cannot be adequately addressed when the President's budget plan remains essentially a 1-year plan. Furthermore, a 1-year perspective encourages short-sighted decisions, such as some asset sales, that improve the short-term deficit at the cost of larger, long-term deficits.

GAO Proposal

Our goal in streamlining the budget process is to reduce the number of revisited decisions, to free up more time for oversight activities, and to ensure an orderly delivery of government services. Opportunities exist for improving the current situation in numerous areas. The areas we find the most promising are

- executive-legislative branch agreement on overall budget goals early in the process,

- simplified leadership structures,
- biennial budgeting at macro levels,
- an automatic continuing resolution with incentives to complete appropriation bill action, and
- an extended time horizon in the President's budget plan.

Executive-Legislative Branch Agreement on Overall Budget Goals

A great potential for streamlining the budget process lies in the legislative and executive branches achieving a politically binding agreement on realistic overall budget targets early in the budget process. Both branches of government play important roles in the budget process, and the goal of the process—the government's budget—may be achieved more quickly through negotiation early in the process rather than through the continuing confrontations that have typified many recent years.

The November 1987 legislative-executive branch budget summit agreement on 2-year, macro-level budget goals was a good example of this type of politically binding agreement. It helped streamline the fiscal year 1989 budget process significantly (discussed further below). Proposals have been made to formalize this type of approach by requiring the President's signature on budget resolutions, thus substituting joint for concurrent budget resolutions. While this proposal has some merit, such a formalized requirement for a presidential-congressional agreement could have some undesirable effects. A goal of the 1974 budget act was to enable the Congress to establish its own budget priorities and levels. The President already had such a budget. Requiring presidential approval of the budget resolution could lessen the ability of the Congress to develop its own budget. In addition, depending on how quickly agreement could be reached on the resolution, it could either speed up or slow down the whole process.

We believe the goal of a politically binding agreement could be reached without the formal requirement of a joint budget resolution. One less formalized approach would be for the leadership in the Congress and the executive branch to negotiate a settlement of their budget priority differences early in the budget process.

Simplified Leadership Structures

The Congress also should review the layering of functions and committees to simplify budget procedures. To eliminate unnecessary repetition, detail, and obstacles to action, the budget process should be streamlined by promoting greater integration of congressional leadership and the committees involved in budgeting. Over the past decade, several congressional study groups and individual Members have examined ways to strengthen congressional procedures along these general lines. We think that it is time for the Congress to study the matter again and undertake needed changes. We recognize that reforms are not easy to make but believe that they are necessary if the Congress is to operate more effectively on budget-related matters.

Another option would be the more frequent use of multiyear authorizations. This would return the authorization committees to their traditional role of oversight and authorization action on a few programs each year, rather than annual review and authorization actions across the board. The latter makes the authorization process similar to the annual appropriations process.

Biennial Budgeting at Macro Levels

Biennial budgeting can be carried out at two levels—the macro level (that is, for major categories of defense and civil spending) and the appropriation account level. While recent proposals have concentrated on the appropriation level, recent success with biennial budgeting has occurred at the macro level.

We believe that macro-level biennial budgeting offers perhaps the best opportunity for streamlining the budget process. The November 1987 legislative-executive branch budget summit agreement set 2-year spending levels for major programs, demonstrating the success possible from this kind of budgeting. This agreement streamlined the budget process significantly, and appropriation bills were enacted without the need for continuing resolutions for the first time in 12 years. Macro-level biennial budgeting permits the President and the Congress to focus on broad policy issues, including the basic direction and general content of programs, without getting bogged down in the innumerable details that must be settled in arriving at the exact amount to be appropriated. It can also be carried out in conjunction with annual appropriations.

At the same time, biennial budgeting at the appropriation account level also warrants some consideration as a possible means of reducing the congressional budget workload and allowing more time for oversight and other legislative activities. However, state experiences with this kind of biennial budgeting show mixed results. Of the 19 states that currently have biennial budgeting, 7 have legislatures that meet biennially and therefore cannot have an annual cycle. Furthermore, the trend has been toward annual budgeting rather than biennial. During the past 20 years, 15 states changed their budget cycles, with 12 switching to annual budgeting and 3 to biennial. In states with biennial budgeting, off-year budget adjustments did not consume as much time as regular budgeting, leaving more time for other legislative activities.

If the Congress decides to implement a 2-year budget at the appropriation account level, it should proceed cautiously by testing it on a limited basis. In an initial test of the concept, the Congress directed the Department of Defense to submit a biennial budget for fiscal years 1988 and 1989. The results of this test were disappointing.

Other selected agencies and programs could have more positive experiences with biennial budgeting. Good candidates for further testing of the concept are those organizations with operations and programs which are relatively stable and have no obvious impediments to biennial budgeting. Impediments could be activities such as a major reorganization or major changes underway in financial management systems. Continued testing of the biennial budgeting concept on a case-by-case basis should be pursued as a potential way to reduce the congressional workload.

If biennial budgeting at the appropriation account level is adopted, we prefer an approach which concentrates budget activity in the first session of each Congress and oversight in the second session. This method would allow difficult budget votes to come in a nonelection year. It would also permit budgets to be adopted during the first year of a President's term and at the start of a new Congress, thus giving a new President and Congress the ability to more quickly enact their programs rather than having to operate for two years under an earlier approved budget. A possible drawback to biennial budgeting is that it may lessen congressional budget control, but this could be offset by increased oversight activities.

Automatic Continuing Resolution

An automatic continuing resolution would help ensure an orderly delivery of government services in the event that regular appropriations are not enacted by the start of a new fiscal year. It also would help streamline the budget process by eliminating the need for the Congress to take the time to enact continuing resolutions at the same time that it is seeking to reach agreement on appropriation bills. However, an automatic continuing resolution, unless properly structured, could remove the existing incentive for the Congress to complete action on appropriation bills and could aid those who favor maintaining present program levels.

To avoid this problem, we support an automatic continuing resolution that minimizes the disruption of basic government services without reducing the incentive of the Congress to complete action on regular appropriation bills. This could be done through legislation that permits the incurrence of obligations to avoid a funding gap, but not the outlay of funds to liquidate the new obligations. This would allow agencies to continue operations for a period of time while the Congress completes appropriations actions. Alternatively, legislation could establish an automatic continuing resolution which sets funding levels so low that both the President and the Congress would not wish to see them continue for long. The funding level could also be reduced the longer the continuing resolution stayed in effect.

Extend the Time Horizon of the President's Budget Plan

To better address the major, long-term problems facing the government, the President and OMB should move beyond multiyear budget projections to realistic, multiyear budget planning based upon a coordinated strategy for addressing the nation's needs over several years. The President could present such a multiyear budget plan as part of his regular budget submission, perhaps in his second year in office. Whatever form or timing it would take, the objective of the plan should be to present to the Congress and the nation a realistic statement of the President's multiyear policy, legislative program, and expected budgetary results.

Restructured Budget Results of the U.S. Government for Fiscal Year 1988

Dollars in billions

		Unified budget		
	Total	General	Trust	Enterprise
Revenues				
General taxes	$519.5	$519.2	$0.3	$0
Payroll and other earmarked taxes	353.7	0	353.7	0
Fees, royalties, and other earnings	204.5	107.1	24.2	73.2
Total revenues	**1,077.7**	**626.3**	**378.2**	**73.2**
Expenses and investments				
Civil functions				
Social Security	219.4	0.1	219.3	0
Income security	133.5	66.3	67.0	0.2
Medicare	87.7	0	87.7	0
Commerce and housing	77.6	10.9	0.3	66.4
Health	47.4	44.9	2.5	0
Agriculture	42.2	42.1	0.1	0
Other	171.9	123.1	32.1	16.7
Total civil functions	779.7	287.4	409.0	83.3
Defense function	298.3	297.9	0.4	0
Interest on debt[a]	154.8	154.8	0	0
Additional operating costs not currently recognized[b]				
Asset consumption charge	0	0	0	0
Pension liabilities[c]	0	26.1	−26.1	0
Direct loans subsidy	0	0	0	0
Guaranteed loans subsidy	0	0	0	0
Total expenses and investments	**1,232.8**	**766.2**	**383.3**	**83.3**
Financing requirements before interfund transfers	−155.1	−139.9	−5.1	−10.1
Interfund transfers	0	−131.1	131.1	0
Unified Budget Financing Requirements	**$−155.1**	**$−271.0**	**$126.0**	**$−10.1**

[a]Amount does not include an additional $57 billion in interest paid by Treasury to governmental accounts such as the Social Security trust funds.

[b]These costs would ultimately be distributed to the functions responsible for the costs.

Operating budget				Capital budget			
Total	General	Trust	Enterprise	Total	General	Trust	Enterprise
$519.5	$519.2	$0.3	$0	$0	$0	$0	$0
335.3	0	335.3	0	18.4	0	18.4	0
158.0	65.8	24.2	68.0	46.5	41.3	0	5.2
1,012.8	**585.0**	**359.8**	**68.0**	**64.9**	**41.3**	**18.4**	**5.2**
219.4	0.1	219.3	0	0	0	0	0
133.5	66.3	67.0	0.2	0	0	0	0
87.7	0	87.7	0	0	0	0	0
62.2	0.5	0.3	61.4	15.4	10.4	0	5.0
47.3	44.8	2.5	0	0.1	0.1	0	0
33.2	33.1	0.1	0	9.0	9.0	0	0
116.7	89.5	13.9	13.3	55.2	33.6	18.2	3.4
700.0	*234.3*	*390.8*	*74.9*	*79.7*	*53.1*	*18.2*	*8.4*
227.2	226.8	0.4	0	71.1	71.1	0	0
154.8	154.8	0	0	0	0	0	0
50.0	50.0	0	0	−50.0	−50.0	0	0
0	26.1	−26.1	0	0	0	0	0
1.0	1.0	0	0	−1.0	−1.0	0	0
8.7	8.7	0	0	−8.7	−8.7	0	0
1,141.7	**701.7**	**365.1**	**74.9**	**91.1**	**64.5**	**18.2**	**8.4**
−128.9	−116.7	−5.3	−6.9	−26.2	−23.2	0.2	−3.2
−2.2	−131.1	128.9	0	2.2	0	2.2	0
$−131.1	**$−247.8**	**$123.6**	**$−6.9**	**$−24.0**	**$−23.2**	**$2.4**	**$−3.2**

[c]According to Office of Personnel Management analyses, this is the difference between actual fiscal year 1987 contributions to the Civil Service Retirement and Disability Fund and the amount necessary to finance the annual liability for future pension benefits and to amortize over 40 years the Fund's unfunded liability. Fiscal year 1987 data are the most current available.

Note: *This table does not include noncash assets, such as agricultural commodities used to finance the* Department of Agriculture's commodity certificate program.

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Glossary

Words marked with asterisks (*) indicate definitions used in the GAO restructured budget proposal.

Appropriation	An authorization by an act of the Congress that permits federal agencies to incur obligations and to make payments out of Treasury for specified purposes. An appropriation act usually follows enactment of authorizing legislation.
Asset Consumption Charge*	See depreciation.
Authorization	Basic substantive legislation enacted by the Congress, which sets up or continues the legal operation of a federal program or an agency either indefinitely or for a specific period of time. Such legislation usually includes one or more clauses authorizing the subsequent enactment of specified amounts of appropriations for one or more fiscal years.
Automatic Continuing Resolution	An automatic method of temporarily funding—at a specified rate—those government operations whose appropriations have expired when the Congress has not passed regular appropriation bills on time. This mechanism, once established, requires no further presidential or congressional action and avoids potential delays currently associated with continuing resolutions and occasioned by votes, riders, presidential signatures or vetoes, or funding gaps.
Balanced Budget	A budget in which receipts are equal to or greater than outlays.
Biennial Budget	A budget for a period of two years.
Budget Authority	Authority provided by law to enter into obligations which will result in immediate or future payments involving government funds.
Budget Deficit	The amount by which the government's budget outlays exceed its budget receipts for a given fiscal year.

Budget Gimmick

An expression used to describe various techniques used to circumvent the normal budget process.

Budget Receipts

Collections from the public and from payments by participants in certain voluntary federal social insurance programs. These collections consist primarily of tax receipts and social insurance premiums but also include gifts, receipts from court fines, certain licenses, and deposits of earnings by the Federal Reserve System. Budget receipts are compared with budget outlays in calculating the budget surplus or deficit.

Budget Resolution

A concurrent resolution passed by both houses of the Congress, but not requiring the signature of the President. It sets forth, reaffirms, or revises the congressional budget for the U.S. government for a fiscal year.

Budget Surplus

The amount by which the government's budget receipts exceed its budget outlays for a given fiscal year.

Capital Assets*

Physical and financial assets, but not consumable inventories. Also referred to as capital investments.

Capital Budget*

That part of the unified budget which segregates capital revenues and investments from the operating budget's revenues and expenses. Capital revenues and investments are excluded from calculations of the operating budget's surplus or deficit, but the operating budget is charged for depreciation.

Capital Financing Requirements*

The amount by which capital investments exceed capital revenues.

Capital Investments*	See capital assets.
Capital Revenues*	Taxes, user fees, and similar amounts which are earmarked by law to finance physical and financial assets. It also includes most loan principal repayments.
Civil Function*	The total of all budget functions except national defense (050), interest on debt, and credit subsidy costs.
Continuing Resolution	A joint resolution to provide budget authority for specific ongoing activities in cases where the Congress fails to pass the regular appropriation bill for such activities by the beginning of the fiscal year.
Credit Subsidy Cost	The losses incurred by the government, such as interest and default costs, as a result of its direct and guaranteed loan programs.
Debt Ceiling	Debt subject to statutory limit. As defined by the Second Liberty Bond Act of 1917, as amended, it currently includes virtually all public debt. Under Public Law 96-78, an amendment to the Rules of the House of Representatives makes the establishment of the public debt limit a part of the congressional budget process.
Defense Function	The total of the national defense budget function (050).
Depreciation*	The systematic and rational allocation of the costs (historical, replacement, or current value) of equipment and buildings (having a life of more than 2 years) over their useful lives. To match costs with related revenues in measuring income or determining the costs of carrying out program activities, it reflects the use of the asset(s) during specific operating periods.
Enterprise-Type Activity*	A business-type activity undertaken by the federal government which generates receipts from selling products or services to the general public

on a continuing basis with the intent that the cost of the activity will be financed primarily by such receipts.

Entitlements

Legislation that requires the payment of benefits to any person or unit of government that meets the eligibility requirements established by such law.

Expenditures

With respect to the provisions of the Antideficiency Act (31 U.S.C. 1341) and the Congressional Budget and Impoundment Control Act of 1974 (2 U.S.C. 622), the term expenditures has the same definition as outlays. See outlays.

Expenses*

The cost of the federal government's operations, including outlays for civil functions, defense function, interest on debt, pension liabilities, credit subsidy costs, and asset consumption charges.

Federal Funds

(1) Receipt accounts credited with all collections that are not earmarked by law for a specific purpose and (2) appropriation accounts established to record amounts appropriated by the Congress to be expended for the general support of the federal government.

Fees, Royalties and Other Earnings*

Amounts received from nonfederal sources that are of a business-type or market-oriented nature. They include both proprietary receipts from the public and offsetting collections from nonfederal sources, such as rents and royalties on the outer continental shelf, sales or rental of government products and services, military sales, and Medicare premiums. Also included are nontax budget receipts such as court fines, custom duties, and gifts. See budget receipts.

Funding Gap

A period during which federal agencies have no authority to incur obligations or to make payments because annual or supplemental appropriations have not been enacted into law.

General Taxes

Taxes whose revenues are not dedicated to specific programs. They include individual and corporate income taxes.

Gross National Product	The market value of all final goods and services produced by labor and property supplied by residents of the United States in a given period of time.
Human Capital	Generally, investments in education, training, and other items that are embodied in individuals, rather than physical and financial assets, but which provide increases in future output.
Interest on Debt*	The interest on the public debt less interest received by both on-budget and off-budget trust funds.
Operating Budget*	All revenues and operating expenses for programs and activities that are not classified as capital investments.
Outlays	Payments made through the issuance of checks, disbursement of cash, or electronic funds transfer to liquidate obligations. Outlays can also occur by the maturing of interest coupons in the case of some bonds or by the issuance of bonds or notes (or increases in the redemption value of bonds outstanding).
Present Value	The current worth of an amount or series of amounts payable or receivable in the future.
Revenues*	Collections received by cash, check, or electronic funds transfer for public use. They include general taxes, earmarked taxes, and other revenues.
Spending Bill (Spending Legislation)	A term used by the Congressional Budget Office to indicate legislation that directly provides budget authority or outlays. Spending bills include (1) appropriations legislation, (2) legislation that provides budget authority directly without the need for subsequent appropriations action, and (3) entitlement legislation which, while requiring subsequent appropriations action, essentially "locks in" budget authority at the time of authorization (except legislation that establishes conditional entitlements, where recipients are entitled to payments only to the

extent that funds are made available in subsequent appropriations legislation).

Trust Fund

(1) A receipt account credited with collections generated by the terms of a trust agreement or statute. (2) An appropriation account established to record appropriated amounts of trust fund receipts to be used to finance specific purposes of programs under a trust agreement or statute. (3) An expenditure account used to carry out a cycle of business-type operations in accordance with a trust agreement or statute. (In our restructured budget proposal, an account designated as a government corporation by 31 U.S.C. 9101 is classified as an enterprise-type activity even though it may fit the general definition of a trust fund.)

Unified Budget

The present form of the federal government's budget in which receipts and outlays from both federal funds and trust funds are consolidated.

Unified Budget Financing Requirements*

The total of the operating budget's surplus/deficit and the capital budget's capital financing requirements.

Related GAO Products

Capital Budgeting

Budget Issues: Restructuring the Federal Budget—The Capital Component (GAO/AFMD-89-52, August 24, 1989).

Budget Reform for the Federal Government (GAO/T-AFMD-88-13, June 7, 1988).

Capital Budgeting for the Federal Government (GAO/T-AFMD-88-3, Dec. 8, 1987).

The Federal Budget and the Budget Process (GAO/T-AFMD-87-8, April 2, 1987).

Budget Issues: Budgeting Practices in West Germany, France, Sweden, and Great Britain (GAO/AFMD-87-8FS, Nov. 24, 1986).

Budget Issues: Capital Budgeting Practices in the States (GAO/AFMD-86-63FS, July 15, 1986).

Budget Issues: State Balanced Budget Practices (GAO/AFMD-86-22BR, Dec. 10, 1985).

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Foresighted Planning And Budgeting Needed For Public Buildings Program (PAD-80-95, Sept. 9, 1980).

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Budget Issues: Budgetary Treatment of Federal Credit Programs (GAO/AFMD-89-42, April 10, 1989).

Loan Asset Sales: An Assessment of Selected Sales (GAO/AFMD-88-24, Feb. 19, 1988).

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Trust Funds

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